



## THIS MONTH

### Market Overview **2**

Following a few months of strong performance, the market closed in negative territory in November mainly due to some unsuccessful share offerings by the government as well as a price correction of some of the sectors which witnessed consistent growth over the last few months. The market price index, TEPIX, fell below the psychologically significant level of 10,000.

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

The Turquoise Fund outperformed both market indices once again although it did not maintain its positive performance. Institutional investors from Germany and Switzerland acquired units in the Fund amongst a number of other new private investors during the month.

### Country Overview **6**

The United States National Intelligence Estimate reported on the non-existence of a nuclear weapons program in Iran since 2003 which diminished the possibility of military conflict over the issue and sparked new hopes for an earlier resolution to the nuclear stand-off. Iranian President Ahmadinejad's visit to Qatar, to attend the GCC summit, is another development that is covered in this section.

### Economy **8**

Iran's positioning as a natural gas supplier as well as potential gas export deals are covered in this section. Other news includes the selection of a private Iranian bank as the winner of *The Banker* award and inward capital flows by the Iranian diaspora over the past several years.

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November witnessed further falls in the Tehran Stock Exchange (TSE), mainly driven by negative news and adverse market events. The most significant event was the government's failure in selling off a 20% block of Mobarakeh Steel Complex, the largest company on the Tehran Stock Exchange by market capitalisation, with an offering value in excess of \$1.4 billion. Further attempts of selling 4 blocks of 5% were also unsuccessful. Reasons for this failure include a lack of a clear pricing policy for the complex's feedstock, Iron Ore, which is set by the government,; unavailability of sufficient cash and liquidity in the market for this size of sell off; political tensions surrounding the nuclear issue and; the lack of proper control and management mechanisms provided to a 20% ownership stake.

Escalation of rhetoric from both American and Iranian officials regarding Iran's nuclear programme, as well as a need for price corrections in some sectors that had witnessed significant growth in the past three months, put further pressure on the market. In mid November, the TSE Price Index (TEPIX) fell below 10,000 and continued its negative trend until the end of the month. The fall of the index value below this level resulted in a bearish atmosphere in the market during the last few days of November.

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

## **Petrochemicals**

The petrochemical sector once again outperformed the market as a result of further increases in the global price of Crude Oil, to near \$100 per barrel, which was also reflected in the price of petrochemical goods. This sector was the only gainer in the market during November, with its index growing by 9.2% during the period.

Producers in this sector enjoyed significant growth in the price of many of their products in their target markets, mainly South East Asian countries. This has enhanced the profitability of all companies within this sector, especially those using cheap government-supplied natural gas as their feedstock since production costs for these companies have mostly remained flat.

## **Copper and Zinc**

The price of basic metals including Copper and Zinc fell collectively this month in line with further depreciation of the US Dollar and a negative outlook for the global economy. This put significant pressure on suppliers of these commodities. The price of Zinc showed record falls, reaching lows of \$2450 per ton. This is whilst annual earning forecasts of most of the TSE-listed Zinc producers are based on a global Zinc price of \$3,000 per ton for the current Iranian year.

The price of Copper also fell in global markets to \$6500 per ton. This resulted in a heavy sell-off of the shares of the National Iranian Copper Industries Company (NICIC). Being the second largest listed company on the TSE, any fluctuation in the price of NICIC's shares could have significant impact on the market index. In November, a 4.8% drop in NICIC's share price was one of the factors behind the loss of the main market indices.

## Steel and Iron Ore

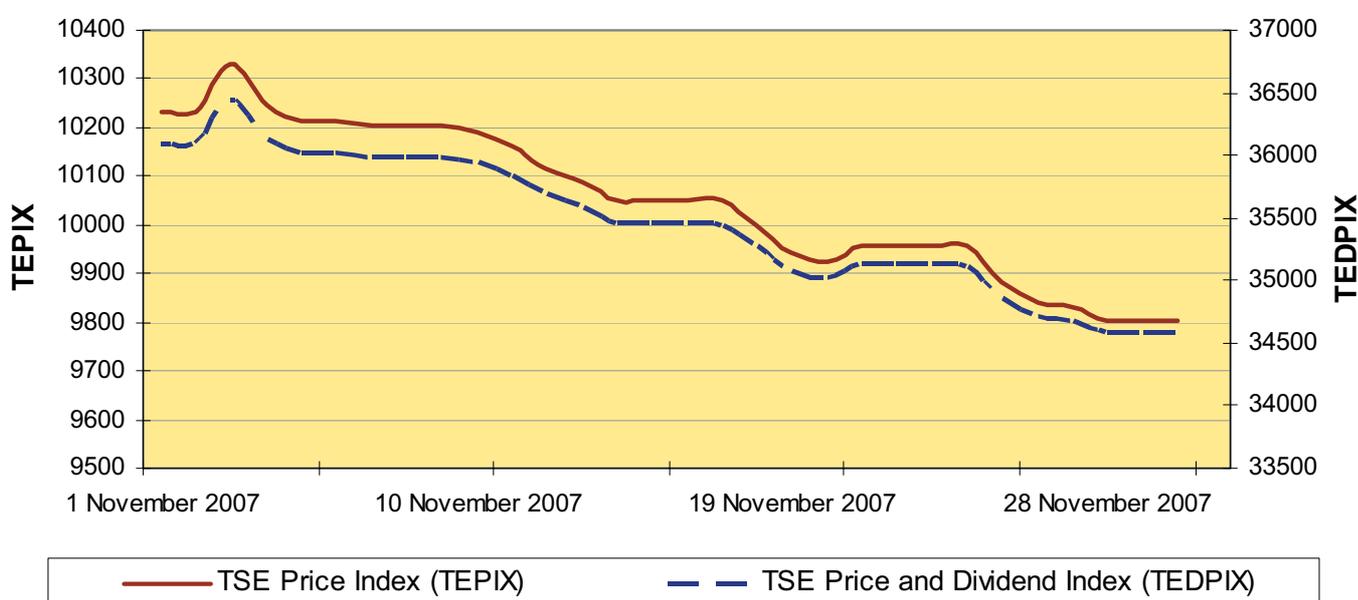
In early November, the share trading of Steel and Iron Ore companies were suspended for a week by the government in order to clarify its outstanding position with respect to the ‘rights of extraction’ and the ‘royalty fee’ of the Iron Ore producers. The announcement of this news caused an average fall of around 10% in the sector prior to the commencement of the suspension. Later, rumours in the market about the possible removal of the extraction rights or increases in the royalty fees and its implications for the performance of Iron Ore and Steel producers generated more worries amongst investors, causing further slides in the share prices of these companies once their trading resumed. Some analysts believe that these news helped the price correction of the listed companies in these sectors since they have witnessed significant growth in the last few months.

## Auto Manufacturing

Auto manufacturing was once again an under-performing sector. An analytic report of the Iranian auto industry, published by the Parliament in early November, expressed concerns over the long term outlook for this sector. The doubtfulness over the profitability of the politically-motivated and recently established production lines outside the country caused further scepticism amongst investors and traders in an industry trading at earning multiples of less than 3. Some market analysts believe that political consideration, rather than economic feasibility, has been the main factors behind establishment of these production lines in a number of ‘friendly’ nations.

Following few months of strong and consistent positive performance the Tehran Stock Exchange experienced a weak month as a result of failings in the government’s privatisation scheme, political tension and some adverse economic data. The TSE Price and Dividend Index (TEDPIX) lost 4.17% in value, while trading volumes fell from \$719 million in October to \$484 million in November, thus showing a 32% decrease. The following chart demonstrates the performance of the two main market indices during November.

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

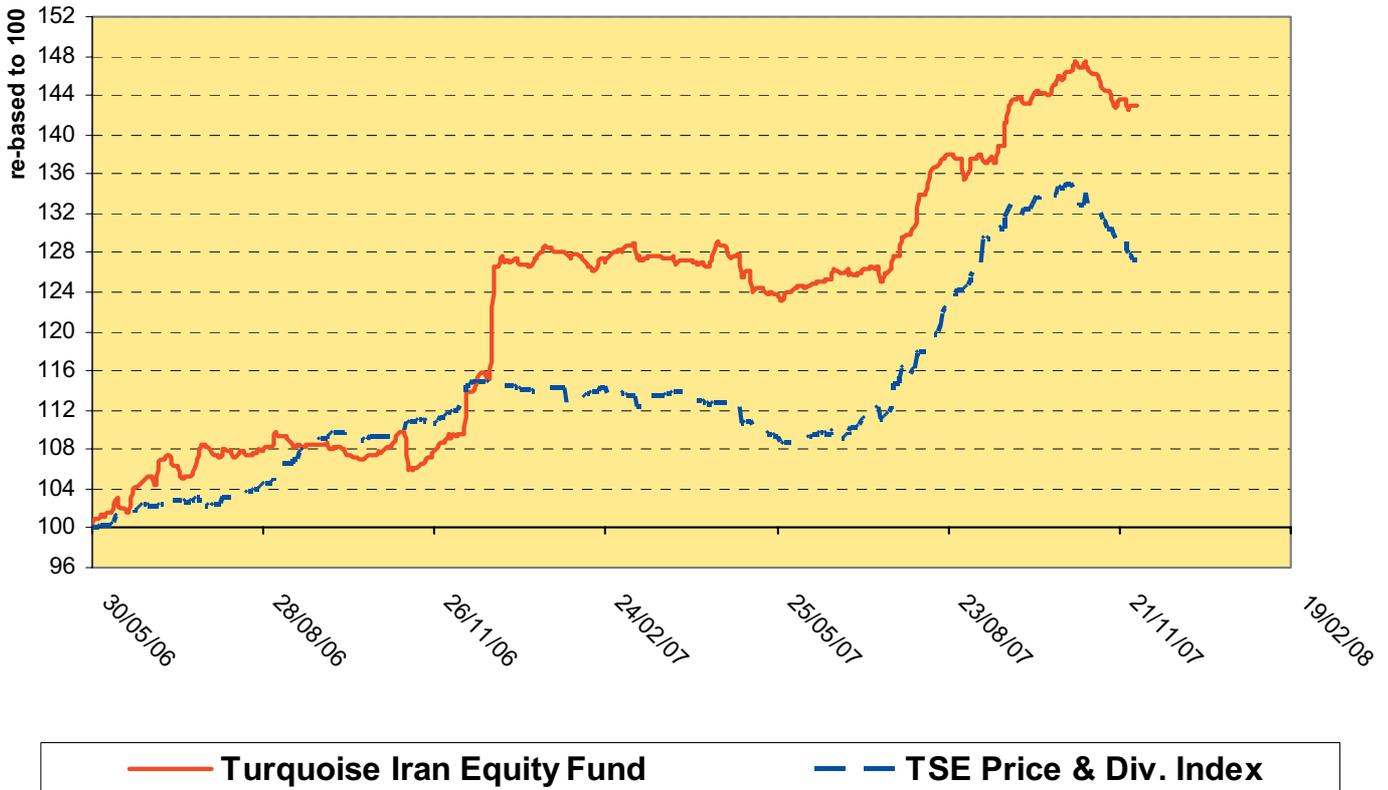


**Investment Objective** – The Turquoise Equity Fund seeks superior long-term capital growth by investing in the consumer and commodity potential of Iran, one of the most under-valued emerging markets in the world. Combining international experience with local expertise allows Turquoise to provide superior 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 Turquoise Fund once again outperformed the benchmark during the month of November even though it closed in negative territory. The TSE Price and Dividend Index (TEDPIX) fell by around 4.2% during the month while the Fund’s Net Asset Value dropped by approximately 2.6% to 142.9. The TSE Price Index, (TEPIX) also fell by 4.2%. A number of new investors entered the Turquoise Fund during the month, including two institutional investors from Germany and Switzerland.

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)**



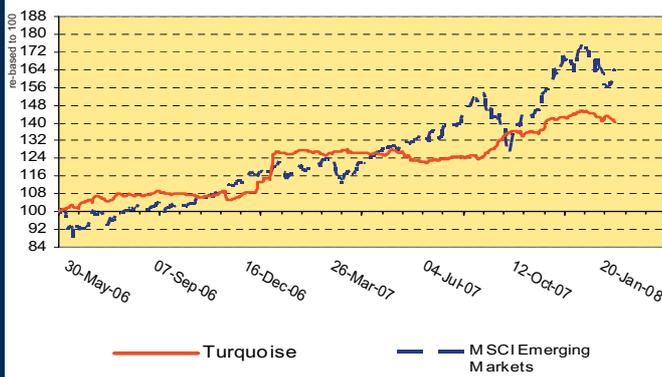
— Turquoise Iran Equity Fund      - - TSE Price & Div. Index

	1 Oct 07	1 Nov 07	1 Dec 07
<b>Turquoise Fund</b>	43.47 %	46.80 %	42.36 %
<b>TEDPIX</b>	31.80 %	32.87 %	27.13 %

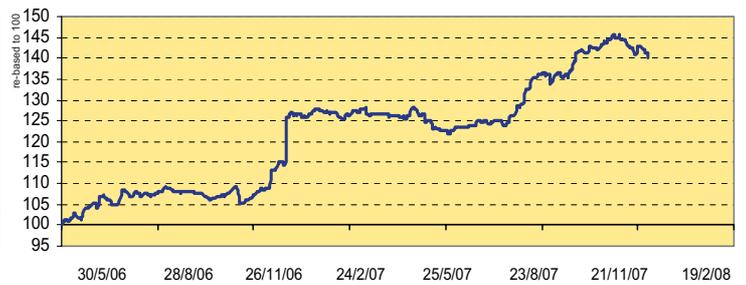
## Performance

Period	Fund Return
Nov-07	-2.64 %
Last 3 Months	4.86 %
Last 6 Months	14.88 %
Last 12 Months	30.90 %
Since Inception (30 May 06)	42.36 %

### Turquoise Performance vs. MSCI Emerging Markets



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



### Turquoise Performance in Euro (€)



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



The release of the United States National Intelligence Estimate (NIE) on Iran's nuclear programme and President Ahmadinejad's attendance at the 28<sup>th</sup> Summit of the Persian Gulf littoral States of GCC in Doha were the key events in the month of November.

The NIE report on Iran's nuclear intentions and capabilities, which compiles findings of sixteen American intelligence bodies, concluded with 'high confidence' that Iran has not been pursuing the development of a nuclear weapon since 2003, when according to the report, Iran had halted its military nuclear program. The findings of this report boldly contradict the claims made by the US administration and some of its allies for years that Iran has a secret nuclear weapons program and therefore should be punished by the international community. The findings and timing of this report, which coincided with increased financial and economic pressure on Iran from the United States, has surprised many in the US, Iran and many other countries around the world and was seen by analysts as a strategic shift away from a path to US-Iran military conflict.

The US government's initial reaction to the report was to accept the facts of the report, but continue to view the Iranian nuclear programme as a threat, asking for increased international pressure on Iran to halt its uranium enrichment programme. Most analysts believe that this report will bring the possibility of any military strike on Iranian nuclear facilities down to practically nil, while making it even more difficult for the US and its allies to convince other world powers such as Russia and China that further UN imposed sanctions on Iran are necessary.

Iranian government officials welcomed the part of the report that stated the non-existence of any current plans for developing nuclear weapons, but rejected the claim that Iran had plans for a nuclear bomb prior to 2003, calling it a "lie". President Ahmadinejad called this report "a great victory for the Iranian nation". However, other officials such as Ali Larijani, ex-chief nuclear negotiator and current member of the National Security Council, as well as Ali Akbar Velayati, Advisor to the Supreme Leader, were less upbeat about the release of the report and called for caution in responding to its release..

This is while the European Union said that whilst this assessment may alter the judgement on Iran's nuclear activities in the international arena, it will have no direct impact on the two rounds of sanctions already imposed by the UN.

Despite the differing interpretations, it is clear that the NIE report will significantly diminish the possibility of a US-led military action against Iran. The US and its Western allies may try to use the report's claim that Iran had plans to develop nuclear weapons before 2003 to push for more sanctions. However, this report is more likely to strengthen Russia and China's stance at the UN Security Council against further sanctions on Iran. In the long run, this report could actually be the pretext for an easing of the tensions between Iran and the US and a potential rapprochement of the two countries after years of hostility.

In November, President Ahmadinejad attended the 28<sup>th</sup> Summit of the Persian Gulf littoral states in Doha, Qatar. This was the first time an Iranian president was invited to a GCC Summit. Iran is not a member of the GCC; however, Ahmadinejad was invited to this summit as an observing guest by the Qatari leader. During his scheduled speech to the summit, President Ahmadinejad suggested a number of steps for further collaboration between Iran and the member states. Among his suggestions were:

- Removal of visa requirements for the citizens of the Persian Gulf region,
- Establishment of a regional organisation for the promotion of economic co-operation and free trade agreements
- Joint investment in oil and gas projects
- Development of tourism industry amongst the regional countries
- Joined-up efforts in tackling environmental issues in the Persian Gulf region

Since the beginning of 1980s when the GCC was first established, the Council's relationship with Iran has been strained most of the time. The main reasons behind the poor relations were that most of the GCC member states were supporting Saddam Hussein during his war with Iran as well as their support for the United Arab Emirates' claim over three Iranian islands in the Persian Gulf. In addition, the attitude of revolutionary Iran in the 1980s was perceived as a threat to the stability of other regional regimes. During the 1990s and especially following the election of the moderate Iranian president, Mohammad Khatami, the relationship between Iran and regional countries improved significantly. This positive trend has continued during recent years and improved relations between Iran and Iraq, Saudi Arabia, the United Arab Emirates, Qatar, Oman and Egypt are all signs of the gradual shift in Iranian foreign policy vis-à-vis regional states.

It is believed, however, that Mr. Ahmaninejad's attendance at this summit could set the stage for warmer relations in years to come. His suggestions, especially one promoting a free-trade agreement between regional countries, has been well-received by the member states and is now on the council's agenda for future summits. Iran insists that a top priority of its foreign policy strategy is to improve and expand its relations with the regional states.

**Iranian Natural Gas:** Iran holds the second largest reserves of natural gas in the world after Russia with 28.13 trillion cubic meters of proven natural gas reserves which constitutes over 15% of the total proven reserves worldwide. Iran's reserve to production ratio of natural gas currently stands at 245 years which makes it one of the most reliable sources of natural gas for decades to come. After Russia, the United States and Canada, Iran is the fourth largest producer of natural gas in the world with around 105 billion cubic meters of production per year. However, due to lack of sufficient investment in the sector and also because of excessive and inefficient domestic consumption, Iran's natural gas exports are tiny compared to its reserve size. Iran currently exports around 7.6 billion cubic meters of natural gas per year, mainly to Turkey and Armenia. However, the country has ambitious production and export plans for the future. The following is the list of prospective natural gas export deals with several countries that are currently being negotiated. It is worth noting that these numbers are based on preliminary discussions and may change significantly. In addition, the dates to begin the export of gas are rather ambitious and will most probably witness delays.

Country	Export Size (billion cubic meter per year)	Forecasted Date to Begin Export	Period of Commitment
Austria	5	2011	25 years
Azerbaijan	1.8	2007 (delayed)	-
Bahrain	3-5	2011	25 years
Pakistan and India	52	2011	25 years
Oman	4	3 years after signing of the contract	-
Kuwait	10	3 years after signing of the contract	-
Switzerland	4	2008	-
Italy	15	2008	-
United Arab Emirates	5	2008	25 years

**Top Iranian Bank:** One of the privately-owned Iranian banks was selected this year as the country's top banking institution by the reputable financial magazine, The Banker. Eghtesad Novin Bank (EN Bank) was able to secure this year's Top Iranian Bank's award for its continuous outstanding performance which has seen its net profit grow by 216% to \$93 million, its total assets up by 181% to \$4.4 billion, its deposits grow by 185% to \$3.7 billion and its number of employees triple to 1240 in the year to March-2007. EN Bank was established in 2001 as the first Iranian privately-owned bank. The Banker, affiliated to the Financial Times group, selects the top national banks in 140 countries annually based on several financial and management indicators as well as feedback from banking professionals and experts.

**Inward Flow of Capital by the Iranian Diaspora:** According to statistics released by the World Bank, more than one million Iranian expatriates and immigrants from around the globe transferred around \$1 billion back to Iran during 2006. According to the findings of this report, around one million Iranians

currently live out of Iran which constitutes 1.4% of total Iranian nationals. According to this report, Iranians living abroad are mostly high-skilled individuals who immigrated to secure better job opportunities or to enrol in higher education institutes. From 2000 to 2006, Iranians living abroad transferred over \$6 billion back to their motherland. The following table demonstrates the trend of inward capital flows by the Iranian Diaspora over recent years:

2000	2001	2002	2003	2004	2005	2006
\$536 m	\$682 m	\$ 851 m	\$1,178 m	\$1,032	\$1,032	\$1,000 m

## 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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