

Tomb of Iranian Poet, Baba Taher, in the City of Hamedan, Hamedan Province, West Iran

## THIS MONTH

### Market Overview **2**

The Tehran Stock Exchange continued its growing pace during August. The market experienced its best-performing month in 2007 and almost all market indicators improved during this period. The reasons behind this growth as well as analysis of some of the main sectors are provided in this section of the newsletter.

### Turquoise Iran Equity Fund **4**

August was also the Turquoise Fund's best performing month in 2007 with NAV of the Fund rising by around 4.6%. The Fund's unit index at the end of August stood at 135.5. A selection of data and charts regarding the performance of the Fund is provided in this section.

### Country Overview **6**

At the mid-point of his presidency, Mahmoud Ahmadinejad's cabinet went through a reshuffling. He dismissed two of the most crucial members of his cabinet, the ministers of Mines and Industries as well as Petroleum. The impact and the reasons behind these changes are discussed in this section of the newsletter.

### Economy **7**

In this edition of the Economy page several topics such as the inflation rate, foreign investment, the currency change, and the establishment of an interest-free bank are briefly analyzed.

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Continuing with its growing trend in the recent weeks, the indicators of the Tehran Stock Exchange demonstrated strong performance during the month of August. One of the main reasons behind this continuous positive performance is the relative calm in the political environment surrounding the Iranian nuclear issue. The market had an overall performance of 6.7% during the month of August with the total value of trade and number of traders also increasing by four and nine percents respectively compared to the previous month. The performances of some of the main sectors of the market are analyzed below:

## **Recently Privatized Companies**

One of the other drivers of the recent growth in the market has been the recent privatization program and the impact of the privatized companies on the market as a whole. During the month of August for example, out of the \$450 million total volume of trade in the market, \$135 million (30%) was due to trading in Mobarakeh Steel Complex and National Iranian Copper Industries Company (NICIC) was responsible for another \$72 million (16%). This means that trading in only two of the recently privatized companies, which happened to become the two largest listed companies, have accounted for almost half of all trades on the TSE during this month. As a result, even though most sectors have performed positively during this month, it is fair to say that the growth in the market is still very much dependent on the few recently privatized companies.

In addition, shares of another steel company, Khuzestan Steel Company, were offered to the market by the government for the first time making it the fourth privatized company under the recent privatization scheme. On 16 August, 5% of the shares of the steel company were sold on the market in less than 2 minutes time. This share block was sold for a total value of around \$39 million, giving the company a total valuation of over \$780 million. Khuzestan Steel Company is located in the Khuzestan province in Southwest Iran and produces around 2.4 million tons of steel ingots. Around 75% of the company's products are consumed domestically while the other 25% are exported mostly to the regional countries such as Saudi Arabia and Kuwait.

## **Petrochemical**

There was a huge demand for the shares of the four listed petrochemical companies during August. The shares of these companies witnessed a heavy buying queue. However, due to the restriction on price change which is also linked with a minimum volume of trade in order to observe any price change, the buying queue kept growing in size without a significant change in price of the shares.

## **Real Estate and Construction**

August was a quiet month for the companies in this sector. The sector's index grew by 1.1% during this month. Most of the listed companies in this sector have their fiscal year ending in mid-September. As a result, the trading in this sector is expected to get more heated in the coming months before their Annual General Meetings (AGM) is held.

## **Iron Ore**

The global price of Iron Ore has reached over \$100 per ton during August which is a record high for this commodity. In Iran, even after the recent approved price rise, Iron Ore is sold to steel manufacturing

companies with a price of around \$50 per ton which is half of international prices. Iron ore mining is therefore considered a sector with good potential to grow once the current restriction on export is lifted. Out of the two listed companies in this sector, Chadormaloo and Golgohar, the latter has a better competitive advantage for export due to its access to railway and its closer proximity to international waters. Chadormaloo currently sells all its products in Iran while Golgohar has received a government approval to export almost half of its products.

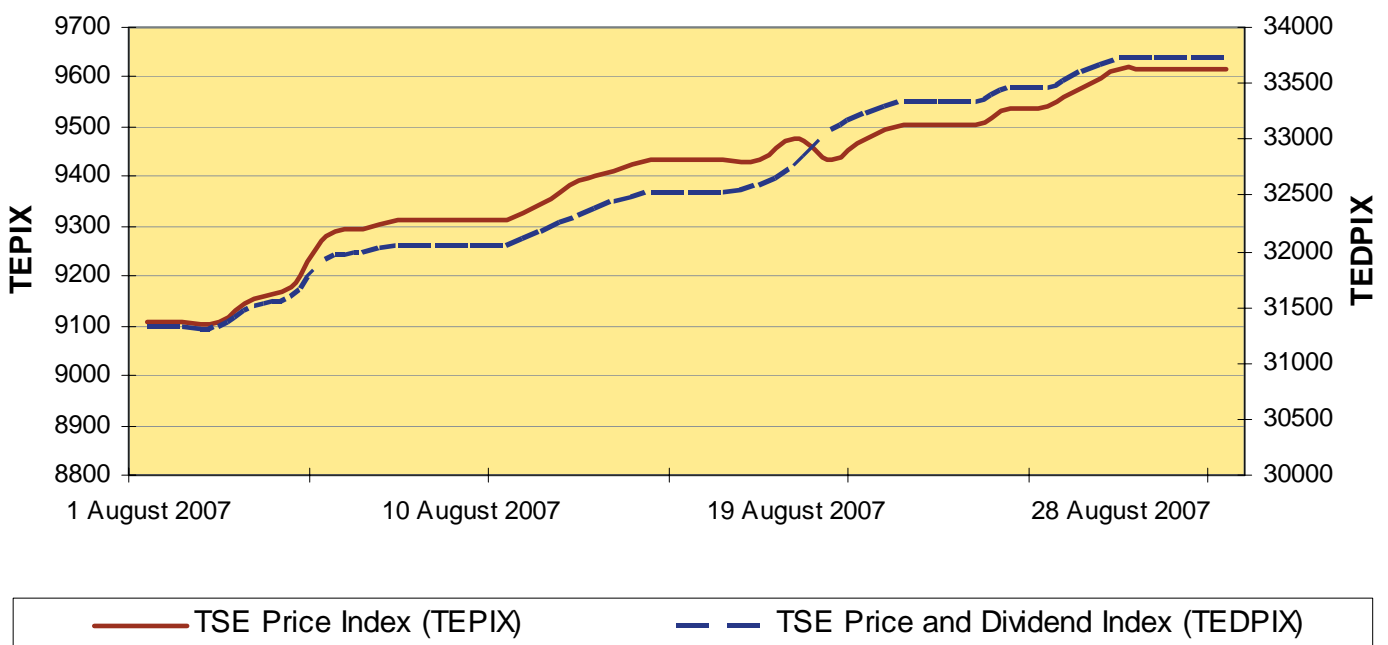
**Leasing**

The government has once again postponed the decision on the interest rate that the leasing companies can charge. As a result, the leasing companies continue to lease at the previous rate of 17%. This is relatively good news for this sector given that the government was discussing a plan to cut their interest rates to 13%. The index of this sector performed well during August and grew by around 4.2%. Experts believe that considering the interest rate cut imposed on the state-owned and privately-owned banks a few months ago, and also the lack of financing options from abroad, the continuation of work of the leasing companies will be uneconomical if the government decides to cut the leasing rates in the future.

Overall the market performance was positive during August and the TSE experienced its second month with a performance of over 6% during this year. In July the market grew by 6.2% while its growth continued in August with a return of 6.7%. If the relative calm in the political scene continues, it is expected that the positive performance of the market continues in the coming months given that shares of many more companies are expected to be offered to the market through the privatization scheme.

The following graph demonstrates the performance of the TSE Price Index and the TSE Price and Dividend Index during the month of August.

**Performance of TSE Indices (Aug 2007)**

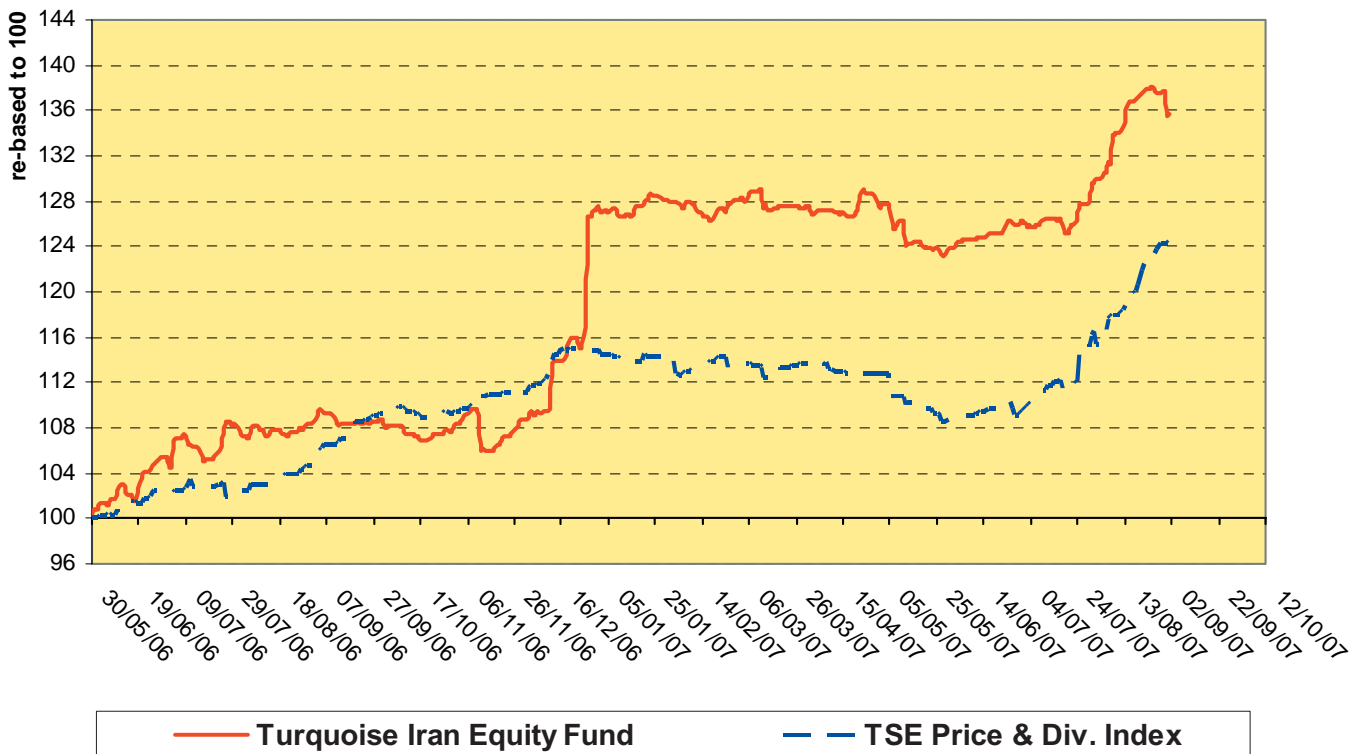


**Investment Objective** – The Turquoise Equity Fund seeks superior long-term capital growth by investing in the consumer and commodity potential of Iran, one of the most under-valued emerging markets in the world. Combining international experience with local expertise allows Turquoise to provide superior 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 Fund grew by approximately 4.6% during the month of August, making it the best performing month of 2007. The Turquoise Fund’s unit index grew from 129.5 to 135.5 . The Fund outperformed the TSE Price Index (TEPIX) which gained around 4.1%. The TSE Price and Dividend Index (TEDPIX) grew by around 6.7% in the same period. The Fund Investment Committee met regularly during this month and its decisions were implemented on the portfolio.

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.

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

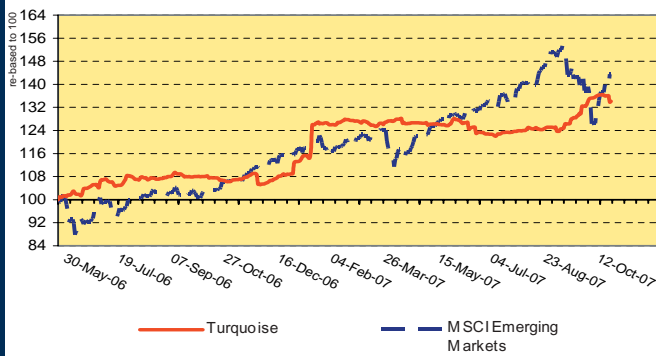


	1 Jul 07	1 Aug 07	1 Sep 07
<b>Turquoise Fund</b>	26.29 %	29.91 %	35.76 %
<b>TEDPIX</b>	9.56 %	15.37 %	24.39 %

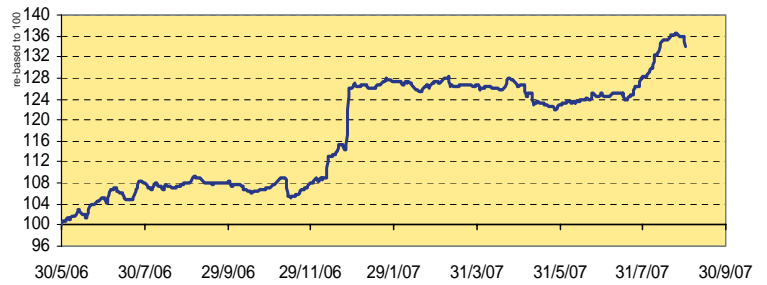
## Performance

Period	Fund Return
Aug-07	4.51%
Last 3 Months	9.55%
Last 6 Months	5.92%
Last 12 Months	25.35%
Since Inception (30 May 06)	35.76%

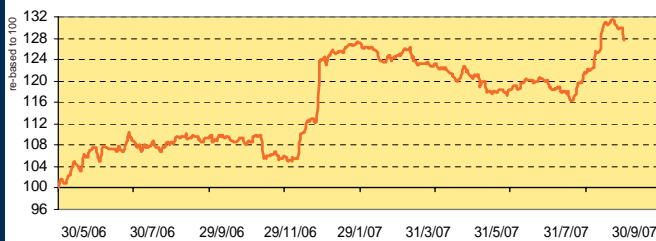
### Turquoise Performance vs. MSCI Emerging Markets



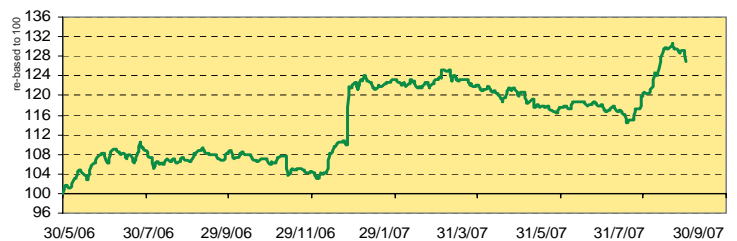
### Turquoise Performance in US Dollar (US\$)



### Turquoise Performance in Euro (€)



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



One of the major events during the month of August was the cabinet reshuffling by President Ahmadinejad. In a surprise move, the Petroleum and the Mines and Industries ministers were dismissed by the President, although it was originally reported that the two ministers had resigned voluntarily. The dismissal of these two ministers brings the number of changes in the Cabinet since the beginning of Ahmadinejad's presidency to four. Exactly one year ago, another two ministers were sacked by the president for not meeting his requirements. The supporters of President Ahmadinejad see these changes as a sign of the president's constant evaluation and improvement of the cabinet. The opponents argue that it is evidence of the inability of the government to bring about economic reform coupled with the President's lack of tolerance for any opposing views in his cabinet.

One of the reasons behind the dismissal of the Mines and Industries minister, Mr. Tahmasebi, is believed to be the poor performance of the sector during the last two years. The consistent double digit growth of the industrial sector during the years before Ahmadinejad's presidency had set a high growth benchmark in this sector. According to the Central Bank of Iran, the industrial growth over the last two years has dropped to a record low. This is while the much-resisted and highly-debated decision to cut the banking interest rates was aimed at promoting local production and supporting domestic industries.

As for the Petroleum Minister, Mr. Vaziri-Hamaneh, it is rumoured that his opposing views with the president on the issue of ownership and distribution of the oil income has cost him his job. It is also reported that the Ministry's inability to attract much needed foreign investment for development of the Iranian oil and gas fields is another reason for dismissing the minister. It is believed that the current managing director of the National Iranian Oil Company (NIOC), Mr. Gholam Hossein Nozari, will be selected by the President for this very crucial position in the cabinet. He is now the caretaker Petroleum Minister. This is good news since Mr. Nozari is well-educated and well-respected in the ministry and has a great deal of executive experience in the field of oil and gas.

Regardless of the motives, these changes could result into a positive outcome for the country's economy given that these two ministries play crucial roles in terms of economic reform and growth. The president has selected the caretakers of these ministries until official candidates are introduced to the Parliament for a vote of confidence.

### **Inflation**

The inflation rate for the 12 months to August stood at around 15.4%. Although this figure has dropped in comparison to the previous month, it is 3% higher than the inflation rate recorded for the previous Iranian calendar year (which ended on 20 March). The main reasons behind the rise in the inflation rate since the start of the year are:

1. the government's budget deficit,
2. excessive withdrawals from the country's Oil Stabilization Fund,
3. excessive obligatory loans provided by the banks and
4. the interest rate cut that was imposed on the state-owned as well as the privately-owned banks by the government.

### **Foreign Investment**

According to statistics provided by the Foreign Investment Organization in Iran, projects valued at around \$9 billion have received a foreign investment license from the government in the first five months of this (Iranian) year. However, a proportion of the approved projects will be abandoned before any investment is made. According to the official figures, only around 60% of the licensed projects will reach implementation phase. This is one reason why the Foreign Direct Investment statistics provided by the Iranian government and those provided by international organizations may vary significantly.

### **Interest Free Bank**

The High Council of Economy, presided over by President Ahmadinejad, has approved the establishment of an Interest Free (Qarz-al-Hassaneh) Bank in Iran with a starting capital of \$2.2 billion. This bank will have branches all over the country and will benefit from the participation of a number of state-owned and privately-owned banks. It will accumulate interest-free deposits in order to then provide the needy with interest-free loans for marriage, entrepreneurship projects, health care, and education. The only cost of the loans will be a set fee that is paid to cover the cost of the operation. The creation of the bank is designed to stop the current practice of commercial banks accumulating interest-free deposits while lending at high interest rates.

### **Changing Currency**

There are discussions in Iran regarding the possibility of clearing three zeros from the country's bank notes. Currently the largest bank note in Iran is only worth \$5.35. The lack of larger bank notes together with over thirty years of inflation depreciating the value of the Rial, has resulted in a large number of bank notes in circulation. The printing costs of the Central Bank are consequently high and the durability of these notes is much lower in Iran than compared to global standards.

### **Trade Partners**

China has taken Germany's place as Iran's top trade partner in 2006. During the last decade, Germany has consistently been Iran's largest trade partner. Iran's trade with China stood at \$15 billion in 2006 which was three times larger than the trade figures with Germany. Within the European Union, Italy has become Iran's number one trade partner with Germany now second and France third.

### **Top Creditors**

French banks top the list of European lenders to Iran, with debts of around \$5.8 billion. The German and the Belgian banks are next with \$3.1 billion and \$1.6 billion respectively. Overall, Iran owes European banks a total of around \$15 billion.

## 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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