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*Further information and detailed analysis of reports in this publication can be purchased directly from Turquoise Tehran office.*

Having established itself as the first and leading private investment institution in Iran, *TURQUOISE* is pleased to announce the publication of its first exclusive e-newsletter, “*Iran Investment Monthly*”.

The goal of this publication is to update its readers on the latest macroeconomic developments in Iran, to provide an overview of the investment climate in the country, to present an in-depth analysis of the Tehran Stock Exchange, to demonstrate the performance of Turquoise Iran Equity Fund as well as to introduce lucrative private equity investment 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.

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## Cover Story

### Iran’s Economic Revolution Makes Its Way

A decree by Iran’s Supreme Leader Ayatollah Khamenei has opened the door for new interpretation of the constitution that allows for private sector to get involved in industries which were previously reserved for state ownership. Approximately 60 to 70 percent of the Iranian economy is currently owned and controlled by the government. This decree will force the government to privatize 80% of all its assets in almost all sectors including downstream oil and gas, mining, banking, insurance, air and shipping, power plants, post and telecommunication. It is worth noting that foreign investors can also participate in all sectors and industries that Iranian private sector can enter.

This came as great news for Iranian private sector. As a result, many of the leading private corporations and investors, as well as Iran Chamber of Commerce have had discussions regarding structures and vehicles that are required to implement this decree efficiently in the next few years. Considering the enormous amount of assets that is planned to be privatized, which is estimated to be around \$100 billion or three times the size of Tehran Stock Exchange, modern financial instruments are required to raise sufficient funds for the privatization process. It is believed that establishment of large and world-class investment banks, private equity funds and financial institutions are essential for the success of this plan.

Turquoise Fund, having a first-comer advantage in Iran and access to international finance, is planning to utilize all its resources inside Iran and globally to exploit the unique opportunities that will be presented by this vast privatization initiative.

- **Privatization:** Following the new privatization decree by the Supreme Leader, four giant state-owned companies are considered for the first phase of the privatization plan. Forty percent of the shares of Mobarakeh Steel Mills, Khuzestan Steel Company, Islamic Republic's Shipping Lines and Industrial Development and Renovation Organization (IDRO) are going to be offered in the stock market. In addition, shares of one state-owned insurance company, Asia Insurance, are soon going to be privatized.
- **Foreign Investment:** During the first two months of current Iranian year, approved foreign investment projects in Iran's industrial sector increased by 117% to reach \$510 million. The licensed projects were in petrochemical, power plant and pharmaceutical sectors.
- **Non-oil Export:** Iran's non-oil exports rose by 74% to \$6 billion in the first five months of the year. The biggest importers of the country's non-oil goods are UAE, China, Iraq, India, Japan, Singapore, Italy, Saudi Arabia, The Netherlands and Afghanistan.
- **Inflation Rate:** The government has promised to reduce the inflation rate to a single digit by the end of the current Iranian year (March 2007). In his recent press conference President Ahmadinejad announced that within the next 2 to 3 years the inflation rate will drop below 5%. The inflation rate declared by the Central Bank of Iran for the period of May 2005 to May 2006 stands at 10.5% showing a 1.6% drop compared to the figures of March 2005 to March 2006.
- **GDP and Economic Growth:** Central Bank of Iran (CBI) announced that the economic growth rate in the Iranian year that ended March 2006 reached 5.4%, which shows a 0.6% increase compared to the previous year. The GDP, according to the CBI, has increased to 419.7 trillion Rials in the mentioned year from the 398.2 trillion Rials recorded in the previous year.
- **Unemployment Rate:** Head of Iran's Statistics Centre announced that during the first quarter of the current Iranian year (ending March 2007) the unemployment rate has decreased to 11%, demonstrating a 0.9% drop compared to the same period of last year. He also added that most people were employed by industrial sector during this period.
- **Liquidity Growth:** Liquidity growth rate has reached 37% in the country due to increased government expenditure. It is worth noting that in the Persian Gulf states this rate is around 7% and in the European countries it is around 5%.
- **Import of Foodstuff:** Iran is the third importer of rice worldwide with imports of 2.1 million tonnes of the commodity per annum. Overall, Iran is ranked 11th out of 19 MENA region countries in terms of foodstuff import and is estimated to spend around \$630 million annually.
- **US-Iran Trade:** Commercial trade between Iran and the US in the first 5 months of 2006 increased by 32% to around \$123 million. Iran's import from the US amounted to \$41.5 million and its export reached \$81.1 million.
- **Access to Electricity:** Iran's entire urban population and 97% of its rural regions have access to electricity. Officials confirm that there is no power shortage as long as consumption levels remain the same and sporadic power failures are mostly caused by network and technical problems.
- **Access to Computers:** Based on latest statistics, around 8 million computers are now believed to be operating in the country.

Tehran Stock Exchange has been experiencing a revival in the last few weeks. Volume of trade has increased significantly and over two-third of the active companies experienced gain in their share price during the first two weeks of September. Some of the main reasons behind this recent growth are as follow:

- Reduction in bank’s interest rates by 2% and the prospects of more reduction in coming years, as well as limited activity in real estate sector and elevated international gold prices, are helping to divert a significant portion of the liquidity towards the stock exchange.
- Positive outcome reported from talks between the West and Iran over its nuclear program and the fact that imposing serious sanctions on the country seems unlikely has helped boost investors’ confidence in Iran.
- New regulations adopted by Tehran Stock Exchange are expected to improve market’s efficiency and transparency
- Downfall of other regional exchanges (i.e. Saudi and Dubai) has diverted some Iran-originated as well as foreign capital towards Tehran Stock Exchange.

Petrochemicals, mining and pharmaceuticals are notable sectors, with highest demand and continuous growth due to following reasons:

- Petrochemical companies are enjoying remarkable gains due to global rise in prices of petrochemical products in addition to vast expansion projects that are under way and are expected to come on stream during 2007.
- Mining firms, especially those active in Zinc extradition and production, are enjoying huge profits and continuously increase their expected earning, which again is caused by the enormous increase in international price of the commodities.
- Pharmaceutical sector is amongst the most self-sufficient sectors in Iranian economy. While pharmaceutical companies are not dependent on import of materials and sell most of their products domestically, they seem to be taking advantage of growing domestic market and consumption boom without being affected too much by fluctuations in global market.

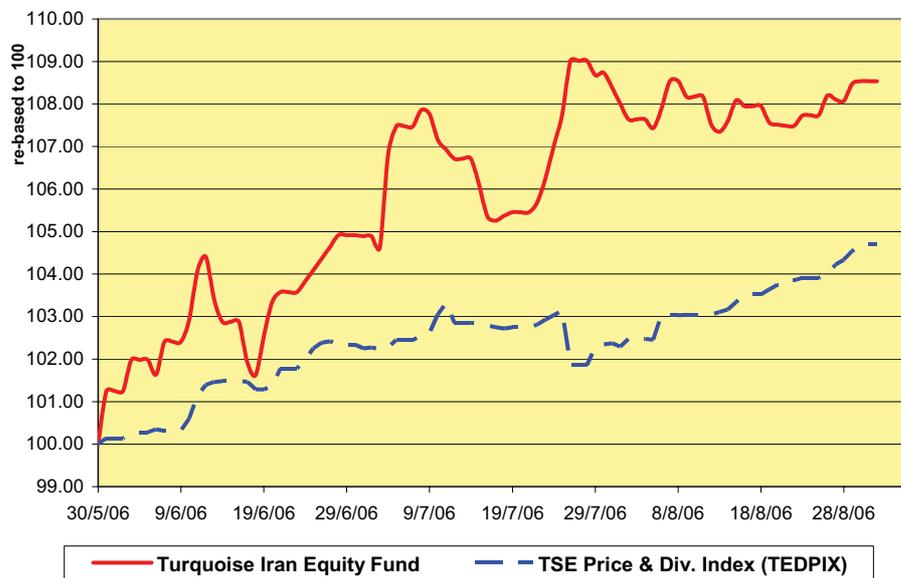
**Performance of TSE Price Index (TEPIX)  
in August 2006**



With a vision of establishing Iran’s first world-class mutual fund, Turquoise Iran Equity Fund was launched end of May, 2006 with initial investment of five billion Rials (\$550k). The mission of this fund is to unlock the Iranian market using international experience and local expertise. Although very young, Turquoise Iran Equity Fund was able to demonstrate substantial gain and perform significantly better than the benchmark in its first quarterly report. This fact proves the enormous potential that exists in the Iranian market that could be exploited using modern fund management techniques and local knowledge. An overview of the fund’s investment strategy and its quarterly performance is demonstrated below:

**Investment Strategy:** Turquoise Iran 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 and risk by investing in Iranian-based securities as well as Iranian equities listed on the Tehran Stock Exnqe or abroad.

### Performance of Turquoise Iran Equity Fund



	1 Jul 2006	1 Aug 2006	1 Sep 2006
<b>Turquoise Fund</b>	<b>4.9 %</b>	<b>8.0 %</b>	<b>8.5 %</b>
<b>TEDPIX</b>	<b>2.3 %</b>	<b>2.3 %</b>	<b>4.7 %</b>

The two private equity investment opportunities selected for this edition are:

- 1) A lucrative project in ever-growing downstream petrochemical sector producing unique foam with significant domestic market and usage in variety of industries.
- 2) A series of large development projects planned by Tehran Municipality involving commercial and residential high-rises with a guaranteed return.

*Potential investors can contact Turquoise Tehran office for further information on the proposed opportunities and investment process.*

### PROJECT # 1

**Title :** Production of Chemically Cross-Linked Polyethylene (XLPE) and Extruded Polystyrene (XPS) Foams and Blocks

**Investment Size :** US\$ 3.6 million

**Sector :** Downstream Petrochemical

**Description:**

This project involves construction of the production plant for XLPE and XPS foams that have various uses in auto, construction, home appliances, packaging and many other industries. This will be Iran's first production plant of this sort.

22,000 sq.m of land has already been purchased and fenced in the Industrial City of Mamouniyeh, South Tehran. Water supply has been secured and power lines of 249 KW are being installed. Plant's building walls and foundations have also been put in place.

Contracts for purchase of the machineries have been signed with South Korean Jinsung company and the import permission obtained from the government. The cost of machineries would be around US\$ 2.1 million.

**Potential :**

Based on the statistics of the Iranian Customs in 1382, more than US\$ 15 million worth of XLPE foams have been imported to Iran in that year. Aside from domestic use, these foams could also be exported to regional and European markets.

It is worth noting that one of the uses of these foams is in construction for sound proofing and energy insulation of buildings. Based on Iranian laws making the use of heat insulation in all buildings for energy saving, the market for these kinds of foams is growing rapidly.

### PROJECT # 2

**Title:** Commercial and Residential High-rises in Tehran

**Investment Size :** Up to US\$ 1 billion

**Sector :** Commercial and Residential Real Estate

**Description:**

Tehran Municipality has a comprehensive renovation plan for some of the old districts of Tehran. In accordance to this plan, several projects have been introduced in different parts of Tehran which are available for domestic or foreign investment. Most of these projects are located in South and Central Tehran.

In most of these projects, the investor has the option of purchasing land from the municipality or directly from the owners. The investor finances the building of commercial and residential units that can later be sold back to the Municipality or any third party.

**Potential :**

- In some of the projects, Tehran Municipality guarantees up to 30% IRR.
- In some districts Tehran Municipality guarantees to buy small residential units following completion of the project.
- Investor can maximize profit by purchasing land directly from owners.
- Following the recent recession in Tehran's real estate sector, the sector is expected to grow significantly within next few years.