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THIS MONTH

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In January 2008, the Tehran Stock Exchange (TSE) continued its positive trend from the month of December. The upbeat sentiment was brought about by the relatively calm political environment over the Christmas Holiday period. The United States National Intelligence Estimate and Iran's increased co-operation with the International Atomic Energy Agency (IAEA) continued to drive the market upward for most of January.

During this month, the TSE Price Index (TEPIX) exceeded the psychologically significant 10,000 level for the fifth time in the last few years, enhancing investor confidence and creating a more bullish market view amongst analysts. Strong demand from buyers continued to dominate the market, pushing the price of many stocks into positive territory over January. Meanwhile, global markets were experiencing sell-offs, once again indicating the lack of correlation between the Tehran Stock Exchange and other global markets. Although most companies achieved positive gains in January, most analysts believe that the short-term excitement in the market will settle and the demand-driven price fluctuations will decrease. Only stocks of those companies in a sound financial position and with real growth potential will continue to rise, while the rest will decline to their fair values.

In the third week of January, the UN Security Council's five permanent members, along with Germany, agreed on a new draft resolution for a third round of sanctions against Iran. The Tehran market reacted to this news by losing its positive momentum and remaining flat for the rest of the month, as a degree of uncertainty began to crystallise among investors. Analysts expect this uncertainty to continue during the month of February, as the endorsement of the new resolution by the UN Security Council is likely to be a slow process.

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

Auto Manufacturing:

In January, the auto manufacturing sector was the highest performing sector for the second consecutive month. Companies within this sector can be divided into two sub-sectors. The first sub-sector consists of Iran Khodro Industrial Group (the largest automotive manufacturer in the Middle East), its subsidiaries and its affiliated companies. This group of companies is currently facing significant structural and governance issues, and has large debt liabilities to banks. Consequently, investors in this sub-sector are exposed to a relatively higher price risk. The second sub-sector, Saipa Group and affiliated companies, is in a considerably stronger position.

Analysts forecast a declining trend in revenues in this sector over the next few years. In an analytical report of the Iranian automotive industry that the Parliament published in November, difficulties in the sales process and market saturation were identified as two key challenges faced by this industry. The general market consensus, in view of the P/E ratio for this sector growing from 2.5 to 3.1 in less than a month, is that the current level of growth in share prices is not sustainable.

Cement:

This sector was the second highest gainer in the market in January. Speculation around a possible liberalisation of the cement price by the government accelerated the growth in market values. Historically, shares of the companies within this sector were perceived as undervalued due to government imposed pricing regulations. However, recent price hikes have, to a great extent, helped them to achieve a more realistic value. It must also be considered that next year's forecast of inflation may not be reflected in the government-imposed price of cement. For these reasons, many analysts believe that there is no logical justification for investment in this sector until the price liberalisation plans have officially been confirmed by the government. The price ceiling set by the government for manufacturers is currently $40 for each tonne of cement; however, this cement is then traded at values of up to $80 per tonne in unofficial markets. Therefore, it is unsurprising that the removal of price restrictions will have a significant positive impact on this sector. Rumours about such a removal circulate in the market every few months. However, since the government itself is the largest consumer of cement in the country, any price liberalisation plans seem unlikely at present.

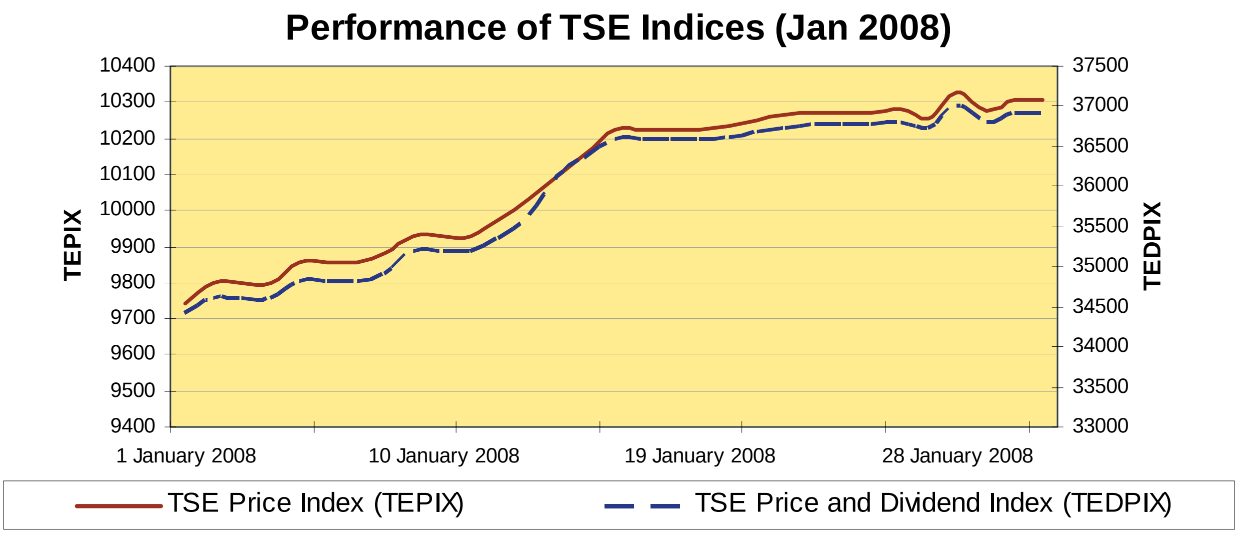
Banks and Leasing Companies:
Many market analysts are of the opinion that this sector is about to experience a significant price hike, resulting in higher earnings multiples and price target predictions. The Eghtesad Novin Bank (EN Bank) is currently leading the sector, as its net profit for this year is forecasted to grow by 25%. This institution recently received a prestigious international award from The Banker magazine.

Analysts expect the real possibility of increased profitability and share price growth for banks in the next Iranian calendar year, especially given the signs that the Central Bank and the government are softening their positions on the need to impose decreased interest rates on the banks. Should interest rates remain stable, leasing companies are also expected to enjoy enhanced profitability, although on a smaller scale. Currently, non-bank leasing institutions are offering finance facilities at a rate of 17%, in comparison with a government-imposed rate of 13% offered by the banks.

Zinc and Lead:
In early January, shares of companies within this sector experienced a price increase. However, the gains are thought to be the result of speculative trades rather than any analytical rationale. The prices of Zinc and Lead have experienced sizeable falls this year. Based on current global prices, the forecasted revenues of companies within this sector are expected to be at least 40% lower at year-end. With some analysts speculating on further decreases in metal commodity prices next year, revenues are likely to decrease even further in the following year. Despite the recent gains, analysts expect a fall in the share prices of the companies in this sector. The structural collapse of parts of the Angouran mine, the largest Zinc mine in the Middle East, last year and the severe weather conditions this winter, have disrupted production in this sector. These factors could further hit the producers' revenues.

Petrochemicals
During January, the unusually cold weather and the shortage of gas supplies in residential areas resulted in the reduction or disconnection of natural gas supplies to some of the petrochemical companies in Southern Iran. Consequently, production was brought to a halt. Also, the scheduled January Initial Public Offering of Fanavaran Petrochemical Company, a state-owned methanol-producer, has been delayed for a few weeks. This is due to the uncertainties raised from disruptions in the supply of natural gas. This would be the first oil-related offering by the Ministry of Petroleum as part of the government's recent privatisation scheme.

Overall, January witnessed further growth in the Tehran Stock Exchange, with the Dividend and Price Index (TEDPIX) gaining 7.3% in value. Total trade volume this month stood at $562 million, a similar amount to the figures for December. The following chart demonstrates the movement of the two main market indices during January.

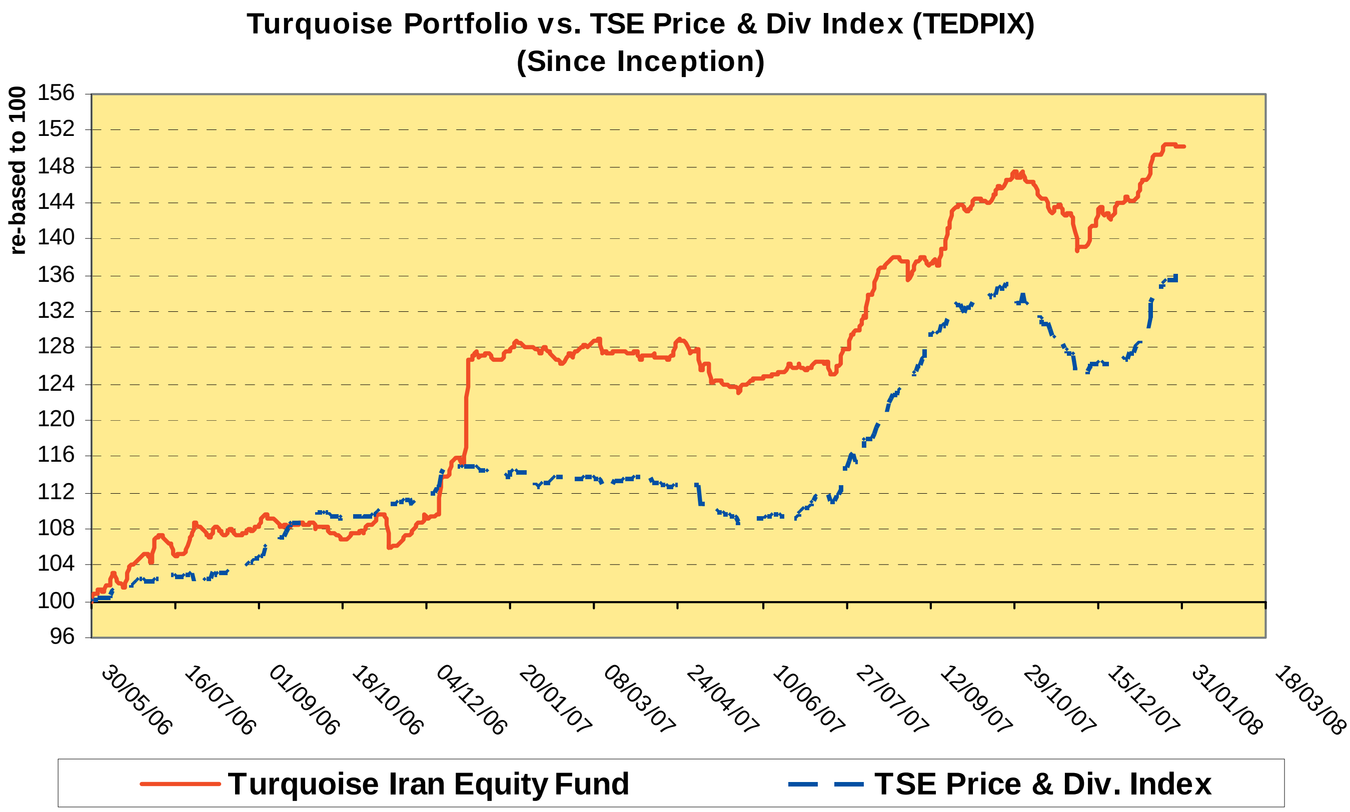


Investment Objective – The Turquoise Equity Fund seeks superior long-term capital growth by investing in the consumer and commodity potential of Iran, one of the most under-valued emerging markets in the world. Turquoise combines international experience with local expertise in investing in equities listed on the Tehran Stock Exchange (TSE) and other Iranian-based securities, thereby providing superior returns, with greater diversification and lower volatility. The base currency of the Fund is Iranian Rial.

Monthly Report – The Net Asset Value (NAV) of the Turquoise Fund grew by approximately 3.8% during the month of January to reach 150.27. The main market indices also witnessed strong performances, with the TSE Price Index (TEPIX) rising by 5.8% and the TSE Price and Dividend Index (TEDPIX) increasing by 7.3% over the course of the month.

A number of new investors entered into the Turquoise Fund this month, including private and institutional investors from Switzerland, the UK, and Korea.

The charts below illustrate the performance of the Fund against both the TEDPIX in local currency and also the Emerging Market index in USD, as well as the overall performance of the Fund in USD, Euro and GBP. The performance table also displays the historical performance of the Fund over a longer time frame.

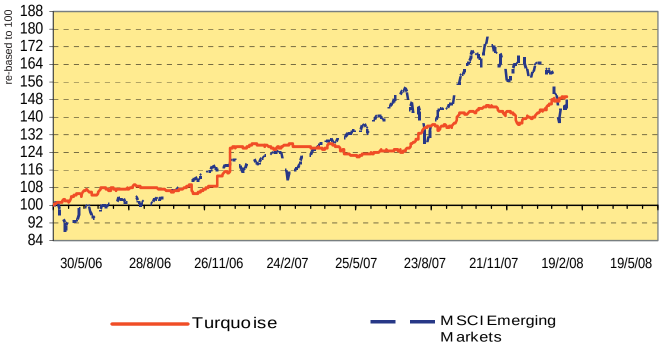


	Nov 07	Dec 07	Jan 08
Turquoise Fund	⬇2.64%	⬆1.31%	⬆3.78%
TEDPIX	⬇4.17%	⬇0.53%	⬆7.32%

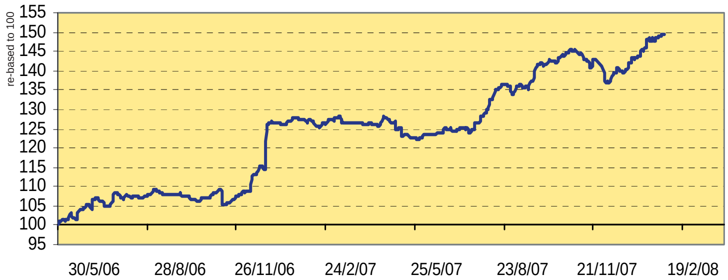
Performance

Period	Fund Return
Last 3 Months	2.37 %
Last 6 Months	16.03 %
Last 12 Months	17.41 %
Since Inception (30 May 06)	50.21 %

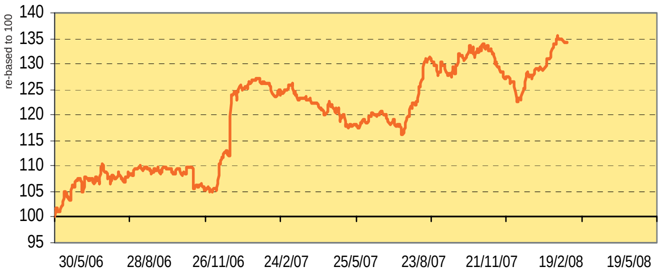
Turquoise Performance vs. MSCI Emerging Markets



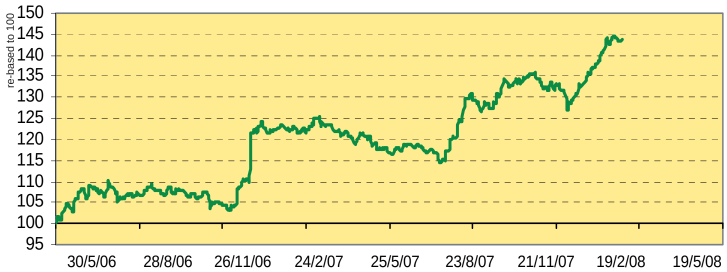
Turquoise Performance in US Dollar (US$)



Turquoise Performance in Euro (€)



Turquoise Performance in British Pound Sterling (£)



This edition of Country Overview will focus on the forthcoming parliamentary elections in Iran and the visit to Iran of the Director General of the International Atomic Energy Agency (IAEA).

Elections for the eighth Parliament of the Islamic Republic of Iran, also called the Majlis, are due to take place on 14th March 2008. More than 7,000 candidates, including approximately 600 women, have been registered for the elections of the 290-seat Parliament. There were also 17 candidates from the recognized religious minorities in Iran, comprising of Christians, Jews and Zoroastrians. Of these 17, 5 will gain parliamentary seats in order to represent the minorities. Under a recently approved law, the minimum voting age for this election has increased from 15 to 18 years old, and according to Iran's National Organisation for Civil Registration (NOCR), the number of eligible voters would be approximately 43 million.

Reports show that as of the end of January, some 70% of the registered candidates have been approved by the Guardian Council. 20% more have been disqualified, while the status of the remaining 10% is unconfirmed. The vetting process will take more time and the final number of eligible candidates may well change in the coming weeks.

The vetting of registered candidates consists of a two-staged process. In the first stage, Supervisory Councils of local districts, all of whom have been approved by the Guardian Council, will assess the eligibility and suitability of relevant candidates. They will do this by conducting checks and obtaining clearances and references from a number of sources. These sources include the Ministry of Intelligence, the NOCR, the Office of the National Prosecutor and the International Police Organisation (INTERPOL). Approved candidates will then be referred to the Guardian Council, and if their approval is endorsed, they can commence their public campaign. The Guardian Council is a body consisting of six clerics selected by the Supreme Leader and six legal experts elected by the Parliament. It has statutory powers under the Constitution to make the final call on who can run for parliamentary and presidential elections in Iran.

Although the Guardian Council has disqualified many reformist candidates and opponents of President Ahmadinejad's government, many analysts view this election as a vote of confidence for or against President Ahmadinejad's policies. In effect, the real contest in this election would be between reformists (headed by ex-President Khatami), centrists (headed by ex-President Rafsanjani and ex-Parliament Speaker Karubi) and moderate conservatives (headed by Mayor of Tehran Ghalibaf) versus the supporters of the President known as fundamentalists or neo-conservatives. It is worth noting that the current Majlis is controlled by a coalition of moderate conservatives and fundamentalists while the majority in the previous Majlis was held by the reformists. The conservatives easily won control of the current Majlis, after the Guardian Council disqualified most of the reformist candidates and consequently left little room for competition.

Mohamed ElBaradei, the Director General of the International Atomic Energy Agency (IAEA), visited Tehran on 11th January for the sixth time. He was accompanied by the Deputy Director General for Safeguards and the Director for External Relations and Policy Co-ordination of the IAEA. During his two day visit, he met a number of senior Iranian officials including Ayatollah Khamenei, the Supreme Leader, and President Ahmadinejad.

The first objective of this visit was to continue discussing ways to accelerate the implementation of safeguards, supervision and inspection of Iran's nuclear programme. The second was to promote further collaboration between the two sides in order to resolve the outstanding issues. Following the visit, Iranian officials announced that there is now a mutually agreed timeframe for Iran to respond to all of the IAEA's unresolved questions regarding the country's past nuclear activities. They added that Iran would respond to all questions within 40 days of the agreement. ElBaradei had previously noted in his November report, that while Iran had satisfactorily answered some of the questions posed by the IAEA, there remained areas where further information and documentation were required to provide clarification.

Many analysts view this outcome as another significant step towards resolving Iran’s nuclear issue. The National Intelligence Estimate (NIE), released by the United States in November, which concluded with “High Confidence” that Iran had not been pursuing nuclear weapons since 2003, had already substantially dampened US-led international pressure on Iran. This new development will provide China and Russia, as well as some of the non-permanent members of the UN Security Council, with additional arguments for resisting or delaying approval of any further sanctions until the IAEA’s talks with Iran have concluded. ElBaradei is expected to report to the IAEA’s Board of Governors in early March on the outcome of the Agency’s negotiations with Iran.

Iran and Italy Sign Oil Exploration Deal

On the 9th of January, the National Iranian Oil Company (NIOC) and Italy's utility company, Edison, signed a $107 million contract for exploration in the Dayyer block. This block is situated in Persian Gulf waters and covers an area of 8,500 square kilometres. The project is to be completed in four years, and will involve geological and seismic studies as well as the drilling of exploratory wells. In the event of the significant discovery of oil and gas deposits in the block that are economically feasible to recover, Edison will automatically be granted rights to negotiate a development and production contract with the NIOC without any further tenders. All of the exploration costs and also the potential developments costs will then be recovered from the revenues generated by the field on a "buy-back" scheme. However, if no recoverable deposits are found or extraction proves uneconomical, the exploration project's total costs will be borne by the Italian company.

Dayyer is one of 17 blocks that was put to international tender by the NIOC in Vienna, Austria, in February 2007. NIOC officials also expect further exploration contracts for some of the other blocks to be signed in the near future. The Dayyer block exploration contract comes despite US pressure on European and Asian countries to reduce their business ties with Iran, following the dispute over Iran's nuclear programme. In December 2007, Iran signed two major oil and gas deals with Malaysia and China worth $16 billion and $2 billion respectively.

Iran's Banking Relationship with China

Following the annual meeting of the Iran-China Chamber of Commerce in Tehran, a senior Iranian official reported that a number of Chinese banks have reduced business with Iranian banks and have also refused to offer credit facilities to Iranian traders over the past few months. The reason for this is believed to be mounting US pressure on international banks and financial institutions to cut or reduce their business ties with Iranian banks for as long as the country refuses to halt its uranium enrichment program. Iranian officials and the business elite have expressed concerns over this move by Chinese banks, noting that these actions will adversely impact the economic ties and commercial trade between the two countries. Iran's trade with China has expanded rapidly, increasing from just $1 billion five years ago to over $20 billion in 2007, making China Iran's largest trading partner.

Foreign Investment by Iran

The Iranian government's total investment in other economies was reported by the Iran Foreign Investment Company (IFIC) to stand at approximately $1.5 billion. This amount has been invested in 16 countries including Brazil, Germany, Egypt, Jordan, South Africa, United Arab Emirates, and Armenia. The IFIC was incorporated in 1998 by the Ministry of Economy and Finance, with the objective of managing and expanding Iranian holdings and investments abroad, through use of excess domestic resources. The government's total foreign investment through the IFIC is expected to increase over the next few years, with a particular focus on Central Asia, the Middle East and Latin America.

Iran and the UAE's Gas Deal

The Executive Management team of the UAE private energy company, Crescent Petroleum, arrived in Tehran at the end of this month to continue the long-running negotiations over the pricing mechanism of Iran's gas exports to the UAE. A contract was signed between the two parties in 2001 for a 25-year supply of natural gas from Iran to the Persian Gulf state. According to the contract, the delivery of the gas was due to commence in mid-2006. However, this has been delayed due to ongoing talks and disagreements over the pricing mechanisms of the natural gas exports. As a result of rising fuel prices globally, the original fixed price agreement is now contested by Iran. According to Iran's State Audit Agency, the country would suffer a loss of around $44 billion over 25 years if it goes ahead with the fixed price mechanism.

Iran's Current Account Surplus

According to a report published by the Economist Intelligence Unit (EIU) in January, Iran's current account surplus is expected to grow to $21.6 billion by the end of the current Iranian calendar year (21st March). This is an increase of almost $1 billion from last year's figure, and is equivalent to 8.4% of the GDP. This report predicts that the surplus will reach $21.7 billion in 2009, the highest level for the past decade, before falling to $17.8 billion in 2010.

Iran's Trade with Japan

According to data released by the Japanese Ministry of Finance, the total value of trade between Iran and Japan reached $14 billion in 2007. This represented a 16% increase in comparison to the previous year. Iran's crude oil exports to Japan also increased by an average of 16,000 barrels per day in 2007, making Iran the third largest supplier of crude oil to Japan, after Saudi Arabia and the UAE.

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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