



Inauguration Ceremony of Milad Telecommunication Tower , Tehran , Iran

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In October, the Tehran Stock Exchange experienced the impact of the meltdown in global prices of oil and other commodities. While commodity-based stocks experienced significant price declines, consumers of commodities saw price rallies. This section provides an analysis of the market and some of the main sectors.

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The decline in share prices of most listed companies had a negative impact on the performance of the Fund during October. While the drop in the NAV of the Fund was moderate in comparison to other markets around the globe, Turquoise Fund experienced its sharpest monthly fall during last month.

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The completion of the development of three phases of the South Pars gas field development project and the significance of Iran-related policies in the US presidential race will be discussed in this section.

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The Milad communications tower, the independence of the Central Bank, the expansion of Anzali port and foreign deposits in Iranian banks, are the topics of discussion here.

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In October, the Tehran Stock Exchange (TSE) experienced the impact of the meltdown in the global prices of oil and other commodities. The main index, which was the best performing index in the world in the first half of the year, experienced its largest monthly fall this past month. However, the losses were moderate in comparison to most indices around the world. The weighted average P/E ratio of the TSE fell below five for the first time in five years.

The surge in commodity prices over the past few years had benefited the commodity-based companies on the TSE. However, with the declines in commodity prices, stocks of these companies are now experiencing significant pressure from sellers and their market capitalisation is decreasing at a fast rate. The TSE is now entering a new phase, where the market's focus is now turning towards those companies which could benefit from lower commodity prices. Consumers of commodities such as producers of electrical equipment, car manufacturers, household cleaning products and engine oil and industrial lubricant producers, have attracted huge interest from investors. The stocks of these companies, most of which had been out of favour with the market for some time, had large buying queues in October. Most service sectors, such as banking, remained unchanged during this month.

Some of the key sectors are analysed in more detail below:

## **Mining and Metals**

Shares of the largest metals and mining stocks reopened in October. These stocks had been closed for downward adjustment of their earnings forecasts, following falls in the prices of their products. Mobarakeh Steel Company, the second largest listed company, lost 40% of its value upon re-opening. Also, Chador Malou and Gol Gohar, the two largest listed iron ore companies, reopened with selling queues. National Iranian Copper Industries Company (NICIC), despite outperforming its earnings forecast for the first half of the year, witnessed a slump in its share price. Copper is among the worst hit commodities, having lost more than 50% of its value since the start of the Iranian year (21<sup>st</sup> March).

The falls in stock prices of these companies was the main reason for the drop in the market index.

## **Banks and Credit Institutions**

The earnings results for the first half of the year for companies in this sector were published in October. Overall, the sector outperformed analysts' expectations with EN Bank realising 80% of its annual earnings forecast in this period. Consequently, this stock was closed to trading for an upward adjustment of its earnings forecast for the year. That created some excitement in this sector and trade volumes increased from last month. However, Parsian, the largest listed bank, had a weaker performance than the rest of the group and therefore gains in this sector were moderate.

## **Telecom**

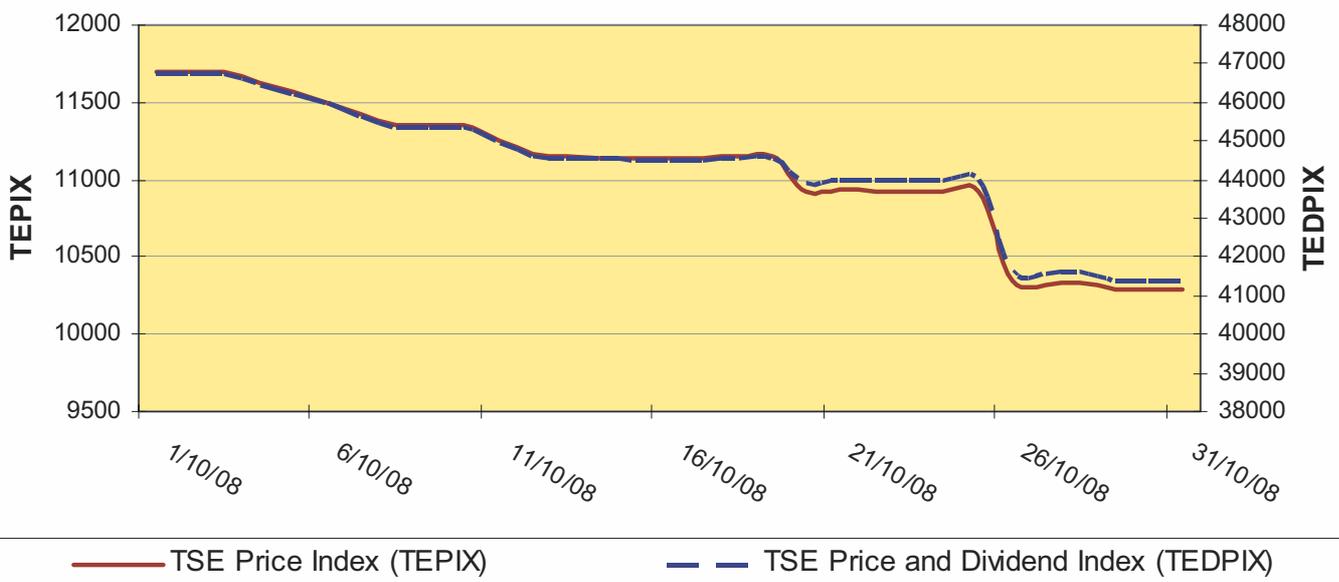
The Telecommunications Company of Iran (TCI), the largest listed company on the TSE, once again had the largest trade volumes, to the extent that nearly 50% of all trades in October were in TCI. As TCI is close to its Annual General Meeting, speculative trading in its stock is also increasing. In October, TCI released its earnings results for the first half of the year. However, the results did not contain the consolidated statements. As a result, investors reacted negatively and the stock ended the month 12% lower than at the end of the previous month.

## Electrical Equipment

Companies in this sector are some of the key consumers of steel and copper. Analysts anticipate that the profit margins of most of these companies will increase considerably, due to the declines in metal prices. Companies in this sector experienced significant price rallies in October, and in one case a gain of nearly 90%. Also, the weighted average P/E of this sector increased from 3 to 3.5 this month.

Overall, the Tehran Stock Exchange experienced significant price falls, with the Dividend and Price Index (TEDPIX) losing 11.5% in value. Trade volumes also showed a significant slowdown, falling from \$720 million in September to \$315 million in October.

**Performance of TSE Indices (October 2008)**

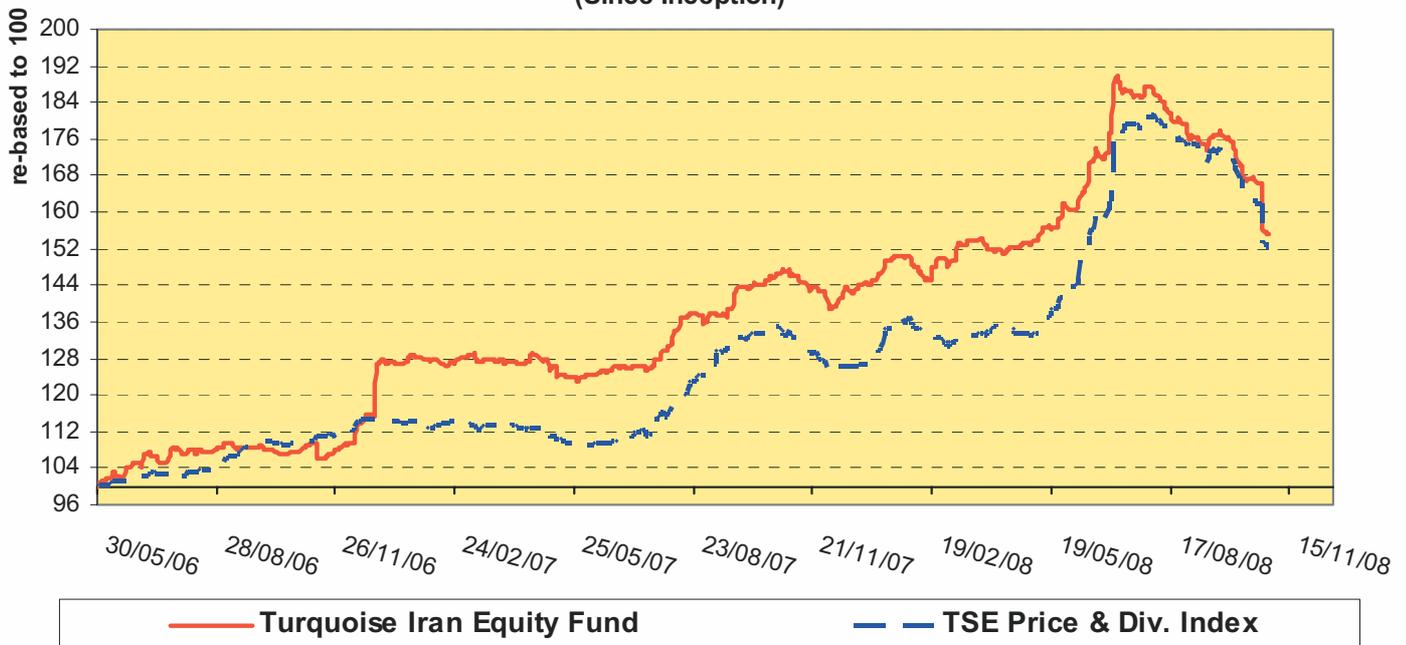


**Investment Objective** – The Turquoise Equity Fund seeks superior long-term capital growth by investing in the consumer and commodity potential of Iran, one of the most under-valued emerging markets in the world. Combining international experience with local expertise allows Turquoise to provide superior 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 fell by approximately 12.1% in October to stand at 155.0 by the end of the month. Also, all market indices experienced sharp falls during this month, with the TSE Price and Dividend Index (TEDPIX) losing 11.5% in value while the TSE Price Index (TEPIX) fell by 12.1%.

The charts below provide an update to the middle of November, 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)**

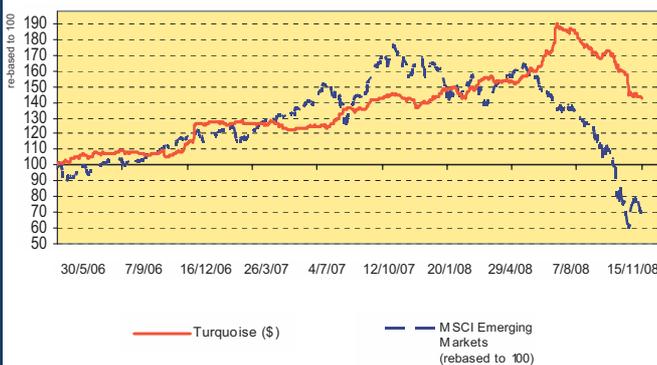


	Aug 08	Sep 08	Oct 08
<b>Turquoise Fund</b>	↓ 6.3 %	↑ 0.4 %	↓ 12.1 %
<b>TEDPIX</b>	↓ 3.3 %	↓ 1.4 %	↓ 11.5 %

## Performance

As of 15 November 2008	
Period	Fund Return
Last Month	↓ 8.12 %
Last 3 Months	↓ 15.8 %
Last 6 Months	↓ 2.0 %
Last 12 Months	↑ 6.4 %
Since Inception (30 May 06)	↑ 53.7 %

### Turquoise Performance vs. MSCI Emerging Markets



### Turquoise Performance in US Dollar (US\$)



### Turquoise Performance in Euro (€)



### Turquoise Performance in British Pound Sterling (£)



The completion of three phases of development of the South Pars gas field project, and the Iran policies of the US presidential candidates, are the topics of discussion in this edition of Country Overview.

On 21<sup>st</sup> October, the development project of the 6<sup>th</sup>, 7<sup>th</sup> and 8<sup>th</sup> phases of the South Pars gas field came to completion. The South Pars gas field, situated in the Persian Gulf, is the largest gas field in the world and holds 50% of Iran's proven gas reserves and 8% of world's total reserves. The development of South Pars was divided into 28 phases and has been contracted to several Iranian and foreign companies. This project is viewed as the biggest economic project completed during President Ahmadinejad's term in office. According to official figures, the project has taken 113.5 million man hours, carried out by approximately 15,000 employees and contractors. The total cost of the project has been \$2.6 billion.

It is estimated that the project will increase Iran's total gas production by 20%. These phases will produce 104 million cubic meters of sour and dry gas, 4,700 tonnes of butane and propane, and 1000 barrels of liquefied gas products on a daily basis. In financial terms, it will increase Iran's GDP by \$4 billion. A portion of the sour gas will be injected into the Aghajari oil field in the south-west of Iran, in order to increase crude oil extraction. Also, a number of refineries and other production facilities will be built to purify natural gas for domestic consumption.

This project was of great importance for Iran. The US and its allies have put significant pressure on investors and partners in Iranian oil and gas development projects, and have attempted to isolate Iran due to the dispute over its nuclear programme. As a result, attracting foreign investment for the development of oil and gas projects has become more difficult. Recently, Total of France withdrew from one of the phases of the South Pars. At the time, Iranian officials said that they would continue with the development without Total. Iranian officials called this project an important national achievement, arguing that it demonstrates Iran's ability to implement its oil and gas projects. The onshore development of this project was conducted by Iranian firms while Statoil of Norway (now StatoilHydro) was the main operator of the offshore development.

In the race between Senators McCain and Obama for the US presidency, US foreign policy in general and proposed approaches towards Iran in particular, were important elements in the campaign. This was one of the rare times that Iran was a key element in a US presidential race. In his campaign, McCain proposed similar policies to President Bush and was seen as more inclined towards a confrontational approach to the Iranian nuclear programme. Obama, on the other hand, opposed this view, arguing that diplomacy was the best way to resolve tensions between the two countries and even offered to meet with Iranian leaders personally and without any preconditions to resolve the nuclear issue.

Since the Islamic revolution in Iran in 1979, the two countries have had no diplomatic relations. Over the past three years, tensions have risen due to Iran's nuclear programme. President Bush has repeatedly warned Iran that the US would take military action if it did not halt its nuclear enrichment. Obama's proposed changes in US policy have been welcomed by many experts. They argue that George Bush's foreign policy, particularly in respect of Afghanistan and Iraq, has failed, and that military action against Iran would have serious consequences for the stability of the Middle East and possibly the world economy. Also, the UN Security Council and the US unilateral sanctions against Iran have not had the impact that was envisaged. In their view, the US must view Iran as a strategic partner in the Middle East. Iran has become an important economic and military power in the region, and the US cannot succeed in Afghanistan and Iraq without Iran's help. The only way to restore relations is by holding direct and unconditional talks between the two governments.

There was also a preference within Iran for an Obama presidency. Following Obama's victory, Mr Ahmadinejad, the President, wrote a letter congratulating him on his victory. He also expressed hope for changes in US policies. There is great optimism among Iranian officials for a political breakthrough and improved relations between Iran and the United States.

### **Milad Communication Tower**

In October, there was the opening of the first phase of the Milad Tower, situated in the north-west of Tehran. At a height of 435 meters, Milad is the fourth tallest tower in the world. Its primary use in the first phase will be communications and broadcasting. The project began in 1999 and is expected to be completed by the end of 2009. The total construction cost of the tower was \$230 million.

Milad tower is the core part of the Tehran International Trade and Convention Centre. The tower has a large pod with twelve floors, offering commercial space. The second phase of the project will involve developing leisure, parking and commercial facilities. There will be restaurants at the top with spectacular views of Tehran, a five-star hotel, a convention centre, a world trade centre, and a technology park. The complex will also have a business centre offering conference, trade information, communication facilities and accommodation.

### **Independence of the Central Bank**

The head of the Economic Commission of the Iranian parliament (Majlis) announced that this commission is in the process of drafting new legislation granting complete independence to the Central Bank of Iran. He reasoned that the Central Bank is at the heart of the Iranian economy, and that interference and instability in its operations could seriously harm the economy. The plan has been given a high priority in the Commission's agenda.

Experts believe that the change of the governor of the Central Bank in September is the reason for the urgency of this plan. Since the election of Mr. Ahmadinejad as President, there has been tension between the government and the Bank over interest rates. The government has pushed for a reduction in interest rates down to single digits. However, the Central Bank has always resisted rate reductions, arguing that it would have an inflationary effect. Mr Bahmani, the new governor of the Bank, is the third governor under the presidency of Ahmadinejad.

### **Expansion of Anzali Port**

In October, the Chief Executive of the Anzali Free Economic Zone, Mr Firouz-Abadi, announced the infrastructure expansion plans of the port. Anzali, situated in the north of Iran and on the Caspian Sea shore, is the third largest economic port in Iran. It currently has ten docking points and the capacity for handling six million tonnes of goods. The expansion project will involve the construction of a further five docking points and related freight facilities, thereby increasing the capacity to ten million tonnes.

The announcement came after a meeting of the Anzali zone senior management and a number of Russian officials. Dr. Firouz-Abadi added that Anzali is of strategic importance for trade between Iran and Russia, and that there is significant scope for Russian investment into the expansion project. Currently, Iran's trade with Russia amounts to approximately \$2 billion, a substantial portion of which is through the Anzali port.

### **Foreign Deposits in Iranian Banks**

The Iranian Minister of Finance and Economic Affairs reported that following the global financial crisis, the volume of foreign deposits in Iranian banks has shown a considerable increase. This has been particularly notable in the international branches of Iranian banks. For example, one of the banks saw its deposit base increase by \$200 million in October alone.

Experts assert that due to limited ties with the West, the Iranian financial system is less affected by the global financial crisis. For example, none of the Iranian banks have any mortgage-backed securities and therefore have not incurred any losses or write-down of assets caused by the recent crisis. This immunity has strengthened their position and credit worthiness relative to most other banks, and consequently has made them a safe destination for deposits.

## 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](mailto:ramin.rabii@turquoisepartners.com)

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