

## THIS MONTH

### Market Overview

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The market in May was slow with a decline in trade volumes and unexpected fluctuations in most sectors. Real estate and construction was the most stable sector in the TSE during May given the market perception of low commercial risk and the clear trend of increasing property prices in Iran.

### Turquoise Iran Equity Fund

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The declining mode of the market also affected the Turquoise Fund's performance with the Net Asset Value experiencing a 2.7% fall. The price corrections however opened up some new investment opportunities and new positions were added to the Turquoise portfolio following the Investment Committee's decisions.

### Country Overview

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In this section, a summary of the recently held Ravanad conference, which was partly sponsored by Turquoise, is provided. The conference, dubbed the Davos of Iran, attracted distinguished guests and panelists from around the globe. The topic of the conference was "Iran: Its Role, Security & Economic Partnership" and the panels included sessions on security, regional geopolitics, energy, the economy, and the environment.

### Economy

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In this edition of the Economy section, Iran's non-oil exports which have been on a significant rising trend over the past few years are analyzed in detail. The growth rate over the years, its current status, composition of the underlying commodities and the top export destinations are topics that are covered in this section.

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The recessionary environment of the Tehran Stock Exchange, triggered by massive IPOs that had exhausted the already weak market, continued in the month of May. The monthly trade volume for May has been one of the lowest ever recorded for this month at \$520 million, almost one third of the volume of May 2004. Different sectors demonstrated unsystematic and unexpected fluctuations during the month and no particular sector experienced an overall stable and well-performing month. Some of the more significant sectors are analyzed in more detail below:

**Zinc:** The news coming from the country's largest zinc mine, Angouran, continues to have a negative impact on listed zinc companies that have experienced significant sell-off queues during May. Some sections of the mine had collapsed in late 2006 and there is still no accurate estimation of when the problem will be fully fixed. In addition, the government has showed unwillingness to grant private sector companies operational rights in the mine. One of the listed companies, Tose' Maden Rouy, was operating on the mine from 2001-2006. However, after expiration of the permit in 2006, the government decided not to renew the permit and instead commission the operation of the mine to a Ministry of Industries and Mines affiliated company.

**Automotive:** Some of the automotive and parts manufacturing companies had their AGMs during this month but even their elevated dividend yields (in excess of 20%) could not help this sector to recover from the recession of the past few months. The share price of these companies fell significantly following their AGMs and some of them were trading at PE ratios of less than two which is a record low for this sector. Rationing of gasoline consumption, saturation of the market, and high debt ratios are the main reasons behind the downfall of the automotive sector.

**Banking:** The news of interest rate cuts of over 4% for the privately owned banks which will be imposed by the government resulted in huge sell offs of the three listed privately owned banks. Analysts believe that the interest rate cut will not have a direct impact on the earnings of these banks in the long term. However in the view of some observers, the news of the government's imposition of a lower interest rate for private banks may increase economic uncertainty and dampen investors' confidence.

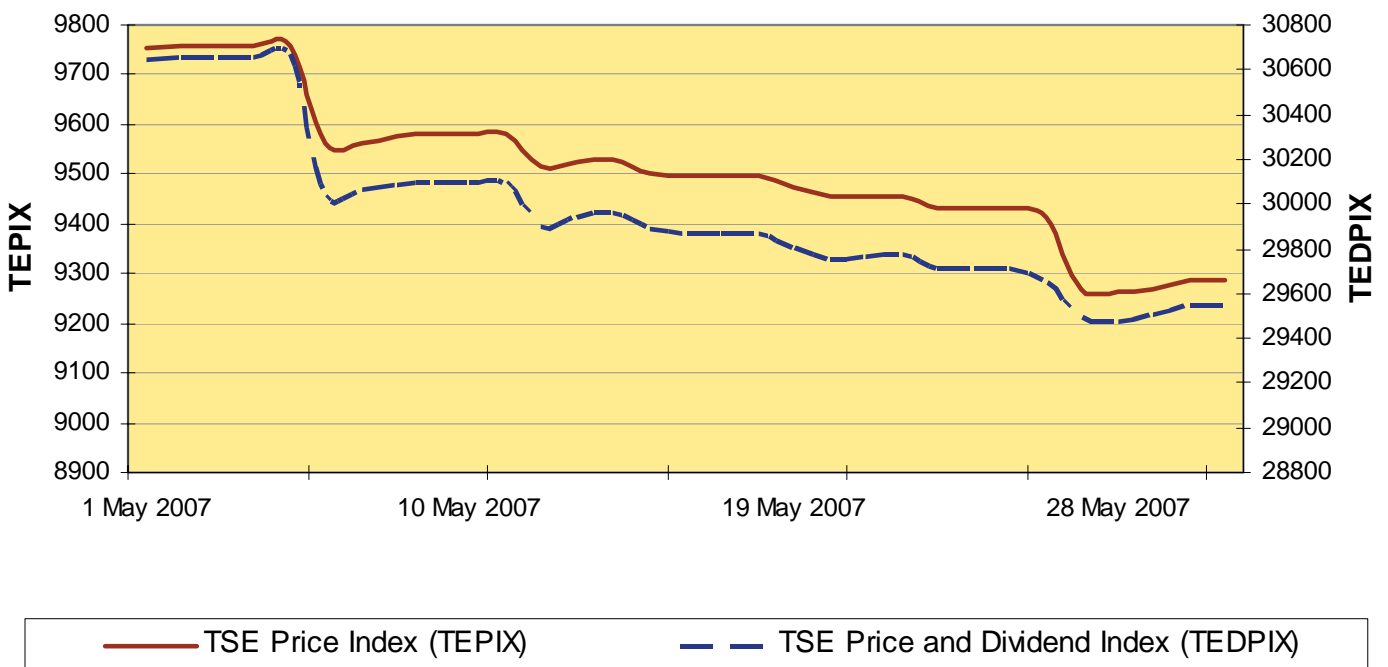
**Real Estate & Construction:** This sector was one of the most stable sectors in the market during the month of May. Although the sector did not experience significant growth, the support of investors and market-makers during short-lived sell offs resulted in little fluctuation for this sector. Lower risk and the ever increasing value of the asset base of these companies is a reason behind investor confidence in this sector.

**Petrochemicals:** Although international prices of petrochemical goods have risen in recent weeks, the sector has been volatile with a falling trend for share prices due to some uncertainty over domestic policies. The government and the parliament approved a bill last year which enforced market value pricing of the raw material for petrochemical complexes. Until now, the raw material was sold to these companies at a subsidised discounted rate. If implemented, this decision could significantly decrease the

earnings of these listed companies. Although the decision has not been implemented yet, it is expected to materialize within the next few months. This makes investors nervous about their holding in these companies which has resulted in large sell off orders.

Overall the month of May saw a recessionary market with trade volumes falling by around 10% compared to April and the market indices, TEPIX and TEDPIX, dropped by 4.8 and 3.6 percent respectively. The performance of the TSE indices during May is demonstrated below:

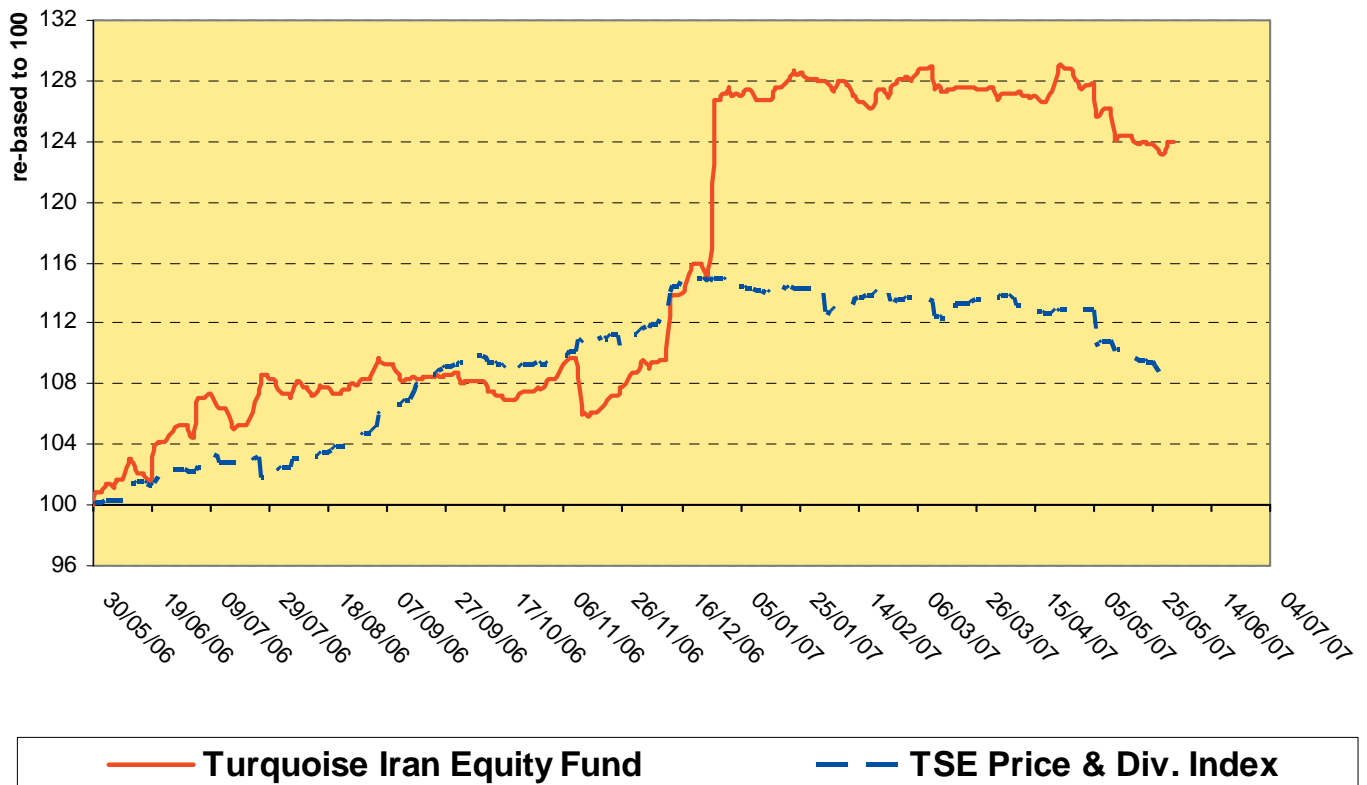
### Performance of TSE Indices (May 2007)



**Investment Objective** - 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 downward trend of the bourse indices in the month of May, which saw the TEPIX and TEDPIX drop by 4.8% and 3.6% respectively, also had an impact on the performance of the Turquoise Fund. Although the Fund's index fell by 2.7% to 123.93, the decline was less than the market average. This correction in the market, however, provided some good purchasing opportunities. The Turquoise investment committee met regularly during the month and decided on the purchase of some under-valued stocks which were added to the Fund's portfolio. The charts below demonstrate the performance of the Fund against the TEDPIX and the Emerging Market index as well as in other currencies.

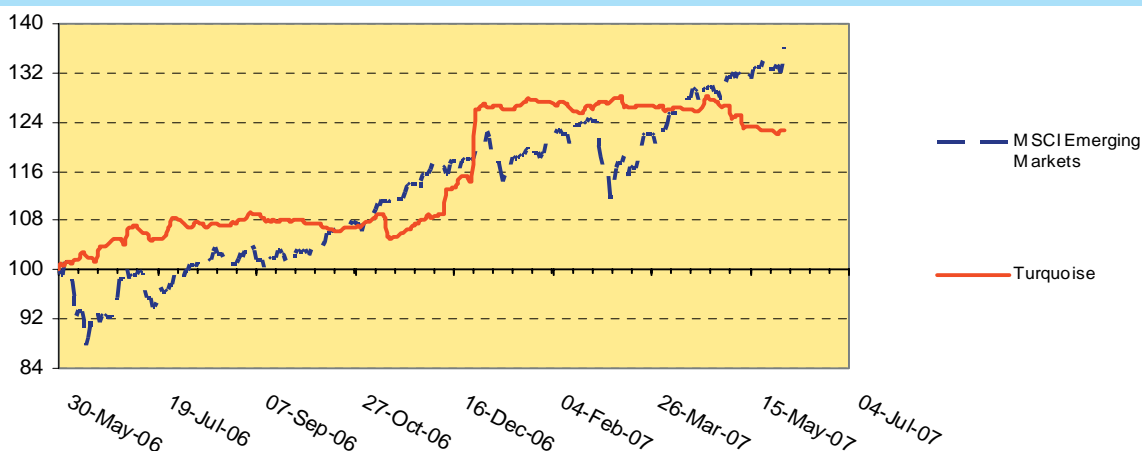
**Turquoise Portfolio vs. TSE Price & Div Index (TEDPIX)  
(YEAR TO DATE)**



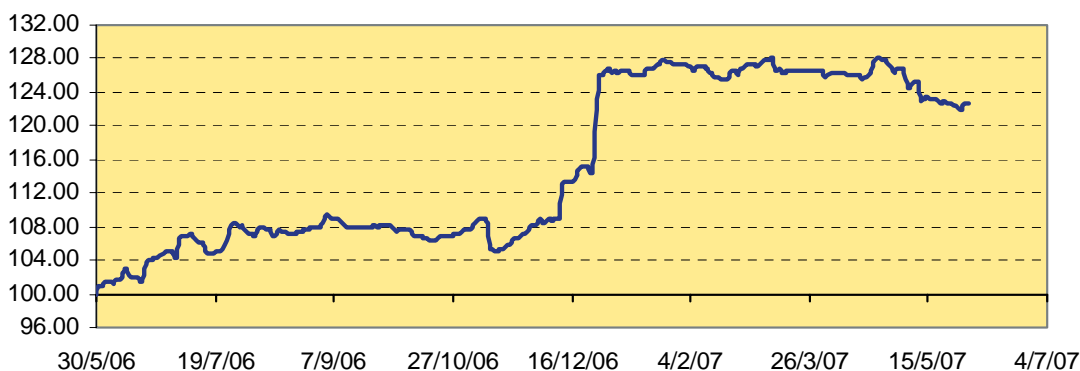
— Turquoise Iran Equity Fund      — TSE Price & Div. Index

	1 Apr 07	1 May 07	1 Jun 07
<b>Turquoise Fund</b>	27.57 %	27.41%	23.93 %
<b>TEDPIX</b>	13.77 %	12.81 %	8.79 %

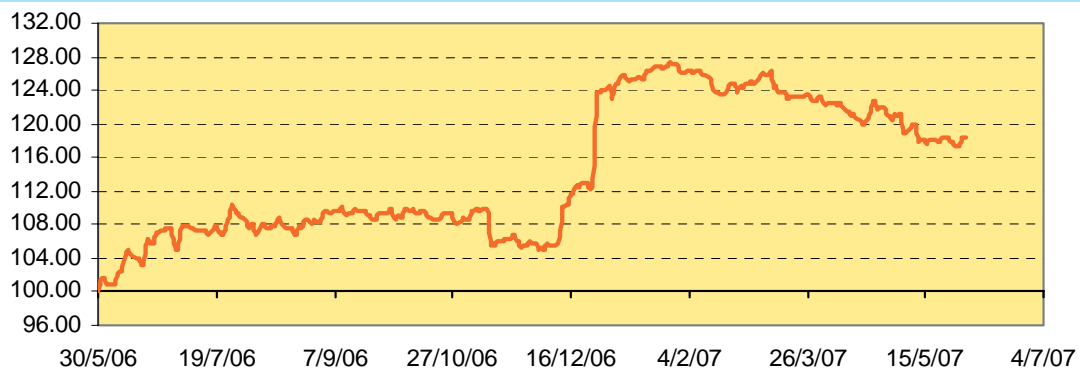
## Turquoise Performance vs. MSCI Emerging Markets



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



## Turquoise Performance in Euro (€)



## Turquoise Performance in British Pound Sterling (£)





## Ravand Conference 2007 – Tehran, Iran

In this edition of country overview, a summary of the panel discussions at the recently held Ravand conference, to which Turquoise acted as one of the sponsors, is presented. This conference, dubbed by the media as the Davos of Iran, was held in Tehran for two days in May under the title of “Iran: Its Role, Security & Economic Partnership”. There were several panel discussions at the event and the most significant economic and geopolitical topics which were discussed during the conference are covered here.

During the opening session, which was attended by the Iranian Deputy Speaker of the Parliament, Mr. Bahonar, Iraqi Vice President, Mr. Abdul-Mehdi and the Managing director of the National Iranian Oil Company, Mr. Nozari, different topics were covered by each panelist including the new privatization program in Iran and its impact on the economy, regional confidence-building, and the importance of oil in regional and international geopolitics. Mr. Bahonar discussed the the new privatization wave in Iran under which 80% of the economy is earmarked for privatization during a span of 8 to 10 years. He emphasized the commitment of all centers of power in the country to implement the plan and added that it will revolutionize the Iranian economy by creating competition, improving quality and raising standards as well as creating employment and a more dynamic economic atmosphere. Mr. Abdul-Mehdi’s speech covered regional security issues which he suggested could only be achieved through confidence-building and partnerships. He emphasized the willingness of the Iraqi government to initiate or join partnerships amongst regional powers that could help improve regional security which would in turn facilitate greater prosperity. Dr. Nozari provided the audience with some interesting facts and statistics about oil and gas reserves in the region in comparison to the world and concluded that the importance of energy has turned oil into a foreign policy tool that could have serious geopolitical implications such as recent conflicts in the region.

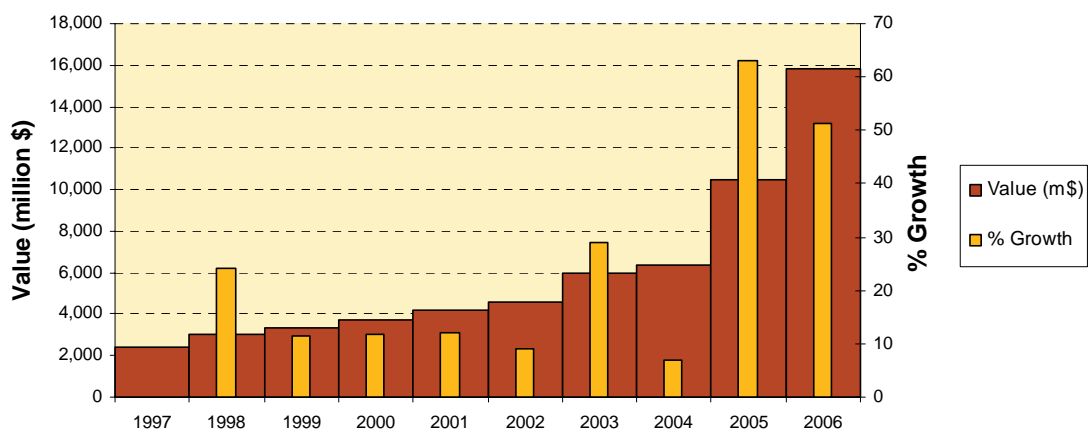
Security and oil were also major topics during the second panel that had experts like Iranian ex-Defense Minister, Rear Admiral Shamkhani, and Dr. Rosemary Hollis from Chatham House in the UK as panelists. While Rear Admiral Shamkhani criticized the US and the UK’s adventures in the region, particularly the occupation of Iraq, thus bringing under question their real intentions in the region, Hollis explained Britain’s balancing role between regional countries and the US. Both individuals, however, agreed that a key solution to the various problems of the region is recognition of Iran’s role and security by the Western powers as well as a broad face-saving solution to the nuclear standoff between the major Western countries and Iran.

In a more finance and investment-oriented panel, representatives of the bourse, the private sector, the privatization organization and foreign banks were present. The role and importance of foreign investment in meeting the ambitious targets of the fourth five-year development plan (2005-2010) was discussed in detail and the panelists pointed out several hurdles and limitations that are causing shortages in foreign investment. The main obstacles faced by foreign investors in Iran included lack of up-to-date and pragmatic legislation, bureaucratic difficulties, and last but not least, the political risk brought about by the aggressive tactics of certain countries intended to limit investment in Iran and deter interested investors. Overall, this panel confirmed that business opportunities in Iran are enormous and there is great appetite for investment in Iran if the mentioned difficulties are eased a little. There was a further perspective that the real problem of the Iranian capital markets is not the shortage of liquidity or capital but rather restrictions imposed on more innovative and effective utilization of capital. In regards to privatization, the panelists discussed a fundamental question about whether economic liberalization should take place before or after privatization. According to Mr. Kord-Zanganeh, President of Iran’s Privatization Organization, the main hurdles facing the process of privatization are constitutional and regulatory ambiguities as well as the lack of knowledge at different levels of government and society in regard to the new privatization plan and its economic benefits. However, he said that the government has sent a bill to the parliament clarifying many of the ambiguities and setting the boundaries of the country’s private, public and cooperative sectors in order to realize a more efficient approach for implementing the ambitious goals of the privatization program.

Overall, this conference, which was one of the only forums in which both Iranian and international figures and executives were gathered to answer questions regarding some of the most challenging economic, political and security issues that affect Iran, the Middle East region and the international community as a whole, appeared to be quite successful. Most participants indicated that it was able to realize its goal of promoting partnership and understanding amongst regional players as well as addressing the internationalization requirements of Iran. Turquoise is pleased to have been a sponsor of this prestigious event and is looking forward to future cooperation with the Ravand Institute.

In this edition of the Economy an in-depth analysis of Iran's non-oil exports is provided. Iran's non-oil exports have historically been limited to luxury good such as handmade carpets or foodstuff like pistachios, nuts, fruits and caviar. In recent years, however, Iran's non-oil export figures witnessed impressive growth rates that saw the figure rise from only 3.8 billion in 2000 to over \$16 billion in 2006. Given Iran's diverse economy as well as its natural resources and human capital, that figure is still very small compared to countries of similar population size like Turkey (over \$80 billion of export in 2006). However, with fresh investments in Iran's high value-added and competitive industries such as the petrochemical, mining and metals sectors, and with the new internationalization strategies that a number of Iranian companies are pursuing, the growth rate of the country's non-oil exports is expected to remain high in the coming years. The following graph illustrates the value and growth rates of non-oil exports over the last few years.

**Non-Oil Exports Value and Growth (1997-2006)**

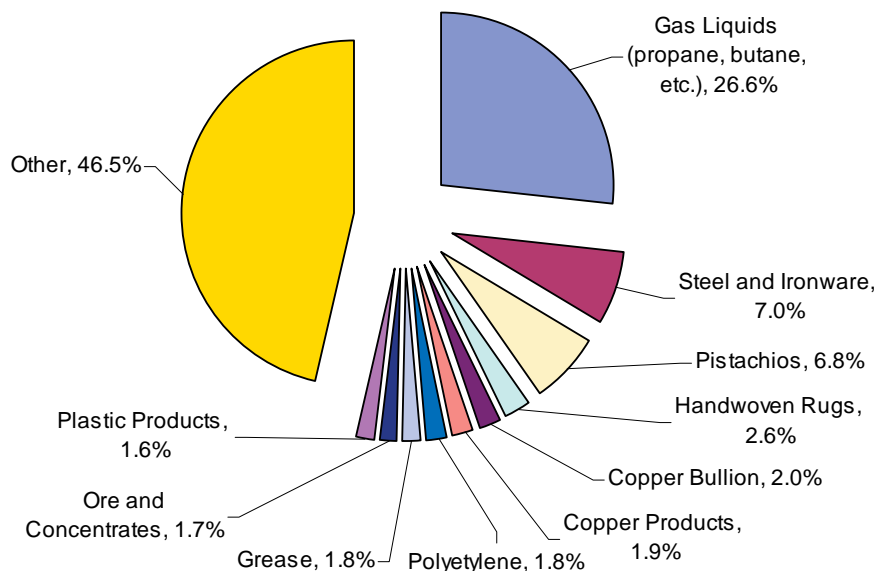


**Industries & Products**

Iran includes petrochemical products in its non-oil basket; as a result, and due to heavy investments in this sector in the past few years, petrochemical goods are the main non-oil export of the country which make up around 39% of the total value of non-oil exports. Second to petrochemical goods are industrial products and manufactured goods with 32% of the non-oil export total followed by agricultural products with 13%, minerals with 5.4% and handicrafts with 3.3%.

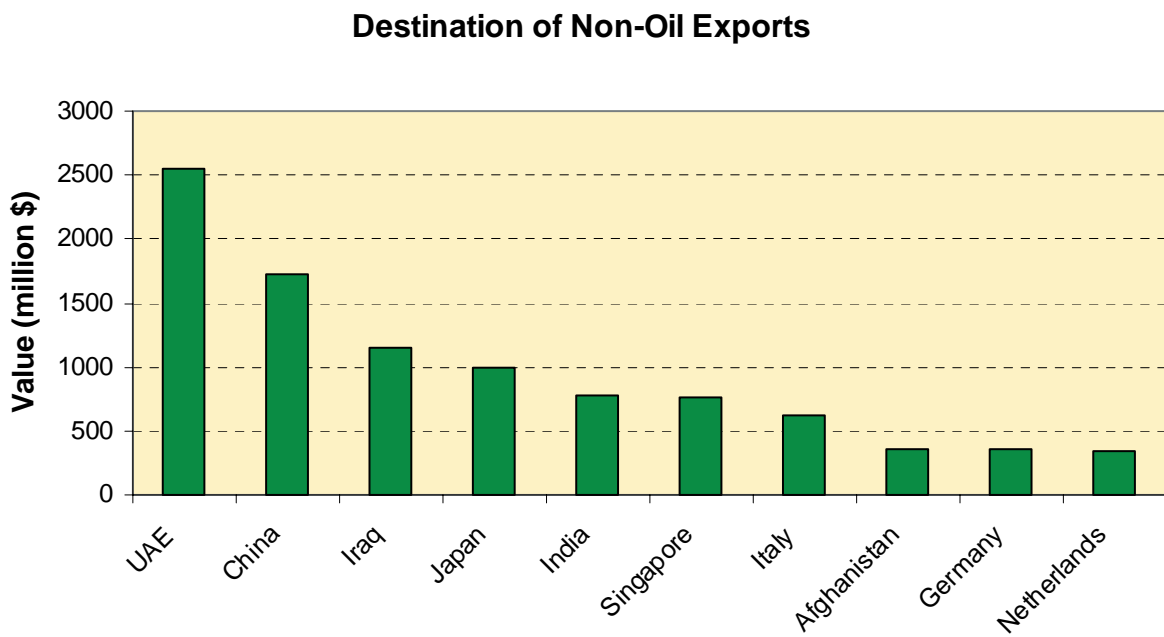
The following chart demonstrates the distribution of Iran's non-oil exports by the type of commodities. This shows that the top 10 commodities constitute over 50% of total non-oil exports which is a sign of relatively low diversity in the country's export basket:

**Distribution of Non-Oil Exports by Commodities**



### Destinations

Over 60 percent of Iran's non-oil exports are destined to only 10 countries which shows a lack of diversity in Iran's trade partners. However, it is important to note that a great deal of Iran's exports to its main destination, the United Arab Emirates, is re-exported to other countries. The following graph demonstrates the top 10 export destinations and the value of non-oil exports to those countries.





## 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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