Your Investment Reference

THE LEBANON BRIEF

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FINANCIAL MARKETS

Equity Market

Stock Market

	28/6/2013	21/6/2013	% Change
BLOM Stock Index*	1,145.14	1,155.61	-0.91%
Average Traded Volume	55,600	415,867	-86.63%
Average Traded Value	697,491	3,746,243	-81.38%

*22 January 1996 = 1000

This week, activity on the Beirut Stock Exchange (BSE) was adversely affected by the security clashes that took place in the southern part of the country. The BLOM Stock Index (BSI) edged down by a weekly 0.91% to reach 1,145.14 points. Hence, total volume and value traded dropped to 55,600 shares valued at $697,491 from 415,867 shares worth $3,746,243 exchanged last week. With respect to the market capitalization, it edged down by $81.41M to $8.90B.

When comparing to regional and emerging markets, the Lebanese equity benchmark outperformed the S&P AFE40 that declined by 1.08% to close at 56.9 points. However, the BSI failed to beat the S&P Pan Arab Composite LargeMidCap and the MSCI Emerging Indices that rose by a weekly 4.33% and 1.21% to settle at 116.85 points and 919.46 points, respectively.

With respect to equity markets in the region, they witnessed a mixed performance this week, with Egypt bourse standing as the best performer of the week with a 1.28% weekly progress. Qatar came second this week with a 0.57% increase. Dubai and Abu Dhabi were the worst two performers with respective 5.85% and 2.53% weekly losses.

Banking Sector

	Mkt	28/6/2013	21/6/2013	%Change
BLOM (GDR)	BSE	$8.65	$8.65	0.00%
BLOM Listed	BSE	$8.25	$8.25	0.00%
BLOM (GDR)	LSE	$8.50	$8.52	-0.18%
Audi (GDR)	BSE	$6.38	$6.48	-1.54%
Audi Listed	BSE	$6.18	$6.35	-2.68%
Audi (GDR)	LSE	$6.57	$6.50	1.09%
Byblos (C)	BSE	$1.50	$1.52	-1.32%
Byblos (GDR)	LSE	$70.00	$70.00	0.00%
Bank of Beirut (C)	BSE	$19.00	$19.00	0.00%
BLC (C)	BSE	$1.95	$1.95	0.00%
Fransabank (B)	OTC	$28.00	$28.00	0.00%
BEMO (C)	BSE	$1.84	$1.84	0.00%

	Mkt	28/6/2013	21/6/2013	% Change
Banks' Preferred Shares Index *		104.19	104.13	0.06%
BEMO Preferred 2006	BSE	$100.10	$100.10	0.00%
Audi Pref. E	BSE	$101.00	$101.00	0.00%
Audi Pref. F	BSE	$100.20	$100.20	0.00%
Byblos Preferred 08	BSE	$100.00	$100.00	0.00%
Byblos Preferred 09	BSE	$100.50	$100.50	0.00%
Bank of Beirut Pref. E	BSE	$25.60	$25.50	0.39%
Bank of Beirut Pref. I	BSE	$25.40	$25.40	0.00%
Bank of Beirut Pref. H	BSE	$25.50	$25.40	0.39%
BLOM Preferred 2011	BSE	$10.12	$10.12	0.00%

* 25 August 2006 = 100

Lebanese banks were the main market movers this week, accounting for 78.87% of the total value traded. In details, Audi Bank common and GDR shares fell by 1.54% and 2.68% to close at $6.38 and $6.18, respectively. The Listed stocks of Byblos bank also lost 1.32% to stand at $1.50 by Friday.

On London Stock Exchange,Audi's GDR gained 1.09% to close at $6.57 while BLOM's GDR slightly moved down by 0.18% to settle at $8.5. As for Byblos' shares, they maintained their price at $70.

BLOM preferred shares index (BPSI) added 0.06% to 104.19 points, boosted by Bank of Beirut (BoB) preferred stocks class "E" and "H" that each gained 0.39% to settle at $25.60 and $25.50, respectively.

BLOMINVEST BANK S.A.L

Real Estate

	Mkt	28/6/2013	21/6/2013	% Change
Solidere (A)	BSE	$11.21	$11.49	-2.44%
Solidere (B)	BSE	$11.21	$11.32	-0.97%
Solidere (GDR)	LSE	$10.95	$10.90	0.46%

Solidere stocks posted negative performance this week with the classes “A” and “B” retreating by a respective 2.44% and 0.97% to converge at the same price of $11.21.

Manufacturing Sector

	Mkt	28/6/2013	21/6/2013	% Change
HOLCIM Liban	BSE	$16.27	$15.42	5.51%
Ciments Blancs (B)	BSE	$3.23	$3.23	0.00%
Ciments Blancs (N)	BSE	$3.24	$3.24	0.00%

With respect to the manufacturing sector, HOLCIM stocks rallied 5.51% to reach $16.27.

Funds

	Mkt	28/6/2013	21/6/2013	% Change
BLOM Cedars Balanced Fund Tranche “A”	-----	$6,901.17	$6,961.13	-0.86%
BLOM Cedars Balanced Fund Tranche “B”	-----	$5,027.88	$5,073.29	-0.90%
BLOM Cedars Balanced Fund Tranche “C”	-----	$5,241.49	$5,287.03	-0.86%
BLOM Bond Fund	-----	$9,724.12	$9,724.12	0.00%

Looking ahead, the activity on the BSE is expected to post negative results if security incidents will keep on recurring. However, the bourse performance could show improvement signs in the future as next week’s parliamentary meeting is expected to conclude several pending laws.

Retail Sector

	Mkt	28/6/2013	21/6/2013	% Change
RYMCO	BSE	$3.50	$3.50	0.00%
ABC (New)	OTC	$33.00	$33.00	0.00%

Tourism Sector

	Mkt	28/6/2013	21/6/2013	% Change
Casino Du Liban	OTC	$480.00	$480.00	0.00%
SGHL	OTC	$7.00	$7.00	0.00%

Foreign Exchange Market

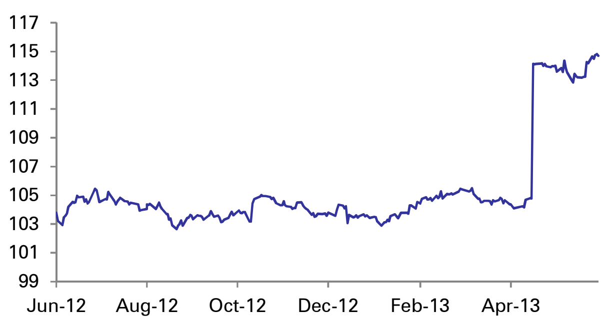
Lebanese Forex Market

	28/6/2013	21/6/2013	%Change
Dollar / LP	1,512.50	1,512.50	0.00%
Euro / LP	1,967.44	1,992.61	-1.26%
Swiss Franc / LP	1,594.23	1,624.29	-1.85%
Yen / LP	15.24	15.42	-1.17%
Sterling / LP	2,299.24	2,334.67	-1.52%
NEER Index**	114.70	114.18	0.46%

*Close of GMT 09:00+2
**Nominal Effective Exchange Rate; Base Year Jan 2006=100
**The unadjusted weighted average value of a country's currency relative to all major currencies being traded within a pool of currencies.

The weekly demand on the US dollar remained stable as the range at which banks exchanged the currency sustained the same range of $/LP 1,510.5 - $/LP 1,514.5 with a mid-price of $/LP1, 512.5. Foreign assets (excluding gold) at the Central Bank stood at $36.76B as of end May 2013, 1.42% less than end of April's $37.29B. Meanwhile, the dollarization rate of private sector deposits stood at 65.06% in April compared to 65.17% in March.

Nominal Effective Exchange Rate (NEER)



The dollar advanced against the euro for the second week in a row. In fact, after announcing lower potential asset purchases, the Federal Open Market Committee (FOMC) attempted to re-mold market expectations by clarifying two ideas: The first is that the Fed's benchmark rate will remain next to zero as long as unemployment exceeds 6.5% and as inflation expectations don't cross the 2.5% mark. The second is that a slight tapering of Quantitative easing is not synonymous of a complete shift towards restrictive monetary policy. However, the bets remained in favor of a stronger dollar especially as forecasts are on the upside ahead of next week's monthly Labor department report, likely to reveal a 7.5% unemployment rate compared to a previous 7.6%. By Friday June 28th, 2013, 12:30 pm Beirut time, the euro closed at €/$ 1.31 down by 1.26% from last week. As for the dollar-pegged LP, it appreciated to €/LP 1,967.44 from €/LP 1,992.61 recorded on Friday June 21st. The Nominal effective exchange rate (NEER) rose by 0.46% over the cited period to 114.70 points, while its year-to-date performance stood at 10.49%.

Money & Treasury Bills Market

Money Market Rates

	28/6/2013	21/6/2013	Change bps
Overnight Interbank	2.75	2.75	0
BDL 45-day CD	3.57	3.57	0
BDL 60-day CD	3.85	3.85	0

During the week ending June 6th, broad Money M3 grew by LP145B ($96M), to reach LP 161,664B ($107.24B). M3 growth rate reached 7.20% on a year-on-year basis and 2.37% from end of December 2012. As for M1, it widened by LP48B ($32M) since currency in circulation increased by LP237B ($157.21M) and demand deposits decreased by LP189B ($125.37M). Total deposits (excluding demand deposits) registered a LP97.51B ($64.68M) expansion, due to the LP106B downturn in term and saving deposits in LP and the $135M upturn in deposits denominated in foreign currencies. During the period 30 May - 6 June, the broad money dollarization rate grew by 7 basis points to reach 58.69% compared to its previous level of 58.62%. According to The Central Bank, the overnight interbank rate stood at 2.75% by the end of April 2013.

Treasury Yields

	28/6/2013	21/6/2 13	Change bps
3-M TB yield	4.39%	4.39%	0
6-M TB yield	4.87%	4.87%	0
12-M TB yield	5.08%	5.08%	0
24-M TB coupon	5.84%	5.84%	0
36-M TB coupon	6.50%	6.50%	0
60-M TB coupon	6.74%	6.74%	0

In the TBs auction held on June 20th, the Ministry of Finance raised LP81.76B ($54.23M) through the issuance of Treasury Bills. The highest demand was witnessed on the 6-months bills capturing 56% of total subscriptions, while the 3-months bills and 5-year notes captured shares of 36% and 8%, respectively. During the auction, the average discount rate for the 3-months and 6-months bills stood at 4.39% and 4.87% while the average coupon rate for the 5-year notes registered 6.74%. New subscriptions exceeded maturing T-bills by LP55.01B ($36.49M).

Eurobond Market

Eurobonds Index and Yield

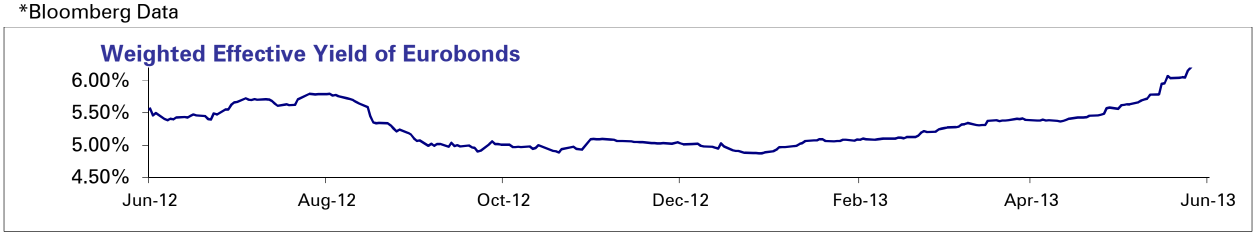
	27/6/2013	20/6/2013	Change	Year to Date
BLOM Bond Index (BBI)*	102.390	103.890	-1.44%	-6.12%
Weighted Yield**	6.45%	6.15%	29	143
Weighted Spread***	506	483	23	76

*Base Year 2000 = 100; includes US$ sovereign bonds traded on the OTC market
** The change is in basis points ***Against US Treasuries (in basis points)

Lebanese Government Eurobonds

Maturity - Coupon	27/6/2013 Price*	20/6/2013 Price*	Weekly Change%	27/6/2013 Yield	20/6/2013 Yield	Weekly Change bps
2014, Apr - 7.375%	102.03	102.57	-0.53%	4.74%	4.13%	61
2014, May - 9.000%	103.05	103.49	-0.42%	5.25%	4.83%	42
2015, Jan - 5.875%	101.48	101.59	-0.10%	4.87%	4.81%	6
2015, Aug - 8.500%	106.12	106.31	-0.18%	5.39%	5.32%	7
2016, Jan - 8.500%	107.04	107.56	-0.48%	5.51%	5.32%	19
2016, May - 11.625%	115.88	116.27	-0.34%	5.56%	5.46%	10
2017, Mar - 9.000%	110.00	110.66	-0.59%	5.96%	5.79%	17
2018, Jun - 5.150%	97.44	98.00	-0.57%	5.75%	5.62%	13
2020, Mar - 6.375%	94.29	97.52	-3.31%	7.47%	6.84%	63
2021, Apr - 8.250%	106.15	108.38	-2.06%	7.20%	6.84%	36
2022, Oct - 6.100%	92.33	96.09	-3.92%	7.25%	6.67%	58
2023, Jan - 6.00%	92.56	94.38	-1.93%	7.08%	6.81%	28
2024, Dec - 7.000%	97.80	99.90	-2.11%	7.29%	7.01%	27
2026, Nov - 6.600%	92.41	94.66	-2.38%	7.51%	7.23%	28
2027, Nov - 6.75%	91.28	94.29	-3.19%	7.76%	7.40%	36

*Bloomberg Data



The Eurobonds market continued to dwindle over the past week pulling the BLOM bond index (BBI) down by 1.44% to 102.39 points. This continuous retreat in the market denoted the overall cautious tone of investment and simultaneously, the low confidence in Lebanese debt amid regional and local instability especially following the recent security clashes in the Southern part of the country. The BBI widened its y-t-d losses to 6.12% with the 5Y and 10Y Lebanese Eurobonds yields adding 13 basis points (bps) and 27 bps to reach 5.75% and 7.08%, respectively. The BBI's decline didn't reflect this week's global sentiment regarding debt in emerging countries as the JP Morgan emerging countries' bond index rose by 0.22% to settle at 614.82 points.

In the US, rising signs on the FED's cutting its bond purchases by the end of the year continued to weigh over Treasuries performance negatively. However, the safe assets market started the week maintaining its negative trend but witnessed gains on Wednesday and Thursday partially offsetting the previously recorded losses. This change in investors behavior resulted from growing concerns about the reports that are going to be published soon showing a decline in consumer confidence as well as the slowdown of the business activity. Accordingly, the 5Y and 10Y Treasury yields edged up by 7 bps and 8 bps to reach 1.38% and 2.49%, respectively. The respective spreads between the 5Y and 10Y US bond yields and their comparable Lebanese Eurobond yields widened by 6 bps and 19 bps to reach 437 bps and 459 bps, respectively.

Lebanon's Credit Default Swaps for 5Y were last trading at 475-525 bps, widening from last week's 471-524 bps. In regional economies, CDS quotes in Saudi Arabia and Dubai were last trading at 74-87 bps and 242-262 bps compared to last week's quotes of 72-85 bps and 242-292 bps, respectively. As for emerging economies, CDS quotes in Brazil and Turkey narrowed from last week's levels of 201-207 bps and 206-213 bps to close at 179-186 bps and 184-189 bps, respectively.

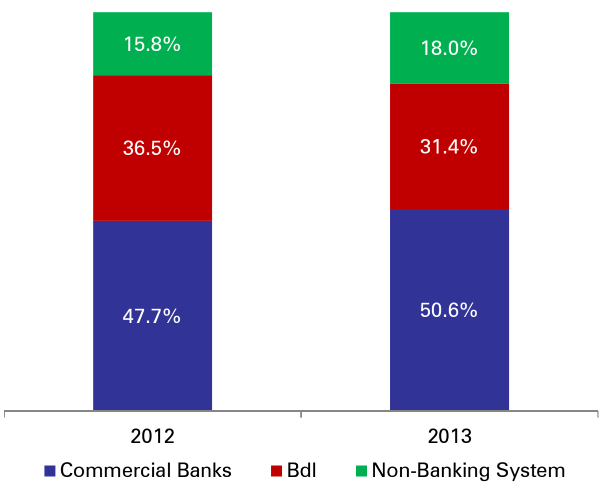
ECONOMIC AND FINANCIAL NEWS

Gross Public Debt Reaches $59.09B by April 2013

The Lebanese gross public debt reached $59.09B by the end of April, rising by 7.3% y-o-y and by 2.4% on a year-to-date basis, according to the Association of Lebanese Banks (ABL) publication. Total debt represented 140.13% of nominal GDP at end April 2013. The local currency share of total debt retreated from 57.7% in December 2012 to 55.9% in April this year. The latter edged down by a slight 0.8% since year start to reach $33.02B, recording a 2.1% y-o-y decrease. Foreign currency (FC) debt, which accounted for the remaining 44.41% of total gross debt (compared to a stake of 42.3% in December 2012), rose by 6.9% y-t-d to stand at $26.07B. On a month-ago basis, the debt in foreign currency grew by 9.0% from $23.92B following the issuance of $1.1 billion of Eurobonds on the 17th of April, of which $600M were a reopening of the 2023 maturity bearing a 6% coupon, and $500M were the reopening of 2027 bearing a 6.7% coupon. The Net Public Debt which excludes the public sector deposits at the Commercial banks and BdL stood at $50.65B as of the end of April, increasing by 7.3% y-o-y and by 3.1% from end of December 2012. The Lebanese banks held 50.6% of the local currency debt; BdL detained 31.4% while the remaining 18.0% constituted the non-banking system share.

Local Currency Debt by Type of Holder

End of April



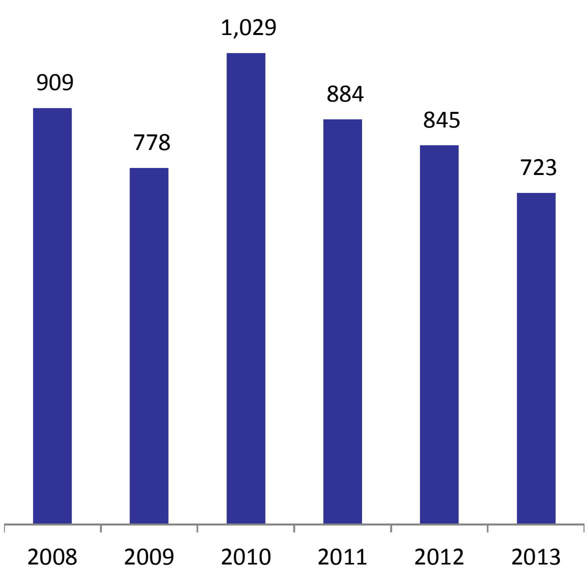
Source: ABL

Authorized Construction Area Drops 15.8% by May

Construction activity in Lebanon maintained its downward trend in the first five months of the year, with the number of permits narrowing by 1.6% y-o-y to reach 7,238 transactions compared to 7,353 by May 2012. This fall was mostly due to the negative outlook on the future profitability of the sector noting that permits are usually issued at least six months after an application is filed. In addition, the recent study conducted by real estate adviser RAMCO on the Beirut residential projects completed in 2012 revealed that only 28% of residential projects were completely sold out, while the remaining is still unsold and is worth $400M. Construction Area Authorized by Permits (CAP) decreased by 15.8% during the first five months of 2013 from the same period last year to reach a level of 5.24M square meters (sqm). For the month of May alone, the number of construction permits dropped 8.9% y-o-y to 1,601 and by 15.8% from the previous month. CAP in May decreased by 16.1% y-o-y to 1.10M sqm, and by 16.1% in month-ago terms. Developers continued to show interest in smaller plots of land for their new projects, as the average area authorized per permit declined from 827.57 sqm/permit in May 2012 to 688.51 sqm/permit in May this year. In terms of geographical distribution, Mount Lebanon continued to account for the bulk of activity taking 44.4% of total CAP, followed by North Lebanon and South Lebanon accounting for 20% and 11% of CAP respectively.

Average Area per Permit

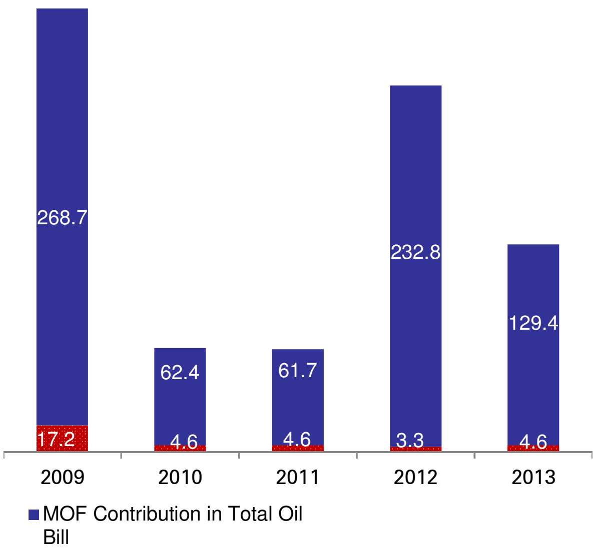
Up to May (In sqm/permit)



Source: Order of Engineers Beirut & North

Contributions of EDL and MOF to Total Oil Bill

In January, $M



Source: Ministry of Finance

Transfers to EDL Reduce by 42% yoy to $135.9M In January

According to the Ministry of Finance (MOF), January's treasury transfers to EDL (Debt service and reimbursement of gas and fuel purchases) totaled $135.9M, 42% less than their level in the comparable month of 2012. The $3.6M y-o-y increase in EDL's debt service to $6M was offset by the $103M fall in the reimbursement for purchase of gas and fuel to $130M, which resulted from lower energy prices and imported quantities. Worth mentioning that payments made in January 2013 reflect the consumption over the period July-August 2012 whereas January 2012's payments mirror the consumption during July-August 2011.In fact, the quantities of imported gas oil and fuel oil during July-August 2012 are respectively 50% and 34% lower than the same period of 2011. Moreover, the average crude oil price fell from $115.6/barrel in July-August 2011 to $106.2/barrel in the same period of 2012. Oil prices in July-August 2011 were driven upwards as the International Energy Agency, and for the third time in its history, released crude oil from its emergency stockpile after supply was choked off by Libyan turmoil. Following this period, the issues of sovereign debt and high unemployment in OECD countries aggravated thus weighing down global oil demand and prices. In January 2013, EDL contributed only $4.6M out of the $134M oil bill, compared to $3.3M out of January 2012's bill of $236.1M. Transfers to EDL represented 16.5% of January 2013's primary expenditure, compared to a higher share of 24.4% in January 2012.

Breakdown of Salaries, Wages, & Related Benefits

(In $M)

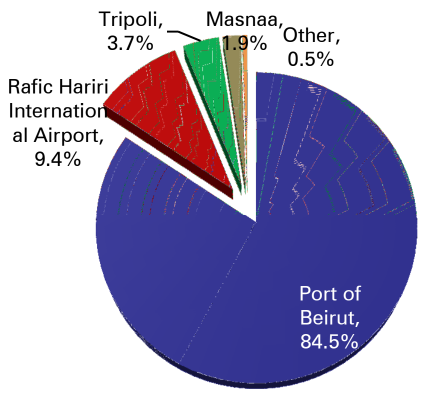
	Basic Salaries		Total	
	Jan 2012	Jan 2013	Jan 2012	Jan 2013
Military Personnel	107	110	149	144
Army	56	71	90	99
Internal Security Forces	25	30	29	35
General Security Forces	5	7	5	8
State Security Forces	21	2	24	2
Education Personnel	54	44	56	54
Civil Personnel, of which	30	21	63	36
Employees Cooperative	-	-	27	7
Customs Salaries	-	-	8	4
Total	**191**	**175**	**276**	**237**

Source: Ministry of Finance

Public Sector Wages Dropp 14% yoy to $237M in January

As stated by the Ministry of Finance, public sector salary expenditures decreased by 14% year-on-year or $38M to reach $237M in January 2013. This fall mainly stems from a $33M drop in retroactive payments and cost of living adjustment. In fact, during January and due to a lag in payments, the cost of living adjustment totaled $15M out of the $40M monthly amount initially estimated by the Ministry. Meanwhile, retroactive payments reached $0.66M compared to a substantial $48M in January 2012. Basic salaries still constitute the dominant proportion of salary expenditures (74%), followed by allowances (13%), indemnities (7%) and other payments (5%), which are mostly composed of payments to cooperative employees. Basic salaries (including all retroactive payments) reached $175M in January, down by 8% y-o-y, while allowances (sickness, maternity…etc.) slid by 18% to $31M as a result of lower payments to the army and state security forces. In spite of their y-o-y decrease, salaries, wages and related benefits still represent the most sizable share in total primary spending, accounting for 29% in both January 2012 and 2013.

Customs Offices Revenues Distribution in Q1



Source: The Lebanese Customs

Revenues at Customs Narrow by 8.0% in Q1 2013

The ongoing Syrian unrest kept on hindering the Lebanese land shipping activity during the first quarter of 2013. Total revenues at the Lebanese customs offices (Customs and VAT revenues) tumbled by a yearly 8.0% to stand at $697.11M compared to $758.00M collected a year earlier. Customs fee revenues totaled $369.78M, slightly edging up by 0.6% from last year's income. As for Value Added Tax (VAT) receipts, they retreated by 16.21% y-o-y to reach $327.33M, according to data released by the Lebanese Customs. Regarding Customs offices revenues distribution, the Port of Beirut (PoB) grasped $589.06M or 84.5% of total revenues in Q1 2013, while Rafic Hariri International Airport followed with 9.4% or $65.52M. Tripoli seaport and the gates of Masnaa collected $26.11M (3.7%) and $12.98M (1.9%), respectively.

CORPORATE DEVELOPMENTS

HOLCIM 2012 Financial Highlights

In $M

	2011	2012	% Change
Total Assets	300.57	280.85	-7%
Total Equity	215.17	206.72	-4%
Total Sales	195.64	186.82	-5%
Net Income	28.35	17.99	-37%

Source: Company Data

HOLCIM's Net Income Falls by 37% to $18M in 2012

The spillovers of the Arab Spring in 2011 paired with local socio-political tumults weighed on HOLCIM's 2012 profits, as they fell by a yearly 37% to $17.99M. In fact, sales dropped by 5% to $186.82M while production costs rose by 6% to $137.55M. On the other hand, total assets slid by 7% to $280.85M, given the 36% descent in bank balances and cash to $15.34M and the 11% drop in inventories to $49.64M. The downward trend noticed in the cement and concrete producer's financials echoes the sluggish performance of the construction sector. In 2012, construction Area authorized by Permits (CAP) contracted by 10.85% y-o-y to 14.68 million square meters (sqm), as preference for small and medium sized construction projects grew. In addition, liabilities went down by 13% to $74.13M, mainly due to the 21% decline in accounts payable and accruals to $43.16M. Equity totaled $206.72M at end 2012 compared to $215.17M at end 2011 as a result of the 38% slip in retained earnings. In fact, distribution of the 2011 dividends in exchange of the coupon Number 6 from the shares issued on 14/05/2007 occurred throughout the period of July 2, 2012 till December 20, 2012.

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SLCB Financial Highlights

In $M

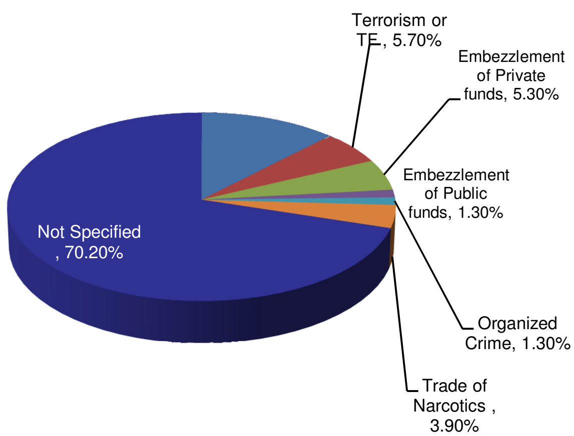
	2011	2012	% Change
Total Assets	20.29	20.18	-0.56%
Total Equity	15.65	16.01	2.28%
Sales	13.90	14.45	3.99%
Net Income	2.41	2.56	5.87%

Source: Company Data

SLCB's Net Profits Increase 6% to $2.56M in 2012

The Societe Libanaise des Ciments Blans (SLCB) published its results for the year 2012 revealing an annual increase in net profits to $2.56M compared to $2.41M recorded a year earlier. Sales increased by 3.99% y-o-y in 2012 to $14.45M, while earnings per share reached $0.28, up from $0.27 a year earlier. On the company's balance sheets, total assets slightly dropped by a yearly 0.56% to reach $20.18M. Total equity grew by 2.28% to $16.01M.

Breakdown of Local and Foreign Cases Handled by the Special Investigation Commission (SIC) In 2012



Source: SIC Annual Report 2012

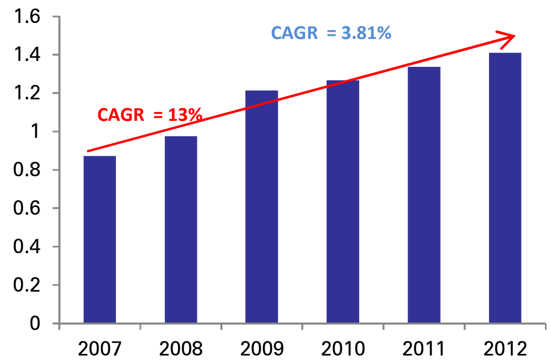
Lebanese Canadian Bank (LCB) Disburses $102M in Settlement

The 2011 lawsuit filed by the United States against the LCB, claiming the bank was involved in drug and terrorism-related money laundering through West Africa and into Lebanon, has come to an end with a $102M settlement. After being dubbed a "primary laundering concern" by the US in February 2012, LCB was acquired by SGBL through a $580M deal. Subsequently, $150M were placed in an escrow account at Banque Libano-Francaise (BLF), only to be seized later on by US authorities. The $102M amount will come out of the seized $150M while the remaining $48M and an additional $12M, based on a distinct agreement between the two parties, shall be disbursed to SGBL. On the other hand, a $720,000 amount is to be paid by the Hassan Ayash Exchange Company, given that the firm also faced money laundering allegations.

FOCUS IN BRIEF

Lebanese Steel Market Update

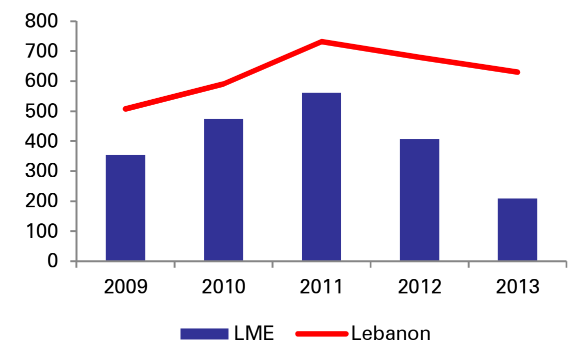
Total Steel Imports (Megatons)



Source: Lebanese Customs

Average LME Spot Prices for Steel Billets Vs Average Steel Import Prices in Lebanon

Up to April 2013 - (USD/Ton)



Source: Sindibad Investment Report: Internet & Technology Startups in the Arab World

The steel industry serves as an essential backbone for key industries such as construction and transportation around the globe. The financial-crisis led to the decline in global steel production from 1,351 megatons (a million tons) in 2007 to 1,220 megatons in 2009 as estimated by the World Steel Association. Following the onset of global recovery in 2010, production resumed its uptrend to reach 1,548 megatons as of 2012.

The industry in Lebanon is dependent solely on imports which account for around 0.1% of global production, the equivalent of 1.4 megatons imported during 2012 as estimated by Lebanese Customs. Approximately 75% of steel imports represent long products such as rebars (reinforcing bars) which are used to reinforce concrete in construction projects. The remaining 25% represents flat products, half of which are used in construction and the other half for industrial purposes.

Despite the financial crisis, Lebanon's steel imports have been growing at a CAGR of 13% since 2007 up till 2012. In fact, double digit growth took place during 2008 and 2009 due to the pent up demand that exerted during the previous years which only materialized following the Doha accord in 2008, the reconstruction efforts following the 2006 Israeli war on Lebanon, and the large foreign direct investments in the real estate sector during the global financial crisis. Since 2009, growth has remained positive but has slowed to a CAGR of 3.81% in reaction to the deceleration in demand on finished apartments and the impact of the civil war in neighboring Syria. Up until April 2013, steel import tonnage has picked up 6% yoy to reach 0.4 megatons.

Two main types of rebars are used in local construction, ribbed and plain. Plain rebars are usually used to connect two or more ribbed rods together. The rib on a rebar helps the steel hold better with concrete and is often thought of as being slightly more expensive in comparison to its plain counterpart.

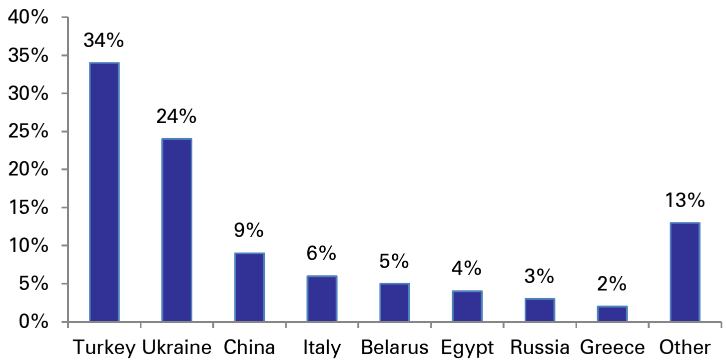
Over the past five years the price of rebar imports (per ton) has fluctuated between $508 in 2009 to a high of $731 in 2011 and currently near $630. While certain types of rebars have been exempt from custom duties, a 10% VAT is applied on top of shipping costs. Having reached the port in coils, the rods are then transferred to warehouses where they are straightened, cut, and stored. This latter process is highly burdensome on importers as storage and energy costs tend to be extremely high in Lebanon. The end result is a minimum 20%-30% markup in local prices which is eventually passed through to consumers.

Even though fixed costs tend to be high within this capital intensive industry, there are currently 23 steel importers in Lebanon. The top four importers (DEMCO Steel, Lebanese Society for Metals "Tannous Group", Al Moussawi Trading, and

Jean-Claude Yared & Sons) hold near 60% of the market. After including Metinvest, Ayoub Beaino, and Phillipe Kheir, an additional 20% would be covered. It is estimated that DEMCO Steel leads in imports with around 300-400 thousand tons per year, followed by Tannous, Al Moussawi, and Yared, each importing approximately half of DEMCO's quantities.

Customs data show that the majority of steel imports come for CIS countries (Ukraine and Belarus) with the addition of Turkey. In 2012, 34% of steel imports came from Turkey, followed by 24% from Ukraine. High imports coming from Ukraine have led to the opening of Metinvest, a Ukrainian steel importing company registered in Lebanon. Meanwhile China, the largest steel producer accounting for 46% of global supply, has been successfully penetrating Lebanese markets with its share increasing from 3% in 2011 to 9% in 2012. The growth in China's share has been offset with the decline in Egypt's, which fell from 10% in 2011 to 4% in 2012. Prior to 2007 Egypt's market share had peaked at 46% of the Lebanese market.

Steel imports per country 2012 (Tons, % of total)



Source: Lebanese Customs

Due to the fact that steel is easily recyclable, a large secondary market for scrap steel exists. In the absence of steel recycling companies in Lebanon, scrap steel is exported in bulk to nearby Turkey. In 2012, Lebanon exported 0.4 megatons of steel at a price of $402 per ton, 64% of its original import value. Turkey has been the biggest importer of Lebanese scrap with its share ranging between 80%-90% of steel exports over the last five years.

Aside from the rebars market, a niche industry exists for the installation of prefabricated structures. Dalal Steel has proven to be a regional player within this market having serviced clients ranging from Iraq to Austria. Notable projects include the installation of 300 prefabricated houses for the UNHCR and more recently the construction of Cascada Village Mall in Taanayel, Bekaa.

Lebanon's economic environment is not accommodating of capital intensive industries. Therefore, efforts should be focused on creating high value-added differentiated steel products that may be applied to a range of industries including food and industrial packaging, telecommunications, and electrical appliances. Moving away from being dependent on steel imports will also help ease the trade deficit, noting that steel imports accounted for 5.4% of total imports amounting to $20.5 billion in 2012.

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