



Construction of Milad Telecommunication Tower, West Tehran

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In-depth analysis of the Tehran Stock Exchange (TSE) including the latest news and rumors as well as a look at the market's overall performance. Cancellation of the Parsian Bank deal and news regarding the structural collapse in one of the country's major zinc mines top the TSE headlines.

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Country Overview

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Provides a brief look at the latest developments in Iran. Main topics discussed in this section are: President Ahmadinejad's report on his cabinet's first year performance and also the reference of Iran's nuclear dossier back to the UN Security Council.

Economy

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Statistics and updates on some of the macroeconomic indicators of Iran. Brief reports on the country's foreign debt, auto production, tax income, foreign direct investment, gasoline consumption and more.

*Iran Investment Monthly is produced by Turquoise Partners. Distributed electronically by exclusive subscription.
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Further information and detailed analysis of reports in this publication can be purchased directly from Turquoise Tehran office.

In the first few weeks of October most indices of the Tehran Stock Exchange (TSE) closed in negative territory due to some unwelcome news and developments in the country. However, the market started to recover slowly by the end of the month when some of the issues were resolved and investors' confidence rose.

First and foremost, the news regarding the cancellation of the Parsian Bank deal, which was going to be the second largest deal in the TSE's history, shocked investors. Based on this deal, Iran Khodro Industrial Group, the Middle East's largest auto and parts manufacturing group, was to sell all of its holdings (around 29%) in Parsian Bank which is Iran's largest and most successful private bank. The bourse cancelled the deal a few days after announcement by a direct order from the Central Bank and the government and based on allegations of fraud and possible misconduct by the bank's management as well as private investors who had bid to purchase the shares.

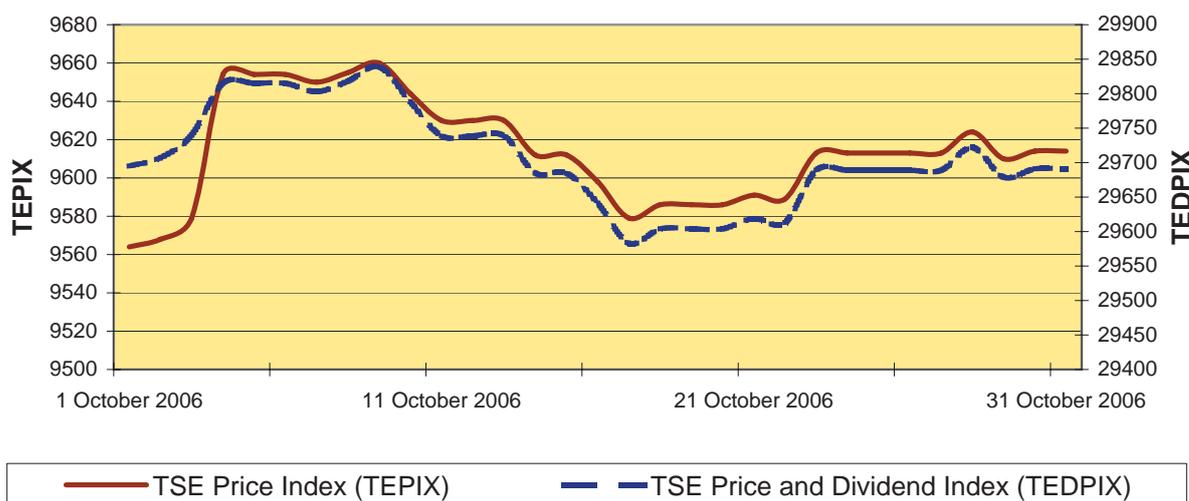
The other sources of worry for investors were the news of a collapse in the walls of the country's largest zinc and lead mine, Angouran. Angouran mine produces almost all the raw material used in zinc and lead production companies in Iran and as a result, the whole mining and metals sector took a direct hit from this news. However, the sector recovered when the mine contractor announced that the issue has been greatly exaggerated and most sections of the mine are up and running. There are contradicting reports on the extent of damage this accident has caused and how soon the mine will be repaired and fully operational.

The last issue disturbing investors' confidence was the news regarding the resignation of Mr. Madadi, head of the country's Social Security Organization (SSO) which owns one of Iran's largest investment firms. The Social Security Investment Company (SSIC) has been an active market-maker and supported many of the listed companies under Mr. Madadi's management and the rumors regarding his resignation created uncertainties about the fate of companies in which SSIC is a major shareholder. However, the worries were relieved when it was later announced that Mr. Madadi will stay in his post for the time being.

Other notable news on the market:

- Minor fall of prices in the Petrochemical sector due to the drop in global oil and derivatives prices
- Daily gains and long demand queues in the under-valued banking sector
- Establishment of the Tehran Stock Exchange Company that oversees the activities of the bourse and the selection of mostly finance-oriented individuals in its Board of Directors has given hope for the development of a more transparent and professional exchange

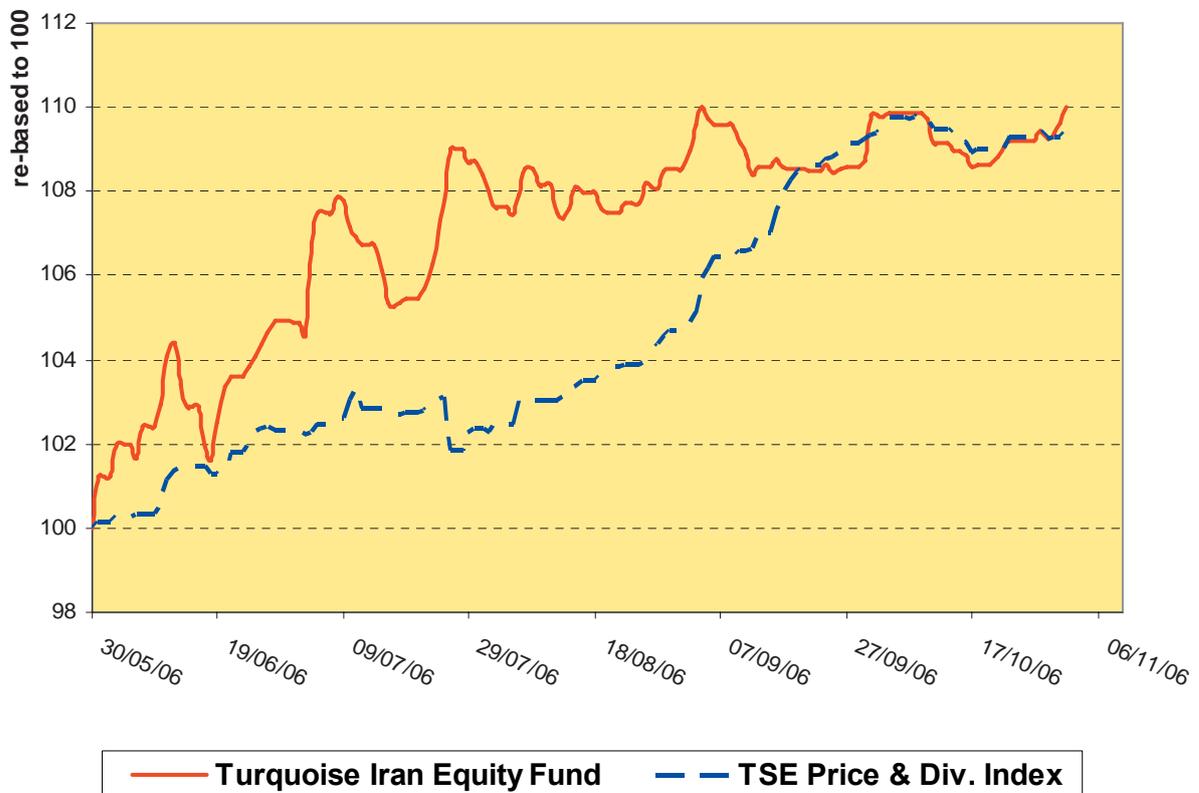
Performance of TSE Indices (October 2006)



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 - During October, the fund's investment committee met on a weekly basis to monitor existing stocks and select attractive companies for addition to the fund's portfolio. The TSE Index has performed well and reduced the gap with the fund's performance. Turquoise is satisfied with the performance of the fund so far. Generally, there was a reduction in market activity and trade during the month of October. The fund's performance is expected to grow faster than the benchmark during the next month given that some of the companies in the portfolio are expected to announce positive adjustments to their annual earnings.

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



	1 Sep 06	1 Oct 06	1 Nov 06
Turquoise Fund	8.53 %	9.82 %	10.01 %
TEDPIX	4.70 %	9.33 %	9.46 %

PROJECT # 1**Title:** Extraction of Polymer Grains and Iron from Recycled Tires**Investment Size:** ~ \$8 million**Sector:** Recycling**Description:**

The project involves production of polymer grains, iron and tire fibers that could be extracted from used auto tires. This would be Iran's first tire recycling plant.

For the implementation of the project, a recycling complex must be set up and the machineries imported from Europe. Cost of the machineries, for recycling two tons of tires per hour, would be around \$ 6.5 million and there is a \$1.5 million cost for construction and preparation of the plant site.

The project's expected annual IRR is around 30% which could be enhanced by further investment and plant expansion. This recycling plant is environmentally-friendly and in accordance with Iranian environmental regulations. The period for construction of the plant is expected to be around ten months from the finalization of the contract.

Potential:

Considering the ever-growing Iranian automobile manufacturing sector, there seems to be great potential for the tire recycling business. Currently, there are seven million vehicles in Iran, and the country produces over one million vehicles annually. Given that each vehicle consumes around 5 kg of tires each year, Iran currently wastes 35,000 tons of used tires per year which is increasing annually. These tires could be recycled for extraction of polymer grains as well as iron and tire fibers.

From recycling two tons of tires per hour, 1.2 tons of polymer grains could be produced, valued globally at around \$500 per ton, in addition to 720 kg of Iron, valued at \$400 per ton and 80 kg of tire fibers.

PROJECT # 2**Title:** Copper Mine with Additional Silver, Gold & Molybdenum Reserves**Investment Size:** ~ \$10 million**Sector:** Mining**Description:**

This project involves detailed exploration and development of the Takht-e-Gonbad copper deposit in Central Iran. The mine is located in a mountainous area where weather is cold and snowy in winters and mild in summers. The average elevation of the mine site is around 2,750 meters from sea level.

Semi-detailed exploration works such as topographical and geological maps in scale 1/1000, geophysical studies, geochemical sampling and around 1000 meters of drilling have been conducted in the mine area so far.

Chemical analysis on more than 500 ore samples from the mine demonstrate metal deposits of copper (Cu) with 0.2 to 6.7 percent content, molybdenum (Mo) with 0.001 to 0.005 percent content, Gold (Au) with 0.01 to 0.55 ppm and Silver (Ag) with 1 to 34 ppm.

Potential:

Based on semi-detailed explorations in small portions of the mine, there is an expected 12 million tons of copper deposit (10 million tons in oxide form and 2 million tons in sulfide form) with average content of 0.6%. However, if detailed exploration is conducted throughout the mineralization zone, the total deposit of the mine is expected to exceed 30 million tons.

This is a high risk - high return investment in a potential copper mine located in an area of Iran which is famous for its copper deposits.

Generally, the mood of the market was calm and quiet in October. Due to the month of Ramadan, there was a considerable decline in business activity as well as the volume of trade on the Tehran Stock Exchange. Significant developments in October were the reporting on President Ahmadinejad's one year performance in office and also the reference of Iran's nuclear dispute back to the UN Security Council for the consideration of possible punitive measures.

In his report to the people of Iran, President Ahmadinejad appeared live on television defending his policies with a special focus given to the economy, trade and finance. He pointed out that non-oil exports have increased by 60% during the first six months of the Iranian year while imports rose by only 1.2%, indicating that 110 bilateral agreements and contracts have been signed with other countries during his one year in office to promote trade. Mr. Ahmadinejad specifically defended his economic policy of increased government expenditure; calling for an amendment to the national budget for increasing funds of development projects across the country while pointing out that amid increased expenditure his government has been able to curb inflation to 10.9%, down from 14.6% during last year. Although official statistics put the inflation rate at that level, there has been a significant rise in prices of most goods, especially food, during the month of Ramadan which has created discontent amongst the poor. Supreme Leader Ayatollah Khamenei has warned the government regarding rising prices and asked cabinet to do everything it can to prevent further hikes in the prices of goods.

Following many rounds of tough and long negotiations between Iranian and European representatives, the EU foreign policy chief, Javier Solana, decided to call the negotiations with Iran a failure and asked for the UN Security Council's involvement to resolve the impasse. Although there are tough words coming from both sides regarding sanctions and possible reactions from Iran, a UN Security Council decision to impose significant sanctions on Iran is highly unlikely. Most analysts believe that sanctions, if introduced at all by the Council, will be temporary, limited and targeted to officials and individuals who are linked to the country's nuclear program.

- **Foreign Debt:** Central Bank of Iran (CBI) announced that the country's total foreign debt by 21st June 2006 stood at \$24.7 billion showing an 11% increase compared to the same time last year. Short term debts accounted for \$14.3 billion (58%) while medium to long term debts constituted \$10.4 billion (42%) of the country's total debt.
- **Auto Production and Imports:** The government's decision to cut tariffs on the import of cars by 10% each year has dramatically increased the number of cars imported into the country. In the first 6 months of the current Iranian year 9,462 cars were imported which is 186% higher compared to the same period last year. Currently, the tariff imposed on car import stands at around 90%. It is worth noting that in the same 6 months, Iran produced a total of 490 thousands vehicles which shows a 5% increase compared to same period last year.
- **Tax Income:** The government's tax income grew by 30% in the first 6 months of the current Iranian year. Although Iran's tax income as a percentage of total income is standing at around 40%, which is comparably higher than other regional oil-producing countries, it is still much lower than some other emerging markets such as South Korea (87%), Malaysia (81%), Turkey (77%) and India (72%).
- **Bank Parsian's Foreign Investment:** Parsian Investment Company (affiliated to Bank Parsian) has gained approval from Britain's financial regulatory body for the takeover of Sabanci Bank, the UK subsidiary of Akbank of Turkey. Parsian will be the first private Iranian bank to have a presence in the City of London.
- **Foreign Direct Investment (FDI):** There are contradicting reports on the amount of Foreign Direct Investment into Iran in recent years. What is certain is that there has been a sharp FDI decline in 2004 and 2005 compared to 2003. Although Iranian sources put the FDI figures at a few billion dollars for 2005 (which usually includes buy-back projects in the oil and gas sector), the figure published by UNCTAD, the internationally recognized UN affiliated organization responsible for trade and development, puts Iran's inward FDI figures at only \$30 million for 2005, showing a 70% drop compared to 2004 (\$100 million) and a 94% drop since 2003 (\$482 million). Meanwhile, Iran's foreign investment organization announced that in the year-to-October 2006, a total of 39 projects for foreign investment worth \$1.6 billion have been approved, showing a 14% increase compared to last year.
- **Gasoline Consumption:** Rising petrol consumption poses one of the biggest economic challenges to the country and is turning into a national crisis. Iran currently produces 40 million liters of gasoline and consumes around 67 million liters per day. In the last few months, given the high global oil prices, Iran had to import half a billion dollars worth of gasoline per month. Considering the production of around one million vehicles per year and heavily subsidized gasoline prices, the government is forced to make a quick and sustainable decision to curb demand and resolve the crisis. Currently the Cabinet and Parliament are discussing a few options such as rationalizing gasoline through smart cards, selling imported gasoline at global prices, developing new and modern urban transportation systems and renewing the aging fleet of taxis, buses and trucks with new and more efficient, including CNG consuming, vehicles.
- **National Reserves:** Following US threats and sanctions against one of the major publicly-owned commercial banks in Iran, Bank Saderat, the head of Iran's Central Bank said that such actions would force Iran to move further away from Dollar reserves. He said that Iran is looking into the possibility of changing parts of its reserves to other currencies.
- **Multinationals in Iran:** French energy giant, Total, has decided to go ahead with its large development plans in Iran's oil and gas sectors amid US threats. The company's CEO, Thierry Desmarest, has told Financial Times that Total fully respects French, European Union and UN regulations, but "US regulations were the problem of US companies." Total is negotiating to build a large LNG facility for Iran's South Pars, the world's largest offshore gas field.
- **New Industries:** From zero production a few years ago, Iran has now become the third largest ostrich producer in the world producing some 120 to 150 thousand birds each year. It is worth noting that several foreign investment projects were implemented in this sector and the products are almost solely exported to European and regional markets.

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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