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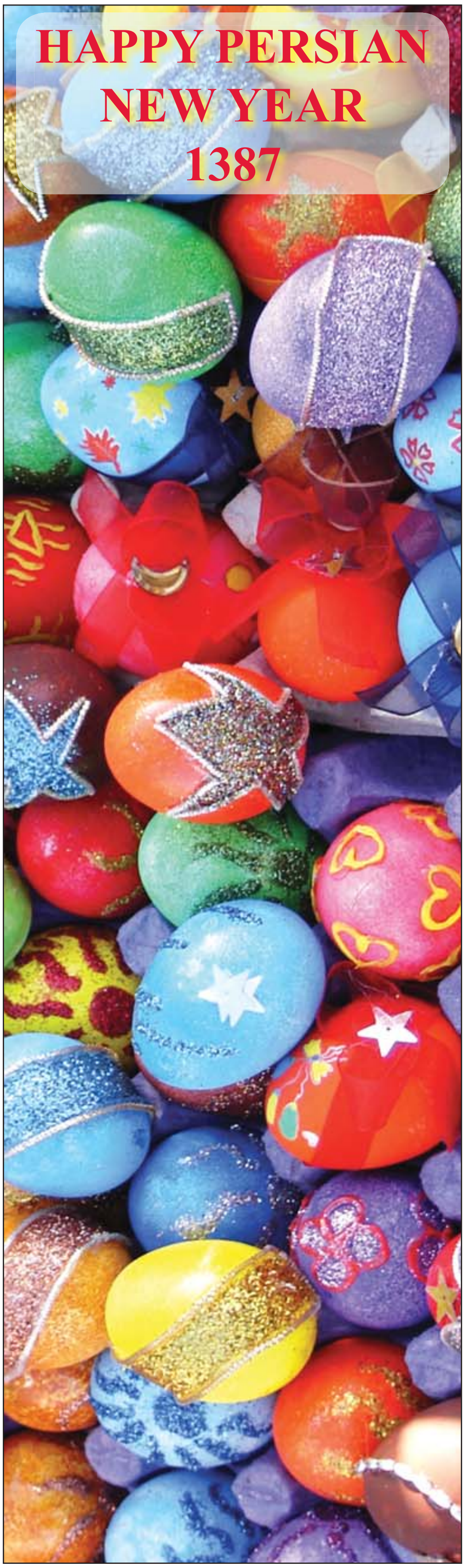
TURQUOISE PARTNERS


Painted Eggs for "Haft-Seen" Table, Which is Set Up as Part of the Iranian New Year, Norouz, Celebrations.

## THIS MONTH

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In February, the Tehran Stock Exchange's (TSE) positive momentum of the past two months was dampened by market uncertainty, and various political and economical events. Market traders have taken a cautious stance, both because of the approach of the Iranian calendar's year-end (20th March) and also because the annual earnings forecast figures for most listed companies are due in February. At this time of the year, many investors begin to clear and settle their accounts with their brokers. They often sell some of their holdings in order to realize profits before the year-end. Consequently, this exerts a downward pressure on market prices.

February witnessed a number of stock offerings on the TSE, as the government's privatization plans continued apace. A further 20% ownership stake (4 blocks of 5%) of the Mobarakeh Steel Complex, the largest listed company on the TSE by market capitalization, was successfully placed for cash and installments. The first offering from the oil sector took place in early February. On 3rd February, a 5% block of the Fanavaran Petrochemical Company, a methanol producer, was placed on the TSE to ascertain its market price. The market gave the company an overall value of $690 million. Later in the month, a further 11% of the company was gradually sold on the TSE. The Iranian Privatization Organization has announced that the remaining government shares in Fanavaran (another 35%) will be sold on the market in March. However, market analysts did not welcome this news. Their view was that these further placements would reduce the availability of liquid funds in the market, and that any new offerings would stretch the market and drive down prices.

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

### Mining and Metals:

In early February, the Parliament voted to increase the total annual fee for "rights of extraction" in mines throughout Iran. The fee was raised from $40 million in the current Iranian year to $100 million next year. Although this extraction fee constitutes only a small portion of mining companies costs, the unexpected two and a half fold increase in fees shocked the sector and generated a bearish view among analysts and investors alike.

The shares of the National Iranian Copper Industries Company (NICIC), the second largest listed company by market capitalization, experienced significant price fluctuations this month. This was driven by the dynamics of the international copper market, as the copper price exceeded $8000 per tonne globally. Analysts believe that the share price of the NICIC will be particularly sensitive to the global price of copper, over the coming Iranian year. The NICIC earnings forecast for next year is based on an average copper price of $6300 per tonne.

Iranian iron ore producers are currently selling their products below global prices, at $60 per tonne. Following the recent rise in the global iron ore price, these producers will be in a stronger negotiating position regarding their pricing in the coming year. However, any price increase will need to be approved by the Ministry of Industries and Mines.

### Petrochemicals:

Analysts divide the companies of this sector into two groups. The first group comprises those companies using gas as feedstock. These companies are all conveniently located along the Persian Gulf coastline. The second group consists of companies using crude oil, that are scattered throughout the centre and south west of Iran. Analysts have higher Return on Investment (ROI) expectations of the first group.

The most significant event in this sector was the 18th of February opening of the Iranian International Petroleum Exchange (IIPE) in the free-zone island of Kish. Initially, petrochemical products such as polyethylene and methanol will be traded, and other products will be added in subsequent phases. Currently, all trades take place in Iranian Rial, on a spot basis and at Persian Gulf FOB prices. Conventional derivative contracts are currently forbidden, as they are considered to be non-compliant with Islamic Sharia law. It is expected that Sharia-compliant Futures and Options contracts will enter this market in the near future.

Following early trades on the IIPE, the sector encountered increasing speculation regarding a potential price liberalization by the government. However, many analysts remain cautious about the removal of the government's sale price restrictions. This is because such a removal is likely to be followed by increases in the price of raw materials. Companies within this sector currently receive their oil and gas feedstock at a 30-50% discount in comparison to global prices.

**Banks:**

The government's fiscal policy for next year is currently being prepared, and will have important implications for the capital markets. The core revenues of banks and credit insititutions are generated from financial intermediation, and their profitability will be determined by the government-set level of interest rates on financing facilities. Any improvement in such government policies will benefit the banking sector.

In February, the three listed and privately owned banks had trading of their shares suspended. This suspension happened while the banks held general meetings to assess the potential to increase their capital base by 20-50%. Increasing the capital base will allow these banks to expand their revenue generating businesses and consequently, increase their profit volumes.

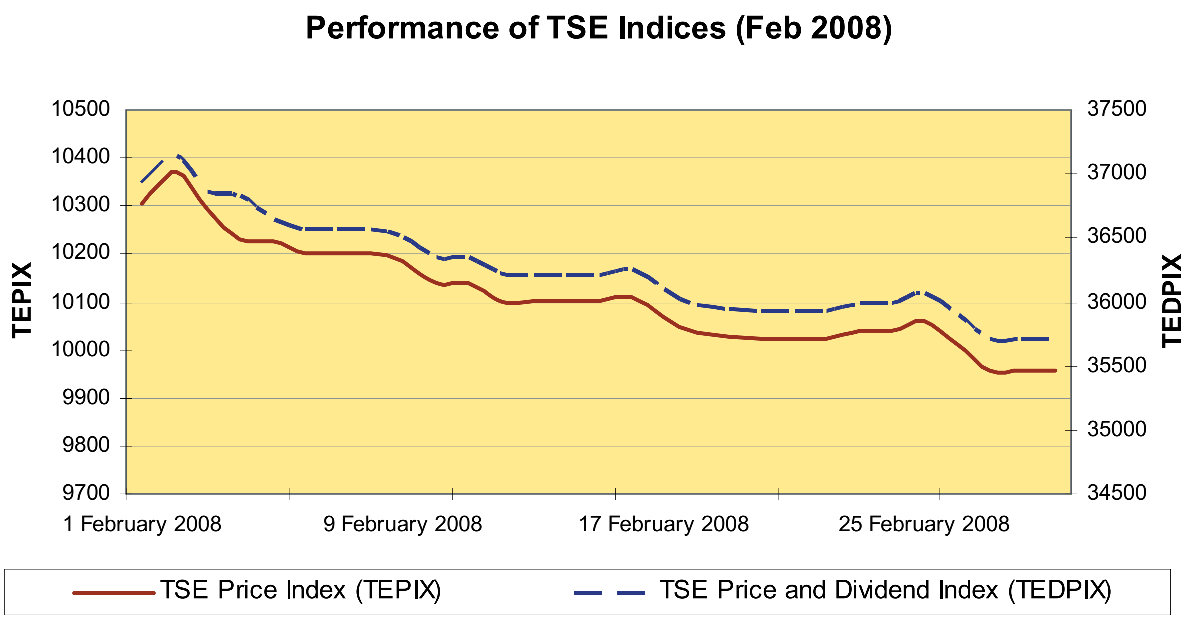
**Construction:**

Statistics released on the 12th of February revealed that in the first half of the Iranian year, there was a 58% increase in the number of building construction permissions granted by the government, in comparison to the previous year. These new permissions equate to new construction of approximately 14.6 million square meters and should, to some extent, help the long-term recovery of this declining sector. However, this news failed to generate any excitement among market participants, and the share price of companies in this sector continued to fall.

**Sugar:**

According to statistics released in February, there is currently an excess of 1.46 million tonnes of sugar stored in factories around the country. This is because manufacturers have been unable to find sufficient customers, and follows excessive sugar imports over the past year. On the 15th of February, twenty-five members of the Iranian parliament signed a letter to the government, requesting that difficulties faced by the sugar industry should be resolved in a timely manner. Domestic consumption of sugar is estimated at 2 million tonnes annually. Therefore, the difficulties are expected to continue next year, although an increase in the global price of sugar products should help manufacturers to some degree.

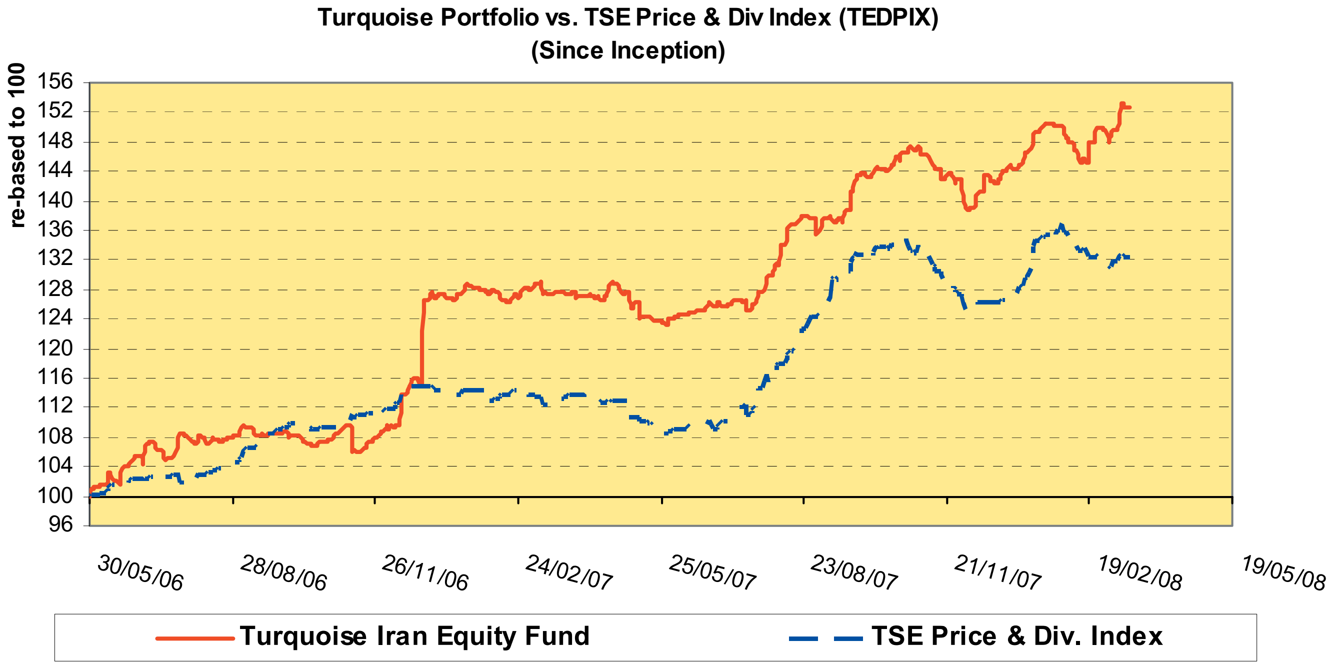
Overall, the TSE faced a difficult month, with the Dividend and Price Index (TEDPIX) losing 3.3% of its value. Trade volumes also fell from $562 million in January to $476 million in February, resulting in a 15% decline. The following chart demonstrates the performace of the two main market indices:



**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 undervalued 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 held up in a falling market with only a minor loss. While the TSE Price and Dividend Index (TEDPIX) fell by some 3.3% in February, the Turquoise Fund unit index only had a 0.3% loss, closing at 149.7 by the end of the month. During the first two weeks of March, the Turquoise Fund significantly outperformed the market. While the TEDPIX went up by around 0.8%, the NAV of Turquoise Fund grew by 2% to mark a record performance of approximately 53% since the inception of the Fund in May 2006.

The charts below provide an update up to the middle of March, on 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.

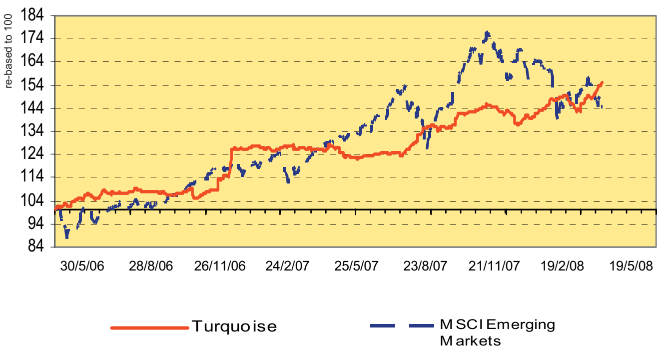



| | Dec 07 | Jan 08 | Feb 08 |
|---|---|---|---|
| Turquoise Fund | ⬆ 1.31% | ⬆ 3.78% | ⬇ 0.3% |
| TEDPIX | ⬇ 0.53% | ⬆ 7.32% | ⬇ 3.3% |

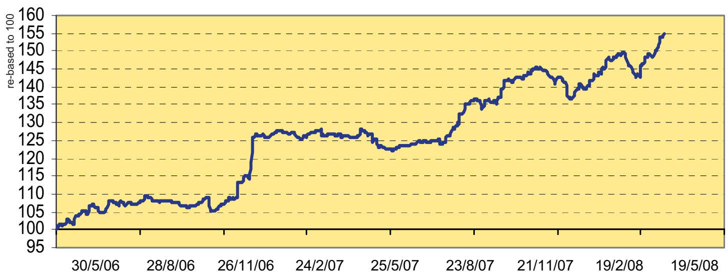
## Performance

| As of 15 March 2008 | |
|---|---|
| **Period** | **Fund Return** |
| *Last 3 Months* | ⬆ **6.7 %** |
| *Last 6 Months* | ⬆ **11.0 %** |
| *Last 12 Months* | ⬆ **20.1 %** |
| *Since Inception (30 May 06)* | ⬆ **52.8 %** |

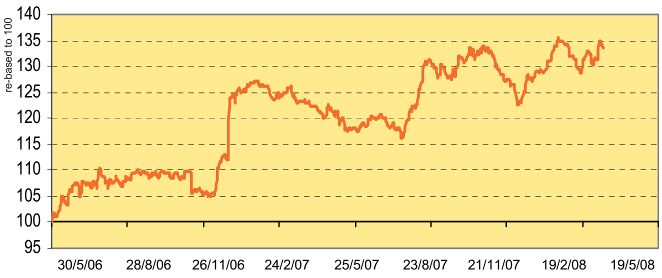
### Turquoise Performance vs. MSCI Emerging Markets



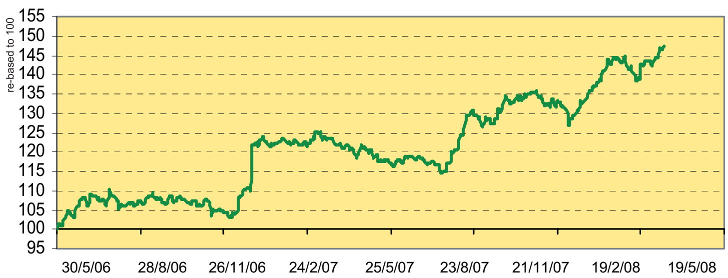

### Turquoise Performance in US Dollar (US$)




### Turquoise Performance in Euro (€)




### Turquoise Performance in British Pound Sterling (£)



In February, the TSE witnessed three significant stock offerings by the government, as part of its privatization program. These are covered in depth below:

## Fanavaran Petrochemical Company

Fanavaran is the second largest methanol producer in Iran, with an annual production capacity of 1 million tonnes. The production plant is less than 4 years old; however, it has achieved a return on equity rate of around 20%, generating a profit in excess of $135 million. Prior to the offering, 51% of Fanavaran was government-owned. The remaining 49% was owned by the Social Security Organisation, the State Pension Fund and the Oil Employees Fund. Fanavaran was the first company from the oil and gas industry to undergo privatization.

On the 3rd of February, a 5% share of Fanavaran was placed on the TSE to ascertain the market price. Subsequently, a further 11% was absorbed by the market over a period of 4 days. The 16% offering was sold for the sum of $110 million, an amount that values the company at approximately $690 million. The majority of the offering was bought by existing shareholders. These shareholders are competing for two vacant positions on the Fanavaran's Board, in order to exert control on the management of the company. A further offering of 16% is expected in March, and analysts believe that this will mostly be taken up by existing shareholders. The government will then give away its remaining shares (around 19%) to some of the quasi-governmental institutional investors. This is in order to clear its debts for liabilities owed from previous years.

Fanavaran Petrochemical Company will be the first complete divestiture by the government under the privatization scheme. It is regarded by many analysts as one of the most successful examples of privatization so far.

## Mobarakeh Steel Complex

In the third week of February, a further 20% of the Mobarakeh Steel Complex was successfully sold in the market. The government offered this in 4 blocks of 5%. Each block was valued at $330 million. The buyers were required to pay 20% cash upfront and the rest in instalments over a 5 year period with 12% interest (below the risk-free rate of 15.5%) . The Steel Employees Fund and the Mehr Finance & Credit Institution Fund each acquired one block. The Social Security Organisation bought the other two blocks, becoming the largest shareholder in Mobarakeh with a 14% holding. Consequently, the Social Security Organisation became the first shareholder to gain a position on the board of Mobarakeh Steel Complex.

The government had previously offered this 20% in November, first as one single block and later as 4 blocks of 5%. Both attempts were unsuccessful, mainly due to the lack of liquid funds in the market. Analysts believe that the recent increase in the global steel price, the government's 50% subsidy on the iron ore price, and the new payment structure (cash upfront and instalments over 5 years) are the key reasons for the success of this latest offering.

## Iran Aluminium Company (IRALCO)

On the 19th of February, a 40% block of the IRALCO, valued at $100 million, was offered to the market. A consortium of Iranian institutional investors competed with Sarmayeh Bank, a privately owned bank, for this offering. This resulted in the offering price going up by 2%. The block finally went to the Iranian consortium consisting of mainly Mehr Credit & Finance Institute and Industrial Development Investment Company of Iran. The payment mechanism was similar to that of Mobarakeh, namely 20% cash upfront and

80% instalments over 5 years. Previously, there was a handout of 40% of the company as "Justice Shares" last year and an offering of 5% on the market in June 2007. Following this latest offering, the government plans to retain its remaining holding in the company which has been reduced to 15%.

**Razi Petrochemical Company**

A Turkish consortium has made a successful offer of $680 million for Razi Petrochemical Company (RPC), becoming the first foreign investor to acquire an Iranian company as part of the recent privatization program. The consortium, led by Gubretas of Turkey, consists of three Turkish companies and one Iranian company. It is among the five largest chemical groups in Europe and is listed and traded on the Istanbul Stock Exchange. Gubretas, a manufacturer of chemical fertiliser in Turkey, is also listed on the Istanbul Stock Exchange, and enjoyed a 3.5% increase in share price following the announcement of the deal.

According to the agreement, the consortium will acquire 95% ownership of RPC, which has net assets of $300 million, and will take control of the management of the company. The remaining 5% is deemed as non-sellable and is reserved for an employee share scheme. The consortium will pay the Iranian Privatization Organization 20% cash upfront and the other 80% in instalments over 5 years.

Iran's budget for the next calendar year, and the IAEA's most recent report on Iran's nuclear program will be the focus of this edition of Country Overview.

Iran's budget for the Iranian calendar year 1387 (2008-2009) was approved by the Parliament in February. The approved total budget of $304 billion was 20% higher than the previous year's figure. It consists of $84 billion for the government's general budget and $220 billion for organisations, banks and other governmental institutions. 58% of revenues are expected to come from oil and gas, 25% from taxes and 17% from other sources, including the privatization program. Oil revenues are calculated based on the price of $50 per barrel at the US Dollar conversion rate of 9000 Rials. Any surplus revenue from oil and gas sales are to be paid into the foreign exchange reserve account.

This year's budget has two distinct differences in comparison to those of previous years. Firstly, it only covers a general breakdown of revenues and expenditures. Responsibility for the specific underlying details, such as the allocation of funds to individual organizations, has been passed on to the ministries. Government officials say that this year's budget has been greatly simplified, being both more transparent and also easier for the public to understand. Secondly, responsibility for planning the budget has been shifted from the Management & Planning Organization of Iran (MPORG) to the government itself, following President Ahmadinejad's decision to dissolve this organization. Critics feel that while these changes received parliamentary approval, in practice they dampen the Parliament's ability to control and supervise government expenditure.

A notable feature of this year's budget is the 30% increase from the previous year, in the allocation of funds for urban and rural development projects. This, however, has been criticized by some who believe that there is no capacity to absorb the additional funds. They believe that consequences will include a rise in excess liquidity in the economy that will cause inflation, already at high levels, to soar even further. Conversely, there has been wide acclaim for a key part of this year's budget, namely the government's plan to reinvest 3% of the oil and gas revenues into the expansion of the extraction and production facilities. Furthermore, the budget for fuel imports has fallen from $6 billion in previous years to $3.2 billion for next year. This was made possible due to the introduction of gasoline rationing, resulting in a national decrease in gasoline consumption of approximately 20%.

In late February, a progress report on Iran's nuclear programme was published by the International Atomic Energy Agency (IAEA). Following the visit of Mohamed El-Baradei, the Director General of the IAEA, to Tehran in January, it was mutually agreed that Iran would respond to all of the IAEA's questions within a set timeframe. This latest report communicated the results of the negotiations to the UN Security Council.

El-Baradei explained in this report that, after years of inspection and supervision of the Iranian nuclear program, the agency has found no proof that the program has any military application. It also noted that whilst Iran had been cooperative and responded to the list of outstanding questions raised by the agency, the IAEA still cannot conclude with any confidence that Iran's nuclear programme does not have a military dimension. The report also referred to Iran's failure to comply with the two UN Security Council Resolutions requiring the country to suspend its uranium enrichment program.

This report was regarded by Iranian officials as a great victory. These officials assert that Iran has been able to respond to all of IAEA's questions and prove that its nuclear activities are for the purposes of power generation only. The international reaction, however, was less positive. The timing of the release of this report was unfavourable for Iran. This was because it coincided with Iran's first aerospace experiment, where a missile was launched into space. The US and its allies attempted to link this experiment with Iran's nuclear program, in order to increase international pressure on Iran. Following the publication of this report, UN Security Council members voted on a third round of sanctions against Iran. The terms of this resolution are far less tough than the West had envisaged, due to resistance by Russia and China. The new resolution specifies a further list of Iranian individuals who are thought to be involved with the nuclear programme, and imposes travel bans on them. Furthermore, it requests that UN member States impose greater control and supervision on the activities of Iranian bank branches in their respective countries.

## Anti-Money Laundering Law

In early February, the Guardian Council endorsed the implementation of an Anti-Money Laundering Law in Iran. Although the draft legislation was initially submitted to and approved by the Parliament in 2003, aspects of this draft were disputed by the Guardian Council. After five years of discussion between the Parliament and the Guardian Council, the law has finally become enforceable under Iran's constitution.

This legislation was put in place in response to a set of restrictions placed on the Iranian financial system by international institutions. The Financial Action Task Force (FATF), an international organization responsible for the development and promotion of international policies to combat money laundering and terrorist financing, imposed sanctions on a number of Iranian banks. This was due to the lack of a robust and comprehensive anti-money laundering regime in Iran.

Following the endorsement of this law, money laundering is now treated as a criminal offence in Iran. Officials believe that the new law will enhance trust in the Iranian financial system, and improve business conditions and opportunities for Iranian financial institutions in the international arena.

## Company Sales League Table

Iran's Industrial Management Organization (IMO) published a league table of the top 100 companies by sales volume, for the Iranian calendar year 1385 (2006-2007). Iran Khodro, the largest automotive manufacturer in the Middle East, stood at the top of the table with total sales of $7.9 billion. The top five companies and their sales-based revenues are listed below:

| | |
|---|---|
| 1. Iran Khodro plc | $7.9 billion |
| 2. Iran Mines & Mining Industries Development & Renovation (IMIDRO) | $7.8 billion |
| 3. Saipa plc (automotive manufacturer) | $5.6 billion |
| 4. National Petrochemical Company (NPC) | $4.5 billion |
| 5. Melli Bank Iran | $3.9 billion |

Total revenue from sales generated by the top 100 companies stood at $93 billion, amounting to a growth of 29% from the previous year. The highest climber in this table was Iran Minerals Production and Supply Company (IMPSC), moving up 186 positions from 287th in the year 1384 to 92nd in 1385. Pasargad Bank was the second highest riser, moving up 160 places in the table.

A second table has also been provided by the IMO, ranking companies based on their net profits for the year 1385. IMIDRO was ranked highest in this table, while Saipa, Mobile Communications of Iran (MCI), National Iranian Copper Industries Company (NICIC) and Mobarakeh Steel Complex were in second to fifth position respectively.

## Internet Penetration Rates

The minister of Information & Communications Technology announced that the internet penetration rate in Iran has increased to 27% this year. This figure stood at 18% last year. According to reports, 15,000 bank branches, 320 universities and the majority of schools in the country have now been connected to the internet.

Statistics from Internet World Stats show that 18 million of the 33.5 million internet users in the Middle East, are based in Iran. This results in Iran having the highest number of internet users in the Middle East, comprising 54% of all users in the region. Iran's internet penetration rate stands higher than the Middle East's average of 17% and the global average of 20%.

## Foreign Investment in Iran

Iranian officials have insisted that there are no restrictions on foreign investors acquiring Iranian companies, and that a proportion of a particular industry (but not the industry as a whole) can be owned by a foreign entity.

A Turkish consortium has been named as the first potential foreign investor to acquire an Iranian company as part of the privatisation scheme. The consortium acquired a 95% stake in the Razi Petrochemical Company (RPC). This deal will bring greater comfort to investors planning to enter the Iranian 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.

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