



A girl from Abyaneh in traditional dress, Village of Abyaneh, Central Iran

THIS MONTH

Market Overview **2**

The market experienced an unstable month in January, mainly due to the news of the UN Sanctions Resolution and worries regarding its impact on the market. The trade volume fell significantly and there was a surge in sell orders both by private and institutional investors. However, the regulations imposed by the Exchange prevented a drastic decline of the market indices.

Turquoise Iran Equity Fund **3**

Turquoise had a steady month in January with a positive monthly performance which is a notable result considering the market climate. The Turquoise Investment Committee made decisions during the month to reduce portfolio risk while trying to maximize future growth potential.

Privatization & IPOs **5**

The end of January saw one of the largest IPOs of Iranian state-owned companies under the newly approved privatization scheme. The shares of National Iranian Copper Industries Company (NICIC) were offered on the Tehran Stock Exchange and met reasonably strong demand considering the negative mood of the market in January. This section will analyze the inauguration of the privatization program, some information on NICIC as well as future IPO opportunities for investors.

Country Overview **6**

Domestic political debates have heated up regarding the strategy Iran should adopt to safeguard its national interests and nuclear objectives without provoking the Western powers further. International lobbying by Iran has increased in recent weeks to gather support for the country's stand-off with the US over the nuclear issue.

Economy **7**

News and views on the country's macro economy with special attention given to new projects in the oil refining industry, Iran's untapped export potential, petrochemical production and more.

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“Jittery” can best describe the market in January 2007. Anxiety over the impact of the sanctions, under United Nations’ Resolution 1737, was prevalent among investors. This, coupled with a rise in sell orders by investors to realize quick gains following significant price hikes in some sectors over the last few months, drove the market into a virtual shock mode.

In two separate meetings representatives of over ten of the largest institutional investors active in the Tehran Stock Exchange tried to prevent further stock erosion by synchronizing their orders and gaining control of the market. However, concurrent heavy sell orders by smaller investors neutralized their concerted efforts. TSE indices fell further to the point where towards the end of January the average daily trading volume was below \$10 million and on January 27 it hit its lowest figure of around \$3 million. Just last December the average daily volume of trade on the market had registered figures of around \$25 million. With the accelerated supply of stocks in most sectors it was only TSE imposed regulations and the exchange’s intervention policies that prevented heavier losses. The convergence of Moharram (a month of mourning for Shiites) was also a contributing factor to the decline in market activities during January.

The Metals Production sector was hit hardest amongst the industrial sectors with its index falling by more than 5% during January. The sudden fall in the price of zinc in the world market to \$3,500, together with the overall market uncertainty in Iran, hastened its downward trend. In addition, the structural collapse in the northern section of Angourān (the largest zinc mine in the Middle East) this winter created difficulties in mining zinc ore which is the raw material for some of the listed companies in this sector. The market, treated the incident as a negative factor in valuating the stocks given the uncertainty over future availability of raw material. The negative atmosphere and abnormally high price-earning ratios of Iron ore production companies resulted in heavy sell orders for these companies which also contributed to the fall of the index in this sector.

The index for the petrochemical sector also witnessed a loss of 3%. This sector was hit not only by market anxiety but also because of the drastic decrease in global oil prices in January when prices touched the level of \$50 a barrel. Consequently, the resulting risk of reduction in the price of their final products produced negative speculation regarding their future earnings.

Banking was one of the few sectors which remained particularly attractive in the month of January. The sector saw an impressive growth of 40% for its index this month. The three listed private banks benefited from the availability of liquidity in the economy and investors’ fear of higher risk investments given the current climate. This trend is expected to continue if there is no further reduction in government-imposed interest rates.

Overall, January 2007 was a difficult month for the TSE. The TSE Price Index (TEPIX) fell by around 0.73% from 10060 to 9987. However, one cannot ignore the impact of regulations imposed by the TSE board which minimize losses and gains during negative and positive climates.

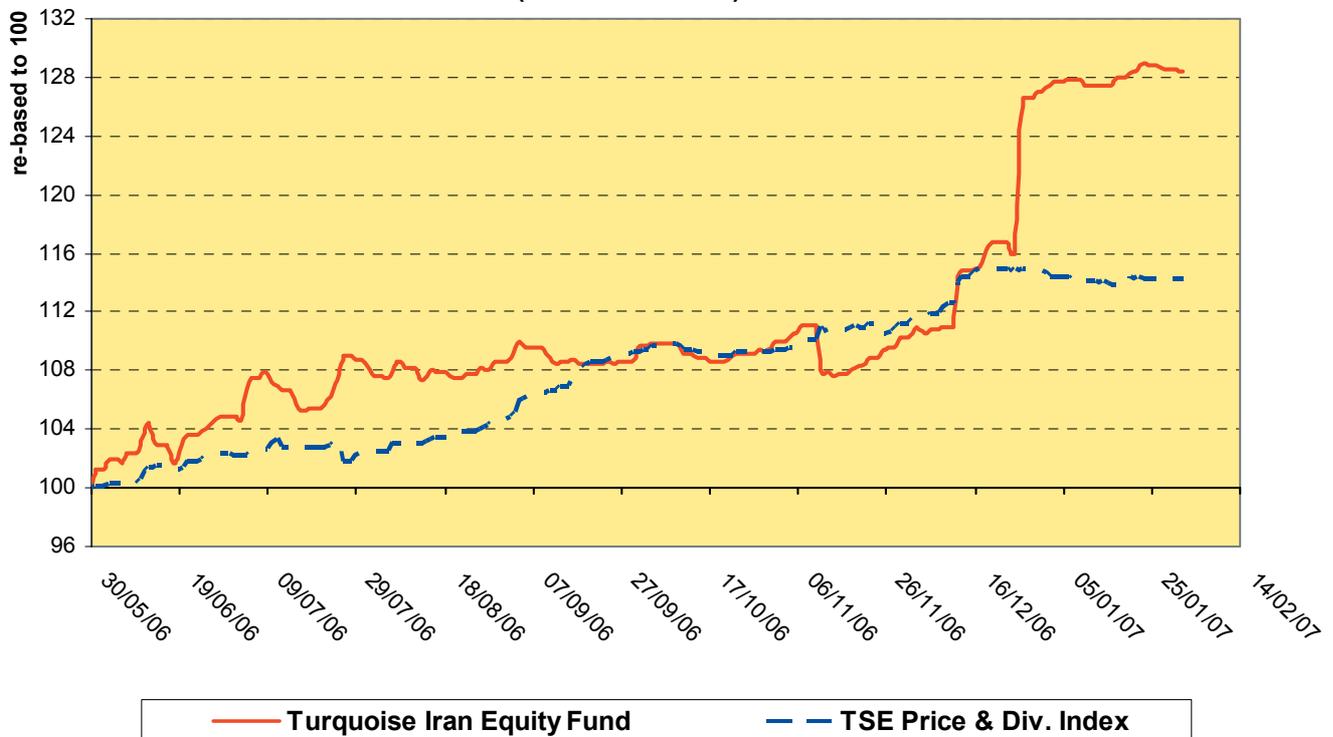
Performance of TSE Indices (January 2007)



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.

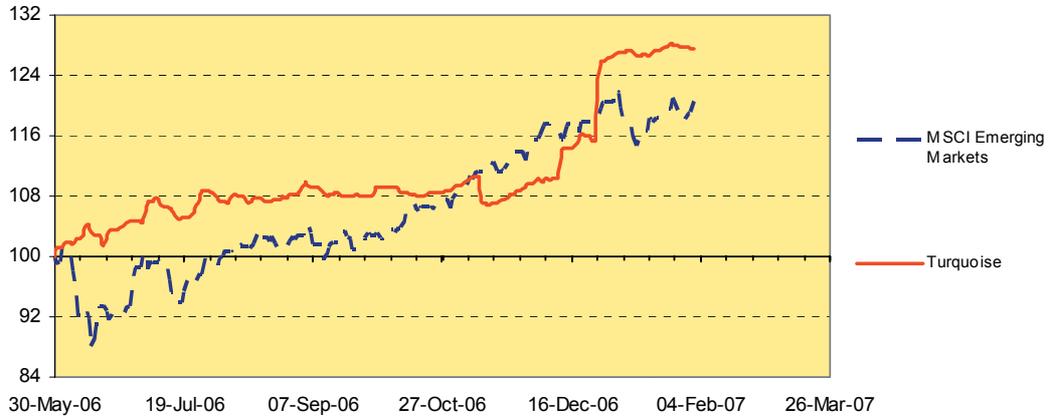
Monthly Report – The Net Asset Value (NAV) of the Turquoise Iran Equity Fund stayed steady and even had a 0.8% gain amid the overall market decline in January. The TSE’s main indices, TEPIX and TEDPIX, fell by around 0.73% and 0.38% respectively in the same period. The Turquoise Investment Committee decided in January to reduce the portfolio’s dependency on the Mining and Metals sector given global market speculation that commodities prices may drop. The changes to the portfolio composition, however, will be implemented over time. There was little change made to the portfolio in January given the unstable and jittery mood in the market. The following graph shows the performance of the Turquoise Iran Equity Fund against the benchmark since the launch of the Fund. In addition, the performance of the fund against the MSCI Emerging Market Index and the Fund performance in different currencies are displayed on next page.

**Turquoise Portfolio vs. TSE Price & Div Index (TEDPIX)
(YEAR TO DATE)**



	1 DEC 06	1 JAN 07	1 FEB 07
Turquoise Fund	10.22 %	27.34 %	28.40 %
TEDPIX	11.19 %	14.75 %	14.31 %

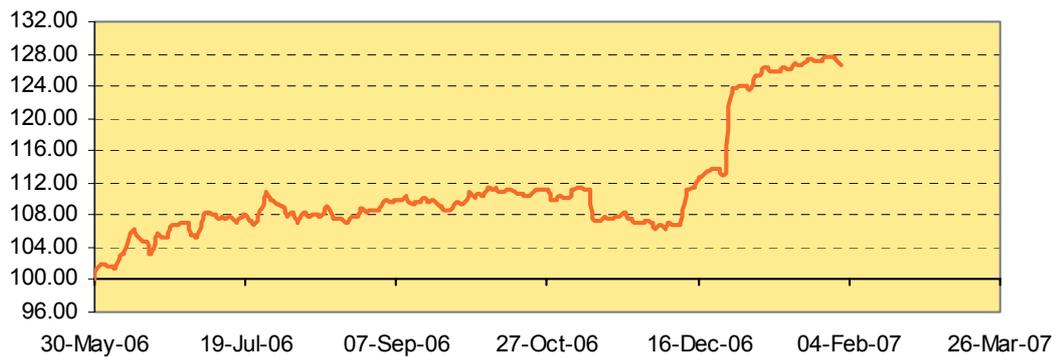
Turquoise Performance vs. MSCI Emerging Markets



Turquoise Performance in US Dollar (US\$)



Turquoise Performance in Euro (€)



Turquoise Performance in British Pound Sterling (£)



A New Wave of Privatization

According to a decree issued by the Iranian Supreme Leader in the summer of 2006, in which he approved a new interpretation of the Constitution which would allow private investment in 'Strategic Industries', the government is banned from new investment in some sectors and is also obliged to reduce its involvement in the country's economy by privatizing most of its assets over the next few years. Currently, the government is believed to own or control between 60 to 80 percent of the Iranian economy. This decree, which excludes oil and gas upstream as well as the security-related sectors, explicitly orders the government to reduce its holdings in state-owned companies to just 20 percent over the next five years. The order clearly defines procedures and methods that need to be implemented for offering the shares such as a free market valuation of government shares on the Tehran Stock Exchange (TSE).

The First Privatization Under the New Scheme

After months of delay, the government announced the first privatization decision under the new scheme in January 2007 based on which it would sell 5% of its shares in the National Iranian Copper Industries Company (NICIC) to the public on the TSE. The Initial Public Offering (IPO) of the company occurred on 28 January 2007 with 3% of the shares offered on the first day. This proved a great success as there was significant demand in the market for the shares even though the overall market climate was negative due to the impact of the UN sanctions resolution. The bids on the first day ranged from 3600 to 4000 Rials and closed at around 3700 Rials giving the NICIC a market capitalization of around \$2.3 billion on the first day.

Brief on NICIC

Reserves

NICIC owns Sarcheshmeh, Songoun and Meydouk copper mines in Iran with total proven reserves of over 1.2 billion tons and extractable reserves of around 870 million tons of copper ore. Sarcheshmeh, located in Kerman Province, is the largest copper mine in the Middle East and has been under production for over three decades.

Production

NICIC's main products are Copper Concentrates (30% purity), Copper Cathode (99.99% purity), Billet, and Molybdenum Concentrate. The company has produced on average around 520,000 tons of copper concentrate, 170,000 tons of cathode, 60,000 tons of billet and 4700 tons of molybdenum concentrate per year in the last few years.

Sales

From the \$1.7 billion total sales in the current Iranian year, around 51% corresponds to the sale of copper cathode which is natural considering production growth (up to 190,000 tons p.a.) and increased global copper prices. Another 13% of the total is from the sale of copper concentrate and the rest is from the sale of other products. NICIC's total export in the previous Iranian year (ended March 2006) stood at around \$540 million which is expected to see a significant increase this year due to the rise in global copper prices and is forecasted to be around \$1.2 billion.

IPOs in the Pipeline

The Initial public offering of the NICIC could represent a breakthrough in the Iranian economy if it opens the way for further privatization moves by the government. Rather than implementing the old offering methods in which the companies were over-priced, the new method of market valuation was greeted very positively by investors and, even in a nervous and unstable market, proved to be very successful.

According to government plans, more large IPOs will occur within the next few months which would include privatization of well-managed and stable companies such as Mobarakeh Steel Company and Khuzestan Steel Company. In addition, many of the state-owned banks, insurance companies, telecommunication firms and others are going through final preparations of their IPOs on the market.

Domestic political debates regarding the position of Iran in its nuclear stand-off with the West have heated up following the recent elections for City Councils and the powerful Assembly of Experts – the body that selects and oversees the activities of the Supreme Leader – in which reformists and pragmatic conservatives secured a significant victory. The results of the elections sent a clear signal to the allies of President Ahmadinejad who support a tougher stance in dealing with the West. It demonstrated that a moderate pragmatic policy which could avoid serious sanctions or conflict is viewed more favorably by the majority of Iranians. Although the great majority of Iranian domestic political groups and coalitions believe that Iran must insist on securing its internationally-recognized nuclear rights, there are conflicting positions on what would be the most effective but least costly strategy that could be taken by the government. In this regard, the signposts show that over the last few weeks, the radical conservatives are losing ground to more pragmatic forces.

On the international diplomacy front, Iran has significantly increased its lobbying, especially in regards to Russia, China, the Non-Alignment Movement (NAM) and Muslim countries, to secure all the support it can get for its position against the Western powers amid increased pressure from the United States. Although it is hard to say at this point whether these efforts have succeeded, it is clear that there are significant differences in the approaches taken by the US and the UK on one side and Russia and China on the other with Germany and France in between but closer to their Western partners. While the US and the UK call for tougher sanctions against Iran and increased pressure on the country, the others have significant commercial interests in Iran and have showed varying degrees of reluctance to approve a more comprehensive UN imposed economic sanctions resolution against Tehran.

In addition and related to the nuclear row, the US has also stepped up its pressure against Iran on other fronts particularly in Iraq, where the US government accuses Iran of playing a subversive role. These developments, along with news of the US Navy sending a second aircraft carrier to the Persian Gulf, have raised a degree of alarm in Iran and around the world that the Bush administration intends to ultimately strike Iran. However, there has also been positive speculation by some analysts that these moves could represent efforts by the US to strengthen its bargaining position in order to sit down at the negotiating table with the Iranians to resolve issues that have divided the two countries for close to three decades.

- **New Refineries:** Malaysia's L1 was selected for the construction of a refinery in the southwestern province of Khuzestan according to an agreement signed with the Iranian private company Rahyab Behineh on the EPC (Engineering, Procurement, and Construction) basis. Under the agreement, which is valued at over \$2.7 billion, a refinery with a capacity of 150,000 barrels per day (bpd) of crude oil will be built near the city of Andimeshk. Liquid gas, gasoline, jet fuel, and diesel fuel will be the products of the refinery which will be used for domestic consumption as well as export. Another deal is being negotiated between the National Iranian Oil Refining and Distribution Company (NIORDC) and Essar Group of India for a \$2 billion project that involves construction of an oil refinery near the southern Iranian port of Bandar Abbas with a refining capacity of 300,000 bpd. The Managing Director of the NIORDC also announced that the Ministry has agreed to allow the private sector to construct two refineries in Qeshm. A gas condensate and a crude oil refinery, with capacities of 120,000 and 160,000 barrels per day (bpd) respectively, will be built on the island. In order to meet the fast growing domestic demand for refined petroleum products, significant investments must be made over the next years for modernizing existing refineries as well as constructing new ones in Iran. According to Ministry officials, an 18 billion dollar fund has been allocated to the development and expansion of the nation's oil refining capacity to meet its rapidly growing domestic fuel requirements.
- **Untapped Export Potentials:** Iran remains the number one producer of pistachio nuts in the world, producing 38% of total world production. In terms of export however, Iran has not been able to secure the corresponding market share due to poor management as well as problems in the packaging, and marketing of the product. The same applies to Saffron production, in which Iran produces over 90% of world production but has a tiny share of world trade. Another sector which Iran has an untapped competitive advantage in is construction stones. Iran's total production of construction stones is around 2.5 million tons which is second in the world after China. However, lack of investment in modern cutting and processing plants has resulted in low quality end-products, which are mostly used domestically in Iran, and the export of non-processed stones to other countries with modern technologies, such as Italy, who benefit from the real added value in this sector.
- **Petrochem Production:** The National Petrochemical Company of Iran (NPC) has announced that the company's production has increased by three fold over the last 15 years to reach 15 million tons during the current Iranian year. It also added that the export of petrochemical products will reach \$2.9 billion by the end of the year (March 2007) which shows an impressive eight fold rise compared to 15 years ago. NPC, a Petroleum Ministry affiliated company, currently produces 67 different types of petrochemical products.
- **Oil Revenue:** According to Petroleum Ministry officials, Iran is expected to earn around \$52 billion in oil revenues during the current Iranian year, ending March. Iran's average crude oil price for the year is expected to stand around \$56 per barrel.
- **Mobarakeh Steel Complex:** According to company officials, Mobarakeh Steel Complex (MSC) has been able to attract around \$100 million of foreign investment in recent months for its development and expansion projects. MSC, which is located in the central Iranian province of Isfahan, is one of the Middle East's major steel production plants with an annual capacity of 4 million tons of steel products. The company currently exports more than 1 million tons of its products. It is worth noting that MSC is amongst the first companies that will be privatized under the recently approved Privatization Program and the Initial Public Offering of its shares on the Tehran Stock Exchange is expected within the next few months.

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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