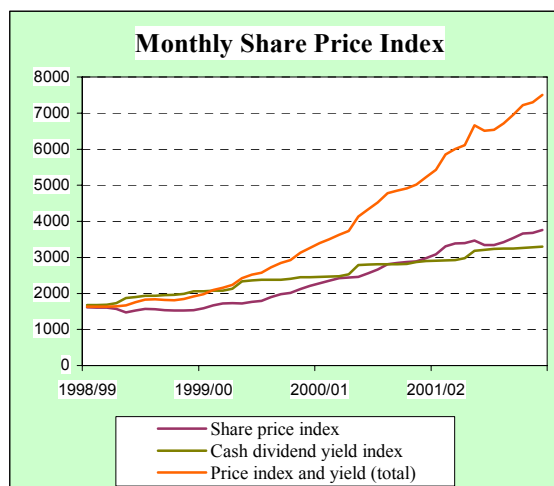


CHAPTER ELEVEN

CAPITAL MARKET

The Tehran Stock Exchange (TSE) faced a relatively sluggish market in 1380, as compared with the previous year. The pace of growth of most TSE indices, enjoying a noticeable increase in 1379, either reduced or slipped in the review year. Large issuance and sales of participation papers and further familiarity of investors with the said instrument, having more liquid nature, with guaranteed rate of return and relatively lower risk as compared to alternative instruments can be considered as reasons for reduction in the value, number and times of share trading. Moreover, the consequences of September 11 events on reducing the TSE trading in the second half of 1380, on the one hand and the time lag for the establishment of specialized holding companies on the other, are among factors which acted as impediments to rise of TSE activities.



The rial value of trading ratio to average liquidity (M2) and GDP declined from 4.3 and 1.6 percent to 2.8 and 1.2 percent in 1380, respectively. These reductions were due to decrease in the value of tradings, on the one hand and increase in liquidity and GDP on the other.

With the commencement of the 3rd FYDP the TSE Organization, aiming at revitalizing the capital market and establishing the fundamentals of an integrated, efficient and dynamic market, attempted to take measures to achieve the following objectives. Although, some were not realized in this year, the ground has been paved for their realization in the coming years.

- Establishment of regional stock markets
- Implementation of new regulation for listing companies on the TSE
- Opening a new floor for foreign exchange trading
- Operation of basic metals market
- Operation of TSE information network
- Revision and finalizing the criteria for acceptance of participation papers on the TSE, and tailoring mechanism for participation papers and CD trading
- Designing regulation for execution of electronic trading in TSE
- Designing regulation for absorption of foreign investments in TSE

TSE SHARE TRADINGS

	Number of shares traded (million share)			Value of tradings (billion rials)			Number of active days of TSE in the year	Average number of shares traded per day (million shares)	Average value of shares traded per day (billion rials)
	Shares	Priority	Total	Shares	Priority	Total			
1376	485.3	70.9	556.2	1,894.0	123.6	2,017.6	242	2.30	8.34
1377	1,133.6	69.1	1,202.7	2,992.0	124.7	3,116.7	244	4.93	12.77
1378	1,056.2	125.7	1,181.9	5,137.1	106.5	5,243.6	243	4.86	21.58
1379	1,606.7	74.8	1,681.5	9,118.8	57.9	9,176.7	241	6.98	38.08
1380	1,621.6	84.0	1,705.6	7,702.5	128.4	7,830.9	243	7.02	32.23

Source: TSE, monthly reports of various years

Share Tradings

The number and value of shares and priority shares traded in the TSE faced 1.4 rise and 14.7 percent fall in 1380 respectively as compared with the previous year. A total of 1,705.6 million shares (including priority shares) valued at Rls. 7,830.9 billion were traded in this period. Reduction in the value of shares and priority shares traded against positive growth in the number of shares and priority share trading indicate that the average share price slumped in this period.

The TSE was open for business for 243 days in 1380. The average daily number of shares traded reached 7.02 million shares and the average value of daily shares and priority shares transactions reached Rls. 32.23 billion, showing 0.6 percent rise and 15.4 percent fall, respectively compared with the previous year.

	SHARE TRADING ON TSE (1)				(share percent)
	Number		Value		
	1 st half	2 nd half	1 st half	2 nd half	
1376	57.8	42.2	53.5	46.5	
1377	26.1	73.9	26.5	73.5	
1378	28.9	71.1	20.6	79.4	
1379	45.2	54.8	39.2	60.8	
1380	47.9	52.1	47.8	52.2	

Source: Tehran Stock Exchange

(1) Includes priority shares.

Review of the data on share trading on the TSE by industry indicates that “financial intermediaries”, with 45.3 and 27.1 percent share in number and value enjoyed the highest share. In 1380, shares and priority shares were traded 616,283 times. The number of trading fell by 12.8 percent compared with the previous year.

	NUMBER OF TRADINGS AND BUYERS			
	1378	1379	1380	Percentage change in 1380
Number of trading	431,142	707,065	616,283	-12.8
Number of buyers	234,761	342,764	315,918	-7.8
Average number of buying per person (share)	5,034.3	4,906.0	5,399.0	10.0
Average value of buying per person (million rials)	22.3	26.8	24.8	-7.5

At the end of the review year, the current value of stock market reached Rls. 81,681.8 billion, registering 30.7 percent growth compared with the previous year. Moreover, at the end of 1380, the total share price index grew by 26.2 percent compared with the previous year to reach 3,758.77 units from 2,978.29 in the year before. The turnover ratio⁽¹⁾ fell from 17.1 percent in 1379 to 10.6 percent in 1380 (38 percent reduction). Review of this ratio during the past five years indicates that it kept an increasing trend during 1376-79, however, it declined in 1380 due to significant fall in the current value of trading and stood at a lower level than in 1377.

The ratio of shares traded to total shares issued fell from 10.7 percent in 1379 to 9.1 percent in 1380. The comparison between this ratio and the turnover ratio indicates that the ratio of the number of traded shares to total issued shares was less than the turnover ratio during the recent years. This in turn is indicative of higher average share price to average market price.

**CURRENT VALUE OF SHARES, TURNOVER RATIO,
AND THE RATIO OF SHARES TRADED TO TOTAL SHARE ISSUED** (billion rials)

	Current value of shares at the end of the year	Value of transactions	Current value of stock market (average)	Turnover ratio (percent)	Ratio of shares traded to total shares issued
1376	27,128.8 (-12.9)	2,017.6 (-54.0)	27,944.6 (-5.9)	7.2	7.6
1377	26,584.6 (-2.0)	3,116.7 (54.5)	26,000.8 (-7.0)	12.0	13.7
1378	43,743.5 (64.5)	5,243.6 (68.2)	34,715.8 (33.5)	15.1	9.6
1379	62,486.6 (42.8)	9,176.7 (75.0)	53,769.2 (54.9)	17.1	10.7
1380	81,681.8 (30.7)	7,830.9 (-14.7)	74,127.3 (37.9)	10.6	9.1

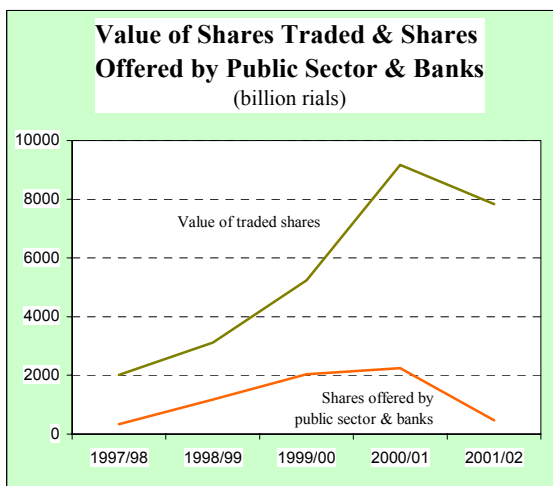
Source: Tehran Stock Exchange, monthly reports of various years

Figures in parentheses indicate percentage change over the previous year.

Stock Market Indices

Study of the stock market indices in the TSE indicates that the total price and cash dividend index, with 43.7 percent rise, reached 7,501.99 in 1380. The cash dividend and price indices grew by 13.8 and 26.2 percent, respectively, to reach 3,299.32 and 3,758.77. In this year, investors enjoyed not only a favorable dividend, but gained a good investment return which compensates for the reduction in purchasing power, although the growth rate of dividend and investment return declined compared with the previous year.

Amongst the components of share price index, the financial index enjoyed a relatively high growth of 33.9 percent. The industrial index fell from 34.7 percent in 1379 to 24.1 percent in the review year. Increase in the growth rate of financial price index as compared with industrial price index (33.9 percent against 24.1 percent) can be attributed to more demand on shares of investment companies owing to their diversified portfolios, which reduce investment risk.



(1) The turnover ratio is the ratio of trading value during the year to average current value of shares in the same year.

TSE INDICES

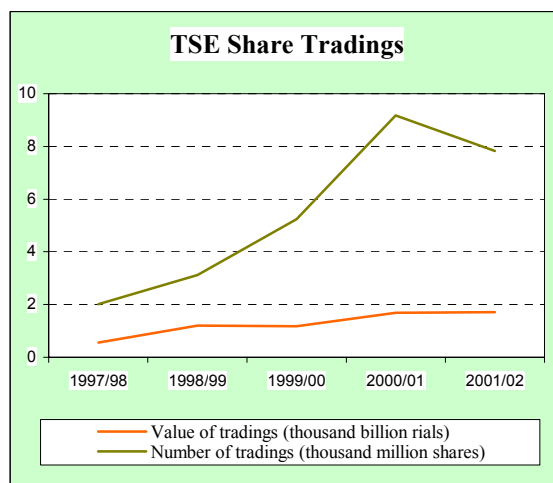
(1369=100)

	1377	1378	1379	1380	Percentage change	
					1379	1380
Price and cash dividend index	1,911.88	3,266.27	5,221.35	7,501.99	59.9	43.7
Cash dividend index	2,054.98	2,447.39	2,898.09	3,299.32	18.4	13.8
Share price index	1,537.96	2,206.19	2,978.29	3,758.77	35.0	26.2
Financial index	4,048.17	4,683.57	6,347.29	8,497.87	35.5	33.9
Industrial index	1,275.81	1,945.89	2,621.80	3,254.84	34.7	24.1

Source: Tehran Stock Exchange, monthly reports of various years

Shares Offered by Public Sector and Banks

The total shares offered by public corporations and institutions, foundations and banking system faced a dramatic decline in 1380. The time lag in the establishment process of specialized holding companies and non transferring of public corporations' share to private sector were among the major factors responsible for reduction in public sector and banks share offerings in 1380.



SHARES OFFERED BY THE PUBLIC SECTOR AND BANKS

	Number (million shares)		Value (billion rials)		Percentage change		Share (percent)	
	1379	1380	1379	1380	Number	Value	Number	Value
Public corporations and institutions	190.2	75.2	1,489.8	315.1	-60.5	-78.8	55.1	67.3
Foundations	22.3	9.2	37.2	11.3	-58.7	-69.6	6.7	2.4
Banking system	114.5	52.1	721.1	142.1	-54.5	-80.3	38.2	30.3
Central Bank	0	0	0	0	0	0	0	0
Commercial banks	21.2	14.3	120.9	30.3	-32.5	-74.9	10.5	6.5
Specialized banks	93.3	37.8	600.2	111.8	-59.5	-81.4	27.7	23.9
Total	327.0	136.5	2,248.0	468.5	-58.3	-79.2	100.0	100.0

Source: TSE, monthly reports for 1379 and 1380

Capital Increase and Number of Listed Companies

In the review year, out of the total companies listed on the TSE, 81 companies increased their capital by Rls. 2,978.5 billion. This capital increase was financed through following mechanisms: 39.9 percent (48 companies) from cash assets and claims, 40.3 percent (26 companies) from reserves and accumulated profit and the remaining 19.8 percent (7 companies) from cash assets, claims, reserves and accumulated profit.

In 1380, the total number of companies listed on the exchange board rose to 318. With the inclusion of 3 companies on suspension, the total number of listed companies reached 321.

FINANCIAL RESOURCES OF CAPITAL INCREASE OF

LISTED COMPANIES

(billion rials)

	Out of reserves and accumulated profit	Out of claims and cash assets	Out of reserves, accumulated profit and claims and cash assets	Total	Percentage change
1376	158.8	548.1	0	706.9	-72.7
1377	111.4	924.2	18.7	1,054.3	49.1
1378	784.1	1,463.0	15.5	2,262.6	114.6
1379▲	1,216.9	1,658.1	514.8	3,389.8	49.8
1380	1,199.6	1,189.8	589.1	2,978.5	-12.1

Source: Tehran Stock Exchange

NUMBER OF LISTED COMPANIES

	Year-end			Change in 1380
	1378	1379	1380	
Listed companies	295	307	318	11.0
Investment companies	18	19	19	0
Other companies	277	288	299	11.0
Companies on suspension	3	3	3	0
Conditionally listed companies	13	8	22	14.0
Total	311	318	343	25.0

Source: Tehran Stock Exchange, monthly reports of various years

Participation Papers

In the review year, Rls. 16,100 billion worth of participation papers were issued by the government, Central Bank and corporations, Rls. 15,543.3 billion of which was sold out. This figure represents that the amount of papers sold out in this year was three times more than that of the previous year. The provisional profit rate fell from 19 percent in 1379 to 17 percent in the review year. The high profit rate of papers as compared with bank deposit rates and enjoying a higher liquid nature and lower risk, together with further familiarity of investors with this new instrument resulted in the fact that investors purchased the great portion of the said papers, despite the 2 percentage point reduction in profit rate.

In accordance with the 1380 Budget Law, government issued Rls. 2,000 billion worth of participation papers with a validity of 5 years, which were almost totally sold out. Moreover, the Ministry of Energy issued Rls. 1,500 billion participation papers in Tir to complete electricity sector's projects and Rls. 500 billion participation papers at the end of Mehr to complete water projects, which were totally sold out. In the review year, the Ministry of Road and Transportation, Agriculture Jihad and Housing and Urban Development issued Rls. 1,100 billion participation papers, which were totally sold out.

In accordance with Article 91 of the 3rd FYDP Law and in line with the implementation of monetary policies, Central Bank issued Rls. 10,000 billion participation papers with a validity of one-year, Rls. 9,443.6 billion of which was sold. In 1380, Iran Khodro Company issued Rls. 1,000 billion participation papers with a validity of 4 years, which were totally sold out.

PARTICIPATION PAPERS UPTO THE END OF 1380

(billion rials)

	Number of projects	Times of issuance	Total approved amount	Issued amount	Sold amount	Provisional profit rate (percent per annum)	Participation papers at the end of 1380	
							Matured	Not matured
1373	1	4	250.0	250.0	250.0	20	250.0	0
1374	2	2	100.0	100.0	100.0	20	100.0	0
1375	2	5	593.1	593.1	593.1	20(1)	563.1	30.0
1376	3	3	2,460.3	2,335.0	2,259.0	20	2,259.0	0
1377	5	5	3,150.0	3,100.0	3,100.0	20	3,030.0	70.0
1378	5	8	2,530.0	2,530.0	2,457.0	19(2)	0	2,457.0
1379	3	5	10,300.0	10,300.0	5,216.0	19	2,916.0	2,300.0
1380	11	12	16,100.0	16,100.0	15,543.3	17	0	15,543.3
Total	32	44	35,483.4	35,308.1	29,518.4		9,118.1	20,400.3

(1) Excludes the first phase of Iran khodro participation papers with 24 percent profit rate.

(2) Excludes Acrylic participation papers with 20 percent profit rate.

Foreign Exchange Certificate of Deposit (CD)

During 1380, a total of Rls. 33,462.9 billion foreign exchange CDs were traded on the TSE, which included, Sterling pound, Swiss franc, UAE dirham and Japanese yen, in addition to dollar and euro. This shows 54.7 percent growth compared with the previous year, owing mostly to the further utilization of CD in imports.

The dollar CD trading made up 85.9 percent of total trading, valuing at \$ 3,627.3 million (Rls. 28,734.4 billion). Moreover, the euro CD trading made up 12 percent of total CD trading, so that €571.4 million valued at Rls. 4,002.1 billion was traded.

The average price of dollar equaled Rls. 7,921.7 and the average price of euro reached Rls. 7,004 in 1380. These rates were Rls. 8,069 and 7,205.4 respectively, in 1379.

CERTIFICATE OF DEPOSIT TRADINGS

	1379	1380	Percentage change
Dollar			
Amount traded (million dollars)	2,545.8	3,627.3	42.5
Rial value of trading (billion rials)	20,542.0	28,734.4	39.9
Average exchange rate (rial)	8,069.0	7,921.7	-1.8
Euro			
Amount traded (million euros)	151.9	571.4	276.2
Rial value of trading (billion rials)	1,094.5	4,002.1	265.7
Average exchange rate (rial)	7,205.4	7,004.0	-2.8
Other currencies			
Rial value of trading (billion rials)	0	726.4	0
Total (billion rials)	21,636.5	33,462.9	54.7

Source: Tehran Stock Exchange, Monthly Reports