

In 1386, TSE share and stock market indicators and indices picked up, mostly due to IPOs (Initial Public Offerings) of large state-owned companies' shares. However, certain factors such as continuation of international challenge on Iran's peaceful nuclear program, government's price stabilization policies, reduction in banks' lending rates, and the restructuring of stock market overshadowed the overall performance of securities market.

In the review year, the bylaw of the legislated Securities Market Act of 1384 was approved by the Cabinet. Moreover, a set of regulations and guidelines related to new instruments and institutions of the capital market was approved by the High Council of Securities and Exchange. Some of these regulations and guidelines are as follows:

- The guideline on OTC (over-the-counter) trading;
- The guideline for audit firms certified by Securities and Exchange Organization;
- The guidelines for Islamic derivative instruments on lease operations (Sokuk Ijareh);
- The guidelines on the operation rules of finance companies; and
- The guidelines and procedures for the operation of brokers in Iran Mercantile Exchange.

Moreover, the Securities and Exchange Organization prepared and approved a set of

operational procedure guidelines for facilitation of financial transactions by market agents. Some of these are as follows:

- The rules on acceptance and the offering of securities on the TSE;
- The operational procedure on market reporting and information disclosure by market participants;
- The operational guideline on dispute settlement mechanisms;
- The operational procedure on data disclosure and dissemination of listed companies;
- The operational procedure on wholesale offerings of public companies' shares by IPO (Iranian Privatization Organization);
- The operational procedure on the Specialized Sharia (Jurisprudence) Committee;
- The statute of Iran Mercantile Exchange; and
- The operational procedure on Futures Trading in Iran Mercantile Exchange.

Share Trading

During 1386, a number of 23,400.9 million shares and rights valued at Rls. 73,074.3 billion (including the unofficial board) were traded on the TSE. These figures indicated 47.7 and 31.2 percent growth, respectively, compared with the previous year.

Of total shares and rights traded in the review year, 36.2 percent were traded on the main floor, 63.2 percent on the secondary floor, and the remaining on the unofficial board. Moreover, in terms of value of trading, 42.3 percent were traded on the main floor, 57.4 percent on the secondary floor, and the remaining on the unofficial board. In this year, the TSE was active for 242 days. The average daily volume and value of trading were 96.7 million shares worth Rls. 302 billion, indicating 45.9 and 29.5 percent growth respectively, compared with the preceding year.

A comparison of trading in the first and second halves of 1386 reveals that out of total trading, 52.4 percent in terms of volume and 38.3 percent in terms of value were traded in the first half, and 47.6 and 61.7 percent in terms of volume and value respectively, in the second half of the review year. A surge in the public share offering by public corporations and specialized holding companies during the third quarter of 1386 raised the trading volume in the second half of this year.

Data on shares and rights traded on the TSE, by industries, reveal that "basic metals" had the highest shares of 45.2 and 42.8 percent respectively, out of total volume and value of shares and rights traded in the review year. "Basic metals", "exploitation of metallic ores", "chemical products", "cement, lime, and plaster", "mass production of properties and real estate", and "automobile and manufacture of spare parts", holding 74.4 percent of total shares and 83.4 percent of total value of shares and rights traded, had the highest impact on the TSE.

Shares and Rights Trading on the TSE (share percent)

	Volume		Value	
	1 st half	2 nd half	1 st half	2 nd half
1385	40.0	60.0	36.7	63.3
1386	52.4	47.6	38.3	61.7

Source: Securities and Exchange Organization, and the TSE

Figure 15.1. TSE share trading

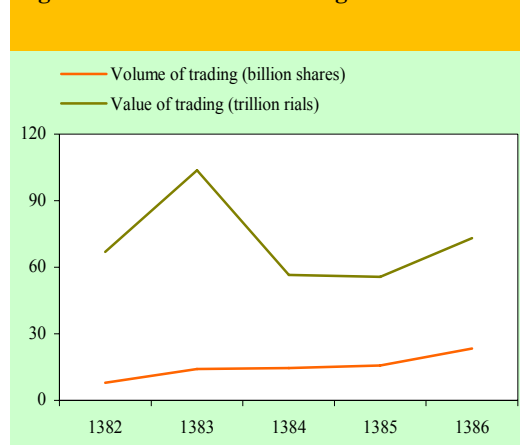
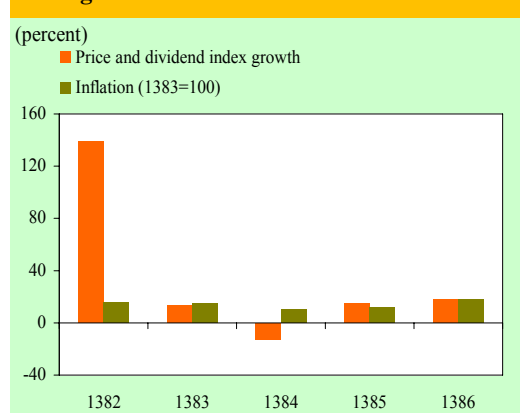


Figure 15.2. Comparison of price and dividend index growth with inflation



TSE Share Trading ⁽¹⁾

	Volume of trading (million shares)			Value of trading (billion rials)			Number of trading days of TSE	Average volume of daily trading (million shares)	Average value of daily trading (billion rials)
	Shares	Rights	Total	Shares	Rights	Total			
1385 ▲	15,515.9	323.6	15,839.5	54,894.9	816.7	55,711.6	239	66.3	233.1
1386	23,014.4	386.5	23,400.9	72,692.6	381.7	73,074.3	242	96.7	302.0

Source: Securities and Exchange Organization (1) Figures also include the companies listed on the unofficial board. In 1385, the number of shares traded on the unofficial board was 55.1 million worth Rls. 67.4 billion.

During the review year, share trading of almost half of industries increased as compared with the previous year, indicating a rise in the volume and value of shares traded for respectively 16 and 18 industries. Shares of these industries in total volume and value of trading were 72.5 and 77.8 percent, respectively.

The number of shares and rights tradings was 2.1 million times, indicating 13.2 percent growth compared with the 11.8 percent fall in the year before. The number of buyers grew by 10.9 percent to 1.1 million persons in 1386 compared with the previous year. The number of buyers declined by respectively 23.8 and 17.5 percent in 1384 and 1385. The average value of buying per person reached Rls. 66.8 million, up by 17.4 percent compared with 1385. The average volume of buying per person rose by 33.2 percent to 21,363.8 shares. These figures point to a rise in the number of shareholders' trading in the stock exchange in the review year.

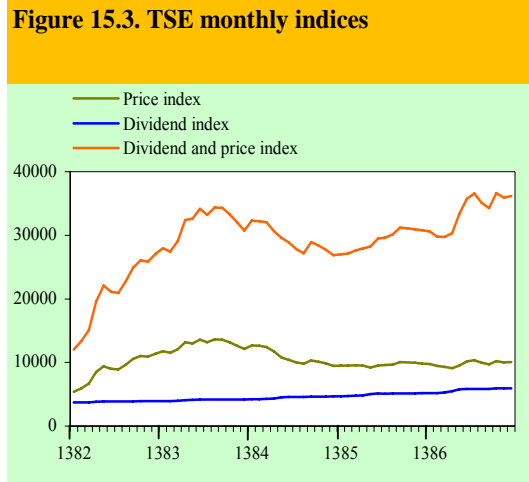
Despite significant fluctuations in the stock market during 1386, market capitalization reached Rls. 462,105.3 billion in 1386 year-end, up by 17 percent. Meanwhile, based on the average interbank exchange rate ⁽¹⁾, market capitalization in terms of dollar totaled \$51.6 billion, indicating 20.7 percent growth against the previous year-end. Furthermore, the ratio of market capitalization to GDP declined by 8.6 percent to 16 percent as compared with the preceding year.

The turnover ratio rose by 1.6 percentage points to 17 percent in the review year against the corresponding figure of 1385. Moreover, the ratio of shares traded to shares issued increased by 0.7 percentage point to 16.4 percent.

Tehran Stock Exchange Dividend and Price Index (TEDPIX)

"Tehran Stock Exchange Dividend and Price Index (TEDPIX)" went up by 17.6 percent to 36,193.1. The two constituents of this index, i.e., "price" and "dividend" indices reached 10,082 and 5,934.4 units, respectively, showing 2.7 and 14.5 percent growth respectively. Despite ebbs and flows in general price levels, this index trended upward.

The P/E ratio reached 5.2 in the review year, remaining virtually unchanged at the 1385 level.



Number of Tradings and Buyers

	1384	1385▲ ⁽¹⁾	1386 ⁽¹⁾	Percentage change	
				1385	1386
Number of tradings	2,115,244	1,866,192	2,112,065	-11.8	13.2
Number of buyers	1,196,545	987,404	1,095,359	-17.5	10.9
Average volume of buying per person (shares)	12,120.7	16,042.0	21,363.8	32.4	33.2
Average value of buying per person (million rials)	47.2	56.9	66.8	20.5	17.4

Source: Securities and Exchange Organization, and the TSE

(1) Figures are based on total trading of shares and participation papers.

(1) On the last active day of the TSE in 1386, dollar was exchanged at a rate of Rls. 8,956.

Market Capitalization, Turnover Ratio, and Ratio of Shares Traded to Shares Issued^{(1) (2) (3)} (billion rials)

	Market capitalization (year-end)	Value of trading	Market capitalization (average)	Turnover ratio (percent)	Ratio of shares traded to shares issued
1385 ▲	395,028.2 (21.3)	55,644.2 (-1.6)	360,378.0 (-0.8)	15.4	15.7
1386	462,105.3 (17.0)	72,799.4 (30.8)	428,566.8 (18.9)	17.0	16.4

Source: Securities and Exchange Organization, and the TSE

(1) Excludes trading of participation papers and companies on the unofficial board.

(2) The turnover ratio and the ratio of shares traded to shares issued are based on the market capitalization average at the beginning and the end of the period.

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

TSE Indices (1369=100)

	Year-end			Percentage change	
	1384	1385	1386	1385	1386
Dividend and Price Index	26,849.8	30,786.5	36,193.1	14.7	17.6
Dividend index	4,692.2	5,182.0	5,934.4	10.4	14.5
Price index	9,459.4	9,821.0	10,082.0	3.8	2.7
Financial index	20,941.4	20,770.4	20,882.6	-0.8	0.5
Industrial index	7,427.3	7,751.6	7,967.0	4.4	2.8
Main floor	9,135.7	9,781.5	9,016.0	7.1	-7.8
Secondary floor	9,846.3	9,164.2	11,046.3	-6.9	20.5

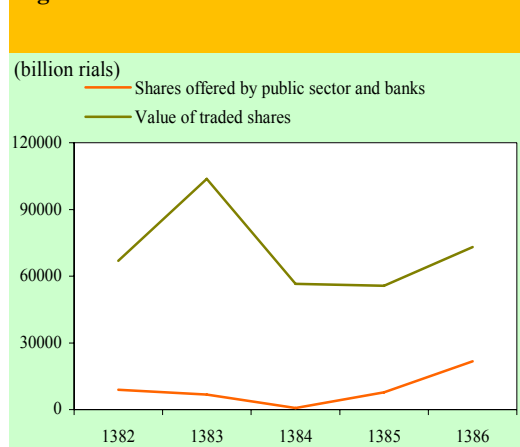
Source: Securities and Exchange Organization, and the TSE

Share Offering by Public Sector and Banks

In order to expand public participation through disposal of government shares, the Cabinet approved the "Bylaw on Increasing Iranian Families' Wealth through Rise in the Share of the Cooperative Sector by Distribution of Justice (Edalat) Shares" in 1384, which was amended in the next year. This approval was proposed to reach a relatively just distribution of wealth, increase the income level of the low-income groups, downsize the public sector, accelerate the privatization process, deliver a more transparent method for transferring shares, and increase share of the cooperative sector in the economy. According to the data released by the Iranian Privatization Organization, public corporations' shares worth Rls. 232,500 billion were purchased by 21 million individuals covered by the second and the third phases of distribution of Justice (Edalat) Shares. The second phase covered unemployed villagers and

tribesmen and the third phase the employed personnel of all executive bodies as well as the retired civil and military personnel, and the retirees of Social Security Organization, and their dependents.

Figure 15.4. Value and volume of offered shares



In the review year, 4,770 million shares valued at Rls. 4,531 billion were offered by the Iranian Privatization Organization on behalf of organizations and specialized holding companies as Justice (Edalat) Shares on the TSE. This shows 187.5 and 3.3 percent growth, respectively, in terms of volume and value compared with the respective 1,659.6 million shares worth Rls. 4,386.9 billion in 1385. The volume and value of shares offered through the stock exchange rose 91.6 and 342 percent to 2,335 million shares and Rls. 15,064 billion compared with the year before. As indicated in the table below, only public corporations and institutions offered their shares and foundations and the banking system had no offering.

New Listings on the TSE

In the review year, 7 new companies were listed on the TSE, bringing the total number of listed companies to 442 at end-1386. Moreover, shares of the "Iranian Aluminum Company", "Iran Power Plant Projects Management Company (the MAPNA Group)", and the "Neyriz White Cement Company", worth Rls. 8,165 billion, were offered for the

first time on the TSE. In the review year, 9 companies were unlisted from the stock exchange. This brought the total companies listed on the TSE to 415.

Number of Listed Companies ⁽¹⁾

	Year-end			Changes	
	1384	1385	1386	1385	1386
Listed companies	432	435	442	3	7
Investment companies	39	40	41	1	1
Other companies	393	395	401	2	6
Unlisted companies	18	18	27	0	9
Total	414	417	415	3	-2

Source: Securities and Exchange Organization, and the TSE

(1) Of the total companies listed on the TSE board at end-1386, 133 companies were on the main, 186 on the secondary, and 96 on the unofficial board.

Financing Capital Increase of Listed Companies

In the review year, capital increase totaled Rls. 15,791.6 billion, representing 36.3 percent increase against the previous year. Companies' claims and cash assets were the main source of financing capital increase, constituting 64.5 percent of total increase.

Shares Offered by Public Sector and Banks

	Volume (million shares)		Value (billion rials)		Percentage change		Share (percent)	
	1385 ⁽¹⁾	1386	1385 ⁽¹⁾	1386	Volume	Value	Volume	Value
Public corporations and institutions	2,878.4	8,076.8	7,795.3	21,730.0	180.6	178.8	100.0	100.0
Foundations	0	0	0	0	0	0	0	0
Banking system	0	0	0	0	0	0	0	0
Total	2,878.4	8,076.8	7,795.3	21,730.0	180.6	178.8	100.0	100.0

Source: Securities and Exchange Organization, and the TSE

(1) It includes disposal of 1,659.6 million shares of specialized holding companies worth Rls. 4,386.9 billion as Justice (Edalat) Shares.

Financial Resources of Capital Increase of Listed Companies

(billion rials)

	Reserves and accumulated profit	Claims and cash assets	Reserves, accumulated profit, claims and cash assets	Shares	Total	Percentage change
1385	6,024.2	4,865.7	695.1	0	11,585.0	-54.5
1386	5,601.4	10,190.2	0	0	15,791.6	36.3

Source: Securities and Exchange Organization

Moreover, the remaining 35.5 percent of total increase was financed through shareholders' reserves and accumulated profit by 8.5 and 27 percent, respectively.

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 24 new stock exchanges in various regions in the past years. In this year, 11,658.2 million shares and securities valued at Rls. 45,764.4 billion were traded on the provincial stock exchanges, showing respectively 0.5 percent fall and 4.5 percent rise compared with the previous year and accounting for 24.9 and 31.3 percent of total volume and value of trading in the stock exchange.

Mercantile Exchange

In 1386, Metal Exchange and the Agricultural Products Exchange were merged to form Iran Mercantile Exchange. Upon formation, the Mercantile Exchange was commissioned to launch the first phase of Petroleum Exchange, offering oil and petrochemical products. Therefore, the petrochemical products floor was opened in Bahman 1386.

The total number of metals traded on the Metal Products floor reached 8 in the review year. A total of 6,443.8 thousand tons of metals worth Rls. 58,042 billion were traded, showing 3.2 and 31.6 percent growth compared with 1385. Of this amount, Rls. 42,259.7 billion was related to 6,105.7 thousand tons of steel.

In this year, about 273 thousand tons of corn, barley, different kinds of soybean meal, rice, pistachio, sugar, raisin, feed wheat, and sugar beet residue, worth Rls. 772.6 billion, were traded on the Agricultural Products floor.

As of Bahman 1386, petrochemical products were traded on the Mercantile Exchange on a separate floor. Weight of 5 traded products including soot, bitumen, polyethylene, base oil, and extract totaled 89.7 thousand tons valued at Rls. 352.7 billion respectively.

Participation Papers

A sum of Rls. 73,800 billion participation papers were issued by the government, Central Bank, and corporations in 1386. Of this amount, Rls. 45,385.4 billion (61.5 percent) were sold, indicating 19.6 percent growth compared with the preceding year. The approved figure for total papers was Rls. 98 trillion in 1386. The profit rate of participation papers was on a daily basis, redeemable at any time as in the previous years. The provisional profit rate for all types of participation papers was 15.5 percent and tax-exempt.

Of total participation papers sold, Rls. 20,258.4 billion (44.6 percent) were issued by the government and Rls. 22,826.7 billion (50.3 percent) by the CBI within the framework of the 4th FYDP, and Rls. 2,300.4 billion (5.1 percent) by the corporations referred to in Article 4, the Law on Issuance of Participation Papers.

Issuance of Participation Papers

(billion rials)

	Number of projects	Times of issuance	Total approved amount	Issued amount	Sold amount	Provisional profit rate (percent per annum)	Participation papers at end-1386	
							Matured	Unmatured
As of the date of issuance till end-1385	110	117	252,046.9	213,746.9	189,172.0	15.5-24	132,010.9	57,161.1
1386	26	26	98,000.0	73,800.0	45,385.4	15.5	0	45,385.4
Total (as of 1373, date of issuance)	136	143	350,046.9	287,546.9	234,557.5		132,010.9	102,546.6