

HAPPY PERSIAN NEW YEAR 1386



Part of the "Haft-Sin" table set for the Persian New Year, Nowrouz.

THIS MONTH

Market Overview **2**

February started with the impact of the successful privatization of the National Iranian Copper Industries Company which raised investors' hope. Many of the listed companies temporarily suspended trading for fresh announcements of their forecasted earnings given that their fiscal year is coming to an end. Some of the hotly debated sectors of the Exchange are analyzed in this edition.

Turquoise Iran Equity Fund **3**

Turquoise Fund experienced little volatility in February amid the negative performance of most market indices. The Turquoise Investment Committee drew up the Fund's strategy for the coming Iranian year.

Privatization & IPOs **5**

The second IPO under the new privatization program and the largest offering in the history of the Tehran Stock Exchange is planned for March 2007. Shares of the Mobarakeh Steel Complex (MSC) will be offered on the Exchange for the first time. Historic performance of the MSC and its future forecasts are discussed in this section.

Country Overview **6**

The meeting between representatives of the US and Iran in Iraq has raised hopes that a breakthrough in bilateral relations could be in the pipeline. In February, an election to choose members of the Iran Chamber of Commerce was held in which reformists and pragmatists were able to secure a significant victory. It was the first time that reformist candidates were allowed to run. Historically, the traditional right-wing bazari faction had always controlled the Chamber of Commerce.

Economy **7**

News and views on the country's macro economy with special attention given to interest rate policies, the production of cellular phones, development plans for the public transportation system as well as trade statistics.

Iran Investment Monthly is produced by Turquoise Partners. Distributed electronically by exclusive subscription.

Editor: Ramin Rabii

© 2006 All rights reserved

Turquoise Fund, Second floor, Mottahari Street, No.248, Tehran, Iran

T: +98 21 88 30 40 79, F: +98 21 88 82 68 36

Email: ramin.rabii@turquoisepartners.com

To find out more about Turquoise Partners, visit our website at:

www.turquoisepartners.com.

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

February began with a flurry of activity caused by the Initial Public Offering (IPO) of the National Iranian Copper Industries Company (NICIC). After months of delay, the IPO of NICIC took place on January 28, 2007. The initial valuation was set at \$0.40 (Rials 3,703) per share which gave the company a market capitalization of \$2.3 billion making it the largest listed company. The demand for the stock continued into February and the share price rose by 13% to stand at 4200 Rials, at which point the stock trading was suspended for the announcement of new earnings forecasts for the next Iranian year (beginning 20 March 2007) which analysts believe will decrease due to negative speculation about the prospects for commodities prices in 2007.

The followings are analysis of some of the most hotly debated sectors of the TSE in February:

Zinc: Trading of all companies in this sector was temporarily suspended to allow fresh financial forecasts to be announced. Due to the world market's negative outlook for zinc prices and recent drops, these companies are expected to announce negative adjustments to their forecasts and as a result start trading at a 20 to 30 percent discount on current share prices.

Petrochemicals: This sector is also predicting on average a 15% reduction in its forecasts, mainly due to lower international oil prices. However, the government's decision to deregulate pricing of petrochemical products could result in positive adjustments to forecasts in the coming months.

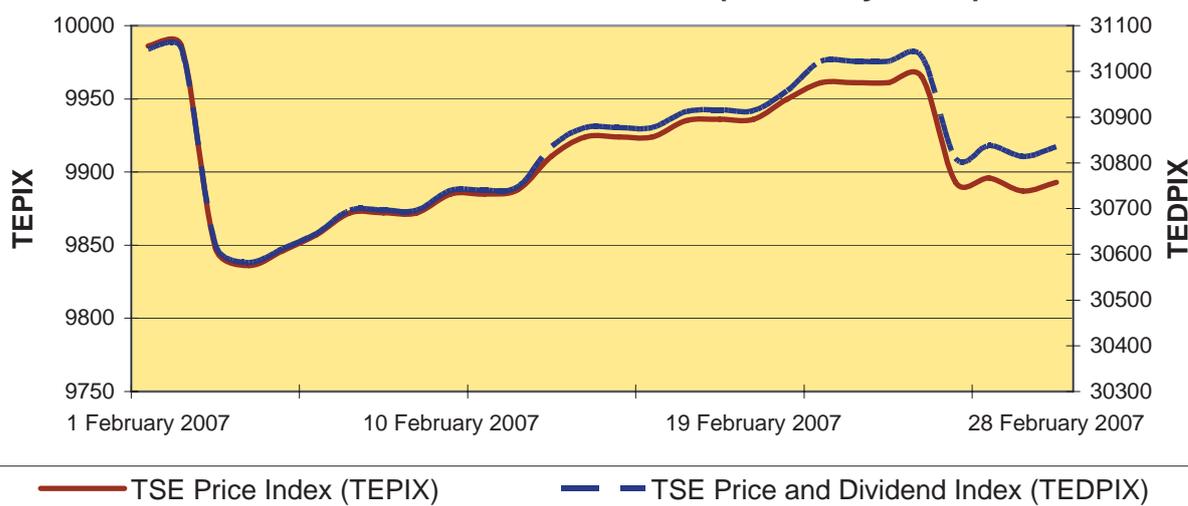
Autos and Auto Parts: After the cement industry, Auto and Auto Parts Manufacturing is the second largest sector on the TSE with a total value of around \$6 billion (15% of the market's total value). Although the outlook for this sector is not very attractive due to the near-saturation situation in the car market as well as foreign competition, these stocks usually become attractive in the final weeks of the Iranian year (in March) and all the way until around June when they hold their Annual General Meetings. This is due to their low Price-Earning (PE) ratios - averaged at 3.2 in February - and high dividend yield which is usually over 20% annually and is announced during their AGMs.

Cement: The decision to keep the price of cement regulated by the government for next year has accelerated the decline in the value of listed companies in this industry. Although this sector is the largest sector on the TSE and represents 17% of the total value of the market, it has been experiencing a continuous downward trend over a number of years. Experts believe that since the government is the largest consumer of cement for its development projects, it is reluctant to deregulate the pricing of cement which has seriously hurt this sector over the past several years.

Banking: Parsian, the largest privately owned bank in Iran, attracted a heavy wave of purchase orders. It is rumored that Iran Khodro, its biggest shareholder, is in the market for a major sell off and there are keenly interested institutional investors who are busily buying out the smaller share holders.

Overall, the Tehran Stock Exchange (TSE) saw a better month in February than in January. Trade volume improved and the TSE Price Index (TEPIX) lost only 1%, from 9987 to 9894.

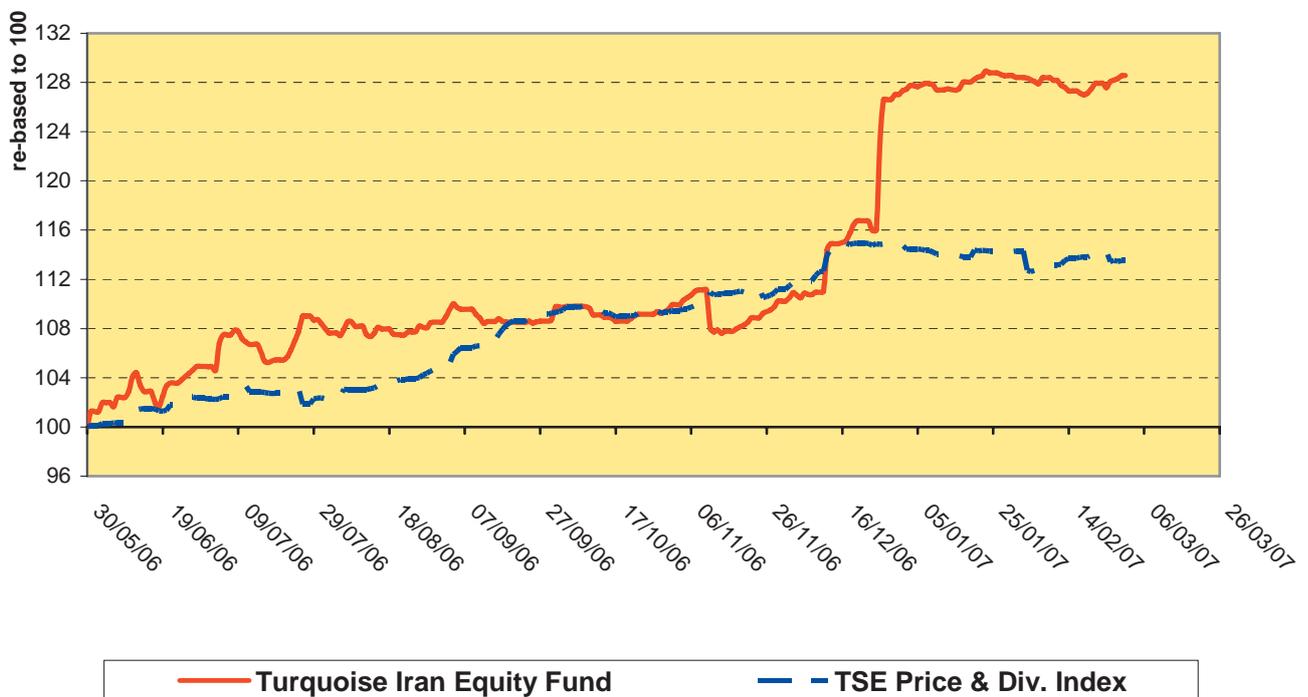
Performance of TSE Indices (February 2007)



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, 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.

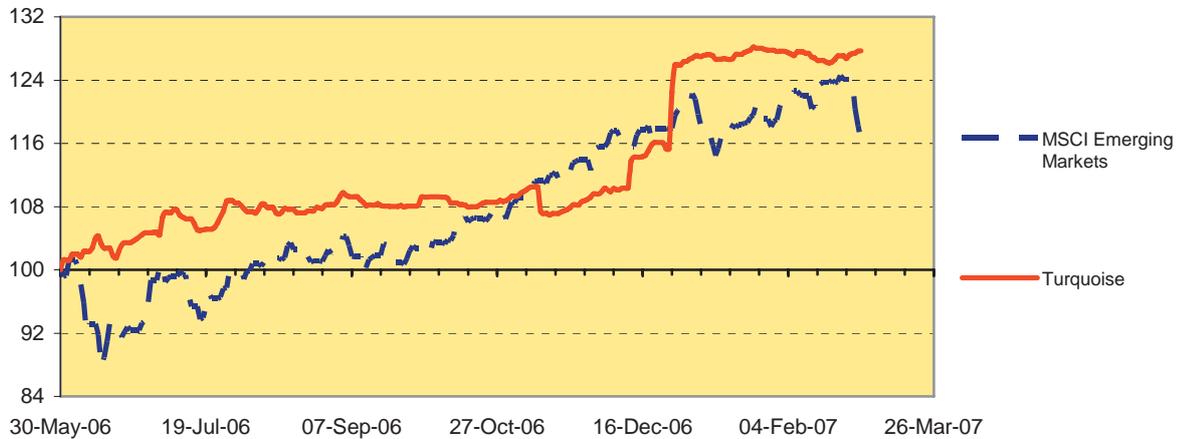
Monthly Report – Even though the market indices lost some ground, the Turquoise Fund experienced only a slight dip from 128.59 to 128.55, displaying little volatility during the month of February. There was little change to the Fund’s holdings during the month. The Investment Committee met regularly in February and drew up the Fund’s strategy for the coming Iranian year which will begin on the 20th of March. Attractive sectors and companies were discussed in detail and selected for the next Iranian calendar year. The following graph shows the performance of the Turquoise Iran Equity Fund against the Benchmark since the launch of the Fund. In addition, the performance of the fund against MSCI Emerging Market and the Fund performance in different currencies are displayed on the next page.

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



	1 Jan 07	1 Feb 07	1 Mar 07
Turquoise Fund	27.34 %	28.40 %	28.55 %
TEDPIX	14.75 %	14.31 %	13.53 %

Turquoise Performance vs. MSCI Emerging Markets



Turquoise Performance in US Dollar (US\$)



Turquoise Performance in Euro (€)



Turquoise Performance in British Pound Sterling (£)

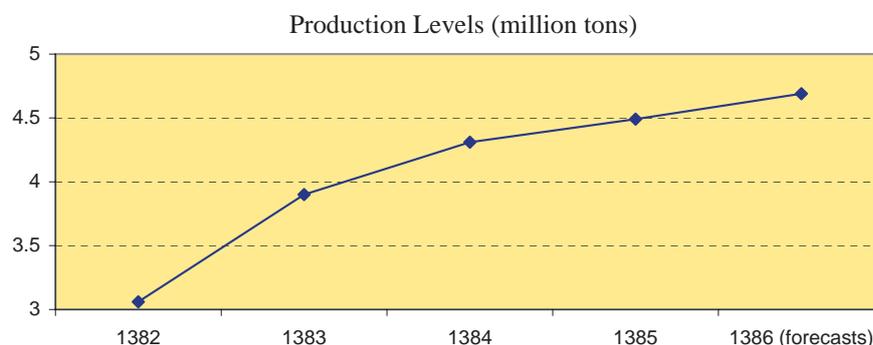
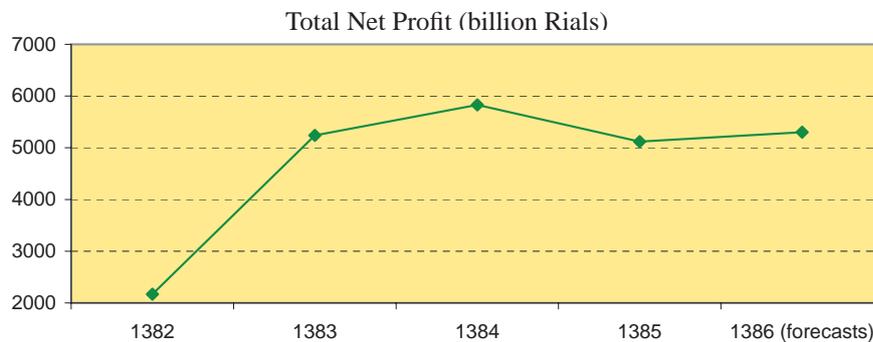
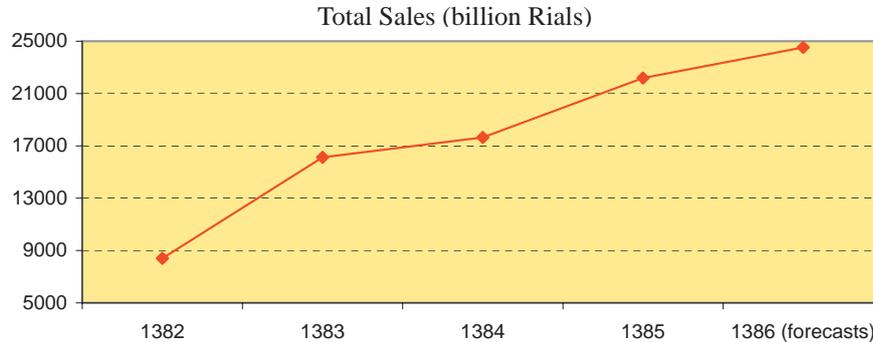


In March, for the first time the government will be selling 5% (790 million shares) of Mobarakeh Steel Complex (MSC) in an IPO which represents the largest initial public offering in the 40-year history of the Tehran Stock Exchange (TSE). This is the second company that is being privatized under the recently approved privatization program which has been ratified by all the powerful decision-making bodies of the country. National Iranian Copper Industries Company (NICIC) was the first offering which was sold successfully and the second offering which was of a power plant management company called MAPNA, failed due to the government's resistance to selling at the valuation determined by the market.

For the IPO of the MSC, initially 3% (474 million shares) then 2% (316 million shares) of the company stocks will be offered. The initial valuation will be determined based on supply and demand but the speculation puts the market capitalization at around 3 billion dollars on the opening day.

With annual sales of around \$2 billion, MSC was ranked 9th in the top 100 companies in Iran during the previous Iranian year (ended March 2006). Current year's net profit projections were set at \$555 million of which over \$300 million was realized within the first 6 months of the year. With a projected 25% increase in the production capacity of steel sheets, company's earning next year is expected to witness an ascending trend. MSC's fixed assets are currently estimated at \$1.8 billion.

With over 4 million tons of production capacity, MSC is considered the largest producer of cold and hot rolled steel and galvanized products in the Middle East. MSC's products are in compliance with international standards and are exported to Germany, England, the UAE, and China. The company's raw material is almost entirely supplied by domestic firms. The following graphs demonstrate the company's sale, profit and production trends in recent years as well as next year's forecasts. (Iranian year 1386 will begin on 20 March 2007)



US-Iran meeting

In an attempt to enforce new security measures and to stem the tide of sectarian violence, the Iraqi government invited its neighbors including Iran and Syria, the five permanent members of the UN Security Council, and Egypt to a security conference. The preliminary meeting took place on March 10th, to be followed by a meeting at a more senior level later in April. Although, Iraq's stability issue was the main topic, the realization of Iranian and U.S. delegates meeting face to face after so long has prompted political experts and pundits alike to speculate on the opening of a dialogue between the two countries.

The head of the Iranian National Security Council, Ali Larijani, welcomed the initiative and characterized it as a positive step, and the U.S. State Department did not exclude any particular interaction between the two groups. At any rate, the hope is that such dialogue may lead to further talks towards reducing tensions and perhaps even a breakthrough in the bilateral relations between the two countries which broke off following the Iranian revolution of 1979. Such breakthroughs between Iran and the U.S., even at a preliminary stage, will have a significant positive impact on the Iranian investment market.

Chambers of Commerce Election

On February 21, 2007, in a country-wide election to choose members of the Chambers of Commerce, people went to the polls in great numbers. In Tehran and most major cities long waiting lines were replete with businessmen and entrepreneurs who were registered to vote.

The Iran Chamber of Commerce election, held every 4 years, is usually a non-event. In the past, even people directly affected by its decisions considered it banal. However, this year's approval of candidates from different political and economic leanings by the election's supervisory body resulted in significant rise in participation rates which has more than doubled in some areas. The most significant issue about this year's election however, was not the participation rate, but rather the results which showed an almost complete victory for the reformist and the pragmatic conservative candidates against neo-conservatives who oppose free market economy and private investment. Traditionally, the Chamber of Commerce has been a stronghold of the conservatives which have controlled the body for over two decades but emergence of neo-conservative coalitions with populist ideologies in recent years had most entrepreneurs and businessmen worried about the possible outcome of this election.

The result of this election was also a boost for the country's privatization program which has been moving forward very slowly amid direct orders issued by the most powerful authorities. The victory of reformists who pursue a free market economy and pragmatic conservatives who have ties to the bazaar and traditional business institutions has raised hopes for increased involvement of the private sector in the country's economy, deregulation of pricing of products and services and introduction of market-friendly laws and regulations.

- **Next Year's Interest Rates:** There are hot debates going on in Iran over the possibility of the government reducing banking interest rates by another two percent in the coming Iranian year for a second consecutive year. Interest rates were reduced by 2% this year in April 2006. The Iranian Monetary and Credit Council has been discussing the reduction of the interest rates for some time. The government is trying to curb the inflation rate amid increased spending by introducing directive deflationary policies such as the reduction of commercial banking interest rates. The ceiling for the interest rates charged by the commercial banks currently stands at 14 percent for the state-operated banks and 17 percent for the private banking institutions. Supporters of the reduction plan, mostly government affiliated bodies, point out the deflationary impact and the growing investment in production and manufacturing fields as their main reasoning behind their support. This is while the critics, mainly private business-owners and economists, believe that reducing interest rates in an inflationary environment will only increase purposeless liquidity in the market which over time will have significant negative consequences like increasing the level of inflation, creating price bubbles as well as rising import levels.
- **Cell Phone Production:** An Iranian consortium has reached preliminary agreements with mobile phone producer Nokia to launch a cellular phone production plant in Iran early next year. An Iranian company is currently in the production phase of LG cellular phones under an agreement that was reached at beginning of the current Iranian year. The government has approved the increase of tariffs on cellular phones on an annual basis and has imposed strict customs regulations to prevent smuggling of unregistered handsets into the country. The regulations are aimed at encouraging domestic production of cell phone handsets. The handsets that are currently produced in Iran are assembled from semi knocked-down (SKD) parts. This will later change to assembly of completely knocked-down (CKD) parts which increases the value added by Iranian producers. There is an annual demand of over \$300 million worth of cellular handsets in Iran.
- **Renovation of Public Transportation Fleet:** In order to curb the growing consumption of gasoline, reduce fuel subsidies and control the rising air pollution of the larger cities, the government has introduced an extensive renewal plan for the aging transportation fleet of the country. According to published figures, there are currently 4,000 vehicles of over 40 years of age that are operating in the country's transportation fleet. Under this plan, which is referred to as Article 13, the Iranian annual budget law has obliged the government to spend extensively and quickly to increase the capacity of the transportation systems in the country, with special focus given to the large cities. These systems include underground subway systems, over-ground mono-rail trains, bus systems, local van systems and public taxis. At the end of the country's third five-year development plan in 2005, the median age of the transportation fleet stood at 18 years. This figure must decrease to 12 years by 2010 according to the fourth five-year development plan of Iran.
- **Leading Trade Partners:** United Arab Emirates (UAE), Germany and China were leading the list of countries with the highest value of goods and services exported to Iran during the first 10 months of the Iranian year. In the same period, UAE, China and Iraq were the top three destinations for the export of Iranian products and services.
- **Auto Parts Export:** Iran has exported around \$300 million worth of auto parts in the first 10 months of the current Iranian year. This figure shows a 40% increase in value compared to the same period of last year. Aiming to become a leading global auto parts exporter, Iranian parts manufacturers currently supply parts for over one million vehicles that are produced domestically as well as international car-making giants such as Renault-Nissan, Peugeot-Citroen and Mercedes-Benz.

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

Disclaimer

This material is for information purposes only and does not constitute an offer to sell, nor a solicitation of an offer to buy any specific shares.

The analysis provided by this publication is based on information that we consider reliable and every effort is made to ensure that the facts we publish are correct. However, we do not represent that all facts and figures are complete and accurate; therefore, we can not be held legally responsible for errors, omissions and inaccuracy.

This publication does not provide individually tailored investment advice and may not match the financial circumstances of some of its recipients. The securities discussed in this publication may not be suitable for all investors. The value of an investment can go down as well as up. Past performance is no guarantee of future success.

Copyright Notice

No part of this newsletter may be reproduced or transmitted in any form or by any means electronic, mechanical, photocopies, recording or by any information storage or retrieval system without prior written consent of Turquoise Partners.