

Persepolis, Fars Province, Iran

THIS MONTH

Market Overview **2**

Most of the Tehran Stock Exchange (TSE) indices experienced gains in November mainly due to the significant rise in the prices of Mining and Metals stocks. A total of 43 companies re-opened for trade over this month after temporary closure. Positive adjustments to the expected earnings which are usually announced in the second half of the Iranian year are also a factor contributing to the growth in the TSE indices.

Turquoise Iran Equity Fund **3**

Re-opening of some of the closed stocks resulted in the minor fluctuations observed in the performance of the Fund during November. Turquoise has shifted some of its holdings from the Auto and Parts Manufacturing sector to more attractive sectors such as Mining and Metals and Pharmaceuticals.

Private Equity **4**

Introducing two different types of private equity opportunities. First one is a greenfield project that involves setting up portable plants for the production of copper anode, and the second is an operational plant for the production of asbestos cement whose 100% shareholding is offered to new investors through tender.

Country Overview **6**

Covering presidential trips to impoverished provinces of the country as well as discussing the decision made by the parliament for import of another \$2.5 billion worth of gasoline and the crisis Iran is facing in terms of rising gasoline consumption, subsidies and smuggling. In addition, reporting on the latest news from the nuclear stand-off and likely scenarios for the near future.

Economy **7**

News and views on the country's economy with special attention given to Iran's non-oil exports, family income and expenditure figures, foreign direct investment and unemployment.

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

Most indices of the Tehran Stock Exchange experienced gains during the month of November. The price and dividend index, TEDPIX, grew by 1.6 percent to stand at the 30200 level. Out of 21 days of trading in November, the index closed in positive territory on 17 days.

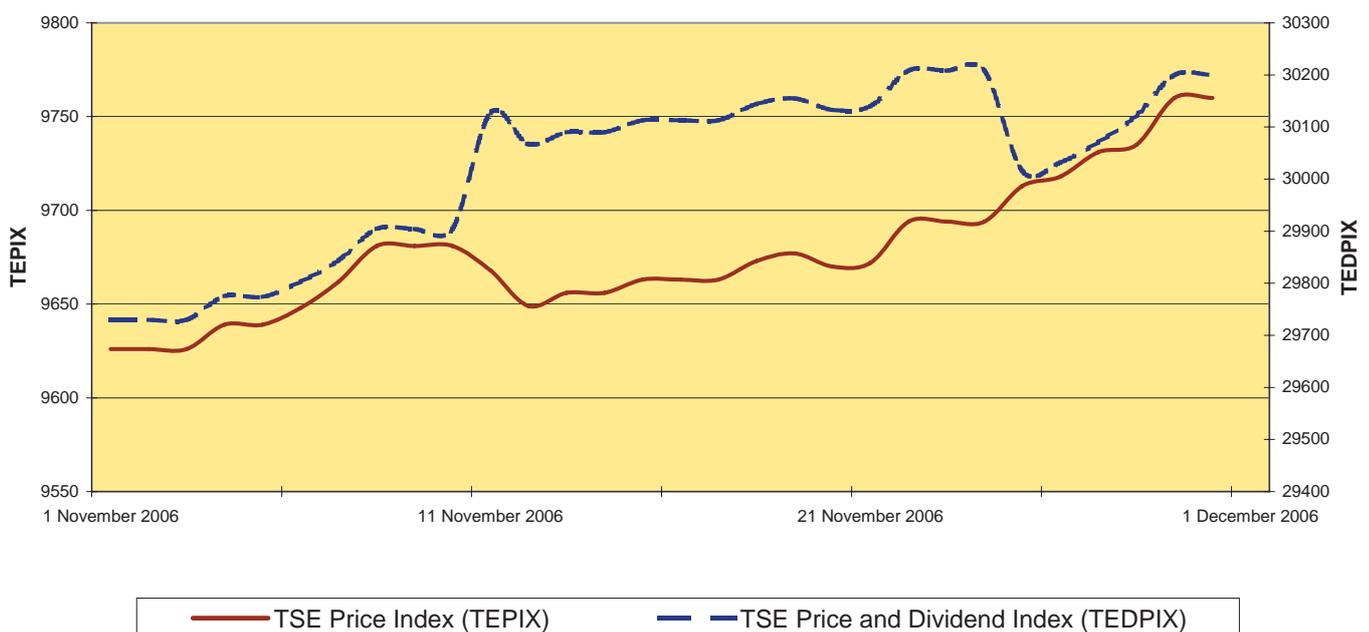
The gains were mostly due to a rise in the prices of the mining and metals stocks as a result of increase in international commodities prices and also the pharmaceutical stocks which have performed well this year in terms of earnings and are expected to increase their earning forecasts for the year. In addition, 43 companies which were closed for trading for some time due to their Annual General Meetings or earning adjustments re-opened in November which caused some fluctuations in the TEDPIX.

The graph at the bottom of the page demonstrates the movements of the TSE's price index (TEPIX) as well as the price and dividend index (TEDPIX) over the month of November.

Some of the noteworthy developments in the TSE during the last month are as follows:

- Final selection of members of the Board of Directors of the Tehran Stock Exchange Company. Historically, the board was dominated by the brokerage companies which controlled the market regulations. However, for the first time the majority of the board seats (5 out of 7) went to investment companies and market-makers which is viewed here as a positive development which could stimulate the market and make it more vibrant.
- The TSE organized a trip to the site of Angouran, the Middle East's largest zinc and lead mine, for market activists. This was to assure the market about the level of production of the mine following the news of structural collapse in the mine which had many of the investors and shareholders worried. The level of confidence in the zinc sector rose significantly following the trip and zinc stocks have been experiencing significant gains ever since. Although the purity level of the zinc produced at the mine is not as high as it used to be, the level of the damage caused by the collapse was reported to be much less than previously anticipated.

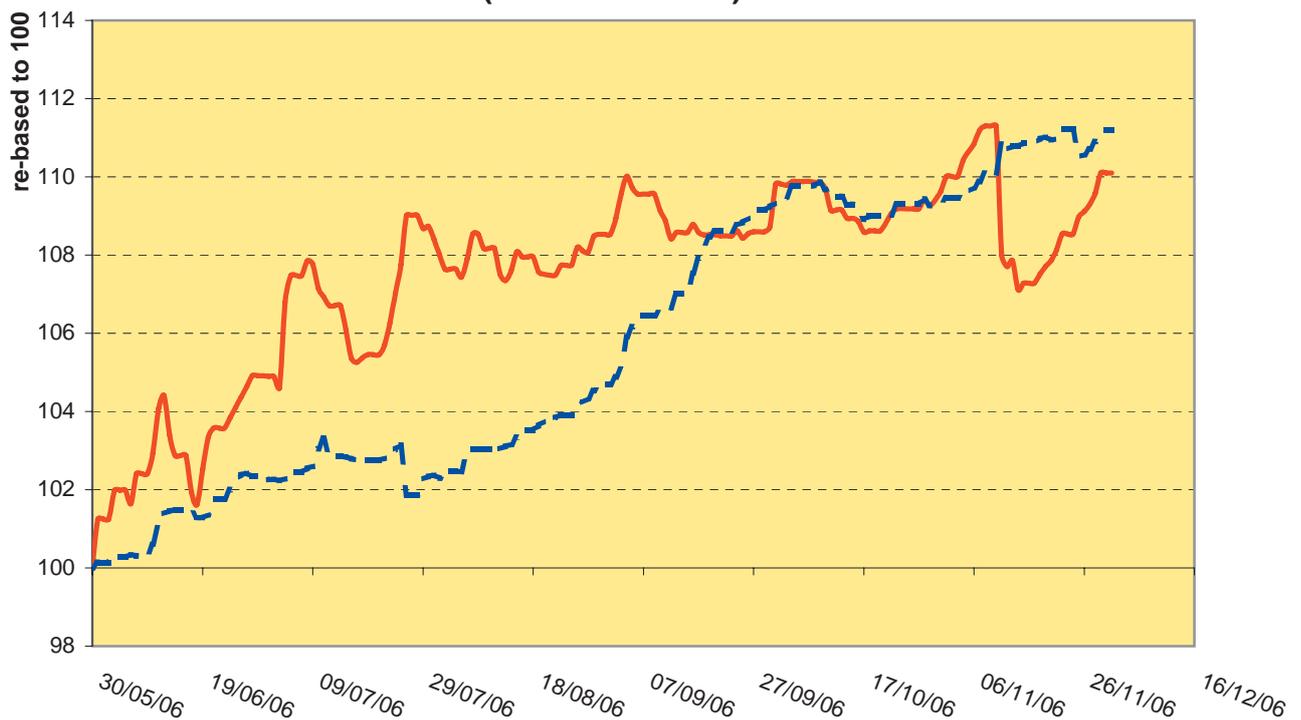
Performance of TSE Indices (October 2006)



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 and risk by investing in equities listed on the Tehran Stock Exchange and Iranian-based securities. The base currency of the Fund is Iranian Rial.

Monthly Report – The re-opening of some of the portfolio stocks for trade after months of closure resulted in some volatility in the performance of the Fund during November. The Investment Committee of the Fund met on a regular basis during this month and some of the important decisions made were a decrease of holdings in the Auto and Parts Manufacturing sector and in return an increase of holdings in more attractive sectors such as the Mining and Metals sector. The outlook of the Fund’s performance for the next month is positive due to the likely announcement of positive adjustments to forecasted earnings of some of the companies held in the portfolio.

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



— Turquoise Iran Equity Fund

— TSE Price & Div. Index

	1 Oct 06	1 Nov 06	1 Dec 06
Turquoise Fund	9.82 %	10.01 %	10.10 %
TEDPIX	9.33 %	9.46 %	11.19 %

PROJECT # 1**Title : Portable Copper Production Unit****Investment Size:** ~ \$10 million**Sector:** Mining and Metals**Description:**

This project involves setting up of a portable unit for production of anode copper (99% purity) from copper ore. In this technology, the copper will be purified in several stages first producing copper concentrates and later pure copper in the form of anode. What distinguishes this technology is the fact that the production units are portable, and as a result can be moved from one copper mine to another, thus exploiting a niche created by small mines that cannot afford costly transportation of their ore. In addition, the technology is home-grown and the production units can be fully designed and produced in Iran.

The cost of setting up a portable plant that conducts the full production cycle from ore to anode is around \$10 million and the plant could be set up and start operations within 12 months. This project is expected to have an IRR of around 25%.

Potential:

Considering the growing trend in global demand for commodities as well as the rise in international copper prices in recent years, production of copper has turned into a very attractive business especially in countries where copper deposits are not scarce. Iran is located on a copper deposit belt that runs from the north-west of the country to the south-east and currently holds large deposits in Sarcheshmeh (Kerman Province) and Songoun (Azerbaijan Province) as well as several smaller deposits that have not been fully exploited yet. Exploiting these mines has not been feasible up to now due to the historically low price of copper and the high cost of transporting the ore or the concentrate from the mine to the copper production location. With recent international prices of copper and the ability to utilize new portable production unit technology, the production of copper anode from ore and concentrate provided by these small mines could become very attractive.

PROJECT # 2

Title: Production Plant for Several Types of Asbestos Cement

Investment Size: ~ \$12.3 million

Sector: Construction and Insulation Material

Description:

Asbestos Cement is primarily a cement-based product where about 10% to 15% asbestos fibers are added to reinforce the cement. Asbestos cement is weatherproof in that although it will absorb moisture, the water does not pass through the product. It is produced in several forms such as corrugated sheets, flat sheets and pipes and is widely used in variety of construction projects for water-proofing as well as heat insulation.

This asbestos cement production plant, which is located in the north of Iran in Mazandaran Province, started its operation in 1993 with a nominal capacity of 30,000 tons per year. The company has implemented a few expansion plans in recent years by adding new finishing lines for the diversification of its product types and currently it is able to manufacture several forms of asbestos cement products. The number of staff currently working for the company stands at 75 (71 permanent, 4 contract-based).

The shareholders of the company (Mazandaran Cement Company being the largest shareholder with 99.9% holding) are holding a tender to sell all 100% of the company's shares (a total of 16 million) at the base price of 113.5 billion Rials (~ \$12.3 million).

According to the balance sheet announced by the company for the tender, the company currently owns a total of \$4.6 million in assets and its total liabilities stand at \$3.1 million. In addition, the operating income of the company, earnings before tax and net income are reported to stand respectively at \$1.98 million, \$2.0 million and \$1.5 million for the year ended March 2006.

Potential:

Asbestos cement is used in a variety of construction products and for different purposes. Although some countries have limited their use of the material due to its poisonous nature if used without care, the product is widely used in most emerging countries such as China, India, Russia, and Brazil. Some developed countries such as Canada are even considering plans to increase their production capacity of this material due to increasing demand.

Iran is among the top 10 consumers of these products and was ranked 8th in the world in terms of consumption during the 1990s. In addition, considering the country's huge construction plans and its young population, this trend is expected to continue. This investment is an attractive private equity opportunity for investors interested in taking full management control of the entity for implementation of further expansion plans, technology transfer and perhaps a successful future IPO.

During the past month President Ahmadinejad made another provincial trip along with his cabinet to the province of Kurdistan in the west of the country. The Iranian President had previously promised that he would travel to every Iranian province during his tenure in office, and so far he has traveled to the most impoverished provinces of the country. President Ahmadinejad promised extensive spending, as he has done in other provinces, on previous occasions. Large crowds followed the President everywhere he went during his trip, as was the case in other provinces. If these trips result in the inclusion of the population in remote areas that have been neglected as peripheral in the past, it would be a positive development. However, the ambitious promises of the cabinet in each provincial trip could significantly raise the level of expectations by people and result in widespread apathy in rural areas if the government is unable to deliver on its promises.

Another important development in November has been the approval of the plan to import \$2.5 billion worth of gasoline for consumption in the second half of the Iranian year ending March 2007. This is amid months of discussion and debate between the government, the parliament and other decision-making bodies trying to come up with a solution to curb ever-increasing consumption levels and imports of gasoline. Iran has been subsidizing gasoline for many years selling it at a price of around 9 US cents per liter at the pumps. These subsidies, along with the high production level of vehicles and also the old fleet of cars running in the country has resulted in significant rise in gasoline consumption over the last few years. The consumption level is currently at around 70 million liters per day out of which 30 million liters are imported into the country and while bought at global prices, it is sold at a heavily subsidized price to consumers. It is worth noting that a considerable amount of gasoline is smuggled out of the country on a daily basis due to the subsidies offered in Iran and also higher prices in neighboring countries such as Pakistan and Turkey. The issues of gasoline subsidies, imports, smuggling and the increasing level of consumption, which is slowly turning into a crisis, has been a problem that neither the previous government nor Ahmadinejad's cabinet has been able to combat.

On the international front the nuclear dispute continues to be unresolved. There has been a lack of consensus in the UN Security Council on producing a resolution sanctioning Iran. The holdups were the Russians and the Chinese who were reluctant to easily abandon their economic interests with Iran. However, it is likely that within the next few weeks, the Council will approve a watered-down version of the sanction resolution previously proposed by the West which would be limited to Iran's nuclear and arms sector. Another interesting development has been the early November Democratic victory in the US Senate and Congress which was viewed with cautious optimism in policy circles in Tehran. The Democrats are viewed here to be more practical and less ideological than the Republicans, and subsequently a military resolution of the nuclear dispute seems to be less likely.

- **Non-oil Exports:** In the first 8 months of the current Iranian year (ending March 2007), the value of the country's non-oil exports grew by 47.9 % to stand at \$10.1 billion. Iran includes exports of the petrochemical goods in its non-oil export figures. Considering the recent rise in the international prices of petrochemical products, they constitute the largest portion of Iran's non-oil exports (36%) followed by commodities and metals (8.8%), which also enjoyed a significant rise in their global trading prices over the last several months. Other items and products that constitute Iran's non-oil exports are food products (mainly pistachios, nuts, fruits, saffron, and caviar), rugs and handicrafts, auto and auto parts, and also engineering and technical assistance services which is growing significantly year on year. It is worth noting that Iran is currently working on several engineering projects abroad worth around \$1.5 billion in total including a cement plant in Syria (\$200 million), a power plant in Nigeria (\$250 million) and construction of residential units in Venezuela (\$400 million).
- **Urban Family Income and Spending:** According to a report published by the Central Bank of Iran, during the last Iranian year (ended March 2006), the average annual income of an Iranian urban family stood at around US\$7,300 showing a 19.5% rise compared to the previous year. This is while in the same period the average expenditure of a typical urban family rose by 13.9% compared to the year before to stand at around US\$7,500. Items and services with the largest weight in the spending basket of the average Iranian urban family are: housing and utilities (26.9%), food and beverages (23.1%), transportation (15.4%), home appliances and furniture (5.6%), clothing (5.5%) and health (4.2%). It is worth noting that urban dwellers constitute around 65% of Iran's population and an average Iranian urban family consists of 4.09 persons.
- **Foreign Direct Investment (FDI):** Over the last 3 years, a decreasing trend in the amount of the inward FDI, both in terms of the number of projects and the value of the investments, can be observed. In 2004, a total of 23 projects worth \$4.3 billion were approved by the government, whereas in the year to September 2006 these figures were reduced to 7 projects worth \$603 million. These figures correspond to the foreign investment projects that applied and were approved for the FIPPA (Foreign Investment Promotion and Protection Act) license during the mentioned periods.
- **Inflation Rate:** The inflation rate in Iran continued its upward trend, following a short period of decline, to stand at 11.6% for the year to November 2006. In the wholesale price basket that is used for calculation of the inflation rate, the prices of food stuffs and manufactured goods experienced the highest rise in the mentioned period. This is while the government has been trying to curb the inflation rate amid increased spending by introducing new deflationary policies such as increasing taxes and tariffs (the government's tax income grew by 30% in the first 6 months of current Iranian year) and decreasing commercial banking interest rates (the government has approved a plan to decrease interest rates by 2% annually starting this year).
- **Unemployment:** According to the World Bank report, during the first six months of the current Iranian year, the unemployment rate in the country has risen by 0.6% to stand at 11.5%. This is amid government reports in recent months that demonstrated a decrease in unemployment rate as a result of higher state expenditure.
- **Economic Growth Forecast:** The World Bank Report also forecasted Iran's GDP growth rate in 2006 to reach 5.9% from the 4.8% that was achieved in 2005. According to Iran's Fourth Five-Year Development Plan (2005-2010), the country is expected to reach an average annual GDP growth rate of 8% over the five years, which seems rather ambitious considering the figures for the first two years of the plan.
- **Iran-EU Trade:** Europe's imports from Iran in the first 8 months of the current Iranian year grew by 35% to stand at 9.5 billion Euros. This is while the two sides' bilateral trade amounted to 17 billion Euros in the same period which showed a 9% increase compared to the same period of the previous year.

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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