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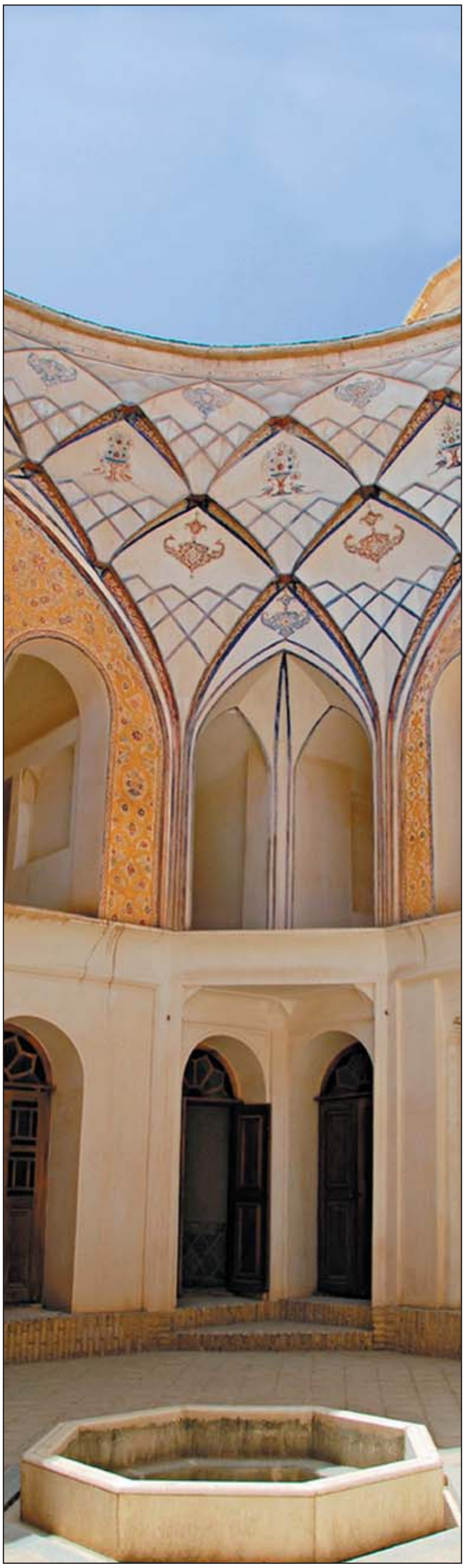

Traditional House of Tabatabayi Family – Town of Kashan , Isfahan Province , Central Iran

THIS MONTH

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Further information and detailed analysis of reports in this publication can be purchased directly from Turquoise Tehran office.

The Tehran Stock Exchange (TSE) began the month of December with a few days of losses which continued from the previous month. On the second day of December, an offering for a 20% stake in the Iranian Aluminium Company, IRALCO, as part of the privatisation scheme, was unsuccessful and failed due to lack of interest from investors. On the 5th of December, however, the market experienced a turnaround in reaction to the United States National Intelligence Estimate's report on Iran's nuclear plans which concluded that Iran has not been pursuing a nuclear weapons program. The positive trend of the market continued during the remaining days and weeks of the month as investors' confidence grew due to the decline in political risk attached to the US-Iran tensions and rhetoric over the nuclear issue.

One of the other developments in the TSE during December was the expulsion of around 100 listed companies, out of the 440 total, from the official market to the unofficial market because of their inability to keep up with the Bourse's codes of conduct and regulations. These companies included firms with a history of serious ambiguities in their accounts and financial reporting irregularities as well as companies that were loss-making for several years, or have been in non-compliance with some of the other listing criteria. This decision by the regulator was perceived by investors and market analysts as an important step in encouraging companies to improve the quality of their financial reports; enforcing compliance with regulations and in turn, enhancing the liquidity and transparency of the market. Some key sectors of the market are analysed in more detail below:

Steel and Iron Ore

Steel and Iron Ore were the first sectors to react positively to the National Intelligence Estimate's report. The second half of December witnessed consistent growth in the share price of all companies in this sector. Even the ongoing rumours in the market about the possible removal or increases in the price of the iron ore extraction rights and government royalty fees, which had upset these sectors in November, could not dissipate its positive momentum this month.

Auto Manufacturing

After six months of decline, the auto manufacturing sector had an outstanding month in December. The sell-off pressure in this sector began to ease as it welcomed new buyers into the market. The sector index, against analysts' expectations, was the highest gainer in the market during December, increasing in excess of 12% in value. This sector had been trading at an earning multiples average of less than 3 for some time prior to this rise. Analysts predict December's upward trend will continue in the month of January. Management changes in Iran's Ministry of Industries and Mines will have significant implications for this sector over the next few months. Historically, the Auto and Parts Manufacturing sector, given its low PE ratio and high dividend yield, performs well during the last few months of the Iranian calendar year which ends in March.

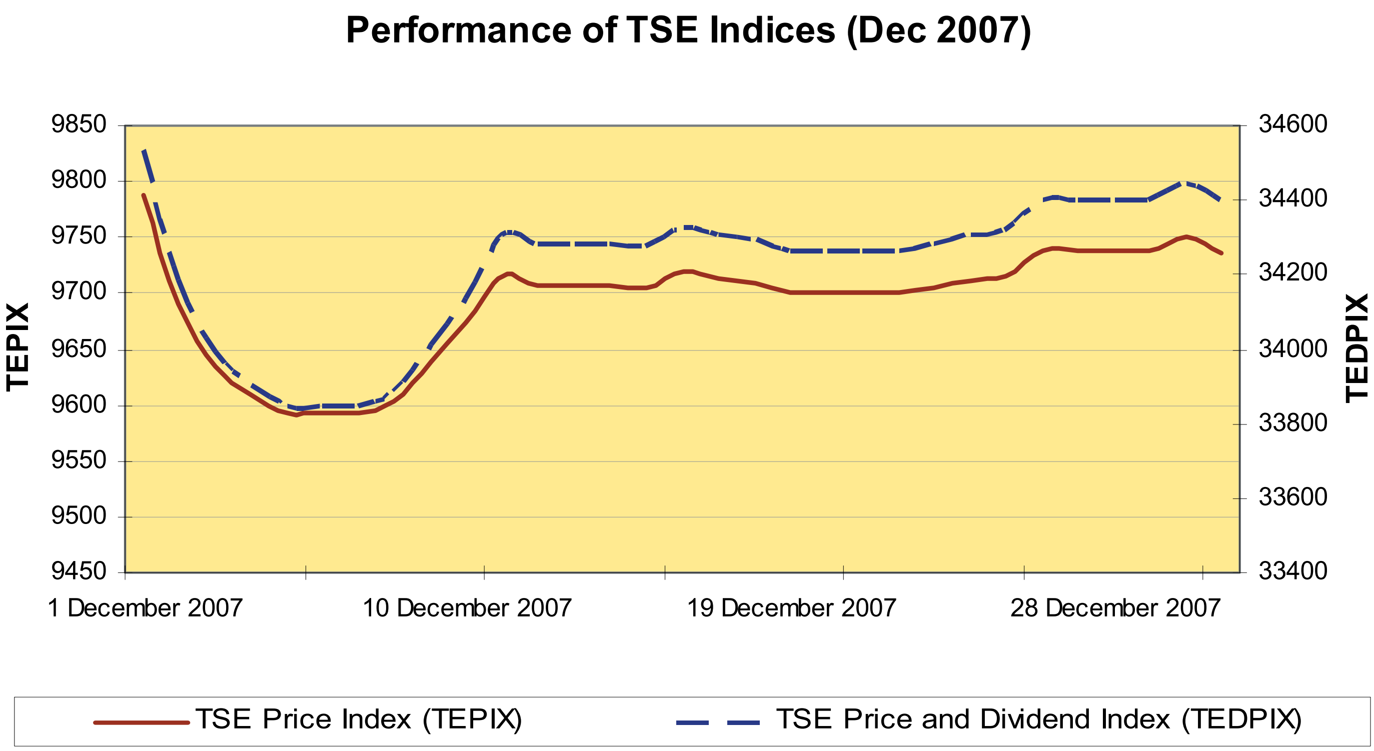
Cement

Speculation about the possible removal of government restrictions on the price of cement attracted many buyers to this sector. However, due to a relatively low number of sellers and thin trade volumes, there was little change in the share price of the companies within this sector. The price ceiling set by the government for the manufacturers is currently at $40 for each tonne of cement however, cement is then traded at values of up to $80 per tonne in secondary markets. The removal of the price restrictions by the government in this industry, where Iran has a natural competitiveness due to the high energy requirement in the sector, will have a significant impact on the earnings of these companies and in turn their attractiveness to investors. Going forward, it will mostly be government policies that will decide the fate of this sector. It is worth noting that rumours regarding the government's plan to liberalize the price of cement appear in the market every once in a while and following few weeks of positive movement the sector goes back to its recessionary mode when officials announce that no such liberalization plan is in place. This time around, the Iranian Minister of Industries and Mines, Ali-Akbar Mehrabian, has announced that liberalization of the cement pricing will go ahead six months from now only if the supply and demand in the market had reached an equilibrium level; a condition that most analysts doubt will occur anytime soon.

Petrochemicals

Despite positive sentiment in the market, this sector failed to meet the expectations of investors in December. This was mainly due to the news about the possible lifting of the government's pricing restrictions on petrochemical products. Currently, these products are sold domestically at around 10% below their international market value. However, a considerable number of companies in this sector purchase their raw material, crude oil, at a 30% discount to the FOB price in the Persian Gulf. Therefore, the removal of the government's pricing system and liberalization of both the raw material and final product pricing will cause the cost of raw material to grow by a larger factor than revenues.

Overall, the TSE experienced a volatile month. The heavy losses of early December were off-set by strong gains in the second half of the month, resulting in little change in the main market indices. Trade volumes increased from $484 million in November to $557 million in December, producing a growth of around 15%. The following charts demonstrate the performance of two main market indices during December.

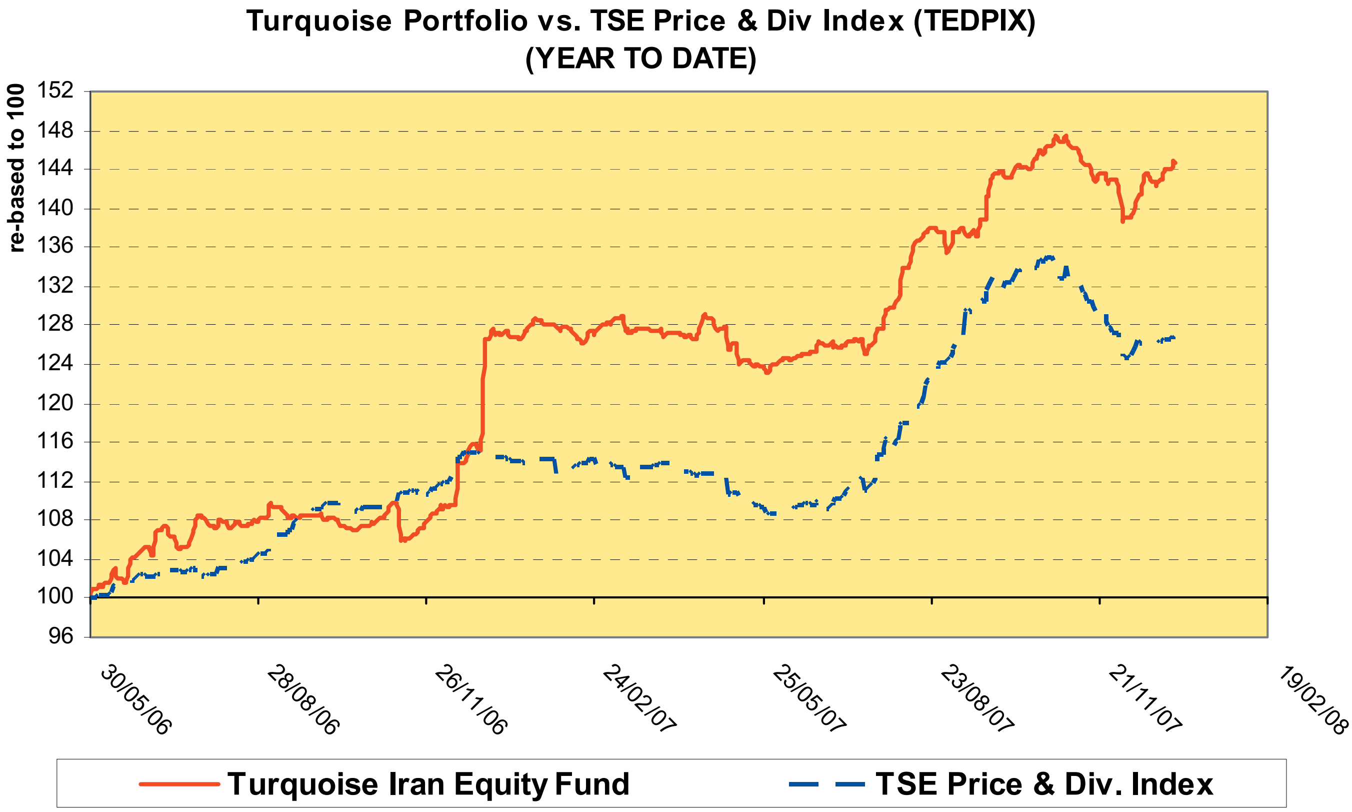


Investment Objective – The Turquoise Equity Fund seeks superior long-term capital growth by investing in the consumer and commodity potential of Iran, one of the most under-valued emerging markets in the world. Combining international experience with local expertise allows Turquoise to provide superior returns, with greater diversification and lower volatility, by investing in equities listed on the Tehran Stock Exchange (TSE) and other Iranian-based securities. The base currency of the Fund is Iranian Rial.

Monthly Report – The Net Asset Value (NAV) of the Turquoise Fund grew by approximately 1.3% during the month of December, outperforming both market indices. The Fund's unit index grew from 142.9 to 144.8 while the benchmark, the TSE Price and Dividend Index (TEDPIX), was down by around 0.5% during the same period. The TSE Price Index, (TEPIX) also fell by 0.7% during this month.

The Fund Investment Committee met regularly during the month and approved some adjustments to the portfolio which were implemented through the liquidation of some positions and the acquisition of others. More details on the Fund's top holdings will be provided in the upcoming Monthly Performance Report.

The charts below demonstrate the performance of the Fund against the TEDPIX in local currency, and the Emerging Market index in USD as well as the overall performance of the Fund in USD, Euro and GBP. The performance table also provides the performance of the Fund in different time frames.

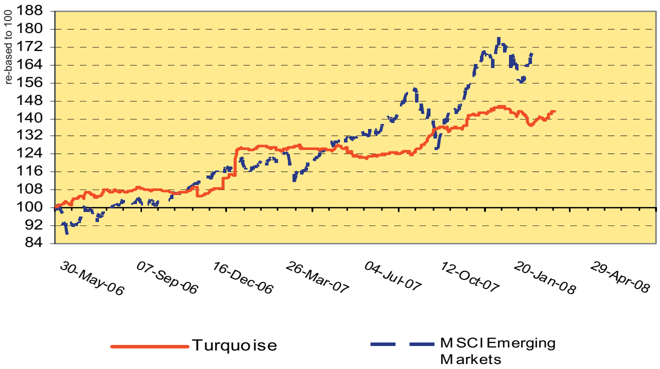


	1 Nov 07	1 Dec 07	1 Jan 08
Turquoise Fund	46.80 %	42.36 %	44.66 %
TEDPIX	32.87 %	27.13 %	26.70 %

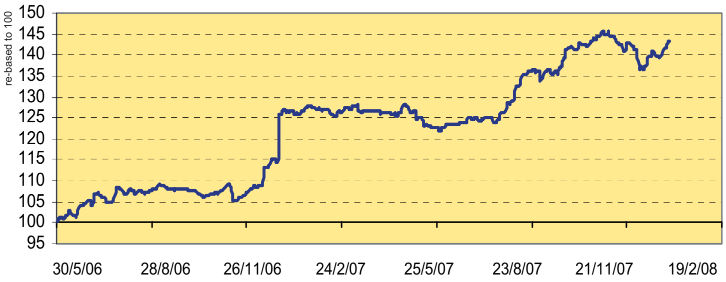
Performance

Period	Fund Return
Dec-07	**1.3 %**
Last 3 Months	**0.83 %**
Last 6 Months	**14.54 %**
Last 12 Months	**13.36 %**
Since Inception (30 May 06)	**44.66 %**

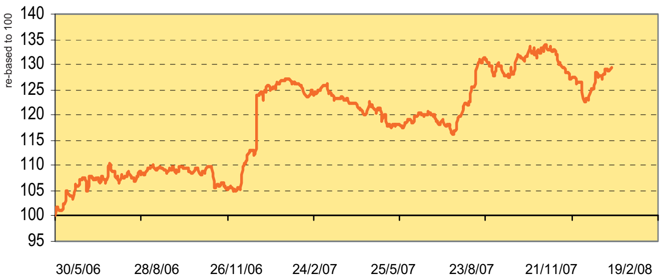
Turquoise Performance vs. MSCI Emerging Markets



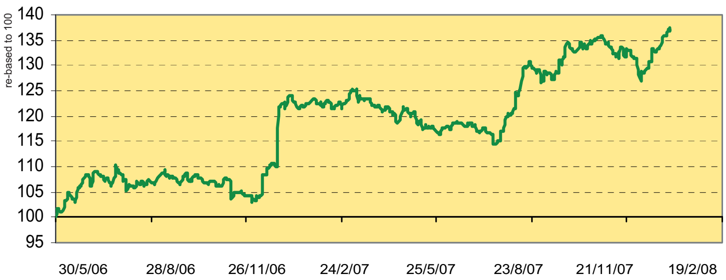
Turquoise Performance in US Dollar (US$)



Turquoise Performance in Euro (€)



Turquoise Performance in British Pound Sterling (£)



The impact of the publication of the United States' intelligence agencies' report on the Iranian nuclear program and new developments in Russo-Iranian nuclear cooperation as well as the signing of an oil contract with China following the release of the American report are the main topics that will be covered here.

In the third week of December, Russia and Iran reported that an 82-tonne batch of nuclear fuel has been delivered to the Bushehr nuclear power plant. This was the first of a number of shipments which will take place over a period of two months. The plant is expected to be operational around six months after these deliveries have taken place. The canisters of fuel rods were sealed and are now stored in Iran with the approval and under direct supervision of the International Atomic Energy Agency (IAEA). Russia said it had obtained guarantees from Iran that the delivered fuel will not be used for any purposes other than generating electricity at the Bushehr plant and the used fuel would be shipped back to Russia. Russia had previously delayed the delivery of the nuclear fuel to Iran on several occasions citing different reasons such as technical difficulties and payment irregularities.

The timing of these shipments was extremely significant as they came just days after the release of the report by the National Intelligence Estimate (NIE) in the United States, which concluded with "high confidence" that Iran has not been pursuing a nuclear weapons program since 2003. This means that Russia, which was under pressure from the US to delay the delivery of the nuclear fuel, is in a more comfortable position vis-à-vis the US and its Western allies to justify the delivery of the nuclear fuel and the completion of the nuclear power plant. It also demonstrated that Russia will not waste any time in taking advantage of this positive development, the NIE report, to distant itself from the US position against the Iranian nuclear program. China, another member of the UN Security Council, used the same strategy and finalised a lucrative oil development contract with Iran worth around $2 billion just days after the NIE report was published.

The US, which seems to be frustrated by the Russian and the Chinese decisions, has not publicly criticised these moves and instead has tried to use it as an excuse to increase pressure on Iran to suspend its domestic enrichment programme. On December 17, President Bush urged Iran to halt its enrichment program. He expressed his support for the delivery by Russia and added that "If the Iranians accept that uranium for a civilian nuclear power plant, then there's no need for them to learn how to enrich." Iran has stated it has no intentions of suspending its enrichment programme. Mr Gholamreza Aghazadeh, the Chief of the Iranian Atomic Energy Organization, said Iran needed to produce fuel for a second plant currently under construction in the Southwest of Iran. Another argument that Iran uses for continuing its enrichment is the considerable delays by the Russians in delivering the fuel and the need for a reliable and continuous supply of fuel for the the nuclear power plants it plans to build during the next two decades.

The US, which insists that the NIE report will not result in any policy change, would most likely push for further sanctions to be imposed on Iran by the United Nations Security Council for its refusal to suspect its domestic uranium enrichment program. However, the difficult job of convincing the Russians and the Chinese to agree to any further sanctions was made even harder after the publication of this report and the deals the two countries finalised with Iran in December.

Foreign Investment in the Oil Sector

Two major oil and gas contracts were signed between Iran and Asian oil and gas companies within the last month. The finalisation of these agreements demonstrates two significant new developments. One is that following the release of the United States' National Intelligence Estimate, which concluded Iran has not been pursuing nuclear weapons since 2003, and also the increased cooperation between Iran and the IAEA over its nuclear program, concerns over this issue may be slowly diminishing and foreign oil companies are feeling more comfortable with finalising deals that they have been negotiating with Iran over a long period of time. The second development worth noting is that the Asian companies have rushed into signing lucrative oil and gas deals with Iran while their stronger European and American competitors are still waiting or are absent from the market.

In the first project, the National Iranian Oil Company (NIOC) signed a $2 billion oil contract with Sinopec of China for the development of Yadavaran Oil Field in the Khuzestan Province. Yadavaran is believed to hold around 18 billion barrels of proven oil reserves. This contract is signed on a "buy-back" basis which means that the Chinese company will get a share of the production for a period of time to compensate its development costs and return. Sinopec has agreed to secure the entire funding of the project. The development of the first phase of Yadavaran will take around four years to complete and the production after the first phase is expected to be around 85,000 barrels per day (bpd). This capacity is expected to increase to 100,000 bpd.

The second contract was signed between the NIOC-affiliated Pars Oil and Gas Company (POGC) and Malaysia's SKS Ventures for the development of two offshore gas fields in the Persian Gulf. The two fields, Golshan and Ferdows, are said to hold around 1.7 billion cubic meters of natural gas. This project, which is the largest single foreign investment in the Iranian gas sector, is worth $16 billion of which $10 billion is invested for offshore gas field development and the other $6 billion for liquefying facilities onshore.

Macroeconomic Stats by the Economist Intelligence Unit

According to the data and forecasts gathered by the Economist Intelligence Unit (EIU) Iran's imports during the last Iranian calendar year of 1385 (ended March 2007) stood at $45.7 billion. This figure is expected to grow to $48.1 billion and $50.4 billion during the current year and following year respectively, with the upward trend sustained for the next few years. The Trade Balance, which has been positive and strong during recent years due to high oil prices, is expected to witness growth during the two years ahead to reach a peak of $27.6 billion in 2009 and then possibly shift to a declining trend. The trade balance for the last year reached a record high of $22 billion. Iran's ability to contain its debt level was highlighted in this report with the trend forecasted to continue on its decreasing path to reach around $10 billion in 2012 from the current $14 billion.

Abandonment of Petrodollar

Last month the Iranian Petroleum Minister, Gholam Hossein Nozari, announced that Iran has now completed the shift of its petroleum exports away from US Dollar and towards other major currencies. The key reasons for this move, according to the Minister, are the depreciation of the Dollar against a number of major currencies over the past few years; to reduce the country's dependency on a single currency; and also because of the unilateral financial and economic sanctions imposed by the United States which makes it very hard for Iranian businesses to conduct business in the US Dollar. Iranian President Ahmadinejad has recently proposed for an OPEC basket of currencies to be used by oil producing countries for the export of their crude oil. Although this proposal was not taken seriously by OPEC members aside from Venezuela, the oil producing countries are quietly looking at reducing the US Dollar's share in their foreign exchange reserves. Iran, the fourth largest oil exporter in the world, is now trading most of its crude oil in Euro and Japanese Yen. Japan, which buys around 20% of Iran's oil exports, has recently agreed to conduct its trade with Iran in Yen. In line with this policy, the Central Bank has also diversified a considerable proportion of Iran's external reserves away from the the US Dollar to other currencies such as Euro, Yen and UAE Dirham.

New Passenger Aircraft

Iran's Supreme Council for Planning and Economy has allocated funds of up to $1 billion for the acquisition of new passenger aircraft. The state-owned Iran Air, its subsidiary Iran Air Tour and all other eligible airlines can bid for the funds for purchasing new passenger planes, subject to compliance with national safety regulations for the aircrafts. This initiative is a significant step towards the expansion of Iran Air's network and renewal of its ageing fleet of aircraft. Under US sanctions, Iran has faced difficulty purchasing new airplanes and obtaining replacement parts for its Boeing and Airbus planes, the majority of which were purchased prior to the 1979 Islamic Revolution. This is why Iran has looked to other suppliers to meet its growing demand. The Dutch plane manufacturer, Fokker, Ukranian Antonov and Russian Tupolev have been some of the suppliers of Iranian planes over the past several years. Iran's bid to purchase new Airbus planes from Europe has failed several times due to the origin of some of the parts that were manufactured in the United States.

About Turquoise

Turquoise is a boutique investment bank based in Iran with offices in Tehran and London. Turquoise creates financial products and offers financial services to select clients and investors who are interested in the Iranian market. Having a qualified and diverse management team based both in Europe and in Iran enables Turquoise to benefit from coupling local knowledge and presence with global expertise.

Turquoise publishes this electronic newsletter, *Iran Investment Monthly*, with the aim of keeping its recipients updated on the latest macroeconomic developments in Iran, providing an in-depth analysis of the Tehran Stock Exchange as well as introducing new financial products and private equity opportunities to potential investors.

Iran Investment Monthly is distributed exclusively amongst Iran analysts and potential investors who have worked closely or have been in contact with Turquoise Partners. Subscription to this newsletter is by referral only or through an online request sent to: ramin.rabii@turquoisepartners.com

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