



# **U.S.\$22,000,000,000**

## **The Lebanese Republic**

### **Global Medium-Term Note Program**

Under this U.S.\$22,000,000,000 Global Medium-Term Note Program (the “*Program*”), the Lebanese Republic (the “*Republic*” or “*Lebanon*”) may, from time to time, subject to compliance with all relevant laws, regulations and directives, issue notes in either bearer or registered form (the “*Notes*”).

The maximum aggregate principal amount of all Notes from time to time outstanding under the Program will not exceed U.S.\$22,000,000,000 (or its equivalent in other currencies determined at the time of the agreement to issue), subject to any duly authorized increase. Notes may be denominated in U.S. Dollars, Euros and such other currencies as may be agreed between the Republic and the relevant Dealers (as defined below). Notes will have maturities of not less than three months nor more than 30 years and will bear interest on a fixed or floating rate basis.

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**SEE “*RISK FACTORS*” FOR A DISCUSSION OF CERTAIN FACTORS TO BE  
CONSIDERED IN CONNECTION WITH AN INVESTMENT IN THE NOTES.**

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Any Notes to be issued after the date hereof under the Program are issued subject to the provisions set out herein. This does not affect any Notes issued prior to the date hereof.

The Notes may be issued on a continuing basis to the Dealers and any additional Dealer(s) appointed under the Program from time to time pursuant to the terms of the Second Amended and Restated Program Agreement dated March 1, 2010 (as the same may be amended from time to time, the “*Program Agreement*”), which appointment may be for a specific issue or on an ongoing basis (each, a “*Dealer*” and, together, the “*Dealers*”). References in this Base Prospectus to the “*relevant Dealer*,” in the case of an issue of Notes being (or intended to be) subscribed by more than one Dealer, shall be to all Dealers agreeing to subscribe for such Notes.

Notes will be issued in series (each, a “*Series*”), with all Notes in a Series having the same maturity date and terms otherwise identical (except in relation to issue dates, interest commencement dates, issue prices and related matters). Notes in each Series may be issued in one or more tranches (each, a “*Tranche*”) on different issue dates. Details applicable to the Notes in a particular Series or Tranche will be supplied in a final terms to this Base Prospectus (each, a “*Final Terms*”), which will contain the aggregate principal amount of such Notes, interest (if any) payable in respect of such Notes, the issue price of such Notes and any other terms and conditions not contained herein which are applicable to such Series or Tranche. This Base Prospectus may not be used to consummate sales of Notes unless accompanied by a Final Terms.

The price and amount of Notes to be issued under the Program will be determined by the Issuer and the relevant Dealer at the time of issue in accordance with prevailing market conditions.

This Base Prospectus constitutes a base prospectus for the purposes of Article 5.4 of Directive 2003/71/EC (the “*Prospectus Directive*”). Application has been made to the *Commission de Surveillance du Secteur Financier* (the “*CSSF*”) in its capacity as competent authority, under the Law on Prospectuses for Securities, to approve this document as a base prospectus. Application has also been made to the Luxembourg Stock Exchange for Notes issued under this Base Prospectus to be admitted to trading on the Luxembourg Stock Exchange’s Regulated Market and to be listed on the Official List of the Luxembourg Stock Exchange. The Luxembourg Stock Exchange is a regulated market for the purposes of the Markets in Financial Instruments Directive 2004/39/EC. However, Notes may be issued under the Program which will not be listed on the Official List of the Luxembourg Stock Exchange or on any other stock exchange, and the Final Terms applicable to the Notes in a Series will specify whether or not Notes in such Series will be listed on the Official List of the Luxembourg Stock Exchange or on any other stock exchange.

#### **Arrangers**

**BofA Merrill Lynch**

**Credit Suisse**

#### **Dealers**

**BofA Merrill Lynch  
Citigroup  
Credit Suisse  
J.P. Morgan  
Nomura**

**BNP PARIBAS  
Commerzbank  
Deutsche Bank  
Morgan Stanley  
The Royal Bank of Scotland**

**The date of this Base Prospectus is March 23, 2012**

*The Notes have not been and will not be registered under the U.S. Securities Act of 1933, as amended (the “Securities Act”), or any state securities laws, or under the securities laws of any other jurisdiction. This Base Prospectus has been prepared by the Republic for use in connection with the offer and sale of Notes outside the United States to non-U.S. persons in reliance upon Regulation S under the Securities Act (“Regulation S”) and, with respect to Notes in registered form only, within the United States to qualified institutional buyers (“QIBs”) in reliance upon and as defined in Rule 144A under the Securities Act (“Rule 144A”). Prospective purchasers are hereby notified that sellers of Notes may be relying on the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A. For a description of certain restrictions on transfer of the Notes, see “Notice to Purchasers and Holders of Restricted Notes and Transfer Restrictions” and “Subscription and Sale”.*

*Notes other than Bearer Notes offered otherwise than in reliance on Regulation S pursuant to the Program Agreement may be offered by the Dealers through their respective agents in the United States.*

*Notes of each Tranche will initially be represented by either a Temporary Global Note, a Permanent Global Note, a Regulation S Global Note and/or a Restricted Global Note (each as defined herein) as indicated in the applicable Final Terms. See “Forms of the Notes”.*

*Application has been made to the CSSF, in its capacity as competent authority under the Law on Prospectuses for Securities, to approve this document as a base prospectus.*

*Copies of the Final Terms will be available from the office of the Ministry of Finance and from the specified office set out below of each of the Paying Agents (as defined below).*

*The Republic has agreed to comply with any undertakings given by it from time to time to the Luxembourg Stock Exchange in connection with Notes in a Series to be listed on the Official List of the Luxembourg Stock Exchange and, without prejudice to the generality of the foregoing, shall in connection with the listing of the Notes on the Official List of the Luxembourg Stock Exchange or on any other relevant stock exchange, so long as any Note remains outstanding, prepare a supplement to this Base Prospectus, or, as the case may be, publish in a new Base Prospectus, whenever required by the rules of the Luxembourg Stock Exchange or any other relevant stock exchange, or by the Law on Prospectuses for Securities, and in any event (i) if the maximum aggregate principal amount of Notes that may be issued under the Program is increased, (ii) upon the Republic becoming aware that (A) there has been a significant change (including any change to the Terms and Conditions of the Notes in a Series to be listed on the Official List of the Luxembourg Stock Exchange) affecting any matter contained in this Base Prospectus or (B) a significant new matter has arisen, the inclusion of information in respect of which would have been required to be in this Base Prospectus if it had arisen before this Base Prospectus was issued or (iii) if the terms of the Program are modified or amended in a manner which would make this Base Prospectus, as supplemented, materially inaccurate or misleading. In the event that a supplement to this Base Prospectus is produced pursuant to such undertakings, a copy of such supplement will accompany this Base Prospectus. Any such supplement to this Base Prospectus will also be available from the specified office of the Fiscal Agent and Transfer Agent in Luxembourg. See “General Information—Documents on Display”.*

*The Dealers have not independently verified the information contained herein. Accordingly, no representation, warranty or undertaking, express or implied, is made and no responsibility or liability is accepted by the Dealers as to the accuracy or completeness of the information contained in this Base Prospectus or any other information provided by the Republic or any other person in connection with the Program or the Notes or their distribution. The statements made in this paragraph are made without prejudice to the responsibility of the Republic under the Program.*

*No person is or has been authorized to give any information or to make any representation not contained in or not consistent with this Base Prospectus, the Program Agreement or any other information supplied in connection with the Program or the Notes and, if given or made, such information or representation must not be relied upon as having been authorized by the Republic or any of the Dealers.*

*Neither this Base Prospectus nor any other information supplied in connection with the Program or any Notes (i) is intended to provide the basis of any credit or other evaluation or (ii) should be considered as a recommendation or constituting an offer by the Republic or any of the Dealers that any recipient of this Base Prospectus or any other information supplied in connection with the Program or any Notes should purchase any Notes in any jurisdiction where it is unlawful for such person to make such a recommendation or offer. Each investor contemplating purchasing any Notes should make its own independent investigation of the financial*

*condition and affairs and its own appraisal of the creditworthiness of the Republic. Neither this Base Prospectus nor any other information supplied in connection with the Program or any Notes constitutes an offer or invitation by or on behalf of the Republic or any of the Dealers to any person to whom it is unlawful to make such offer to subscribe for or to purchase any Notes.*

*Neither the delivery of this Base Prospectus nor the offering, sale or delivery of any Notes shall in any circumstance imply that the information contained herein concerning the Republic is correct at any time subsequent to the date hereof or the date as of which it is expressed to be given or that any other information supplied in connection with the Program is correct as of any time subsequent to the date indicated in the document containing the same. The Dealers expressly do not undertake to review the financial condition or affairs of the Republic during the life of the Program. Investors should review, inter alia, documents incorporated by reference herein when deciding whether or not to purchase any Notes.*

*This Base Prospectus has been approved by the CSSF and published in accordance with the Prospectus Directive, as implemented in Luxembourg. Pursuant to Article 7(7) of the Luxembourg Law on prospectuses for securities, by approving this Base Prospectus, the CSSF gives no undertaking as to the economic or financial soundness of any transaction or the quality and solvency of the Republic.*

*The distribution of this Base Prospectus and the offer or sale of Notes may be restricted by law in certain jurisdictions. None of the Dealers or the Republic makes any representation to any investor in the Notes regarding the legality of its investment under any applicable laws. The Republic and the Dealers do not represent that this document may be lawfully distributed, or that any Notes may be lawfully offered, in compliance with any applicable registration or other requirements in any such jurisdiction, or pursuant to an exemption available thereunder, or assume any responsibility for facilitating any such distribution or offering. In particular, no action has been taken by the Republic or the Dealers (save for the approval of this document as a Base Prospectus by the CSSF) which would permit a public offering of any Notes or distribution of this document in any jurisdiction where action for that purpose is required. Accordingly, no Notes may be offered or sold, directly or indirectly, and neither this Base Prospectus nor any advertisement or other offering material may be distributed or published in any jurisdiction, except under circumstances that will result in compliance with any applicable laws and regulations and the Dealers have represented that all offers and sales by them will be made on the same terms. Persons into whose possession this Base Prospectus or any Notes come must inform themselves about and observe any such restrictions. In particular, there are restrictions on the distribution of this Base Prospectus and the offer or sale of Notes in the United States, the European Economic Area and the United Kingdom. For a description of these and certain further restrictions on offers and sales of the Notes and distribution of this Base Prospectus, see “Subscription and Sale” and “Notice to Purchasers and Holders of Restricted Notes and Transfer Restrictions” below.*

*The Notes have not been registered with, recommended by or approved or disapproved by the U.S. Securities and Exchange Commission (the “SEC”) or any other federal or state securities commission in the United States, nor has the SEC or any other federal or state securities commission confirmed the accuracy or determined the adequacy of this Base Prospectus. Any representation to the contrary is a criminal offense in the United States. The Notes are subject to restrictions on transferability and resale and may not be transferred or resold except as permitted under applicable federal or state securities laws pursuant to a registration statement or an exemption from registration. See “Subscription and Sale” and “Notice to Purchasers and Holders of Restricted Notes and Transfer Restrictions” below. Investors should be aware that they may be required to bear the financial risks of this investment for an indefinite period of time.*

*In making an investment decision regarding the Notes, prospective investors must rely on their own examination of the Republic and the terms of the Program, including the merits and risks involved. Any investor in the Notes should be able to bear the economic risk of an investment in the Notes for an indefinite period.*

*The Notes may include Notes in bearer form that are subject to U.S. tax law requirements. Subject to certain exceptions, Notes in bearer form having a maturity (at issue) of more than one year are subject to U.S. tax law requirements and may not be offered, sold or delivered within the United States or its possessions or to United States persons, except in certain transactions permitted by U.S. tax regulations. See “Subscription and Sale”.*

## **RESPONSIBILITY STATEMENT**

*The Republic accepts responsibility for the information contained in this Base Prospectus. Having taken all reasonable care that such is the case, the information contained in this Base Prospectus is, to the best of the knowledge of the Republic, in accordance with the facts and contains no omission likely to affect the import of such information.*

IN CONNECTION WITH THE ISSUE OF NOTES IN ANY SERIES OR TRANCHE UNDER THE PROGRAM, THE DEALER OR DEALERS (IF ANY) NAMED AS THE STABILIZING MANAGER(S) (EACH, A “*STABILIZING MANAGER*”) (OR PERSONS ACTING ON BEHALF OF ANY STABILIZING MANAGER(S)) IN THE APPLICABLE FINAL TERMS MAY OVER-ALLOT NOTES OR EFFECT TRANSACTIONS WITH A VIEW TO SUPPORTING THE MARKET PRICE OF THE NOTES IN SUCH A SERIES AT A LEVEL HIGHER THAN THAT WHICH MIGHT OTHERWISE PREVAIL, BUT IN DOING SO SUCH STABILIZING MANAGER SHALL ACT AS PRINCIPAL AND NOT AS AGENT OF THE REPUBLIC. HOWEVER, THERE IS NO ASSURANCE THAT THE STABILIZING MANAGER (OR PERSONS ACTING ON BEHALF OF A STABILIZING MANAGER) WILL UNDERTAKE STABILIZATION ACTION. ANY STABILIZATION ACTION MAY BEGIN ON OR AFTER THE DATE ON WHICH ADEQUATE PUBLIC DISCLOSURE OF THE TERMS OF THE OFFER OF THE RELEVANT SERIES OF NOTES IS MADE AND, IF BEGUN, MAY BE ENDED AT ANY TIME, BUT IT MUST END NO LATER THAN THE EARLIER OF 30 DAYS AFTER THE ISSUE DATE OF THE RELEVANT SERIES OF NOTES AND 60 DAYS AFTER THE DATE OF THE ALLOTMENT OF THE RELEVANT SERIES OF NOTES. ANY STABILIZATION WILL BE CONDUCTED IN ACCORDANCE WITH ALL APPLICABLE REGULATIONS. ANY LOSS RESULTING FROM OVER-ALLOTMENT AND STABILIZATION SHALL BE BORNE, AND ANY NET PROFIT ARISING THEREFROM SHALL BE RETAINED, BY ANY STABILIZING MANAGER FOR ITS OWN ACCOUNT. SEE “*SUBSCRIPTION AND SALE*”.

#### **NOTICE TO FLORIDA RESIDENTS**

THESE NOTES ARE OFFERED PURSUANT TO A CLAIM OF EXEMPTION UNDER SECTION 517.061 OF THE FLORIDA SECURITIES AND INVESTOR PROTECTION ACT AND HAVE NOT BEEN REGISTERED UNDER SAID ACT IN THE STATE OF FLORIDA. ALL FLORIDA RESIDENTS (OTHER THAN EXEMPT INSTITUTIONAL INVESTORS) HAVE THE RIGHT TO VOID THE PURCHASE OF THESE NOTES WITHOUT PENALTY WITHIN THREE (3) DAYS OF MAKING SUCH PURCHASE.

#### **NOTICE TO NEW HAMPSHIRE RESIDENTS**

NEITHER THE FACT THAT A REGISTRATION STATEMENT OR AN APPLICATION FOR A LICENSE HAS BEEN FILED UNDER CHAPTER 421-B OF THE NEW HAMPSHIRE REVISED STATUTES ANNOTATED, 1955, AS AMENDED (“RSA”), WITH THE STATE OF NEW HAMPSHIRE NOR THE FACT THAT A SECURITY IS EFFECTIVELY REGISTERED OR A PERSON IS LICENSED IN THE STATE OF NEW HAMPSHIRE CONSTITUTES A FINDING BY THE SECRETARY OF STATE OF NEW HAMPSHIRE THAT ANY DOCUMENT FILED UNDER SUCH RSA CHAPTER 421-B IS TRUE, COMPLETE AND NOT MISLEADING. NEITHER ANY SUCH FACT NOR THE FACT THAT AN EXEMPTION OR EXCEPTION IS AVAILABLE FOR A SECURITY OR A TRANSACTION MEANS THAT THE SECRETARY OF STATE OF NEW HAMPSHIRE HAS PASSED IN ANY WAY UPON THE MERITS OR QUALIFICATIONS OF, OR RECOMMENDED OR GIVEN APPROVAL TO, ANY PERSON, SECURITY, OR TRANSACTION. IT IS UNLAWFUL TO MAKE, OR CAUSE TO BE MADE, TO ANY PROSPECTIVE PURCHASER, CUSTOMER, OR CLIENT ANY REPRESENTATION INCONSISTENT WITH THE PROVISIONS OF THIS PARAGRAPH.

## PRESENTATION OF FINANCIAL INFORMATION

All references in this document to “*Lebanese Pounds*” and “*LL*” are to the currency of the Lebanese Republic; to “*U.S. Dollars*” and “*U.S.\$*” are to the currency of the United States of America; to “*Euros*” or “*€*” are to the currency introduced at the start of the third stage of European economic and monetary union pursuant to the Treaty establishing the European Community, as amended by the Treaty on European Union; and to “*SDR*” are to Special Drawing Rights of the International Monetary Fund (the “*IMF*”). References in this document to “*billions*” are to thousands of millions, to “*Lebanon*” or the “*Republic*” are to the Lebanese Republic and to the “*Government*” are to the Government of Lebanon.

For ease of presentation, certain financial information relating to the Republic included herein is presented as translated into U.S. Dollars. On the date of this Base Prospectus the closing U.S. Dollar/Lebanese Pound rate of exchange as reported by *Banque du Liban* (“*Banque du Liban*” or “*BDL*”), the Republic’s Central Bank, was LL 1,507.50 = U.S.\$1.00. However, this translation should not be construed as a representation that the Lebanese Pound amount actually represents such U.S. Dollar amount or could be converted into U.S. Dollars at the rate indicated or any other rate.

Certain figures included in this Base Prospectus differ from previously published figures for a number of reasons, including continuing implementation of a debt management system, consultation with the IMF and ongoing statistical revisions. Also, certain monetary amounts included in this Base Prospectus have been subject to rounding adjustments. Accordingly, figures shown as totals in certain tables may not be an exact arithmetic aggregation of the figures that precede them.

## FORWARD-LOOKING STATEMENTS

Some of the statements contained in this Base Prospectus constitute forward-looking statements. Statements that are not historical facts are forward-looking statements. Forward-looking statements generally can be identified by the use of forward-looking terminology such as “may”, “will”, “expect”, “intend”, “estimate”, “anticipate”, “believe”, “continue” or similar terminology. These statements are based on the Government’s current plans, objectives, assumptions, estimates and projections. Therefore, undue reliance should not be placed on them. Forward-looking statements speak only as of the date that they are made and the Republic does not undertake to update any of them in light of new information or future events. Forward-looking statements involve inherent risks and uncertainties. The Republic cautions that a number of important factors could cause actual results to differ materially from those contained in any forward-looking statement. Forward-looking statements include, but are not limited to, certain statements relating to the general political, military and economic conditions in the Republic, the absence of military conflict between the Republic and Israel, the state of relations between the Republic and Syria, the ability of the Government to implement economic and fiscal reforms, including its privatization program, the effective implementation of decisions of donor countries and international financial institutions regarding financial assistance to the Republic, estimates of external debt repayment and the effects of the global financial crisis on the Republic’s economy and finances.

## JURISDICTION AND ENFORCEMENT

### **Jurisdiction and Immunity**

The Republic is a sovereign state. Consequently, it may be difficult for investors to obtain or realize upon judgments against the Republic in the courts of the United States. The Republic has irrevocably submitted to the non-exclusive jurisdiction of any New York State or federal court sitting in The City of New York in the Borough of Manhattan for purposes of any suit, action or proceeding arising out of or relating to the Notes (a “*Related Proceeding*”). The Republic has also irrevocably agreed that all claims in respect of any Related Proceeding may be heard and determined in any such New York State court or any such federal court, subject to the following. The Republic has irrevocably waived the defense of an inconvenient forum to the maintenance of any Related Proceeding whether on the grounds of venue, residence or domicile; however, the Republic will not waive any right to seek removal or transfer of any Related Proceeding from any such court of the State of New York to any U.S. federal court sitting in New York City, in the Borough of Manhattan.

To the extent that the Republic or its assets have or hereafter may acquire any immunity (sovereign or otherwise) from the jurisdiction of any such courts or from any legal process (whether through service or notice, attachment prior to judgment, attachment in aid of execution, execution or otherwise) in any such court, the Republic has, to the extent it is lawfully entitled to do so, irrevocably agreed not to claim and will irrevocably waive such immunity in respect of any Related Proceeding. This waiver of immunity by the Republic will have the fullest scope permitted under the U.S. Foreign Sovereign Immunities Act of 1976 but will not constitute a general waiver or a waiver of immunity in respect of property that is used solely or principally for official purposes (such as ambassadorial and consular real property and buildings and the contents thereof, any military property or military assets or property or assets of the Republic related thereto, or any bank accounts of embassies or consulates to the extent of monies maintained therein for ambassadorial, consular or other official purposes, but not commercial purposes, in each case necessary for the proper official, ambassadorial or consular functioning of the Republic).

Prospective investors in Notes should be aware that, pursuant to Lebanese law, including Article 860 of the Code of Civil Procedure of Lebanon, the Republic's properties and assets are immune from execution, attachment or other legal or judicial process and, in any Related Proceeding brought in the courts of Lebanon against the Republic or brought in those courts to enforce or seek recognition of a judgment obtained outside Lebanon, the Republic's waiver of immunity referred to above would not be given effect to the extent it violates Article 860 of the Code of Civil Procedure of Lebanon.

### **Proceedings and Enforcement**

The enforcement of foreign judgments in Lebanon is governed by Articles 1013, 1014, 1015 and 1016 of the Lebanese Code of Civil Procedure. Under those provisions, a judgment obtained in any U.S. court would be recognized and enforced by the courts in Lebanon without reconsideration of its merits provided that the foreign judgment satisfies the following additional conditions: (i) the foreign judgment must have been issued by a court competent to do so under the law of the relevant country in a proceeding in which the court's jurisdiction was not based solely on the nationality of the plaintiff; (ii) the foreign judgment must be final and enforceable in the country in which it was rendered, and the foreign judgment must not be based on documents subsequently deemed or found to be untrue and must not contain contradictory terms; (iii) the laws of the country in which the foreign judgment was rendered must permit the enforcement of judgments rendered by Lebanese courts without reconsideration of the merits; (iv) the defendant must have been properly served with legal process with respect to the proceeding in which the foreign judgment was rendered and due process must have been observed in connection with the proceeding, and no party to the litigation must have failed to deliver to the court material documents relating to the dispute; (v) the foreign judgment must not be contrary to Lebanese public policy; (vi) a final judgment in the same case between the same parties must not have been rendered by a Lebanese court; and (vii) no action commenced prior to the relevant foreign proceeding may be pending with respect to the same subject matter and between the same parties before the Lebanese courts.

Enforcement of foreign judgments in Lebanon also involves the payment of significant court and related fees, which may be as high as 2.5 percent of the amount claimed. Court costs and fees in connection with a direct action brought against the Republic in Lebanese courts may be as high as 5 percent of the amount claimed.

## INCORPORATION BY REFERENCE

This Base Prospectus should be read and construed in conjunction with the following documents which have previously been published, have been filed with the CSSF and which shall be incorporated in, and form part of, this Base Prospectus:

- the Base Prospectus dated February 26, 2009 relating to the Program;
- the Base Prospectus dated April 17, 2008 relating to the Program;
- the Base Prospectus dated April 4, 2007 relating to the Program;
- the Base Prospectus dated October 17, 2005 relating to the Program;
- the Base Prospectus dated April 19, 2004 relating to the Program; and
- the Base Prospectus dated December 23, 2002 relating to the Program.

### **Cross-Reference List relating to Information Incorporated by Reference**

The following information appears on the pages of the relevant documents as set out below:

- the Terms and Conditions of the Notes set out on pages 83-104 of the Base Prospectus dated February 26, 2009 relating to the Program;
- the Terms and Conditions of the Notes set out on pages 90-111 of the Base Prospectus dated April 17, 2008 relating to the Program;
- the Terms and Conditions of the Notes set out on pages 79-100 of the Base Prospectus dated April 4, 2007 relating to the Program;
- the Terms and Conditions of the Notes set out on pages 67-88 of the Base Prospectus dated October 17, 2005 relating to the Program;
- the Terms and Conditions of the Notes set out on pages 55-75 of the Base Prospectus dated April 19, 2004 relating to the Program; and
- the Terms and Conditions of the Notes set out on pages 57-79 of the Base Prospectus dated December 23, 2002 relating to the Program.

The non-incorporated parts of the documents incorporated by reference are not relevant for the investor or covered elsewhere in this Base Prospectus (item 28.4 of Regulation (EC) No 809/2004). All documents themselves incorporated by reference in the documents incorporated by reference in this Base Prospectus shall not form part of this Base Prospectus.

Copies of documents incorporated by reference in this Base Prospectus can be obtained from the specified office of the Paying Agent for the time being in Luxembourg and on the Luxembourg Stock Exchange's website at [www.bourse.lu](http://www.bourse.lu). This Base Prospectus and Final Terms for Notes listed on the Official List of the Luxembourg Stock Exchange are also published on the website of the Luxembourg Stock Exchange at [www.bourse.lu](http://www.bourse.lu). See "*General Information—Documents on Display*".



## **GENERAL DESCRIPTION OF THE PROGRAM**

Under the Program, the Republic may, from time to time, issue Notes denominated in U.S. Dollars, Euros and, subject to compliance with all relevant laws, regulations and directives, other currencies and with a minimum maturity of three months and a maximum maturity of 30 years, subject to the terms more fully set forth herein. A summary of the terms and conditions of the Program and the Notes appears below. The applicable terms of any Notes will be agreed upon by and between the Republic and the relevant Dealer prior to the issue of the Notes and will be set forth in the Terms and Conditions of the Notes endorsed on, or incorporated by reference into, the Notes, as modified and supplemented by the applicable Final Terms attached to, or endorsed on, such Notes, as more fully described under “*Forms of the Notes*” below.

This Base Prospectus and any supplement will only be valid for listing Notes on the Official List of the Luxembourg Stock Exchange in an aggregate principal amount of the Notes which, when added to the aggregate principal amount then outstanding of all Notes previously or simultaneously issued under the Program, does not exceed U.S.\$22,000,000,000 or its equivalent in other currencies. For the purpose of calculating the U.S. Dollar equivalent of the aggregate principal amount of Notes issued under the Program from time to time, the U.S. Dollar equivalent of Notes denominated in another Specified Currency (as defined below) shall be determined, at the discretion of the Republic, either as of the date on which agreement is reached for the issue of Notes or on the first preceding day on which commercial banks and foreign exchange markets are open for business, in each case on the basis of the spot rate for the sale of the U.S. Dollar against the purchase of such Specified Currency in a foreign exchange market quoted by any leading international bank selected by the Republic on the relevant day of calculation.

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## SUMMARY

*This summary must be read as an introduction to this Base Prospectus and any decision to invest in the Notes should be based on a consideration of this Base Prospectus as a whole. Following the implementation of the relevant provisions of Prospectus Directive in each member state of the European Economic Area (each a “Member State”), no civil liability will attach to the Republic in any such Member State solely on the basis of this summary, including any translation thereof, unless it is misleading, inaccurate or inconsistent when read together with the other parts of this Base Prospectus. Where a claim relating to the information contained in this Base Prospectus is brought before a court in a Member State of the European Economic Area, the plaintiff may, under the national legislation of the Member State where the claim is brought, be required to bear the costs of translating this Base Prospectus before the legal proceedings are initiated. Capitalized terms used herein have the same meanings given to them in “Terms and Conditions of the Notes” and “Forms of the Notes” below. References to a specific “Condition” refer to the relevant condition set forth in the Terms and Conditions of the Notes.*

### Essential Characteristics of the Republic

#### ***Founding & Geography***

Effective political independence of the Republic from French rule occurred on November 22, 1943 (Independence Day). The Republic is situated in the Levant on the eastern most part of the Mediterranean Sea. The total area of the Republic is 10,452 square kilometers.

#### ***Recent Political Developments***

The Republic witnessed a series of significant events in recent years, including the assassination of the former Prime Minister, Rafik Hariri, a campaign of assassinations and attempted assassinations of other political leaders and public figures, the adoption of a series of United Nations Security Council Resolutions, including Resolution 1757, which established a special tribunal for Lebanon to prosecute persons responsible for the bombing that killed former Prime Minister Hariri (the “*STL*”), the withdrawal of Syrian army troops from Lebanon, Israel’s war on Lebanon in July 2006 (the “*July 2006 War*”) and its effects on the Republic’s population, economy and infrastructure, the resignation of six ministers representing the opposition from the Government, followed by the opposition’s sit-in in downtown Beirut, as well as the failure of Parliament to convene during an 18-month period, the Lebanese Security Forces taking over control of Nahr El-Bared camp after clashes with a terrorist organization from May to September 2007, the armed clashes that took place in Beirut, Northern Lebanon, the Bekaa Valley and the Chouf Mountains in May 2008, and the six-month vacancy in the office of the President of the Republic, which ended with the election of General Michel Sleiman as President on May 25, 2008.

In June 2009, Parliamentary elections took place in Lebanon, which resulted in the Future Movement, the Lebanese Forces and members of the former Qornet Shahwan Gathering (collectively, the “*March 14 Coalition*”) and the Progressive Socialist Party headed by Mr. Walid Jumblatt, winning a majority of the seats in Parliament. See “—*Constitutional System—Elections*”.

On January 12, 2011, ten ministers representing Hizbollah, the Amal Movement and their allies (collectively, the “*March 8 Coalition*”), as well as one of the five ministers representing the President of the Republic, resigned from the Government. Consequently, the Government was considered as resigned pursuant to Article 69 of the Constitution of September 21, 1990 (the “*Constitution*”), since more than one third of its ministers resigned.

On January 25, 2011, following mandatory Parliamentary consultations, 68 Members of Parliament nominated Mr. Najib Mikati as President of the Council of Ministers, and 60 Members of Parliament nominated Mr. Saad Hariri. Accordingly, President Suleiman appointed Mr. Mikati to this position.

On June 13, 2011, after nearly five months of negotiations, a new Government, headed by Prime Minister Mikati and comprised of 29 other ministers, was formed. It obtained the vote of confidence from Parliament on July 7, 2011 (with a vote of 68 members in favor out of a total number of 128 members of Parliament) on the basis of the policy declaration submitted by the Government. See “—*Government and Political Parties*” for a discussion of the policy declaration.

### ***Economic Policy***

Lebanon has a long and established tradition of having an open and free market economy. The state sector has traditionally been small, with the Government having a history of minimal intervention in economic activity.

### ***Refinancing***

The Republic has large amounts of domestic and international debt. As of December 31, 2011, gross public debt was LL 80,869 billion (U.S.\$53.6 billion), consisting of LL 49,340 billion of gross domestic debt and LL 31,529 billion of public external debt. Net outstanding public debt of the Republic was LL 69,885 billion (U.S.\$46.4 billion), as of December 31, 2011. The Republic has a high net outstanding public debt to gross domestic product (“GDP”) ratio, which reached 156 percent as of the end of 2007 but has since declined to 140 percent as of December 31, 2008, 127 percent, as of December 31, 2009, 121 percent, as of December 31, 2010, and 119 percent, as of December 31, 2011. The Republic faces significant debt maturities in the coming years, with approximately LL 22,634 billion (approximately U.S.\$15.0 billion) maturing in 2012 (including approximately LL 4,660 billion (U.S.\$3.1 billion) in foreign currency debt), and, accordingly, may have to rely in part on financing from the domestic and international capital markets and on international financial assistance. Any future international assistance may depend on the willingness and ability of the Republic to implement economic and fiscal reforms and the impact of the global financial crisis on the economies of donor countries and their willingness to provide economic assistance to the Republic. The implementation of significant aspects of the reform program submitted by the then Government during the Paris III Conference, such as privatization and securitization, has been delayed in the past because of differences in views among political leaders and may continue to be delayed in the future.

### ***Ratings***

As of the date of this Base Prospectus, the foreign currency obligations of the Republic were rated as follows:

| <b>Rating Agency</b>              | <b>Tenor</b>                    | <b>Rating</b> | <b>Outlook</b> |
|-----------------------------------|---------------------------------|---------------|----------------|
| Standard & Poor's Rating Services | Long-term                       | B             | Stable         |
|                                   | Short-term (less than one year) | B             |                |
| Moody's Investor Services Limited | Long-term                       | B1            | Stable         |
| Fitch Ratings                     | Long-term                       | B             | Stable         |
|                                   | Short-term (less than one year) | B             |                |

### **Summary of Risk Factors Relating to the Republic and the Notes**

An investment in the Notes under the Program involves significant risks, including (among others):

- i. economic risks relating to Lebanon, such as Lebanon's below-investment grade debt ratings, a high debt to GDP ratio, a high debt service to revenue ratio and a high fiscal deficit to GDP ratio;
- ii. political risks relating to Lebanon and the region, including the ongoing upheaval in Syria;
- iii. the lack of available and accurate financial and statistical information relating to national income and balance of payments data;
- iv. risks relating to the global financial crisis and to investments in emerging markets;
- v. risks relating to the Lebanese banking sector;
- vi. risks relating to currency considerations and devaluation risks;
- vii. risks relating to liquidity and interest rate sensitivity risks;
- viii. risks relating to the Republic's sovereign immunity, which makes it difficult for investors to obtain or realize upon judgments against the Republic in the courts of Lebanon and other jurisdictions. See "*Jurisdiction and Enforcement*"; and
- ix. risks relating to the Notes, such as limited liquidity.

For a more complete discussion of applicable risk factors, see "*Risk Factors*".

## Summary of the Terms and Conditions of the Program and the Notes

|  |  |
|--|--|
| <b>Issuer .....</b>  | The Lebanese Republic.   |
| <b>Arrangers .....</b>   | Credit Suisse Securities (Europe) Limited and Merrill Lynch International.   |
| <b>Dealers .....</b>   | BNP PARIBAS, Citigroup Global Markets Limited, Commerzbank Aktiengesellschaft, Credit Suisse Securities (Europe) Limited, Deutsche Bank AG, London Branch, J.P. Morgan Securities Ltd., Merrill Lynch International, Morgan Stanley & Co. International plc, Nomura International plc and The Royal Bank of Scotland plc.  |
|  | Pursuant to the terms of the Program Agreement, the Republic may issue Notes to persons other than Dealers and may terminate the appointment of any Dealer or appoint further Dealers for a particular Tranche or Series of Notes or for the Program.  |
| <b>Fiscal Agent, Transfer Agent, Registrar and Exchange Agent .....</b>      | Deutsche Bank Trust Company Americas.  |
| <b>Paying Agent and Transfer Agent in London .....</b>                       | Deutsche Bank AG, London Branch.   |
| <b>Paying Agent and Transfer Agent in Luxembourg and Listing Agent .....</b> | Deutsche Bank Luxembourg S.A.  |
| <b>Description .....</b>   | Global Medium-Term Note Program.   |
| <b>Size .....</b>  | Up to U.S.\$22,000,000,000 (or its equivalent in other currencies, calculated as described in “ <i>General Description of the Program</i> ”) outstanding at any time, subject to any duly authorized increase.   |
| <b>Distributions .....</b>   | Notes may be distributed on a syndicated or non-syndicated basis.  |
| <b>Currencies .....</b>  | U.S. Dollars, Euros and, subject to compliance with all relevant laws, regulations and directives, such other currencies as may be specified in the applicable Final Terms (each, a “ <i>Specified Currency</i> ”).  |
| <b>Issuance in Series .....</b>  | Notes will be issued in Series, with all Notes in a Series having the same maturity date and terms otherwise identical (except in relation to issue dates, interest commencement dates, issue prices and related matters). The Notes in each Series may be issued in one or more Tranches on different issue dates.  |
| <b>Further Issuances .....</b>   | The Issuer reserves the right, with respect to the Notes in any Series or Tranche, from time to time, without the consent of the holders of the Notes in such Series or Tranche, to issue additional Notes in a Series or Tranche so that the same shall be consolidated with, form a single issue with, and increase the aggregate principal amount of, the Notes issued in such Series or Tranche. |

|                                   |  |
|-----------------------------------|--|
| <b>Final Terms</b> .....          | The Final Terms for each issue of Notes in a Series or Tranche shall set forth, among other things, certain information about the terms and conditions of such Notes and the offering and sale thereof. Such information may, without prejudice to the provisions of the section above entitled “ <i>Issuance in Series</i> ”, differ from that set forth herein, and, in all cases, the Final Terms shall, to the extent inconsistent herewith, supersede the information herein.   |
| <b>Maturities</b> .....           | Such maturities as indicated in the applicable Final Terms, subject to a minimum maturity of three months and a maximum maturity of 30 years. Any Notes in respect of which the issue proceeds are received by the Issuer in the United Kingdom and which have a maturity of less than one year are subject to additional selling restrictions in the United Kingdom.  |
|                                   | See “ <i>Notice to Purchasers and Holders of Restricted Notes and Transfer Restrictions</i> ”.   |
| <b>Amortization</b> .....         | If specified in the applicable Final Terms, the Notes will be redeemed in the Amortization Amounts and on the Amortization Dates set forth in the applicable Final Terms.  |
| <b>Issue Price</b> .....          | Notes may be issued at an issue price which is at par or at a discount to, or at a premium over, par, as set forth in the applicable Final Terms.  |
| <b>Interest Rate Option</b> ..... | Notes in respect of any Series or Tranche may be issued bearing interest at a fixed rate or a floating rate or may be non-interest bearing.  |
| <b>Status and Ranking</b> .....   | The Notes will constitute direct, general, unconditional, unsubordinated and (subject to Condition 4, relating to the Republic’s negative pledge covenant) unsecured obligations of the Republic which will rank <i>pari passu</i> in priority of payment among themselves, and at least <i>pari passu</i> with all other present and future unsecured (subject to Condition 4, relating to the Republic’s negative pledge covenant) Indebtedness (as defined in the Terms and Conditions of the Notes) of the Republic, other than any Indebtedness preferred by Lebanese law, as more fully described in this Base Prospectus. |
| <b>Events of Default</b> .....    | See Condition 10 for a description of certain Events of Default, such that, if any of them shall have occurred and be continuing, the Holder of any Note then outstanding may, by written notice given to the Republic at the specified office of the Fiscal Agent, declare such Note to be due and payable and such Note shall accordingly become immediately repayable, together with accrued interest.  |
| <b>Negative Pledge</b> .....      | The terms of the Notes will contain a negative pledge provision as further described in Condition 4.   |
| <b>Cross Default</b> .....        | The terms of the Notes will contain a cross-default provision as further described in Condition 10.  |

**Redemption** ..... The Final Terms relating to each Tranche of Notes will indicate whether or not the Notes of such Tranche may be redeemed prior to their stated maturity, at whose option, under which circumstances, and at what terms.

**Withholding Tax**..... The principal of, and interest on, the Notes will be payable by the Republic without withholding or deductions for, or on account of, taxes imposed by or in the Republic, except as otherwise required by law. If the Republic is required by law to deduct or withhold any taxes, imposed or levied by or in the Republic, the Republic will, subject to certain exceptions, be required to take such additional actions as necessary to enable Holders of Notes to receive, after such deductions or withholding, the amounts they would have received in the absence of such withholding or deductions. Interest paid in respect of Notes issued by the Republic after January 31, 2003 is subject to withholding tax at the rate of five percent.

See “*Terms and Conditions of the Notes—8. Taxation*”.

**Tax Consequences** ..... Notes may not be a suitable investment for all investors. The acquiring, holding or disposing of Notes and receiving payments under Notes may have tax consequences for an investor.

**Forms of the Notes**..... Notes may be issued in bearer or in registered form, as specified in the applicable Final Terms. Bearer Notes will not be exchangeable for Registered Notes, and Registered Notes will not be exchangeable for Bearer Notes.

Each Tranche of Bearer Notes will initially be represented by a Temporary Global Note or a Permanent Global Note. A Temporary Global Note will be exchangeable, for either a Permanent Global Note or Definitive Bearer Notes, upon the terms indicated in the applicable Final Terms, including certification of non-U.S. beneficial ownership delivered to the Republic or the Fiscal Agent on its behalf. A Permanent Global Note will only become exchangeable in whole, but not in part, for Notes in definitive form in limited circumstances, unless otherwise specified in the applicable Final Terms.

Each Tranche of Registered Notes sold outside the United States in reliance on Regulation S will be represented by a Regulation S Global Note.

Each Tranche of Registered Notes sold in private transactions to QIBs pursuant to Rule 144A will be represented by a Restricted Global Note.

See “*Terms and Conditions of the Notes—1. Form, Denomination and Title*”, “*Terms and Conditions of the Notes—2. Exchange and Transfer of Notes*” and “*Annex A—Form of the Final Terms—General Provisions Applicable to the Notes—Form of Notes*”.



**Delivery and Clearance** ..... Any interest in a Temporary Global Note, a Permanent Global Note, a Regulation S Global Note or a Restricted Global Note will be transferable only in accordance with the rules and procedures for the time being of Euroclear, Clearstream, Luxembourg, DTC, MIDCLEAR and/or any other agreed clearance system, as applicable.

See “*Book-Entry Clearance Systems*” for a further description of the delivery and clearance procedures.

The transfer of a Global Note, as well as the transfer of Definitive Notes after exchange of the Global Note, must be made in compliance with Lebanese law. Under Lebanese law, instruments of transfer must be signed by both the Transferor and the Transferee.

**Denominations** ..... Notes will be issued in the denominations indicated in the applicable Final Terms (the “*Specified Denominations*”) save that the minimum denomination of each Note will be the equivalent in Specified Currency of U.S.\$1,000 or such higher minimum as may be required from time to time by any laws or regulations applicable to the relevant Specified Currency.

**Selling Restrictions** ..... The offer and sale of Notes and the delivery of this Base Prospectus is restricted in certain jurisdictions, including the United States, the European Economic Area and the United Kingdom. There are selling restrictions in relation to the United States, the European Economic Area and the United Kingdom and certain other jurisdictions in connection with the offering and sale of a particular Tranche of Notes of a particular Series.

See “*Notice to Purchasers and Holders of Restricted Notes and Transfer Restrictions*” and “*Subscription and Sale*”.

**Governing Law** ..... The Program Agreement and the Notes will be governed by, and construed in accordance with, the laws of the State of New York.

**Submission to Jurisdiction** ..... Non-exclusive jurisdiction of any New York State or federal court sitting in The City of New York, in the Borough of Manhattan.

See “*Jurisdiction and Enforcement*” above.

**Listing and Admission to Trading** ..... Application has been made to the Luxembourg Stock Exchange for Notes issued under this Base Prospectus to be admitted to trading on the Luxembourg Stock Exchange’s Regulated Market and to be listed on the Official List of the Luxembourg Stock Exchange. However, Notes may be issued under the Program which will not be listed on the Official List of the Luxembourg Stock Exchange or on any other stock exchange, and the Final Terms applicable to each Tranche of Notes will specify whether or not the Notes will be listed on the Official List of the Luxembourg Stock Exchange or on any other stock exchange.

Application has also been made to the Beirut Stock Exchange for Notes issued under this Base Prospectus to be listed and traded on the Beirut Stock Exchange.

## **RISK FACTORS**

*The purchase of Notes involves substantial risks and is suitable only for, and should be made only by, investors that are fully familiar with the Republic in general and that have such other knowledge and experience in financial and business matters as may enable them to evaluate the risks and the merits of an investment in the Notes. Prior to making an investment decision, prospective investors should consider carefully, in light of their own financial circumstances and investment objectives, all the information set forth herein and, in particular, the risk factors set forth below. Prospective purchasers of Notes should make such inquiries as they think appropriate regarding the Notes and the Republic without relying on the Republic or the Dealers.*

### **Risks Relating to the Notes**

#### ***Limited Liquidity; Trading Prices may Fluctuate***

Although application has been made to list the Notes issued and to be issued under the Program on the Official List of the Luxembourg Stock Exchange, and although the Notes will be listed on the Beirut Stock Exchange, each Series or Tranche of Notes is a new issue of securities with no established trading market. Any one or more of the Dealers may make a market in the Notes, but are not obligated to do so and may discontinue any market making, if commenced, at any time without notice. There can be no assurance that a secondary market will develop for the Notes or, if a secondary market therein does develop, that it will continue. If the Notes are traded after their initial issuance, they may trade at a discount to their initial offering price, depending upon prevailing interest rates, the market for similar securities, general economic conditions and the financial condition of the Republic.

#### ***The Terms of the Notes may be Modified, Waived or Substituted without the Consent of all the Holders of the Notes***

The Terms and Conditions of the Notes contain provisions for convening meetings of Holders of Notes to consider matters affecting their interest. The provisions permit defined majorities to bind all Holders of Notes including Holders who did not attend and vote at the relevant meeting and Holders who voted in a manner contrary to the majority. Also, the Republic may issue Additional Notes fungible with outstanding Notes, which would dilute the voting powers of existing Holders of Notes.

#### ***Jurisdiction and Sovereign Immunity***

The Republic is a sovereign state. Consequently, it may be difficult for investors to obtain or realize upon judgments against the Republic in the courts of the United States of America. The Republic has irrevocably submitted to the non-exclusive jurisdiction of any New York State or federal court sitting in the City of New York in the Borough of Manhattan for purposes of any Related Proceeding. The Republic has also irrevocably agreed that all claims in respect of any Related Proceeding may be heard and determined in any such New York State court or any such federal court, subject to the following. The Republic has irrevocably waived the defense of an inconvenient forum to the maintenance of any Related Proceeding whether on grounds of venue, residence or domicile; however, the Republic will not waive any rights to seek removal or transfer of any Related Proceeding from any such court of the State of New York to any United States federal court sitting in New York City, in the Borough of Manhattan.

Prospective investors in Notes should be aware that, pursuant to Lebanese law, including Article 860 of the Code of Civil Procedure of Lebanon, the Republic's properties and assets are immune from execution, attachment or other legal or judicial process and, in any Related Proceeding brought in the courts of Lebanon against the Republic or brought in those courts to enforce or seek recognition of a judgment obtained outside Lebanon, the Republic's waiver of Immunity referred to above would not be given effect to the extent it violates Article 860 of the Code of Civil Procedure of Lebanon. Investors should therefore be aware that the waiver of immunity is likely to be ineffective in respect of the attachment of assets and properties located in the Republic.

Prospective investors in Notes should also be aware that enforcement of foreign judgments in Lebanon also involves the payment of significant court and related fees, which may be as high as 2.5 percent of the amount claimed. Court costs and fees in connection with a direct action brought against the Republic in Lebanese courts may be as high as 5 percent of the amount claimed. See "*Jurisdiction and Enforcement*".

## ***EU Savings Directive***

On June 3, 2003, the European Council of Economics and Finance Ministers adopted the Savings Directive on the taxation of savings income. Under the Savings Directive Member States are (and equivalent measures have been introduced by certain non-EU countries) required to provide to the tax authorities of another Member State details of payments of interest (or similar income) paid by a person within its jurisdiction to an individual resident in that other Member State. However, for a transitional period, Luxembourg and Austria will instead be required (unless during that period they elect otherwise) to operate a withholding system in relation to such payments (the ending of such transitional period being dependent upon the conclusion of certain other agreements relating to information exchange with certain other countries). These Member States are required to allow individuals residents receiving such payments to opt for the exchange of their information as an alternative to such withholding tax.

If a payment is made or collected through a Member State which has opted for a withholding system and an amount of, or in respect of, tax were to be withheld from that payment, neither the Republic nor any Paying Agent nor any other person is obliged to pay additional amounts with respect to any Note as a result of the imposition of such withholding tax. If a withholding tax is imposed on payment made by a Paying Agent, the Republic will be required to maintain a Paying Agent in a Member State that would not be obliged to withhold or deduct tax pursuant to the Savings Directive.

## **Risks Relating to the Republic**

### ***Political and Economic Considerations***

Lebanon's financial environment is related to the overall political, social and economic situation in Lebanon, which, in turn, is tied to the absence of military conflict in Lebanon and among its neighbors and continued internal stability.

A combination of internal and external factors led to a heavily militarized conflict, which lasted from April 1975 until October 1990. Successive rounds of fighting took place, aggravated by two Israeli military invasions in 1978 and 1982. The conflict resulted in significant human losses, a substantial decline in GDP and reduction of economic activity, a significant reduction of Government authority, substantial physical and infrastructure damage, and a large public sector deficit and capital outflows. The post-conflict era has been characterized by large reconstruction and institution-building efforts, which resulted in large public sector deficits and setbacks in the implementation of political and economical reforms due, among other matters, to differences in views between political leaders and disagreements within the executive branch of the Government.

The Republic witnessed a series of significant adverse events in recent years, which have affected and may continue to affect the economy of the Republic and the finances of the Government, including the assassination of the former Prime Minister, Rafik Hariri, a campaign of assassinations and attempted assassinations of other political leaders and public figures, the adoption of a series of United Nations Security Council Resolutions, including Resolution 1757, which established the STL to prosecute persons responsible for the bombing that killed former Prime Minister Hariri, the withdrawal of Syrian army troops from Lebanon, the July 2006 War and its effects on the Republic's population, economy and infrastructure, the resignation of six ministers representing the opposition from the Government, followed by the opposition's sit-in in downtown Beirut, as well as the failure of Parliament to convene during an 18-month period, the Lebanese Security Forces taking over control of Nahr El-Bared camp after clashes with a terrorist organization from May to September 2007, the armed clashes that took place in Beirut, Northern Lebanon, the Bekaa Valley and the Chouf Mountains in May 2008, the six-month vacancy in the office of the President of the Republic, which ended with the election of General Michel Sleiman as President on May 25, 2008, rising tensions surrounding the filing of an indictment by the then Prosecutor of the STL, in the case of the assassination of former Prime Minister Rafik Hariri and his companions, including speculation surrounding the identity of parties who could be charged, the resignation of the Government headed by Prime Minister Saad Hariri pursuant to Article 69 of the Constitution following the resignations of ten ministers representing the March 8 Coalition, as well as one of the five ministers representing the President of the Republic, and the delay in the formation of the government.

On January 25, 2011, following mandatory Parliamentary consultations, 68 Members of Parliament nominated Mr. Najib Mikati as President of the Council of Ministers, and 60 Members of Parliament nominated Mr. Saad Hariri. Accordingly, President Suleiman appointed Mr. Mikati to this position.

On June 13, 2011, a new Government, headed by Prime Minister Najib Mikati and comprised of 30 other ministers, was formed, and it obtained the vote of confidence from Parliament on July 7, 2011 (with a vote of 68 members in favor, out of a total number of 128 members of Parliament) on the basis of the policy declaration submitted by the Government. The new Government does not include representatives of the March 14 Coalition who participated in the debate preceding the vote of confidence but withdrew from the parliamentary session prior to the vote. The opposition of the March 14 Coalition to the Government was centered primarily on the Government's prospective approach to, and dealings with, the STL, as well as the fate of Hizbollah's weapons.

On June 28, 2011, Pre-Trial Judge of the STL confirmed an indictment filed by the then Prosecutor of the STL in the case of the assassination of former Prime Minister Rafik Hariri and his companions. The indictment and accompanying arrest warrants for four individuals reportedly members of Hizbollah were transmitted to the Lebanese authorities on June 30, 2011. According to STL procedures, the Lebanese authorities must inform the President of the STL within 30 days after the confirmation of the indictment of the measures the Republic has taken to arrest the persons named in the indictment. The Lebanese authorities have informed the STL that they have been unable to locate or arrest these individuals. On November 30, 2011, the Government transferred U.S.\$32 million to cover the Republic's share of the STL's expenses for 2011. The Association of Lebanese Banks subsequently announced that it transferred funds in the same amount to the Government as an act of support to the Government.

Developments regarding the STL, as well as the reaction of political parties to such developments, could materially affect the political, economic and financial climate in the Republic.

### ***Regional and International Considerations; Events in Syria***

The Republic is located in a region that is and has been subject to ongoing political and security concerns. Political instability in the Middle East has increased since the terrorist attacks of September 11, 2001, the U.S. intervention in Iraq and Iran's reported nuclear program. Some Middle Eastern and North African countries have experienced in the recent past or are currently experiencing political, social and economic instability, extremism, terrorism, armed conflicts and war, some of which have negatively affected the Republic in the past. Since January 2011, a number of Arab countries have experienced significant political and military upheaval, conflict and revolutions leading to the departure of long-time rulers in Tunisia, Egypt, Yemen and Libya. The continuation of such events or the outbreak of new problems in the region could further strain the general resources of the Government and the Government's finances and negatively affect the Republic's economy.

Syria has recently been experiencing significant civil unrest and internal conflict. Although the stated policy of the Government has been to maintain neutrality with respect to the events in Syria in an attempt to shield the Republic from any repercussions, these events have had, and are likely to continue to have, an adverse impact on the political and economic situation in the Republic. These adverse consequences include, among others, a disruption to the transit of Lebanese and international goods through Syria resulting in higher transit fees for Lebanese exporters, a decline in tourism from Syria and other Arab countries, potential overspill of the dispute in Syria into the Republic and losses incurred by Lebanese companies, including financial institutions, with subsidiaries or affiliates in Syria. There are divisions in the Republic between supporters of the Syrian government and supporters of the Syrian opposition.

In addition, the Republic has experienced an inflow of Syrian nationals fleeing the conflict. If this increases, it may have an adverse impact on the Republic.

As a result of the political turmoil and social instability in Lebanon and the surrounding region, especially Syria, Lebanon has experienced frequent social and civil unrest, which has, on occasion, escalated into violence, sometimes of a general nature and more often with particular political or civil targets. The social, political and economic conditions behind this unrest are not likely to be resolved in the near future and, accordingly, could continue to materially adversely affect the Republic's economy. If these were to occur, such disturbances could lead to further political and economic instability, as well as loss of confidence in business investment in Lebanon.

### ***Global Financial Crisis***

The recent global financial crisis contributed to the failures of a number of financial institutions in the United States and Europe and unprecedented action by governmental authorities, regulators and central banks around the world. Its effects continue to be felt, with some countries, in particular in the EU, experiencing difficulties with refinancing their debt obligations. As a result of market turmoil, there is significant price volatility in the

secondary market for instruments similar to the Notes. Moreover, systemic risk within the financial system and the related general deterioration in global economic conditions could result in a decline in the recoverability and value of the market price of the Notes.

It is difficult to predict how long the volatility in the financial sector and capital markets will persist or whether related concerns about further failures of financial and other institutions will exacerbate the prevailing difficulties in the global economy and, accordingly, it is not possible to foresee the specific impacts these conditions may have on the Republic. In addition, if current global market conditions and circumstances deteriorate further, or continue for protracted periods of time, this could lead to a decline in available funding and credit quality and increases in defaults and non-performing debt, which may impact the rating, investments and finances of the Republic. In particular, the global financial crisis may have adverse effects on the Republic, including: (i) losses by, or reduced income of, Lebanese nationals overseas, which may result in reduced inflows and remittances; and (ii) a general slowdown in economic activity in the Republic, which may impact Lebanese banks' assets and profitability and which would in turn impact their ability to finance Government debt.

### ***Sovereign Debt Ratings***

As of the date of this Base Prospectus, the foreign currency obligations of the Republic were rated as follows:

| <b>Rating Agency</b>              | <b>Tenor</b>                    | <b>Rating</b> | <b>Outlook</b> |
|-----------------------------------|---------------------------------|---------------|----------------|
| Standard & Poor's Rating Services | Long-term                       | B             | Stable         |
|                                   | Short-term (less than one year) | B             |                |
| Moody's Investor Services Limited | Long-term                       | B1            | Stable         |
| Fitch Ratings                     | Long-term                       | B             | Stable         |
|                                   | Short-term (less than one year) | B             |                |

All of the ratings referred to above are non-investment grade and a credit rating is not a recommendation by the rating organization or any other person to buy, sell or hold securities and may be subject to revisions or withdrawal at any time by the assigning rating organization and each should be evaluated independently from the other. Any adverse change in an applicable credit rating could adversely affect the trading price for the Notes. The credit ratings included or referred to in this Prospectus will be treated for the purposes of Regulation (EC) No 1060/2009 on credit rating agencies, as amended by Regulation (EU) No 513/2011, (the "*CRA Regulation*") as having been issued by Standard & Poor's Rating Services ("*S&P*"), Moody's Investor Services Limited ("*Moody's*") and Fitch Ratings Ltd. ("*Fitch*"), respectively. Each of S&P, Moody's and Fitch is established in the European Union ("*EU*") and is registered under the CRA Regulation. As such, each of S&P, Moody's and Fitch is included in the list of credit rating agencies published by the European Securities and Markets Authority on its website in accordance with the CRA Regulation as of the date of this Prospectus.

The definition applicable to S&P ratings referred to above is that debt of this rating is generally regarded as having significant speculative characteristics, and that the Republic's capacity or willingness to meet its financial commitment on the Notes will be dependent upon favorable business, financial, and economic conditions.

The definition applicable to the Moody's ratings referred to above is that debt of this rating is generally regarded as lacking characteristics of desirable investment, and that assurance of interest and principal payments or maintenance of other terms in connection with such debt over a long period may be small.

The definition applicable to the Fitch ratings referred to above is that debt of this rating is generally regarded as indicating that significant credit risk is present, but a limited margin of safety remains. Financial commitments are currently being met; however, capacity for continued payment is contingent upon a sustained, favorable business and economic environment.

### ***Lebanese Banking Sector***

On February 10, 2011, the U.S. Department of the Treasury designated the Lebanese Canadian Bank S.A.L. ("*LCB*") as "a financial institution of primary money laundering concern" under Section 311 of the USA PATRIOT Act. In its finding, the U.S. Department of the Treasury noted that the Lebanese banking sector faces certain vulnerabilities. *Banque du Liban* is taking measures to address the concerns raised by the U.S. Department of the Treasury and has arranged for the sale of assets of LCB. In April 2011, the U.S. Ambassador to Lebanon stated that the U.S. government is not targeting the Lebanese banking sector in general and views

LCB as an isolated case. The U.S. government has since filed a claim in New York against LCB and other parties seeking to attach certain assets.

### ***Budget Deficit and Public Debt***

In recent years, the Government has incurred significant internal and external debt, principally for the purpose of financing the budget deficits. Expenditures during this period, mainly consisting of payments for wages and salaries, reconstruction and expansion projects, other current expenditures and debt service, have exceeded revenues. Total expenditures increased by approximately 3.2 percent in 2011, as compared to 2010.

Net outstanding public debt as a percentage of estimated GDP has increased from approximately 46 percent in 1992 to approximately 169 percent as of December 31, 2006 before decreasing to 156 percent as of December 31, 2007, 140 percent as of December 31, 2008, 127 percent as of December 31, 2009, 121 percent as of December 31, 2010 and 119 percent as of December 31, 2011. As a result, the Lebanese Republic is suffering from a large budget deficit. The debt burden of the Lebanese Government is significant, accounting for the largest part of expenditures in recent years. In 2011, debt service represented approximately 42.9 percent of total expenditures and 34.3 percent of total revenues.

The Government owns *Electricité du Liban* (“EdL”), which supplies virtually all electricity in the Republic. EdL’s significant continuing losses, which are due in large part to increases in oil prices and collection difficulties, are funded through the Treasury. This has adversely affected the Republic’s expenditures and increased the Republic’s budget deficit. Treasury transfers to EdL amounted to approximately U.S.\$1,498 million in 2009, U.S.\$1,192 million in 2010 and U.S.\$1,742 million in 2011.

The Government has been authorized to incur significant additional expenditures, including under Law № 181 providing for an increase in electricity production capacity and the expenditure of an aggregate of approximately U.S.\$1.2 billion over a four-year period commencing in 2011. The Ministry of Finance accounted for the 2011 expenditures under Law № 181 in its current spending plan for the year and for the 2012 expenditures in the draft 2012 budget originally submitted by the Minister of Finance to the Council of Ministers but which has since been withdrawn. This and other expenditures, such as an expected increase in public sector wages following an increase in private sector wages, could have a negative effect on budgetary performance if not offset by revenue compensatory measures or a reduction in expenditure.

### ***Foreign Exchange Risk; Monetary Policy***

The national currency, the Lebanese Pound, is convertible and its exchange rate is generally determined on the basis of demand and supply conditions in the exchange market. BDL intervenes when necessary in order to maintain orderly conditions in the foreign exchange market.

BDL’s exchange rate policy since October 1992 has been to anchor the Lebanese Pound nominal exchange rate to the U.S. Dollar. BDL has been successful during the past several years in maintaining a stable rate of exchange, through the use of its foreign exchange reserves and its interest rate policy.

The period after the assassination of Mr. Hariri has been marked by significant conversions from Lebanese Pound deposits to foreign currency deposits followed by a decline in foreign currency reserves due to the intervention of BDL in the foreign exchange markets. Foreign currency reserves (excluding gold reserves) at BDL were approximately U.S.\$8,611 million as of July 31, 2005. Similarly, the period of the July 2006 War saw significant conversions from the Lebanese Pound to foreign currency deposits resulting in a decline in BDL’s foreign currency reserves from U.S.\$11,020 million at the end of June 2006 to U.S.\$10,563 million at the end of July 2006 as it intervened in the foreign exchange markets. The decline in BDL’s foreign currency reserves reversed as hostilities ended, and these reserves were U.S.\$10,868 million at the end of August 2006. Foreign currency reserves were aided by deposits from Saudi Arabia and Kuwait. As of December 31, 2011, gold reserves and gross foreign currency reserves (excluding gold reserves) at BDL were approximately U.S.\$14,401 million and U.S.\$30,815 million, respectively.

Although the authorities expect to continue to gear their monetary policy towards maintaining stability in the exchange rate, there can be no assurance that BDL will continue to be willing or able to maintain a stable currency, through intervention in the exchange markets or otherwise.

The possible depreciation of the Lebanese Pound against the U.S. Dollar, or the decline of the level of foreign reserves as a result of BDL’s intervention in the currency markets, could materially impair the Republic’s ability to service its debt, including the Notes.

Lebanon's economy is highly dollarized. BDL data indicate that the proportion of foreign currency deposits as a share of total deposits stood at approximately 64 percent as of December 31, 2009, 63 percent as of December 31, 2010 and 66 percent as of December 31, 2011.

### ***Accuracy of Financial and Statistical Information***

The analysis of the economic situation and prospects in Lebanon is hampered by the lack of reliable data on the economy. At present, only the monetary accounts, the fiscal operations of the Lebanese Government and trade data are available on a regular basis. Other data (balance of payments components, prices, production and employment) are, for all practical purposes, best estimates.

Information for official national income accounts (that is, accounts which refer to aggregate measures of production such as gross domestic product) was not systematically collected between the period when the Lebanese Republic's statistical office ceased functioning in 1976 until it reopened in September 1994. Recent estimates of output have been made on the basis of a 1990 study sponsored by the United Nations Development Program (the "UNDP"), which, in turn, was based on extrapolated data in respect of four major sectors (agriculture, manufacturing, trade and public administration) for the 1988–1989 period. Since then, updates have been undertaken by international organizations, Lebanese authorities and private entities utilizing available indicators such as trade, construction permits, electricity generation, cement deliveries and public sector finances. From 1977, no official GDP calculations were made, with the exception of the GDP calculations for 1994 and 1995 published by the Central Administration of Statistics ("CAS"). Recognizing that statistical weaknesses and the absence of reliable and current information concerning GDP figures and other economic data constituted serious obstacles to the analysis of the Republic's economy, in 2002, the then Prime Minister founded a steering committee, headed by the Minister of Economy and Trade, for the establishment of a national accounts database for the years 1997–2002. The Government extended the project to include a national account database for the years 2003 and 2004 under the authority of the Presidency of the Council of Ministers. Technical assistance was provided by the French National Institute of Statistics and Economic Studies. In May 2003, the Ministry of Economy and Trade published GDP figures for 1997. On September 30, 2005, the Ministry of Economy and Trade published GDP figures for the period 1997–2002. In May 2006, the Presidency of the Council of Ministers—National Accounts Committee (the "*National Accounts Committee*") published GDP figures for 2002 (revised) and 2003. In February 2007, GDP figures for 2004 were published. In October 2007, GDP figures for 2005 were published. In February 2009, GDP figures for 2006 and 2007 were published. In October 2009, GDP figures for 2008 were published. In October 2010, GDP figures for 2009 were published. In January 2012, GDP figures for 2010 were released by the National Accounts Committee. The National Accounts Committee also prepared revised GDP figures for 2006–2009. GDP figures for 2011 are estimates by the Ministry of Finance.

To date, there are no official data on prices, although some estimates have been collected for price developments in the greater Beirut metropolitan area by the Beirut Chamber of Commerce and Industry, *Confédération Générale des Travailleurs Libanais*, and other private entities on the basis of a limited basket of goods and services. The CAS has also been publishing monthly data on retail prices since January 2008. There are also monthly price indexes published by the Ministry of Economy and Trade for a selected basket of foodstuff and consumer nondurable goods.

BDL is responsible for the compilation of the balance of payments statistics for Lebanon. The External Sector Section ("ESS") at the Statistics and Economic Research Department at BDL has set the methodology for estimating the various components of the Balance of Payments ("BOP"), which is believed to be consistent with the methodology of the IMF fifth edition of the balance of payments manual ("*BPM5*"). The ESS has applied the BPM5 principles in 2003, in respect of data for 2002 and thereafter, accordingly, the BOP figures appearing in this Prospectus have been revised. The ESS uses various data sources for the establishment of the BOP statistics, in particular: (i) the High Council of Customs, (ii) the ministries and public administrations' administrative records, (iii) the BDL departments, (iv) the General Directorate of General Security and Ministry of Labor statistics, (v) statistics from the Coordinated Portfolio Investment Survey (BDL Circular № 91, issued on February 13, 2002), and (vi) the International Transactions Reporting System established on February 4, 2002 through BDL Circular № 90 addressed to commercial banks and medium- and long-term banks, as amended through BDL Intermediate Circular № 201 dated September 14, 2009.

The ESS uses various data sources for the establishment of the BOP statistics, in particular: (i) the High Council of Customs, (ii) the ministries and public administrations' transactions, which are settled through the Foreign Exchange and International Operations Department at BDL, (iii) the Financial Operations Department at BDL, (iv) the General Directorate of General Security and Ministry of Labor statistics, (v) the banking and monetary

statistics prepared by BDL, (vi) statistics from the Coordinated Portfolio Investment Survey (BDL Circular № 91 issued on February 13, 2002), and (vii) the International Transactions Reporting System established on February 4, 2002 through BDL Circular № 90 addressed to commercial banks and medium- and long-term banks.

GDP and other economic figures included in this Base Prospectus are subject to updates and may differ from previously published figures. Statistical weaknesses constitute serious obstacles to the analysis of the Lebanese Republic's economy and the national income and balance of payments data should be viewed as best estimates by potential investors in the Notes.

### ***Emerging Markets***

Investing in securities involving emerging market risk, such as Lebanese risk, generally involves a higher degree of risk than investments in securities of issuers from more developed countries. These higher risks include, but are not limited to, higher volatility, limited liquidity and changes in the political environment. Lebanon's below-investment-grade credit ratings, large budget deficits and other weaknesses characteristic of emerging market economies make it susceptible to future adverse effects similar to those suffered by other emerging market countries. In any event, there can be no assurance that the market for securities bearing Lebanese risk, such as the Notes, will not be affected negatively by events elsewhere, especially in emerging markets.

### ***Prices and Inflation***

Depreciation of the Lebanese Pound has created pressure on the domestic price system that generated high rates of inflation reaching 120 percent in 1992 prior to the first Hariri Government. Since 2001, estimated inflation has fluctuated, increasing to 1.8 percent in 2002 and decreasing to 1.3 percent in 2003, before increasing to 3 percent in 2004 and decreasing to (0.7) percent in 2005. This marked the first prolonged return to relative price stability. However, inflation in 2006 stood at 5.6 percent, mainly due to shortages of supply and consequent price increases as a result of the July 2006 War. In 2007, CAS estimated the 2007 inflation figure at 9.3 percent on an end-of-period basis. The IMF, based on data from BDL, estimated inflation at 6.0 percent on an end-of-period basis and 4.1 percent on a period average basis. In 2007, the increase in inflation was due to, *inter alia*, the appreciation of the Euro against the Lebanese Pound (the Euro is the currency of the principal trading partners of the Republic) and the worldwide increase in oil and other commodity prices. CAS estimated inflation for 2008 at 5.5 percent on an end-of-period basis, and the IMF estimated inflation at 6.4 percent on an end-of-period basis and 10.8 percent on a period average basis. The increase in inflation in 2008 was due to the same factors as in 2007, but was tempered by the global financial crisis. Inflation slowed in 2009, with CAS estimating inflation at 3.4 percent on an end-of-period basis and at 1.2 percent on a period average basis, and the IMF estimating inflation at 1.2 percent on an annual period average basis. Inflation increased in 2010, with CAS estimating inflation at 4.6 percent on an end-of-period basis and 4.0 percent on a period average basis, and the IMF estimating inflation at 4.5 percent on an annual period average basis. Inflation in 2011 was estimated by CAS at 3.1 percent on an end-of-period basis, compared to 5.5 percent according to the IMF's estimate. On a period average basis, inflation in 2011 increased, with CAS estimating inflation at 5.1 percent, compared to an IMF estimate of 5.4 percent. The increases in both 2010 and 2011 were principally due to the worldwide increase in energy, food and other commodity prices. The inflation figure published by CAS for February 2012, as compared to February 2011, is 3.4 percent.

On January 25, 2012, Decree № 7426 was adopted (i) increasing the monthly minimum wage for private sector employees from LL 500,000 to LL 675,000 and (ii) providing for a cost-of-living increase up to a maximum of LL 299,000 per month, both effective February 1, 2012. Although Decree № 7426 applies to private sector employees, similar increases are likely to be implemented in favor of public sector employees. Such increases in the minimum wage and other salaries could have an inflationary impact on prices.

There is no assurance that the inflation rates will not rise in the future. Significant inflation could have a material adverse effect on the Republic's economy and the ability to service the Republic's debt, including the Notes.

### ***Refinancing Risk***

The Republic has large amounts of domestic and international debt. As of December 31, 2011, net public sector domestic debt was LL 38,356 billion and public sector external debt was LL 31,529 billion. The Republic has a high net public debt to GDP ratio, at 119 percent as of the end of 2011. In the recent past, in order to meet its



debt service obligations, the Republic has relied on international financial assistance provided in particular following the Paris II Conference and the Paris III Conference. See *“The Economy—Recent Economic History”*.

The Republic faces significant debt maturities in the coming years, with approximately LL 22,634 billion (approximately U.S.\$15 billion) maturing in 2012 (including approximately LL 4,660 billion (U.S.\$3.1 billion) in foreign currency debt), and may have to rely in part on financing from the domestic and international capital markets and on international financial assistance in order to reduce its debt service payments.

On January 25, 2007, the “International Conference for Support to Lebanon”, known as the Paris III Conference, was held in Paris at the invitation of the President of France. It was attended by representatives of 36 countries and 14 multilateral and supranational institutions, including the United Nations, the EU, the World Bank, the IMF and the Arab League, and resulted in pledges of financial assistance to Lebanon of approximately U.S.\$7.6 billion, of which the Government has received approximately U.S.\$4.6 billion as of December 31, 2011.

### ***Legal Authorization to Borrow***

Pursuant to Article 88 of the Constitution, borrowing by the Republic requires passage of a law. Borrowing authorizations have in the past been contained in annual budget laws or in specific laws. Since 2005, Parliament has not approved an annual budget law, and the Government’s borrowing since that date has been based on refinancing provisions contained in existing laws. There can be no assurance that Parliament will adopt budget laws or other laws authorizing future borrowings, especially borrowings denominated in foreign currencies. It should be noted, however, that, in March 2012, Parliament adopted a new law, which is awaiting publication in the *Official Gazette*, providing for, among other things, authorization for the Government to incur new borrowings of up to U.S.\$2 billion to finance foreign currency treasury needs and for debt refinancing of up to U.S.\$3 billion, in each with maturities of up to 30 years. Failure to pass future such laws may impact the Government’s ability to finance the budget deficit and refinance maturing debt.

### ***Extra-Budgetary Expenditures***

As provided in Article 86 of the Constitution and public accounting law decree № 14969/1963, in the absence of approved Budgets for 2006, 2007, 2008, 2009, 2010, 2011 and 2012, Government expenditures have been incurred and are currently incurred on the basis of the “one-twelfth rule”, pursuant to which the Government is authorized to spend monthly one-twelfth of the last approved Budget (*i.e.*, the 2005 Budget) and other enabling legislation. During the period 2006-2011, successive Governments have incurred extra-budgetary expenditures.

There is a controversy regarding the extra-budgetary expenditures incurred during the period 2006-2010 with certain members of the March 8 Coalition having requested a review of these expenditures by the Court of Accounts (the audit court). The Minister of Finance and other members of Parliament have proposed draft laws seeking to ratify the extra-budgetary expenditures for the period 2006-2010, as well as for 2011. This controversy is currently blocking approval of the Budgets for the years 2006-2011, which in turn limits the Government’s ability to have a Budget approved for 2012.

### ***Failure to Implement Economic Reforms and Privatization Program***

As part of the Paris III Conference, the then Government agreed to an economic reform program of which privatization is an essential component. Disagreements among political parties and the July 2006 War have contributed to delay the implementation of the program. There is no assurance that some of these obstacles will not persist.

In May 2000, Parliament adopted a privatization law, which sets the framework for the privatization of state-owned enterprises. The privatization law established a Higher Council for Privatization and provides that the proceeds from privatization will be applied towards debt repayment. Plans for privatization included, *inter alia*, the electricity, water and telecommunications sectors. However, due to political interference and disagreements within the executive branch of the Government, the Republic’s privatization program has not been successfully implemented. See *“The Economy—Role of the Government in the Economy and Privatization”*.

## TABLE OF SELECTED LEBANESE ECONOMIC INDICATORS

*Set forth below is a summary of certain information contained elsewhere in this Base Prospectus. It does not purport to be complete and is qualified in its entirety by the more detailed information appearing elsewhere in this Base Prospectus.*

|   | 2007    | 2008    | 2009    | 2010    | 2011    |
|---|---------|---------|---------|---------|---------|
| <b>The Economy</b> <sup>(1)</sup>                                   |         |         |         |         |         |
| GDP <sup>(2)</sup> (at current market prices in LL billions) .....  | 37,625  | 44,748  | 52,235  | 55,965  | 58,906  |
| GDP <sup>(3)</sup> (at current market prices U.S.\$ millions) ..... | 24,959  | 29,684  | 34,650  | 37,124  | 39,075  |
| Real Growth Rate (percent) <sup>(4)</sup> .....                     | 8.4     | 8.6     | 9.0     | 7.0     | 1.5     |
| <b>Balance of Payments</b> (U.S.\$ millions) <sup>(1)(5)</sup>      |         |         |         |         |         |
| Current account <sup>(6)</sup> .....                                | (1,605) | (4,149) | (6,741) | (7,462) | (1,814) |
| Capital and Financial account <sup>(6)</sup> .....                  | 7,604   | 5,874   | 11,118  | 1,795   | 1,125   |
| Net Change in Foreign Assets <sup>(7)</sup> .....                   | 2,037   | 3,462   | 7,899   | 3,325   | (1,996) |
| <b>Reserves</b> (U.S.\$ millions) <sup>(1)</sup>                    |         |         |         |         |         |
| Gross Foreign Currency Reserves <sup>(8)</sup> .....                | 9,778   | 17,062  | 25,660  | 28,598  | 30,815  |
| Gold <sup>(8)(9)</sup> .....  | 7,640   | 8,032   | 10,062  | 13,010  | 14,401  |
| Gold (thousands of Troy Ounces) .....                               | 9,222   | 9,222   | 9,222   | 9,222   | 9,222   |
| <b>Public Finance</b> (LL billions) <sup>(1)</sup>                  |         |         |         |         |         |
| Government Revenues .....   | 8,749   | 10,553  | 12,705  | 12,684  | 14,070  |
| Government Expenditures <sup>(10)</sup> .....                       | 12,587  | 14,957  | 17,167  | 17,047  | 17,600  |
| Government Overall Deficit .....                                    | (3,838) | (4,404) | (4,462) | (4,362) | (3,530) |
| Primary Deficit/Surplus <sup>(11)</sup> .....                       | 1,102   | 900     | 1,625   | 1,855   | 2,505   |
| <b>Public Debt</b> <sup>(1)</sup>                                   |         |         |         |         |         |
| Net Domestic Public Debt (LL billions) .....                        | 26,846  | 30,681  | 34,451  | 36,836  | 38,356  |
| Public External Debt (LL billions) <sup>(12)</sup> .....            | 31,991  | 31,934  | 32,139  | 31,043  | 31,529  |
| Gross Public Debt as a percentage of GDP .....                      | 168     | 159     | 148     | 142     | 137     |

### Notes:

- (1) Certain figures in this table differ from previously published data.
- (2) The GDP figures included in this table are taken from the *Lebanese Republic, Presidency of the Council of Ministers, Economic Accounts 2010* and revised GDP figures for 2007-2009 prepared by the National Accounts Committee. The 2011 figures are estimates by the Ministry of Finance.
- (3) Translated at period average exchange rates.
- (4) The real growth figure for 2011 figures is an estimate.
- (5) The basis for calculation of BOP figures have changed according to the IMF BPM5 manual. See "*Risk Factors—Risks Relating to the Republic—Accuracy of Financial and Statistical Information*". Therefore, figures may differ from previously published data.
- (6) The 2011 figures are for the six-month period ended June 30, 2011.
- (7) The 2007, 2008, 2009, 2010 and 2011 figures include proceeds from loans and bonds issued in connection with the Paris II Conference, the Paris III Conference and deposits from Saudi Arabia and Kuwait following the July 2006 War.
- (8) As of February 29, 2012, gross foreign currency reserves (excluding gold reserves) were U.S.\$30,764 million and gold reserves were U.S.\$16,462 million.
- (9) Parliament passed Law № 42/86, dated September 24, 1986, forbidding dispositions of gold reserves without parliamentary legislation.
- (10) Not including expenditures by the Council for Development and Reconstruction financed with foreign funds or donor funding for the High Relief Council. See "*Public Finance—Operations of the Government*".
- (11) Surplus or deficit, excluding domestic and external debt service.
- (12) Calculated at end of period exchange rates.

## THE LEBANESE REPUBLIC

### General Background

#### *Area and Population*

The Republic is situated in the Levant on the eastern most part of the Mediterranean Sea. The Republic's Mediterranean shoreline extends 192 kilometers from north to south; its greatest width from west to east is 85 kilometers. The total area of the Republic is 10,452 square kilometers.

The Republic is a mountainous country with over half its area lying above 1,000 meters. There are two parallel ranges of mountains running north to south: the Mount-Lebanon Range, hugging the Mediterranean coast, reaches an altitude of 3,088 meters and the Anti-Lebanon Range, reaching an altitude of 2,814 meters, runs along the eastern border. The fertile Bekaa valley lies between these two mountain ranges. The two main rivers, the Asi (Orontes) and the Litani, flow out of this valley.

The climate of the Republic is alpine in the mountains and Mediterranean along the coast. All four seasons are equally distributed throughout the year. The rain in winter can be torrential and snow falls on mountains above 1,000 meters. There is high humidity in the coastal regions with hot, rainless summers.

The historic and cultural heritage of Lebanon dates back over six thousand years to the Phoenicians and the subsequent civilizations that were established in or interacted with the Lebanese. Throughout its history Lebanon has been a contact center between various cultures and civilizations; this renders the Republic a highly cosmopolitan country enjoying a great deal of tourism.

According to the *National Survey of Household Living Conditions 2007* published in 2008 and conducted jointly by the CAS, the Ministry of Social Affairs and the UNDP, the number of Lebanon's permanent residents in 2007 was 3,759,136, of whom 96.2 percent were Lebanese. This figure does not include either temporary residents such as migrant workers or residents of Palestinian camps.

The following table shows the breakdown of population by age in 2007.

**Population by Age**

|                   | <b>Total</b>     |
|-------------------|------------------|
|                   | <i>(percent)</i> |
| Under 20 .....    | 34.3             |
| 20-59.....        | 52.3             |
| 60 and over ..... | 13.4             |

*Sources: National Survey of Household Living Conditions, 2007, CAS, Ministry of Social Affairs and UNDP.*

The population is composed of Christians, Muslims and minorities, and is Arabic speaking, with French and English being widely used. In the period 1975–1993, a decline in population of about 300,000 occurred, as a result of relocations mainly to North and South America, Europe, Africa, Australia and the Arabian Gulf States.

The main cities are Beirut, the capital, Tripoli, Sidon, Jounieh, Zahle and Tyre. The *National Survey of Household Living Conditions 2007* shows that in 2007 approximately 49 percent of the population lives in Lebanon's middle regions consisting of the governorates of Beirut and Mount Lebanon (including the Southern Suburbs of Beirut), while the rest of the population is distributed among the remaining three governorates (20.3 percent in North Lebanon, 13.0 percent in Bekaa, and 17.6 percent in South Lebanon, including Nabatiyeh).

### History

#### *Overview and Recent Developments*

From 1516 to 1918, Lebanon was under the administrative rule and political sovereignty of the Ottoman Empire. In 1920, the territory defined by the present-day boundaries became a state called "Grand Liban" (Greater Lebanon) by decree of General Gouraud, head of the French troops in the Levant. The state remained under French Mandate until November 26, 1941. A constitution was adopted on May 25, 1926 establishing a democratic republic with a parliamentary system of government. Effective political independence of the

Republic occurred on November 22, 1943. In 1945, Lebanon became a founding member of the League of Arab States, then of the United Nations. Departure of the foreign troops then on the Republic's territory was completed on December 31, 1946.

Over the next 30 years, Lebanon became a melting pot with a diverse cultural heritage. The instability in surrounding countries caused Lebanon to experience large waves of immigration from neighboring countries and attracted thousands of skilled laborers, entrepreneurs and intellectuals. The economic force of the Republic has mainly revolved around its entrepreneurs. In addition, Lebanon's democratic traditions, its attachment to freedom of speech and expression and its educated population enabled the Republic to become the cultural, academic and medical center of the region.

A combination of internal and external factors led to the outbreak of conflict in 1975. The regional instability and conflicting relations between neighboring countries contributed to the destabilization of the domestic political and economic situation. Successive rounds of fighting took place, aggravated by two Israeli military invasions in 1978 and 1982. The period of conflict witnessed a significant reduction of Government authority, large losses in human lives, substantial physical and infrastructure damage and a considerable emigration of skilled labor from the country.

In the aftermath of the Taif Accords signed in Saudi Arabia in 1989, military hostilities effectively came to an end in October 1990. President Elias Hrawi assumed office with Dr. Salim Al Hoss as Prime Minister. In 1992, Mr. Rafik Hariri was appointed Prime Minister and the first parliamentary elections in 20 years were held. In 1995, President Hrawi's term of office was extended for an additional three year period, after a constitutional amendment.

In October 1998, General Emile Lahoud was elected President and appointed Dr. Salim Al Hoss as Prime Minister.

In October 2000, Mr. Hariri was appointed Prime Minister by President Lahoud after parliamentary elections in August and September 2000.

On August 28, 2004, the Council of Ministers adopted a resolution to submit to Parliament a draft law extending the term of the office of Emile Lahoud, the then President of the Republic.

On September 2, 2004, the United Nations adopted Resolution 1559, which was co-sponsored by the United States and France. Among other matters, this Resolution declared support for a free and fair electoral process in the Republic without foreign interference or influence, for the restoration of the territorial integrity, full sovereignty and political independence of the Republic, the withdrawal of foreign troops from the territory of the Republic and the disarming of Lebanese and non-Lebanese militia. The Resolution further provided for the Secretary-General to report to the Security Council within 30 days on its implementation by the parties. On October 1, 2004, the Secretary-General submitted his report to the Security Council, which concluded that the requirements imposed on the various parties pursuant to Resolution 1559 had not been met.

On September 3, 2004, President Lahoud's term of office was extended by Parliament for an additional three-year period, pursuant to a constitutional amendment, amid domestic and international objections. On October 26, 2004, President Lahoud appointed Mr. Omar Karami as Prime Minister.

In October 2004, an assassination attempt against Mr. Marwan Hamade, the then Minister of Telecommunications, and an ally of former Prime Minister Mr. Rafik Hariri and Mr. Walid Jumblatt, was carried out. This was followed by a series of assassinations or assassination attempts of political figures and journalists, culminating in the assassination of Mr. Rafik Hariri described below, and including an assassination attempt on Mr. Elias Murr, the then Deputy Prime Minister and current Minister of Defense.

On February 14, 2005, the former Prime Minister, Mr. Rafik Hariri, together with a number of his bodyguards and assistants, was assassinated in Beirut. The terrorist act resulted in the death of 20 persons, including Dr. Basil Fuleihan, the former Minister of Economy and Trade and a member of Parliament, and the injury of numerous others. Between 1992 and 2004, Mr. Hariri served as Prime Minister for a total of approximately ten years. He was instrumental in the economic revival and reconstruction of the Republic following the 1975-1990 conflict and was the principal architect of the Paris II Conference discussed below.

Mr. Hariri's assassination generated widespread domestic and international condemnation and calls from the EU and the United States for the immediate implementation of Security Council Resolution 1559, including the withdrawal of Syrian troops from Lebanon and the disarming of Lebanese and non-Lebanese militia.

On February 18, 2005, the Secretary-General announced that he was sending a fact-finding mission to Beirut headed by Deputy Police Commissioner of the Irish Police, Mr. Peter Fitzgerald, to gather information and report his findings to the Security Council.

On February 28, 2005, Prime Minister Omar Karami submitted the resignation of the Government headed by him. Following mandatory parliamentary consultations, Mr. Karami was reappointed by the President of the Republic as Prime Minister-designate. Mr. Karami was not successful in forming a new Government and advised the President of the Republic accordingly. Following further mandatory parliamentary consultations, Mr. Najib Mikati, a former minister and prominent businessman, was appointed Prime Minister on April 19, 2005.

On March 14, 2005, one of the largest demonstrations in the history of the Republic took place. More than one million persons demanded the withdrawal of Syrian troops from the territory of the Republic and the identification and prosecution of the persons and parties responsible for the assassination of Mr. Hariri and his companions.

On March 21, 2005, the report from the fact-finding mission to Lebanon was published. The report concluded among other matters that the investigation process into the assassinations conducted in Lebanon suffered from serious flaws, and recommended that an international independent investigation be carried out.

On April 7, 2005, the Security Council adopted Resolution 1595, which resolved to establish an international independent investigation commission (the “*Commission*”) based in Lebanon to assist the Lebanese authorities in their investigation of all aspects of Mr. Hariri’s assassination. Resolution 1595 further provides that the Commission shall enjoy the full cooperation of the Lebanese authorities, including full access to documentary, testimonial and physical information and evidence in the possession of such authorities.

On April 26, 2005, in a letter to the United Nations, Syria informed the United Nations that Syrian troops and intelligence operatives had completed their withdrawal from Lebanon. A United Nations mission was conducted from May 1 to May 13, 2005 to verify such withdrawal. In a report dated May 23, 2005, this mission concluded that, with the possible exception of withdrawal from the Deir Al-Ashayr area on the Syrian-Lebanese border (the status of which was noted to be unclear), Syrian troops had withdrawn from Lebanese territory. However, the report noted that the withdrawal of the Syrian intelligence apparatus has been harder to verify.

In May and June 2005, parliamentary elections were conducted by the Mikati Government. Following mandatory parliamentary consultations, Mr. Fouad Siniora, a former Minister of Finance in the Hariri Governments, was appointed Prime Minister on June 29, 2005.

On May 7, 2005, General Michel Aoun, a former Prime Minister, returned to Lebanon after 15 years in exile in France and participated in the parliamentary elections that took place in May and June 2005.

In July 2005, Dr. Samir Geagea, the former head of the Lebanese Forces, was released from prison after eleven years of incarceration, following the adoption of a special amnesty law.

On August 30, 2005, the Commission questioned four senior Lebanese security and military officers, including the former heads of general security and military intelligence and the chief of the presidential guard. Following this questioning, Mr. Detlev Mehlis, the then head of the Commission, declared that the four officers were suspects in the murder of Mr. Hariri and recommended that the Lebanese authorities arrest them. On September 3, 2005, the prosecutor general of the Republic issued arrest warrants against the four officers, who were released in April 2009 as described below.

On October 19, 2005, the Commission published its first report. In this report, the Commission stated that it had interviewed more than 400 persons and reviewed 60,000 documents and identified several suspects. The report further stated that “there is converging evidence pointing at both Lebanese and Syrian involvement in the terrorist act” and that “given the infiltration of Lebanese institutions and society by the Syrian and Lebanese intelligence services working in tandem, it would be difficult to envisage a scenario whereby such a complex assassination plot would have been carried out without their knowledge”.

On October 31, 2005, the Security Council adopted Resolution 1636, which, among other matters, requires United Nations Member States to freeze the assets of individuals designated by the Commission as suspects of the assassination, establishes a committee of the Security Council to undertake designated tasks relating to such individuals and demands full Syrian cooperation with the investigations of the Commission.

Following the assassination of Mr. Hariri, the Republic witnessed a series of bombings, assassinations and attempted assassinations of politicians, journalists, members of the military and public figures, including the assassinations, on December 12, 2005, of Mr. Gebrane Tueni, a member of Parliament and newspaper editor, on November 21, 2006, of Mr. Pierre Gemayel, the Minister of Industry, a member of Parliament and the son of Amine Gemayel, the former President of the Republic, on June 13, 2007, of Mr. Walid Eido, a member of Parliament and of the Future Movement, on September 19, 2007, of Mr. Antoine Ghanem, a member of Parliament and of the Kataeb Party, on December 12, 2007, of Brigadier General Francois el Hajj of the Lebanese Army, on January 25, 2008, of Captain Wissam Eid of the Internal Security Forces and on September 10, 2008, of Mr. Saleh Aridi, a member of the Lebanese Democratic Party.

On December 15, 2005, the Security Council adopted Resolution 1644, which, among other matters, extended the Commission's mandate for six months with a request that the Commission report to the Security Council at least every three months, including on the cooperation of the Syrian authorities.

On January 11, 2006, the General Secretary of the United Nations appointed Mr. Serge Brammertz as the head of the Commission, replacing Mr. Detlev Mehlis. Mr. Brammertz's reports have contained less disclosure regarding the progress of the investigation on the grounds that Mr. Brammertz did not wish to jeopardize any future prosecutions before the special tribunal to be established to try those responsible for the bombing that killed former Prime Minister Hariri. Mr. Brammertz stated that the Commission is receiving support from Syria in providing information and facilitating interviews with individuals located on Syrian territory.

On June 15, 2006, the Security Council adopted Resolution 1686, which supports the Commission's intention to extend technical assistance to the Lebanese authorities with regard to their investigations into terrorist attacks (other than Mr. Hariri's assassination) perpetrated in Lebanon since October 1, 2004.

On July 13, 2006, Israel commenced war on Lebanon, following the kidnapping by Hizbollah of two Israeli soldiers. Attacks were launched against Lebanon and its population by land, sea and air, resulting in loss of human life, large scale displacement and significant damage to private and public property and infrastructure. Israel invaded a portion of territory in southern Lebanon. A cessation of hostilities was reached on August 14, 2006. However, the air and sea blockade on Lebanon continued for a month after the cessation of hostilities. It is estimated that, as a result of the war, Lebanon suffered 1,200 deaths, of whom one-third were children, and approximately 4,400 injuries. Approximately one-quarter of Lebanon's population was displaced during the war and 100,000 housing units were destroyed or damaged. Additional deaths and injuries have resulted, and continue to be caused, by unexploded ordinances as a consequence of the estimated 1.2 million cluster bombs that were fired into Lebanon during the final days of hostilities. The economic impact of the conflict has been substantial. The impact of the war on public finances resulted in a worsening in the fiscal dynamics and the emergence of a primary deficit for the first time in six years. The Ministry of Finance estimates that the war resulted in a net decline of LL 1,270 billion in the primary balance for 2006.

On August 7, 2006, the Council of Ministers adopted a unanimous decision to deploy 15,000 troops from the Lebanese army in Southern Lebanon as the Israeli army withdrew. The deployment took place and represents the first presence of the Lebanese army south of the Litani River in more than 30 years.

On August 11, 2006, the Security Council adopted Resolution 1701, which instituted a cessation of hostilities based on full respect of the Blue Line by Israel and Lebanon, the establishment between the Blue Line and the Litani River of an area free of any armed personnel and weapons other than those of the Government and the United Nations Interim Force in Lebanon ("UNIFIL"), full implementation of the relevant provisions of the Taif Accords and of Resolutions 1559 and 1680, requiring the disarmament of all armed groups in Lebanon, and increased the number of UNIFIL troops to a maximum of 15,000.

On November 11, 2006, five ministers representing Hizbollah and the Amal party, comprising all of the ministers from the Shiite community, resigned from the Government. This was followed a few days later by the resignation of a minister from the Orthodox Christian community who was an ally of then President Lahoud. The initial reason given for the resignations was the lack of sufficient prior notice given to the ministers to analyze and debate the proposed legal framework and statute for the special tribunal to be established to try those responsible for the bombing that killed former Prime Minister Hariri. The dispute between the then opposition parties, led by Hizbollah and including General Michel Aoun and his allies, and the majority escalated. Opposition parties requested an expansion of the Council of Ministers so that the opposition would be represented by a minimum of one-third of all the ministers and, subsequently, the holding of early parliamentary elections on the basis of a new electoral law.

On December 1, 2006, the opposition commenced a sit-in in downtown Beirut, as well as a number of large demonstrations and a general strike, which the opposition sought to enforce by blocking public roads. This generated sporadic clashes between opposition and majority forces, resulting in a limited number of deaths and injuries and an increase in sectarian tension, especially among the Shiite and Sunni communities.

On May 20, 2007, clashes between members of a militia and the Lebanese Army occurred around the Nahr El-Bared Palestinian refugee camp in Northern Lebanon and surrounding areas, following a raid against suspected members of the militia involved in a bank robbery. These clashes continued until September 2, 2007, when the Lebanese army asserted control over the refugee camp. The clashes resulted in the destruction of the refugee camp and the deaths of over 160 army personnel and more than 220 members of the militia. Approximately 200 members of the militia were arrested. Plans to rebuild the refugee camp with Arab and foreign assistance are underway.

On May 30, 2007, the Security Council, acting under Chapter VII of the Charter of the United Nations, adopted Resolution 1757, which established the STL to prosecute persons responsible for the attack of February 14, 2005 and adopted the Statutes for the STL. Resolution 1757 further provides that if the STL finds that other attacks that occurred in the Republic between October 1, 2004 and December 12, 2005 (or any later date decided by the United Nations and the Republic with the consent of the Security Council) are connected, in accordance with the principles of criminal justice, and are of a nature and gravity similar to the attack of February 14, 2005, it shall also have jurisdiction over persons responsible for such attacks.

On November 16, 2007, the Secretary-General of the United Nations appointed Mr. Daniel Bellemare as (i) the head of the Commission, replacing Mr. Serge Brammertz and (ii) the prosecutor for the STL.

On November 23, 2007, the extended term of President Emile Lahoud ended, and President Lahoud vacated the Baabda presidential palace. Article 62 of the Constitution provides that, in the event that the Presidency becomes vacant for any reason whatsoever, the Council of Ministers exercises the powers of the President by delegation. The Council of Ministers, headed by H.E. Fouad Siniora, accordingly assumed the powers of the Presidency.

On January 5, 2008, the Council of the Arab League met at the level of the foreign ministers and adopted Resolution 113, which launched a mediation effort headed by its general secretary Mr. Amr Moussa. On January 27, 2008, the Council of the Arab League met again at the level of the foreign ministers and adopted a resolution calling for, among other matters, the election of the Commander in Chief of the Army, General Michel Sleiman, as the consensus candidate for President, the undertaking of discussions for the formation of the national unity government and, promptly following formation of the new government, the adoption of a new law regulating parliamentary elections.

On January 27, 2008, demonstrations and rioting over power cuts took place in a number of Shiite-dominated neighborhoods in the southern suburbs of Beirut, the Bekaa Valley and Southern Lebanon. The riots in the Mar Mikhael-Chiyah suburb of Beirut resulted in a clash with the Lebanese Army, which led to eight deaths and over 50 other injuries. Following protests by a number of opposition leaders, the Lebanese Army launched an investigation into the causes of the riots and, to date, 19 members of the military and more than 60 civilians were charged with various crimes.

On February 13, 2008, Imad Moghnieh, believed to be a senior commander in Hizbollah, was killed in Damascus. In response, the leader of Hizbollah publicly threatened reprisals against Israel.

On March 27, 2008, the Commission published its tenth report, the first while headed by Mr. Daniel Bellemare. In this report, the Commission stated that, on the basis of available evidence, a network of individuals acted in concert to carry out the assassination of former Prime Minister Rafik Hariri and that this criminal network or parts thereof are linked to some of the other cases within the Commission's mandate.

On May 5, 2008, the Council of Ministers adopted a series of resolutions, including: (i) increasing the minimum wage from LL 300,000 per month to LL 500,000 per month; (ii) reassigning the Chief of Security of the Rafik Hariri International Airport to another position; and (iii) declaring that the telecommunications network operated by Hizbollah on the territory of the Republic is illegal and unconstitutional.

The General Labor Confederation called for a national strike and a demonstration to press for further increases in the minimum wage. The strike, which took place on May 7, 2008, degenerated into protests against the Council of Ministers' resolutions by opposition supporters, who blocked a number of roadways, including

access to Rafik Hariri International Airport. Armed clashes between supporters of the then opposition led by Hizbollah, on the one hand, and of the March 14 Coalition and the Progressive Socialist Party, on the other hand, took place in Beirut, Northern Lebanon, the Bekaa Valley and the Chouf Mountains and resulted in the deaths of 65 persons and 200 injuries.

On May 14, 2008, the Council of Ministers rescinded the resolutions relating to the reassigning of the Airport Chief of Security and the declarations regarding Hizbollah's telecommunications network.

On May 15, 2008, following negotiations initiated by an Arab ministerial committee established by the Arab League, an agreement was concluded in Beirut between the principal political factions regarding containment of the Lebanese crisis. This agreement provided, in pertinent part, as follows: (i) that Michel Sleiman be elected as President; (ii) that the parties commit to abstain from having recourse to or resuming the use of weapons and violence in order to record political gains; and (iii) that the parties agree to initiate a dialogue on promoting the State's authority over all of the Republic's territory and its relationship with the various Lebanese factions in order to ensure the security of the State and its citizens.

Between May 16, 2008 and May 21, 2008, the Lebanese National Dialogue Conference, which was attended by all the principal political factions in the Republic, was held in Doha, Qatar under the sponsorship of the Emir of Qatar and the Arab League and the guidance of the Arab ministerial committee.

On May 21, 2008, the parties entered into an agreement (the "*Doha Agreement*") providing for the following:

- (i) the election of the Commander in Chief of the Army, General Michel Sleiman, as President of the Republic;
- (ii) the formation of a Government of 30 ministers, including 16 ministers representing the parliamentary majority, 11 ministers representing the opposition and three ministers representing the President;
- (iii) the adoption for the 2009 parliamentary elections of new smaller electoral constituencies in conformity with the 1960 electoral law, with certain amendments;
- (iv) further to the initial agreement reached in Beirut, (x) the prohibition of the use of weapons or violence in any dispute, in order to ensure respect for the framework of the Lebanese political system and to restrict the security and military authority over Lebanese nationals and residents to the State alone so as to ensure civil peace, and (y) the implementation of the law and the upholding of the sovereignty of the State throughout the territory of the Republic so as not to have regions that serve as safe havens for outlaws and to provide for the referral of all those who commit crimes and contraventions to the Lebanese judiciary; with the related dialogue to be resumed under the authority of the newly-elected President and the newly-formed Government with the participation of the Arab League; and
- (v) the reassertion of the commitment of the Lebanese political factions to immediately abstain from resorting to the rhetoric of treason or political or sectarian incitement.

Following the Doha Agreement, the opposition ended its 18-month sit-in in downtown Beirut.

On May 25, 2008, General Michel Sleiman was elected President by an affirmative vote of 118 out of Parliament's 127 members, following a six-month vacancy in the position. This was the first meeting of Parliament following an 18-month inability to convene.

On May 28, 2008, following mandatory parliamentary consultations, 68 members of Parliament nominated Mr. Fouad Siniora as President of the Council of Ministers, and President Sleiman appointed Mr. Siniora to this position.

On July 11, 2008, a new Government was formed reflecting the terms of the Doha Agreement, with 16 ministers representing the March 14 Coalition, as well as the Progressive Socialist Party, 11 ministers representing the March 8 Coalition, as well as the Free Patriotic Movement, and three ministers representing the President.

On October 8, 2008, a new electoral law was promulgated (Law № 25, as amended on December 27, 2008 by Law № 59) governing the parliamentary elections held on June 7, 2009.



In October 2008, Syria and Lebanon established diplomatic ties for the first time since both became independent 60 years ago.

On October 14, 2008, the Council of Ministers resolved to raise the minimum wage of public and private sector employees from LL 300,000 to LL 500,000 and to increase their base salary by LL 200,000 retroactively to May 1, 2008. The wage increase for public sector employees was confirmed by Parliament through adoption of Law № 63, which was ratified on December 31, 2008 and became effective retroactively as of May 1, 2008.

On December 2, 2008, the Commission published its eleventh report, the second while headed by Mr. Bellemare. In total, the Commission has issued eleven reports, two while headed by Mr. Mehlis, seven while headed by Mr. Brammertz and two while headed by Mr. Bellemare.

On March 1, 2009, the STL, which was established pursuant to United Nations Security Council Resolution 1757 initially to prosecute persons responsible for the bombing that killed former Prime Minister Hariri, commenced its operations. Pursuant to the agreement between the United Nations and the Republic on the establishment of the STL, which is annexed to Resolution 1757 of the Security Council of the United Nations, 49 percent of the STL's expenses must be borne by the Republic.

On April 29, 2009, following a submission by the then Prosecutor of the STL, Mr. Bellemare, considering that the information currently available to him was insufficiently credible to warrant indictment of the persons detained and that, in light of these circumstances and of the principle of presumption of innocence, there was no cause, at the then current stage in the proceedings, to hold them in detention, the Pre-Trial Judge, Judge Daniel Fransen, issued an order releasing the four senior Lebanese security and military officers who were detained in Lebanon.

On June 7, 2009, Parliamentary elections took place in Lebanon, which resulted in the March 14 Coalition and the Progressive Socialist Party headed by Mr. Walid Jumblatt, winning a majority of the seats in Parliament. See “—*Constitutional System—Elections*”.

On June 27, 2009, following mandatory Parliamentary consultations, 86 Members of Parliament nominated Mr. Saad Hariri as President of the Council of Ministers, and President Suleiman appointed Mr. Hariri to this position.

On September 10, 2009, after 10 weeks of negotiations regarding the composition of the cabinet, Mr. Hariri stepped down as Prime Minister-designate.

On September 18, 2009, following mandatory Parliamentary consultations, 73 Members of Parliament nominated Mr. Hariri as President of the Council of Ministers, and President Suleiman re-appointed Mr. Hariri to this position.

On November 9, 2009, after five months of negotiations, a new Government comprised of 30 ministers was formed with 15 ministers representing the March 14 Coalition and the Progressive Socialist Party, ten ministers representing the March 8 Coalition, as well as the Free Patriotic Movement, and five ministers representing the President.

On December 10, 2009, the then Government obtained a vote of confidence from Parliament with a vote of 122 members in favor, out of 124 members present at the session, on the basis of a policy declaration submitted by the Government.

On August 3, 2010, clashes erupted at the Israeli-Lebanese border between the Lebanese and Israeli armies, which resulted in the death of an Israeli officer, three Lebanese soldiers and a Lebanese journalist.

On January 12, 2011, ten ministers representing the March 8 Coalition, as well as one of the five ministers representing the President of the Republic, resigned from the Government. Consequently, the Government was considered as resigned pursuant to Article 69 of the Constitution, since more than one third of its ministers had resigned. These resignations were preceded by tensions in light of, *inter alia*, the prospective filing of an indictment by the then Prosecutor of the STL, Mr. Daniel Bellemare, in the case of the assassination of former Prime Minister Rafik Hariri and his companions, including speculation surrounding the identity of parties who could be charged.

On January 25, 2011, following mandatory Parliamentary consultations, 68 Members of Parliament nominated Mr. Najib Mikati as President of the Council of Ministers, and 60 Members of Parliament nominated Mr. Saad Hariri. Accordingly, President Suleiman appointed Mr. Mikati to this position.

On June 13, 2011, after nearly five months of negotiations, a new Government, headed by Prime Minister Mikati and comprised of 29 other ministers, was formed. It obtained the vote of confidence from Parliament on July 7, 2011 (with a vote of 68 members in favor out of a total number of 128 members of Parliament) on the basis of the policy declaration submitted by the Government. See “—*Government and Political Parties*” for a discussion of the policy declaration. The new Government does not include representatives of the March 14 Coalition who participated in the debate preceding the vote of confidence but withdrew from the parliamentary session prior to the vote. The opposition of the March 14 Coalition to the Government was centered primarily on the Government’s prospective approach to, and dealings with, the STL, as well as the fate of Hizbollah’s weapons. On July 18, 2010, Mr. Marwan Khareddine was appointed as Minister of State, bringing the total number of ministers in the Government to 30.

On June 28, 2011, Pre-Trial Judge of the STL, Daniel Fransen, confirmed an indictment filed by the then Prosecutor of the STL, Daniel Bellemare, in the case of the assassination of former Prime Minister Rafik Hariri and his companions. The indictment and accompanying arrest warrants for four individuals reportedly members of Hizbollah were transmitted to the Lebanese authorities on June 30, 2011. According to STL procedures, the Lebanese authorities must inform the President of the STL within 30 days after the confirmation of the indictment of the measures the Republic has taken to arrest the persons named in the indictment. On November 30, 2011, the Government transferred U.S.\$32 million to cover the Republic’s share of the STL’s expenses for 2011. The Association of Lebanese Banks subsequently announced that it transferred funds in the same amount to the Government as an act of support to the Government.

On January 25, 2012, Decree № 7426 was adopted (i) increasing the monthly minimum wage for private sector employees from LL 500,000 to LL 675,000 and (ii) providing for a cost-of-living increase up to a maximum of LL 299,000 per month, both effective February 1, 2012. Although Decree № 7426 applies to private sector employees, similar increases are likely to be implemented in favor of public sector employees. Such increases in the minimum wage and other salaries could have an inflationary impact on prices.

On February 1, 2012, Prime Minister Mikati suspended meetings of the Council of Ministers on the basis of (i) disagreements with ministers representing the Free Patriotic Movement regarding the decision making process within the Council of Ministers and (ii) the refusal of the then Minister of Labor, Mr. Charbel Nahas (representing the Free Patriotic Movement) to sign a decree relating to the transportation allowance for private sector employees, implementing a resolution of the Council of Ministers. On February 22, 2012, Mr. Nahas resigned from office following his refusal to sign the transportation decree and was replaced by former Judge Selim Jreissati, also representing the Free Patriotic Movement. On February 27, 2012, meetings of the Council of Ministers resumed.

On February 29, 2012, the Secretary-General of the United Nations appointed Mr. Norman Farrell as the new Prosecutor of the STL, replacing Mr. Daniel Bellemare on the completion of his term as Prosecutor of the STL.

The full text of the Security Council Resolutions and the reports of the International Independent Investigation Commission are publicly available from the United Nations website (<http://www.un.org>).

### ***Description of the 1975–1990 Conflict***

*An attempt is made below to describe the Lebanese conflict briefly. Investors are urged to do further research should they wish to gain a fuller understanding of the conflict.*

#### ***The 1975–1990 Conflict***

The heavily militarized turmoil lasted from April 1975 until October 1990. In 1975, the conflict first appeared to be contained between the Palestinians and the Christian militia but instead it continued to escalate and subsequently included many factions, mostly supported by foreign governments. Many alliances among these factions took place only to be broken. Almost every faction was at war with another. Coalitions were unstable and often short-lived, resulting in widespread fighting between and among all of the factions involved.

In 1982, Israel invaded the southern half of Lebanon up to and including Beirut. The United States, France, Italy and the United Kingdom sent a Multi-National Force to provide security while Israel pulled back and Palestinian forces left for Tunis.

President Amine Gemayel was elected in 1982. There was a relative return to normality until early 1983. However, car bombs at the United States Embassy and the United States and French barracks led the Multinational Force to pull out. Fighting resumed in late 1983.

In 1988, the crisis intensified when Parliament failed to elect a president. The departing president, Amine Gemayel, appointed General Michel Aoun Prime Minister. However, Dr. Salim Al Hoss, Prime Minister of the then existing Government, refused to recognize the appointment and remained in office at the same time. The Lebanese Army, led by General Aoun, and Syrian troops began heavy fighting in Lebanon.

In October 1989, the Taif Accords was signed and, in November of the same year, Elias Hrawi was elected President. A new Government, known as the national reconciliation Government, was formed and began implementation of the Taif Accords.

In January 1990, the Lebanese Army, led by General Aoun and the Lebanese Forces (the successor to the Christian militia) engaged in heavy fighting. In October 1990, Syrian troops attacked the Presidential palace and stormed the area controlled by General Aoun. General Aoun took refuge in the French embassy and in September 1991 left for exile in France. He returned to Lebanon in May 2005.

In October 1990, the fighting came to an end and in 1991 most of the militias (with the exception of Hizbollah) were disbanded by the Lebanese Army.

#### *Relationship with Syria*

In May 1976, at the request of the Lebanese Government, the Arab League agreed to send the Arab Deterrent Force to restore security in the Republic. The Riyadh and Cairo summits arranged for a 30,000-strong Arab Deterrent Force composed mostly of Syrian troops but including Saudis, Yemenis, Libyans and troops from the United Arab Emirates. As the conflict persisted, the Syrian forces stayed while the other Arab forces departed.

The presence of Syrian troops in Lebanese territory was debated among various leaders in Lebanon. Certain leaders requested the withdrawal of Syrian troops from Lebanese territory. The then Government declared that the presence of Syrian troops was legal, temporary and necessary.

Following the adoption of Resolution 1559 by the United Nations Security Council on September 2, 2004, the assassination of the former Prime Minister, Mr. Rafik Hariri, on February 14, 2005, and one of the largest demonstrations in the history of the Republic, which called for the withdrawal of Syrian troops from the territory of the Republic on March 14, 2005. The withdrawal was completed in April 2005.

The Syrian military presence in Lebanon lasted from May 1976 until April 2005.

Relations between Lebanon and Syria remained tense following the withdrawal of Syrian troops in 2005, with the then Government accusing Syria of continuing to meddle in Lebanon's internal affairs and Syria's leaders publicly supporting the then opposition efforts to topple the Government headed by Prime Minister Saad Hariri. Tensions between both countries have eased following the Doha Agreement, the election of President Michel Sleiman and the formation of the current Government, and the visit of Prime Minister Saad Hariri to Syria in December 2009.

In October 2008, Syria and Lebanon established diplomatic ties for the first time since both countries became independent 60 years ago; the exchange of ambassadors took place in March and April 2009.

In recent months, Syria has recently been experiencing significant civil unrest and internal conflict. The stated policy of the Government is to maintain neutrality with respect to the events in Syria in an attempt to shield the Republic from any repercussions, although certain ministers have adopted positions in support of the Syrian regime. The events in Syria have had, and are likely to continue to have, an adverse impact on the political and economic situation in the Republic. These include a disruption to the transit of Lebanese and international goods through Syria resulting in higher transit fees for Lebanese exporters, a decline in tourism from Syria and other Arab countries, potential overspill of the dispute in Syria into the Republic and losses incurred by Lebanese companies, including financial institutions, with subsidiaries or affiliates in Syria. There are divisions in the Republic between supporters of the Syrian government and supporters of the Syrian opposition. In addition, the Republic has experienced an inflow of Syrian nationals fleeing the conflict.

## *Israeli Occupation*

An armistice agreement was signed between the Republic and Israel in 1949. The agreement governs the security issues related to the southern border. However, Israeli attacks on Lebanese territory persisted, culminating in Israeli invasions of the Republic's territory in 1978 and 1982 and in the July 2006 War.

In 1978, Israel invaded the southern part of Lebanon and declared part of the country a security zone for its border. In 1982, Israel invaded Lebanon up to and including Beirut. The United States, France, Italy and the United Kingdom sent a multi-national force to provide security while Israel pulled back and Palestinian forces left for Tunis. The multi-national force left Lebanon in 1984. Israel partially withdrew from central Lebanon in 1984 and 1985 but enlarged its occupation of the southern part of the country up to the area of Jezzine.

On April 11, 1996, following an escalation in intermittent skirmishes, Israel commenced a bombardment of southern Lebanon and certain other targets in Lebanon, including the southern suburbs of Beirut. On April 27, 1996 a cease-fire came into effect. The cease-fire was based on a written but unsigned agreement drawn up by France and the United States and setting out a position mutually acceptable to Israel, Syria and Lebanon, which expanded and consolidated oral cease-fire understandings reached in July 1993. These arrangements established an international group composed of representatives of the United States, France, Syria, Lebanon and Israel to monitor the cease-fire. Meetings of the monitoring group took place on a regular basis for the purpose of addressing repeated breaches of the cease-fire.

On May 24, 2000, Israel withdrew its troops from territory in southern Lebanon, which it had been occupying since 1978. The withdrawal followed a notification by Israel to the United Nations that it planned to withdraw its troops in Lebanon to the internationally recognized borders between Lebanon and Israel, in fulfillment of United Nations Resolution 425, which was passed by the United Nations Security Council in 1978 following the first Israeli invasion of Lebanese territory. A significant issue relating to the withdrawal remains unsettled. This relates to the status of certain villages and adjacent land on the eastern side of Alsheikh Mountain, known as the "Shebaa Farms," as well as the Kfarshouba Hills and the Lebanese part of Ghajar, which have been occupied by Israel since 1967. The Government advised the United Nations that it considers the area to be Lebanese territory and that, as such, the withdrawal must encompass it.

Following the September 11, 2001 events in the United States, the United States informally requested that the Government freeze certain assets of Hizbollah in the banking system in the Republic. To date, the Government has not acceded to the informal request on the grounds that Hizbollah is conducting a national liberation campaign and is not engaged in terrorist activities.

As discussed earlier in this Base Prospectus, in July 2006, Israel waged war on Lebanon following the kidnapping by Hizbollah of two Israeli soldiers from inside Israeli territory. The July 2006 War resulted in significant casualties and damage to Lebanon and only ceased following adoption by the Security Council of Resolution 1701.

UNIFIL, deployed in southern Lebanon with a mandate to help the Lebanese Government restore security after the Israeli withdrawal requested in Resolution 425 by the Security Council, was reinforced in terms of forces and arms following adoption of Resolution 1701. The number of UNIFIL military personnel is currently approximately 12,500.

## **Constitutional System**

Three laws have governed the constitutional system of the Lebanese parliamentary democracy. The first was promulgated in 1926, the second in 1943 and the third in 1990, following the Taif Accords.

The Constitution amended the 1926 Constitution and reiterates the principle that the Republic is an independent, united and internationally acknowledged sovereign state. It also confirms the Republic's Arab identity and involvement in both the Arab League and the United Nations, as a founding and active member. The Constitution emphasizes the respect for freedom of speech and belief, and the Republic's commitment to human rights, parliamentary democracy, private ownership, free market economics and balanced regional development and emphasizes the firm support for peaceful co-habitation between the various religious communities.

The Republic's political system is based on the separation of executive, legislative and judicial powers and a system of checks and balances. The Government determines overall policy, appoints senior administrators and submits proposed legislation to Parliament. Parliament, which is elected every four years, proposes and adopts laws and supervises Government policy. Judicial power is fully vested in the courts and is autonomous. The

Constitution provides for the formation of a Constitutional Council to rule on the constitutionality of laws and on challenges to the validity of presidential and parliamentary elections. The Constitutional Council was formed in 1994. It consists of a maximum of ten members, five of whom are elected by a simple majority of Parliament and five of whom are appointed by the Council of Ministers acting by vote of a two-thirds majority of the Ministers. The Constitutional Council acts by vote of a majority of seven members and has rendered several significant decisions to date, including the invalidation of the 1996 election of four members of Parliament and the invalidation of governmental decrees extending the term of municipal councils. The Constitution also specifies that a Supreme Council, constituted of seven members of Parliament elected by Parliament and eight of the highest ranking judges, has jurisdiction to try the Presidents (President of the Republic, Speaker of Parliament and President of the Council of Ministers) and ministers. The members of the Supreme Council that are elected by Parliament are appointed for a period of four years. The first Supreme Council was constituted in 1996.

The Taif Accords provided the framework for a two-stage process of political reform. The first stage resulted in improving the distribution of political power among representatives of the various religious communities: seats in Parliament are equally divided between Christian and Muslim communities and the powers of the Council of Ministers and of Parliament have been reinforced. The second stage calls for the elimination of the sectarian political system.

The Executive Branch consists of the President of the Republic and the Council of Ministers (the cabinet). The President is the Head of State. The President is elected for a six-year term by a two-thirds majority of Parliament in the first voting round and by a simple majority if a subsequent round is required. The President's functions include: Chairman of the High Defense Council, Commander in Chief of the Army, which is subject to the authority of the Council of Ministers, and chairing the Council of Ministers whenever he attends its meetings, although he has no voting power at these meetings. The President appoints the Prime Minister following consultations with Parliament. The President must appoint the prime ministerial candidate who has the greatest level of support in Parliament. The President also negotiates treaties in conjunction with the Prime Minister. Treaties become final after the approval of the Council of Ministers and ratification by Parliament. Pursuant to constitutional custom in effect since the Republic's independence in 1943, the President is a Christian Maronite, the Speaker of Parliament is a Shiite Muslim and the Prime Minister is a Sunni Muslim. The Vice-Speaker and the Vice-Premier traditionally come from the Christian Greek Orthodox community. The Council of Ministers is headed by the Prime Minister. The Prime Minister, as the President of the Council of Ministers, supervises and follows up on the work of ministries and administrators and co-ordinates ministerial policies.

The Legislative Branch consists of a single-chamber Parliament of 128 members. Members are elected for four-year terms in regional ballots, with the number of members for each region determined on the basis of the size and population of each region, subject to an overall number of members for each religious community. Parliament may be dissolved by the Council of Ministers, acting by vote of a two-thirds majority of the ministers, upon request of the President of the Republic only on the basis of one of the following grounds:

- if Parliament fails to meet during one ordinary session or two extraordinary sessions (except in the event of *force majeure*); or
- if Parliament fails to pass a budget law for the purpose of paralyzing the Council of Minister's work.

The court system consists of one administrative court, the State Council Court (*Conseil d'Etat*) and judicial courts (which include civil courts (which comprise commercial chambers) and criminal courts). The Supreme Court is the highest court of appeal for civil, commercial and criminal matters. Constitutional matters and conflicts relating to elections are referred to the Constitutional Council discussed above. The judges of the various courts (excluding certain members of the Constitutional Council) are appointed by the Government after favorable recommendation of the Supreme Council of Justice.

### ***Elections***

Parliamentary elections took place in 1992, 1996, 2000, 2005 and 2009. The 1992 parliamentary elections were the first such elections in Lebanon since 1972. Certain political groups abstained from participating in the elections, although the 1996, 2000, 2005 and 2009 parliamentary elections were characterized by high voter participation.

In May and June 1998, municipal elections took place for the first time since 1963. All political parties participated. Municipal elections also took place in May 2004 and June 2010. There are 919 municipal councils in Lebanon with a total of 10,818 elected members.

Parliamentary elections for the election of all 128 Members of Parliament took place on June 7, 2009, resulting in a majority of the seats for the March 14 Coalition together with the Progressive Socialist Party.

Following changes in political alliances (including members of the Progressive Socialist Party headed by Mr. Walid Jumblatt voting with the March 8 Coalition on the designation of Mr. Mikati as President of the Council of Ministers), the majority of Parliamentary seats is now held by the March 8 Coalition, together with the Progressive Socialist Party and certain independent political figures. In recent months, however, while the Progressive Socialist Party continues to be represented in the Council of Ministers, there have been disagreements between Mr. Jumblatt and members of the March 8 Coalition, in particular in respect of the events in Syria, as Mr. Jumblatt has publicly supported the Syrian opposition.

The following table sets forth the composition of the Parliament by total number of seats as of the date of this Base Prospectus:

### **Parliament Composition by Political Party**

| <b>Political Party</b>   | <b>Number of Seats</b> |
|--|------------------------|
| <b>Parliamentary Majority</b> .....  | <b>68</b>              |
| <i>Hizbollah, Amal Movement and allies, collectively known as the March 8 Coalition</i> .....  | 38                     |
| <i>Free Patriotic Movement</i> .....   | 19                     |
| <i>National Struggle Front (which includes the Progressive Socialist Party)</i> .....          | 7                      |
| <i>Independents</i> .....  | 4                      |
| <b>Opposition</b> .....  | <b>60</b>              |
| <i>Future Movement, Lebanese Forces, Kataeb Party and members of the former Qornet Shahwan</i> |                        |
| <i>Gathering, collectively known as the March 14 Coalition</i> .....                           | 51                     |
| <i>Independents</i> .....  | 9                      |
| <b>Total</b> .....   | <b>128</b>             |

On June 25, 2009, Mr. Nabih Berri, who has served as Speaker since 1992, was re-elected for a new four-year term by a vote of 90 out 128 Members.

### **Government and Political Parties**

The democratic political system in the Republic and the constitutional rights to freedom of speech and belief have nurtured a wide and diversified spectrum of political parties. The classification and categorization of the parties are blurred.

There are more than 30 parties and political groups in Lebanon reflecting many political beliefs and backgrounds; they are broadly divided among the March 14 Coalition, the Progressive Socialist Party and the alliance of the March 8 Coalition and the Free Patriotic Movement.

On June 13, 2011, after nearly five months of negotiations, a new Government, headed by Prime Minister Mikati was formed. On July 7, 2011, the Government obtained a vote of confidence from Parliament on the basis of the policy declaration submitted by the Government. See “—History—Overview and Recent Developments”.

The policy declaration includes, among other provisions the following commitments, undertakings and acknowledgements in respect of:

- the strengthening of the Republic’s official institutions (including the military and security forces) and the upholding of the sole authority of the State in all matters concerning the Republic’s general policies;
- an acknowledgment of the rights of the Lebanese people, Army and resistance to liberate the Shebaa Farms, the Kfarshouba Hills and the Lebanese part of Ghajar from Israeli occupation and to defend Lebanon’s territory and territorial waters against enemies;

- the commitment of the Republic to U.N. Security Council Resolution 1701, which called for an end of the hostilities between Hizbollah and Israel in order to secure a permanent cease-fire, and the Government's support of the role of the UNIFIL forces in the south of Lebanon;
- an acknowledgment of the progress that has been achieved in Syrian-Lebanese relations through the establishment of diplomatic ties between the two countries and the strengthening of relations with Syria on the basis of trust, equality and mutual respect;
- a commitment of the Government to the full implementation of the Taif Accord, which called for the establishment of special relations between Lebanon and Syria;
- the strengthening and development of ties with the Arab countries, the EU and international institutions and organizations and the continued implementation of the conventions, treaties, plans and programs to which the Republic is a party;
- an acknowledgement of the right of return of Palestinians and a rejection of their naturalization in Lebanon;
- the confirmation of the Government's desire, on the basis of its respect of international resolutions, to uncover the truth in the assassination of former Prime Minister Hariri and his companions and the commitment of the Government to monitor the activities of the STL, which was established in principle to determine the truth and achieve justice away from politicization or revenge, provided that this does not negatively affect Lebanon's stability, unity or civil peace;
- the preparation of a new elections law meeting the aspirations of the Lebanese people to achieve true and fair political representation;
- the implementation of the Government's fiscal priorities, including: (i) the adoption of a Budget for 2012; (ii) closing the accounts in respect of previous years for which final accounts have not been completed; (iii) reducing the Government's debt service expenditures; (iv) benefiting from the country's natural resources and assets, including its oil and gas resources, maritime and other assets; (v) reforming the taxation system; and (vi) strengthening the Government's fiscal administration, including through the establishment of a public debt service directorate;
- an acknowledgment that a sound Government fiscal position is a necessary precondition for economic growth, the Government will work on improving revenue collections and reducing both the budget deficit and the public debt and consider the reallocation of tax burdens, taking into account the status of Lebanese families with limited income;
- the modernization of the telecommunications sector through encouraging and attracting investment in the sector, the implementation of new technologies and the setting of clear guidelines for interactions between the Ministry of Telecommunications, the Telecommunications Regulatory Authority ("TRA") and *Organisme de Gestion et d'Exploitation de l'ex-société Radio-Orient* ("OGERO");
- the continued implementation of the electricity sector reform plan adopted in 2010 (see "*The Economy—Role of the Government in the Economy and Privatization—Electricity Sector—Electricity Sector Reform*");
- the adoption of an oil and gas policy intended to move Lebanon from a net fuel consumer to a net fuel producer through the implementation of relevant ministerial decrees, the delimitation of Lebanon's maritime boundaries and the granting of licenses to start exploration and drilling activities;
- the implementation of a plan to store and refine oil in Lebanon and link Lebanon to regional oil and gas grids through the construction of a natural gas pipeline and a liquefied natural gas station; and
- the commitment to fight corruption and promote transparency and accountability in public administrations.

See "*History—Overview and Recent Developments*" for a discussion of recent political developments.

## **Legal System**

The Republic's legal framework is based on the Constitution and on a body of well-established laws, dating back to 1930. The Constitution and the laws thereunder guarantee the private ownership of property, the free flow of funds and currencies in and out of the country and the freedom of contract between parties (so long as contracts do not contravene public policy).

Lebanese civil law is mostly based on the Code of Obligations and Contracts (which is based on the French Civil Code and was promulgated in 1932) and the Land Ownership Law. Other major legislation includes the Commercial Code (promulgated in 1942), the Code of Money and Credit (promulgated in 1963) and the complementary legislative decrees (issued in 1967) related to commercial agency representation, stock exchange, limited liability companies and business concerns and the New Code of Civil Procedure (promulgated in 1983).

An active legislative reform movement is taking place both in Parliament and through special committees formed by BDL and the Ministry of Justice to modernize Lebanese law following the end of the period of conflict. Significant laws and regulations have been adopted in various areas, including a law authorizing and regulating fiduciary activities, a law eliminating the different classes of shares for banks, a law regulating the issuance of notes and other debt securities by banks and securitization and fund management laws, a tax procedure code, a law establishing a debt management office within the Ministry of Finance and a law broadening the scope of activities of Lebanese offshore companies. The Government has also submitted a series of draft laws to Parliament, including drafts of a capital market reform law providing for the establishment of an independent regulator and a Treasury single account law.

## **International Relations**

Lebanon is a founding member of the United Nations and the League of Arab States and is a member of all international organizations under the auspices of the United Nations (United Nations Educational, Scientific and Cultural Organization, Food and Agriculture Organization, International Fund for Agricultural Development and others), the International Bank for Reconstruction and Development (the "*World Bank*"), (and its affiliates, the International Finance Corporation and the Multilateral Investment Guaranty Agency), the IMF and the International Development Association.

The Republic maintains diplomatic relations with approximately 150 countries and has 92 diplomatic and general consular missions abroad. It hosts 116 diplomatic missions accredited in Lebanon, of which 66 are located in Lebanon. The Republic also hosts a number of international organizations such as the United Nations Regional Office for Education, Science and Culture in the Arab Countries, the United Nations High Commission for Refugees, Food and Agriculture Office of the United Nations, the World Health Organization, the United Nations Fund for Childhood, the UNDP and the Arab Center for Legal and Judicial Research, which is affiliated with the Arab League. The Economic and Social Commission for Western Asia, an agency of the United Nations, relocated its headquarters to Beirut in October 1997 and the World Bank opened an office in Beirut in January 2000.

In January 2001, the Secretary-General of the United Nations appointed a personal representative for southern Lebanon and entrusted him with responsibility for coordinating United Nations activities in that region.

On October 16, 2009, the General Assembly of the United Nations elected Lebanon to serve as a non-permanent member of the Security Council for a two-year term starting on January 1, 2010. Having successfully liberated most of its territory from Israeli occupation in May 2000, Lebanon remains committed to the principles agreed upon at the Madrid Peace Conference in 1991. Lebanon supports United Nations and international efforts towards the achievement of a just, comprehensive and lasting settlement in the region. Such a settlement should involve the total withdrawal of Israeli troops from all Arab occupied territories up to the borders in place on June 4, 1967 and the implementation of the right of Palestinian refugees to return to their homeland in Palestine.

The Republic has entered into a number of treaties with Syria relating to cooperation in various areas. These treaties include the Treaty of Fraternity, Cooperation and Coordination, which was entered into on May 22, 1991 and ratified by Parliament on May 29, 1991. This treaty provides for coordination between the two countries in economic, social, foreign and military affairs and establishes a number of high level joint commissions to implement such coordination. While relations between Lebanon and Syria were tense, these tensions had eased following the Doha Agreement in May 2008, the election of President Michel Sleiman, the formation of the Government, the establishment of diplomatic relations and the exchange of ambassadors.



However, recent events in Syria have resulted in internal divisions in the Republic between supporters of the Syrian government and supporters of the Syrian opposition.

The Republic has a long tradition of openness to the international community, with close ties to the Arab world, Europe and America. The Government is implementing a comprehensive strategy for trade liberalization. The Republic is committed to democratic principles.

The Great Arab Free Trade Agreement governs the Republic's trade relations with most of the Arab countries members of the Arab League, pursuant to which, commencing in 1998, tariffs on all agricultural and industrial goods between 17 Arab countries were progressively reduced and subsequently eliminated by January 2005. This Agreement excludes a list of goods that are forbidden to enter some Arab countries for environmental, religious, and sanitary reasons.

Since 1992, the Republic has ratified just over 50 treaties for the promotion and protection of investments, most of which are in effect. The Republic has ratified such treaties with each of Armenia, Austria, Azerbaijan, Bahrain, Belarus, Belgium/Luxembourg, Benin, Bulgaria, Canada, Chad, Chile, China, Cuba, Cyprus, Czech Republic, Egypt, Finland, France, Gabon, Germany, Greece, Guinea, Hungary, Iceland, Iran, Italy, Jordan, South Korea, Kuwait, Malaysia, Mauritania, Morocco, the Netherlands, the Organization of the Petroleum Exporting Countries ("OPEC") Fund, the Organization of the Islamic Conference, Pakistan, Romania, Russia, Slovakia, Spain, Sudan, Sultanate of Oman, Sweden, Switzerland, Syria, Tunisia, Turkey, Ukraine, the United Arab Emirates, the United Kingdom and Yemen. The Republic has also signed treaties for the avoidance of double taxation with 32 countries, 28 of which are in effect.

On June 17, 2002, the Republic signed an association agreement with the EU, as part of the Euro-Mediterranean Partnership initiative, which Parliament ratified on December 12, 2002. An Interim Agreement on trade and trade-related provisions entered into effect in March 2003. As a result, since that date, Lebanese industrial and most agricultural products (within the limits of tariff quotas) enjoy free access to the EU market, while the progressive elimination of tariffs on EU imports into Lebanon is to occur between 2008 and 2014. The ratification of the EU-Lebanon Association Agreement (the "*Association Agreement*") by the EU Member States was completed in April 2006 and accordingly it has replaced the Interim Agreement. The EU is one of the Republic's major trading partners. The Association Agreement establishes, among other areas of cooperation, the necessary conditions for progressive and reciprocal liberalization of trade in goods with a view to establishing a bilateral free trade area, and includes relevant provisions on customs cooperation, competition, protection of intellectual, industrial and commercial property, and services. Under the Neighborhood Policy Action Plan, adopted in January 2007, a number of specific trade and trade-related actions have been agreed upon between the Republic and the EU with the objective of further liberalization and development of sectoral policies with the aim of facilitating the implementation of the Association Agreement.

The Republic applied for membership in the World Trade Organisation (the "*WTO*") and was granted observer status in April 1999. In 2001, the Government submitted to the WTO the Memorandum of Foreign Trade Regime as a second step toward its accession. In October 2002, the Government entered into negotiations with the WTO for full membership and has provided replies to queries presented to-date by member states. To date, seven Working Party meetings have taken place in Geneva, the most recent of which was in October 2009. In which the Working Party reviewed the Republic's responses to the issues raised by member states.

In June 2004, the Republic entered into a free trade agreement with the European Free Trade Association ("*EFTA*"), which consists of Switzerland, Liechtenstein, Norway and Iceland. The agreement entered into force on January 1, 2007 and covers trade in industrial goods, including fish and other marine products, as well as processed agricultural products.

In November 2010, the Republic also entered into an association agreement with Turkey. To date, this agreement has not been ratified by Parliament.

## THE ECONOMY

### Economic System

Lebanon has a long tradition of domestic free trade and investment policies, with free market pricing for most goods and services, an unrestricted exchange and trade system and extensive links with the developed world in practically all economic activities. The Government has maintained a generally non-interventionist stance toward private investment, and public ownership has generally been limited to infrastructure and utilities. There are no restrictions on the movement of capital and goods by residents and non-residents of the Republic, including on entry or exit of firms or on access to foreign exchange, which makes Lebanon a supportive system for private sector development.

The Government continues to favor a strong role for the private sector in a liberal policy environment. It welcomes foreign investment in the economy. There are no legal restrictions on setting up and operating private businesses in Lebanon, subject to limited exceptions. See “*External Sector—Foreign Direct Investment*”. Investment in infrastructure activities historically has been undertaken by the public sector. The absence of exchange controls in Lebanon allows foreign investors to import and export capital freely in any form they wish.

The Lebanese economy, characterized by freedom of exchange and transfers, is based on private initiative. The private sector is estimated by the National Accounts Committee to contribute over 85 percent to national expenditures and includes industries such as agriculture, manufacturing, construction, trade and tourism, in addition to services such as banking and finance, hotels and restaurants, media and advertising, and consulting and engineering. The industrial and construction sectors are estimated by the National Accounts Committee to contribute approximately one fifth of GDP. These sectors are provided only with a limited level of protection from international competition.

### Recent Economic History

The Republic had developed into a prosperous, lower-middle-income country by the mid-1970s. Economic growth averaged 5 percent per year during the period 1960–1970 and then accelerated to 7 percent per year in the period 1970–1975. The main source of growth was the services sector, in particular tourism, banking, insurance and free port activities. The banking sector, aided by a stable and liberal regime, a freely convertible currency, favorable regulations and skilled management, permitted Beirut to serve as a financial center to the Middle East. This environment allowed Lebanese entrepreneurial and financial skills to evolve to a high degree, and in the 1970s its bankers and traders enjoyed an excellent reputation in the region. Although smaller in size than the services sector, the export-oriented agricultural and manufacturing sectors also grew (at annual rates averaging between 4 percent and 6 percent), contributing to overall growth of income. Having grown at an average of 3 percent per annum since 1960, per capita gross national product (“GNP”) was estimated at U.S.\$1,070 in 1974, just prior to the outbreak of the conflict in April 1975.

Estimates put the Republic’s GNP per capita at about U.S.\$820 in 1990, barely one third of its 1975 level in real terms. Damage to infrastructure and physical assets due to the conflict amounted to U.S.\$25 billion according to United Nations estimates, with none of the principal sectors emerging from the conflict unscathed. While limited investment and maintenance expenditure led to the erosion of the capital base, the sizeable emigration of skilled manpower constituted a major loss to the economic potential of Lebanon. As a result, from 1975 to 1990, aggregate national output steadily declined. In addition, the confidence in, and credibility of, the Lebanese Pound and economic stability began to erode. The shift in authority from the Government to non-official entities gave rise to a parallel economy that severely hampered the Government’s ability to collect revenues, as most trading was conducted through unofficial ports of entry. This dearth in Government revenue and the growing expenditure on public services led to large and rapidly growing Government budget deficits. These negative developments, along with the prevailing political uncertainty, plunged the Lebanese economy into a vicious cycle of large budget deficits leading to monetary expansion and inflation, which translated into dollarization of the economy and capital outflows. This in turn led to a dramatic depreciation of the value of the Lebanese Pound and further inflation.

The cessation of hostilities was followed by a recovery of the economy in 1991; according to IMF estimates, GDP rose by almost 40 percent and inflation moderated in the course of the year. Large capital inflows, along with a partial recovery of exports, resulted in an overall balance of payments surplus of over U.S.\$1 billion. However, the fiscal deficit remained high in 1991 (56 percent of expenditures). By the beginning of 1992, BDL had stopped supporting the Lebanese Pound, the value of which declined to all time lows. The cycle of deficit

financing, dollarization and capital outflows led to escalating inflation and exchange rate depreciation, with the value of the Lebanese Pound reaching LL 2,420 per U.S. Dollar in September 1992.

Following the appointment of the first Government led by Mr. Hariri in October 1992, the Government took measures to restore economic stability and renew confidence in the Lebanese Pound.

Between 1993 and 1998, the economic program of the successive Hariri Governments rested on the dual, and sometimes conflicting, tasks of economic revival and stabilization. This framework aimed to rehabilitate the country's damaged infrastructure, replenish the depleted capital stock, reinstate traditional public services, implement programs for the return of displaced persons to their villages and provide an attractive environment for the return of the expatriate Lebanese community, while pursuing exchange rate stability and anti-inflationary policies. This strategy has been successful to a certain extent. As the Government-led reconstruction program got underway and with the normalization of the economic environment, real economic growth averaged 5.7 percent over the period from 1992 to 1997. At the same time, the foreign exchange rate gradually appreciated, reaching LL 1,516 per U.S. Dollar at the end of 1998. The inflation rate was reduced from over 120 percent in 1992 to approximately three percent in 1998. Interest rates have gradually declined since 1995. However, efforts at improving monetary stability and expenditures on large scale reconstruction projects contributed to increased fiscal deficits and consequential public borrowings. As of December 31, 1997, the fiscal deficit represented 21.25 percent of GDP.

The Government headed by Dr. Al Hoss held office from December 1998 until October 2000. The Al Hoss Government continued to foster monetary stability. Inflation was further reduced to 0.25 percent in 1999, the foreign exchange rate remained stable and the balance of payments registered a surplus in 1999.

When it assumed office in October 2000, the then-Hariri Government faced a number of challenges, including an economic slowdown, a large fiscal deficit and a significant debt service burden. For the years ended December 31, 1999 and December 31, 2000, the fiscal deficit represented approximately 13.7 percent and 22.8 percent, respectively, of GDP and debt service represented approximately 74.4 percent and 89.6 percent, respectively, of total revenues. Net Public Debt (consisting of Net Domestic Debt and Public External Debt) represented approximately 113 percent of GDP as of December 31, 1999 and 136 percent of GDP as of December 31, 2000. See *"Public Finance—The Fiscal Deficit"*.

To address these challenges, the then-Hariri Government devised a four-pronged strategy seeking to revitalize the economy, improve the overall fiscal condition, modernize the legal system, maintain monetary stability and lower inflation. The economy subsequently improved slightly, recording in 2001 a growth rate of 2.3 percent, a (0.4) percent inflation rate and a decline in the fiscal deficit by 6.9 percentage points of GDP to 15.9 percent of GDP and, in 2002, a real growth rate of 3.4 percent, a 1.8 percent inflation rate and a decline in the fiscal deficit by 1 percentage point of GDP to 15.9 percent of GDP. In 2001, debt service represented 92.8 percent of total revenues and Net Public Debt rose to 153 percent of GDP and, in 2002, debt service represented 79.3 percent of total revenues and Net Public Debt continued to represent 153 percent of GDP.

At the end of 2002, the then-Hariri Government implemented a series of measures to address the issue of public debt service. The Paris II Conference, which is described below, was the most prominent of these measures. In addition, at the end of December 2002, BDL retired LL 2,700 billion (approximately U.S.\$1.80 billion) of its 24-month Lebanese Pounds Treasury bill portfolio by offsetting this amount against credit balances in the Treasury's account with BDL. BDL also exchanged LL 1,221 billion of Lebanese Pound-denominated Treasury bills and U.S.\$1.04 billion of Eurobonds held by it for a new U.S.\$1.87 billion, 15-year, 4 percent Eurobond with a five-year grace period.

As a further measure to reduce public debt service, BDL issued decision № 8312, pursuant to which all banks operating in Lebanon were required to subscribe to Lebanese Treasury bills or Eurobonds issued by the Lebanese Republic in cash or through the delivery of Treasury bills or Eurobonds previously issued by the Republic and held by them. Total subscriptions by Lebanese banks amounted to approximately U.S.\$3.6 billion, most of which was subscribed in cash.

As a result of the inflow of the funds collected to date from participants in the Paris II Conference and the other debt service reduction measures described above, the Republic was able to re-profile approximately 32 percent of its total debt outstanding at the time of the Paris II Conference by extending its maturity and reducing its cost. The application of Paris II Conference funds, which constitute non-market debt, to repay market debt (*i.e.*, gross public debt excluding the portfolios of BDL, public institutions, bilateral and multilateral loans and debt issued to the Paris II Conference lender countries and agencies) has also lowered the ratio of market to non-market debt

from 79 percent prior to the Paris II Conference to 59 percent in December 2004. Interest payments declined sharply from approximately 16 percent of GDP in 2002 to approximately 11 percent in 2005. In 2004, real growth reached more than 7 percent, the overall deficit declined to less than 10 percent of GDP (as compared to 23 percent in 2000) and the primary surplus improved to 3 percent of GDP.

However, the implementation of a significant portion of the economic and fiscal reforms described above, which were included in the fiscal reform program submitted by the Government during the Paris II Conference, such as privatization and securitization, did not take place because of differences in views between political leaders.

Strong economic performance in 2004 was cut short by political tensions that began in late 2004 with the extension of the Presidential mandate and the assassination of Prime Minister Hariri. The period following the assassination of Mr. Hariri in February 2005 witnessed an economic slowdown and significant conversions from Lebanese Pound deposits to foreign currency deposits followed by a decline of foreign currency reserves due to the intervention of BDL on the foreign exchange markets.

Despite the serious political and economic difficulties that followed the assassination of Prime Minister Hariri, the Siniora Government exerted significant efforts to redress the fiscal situation and rejuvenate the economy, but these efforts were hampered by the July 2006 War.

The total direct cost of the July 2006 War to the Government of early recovery, reconstruction of public infrastructure and housing compensations to be covered by the budget is estimated at approximately U.S.\$1.84 billion.

The international community reacted quickly and generously to support Lebanon during the July 2006 War and after the cessation of hostilities. Immediately after the outbreak of the war, Saudi Arabia and Kuwait provided commitments of U.S.\$500 million and U.S.\$300 million respectively as grants for reconstruction. In addition, Saudi Arabia and Kuwait deposited U.S.\$1 billion and U.S.\$500 million respectively with BDL to help maintain confidence and monetary stability.

On August 31, 2006, the Swedish government hosted a Conference for Lebanon's Early Recovery in Stockholm. At that Conference, Lebanon received indications of support amounting to around U.S.\$900 million for humanitarian assistance needs and early recovery efforts, in the form of financial assistance, in kind contributions to specific reconstruction activities and others. This financial support allowed for the return of the quarter of the population that was displaced, and restored minimum capacity in terms of infrastructure, access to basic social services and income generating activities, pending full reconstruction. The Ministry of Finance estimates that a total amount of U.S.\$909 million has been fully committed and disbursed.

In addition to the Kingdom of Saudi Arabia, Kuwait and countries that contributed during the Stockholm Conference, many countries pledged their support to Lebanon. In total and since the beginning of the July 2006 War (but excluding commitments and disbursements as a result of the Paris III Conference), a total of U.S.\$2.1 billion has been pledged in grants (in addition to in-kind relief contributions that were sent during the war), of which U.S.\$1.2 billion has been disbursed.

Despite the July 2006 War and the political tensions that followed during the remainder of 2006, the balance of payments registered a surplus of U.S.\$2,794.3 million at the end of December 2006, mainly as a result of the performance of the Lebanese economy during the first half of the year and the Kingdom of Saudi Arabia and the Kuwait deposits at BDL totaling U.S.\$1.5 billion, as well as other inflows following the war. Furthermore, despite continuing political tensions and security setbacks in 2008, the balance of payments surplus increased to U.S.\$3,461.7 million. The balance of payments recorded surpluses of U.S.\$7,899.1 million in 2009 and U.S.\$3,324.5 million in 2010 and a deficit of U.S.\$1,996.2 million in 2011. See *“External Sector—Balance of Payments and Foreign Trade”*.

The Government is facing a number of economic challenges, including:

- the events in Syria and their impact on the economy of the Republic; and
- additional expenditures approved by Parliament, including Law № 181 (see *“—Role of the Government in the Economy and Privatization—Electricity Sector”*) and Decree № 7426 regarding private sector wages and cost-of-living adjustments and the expected corresponding increases in public sector wages.

Despite these challenges, the Government remains committed to improving the Government's fiscal position and the debt-to-GDP ratio.

## **Role of the Government in the Economy and Privatization**

Lebanon has a long and established tradition of having an open and free market economy. The state sector has traditionally been small, with the Government having a history of minimal intervention in economic activity. For the first eight years of the conflict (until 1983/84), Government authority was still present, albeit in a much weaker form than before the conflict began, and some tax revenue was forthcoming. From 1983/84, the Government effectively lost control of all ports, and non-payment of direct taxes and bills to state-owned utilities became widespread, leading to a financing of current Government expenditure through money creation. After the conflict, the Government continued the policy of reliance on private sector initiative, which had served the country well in the pre-conflict era. However, in recent years, the Government has assumed a larger role than it had historically by making substantial investments in infrastructure needed to create an environment conducive to long-term growth based on private sector activity. See *“Public Finance — Operations of the Government”*. However, the various post-conflict Governments have also been seeking to increase private sector participation in infrastructure financing.

In May 2000, Parliament adopted a privatization law, which sets the framework for the privatization of state-owned enterprises. The privatization law established a Higher Council for Privatization (“HCP”) and provides that the proceeds from privatization will be applied towards debt repayment. While the state sector in Lebanon does not account for a large portion of GDP (7.4 percent of GDP in 1995, excluding certain Government agencies), it nevertheless includes several enterprises and types of assets which have been successfully privatized in other emerging markets. EdL (which supplies virtually all electricity in the Republic), *Société des Eaux de Beyrouth* and other water companies, the airport and port companies, the fixed-line and mobile telephone networks and other assets, many of which may be eligible for privatization, are directly or indirectly state-owned. BDL also owns significant commercial assets, including substantially all of the shares of the national air carrier, Middle East Airlines.

Due to political interference and disagreements within the executive branch of the Government, the Republic’s privatization program has not been successfully implemented to date.

The HCP was reactivated, and a General Secretary was appointed through a public selection process. The HCP has been active in developing a public private partnership framework, which has been confirmed in the policy declaration of the Government. A draft PPP law was submitted to Parliament in April 2011.

### ***Telecommunications Sector***

A modern telecommunications law (“*Law № 431*”), was adopted by Parliament in July 2002. Law № 431 organizes and regulates the telecommunications sector in the Republic. It provides for the formation of a joint stock company, Liban Telecom, to which the fixed line operations and assets of the Ministry of Telecommunications will be transferred, and grants it a 20-year license for the provision of telecom services. A decree for the formation of Liban Telecom was adopted by the Council of Ministers in December 2004. Law № 431 provides for the sale of up to 40 percent of Liban Telecom’s shares to a strategic partner within two years of the establishment of the company. Work on the operational and commercial readiness of Liban Telecom is underway.

In addition, Law № 431 provides for the establishment of a TRA whose functions include tariff monitoring and encouraging competition and transparency. The members of TRA were appointed by the Government in February 2007, and TRA has been operational since March 2007. The mandate of the TRA’s Board of Directors expired on February 29, 2012 and was not renewed due to political disagreements and differences between the Minister of Telecommunications and the TRA regarding the powers of the TRA and the implementation of Law № 431.

On November 2, 2007, the Republic of Lebanon, acting through the Higher Council for Privatization, and the TRA, launched a tender process for the acquisition of the related assets, liabilities and contracts of each of the two existing state-owned mobile telecommunications operators, together, in each case, with the award of a 20-year license to build, own and operate a mobile telecommunications network and provide mobile telecommunications services in Lebanon. The tender process was suspended due, in large part, to the global financial crisis. The Minister of Telecommunications launched a tender process for the award of two management contracts for a one-year period commencing on February 1, 2009 (renewable for one additional year), as the management contracts then in effect were about to expire.

On January 13, 2009, Zain and Orascom Telecom Holding S.A.E. were declared the winners of the tender process for the award of the two management contracts. On January 29, 2010 and in light of the forthcoming expiry of the two management contracts, the Council of Ministers adopted a resolution extending the contracts' term for six months (renewable for two consecutive periods of three months each). Such contracts were further extended for a one-year period on January 31, 2011 on the same conditions that were approved by the Council of Ministers in January 2010.

On January 31, 2012, the Council of Ministers authorized the Minister of Telecommunications to extend the aforementioned management contracts for a one-year period to January 31, 2013, which can be terminated early by the Government and directed the Minister of Telecommunications to prepare a public, international tender for the future management of the two mobile networks. The Minister of Telecommunications was also requested to complete the organizational and implementation decrees for the TRA for submission to the Council of Ministers.

### ***Electricity Sector***

In September 2002, Parliament passed a law ("*Law № 462*") regulating the electricity sector which, among other matters, provides for the establishment of an independent regulator, the separation of production, transmission and distribution activities, the privatization of production and distribution activities through the granting of concessions and/or the formation of new entities whose shares will be initially owned by the Government and up to 40 percent subsequently transferred to strategic and other private investors. Law № 462 provides that the transmission assets must remain the property of the Republic, but that management contracts for the operation of the transmission networks may be appointed to private parties.

In addition, a grant has been awarded by *Agence Française de Développement* ("*AFD*") to finance the execution of a Generation and Master Plan for the Electricity Sector by *Electricité de France* ("*EdF*"). EdF started work in September 2007.

The Government seeks to reduce the significant cost to the Treasury of fuel imports. Among other measures, the Government signed an agreement on May 30, 2009 with the Egyptian General Petroleum Corporation ("*EGPC*") and the Egyptian Natural Gas Holding Company ("*EGAS*") regarding the supply of natural gas *via* the Arab Gas Pipeline. As a result, in September 2009 delivery of natural gas to the Deir Amar power plant in North Lebanon commenced. This agreement was ratified by Parliament pursuant in June 2010. However, the supply of gas was irregular and was discontinued in December 2010.

### ***Electricity Sector Reform***

The initial plan for the reform of the energy sector was developed by the first Siniora Government (2005-2008) and presented in January 2007. In June 2010, the Government adopted a new sector reform plan, which was proposed by the Minister of Energy and Water. The new plan includes the following ten objectives:

- *Production*: increasing production capacity to 4,000 MW by 2014 and to 5,000 MW thereafter;
- *Transmission*: removing bottlenecks, reducing transmission losses and implementing a control facility to ensure adequate connection between power plants and load centers;
- *Distribution*: implementing a transitional program with the participation of the private sector and encouraging investment in the planning, constructing, operation and maintenance of the distribution sector, including developing modern metering, billing and collection systems;
- *Fuel Sourcing*: implementing a new policy based on diversity and security, pursuant to which two-thirds of the fuel mix would be based on natural gas with multiple sources of supply, more than 12 percent would be based on renewable energies and the remainder would be based on other sources of fuel, while encouraging the use of technologies that work with both natural gas and fuel oil;
- *Renewable Energy*: encouraging the adoption of renewable energy technologies in order to reach the aforementioned 12 percent goal;
- *Energy Efficiency*: encouraging greater awareness of proper electricity use and the adoption of national programs focused on demand-side management as the basis for effective energy use, peak shaving, load shifting and demand growth control, with the aim of saving a minimum of five percent of total demand;

- *Tariffs*: restructuring and increasing existing tariffs to gradually eliminate the financial deficit in the electricity sector, balancing EdL's budget and reducing the financial burden on users of costly private generators;
- *Norms and Standards*: establishing norms and standards for the provision of electricity services that ensure safety and fair access with the aim of providing a high quality service and at a low cost;
- *Corporatization of EdL*: revitalizing EdL through the establishment of the financial, administrative and human resources flexibility needed to cope with the aforementioned reforms; and
- *Legal Status*: amending of the current legal and organizational framework of the electricity sector, including the revision of Law № 462 and the adoption of a law in connection with the new power plants.

In October 2011, Parliament adopted Law № 181, which provides, *inter alia*, for an increase in electricity production of 700 MW, the upgrading of existing power plants, the establishment of the Electricity Regulatory Authority and the appointment of a new board of directors for EdL. Law № 181 authorizes total expenditures of LL 1,772 billion (approximately U.S.\$1.2 billion), of which LL 414 billion (approximately U.S.\$275 million) is authorized to be spent in 2011 but was not disbursed during that year. The Ministry of Finance accounted for the 2011 expenditures under Law № 181 in its current spending plan for the year and for the 2012 expenditures in the draft 2012 budget submitted to the Council of Ministers. Law № 181 provides that these expenditures will be financed through extraordinary revenues, as well as borrowings in the form of Lebanese Pound- or foreign currency-denominated bonds and concessional loans. There are ongoing discussions with potential financing parties to finance the rehabilitation of the Zouk and Jiyeh power plants. When implemented, Law № 181 and the electricity reform plan approved by the Council of Ministers are expected to enhance electricity generation in order to meet demand and diversify sources of energy. It is expected that Law № 181 would result in a reduction of Government transfers to EdL over time. The Government has also recently revived efforts to restructure EdL.

### **Water sector**

A reform of the water sector was commenced by the last Rafik Hariri Government. Law № 221 was enacted, which provides for the consolidation of the 21 water authorities into four water and wastewater public establishments responsible for water supply, wastewater and irrigation management. The implementation decrees for Law № 221 were published in June and July 2005 and the four public establishments commenced their work in October 2005, and have received technical assistance from international organizations including the United States Agency for International Development ("USAID"), AFD, the EU, Deutsche Gesellschaft für Internationale Zusammenarbeit and the World Bank.

### **Securitization**

In June 2002, Parliament adopted a law authorizing the Government to engage in securitization transactions and mandating that the Government deposit the proceeds of any securitization transaction, as well as the revenues derived by the Government from specific sectors, such as telecommunications, tobacco, *Casino du Liban* and others, in a special account at BDL, dedicated to the payment, management and reduction of public debt.

The Government has not engaged in any such transactions to date. However, prospective holders of notes should be aware that, to the extent the Government undertakes securitization transactions, future revenues from the assets or flows being transferred pursuant to any such transactions may no longer be available for the payment of interest and principal in respect of Notes.

### **Gross Domestic Product**

The GDP figures, the ratios which include GDP figures and the statements regarding GDP evolution presented in this Base Prospectus differ from previously published data due to updates being made on the basis of the new official GDP time series released by the National Accounts Committee.

Since 1977, no official GDP calculations were made, with the exception of the GDP calculations for 1994 and 1995 published by CAS. Recognizing that statistical weaknesses and the absence of reliable and current information concerning GDP figures and other economic data constituted serious obstacles to the analysis of the Republic's economy, in 2002, the then Prime Minister founded a steering committee, headed by the Minister of Economy and Trade, for the establishment of a national accounts database for the years 1997–2002. The

Government extended the project to include a national account database for the years 2003 and 2004 under the authority of the Presidency of the Council of Ministers. Technical assistance was provided by the French National Institute of Statistics and Economic Studies.

In May 2003, the Ministry of Economy and Trade published GDP figures for 1997. On September 30, 2005, the Ministry of Economy and Trade published GDP figures for the period 1997–2002. In May 2006, the National Accounts Committee released GDP figures for 2002 (revised) and 2003. In February 2007, GDP figures for 2004 were published. In October 2007, GDP figures for 2005 were published. In February 2009, GDP figures for 2006 and 2007 were published. In December 2010, the National Accounts Committee released GDP figures for 2005–2008 (revised) and 2009. In January 2012, the National Accounts Committee released GDP figures for 2010. The National Accounts Committee has also prepared revised GDP figures for 2006–2009.

With the restoration of peace and stability, GDP registered high growth rates for the period from 1993 to 1995, averaging an estimated real growth rate of 7.2 percent per annum. Real GDP grew at slower estimated rates of 4.0 percent in 1996 and 1997, 3.6 percent in 1998, (0.5) percent in 1999 and 1.3 percent in 2000. Real GDP growth was 4.0 percent in 2001, 3.4 percent in 2002, and 3.2 percent in 2003. In 2004, real GDP growth increased to 7.5 percent, while declining to 1.2 percent in 2005. In 2006, real GDP growth was 1.4 percent, increasing to 8.4 percent in 2007, 8.6 percent in 2008, 9.0 percent in 2009 and 7.0 percent in 2010.



The following table shows GDP figures for the years 2006-2010.

### GDP<sup>(1)</sup>

|  | 2006    | 2007    | 2008    | 2009    | 2010    |
|--|---------|---------|---------|---------|---------|
| GDP (at market prices in LL billions).....         | 33,451  | 37,625  | 44,748  | 52,235  | 55,965  |
| Exchange rate (LL per U.S.\$- period average) .... | 1,507.5 | 1,507.5 | 1,507.5 | 1,507.5 | 1,507.5 |
| GDP (at market prices in U.S.\$ millions) .....    | 22,190  | 24,959  | 29,684  | 34,650  | 37,124  |
| Growth of Real GDP (%).....                        | 1.4     | 8.4     | 8.6     | 9.0     | 7.0     |
| Growth of Nominal GDP (%).....                     | 3.5     | 12.5    | 18.9    | 16.1    | 7.1     |
| GDP Deflator (%).....                              | 2.1     | 3.8     | 9.5     | 7.1     | 0.2     |

Note:

(1) The figures in this table have been revised and may differ from previously published data.

Sources: Lebanese Republic, Presidency of the Council of Ministers, Economic Accounts 2010 and revised GDP figures for 2006-2009 prepared by the National Accounts Committee.

The following table shows GDP figures by sector for the years 2006-2010.

### GDP by Sector<sup>(1)</sup>

|   | 2006          | 2007          | 2008          | 2009          | 2010          |
|---|---------------|---------------|---------------|---------------|---------------|
| Agriculture and livestock.....                    | 2,026         | 2,347         | 2,609         | 2,660         | 2,650         |
| Energy and water supply.....                      | (390)         | (555)         | (1,468)       | (867)         | (1,473)       |
| Industry .....                                    | 3,062         | 3,236         | 3,693         | 3,982         | 4,002         |
| Construction.....                                 | 3,156         | 4,375         | 6,052         | 7,018         | 8,515         |
| Transport and communication .....                 | 2,293         | 2,595         | 2,811         | 3,426         | 3,084         |
| Market Services .....                             | 12,183        | 13,137        | 14,986        | 16,578        | 18,721        |
| Trade.....  | 7,597         | 8,717         | 11,796        | 14,658        | 15,396        |
| Government .....                                  | 3,524         | 3,773         | 4,270         | 4,780         | 5,071         |
| Total GDP (at market prices in LL billions) ..... | <b>33,451</b> | <b>37,625</b> | <b>44,748</b> | <b>52,235</b> | <b>55,965</b> |

Note:

(1) The figures in this table have been revised and may differ from previously published data.

Sources: Lebanese Republic, Presidency of the Council of Ministers, Economic Accounts 2010 and revised GDP figures for 2006-2009 prepared by the National Accounts Committee.

The following table shows GDP estimates for 2011.

### GDP Estimates for 2011<sup>(1)</sup>

|  | 2011    |
|--|---------|
| GDP (at market prices in LL billions) .....        | 58,906  |
| Exchange rate (LL per U.S.\$- period average)..... | 1,507.5 |
| GDP (at market prices in U.S.\$ millions) .....    | 39,705  |
| Growth of Real GDP (%).....                        | 1.5     |
| Growth of Nominal GDP (%).....                     | 5.3     |
| Estimated GDP deflator (%).....                    | 3.7     |

Note:

(1) Estimates.

Source: Ministry of Finance.

The following table shows the composition and the evolution of the Republic's GDP for the years 2008, 2009 and 2010.

**Composition of GDP for 2008-2010<sup>(1)</sup>**

|                                   | 2008         | 2009<br>(%)  | 2010         |
|-----------------------------------|--------------|--------------|--------------|
| Agriculture and livestock.....    | 5.8          | 5.1          | 4.7          |
| Energy and water supply .....     | (3.3)        | (1.7)        | (2.6)        |
| Manufacturing .....               | 8.3          | 7.6          | 7.2          |
| Construction .....                | 13.5         | 13.4         | 15.2         |
| Transport and communications..... | 6.3          | 6.6          | 5.5          |
| Market Services .....             | 33.5         | 31.7         | 33.5         |
| Trade.....                        | 26.4         | 28.1         | 27.5         |
| Government .....                  | 9.5          | 9.2          | 9.1          |
| <b>Total.....</b>                 | <b>100.0</b> | <b>100.0</b> | <b>100.0</b> |

Note:

(1) The figures in this table have been revised and may differ from previously published data.

Sources: *Lebanese Republic, Presidency of the Council of Ministers, Economic Accounts 2010 and revised GDP figures for 2008-2009 prepared by the National Accounts Committee.*

### Principal Sectors of the Economy

At the end of the 1975-1990 conflict, all sectors of the Republic's economy were characterized by widespread damage to physical assets and an obsolescence of remaining facilities, given the reluctance during the years of conflict to invest in new capital or spend funds on maintenance. In addition, there was an outflow of professional and entrepreneurial skills from Lebanon. A lower production capacity, together with rigidities in internal flows of goods and labor, led to low levels of output.

The end of the conflict in 1990 marked the unification of the internal market and an upsurge in output in most sectors of the economy and saw an increase in investment and a gradual return of skilled workers to the country. Although the economy suffered a slow-down in 1998 to 2000, it recovered in 2001 and 2002. Growth continued in 2003 and 2004, with real GDP growth rates of 3.2 percent and 7.5 percent, respectively. In 2005, growth witnessed a slowdown following the aftermath of Prime Minister Hariri's assassination, with real GDP growth at 1.2 percent. The first half of 2006 was characterized by a strong revival of the Lebanese economy with real GDP growth estimated at approximately 5 to 6 percent. However, the impact of the July 2006 War on the economy, as well as the political tensions that followed, negatively impacted economic growth. As a result, real growth was 0.9 percent in 2006. Once the consequences of war began to dissipate and the effects of the favorable economic climate of regional expansion began to be felt in the Republic, the Lebanese economy recovered and resumed its growth pattern with real GDP growth estimated at 7.8 percent in 2007, 9.2 percent in 2008 and 8.5 percent in 2009. Real GDP continued to grow in 2010, although at a slower rate of 7.0 percent, due mainly to the impact of the falling growth rate of demand for the volume of imports and local production. Real GDP growth is estimated to have slowed significantly in 2011 to 1.5 percent, mainly as a result of political instability in the region.

The following table sets forth selected indicators of economic activity in significant sectors for the periods indicated.

**Selected Indicators of Economic Activity<sup>(1)</sup>**

|  | 2007   | 2008   | 2009   | 2010   | 2011   |
|--|--------|--------|--------|--------|--------|
| <b>Industry</b>  |        |        |        |        |        |
| Recorded Exports ( <i>U.S.\$ millions</i> ).....                     | 2,817  | 3,480  | 3,486  | 3,922  | 4,268  |
| Electricity Production ( <i>millions of KWh</i> ).....               | 10,548 | 11,189 | 11,920 | 12,458 | 12,397 |
| Cement Deliveries ( <i>'000s of tons</i> ).....                      | 3,945  | 4,219  | 4,897  | 5,227  | 5,550  |
| <b>Construction</b>  |        |        |        |        |        |
| Construction Permits <sup>(2)</sup> .....                            | 10,352 | 12,326 | 12,917 | 15,641 | 16,147 |
| Area ( <i>'000 sq. meters</i> ).....                                 | 9,038  | 16,024 | 14,340 | 17,608 | 16,144 |
| <b>Commerce</b>  |        |        |        |        |        |
| Port of Beirut ( <i># of ships</i> ).....                            | 2,187  | 2,055  | 2,395  | 2,285  | 2,167  |
| Beirut Airport ( <i>'000s of passengers</i> ).....                   | 3,326  | 4,085  | 4,953  | 5,512  | 5,596  |
| <b>Documentary Credits for Imports</b><br>( <i>U.S.\$ millions</i> ) | 3,860  | 4,762  | 4,089  | 4,940  | 5,294  |

Note:

(1) The figures in this table have been revised and may differ from previously published data.

(2) Figures are based on data provided by the Order of Engineers of Beirut and cover Beirut, Mount Lebanon, North Lebanon, the Bekaa, South Lebanon and Nabatiyeh.

Sources: Ministry of Finance, BDL, Port of Beirut, Order of Engineers of Beirut and Tripoli.

## Services

The Lebanese economy is based primarily on the service sector with the following major subsectors: commerce, tourism and financial services. Other components include health care and higher education. In the 1970s, services accounted for approximately 70 percent of GDP. In both 2009 and 2010, services accounted for approximately 76 percent of GDP. This includes market services, such as maintenance and repairs, hotels and restaurants; various personal services, such as leisure and domestic care services; health care; education; financial services; non-market services (provided by the Government); transport and communications; and trade.

## Commerce

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. During the conflict, the Port of Beirut virtually closed down and related commerce ground to a halt.

The Port of Beirut has completed the construction of a new container terminal, equipped with advanced container handling equipment and operating systems software. The management of this container terminal has been subcontracted through an international bid to a consortium formed by private international companies. The container terminal started its operations in the beginning of 2005. The terminal succeeded in attracting international carriers wishing to use the terminal as their main trans-shipment hub for the East Mediterranean region.

The following table sets forth data concerning trade activity at Beirut Port for the periods indicated.

|   | <b>Trade Activity at Beirut Port</b> |             |             |             |             |
|---|--------------------------------------|-------------|-------------|-------------|-------------|
|   | <b>2007</b>                          | <b>2008</b> | <b>2009</b> | <b>2010</b> | <b>2011</b> |
| No of ships.....                        | 2,187                                | 2,055       | 2,395       | 2,285       | 2,167       |
| Incoming freight <sup>(1)</sup> .....   | 4,326                                | 4,946       | 5,653       | 5,505       | 5,879       |
| Outgoing freight <sup>(1)</sup> .....   | 904                                  | 820         | 669         | 820         | 798         |
| Freight in transit <sup>(1)</sup> ..... | 121                                  | 152         | 172         | 147         | 151         |

Note:

(1) In thousands of metric tons.

Sources: Ministry of Finance, BDL, Port of Beirut.

### **Tourism**

The strategic position of Lebanon, its mild climate and natural beauty, consisting of snow-capped mountains, valleys and the Mediterranean Sea, make it a natural tourist attraction. Apart from its privileged geographical situation, Lebanon benefits from qualified and experienced human resources in the tourism industry.

Prior to the outbreak of the conflict, tourism (including hotels and restaurants) contributed approximately 20 percent to Lebanon's GDP. This is notable given that, at that time, the international tourism industry was not as developed as it is today.

Significant private investment is being made in the modernization and expansion of this sector and international hotel companies have returned to Lebanon. In parallel, the ecotourism sector is growing as several areas of outstanding natural beauty have been declared protected areas. *Casino du Liban*, which historically constituted a major tourist destination, reopened in 1996. Lebanon is the only country in the Arab world that offers skiing on natural snow and related winter sports activities. The Government believes that tourism has the potential to contribute significantly to Lebanon's economy again. In the period from 1997 to December 31, 2011, the Government provided 2,220 LL-denominated subsidized loans, administered by *Banque du Liban*, to companies in the tourism sector for a total value LL 2,063 billion (or approximately U.S.\$1,368 million). The interest subsidies on these loans are estimated at LL 570 billion.

Since 2001, and especially after the events of September 11, 2001, Lebanon regained its attraction for tourists from the Gulf region. Lebanon's tourism industry also relies on the large number of Lebanese living abroad, who return regularly to the country during holiday periods and notably the summer months. However, in 2011, the inflow of tourists was adversely affected by regional turmoil, in particular, the events in Syria.

By the end of 2004, incoming tourists (including Lebanese expatriates) reached 1,278,469. Tourist arrivals were expected to continue to increase during 2005. However, the assassination of Prime Minister Hariri in February 2005 adversely affected tourism in 2005, with a total of 1,139,524 incoming tourists in 2005. The first part of 2006 registered strong growth in tourism activities; however, the July 2006 War and subsequent political tensions led to a slight decrease in tourism for the year, with a total of 1,062,635 tourists in 2006. The number of arrivals was slightly lower in 2007 at 1,017,072 tourists in light of the political and security issues. In contrast, the relatively stable political and security environment following the Doha Agreement resulted in a growth in tourism activities in 2008, with a total of 1,332,551 tourists, represented a 31 percent increase as compared to 2007. In 2009, 1,851,081 tourists arrived in Lebanon, a 39 percent increase from the 2008 levels. In 2010, 2,167,989 tourists arrived in Lebanon, representing an 18 percent increase, as compared to the same period in 2009. In 2011, 1,655,051 tourists arrived in Lebanon, representing a 24 percent decrease, as compared to 2010. This decrease was due mainly to the political instability in the surrounding region. The largest decrease in tourist numbers was in tourists from Arab countries, which decreased by 35 percent in 2011.

### **Financial Services**

From the 1950s to the start of the conflict in 1975, Beirut was the region's financial services center. At the onset of the oil boom starting in the 1960s, Lebanon-based banks were the main recipients of the region's petrodollars.

The main financial services offered are commercial banking, investment banking, private 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 Republic's service-oriented economy. The Lebanese banking sector

has witnessed unprecedented growth during the period from 1992 to the present. Resident and non-resident private sector deposits with commercial banks increased from U.S.\$6.6 billion at the end of 1992 to U.S.\$174.4 billion at the end of December 2011. In addition, since 1996, Lebanese banks have been successfully accessing the international capital markets. The banking system is seen as having 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, a more diversified financial sector. New laws relating to collective investment schemes, asset securitization, and Islamic banking were enacted in 2004 and 2005. In August 2011, Laws № 160 and № 161 prohibiting insider trading and instituting a framework for the regulation of capital markets in the Republic, respectively were also enacted by Parliament. 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 part of the Government's strategy of re-establishing Beirut as a regional financial services center, BDL established in 1994 a central depository, settlement and clearing agency, MIDCLEAR, which is a joint stock company organized under the laws of the Republic.

The Government reopened the Beirut Stock Exchange in 1996. The combined value of the securities listed on the Beirut Stock Exchange (excluding Eurobonds of the Republic), rose from approximately U.S.\$386 million in January 1996 to U.S.\$10,285 million at the end of December 2011. The number of authorized brokers rose from five to 16 and the number of listed companies rose from three to 11 (including one mutual fund) by the end of December 2011.

See "*Monetary System—Securities Markets*".

### **Construction**

Prior to the conflict, the property sector had always been important, 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 housing 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.

The post-conflict era has witnessed a significant construction boom. 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 Arab funds. With respect to residential property, it has been concentrated mostly at the upper end of the housing market. Construction projects are financed mainly by equity investments. The construction boom resulted in an increase in the construction's share of the economy from 9.4 percent in 2006 to 15.2 percent in 2010.

### **Manufacturing**

In 2006, the manufacturing sector (mainly production of food and beverages, metal, machinery, equipment, timber, rubber, chemical, non-metallic ores, textiles and furniture) accounted for 9.2 percent of GDP, declining to 7.2 percent in 2010.

Exchange rate and price stability coupled with the gradual decline in Lebanese Pound interest rates have contributed to a better environment for investment and growth in industry. Infrastructure bottlenecks resulting from the conflict are being addressed as improvements in roads, telephones and electricity supply are realized. The Government provides various monetary and fiscal incentives for the establishment of industrial facilities in Lebanon, including tax exemptions and low interest financing. As export promotion is considered a priority by the Government, other export-financing incentives are under consideration.

From 1997 to December 31, 2011, the Government provided 7,019 LL-denominated subsidized loans, administered by *Banque du Liban*, to the industrial sector for a total value of LL 4,053 billion (or approximately U.S.\$2,689 million). The interest subsidies on these loans were estimated at LL 1,091 (or approximately U.S.\$724 million).

Following the Paris III Conference, loans totaling U.S.\$2,169 million were made to private sector entities by Paris III participants, including the European Investment Bank ("*EIB*"), the World Bank, the United States, the Arab Fund for Economic & Social Development, France and the Arab Monetary Fund.

## ***Energy and Electricity***

Preliminary studies conducted on behalf of the Government have shown that the Republic's territorial waters and maritime exclusive economic zone may contain significant hydrocarbon resources. Exploration activities are ongoing in neighboring countries.

In August 2010, Parliament adopted Law № 132 regulating the hydrocarbon exploration and extraction activities in the Republic's territorial waters and Exclusive Economic Zone and establishing a regulatory authority. The Council of Ministers is in the process of preparing the various decrees implementing Law № 132.

Other than relatively modest hydroelectric resources and the import of electricity from Syria, all energy needs are met with imports of petroleum products and natural gas (which is currently interrupted); gas oil imports were approximately 1.1 million metric tons in 2009, 1.0 million metric tons in 2010, and 0.7 million metric tons in 2011, and fuel oil imports were approximately 1.2 million metric tons in both 2009 and 2010 and 1.1 million metric tons in 2011.

The Ministry of Energy and Water has been investigating options to diversify its energy sources and reduce its reliance on imported gas and fuel oil. In 2012, the Ministry of Energy and Water launched a feasibility study to assess hydropower resources in Lebanon and has prepared the terms of reference for the assessment of the potential production of biogas from waste-water treatment and the general assessment of bioenergy potential in Lebanon.

In November 2010, the Minister of Energy and Water announced plans to increase Lebanon's oil storage capacity from 0.35 million cubic meters to 1.5 million cubic meters through the reconstruction and upgrade of the relevant portions of two state-owned refineries (one in Tripoli and one in Zahrani), which are currently non-operational, and are used only as import terminals and storage facilities for refined oil products. The 2010 budget proposal allocated LL 30 billion for increased storage capacity at the Tripoli refinery. The power sector accounts for about 70 percent of fuel oil and gas oil imports.

The energy sector in Lebanon is dominated by EdL. Its total installed thermal capacity is 2,042 Megawatts (MW). In addition, Lebanon has approximately 282 MW of installed hydro plants with seasonal production depending on rainfall. EdL is a vertically integrated utility which is involved in power generation, transmission and distribution with approximately 1.2 million customers. The Republic's energy production facilities include two thermal power stations (900 MW combined installed capacity), gas turbine stations (35 MW installed capacity in each). The transmission system measures approximately 1,000 km and the transformer capacity is approximately 3,485 MVA. EdL's distribution network covers most of Lebanon. EdL is also the majority shareholder in the previously privately-owned Kadisha company, a thermal-and hydro-power producer and distributor to about 124,800 customers in North Lebanon.

For the past several years, the Ministry of Finance has made large contributions to EdL to fund significant continuing losses, with transfers in 2010 and 2011 amounting to U.S.\$1,192 million and U.S.\$1,742 million, respectively. In June 2010, the Government adopted a reform plan for the electricity sector. See *"The Economy—Role of the Government in the Economy and Privatization—Electricity Sector—Electricity Sector Reform"*.

## ***Agriculture***

Approximately one third of the Republic is arable. The most fertile areas are located along the coastal strip and in the Bekaa valley. The diversity of the Republic's topography and climate enables cultivation of a wide variety of vegetables, fruits, industrial crops and cereals. In 1997, agriculture contributed approximately 6.5 percent to the Republic's GDP, as compared to approximately 9.9 percent in 1972. In 2010, the contribution of agriculture to GDP decreased to 4.7 percent, as compared to 5.1 percent in 2009, 5.8 percent in 2008, 6.2 percent in 2007 and 6.1 percent in 2006, due to higher prices of agricultural and other primary products. The Government's policy is to further increase the contribution of agriculture to the economy. Over the period from 1997 to December 31, 2011, the Government provided 3,611 LL-denominated subsidized loans, administered by *Banque du Liban*, to the agricultural sector for a total value of LL 638 billion (or approximately U.S.\$424 million). The interest subsidies on these loans were estimated at LL 157 billion (or approximately U.S.\$104 million).

## Prices and Inflation

Movements in the exchange rate of the Lebanese Pound are intertwined with domestic price developments due to the openness of the Lebanese economy. Since the mid-1980s, Lebanon suffered from rapid increases in prices, peaking at 500 percent per annum in Lebanese Pound terms in 1987. This trend was evident until the appointment of the first Hariri Government in October 1992. The last quarter of 1992 saw a significant appreciation in the value of the Lebanese Pound against major currencies. This, together with the gradual appreciation to date, has been accompanied by a decline in the rate of inflation. Since 1993, inflation is estimated to have declined gradually to approximately 7.8 percent in 1997, 4.5 percent in 1998, 0.2 percent in 1999 and (0.4) percent in each of 2000 and 2001. Since 2001, estimated inflation has fluctuated slightly, increasing to 1.8 percent in 2002 and decreasing to 1.3 percent in 2003, before increasing back to 3 percent in 2004 and decreasing to (0.7) percent in 2005. This marked the first prolonged return to relative price stability. The level of inflation was attributable principally to the implementation by BDL of a tight monetary policy, including maintaining a stable exchange rate (by using a nominal anchor policy with the U.S. Dollar) and high interest rates on Lebanese Pound assets.

Following inflationary pressures after the July 2006 War, inflation was 5.6 percent in 2006. In 2007, CAS estimated inflation at 9.3 percent on an end-of-period basis, and, on the basis of BDL, the IMF estimated inflation at 6.0 percent on an end-of-period basis and at 4.1 percent on a period average basis. The increase in inflation in 2007 was due to, *inter alia*, the appreciation of the Euro against the Lebanese Pound (the Euro being the currency of the principal trading partners of the Republic) and the global increase in oil and other commodity prices. CAS estimated inflation for 2008 at 5.5 percent on an end-of-period basis, and the IMF estimated inflation at 6.4 percent on an end-of-period basis and 10.8 percent on a period average basis. The increase in inflation in 2008 was due to the same factors as in 2007, but was tempered by the global financial crisis. Inflation slowed in 2009, with CAS estimating inflation at 3.4 percent on an end-of-period basis and 1.2 percent on a period average basis, and the IMF estimating inflation at 1.2 percent on an annual period average basis. Inflation increased in 2010, with CAS estimating inflation at 4.6 percent on an end-of-period basis and 4.0 percent on a period average basis, and the IMF estimating inflation was 4.5 percent on an annual period average basis. Inflation in 2011 was estimated by CAS at 3.1 percent on an end-of-period basis, compared to 5.5 percent according to the IMF's estimate. On a period average basis, inflation in 2011 increased with CAS estimating inflation at 5.1 percent, compared to an IMF estimate of 5.4 percent. The increases in both 2010 and 2011 were principally due to the worldwide increase in energy, food and other commodity prices. The inflation figure published by CAS for February 2012, as compared to February 2011, is 3.4 percent.

On January 25, 2012, Decree № 7426 was adopted (i) increasing the monthly minimum wage for private sector employees from LL 500,000 to LL 675,000 and (ii) providing for a cost-of-living increase up to a maximum of LL 299,000 per month, both effective February 1, 2012. Although Decree № 7426 applies to private sector employees, similar increases are likely to be implemented in favor of public sector employees. Such increases in the minimum wage and other salaries could have an inflationary impact on prices.

The Ministry of Finance is currently reviewing a number of revenue enhancement and expenditure reduction measures to offset the expected public wage increases.

## Reconstruction

### *The Council for Development and Reconstruction and the Reconstruction Program*

The Council for Development and Reconstruction (“CDR”) is a government agency entrusted with a key role in the process of reconstruction and economic recovery. It was established in 1977 in response to the needs of reconstruction as a successor to the Ministry of Planning and was reorganized in 1991. The CDR is an executive agency for the Council of Ministers. It is responsible for formulating and monitoring the implementation of public investment projects as well as seeking foreign funding. In 1992, a three-year (1993–1995) U.S.\$2.25 billion National Emergency Reconstruction Program (“NERP”) was established by the CDR. The initial program covered a series of rehabilitation investments, in the fields of power, water and wastewater, solid waste, education, housing and development. Financing for the NERP was provided in part by a World Bank loan of U.S.\$225 million.

Proposals for projects forming part of the reconstruction program are submitted for parliamentary approval on a project-by-project basis. Approximately 5,697 contracts with a total value of approximately U.S.\$10.9 billion were awarded by the CDR for the period since reconstruction efforts started in 1992 to the end of 2011, projects with a total value of U.S.\$7.7 billion have been completed.

The CDR is directly responsible for implementing a large part of the reconstruction program. It acts in this capacity in coordination with the various institutions (consisting principally of the relevant ministries) which will ultimately use or operate the investments. The other parts of the reconstruction program have been implemented by various ministries and other governmental agencies, such as the *Conseil Exécutif des Grands Projets* and the *Conseil Exécutif des Grands Projets de la Ville de Beyrouth*. In March 2001, Parliament adopted a law merging these two agencies into the CDR, thereby expanding the range of reconstruction and development projects for which the CDR is responsible. The rationale for this merger is the desire of the Government to create a single executive agency to implement infrastructure and development projects.

CDR expenditures on reconstruction and development programs are financed partly by grants and borrowings from international development agencies and other overseas entities and partly by appropriations from the budget. These appropriations are included as capital expenditures in the public accounts, but expenditures financed by borrowings as described above are not included in the public accounts (but are included in foreign debt figures). However, interest in respect of these borrowings is included in the national budget for the year in which it is scheduled to be paid. The Government's strategy is to finance the reconstruction and development program principally through the use of external financing, preferably concessionary financing (in the form of grants and soft loans). Other sources of external financing include commercial loans with export credit guarantees and the issuance by the Government of Eurobonds and other international debt securities.

### ***Infrastructure***

As a major regional entrepot and financial center, the Republic had a well-developed infrastructure prior to the conflict. The country's ports (Beirut, Tripoli, Sidon and Jounieh) and Beirut International Airport (now Rafik Hariri International Airport) were especially productive assets of the economy operating under a free exchange system. Catering to the large number of residents, businesses and international visitors, the housing and telecommunications sectors had been built up to high standards. The development of the road network had not, however, kept pace with the growth of the economy. The years of conflict exacted a heavy toll on the infrastructure. Since 1992, significant progress has been made in restoring and upgrading the infrastructure; telecommunications systems have been significantly upgraded and are functioning better; emergency water supply repairs have been undertaken; road networks are being upgraded; and collection of solid waste has markedly improved.

### ***Electricity Generation***

EdL assets were severely damaged during the 1975–1990 war in Lebanon. Post-war reconstruction concentrated mainly on the rehabilitation of EdL's infrastructure. The July 2006 War caused additional damage to the electric utility infrastructure, particularly its fuel storage facilities.

A National Control Center project is currently in a testing and hand-over phase. In addition, the Policy Paper for the Electricity Sector adopted by the Government in 2010 provides, *inter alia*, for an expected increase in production capacity to 4,000 MW by 2014 and 5,000 MW thereafter to address current electricity rationing issues and to meet increasing demand. In addition, a new national transmission 220 KV network is being installed, and improvements to the distribution sector and other aspects of the electricity sector are being implemented. The rehabilitation program of the Zouk and Jiyeh plants is in a tender phase. Additionally, the Ministry of Energy and Water is currently preparing tender documents for a number of other rehabilitation projects for smaller power plants. A tender for an operation and maintenance contract for the Zahrani and Deir Ammar power plants was launched in the beginning of 2012.

### ***Water and Wastewater Sectors***

A rehabilitation and development program for the water and wastewater sector is underway and is estimated to cost approximately U.S.\$0.7 billion. This program is designed to comply with the Convention on Protecting the Mediterranean from Pollution and to protect inland water resources from pollution and comprises the following principal components:

- the rehabilitation of existing infrastructure, including wells, springs, reservoirs and transmission and distribution networks for water supply, main sewers and collectors for wastewater;
- the development and extension of the water and wastewater infrastructure, including increasing the available water resources, extending the distribution and transmission networks, and constructing sewer networks and wastewater treatment plants to protect water sources, groundwater and coastal areas;



- the creation of four regional Water Sanitation and Irrigation Establishments, with the provision of technical assistance to the Ministry of Energy and Water and to the regional water establishments; and
- the operation and maintenance of wastewater and storm water systems in the major Lebanese urban centers (Jounieh, Greater Beirut, Tripoli, Zahle, Nabatiyeh, Saide and Sour).

The rehabilitation program began in May 1993 and cost approximately U.S.\$60 million in the first year. This included urgent repairs related to existing networks throughout Lebanon. Extension of the water treatment plant at Dbaye, which supplies clean water to a large part of Beirut was completed at a cost of approximately U.S.\$5.7 million. The rehabilitation program for Greater Beirut is currently being implemented at a cost of approximately U.S.\$50 million. Rehabilitation and replacement of main water treatment plants and pumping stations in the rest of Lebanon is completed at a cost of approximately U.S.\$43 million. Contracts for operations and maintenance in the main urban centers for 5 years were completed at a cost of U.S.\$89 million

Contracts for the rehabilitation and development of water and wastewater systems and treatment plants in Greater Beirut, North, South Lebanon, Mount Lebanon and the Bekaa and technical assistance programs and service contracts were awarded between 1992 and 2009 at a value of U.S.\$1,465 million. These contracts comprise feasibility studies, environmental impact studies, design and preparation of tender documents, execution of works, supply and installation, operations and maintenance and supervision.

A number of projects are currently in the planning stage and are estimated to cost approximately U.S.\$550 million. Such projects include water supply networks, water treatment plants and sewers networks and management contracts and are intended to serve all regions of Lebanon.

### ***Telecommunications***

Work on the expansion and rehabilitation of the fixed line system commenced in November 1993. In July 1993, 800,000 new digital lines were commissioned and the current installed capacity is 1,800,000, of which 830,000 were connected to subscribers in January 2001. In October 2002, 55,000 telephone lines were installed in southern Lebanon. In April 2003, 6,688 basic access and 570 primary rate ISDN lines have also been installed and an Intelligent Network platform was installed. The total value of rehabilitation and extension contracts entered into is approximately U.S.\$800 million.

Two compatible mobile phone networks, currently aggregating over 1,440,000 lines, are operational, in addition to the fixed line system. The mobile telephone networks have been privately financed through two build-operating-transfer (“BOT”) contracts awarded to two different operators, and are currently being operated on behalf of the Government by two private operators pursuant to management contracts.

In May 2000, the Government notified the two operators that they had each failed to pay to it an amount of U.S.\$300 million on account of back taxes and revenue-sharing under the BOT contracts and that, absent such payments, the BOT contracts would be terminated. In June 2001, the Government notified the two mobile operators of the early termination of their BOT contracts in accordance with their respective terms and the BOT contracts were terminated effective August 31, 2002. Following this dispute, each of the mobile telephone network operators initiated arbitration proceedings. The arbitration proceedings between each of the former mobile operators in the Republic and the Government resulted in two arbitration awards in favor of the former operators in the amount of approximately U.S.\$270 million each. The disputes between the former operators and the Republic have been settled.

On January 13, 2009, Zain and Orascom Telecom Holding S.A.E. were declared the winners of the tender process for the award of the two management contracts. On January 29, 2010 and in light of the forthcoming expiry of the two management contracts, the Council of Ministers adopted a resolution extending the contracts’ term for six months (renewable for two consecutive periods of three months each). Such contracts were further extended for a one-year period on January 31, 2011 on the same conditions that were approved by the Council of Ministers in January 2010.

On January 31, 2012, the Council of Ministers authorized the Minister of Telecommunications to extend the aforementioned management contracts for a one-year period to January 31, 2013, which can be terminated early by the Government and directed the Minister of Telecommunications to prepare a public, international tender for the future management of the two mobile networks. The Minister of Telecommunications was also requested to complete the organizational and implementation decrees for the TRA for submission to the Council of Ministers.

## ***Transportation***

The first phase of road projects has been substantially completed. Contracts totaling U.S.\$1.1 billion in value were completed during the period 1991-2011. These included the rehabilitation of the capital's road network and the main penetrators, the completion of extensions of the coastal highway system north to Tripoli and south to Quasmie, the upgrading of a number of intersections in the Greater Beirut area. The extension of the Northern coastal highway to the Syrian borders and the Southern coastal highway to Tyre City entrance, as well as the upgrade of the Beirut Damascus Road (from Sayad to Masnaa) are all underway. The remaining intersections in the Greater Beirut area and main roads in different regions in connection with the road improvement program are also in progress. The cost of the ongoing contracts is approximately U.S.\$700 million.

The extension and redevelopment of Beirut's international airport, with targeted passenger movement of 6 million people per annum, amounted to U.S.\$539 million. Two major contracts totaling U.S.\$490 million have been awarded under a multi-year project approved by Parliament. Financing of U.S.\$179 million has been secured from the EIB, the Kuwait Fund for Arab Economic Development and the French Government, and a number of the airport's facilities (for example, the car park) have been financed through BOT contracts reducing the portion of the costs to be funded by public expenditure. A new passenger terminal was put in service at the beginning of 1998 and the project was completed in 2000.

## ***Solid Waste***

Since 1992, a number of contracts relating to the construction of landfills, the procurement of supplies and the operation of waste collection and treatment plants have been awarded in the solid waste sector. The total value of these contracts is approximately U.S.\$509 million in disbursed contracts and U.S.\$516 in planned contracts. The majority of these contracts are long-term, with terms of up to 10 years.

## ***Public Health***

The Government's program for the Health sector is to provide adequate health services to people in all regions of Lebanon. The Government's focus in this sector has been on conducting studies that support and strengthen the administrative capacity of the Ministry of Public Health, with a special emphasis on primary health care and rationalization of increasing health related expenses. To date, 28 new health care centers covering all regions of Lebanon and 12 new public hospitals have been completed. Work is underway on the construction, expansion and renovation of six hospitals and the construction of four new public hospitals is also planned.

## ***SOLIDERE***

Following the end of the period of conflict in 1990, the Government was confronted with the issue of how to redevelop areas in Lebanon that had suffered damage during the hostilities. Redevelopment was particularly critical for the Beirut Central District (the "BCD"), which had been the historical center of government and commercial activity and which had also been the subject of extensive damage during the hostilities. The BCD is considered the heart of Beirut. The area contains many important government buildings and the Lebanese Parliament. It has traditionally been considered the center of banking and commerce in Lebanon. The hotel district, internationally renowned before the hostilities, lies at the western edge of the BCD.

In 1991, the Government created a legal framework that would allow for the establishment of private real estate companies to carry out the redevelopment of damaged areas in accordance with a master plan approved by the Government. Such companies would be capitalized partly by cash subscriptions by investors and partly by issuance of shares in exchange for the compulsory contribution of property rights by the original owners and lessees (subject to an option in favor of such owners to regain ownership of certain properties). Parliament established the foundation for this legal framework with the enactment in 1991 of Law № 117 ("Law № 117").

A master plan for the development of the BCD, supplemented by a detailed plan, defines the geographical limits of the BCD and contains the body of guidelines and rules governing the rehabilitation and redevelopment of the BCD, including certain guiding principles aiming to preserve and promote the historic heritage of the BCD and to ensure the harmonious integration of traditional and modern architecture.

SOLIDERE was the first real estate development and reconstruction company created pursuant to Law № 117, in May 1994, and the only such company with responsibility for the development and reconstruction of the BCD (the "Project"). The entire area is approximately 1.8 million square meters, consisting of the traditional BCD and the reclaimed land. The traditional BCD constitutes the area of the BCD which existed prior to the hostilities in Lebanon and covers a surface area of approximately 1.2 million square meters. Under the master

plan for the Project, the aggregate permitted built-up floor space in the entire BCD (including certain exempted lots which are government and religious buildings) and the lands reclaimed from the Mediterranean sea is limited to 4.69 million square meters.

SOLIDERE accomplished infrastructure works in the traditional BCD, the restoration of the majority of preserved buildings, and the Western Marina. Many new projects were also completed by SOLIDERE, mainly, the United Nations building, the British Embassy complex near the Serail, the Saifi village, a multi-use complex for offices and residence in Rue de France.

SOLIDERE intends to focus on the new waterfront district with a view toward the re-launching of Beirut as an international regional center. This entails completing the waterfront district infrastructure, after completing treatment works on the reclaimed land, developing the eastern marina and launching new and mixed-use developments.

SOLIDERE's capital at establishment was U.S.\$1,820,001,290, composed of real estate of the original owners and the lessees in the BCD, who received 65 percent of SOLIDERE's shares, (or U.S.\$1,170,001,290) in compensation for their properties and rights, and cash contributions equal to U.S.\$650,000,000 from Lebanese and Arab investors, who subscribed to the flotation of shares in SOLIDERE, which closed on January 10, 1994. In June 1997, SOLIDERE amended its by-laws to reduce its capital to U.S.\$1,650,000,000.

On June 7, 2007, SOLIDERE established a subsidiary, Solidere International Limited, in the Dubai International Financial Centre, in which it holds 37 percent of the shares. Solidere International Limited is expected to undertake real estate development activities outside of the Republic, taking advantage of the goodwill and expertise generated in the reconstruction of the BCD.

On September 30, 1996, the shares of SOLIDERE, previously listed on the Beirut Secondary Market, were listed and began trading on the Beirut Stock Exchange

On December 3, 1996, 6,700,000 Global Depositary Receipts representing fractional economic interests in SOLIDERE shares were issued and currently are trading on the London Stock Exchange. In September 1997, SOLIDERE amended its by-laws and, in October, 1997, it obtained the necessary governmental approval to permit foreign investors to own shares in SOLIDERE.

## **Human Resources**

Lebanon's human resources have traditionally been the backbone of its economy. The Republic's human resources had been developed to levels comparable to, or higher than, those of lower middle-income countries. Prior to the conflict, Lebanon was endowed with a well-trained population and labor force with adequate health facilities. The conflict resulted in setbacks for the human resources of the Republic. A significant emigration of skilled labor took place with large numbers of professionals, traders, industrial workers and construction workers leaving the country. The education system also suffered. See "*Educational System*".

The *National Survey of Household Living Conditions 2007* estimated the official unemployment rate at 9.2 percent in 2007.

According to the *National Survey of Household Living Conditions 2007*, the composition of workers in the Republic (pursuant to the categorization adopted by the International Labor Organization) is: skilled workers: 16.8 percent; unskilled workers: 11.3 percent; general and corporate managers: 11.9 percent; service sector workers and salespersons: 11.8 percent; specialists: 10.3 percent; drivers: 8.4 percent; office employees: 7.5 percent; intermediate professions: 9.7 percent; skilled agricultural and fishery workers: 4.7 percent; and military personnel: 7.5 percent.

## **Educational System**

The variety of Lebanese educational institutions (schools as well as universities) is a reflection of the openness of the Republic to the international community. Private schools have a long and strong tradition in Lebanon. Aside from private schools established by western clerics (French, Anglo-Saxons, Germans, Italians), there are many and diverse local and foreign religious and secular schools.

The *National Survey of Household Living Conditions 2007* estimated the adult literacy rate was approximately 90 percent in 2007, as compared to 88 percent in 1997 and 68 percent in 1970.

The Government's emphasis on education is evidenced by the existence of three ministries with responsibilities relating to educational matters. They are the Ministry of Education and Higher Education, the Ministry of Youth and Sport and the Ministry of Culture.

The Republic traditionally had an advanced education structure, and well-trained technicians and engineers. Prior to the conflict, Beirut served as an education center for the region. However, a substantial part of this human capital was lost during the conflict, and the educational system and infrastructure suffered damage and lack of investment. In spite of the turmoil, however, the educational system has survived and still retains high standards.

Lebanon's educational system is composed of General Education ("GE"), Vocational and Technical Education ("VTE") and Higher Education ("HE"). In academic year 2010-2011, the GE system was comprised of 1,281 public, 1,072 private, 363 subsidized and 74 United Nations Relief and Works Agency ("UNRWA") schools, for a total of 2,790 schools. In the same period, there were 110 public and 320 private institutions in the VTE system, and the HE had one public university, the Lebanese University, and 38 private institutions, which include universities, university institutes, technological institutes and institutes for religions studies.

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The following table gives a summary of the GE school system during the academic years 2010–2011.

#### GE School System

|   |         |
|---|---------|
| Total number of GE schools .....                            | 2,790   |
| Total number of students in GE schools .....                | 937,930 |
| Public schools (as a percentage of total) .....             | 45.9    |
| Private schools (as a percentage of total) .....            | 38.4    |
| Private subsidized schools (as a percentage of total) ..... | 13.0    |
| UNRWA private schools (as a percentage of total) .....      | 2.7     |

Sources: Ministry of Education and Higher Education, Center for Educational Research and Development, Statistical bulletin 2010-2011.

The table below shows the percentage of the population attending schools for the 2010–2011 academic year.

#### Population Attending School

| Age                | Males          |            | Females        |            | Total          |            |
|--------------------|----------------|------------|----------------|------------|----------------|------------|
|                    | (number)       | (%)        | (number)       | (%)        | (number)       | (%)        |
| Pre-school .....   | 79,323         | 17         | 74,845         | 16         | 154,168        | 16         |
| Elementary .....   | 236,204        | 51         | 220,781        | 47         | 456,985        | 49         |
| Intermediate ..... | 97,358         | 21         | 107,848        | 23         | 205,206        | 22         |
| Secondary .....    | 53,830         | 12         | 67,741         | 14         | 121,571        | 13         |
| <b>Total .....</b> | <b>466,715</b> | <b>100</b> | <b>471,215</b> | <b>100</b> | <b>937,930</b> | <b>100</b> |

Sources: Ministry of Education and Higher Education, Center for Educational Research and Development, Statistical bulletin 2010-2011.

The total number of VTE students was 111,866 during the academic year 2010-2011, of which 38,080 were public sector students.

Lebanon's universities had a total of 192,138 students during the academic year 2010-2011, of which 47.6 percent were females and 52.4 percent were males. Approximately 83.5 percent were Lebanese and 16.5 percent of university students were foreigners.

The principal universities in Lebanon consist of the Lebanese University, with five branches (72,507 enrolments in 2010-2011), Université Saint Joseph (USJ) (founded and run by French Jesuits) (9,197 enrolments in 2010-2011), the Arab University (sponsored by the Egyptian University of Alexandria) (15,551 enrolments in 2010-2011), the American University of Beirut (AUB) (7,747 enrolments in 2010-2011), the Lebanese American University (5,954 enrolments in 2010-2011), Notre Dame University (6,256 enrolments in 2010-2011), Université Saint Esprit de Kaslik (6,980 enrolments in 2010-2011), the Balamand University (Hybrid System)

(4,451 enrolments in 2010-2011) and Haigazian University (600 enrolments in 2010-2011). Each of the Lebanese University, the USJ, The Beirut Arab University, Balamand and the AUB has a medical school.

As a joint initiative between the Lebanese and French governments, and with the support of the Paris Chamber of Commerce and Industry, BDL and various private sponsors, the “*Ecole Supérieure des Affaires*” (the “ESA”) was established in Beirut in April 1996. The ESA offers a full-and part-time MBA program and, through its Monetary and Financial Institute, aims to attract bank and finance executives who wish to develop their knowledge of modern financial products and financing techniques.

The Government included a three-year reform program regarding education as part of its presentation at the Paris III Conference. The Education Sector Reform Action Plan for the years 2007–2009 span seven reform programs: (i) consolidating policy, planning and resource allocation; (ii) achieving universal basic education for ages 6–15; (iii) improving the efficiency, effectiveness and competence level of the teaching workforce; (iv) enhancing the quality of education; (v) strategic management of educational facilities; (vi) rationalizing VTE; and (vii) quality assurance in higher education.

## **EXTERNAL SECTOR**

### **Balance of Payments and Foreign Trade**

Lebanon is a predominantly importing country characterized by large trade deficits; however, these deficits are mostly offset by capital account inflows as well as by inflows from remittances, income earnings, tourism and other services. The trade balance recorded deficits of approximately U.S.\$7,880 million in 2007, U.S.\$11,010 million in 2008, U.S.\$11,179 million in 2009, U.S.\$12,258 million in 2010 and U.S.\$6,253 million in the six-month period ended June 30, 2011.

Even during conflict periods, there was generally a surplus in the balance of payments. Despite the July 2006 War and the political tensions that followed, the balance of payments registered a surplus of U.S.\$2,036.6 million in 2007, despite an increase in the trade balance deficit, as a result of increases in the capital and financial accounts. The balance of payments surplus increased in 2008 to U.S.\$3,461.5 million, as a result of renewed confidence in economic stability that led to capital and financial inflows. In 2009, the balance of payments surplus more than doubled to U.S.\$7,899.1 million, as a result of easing political tensions and economic growth. In 2010, the balance of payments surplus decreased to U.S.\$3,324.5 million, as a result of a slower rate of increase in both foreign assets and liabilities. In 2011, the balance of payments registered a deficit of U.S.\$1,996 million, mainly as a result of an increase in the current deficit, principally due to higher energy costs and a reduction in transfers. In January 2012, the balance of payments registered a deficit of U.S.\$290 million.

The following table sets out information relating to the Republic's foreign trade for the periods indicated.

**Balance of Payments Summary<sup>(1)(2)</sup>**

|   | 2007                           | 2008       | 2009       | 2010       | Six months<br>ended June<br>30, 2011 |
|---|--------------------------------|------------|------------|------------|--------------------------------------|
|   | <i>(U.S. Dollars millions)</i> |            |            |            |                                      |
| <b>Current Account</b> .....                  | (1,604.8)                      | (4,149.0)  | (6,740.9)  | (7,462.1)  | (1,814.3)                            |
| Goods.....                                    | (7,880.0)                      | (11,010.1) | (11,178.6) | (12,257.7) | (6,252.6)                            |
| Credit .....                                  | 4,046.5                        | 5,250.5    | 4,716.2    | 5,466.5    | 2,943.2                              |
| Debit .....                                   | (11,926.4)                     | (16,260.6) | (15,894.7) | (17,724.2) | (9,195.8)                            |
| General merchandise.....                      | (8,026.4)                      | (11,039.9) | (11,694.0) | (12,652.5) | (6,265.0)                            |
| Exports FOB <sup>(3)</sup> .....              | 3,170.9                        | 3,978.1    | 3,250.5    | 3,733.7    | 2,009.9                              |
| Imports FOB <sup>(3)</sup> .....              | (11,197.3)                     | (15,018.0) | (14,944.5) | (16,386.1) | (8,275.0)                            |
| Goods for processing .....                    | 8.8                            | 67.0       | 28.7       | 243.2      | 4.9                                  |
| Repairs on goods.....                         | 0.0                            | (0.0)      | (0.0)      | (1.8)      | 10.3                                 |
| Non-monetary gold .....                       | 48.8                           | (193.7)    | 392.2      | 28.2       | (97.3)                               |
| Services.....                                 | 2,766.4                        | 4,063.5    | 2,838.6    | 2,548.3    | 3,031.4                              |
| Credit .....                                  | 12,754.7                       | 17,573.9   | 16,889.1   | 15,975.8   | 9,444.5                              |
| Debit .....                                   | (9,988.3)                      | (13,510.4) | (14,050.6) | (13,427.6) | (6,413.0)                            |
| Transportation.....                           | (1,139.5)                      | (1,491.0)  | (1,777.2)  | (1,184.1)  | (508.9)                              |
| Travel.....                                   | 2,102.4                        | 2,254.8    | 2,762.2    | 3,107.9    | 1,093.8                              |
| Communication services .....                  | 39.6                           | 80.4       | 239.0      | 77.8       | 61.6                                 |
| Insurance services .....                      | (22.6)                         | (34.9)     | 257.5      | (197.2)    | (80.8)                               |
| Financial services .....                      | 85.7                           | 72.2       | 87.0       | 1,065.8    | 631.6                                |
| Misc. business, professional<br>services..... | 1,706.2                        | 3,185.5    | 1,278.0    | (356.9)    | 1,804.1                              |
| Government services, n.i.e. ....              | (4.7)                          | (3.1)      | (4.8)      | 44.6       | 10.7                                 |
| Income .....                                  | 740.1                          | 437.2      | (228.1)    | (508.9)    | 215.1                                |
| Credit .....                                  | 3,112.8                        | 2,723.3    | 2,040.2    | 1,448.1    | 846.5                                |
| Debit .....                                   | (2,372.7)                      | (2,286.1)  | (2,268.3)  | (1,957.0)  | (631.4)                              |
| Compensation of employees .....               | 149.7                          | 615.8      | 139.3      | 1.3        | (23.5)                               |
| Investment income .....                       | 590.4                          | (178.6)    | (367.3)    | (510.2)    | 238.5                                |
| Direct investment .....                       | 4.7                            | (0.0)      | 41.4       | (12.8)     | 174.0                                |
| Portfolio investment.....                     | (444.4)                        | (370.3)    | (318.5)    | (309.8)    | (132.9)                              |
| Other investment .....                        | 1,030.1                        | 191.8      | (90.3)     | (187.7)    | 197.5                                |
| Current transfers .....                       | 2,768.6                        | 2,360.3    | 1,827.2    | 2,756.3    | 1,191.8                              |
| Credit .....                                  | 5,218.5                        | 6,069.6    | 6,642.0    | 8,393.5    | 4,099.5                              |
| Debit .....                                   | (2,449.9)                      | (3,709.2)  | (4,814.9)  | (5,637.2)  | (2,907.7)                            |
| General government.....                       | 3.3                            | 29.7       | (2.5)      | (12.2)     | (1.2)                                |
| Other sectors .....                           | 2,765.4                        | 2,330.6    | 1,829.6    | 2,768.5    | 1,193.0                              |
| Workers' remittances .....                    | 2,657.6                        | 2,198.8    | 1,669.7    | 2,828.8    | 1,295.3                              |
| Other transfers.....                          | 107.7                          | 131.8      | 159.9      | (60.3)     | (102.2)                              |
| Credit .....                                  | 183.0                          | 239.8      | 235.9      | 1,560.5    | 746.9                                |
| Debit.....                                    | (75.3)                         | (108.0)    | (75.9)     | (1,620.8)  | (849.2)                              |
| <b>Capital and financial account</b> .....    | 7,603.5                        | 5,874.5    | 11,118.0   | 1,794.5    | 1,125.0                              |
| Capital account .....                         | 589.7                          | 409.5      | 18.0       | 267.9      | 56.7                                 |
| Credit .....                                  | 590.7                          | 409.9      | 24.5       | 672.8      | 225.1                                |
| Debit .....                                   | (1.0)                          | (0.4)      | (6.6)      | (404.9)    | (168.5)                              |
| Capital transfers .....                       | 589.7                          | 409.5      | 18.0       | 209.7      | 59.2                                 |
| Financial account .....                       | 7,013.8                        | 5,464.9    | 11,100.0   | 1,526.6    | 1,068.4                              |
| Direct investment                             | 2,527.9                        | 3,346.5    | 3,677.8    | 3,793.2    | 1,026.5                              |
| Abroad .....                                  | (848.1)                        | (986.6)    | (1,125.8)  | (486.7)    | (556.4)                              |
| In reporting economy .....                    | 3,376.0                        | 4,333.0    | 4,803.6    | 4,279.9    | 1,582.9                              |
| Portfolio investment                          | 170.3                          | 637.3      | 3,199.9    | (1,709.8)  | (1,402.0)                            |
| Assets.....                                   | (1,560.0)                      | (565.9)    | (825.9)    | (1,016.2)  | (974.2)                              |
| Equity securities .....                       | (472.5)                        | (403.2)    | (707.0)    | 1,082.6    | (1,435.7)                            |
| Debt securities .....                         | (1,087.6)                      | (162.7)    | (118.9)    | (2,098.8)  | 461.4                                |
| Liabilities .....                             | 1,730.3                        | 1,203.2    | 4,025.8    | (693.5)    | (427.7)                              |
| Equity securities .....                       | 791.1                          | 465.7      | 1,151.9    | 147.0      | 112.7                                |
| Debt securities .....                         | 939.3                          | 737.5      | 2,874.0    | (840.6)    | (540.5)                              |
| Other investments                             | 3,727.9                        | 8,855.3    | 12,862.6   | 2,483.0    | 989.0                                |
| Assets.....                                   | 528.7                          | 7,819.3    | 5,083.0    | 2,081.7    | (1,506.3)                            |
| Loans .....                                   | 5,204.8                        | 4,943.0    | 7,496.0    | 4,729.2    | 1,362.5                              |
| Currency and deposits.....                    | (4,676.1)                      | 2,876.3    | (2,413.0)  | (2,647.5)  | (2,868.8)                            |

|                               | 2007      | 2008      | 2009      | 2010      | Six months<br>ended June<br>30, 2011 |
|-------------------------------|-----------|-----------|-----------|-----------|--------------------------------------|
| Liabilities .....             | 3,199.3   | 1,036.0   | 7,779.6   | 401.3     | 2,495.2                              |
| Loans .....                   | 237.5     | 242.6     | 35.3      | (144.2)   | (87.0)                               |
| Currency and deposits.....    | 2,961.8   | 793.3     | 7,744.3   | 545.5     | 2,582.3                              |
| Reserve Assets .....          | 587.7     | (7,374.1) | (8,640.3) | (3,039.9) | 454.9                                |
| Net errors and omissions..... | (5,998.7) | (1,725.4) | (4,377.0) | 5,667.6   | 689.3                                |

Notes:

(1) Certain line items and figures differ from previously published data due to ongoing revisions.

(2) Full year figures for 2011 are not available.

(3) Customs data.

Sources: Higher Council of Customs and BDL.

The following table indicates the principal destinations of exports for the periods indicated.

| Destination of Exports <sup>(1)</sup>                    |             |             |                      |             |             |
|--|-------------|-------------|----------------------|-------------|-------------|
|  | 2007        | 2008        | 2009                 | 2010        | 2011        |
|  |             |             | (% of total exports) |             |             |
| <b>Industrialized countries .....</b>                    | <b>28.8</b> | <b>24.3</b> | <b>36.0</b>          | <b>25.2</b> | <b>25.1</b> |
| EU 15 .....  | 16.5        | 15.3        | 12.9                 | 11.1        | 11.8        |
| Italy .....  | 1.2         | 1.5         | 0.7                  | 0.8         | 0.9         |
| France .....   | 1.8         | 2.4         | 3.1                  | 1.3         | 1.3         |
| Germany .....  | 1.3         | 1.0         | 0.9                  | 1.2         | 1.1         |
| United States .....                                      | 2.4         | 1.4         | 1.4                  | 1.6         | 1.5         |
| Japan.....   | 0.2         | 0.1         | 0.1                  | 0.3         | 0.5         |
| United Kingdom.....                                      | 2.8         | 1.7         | 1.1                  | 1.3         | 1.5         |
| Switzerland.....   | 10.9        | 9.5         | 22.3                 | 12.8        | 12.1        |
| Belgium-Luxembourg .....                                 | 3.1         | 2.4         | 3.3                  | 2.6         | 3.1         |
| Other.....   | 0.5         | 0.4         | 0.4                  | 0.4         | 13.3        |
| <b>Developing countries .....</b>                        | <b>71.2</b> | <b>75.7</b> | <b>64.0</b>          | <b>74.8</b> | <b>74.9</b> |
| Middle East and North Africa .....                       | 47.5        | 49.9        | 45.7                 | 45.1        | 35.4        |
| of which: GAFTA.....                                     | 46.4        | 46.5        | 44.0                 | 43.7        | 35.0        |
| Middle East .....  | 45.7        | 47.9        | 43.9                 | 43.8        | 34.3        |
| Saudi Arabia.....  | 6.7         | 6.0         | 7.0                  | 6.3         | 7.2         |
| Syria .....  | 7.5         | 6.4         | 6.5                  | 5.6         | 5.0         |
| Jordan.....  | 3.5         | 3.4         | 3.0                  | 2.6         | 3.0         |
| Kuwait.....  | 3.8         | 2.8         | 2.2                  | 1.8         | 1.8         |
| U.A.E. ....  | 8.7         | 10.0        | 9.6                  | 10.7        | 7.6         |
| Egypt.....   | 4.0         | 3.7         | 2.1                  | 5.1         | 1.6         |
| Iraq .....   | 5.2         | 7.7         | 7.8                  | 6.8         | 4.6         |
| Other .....  | 1.8         | 2.0         | 1.8                  | 1.3         | 1.0         |
| Africa.....  | 10.5        | 10.0        | 10.8                 | 17.6        | 24.9        |
| Other Europe .....                                       | 6.1         | 8.7         | 4.3                  | 7.1         | 8.1         |
| Other developing countries and<br>emerging markets ..... | 7.1         | 7.1         | 3.3                  | 5.0         | 6.5         |

Note:

(1) Certain line items and figures differ from previously published data due to ongoing revisions.

Source: BDL based on Higher Council of Customs.



The following table shows the composition of exports for the periods indicated.

| <b>Composition of Exports</b>   |             |             |                      |             |             |
|---|-------------|-------------|----------------------|-------------|-------------|
|   | <b>2007</b> | <b>2008</b> | <b>2009</b>          | <b>2010</b> | <b>2011</b> |
|   |             |             | (% of total exports) |             |             |
| Live animals; animal products.....  | 0.4         | 0.5         | 0.4                  | 0.4         | 0.4         |
| Vegetable products .....  | 3.7         | 3.8         | 3.4                  | 3.9         | 3.8         |
| Animal or vegetable fats and oils .....   | 0.6         | 0.6         | 0.5                  | 0.6         | 0.5         |
| Prepared foodstuffs; beverages, tobacco ...   | 8.5         | 8.1         | 8.1                  | 8.3         | 8.9         |
| Mineral products .....  | 3.2         | 3.9         | 2.6                  | 1.4         | 0.8         |
| <i>Of which: mineral fuels, mineral oils and products of their distillation; bituminous substances; mineral waxes .....</i> | <i>0.2</i>  | <i>0.3</i>  | <i>0.3</i>           | <i>0.1</i>  | <i>0.0</i>  |
| Products of the chemical or allied industries .....   | 8.3         | 12.5        | 6.6                  | 7.9         | 9.0         |
| Plastics and articles thereof; rubber .....   | 4.2         | 4.3         | 3.6                  | 3.0         | 3.1         |
| Raw hides and skins, leather, fur skins .....   | 0.4         | 0.3         | 0.3                  | 0.3         | 0.3         |
| Wood and articles of wood; wood charcoal; cork .....  | 0.8         | 1.0         | 0.8                  | 0.6         | 0.4         |
| Pulp of wood; paper and paperboard .....  | 6.2         | 5.9         | 6.6                  | 6.0         | 5.1         |
| Textiles and textile articles .....   | 3.6         | 3.4         | 3.1                  | 2.7         | 3.0         |
| Footwear, umbrellas, artificial flowers .....   | 0.7         | 0.6         | 0.5                  | 0.6         | 0.5         |
| Articles of stone, plaster, cement, glass .....   | 2.1         | 1.9         | 1.6                  | 1.1         | 0.9         |
| Pearls, precious stones and metals .....  | 17.3        | 16.5        | 31.5                 | 28.3        | 35.0        |
| <i>Of which: gold (including gold plated with platinum) unwrought or in semi-manufactured forms, or in powder form.</i>     | <i>11.1</i> | <i>9.1</i>  | <i>24.2</i>          | <i>21.2</i> | <i>27.4</i> |
| Base metals and articles of base metal .....  | 17.5        | 15.2        | 9.0                  | 11.7        | 12.3        |
| Machinery; electrical instruments .....   | 16.3        | 15.4        | 14.6                 | 18.9        | 12.2        |
| Vehicles, aircraft, vessels, transport equipment .....  | 1.1         | 1.7         | 2.9                  | 0.7         | 0.9         |
| Optical, photographic, medical, musical instruments .....   | 0.8         | 0.6         | 0.7                  | 0.6         | 0.5         |
| Arms and ammunition; parts and accessories .....  | 0.0         | 0.0         | 0.0                  | 0.0         | 0.0         |
| Miscellaneous manufactured articles .....   | 3.2         | 3.3         | 2.9                  | 2.6         | 2.2         |
| Works of art, collectors' pieces and antiques .....   | 1.0         | 0.5         | 0.3                  | 0.2         | 0.1         |

Source: BDL based on Higher Council of Customs.

The following table sets out the major sources of imports for the periods indicated.

|  | <b>Origin of Imports<sup>(1)</sup></b> |             |             |             |             |
|--|--|-------------|-------------|-------------|-------------|
|  | <b>2007</b>                            | <b>2008</b> | <b>2009</b> | <b>2010</b> | <b>2011</b> |
|  | <i>(% of total imports)</i>            |             |             |             |             |
| <b>Industrialized countries .....</b>                    | <b>51.9</b>                            | <b>51.1</b> | <b>53.4</b> | <b>50.1</b> | <b>50.6</b> |
| EU 15 .....  | <b>38.3</b>                            | <b>36.5</b> | <b>38.4</b> | <b>35.8</b> | 36.1        |
| Italy .....  | 9.0                                    | 6.9         | 7.5         | 7.8         | 9.3         |
| France .....   | 7.5                                    | 8.3         | 9.7         | 6.7         | 7.5         |
| Germany .....  | 6.3                                    | 6.4         | 7.6         | 7.0         | 5.7         |
| United States .....                                      | 9.6                                    | 11.5        | 10.9        | 10.6        | 9.9         |
| Japan.....   | 3.3                                    | 3.8         | 4.1         | 3.5         | 2.0         |
| United Kingdom.....                                      | 4.1                                    | 3.1         | 3.3         | 3.3         | 2.9         |
| Switzerland.....   | 2.9                                    | 3.8         | 2.5         | 3.1         | 4.9         |
| Belgium-Luxembourg .....                                 | 1.6                                    | 1.6         | 1.6         | 1.4         | 1.3         |
| Other.....   | <b>13.6</b>                            | <b>14.6</b> | <b>15.1</b> | <b>14.3</b> | <b>14.5</b> |
| <b>Developing countries .....</b>                        | <b>48.1</b>                            | <b>48.9</b> | <b>46.6</b> | <b>49.9</b> | <b>49.4</b> |
| Middle East and North Africa                             | 14.9                                   | 13.5        | 11.7        | 13.2        | 16.4        |
| <i>of which: GAFTA.....</i>                              | 14.6                                   | 13.2        | 11.4        | 12.8        | 16.3        |
| Middle East .....  | 14.1                                   | 12.9        | 11.0        | 12.3        | 15.6        |
| Saudi Arabia.....  | 2.4                                    | 1.8         | 1.9         | 2.3         | 2.6         |
| Syria .....  | 1.7                                    | 1.7         | 1.4         | 1.9         | 1.5         |
| Jordan.....  | 0.7                                    | 0.7         | 1.2         | 1.3         | 1.8         |
| Kuwait.....  | 2.3                                    | 3.0         | 1.8         | 2.0         | 1.5         |
| U.A.E. ....  | 1.8                                    | 2.0         | 1.6         | 2.1         | 2.9         |
| Egypt .....  | 4.4                                    | 2.8         | 2.6         | 2.4         | 4.7         |
| Iraq .....   | 0.0                                    | 0.1         | 0.0         | 0.0         | 0.0         |
| Other .....  | 0.8                                    | 0.7         | 0.7         | 0.8         | 0.8         |
| Africa .....   | 1.0                                    | 0.8         | 1.0         | 2.3         | 1.7         |
| Other Europe .....                                       | 11.0                                   | 14.4        | 11.9        | 12.9        | 12.2        |
| Other developing countries and<br>emerging markets ..... | 21.1                                   | 20.1        | 21.9        | 21.5        | 19.1        |

Note:

(1) Certain line items and figures differ from previously published data due to ongoing revisions.

Source: BDL based on Higher Council of Customs.

The following table shows the composition of imports for the periods indicated.

| <b>Composition of Imports</b>  |             |             |                      |             |             |
|--|-------------|-------------|----------------------|-------------|-------------|
|  | <b>2007</b> | <b>2008</b> | <b>2009</b>          | <b>2010</b> | <b>2011</b> |
|  |             |             | (% of total imports) |             |             |
| Live animals; animal products.....   | 4.2         | 3.6         | 4.6                  | 4.8         | 4.3         |
| Vegetable products .....   | 4.7         | 4.4         | 3.9                  | 4.0         | 4.2         |
| Animal or vegetable fats and oils .....  | 1.0         | 0.9         | 0.8                  | 0.7         | 0.9         |
| Prepared foodstuffs; beverages, tobacco .....  | 6.4         | 5.3         | 5.9                  | 6.4         | 6.4         |
| Mineral products.....  | 22.8        | 26.5        | 20.5                 | 21.1        | 22.9        |
| <i>Of which: mineral fuels, mineral oils and products of their distillation; bituminous substances; mineral waxes.....</i>   | <i>21.4</i> | <i>24.4</i> | <i>19.2</i>          | <i>19.7</i> | <i>21.5</i> |
| Products of the chemical or allied industries .....  | 9.3         | 8.0         | 8.4                  | 8.6         | 8.6         |
| Plastics and articles thereof; rubber.....   | 4.1         | 3.5         | 3.3                  | 3.6         | 3.5         |
| Raw hides and skins, leather, fur skins.....   | 0.4         | 0.4         | 0.4                  | 0.4         | 0.4         |
| Wood and articles of wood; wood charcoal; cork.....  | 1.5         | 1.4         | 1.4                  | 1.3         | 1.2         |
| Pulp of wood; paper and paperboard.....  | 2.8         | 2.3         | 2.1                  | 2.4         | 2.1         |
| Textiles and textile articles.....   | 4.4         | 4.0         | 4.3                  | 3.9         | 3.5         |
| Footwear, umbrellas, artificial flowers.....   | 0.7         | 0.6         | 0.7                  | 0.7         | 0.7         |
| Articles of stone, plaster, cement, glass.....   | 1.8         | 1.7         | 1.9                  | 2.1         | 2.0         |
| Pearls, precious stones and metals.....  | 4.1         | 5.3         | 4.9                  | 6.5         | 10.6        |
| <i>Of which: gold (including gold plated with platinum) unwrought or in semi-manufactured forms, or in powder form. ....</i> | <i>2.2</i>  | <i>3.2</i>  | <i>2.8</i>           | <i>4.5</i>  | <i>8.4</i>  |
| Base metals and articles of base metal .....   | 8.2         | 8.1         | 6.4                  | 7.1         | 7.6         |
| Machinery; electrical instruments.....   | 12.1        | 10.5        | 11.9                 | 12.1        | 10.6        |
| Vehicles, aircraft, vessels, transport equipment.....  | 8.4         | 10.6        | 14.8                 | 10.8        | 7.3         |
| Optical, photographic, medical, musical instruments .....  | 1.6         | 1.4         | 1.6                  | 1.7         | 1.5         |
| Arms and ammunition; parts and accessories.....  | 0.1         | 0.1         | 0.1                  | 0.1         | 0.1         |
| Miscellaneous manufactured articles.....   | 1.5         | 1.4         | 1.8                  | 1.7         | 1.5         |
| Works of art, collectors' pieces and antiques .....  | 0.0         | 0.1         | 0.1                  | 0.1         | 0.1         |

Source: BDL based on Higher Council of Customs.

## Foreign Direct Investment

Prior to 1975, foreign direct investment was substantial. It was concentrated in property, services, banking and tourism. Predictably, foreign direct investment was weak during the period of conflict.

The onset of peace marked a reversal of this trend. Since 1990, considerable amounts of private Arab capital have been invested in real estate. Two principal sources for foreign direct investment have been the substantial funds held by Lebanese abroad and the large pool of private Arab wealth.

The Government continues to favor a strong role for the private sector in a liberal policy environment and welcomes foreign direct investment in the economy. The legal framework is sound and conducive to foreign investment. There are no special financial provisions for, or constraints on, foreign investors in the Republic, except that certain restrictions exist on foreign ownership of companies involved in media activity, land ownership (both directly and when holding shares in companies owning real property) and the employment of foreign labor. A government agency, the Investment Development Authority of Lebanon (IDAL), which was established in 1994, assists foreign investors in setting up their businesses in Lebanon. Parliament recently enacted several laws and the Government recently passed several decrees encouraging investments in Lebanon.

Lebanon's membership in the Multilateral Investment Guarantee Agency was ratified by Parliament as a means of reinforcing the confidence of foreign investors wishing to invest in Lebanon. In addition, the National Institute for the Guarantee of Investment makes insurance coverage available to investors, in the form of compensation, for losses resulting from non-commercial risks.

## Foreign Borrowings and Grants

At the end of 2011, the Republic's outstanding principal amounts under foreign financing facilities in the form of contracted loans (excluding outstanding Eurobonds, Paris II and Paris III loans) were approximately U.S.\$1.69 billion. In 2011, disbursements from foreign financing loans were approximately U.S.\$278.3 million. These facilities have been provided principally by the following countries and institutions: the Abu-Dhabi Fund for Development, the Arab Fund for Economic and Social Development, Belgium, the EIB, the EU, France, Germany, the International Fund for Agricultural Development, the Islamic Development Bank, Italy, Japan, Kuwait, Qatar, Oman, OPEC Fund for International Development, Saudi Arabia, the United Nations and the World Bank.

The Government's strategy has been to maximize the use of external financing, preferably concessional financing (in the form of grants or soft loans). Other sources of external financing include commercial loans with export credit guarantees and the issuance by the Government of Eurobonds and other international debt securities.

On November 23, 2002, a conference (the "*Paris II Conference*"), was convened by the President of France. The meeting was attended by representatives of a number of countries, including the President of Malaysia, the prime ministers of Belgium, Canada, Germany, Italy and Spain and senior officials from Bahrain, Denmark, Japan, Kuwait, Oman, Qatar, Saudi Arabia, the United Arab Emirates and the United Kingdom. Also in attendance were senior representatives of the European Commission, the World Bank, the IMF, the EIB and various Arab multilateral agencies. The participants at the conference expressed support for the economic reform measures of the Government and pledged to contribute approximately U.S.\$3.1 billion in long-term, low interest financing to the Treasury of the Government and approximately U.S.\$1.3 billion in long-term, low-interest financing for projects. As of December 31, 2004, the Government had collected proceeds totaling approximately U.S.\$2.4 billion, representing approximately 77 percent of the U.S.\$3.1 billion pledged at the Paris II Conference. In exchange for these contributions, the Republic issued Eurobonds and entered into a loan agreement with the AFD, bearing interest at the rate of 5 percent and having a final maturity of 15 years with a grace period of up to five years. The Government has used these funds to redeem and cancel higher-interest bearing maturing debt.

In addition to the U.S.\$2.4 billion received from the lender countries mentioned above, the Republic also received contributions from two multilateral institutions in the form of a U.S.\$15 million medium-term loan for structural adjustment from the Arab Monetary Fund and a U.S.\$40 million facility to be used to finance fuel imports by EdL. The EU contributed €12.25 million as a grant to be used for structural adjustment and fiscal reforms.

The following table details the amounts received from countries and institutions as a result of the Paris II Conference.

### Paris II Conference Funds Received

| Creditor                            | Amounts Received  |
|-------------------------------------|-------------------|
| Malaysia .....                      | U.S.\$300 million |
| Sultanate of Oman .....             | U.S.\$50 million  |
| United Arab Emirates .....          | U.S.\$300 million |
| Kuwait .....                        | U.S.\$300 million |
| Kingdom of Saudi Arabia .....       | U.S.\$700 million |
| State of Qatar .....                | U.S.\$200 million |
| France (French Treasury & AFD)..... | €500 million      |
| Arab Monetary Fund.....             | U.S.\$55 million  |
| EU.....                             | €12.25 million    |

Source: Ministry of Finance.

On September 19, 2005, a high-level meeting was held at the United Nations Headquarters, New York, which was attended by, among other parties, the Prime Minister, the Finance Minister and other members of the then Government, as well as donors' representatives. The participants expressed their support for the reform program of the then Government and agreed to convene a donors' conference in Beirut (the "*Beirut Conference*"). At that time, the then Government decided to first seek broad national consensus on this program before holding the Beirut Conference. The process was reaching its final stages when the July 2006 War began.

The international community reacted quickly and generously to support Lebanon during the July 2006 War and after the cessation of hostilities. Immediately after the outbreak of the war, Saudi Arabia and Kuwait provided

commitments of U.S.\$500 million and U.S.\$300 million respectively as grants for reconstruction. In addition, Saudi Arabia and Kuwait deposited U.S.\$1 billion and U.S.\$500 million respectively with BDL to help maintain confidence and monetary stability.

On August 31, 2006, the Swedish government hosted a Conference for Lebanon's Early Recovery in Stockholm. At that Conference, Lebanon received indications of support amounting to over U.S.\$900 million for humanitarian assistance needs and early recovery efforts, in the form of financial assistance, in kind contributions to specific reconstruction activities and others. This financial support allowed for the return of the quarter of the population that was displaced, and restored minimum capacity in terms of infrastructure, access to basic social services and income generating activities, pending full reconstruction. The Ministry of Finance estimates a total of U.S.\$909 million has been committed, of which U.S.\$750 million has been disbursed or otherwise fulfilled.

In addition to Saudi Arabia, Kuwait and countries that contributed during the Stockholm Conference, many countries pledged their support to Lebanon. In total, and since the beginning of the July 2006 War, a total of U.S.\$2.1 billion has been pledged in grants (in addition to in-kind relief contributions that were sent during the July 2006 War.), of which U.S.\$2 billion has been formally committed.

On January 25, 2007, the Paris III Conference, was held in Paris at the invitation of the President of France. It was attended by representatives of 36 countries and 14 multilateral and supranational institutions, including the United Nations, the EU, the World Bank, the IMF and the Arab League, and resulted in pledges of financial assistance to Lebanon of approximately U.S.\$7.6 billion, of which approximately U.S.\$4.2 billion has been received.

On November 14, 2008, the Executive Board of the IMF approved the provision of financial assistance to the Republic in the amount of approximately US\$37 million in the form of Emergency Post-Conflict Assistance ("EPCA"). The amount approved adds to the U.S.\$77 million in Emergency Post-Conflict Assistance provided to Lebanon in April 2007 (which had already been disbursed). The EPCA financial assistance is part of a package of assistance to the Republic resulting from the Paris III Conference. The Memorandum of Understanding between the IMF and the Republic relating to the EPCA financial assistance contains certain indicative fiscal and privatization targets as well as certain reporting requirements.

In April 2008, the IMF published a report indicating that, despite the prolonged political stalemate, the Government and BDL had met all of the December 31, 2007 indicative targets under the EPCA I.

In the concluding mission for EPCA II in September 2009 and in their staff report dated October 2009, the IMF indicated that the performance through end-June 2009 under the second EPCA-supported program has remained broadly favorable, although there has been limited progress on the structural reforms.

The Republic received the following concessional loans and grants which were pledged in the context of the Paris III Conference that was held on January 25, 2007. Since January 2007, approximately U.S.\$1.3 billion in concessional loans were disbursed to the Republic as follows:

- a U.S.\$100,000,000 Reform Implementation Development Policy Loan from the International Bank for Reconstruction and Development for budgetary support which carries a variable interest rate and has a 15-year maturity;
- an SDR 50,750,000 loan under the IMF's policy for EPCA I (April 2007), the proceeds of which are required to be used for balance of payment purposes;
- a U.S.\$300,000,000 loan from the United Arab Emirates for budgetary support which carries an effective interest rate of 3.00 percent per annum and a 15-year maturity with an amortized repayment structure beginning after a five-year grace period;
- Eurobonds in a principal amount of U.S.\$500,000,000 subscribed by the Central Bank of Malaysia in connection with a rollover and extension of Eurobonds then outstanding;
- a €150,000,000 loan representing the first tranche of a concessional loan from AFD;
- a €25,000,000 loan representing the loan portion of the first tranche of the Macro-Financial Assistance from the European Commission;

- a U.S.\$32,000,000 structural adjustment loan with the Arab Monetary Fund, the proceeds of which were used for debt servicing payment in foreign currency;
- an SDR 25,375,000 under the IMF's policy for EPCA II (November 2008), the proceeds of which are required to be used for balance of payment purposes; and
- in addition, U.S.\$306 million grants for budgetary support were disbursed to the Republic as follows:
  - a U.S.\$100,000,000 grant from the Kingdom of Saudi Arabia;
  - a U.S.\$125,000,000 grant from USAID, the proceeds of which are required to be used for debt repayment;
  - a U.S.\$50,000,000 grant from USAID, the proceeds of which are required to be used for debt repayment;
  - a U.S.\$1,270,000 grant from Greece;
  - a U.S.\$130,000 grant from Slovenia;
  - a U.S.\$10,000,000 grant from the Sultanate of Oman; and
  - a €15,000,000 grant from the European Commission.

## PUBLIC DEBT

### General

As of December 31, 2011, the Republic's gross public debt was LL 80,869 billion (U.S.\$53.6 billion) consisting of LL 49,340 billion of gross domestic debt and LL 31,529 billion of public external debt. Net outstanding public debt of the Republic was LL 69,885 billion (U.S.\$46.4 billion) as of December 31, 2011.

The table below sets forth the Republic's gross and net public sector debt for the periods indicated:

### Public Sector Debt<sup>(1)</sup>

|   | As of December 31, |               |               |               |               |
|---|--------------------|---------------|---------------|---------------|---------------|
|   | 2007               | 2008          | 2009          | 2010          | 2011          |
|   |                    |               | (LL billions) |               |               |
| I. Gross Domestic Debt.....                     | 31,373             | 39,007        | 44,973        | 48,255        | 49,340        |
| II. Public External Debt <sup>(2)</sup> .....   | 31,991             | 31,934        | 32,139        | 31,043        | 31,529        |
| <b>III. Gross Public Debt (I + II) .....</b>    | <b>63,364</b>      | <b>70,941</b> | <b>77,112</b> | <b>79,298</b> | <b>80,869</b> |
| IV. Public Sector Deposits <sup>(3)</sup> ..... | 4,527              | 8,326         | 10,522        | 11,419        | 10,984        |
| V. Net Domestic Debt (I – IV).....              | 26,846             | 30,681        | 34,451        | 36,836        | 38,356        |
| <b>VI. Net Public Debt (III – IV) .....</b>     | <b>58,837</b>      | <b>62,615</b> | <b>66,590</b> | <b>67,879</b> | <b>69,885</b> |

Notes:

- (1) Debt figures differ from previously published figures due to continuing implementation of the Debt Management and Financial Analysis System.
- (2) Amounts translated into Lebanese Pounds at end of period rates; includes accrued interest.
- (3) Represent public sector deposits at BDL and commercial banks.

Sources: Ministry of Finance and BDL.

The table below sets forth the Republic's gross and net public debt as a percentage of GDP for the periods indicated:

### Public Debt as a Percentage of GDP<sup>(1)</sup>

|                             | 2007 | 2008 | 2009      | 2010 | 2011 <sup>(2)</sup> |
|-----------------------------|------|------|-----------|------|---------------------|
|                             |      |      | (percent) |      |                     |
| Gross Public Debt/GDP ..... | 168  | 159  | 148       | 142  | 137                 |
| Net Public Debt/GDP .....   | 156  | 140  | 127       | 121  | 119                 |

Notes:

- (1) The figures in this table have been revised and may differ from previously published data.
- (2) GDP figures for 2011 are estimates.

Sources: Ministry of Finance and BDL.

Net public debt as a percentage of GDP increased from 46 percent in 1992 to 169 percent in 2006. It has been declining since then, to 156 percent in 2007, 140 percent in 2008, 127 percent in 2009, 121 percent in 2010 and 119 percent in 2011.

### Internal Debt

The Government has elected to finance the budget deficit principally through the issuance of Lebanese Pound-denominated Treasury bills (with maturities of three months, six months and twelve months), and Treasury bonds (with maturities of 24 months and 36 months and five years). Following the Paris II Conference, yields on Treasury bills have been on a declining trend and market auctions were halted for a period of approximately nine months (between mid-February 2003 and the end of October 2003) on account of the inflow of Paris II Conference funds and the commercial bank and BDL debt service reduction measures. The issuance of Treasury bills and bonds resumed during November of 2003, and Treasury bonds in Lebanese Pounds with maturities of 36 months were introduced for the first time to the market. In July 2009, the Ministry of Finance launched 60-month Treasury notes as part of the market auction process. In March 2005, the Ministry of Finance established a medium-term note program (the "LL-Denominated MTN Program"), in accordance with international capital markets standards, for the issuance of Lebanese Pound-denominated

bonds, directly or through managers and issued a five-year benchmark bond. On December 17, 2010, the Republic issued LL 1,500,000,000,000 7.9 percent Notes due 2017 (Series 2) under the LL-Denominated MTN Program. In March and April 2011, the Republic issued two stand-alone seven year LL-denominated Treasury bonds with annual yields of 7.90 percent. In September 2011, the Republic issued an additional stand-alone LL-denominated seven-year bond with an annual yield of 7.60 percent. On November 28, 2011, pursuant to Law № 69, the Republic issued LBP 40,604 million in aggregate principal amount of notes to settle increases in construction costs due to contractors. The notes mature on November 28, 2016 and carry interest at a rate of 6 percent.

The table below sets forth the Republic's composition of domestic debt for the periods indicated:

|                                  | <b>December 31, 2010</b> |                          | <b>December 31, 2011</b> |                          |
|----------------------------------|--------------------------|--------------------------|--------------------------|--------------------------|
|                                  | <i>(LL billions)</i>     | <i>(U.S.\$ millions)</i> | <i>(LL billions)</i>     | <i>(U.S.\$ millions)</i> |
| <b>Long-term bonds</b> .....     | <b>43,805</b>            | <b>29,058</b>            | <b>46,512</b>            | <b>30,854</b>            |
| 7 years.....                     | 1,500                    | 995                      | 7,885                    | 5,231                    |
| 60 months <sup>(1)</sup> .....   | 7,310                    | 4,849                    | 11,779                   | 7,814                    |
| 54 months.....                   | 0                        | 0                        | 0                        | 0                        |
| 48 months.....                   | 0                        | 0                        | 0                        | 0                        |
| 36 months.....                   | 30,782                   | 20,419                   | 22,129                   | 14,679                   |
| 30 months.....                   | 0                        | 0                        | 0                        | 0                        |
| 24 months.....                   | 3,398                    | 2,254                    | 3,972                    | 2,635                    |
| <i>Coupon interest</i> .....     | <i>815</i>               | <i>541</i>               | <i>747</i>               | <i>496</i>               |
| <b>Short term bills</b> .....    | <b>4,155</b>             | <b>2,756</b>             | <b>2,583</b>             | <b>1,713</b>             |
| 12 months.....                   | 1,969                    | 1,306                    | 887                      | 588                      |
| 6 months.....                    | 2,111                    | 1,400                    | 1,569                    | 1,041                    |
| 3 months.....                    | 75                       | 50                       | 127                      | 84                       |
| <i>Accrued interest</i> .....    | <i>52</i>                | <i>34</i>                | <i>41</i>                | <i>27</i>                |
| <b>Other Domestic Debt</b> ..... | <b>295</b>               | <b>196</b>               | <b>245</b>               | <b>163</b>               |
| <b>Total Domestic Debt</b> ..... | <b>48,255</b>            | <b>32,010</b>            | <b>49,340</b>            | <b>32,730</b>            |

Note:

(1) Includes LL 40.6 billion of contractor bonds.

Sources: Ministry of Finance and BDL.



## External Debt

The outstanding public external debt end of 1992, a year after the end of the war, was approximately U.S.\$362 million. Commencing in 1994, the Republic became a frequent issuer on the international capital markets as it sought to finance its budget deficit and to convert its high interest domestic debt into lower interest external debt. As of December 31, 2011, outstanding public external debt of the Republic was approximately U.S.\$20.9 billion.

The table below sets forth the composition of the Republic's foreign debt for the periods indicated:

### Composition of Foreign Debt<sup>(1)</sup>

|   | December 31, 2010 |                   | December 31, 2011 |                   |
|---|-------------------|-------------------|-------------------|-------------------|
|   | (LL billions)     | (U.S.\$ millions) | (LL billions)     | (U.S.\$ millions) |
| <b>Eurobonds, of which</b> .....                                | 26,738            | 17,737            | 27,490            | 18,235            |
| Paris II Conference Eurobonds <sup>(2)</sup> .....              | 1,703             | 1,130             | 1,470             | 975               |
| Paris III Conference Eurobonds <sup>(3)</sup> .....             | 709               | 470               | 663               | 440               |
| <b>Loans, of which</b> .....                                    | 4,231             | 2,807             | 3,959             | 2,626             |
| Paris II Conference concessional loans <sup>(4)</sup> .....     | 460               | 305               | 351               | 233               |
| Paris III Conference concessional loans <sup>(5)</sup> .....    | 1,147             | 761               | 1,060             | 703               |
| Bilateral and multilateral loans .....                          | 2,600             | 1,725             | 2,530             | 1,678             |
| Foreign private sector loans .....                              | 24                | 16                | 18                | 12                |
| Special Treasury bills in foreign currency <sup>(6)</sup> ..... | 74                | 49                | 80                | 53                |
| <b>Total Foreign Debt<sup>(7)</sup></b> .....                   | <b>31,043</b>     | <b>20,592</b>     | <b>31,529</b>     | <b>20,915</b>     |

Notes:

- (1) Debt figures differ from previously published figures due to continuing implementations of the Debt Management and Financial Analysis System.
- (2) Does not include a U.S.\$1.87 billion Eurobond issued to BDL.
- (3) Includes originally issued U.S.\$500 million debt rescheduling with Malaysia in the context of the Paris III Conference.
- (4) Contribution of France to the Paris II Conference (AFD Loan).
- (5) Includes U.S.\$100 million Development policy loan (World Bank), U.S.\$300 million UAE Loan, Euro 150 million French loan (tranche 1), SDR 50.75 million EPCA I loan and SDR 25.375 million EPCA II loan, first tranche EC/EU loan and AMF loan disbursed in June 2009.
- (6) U.S. Dollar-denominated bonds issued in satisfaction of expropriation and contractor claims.
- (7) Includes accrued interest.

Sources: Ministry of Finance and BDL.

The following table shows the Republic's outstanding Eurobonds as of the date hereof, excluding Eurobonds issued in connection with the Paris II and Paris III Conference and Eurobonds issued as part of the commercial bank debt service reduction measure.

### Outstanding Eurobonds

| Year of Issue        | Maturity | Original Principal Amount | Outstanding Principal Amount <sup>(1)</sup> | Coupon  |
|----------------------|----------|---------------------------|---|---------|
| 2001                 | 2016     | U.S.\$400 million         | U.S.\$400 million                           | 11.625% |
| 2002 <sup>(2)</sup>  | 2017     | U.S.\$2,007 million       | U.S.\$1,506 million                         | 4.000%  |
| 2004 <sup>(3)</sup>  | 2012     | U.S.\$600 million         | U.S.\$292.951 million                       | 7.750%  |
| 2005 <sup>(4)</sup>  | 2013     | U.S.\$650 million         | U.S.\$650 million                           | 8.625%  |
| 2005                 | 2016     | U.S.\$750 million         | U.S.\$750 million                           | 8.500%  |
| 2006 <sup>(5)</sup>  | 2014     | U.S.\$677 million         | U.S.\$677 million                           | 7.375%  |
| 2006 <sup>(5)</sup>  | 2021     | U.S.\$1,661 million       | U.S.\$1,661 million                         | 8.250%  |
| 2006 <sup>(5)</sup>  | 2012     | €536 million              | €114.697 million                            | 5.875%  |
| 2007 <sup>(7)</sup>  | 2021     | U.S.\$431 million         | U.S.\$431 million                           | 8.250%  |
| 2008 <sup>(8)</sup>  | 2014     | U.S.\$882 million         | U.S.\$882 million                           | 9.000%  |
| 2008                 | 2015     | U.S.\$500 million         | U.S.\$500 million                           | 8.500%  |
| 2008                 | 2013     | U.S.\$875 million         | U.S.\$875 million                           | 9.125%  |
| 2009 <sup>(9)</sup>  | 2012     | U.S.\$600 million         | U.S.\$238.329 million                       | 7.500%  |
| 2009 <sup>(10)</sup> | 2017     | U.S.\$1,500 million       | U.S.\$1,500 million                         | 9.000%  |
| 2009                 | 2015     | U.S.\$250 million         | U.S.\$250 million                           | 5.875%  |
| 2009                 | 2024     | U.S.\$250 million         | U.S.\$250 million                           | 7.000%  |
| 2010                 | 2020     | U.S.\$1,200 million       | U.S.\$1,200 million                         | 6.375%  |
| 2010                 | 2018     | U.S.\$500 million         | U.S.\$500 million                           | 5.150%  |
| 2010                 | 2022     | U.S.\$225 million         | U.S.\$225 million                           | 6.100%  |
| 2011                 | 2022     | U.S.\$265 million         | U.S.\$265 million                           | 6.100%  |
| 2011                 | 2022     | U.S.\$350 million         | U.S.\$350 million                           | 6.100%  |
| 2011                 | 2019     | U.S.\$650 million         | U.S.\$650 million                           | 6.000%  |
| 2011                 | 2022     | U.S.\$700 million         | U.S.\$700 million                           | 6.100%  |
| 2011                 | 2016     | U.S.\$500 million         | U.S.\$500 million                           | 4.750%  |
| 2011 <sup>(11)</sup> | 2019     | U.S.\$500 million         | U.S.\$500 million                           | 5.450%  |
| 2011 <sup>(12)</sup> | 2026     | U.S.\$375 million         | U.S.\$375 million                           | 6.600%  |
| 2011 <sup>(13)</sup> | 2018     | €445 million              | €445 million                                | 5.350%  |

Notes:

- (1) The outstanding amount of some Eurobonds is less than the original amount due to the cancellation of a portion of such Eurobonds in connection with BDL, commercial bank debt service reduction measures and voluntary debt exchange offers by the Republic. See *"The Economy—Recent Economic History"*.
- (2) A first tranche was issued on December 31, 2002, as a special scheme with BDL in the context of Paris II Conference. On July 6, 2007, the series was reopened for an additional amount of U.S.\$137.511 million as a direct subscription with BDL.
- (3) Originally issued as part of an exchange transaction, in which bonds maturing in 2005 were offered for exchange into two new bonds maturing in 2010 and 2012. Include U.S.\$354 million of new cash subscriptions. Bonds maturing in 2012 were re-opened in November 2004 for an additional amount of U.S.\$325 million.
- (4) A first tranche was issued on June 20, 2005. On May 31, 2007, the series was reopened for an additional amount of U.S.\$400 million. The issuance was transferred to BDL in consideration for the cancellation of an equivalent amount of bonds held by BDL.
- (5) Originally issued as part of an exchange transaction, in which bonds maturing in 2006 were offered for exchange into three new bonds maturing in 2012, 2014 and 2021. Includes U.S.\$750 million and €175 million of new cash subscriptions.
- (6) A first tranche of U.S.\$450 million was issued was issued on August 2, 2006, and initially transferred to BDL in consideration for the cancellation of an equivalent amount of Treasury bills and bonds held by BDL. On November 20, 2007, a second tranche of U.S.\$300 million was issued as a direct subscription agreement with BDL.
- (7) Subscribed for cash by BDL.
- (8) Originally issued as part of an exchange transaction, in which bonds maturing in 2008 were offered for exchange into two new bonds maturing in 2012. Includes U.S.\$150 million of new cash subscriptions.
- (9) Originally issued as part of an exchange transaction, in which bonds maturing in 2009 were offered for exchange into two new bonds maturing in 2012. Includes U.S.\$175.739 million of new cash subscriptions.
- (10) Originally issued as part of an exchange transaction, in which bonds maturing in 2009 were offered for exchange into two new bonds maturing in 2017. Includes U.S.\$268.937 million of new cash subscriptions.
- (11) Originally issued as part of an exchange transaction, in which bonds maturing in 2012 were offered for exchange into two new bonds maturing in 2019. Includes U.S.\$66.817 million of new cash subscriptions.
- (12) Originally issued as part of an exchange transaction, in which bonds maturing in 2012 were offered for exchange into two new bonds maturing in 2026. Includes U.S.\$139.463 million of new cash subscriptions.
- (13) Originally issued as part of an exchange transaction, in which bonds maturing in 2012 were offered for exchange into two new bonds maturing in 2018. Includes €24.058 million of new cash subscriptions.

Source: Ministry of Finance.

The following table shows the Republic's outstanding Eurobonds issued in connection with the Paris II Conference and the Paris III Conference, as of December 31, 2011.

**Outstanding Paris II and Paris III Conference Eurobonds**

| <u>Year of Issue</u>        | <u>Maturity</u> | <u>Original<br/>Principal Amount</u> | <u>Outstanding<br/>Principal Amount</u> | <u>Coupon</u> |
|-----------------------------|-----------------|--------------------------------------|---|---------------|
|                             |                 | <i>(in U.S. Dollars)</i>             |   | <i>(%)</i>    |
| <b>Paris II Conference</b>  |                 |                                      |   |               |
| 2002 .....                  | 2017            | 950 million                          | 390 million                             | 5.00          |
| 2002 .....                  | 2017            | 1,870 million                        | 1,122 million                           | 4.00          |
| 2003 .....                  | 2018            | 700 million                          | 455 million <sup>(1)</sup>              | 5.00          |
| 2003 .....                  | 2018            | 200 million                          | 130 million                             | 5.00          |
| <b>Paris III Conference</b> |                 |                                      |   |               |
| 2007 .....                  | 2017            | 300 million                          | 240 million <sup>(2)</sup>              | 3.75          |
| 2007 .....                  | 2012            | 200 million                          | 200 million <sup>(3)</sup>              | 3.75          |

Notes:

(1) As of March 7, 2012, this amount decreased to U.S.\$420 million.

(2) As of January 20, 2012, this amount decreased to U.S.\$225 million.

(3) As of January 20, 2012, this amount decreased to U.S.\$100 million.

Source: Ministry of Finance.

In addition, in 2003, the Republic issued Eurobonds in an aggregate principal amount of U.S.\$422,905,000 and €236,250,000 as part of the commercial bank debt service reduction measures.

The following table shows the Republic's public external debt by type of creditor at the end of the periods indicated.

**Public Sector External Debt By Type of Creditor<sup>(1)(2)</sup>**

|   | <b>2007</b>              | <b>2008</b>   | <b>2009</b>   | <b>2010</b>   | <b>2011</b>   |
|---|--------------------------|---------------|---------------|---------------|---------------|
|   | <i>(U.S.\$ millions)</i> |               |               |               |               |
| <b>Bilateral</b> .....                        | <b>1,405</b>             | <b>1,494</b>  | <b>1,405</b>  | <b>1,284</b>  | <b>1,229</b>  |
| Abu Dhabi Fund for Development .....          | 304                      | 302           | 302           | 305           | 309           |
| <i>Agence Française de Développement</i>      |                          |               |               |               |               |
| (AFD).....                                    | 619                      | 733           | 662           | 538           | 472           |
| Artigancassa .....                            | 3                        | 5             | 7             | 8             | 10            |
| Austrian Government .....                     | 21                       | 17            | 13            | 9             | 5             |
| Government of Belgium .....                   | 2                        | 2             | 2             | 1             | 1             |
| Government of China .....                     | 7                        | 7             | 7             | 8             | 8             |
| Dexia .....                                   | 2                        | 3             | 2             | 2             | 1             |
| Italian Government.....                       | 31                       | 15            | 11            | 3             | 0             |
| Kerditanstalt Fur Wiederaufbau .....          | 13                       | 6             | 2             | 0             | 1             |
| Kuwaiti Fund for Arab Economic                |                          |               |               |               |               |
| Development .....                             | 145                      | 142           | 140           | 151           | 161           |
| Mediocredito Centrale.....                    | 10                       | 9             | 8             | 7             | 6             |
| Natexis Banque .....                          | 117                      | 110           | 106           | 97            | 90            |
| Overseas Econ. Coop. Fund (OECF).....         | 39                       | 56            | 58            | 68            | 71            |
| The Saudi Fund for Development.....           | 92                       | 88            | 84            | 88            | 95            |
| <b>Multilateral</b> .....                     | <b>1,507</b>             | <b>1,589</b>  | <b>1,595</b>  | <b>1,505</b>  | <b>1,385</b>  |
| Arab Fund for Economic and Social             |                          |               |               |               |               |
| Development .....                             | 392                      | 385           | 366           | 366           | 368           |
| AMF .....                                     | 0                        | 0             | 32            | 31            | 19            |
| <i>Communauté Economique Européenne</i> ..... | 7                        | 6             | 6             | 5             | 5             |
| EIB .....                                     | 374                      | 390           | 363           | 352           | 306           |
| EC .....                                      | 0                        | 0             | 36            | 33            | 32            |
| EPCA/IMF .....                                | 0                        | 119           | 119           | 97            | 58            |
| International Bank for Reconstruction and     |                          |               |               |               |               |
| Development .....                             | 425                      | 360           | 316           | 321           | 303           |
| International Fund for Agricultural           |                          |               |               |               |               |
| Development .....                             | 8                        | 7             | 6             | 4             | 3             |
| Islamic Development Bank .....                | 284                      | 306           | 337           | 283           | 277           |
| The OPEC Fund for International               |                          |               |               |               |               |
| Development .....                             | 17                       | 16            | 14            | 13            | 14            |
| <b>Commercial Banks</b> .....                 | <b>57</b>                | <b>36</b>     | <b>18</b>     | <b>16</b>     | <b>12</b>     |
| <b>Eurobonds</b> .....                        | <b>17,705</b>            | <b>17,504</b> | <b>17,699</b> | <b>17,416</b> | <b>17,965</b> |
| <b>Special T-bills in foreign currency</b>    |                          |               |               |               |               |
| <b>(expropriations)</b> .....                 | <b>278</b>               | <b>278</b>    | <b>296</b>    | <b>49</b>     | <b>54</b>     |
| <b>Total<sup>(3)</sup></b> .....              | <b>20,951</b>            | <b>20,900</b> | <b>21,014</b> | <b>20,271</b> | <b>20,645</b> |

Notes:

(1) Certain figures in this table differ from previously published data due to continuous implementation of the new debt management system; excluding accrued interest.

(2) Amounts translated into U.S. Dollars at end of period rates.

(3) This figure does not include accrued interest.

Source: Ministry of Finance.

In 2007, the Republic issued Eurobonds under the Program in an aggregate principal amount of U.S.\$2,737,511,000, divided as follows:

- U.S.\$431,000,000 8.250 percent Notes due 2021 (Series 42, Tranche 3) were issued on February 26, 2007. These Notes are consolidated and form a single series with the U.S.\$911,469,000 8.250 percent Notes due 2021 issued by the Republic on April 12, 2006 and the U.S.\$750,000,000 8.250 percent Notes due 2021 issued by the Republic on April 25, 2006. These Notes were subscribed by BDL for cash.

- U.S.\$569,000,000 6.375 percent Notes due 2008 (Series 32, Tranche 2) were issued on February 26, 2007. These Notes are consolidated and form a single series with the U.S.\$700,000,000 6.375 percent Notes due 2008 issued by the Republic on November 12, 2004. These Notes were subscribed by BDL for cash.
- U.S.\$400,000,000 8.625 percent Notes due 2013 (Series 39, Tranche 2) were issued on May 31, 2007. These Notes are consolidated and form a single series with the U.S.\$250,000,000 8.625 percent Notes due 2013 issued by the Republic on June 20, 2005.
- U.S.\$137,511,000 4.000 percent Notes due 2017 (Series 17, Tranche 2) were issued on July 6, 2007. These Notes are consolidated and form a single series with the U.S.\$1,870,000,000 4.000 percent Notes due 2017 issued by the Republic on December 31, 2002. These Notes were subscribed by BDL for cash.
- U.S.\$300,000,000 3.750 percent Notes due 2017 (Series 46) were issued on July 20, 2007. These Notes were subscribed by Malaysia as part of its Paris III Conference pledge, and the proceeds were used to redeem U.S.\$300,000,000 5.00 percent Notes due 2017 (Series 16) held by Malaysia.
- U.S.\$200,000,000 3.750 percent Notes due 2012 (Series 47) were issued on July 20, 2007. The Notes were subscribed by Malaysia as part of its Paris III Conference pledge, and the proceeds were used to redeem U.S.\$200,000,000 7.125 percent Notes due 2010 (Series 30) held by Malaysia.
- U.S.\$400,000,000 6.875 percent Notes due 2010 (Series 33, Tranche 2) were issued on October 4, 2007. These Notes are consolidated and form a single series with the U.S.\$300,000,000 6.875 percent Notes due 2010 issued by the Republic on November 12, 2004. These Notes were issued pursuant to a debt-replacement transaction between the Ministry of Finance and BDL pursuant to which BDL exchanged certain Treasury bills denominated in Lebanese Pounds for the Notes.
- U.S.\$300,000,000 7.500 percent Notes due 2011 (Series 45, Tranche 2) were issued on November 20, 2007. These Notes are consolidated and form a single series with the U.S.\$450,000,000 7.500 percent Notes due 2011 issued by the Republic on August 2, 2006. These Notes were subscribed by BDL for cash.

In 2008, the Republic issued the following Eurobonds under the Program:

- U.S.\$875,000,000 9.125 percent Notes due 2013 (Series 48), were issued on March 12, 2008.
- U.S.\$731,612,000 9.000 percent Notes due 2014 (Series 49, Tranche 1) were issued on May 2, 2008. The Series 49, Tranche 1 Notes were issued as part of an exchange offer pursuant to which the Republic offered to exchange any and all of its U.S.\$250,000,000 7.00 percent Notes due 2008, U.S.\$250,000,000 7.375 percent Notes due 2008, and U.S.\$750,000,000 10.125 percent Notes due 2008.
- U.S.\$150,000,000 9.000 percent Notes due 2014 (Series 49, Tranche 2) were issued on May 12, 2008. These Notes are consolidated and form a single series with the U.S.\$731,612,000 9.000 percent Notes due 2014 issued by the Republic on May 2, 2008.
- U.S.\$500,000,000 8.500 percent Notes due 2015 (Series 50) were issued on August 6, 2008.

In 2009, the Republic issued the following Eurobonds under the Program:

- U.S.\$424,261,000 7.50 percent Notes due 2012 (Series 51), U.S.\$1,231,063,000 9.00 percent Notes due 2017 (Series 52), and €211,097,000 5.875 percent Notes due 2012 (Series 43, Tranche 3) were issued on March 19, 2009 as part of a voluntary exchange offer pursuant to which the Republic offered to exchange any and all of its outstanding U.S.\$351,591,000 7.50 percent Notes due 2009, U.S.\$650,000,000 10.25 percent Notes due 2009, U.S.\$625,000,000 Floating Rate Notes due 2009, U.S.\$425,000,000 7.00 percent Notes due 2009 and €225,000,000 7.25 percent Notes due 2009 for the New Notes.
- U.S.\$175,739,000 7.50 percent Notes due 2012 (Series 51, Tranche 2) were issued on March 19, 2009 for cash in a separate tranche contemporaneously with the completion of the Exchange Offer and were consolidated and form a single series with the U.S.\$424,261,000 7.00 percent Notes due 2012 (Series 51) issued by the Republic on the same day.
- U.S.\$268,937,000 9.00 percent Notes due 2017 (Series 52, Tranche 2) were issued on March 19, 2009 for cash in a separate tranche contemporaneously with the completion of the Exchange Offer and were

consolidated and form a single series with the U.S.\$1,231,063,000 9.00 percent Notes due 2017 (Series 52) issued by the Republic on the same day.

- U.S.\$250,000,000 5.875 percent Notes due 2015 (Series 53) were issued on December 3, 2009.
- U.S.\$250,000,000 7 percent Notes due 2024 (Series 54) were issued on December 3, 2009.

In 2010, the Republic issued the following Eurobonds under the Program:

- U.S.\$1,200,000,000 6.375 percent Notes due 2020 (Series 55) were issued on March 9, 2010.
- U.S.\$500,000,000 5.15 percent Notes due 2018 (Series 56) were issued on November 12, 2010.
- U.S.\$225,000,000 6.10 percent Notes due 2022 (Series 57, Tranche 1) were issued on November 12, 2010.

In 2011, the Republic issued the following Eurobonds under the Program:

- U.S.\$265,000,000 6.10 percent Notes due 2022 (Series 57, Tranche 2) were issued on January 18, 2011.
- U.S.\$350,000,000 6.10 percent Notes due 2022 (Series 57, Tranche 3) were issued on May 20, 2011.
- U.S.\$650,000,000 6.00 percent Notes due 2019 (Series 58) were issued on May 20, 2011.
- U.S.\$700,000,000 6.10 percent Notes due 2022 (Series 57, Tranche 4) were issued on August 2, 2011.
- U.S.\$500,000,000 4.75 percent Notes due 2016 (Series 59) were issued on August 2, 2011.
- U.S.\$433,183,000 5.45 percent Notes due 2019 (Series 60), U.S.\$235,537,000 6.60 percent Notes due 2026 (Series 61), and €420,942,000 5.35 percent Notes due 2018 (Series 62) were issued on November 28, 2011 as part of a voluntary exchange offer pursuant to which the Republic offered to exchange any and all of its outstanding U.S.\$600,000,000 7.75 percent Notes due 2012, U.S.\$600,000,000 7.50 percent Notes due 2012 and €535,639,000 5.875 percent Notes due 2012 for the New Notes.
- U.S.\$66,817,000 5.45 percent Notes due 2019 (Series 60, Tranche 2) were issued on November 28, 2011 for cash in a separate tranche contemporaneously with the completion of the Exchange Offer and were consolidated and form a single series with the U.S.\$433,183,000 5.45 percent Notes due 2019 (Series 60) issued by the Republic on the same day.
- U.S.\$139,463,000 6.60 percent Notes due 2026 (Series 61, Tranche 2) were issued on November 28, 2011 for cash in a separate tranche contemporaneously with the completion of the Exchange Offer and were consolidated and form a single series with the U.S.\$235,537,000 6.60 percent Notes due 2026 (Series 61) issued by the Republic on the same day.
- €24,058,000 5.35 percent Notes due 2018 (Series 62, Tranche 2) were issued on November 28, 2011 for cash in a separate tranche contemporaneously with the completion of the Exchange Offer and were consolidated and form a single series with the €420,942,000 5.35 percent Notes due 2018 (Series 62) issued by the Republic on the same day.

In addition, on April 25, 2005, BDL issued Euro deposit certificates in foreign currencies (the “*Certificates*”) in an aggregate principal amount of U.S.\$2,000,000,000. The Certificates have a maturity of 10 years, an interest rate of 10 percent and were issued at a price of 96.95 percent. Holders of the Certificates have a put option to request redemption of all or part of the Certificates held by them, exercisable seven years after the issue date. The Certificates are not listed and this was the first issuance by BDL of securities on the international capital markets.

The following table shows the Republic's public external debt by currency at the end of the periods indicated.

**Public Sector External Debt by Type of Currency<sup>(1)(2)</sup>**

|                                   | <b>2007</b>                |               | <b>2008</b>                |               | <b>2009</b>                |               | <b>2010</b>                |               | <b>2011</b>                |               |
|-----------------------------------|----------------------------|---------------|----------------------------|---------------|----------------------------|---------------|----------------------------|---------------|----------------------------|---------------|
|                                   | <i>U.S.\$<br/>millions</i> | <i>(%)</i>    | <i>U.S.\$<br/>millions</i> | <i>(%)</i>    | <i>U.S.\$<br/>millions</i> | <i>(%)</i>    | <i>U.S.\$<br/>millions</i> | <i>(%)</i>    | <i>U.S.\$<br/>millions</i> | <i>(%)</i>    |
| Swiss Francs.....                 | 13                         | 0.06          | 11                         | 0.05          | 9                          | 0.04          | 6                          | 0.03          | 3                          | 0.01          |
| China Yuan<br>Renmimbi.....       | 7                          | 0.03          | 7                          | 0.03          | 7                          | 0.03          | 8                          | 0.04          | 8                          | 0.04          |
| Euros <sup>(3)</sup> .....        | 1,875                      | 8.95          | 1,885                      | 9.02          | 1,800                      | 8.57          | 1,581                      | 7.80          | 1,490                      | 7.22          |
| Pounds<br>Sterling.....           | 1                          | 0.00          | 0                          | 0.00          | 0                          | 0.00          | 0                          | 0.00          | -                          | -             |
| Islamic<br>Dinars.....            | 216                        | 1.03          | 224                        | 1.07          | 234                        | 1.11          | 175                        | 0.86          | 149                        | 0.72          |
| Japanese Yen....                  | 47                         | 0.22          | 64                         | 0.31          | 63                         | 0.30          | 71                         | 0.35          | 70                         | 0.34          |
| Kuwaiti<br>Dinars.....            | 537                        | 2.56          | 526                        | 2.52          | 506                        | 2.41          | 516                        | 2.55          | 528                        | 2.56          |
| Saudi Arabian<br>Riyals .....     | 92                         | 0.44          | 88                         | 0.42          | 84                         | 0.40          | 88                         | 0.43          | 95                         | 0.46          |
| Special<br>Drawing<br>Rights..... | 8                          | 0.04          | 125                        | 0.60          | 157                        | 0.75          | 133                        | 0.66          | 80                         | 0.39          |
| UAE Dirhams...                    | 4                          | 0.02          | 2                          | 0.01          | 2                          | 0.01          | 5                          | 0.03          | 8                          | 0.04          |
| U.S. Dollars.....                 | 18,152                     | 86.64         | 17,966                     | 85.96         | 18,151                     | 86.38         | 17,688                     | 87.26         | 18,212                     | 88.21         |
| <b>Total .....</b>                | <b>20,951</b>              | <b>100.00</b> | <b>20,900</b>              | <b>100.00</b> | <b>21,014</b>              | <b>100.00</b> | <b>20,271</b>              | <b>100.00</b> | <b>20,645</b>              | <b>100.00</b> |

Notes:

- (1) Certain figures in this table differ from previously published figures due to continuing implementation of a new debt management system; excluding accrued interest.
- (2) Amounts translated into U.S. Dollars at end of period rates.
- (3) This category includes external debt incurred in European currency units prior to the introduction of the Euro in January 1, 1999 at the start of the third stage of the European Economic and Monetary Union.

The following table shows the Republic's public external debt projections and estimated future disbursements of contracted amounts for the periods indicated as of December 31, 2011.

| <b>Public External Debt Projections</b>          |  |                |                |                |                |
|--|--|----------------|----------------|----------------|----------------|
|  | <b>2012</b>                            | <b>2013</b>    | <b>2014</b>    | <b>2015</b>    | <b>2016</b>    |
|  | <i>(U.S.\$ millions)<sup>(1)</sup></i> |                |                |                |                |
| Estimated Disbursements <sup>(3)</sup>           |  |                |                |                |                |
| <b>Principal Payments</b>                        | <b>1,714.3</b>                         | <b>2,321.8</b> | <b>2,337.8</b> | <b>1,475.8</b> | <b>2,319.1</b> |
| <b>Principal Repayment—Loans</b>                 | <b>449.0</b>                           | <b>411.0</b>   | <b>375.0</b>   | <b>309.0</b>   | <b>279.0</b>   |
| <b>Principal Repayment—Expropriation Bonds</b>   |  |                | <b>18.5</b>    | <b>31.0</b>    | <b>4.3</b>     |
| <b>Principal Repayment—Eurobonds (in U.S.\$)</b> | <b>1,265.3</b>                         | <b>1,910.8</b> | <b>1,944.3</b> | <b>1,135.8</b> | <b>2,035.8</b> |
| Eurobond (U.S.\$) 2012                           | 109.2                                  |                |                |                |                |
| Eurobond (U.S.\$) 2012                           | 129.1                                  |                |                |                |                |
| Eurobond (Euro) 2012                             | 41.4                                   |                |                |                |                |
| Eurobond (Euro) 2012                             | 48.4                                   |                |                |                |                |
| Eurobond (Euro) 2012                             | 58.4                                   |                |                |                |                |
| Eurobond (U.S.\$) 2012                           | 200.0                                  |                |                |                |                |
| Eurobond (U.S.\$) 2012                           | 207.1                                  |                |                |                |                |
| Eurobond (U.S.\$) 2012                           | 85.8                                   |                |                |                |                |
| Eurobond (U.S.\$) 2013                           |  | 250.0          |                |                |                |
| Eurobond (U.S.\$) 2013                           |  | 400.0          |                |                |                |
| Eurobond (U.S.\$) 2013                           |  | 875.0          |                |                |                |
| Eurobond (U.S.\$) 2014                           |  |                | 676.9          |                |                |
| Eurobond (U.S.\$) 2014                           |  |                | 731.6          |                |                |
| Eurobond (U.S.\$) 2014                           |  |                | 150.0          |                |                |
| Eurobond (U.S.\$) 2015                           |  |                |                | 500.0          |                |
| Eurobond (U.S.\$) 2015                           |  |                |                | 250.0          |                |
| Eurobond (U.S.\$) 2016                           |  |                |                |                | 400.0          |
| Eurobond (U.S.\$) 2016                           |  |                |                |                | 750.0          |
| Eurobond (U.S.\$) 2016                           |  |                |                |                | 500.0          |
| Eurobond (U.S.\$) 2017                           | 187.0                                  | 187.0          | 187.0          | 187.0          | 187.0          |
| Eurobond (U.S.\$) 2017                           | 65.0                                   | 65.0           | 65.0           | 65.0           | 65.0           |
| Eurobond (U.S.\$) 2017                           | 13.8                                   | 13.8           | 13.8           | 13.8           | 13.8           |
| Eurobond (U.S.\$) 2017                           | 30.0                                   | 30.0           | 30.0           | 30.0           | 30.0           |
| Eurobond (U.S.\$) 2018                           | 70.0                                   | 70.0           | 70.0           | 70.0           | 70.0           |
| Eurobond (U.S.\$) 2018                           | 20.0                                   | 20.0           | 20.0           | 20.0           | 20.0           |
| <b>Interest &amp; Commissions</b>                | <b>1,377.2</b>                         | <b>1,225.5</b> | <b>1,069.0</b> | <b>967.0</b>   | <b>833.4</b>   |
| <b>Loans</b>                                     | <b>123.0</b>                           | <b>106.0</b>   | <b>99.0</b>    | <b>87.0</b>    | <b>77.0</b>    |
| <b>Expropriation &amp; contractors bonds</b>     | <b>3.2</b>                             | <b>3.2</b>     | <b>3.2</b>     | <b>2.1</b>     | <b>0.3</b>     |
| <b>Coupon Payments</b>                           | <b>1,251.0</b>                         | <b>1,116.3</b> | <b>966.8</b>   | <b>877.9</b>   | <b>756.1</b>   |
| Eurobond (U.S.\$) 2012                           | 8.5                                    |                |                |                |                |
| Eurobond (U.S.\$) 2012                           | 10.0                                   |                |                |                |                |
| Eurobond (Euro) 2012                             | 2.4                                    |                |                |                |                |
| Eurobond (Euro) 2012                             | 2.8                                    |                |                |                |                |
| Eurobond (Euro) 2012                             | 3.4                                    |                |                |                |                |
| Eurobond (U.S.\$) 2012                           | 5.6                                    |                |                |                |                |
| Eurobond (U.S.\$) 2012                           | 7.8                                    |                |                |                |                |
| Eurobond (U.S.\$) 2012                           | 3.2                                    |                |                |                |                |
| Eurobond (U.S.\$) 2013                           | 21.6                                   | 10.8           |                |                |                |
| Eurobond (U.S.\$) 2013                           | 34.5                                   | 17.3           |                |                |                |
| Eurobond (U.S.\$) 2013                           | 79.8                                   | 39.9           |                |                |                |
| Eurobond (U.S.\$) 2014                           | 49.9                                   | 49.9           | 25.0           |                |                |
| Eurobond (U.S.\$) 2014                           | 65.8                                   | 65.8           | 32.9           |                |                |
| Eurobond (U.S.\$) 2014                           | 13.5                                   | 13.5           | 6.8            |                |                |
| Eurobond (U.S.\$) 2015                           | 42.5                                   | 42.5           | 42.5           | 42.5           |                |
| Eurobond (U.S.\$) 2015                           | 14.7                                   | 14.7           | 14.7           | 7.3            |                |
| Eurobond (U.S.\$) 2016                           | 46.5                                   | 46.5           | 46.5           | 46.5           | 23.3           |
| Eurobond (U.S.\$) 2016                           | 63.8                                   | 63.8           | 63.8           | 63.8           | 31.9           |
| Eurobond (U.S.\$) 2016                           | 29.7                                   | 23.8           | 23.8           | 23.8           | 23.8           |
| Eurobond (U.S.\$) 2017                           | 43.0                                   | 35.5           | 28.1           | 20.6           | 13.1           |
| Eurobond (U.S.\$) 2017                           | 18.7                                   | 15.4           | 12.2           | 8.9            | 5.7            |



|                                    | 2012                             | 2013           | 2014           | 2015           | 2016           |
|------------------------------------|----------------------------------|----------------|----------------|----------------|----------------|
|                                    | (U.S.\$ millions) <sup>(1)</sup> |                |                |                |                |
| Eurobond (U.S.\$) 2017             | 3.2                              | 2.6            | 2.1            | 1.5            | 1.0            |
| Eurobond (U.S.\$) 2017             | 8.7                              | 7.6            | 6.5            | 5.3            | 4.2            |
| Eurobond (U.S.\$) 2017             | 110.8                            | 110.8          | 110.8          | 110.8          | 110.8          |
| Eurobond (U.S.\$) 2017             | 24.2                             | 24.2           | 24.2           | 24.2           | 24.2           |
| Eurobond (U.S.\$) 2018             | 21.9                             | 18.4           | 14.9           | 11.4           | 7.9            |
| Eurobond (U.S.\$) 2018             | 6.3                              | 5.3            | 4.3            | 3.3            | 2.3            |
| Eurobond (U.S.\$) 2018             | 25.8                             | 25.8           | 25.8           | 25.8           | 25.8           |
| Eurobond (U.S.\$) 2018             | 30.9                             | 30.8           | 30.8           | 30.8           | 30.9           |
| Eurobond (U.S.\$) 2019             | 39.0                             | 39.0           | 39.0           | 39.0           | 39.0           |
| Eurobond (U.S.\$) 2019             | 27.3                             | 27.3           | 27.3           | 27.3           | 27.3           |
| Eurobond (U.S.\$) 2020             | 76.5                             | 76.5           | 76.5           | 76.5           | 76.5           |
| Eurobond (U.S.\$) 2021             | 75.2                             | 75.2           | 75.2           | 75.2           | 75.2           |
| Eurobond (U.S.\$) 2021             | 61.9                             | 61.9           | 61.9           | 61.9           | 61.9           |
| Eurobond (U.S.\$) 2021             | 35.6                             | 35.6           | 35.6           | 35.6           | 35.6           |
| Eurobond (U.S.\$) 2022             | 13.7                             | 13.7           | 13.7           | 13.7           | 13.7           |
| Eurobond (U.S.\$) 2022             | 16.2                             | 16.2           | 16.2           | 16.2           | 16.2           |
| Eurobond (U.S.\$) 2022             | 21.4                             | 21.4           | 21.4           | 21.4           | 21.4           |
| Eurobond (U.S.\$) 2022             | 42.7                             | 42.7           | 42.7           | 42.7           | 42.7           |
| Eurobond (U.S.\$) 2024             | 17.5                             | 17.5           | 17.5           | 17.5           | 17.5           |
| Eurobond (U.S.\$) 2026             | 24.8                             | 24.8           | 24.8           | 24.8           | 24.8           |
| <b>Total External Debt Service</b> | <b>3,091.5</b>                   | <b>3,547.3</b> | <b>3,406.6</b> | <b>2,442.8</b> | <b>3,151.5</b> |

Notes:

- (1) Amounts translated into U.S. Dollars at the rate of U.S.\$1.2927 = €1 as of December 31, 2011.
- (2) Estimated disbursements in respect of financing arrangements (excluding Eurobonds) entered into by the Republic or its agencies and in effect on December 31, 2011. Estimated disbursements and principal payments exclude debt service in connection with further issuances of Eurobonds and similar securities. External debt incurred by the Republic during the projected period may differ significantly from the amounts shown in the table.

Source: Ministry of Finance

### ***Issuance of U.S. Dollar-Denominated Notes in Satisfaction of Certain Claims***

Following its appointment, the Government of Prime Minister Al Hoss resolved to settle outstanding amounts due from the Republic and its agencies resulting from hospital claims, contractors claims and expropriation of property claims on account of 1998 and preceding years. Such amounts lacked appropriate allocation in previous budgets. In June 1999, Parliament adopted Law № 95, which authorized the Government to issue foreign currency-denominated notes in an aggregate principal amount not exceeding LL 1,242 billion (U.S.\$824 million) in satisfaction of amounts due for the year 1998 and preceding years. The notes were deemed issued as of August 6, 1999 (regardless of their actual issue date or date of delivery) and had a maturity of three years. The notes carried interest at a rate of 5.63 percent per annum, payable annually. Principal was payable in full at maturity. With the exception of claims for expropriation of property, which have been the subject of judicial decisions, claimants submitted proof of claims to specialized commissions for confirmation of the amounts due from the Republic to be exchanged for notes.

On August 2, 2002, pursuant to Law № 450 and the 2002 Budget Law, the Republic issued U.S.\$750 million in aggregate principal amount of notes at a rate of 10.5 percent per annum to the holders of these notes for refinancing of the notes issued on August 6, 1999. These refinancing notes matured on August 2, 2006 and were refinanced with notes, which carried interest at a rate of 7.5 percent per annum and matured in August 2009.

On December 22, 2005, pursuant to Law № 450, the Republic issued U.S.\$277.915 million in aggregate principal amount of notes to settle expropriation claims. These notes matured on December 22, 2010 and carried interest at a rate of 6 percent. On March 25, 2009, pursuant to Law № 450, the Republic issued U.S.\$18.483 million in aggregate principal amount of notes to settle expropriation claims tranche 2. The notes mature on March 25, 2014 and carry interest at a rate of 6 percent.

On April 22, 2010, pursuant to Law № 69, the Republic issued U.S.\$15.984 million in aggregate principal amount of notes to settle increases in construction costs. The notes mature in April 2015 and carry interest at a rate of 6 percent. On July 15, 2010, pursuant to Law № 69, the Republic issued U.S.\$6.930 million in aggregate principal amount of notes to settle increases in construction costs. The notes mature in July 2015 and carry interest at a rate of 6 percent. On November 30, 2010, pursuant to Law № 69, the Republic issued U.S.\$8.098 million in aggregate principal amount of notes to settle increases in construction costs. The notes mature in November 2015 and carry interest at a rate of 6 percent.

On November 30, 2010, pursuant to Law № 69, the Republic issued U.S.\$8.1 million in aggregate principal amount of notes to settle increases in construction costs. The notes mature in November 2015 and carry interest at a rate of 6 percent.

On September 19, 2011, pursuant to Law № 69, the Republic issued U.S.\$4.3 million in aggregate principal amount of notes to settle increases in construction costs. The notes mature in September 2016 and carry interest at a rate of 6 percent.

On January 23, 2012, pursuant to Law № 450, the Republic issued U.S.\$16.5 million in aggregate principal amount of notes to settle expropriation claims. The notes mature in January 23, 2017 and carry interest at a rate of 4.70 percent.

### **Debt Record**

The Republic had little public external debt prior to 1975 and, with one minor exception, has been current on its debt service, including during the 1975–1990 period of conflict. The Republic made payment on its Eurobonds during the July 2006 War. The only instance of arrears during the 1975-1990 period of conflict was in respect of a debt to the United States Commodity Credit Corporation, which financed a sale on concessional terms in 1970. The loan fell into arrears in April 1986 as the Ministry of Finance, which coordinates external debt service, was then unaware of its existence due to loss of records during the conflict period. The loan was not accelerated. The Ministry of Finance assumed responsibility for the debt and the arrears (amounting to U.S.\$5.5 million in principal and accrued interest and U.S.\$713,000 in late interest) were cleared in 1995.

The Republic has never conducted a Paris Club or London Club rescheduling of its external debt.

## MONETARY SYSTEM

### Role of BDL

*Banque du Liban* is the sole custodian of public funds, supervises and regulates the banking system and is vested by law with the exclusive authority of issuing the national currency. BDL's primary role is to safeguard the currency and promote monetary stability, thereby creating a favorable environment for economic and social progress. BDL also advises the Government on various economic and financial matters. In conducting its monetary management function, BDL utilizes a wide range of instruments, including reserve requirements on Lebanese Pound deposits with commercial banks, liquidity requirements on U.S. Dollar deposits in commercial banks, Treasury bill repurchase and swap agreements with commercial banks, as well as Lebanese Pound-denominated certificates of deposits issued by BDL.

As a result of high inflation prior to 1992, the Lebanese economy became substantially dollarized. Since October 1992, monetary policy has been targeted at stabilizing the Lebanese Pound exchange rate and controlling the inflation rate and money growth. The return of confidence in monetary stability and the high returns on investment in Lebanese Pound-denominated financial securities led to a significant decline of the dollarization of deposits in the economy and to a build-up in foreign exchange reserves until the end of 1996. Thus, the proportion of foreign currency deposits decreased from 73.6 percent in December 1990 to 56.3 percent in June 1997. Between 1999 and 2007, the dollarization level fluctuated between 61.6 percent at the end of 1999 to 77.34 percent at the end of 2007. The ability of the Republic's economy to withstand the shocks of the global financial crisis of 2007-2008 and the ensuing increase in confidence in the Lebanese economy resulted in significant conversions from U.S. dollars to Lebanese pounds during the fourth quarter of 2008, and a corresponding decline of the dollarization rate to 69.57 percent at the end of 2008. Currency conversions operations continued throughout 2009 and the first half of 2010, which maintained the de-dollarization impetus and led to a 64.46 percent rate at end December 2009 and 62.54 percent rate in June 2010, the lowest levels of dollarization in nine years. The dollarization rate registered an increase to 63.24 percent in December 2010 and 65.86 percent in March 2011. In December 2011, the dollarization rate registered a further increase to 65.92 percent, although it declined to 65.88% in January 2012.

The following table sets out the balance sheet of BDL for the periods indicated:

### BDL Balance Sheet

|   | As of December 31, |               |               |               |                |
|---|--------------------|---------------|---------------|---------------|----------------|
|   | 2007               | 2008          | 2009          | 2010          | 2011           |
|   | (LL billions)      |               |               |               |                |
| <b>Assets</b>   |                    |               |               |               |                |
| Gold .....  | 11,517             | 12,108        | 15,169        | 19,613        | 21,709         |
| Foreign currencies.....                                 | 14,740             | 25,722        | 38,682        | 43,111        | 46,453         |
| Other foreign assets.....                               | 0                  | 0             | 0             | 0             | 0              |
| Claims on private sector.....                           | 297                | 305           | 333           | 350           | 380            |
| Loans to banks and financial corporations .....         | 1,690              | 1,543         | 1,803         | 1,136         | 2,099          |
| Claims on public sector.....                            | 406                | 362           | 292           | 218           | 140            |
| Securities portfolio.....                               | 13,303             | 13,933        | 15,525        | 17,681        | 19,847         |
| Fixed assets.....                                       | 435                | 409           | 411           | 404           | 358            |
| Unclassified assets <sup>(1)</sup> .....                | 6,247              | 6,038         | 8,812         | 11,868        | 14,986         |
| <b>Total assets .....</b>                               | <b>48,635</b>      | <b>60,420</b> | <b>81,027</b> | <b>94,381</b> | <b>105,972</b> |
| <b>Liabilities</b>                                      |                    |               |               |               |                |
| Currency in circulation outside BDL.....                | 2,191              | 2,498         | 2,729         | 3,088         | 3,283          |
| Deposits of commercial banks ..                         | 27,301             | 36,193        | 50,033        | 57,366        | 68,788         |
| Deposits of financial corporations <sup>(2)</sup> ..... | 994                | 1,314         | 1,917         | 2,193         | 964            |
| Private sector deposits.....                            | 206                | 28            | 36            | 45            | 42             |
| Public sector accounts.....                             | 3,364              | 6,995         | 8,932         | 9,312         | 7,985          |
| Valuation adjustment .....                              | 3,041              | 3,602         | 6,760         | 11,170        | 13,285         |
| Securities other than shares <sup>(3)</sup> ....        | 3,015              | 3,015         | 3,015         | 3,015         | 3,015          |
| Foreign liabilities .....                               | 531                | 671           | 594           | 353           | 329            |
| Special long-term liabilities .....                     | 3,184              | 2,682         | 2,520         | 2,503         | 2,503          |
| Capital accounts.....                                   | 2,715              | 1,870         | 3,342         | 4,279         | 4,556          |
| Unclassified liabilities <sup>(4)</sup> .....           | 2,093              | 1,552         | 1,149         | 1,056         | 1,222          |
| <b>Total liabilities .....</b>                          | <b>48,635</b>      | <b>60,420</b> | <b>81,027</b> | <b>94,381</b> | <b>105,972</b> |

Notes:

- (1) Unclassified assets include the following items: other debtor accounts, counterpart securities, accounts receivable, a regularization account, inventory and fixed assets.
- (2) Includes investment banks and financial institutions.
- (3) Certificates of Deposit issued by BDL in April 2005, for an amount of U.S.\$2 billion with a maturity of 10 years.
- (4) Unclassified liabilities include the following items: notes payable, other creditor accounts and a regularization account.

Source: BDL.

### Banking Sector

As of the date of this Base Prospectus, there were 69 active commercial banks and two specialized medium-and long-term credit banks, 52 financial institutions, 13 brokerage institutions, two leasing companies in the financial sector and 10 representative offices in the Republic. Foreign banks have traditionally established themselves in Lebanon, with either receiving a banking license or operating through a representative office or acquiring participations in the capital of Lebanese banks.

The average capital adequacy ratio of Lebanese banks was 11.8 percent as of the end of June 2011.

The banking sector in Lebanon is generally characterized by its openness evidenced by the size of interaction with correspondent banks and Lebanese abroad. The Lebanese banking sector, with an asset-to-GDP ratio of approximately 370 percent in December 2011, is well capitalized, and has proven resilient to shocks caused by the global financial crisis of 2007 and 2008. In addition, the banking sector plays many critical roles in the economy as a whole of which financial intermediation, payments, guarantor, investment adviser, agency and policy roles. Lebanese banks are the principal subscribers to the Eurobonds issued by the Republic.

The banking sector currently offers a diversity of services worldwide including specialized saving plans, retail payment services, consumer credit, corporate credit and trade finance, and investment, private and consulting services. It recruits qualified personnel and invests heavily in professional training of employees and in the latest information and communication technology.

Banks in Lebanon are well regulated and supervised in conformity with the international best practices and standards and cooperate fully with the regulatory and supervisory authorities believing that such cooperation is essential for maintaining their credibility domestically and internationally. From March 1995, commercial banks were required to meet a minimum capital adequacy ratio of 8 percent in line with the Basel Accord (Basel 1). In September 1999, BDL required banks in Lebanon to raise their capital adequacy ratio to 10 percent by end of 2000 and by 12 percent by the end of 2001. During the past years, banks' capitals as well as the average capital adequacy ratio have significantly increased. In April 2006, BDL required banks in Lebanon to gradually implement the Basel Capital Accord (Basel 2) starting from January 1, 2008. The Banking Control Commission of Lebanon monitored a "Parallel Run Period" during 2008 and 2009 and the average capital adequacy ratio of Lebanese banks was 11.8 percent as of the end of June 2011. In order to increase the capital resources of the Lebanese banking sector and to respond to potential and unexpected losses, in December 2011, the BDL issued Intermediary Circular № 282 requiring banks to gradually raise their capital adequacy ratios by the end of 2015. Pursuant to the circular, banks are required to have raised their Common Equity Tier 1 ratio to 8 percent (defined as the ratio of common equity Tier 1 capital to total weighted assets), their Tier 1 ratio to 10 percent (defined as the ratio of Tier 1 capital to total weighted assets) and their total capital ratio to 12 percent (defined as the ratio of the sum of the Tier 1 ratio and the Tier 2 ratio to total weighted assets) by the end of 2015. The circular also imposes intermediate annual thresholds for such ratios from the end of 2012. The requirements are in line with Basel 3.

Believing in the benefits of modernization and restructuring in a changing operating environment, regulators, supervisors and banks were heavily engaged over the past few years in proposing banking reforms. In addition, Parliament passed legislation to revitalize the Housing Bank. State participation in the shareholding of this bank has been reduced to a minority stake. Parliament also passed laws relating to the listing of bank shares on stock exchanges and the acquisition of bank shares without any discrimination between Lebanese and non-Lebanese and between residents and non-residents. Several banks currently list their eligible shares on the Beirut Stock Exchange. In February 2004, Parliament passed a new law regulating Islamic banking in Lebanon. This law enables the enhancement of Islamic banking activities in Lebanon while assuring a modern regulation and good supervision for such activities.

Efforts undertaken by the regulatory and supervisory authorities, the Association of Banks in Lebanon, BDL and the Ministry of Finance resulted in the promulgation of a law on money laundering by the Lebanese Parliament in 2001, incriminating money laundering activities and permitting the efficient combating of such activities and the cooperation with the international community on such an issue.

On February 10, 2011, the U.S. Department of the Treasury designated LCB as "a financial institution of primary money laundering concern" under Section 311 of the USA PATRIOT Act. In its finding, the U.S. Department of the Treasury noted that the Lebanese banking sector faces certain vulnerabilities. *Banque du Liban* is taking measures to address the concerns raised by the U.S. Department of the Treasury and has arranged for the sale of assets of LCB. In April 2011, the U.S. Ambassador to Lebanon stated that the U.S. government is not targeting the Lebanese banking sector in general and views LCB as an isolated case. The U.S. government has since filed a claim in New York against LCB and other parties seeking to attach certain assets. See "*Risk Factors—Risks Relating to the Republic—Lebanese Banking Sector*".

Lebanese banks entered new markets and have received licenses to operate in a number of Arab and North African countries, including Egypt, Saudi Arabia, Syria, Jordan, Sudan, Algeria, the United Arab Emirates, Bahrain, Qatar, Oman and Iraq.

The following table sets out the combined balance sheet of the commercial banks as of the periods indicated:

### Balance Sheet of Commercial Banks in Lebanon

|                               | As of December 31,   |                |                |                |                |
|-------------------------------|----------------------|----------------|----------------|----------------|----------------|
|                               | 2007                 | 2008           | 2009           | 2010           | 2011           |
|                               | <i>(LL billions)</i> |                |                |                |                |
| <b>Assets</b>                 |                      |                |                |                |                |
| Reserves.....                 | 29,851               | 39,114         | 53,574         | 61,154         | 71,535         |
| Currency.....                 | 262                  | 324            | 346            | 376            | 392            |
| Deposits with BDL.....        | 29,589               | 38,790         | 53,228         | 60,778         | 71,143         |
| Claims on Private Sector..... | 26,762               | 31,751         | 36,570         | 45,702         | 51,595         |
| Lebanese Pounds .....         | 4,190                | 5,068          | 6,837          | 10,382         | 12,821         |
| Foreign Currency.....         | 22,572               | 26,683         | 29,733         | 35,320         | 38,774         |
| Claims on Public Sector.....  | 32,423               | 38,313         | 43,812         | 44,192         | 44,055         |
| Treasury Bills .....          | 32,360               | 38,215         | 43,707         | 44,115         | 43,949         |
| Other.....                    | 63                   | 98             | 105            | 77             | 106            |
| Foreign Assets .....          | 31,220               | 28,834         | 35,698         | 38,784         | 38,436         |
| Fixed Assets.....             | 3,322                | 3,695          | 3,783          | 4,188          | 5,131          |
| Unclassified Assets.....      | 421                  | 383            | 303            | 335            | 1,166          |
| <b>Total assets .....</b>     | <b>123,999</b>       | <b>142,090</b> | <b>173,740</b> | <b>194,355</b> | <b>211,918</b> |
| <b>Liabilities</b>            |                      |                |                |                |                |
| Residential Private Sector    |                      |                |                |                |                |
| Deposits, of which: .....     | 86,980               | 99,908         | 119,383        | 133,744        | 142,386        |
| Lebanese Pounds.....          | 22,282               | 34,309         | 47,738         | 55,037         | 55,389         |
| Sight.....                    | 1,602                | 2,057          | 2,410          | 2,951          | 3,201          |
| Term .....                    | 20,680               | 32,252         | 45,328         | 52,086         | 52,188         |
| Foreign currency .....        | 64,698               | 65,599         | 71,645         | 78,707         | 86,997         |
| Public Sector deposits        | 1,163                | 1,331          | 1,590          | 2,107          | 2,999          |
| Non Resident Private Sector   |                      |                |                |                | 32,054         |
| Deposits .....                | 14,454               | 17,345         | 24,984         | 27,866         |                |
| Bonds.....                    | 91                   | 93             | 143            | 412            | 661            |
| Deposits of Non Resident      |                      |                |                |                | 8,764          |
| Financial Sector.....         | 6,108                | 6,490          | 6,935          | 6,785          |                |
| Capital accounts.....         | 9,439                | 10,705         | 11,977         | 13,901         | 16,161         |
| Unclassified liabilities..... | 5,764                | 6,218          | 8,728          | 9,540          | 8,893          |
| <b>Total liabilities.....</b> | <b>123,999</b>       | <b>142,090</b> | <b>173,740</b> | <b>194,355</b> | <b>211,918</b> |

Note:

(1) Certain figures differ from previously published data due to ongoing revisions.

Source: BDL.

### Interest Rates

Prior to 1993, interest rates on Treasury bills were fixed by the Ministry of Finance in consultation with BDL. In May 1993, BDL began selling 3-month Treasury bills in a multiple price auction. The authorities subsequently extended this system to 6- and 12-month Treasury bills in June and September 1993, respectively. In October 1994, the auction system was extended to 24-month Treasury notes. In March and April 2005, 48-month and 60-month notes were introduced for a limited purpose. The issuance of these longer-dated Notes has been discontinued. In March 2005, the Ministry of Finance established the LL-Denominated MTN Program, in accordance with international capital markets standards, for the issuance of Lebanese Pound-denominated bonds, directly or through managers and issued a five-year benchmark bond. The new bond lengthened maturities for LL instruments, widened distribution and set a new benchmark. In December 2010, the Ministry of Finance introduced a seven-year benchmark bond under the LL-Denominated MTN Program. See “*Public Debt—Internal Debt*”.

BDL also affects interest rates through its Treasury bill discount and repurchase operations on the secondary market. In November 2003, 36-month Treasury notes were introduced to the Treasury bill auctions. In July 2009, 60-month Treasury notes were introduced to the Treasury bill auctions.

The spread between deposit rates in Lebanese Pounds and in U.S. Dollars narrowed from 11.7 percent in December 1995 to 6.94 percent in December 1998, further declining to 5.67 percent in December 1999 and 4.41 percent in December 2000 only to increase to 5.94 percent in December 2001 following sharp cuts in

U.S. interest rates. Following the Paris II Conference, interest rates on Lebanese Pounds lending and deposit rates declined, narrowing the spread between deposit rates in Lebanese Pounds and in U.S. Dollars to 5.83 percent in December 2002, 4.36 percent in December 2003, 3.76 percent in December 2004, 3.61 percent in December 2005, 2.73 percent in December 2006 and 2.71 percent in December 2007. The spread rose to 3.89 percent in December 2008 due to the decline in U.S. dollar deposit rates but declined to 3.70 percent in December 2009. The spread between lending rates in Lebanese Pounds and in U.S. Dollars narrowed from 16.8 percent in December 1995 to 8.74 percent in December 1998, 7.51 percent in December 1999, 6.79 percent in December 2000, 6.61 percent in December 2001 and 6.48 percent in December 2002. By December 2003, the spread between lending rates in Lebanese Pounds and in U.S. Dollars narrowed to 2.51 percent and to 2.50 percent in December 2004. By the end of 2005, the spread narrowed further to 1.74 percent. However, the spread widened to 1.82 percent in December 2006, 2.08 percent in December 2007 and 2.48 percent in December 2008. In 2009, as a result of the incentives provided by BDL in order to stimulate lending to certain economic sectors, the Lebanese Pound lending rate declined gradually, and the spread between the Lebanese Pound lending rate and the U.S. dollar lending rate declined to 1.76 percent in December 2009 and 1.17 percent in December 2010. In 2011, the Lebanese Pound lending rate declined further as lending incentives and exemptions from reserves requirements were offered by *Banque du Liban*, resulting in a further narrowing of the spread between the Lebanese Pound and the U.S. Dollar lending rates to 0.36 percent in December 2011.

The following table sets forth the Treasury bill yields at primary auction for the periods indicated.

#### Treasury Bill Yields

| Calendar Quarter            | 3-month | 6-month Bill | 12-month | 24-month<br>Bill <sup>(1)</sup> | 36-month<br>Bill <sup>(1)</sup> | 60-month<br>Bill <sup>(1)(2)</sup> |
|-----------------------------|---------|--------------|----------|---------------------------------|---------------------------------|------------------------------------|
|                             |         |              |          | (%)                             |                                 |                                    |
| 2007 I.....                 | 5.22    | 7.24         | 7.75     | 8.50                            | 9.32                            | -                                  |
| 2007 II.....                | 5.22    | 7.24         | 7.75     | 8.50                            | 9.32                            | -                                  |
| 2007 III.....               | 5.22    | 7.24         | 7.75     | 8.50                            | 9.32                            | -                                  |
| 2007 IV.....                | 5.22    | 7.24         | 7.75     | 8.50                            | 9.32                            | -                                  |
| 2008 I.....                 | 5.22    | 7.24         | 7.75     | 8.50                            | 9.32                            | -                                  |
| 2008 II.....                | 5.22    | 7.22         | 7.75     | 8.46                            | 9.26                            | -                                  |
| 2008 III.....               | 5.22    | 7.22         | 7.73     | 8.40                            | 9.06                            | -                                  |
| 2008 IV.....                | 5.10    | 7.10         | 7.58     | 8.26                            | 9.00                            | -                                  |
| 2009 I.....                 | 5.07    | 6.96         | 7.27     | 7.96                            | 8.84                            | -                                  |
| 2009 II.....                | 4.94    | 6.61         | 6.89     | 7.56                            | 8.52                            | -                                  |
| 2009 III.....               | 4.87    | 6.16         | 6.34     | 6.98                            | 7.64                            | 8.28                               |
| 2009 IV.....                | 4.55    | 5.72         | 5.73     | 6.32                            | 7.10                            | 7.74                               |
| 2010 I <sup>(3)</sup> ..... | -       | -            | -        | -                               | -                               | -                                  |
| 2010 II.....                | 3.94    | 4.43         | 4.88     | 5.36                            | 5.88                            | 6.16                               |
| 2010 III.....               | 3.93    | 4.52         | 4.81     | 5.34                            | 5.94                            | 6.18                               |
| 2010 IV.....                | 3.93    | 4.52         | 4.81     | 5.34                            | 5.94                            | 6.18                               |
| 2011 I.....                 | 3.93    | 4.50         | 4.79     | 5.34                            | 5.94                            | 6.18                               |
| 2011 II.....                | 3.93    | 4.50         | 4.81     | 5.34                            | 5.94                            | 6.18                               |
| 2011 III.....               | 3.93    | 4.50         | 4.81     | 5.34                            | 5.94                            | 6.18                               |
| 2011 IV.....                | 3.93    | 4.50         | 4.81     | 5.34                            | 5.94                            | 6.18                               |

Notes:

(1) The figures represent the associated coupon rates.

(2) The Ministry of Finance launched 60-month Treasury Bills as part of the market auction process in July 2009.

(3) The Ministry of Finance suspended the issuance of Treasury Bills in March 2010.

Source: BDL.

On December 17, 2010, the Republic issued LL 1,500,000,000,000 7.9 percent Notes due 2017 (Series 2) under the LL-Denominated MTN Program. In March and April 2011, the Republic issued two stand-alone seven year LL-denominated Treasury bonds with annual yields of 7.90 percent. In September 2011, the Republic issued an additional stand-alone LL-denominated seven-year bond with an annual yield of 7.60 percent. On November 28, 2011, pursuant to Law № 69, the Republic issued LBP 40,604 million in aggregate principal amount of notes to settle increases in construction costs due to contractors. The notes mature on November 28, 2016 and carry interest at a rate of 6 percent. See “*Public Debt—Internal Debt*”.

The following tables set forth commercial bank deposits and lending rates at the average Lebanese Pounds and U.S. Dollar rates across the banking system for the stated type of account for the quarters shown. The stated quarterly rates are the weighted average rates for the last month of the quarter. Time deposits range from one month to longer maturities and savings accounts are current accounts without payment facilities by check.

#### Lebanese Pound Weighted Average Deposit and Lending Rates of Commercial Banks

| Calendar Quarter | Lending Rate | Creditor Rate | Current Account | Savings Deposit | Time Deposit |
|------------------|--------------|---------------|-----------------|-----------------|--------------|
|                  |              |               | (%)             |                 |              |
| 2007 I.....      | 10.56        | 7.51          | 3.55            | 3.77            | 7.99         |
| 2007 II .....    | 10.27        | 7.50          | 3.04            | 3.94            | 7.99         |
| 2007 III .....   | 10.40        | 7.47          | 2.98            | 3.91            | 7.96         |
| 2007 IV .....    | 10.10        | 7.40          | 2.81            | 4.05            | 7.94         |
| 2008 I.....      | 9.92         | 7.22          | 2.64            | 4.06            | 7.79         |
| 2008 II .....    | 10.09        | 7.25          | 2.46            | 3.89            | 7.68         |
| 2008 III .....   | 9.98         | 7.18          | 3.29            | 4.07            | 7.63         |
| 2008 IV .....    | 9.95         | 7.22          | 1.72            | 4.21            | 7.62         |
| 2009 I.....      | 10.10        | 7.10          | 1.46            | 4.38            | 7.44         |
| 2009 II .....    | 9.76         | 6.96          | 1.58            | 3.82            | 7.31         |
| 2009 III .....   | 9.22         | 6.94          | 1.27            | 3.85            | 7.26         |
| 2009 IV .....    | 9.04         | 6.75          | 1.46            | 3.69            | 7.07         |
| 2010 I.....      | 8.69         | 6.11          | 1.28            | 3.37            | 6.36         |
| 2010 II .....    | 8.37         | 5.83          | 1.24            | 3.03            | 6.10         |
| 2010 III .....   | 8.11         | 5.70          | 1.07            | 3.00            | 5.96         |
| 2010 IV .....    | 7.91         | 5.68          | 1.04            | 2.78            | 5.97         |
| 2011 I.....      | 7.73         | 5.63          | 1.09            | 2.98            | 5.92         |
| 2011 II .....    | 7.59         | 5.62          | 1.12            | 2.92            | 5.94         |
| 2011 III .....   | 7.37         | 5.58          | 0.96            | 2.72            | 5.85         |
| 2011 IV .....    | 7.38         | 5.63          | 1.05            | 2.73            | 5.91         |

Source: BDL.

#### U.S. Dollar Deposit and Lending Rates of Commercial Banks

| Calendar Quarter | Lending Rate | Creditor Rate | Current Account | Savings Deposit | Time Deposit |
|------------------|--------------|---------------|-----------------|-----------------|--------------|
|                  |              |               | (%)             |                 |              |
| 2007 I.....      | 8.47         | 4.88          | 0.97            | 1.84            | 5.37         |
| 2007 II .....    | 8.24         | 4.91          | 1.25            | 1.72            | 5.43         |
| 2007 III .....   | 8.20         | 4.96          | 1.16            | 1.86            | 5.45         |
| 2007 IV .....    | 8.02         | 4.69          | 1.19            | 1.71            | 5.25         |
| 2008 I.....      | 7.57         | 3.84          | 1.05            | 1.55            | 4.30         |
| 2008 II .....    | 7.28         | 3.55          | 0.77            | 1.44            | 4.00         |
| 2008 III .....   | 7.37         | 3.57          | 0.78            | 1.52            | 4.06         |
| 2008 IV .....    | 7.47         | 3.33          | 0.60            | 1.53            | 3.81         |
| 2009 I.....      | 7.32         | 3.26          | 0.57            | 1.23            | 3.68         |
| 2009 II .....    | 7.24         | 3.18          | 0.64            | 1.20            | 3.63         |
| 2009 III .....   | 7.24         | 3.16          | 0.69            | 1.13            | 3.59         |
| 2009 IV .....    | 7.28         | 3.05          | 0.50            | 1.10            | 3.53         |
| 2010 I.....      | 7.15         | 2.86          | 0.35            | 1.02            | 3.29         |
| 2010 II .....    | 7.03         | 2.75          | 0.41            | 0.98            | 3.21         |
| 2010 III .....   | 7.24         | 2.78          | 0.37            | 0.95            | 3.21         |
| 2010 IV .....    | 6.74         | 2.8           | 0.45            | 0.93            | 3.26         |
| 2011 I.....      | 7.24         | 2.82          | 0.41            | 1.00            | 3.24         |
| 2011 II .....    | 6.98         | 2.81          | 0.34            | 0.92            | 3.29         |
| 2011 III .....   | 6.92         | 2.84          | 0.35            | 0.91            | 3.26         |
| 2011 IV .....    | 7.02         | 2.83          | 0.44            | 0.93            | 3.31         |

Source: BDL.

#### Foreign Exchange Rates and International Reserves

The currency of the Republic is the Lebanese Pound. The Lebanese Pound is convertible and its exchange rate is generally determined on the basis of demand and supply conditions in the exchange market. Bankers are allowed to engage in spot transactions in any currency. However, they are prohibited from engaging in forward transactions in Lebanese Pounds for speculative purposes. BDL intervenes when necessary in order to maintain



orderly conditions in the foreign exchange market. There are no taxes or subsidies on purchases or sales of foreign exchange.

Foreign exchange rate stability is a primary policy objective of the Government and of BDL. BDL's exchange rate policy since October 1992 has been to anchor the Lebanese Pound nominal exchange rate to the U.S. Dollar. This appreciation was limited to 0.03 percent in 1999 and the Lebanese Pound exchange rate has remained unchanged since 2000. Although several external factors can influence the exchange rate, including general investor confidence in the economy, the authorities expect to continue to gear their monetary policy towards maintaining strength and stability in the exchange rate. Direct intervention in the currency markets supplements this policy when necessary to smooth excessive volatility of the exchange rate.

The following table sets forth the gold and gross foreign currency reserves of BDL in millions of U.S. Dollars for the periods indicated.

### Gold and Gross Foreign Currency Reserves

|            | Gold              | Foreign Currency <sup>(1)</sup> |
|------------|-------------------|---------------------------------|
|            | (U.S.\$ millions) |                                 |
| 2007 ..... | 7,639.8           | 9,777.6                         |
| 2008 ..... | 8,031.7           | 17,062.4                        |
| 2009 ..... | 10,062.0          | 25,659.9                        |
| 2010 ..... | 13,009.9          | 28,597.7                        |
| 2011 ..... | 14,400.7          | 30,814.9                        |

Note:

(1) Excluding gold reserves.

Source: BDL.

Foreign currency reserves are generally placed by BDL outside the Republic with other central banks or with highly-rated international banks. They include a limited amount of highly-rated foreign debt securities.

As of December 31, 2011, gross foreign currency reserves (excluding gold reserves) were U.S.\$30,814.9 million and gold reserves were U.S.\$14,400.7 million.

### Lebanese Pound/U.S. Dollar Exchange Rate

Since September 1999, BDL has maintained its policy of pegging the value of the Lebanese Pound to the U.S. Dollar at a fixed average closing rate of LL 1,507.5 per U.S.\$1.00.

### Securities Markets

The Beirut Stock Exchange was created in 1920 by the French mandate authorities in order to privatize public utilities, railways, telecommunications and the post office. Companies from the industrial, banking and tourism sectors were gradually added. The Beirut Stock Exchange flourished from 1954 to 1975. It ceased trading in 1983.

In August 1994, the Government set up the Beirut Stock Exchange Committee to supervise and manage the reopening of the Beirut Stock Exchange. Trading on the Beirut Stock Exchange commenced on January 22, 1996, when the shares of three previously listed Lebanese companies were re-admitted to trading. On September 30, 1996, the shares of SOLIDERE, previously listed on the Beirut Secondary Market, were listed and began trading on the Beirut Stock Exchange.

The Beirut Stock Exchange's capitalization, which includes the value of the securities listed on the Beirut Stock Exchange (excluding Lebanese Republic Eurobonds), rose from approximately U.S.\$386 million in January 1996 to U.S.\$10,285 million as of December 31, 2011.

The number of authorized brokers rose from five to 16 and the number of listed companies rose from three to 11 (including one mutual fund) by the end of December 2011, according to the Financial Market Department of BDL.

Commencing in 2004, Eurobonds issued by the Republic have been listed on the Beirut Stock Exchange.

The Government regards the re-establishment and development of organized capital markets, including markets for the issue and secondary trading of equity and debt securities, as being of significant importance for the financing of Lebanon's reconstruction and economic expansion.

In addition, since 1996, several Lebanese companies have raised funds (both equity and debt) in the international capital markets.

## **PUBLIC FINANCE**

### **The Budget Process**

The budget preparation and adoption process is governed by relevant provisions of the Constitution and the Law on Public Accounting, implemented by Decree № 14969 dated December 30, 1963, as amended.

The laws governing the budget preparation provide that the proposed budget for each year is prepared by the Ministry of Finance (after review of the estimates prepared by the various Ministries) and submitted to the Council of Ministers by September 1 of the preceding year. The proposed budget, after review by the Council of Ministers, must then be forwarded to Parliament by October 15 for review and approval.

The budget is then approved by Parliament, through specific voting for each article in the budget, after review and debate during a general session to be held between October 15 and December 31.

If Parliament fails to approve a budget, the President of the Republic, with the approval of the Prime Minister, must convene a special session of Parliament to be held no later than January 31 of the relevant year. If no budget is approved during the special session, the President of the Republic has the power, after approval of the Council of Ministers, to adopt the budget submitted to Parliament by the Council of Ministers (Articles 86 of the Lebanese Constitution and 120 of Parliament's internal regulations).

Once the budget law is enacted, the Ministry of Finance becomes responsible for its execution.

### **Operations of the Government**

Prior to the conflict, Lebanon seldom ran budget deficits. The conflict, especially from the early 1980s, led to widespread tax evasion and non-payment of public utility bills. Revenues dropped to very low levels and at one time were not sufficient to cover interest payments on the Republic's internal debt. The Republic resorted to increasing its borrowings from BDL, leading to monetary expansion.

Analysis of Government finances must take account of the following:

- The CDR is a public institution, which is independent from any ministry within the Government. Its financial situation is not fully consolidated in the public accounts, but starting with the draft budget law for 2007, CDR foreign-financed expenditures were first included as an annexed table before being included as a budget line item within budget expenditures in the 2010 budget proposal. However, foreign-financed expenditures are still subject to CDR's regulations (in addition to donor requirements) and do not follow budget procedures. CDR expenditures on reconstruction programs are financed partly by grants and borrowings from international development agencies and other overseas entities and partly by appropriations from the budget. These appropriations are included as capital expenditures in the public accounts, but expenditures financed by borrowings as described above are not included in the public accounts (but are included in foreign debt figures). However, interest in respect of these borrowings is included in the national budget for the year in which it is scheduled to be repaid. Principal repayment of these borrowings is no longer included in the budget following the inclusion of the CDR foreign-financed expenditures as a budget item in the 2010 budget proposal. The borrowings are obligations of the Republic. Foreign indebtedness incurred by the CDR is approved by the Government and by Parliament.
- The Higher Relief Committee ("*HRC*") is responsible for post-disaster relief, whether natural, war, or humanitarian. After the July 2006 War, the HRC began funding the re-settlement of residents whose houses were completely or partially destroyed during the war, by paying housing compensations to rebuild or rehabilitate housing units. The HRC was mainly funded through donors' contributions and treasury advances to speed-up the process of resettlement. Starting from the 2010 budget proposal, the HRC will be mainly funded from allocations included in the budget or treasury advances to be regularized from the allocations included in the budget.
- The budget consists of the general budget and of three annex budgets, relating to Post and Telecommunications, National Lottery and the Grain & Sugar Beet Office. Information included in this Base Prospectus relates only to the general budget. Projected deficits or surpluses in the annex budgets are accounted for in the general budget. Actual results for each year also reflect the deficit or surplus of each annex budget.

- Beginning with the 1997 Budget, a new classification, which is substantially in accordance with the guidelines and definitions set forth in the IMF's manual of "*Government Finance Statistics 1986*", was adopted. The Government believes that this classification makes it easier to conduct a proper analysis of the policy, administration and monitoring phases of the budget. The classification used for prior years did not provide a sufficient basis for proper revenue and expenditure management and did not appropriately identify line item expenditures. Therefore, a detailed breakdown of revenues and expenditures is not provided for those years. Further, the reporting for budget execution is currently being done according to "*Government Finance Statistics 2001*" classifications.
- In 1998, the Ministry of Finance developed an updated reporting system for public finance data, principally in the form of a monthly Fiscal Performance Report, which presents revenues and expenditures on a transaction basis, distinguishing between budget transactions and the Treasury transactions. On the revenue side, budget transactions include all tax and non-tax revenues; on the expenditure side, budget transactions account for all debt-related expenses and expenditures pertaining to the execution of the Budget Law for the year under consideration and for expenditures on account of previous years' budgets, noting that such expenditures used to appear in treasury expenditures; however, as of 2007, they have been reclassified under budget expenditures. Revenues classified as Treasury transactions include municipalities' revenues and other inflows in Treasury accounts under guarantees, deposits and grants. Expenditures classified as Treasury transactions include (i) payments not related to Budget Law articles, such as transfers to municipalities' and to EdL, (ii) expenditures paid through withdrawals from guarantees and/or deposits accounts, and (iii) treasury advances to cover emerging expenditures which were not accounted for, such as the diesel oil subsidy and wheat subsidy.
- Beginning in 2002, the Ministry of Finance further refined the presentation of the expenditures data and introduced an economic classification of expenditures which analyses expenditures by type rather than by transactional nature. Under this method, expenditures are classified according to their economic type regardless of the budget year attributable to them. There are three main types along which expenditures are classified: current expenditures, capital expenditures, and other Treasury expenditures.

As provided in Article 86 of the Constitution and public accounting law decree № 14969/1963, in the absence of approved Budgets for 2006, 2007, 2008, 2009, 2010, 2011 and 2012, Government expenditures have been incurred and are currently incurred on the basis of the "one-twelfth rule", pursuant to which the Government is authorized to spend monthly one-twelfth of the last approved Budget (*i.e.*, the 2005 Budget) and other enabling legislation. During the period 2006-2011, successive Governments have incurred extra-budgetary expenditures.

There is a controversy regarding the extra-budgetary expenditures incurred during the period 2006-2010 with certain members of the March 8 Coalition having requested a review of these expenditures by the Court of Accounts (the audit court). The Minister of Finance and other members of Parliament have proposed draft laws seeking to ratify the extra-budgetary expenditures for the period 2006-2010, as well as for 2011.

This controversy is currently blocking approval of the Budgets for the years 2006-2011, which in turn limits the Government's ability to have a Budget approved for 2012. If not resolved, this controversy may hamper the Government's flexibility in managing its debt. See "*Risk Factors—Risks Relating to the Republic—Extra-Budgetary Expenditures*".

Budget proposals for 2006, 2007, 2008, 2009 and 2010 were approved by the Council of Ministers and sent to Parliament but have not been ratified. The budget proposal for 2011 was initially submitted by the Minister of Finance to the Council of Ministers but was subsequently withdrawn for review. The draft budget proposal for 2012 was sent by the Minister of Finance to the Council of Ministers. However, a request to withdraw the draft 2012 budget proposal was subsequently sent by the Minister of Finance to the President of the Council of Ministers in order to review the proposed expenditures in light of potential increases in public sector wages and to introduce, among other things, revenue-enhancing measures to cover these additional expenditures.

In March 2012, Parliament adopted a new law providing for, among other things, authorization for the Government to incur new borrowings of up to U.S.\$2 billion to finance foreign currency treasury needs and for debt refinancing of up to U.S.\$3 billion, in each with maturities of up to 30 years. The new law has not yet been published in the *Official Gazette*.

## Summary of Government Operations

The following table shows a summary of Government operations for the period from 2007 to 2011.

### Summary of Government Operations

|  | 2007           | 2008           | 2009           | 2010           | 2011           |
|--|----------------|----------------|----------------|----------------|----------------|
|  |                |                | (LL billions)  |                |                |
| <b>Revenues</b>  |                |                |                |                |                |
| I. Tax revenues .....                                  | 5,583          | 7,182          | 8,967          | 9,976          | 9,885          |
| II. Non-tax revenues <sup>(1)</sup> .....              | 2,511          | 2,612          | 3,069          | 2,043          | 3,468          |
| III. Budget revenues (I+II) .....                      | 8,094          | 9,794          | 12,036         | 12,018         | 13,353         |
| IV. Treasury revenues <sup>(2)</sup> .....             | 655            | 758            | 669            | 666            | 718            |
| V. Total revenues (III+IV) .....                       | 8,749          | 10,553         | 12,705         | 12,684         | 14,070         |
| <b>Expenditures</b>                                    |                |                |                |                |                |
| I. Current expenditures .....                          | 9,661          | 10,639         | 12,617         | 12,922         | 15,800         |
| Personnel cost <sup>(3)</sup> .....                    | 3,583          | 3,973          | 4,935          | 5,066          | 5,533          |
| Debt service <sup>(4)</sup> .....                      | 4,940          | 5,304          | 6,087          | 6,218          | 6,034          |
| Other current <sup>(5)</sup> .....                     | 1,137          | 1,362          | 1,596          | 3,698          | 4,449          |
| II. Capital expenditures <sup>(6)</sup> .....          | 558            | 514            | 550            | 701            | 676            |
| III. Other Treasury expenditures .....                 | 2,367          | 3,757          | 3,947          | 1,363          | 908            |
| IV. Total expenditures (I+II+III) <sup>(7)</sup> ..... | 12,587         | 14,957         | 17,167         | 17,047         | 17,600         |
| <b>Total Deficit (V-IV) .....</b>                      | <b>(3,838)</b> | <b>(4,404)</b> | <b>(4,462)</b> | <b>(4,362)</b> | <b>(3,530)</b> |
| <b>Budget and Treasury transactions</b>                |                |                |                |                |                |
| <b>Budget balance .....</b>                            | <b>(1,977)</b> | <b>(1,189)</b> | <b>(992)</b>   | <b>(3,168)</b> | <b>(2,670)</b> |
| Budgetary revenues .....                               | 8,094          | 9,794          | 12,036         | 12,018         | 13,353         |
| Budgetary expenditures <sup>(8)</sup> .....            | 10,070         | 10,984         | 13,028         | 15,187         | 16,022         |
| <b>Net Treasury operations .....</b>                   | <b>(1,862)</b> | <b>(3,215)</b> | <b>(3,470)</b> | <b>(1,194)</b> | <b>(860)</b>   |
| Treasury receipts .....                                | 655            | 758            | 669            | 666            | 718            |
| Treasury outlays .....                                 | 2,517          | 3,973          | 4,139          | 1,860          | 1,578          |
| <b>Percent of GDP<sup>(9)</sup></b>                    |                |                | (%)            |                |                |
| Total deficit <sup>(10)</sup> .....                    | (10.20)        | (9.84)         | (8.54)         | (7.80)         | (5.99)         |
| Total revenues .....                                   | 23.25          | 23.58          | 24.32          | 22.66          | 23.89          |
| Total expenditures .....                               | 33.45          | 33.42          | 32.87          | 30.46          | 29.88          |
| <b>Nominal GDP<sup>(7)</sup> .....</b>                 | <b>37,625</b>  | <b>44,748</b>  | <b>52,235</b>  | <b>55,965</b>  | <b>58,906</b>  |

#### Notes:

- (1) The non-tax revenue figure for 2011 includes LL 2,261,250 million accrued to the benefit of the Ministry of Finance in respect of telecommunications revenue for 2011 and transferred to it from the account of the Ministry of Telecommunications maintained at *Banque du Liban* of which LL 1,959,750 million was transferred in 2011 and the balance of LL 301,500 million in January 2012.
- (2) Including LL 200 billion grants for budgetary support credited to the Treasury accounts in 2007.
- (3) Including wage and salary related payments, e.g., pensions to civil servants and end of service indemnities to Government employees.
- (4) Includes principal repayment on foreign loans earmarked for project financing and interest payments on both foreign currency debt and domestic currency debt.
- (5) Includes payments to EdL starting 2010 following their inclusion in the 2009 budget proposal as a subsidy. EdL payments incurred before 2010 are classified under other Treasury expenditures.
- (6) Expenditure does not include capital expenditures of CDR financed with foreign funds, consisting of LL 317 billion in 2007, LL 304 billion in 2008, LL 279 billion in 2009, LL 304 billion in 2010 and LL 420 billion in 2011. Expenditure does not include HRC extra-budgetary spending amounting to LL 756 billion in 2007 and LL 280 billion in 2008.
- (7) Prior to 2002, the breakdown of expenditures was based on estimates derived from the reconciliation of payment order data and cash payment data. Beginning in 2002, the breakdown of expenditures has been based exclusively on cash payment data. Certain Treasury expenditures are classified as current or capital expenditures and the balance of Treasury expenditures appears under other Treasury expenditures.
- (8) Includes payments to EdL starting 2010 following their inclusion in the 2009 budget proposal as a subsidy. EdL payments incurred before 2010 are classified under other Treasury expenditures.
- (9) The GDP figures included in this table are taken from the *Lebanese Republic, Presidency of the Council of Ministers, Economic Accounts 2010* and revised GDP figures for 2007-2009 prepared by the National Accounts Committee. The 2011 figures are estimates by the Ministry of Finance.
- (10) Not including CDR capital expenditures financed externally and HRC spending that was funded outside the budget and treasury process in 2007 and 2008 referred to in Note (4) above.

## **Revenues**

The main sources of budget revenues are taxes on income, profits, capital gains and dividends, and interest income, taxes on property, domestic taxes on goods and services (including, from February 2002, VAT revenues), taxes on international trade and other transaction taxes (fiscal stamps). Non-tax revenues consist principally of entrepreneurial and property income, such as surplus transfers from the Post and Telecommunications and other annex budgets and distributions and remittances, on account of profits or otherwise, from BDL and in respect of the Republic's ownership of various assets. Additionally, non-tax revenues include administrative fees and charges, fines and confiscated assets.

Total revenues were LL 14,070 billion in 2011, as compared to LL 12,684 billion in 2010, representing an increase of 11 percent, which was primarily attributable to an increase in non-tax revenues, partially offset by a 1 percent decline of tax revenues, principally due to a decrease in excise tax receipts following a decision of the Higher Council of Customs to reduce the excise tax on gasoline by LL 5,000 per 20 liters and the decline in excise tax receipts on cars, reflecting a decline in car imports.

Non-tax revenues increased by 69.8 percent to LL 3,468 billion in 2011 from LL 2,043 billion in 2010, principally due to higher transfers from the Ministry of Telecommunications, which were LL 2,261 billion in 2011, as compared to LL 957 billion in 2010. Of this amount, LL 1,959,750 million was transferred 2011 and the remaining balance of LL 301,500 million was transferred in January 2012.

Total revenues were LL 12,684 billion in 2010, as compared to LL 12,705 billion in 2009, representing an increase of 0.16 percent, which was primarily attributable to a LL 1,026 billion decrease in non-tax revenues. Non tax revenues were LL 2,043 billion in 2010, as compared to LL 3,069 billion in 2009, representing a 33.4 percent decrease, which was mainly due to lower transfers from the Ministry of Telecommunications.

Total revenues were LL 12,705 billion in 2009, as compared to LL 10,553 billion in 2008, representing an increase of approximately 20 percent, which was primarily attributable to a LL 1,785 billion increase in tax collections (income taxes, property registration fees, VAT, custom duties as well as car and fuel excises). Non tax revenues were LL 3,069 billion in 2009, as compared to LL 2,613 billion in 2008, representing a 17 percent increase, which was mainly due to higher transfers from the Ministry of Telecommunications, the Rafic Hariri International Airport and the Port of Beirut and to an increase of vehicle control fees.

Total revenues were LL 10,553 billion in 2008, as compared to LL 8,749 billion in 2007, representing an increase of approximately 21 percent, which was primarily attributable to a LL 1,600 billion increase in tax collections (income taxes, property registration fees, VAT, custom duties and car excises). Non tax revenues were LL 2,613 billion in 2008, as compared to LL 2,511 billion in 2007, representing a 4 percent increase, which was mainly due to a special payment from *Casino du Liban* in settlement of a tax dispute, and to higher transfers from the Ministry of Telecommunications.

As a percentage of GDP, total revenues increased from 23.25 percent in 2007 to 23.89 percent in 2011 after having reached 24.32 percent in 2009.

## **Expenditures**

Budget expenditures are divided into current expenditures and capital expenditures. The bulk of current expenditures consists primarily of debt service and personnel costs, including salaries, wages and end of service indemnities and other retirement benefits.

Total expenditures in 2011 were LL 17,600 billion, as compared to LL 17,047 billion in 2010, representing an increase of 3.2 percent. This increase was principally due to (i) increased personnel costs in 2011, which were LL 5,533 billion in 2011, as compared to LL 5,066 billion in 2010 and (ii) higher transfers to EdL, which were LL 2,626 billion in 2011, as compared to LL 1,797 billion in 2010, principally due to an LL 816 billion increase in payments for fuel and gas oil and a LL 55 billion payment for natural gas to Egyptian Natural Gas Holding Company. The increase in expenditures was partially offset by (i) a decrease in capital expenditures from LL 701 billion in 2010 to LL 676 billion in 2011, (ii) a reduction of payments to municipalities from LL 735 billion in 2010 to LL 368 billion in 2011 and (iii) a decline in VAT refunds from LL 384 billion in 2010 to LL 195 billion in 2011.

Total expenditures in 2009 were LL 17,167 billion compared to LL 14,957 billion in 2008, an increase of approximately 15 percent. This increase is due to an approximately 15 percent increase in non-debt service expenditures (LL 11,080 billion in 2009, as compared to LL 9,653 billion in 2008) and an increase of

approximately 17 percent in interest payments (LL 5,784 billion in 2009, as compared to LL 4,957 billion in 2008), which was slightly offset by a 13 percent decrease in principal repayments of foreign currency debt reflecting the repayment of World Bank loans amounting to U.S.\$50 million in June 2009 and the repayment of World Bank loans amounting to U.S.\$88 million in January 2008, both through the proceeds of a USAID grant pledged at the Paris III conference.

The increase in non-debt service expenditures in 2009 was caused by a 24 percent increase in personnel cost (LL 4,935 billion in 2009 as compared to LL 3,970 billion in 2008) following implementation of Law № 63 (as discussed below), a 17 percent increase in other current expenditures (LL 1,596 billion in 2009, as compared to LL 1,364 billion in 2008) due mainly to higher transfers to the National Social Security Fund and hospitals and a 5 percent increase (LL 3,947 billion in 2009, as compared to LL 3,757 billion in 2008) following higher transfers to the High Relief Committee that were partly offset by lower transfers to municipalities and EdL. Transfers to EdL were 7 percent lower (LL 2,259 billion in 2009, as compared to LL 2,430 billion in 2008). This is mainly explained by the lower oil prices.

Additional spending in 2009 and 2008 pursuant to Law № 63 dated December 31, 2008 was comprised of (i) an increase the minimum wage in the public sector to LL 500,000 per month, (ii) a salary increase of LL 200,000 per month for all public sector employees (including the employees of state-owned enterprises, municipalities and the *Régie Libanaise des Tabacs et Tombacs*) and (iii) an increase of LL 100,000 per month to all public sector retirees. In addition, transfers to the STL, the National Social Security Fund, hospitals and others were paid by a Treasury advance authorized by decrees following decisions taken by the Council of Ministers and are expected to be subsequently regularized in the relevant budget.

Total expenditures were LL 14,957 billion in 2008, as compared to LL 12,587 billion in 2007, representing an increase of approximately 19 percent. This increase is due to an increase of approximately 27 percent in non-debt service expenditures (LL 9,653 billion in 2008, as compared to LL 7,647 billion in 2007, an increase of approximately 6 percent in interest payments (LL 4,957 billion in 2008, as compared to LL 4,695 billion in 2007) and an increase of approximately 41 percent in principal repayments of foreign currency debt due to the early repayment of three World Bank loans settled with the proceeds of a USAID grant for budgetary support. The increase in non-debt service expenditures in 2008 was largely caused by a 64 percent increase in transfers to EdL (LL 2,430 billion in 2008, as compared to LL 1,479 billion in 2007), a 72 percent increase in transfers to municipalities (LL 527 billion for 2008, as compared to LL 306 billion in 2007) and the effects of Law № 63.

## The Fiscal Deficit

The table below shows the fiscal deficit (including the budget deficit and the results of Treasury operations) and the ratios of deficit to GDP and net public debt to GDP for the years 2007 to 2011.

|  | <b>Fiscal Deficit</b> |             |             |             |             |
|--|-----------------------|-------------|-------------|-------------|-------------|
|  | <b>2007</b>           | <b>2008</b> | <b>2009</b> | <b>2010</b> | <b>2011</b> |
| GDP (at current market prices in LL billions) <sup>(1)</sup> ..... | 37,625                | 44,748      | 52,235      | 55,965      | 58,906      |
| Total Deficit <sup>(2)</sup> .....                                 | (3,838)               | (4,404)     | (4,462)     | (4,362)     | (3,530)     |
| Deficit/GDP (%) <sup>(2)</sup> .....                               | (10.20)               | (9.84)      | (8.54)      | (7.80)      | (5.99)      |
| Net Public Debt/GDP (%).....                                       | 156                   | 140         | 127         | 121         | 119         |

Note:

(1) The GDP figures included in this table are taken from the *Lebanese Republic, Presidency of the Council of Ministers, Economic Accounts 2010* and revised GDP figures for 2007-2009 prepared by the National Accounts Committee. The 2011 figures are estimates by the Ministry of Finance.

(2) Excluding foreign financed CDR expenditure and HRC spending, not funded by budgetary allocations and treasury advances.

Source: Ministry of Finance.

Since 1992, the focus of the Government has been on regaining public confidence in the economic future of Lebanon through macroeconomic stability and a significant reduction of inflation, while embarking on a major rehabilitation and reconstruction program. However, the Government has had to contend with the effects of the prolonged period of conflict on the Government's expenditures and ability to collect revenues. Public debt began to accumulate in the mid-1970s, as a result of the decline in the Government's control over revenue sources and the expansion of the public deficit. The growth in the public debt resulted from the Government's inability to cover its expenditures from ordinary revenues (the primary budget balance) and growing debt service obligations. As a result, the Government has been running budget deficits financed mainly through domestic borrowing.

The fiscal balance registered a deficit of LL 3,530 billion in 2011, as compared to a deficit of LL 4,362 billion in 2010, representing a decrease of approximately 19 percent. The primary balance registered a surplus of LL 2,505 billion in 2011, as compared to a surplus of LL 1,855 billion in 2010, representing a 35 percent increase.

The fiscal balance registered a deficit of LL 4,362 billion in 2010, as compared to a deficit of LL 4,462 billion in 2009, representing a slight decrease of approximately 2 percent. The primary balance registered a surplus of LL 1,855 billion in 2010 as compared to a surplus of LL 1,625 billion in 2009, representing a 14 percent increase.

The fiscal balance registered a deficit of LL 4,462 billion in 2009, as compared to a deficit of LL 4,404 billion in 2008, representing a slight increase of 1 percent. The primary balance registered a surplus of LL 1,625 billion in 2009 as compared to a surplus of LL 900 billion in 2008, a representing an 80 percent increase.

The fiscal balance registered a deficit of LL 4,404 billion in 2008, as compared to a deficit of LL 3,838 billion in 2007, representing a 15 percent deterioration. The primary balance registered a surplus of LL 900 billion in 2008 as compared to a surplus of LL 1,102 billion in 2007, representing an 18 percent decrease.

The table below shows the evolution of primary surplus over the last five years.

|                                   | <b>Primary Surplus</b> |             |             |             |             |
|-----------------------------------|------------------------|-------------|-------------|-------------|-------------|
|                                   | <b>2007</b>            | <b>2008</b> | <b>2009</b> | <b>2010</b> | <b>2011</b> |
| Total Revenues .....              | 8,749                  | 10,553      | 12,705      | 12,684      | 14,070      |
| Total Expenditures.....           | 12,587                 | 14,957      | 17,167      | 17,047      | 17,600      |
| Debt Service <sup>(1)</sup> ..... | 4,940                  | 5,304       | 6,087       | 6,218       | 6,034       |
| Primary Surplus .....             | 1,102                  | 900         | 1,625       | 1,855       | 2,505       |
| Percent of GDP (%).....           | 2.93                   | 2.01        | 3.11        | 3.31        | 4.25        |
| Nominal GDP .....                 | 37,625                 | 44,748      | 52,235      | 55,965      | 58,906      |

Note:

(1) Including principal repayment on foreign loans earmarked for project financing and interest payments on both foreign currency debt and domestic currency debt.

Source: Ministry of Finance.

The primary balance, representing total revenues less primary expenditures (*i.e.*, total expenditures excluding debt service) improved by 10 percent of GDP from 2000 to 2004. However, in 2005 and 2006, the trend slowed witnessed a slowdown in that trend due to the impact of Prime Minister Hariri's assassination in February 2005, the July 2006 War and the blockade of nearly two months in 2006. However, concerted efforts to reduce spending resulted in the primary surplus despite an impeding political and security environment in 2007. As such, the primary balance in 2007 was 2.93 percent of GDP. In 2008, higher revenue collections (by 21 percent) were offset by higher primary spending (by 26 percent), which was fuelled by a new salary and wage policy for the public sector and higher transfers to EdL and municipalities. The primary balance in 2008 was 2.01 percent of GDP. In 2009, the primary balance significantly improved to its pre-2005 level following an improved performance on the revenue side (a 20 percent increase) coupled with a deceleration in primary spending, which nominally increased by 15 percent and remained broadly stable in real terms (21.2 percent of GDP in 2009 compared to 21.3 percent in 2008). The primary balance in 2010 improved slightly compared to its 2009 level to 3.31 percent of GDP, due mainly to flat revenues, and a decline of 2 percent in primary expenditures. The primary balance continued to improve in 2011 compared to its 2010 level to 4.25 percent of estimated GDP, due mainly to an 11 percent increase in total revenues (mainly due to higher transfers from the telecommunications surplus compared to 2010) and a lower increase in primary expenditures of 3 percent compared to 2010.

## The 2005 Budget

A first draft budget proposal was prepared under the Government of Mr. Hariri and sent to the Council of Ministers on September 27, 2004, to be discussed. The draft budget proposal included a comprehensive set of reforms. However, the resignation of the Hariri Government on October 20, 2004, did not permit completion of the process. A second draft budget proposal was prepared by the Karami Government and sent to the Council of Ministers on February 25, 2005. The resignation of the Karami Government on February 28, 2005, also prevented completion of the process. After the formation of the Mikati Government, the draft budget proposal prepared under the Karami Government was sent to the Ministries in order to allow the then newly appointed ministers to review their budget allocations. Comments were sent back to the Ministry of Finance, however, due to the short tenure of the Mikati Government (which constitutionally ended on June 20, 2005), no budget



proposals was sent to the Council of Ministers. A third draft budget proposal was prepared under the Siniora Government and sent to the Council of Ministers on September 14, 2005 for review and adoption. On November 24, 2005, budget proposal was submitted to Parliament and approved by Parliament on February 2, 2006, as Budget Law № 715. Although the 2005 Budget was approved outside the constitutional deadline, the Government believed it was necessary for formal approval to take place so that approval of the 2006 Budget and subsequent budgets were not affected.

### **The 2006 Budget**

The 2005 Budget approval delay led to a delay in the preparation and adoption of the 2006 budget as the former had to be approved by the Council of Ministers and Parliament prior to the 2006 budget. Two other factors contributed to the delay:

- 2006 was the first year of the reform program and as such the budget contained measures that required separate approval and adoption by Parliament; and
- the July 2006 War required amendments to the budget proposal and accordingly, its submission to the Council of Ministers and Parliament had to be postponed.

On January 1, 2007, The Council of Ministers approved the 2006 budget proposal and submitted it to Parliament. The 2006 Budget was not adopted by Parliament, in light of the refusal of the Speaker to convene parliamentary sessions.

### **The 2007 Budget**

The draft 2007 budget proposal was approved by the Council of Ministers on May 21, 2007, pursuant to Decree № 403, and sent to Parliament on June 13, 2007. It was published in the Official Gazette № 36, dated June 20, 2007. The 2007 budget was not adopted by Parliament, in light of the refusal of the Speaker to convene parliamentary sessions. The 2007 budget proposal enlarges the scope of budget coverage by partially integrating, for the first time, the largest extra-budgetary entities, namely the CDR and the HRC.

### **The 2008 Budget**

The 2008 budget proposal was approved by the Council of Ministers on October 27, 2007, pursuant to Decree № 977, and sent to Parliament on November 24, 2007. It was published in Official Gazette № 77 dated December 7, 2007. The 2008 budget was not adopted by Parliament, in light of Parliament's inability to meet due to the refusal of the Speaker to convene parliamentary sessions.

### **The 2009 Budget**

The 2009 budget proposal was approved by the Council of Ministers on June 12, 2009, pursuant to Decree № 2364, and sent to Parliament on June 20, 2009. The 2009 budget was not adopted by Parliament as the budgets for 2006, 2007 and 2008 must be approved first.

### **The 2010 Budget**

The 2010 budget proposal was approved by the Council of Ministers on June 18, 2010 and sent to Parliament on July 9, 2010 pursuant to Decree № 4600.

## **The 2011 Budget**

The Minister of Finance sent the 2011 budget proposal to the Presidency of the Council of Ministers on September 7, 2010 requesting its submission to the Council of Ministers for review, approval and transmission to Parliament. Following the formation of the new Government pursuant to Decree № 5818 dated June 13, 2011 and pursuant to Letter № 573 MS of the Presidency of the Council of Ministers dated June 30, 2011, the 2011 budget proposal has been returned to the Ministry of Finance to allow the then-incoming Ministers to review their respective budgets and amend them, if necessary. A revised version of the 2011 budget proposal reflecting the priorities of the new Government is expected to be submitted by the Minister of Finance to the Council of Ministers. Pursuant to Decision № 18, dated January 18, 2012, the Government capped total spending for 2011 at LL 18,900 billion, representing an additional LL 8,900 billion, as compared to the LL 10,000 billion set by the 2005 Budget Law. This additional spending is to be regularized by a special law.

## **The 2012 Budget**

The Minister of Finance sent the 2012 budget proposal to the Presidency of the Council of Ministers on September 30, 2011 requesting its submission to the Council of Ministers for review, approval and transmission to Parliament. However, a request to withdraw the draft 2012 budget proposal was subsequently sent by the Minister of Finance to the President of the Council of Ministers in order to review the proposed expenditures in light of potential increases in public sector wages and to introduce, among other things, revenue-enhancing measures to cover these additional expenditures.

## **Tax System and Taxation Reform**

The tax system in the Republic has been subject to sweeping reforms. During the period of conflict, the record of revenue collection was extremely poor, with widespread tax evasion and weak administration. A new Income Tax Law was promulgated on December 30, 1993 (Law № 282 published in the Official Gazette № 1 dated January 6, 1994), and became effective as of the beginning of fiscal year 1994. This law amended the old income tax law and introduced new provisions aimed at reducing tax rates, improving tax implementation and receipts and stimulating private investment. The Income Tax Law was modified in certain respects in the 1999 Budget, which increased income tax rates and dividend tax rates. Currently, the maximum income tax rate is 21 percent for individuals (excluding certain categories of professionals) and 15 percent for corporations (other than holding companies and off-shore companies incorporated in the Republic, which are not subject to income tax). The 2000 Budget reduced tax on dividends to 5 percent (from 10 percent) for companies listed on the Beirut Stock Exchange. Capital gains on disposal of shares for individuals and for marketable securities are currently generally exempt from tax.

In December 2001, Parliament adopted the VAT law, which became effective on February 1, 2002. VAT is levied at a single rate of 10 percent on all goods and services, subject to certain exemptions, such as medical and educational services. Effective March 5, 2012, pursuant to Law № 207, diesel (*mazout*) is also exempted from VAT.

In January 2003, Parliament adopted the 2003 Budget Law, pursuant to which interest paid in respect of bonds issued by the Lebanese Republic after January 31, 2003, and by private entities, as well as interest paid in respect of bank deposits and other interest bearing assets, is subject to withholding tax at the rate of five percent. See "*Taxation—Lebanese Taxation*".

In accordance with the economic reform program presented at the Paris III Conference on January 25, 2007 and in the context of fiscal consolidation and debt sustainability, the 2007 budget proposal calls for an increase in tax rates for revenue enhancement purposes, namely two percentage points additional VAT and interest income tax rates. As and when the 2007 budget proposal is ratified by Parliament, a 12 percent VAT and a seven percent interest income tax will be applicable.

The Government is engaged in a series of reforms to strengthen and modernize tax administration. These reforms include, among others, (i) the creation of a specialized unit to manage the withholding tax on wages and salaries (in 2003); (ii) a Tax Roll Department to update and manage the taxpayers identification database (in 2003); (iii) the establishment of a Large Taxpayers' Office (in 2005), (iv) the reorganization of the regional tax offices along function-based operations and the establishment of sections in Mount-Lebanon and Beirut tax offices and LTO in line with the created departments in the regional tax offices (in 2005-2006); (v) the completion of logistics arrangements to establish taxpayer services in two satellite offices (in 2009) and the appointment of Department heads in all offices (in 2010); and (vi) the transfer of the collection function to the

regional tax offices (in 2011). The Government is currently working on a merger between the Directorates of Revenues and VAT after the nomination of a single Tax Administration Director in July 2012.

A Tax Procedure Code that unifies procedures for taxes and fees has been adopted by Parliament and became effective on January 1, 2009, and implementing regulations were issued in July 2009. The VAT law and related regulations are under review, and work is ongoing for the introduction of the new Individual and Corporate Income Tax Law.

## **Social Policies**

Prior to the July 2006 War, the Government had developed a comprehensive social reform program aimed at improving the efficiency and the targeting of its social sector expenditures.

After the July 2006 War, the Government included a social action plan as part of its fiscal and economic reform program it presented to the Paris III Conference. The main objectives of the social action plan are to: (i) alleviate poverty and improve the quality of education and health indicators; (ii) improve the efficiency of public social spending and keep it at an appropriate and sustainable level; and (iii) reduce regional disparities in development indicators through a proper distribution of investment and other resources and encourage investment and other job-creating activities in the more deprived areas and (iv) improve the social protection system by reforming the National Social Security Fund including the end-of-service indemnity and the health branch.

The National Social Security Fund devised and commenced the implementation of a reform program, financed primarily from its own resources. The medium-term reform program is comprehensive and includes: (i) the transformation of the End-of-Service-Indemnity program into a fully-funded defined-contribution pension system; (ii) reforms of the health insurance branch to restore its financial balance while introducing incentives to better control utilization, quality and costs; (iii) changes in the Family Allowance Branch to provide affordable and better targeted transfers; and (iv) changes in business process and information technology infrastructure to improve efficiency in management and support the wider program reforms. The Ministry of Social Affairs, in collaboration with the Presidency of the Council of Ministers, is also pursuing the reform efforts that began after the Paris III Conference, including a poverty targeting mechanism. In 2011, the Ministry of Social Affairs published the National Social Development Strategy of Lebanon 2011, which has the following general objectives: (i) achieve better health; (ii) strengthen social protection; (iii) provide quality education; (iv) improve opportunities for equitable and safe employment; and (v) revitalize communities and develop the social capital.

In the context of developing social policies, the Government entered into a U.S.\$6 million grant agreement with the World Bank, to provide technical assistance and capacity building to agencies working in the social field to pursue their reforms initiated under the Paris III program. These include the Ministry of Social Affairs, the Ministry of Education and Higher Education, the Ministry of Public Health and the Ministry of Labor. The major axis of reforms will be the national roll out the Poverty Targeting System, designing the “First-Time Job Seekers” pilot program and establishing a MILES (Labor Market) unit within the Ministry of Labor, improving the programming capacity of the Ministry of Education and Higher Education and improving the quality of education, and enhancing resource utilization and the quality of services at the Ministry of Public Health.

## TERMS AND CONDITIONS OF THE NOTES

*The following are the Terms and Conditions of the Notes to be issued by the Republic which will be incorporated by reference into each Global Note and each Definitive Note, in the case of Definitive Notes only if permitted by the rules of the relevant stock exchange (if any) and agreed by the Republic and the relevant Dealer at the time of issue. If not so permitted and agreed, such Terms and Conditions will be endorsed on or attached to such Definitive Note. The applicable Final Terms in relation to any Tranche of Notes may specify other terms and conditions, which shall, to the extent so specified or to the extent inconsistent with the following Terms and Conditions, replace or modify the following Terms and Conditions for the purpose of such Notes. The applicable Final Terms (or the relevant provisions thereof) will be endorsed upon, or attached to, each Temporary Global Note, Permanent Global Note, Regulation S Global Note, Restricted Global Note and Definitive Note (each as defined in “Forms of the Notes” below). Capitalized terms used in these Terms and Conditions and not otherwise defined herein have the meanings ascribed thereto in the Fiscal Agency Agreement or the applicable Final Terms. References to a specific “Condition” shall be deemed to refer to the relevant Condition set forth in the Terms and Conditions of the Notes.*

This Note is one of a Series (as defined below) of Notes issued by the Lebanese Republic (the “Republic”) pursuant to a Third Amended and Restated Fiscal Agency Agreement (such Fiscal Agency Agreement, as modified and/or supplemented and/or restated from time to time, the “Fiscal Agency Agreement”) dated March 1, 2010 and made between the Republic, Deutsche Bank Trust Company Americas (acting through its principal corporate office in New York), as fiscal agent (the “Fiscal Agent,” which expression shall include any successor fiscal agent), as registrar (the “Registrar,” which expression shall include any successor registrar), as calculation agent (the “Calculation Agent,” which expression shall include any successor calculation agent), and as exchange agent (the “Exchange Agent,” which expression shall include any successor exchange agent) and Deutsche Bank AG, London Branch and Deutsche Bank Luxembourg S.A., as paying agents and transfer agents (respectively, the “Paying Agents” and “Transfer Agents,” which expressions shall, unless the context otherwise requires, include any successors in their capacity as such and any substitute or any additional paying agents or transfer agents, respectively, which are appointed in accordance with the Fiscal Agency Agreement). References herein to the “Notes” shall be references to the Notes of this Series and shall include (i) any Global Note, (ii) interests in any Global Note representing units of the lowest Specified Denomination (as indicated in the applicable Final Terms) in the Specified Currency (as indicated in the applicable Final Terms) and (iii) any Definitive Notes issued in exchange (or part exchange) for a Global Note.

Interest bearing definitive Bearer Notes (unless otherwise indicated in the applicable Final Terms) have interest coupons (“Coupons”) and, if indicated in the applicable Final Terms, talons for further Coupons (“Talons”) attached on issue. Any reference herein to “Coupons” or “coupons” shall, unless the context otherwise requires, be deemed to include a reference to “Talons” or “talons”. Definitive Bearer Notes repayable in installments have receipts (“Receipts”) for the payment of the installments of principal (other than the final installment) attached on issue. Definitive Registered Notes do not have Receipts, Coupons or Talons attached on issue.

The Final Terms for this Note (or the relevant provisions thereof) are attached to or endorsed on this Note and supplement these Terms and Conditions and may specify other terms and conditions, which shall, to the extent so specified or to the extent inconsistent with these Terms and Conditions, replace or modify these Terms and Conditions for the purposes of this Note. References to the “applicable Final Terms” are to the Final Terms (or the relevant provisions thereof) attached to or endorsed on this Note.

As used herein, “Tranche” means Notes which are identical in all respects (including as to listing) except that a Tranche of Notes may comprise Notes of more than one Specified Denomination. As used herein, “Series” means a Tranche of Notes together with any further Tranche or Tranches of Notes which are expressed to be consolidated and form a single series and are identical in all respects (including as to listing) except that a Series of Notes may comprise Notes of more than one Specified Denomination and the Issue Price, Issue Date, Interest Commencement Date (if any) and/or the amount of the first payment of interest (if any) may be different in respect of different Tranches.

Copies of the Fiscal Agency Agreement and the Final Terms applicable to this Note are available during normal business hours at the specified office of each of the Paying Agents, the Registrar, the Transfer Agents and the Fiscal Agent save that the applicable Final Terms in relation to an unlisted Note will only be available for inspection by a Holder holding one or more Notes of the same Series, subject to such Holder producing evidence satisfactory to the Fiscal Agent, the Registrar or the relevant Paying Agent or Transfer Agent, as the

case may be, as to its holding of such Notes and as to its identity. The Holders of Notes, Receipts and Coupons are deemed to have notice of, and are entitled to the benefit of, all the provisions of these Terms and Conditions and the applicable Final Terms which are applicable to them.

Words and expressions defined in the Fiscal Agency Agreement or used in the applicable Final Terms shall have the same meanings where used in these Terms and Conditions unless the context otherwise requires or unless otherwise stated and provided that, in the event of inconsistency between these Terms and Conditions and the applicable Final Terms, the applicable Final Terms will prevail.

## **1. Form, Denomination and Title**

The Notes may be Bearer Notes or Registered Notes and issued in global form or definitive form. Notes, to the extent applicable, will be numbered serially and issued in the Specified Currency and the Specified Denomination(s). Save as provided in Condition 2, Notes of one Specified Denomination may not be exchanged for Notes of another Specified Denomination.

Notes in registered form sold pursuant to Rule 144A (“*Rule 144A*”) under the U.S. Securities Act of 1933, as amended (the “*Securities Act*”), shall be issued in denominations of U.S.\$100,000 (or its equivalent in any other currency) and higher integral multiples of U.S.\$1,000 (or its equivalent as aforesaid) or the higher denomination or denominations specified in the applicable Final Terms.

Subject as set forth below, title to Bearer Notes, Receipts and Coupons will pass by delivery and references herein to “*Holders*” of Bearer Notes, Receipts and Coupons are to the bearers of such Bearer Notes, Receipts and Coupons, subject as provided below. Title to Registered Notes will pass upon registration of transfers in the books of the Registrar in London. References herein to the “*Holders*” of Registered Notes are to the persons in whose names such Registered Notes are so registered in such books, subject as provided below. The Republic, the Fiscal Agent, any Paying Agent, the Registrar and any Transfer Agent may deem and treat the bearer of any Bearer Note, Receipt or Coupon and any person in whose name a Registered Note is registered as the absolute owner thereof (whether or not overdue and notwithstanding any notice of ownership or writing thereon or notice of any previous loss or theft thereof) for all purposes but, in the case of any Global Note, without prejudice to the provisions set forth in the next succeeding paragraph.

For so long as any of the Bearer Notes are represented by a bearer Global Note held by a common depositary on behalf of Euroclear and/or Clearstream, Luxembourg or for so long as Euroclear, Clearstream, Luxembourg or DTC, as the case may be, or its nominee is the registered holder of a Registered Global Note, each person (other than Euroclear, Clearstream, Luxembourg or, as the case may be, DTC) who is for the time being shown in the records of Euroclear, Clearstream, Luxembourg or, as the case may be, DTC as the holder of a particular principal amount of such Notes (in which regard any certificate or other document issued by Euroclear, Clearstream, Luxembourg or, as the case may be, DTC as to the principal amount of such Notes standing to the account of any person shall be conclusive and binding for all purposes save in the case of manifest error) shall be treated by the Republic, the Fiscal Agent, any Paying Agent, the Registrar and any Transfer Agent as the Holder of such principal amount of such Notes for all purposes other than with respect to the payment of principal or interest on the Notes, for which purpose the bearer or registered owner of the relevant Global Note shall be treated by the Republic, the Fiscal Agent, any Paying Agent, the Registrar and any Transfer Agent as the holder of such Notes in accordance with and subject to the terms of the relevant Global Note (and the expression “*Holder*” and related expressions shall be construed accordingly). Notes which are represented by a Global Note will be transferable only in accordance with the rules and procedures for the time being of Euroclear, Clearstream, Luxembourg and, if applicable, DTC, as the case may be.

References to Euroclear, Clearstream, Luxembourg and/or DTC shall, whenever the context so permits, be deemed to include a reference to any additional or alternative clearing system approved by the Republic, the relevant Dealer and the Fiscal Agent and specified in the applicable Final Terms.

Notes shall be issued and denominated in, and amounts shall be due and payable in, the Specified Currency specified in the applicable Final Terms, save that the minimum denomination of each Note will be the equivalent in Specified Currency of U.S.\$1,000 or such higher minimum as may be required from time to time by any laws or regulations applicable to the relevant Specified Currency.

If the Specified Currency of an issue of Notes is a currency of one of the Member States of the European Union not participating as at the Issue Date of such Notes in the third stage of European economic and monetary union

or otherwise participating in European economic and monetary union in a manner with similar effect to such third stage, the Issuer may specify in the applicable Final Terms that such Notes will include redenomination provisions for the redenomination of the Specified Currency to Euro with effect from the start of the relevant country's participation in the European Union, and, if so specified, the wording of the redenomination provisions for the redenomination of the Specified Currency to Euro, will be set out in full in the applicable Final Terms.

## **2. Exchange and Transfers of Notes**

### *(a) Exchange of Registered Notes and Bearer Notes*

Registered Notes may not be exchanged for Bearer Notes and vice versa.

### *(b) Exchange of Interests in Global Notes for Definitive Notes*

Interests in any Global Note will be exchangeable for Definitive Notes, in whole, but not in part, if (i) Euroclear or Clearstream, Luxembourg or, if applicable, DTC notifies the Republic that it is unwilling or unable to continue as depositary for such Registered Global Note, (ii) if applicable, DTC ceases to be a "Clearing Agency" registered under the U.S. Securities Exchange Act of 1934, as amended (the "*Exchange Act*"), or either Euroclear or Clearstream, Luxembourg or, if applicable, DTC is closed for business for a continuous period of 14 days (other than by reason of holiday, statutory or otherwise) or announces its intention permanently to cease business, and a successor depositary or alternative clearing system satisfactory to the Republic and the Fiscal Agent is not available, (iii) an Event of Default (as defined in Condition 10(a)) has occurred and is continuing with respect to such Notes or (iv) otherwise provided in the applicable Final Terms. Upon the occurrence of any of the events described in this Condition 2(b), the Republic will cause the appropriate Definitive Notes to be delivered.

### *(c) Transfers of Global Notes*

Transfers of any Global Note shall be limited to transfers of such Global Note, in whole but not in part, to a nominee of Euroclear or Clearstream, Luxembourg or, if applicable, DTC or to a successor of Euroclear, Clearstream, Luxembourg or DTC, as the case may be, or such successor's nominee.

Transfers of beneficial interests in Global Notes will be effected by DTC, Euroclear or Clearstream, Luxembourg, as the case may be, and, in turn, by participants and, if appropriate, indirect participants in such clearing systems acting on behalf of beneficial transferors and transferees of such interests in accordance with the rules and operating procedures for the time being of Euroclear, Clearstream, Luxembourg, or, if applicable, DTC, as the case may be.

### *(d) Exchanges and Transfers of Definitive Registered Notes*

Upon the terms and subject to the conditions set forth in the Fiscal Agency Agreement, a Definitive Registered Note may be transferred in whole or in part by the Holder or Holders surrendering the Definitive Registered Note for registration of the transfer of the Definitive Registered Note (or the relevant part of the Definitive Registered Note) at the specified office of the Registrar or any Transfer Agent, with the form of transfer thereon duly executed by the Holder or Holders thereof or his or their attorney or attorneys duly authorized in writing and upon the Registrar or, as the case may be, the relevant Transfer Agent, after due and careful enquiry, being satisfied with the documents of title and the identity of the person making the request and subject to such reasonable regulations as the Republic and the Registrar, or, as the case may be, the relevant Transfer Agent may, with the prior approval of the Fiscal Agent, prescribe, including any restrictions imposed by the Republic on transfers of Definitive Registered Notes originally sold to a U.S. person.

Subject as provided above, the Registrar or, as the case may be, the relevant Transfer Agent will, within five business days (being for this purpose a day on which banks are open for business in the city where the specified office of the Registrar or, as the case may be, the relevant Transfer Agent is located) of the request (or such longer period as may be required to comply with any applicable fiscal or other laws or regulations), authenticate and deliver, or procure the authentication and delivery of, at its specified office to the transferee or (at the risk of the transferee) send by mail to such address as the transferee may request, a new Definitive Registered Note of a like aggregate principal amount to the Definitive Registered Note (or the relevant part of the Definitive Registered Note) transferred. In the case of the transfer of part only of a Definitive Registered Note, a new

Definitive Registered Note in respect of the balance of the Definitive Registered Note not transferred will be so authenticated and delivered or (at the risk of the transferor) sent to the transferor.

(e) *Closed Periods*

No Holder may require the transfer of a Registered Note to be registered during the period of 15 days ending on (and including) the due date for any payment of principal or interest or any other amount on that Note or as otherwise provided in Condition 7(c).

(f) *Costs of Exchange or Registration*

Registration of transfers will be effected without charge by or on behalf of the Republic, the Registrar or the relevant Transfer Agent, but upon payment (or the giving of such indemnity as the Registrar or the relevant Transfer Agent may reasonably require) in respect of any tax or other governmental charges which may be imposed in relation to it.

### **3. Status of the Notes**

The Notes constitute direct, general, unconditional, unsubordinated and (subject to Condition 4) unsecured obligations of the Republic which rank *pari passu* in priority of payment, without any preference among themselves and at least *pari passu* with all other present and future unsecured (subject to Condition 4) and unsubordinated Indebtedness (as defined below) of the Republic, other than any Indebtedness preferred by Lebanese law. The full faith and credit of the Republic will be pledged for the due and punctual payment of the Notes and for all obligations of the Republic in respect thereof.

“*Indebtedness*” means all indebtedness of the Republic in respect of monies borrowed by the Republic and guarantees given by the Republic of monies borrowed by others.

### **4. Negative Pledge**

The Republic undertakes that, so long as any Note remains outstanding (as defined in the Fiscal Agency Agreement), the Republic will not create or permit to subsist on any of its present or future assets or revenues any mortgage, pledge or other encumbrance (“*Lien*”) to secure any Public External Indebtedness of the Republic or any other person or any guarantees given by the Republic after July 2, 1997 of Public External Indebtedness of any third party unless either (i) at the same time or prior thereto, the Republic’s obligations under the Notes are secured by the Lien equally and ratably with such Public External Indebtedness or guarantee so secured at the cost of the Republic, and the instrument or the enactment creating such Lien shall expressly so provide, or (ii) such Lien shall have been approved by an Extraordinary Resolution (as defined in the Fiscal Agency Agreement) of the Holders of Notes.

For the purpose of these Conditions, “*Public External Indebtedness*” means any notes, debentures, bonds, or other similar securities with a stated maturity of more than one year from their date of issue (“*securities*”) which:

- (i) by their terms are payable, or confer a right to receive payment, in any currency other than the lawful currency of the Republic (“*Lebanese Currency*”) or, if such securities are denominated in Lebanese Currency, more than fifty percent (50 percent) of the aggregate principal amount thereof is initially distributed outside the Republic by or with the authorization of the Republic; and
- (ii) are for the time being or are intended to be quoted, listed or ordinarily dealt in or traded on any stock exchange, over-the-counter or other notes market outside the Republic.

### **5. Interest**

Notes in a Series may be interest bearing or non-interest bearing, as specified in the relevant Final Terms. The Final Terms in relation to interest-bearing Notes in a Series shall specify whether the Notes bear interest on a fixed rate or floating rate basis and shall specify any other interest-related terms.

(a) *Interest on Fixed Rate Notes*

Each Fixed Rate Note bears interest on its principal amount from (and including) the Interest Commencement Date specified in the applicable Final Terms at the rate(s) per annum equal to the Fixed Rate(s) of Interest, where accrued interest shall be payable in arrears on the Fixed Interest Date(s) in each year and on the Maturity Date so specified if that does not fall on a Fixed Interest Date. The first payment of interest will be made on the Fixed Interest Date next following the Interest Commencement Date and, if the first anniversary of the Interest Commencement Date is not a Fixed Interest Date, will amount to the Initial Broken Amount specified in the applicable Final Terms. If the Maturity Date is not a Fixed Interest Date, interest from (and including) the preceding Fixed Interest Date (or the Interest Commencement Date, as the case may be) to (but excluding) the Maturity Date will amount to the Final Broken Amount specified in the applicable Final Terms.

The amount of interest payable in respect of each Note for any Interest Period shall be the relevant Fixed Coupon Amount and, if the Notes are in more than one Specified Denomination, shall be the relevant Fixed Coupon Amount in respect of the relevant Specified Denomination.

If interest is required to be calculated for a period ending other than on a Fixed Interest Date or if no Fixed Coupon Amount is specified, such interest shall be calculated by applying the Fixed Rate of Interest to the outstanding amount of the Fixed Rate Note, multiplying such sum by the applicable Fixed Day Count Fraction and rounding the resultant figure to the nearest sub-unit of the relevant Specified Currency, half of any such sub-unit being rounded upwards or otherwise in accordance with applicable market convention.

“Fixed Day Count Fraction” means:

- (i) if “Actual/Actual” is specified in the applicable Final Terms, the actual number of days in the relevant period from (and including) the most recent Fixed Interest Date (or, if none, the Interest Commencement Date) to (but excluding) the relevant payment date divided by the product of the actual number of days in the period from (and including) the most recent Fixed Interest Date (or, if none, the Interest Commencement Date) to (but excluding) the next scheduled Fixed Interest Date and the number of Fixed Interest Dates that would occur in one year assuming interest was to be payable in respect of the whole of that year; and
- (ii) if “30/360” is specified in the applicable Final Terms, the number of days in the period from (and including) the most recent Fixed Interest Date (or, if none, the Interest Commencement Date) to (but excluding) the relevant payment date divided by 360 (the number of days to be calculated on the basis of a year of 360 days with 12 30-day months (unless (A) the last day of the period is the 31st day of a month but the first day of the period is a day other than the 30th or 31st day of a month, in which case the month that includes that last day shall not be considered to be shortened to a 30-day month, or (B) the last day of the period is the last day of the month of February, in which case the month of February shall not be considered to be lengthened to a 30-day month)); and

“sub-unit” means, with respect to any currency other than Euro, the lowest amount of such currency that is available as legal tender in the country of such currency and, with respect to Euro, means one cent.

(b) *Interest on Floating Rate Notes*

(i) *Interest Payment Dates*

Each Floating Rate Note bears interest on its principal amount from (and including) the Interest Commencement Date specified in the applicable Final Terms at the Rate of Interest applicable, as provided in (ii) below, with such accrued interest being payable in arrear on either:

- (A) the Interest Payment Date(s) in each year specified in the applicable Final Terms; or
- (B) if no Interest Payment Date(s) is/are specified in the applicable Final Terms, each date (each an “Interest Payment Date”) that corresponds to the date which falls the number of months or other period specified in the applicable Final Terms after the preceding Interest Payment Date or, in the case of the first Interest Payment Date, after the Interest Commencement Date (the “Specified Period”).



Such interest will be payable in respect of each period from (and including) an Interest Payment Date (or, in the case of the first such period, the Interest Commencement Date) to (but excluding) the next (or the first) Interest Payment Date (each, an “*Interest Period*”).

If a business day convention is specified in the applicable Final Terms and (x) if there is no numerically corresponding day in the calendar month in which an Interest Payment Date should occur or (y) if any Interest Payment Date would otherwise fall on a day that is not a Business Day (*as defined below*) then, if the business day convention specified is:

- (1) the Floating Rate Convention, such Interest Payment Date (i) in the case of (x) above, shall be the last day that is a Business Day in the relevant month and the provisions of (B) below in this subparagraph (1) shall apply *mutatis mutandis* or (ii) in the case of (y) above, shall be postponed to the next day which is a Business Day unless it would thereby fall into the next calendar month, in which event (A) such Interest Payment Date shall be brought forward to the immediately preceding Business Day and (B) each subsequent Interest Payment Date shall be the last Business Day in the relevant Specified Period after the preceding applicable Interest Payment Date occurred, in any case where Specified Periods are specified in accordance with Condition 5(b)(i)(B) above; or
- (2) the Following Business Day Convention, such Interest Payment Date shall be postponed to the next day which is a Business Day; or
- (3) the Modified Following Business Day Convention, such Interest Payment Date shall be postponed to the next day which is a Business Day unless it would thereby fall into the next calendar month, in which event such Interest Payment Date shall be brought forward to the immediately preceding Business Day; or
- (4) the Preceding Business Day Convention, such Interest Payment Date shall be brought forward to the immediately preceding Business Day.

In addition, if (i) the Floating Rate Convention is specified in the applicable Final Terms, (ii) Specified Periods are specified in accordance with Condition 5(b)(i)(B) above and (iii) any Interest Payment Date falls on the last Business Day in any month, then each subsequent Interest Payment Date shall be the last Business Day in the relevant Specified Period after the preceding applicable Interest Payment Date occurred.

In this Condition, “*Business Day*” means a day which is both:

- (X) a day on which commercial banks and foreign exchange markets settle payments in London and any Additional Business Center specified in the applicable Final Terms; and
- (Y) either (1) in relation to interest payable in a Specified Currency other than Euro, a day (other than Saturday or Sunday) on which commercial banks and foreign exchange markets settle payments in the principal financial center of the country of the relevant Specified Currency (if other than London and any Additional Business Center) or (2) in relation to interest payable in Euro, a day on which the TARGET2 system is open.

In these Conditions, “*TARGET2 system*” means the Trans-European Automated Real-Time Gross Settlement Express Transfer payment system that was launched on November 19, 2007 or any successor system.

(ii) Rate of Interest

The Rate of Interest applicable for each Interest Period in respect of Floating Rate Notes will be determined in the manner specified in the applicable Final Terms.

(A) ISDA Determination for Floating Rate Notes

If ISDA Determination is specified in the applicable Final Terms as the manner in which the Rate of Interest is to be determined, the Rate of Interest for each Interest Period shall be the

relevant ISDA Rate plus or minus (as indicated in the applicable Final Terms) the Margin (if any). For the purposes of this sub-paragraph (A), “*ISDA Rate*” for an Interest Period means a rate equal to the Floating Rate that would be determined by the Fiscal Agent under an interest rate swap transaction if the Fiscal Agent were acting as Calculation Agent for that swap transaction under the terms of an agreement incorporating the ISDA Definitions and under which:

- (1) the Floating Rate Option is as specified in the applicable Final Terms;
- (2) the Designated Maturity is a period specified in the applicable Final Terms; and
- (3) the relevant Reset Date is either (i) if the applicable Floating Rate Option is based on the London inter-bank offered rate (“*LIBOR*”) or on the Euro-zone inter-bank offered rate (“*EURIBOR*”), the first day of that Interest Period or (ii) in any other case, as specified in the applicable Final Terms.

For the purposes of this sub-paragraph (A), “*Floating Rate*,” “*Calculation Agent*,” “*Floating Rate Option*,” “*Designated Maturity*” and “*Reset Date*” have the meanings given to those terms in the ISDA Definitions; and “*ISDA Definitions*” means the 2006 ISDA Definitions as amended and updated as at the Issue Date of the first Tranche of the Notes of the relevant Series (as specified in the applicable Final Terms), as published by the International Swaps and Derivatives Association, Inc.

In these Conditions, “*Euro-zone*” means the region comprised of member states of the European Union (“*Member States*”) that have adopted the Euro as their sole legal tender.

(B) Screen Rate Determination for Floating Rate Notes

If Screen Rate Determination is specified in the applicable Final Terms as the manner in which the Rate of Interest applicable to the Notes for each Interest Period is to be determined by the Calculation Agent, the Rate of Interest for each Interest Period shall be calculated on the following basis:

- (1) if the Reference Rate (as specified in the applicable Final Terms) is a composite quotation or customarily supplied by one entity, the Calculation Agent will determine the Reference Rate which appears on the Relevant Screen Page (as specified in the applicable Final Terms) as of the Relevant Time (as specified in the applicable Final Terms) on the relevant Interest Determination Date (as specified in the applicable Final Terms); or
- (2) in any other case, the Calculation Agent will determine the arithmetic mean of the Reference Rates that appear on the Relevant Screen Page as of the Relevant Time on the relevant Interest Determination Date; or
- (3) if the Relevant Screen Page is not available or, if in the case of (1) above, no such offered quotation appears or, in the case of (2) above, fewer than two such Reference Rates appear, in each case as at the Relevant Time on the relevant Interest Determination Date, the Rate of Interest for the relevant Interest Period shall be determined as provided in the preceding paragraph by reference to such other page (the “*Alternative Screen Page*”) on such other information vendor service as is then displaying in the case of (A) above, information comparable to that appearing on the Relevant Screen Page when such quotation last appeared on the Relevant Screen Page and, in the case of (B) above, information comparable to that appearing on the Relevant Screen Page when no fewer than two such offered quotations appeared; or
- (4) if no Alternative Screen Page is available, the Calculation Agent will:
  - (x) request the office of each Reference Bank in the Business Center (as specified in the applicable Final Terms) to provide a quotation of the

Reference Rate quoted by it at approximately the Relevant Time on the Interest Determination Date to prime banks in the Business Center interbank market for an amount that is representative for a single transaction in that market at that time; and

- (y) determine the arithmetic mean of such quotations; or
- (5) if fewer than two such quotations are provided as requested, the Calculation Agent will determine the arithmetic mean of the rates (being the nearest to the Reference Rate, as determined by the Calculation Agent) quoted by major banks in the Business Center of the Specified Currency, selected by the Calculation Agent, at approximately 11.00 a.m. (local time in the Business Center of the Specified Currency) on the first day of the relevant Interest Period for loans in the Specified Currency to leading European banks for a period equal to the relevant Interest Period and in an amount that is representative for a single transaction in that market at that time,

and the Rate of Interest for such Interest Period shall be the sum, the rate or (as the case may be) the arithmetic mean so determined and the applicable Margin; provided, however, that if the Calculation Agent is unable to determine a rate or (as the case may be) an arithmetic mean in accordance with the above provisions in relation to any Interest Period, the Rate of Interest applicable to the Notes during such Interest Period will be the sum, the rate or (as the case may be) the arithmetic mean last determined in relation to the Notes for respect of a preceding Interest Period and the applicable Margin.

(iii) Minimum and Maximum Interest Rates

If the applicable Final Terms specifies a Minimum Interest Rate for any Interest Period, then, in the event that the Rate of Interest in respect of such Interest Period determined in accordance with the provisions of paragraph (ii) above is less than such Minimum Interest Rate, the Rate of Interest for such Interest Period shall be such Minimum Interest Rate. If the applicable Final Terms specifies a Maximum Interest Rate for any Interest Period, then, in the event that the Rate of Interest in respect of such Interest Period determined in accordance with the provisions of paragraph (ii) above is greater than such Maximum Interest Rate, the Rate of Interest for such Interest Period shall be such Maximum Interest Rate.

(iv) Determination of Rate of Interest and Calculation of Interest Amounts

The Calculation Agent will calculate the amount of interest (the “*Interest Amount*”) payable on the Floating Rate Notes for the relevant Interest Period. Each Interest Amount shall be calculated by applying the Rate of Interest to the outstanding principal amount of the Floating Rate Note, multiplying such sum by the applicable Day Count Fraction and rounding the resultant figure to the nearest sub-unit of the relevant Specified Currency, half of any such sub-unit being rounded upwards or otherwise in accordance with applicable market convention.

“*Day Count Fraction*” means, in respect of the calculation of an amount of interest for any Interest Period:

- (A) if “*Actual/365*” or “*Actual/Actual*” is specified in the applicable Final Terms, the actual number of days in the Interest Period divided by 365 (or, if any portion of that Interest Period falls in a leap year, the sum of (A) the actual number of days in that portion of the Interest Period falling in a leap year divided by 366 and (B) the actual number of days in that portion of the Interest Period falling in a non-leap year divided by 365);
- (B) if “*Actual/365 (Fixed)*” is specified in the applicable Final Terms, the actual number of days in the Interest Period divided by 365;

- (C) if “*Actual/360*” is specified in the applicable Final Terms, the actual number of days in the Interest Period divided by 360;
- (D) if “*30/360*,” “*360/360*” or “*Bond Basis*” is specified in the applicable Final Terms, the number of days in the Interest Period divided by 360 (the number of days to be calculated on the basis of a year of 360 days with 12 months of 30 days (unless (a) the last day of the Interest Period is the 31st day of a month but the first day of the Interest Period is a day other than the 30th or 31st day of a month, in which case the month that includes that last day shall not be considered to be shortened or lengthened to a 30-day month, or (b) the last day of the Interest Period is the last day of the month of February, in which case the month of February shall not be considered to be lengthened to a 30-day month)); and
- (E) if “*30E/360*” or “*Eurobond Basis*” is specified in the applicable Final Terms, the number of days in the Interest Period divided by 360 (the number of days to be calculated on the basis of a year of 360 days with 12 months of 30 days, without regard to the date of the first day or last day of the Interest Period unless, in the case of an Interest Period ending on the Maturity Date, the Maturity Date is the last day of the month of February, in which case the month of February shall not be considered to be lengthened to a 30-day month).

(v) Notification of Rate of Interest and Interest Amounts

The Calculation Agent will cause the Rate of Interest and Interest Amount for each Interest Period and the relevant Interest Payment Date to be notified to the Republic, the Fiscal Agent, each Paying Agent, any stock exchange on which the relevant Floating Rate Notes are for the time being listed and to the Holders, in accordance with Condition 14 as soon as possible after their determination but (in the case of Notes listed on the Luxembourg Stock Exchange) in no event later than the fourth Luxembourg Business Day (*as defined below*) thereafter or as otherwise required by the rules of any relevant stock exchange. Each Interest Amount and Interest Payment Date so notified may subsequently be amended (or appropriate alternative arrangements made by way of adjustment) without prior notice in the event of an extension or shortening of the Interest Period. Any such amendment will be promptly notified to the Republic, the Fiscal Agent, each Paying Agent, each stock exchange on which the relevant Floating Rate Notes are for the time being listed and to the Holders in accordance with Condition 14 and the provisions of this paragraph (v) above.

“*Luxembourg Business Day*” means a day (other than a Saturday or a Sunday) on which banks and foreign exchange markets settle payments in Luxembourg.

(vi) Certificates to be Final

All certificates, communications, opinions, determinations, calculations, quotations and decisions given, expressed, made or obtained for the purposes of the provisions of this Condition 5(b) by the Calculation Agent shall (in the absence of willful default, bad faith or manifest error) be binding on the Republic, the Fiscal Agent, the Registrar, the Calculation Agent, the Paying Agents and all Holders of Notes, Receipts and Coupons and (in the absence as aforesaid) no liability to the Republic or any Holder of Notes, Receipts or Coupons shall attach to the Calculation Agent (if applicable) in connection with the exercise or non-exercise by it of its powers, duties and discretions pursuant to such provisions.

(c) *Accrual of Interest*

Each Note (or in the case of the redemption of part only of a Note, that part only of such Note) will cease to bear interest (if any) from the date fixed for its final redemption unless, upon due presentation thereof, payment of the full redemption amount is improperly withheld or refused. In such event, each Note will continue to bear interest in accordance with this Condition 5 (as well after as before judgment) until whichever is the earlier of (i) the day on which all sums due in respect of such Note up to that day are received by or on behalf of the relevant Holder and (ii) the day that is seven days after the Fiscal Agent has notified the Holders that it has

received all sums due in respect of such Note up to such seventh day (except to the extent that there is any subsequent default in payment).

## **6. Payments**

### *(a) Method of Payment*

Subject as provided below:

- (i) payments in a Specified Currency other than Euro will be made by transfer to an account in the relevant Specified Currency maintained by the payee with, or, at the option of the payee, by a cheque in such Specified Currency drawn on, a bank in the principal financial center of the country of such Specified Currency; and
- (ii) payments in Euro will be made by credit or transfer to a Euro account (or any other account to which Euro may be credited or transferred) specified by the payee in a city in which banks have access to the TARGET2 system or, at the option of the payee, by a Euro cheque.

Payments will be subject in all cases to any fiscal or other laws and regulations applicable thereto in the place of payment, but without prejudice to the provisions of Condition 8. References to “*Specified Currency*” will include any successor currency under applicable law.

### *(b) Presentation of Notes, Receipts and Coupons*

Payments of principal in respect of Definitive Bearer Notes will (subject as provided below) be made in the manner provided in paragraph (a) above only against surrender of Definitive Bearer Notes and payments of interest in respect of Definitive Bearer Notes will (subject as provided below) be made as aforesaid only against surrender of Coupons, in each case, at the specified office of any Paying Agent outside the United States (which expression, as used herein, means the United States of America (including the States of the United States and the District of Columbia, its territories and possessions)).

Notwithstanding the foregoing, if any amount of principal and/or interest in respect of any Bearer Notes is payable in U.S. Dollars, such U.S. Dollar payments of principal and/or interest in respect of the Bearer Notes will be made at the specified office of a Paying Agent in the United States if:

- (i) the Republic has appointed Paying Agents with specified offices outside the United States with the reasonable expectation that such Paying Agents would be able to make payment in U.S. Dollars at such specified offices outside the United States of the full amount of principal and interest on the Bearer Notes in the manner provided above when due;
- (ii) payment of the full amount of such principal and interest at all such specified offices outside the United States is illegal or effectively precluded by exchange controls or other similar restrictions on the full payment or receipt of principal and interest in U.S. Dollars; and
- (iii) such payment is then permitted under United States law without involving, in the opinion of the Republic, adverse tax consequences to the Republic.

In respect of Definitive Bearer Notes, payments of installments of principal (if any), other than the final installment, will (subject as provided below) be made in the manner provided in paragraph (a) above against surrender of the relevant Receipt. Payment of the final installment will be made in the manner provided in paragraph (a) above only against surrender of the relevant Definitive Bearer Note. Each Receipt must be presented for payment of the relevant installment together with the Definitive Bearer Note to which it appertains. Receipts presented without the definitive Bearer Note to which they appertain do not constitute valid obligations of the Republic. Upon the date on which any definitive Bearer Note becomes due and repayable, unmatured Receipts (if any) relating thereto (whether or not attached) shall become void and no payment shall be made in respect thereof.

Fixed Rate Notes in definitive bearer form should be presented for payment together with all unmatured Coupons appertaining thereto (which expression shall for this purpose include Coupons failing to be issued on exchange of matured Talons), failing which the amount of any missing unmatured Coupon (or, in the case of

payment not being made in full, the same proportion of the amount of such missing unmatured Coupon as the sum so paid bears to the sum due) will be deducted from the sum due for payment. Each amount of principal so deducted will be paid in the manner mentioned above against surrender of the relevant missing Coupon at any time before the expiry of 10 years after the Relevant Date (as defined in Condition 8) in respect of such principal (whether or not such Coupon would otherwise have become void under Condition 9) or, if later, five years from the date on which such Coupon would otherwise have become due, but in no event thereafter. Upon any Fixed Rate Note becoming due and repayable prior to its Maturity Date, all unmatured Talons (if any) appertaining thereto will become void and no further Coupons will be issued in respect thereof.

Upon the date on which any Floating Rate Note in definitive bearer form becomes due and repayable, unmatured Coupons and Talons (if any) relating thereto (whether or not attached) shall become void and no payment or, as the case may be, exchange for further Coupons shall be made in respect thereof.

If the due date for redemption of any definitive Bearer Note is not a Fixed Interest Date or an Interest Payment Date, interest (if any) accrued in respect of such Note from (and including) the preceding Fixed Interest Date or Interest Payment Date or, as the case may be, the Interest Commencement Date shall be payable only against surrender of the relevant definitive Bearer Note.

Payments of principal and interest (if any) in respect of Bearer Notes represented by any bearer Global Note will (subject as provided below) be made in the manner provided in paragraph (a) above and otherwise in the manner specified in the relevant bearer Global Note against presentation or surrender, as the case may be, of such bearer Global Note at the specified office of any Paying Agent. A record of each payment made against presentation or surrender of such bearer Global Note, distinguishing between any payment of principal and any payment of interest, will be made on such bearer Global Note by such Paying Agent and such record shall be prima facie evidence that the payment in question has been made.

Payments of principal (other than installments of principal (if any) prior to the final installment) in respect of Registered Notes (whether in definitive or global form) will be made in the manner specified in paragraph (a) to the persons in whose name such Registered Notes are registered at the close of business on the business day (being for this purpose a day on which banks are open for business in the city where the Registrar is located) immediately prior to the relevant payment date against presentation and surrender (or, in the case of part payment only of any sum due, endorsement) of such Registered Notes at the specified office of the Registrar, or the Paying Agents.

Payments of interest due on a Registered Note (whether in definitive or global form) and payments of installments of principal (if any) due on a Registered Note (other than the final installment) will be made in the manner specified in paragraph (a) to the person in whose name such Note is registered at the close of business on the fifteenth day (whether or not such fifteenth day is a business day (being for this purpose a day on which banks are open for business in the city where the Registrar is located) prior to such due date (the “*Record Date*”). In the case of payments by cheque, cheques will be mailed to the Holder (or the first named of joint Holders) at such Holder’s registered address on the business day (as described above) immediately preceding the due date.

If payment in respect of any Registered Notes is required by credit or transfer as referred to in paragraph (a) above, application for such payment must be made by the Holder to the Registrar not later than the relevant Record Date.

All amounts payable to Euroclear, Clearstream, Luxembourg or DTC, as the case may be, or its nominee as registered holder of a Registered Global Note in respect of Notes denominated in a Specified Currency other than U.S. Dollars shall be paid by transfer by the Registrar to an account in the relevant Specified Currency of the Exchange Agent on behalf of Euroclear, Clearstream, Luxembourg or DTC, as the case may be, or its nominee for payment in such Specified Currency or conversion into U.S. Dollars in accordance with the provisions of the Fiscal Agency Agreement.

The Holder of a Global Note (or, as provided in the Fiscal Agency Agreement, the Fiscal Agent) shall be the only person entitled to receive payments in respect of Notes represented by such Global Note and the Republic will be discharged by payment to, or to the order of, the Holder of such Global Note (or the Fiscal Agent, as the case may be) in respect of each amount so paid. Each of the persons shown in the records of Euroclear, Clearstream, Luxembourg or DTC as the beneficial holder of a particular principal amount of Notes represented by such Global Note must look solely to Euroclear, Clearstream, Luxembourg or DTC, as the case may be, for

its share of each payment so made by the Republic to, or to the order of, the Holder of such Global Note (or, as provided in the Fiscal Agency Agreement, the Fiscal Agent). No person other than the Holder of such Global Note (or the Fiscal Agent, as the case may be) shall have any claim against the Republic in respect of any payments due on that Global Note.

(c) *Payment Day*

If the date for payment of any amount in respect of any Note, Receipt or Coupon is not a Payment Day, the Holder thereof shall not be entitled to payment until the next following Payment Day in the relevant place and shall not be entitled to further interest or other payment in respect of such delay. For these purposes, “*Payment Day*” means any day which is:

- (i) a day on which commercial banks and foreign exchange markets settle payments in the relevant place of presentation;
- (ii) a Business Day (as defined in Condition 5(b)(i));
- (iii) in relation to Notes denominated or payable in Euro, a day on which the TARGET2 system is open; and
- (iv) in the case of any payment in respect of a Restricted Global Note denominated in a Specified Currency other than U.S. Dollars and registered in the name of Euroclear, Clearstream, Luxembourg or DTC, as the case may be, or its nominee and, in respect of which an accountholder of Euroclear, Clearstream, Luxembourg or DTC (with an interest in such Restricted Global Note), as the case may be, has elected to receive any part of such payment in U.S. Dollars, not a day on which banking institutions are authorized or required by law or regulation to be closed in New York City.

(d) *Interpretation of Principal and Interest*

Any reference in these Conditions to principal in respect of Notes shall be deemed to include, as applicable:

- (i) any additional amounts which may be payable with respect to principal of such Notes under Condition 8;
- (ii) the Amortization Amounts of such Notes;
- (iii) the Final Redemption Amount of such Notes;
- (iv) the Early Redemption Amount of such Notes;
- (v) the Optional Redemption Amount(s) (if any) of such Notes; and
- (vi) any premium and any other amounts which may be payable by the Republic under or in respect of such Notes.

Any reference in these Conditions to interest in respect of Notes shall be deemed to include, as applicable, any additional amounts which may be payable with respect to interest under Condition 8.

## **7. Amortization, Redemption and Purchase**

(a) *Amortization*

If specified in the applicable Final Terms, the Notes will be redeemed in the amounts (“*Amortization Amounts*”) and on the dates (“*Amortization Dates*”) set forth in the applicable Final Terms. In the case of early redemption, the Early Redemption Amount will be determined pursuant to paragraph (e) below.

(b) *At Maturity*

Unless previously redeemed or purchased and cancelled as specified below, each Note will be redeemed by the Republic at its Final Redemption Amount specified in, or determined in the manner specified in, the applicable Final Terms in the relevant Specified Currency on the Maturity Date.

(c) *Redemption at the Option of the Republic (Call Option)*

If the Call Option is specified in the applicable Final Terms as being applicable, the Republic may, having given:

- (i) not less than 30 nor more than 60 days' irrevocable notice to the Holders in accordance with Condition 14; and
- (ii) not less than 15 days before the giving of the notice referred to in (i), notice to the Fiscal Agent;

(which notices shall be irrevocable) redeem all or part of the Notes then outstanding on any Optional Redemption Date and at the Optional Redemption Amount(s) specified in, or determined in the manner specified in, the applicable Final Terms together, if appropriate, with interest accrued to (but excluding) the relevant Optional Redemption Date.

Any such redemption must be of a principal amount equal to the Minimum Redemption Amount or a higher redemption amount. In the case of a partial redemption of Notes (or, as the case may be, parts of Registered Notes), the Notes to be redeemed ("*Redeemed Notes*") will be selected individually by lot, in the case of Redeemed Notes represented by Definitive Notes, and in accordance with the rules of Euroclear and/or Clearstream, Luxembourg and/or, as the case may be, DTC, in the case of Redeemed Notes represented by a Global Note, not more than 30 days prior to the date fixed for redemption (such date of selection being hereinafter called the "*Selection Date*"). In the case of Redeemed Notes represented by Definitive Notes, a list of the serial numbers of such Redeemed Notes will be published in accordance with Condition 14 not less than 15 days prior to the date fixed for redemption. The aggregate principal amount of Redeemed Notes represented by Definitive Notes shall bear the same proportion to the aggregate principal amount of all Redeemed Notes as the aggregate principal amount of Definitive Notes outstanding bears to the aggregate principal amount of all Notes outstanding, in each case on the Selection Date, provided that such first mentioned principal amount shall, if necessary, be rounded downwards to the nearest integral multiple of the Specified Denomination, and the aggregate principal amount of Redeemed Notes represented by a Global Note shall be equal to the balance of the Redeemed Notes. No exchange of the relevant Global Note will be permitted during the period from (and including) the Selection Date to (and including) the date fixed for redemption pursuant to this sub-paragraph (c) and notice to that effect shall be given by the Republic to the Holders in accordance with Condition 14 at least five days prior to the Selection Date.

(d) *Redemption at the Option of the Holders (Put Option)*

If the Put Option is specified in the applicable Final Terms as being applicable, upon the Holder of any Note giving to the Republic, in accordance with Condition 14, not less than 30 nor more than 60 days' irrevocable notice or such other period of notice as is specified in the applicable Final Terms, the Republic will, upon the expiry of such notice, redeem, subject to, and in accordance with, the terms specified in the applicable Final Terms, in whole (but not in part), such Note on the Optional Redemption Date and at the Optional Redemption Amount specified in, or determined in the manner specified in, the applicable Final Terms together, if appropriate, with interest accrued to (but excluding) the Optional Redemption Date. If the Put Option is not specified in the applicable Final Terms as being applicable then Holders of Notes shall not have any option to cause the Republic to redeem their Notes as described in this subparagraph (d).

To exercise the right to require redemption of a Note, the Holder of such Note must deliver a duly signed and completed notice of exercise in the form (for the time being current) obtainable from any specified office of any Paying Agent, Transfer Agent or the Registrar (a "*Put Notice*") accompanied by, if the Note is in definitive form, the Definitive Note, to the specified office of any Paying Agent, in the case of Bearer Notes, or of any Transfer Agent or the Registrar, in the case of Registered Notes, at any time within the notice period during normal business hours of such Paying Agent, Transfer Agent or the Registrar. In the Put Notice, the holder



must specify a bank account (or, if payment is by cheque, an address) to which payment is to be made under this Condition.

*(e) Early Redemption Amounts*

For the purpose of Condition 10, the Notes will be redeemed at the Early Redemption Amount calculated as follows:

- (i) in the case of Notes with a Final Redemption Amount equal to the Issue Price, at the Final Redemption Amount thereof; or
- (ii) in the case of Notes with a Final Redemption Amount which is or may be less or greater than the Issue Price or which is payable in a Specified Currency other than that in which the Notes are denominated, at the amount specified in, or determined in the manner specified in, the applicable Final Terms or, if no such amount or manner is so specified in the Final Terms, at their principal amount.

*(f) Purchases*

- (i) *Purchase of Notes by the Republic.* The Republic may at any time purchase Notes in any manner and at any price (provided that, in the case of Bearer Notes in definitive form, these are purchased together with all unmatured Receipts and Coupons appertaining thereto), subject to all applicable laws. If purchases are made by tender, tenders must be available to all Holders alike.
- (ii) *Treatment of Notes purchased by or for the Republic.* All Notes which are purchased by or on behalf of the Republic may, if the Republic so elects, be cancelled. Any Notes so cancelled may not be reissued or resold. The Notes so purchased, while held by or for the account of the Republic, shall not entitle their Holder to vote at any meeting of the Holders of Notes of any Series and shall not be deemed outstanding for the purpose of calculating the quorum at a meeting of the Holders of Notes of any Series or for the purposes of Conditions 10 and 15.

*(g) Cancellation*

All Notes which are redeemed will forthwith be cancelled (together with all unmatured Receipts and Coupons attached thereto or surrendered therewith at the time of redemption). All Notes so cancelled and the Notes purchased and cancelled pursuant to paragraph (f) above (together with all unmatured Receipts and Coupons cancelled therewith) shall be forwarded to the Fiscal Agent (which shall notify the Registrar of such cancelled Notes in the case of Registered Notes) and cannot be reissued or resold.

*(h) Obligation to Redeem*

Upon the expiry of any notice as is referred to in paragraph (c) or (d) above, the Republic shall be bound to redeem the Notes to which the notice referred at the relevant redemption price applicable at the date of such redemption together with, if appropriate, interest accrued to (but excluding) the relevant redemption date.

## **8. Taxation**

All payments of principal and interest in respect of the Notes, Receipts and Coupons by the Republic shall be made without withholding or deduction for, or on account of, any present or future taxes, duties assessments or governmental charges of whatsoever nature imposed or levied by or on behalf of the Republic, or any political subdivision of, or any authority therein or thereof having power to tax, unless the withholding or deduction of such taxes, duties, assessments of other governmental charges is required by law. In such event, the Republic will pay such additional amounts as may be necessary in order that the net amounts received by the Holders of the Notes, Receipts or Coupons after such withholding or deduction shall equal the respective amounts of principal and interest which would otherwise have been receivable in respect of the Notes, Receipts or Coupons, as the case may be, in the absence of such withholding or deduction, except that no such additional amounts shall be payable with respect to any Note, Receipt or Coupon presented for payment:

- (i) by, or to a third party on behalf of, a Holder of a Note, Receipt or Coupon who is liable for such taxes or duties in respect of such Note, Receipt or Coupon by reason of his having some connection with the Republic other than the mere holding of such Note, Receipt or Coupon; or
- (ii) more than 30 days after the Relevant Date except to the extent that the Holder of a Note, Receipt or Coupon would have been entitled to receipt of additional amounts pursuant to this Condition on duly presenting the same for payment on such thirtieth day; or
- (iii) where such withholding or deduction is imposed on a payment to an individual and is required to be made pursuant to European Union Council Directive 2003/48/EC or any other Directive implementing the conclusions of the ECOFIN Council meeting of 26-27 November 2000 on the taxation of savings income or any law implementing or complying with, or introduced in order to conform to, such Directive; or
- (iv) by or on behalf of a Holder who would have been able to avoid such withholding or deduction by presenting the relevant Note, Receipt or Coupon to another Paying Agent in a Member State of the European Union.

As used herein, the “*Relevant Date*” means the date on which such payment first becomes due, except that, if the full amount payable has not been duly received by the Fiscal Agent or, as the case may be, the Registrar, on or prior to such due date, it means the date on which notice is given to the Holders, in accordance with Condition 14, that the full amount has been received.

## **9. Prescription**

The Notes, Receipts and Coupons will become void unless presented for payment within a period of 10 years (in the case of principal) and five years (in the case of interest) after the Relevant Date (as defined in Condition 8) therefor.

There shall not be included in any Coupon sheet issued on exchange of a Talon any Coupon the claim for payment in respect of which would be void pursuant to this Condition or Condition 6(b) or any Talon which would be void pursuant to Condition 6(b).

## **10. Events of Default**

### *(a) Declaration of Acceleration*

If any of the following events (each, an “*Event of Default*”) occurs and is continuing:

- (i) the Republic defaults in the payment of any principal due and payable on or in respect of the Notes in the relevant Series for more than seven days; or
- (ii) the Republic defaults in the payment of any interest due and payable on or in respect of the Notes in the relevant Series for more than 30 days; or
- (iii) the Republic defaults in the due performance and observance of any other provision contained in the Notes in the relevant Series and such default (if capable of remedy) is not remedied for 30 days after written notice thereof shall have been given to the Republic at the specified office of the Fiscal Agent; or
- (iv) there occurs any default by the Republic in the due and punctual payment of the principal of, or premium or prepayment charge, if any, or interest on, any Public External Indebtedness of or assumed or guaranteed by the Republic having an aggregate principal amount in excess of U.S.\$20,000,000 (or its equivalent in any other currency or currencies) when and as the same shall become due and payable, and such default shall continue for more than the original period of grace, if any, applicable thereto, unless such payment is being contested in good faith by the Republic (the term “*original period of grace*” as used herein meaning that grace period fixed by the terms of the agreement or instrument under which such indebtedness was created, but specifically not including any extension in the time permitted for such payment or

any waiver or delay in the requirement for such payment which has been separately agreed to between the obligor and obligee); or

- (v) there occurs any default giving the creditor the right to demand repayment (other than a default in payment) in respect of any Public External Indebtedness of or assumed or guaranteed by the Republic having an aggregate principal amount in excess of U.S.\$20,000,000 (or its equivalent in any other currency or currencies) and repayment is demanded, provided that such default continues for more than the original period of grace, if any, applicable thereto and that such repayment is not being contested in good faith by the Republic; or
- (vi) the Republic enters into any arrangement with its creditors generally for the rescheduling or postponement of, or declares or imposes a moratorium on, the payment of any Public External Indebtedness of or assumed or guaranteed by the Republic having an aggregate principal amount in excess of U.S.\$20,000,000 (or its equivalent in any other currency or currencies);

then the Holders of at least 25% in aggregate principal amount of the outstanding Notes may, by notice in writing to the Republic, with a copy to the Fiscal Agent, declare all the Notes to be immediately due and payable, whereupon they shall become immediately due and payable at their principal amount together with, if appropriate, accrued interest without further action or formality. Notice of any such declaration shall promptly be given to all other Holders by the Republic.

No delay or omission of any Holder or any party to the Fiscal Agency Agreement to exercise any right or remedy accruing upon any Event of Default or otherwise shall impair any such right or remedy or constitute a waiver of any such Event of Default or any other breach of obligations under the Fiscal Agency Agreement or any acquiescence therein.

*(b) Withdrawal of Declaration of Acceleration*

If the Republic receives notice in writing from Holders of at least 50% in aggregate principal amount of the outstanding Notes to the effect that the Event of Default or Events of Default giving rise to any above-mentioned declaration of acceleration is or are cured following any such declaration and that such Holders wish the relevant declaration to be withdrawn, the Republic shall give notice thereof to the Holders, with a copy to the Fiscal Agent, whereupon the relevant declaration shall be withdrawn and shall have no further effect but without prejudice to any rights or obligations that may have arisen before the Republic gives such notice (whether pursuant to these Conditions or otherwise). No such withdrawal shall affect any other or any subsequent Event of Default or any right of any Holder in relation thereto.

## **11. Replacement of Notes, Receipts and Coupons**

Should any Note, Receipt or Coupon be lost, stolen, mutilated, defaced or destroyed, it may be replaced at the specified office of the Fiscal Agent or the Paying Agent in Luxembourg (in the case of Bearer Notes, Receipts and Coupons) or of the Registrar (in the case of Registered Notes), subject to all applicable laws and stock exchange requirements, upon payment by the claimant of such costs, expenses, taxes and duties as may be incurred in connection therewith and on such terms as to evidence, indemnity and security as the Republic may reasonably require. Mutilated or defaced Notes, Receipts or Coupons must be surrendered before replacements will be issued.

## **12. Fiscal Agent, Registrar, Exchange Agent, Paying and Transfer Agents**

The names of the initial Fiscal Agent, the initial Paying Agents, the initial Exchange Agent, the initial Registrar and the other initial Transfer Agents and their initial specified offices are set forth in the Fiscal Agency Agreement. The Republic is, upon prior notice to the Fiscal Agent, entitled to vary or terminate the appointment of any Paying Agent, the Exchange Agent, Registrar or Transfer Agent and/or appoint additional or other Paying Agents, Exchange Agents, Registrars or Transfer Agents and/or approve any change in the specified office through which any Paying Agent, Exchange Agent, Registrar or Transfer Agent acts, provided that:

- (i) so long as the Notes are listed on any stock exchange, there will at all times be a Paying Agent and, if appropriate, a Registrar and Transfer Agent with a specified office in such place as may be required by the rules and regulations of the relevant stock exchange;

- (ii) there will at all times be a Paying Agent and a Transfer Agent with a specified office in a city in continental Europe (which shall be Luxembourg, so long as the Notes are listed on the Luxembourg Stock Exchange);
- (iii) there will at all times be a Registrar and a Transfer Agent with a specified office in New York City;
- (iv) so long as any of the Registered Global Notes payable in a Specified Currency other than U.S. Dollars are held through Euroclear and/or Clearstream, Luxembourg or DTC, as the case may be, or its nominee, there will at all times be an Exchange Agent with a specified office in New York City; and
- (v) there will at all times be a Fiscal Agent.

The Republic shall forthwith appoint a Paying Agent having a specified office in New York City in the circumstances described in the second paragraph of Condition 6(b). In addition, the Republic agrees to appoint and maintain a Paying Agent in a Member State of the European Union that will not be obligated to withhold or deduct tax pursuant to European Union Council Directive 2003/48/EC or any other Directive implementing the conclusions of the ECOFIN Council meeting of 26-27 November 2000 on the taxation of savings income or any law implementing or complying with, or introduced in order to conform to, such Directive. Any variation, termination, appointment or change shall only take effect (other than in the case of insolvency, when it shall be of immediate effect) after not less than 30 nor more than 45 days' prior notice thereof shall have been given to the Holders in accordance with Condition 14.

In acting under the Fiscal Agency Agreement, the Fiscal Agent, the Exchange Agent, the Registrar, the Paying Agents and the Transfer Agents act solely as agents of the Republic and, in certain limited circumstances, of the Fiscal Agent and do not assume any obligation or trust for or with any Holders.

### **13. Exchange of Talons**

On and after the Fixed Interest Date or the Interest Payment Date, as appropriate, on which the final Coupon comprised in any Coupon sheet matures, the Talon (if any) forming part of such Coupon sheet may be surrendered at the specified office of the Fiscal Agent or any Paying Agent in exchange for a further Coupon sheet including (if such further Coupon sheet does not include Coupons to (and including) the final date for the payment of interest due in respect of the Bearer Note to which it appertains) a further Talon, subject to the provisions of Condition 9. Each Talon shall, for the purposes of these Terms and Conditions, be deemed to mature on the Fixed Interest Date or the Interest Payment Date (as the case may be) on which the final Coupon comprised in the relative Coupon sheet matures.

### **14. Notices**

#### *(a) Notices to Holders while Notes are held in Global Form*

So long as any Notes are evidenced by a Global Note and such Global Note is held by or on behalf of DTC, Euroclear or Clearstream, Luxembourg, notices to Holders may be given by delivery of such notice to the relevant clearing systems for communication by them to entitled account holders; provided that, so long as the Notes are listed on any stock exchange, notice will also be published or otherwise given in accordance with the rules of such stock exchange. In respect of Notes listed on the Official List of the Luxembourg Stock Exchange, notice will be published on the website of the Luxembourg Stock Exchange, being [www.bourse.lu](http://www.bourse.lu).

#### *(b) Notices to Holders of Registered Definitive Notes*

Notices to Holders of Definitive Notes in registered form will be deemed to be validly given if sent by first class mail (or the equivalent) or (if posted to an overseas address) by airmail to the Holders of those Notes at their respective addresses as recorded in the Register for those Notes, and will be deemed to have been validly given on the fourth day after the date of mailing as provided above or, if posted from a country other than that of the addressee, on the fifth day after the date of such mailing. In respect of Definitive Notes in registered form listed on the Official List of the Luxembourg Stock Exchange, notice will be published on the website of the Luxembourg Stock Exchange, being [www.bourse.lu](http://www.bourse.lu).

(c) *Notices to Holders of Bearer Definitive Notes*

Notices to Holders of Bearer Definitive Notes shall be given by publication in a leading English-language daily newspaper published in London, which is expected to be the *Financial Times*, provided that, so long as the Notes are listed on any stock exchange, notice will also be published or otherwise given in accordance with the rules of such stock exchange. In respect of Bearer Definitive Notes listed on the Official List of the Luxembourg Stock Exchange, notice will be published on the website of the Luxembourg Stock Exchange, being [www.bourse.lu](http://www.bourse.lu).

Holders of Receipts and Coupons will be deemed for all purposes to have notice of the contents of any notice given to Holders of Definitive Notes in bearer form in accordance with this Condition.

(d) *Effect of Certain Notices*

Neither the failure to give notice nor any defect in any notice given to any particular Holder of a Note shall affect the sufficiency of any notice with reference to other Holders.

(e) *Notices to the Republic and Any Agent*

Except as otherwise expressly provided herein, any request, demand, authorization, direction, notice, consent, election, waiver or other act of Holders of Notes or any delivery of other documents provided or permitted by the Fiscal Agency Agreement to be made upon, given or furnished to, or filed by any Holder of Notes with:

- (i) the Fiscal Agent shall be sufficient for every purpose hereunder and under the Fiscal Agency Agreement if made, given, furnished or filed in writing to the Fiscal Agent at its office specified herein or pursuant to the Fiscal Agency Agreement to the attention of the Corporate Trust Agency Group; or
- (ii) the Republic shall be sufficient for every purpose hereunder and under the Fiscal Agency Agreement (unless otherwise herein or therein expressly provided) if made, given, furnished or filed in writing to or with the Republic at the address specified on the signature pages of the Fiscal Agency Agreement, or at any other address previously furnished in writing to the Fiscal Agent by the Republic.

Any such notice by a Holder of Notes may be furnished or filed by any standard form of telecommunications, so long as such notice is confirmed in writing by the Holder of Notes or its agent and delivered promptly by airmail to the Fiscal Agent or the Republic, as the case may be or, so long as the Notes are represented by Global Notes, through the relevant Clearing Agent's internal communication system utilized for communication with its respective member organizations to the Principal Paying Agent *via* DTC, Euroclear or Clearstream, Luxembourg, in such manner as the Principal Paying Agent and DTC, Euroclear or Clearstream, Luxembourg, as the case may be, may approve for this purpose. The Republic or the Fiscal Agent, as the case may be, may require any Holder of Notes giving notice to furnish proof of its holding of Notes.

## **15. Meetings of Holders, Modification and Waiver**

- (a) The Fiscal Agency Agreement contains provisions for convening meetings of Holders of Notes of any Series to consider any matter affecting their interests, including the modification of these Conditions or the provisions of the Fiscal Agency Agreement, provided that no modification of the Conditions or the Fiscal Agency Agreement may be made without the consent or affirmative vote (by person or by proxy) of persons holding or representing no less than 75 percent in aggregate principal amount of Notes then represented at the relevant meeting of Holders of Notes of such Series which would (i) change the due date for any amount payable by the Republic under the Notes of such Series; (ii) reduce or cancel any portion of the principal amount of the Notes or the amount of interest or any other amount payable under the Notes or modify the rate of interest on the Notes of such Series; (iii) modify the currency of payment under the Notes of such Series; (iv) change the identity of any person obligated under the Notes of such Series or the release, in whole or in part, of any such person; or (v) modify the provisions of the Conditions or the Fiscal Agency Agreement relating to the quorum required at any meeting of Holders of Notes of such Series or the percentage of Holders of Notes of such Series required to pass any resolution or otherwise modify the provisions summarized in this paragraph. A resolution duly passed in accordance with the provisions of the Fiscal Agency

Agreement at any meeting of Holders of Notes of such Series will be binding on all Holders of Notes of such Series, whether or not they are present at the meeting and whether or not they vote in favor.

- (b) The Republic, without the consent of the Holders of Notes of any Series, may make any modification to any of these Conditions or any of the provisions of the Fiscal Agency Agreement which in its opinion is for any of the following purposes:
  - (i) to add to the covenants of the Republic for the benefit of the Holders of the Notes of such Series or surrender any right or power conferred upon the Republic in the Fiscal Agency Agreement; or
  - (ii) to add any additional Events of Default; or
  - (iii) to evidence and provide for the acceptance of appointment under the Fiscal Agency Agreement by a successor Fiscal Agent or other Agent and to add to or change any of the provisions of the Fiscal Agency Agreement as shall be necessary to provide for, or facilitate the administration of, the Fiscal Agency Agreement; or
  - (iv) to cure any ambiguity or to correct or supplement any provision herein or in the Fiscal Agency Agreement that may be inconsistent with any other provision herein or therein or that is otherwise defective or to make any other provision with respect to matters or questions arising under the Fiscal Agency Agreement as the Republic may deem necessary or desirable, *provided that* such action pursuant to this clause (iv) shall not adversely affect the interest of the Holder of Notes of such Series in any material respect; or
  - (v) to correct a manifest error; or
  - (vi) to make any other change that does not adversely affect the rights of any Holder of such Series.
- (c) Any such modification shall be binding on the Holders of Notes of such Series and shall be notified to the Holders of Notes of such Series by the Republic in accordance with Condition 14 as soon as practicable.
- (e) The Fiscal Agency Agreement also provides that Holders may adopt resolutions in writing in lieu of meetings for all of the foregoing purposes and that certain modifications to the Fiscal Agency Agreement may not be made without the consent of the Agents.

## **16. Further Issues**

The Republic shall be at liberty from time to time without the consent of the Holders of Notes, Receipts or Coupons to create and issue further notes having terms and conditions the same as the Notes or the same in all respects save for the issue date, the issue price and the amount and date of the first payment of interest thereon and so that the same shall be consolidated and form a single Series with the outstanding Notes.

## **17. Enforcement**

So long as the Notes in a Series are represented by one or more Registered Global Notes, if an Event of Default shall have occurred and be continuing, each Holder of an interest in a Registered Global Note (as evidenced by the records of accounts with Euroclear, Clearstream, Luxembourg or, if applicable, DTC) may, after notice to the registered owner of the relevant Registered Global Note, but without the consent of that registered owner, and without joining that registered owner, file any claim, take any action or institute any proceedings to enforce directly against the Republic, or otherwise in respect of the Republic's obligations in respect of the Notes relating to that Holder's interest in the relevant Registered Global Note, as it appears on the date the proceedings are commenced in the book-entry settlement system of the relevant Clearing System, without need to produce such Registered Global Note, provided that the registered owner thereof has not theretofore filed a claim, taken action or instituted proceedings to enforce those obligations. Subject to the foregoing, if any Event of Default occurs and is continuing in respect of any Notes owned by a particular Holder (irrespective of the form thereof), such Holder may in its own name institute judicial proceedings for the collection of the sums due to such Holder and unpaid in respect of the Notes owned by it, may prosecute such proceedings to judgment or final decree and

may enforce the same against the Republic or any other obligor upon such Notes and collect the property adjudged or decreed to be payable in the manner provided by law. In any event, the aggregate principal amount of a Global Note shall be reduced by the principal amount of each Note represented thereby in respect of which the Republic's obligations have been discharged as a result of any such claim, action or proceedings brought by the Holder of such an interest, or final settlement in respect thereof, and any Definitive Note so discharged shall be cancelled.

#### **18. Indemnification of the Fiscal Agent and Other Agents**

The Fiscal Agency Agreement contains provisions for the indemnification of the Fiscal Agent and the other Agents and for their relief from responsibility, including provisions relieving them from taking action unless indemnified to their satisfaction. The Fiscal Agent and each other Agent is entitled to enter into business transactions with the Republic without accounting for any profit. The Fiscal Agent and the other Agents are agents of the Republic and none of them is a trustee or fiduciary for any of the Holders of the Notes.

#### **19. Governing Law and Submission to Jurisdiction**

The Fiscal Agency Agreement and the Notes shall be construed and interpreted in accordance with the law of the State of New York, which shall govern them and any controversy or claim arising out of or relating to any of them, without reference to conflicts of laws principles. The Republic irrevocably agrees for the benefit of each Holder of Notes that the courts of the State of New York and of the United States sitting in The City of New York, Borough of Manhattan, shall have non-exclusive jurisdiction to settle any disputes which may arise out of or in connection with the Fiscal Agency Agreement or the Notes and that, accordingly, any suit, action or proceedings arising out of or in connection therewith (together referred to as "*Related Proceedings*") may be brought in any such courts. Related Proceedings may also be brought in the courts of the Republic. The Republic irrevocably submits to the jurisdiction of the courts referred to in this Condition for purposes of any Related Proceedings.

To the extent that the Republic may in any jurisdiction claim or acquire for itself or its assets immunity (sovereign or otherwise) from suit, execution, attachment (whether in aid of execution, before judgment or otherwise) or other legal process (whether through service or notice or otherwise), the Republic irrevocably agrees for the benefit of the Holders of Notes not to claim, and irrevocably waives, such immunity, to the fullest extent permitted by the laws of such jurisdiction. The waiver of immunity in this paragraph shall have the fullest scope permitted under the Foreign Sovereign Immunities Act of 1976 of the United States and is intended to be irrevocable for purposes of such Act but shall otherwise constitute a limited and specific waiver for the purpose of the Fiscal Agency Agreement and the Notes and under no circumstances shall it be interpreted as a general waiver by the Republic or a waiver of immunity in respect of property that is used solely or principally for official purposes (such as ambassadorial and consular real property and buildings and the contents thereof, or any bank accounts of embassies or consulates to the extent of monies maintained therein for ambassadorial, consular or other official purposes, but not commercial purposes, in each case necessary for the proper official, ambassadorial or consular functioning of the Republic).

The Republic irrevocably appoints the person who from time to time is the Consul of the Republic in The City of New York as its agent in the United States to receive service of process in any Related Proceedings in The City of New York based on or in connection with the Fiscal Agency Agreement or any of the Notes.

## **USE OF PROCEEDS**

The Republic will use the net proceeds from the sale of Notes in a Tranche or Series offered pursuant to the Program in such manner and for such purposes, in accordance with Lebanese law, as specified in the applicable Final Terms for such Tranche or Series.



## FORMS OF THE NOTES

The Notes of each Series will be in bearer or in registered form.

Unless otherwise provided with respect to a particular Series of Registered Notes, Registered Notes of each Tranche of such Series sold outside the United States in reliance on Regulation S will be represented by a permanent global note in registered form, without interest coupons (a “*Regulation S Global Note*”), deposited with a common depository on behalf of Euroclear and Clearstream, Luxembourg or with a custodian for, and registered in the name of, a nominee of DTC.

Registered Notes of each Tranche sold in private transactions to QIBs pursuant to Rule 144A will be represented by a restricted permanent global note in registered form, without interest coupons (a “*Restricted Global Note*” and, together with a Regulation S Global Note, “*Registered Global Notes*”), deposited with a common depository on behalf of Euroclear and Clearstream, Luxembourg or with a custodian for, and registered in the name of, a nominee of DTC.

Registered Notes of each Tranche may only be offered and sold in the United States or to U.S. persons in private transactions: (i) to QIBs or (ii) in transactions not subject to the registration requirements of the Securities Act. Persons holding beneficial interests in Registered Global Notes will be entitled or required, as the case may be, under the circumstances described in Condition 2, to receive physical delivery of Definitive Registered Notes.

Each Tranche of Bearer Notes will initially be represented either by a temporary global Note (a “*Temporary Global Note*”) or a permanent global note (a “*Permanent Global Note*”), which will be deposited on the issue date thereof with a common depository on behalf of Euroclear and/or Clearstream, Luxembourg. Beneficial interests in a Temporary Global Note will be exchangeable for either beneficial interests in a Permanent Global Note or definitive Bearer Notes upon certification as to non-U.S. beneficial ownership as required by U.S. Treasury regulations as specified in the applicable Final Terms. Each Permanent Global Note may be exchanged for definitive Bearer Notes (save to the extent otherwise indicated in the applicable Final Terms) only in the limited circumstances described in the Permanent Global Note and herein, in each case in accordance with the procedure described in “*Terms and Conditions of the Notes*” For further details of clearing and settlement of the Notes issued under the Program, see “*Book-Entry Clearance Systems*” below.

While any Bearer Note is represented by a Temporary Global Note, payments of principal and interest (if any) due prior to the Exchange Date (as set out in the Temporary Global Note) will be made against presentation of the Temporary Global Note only to the extent that certification (in a form to be provided) to the effect that the beneficial owner of such Note is not a U.S. person or a person who has purchased for resale to any U.S. person, as required by U.S. Treasury regulations, has been received by Euroclear and/or Clearstream, Luxembourg and/or any other such depository, as applicable and such clearing agent or depository, as the case may be, has given a like certification (based on the certifications it has received) to the Fiscal Agent.

After the Exchange Date, interests in such Temporary Global Note will be exchangeable (free of charge) upon a request as described therein either for interests in a Permanent Global Note without receipts, interest coupons or talons or for definitive Bearer Notes with, where applicable, receipts or interest coupons attached (as indicated in the applicable Final Terms and subject, in the case of definitive Bearer Notes, to such notice period as is specified in the applicable Final Terms) in each case against certification of beneficial ownership as described in the immediately preceding paragraph unless such certification has already been given. The holder of a Temporary Global Note will not be entitled to collect any payment of interest or principal due on or after the Exchange Date.

Pursuant to the Fiscal Agency Agreement (as defined under “*Terms and Conditions of the Notes*” below), Bearer Notes will be assigned a Common Code and ISIN (as applicable). If a further Series is issued in the case of a Temporary Global Note, the Fiscal Agent shall arrange that the Notes of such Series shall be assigned a Common Code and ISIN (as applicable) that are different from the Common Code and ISIN assigned to Notes of any other Series, until Temporary Global Notes may be exchanged for Permanent Global Notes. At the end of such period, the Common Code and ISIN thereafter applicable to the Notes of the relevant Series will be notified by the Fiscal Agent to the relevant Dealers.

Registered Notes in a Series will be assigned a single Common Code, ISIN, CINS number and CUSIP number (as applicable).

Each Temporary Global Note will be exchangeable, free of charge to the Holder, on or after its Exchange Date: (i) if the relevant Final Terms indicates that such Temporary Global Note in a transaction to which TEFRA is not applicable (as to which, see “*Subscription and Sale*”), in whole, but not in part, for the Definitive Bearer Notes described below; and (ii) in whole or in part upon certification as to non-U.S. beneficial ownership in the form set out in the Fiscal Agency Agreement for interests in a Permanent Global Note or, if so provided in the relevant Final Terms, for Definitive Bearer Notes.

Each Permanent Global Note will be exchangeable, free of charge to the Holder, on or after its Exchange Date in whole but not in part for Definitive Bearer Notes, and each Registered Global Note will be exchangeable, free of charge to the Holder, in whole but not in part for Definitive Registered Notes, if:

- (a) Euroclear or Clearstream, Luxembourg or, if applicable, DTC notifies the Republic that it is unwilling or unable to continue as depositary for such Permanent Global Note or Registered Global Note, as the case may be;
- (b) if applicable, DTC ceases to be a “Clearing Agency” registered under the Exchange Act, or either Euroclear or Clearstream, Luxembourg or, if applicable, DTC is closed for business for a continuous period of 14 days (other than by reason of holiday, statutory or otherwise) or announces its intention permanently to cease business, and a successor depositary or alternative clearing system satisfactory to the Republic and the Fiscal Agent is not available;
- (c) an Event of Default has occurred and is continuing with respect to such Notes; or
- (d) otherwise provided in the applicable Final Terms.

In the event that a Bearer Global Note is exchanged for Definitive Bearer Notes, such Definitive Bearer Notes shall be issued in Specified Denomination(s) only. A Holder of Notes with a principal amount of less than the minimum Specified Denomination will not receive a definitive Note in respect of such holding and would need to purchase a principal amount of Notes such that it holds an amount equal to one or more Specified Denominations.

All Notes will be issued pursuant to the Fiscal Agency Agreement.

No beneficial owner of an interest in a Bearer Global Note or a Registered Global Note will be able to exchange or transfer that interest, except in accordance with the applicable procedures of Euroclear, Clearstream, Luxembourg, DTC and/or MIDCLEAR, in each case, to the extent applicable.

The following legend will appear on all Bearer Notes issued in accordance with U.S. Treasury Regulations Section 1.163-5(c)(2)(i)(D) or any successor rules in substantially the same form as the rules in such regulations for purposes of Section 4701 of the U.S. Internal Revenue Code of 1986, as amended (the “*D Rules*”), and all Receipts, Coupons and Talons (or in the book or record where the Bearer Notes are held in book-entry form) with respect thereto:

“ANY UNITED STATES PERSON (AS DEFINED IN THE INTERNAL REVENUE CODE OF THE UNITED STATES) WHO HOLDS THIS OBLIGATION WILL BE SUBJECT TO LIMITATIONS UNDER THE UNITED STATES INCOME TAX LAWS, INCLUDING THE LIMITATIONS PROVIDED IN SECTION 165(j) AND 1287(a) OF THE INTERNAL REVENUE CODE.”

Sections 165(j) and 1287(a) of the U.S. Internal Revenue Code of 1986, as amended, provide that United States holders, with certain exceptions, will not be entitled to deduct any loss on Bearer Notes, Receipts or Coupons and will not be entitled to capital gains treatment of any gain on any sale, disposition, redemption or payment of principal in respect of Bearer Notes, receipts or interest coupons.

The Final Terms applicable to each Tranche of Notes will contain such of the following information as is applicable in respect of such Notes set out in “*Annex A—Form of the Final Terms*”.

## **BOOK-ENTRY CLEARANCE SYSTEMS**

*The information set out below is subject to any change in or reinterpretation of the rules, regulations and procedures of DTC, Euroclear, Clearstream, Luxembourg and MIDCLEAR (together, the “Clearing Systems”) currently in effect. Investors wishing to use the facilities of any of the Clearing Systems are advised to confirm the continued applicability of the rules, regulations and procedures of the relevant Clearing System. None of the Republic, the Fiscal Agent or any agent party to the Fiscal Agency Agreement will have any responsibility or liability for any aspect of the records relating to, or payments made on account of, beneficial ownership interests in the Notes held through the facilities of any Clearing System or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests. The relevant Final Terms will specify the Clearing System(s) applicable to each Series.*

### **DTC**

DTC is a limited purpose trust company organized under the laws of the State of New York, a member of the U.S. Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code and a “clearing agency” registered pursuant to Section 17A of the Exchange Act. DTC was created to hold securities among its participants and to facilitate the clearance and settlement of securities transactions among participants in such securities through electronic book-entry changes in accounts of the participants, thereby eliminating the need for physical movement of security certificates. Participants include securities brokers and dealers, banks, trust companies and certain other organizations. DTC is owned by a number of its participants and by the New York Stock Exchange, Inc., the American Stock Exchange, Inc. and the National Association of Securities Dealers, Inc. Indirect access to DTC is available to others, such as banks, brokers, dealers and trust companies that clear through or maintain a custodial relationship with a DTC participant either directly or indirectly.

DTC will take any action permitted to be taken by the holder of a beneficial interest in a Registered Global Note (including, without limitation, the presentation of a Registered Global Note for exchange as described above) only at the direction of one or more participants to whose account with DTC interests in such Registered Global Note are credited and only in respect of such portion of the aggregate principal amount of Notes in respect of which such participant or participants has or have given such direction. If an Event of Default under the Notes occurs, DTC will exchange the Registered Global Notes for Definitive Registered Notes, legended as appropriate, which it will distribute to the relevant participants.

### **Euroclear and Clearstream, Luxembourg**

Each of Euroclear and Clearstream, Luxembourg holds securities for their account holders and facilitates the clearance and settlement of securities transactions by electronic book-entry transfer between their respective account holders, thereby eliminating the need for physical movements of certificates and any risks from lack of simultaneous transfers of securities.

Euroclear and Clearstream, Luxembourg each provides various services including safekeeping, administration, clearance and settlement of internationally traded securities and securities lending and borrowing. Euroclear and Clearstream, Luxembourg each also deals with domestic securities markets in several countries through established depository and custodial relationships. Euroclear and Clearstream, Luxembourg have established an electronic bridge between their two systems which enables their respective account holders to settle trades with each other.

Account holders in Euroclear and Clearstream, Luxembourg are financial institutions including underwriters, securities brokers and dealers, banks, trust companies and clearing corporations. Indirect access to both Euroclear and Clearstream, Luxembourg is available to other institutions that clear through or maintain a custodial relationship with an account holder of either system.

An account holder’s overall contractual relations with either Euroclear or Clearstream, Luxembourg are governed by the respective rules and operating procedures of Euroclear or Clearstream, Luxembourg and any applicable laws. Both Euroclear and Clearstream, Luxembourg act under those rules and operating procedures only on behalf of their respective account holders, and have no record of or relationship with persons holding through their respective holders.

## **MIDCLEAR**

MIDCLEAR is a joint stock company organized under the laws of Lebanon. MIDCLEAR is 99% owned by BDL. MIDCLEAR acts as the central depository and clearing house in Lebanon. MIDCLEAR was created to hold securities for its participants (“*MIDCLEAR Participants*”) and to facilitate clearance and settlement of securities transactions between MIDCLEAR Participants. The clearing bank for MIDCLEAR is BDL, which operates a multi-currency payment system.

MIDCLEAR Participants may trade Notes as follows:

Secondary market trading between MIDCLEAR Participants will be settled using MIDCLEAR’s standard procedures.

MIDCLEAR Participants may effect secondary market purchases of Notes from participants in Euroclear or Clearstream, Luxembourg by using the Euroclear and Clearstream, Luxembourg procedures applicable to conventional Eurobonds and specifying that the Notes being purchased must be credited, free of payment, or (provided the MIDCLEAR Participant has made sufficient funds available to MIDCLEAR prior to the relevant settlement date) against payment, to MIDCLEAR’s Clearstream, Luxembourg account number 80285. Credit of the relevant Notes to the relevant MIDCLEAR Participants will take place no later than one Business Day in Lebanon and the place of each relevant Clearing System after confirmation to MIDCLEAR that its Clearstream, Luxembourg account has been credited with those Notes.

### **Book-Entry Ownership of Registered Global Notes**

The Republic will make application to Euroclear and/or Clearstream, Luxembourg and/or, if applicable, DTC in their respective book-entry settlement systems of each Tranche of Notes represented by a Regulation S Global Note and/or a Restricted Global Note.

In the case of Notes held through DTC, the custodian with whom the Registered Global Notes are deposited (the “*Custodian*”) and DTC will electronically record the principal amount of the Notes represented by the Registered Global Note held within the DTC system. Investors also may hold such interests directly through DTC if they are participants in such system, or indirectly through organizations which are participants in DTC. Investors may hold their interests in Registered Global Notes through Clearstream, Luxembourg and Euroclear, each of which is a participant of DTC.

Payments of principal and interest in respect of Registered Global Notes registered in the name of DTC’s nominee will be to or to the order of its nominee as the registered holder of such Registered Global Note. The Republic expects that the nominee will, upon receipt of any such payment, immediately credit DTC participants’ accounts with any such payments denominated in U.S. Dollars in amounts proportionate to their respective beneficial interests in the principal amount of the relevant Registered Global Note as shown on the records of DTC or its nominee. In the case of any such payments which are denominated otherwise than in U.S. Dollars payment of such amounts will be made to the Exchange Agent on behalf of the nominee who will make payment of all or part of the amount to the beneficial holders of interests in such Registered Global Note directly, in the currency in which such payment was made, and/or cause all or part of such payment to be converted into U.S. Dollars and credited to, the relevant participant’s DTC account as aforesaid, in accordance with instructions received from DTC. The Republic also expects that payments by DTC participants to owners of beneficial interests in such Registered Global Note held through such DTC participants will be governed by standing instructions and customary practices, as is now the case with securities held for the accounts of customers registered in the names of nominees for such customers. Such payments will be the responsibility of such DTC participants. Neither the Republic nor any agent will have any responsibility or liability for any aspect of the records relating to or payments made on account of beneficial ownership interests in the Registered Global Notes or for maintaining, supervising or reviewing any records relating to such ownership interests.

### **Transfers of Notes represented by Registered Global Notes**

Transfers of interests in Registered Global Notes within DTC, Euroclear and Clearstream, Luxembourg (as applicable) will be in accordance with the usual rules and operating procedures of the relevant system. The laws in some states in the United States require that certain persons take physical delivery of securities in definitive form. Consequently, the ability to transfer a beneficial interest in a Registered Global Note to such persons may require that such interests be exchanged for Notes in definitive form. Because DTC can only act on behalf of participants in DTC, who in turn act on behalf of indirect participants, the ability of a person having an interest

in a Registered Global Note to pledge such interest to persons or entities that do not participate in the DTC system, or otherwise take actions in respect of such interest may require that such interests be exchanged for Definitive Registered Notes. To the extent a Registered Global Note is held through DTC, the ability of the holder of a beneficial interest in any Registered Note represented by such Registered Global Note to resell, pledge or otherwise transfer such interest may also be impaired if the proposed transferee of such interest is not eligible to hold the same through a participant or indirect participant in DTC. Beneficial interests in a Registered Global Note may be held through Clearstream, Luxembourg and Euroclear. Clearstream, Luxembourg and Euroclear will operate with respect to the Notes in accordance with customary Euromarket practices.

### **Bearer Notes**

Bearer Notes held outside the United States may be held in book-entry form through Clearstream, Luxembourg or Euroclear. Clearstream, Luxembourg and Euroclear will operate with respect to Temporary Global Notes or Permanent Global Notes in accordance with customary Euromarket practice. In respect of Bearer Notes, as may be specified in the applicable Final Terms, a Temporary Global Note and/or a Permanent Global Note in bearer form without Coupons will be deposited with a common depositary for Euroclear and Clearstream, Luxembourg.

### **Secondary Trading, Same-Day Settlement and Payment**

All payments made by the Republic with respect to Registered Notes registered in the name of a nominee for DTC will be passed through to DTC in same-day funds. In relation to secondary market trading, since the purchaser determines the place of delivery, it is important to establish at the time of the trade where both the purchaser's and seller's accounts are located to ensure that settlement can be made on the desired value date.

### **Trading Within Same Clearing System**

The following describes the transfer mechanisms between DTC, Euroclear and Clearstream, Luxembourg. Holders should note that transfers of beneficial interests in a Global Note is subject to limitations as set forth in "Notice to Investors".

*Trading within DTC.* If neither the seller nor the purchaser of Registered Notes represented by any Registered Global Note holds or will receive (as the case may be) such Notes through a participant in DTC acting on behalf of Euroclear or Clearstream, Luxembourg, the trade will settle in same-day funds and in accordance with DTC rules, regulations and procedures.

*Trading within Euroclear or Clearstream, Luxembourg.* Transfers between account holders in Euroclear and Clearstream, Luxembourg will be effected in the ordinary way in accordance with their respective rules and operating procedures.

### **Trading Between Clearing Systems**

*Trading between Euroclear or Clearstream, Luxembourg seller and DTC purchaser involving only Registered Global Notes.* Due to time zone differences in their favor, Euroclear and Clearstream, Luxembourg account holders may employ their customary procedures for transactions in which interests in a Registered Global Note are to be transferred by Euroclear or Clearstream, Luxembourg (as the case may be) to a participant in DTC. The seller will send instructions to Euroclear or Clearstream, Luxembourg through a Euroclear or Clearstream, Luxembourg account holder (as the case may be) at least one business day prior to settlement. In these cases, Euroclear or Clearstream, Luxembourg will instruct its respective depositary to deliver the interests in the Registered Global Note to the participant's account against payment. Payment will include interest (if any) accrued on such interests in the Note from (and including) the immediately preceding date for the payment of interest to (and excluding) the settlement date. The payment will then be reflected in the account of the Euroclear or Clearstream, Luxembourg account holder the following day, and receipt of cash proceeds in the Euroclear or Clearstream, Luxembourg account holders' account would be back-valued to the value date (which would be the preceding day when settlement occurred in New York). Should the Euroclear or Clearstream, Luxembourg account holder have a line of credit in its respective Clearing System and elect to be in debit in anticipation of receipt of the sale proceeds in its account, the back-valuation will extinguish any overdraft charges incurred over that one-day period. If settlement is not completed on the intended value date (*i.e.*, the trade fails), receipt of the cash proceeds in the Euroclear or Clearstream, Luxembourg account holder's account would be valued instead as of the actual settlement date.

*Trading between DTC seller and Euroclear or Clearstream, Luxembourg purchaser involving only Registered Global Notes.* When interests in a Registered Global Note are to be transferred from the account of a participant to the account of a Euroclear or Clearstream, Luxembourg account holder, the purchaser will send instructions to Euroclear or Clearstream, Luxembourg through a Euroclear or Clearstream, Luxembourg account holder, as the case may be, at least one business day prior to settlement. Euroclear or Clearstream, Luxembourg, as the case may be, will instruct its respective depository to receive such interests against payment. Payment will include interest (if any) accrued on such interest in the Registered Global Note from (and including) the immediately preceding date for the payment of interest to (and excluding) the settlement date. Payment will then be made by the depository to the participant's account against delivery of the interests in the Note. After settlement has been completed, the interests will be credited to the respective Clearing System, and by the Clearing System, in accordance with its usual procedures, to the Euroclear or Clearstream, Luxembourg account holder's account. The securities credit will appear the next day (European time) and the cash debit will be back-valued to, and any interest on the Note will accrue from, the value date (which would be the preceding day when settlement occurred in New York). If settlement is not completed on the intended value date (*i.e.*, the trade fails), the Euroclear or Clearstream, Luxembourg cash debit will be valued instead as of the actual settlement date.

Day traders that use Euroclear or Clearstream, Luxembourg to purchase interests in a Registered Global Note from participants for delivery to Euroclear or Clearstream, Luxembourg account holders should note that these trades would automatically fail on the sale side unless affirmative action were taken. At least three techniques should be readily available to eliminate this potential problem:

- (i) borrowing through Euroclear or Clearstream, Luxembourg for one day (until the purchase side of the day trade is reflected in their Euroclear or Clearstream, Luxembourg accounts) in accordance with the Clearing System's customary procedures;
- (ii) borrowing the interests in the United States from a participant no later than one day prior to settlement, which would give the interests sufficient time to be reflected in their Euroclear or Clearstream, Luxembourg account in order to settle the sale side of the trade; or
- (iii) staggering the value date for the buy and sell sides of the trade so that the value date for the purchase from the participant is at least one day prior to the value date for the sale to the Euroclear or Clearstream, Luxembourg account holder.

Euroclear or Clearstream, Luxembourg account holders will need to make available to the respective Clearing System the funds necessary to process same-day funds settlement. The most direct means of doing so is to preposition funds for settlement, either from cash on-hand or existing lines of credit, as such participants would for any settlement occurring within Euroclear or Clearstream, Luxembourg. Under this approach, such participants may take on credit exposure to Euroclear or Clearstream, Luxembourg until the interests in the Note are credited to their accounts one day later.

Alternatively, if Euroclear or Clearstream, Luxembourg has extended a line of credit to a Euroclear or Clearstream, Luxembourg account holder, as the case may be, such account holder may elect not to preposition funds and allow that credit line to be drawn upon to finance settlement. Under this procedure, Euroclear or Clearstream, Luxembourg account holders purchasing interests in the Note held in DTC would incur overdraft charges for one day, assuming they cleared the overdraft when the interests in the Note were credited to their accounts. However, any interest on the Note would accrue from the value date. Therefore, in many cases the investment income on the interests in the Note held in DTC earned during that one-day period may substantially reduce or offset the amount of such overdraft charges, although this result will depend on each account holder's particular cost of funds.

Since the settlement is taking place during New York business hours, participants can employ their usual procedures for transferring interests in global Notes to the respective depositories of Euroclear or Clearstream, Luxembourg for the benefit of Euroclear or Clearstream, Luxembourg account holders. The sale proceeds will be available to the DTC seller on the settlement date. Thus, to the participants, a cross-market transaction will settle no differently from a trade between participants.

Secondary trading in long-term notes and debentures of corporate issuers is generally settled in clearinghouse or next-day funds. In contrast, Registered Notes held through participants or indirect participants will trade in DTC's Same-Day Funds Settlement System until the earliest of maturity or redemption, and secondary market trading activity in such Registered Notes will therefore be required by DTC to settle in immediately available

funds. No assurance can be given as to the effect, if any, of settlements in immediately available funds on trading activity in such Registered Notes.

Although DTC, Clearstream, Luxembourg and Euroclear have agreed to the foregoing procedures in order to facilitate transfers of beneficial interests in the Registered Global Notes among participants and account holders of DTC, Clearstream, Luxembourg and Euroclear, they are under no obligation to perform or continue to perform such procedures, and such procedures may be discontinued at any time. None of the Republic, any Agent or any Dealer will have the responsibility for the performance by DTC, Clearstream, Luxembourg or Euroclear or their respective direct or indirect participants or account holders of their respective obligations under the rules and procedures governing their operations.

While a Registered Global Note is lodged with DTC or its custodian, Notes represented by individual Definitive Notes will not be eligible for clearing or settlement through DTC, Clearstream, Luxembourg or Euroclear.

## **NOTICE TO PURCHASERS AND HOLDERS OF RESTRICTED NOTES AND TRANSFER RESTRICTIONS**

*As a result of the following restrictions, purchasers of Notes in the United States are advised to consult legal counsel prior to making any offer, resale, pledge or transfer of such Notes.*

Each prospective purchaser of Notes bearing legends, by accepting delivery of this Base Prospectus, will be deemed to have represented and agreed that this Base Prospectus is personal to such offeree and does not constitute an offer to any other person or to the public generally to subscribe for or otherwise acquire Notes. Distribution of this Base Prospectus, or disclosure of any of its contents to any person other than such offeree and those persons, if any, retained to advise such offeree with respect thereto is unauthorized, and any disclosure of any of its contents, without the prior written consent of the Republic, is prohibited.

Each purchaser of Notes within the United States, pursuant to Rule 144A, by accepting this Base Prospectus, will be deemed to have represented and agreed as follows (terms used in this paragraph that are not defined herein will have the meaning given to them in Rule 144A or in Regulation S as the case may be):

- (a) The purchaser (i) is a QIB, (ii) is aware, and each beneficial owner has been advised, that the sale to it is being made in reliance on Rule 144A and (iii) is acquiring Notes for its own account or for the account of a QIB;
- (b) The purchaser understands that such Restricted Notes are being offered only in a transaction not involving any public offering in the United States within the meaning of the Securities Act, such Restricted Notes have not been and will not be registered under the Securities Act or any other applicable state securities laws and may not be offered, sold or otherwise transferred unless registered pursuant to or exempt from registration under the Securities Act and any other applicable state securities laws; and that (i) if in the future the purchaser decides to offer, resell, pledge or otherwise transfer such Restricted Notes, such Restricted Notes may be offered, sold, pledged or otherwise transferred only (A) to a person who the seller reasonably believes is a QIB in a transaction meeting the requirements of Rule 144A, (B) in an offshore transaction in accordance with Rule 903 or Rule 904 of Regulation S or (C) pursuant to an exemption from registration under the Securities Act provided by Rule 144 thereunder (if available), and in each of such cases in accordance with any applicable securities laws of any state of the United States or any other jurisdiction and that (ii) the purchaser will, and each subsequent holder of the Restricted Notes is required to, notify any purchaser of such Restricted Notes from it of the resale restrictions referred to in (i) above and that (iii) no representation can be made as to the availability of the exemption provided by Rule 144 under the Securities Act for resale of such Restricted Notes;
- (c) Each Restricted Note will bear a legend to the following effect, in addition to such other legends as may be necessary or appropriate, unless the Republic determines otherwise in compliance with applicable law:

“THIS NOTE (OR ITS PREDECESSOR) HAS NOT BEEN AND WILL NOT BE REGISTERED UNDER, AND WAS ORIGINALLY ISSUED IN A TRANSACTION EXEMPT FROM REGISTRATION UNDER, THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED, (THE “SECURITIES ACT”), AND UNDER THE APPLICABLE STATE SECURITIES LAWS AND MAY NOT BE OFFERED, RESOLD, PLEDGED OR OTHERWISE TRANSFERRED IN THE ABSENCE OF SUCH REGISTRATION OR AN APPLICABLE EXEMPTION THEREFROM. EACH PURCHASER OF THIS NOTE IS HEREBY NOTIFIED THAT THE SELLER OF THIS NOTE MAY BE RELYING ON THE EXEMPTION FROM THE PROVISIONS OF SECTION 5 OF THE SECURITIES ACT PROVIDED BY RULE 144A THEREUNDER. THE HOLDER OF THIS NOTE BY ITS ACCEPTANCE HEREOF REPRESENTS AND AGREES FOR THE BENEFIT OF THE REPUBLIC AND THE DEALERS THAT (A), THIS NOTE MAY BE RESOLD, PLEDGED OR OTHERWISE TRANSFERRED ONLY (1) IN THE UNITED STATES TO A PERSON WHOM THE SELLER REASONABLY BELIEVES IS A QUALIFIED INSTITUTIONAL BUYER (AS DEFINED IN RULE 144A UNDER THE SECURITIES ACT) IN A TRANSACTION MEETING THE REQUIREMENTS OF SUCH RULE 144A, (2) OUTSIDE THE UNITED STATES IN AN OFFSHORE TRANSACTION IN ACCORDANCE WITH REGULATION S UNDER THE SECURITIES ACT OR (3) PURSUANT TO AN EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT PROVIDED BY RULE 144 THEREUNDER (IF AVAILABLE) AND IN



EACH OF SUCH CASES IN ACCORDANCE WITH ANY APPLICABLE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES OR ANY OTHER JURISDICTION, AND THAT (B) THE HOLDER WILL, AND EACH SUBSEQUENT HOLDER IS REQUIRED TO, NOTIFY ANY PURCHASER OF THIS NOTE FROM IT OF THE TRANSFER RESTRICTIONS REFERRED TO IN (A) ABOVE. NO REPRESENTATION CAN BE MADE AS TO THE AVAILABILITY OF THE EXEMPTION PROVIDED BY RULE 144 UNDER THE SECURITIES ACT FOR RESALE OF THIS NOTE”.

- (d) It understands that the Republic, the Registrar, the Arrangers, the Dealers, and their respective affiliates, and others will rely upon the truth and accuracy of the foregoing acknowledgements, representations and agreements. If it is acquiring any Notes for the account of one or more QIBs it represents that it has sole investment discretion with respect to each such account and that it has full power to make the foregoing acknowledgements, representations and agreements on behalf of each such account; and
- (e) It understands that the Notes offered in reliance on Rule 144A will be represented by Restricted Global Notes.

## TAXATION

*The following is a summary of certain Lebanese, Luxembourg and U.S. federal income tax consequences resulting from the purchase, ownership and disposition of the Notes. This summary does not purport to consider all of the possible U.S. federal income or Lebanese tax consequences of the purchase, ownership and disposition of the Notes and is not intended to reflect the individual tax position of any beneficial owner. This summary is based upon laws, regulations, rulings and decisions now in effect, all of which are subject to change (perhaps with retroactive effect in the U.S.). It deals only with Notes held as capital assets by initial purchasers (unless otherwise specified) and does not purport to deal with persons in special tax situations, such as financial institutions, insurance companies, tax exempt organizations, regulated investment companies, real estate investment trusts, grantor trusts, partnerships or other entities classified as partnerships for U.S. federal income tax purposes, pass-through entities, individual retirement and other tax-deferred accounts, dealers in securities or currencies, persons that mark their securities to market, persons holding Notes as a hedge against currency risks, as a position in a “straddle” or as part of a conversion, integrated or constructive sale transaction for tax purposes, controlled foreign corporations, passive foreign investment companies, persons subject to U.S. federal alternative minimum tax, certain expatriates or former long-term residents of the United States, U.S. Holders (defined below) whose functional currency (as defined in the U.S. Internal Revenue Code of 1986, as amended (the “Code”)) is not the U.S. Dollar, or U.S. Holders subject to the tax on “net investment income” imposed under Section 1411 of the Code. Moreover, this summary does not address the gift, estate and alternative minimum tax consequences of the acquisition, ownership, disposition, and retirement of the Notes. The summary does not include any description of the tax laws of any state, local or foreign governments (other than Lebanon and Luxembourg) that may be applicable to the Notes or the Holders thereof. The legal authorities on which this summary is based are subject to various interpretations, and no rulings have been or will be sought from any tax agency with respect to the matters described herein.*

***Persons considering the purchase of the Notes should consult their own tax advisers concerning the application of U.S. federal income and Lebanese tax laws to their particular situations as well as any consequences of the purchase, ownership and disposition of the Notes arising under the laws of any other taxing jurisdiction.***

### **Lebanese Taxation**

***Withholding Tax on Interest.*** Under Law № 497 of the Lebanese Republic dated January 30, 2003 (the 2003 Budget Law), published in the Official Gazette on January 31, 2003, interest paid in respect of bonds issued by the Lebanese Republic after January 31, 2003 is subject to withholding tax at the rate of five percent. The Republic is obligated, subject to certain standard exceptions, to take such necessary action (including the payment of additional amounts) so that the net amount received by the holders of Notes is equal to the amount that would have been received had no withholding on account of Lebanese taxes been made. See “*Terms and Conditions of the Notes—8. Taxation*”.

***Capital Gains Tax.*** No Lebanese tax will be payable in respect of any gain, whether realized or unrealized, made by a non-resident of Lebanon from any sale or other disposition of any Notes.

***Inheritance Taxes.*** No Lebanese inheritance or similar tax will be payable by the holder of any Note who is a non-resident of Lebanon.

***Stamp Duties.*** No stamp, registration or similar duties or taxes will be payable in the Republic by any non-resident of Lebanon in connection with its purchase of any of the Notes upon issue.

### **Grand Duchy of Luxembourg Taxation**

#### ***Non-Residents***

Under the existing laws of Luxembourg, and except as provided for by the Luxembourg law of June 20, 2005 implementing the EU Savings Directive, there is no withholding tax on the payment of interest on, or reimbursement of principal of, the Notes made to non-residents of Luxembourg.

Under the Luxembourg law of June 20, 2005 implementing the EU Savings Directive, and as a result of ratification by Luxembourg of certain related agreements (Accords) with the relevant dependent and associated territories, payments of interest or similar income made or ascribed by a paying agent established in Luxembourg to or for the immediate benefit of an individual or certain residual entities as defined by the law,

who, as a result of an identification procedure implemented by the paying agent, are identified as residents or are deemed to be residents of (i) an EU Member State other than Luxembourg, (ii) those certain dependent or associated territories or (iii) those other non-EU Member States referred to under “EU Savings Tax Directive” above, will be subject to a withholding tax unless the relevant beneficiary has adequately instructed the relevant paying agent to provide details of the relevant payments of interest or similar income to the fiscal authorities of his/her country of residence or deemed residence or has provided a tax certificate from his/her fiscal authority in the format required by law to the relevant paying agent. Where withholding tax is applied, it is levied at a rate of 35 percent.

When used in the preceding paragraph “interest” and “paying agent” have the meaning given thereto in the Luxembourg law of June 20, 2005 (or the relevant Accords). “Interest” (*intérêts*) will include accrued or capitalized interest at the sale, repayment or redemption of the Notes. “Paying agent” (*agent payeur*) is defined broadly for this purpose and in the context of the Notes means any economic operator established in Luxembourg who pays interest on the Notes to or ascribes the payment of such interest to or for the immediate benefit of the beneficial owner, whether the operator is, or acts on behalf of, the Issuer or is instructed by the beneficial owner to collect such payment of interest.

Payments of interest or similar income under the Notes to the Clearing Systems and payments by or on behalf of Clearstream, Luxembourg to financial intermediaries will not give rise to a withholding tax under Luxembourg law.

### ***Residents***

As of January 1, 2006 a final 10 percent withholding tax applies on interest payments made by Luxembourg Paying agents to Luxembourg individual residents on interest accrued since July 1, 2005 but paid after January 1, 2006. This withholding tax also applies on accrued interest received upon sale, redemption or repurchase of the Notes.

### ***Registration***

It is not compulsory that the Notes be filed, recorded or enrolled with any court, or other authority in Luxembourg or that registration tax, transfer tax, capital tax, stamp duty or any other similar tax or duty be paid in respect of or in connection with the execution, delivery and/or enforcement by legal proceedings (including any foreign judgment in the courts of Luxembourg) of the Notes, in accordance therewith, except that, in case of use of the Notes, either directly or by way of reference, (i) in a public deed, (ii) in a judicial proceeding in Luxembourg or (iii) before any other Luxembourg official authority (*autorité constituée*), registration may be ordered which implies the application of a fixed or an *ad valorem* registration duty of 0.24 percent calculated on the amounts mentioned in the Notes. Indeed, a 0.24 percent registration duty could be levied on any notarial or other public deed making a precise reference to a loan or obligation of sum of money.

### **U.S. Taxation**

**IN COMPLIANCE WITH U.S. TREASURY DEPARTMENT CIRCULAR 230, TAXPAYERS ARE HEREBY NOTIFIED THAT: (I) ANY DISCUSSION OF U.S. FEDERAL TAX ISSUES IN THIS DISCLOSURE DOCUMENT IS NOT INTENDED OR WRITTEN TO BE USED, AND CANNOT BE USED BY TAXPAYERS FOR THE PURPOSE OF AVOIDING PENALTIES THAT MAY BE IMPOSED UNDER THE US INTERNAL REVENUE CODE; AND (II) SUCH DISCUSSION IS INCLUDED HEREIN BY THE REPUBLIC IN CONNECTION WITH THE PROMOTION OR MARKETING (WITHIN THE MEANING OF CIRCULAR 230) BY THE REPUBLIC OF THE TRANSACTIONS OR MATTERS ADDRESSED HEREIN.**

The following summary is based on the advice of Dewey & LeBoeuf LLP and describes certain of the principal U.S. federal income tax consequences resulting from the purchase, ownership and disposition of the Notes and is based upon the Code, its legislative history, existing and proposed regulations thereunder, published rulings and court decisions, all as currently in effect and all subject to change at any time, possibly with retroactive effect.

As used herein, the term “*U.S. Holder*” means a beneficial owner of a Note who or which is (i) a citizen or individual resident of the United States, (ii) a corporation, or any other entity taxable as a corporation for U.S. federal income tax purposes, created or organized in or under the laws of the United States or of any political subdivision thereof (including the District of Columbia), (iii) an estate the income of which is subject to U.S.

federal income taxation regardless of its source, or (iv) a trust if such trust has already validly elected to be treated as a “United States person” for U.S. federal income tax purposes or if a court within the United States can exercise primary supervision over its administration and at least one United States person has the authority to control all substantial decisions of the trust. As used herein, the term “*Non-U.S. Holder*” means a beneficial owner of a Note that is not a U.S. Holder or a partnership or other entity treated as a partnership for U.S. federal income tax purposes. In the case of a holder of Notes that is a partnership for U.S. tax purposes, each partner will take into account its allocable share of income or loss from the Notes, and will take such income or loss into account under the rules of taxation applicable to such partner, taking into account the activities of the partnership and the partner.

Any U.S. person holding Bearer Notes with a maturity (at issue) of more than one year may be subject to limitations under the U.S. income tax laws, including limitations provided in sections 165(j) and 1287(a) of the Code. Any such person should consult with its tax advisers. Sections 165(j) and 1287(a) of the Code provide that United States holders, with certain exceptions, will not be entitled to deduct any loss on Bearer Notes with a maturity (at issue) of more than one year, or receipts or interest coupons with respect thereto, and will not be entitled to capital gains treatment of any gain on any sale, disposition, redemption or payment of principal in respect of any such Bearer Notes, receipts or interest coupons. The remainder of this discussion assumes that a U.S. Holder does not beneficially own any Bearer Note with a maturity (at issue) of more than one year if such Note is not treated as being in “registered form” for U.S. federal income tax purposes.

## **Tax Consequences to U.S. Holders**

### ***Payments of Interest***

Generally, subject to the discussion of Original Issue Discount below, payments of interest (including additional amounts paid pursuant to Condition 8 in order that the net amount received by Holders is equal to the amount that would have been received had no withholding on account of Lebanese taxes been made) on a Note will be taxable to a U.S. Holder as ordinary interest income at the time such payments are accrued or are received in accordance with the U.S. Holder’s regular method of accounting for U.S. federal income tax purposes.

As noted above, the amount of interest that must be included in income by a U.S. Holder will include additional amounts (and will not be reduced by any applicable withholding taxes). Consequently, the amount included in gross income for U.S. federal income tax purposes by a U.S. Holder with respect to a payment of interest may be greater than the amount of cash actually received by the U.S. Holder from the Republic. Interest income of a U.S. Holder with respect to a Note will constitute foreign source income for purposes of calculating the U.S. Holder’s foreign tax credit limitation. Income taxes withheld from interest income may be eligible for credit against the U.S. Holder’s federal income tax liability or, at the election of the U.S. Holder, for deduction in computing the U.S. Holder’s taxable income. The U.S. federal income tax rules relating to foreign tax credits and limitations thereof are complex and may vary depending on the facts and circumstances of each U.S. Holder. Accordingly, U.S. Holders should consult their own tax advisers regarding the availability of a foreign tax credit for Lebanese tax withheld under such U.S. Holder’s particular situation.

### ***Original Issue Discount***

#### ***General***

The following summary is a general discussion of the U.S. federal income tax consequences to U.S. Holders of the purchase, ownership and disposition of Notes issued with original issue discount (“*Discount Notes*”). Special rules apply to original issue discount on a Discount Note that is denominated in a Foreign Currency. See “—*Foreign Currency Notes—Original Issue Discount*”.

For U.S. federal income tax purposes, original issue discount is the excess of the stated redemption price at maturity of a Discount Note over its issue price, if such excess equals or exceeds a *de minimis* amount (generally defined as  $\frac{1}{4}$  of 1 percent of the Note’s stated redemption price at maturity multiplied by the number of complete years to its maturity). The issue price of each Note in an issue of Notes that are issued for cash is the first price at which a substantial amount of such issue of Notes has been sold for money (ignoring sales to bond houses, broker-dealers, or similar persons or organizations acting in the capacity of underwriters, placement agents, or wholesalers). The stated redemption price at maturity of a Note generally is the sum of all payments provided by the Note other than “qualified stated interest” payments. The term “qualified stated interest” generally means stated interest that is unconditionally payable in cash or property (other than debt instruments of the issuer) at least annually at a single fixed rate (with certain exceptions for lower rates paid

during some periods) or certain variable rates that appropriately take into account the length of the interval between stated interest payments, as described below.

Payments of qualified stated interest on a Discount Note are taxable to a U.S. Holder as ordinary interest income at the time such payments are accrued or are received, in accordance with the U.S. Holder's regular method of tax accounting. A U.S. Holder of a Discount Note having a maturity of more than one year from the date of issue must include original issue discount in income as ordinary interest for U.S. federal income tax purposes as it accrues under a constant yield method generally in advance of receipt of the cash payments attributable to such income, regardless of such U.S. Holder's regular method of tax accounting. In general, the amount of original issue discount included in income by the initial U.S. Holder of a Discount Note is the sum of the daily portion of original issue discount with respect to such Discount Note for each day during the taxable year on which such U.S. Holder held such Discount Note. The "daily portion" of original issue discount on any Discount Notes is determined by allocating to each day in an accrual period a ratable portion of the original issue discount allocable to that accrual period. An "accrual period" may be of any length and the accrual periods may vary in length over the term of the Discount Note as long as (i) each accrual period is no longer than one year, and (ii) each scheduled payment of principal or interest occurs either on the final day of an accrual period or on the first day of an accrual period. The amount of original issue discount allocable to each accrual period is generally equal to the difference between (i) the product of the Discount Note's adjusted issue price at the beginning of such accrual period and its yield to maturity (determined on the basis of compounding at the close of each accrual period and appropriately adjusted to take into account the length of the particular accrual period) and (ii) the amount of any qualified stated interest payments allocable to such accrual period. The "adjusted issue price" of a Discount Note at the beginning of the first accrual period is its issue price. Thereafter, the "adjusted issue price" of a Discount Note is the sum of the issue price plus the amount of original issue discount previously included in the gross income of the U.S. Holder reduced by the amount of any payment previously made on the Discount Note other than a payment of qualified stated interest. Under these rules, U.S. Holders generally will have to include in income increasingly greater amounts of original issue discount in successive accrual periods. A U.S. Holder of a Note having *de minimis* original issue discount and with respect to which principal payments are made in installments will include such discount in income, as capital gain, on a *pro rata* basis as principal payments are made on the Note.

#### *Acquisition Premium*

A U.S. Holder who purchases a Discount Note for an amount that is greater than its adjusted issue price but less than its stated redemption price at maturity will be considered to have purchased the Discount Note at an "acquisition premium". Under the acquisition premium rules, the daily portions of original issue discount which a U.S. Holder must include in its gross income with respect to such Discount Note will be reduced by an amount equal to the daily portion of the original issue discount for such day multiplied by the acquisition premium fraction. The numerator of the "acquisition premium fraction" is the excess of the U.S. Holder's adjusted basis in the Note immediately after its purchase over the adjusted issue price of the Note, and the denominator is the sum of the daily portions for such Note for all days after the date of purchase and ending on the stated maturity date (*i.e.*, the total original issue discount remaining on the Note).

Alternatively, rather than applying the acquisition premium fraction to reduce the daily portion of accrued original issue discount, a U.S. Holder of a Note may elect to compute original issue discount by treating the purchase as a purchase at original issuance and applying the mechanics of the constant yield method described above in "*—Original Issue Discount—General*". Prior to making this election, U.S. Holders of Notes should consult their own tax advisers concerning the potential U.S. federal income tax consequences to their particular situations.

#### *Notes Subject to Redemption or other Contingencies*

For purposes of determining the yield to maturity on a Discount Note, if the issuer or the U.S. Holder has an unconditional option to cause a note to be redeemed or to cause payments on a Note to be made under an alternative payment schedule or schedules, then (i) in the case of an option of the issuer, the issuer will be deemed to exercise or not exercise the option in a manner that minimizes the yield on the Note, and (ii) in the case of an option of the U.S. Holder, the U.S. Holder will be deemed to exercise or not exercise the option or combination of options in a manner that maximizes the yield on the Note.

If an option is exercised, or not exercised, contrary to the assumptions made pursuant to the rules described above, then, solely for purposes of the accrual of original issue discount, the yield to maturity of the Note is

redetermined by treating the Note as reissued on the date of the change of circumstances for an amount equal to its adjusted issue price on that date.

#### *Election to Treat all Interest as Original Issue Discount*

A U.S. Holder of a Discount Note may elect to include in gross income all interest that accrues on the Note by using the constant yield method described in “—*Original Issue Discount—General*” with certain modifications. For the purposes of this election, interest includes stated interest, acquisition discount, original issue discount, *de minimis* original issue discount, market discount, *de minimis* market discount, and unstated interest, as adjusted by any amortizable bond premium or acquisition premium.

In applying the constant yield method to a Discount Note with respect to which this election has been made, (a) the issue price of the Note will equal the electing U.S. Holder’s adjusted basis on the Note immediately after acquisition, (b) the issue date of the Note will be the date of acquisition by the electing U.S. Holder, and (c) no payments on the Note will be treated as payments of qualified stated interest. The election must be made for the taxable year in which the U.S. Holder acquires the Note and will generally apply only to the Note (or Notes) identified by the U.S. Holder in a statement attached to the Holder’s timely filed federal income tax return. The election may not be revoked without the consent of the U.S. Internal Revenue Service (the “IRS”). If a U.S. Holder makes the election with respect to a Note with “amortizable bond premium” (as described below in “—*Amortizable Bond Premium*”), then the electing U.S. Holder is deemed to have elected to apply amortizable bond premium against interest with respect to all debt instruments with amortizable bond premium (other than debt instruments the interest on which is excludible from gross income) held by the electing U.S. Holder as of the beginning of the taxable year in which the Note (with respect to which the election is made) is acquired or thereafter acquired. The deemed election with respect to amortizable bond premium may not be revoked without the consent of the IRS.

If the election to apply the constant yield method to all interest on a Note is made with respect to a Market Discount Note (as defined below in “—*Market Discount*”), the electing U.S. Holder will be deemed to have made an election to include market discount in income currently over the life of all debt instruments held in the year the election applies and all subsequent tax years. The election to include current market discount in income may not be revoked without the consent of the IRS. Prior to making an election to treat all income of a Note (or other debt instrument) as original issue discount, U.S. Holders should consult with their own tax advisers as to the consequences resulting from such an election with respect to their own particular situations.

#### *Short-Term Notes*

Generally, an individual or other cash basis U.S. Holder of “*Short-Term Notes*” (i.e., Notes having a fixed maturity date not more than 1 year from the date of issue) is not required to accrue original issue discount for U.S. federal income tax purposes unless it elects to do so. An election by a cash basis U.S. Holder applies to all short-term obligations acquired on or after the beginning of the first taxable year to which the election applies, and for all subsequent taxable years unless the consent is secured from the IRS to revoke the election. Accrual basis U.S. Holders and cash basis U.S. Holders who so elect, are required to accrue original issue discount on Short-Term Notes on either a straight-line basis or, at the election of the U.S. Holder, under the constant yield method (based on daily compounding). In the case of a U.S. Holder not required and not electing to include original issue discount in income currently, any gain realized on the sale or retirement of the Short-Term Note will be ordinary income to the extent of the original issue discount accrued on a straight-line basis (unless an election is made to accrue the original issue discount under the constant yield method) through the date of sale or retirement. U.S. Holders who are not required and do not elect to accrue original issue discount on Short-Term Notes will be required to defer deductions for interest on borrowings allocable to Short-Term Notes in an amount not exceeding the deferred income until the deferred income is realized.

As described above in “*Notes Subject to Redemption or other Contingencies*,” certain of the Notes may be subject to special redemption features. These features may affect the determination of whether a Note has a maturity of one year or less and thus is a Short-Term Note.

#### *Market Discount*

A Note, other than a Short-Term Note, will be treated as purchased at a market discount (a “*Market Discount Note*”) if the amount for which a U.S. Holder purchased the Note is less than (i) the Note’s stated redemption price at maturity (in the case of a subsequent purchaser), or (ii) the Note’s “revised issue price” (in the case of a Discount Note), and such excess is greater than or equal to 1/4 of 1 percent of such Note’s stated redemption

price at maturity multiplied by the number of complete years to the Note's maturity. If such excess is not sufficient to cause the Note to be a Market Discount Note, then such excess constitutes "*de minimis* market discount". The Code provides that, for these purposes, the "revised issue price" of a Note generally equals its issue price, increased by the amount of original issue discount that has accrued over the term of the Note.

A U.S. Holder will be required to treat any partial principal payment (or, in the case of any Discount Note, any payment other than qualified stated interest) on, or any gain recognized on the maturity or disposition of, a Market Discount Note as ordinary income to the extent of the accrued market discount on such Note, unless the U.S. Holder has elected to include market discount in income currently over the life of the Note. Such election shall apply to all debt instruments with market discount acquired by the electing U.S. Holder on or after the first day of the first year to which the election applies and may not be revoked without the consent of the IRS.

Market discount accrues on a straight-line basis unless the U.S. Holder elects to accrue such market discount on a constant yield basis. Such an election shall apply only to the Note with respect to which it is made and may not be revoked without the consent of the IRS. A U.S. Holder of a Market Discount Note that does not elect to include market discount in income currently generally will be required to defer deductions for interest in borrowings allocable to such Note in an amount not exceeding the accrued market discount on such Note until the maturity or disposition of or partial payment of principal on such Note.

### ***Amortizable Bond Premium***

Generally, a U.S. Holder that purchases a Note for an amount in excess of the principal amount due at maturity will be considered to have purchased the Note with "amortizable bond premium" equal to such excess. A U.S. Holder of such a Note will not be subject to the original issue discount rules and may elect to amortize such premium using a constant yield method over the remaining term of the Note and may offset interest otherwise required to be included in respect of the Note during any taxable year by the amortized amount of such excess for the taxable year. Any election to amortize bond premium with respect to any Note (or general debt obligation) applies to all taxable debt obligations held by the Holder at the beginning of the first taxable year to which the election applies and to all debt obligations thereafter acquired in all subsequent tax years. The election may not be revoked without the consent of the IRS.

If a Note can be optionally redeemed after the U.S. Holder acquires it at a price in excess of its principal amount, special rules would apply that could result in a deferral of the amortization of some bond premium until later in the term of the Note.

With respect to a holder that does not elect to amortize bond premium, the amount of bond premium constitutes a capital loss when the bond matures.

### ***Variable Rate Debt Instruments***

Generally, a Floating Rate Note will qualify as a "variable rate debt instrument" if (a) its issue price does not exceed the total noncontingent principal payments due under the Floating Rate Note by more than an amount equal to the lesser of (i) 0.015 multiplied by the product of the total noncontingent principal payments and the number of complete years to maturity from the issue date or (ii) 15 percent of the total noncontingent principal payments, (b) it does not provide for stated interest other than stated interest that pays or compounds at least annually at (i) one or more qualified floating rates, (ii) a single fixed rate and one or more qualified floating rates, (iii) a single objective rate, or (iv) a single fixed rate and a single objective rate that is a qualified inverse floating rate, and (c) a qualified floating rate or objective rate in effect at any time during the term of the Note is set at a current value of that rate (*i.e.*, the value of the rate on any day that is no earlier than three months prior to the first day on which the value is in effect and no later than one year following that first day).

A "qualified floating rate" is any variable rate where variations in the value of such rate can reasonably be expected to measure contemporaneous variations in the cost of newly borrowed funds in the currency in which the Floating Rate Notes are denominated. Although a multiple of a qualified floating rate will generally not itself constitute a qualified floating rate, a variable rate equal to the product of a qualified floating rate and a fixed multiple that is greater than 0.65 but not more than 1.35 will constitute a qualified floating rate. A variable rate equal to the product of a qualified floating rate and a fixed multiple that is greater than 0.65 but not more than 1.35, increased or decreased by a fixed rate, will also constitute a qualified floating rate. In addition, two or more qualified floating rates that can reasonably be expected to have approximately the same values throughout the term of the Floating Rate Notes together will constitute a single qualified floating rate. Two or more qualified floating rates will be conclusively presumed to meet the requirements of the previous sentence if the

values of all rates on the issue date are within 25 basis points of each other. A variable rate is not a qualified floating rate if it is subject to certain restrictions (including caps, floors, governors, or other similar restrictions) unless such restrictions are fixed throughout the term of the Note or are not reasonably expected to significantly affect the yield on the Note.

An “objective rate” is a rate other than a qualified floating rate that is determined using a single fixed formula and which is based upon objective financial or economic information, other than information that is within the control of the issuer or a related party, or that is unique to the circumstances of the issuer or a related party such as dividends, profits or the value of such person’s stock (but not the issuer’s credit quality). Despite the foregoing, a variable rate of interest on Floating Rate Notes will not constitute an objective rate if it is reasonably expected that the average value of such rate during the first half of the Floating Rate Notes’ term will be either significantly less than or significantly greater than the average value of the rate during the final half of the Floating Rate Notes’ term. A “qualified inverse floating rate,” is any objective rate where such rate is equal to a fixed rate minus a qualified floating rate, as long as variations in the rate can reasonably be expected to inversely reflect contemporaneous variations in the qualified floating rate.

Generally, if a Floating Rate Note provides for stated interest at a fixed rate for an initial period of less than one year followed by a variable rate that is either a qualified floating rate or an objective rate for a subsequent period, and the value of the variable rate on the Floating Rate Notes’ issue date is intended to approximate the fixed rate, then the fixed rate and the variable rate together will constitute either a single qualified floating rate or objective rate, as the case may be. A fixed rate and a variable rate will be conclusively presumed to meet the previous requirements if the value of the variable rate on the issue date of the Floating Rate Notes does not differ from the value of the fixed rate by more than 25 basis points.

If a Floating Rate Note that is a variable rate debt instrument provides for stated interest at a single qualified floating rate or objective rate that is unconditionally payable in cash or in property (other than debt instruments of the issuer) at least annually, then (a) all stated interest with respect to the Note is qualified stated interest, (b) the amount of qualified stated interest and the amount of original issue discount, if any, is determined by assuming that the variable rate is a fixed rate equal to (i) in the case of a qualified floating rate or qualified inverse floating rate, the value as of the issue date, of the qualified floating rate or qualified inverse floating rate, or (ii) in the case of an objective rate (other than a qualified inverse floating rate), a fixed rate that reflects the yield that is reasonably expected for the Note, and (c) the qualified stated interest allocable to an accrual period is increased (or decreased) if the interest actually paid during an accrual period exceeds (or is less than) the interest assumed to be paid during the accrual period under the foregoing rules.

If a Floating Rate Note that is a variable rate debt instrument does not provide for stated interest at a single qualified floating rate or objective rate, or at a single fixed rate (other than at a single fixed rate for an initial period), the amount of qualified stated interest and original issue discount on the Note are generally determined by (i) determining a fixed rate substitute for each variable rate provided under the Floating Rate Note (generally, the value of each variable rate as of the issue date or, in the case of an objective rate that is not a qualified inverse floating rate, a rate that reflects the yield that is reasonably expected for the Note), (ii) constructing the equivalent fixed rate debt instrument (using the fixed rate substitutes described above), (iii) determining the amount of qualified stated interest and original issue discount with respect to the equivalent fixed rate debt instrument (by applying the general original issue discount rules as described in “—*Original Issue Discount—General*”) and (iv) making the appropriate adjustment for actual variable rates during the applicable accrual period.

If a Floating Rate Note provides for stated interest either at one or more qualified floating rates or at a qualified inverse floating rate and in addition provides for stated interest at a single fixed rate (other than a single fixed rate for an initial period), the amount of interest and original issue discount is determined as in the immediately preceding paragraph with the modification that the Floating Rate Note is treated, for purposes of the first three steps of the determination, as if it provided for a qualified floating rate (or qualified inverse floating rate, if the Note provides for a qualified inverse floating rate) rather than the fixed rate. The qualified floating rate (or qualified inverse floating rate) replacing the fixed rate must be such that the fair market value of the Note as of the issue date would be approximately the same as the fair market value of an otherwise identical debt instrument that provides for a qualified floating rate (or qualified inverse floating rate) rather than a fixed rate.

### ***Sale, Exchange or Retirement of a Note***

Except as discussed above, upon the taxable sale, exchange or retirement of a Note, a U.S. Holder generally will recognize gain or loss equal to the difference between the amount realized on the sale, exchange or retirement



(other than amounts representing accrued and unpaid interest not previously included in gross income) and such U.S. Holder's adjusted tax basis in the Note. A U.S. Holder's adjusted tax basis in a Note generally will equal such U.S. Holder's initial investment in the Note, increased by any original issue discount and any accrued market discount included in gross income, and decreased by the amount of any payments other than qualified stated interest payments and any amortizable bond premium applied to reduce interest with respect to such Note. Such gain or loss generally will be long-term capital gain or loss if the Note has been held for more than one year at the time of such sale, exchange or retirement. For U.S. Holders other than corporations, long-term capital gains that are recognized before January 1, 2013 are generally taxed at a preferential maximum rate of 15 percent. Any gain or loss recognized upon a sale, exchange or retirement of a Note by a U.S. Holder generally will be U.S. source income or loss for U.S. foreign tax credit purposes. The ability to deduct capital losses is limited. If a U.S. Holder's loss exceeds certain thresholds, regulations on tax shelter transactions may require the holder specifically to disclose the loss on its tax return.

### ***Contingent Payment Debt Instruments***

#### ***General***

If the terms of the Notes provide for certain contingencies that affect the timing and amount of payments (including Notes with a variable rate or rates that do not qualify as variable rate debt instruments), they will be "contingent payment debt instruments" or ("*Contingent Payment Notes*") for U.S. federal income tax purposes. Under the noncontingent bond method, the issuer of a Contingent Payment Note is required to calculate the yield (the "comparable yield") it would reasonably be expected to pay as of the issue date on a noncontingent fixed-rate debt instrument with terms and conditions similar to those of the Contingent Payment Note and then construct a projected payment schedule of all contingent and noncontingent payments on the instrument that produces the comparable yield. Neither the comparable yield nor the projected payment schedule constitutes a representation by the Republic regarding the amount of payments that will be made with respect to a Contingent Payment Note. A U.S. Holder, regardless of the U.S. Holder's method of accounting for U.S. federal income tax purposes, will be required to accrue interest income on a Contingent Payment Note at the comparable yield, which income will be adjusted upward or downward to reflect differences between the actual and projected amounts of the contingent payments. If the actual amount of a contingent payment is more than its projected amount, the difference is a positive adjustment on the date of the payment. If the amount of a contingent payment is less than its projected amount, the difference is a negative adjustment on the date of the payment. The amount, if any, by which total positive adjustments on a Contingent Payment Note in a taxable year exceed the total negative adjustments in the taxable year is a net positive adjustment. A net positive adjustment is generally treated as additional interest for the taxable year. The amount, if any, by which total negative adjustments on a Contingent Payment Note exceed the total positive adjustments in the taxable year is a net negative adjustment. A U.S. Holder's net negative adjustment on a Contingent Payment Note for a taxable year is treated as follows: (i) first, it reduces the amount of interest for the taxable year that the U.S. Holder would otherwise account for on the Contingent Payment Note, then (ii) if the net negative adjustment exceeds the interest that would otherwise be taken into account, the excess is treated as an ordinary loss by the U.S. Holder. However, the amount treated as ordinary loss is limited to the amount of interest income recognized by the U.S. Holder on the Contingent Payment Note in prior taxable years reduced by the total amount of the net negative adjustments treated as ordinary loss on the Contingent Payment Note in prior taxable years. If the net negative adjustment exceeds the sum of the amounts treated as a reduction of interest and as ordinary loss on the contingent Payment Note for the taxable year, the excess is a negative adjustment carryforward. In general, a U.S. Holder treats a negative adjustment carryforward for a taxable year as a negative adjustment on the Contingent Payment Note as of the first day of the succeeding taxable year. However, if a Holder of a Contingent Payment Note has a negative adjustment carryforward on the Contingent Payment Note in a taxable year in which the Contingent Payment Note is sold, exchanged, or retired, the negative adjustment carryforward reduces the U.S. Holder's amount realized on the sale, exchange or retirement.

Where a U.S. Holder purchases a Contingent Payment Note for a price other than its adjusted issue price, the difference between the purchase price and the adjusted issue price must be reasonably allocated to the daily portions of interest or projected payments with respect to the Contingent Payment Note over its remaining term and treated as a positive or negative adjustment, as the case may be, with respect to each period to which it is allocated, as forth in applicable Treasury Regulations. In general, the rules discussed above relating to the accrual of market discount, acquisition premium and amortizable bond premium do not apply with respect to Contingent Payment Notes.

#### ***Sale, Exchange or Retirement***

Upon a sale, exchange or retirement of a Contingent Payment Note, a U.S. Holder generally will recognize gain or loss equal to the difference between the amount realized on the sale, exchange or retirement and the U.S.

Holder's adjusted tax basis in the Contingent Payment Note. A U.S. Holder's adjusted tax basis in a Contingent Payment Note generally will be the acquisition cost of the Note, increased by the interest previously accrued by the U.S. Holder on the Note, disregarding any net positive and net negative adjustments, and decreased by the amount of any noncontingent payments and the projected amount of any contingent payments previously made on the Note to the U.S. Holder.

In general, any gain recognized by a U.S. Holder on the sale, exchange or retirement of a Contingent Payment Note is interest income. Any loss so recognized by a U.S. Holder is in general ordinary loss to the extent that the total interest inclusions on the Contingent Payment Note exceed the total net negative adjustments the U.S. Holder already accounted for as ordinary loss. Any additional loss is treated as capital loss. If at the time of the sale, exchange, or retirement there are no remaining contingent payments due on the Contingent Payment Note under the projected payment schedule, then any gain or loss recognized by the U.S. Holder is generally treated as gain or loss from the sale, exchange, or retirement of the Contingent Payment Note.

For purposes of determining the amount realized by a U.S. Holder on the scheduled retirement of a Contingent Payment Note, a U.S. Holder is treated as receiving the projected amount of any contingent payment due at maturity. If the amount received is different from the projected amount, the difference is treated as a positive or negative adjustment, as discussed above. The amount realized by a U.S. Holder on the retirement of a Contingent Payment Note is reduced by any negative adjustment carryforward determined in the taxable year of the retirement. An unscheduled retirement of a Contingent Payment Note (or the receipt of a pro-rata payment that is treated as a retirement of a portion of a Contingent Payment Note) is treated as a repurchase of the Contingent Payment Note by the issuer from the U.S. Holder for the amount paid.

### ***Foreign Currency Notes***

The following summary relates to Notes (the "*Foreign Currency Notes*") that are denominated in a currency or basket of currencies other than the U.S. Dollar ("*Foreign Currency*"). The rules applicable to Foreign Currency Notes could require gain or loss realized upon the sale, exchange or retirement of the Notes that is attributable to fluctuations in currency exchange rates to be treated as ordinary income or loss. The rules applicable to Foreign Currency Notes are complex and their application may depend on a U.S. Holder's particular U.S. federal income tax situation. For example, various elections are available under these rules, and whether a U.S. Holder should make any of these elections may depend on the U.S. Holder's particular U.S. federal income tax situation. U.S. Holders should consult their tax advisers regarding the U.S. federal income tax consequences of the ownership and disposition of Foreign Currency Notes.

### ***Payments of Interest in a Foreign Currency***

Generally, subject to the discussion of original issue discount below, payments of the gross amount of interest and additional amounts (i.e., without reduction for any applicable withholding taxes) with respect to a Foreign Currency Note will be taxable to a U.S. Holder as ordinary interest income at the time that such payments are accrued or are received, in accordance with the U.S. Holder's regular method of tax accounting. For purposes of this discussion under the heading "*Foreign Currency Notes*," references to interest include any additional amounts payable in respect thereof.

***Cash Method.*** A U.S. Holder who uses the cash method of accounting for U.S. federal income tax purposes and who receives a payment of stated interest on a Note (or who receives proceeds from a sale, exchange or retirement of a Note attributable to accrued interest) will be required to include in income the U.S. Dollar value of the Foreign Currency payment (determined using the rate of exchange on the date such payment is received) regardless of whether the payment is in fact converted to U.S. Dollars at that time, and such U.S. Dollar value will be the U.S. Holder's tax basis in such Foreign Currency. A cash method U.S. Holder will not recognize exchange gain or loss with respect to the receipt of such payment, but may have exchange gain or loss attributable to the actual disposition of the Foreign Currency received.

***Accrual Method.*** A U.S. Holder who uses the accrual method of accounting for U.S. federal income tax purposes, or who otherwise is required to accrue interest prior to receipt, will be required to include in income the U.S. Dollar value of the amount of interest income (including original issue discount or market discount currently includible in income and reduced by any acquisition premium and amortizable bond premium to the extent applicable) that has accrued and is otherwise required to be taken into account with respect to a Note during an accrual period. The U.S. Dollar value of such accrued income will be determined by translating such income at the average rate of exchange for the accrual period or, with respect to an accrual period that spans two taxable years, at the average rate for the partial period within the taxable year. A U.S. Holder may elect, however, to translate accrued interest income (including original issue discount but not market discount) using

the rate of exchange on the last day of the accrual period or, with respect to an accrual period that spans two taxable years, using the rate of exchange on the last day of the taxable year. If the last day of an accrual period is within five business days of the date of receipt of the accrued interest, a U.S. Holder may translate such interest income using the rate of exchange on the date of receipt. The above election will apply to other obligations held by the U.S. Holder and may not be changed without the consent of the IRS.

Prior to making such an election, a U.S. Holder of Notes should consult their own tax advisers as to the consequences resulting from such an election with respect to their particular situations. A U.S. Holder will recognize exchange gain or loss (which generally will be treated as U.S. source ordinary income or loss) with respect to accrued interest income (including original issue discount and market discount currently includible in income and reduced by any acquisition premium and amortizable bond premium to the extent applicable) on the date such income is received. The amount of ordinary income or loss recognized will equal the difference, if any, between the U.S. Dollar value of the Foreign Currency payment received (determined on the date such payment is received) in respect to such accrual period and the U.S. Dollar value of interest income that has accrued during such accrual period (as determined above).

#### *Purchase, Sale, Exchange and Retirement of Notes*

A U.S. Holder who purchases a Note with previously owned Foreign Currency will recognize ordinary income or loss in an amount equal to the difference, if any, between such U.S. Holder's tax basis in the Foreign Currency and the U.S. Dollar value of the Foreign Currency used to purchase the Note, determined on the date of purchase.

As discussed above, generally, upon the sale, exchange or retirement of a Note, a U.S. Holder will recognize taxable gain or loss equal to the difference between the amount realized on the sale, exchange or retirement and such U.S. Holder's adjusted tax basis in the Note. Such gain or loss generally will be capital gain or loss (except to the extent of any accrued market discount not previously included in the U.S. Holder's income and to the extent such gain or loss is attributable to fluctuations in currency exchange rates, as discussed below) and will be long-term capital gain or loss if at the time of sale, exchange or retirement the Note has been held by such U.S. Holder for more than one year. If a U.S. Holder receives Foreign Currency on such a sale, exchange or retirement, the amount realized will be based on the U.S. Dollar value of the Foreign Currency on the date of the instrument's disposition (or deemed disposition). In the case of a Foreign Currency Note that is traded on an established securities market, a cash basis U.S. Holder or electing accrual basis taxpayer will determine the amount realized on the settlement date. The election available to accrual basis U.S. holders must be applied consistently to all debt instruments from year to year and cannot be changed without the consent of the IRS. To the extent the amount realized represents accrued but unpaid interest not previously included in the U.S. Holder's gross income, however, such amounts must be taken into account as interest income, with exchange gain or loss computed as described in "*Foreign Currency Notes—Payments of Interest In a Foreign Currency*" above.

As discussed above, a U.S. Holder's adjusted tax basis in a Note will equal the cost of the Note to such holder, increased by the amounts of any market discount or original issue discount previously included in income by the holder with respect to such Note and reduced by any amortized bond premium and any principal payments received by the holder. A U.S. Holder's tax basis in a Foreign Currency Note, and the amount of any subsequent adjustments to such holder's tax basis, will be the U.S. Dollar value of the Foreign Currency amount paid for such Note, or of the Foreign Currency amount of the adjustment, determined on the date of such purchase or adjustment.

Gain or loss realized upon the sale, exchange or retirement of a Note that is attributable to fluctuations in currency exchange rates generally will be U.S. source ordinary income or loss that will not be treated as interest income or expense. Gain or loss attributable to fluctuations in exchange rates will equal the difference between the U.S. Dollar value of the Foreign Currency principal amount of the Note, determined on the date such payment is received or the date of the Note's disposition, and the U.S. Dollar value of the U.S. Holder's purchase price of the Note. Such Foreign Currency gain or loss will be recognized only to the extent of the total gain or loss realized by the U.S. Holder on the sale, exchange or retirement of the Note. A U.S. Holder may be required specifically to disclose any loss from the disposition of foreign currency on its tax return under regulations on tax shelter transactions.

A U.S. Holder receiving a partial principal payment on a Foreign Currency Note will be treated as if it had sold a pro rata portion of such Note. Accordingly, a U.S. Holder may recognize exchange gain or loss on the receipt of such partial principal payment.

### *Original Issue Discount*

In the case of a Foreign Currency Note that is a Discount Note or Short-Term Note, (i) original issue discount is determined in units of the Foreign Currency, (ii) accrued original issue discount is translated into U.S. Dollars as described in “—*Foreign Currency Notes—Payments of Interest in a Foreign Currency—Accrual Method*” above and (iii) the amount of Foreign Currency gain or loss on the accrued original issue discount is determined by comparing the amount of income received attributable to the discount (either upon payment, maturity or an earlier disposition), as translated into U.S. Dollars at the rate of exchange on the date of such receipt, with the amount of original issue discount accrued, as translated above.

### *Market Discount and Amortizable Bond Premium*

In the case of a Foreign Currency Note with market discount, the market discount is determined in units of the Foreign Currency in which the Market Discount Note is denominated. Accrued market discount (other than market discount currently included in income) will be translated into U.S. Dollars at the spot rate on the date of disposition of the Market Discount Note, and accounted for accordingly. No portion of the accrued market discount is treated as exchange gain or loss. Accrued market discount currently included in income will be translated into U.S. Dollars at the average exchange rate for the accrual period. Exchange gain or loss with respect to accrued market discount currently includible in income will be determined in the manner described in “—*Foreign Currency Notes—Payments of Interest In a Foreign Currency—Accrual Method*” above with respect to computation of exchange gain or loss on accrued interest.

Amortizable bond premium on a Foreign Currency Note will be computed in the units of the Foreign Currency in which the Note is denominated (or in which the payments are determined). Amortizable bond premium will reduce the interest income in units of the Foreign Currency. Exchange gain or loss is realized with respect to the bond premium with respect to a Note issued with amortizable bond premium by treating the portion of premium amortized with respect to any period as a return of principal. Similar principles apply with respect to the treatment of acquisition premium on a Foreign Currency Note. With respect to any U.S. Holder that does not elect to amortize bond premium, the amount of bond premium will constitute a market loss when the bond matures.

### *Exchange of Foreign Currencies*

A U.S. Holder will have a tax basis in any Foreign Currency received as interest or on the sale, exchange or retirement of a Foreign Currency Note equal to the U.S. Dollar value of such Foreign Currency, determined at the time the interest is received or at the time of the sale, exchange or retirement. A cash method U.S. holder who buys or sells a Foreign Currency Note is required to translate units of Foreign Currency paid or received into U.S. Dollars at the spot rate on the settlement date of the purchase or sale. Accordingly, no exchange gain or loss will result from currency fluctuations between the trade date and the settlement date of the purchase or sale. An accrual method U.S. Holder may elect the same treatment for all purchases or sales of Foreign Currency Notes provided that the foreign currency Notes are traded on an established securities market. This election cannot be changed without the consent of the IRS. Any gain or loss realized by a U.S. Holder on a sale or other disposition of Foreign Currency (including its exchange for U.S. Dollars or its use to purchase Notes) generally will be ordinary income or loss.

In the case of a Foreign Currency Note that is a Contingent Payment Note, special tax rules apply that will be set forth in the applicable Final Terms.

### *Non-U.S. Holders*

Subject to the discussion of backup withholding below, (a) payment of principal, premium, redemption amounts and interest by the Republic or any paying agent to a Non-U.S. Holder will not be subject to U.S. federal income or withholding tax and (b) gain realized by a Non-U.S. Holder on the sale or redemption of the Notes is not subject to United States federal income tax, provided, in each case, such Non-U.S. Holder is not engaged in a U.S. trade or business or a non-resident alien individual who is present in the U.S. for 183 days or more during a taxable year. Such persons are urged to consult their U.S. tax advisers before purchasing Notes.

### *Information Reporting and Backup Withholding*

Information reporting requirements apply to certain payments of interest and accruals of original issue discount on Notes and to proceeds of the sale or redemption of Notes made within the United States or through certain U.S. paying agents, U.S. intermediaries or U.S.-related brokers, to certain holders of Notes (other than an

exempt recipient). The payor will be required to backup withhold on such payments to a holder of a Note that is a U.S. person, other than an “exempt recipient,” if the holder fails to furnish its correct taxpayer identification number or otherwise fails to comply with, or establish an exemption from, the backup withholding requirements. Payments of principal and interest, as well as accruals and payments of original issue discount, to a holder of a Note that is not a U.S. person will not be subject to backup withholding and information reporting requirements if an appropriate certification is provided by the holder to the payor and the payor does not have actual knowledge or a reason to know that the certification is incorrect.

Individual U.S. Holders and, to the extent provided by the U.S. Secretary of Treasury in regulations or other guidance, certain U.S. entities that hold an interest in a “specified foreign financial asset” are required to attach certain information regarding such assets to their income tax return for any year in which the aggregate value of all such assets exceeds the relevant threshold. A “specified foreign financial asset” includes any debt or equity of a non-U.S. entity, to the extent not held in an account at a financial institution. Penalties may be imposed for the failure to disclose such information regarding specified foreign financial assets. U.S. Holders are advised to consult their tax advisors regarding the potential reporting requirements that may be imposed on them by this legislation with respect to their ownership of the Notes, and any additional reporting requirements they may have as a result of such investment.

**Prospective purchasers of Notes are advised to consult their own tax advisers as to the consequences of a purchase, ownership and disposition of Notes, including, without limitation: (i) the applicability and effect of any state, local or non-U.S. tax laws to which they may be subject and of any legislative or administrative changes in law; (ii) the U.S. federal income tax consequences of the Republic withholding of any foreign withholding taxes; and (iii) the availability of a credit or deduction for any foreign withholding taxes.**

#### **EU Directive on the Taxation of Savings Income**

The Council of the European Union has adopted a directive (EC Council Directive 2003/48) regarding the taxation of savings income. Under this Directive, Member States are required, from July 1, 2005, to provide to the tax authorities of another Member State details of payments of interest (or similar income) paid by a person within its jurisdiction to an individual resident in that other Member State. However, for a transitional period, Luxembourg and Austria are instead required (unless during that period they elect otherwise) to operate a withholding system in relation to such payments (the ending of such transitional period being dependent upon the conclusion of certain other agreements relating to information exchange with certain other countries). These Member States are required to allow individuals residents receiving such payments to opt for the exchange of their information as an alternative to such withholding tax. A number of non-EU countries and territories including Switzerland agreed to adopt similar measures (a withholding system in the case of Switzerland) with effect from the same date. The law implementing the Directive was adopted by the Luxembourg parliament on April 12, 2005, but its publishing and entry into effect has been delayed until (i) the Swiss Confederation, the Principality of Liechtenstein, the Republic of San Marino, the Principality of Monaco and the Principality of Andorra apply from that same date measures equivalent to those contained in the Directive, in accordance with agreements entered into by them with the European Community, following unanimous decisions of the Council; (ii) all agreements or other arrangements are in place, which provide that all the relevant dependent or associated territories (the Channel Islands, the Isle of Man and the dependent or associated territories in the Caribbean) apply from that same date automatic exchange of information in the same manner as is provided for by the Directive, or, during the transitional period apply, a withholding tax on the same terms as contained in the Directive.

## SUBSCRIPTION AND SALE

*The following is subject to change in the applicable Final Terms. In addition, the Dealer(s) who have agreed to purchase Notes in a Series or Tranche from the Republic will be specified in the applicable Final Terms.*

### Summary of Program Agreement

The Dealers have, in the Second Amended and Restated Program Agreement, dated March 1, 2010, as it may be supplemented from time to time (the “*Program Agreement*”), agreed with the Republic a basis upon which they may from time to time agree to subscribe or procure subscribers for Notes. Any such agreement will extend to those matters stated under “*Forms of the Notes*” and “*Terms and Conditions of the Notes*” above. The Program Agreement makes provision for the resignation of existing Dealers and the appointment of additional Dealers. In the Program Agreement, the Republic has agreed to reimburse the Dealers for certain of their expenses in connection with the establishment of the Program and the issue of Notes under the Program.

### Selling Restrictions

The Notes have not been and will not be registered under the laws of any jurisdiction, nor has any other action been taken, nor will any action be taken, by the Republic, the Dealers or any other person that would permit a public offering of the Notes or the possession, circulation or distribution of this Base Prospectus or any supplement hereto or thereto, or any other offering material relating to the Republic or the Notes, in any country or jurisdiction where action for any such purpose may be required. The offer and sale of Notes, and the delivery of this Base Prospectus, are restricted by law in certain jurisdictions and Notes may not be offered or sold, and this Base Prospectus may not be distributed, in any jurisdiction under circumstances where such offer, sale or distribution would be prohibited or restricted by law.

Without limiting the foregoing, prospective purchasers of Notes should be aware of the following restrictions:

#### *United States of America*

The Notes have not been and will not be registered under the Securities Act or any applicable state securities laws and may not be offered or sold within the United States to, or for the account or benefit of, U.S. persons except in accordance with Regulation S or pursuant to an exemption from the registration requirements of the Securities Act and the applicable state securities laws. Terms used in this paragraph have the meanings given to them by Regulation S under the Securities Act.

Subject to certain exceptions, Notes in bearer form having a maturity (at issue) of more than one year are subject to U.S. tax law requirements and may not be offered, sold or delivered within the United States or its possessions or to United States persons, except in certain transactions permitted by U.S. tax regulations. Terms used in this paragraph have the meaning given to them by the U.S. Internal Revenue Code of 1986 and regulations thereunder.

The Notes are being offered and sold outside the United States in reliance on Regulation S. The Program Agreement provides that the Dealers may directly or through their respective U.S. broker-dealer affiliates arrange for the offer and resale of Notes within the United States only to QIBs in reliance on Rule 144A.

Each Dealer has agreed or will agree that, except as permitted by the Program Agreement, it has not offered and sold, and will not offer or sell, Notes of any Tranche as part of their distribution at any time within the United States to, or for the account or benefit of, U.S. persons.

Notwithstanding the foregoing, Dealers nominated by the Republic may arrange for the offer and sale of Registered Notes in the United States pursuant to Rule 144A under the Securities Act. Each purchaser of such Notes is hereby notified that the offer and sale of such Notes may be made in reliance upon the exemption from the registration requirements of the Securities Act provided by Rule 144A.

In addition, certain Series of Notes in respect of which any payment is determined by reference to an index or formula, or to changes in prices of securities or commodities, or certain other Notes will be subject to such additional U.S. selling restrictions as the Republic and the relevant Dealers may agree, as indicated in the relevant Final Terms. Each Dealer has agreed that it will offer, sell and deliver such Notes only in compliance with such additional U.S. selling restrictions.

Bearer Notes having a maturity (at issue) of more than one year that are not treated as being in “registered form” for U.S. federal income tax purposes will be issued in accordance with the provisions of U.S. Treasury Regulation § 1.163-5(c)(2)(i)(D) or any successor rules in substantially the same form as the rules in such regulations for purposes of Section 4701 of the U.S. Internal Revenue Code of 1986, as amended (the “D Rules”). In respect of Bearer Notes issued in accordance with the D Rules, each Dealer represents and agrees that:

- (A) except to the extent permitted under the D Rules, (i) it has not offered or sold, and during the restricted period will not offer or sell, such Notes to a person who is within the United States or its possessions or to a United States person and (ii) it has not delivered and will not deliver within the United States or its possessions Definitive Bearer Notes that are sold during the restricted period,
- (B) it has, and throughout the restricted period will have, in effect procedures reasonably designed to ensure that its employees or agents who are directly engaged in selling Bearer Notes are aware that such Notes may not be offered or sold during the restricted period to a person who is within the United States or its possessions or to a United States person, except as permitted by the D Rules,
- (C) if such Dealer is a United States person, it is acquiring Bearer Notes for purposes of resale in connection with their original issuance and, if such Dealer retains Bearer Notes for its own account, it will only do so in accordance with the requirements of the D Rules and
- (D) with respect to each affiliate (if any) that acquires from such Dealer Bearer Notes for the purpose of offering or selling such Notes during the restricted period, such Dealer either (A) hereby represents and agrees on behalf of such affiliate to the effect set forth in sub-paragraphs (A), (B) and (C) of this paragraph or (B) agrees that it will obtain from such affiliate, for the benefit of the Republic, the representations and agreements contained in sub-paragraphs (A), (B) and (C) of this paragraph.

Terms used in this paragraph have the meanings given to them by the U.S. Internal Revenue Code and regulations thereunder, including the D Rules.

#### ***European Economic Area***

In relation to each Member State of the European Economic Area that has implemented the Prospectus Directive (each, a “**Relevant Member State**”), each Dealer has represented and agreed that with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State (the “**Relevant Implementation Date**”) it has not made and will not make an offer of Notes, which are the subject of the offering contemplated by this Base Prospectus, as completed by the Final Terms in relation thereto, to the public in that Relevant Member State other than:

- (a) at any time to any legal entity which is a qualified investor as defined in the Prospectus Directive;
- (b) at any time to fewer than 100 or, if the Relevant Member State has implemented the relevant provision of the 2010 PD Amending Directive, 150, natural or legal persons (other than qualified investors as defined in the Prospectus Directive), as permitted under the Prospectus Directive, subject to obtaining the prior consent of the Dealers; or
- (c) at any time in any other circumstances falling within Article 3(2) of the Prospectus Directive,

provided that no such offer of Notes shall require the Issuer or any Joint Lead Manager to publish a prospectus pursuant to Article 3 of the Prospectus Directive or supplement a prospectus pursuant to Article 16 of the Prospectus Directive.

For the purposes of this provision, the expression an “**offer of Notes to the public**” in relation to any Notes in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the Notes to be offered so as to enable an investor to decide to purchase or subscribe the Notes, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State. The expression “**Prospectus Directive**” means Directive 2003/71/EC (and amendments thereto, including the 2010 PD Amending Directive, to the extent implemented in the Relevant Member State), and includes any relevant implementing measure in the Relevant Member State and the expression “**2010 PD Amending Directive**” means Directive 2010/73/EU.

### ***United Kingdom***

Each Dealer has represented and agreed that, and each further Dealer appointed under the Program will be required to represent and agree, that:

- (a) in relation to any Notes having a maturity of less than one year from the date of issue, (i) it is a person whose ordinary activities involve it in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of its business and (ii) it has not offered or sold and will not offer or sell the Notes other than to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or as agent) for the purposes of their businesses or who it is reasonable to expect will acquire, hold, manage or dispose of investments (as principal or agent) for the purposes of their businesses where the issue of the Notes would otherwise constitute a contravention of Section 19 of the Financial Services and Markets Act 2000 (the “FSMA”) by the Issuer;
- (b) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) received by it in connection with the issue or sale of the Notes in circumstances in which Section 21(1) of the FSMA does not apply to the Issuer; and
- (c) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to any Notes in, from or otherwise involving the United Kingdom.

### ***General***

Each Dealer has agreed or will agree that it will (to the best of its knowledge and belief) comply with all applicable securities laws and regulations in force in any jurisdiction in which it purchases, offers, sells or delivers Notes or possesses or distributes this Base Prospectus and will obtain any consent, approval or permission required by it for the purchase, offer, sale or delivery by it of Notes under the laws and regulations in force in any jurisdiction to which it is subject or in which it makes such purchases, offers, sales or deliveries and neither the Republic nor any other Dealer shall have any responsibility therefor.

Neither the Republic nor any of the Dealers represents that Notes may at any time lawfully be sold in compliance with any applicable registration or other requirements in any jurisdiction, or pursuant to any exemption available thereunder, or assumes any responsibility for facilitating such sale.

With regard to each Tranche, the relevant Dealer(s) will be required to comply with such other additional restrictions as the Republic and the relevant Dealer(s) shall agree and as shall be set forth in the applicable Final Terms.

Purchasers of Notes sold by the Dealers may be required to pay stamp taxes and other charges in accordance with the laws and practices of the country of purchase in addition to the offering price and accrued interest, if any.

Although application has been made to list the Notes to be issued under the Program on the Official List of the Luxembourg Stock Exchange, each Series or Tranche of Notes is a new issue of securities with no established trading market. Any one or more of the Dealers may make a market in the Notes, but are not obliged to do so and may discontinue any market-marking, if commenced, at any time without notice. No assurance can be given as to the liquidity of the trading markets for the Notes.

### ***Stabilization***

In connection with the offering of Notes in any Series or Tranche under the Program, the Dealer or Dealers (if any) designated for this purpose as the Stabilizing Manager (each, a “*Stabilizing Manager*”) (or persons acting on behalf of any Stabilizing Manager(s)) in the applicable Final Terms may over allot Notes or effect transactions with a view to supporting the market price of the Notes in such a Series at a level higher than that which might otherwise prevail, but in doing so such Stabilizing Manager shall act as principal and not as agent of the Republic. However, there is no assurance that the Stabilizing Manager (or persons acting on behalf of any Stabilizing Manager(s)) will undertake stabilization action. Any stabilization action may begin on or after the date on which adequate public disclosure of the terms of the offer of the relevant Series of Notes is made and, if begun, may be ended at any time, but it must end no later than the earlier of 30 days after the issue date



of the relevant Series of Notes and 60 days after the date of the allotment of the relevant Series of Notes. Any stabilization will be conducted in accordance with all applicable regulations. Any loss resulting from over-allotment and stabilization shall be borne, and any net profit arising therefrom shall be retained, by any Stabilizing Manager for its own account.

## GENERAL INFORMATION

### Contact Information

The Republic can be contacted at the Ministry of Finance of the Republic, Ministry of Finance, Riad El-Solh Sector, Beirut, Lebanon, telephone number +961 1 987 057.

### Listing of Notes and Admission to Trading

Application has been made to the Luxembourg Stock Exchange for Notes issued under this Base Prospectus to be admitted to trading on the Luxembourg Stock Exchange's Regulated Market and to be listed on the Official List of the Luxembourg Stock Exchange. However, Notes may be issued under the Program which will not be listed on the Official List of the Luxembourg Stock Exchange or on any other stock exchange, and the Final Terms applicable to each Tranche of Notes will specify whether or not the Notes will be listed on the Official List of the Luxembourg Stock Exchange or on any other stock exchange.

Except as specified in the relevant Final terms, Notes previously issued under the Program are admitted to trading on the Luxembourg Stock Exchange's Regulated Market and, with respect to Notes issued in or after 2004, the Beirut Stock Exchange.

### Authorizations

The establishment of the Program was duly authorized pursuant to a Resolution of the Council of Ministers dated February 24, 1999. Any issuance of Notes under the Program is subject to, and conditional upon, (i) the existence or adoption of a law by the Lebanese Parliament authorizing the issuance of such notes (or the underlying borrowing) and (ii) obtaining any other necessary consents, approvals and authorizations in connection with the issuance of any such notes. The first increase of the Program amount from U.S.\$550,000,000 to U.S.\$2,500,000,000 was duly authorized by a Council of Ministers' Resolution dated September 29, 1999. The second increase of the Program amount from U.S.\$2,500,000,000 to U.S.\$3,500,000,000 was authorized by a Council of Ministers' Resolution dated October 10, 2000. The third increase of the Program amount from U.S.\$3,500,000,000 to U.S.\$6,000,000,000 was authorized by a Council of Ministers' Resolution dated April 19, 2001. The fourth increase of the Program amount from U.S.\$6,000,000,000 to U.S.\$7,000,000,000 was authorized by a Council of Ministers' Resolutions dated September 6, 2001. The fifth increase of the Program amount from U.S.\$7,000,000,000 to U.S.\$8,500,000,000 was authorized by a Council of Ministers' Resolution dated February 28, 2002. The sixth increase of the Program amount from U.S.\$8,500,000,000 to U.S.\$9,500,000,000 was authorized by a Council of Ministers' Resolution dated August 29, 2002. The seventh increase of the Program amount from U.S.\$9,500,000,000 to U.S.\$13,500,000,000 was authorized by a Council of Ministers' Resolution dated December 18, 2002. The eighth increase of the Program amount from U.S.\$13,500,000,000 to U.S.\$17,000,000,000 was authorized by a Council of Ministers' Resolution dated November 8, 2004. The ninth increase of the Program amount from U.S.\$17,000,000,000 to U.S.\$22,000,000,000 was authorized by a Council of Ministers' Resolution dated February 20, 2007.

### Documents on Display

So long as Notes are capable of being issued under the Program, copies of the following documents will, when published, be available and can be obtained from the specified office of the Paying Agent for the time being in Luxembourg:

- (i) the Program Agreement, the Fiscal Agency Agreement and the Procedures Memorandum;
- (ii) a copy of this Base Prospectus;
- (iii) any future offering memoranda, prospectuses, information memoranda, supplements, Final Terms to this Base Prospectus (save that a Final Terms relating to an unlisted Note will only be available for inspection by a Holder of such Note and such Holder must produce evidence satisfactory to the Paying Agent as to the identity of such Holder) and any other documents incorporated herein or therein by reference; and
- (iv) the documents incorporated herein by reference. See "*Documents Incorporated by Reference*".

In addition, a copy of the documents set out in (ii), (iii) and (v) above can be obtained free of charge from the specified office of the relevant Paying Agent where so required by the rules of the relevant stock exchange on which any Series or Tranche of Notes is to be listed.

This Base Prospectus and Final Terms for Notes listed on the Official List of the Luxembourg Stock Exchange are published on the website of the Luxembourg Stock Exchange, being [www.bourse.lu](http://www.bourse.lu).

Financial reports for the Republic covering the last two fiscal years and the 2005 Budget (*i.e.*, the last approved Budget adopted by Parliament), as adopted by Parliament, together with an English language document summarizing its principal contents, the balance of payments and GDP data and the 2005 CAS Survey will be available, and may be inspected, during normal business hours at the Ministry of Finance of the Republic, Ministry of Finance, Riad El-Solh Sector, Beirut, Lebanon, telephone no. +961 1 987 057.

### **Clearing Systems**

The appropriate common code and ISIN for each Tranche of Bearer Notes and Registered Notes allocated by Euroclear and Clearstream, Luxembourg, upon acceptance into their respective clearing systems, will be specified in the applicable Final Terms. The Republic may (but is not obligated to) make an application for any Registered Notes to be accepted for trading in book-entry form by DTC. The CUSIP and/or CINS and/or Common Code and/or the ISIN (as applicable) for each Series or Tranche of Registered Notes will be specified in the applicable Final Terms. The Republic may also apply from time to time for Notes to be accepted for clearance through MIDCLEAR. If the Notes are to clear through MIDCLEAR or any other additional or alternative clearing system, the appropriate information will be specified in the applicable Final Terms.

The address of Euroclear is 1 Boulevard Du Roi Albert II, 1210 Brussels, Belgium; the address of Clearstream, Luxembourg is 42 Avenue J. F. Kennedy, 1855 Luxembourg, Luxembourg; the address of DTC is 55 Water Street, 1st Floor, South New York, NY 10041-0099; and the address of MIDCLEAR is ARESO Center -15th Floor, Justinien Street, Sanayeh, P.O.B: 11-7971, Beirut, Lebanon.

### **Determination and Publication of Rates of Interest and Interest Amounts**

If the Notes are listed on a stock exchange (including the Luxembourg Stock Exchange) and the rules of such exchange or other relevant authority so require, the Republic will require that the Calculation Agent cause the Rate of Interest and Interest Amount for each Interest Period and the relevant Interest Payment Date (as each such term is defined in “*Terms and Conditions of the Notes*”) to be notified to the Republic, the Fiscal Agent, each Paying Agent, any such stock exchange or other relevant authority on which the relevant Floating Rate Notes are for the time being listed and to the Holders, in accordance with Condition 14, as soon as possible after the determination of the relevant Rate of Interest and Interest Amount for each Interest Period and the relevant Interest Payment Date but in no event later than (i) the commencement of the relevant Interest Period, if determined prior to such time, in the case of notification to such stock exchange or other relevant authority of a Rate of Interest and Interest Amount or (ii) in all other cases, the fourth Business Day after such determination.

### **Litigation**

The Republic is not nor has been involved in any governmental, legal or arbitration proceedings (including any proceedings which are pending or threatened of which the Republic is aware) which may have, or have had in the 12 months preceding the date of this document, significant effects on the Republic’s financial position or profitability.

### **Significant Change**

There has been no significant change in the information set out in this Prospectus under “*The Economy*”, “*External Sector*”, “*Public Debt*”, “*Monetary System*”, and “*Public Finance*” since December 31, 2011. There have been no recent events relevant to the evaluation of the Republic’s solvency.

## ANNEX A

### FORM OF THE FINAL TERMS

Final Terms dated [•]



**The Lebanese Republic**

Issue of [Aggregate Principal Amount of Tranche] [Title of Notes]

under the

**\$22,000,000,000 Global Medium-Term Note Program**

#### PART A – CONTRACTUAL TERMS

Terms used herein shall be deemed to be defined as such for the purposes of the Conditions (the “*Conditions*”) set forth in the Base Prospectus dated [•], 2012 [and the Base Prospectus Supplement dated [•], 2012, which [together] constitute[s] a base prospectus for the purposes of the Prospectus Directive (Directive 2003/71/EC) (the “*Prospectus Directive*”). This document constitutes the Final Terms of the Notes described herein for the purposes of Article 5.4 of the Prospectus Directive and must be read in conjunction with such Base Prospectus [as so supplemented]. Full information on the Issuer and the offer of the Notes is only available on the basis of the combination of these Final Terms and the Base Prospectus. The Base Prospectus and the Final Terms are published on the website of the Luxembourg Stock Exchange ([www.bourse.lu](http://www.bourse.lu)). [The Base Prospectus [and the Base Prospectus Supplement] [is] [are] available for viewing at the Ministry of Finance, Riad El-Solh Sector, Beirut, Lebanon and copies may be obtained from the Paying Agent, Deutsche Bank Luxembourg S.A., 2 Boulevard Konrad Adenauer, L-1115 Luxembourg.

1. [(i)] Issuer: The Lebanese Republic

2. [(i)] Series Number: [ ]

[(ii)] Tranche Number: [ ]

(If fungible with an existing Series, details of that Series, including the date on which the Notes become fungible).]

3. Specified Currency or Currencies: [ ]

4. Aggregate Principal Amount: [ ]

[(i)] Series: [ ]

[(ii)] Tranche: [ ]

5. Issue Price: [ ] percent of the Aggregate Principal Amount [plus accrued interest from *[insert date]* ( *if applicable*)]
6. (i) Specified Denominations: [ ]  
(ii) Calculation Amount [ ]
7. [(i)] Issue Date: [ ]  
[(ii)] Interest Commencement Date *[specify/Issue Date/Not Applicable]*
8. Maturity Date: *[specify date or (for Floating Rate Notes) Interest Payment Date falling in or nearest to the relevant month and year]*
9. Interest Basis: [• percent Fixed Rate]  
*[[specify reference rate] +/- • percent Floating Rate]*  
*[Other (specify)]*  
*(further particulars specified below)*
10. Redemption/Payment Basis: [Redemption at par]  
[Partly Paid]  
*Other (specify)]*
11. Change of Interest or Redemption/Payment Basis: *[Specify details of any provision for convertibility of Notes into another interest or redemption/ payment basis]*
12. Amortization of Principal: [Amortization Date:]  
[Amortization Amounts:]
13. Put/Call Options: [Investor Put]  
[Issuer Call]  
*[(further particulars specified below)]*
14. [(i)] Status of the Notes: Unsubordinated.  
[(ii)] [Date of Council of Ministers approval for issuance of Notes obtained:] [ ] [and [ ]], respectively  
*(N.B Only relevant where Council of Ministers (or similar) authorisation is required for the particular tranche of Notes)*
15. Method of distribution: [Syndicated/Non-syndicated]

## **PROVISIONS RELATING TO INTEREST (IF ANY) PAYABLE**

16. **Fixed Rate Note Provisions** [Applicable/Not Applicable]  
*(If not applicable, delete the remaining sub-paragraphs of this paragraph)*
- (i) Rate[(s)] of Interest: [ ] percent per annum [payable [annually/semi-annually/quarterly/monthly/other (*specify*)] in arrear]

- (ii) Fixed Interest Date(s): [ ] in each year, commencing [ ] [adjusted in accordance with *[specify Business Day Convention and any applicable Business Centre(s)]/not adjusted*]
- (iii) Fixed Coupon Amount[(s)]: [ ] per Calculation Amount
- (iv) [Initial][Final] Broken Amount(s): *[Insert particulars of any initial or final broken interest amounts which do not correspond with the Fixed Coupon Amount[(s)]]*
- (v) Fixed Day Count Fraction: [30/360 / Actual/Actual / other]
- (vi) Determination Dates: [ ] in each year (*insert regular interest payment dates, ignoring issue date or maturity date in the case of a long or short first or last coupon. N.B. only relevant where Day Count Fraction is Actual/Actual*)
- (vii) Other terms relating to the method of calculating interest for Fixed Rate Notes: [Not Applicable/give details]

**17. Floating Rate Note Provisions** [Applicable/Not Applicable]  
(*If not applicable, delete the remaining sub-paragraphs of this paragraph*)

- (i) Interest Period(s) [ ]
- (ii) Specified Interest Payment Dates: [ ]
- (iii) First Interest Payment Date: [ ]
- (iv) Business Day Convention: [Floating Rate Convention/ Following Business Day Convention/ Modified Following Business Day Convention/ Preceding Business Day Convention/ other (*give details*)]
- (v) Business Centre(s): [ ]
- (vi) Manner in which the Rate(s) of Interest is/are to be determined: [Screen Rate Determination / ISDA Determination / other (*give details*)]
- (vii) Party responsible for calculating the Rate(s) of Interest and Interest Amount(s) (if not the [Agent]): [ ]
- (viii) Screen Rate Determination:
- Reference Rate: [ ]

- Interest Determination Date(s): [   ]
- Relevant Screen Page: [   ]
- (ix) ISDA Determination:
  - Floating Rate Option: [   ]
  - Designated Maturity: [   ]
  - Reset Date: [   ]
- (x) Margin(s): [ +/- ] [   ] percent per annum
- (xi) Minimum Rate of Interest: [   ] percent per annum
- (xii) Maximum Rate of Interest: [   ] percent per annum
- (xiii) Day Count Fraction: [   ]
- (xiv) Fall back provisions, rounding provisions, denominator and any other terms relating to the method of calculating interest on Floating Rate Notes, if different from those set out in the Conditions: [   ]
- 18. **Non-interest bearing Note Provisions** [Applicable/Not Applicable]  
*(If not applicable, delete the remaining sub-paragraphs of this paragraph)*
  - (i) [Amortisation/Accrual] Yield: [   ] percent per annum
  - (ii) Reference Price: [   ]
  - (iii) Any other formula/basis of determining amount payable: [   ]

## PROVISIONS RELATING TO REDEMPTION

- 19. **Call Option** [Applicable/Not Applicable]  
*(If not applicable, delete the remaining sub-paragraphs of this paragraph)*
  - (i) Optional Redemption Date(s): [   ]
  - (ii) Optional Redemption Amount(s) of each Note and method, if any, of calculation of such [   ] per Calculation Amount

amount(s):

(iii) If redeemable in part:

(a) Minimum Redemption Amount: [ ] per Calculation Amount

(b) Maximum Redemption Amount: [ ] per Calculation Amount

(iv) Notice period [Condition 7(c) applies]

**20. Put Option**

[Applicable/Not Applicable]

*(If not applicable, delete the remaining sub-paragraphs of this paragraph)*

(i) Optional Redemption Date(s): [ ]

(ii) Optional Redemption Amount(s) of each Note and method, if any, of calculation of such amount(s): [ ] per Calculation Amount

(iii) Notice period [ ]

**21. Final Redemption Amount of each Note**

[100 percent if paid in full on the Maturity Date]

[Notes will be repaid at the Amortization Amounts and on the Amortization Dates specified in the Final Terms]

**22. Early Redemption Amount**

Early Redemption Amount(s) [ ] of each Note payable on redemption on event of default or other early redemption and/or the method of calculating the same (if required or if different from that set out in the Conditions):

**GENERAL PROVISIONS APPLICABLE TO THE NOTES**

**23. Form of Notes:**

[Registered Notes][Bearer Notes]

[Definitive Registered Notes] [Regulation S Global Notes] [Restricted Global Note] [Not Applicable/ give details] [Definitive Bearer Note] [Global Bearer Note]

[Temporary Global Note exchangeable for a Permanent Global Note which is exchangeable for Definitive Notes on [ ] days' notice/at any time/in the limited circumstances specified in the Permanent Global Note]

[Permanent Global Note exchangeable for Definitive Notes on [ ] days' notice/at any time/in the limited circumstances specified in



- the Permanent Global Note]
24. Financial Centre(s) or other special provisions relating to Payment Dates: [Not Applicable/give details. Note that this item relates to the date and place of payment, and not interest period end dates, to which items 15 (ii), 16(iiv) and 18(ix) relates]
25. Talons for future Coupons or Receipts to be attached to Definitive Notes (and dates on which such Talons mature): [Yes/No. If yes, give details]
26. Redenomination, renominatisation and reconventioning provisions: [Not Applicable/The provisions [in Condition •] apply]
27. Consolidation provisions: [Not Applicable/The provisions [in Condition •] apply]
28. The procedure for the exercise of any right of pre-emption, the negotiability of subscription rights and the treatment of subscription rights not exercised: [Not Applicable/give details]
29. Other final terms: [Not Applicable/give details]
- (When adding any other final terms consideration should be given as to whether such terms constitute “significant new factors” and consequently trigger the need for a supplement to the Base Prospectus under Article 16 of the Prospectus Directive.)*

## DISTRIBUTION

30. (i) If syndicated, names and addresses of Managers and underwriting commitments: [Not Applicable/give names, addresses and underwriting commitments]
- (Include names and addresses of entities agreeing to underwrite the issue on a firm commitment basis and names and addresses of the entities agreeing to place the issue without a firm commitment or on a “best efforts” basis if such entities are not the same as the Managers.)*
- (ii) Date of Subscription Agreement: [     ]
- (iii) Stabilizing Manager(s) (if any): [Not Applicable/give name]
31. If non-syndicated, name and address of Dealer: [Not Applicable/give name and address]
32. Total commission and concession: [     ] percent of the Aggregate Principal Amount
33. US Selling restrictions [Regulation S Category 1/other give details]
34. Additional selling restrictions: [Not Applicable/give details]

## **[LISTING AND ADMISSION TO TRADING APPLICATION**

These Final Terms comprise the final terms required to list and have admitted to trading the issue of Notes described herein pursuant to the U.S.\$22,000,000,000 Global Medium-Term Note Program of the Lebanese Republic.]

## **RESPONSIBILITY**

The Issuer accepts responsibility for the information contained in these Final Terms. [[•] has been extracted from [•]. The Issuer confirms that such information has been accurately reproduced and that, so far as it is aware, and is able to ascertain from information published by [•], no facts have been omitted which would render the reproduced inaccurate or misleading. ]

Signed on behalf of the Issuer:

By: .....

Duly authorised

## PART B – OTHER INFORMATION

### 1. LISTING AND ADMISSION TO TRADING

- (i) Listing: [Official List of the Luxembourg Stock Exchange/other (*specify*)]  
[Beirut Stock Exchange]
- (ii) Admission to trading: [Application has been made for the Notes to be admitted to trading on [ ] and [ ] with effect from [ ].] [Not Applicable.]
- (Where documenting a fungible issue need to indicate that original securities are already admitted to trading.)*

### 2. RATINGS

- Ratings: [Insert ratings and definitions applicable to ratings of the Notes in effect at the Issue Date.]

The credit ratings included or referred to in these Final Terms will be treated for the purposes of Regulation (EC) No 1060/2009 on credit rating agencies, as amended by Regulation (EU) No 513/2011, (the “**CRA Regulation**”) as having been issued by [Standard & Poor’s Rating Services (“**S&P**”), Moody’s Investor Services Limited (“**Moody’s**”) and Fitch Ratings Ltd. (“**Fitch**”), respectively. Each of S&P, Moody’s and Fitch is established in the European Union and is registered under the CRA Regulation. As such, each of S&P, Moody’s and Fitch is included in the list of credit rating agencies published by the European Securities and Markets Authority on its website in accordance with the CRA Regulation as at the date of this Prospectus.

### 3. [INTERESTS OF NATURAL AND LEGAL PERSONS INVOLVED IN THE [ISSUE/OFFER]

Need to include a description of any interest, including conflicting ones, that is material to the issue/offer, detailing the persons involved and the nature of the interest. May be satisfied by the inclusion of the following statement:

“Save as discussed in “*Subscription and Sale*”, so far as the Issuer is aware, no person involved in the offer of the Notes has an interest material to the offer.”]

### 4. REASONS FOR THE OFFER, ESTIMATED NET PROCEEDS AND TOTAL EXPENSES

- [(i)]Reasons for the offer [ ]  
(See “Use of Proceeds” wording in the Base Prospectus – if reasons for offer different from making profit and/or hedging certain risks will need to include those reasons here.)]
- [(ii)] Estimated net proceeds: [ ] (*If proceeds are intended for more than one use will need to split out and present in order of priority. If proceeds insufficient to*

*fund all proposed uses state amount and sources of other funding.)*

[(iii)] Estimated total expenses:        [     ]    *[Include breakdown of expenses.]*

**5. [FIXED RATE NOTES ONLY – YIELD]**

Indication of yield:                                [     ]

Calculated as *[include details of method of calculation in summary form]* on the Issue Date.

As set out above, the yield is calculated at the Issue Date on the basis of the Issue Price. It is not an indication of future yield. ]

**6. [Floating Rate Notes only - HISTORIC INTEREST RATES]**

Details of historic [LIBOR/EURIBOR/other] rates can be obtained from [Reuters].]

**7. INFORMATION IN RESPECT OF CERTAIN OFFERS OF NOTES**

(i) Time period, including any [Not Applicable/*give details*]  
possible amendments, during  
which the offer will be open:

(ii) Arrangements for publication [Not Applicable/*give details*]  
of final size of issue/offer:

(iii) Description of the application [Not Applicable/*give details*]  
process:

(iv) Details of the [Not Applicable/*give details*]  
minimum/maximum amount of  
application (whether in numbers of  
securities or aggregate amount to  
invest):

(v) Method and time limits for [Not Applicable/*give details*]  
paying up the securities and for  
delivery of the securities:

(vi) Full description of the manner [Not Applicable/*give details*]  
and date in which results of the  
offer are to be made to the public:

(vii) Indication of the expected [Not Applicable/*give details*]  
price at which the securities will be  
offered or the method of  
determining the price and the  
process for its disclosure:

(viii) Process for notification to [Not Applicable/*give details*]  
applicants of the amount of Notes  
allotted and indication whether  
dealing may begin before  
notification is made:

(ix) Details of any Tranche(s) [Not Applicable/*give details*]  
reserved for specific country:

(x) Additional information [Not Applicable/*give details*]  
applicable to the terms and  
conditions of the offer, if any:

## 8. OPERATIONAL INFORMATION

ISIN Code: [ ]

Common Code: [ ]

Any clearing system(s) other than [Not Applicable/*give name(s) and number(s)*]  
Euroclear Bank S.A./N.V. and  
Clearstream Banking *Société* [DTC - CUSIP: [ ]]  
*Anonyme* and the relevant [MIDCLEAR]  
identification number(s):

Delivery: Delivery [against/free of] payment

Names and addresses of additional [ ]

Paying Agent(s) (if any):

Name and address of Calculation [ ]

Agent (if any), if different from  
Paying Agent:

**THE ISSUER**

**The Lebanese Republic**  
Ministry of Finance  
Riad El-Solh  
Beirut  
Lebanon

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New York, NY 10005

**PAYING AGENT AND TRANSFER AGENT**

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Winchester House  
1 Great Winchester Street  
London EC2N 2DB

**PAYING AGENT, TRANSFER AGENT AND LISTING AGENT**

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