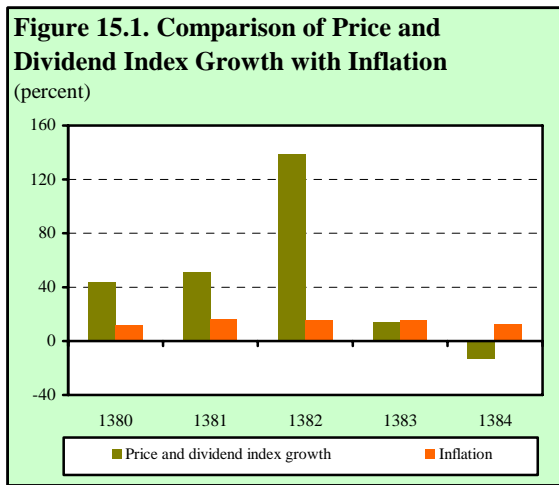


Flourishing during the course of 1381 to 1383, the Tehran Stock Exchange (TSE) crashed in the second half of 1383. The slump continued in 1384 and bottomed out by the end of the year. Against the backdrop of bubble market, certain factors were responsible for this slump, namely companies' willingness to increase their capital through revaluation, increase in P/E ratio, rise in capital of various banks and the need for their subscription, transfer of investment companies resources to development projects undertaken by unlisted companies, supply of public corporations' shares at the last months of the year and an escalation of tension over Iran's peaceful nuclear program.



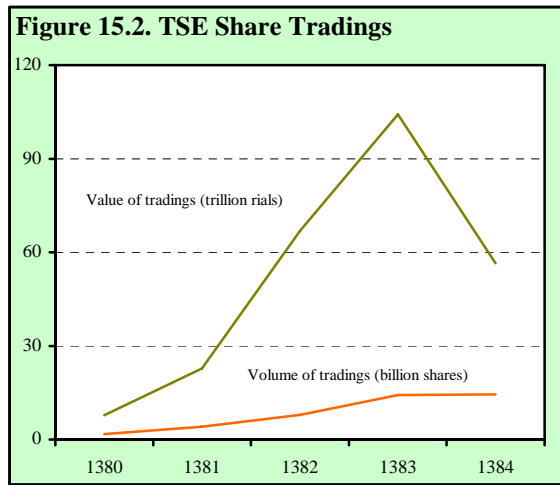
The year 1384 was the first year of the implementation of the 4th FYDP. According to Article 15, 4th FYDP Law and to reform the stock market, the Commission of Stock Exchange shall take the following measures during the term of the 4th FYDP: expand the stock exchange geographically, set up and expand specialized markets (commodity exchange), establish over-the-counter (OTC) securities markets, make connection with regional and international exchanges, and design and establish the national network for electronic transaction of securities. Moreover, the CBI and the Ministry of Economic Affairs and Finance shall formulate the regulatory and supervisory framework as well as the required administrative mechanisms to facilitate foreign investment in the capital market and internationalize the TSE. To this end, the executive by-law on foreign investment in the TSE was approved by the Cabinet to prepare the due ground for foreign investment in the stock exchange.

In order to remove the shortcomings of the Law on Establishment of Stock Exchange approved in 1345 and to lay the ground for introduction of new financial instruments, reform the supervisory and the executive structure of the market, supervise the primary market, and prepare the legal ground for pursuit of offences, the new Law on Securities Market was approved by the Parliament in Azar 1384.

Share Tradings

A number of 14,502.9 million shares and rights valuing at Rls. 56,528.8 billion were traded on the main and the secondary floors, indicating a rise of 2.3 percent and a fall of 45.5 percent as compared with 1383.

Of the total shares and rights traded, 65.1 percent were traded on the main and 34.9 percent on the secondary floor. Moreover, in terms of value of tradings, 72.0 percent were traded on the main and 28 percent on the secondary floor. In the review year, the TSE was active for 244 days. The average daily number and value of tradings were 59.4 million shares and Rls. 231.7 billion. This shows 1.9 percent rise in number and 45.7 percent fall in the value of shares as compared with the preceding year.



TSE SHARE TRADINGS

	Volume of tradings (million shares)			Value of tradings (billion rials)			Number of trading days of TSE	Average volume of daily tradings (million shares)	Average value of daily tradings (billion rials)
	Shares	Rights	Total	Shares	Rights	Total			
1380	1,621.6	84.0	1,705.6	7,702.5	128.4	7,830.9	243	7.02	32.23
1381	3,684.9	460.5	4,145.4	20,126.8	2,649.3	22,776.1	243	17.06	93.73
1382	6,970.3	908.5	7,878.8	62,437.3	4,432.5	66,869.8	240	32.83	278.62
1383	13,555.3	616.2	14,171.5	101,499.6	2,205.4	103,705.0	243	58.32	426.77
1384	13,370.8	1,132.1	14,502.9	55,558.6	970.1	56,528.8	244	59.44	231.68

Source: TSE, monthly reports

A comparison of tradings in the first and second half of 1384 indicates that out of total tradings, 59.9 percent in terms of number and 65.6 percent in terms of value were in the first half and 40.1 and 34.4 percent in terms of number and value, respectively, were traded in the second half of 1384.

SHARES AND RIGHTS TRADINGS IN THE FIRST AND SECOND HALF OF THE YEARS 1380-84 ON THE TSE

(share percent)

	Volume		Value	
	First half	Second half	First half	Second half
1380	47.9	52.1	47.8	52.2
1381	39.4	60.6	44.4	55.6
1382	30.3	69.7	24.2	75.8
1383	42.6	57.4	46.9	53.1
1384	59.9	40.1	65.6	34.4

Source: TSE, monthly reports

Chapter 15 CAPITAL MARKET

Data on shares and rights traded on the TSE, by 36 classified industries,⁽¹⁾ show that "investments" and "vehicle and manufacture of spare parts" had the highest shares of 20.8 and 18.2 percent, respectively, out of total number and value of the shares and rights traded in the review year.

The number of shares and rights tradings was 2.1 million times, representing a fall of 9.6 percent compared to the rise of 85.2 percent in the year before. Number of buyers came to 1,196,545 persons, registering 23.8 percent decline in 1384 as compared with 80.9 percent rise in 1383. The average buying per person rose to Rls. 86.7 million, indicating 31.3 percent increase compared to the preceding year. This was for 12,120.7 shares, showing 34.3 percent rise. These figures point to reduction in the number of buyers and rise in the number of shares traded during 1384.

NUMBER OF TRADINGS AND BUYERS

	1382	1383	1384	Percentage change	
				1383	1384
Number of tradings	1,263,948	2,340,647	2,115,244	85.2	-9.6
Number of buyers	868,150	1,570,492	1,196,545	80.9	-23.8
Average volume of buying per person (share)	9,075.4	9,023.6	12,120.7	-0.6	34.3
Average value of buying per person (million rials)	77.0	66.0	86.7	-14.3	31.3

Source: TSE, monthly reports

Market capitalization decreased by 16 percent to reach Rls. 325,727.8 billion as compared with the year before. At the same time, based on the average interbank exchange rate,⁽²⁾ market capitalization in terms of dollar reached \$35.6 billion. This shows a fall of 18.5 percent as compared with end-1383. Furthermore, the ratio of market capitalization to GDP fell to 19.3 percent in 1384 year-end, against 28 percent in 1383.

The turnover ratio⁽³⁾ reached its record high in 1382 (29.3 percent), while it faced a downward trend during the past two years. This ratio was 15.6 percent for 1384, showing 12.1 percentage points reduction compared with the previous year.

MARKET CAPITALIZATION, TURNOVER RATIO, AND THE RATIO OF SHARES TRADED TO SHARES ISSUED (1) (2) (billion rials)

	Market capitalization (year-end)	Value of tradings	Market capitalization (average)	Turnover ratio (percent)	Ratio of shares traded to shares issued
1380	81,681.8 (30.7)	7,830.9 (-14.7)	74,127.3 (37.9)	10.6	9.1
1381	117,772.9 (44.2)	22,776.1 (190.8)	105,382.7 (42.2)	21.6	17.1
1382	309,695.8 (163.0)	66,869.8 (193.6)	228,311.0 (116.6)	29.3	20.2
1383	387,547.2 (25.1)	103,705.0 (55.1)	374,082.5 (63.8)	27.7	18.0
1384	325,727.8 (-16.0)	56,528.8 (-45.8)	363,417.3 (-2.9)	15.6	13.7

Source: TSE, monthly reports

(1) Excludes trading of participation papers.

(2) Figures in parentheses indicate percentage change over the previous year.

(1) As of Dey 1383, industrial classification in the TSE was revised and companies were reclassified based on ISIC.

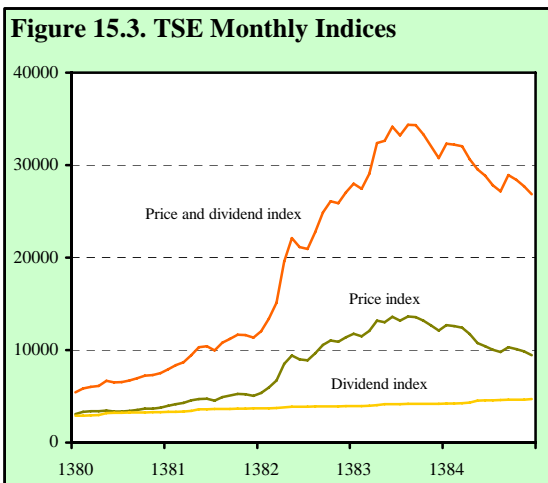
(2) On the last active day of the TSE in 1384, dollar was exchanged at a rate of Rls. 9,140.

(3) It is the ratio of trading value to average current value of shares in the review year.

Price and Dividend Index

"Price and dividend index" declined by 12.7 percent to 26,849.8 as compared with 13.6 percent growth in 1383. The two constituents of this index i.e., "TEPIX" and "dividend" amounted to 9,459.4 and 4,692.2 units, respectively, down by 21.9 and up by 11.8 percent compared to the preceding year.

During the recent years, changes in the price index were virtually twenty times the changes in the dividend index. These two indices experienced nearly equal growth rates in the previous year. In 1384, price index fell drastically and dividend index went up. Most industries recorded sharp fall of P/E ratio in 1384. In this connection, the P/E ratio of stock exchange plummeted drastically by 26 percent to 5.4, against 7.3 of the previous year.



TSE INDICES

(1369=100)

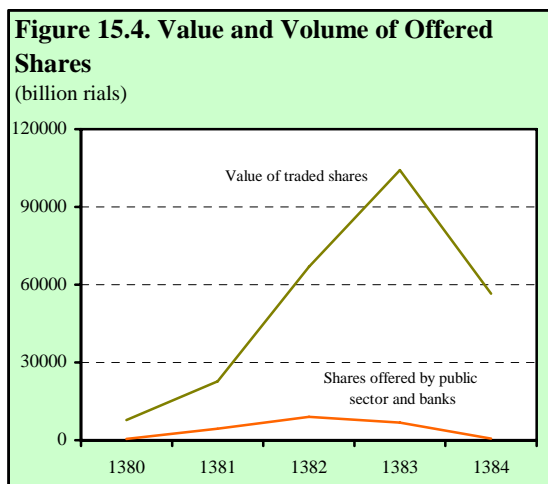
	Year-end			Percentage change	
	1382	1383	1384	1383	1384
Price and dividend index	27,074.86	30,762.01	26,849.83	13.6	-12.7
Dividend index	3,933.16	4,198.13	4,692.17	6.7	11.8
Price index	11,379.37	12,113.01	9,459.36	6.4	-21.9
Financial index	23,202.60	34,205.06	20,941.39	47.4	-38.8
Industrial index	10,060.06	9,214.95	7,427.33	-8.4	-19.4
Main floor	11,442.99	12,085.75	9,135.71	5.6	-24.4
Secondary floor	10,197.13	10,942.43	9,846.34	7.3	-10.0

Source: TSE, monthly reports

Price index experienced an upward trend by mid-Mordad 1383 and reached the record high of 13,882 units during the TSE activities, showing 22 percent growth as compared with 1382 year-end. This index faced a downward trend by the end of 1383. Political developments in 1384 exacerbated the downturn of the mentioned index in 1384, namely presidential elections and disputes over Iran's peaceful nuclear program.

Share Offering by Public Sector and Banks

In order to expand public participation through disposal of government shares, the Cabinet approved the Plan known as the "Increasing Iranian Families' Wealth through Rise in the Share of the Cooperative Sector by Distribution of Justice (Edalat) Shares". This Plan was proposed to reach a relatively just wealth



Chapter 15 CAPITAL MARKET

distribution, increase the income level of the low-income groups, downsize the public sector, accelerate the privatization process, deliver a more sound and transparent method for transferring shares, and improve cooperative sector's share in the economy. The first phase of this Plan was implemented during the review year, leading to disposal of Rls. 3,425.2 billion of Justice Shares to 685 thousand individuals under the coverage of Imam Khomeini Relief Committee and Welfare Organization, as well as the veterans in need.

In this year, 157.6 million shares valued at Rls. 652.2 billion were offered by public corporations and institutions. This figure shows a reduction of 76.9 percent in the number and 90.4 percent in the value when compared with the previous year (682.6 million shares valued at Rls. 6,795.1 billion). The insufficient demand due to the recessionary market condition was the main driver of the downward trend of government shares in 1384.

SHARES OFFERED BY PUBLIC SECTOR AND BANKS

	Volume (million shares)		Value (billion rials)		Percentage change		Share (percent)	
	1383	1384	1383	1384	Volume	Value	Number	Value
Public corporations and institutions	682.6	157.6	6,795.1	652.2	-76.9	-90.4	100.0	100.0
Foundations	0	0	0	0	0	0	0	0
Banking system	0	0	0	0	0	0	0	0
Total	682.6	157.6	6,795.1	652.2	-76.9	-90.4	100.0	100.0

Source: TSE, monthly reports of 1383 and 1384

New Listings on the TSE

Upon the agreement of the TSE Listing Board, 6 new companies were added to the existing companies. This brought the total number of listed companies to 432 at end-1384. All of the newly-listed companies were listed on the secondary floor. The nominal value of listed companies reached Rls. 1,042 billion.

NUMBER OF LISTED COMPANIES (1)

	Year-end			Changes	
	1382	1383	1384	1383	1384
Listed companies	383	426	432	43	6
Investment companies	28	36	39	8	3
Other companies	355	390	393	35	3
Conditionally accepted companies	31	34	36	3	2
Total	414	460	468	46	8

Source: TSE, monthly reports

(1) Of the total companies listed on the TSE board at the end of 1384, 147 companies were on the main and the remaining on the secondary board.

Financing Capital Increase of Listed Companies

In 1384, of the total number of the newly-listed companies, 101 companies raised their capital to Rls. 25,448.1 billion, representing a fall of 22.5 percent as compared with 1383. The main source of financing capital increase was the shareholders' claims and cash assets, which financed 67 percent of total increase. Meanwhile, 19 percent of the increase was financed through companies' reserves and accumulated profit.

**FINANCIAL RESOURCES OF CAPITAL INCREASE
OF LISTED COMPANIES**

(billion rials)

	Reserves and accumulated profit	Claims and cash assets	Reserves, accumulated profit and claims and cash assets	Shares	Total	Percentage change
1380	1,199.6	1,189.8	589.1	...	2,978.5	-12.1
1381	1,445.7	3,731.9	888.8	...	6,066.4	103.7
1382	1,286.9	8,504.3	1,246.7	...	11,037.9	82.0
1383	4,564.7	19,770.8	4,014.3	4,475.0	32,824.8	197.4
1384	4,835.2	17,050.2	3,562.7	...	25,448.1	-22.5

Source: Tehran Stock Exchange

Provincial Stock Exchanges

In order to expand the stock exchange geographically, to prepare the ground for public access to capital market and to create investment opportunities for the public, the TSE established 7 new stock exchanges in various regions in 1384. In the review year, 6,919.4 million shares and rights worth Rls. 32,643.3 billion were traded on the provincial stock exchanges, accounting for 47.7 and 57.7 percent of the total number and value of shares and rights traded in the TSE, respectively.

Foreign Investment in the Stock Exchange

According to Article 15, the 4th FYDP Law, the CBI and the Ministry of Economic Affairs and Finance shall formulate the regulatory and supervisory framework as well as the required administrative mechanisms to facilitate foreign investment in the capital market and internationalize the TSE. The Cabinet approved the executive by-law for the mentioned Article on Khordad 11, 1384.

According to this by-law, trading of securities listed on the TSE by foreign investors which is mainly to make profit, without taking over the management of the company, is regarded as foreign investment. Obtaining a permit from the Organization for Investment, Economic and Technical Assistance of Iran (OIETAI) is a prerequisite for foreign investors' participation in the Stock Exchange. Investors are obliged to transfer all funds to Iran within a maximum period of one year upon receipt of permit and invest in the stock exchange gradually or at once. Foreign investors may solely invest in financial assets such as corporations' equities, participation papers and other securities listed on the TSE.

According to Article 6 of the mentioned by-law, foreign investors are obliged to present quarterly and annual financial statements and reports of their investment in the Stock Exchange, the list and value of the securities portfolio, complete statement of bank accounts and the changes affecting the managerial structure of the investment company according to the current disclosure regulation of the TSE Brokerage.

According to Article 9, the maximum number of shares to be purchased in each listed company by foreign investors, which are bought through the current methods of purchasing shares, international certificates of deposit and purchasing the shares offered in foreign stock exchanges, shall not exceed 10 percent of total shares of the company. According to Article 10, the maximum amount of foreign investment in participation papers shall not exceed 10 percent of the inflows. Moreover, foreign investment in participation papers is subject to restrictions on investment in stocks. The foreign investor is authorized to withdraw the principal and profit of his capital according to the Law on Attraction and Protection of Foreign Investment and the Foreign Exchange Regulations. In case the foreign investor cannot reinvest his principal capital and accumulated capital gains, he will be authorized to withdraw the aforesaid.

Metal Exchange

Gold and molybdenum concentrate were added to the items traded in the Metal Exchange to bring the total number of metals traded to 6. A total of 5,132.1 thousand tons of metallic products valuing at Rls. 24,215.8 billion were traded in the Metal Exchange. Of this amount, Rls. 19,333.9 billion was related to 4,980.7 thousand tons steel.

Agricultural Products Exchange

The "Iran's Agricultural Products Exchange" passed its second year of operation in 1384, registering trading of 214.7 thousand tons of corn, barley, different types of seed remains, rice, pea, pistachio, saffron and dates worth Rls. 386.5 billion.

Participation Papers

A sum of Rls. 34,800 billion participation papers were issued by the government, Central Bank, and corporations. Of this amount, 82.7 percent (Rls. 28,768.3 billion) were sold, showing a fall of 25.9 percent when compared with the previous year. The approved figure for total papers was Rls. 38,700 billion in the review year. The profit rate of participation papers was on a daily basis and redeemable at any time. The provisional profit rate for all types of participation papers was within a range of 15.5-19 percent and it was tax exempted.

ISSUANCE OF PARTICIPATION PAPERS

(billion rials)

	Number of projects	Times of issuance	Total approved amount	Issued amount	Sold amount	Provisional profit rate	Participation papers at the end of 1384	
							(billion rials)	
1380	11	12	16,100.0	16,100.0	15,543.3	17	2,900.0	2,599.7
1381	11	12	27,500.0	27,300.0	25,631.0	17 ⁽¹⁾	1,499.4	7,077.6
1382	11	11	32,789.2	29,289.2	28,445.7	17	0	11,796.1
1383	15	15	50,349.6	41,349.6	38,840.3	17	20,250.3	18,590.0
1384	17	17	38,700.0	34,800.0	28,768.3	15.5-19 ⁽²⁾	0	28,768.3
Total (as of 1374)	92	99	184,646.9	171,946.9	161,135.2		79,472.4	71,731.0

(1) It excludes governmental-budgetary participation papers with 15 percent provisional rate of return.

(2) Provisional rate of return on Iran Khodro participation papers was 19 percent.