

## Lebanese Holding Companies

1. Lebanese holding companies are incorporated in the legal form of a joint stock company and are governed by the decree law No. 45 of 1983 (the "**decree law**") amended by virtue of law No. 772 dated November 11, 2006 (the "**law**"). The activities of a Lebanese holding company are strictly limited to the following:
  - Acquisition of shares in existing joint-stock or limited liability companies whether Lebanese or foreign, or setting up such companies.
  - Management of companies in which it participates.
  - Granting loans to companies in which it holds shares or parts and the guarantee of these companies towards third parties.
  - Acquisition of patents, inventions, concessions, registered trademarks and all rights reserved, and their renting to establishments settled in Lebanon or abroad.
  - Acquisition of real-estate and personal properties provided they are useful and exclusively reserved for its activities.

Lebanese holding companies may not undertake any other activity that is not expressly listed here above.

2. The minimum number of founders at the time of incorporation is three.
3. The minimum number of shareholders is three.
4. The board of directors of a holding company shall also be composed of three members at least. The amended Paragraph 2 of the article 5 of the law provides that the board of directors of a holding company may be composed of non-Lebanese and the Chairman of the Board or the authorized signatory is not required to apply for a work permit if he is not Lebanese national and does not reside in Lebanon.

In light of the above, there is no need any longer to have Lebanese on the board and a holding company can thus be formed by 100% non-Lebanese individuals/entities.

5. The minimum share capital is of LBP /30.000.000/ (i.e. approximately USD /20.000/); nothing that it is possible to only pay initially the fourth of the holding share capital i.e. LBP /7.500.000/ (approximately USD /5000/). Also, the share capital can be fixed in a foreign currency provided that the holding's accounts are held in the same foreign currency.
6. The holding is required to appoint at least one auditor, of Lebanese nationality and resident in Lebanon, noting that the auditor's appointment can be for three years.
7. The holding is also required to retain a lawyer on an annual basis.

8. The holding companies in Lebanon benefits of a special tax system which aims to attract foreign investments and to provide a structure that is tax advantageous (but not tax exempt) as whole. It may be summarized as follows:

- Profits of holding companies are exempt from income tax.
- Dividends distributed are exempt from the tax on movable capital.
- A five percent (5%) tax is applicable on the interests received from loans granted to Lebanese subsidiaries, the maturity of which is less than three years.
- A ten percent (10%) tax is applicable on capital gains resulting from the sale of shares or parts owned by the holding company in Lebanese companies if this ownership has occurred within a period of less than two years.
- A five per cent (5%) tax is applicable on the management fees and other services rendered by the holding company to its subsidiaries in Lebanon.
- A ten per cent (10%) tax is applicable on the income deriving from the concessions of patents, licenses and other similar rights from Lebanese companies.
- An annual tax is applicable at the rate of 6% of the holding's share capital plus reserves if the total amount thereof does not exceed LBP /50.000.000/. The tax rate is decreased to 4% for Amounts varying between LBP /50.000.000/ and LBP /80.000.000/, and to 2% for amounts exceeding LBP /80.000.000/. In any event, the total amount will not exceed LBP /5.000.000/ for a given year.

9. We would like to point out that on May 29, 2012 the Ministry of Finance issued instructions under number 1854/S1 in which it requested Lebanese Holding companies to abide by paragraph 3 of article 2 of the decree law (allowing holding companies to borrow only from banks or through issuance of bonds, on condition that the value of bonds does not exceed 5 times capital and reserves)

Previously, the loan made by a shareholder to a Holding company was allowed and regulated by virtue of the directive number 1336/S1 August 2007 which states that if the source of financing is from shareholders interest free loans, the interest fee to be paid by the subsidiary to the holding is tax deductible provided that the interest rate does not exceed 3%.

As of the date of issuance of the instructions (number 1854/S1), borrowing from shareholders or third parties is a violation to the Holding company law that leads to penalty, being the application of the taxation provisions of the Joint Stock companies on the Holding companies.

If the shareholders loan balance is converted into capital or bonds, the holding company will not be considered in breach.

**10. Documents required to incorporate a holding company:**

- Name of the company.
- The capital of the company.
- The identity of the auditors of the company.
- The registered office of the company.
- The identity of the members of the first board of directors noting that they shall be of a number of three at least and twelve at the most.
- The name of the Chairman/General manager of the first Board of Directors.
- The bank in which the company's account will be opened.
- A copy of each of the shareholder's identity cards.