

The Persian Guard, Throne Hall, Persepolis in Southern Iran

THIS MONTH

Due to the Iranian New Year holidays, the April and May editions of *Iran Investment Monthly* are published jointly in this copy of the newsletter.

Market Overview 2

The Tehran Stock Exchange (TSE) experienced low trading volumes in March and April, due to the New Year holiday period and investor perception of a lack of clarity regarding the government's economic policies. The prospects for various industries will depend on government's policies around the pricing of commodities, as well as the interest rate for the new Iranian calendar year.

Turquoise Iran Equity Fund 4

The NAV of the Fund grew steadily over the past two months. The Turquoise Fund outperformed its benchmark, the TSE Price and Dividend Index, in March, growing by 2.2%. It experienced little change during April, as the whole market slowed down a little.

Country Overview 6

This section focused upon the results of the parliamentary elections in Iran (which favored Conservative factions), and the third round of sanctions imposed by the UN Security Council due to the Iranian nuclear program.

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This section covers various statistics on the Iranian economy for the recently-ended Iranian year of 1386 (2007-2008). It also reports on the gas deal signed between Iran and Switzerland, bank deposit statistics in Iran, and domestic and foreign investment laws.

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March 2008

Every year in March, as the Iranian new year (21st March) and holidays approach, the Tehran Stock Exchange (TSE) experiences a slow-down in trading volumes. This trend usually continues until mid April, when traders and investors begin to return to the market. April is a strategically important month for many investors, as it is the first month of the financial year for more than 80% of companies listed on the TSE.

In March, the TSE achieved a modest increase despite low trading volumes. The third round of sanctions by the UN Security Council and the outcome of the parliamentary elections (see Country Overview) did not dampen market sentiment. This was because neither of these events differed materially from analysts' predictions, and the market had already taken them into account by reacting negatively in previous months.

The banking sector was the best performing sector over the past month, with the banking and financial intermediaries index gaining 12%. This was mainly due to speculation about a possible change to the mechanism through which lending interest rates are set by the Central Bank. The mechanism would switch from one which is prescriptive to one where banks charge the inflation rate plus a commission for their lending facilities. This switch would result in an increase in the bank's revenues.

Overall, the TSE experienced a calm trading environment in March, with the Dividend and Price Index (TEDPIX) gaining 1.74% in value. Trading volumes stood at \$510 million. However, 40% of trades were related to the listing of the final batch of Fanavaran Petrochemical shares, under the privatization program.

April 2008

In April, the TSE became stagnant, as trade volumes fell to unusually low levels. Events and rumors over the course of the month brought about a degree of investor uncertainty. Consequently, investors took a very cautious stance and avoided trading in large volumes.

There are two principal reasons for the slow market in April. Firstly, the Iranian Privatization Organization continued to offer stakes of various companies on the TSE in March and April, thereby absorbing considerable liquidity and causing a shortage of liquid funds in the market. Secondly, the government's unclear economic policies and delays in making decisions on several key issues, have left a number of industries in an uncertain position. For example, the government's unclear position on pricing policies for certain commodities such as steel, as well as uncertainty regarding a government decision on interest rates for this year, has made investors nervous about investing in many industries.

In the second week of April, a 44.6% block of Teraktor Sazi Iran, Iran's largest tractor manufacturing company, was successfully offered to the market as part of the privatization scheme. This block was initially valued at \$170 million; however, after three days of fierce competition between seven investors, it was bought at a 200% premium to its nominal value. The buyer was required to pay 25% cash upfront and the remaining 75% in installments over 5 years.

Some key sectors of the market are analyzed in more detail below:

Steel Manufacturers

As mentioned earlier, this is a sector facing uncertainty due to the government's unclear pricing policies. At the beginning of the Iranian calendar year, hot and cold steel sheets began trading on the commodity exchange, but with a government-prescribed price equal to that at the previous Iranian year-end. This engendered negative sentiment in the sector, causing stock prices to fall. However, later in April, steel was allowed to trade at higher prices, bringing some confidence back into the sector. Investors cautiously await government clarification regarding the pricing of steel.

Mining and Iron Ore

Stocks of Coal, Manganese and Iron-ore mining companies attracted many investors in March and April, as there were expectations that increases in global prices of these commodities will eventually translate

into higher earnings for these companies. In April, Gol Gohar, the second largest iron-ore manufacturer in Iran, auctioned its first batch of export products, which was sold at a value 30% higher than the company's forecast. Gol Gohar is only allowed to export a portion of its production after meeting all domestic needs. The government's domestic selling price restrictions mean that these companies cannot fully benefit from the rises in global commodity prices. The selling price differential between domestic and international markets, for some of Gol Gohar's products, currently stands at around 280%.

Petrochemicals

With the opening of the Iranian International Petroleum Exchange (IIPE) in February, the price liberalization of petrochemical products was effectively completed in March. All but three products are now traded on the exchange without any price restrictions. In April, the government confirmed that the price of gas as feedstock for these companies will now increase by four times. Prior to the price liberalization, petrochemical companies bought their gas feedstock at a significant discount to global prices. Analysts do not expect this change to have an adverse impact on gas-consuming companies, as increases in the gas price will be reflected in the price of their final products. The situation is very different for non gas-based companies. There are currently no changes in the price of their feedstock; however, the removal of government discounts on the price of their raw material will make these companies loss-making.

As mentioned earlier, the remaining 16% of the Fanavaran Petrochemical Co. was successfully sold in March by the Iranian Privatization Organization. This makes Fanavaran the first company to be completely sold off as part of the privatization scheme.

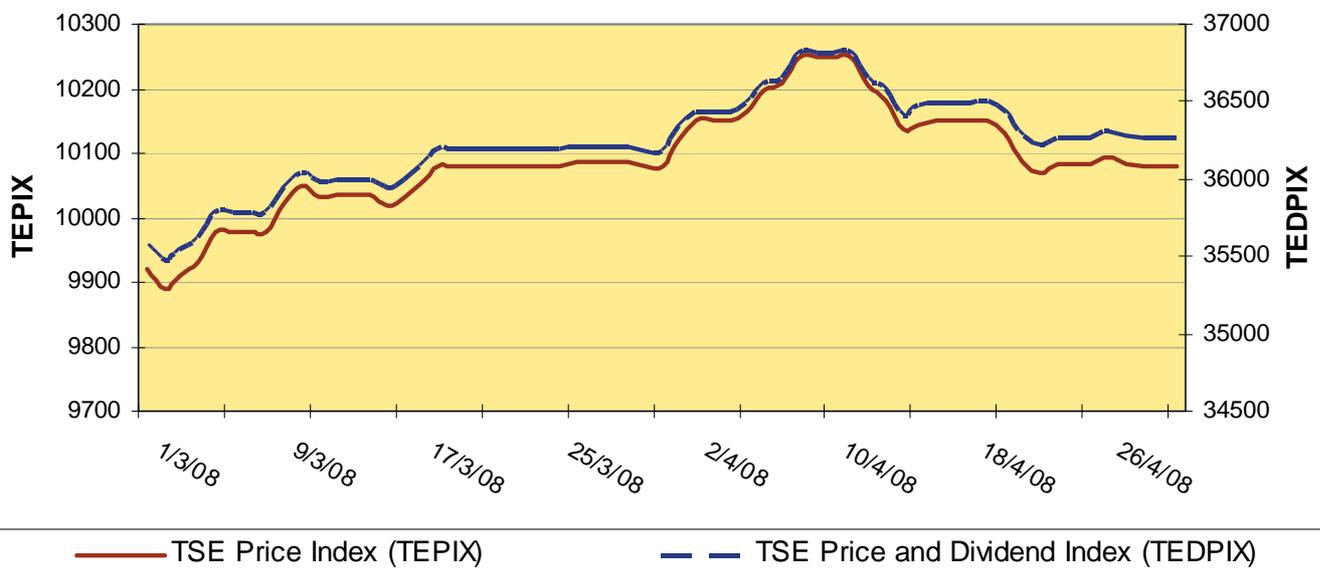
Cement

Unconfirmed news about a possible price liberalization of cement by the government once again excited investors in April. Many analysts believe that because of high steel prices in construction, demand for cement, as an alternative to steel, has reached unusually high levels and an increase in the cement price is now inevitable. Rumors about price liberalization entered the market several times last year and caused stock price hikes in various cement companies; however, no changes were confirmed and stock prices fell back again. This time, investors took a slightly more cautious stance, and are awaiting further news before acting.

Overall, the TSE experienced a slow-down in trades in April, as uncertainty overshadowed the market. The TEDPIX had a decline of 0.5% in value this month, whilst trade volumes fell to \$400 million.

The following chart demonstrates the performance of the two main market indices during the months of March and April.

Performance of TSE Indices (March & April 2008)



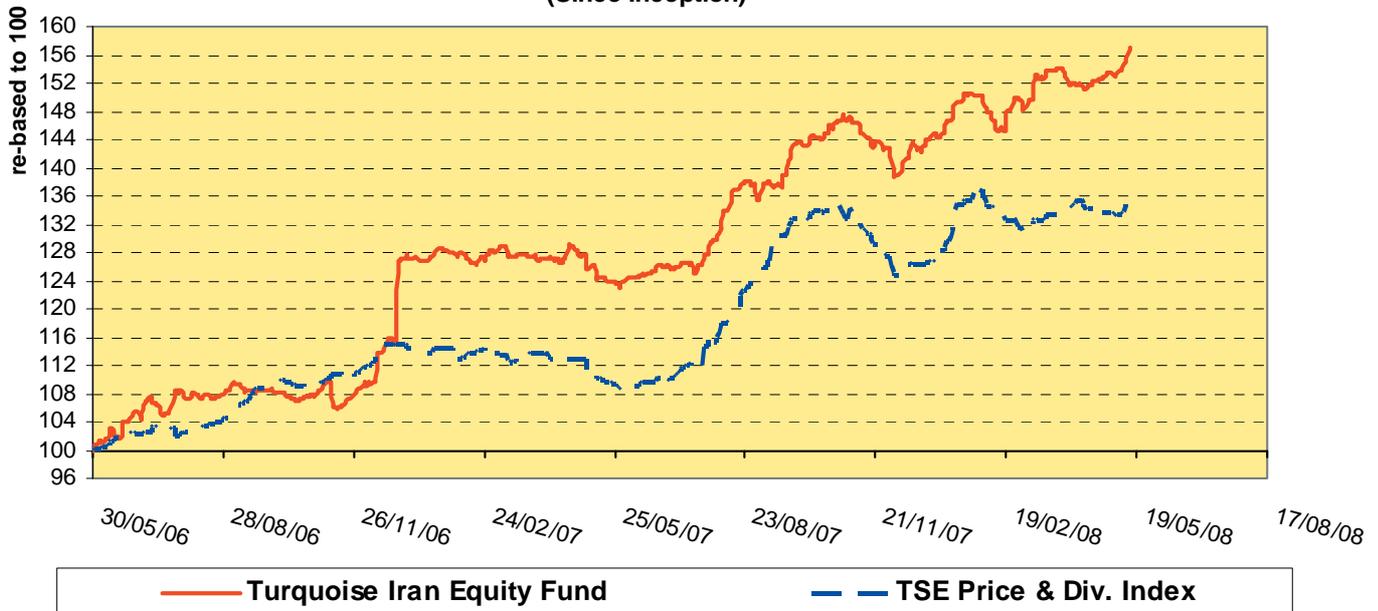
Investment Objective – The Turquoise Equity Fund seeks superior long-term capital growth by investing in the consumer and commodity potential of Iran, one of the most undervalued emerging markets in the world. Turquoise combines international experience with local expertise in investing in equities listed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

Monthly Report – The Net Asset Value (NAV) of the Turquoise Fund grew steadily over the past two months. The Fund’s performance was approximately 2.2% in March and 0.2% in April. Meanwhile, the TSE Dividend and Price Index (TEDPIX) grew by 1.3% and 0.2% during March and April respectively. By the end of April, the Turquoise Fund’s unit price stood at 153.44.

The Turquoise Iran Equity Fund was able to attract major new investments over the past two months. Investments by some respected European private investors significantly increased the Fund’s size.

The charts below provide an update up until the middle of May, on the following: the performance of the Fund against both the TEDPIX in local currency and also the Emerging Market index in USD, as well as the overall performance of the Fund in USD, Euro and GBP. The performance table also displays the historical performance of the Fund.

**Turquoise Portfolio vs. TSE Price & Div Index (TEDPIX)
(Since Inception)**

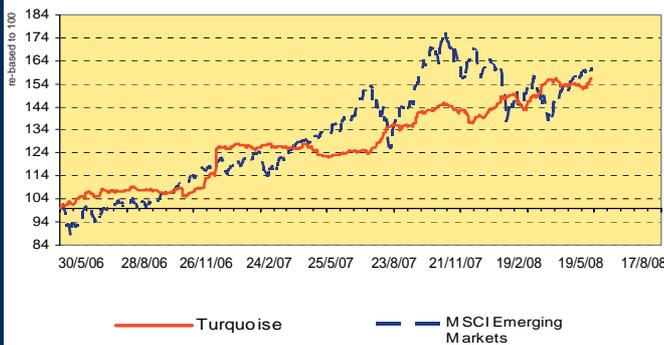


	Feb 08	Mar 08	Apr 08
Turquoise Fund	↓ 0.3%	↑ 2.2%	↑ 0.3%
TEDPIX	↓ 3.3%	↑ 1.3%	↑ 0.2%

Performance

As of 15 May 2008	
Period	Fund Return
Last Month	↑ 3.6%
Last 3 Months	↑ 8.0%
Last 6 Months	↑ 8.6%
Last 12 Months	↑ 26.1%
Since Inception (30 May 06)	↑ 56.9%

Turquoise Performance vs. MSCI Emerging Markets



Turquoise Performance in US Dollar (US\$)



Turquoise Performance in Euro (€)



Turquoise Performance in British Pound Sterling (£)



This edition of Country Overview covers the results of the Iranian parliamentary elections (Majlis), as well as the third round of UN Security Council sanctions against Iran.

Elections for the eighth parliament of the Islamic Republic took place on 15th March. In this first round, 208 seats (of 290) were won by those candidates obtaining a minimum of 25% of votes. However, in some regions, elections went on to the second round, which took place on 15th April. For the first time, computerized counting of the votes was tested in parallel with manual counting. Statistics show that approximately 25 million people participated in the elections across the country, a figure equating to around 56% of those eligible to vote.

This eighth parliament is composed of 70% Conservatives, 16% Reformists and 14% independent candidates. Conservatives and Reformists were the key rivals for this election. However, given that the Guardian Council disqualified many Reformist candidates at the vetting stage, it was widely expected that the elections would be won by the Conservatives. The make-up of the eighth parliament is similar to that of the seventh. Analysts believe that this will result in this parliament following a similar strategic direction to that of its predecessor.

Some analysts believe that the election outcome was not necessarily favorable to the government of Mr. Ahmadinejad. This is because a significant number of Conservative candidates who have gained parliamentary seats belong to more moderate factions in the Conservative camp who have previously criticized many of President Ahmadinejad's policies. Consequently, the sporadic tensions between the government and the seventh parliament are also expected to occur in the new parliament. However, no significant power or policy shift is anticipated, once the new parliament takes control in May.

A very important event will be the election and subsequent make-up of the Chairing Committee of the new Majlis. The Committee will be chosen by the recently elected members of parliament. There are already rumors of important figures lobbying to secure the position of Chairman (Speaker) of the new parliament. These figures include the Speaker of the 7th Parliament, Dr. Haddad-Adel, and the former Chief Nuclear Negotiator, Dr. Larijani. Reformists and a faction of Conservatives have already expressed their reluctance to re-elect Dr. Haddad-Adel as Speaker of the new parliament.

The UN Security Council approved the third round of sanctions against Iran in early March. However, for the first time, the approval was not unanimous. Indonesia abstained from voting, arguing that the Security Council had ignored Iran's recent co-operation with the International Atomic Energy Agency (IAEA). The basis for this third round was the most recent progress report of the IAEA on Iran's nuclear program. This report followed Mr El-Baradei's (the Director General of the IAEA) visit to Tehran in January. The report states that, despite Iran's increased efforts to respond to the IAEA's outstanding questions and a lack of any evidence of a program for military purposes, the IAEA cannot say with full confidence that Iran's nuclear program is solely for peaceful purposes. Iranian officials questioned the legality of the resolution, arguing that Iran has successfully answered all outstanding questions that were posed. They assert that Iran's nuclear dossier should be returned to the IAEA and treated as an ordinary matter.

This new round of sanctions includes inspecting cargo suspected of consisting of prohibited goods and tighter monitoring of financial transactions. It also extends sanctions and travel bans against a further 13 companies and 13 individuals, who are thought to be connected with Iran's nuclear program. In the resolution, the UN Security Council asks the IAEA to report within 90 days on Iran's response to the resolution and on any possible changes to its nuclear program.

One of the key features of this resolution is the emphasis on the 5+1 group's willingness to pursue diplomacy

in order to resolve the nuclear stand-off with Iran. This group is currently working on an incentives package to offer Iran in exchange for Iran halting any nuclear enrichment. A similar package was offered in 2006, but was rejected by Iran. It is thought that the basis of the new package will be the one offered previously, but with new measures to make it more attractive.

Analysts do not expect the new sanctions to bring about a notable shift in Iran's policies. Furthermore, Iran's international economic ties do not seem to have been significantly dampened by either the recent sanctions or US pressure. This is evidenced by the recent signing of major oil and gas contracts with many countries, including China, India, Italy and Switzerland.

Iran's Economy in 1386

Below is a summary of some key statistics and economic indicators for the Iranian calendar year 1386 (ending on 21st March 2008).

Imports and Exports

According to the Iranian Customs Organization, Iran's exports and imports of non-oil products (including liquefied gas) in 1386, amounted to \$21.3 billion and \$48.3 billion respectively. This means that exports grew by 16.6% while imports grew by 15.8%, in comparison with the previous year. The top five importers of non-oil Iranian goods were the UAE, Iraq, China, Japan and India. Also, the top 5 exporters to Iran were the UAE, Germany, China, Switzerland and South Korea, who together produced around 54% of Iran's imports.

Economic Growth, Inflation and Unemployment

According to official statistics, Iran's economic growth in 1386 fell to 6%. This figure was 6.2% in 1385 and 7.5% in 1384. There could be various reasons for this slowdown in growth. The three rounds of economic sanctions by the UN Security Council against Iran this past year, along with the US's unilateral sanctions against Iranian financial institutions have, to an extent, dampened economic growth in Iran. Furthermore, many experts believe that the government's economic and fiscal policies are partly responsible for this slowdown.

In 1386, the biggest challenge was the high inflation rate. According to the Central Bank's statistics, the inflation rate at the end of 1386 was 17.8%. This rate demonstrates an increase of approximately 500 basis points in comparison to the previous year. Analysts have presented a number of reasons for this increase. The most widely accepted reason is the government's injection of surplus oil revenues into the economy, beyond the economy's capacity of absorption. The consequence was a sharp rise in surplus liquidity.

Statistics from the Central Bank reveal that the unemployment rate at the end of 1386 was 12.1%. The total workforce in Iran is estimated to be 23.5 million people, 2.8 million of whom are currently unemployed.

Revenues from Oil

Iran's revenues from oil soared to \$70 billion in 1386, an amount some 3.5 times larger than the figure forecasted in Iran's 4th Five-Year Development Plan (2005-2010). This total is, in the opinion of many experts, at its all time high. Over the past year, average daily oil production stood at 4.2 million barrels per day, an increase of around 100,000 barrels per day in comparison to the previous year. Domestic consumption this year amounted to approximately 40% of the oil produced, while the remaining 60% was exported.

Iran and Switzerland Gas Deal

On 17th March, following the visit of the Swiss foreign minister to Iran, a new gas export contract was announced between AGL of Switzerland and the National Iranian Gas Company (NIGC). The length of this contract is 25 years. Its value is dependent on energy prices and is estimated to be between €10 billion and €22 billion. Iran is expected to export around 5.5 billion cubic meters of natural gas each year through a pipeline passing through Greece, Albania and Italy. The pipeline is expected to be completed by 2010. The Swiss foreign minister explained that the aim of this contract was to diversify Switzerland's energy sources and reduce Europe's dependency on Russia's gas supplies.

This deal was of significant political importance, especially given that it was signed only days after the UN Security Council approved a third round of sanctions against Iran. The Swiss officials explained that this contract does not breach either the UN Security Council sanctions or the US unilateral sanctions. Nevertheless, the US criticized the Swiss following the contract signing, fearing that it may prompt other

European countries to sign similar deals with Iran. This deal further strengthens the argument that economic sanctions against Iran have not had the impact that the US and its Western allies envisaged.

Bank Deposits in Iran

According to the Central Bank, non-governmental (retail and institutional) bank deposits in the first 10 months of 1386 (2007) reached a total of \$165 billion. This resulted in a 32% increase in comparison with the same period in the previous year. Of this amount, 67% was deposited with state-owned commercial banks, 14% with specialist government banks and 19% with privately-owned banks. In comparison with the same period last year, deposits at the state-owned, specialist and privately-owned banks showed 27%, 20% and 63% increases respectively. Therefore, deposits at privately-owned banks are increasing at a much faster rate than government banks. Although this industry is still dominated by the government institutions, deposits are gradually shifting towards private institutions. The first privately-owned bank obtained its license from the Central Bank in 2001. There are currently 6 licensed privately-owned banks in Iran.

Domestic and Foreign Investment Laws

The Head of the Judicial System of Iran has commissioned all judicial authorities to conduct a review of all domestic and foreign investment laws and related legal procedures. This is in order to identify and remedy all barriers and bottle-necks in the investment process. It is expected that this will improve Iran's legal and judicial structure. This will help in attracting domestic and foreign investment, and also speed up the government-sponsored privatization program.

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.

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