

**Executive Regulations
of the Law on the
Issue of Participation Certificates (Musharakah Sukuk)
(Approved on August 9, 1998 by the Council of Ministers)**

Article 1- The definitions provided shall apply for the purposes of the terms used herein:

Project: Government's Developmental-Profit-Making Project means a project that becomes operational during the course of a reasonable period and will, in addition to the reimbursement of current expenses, depreciation costs and capital expenses, yield a comfortable profit consequent on the policy pursued by the government. Profit means the financial profit generated from the project(s) which can be sold and valued into money.

Participation Certificates (Musharakah Sukuk) mean the registered or bearer securities which shall be issued for a specified period of time on the strength of law or by virtue of the license granted by the Central Bank of I.R.I. Such Securities shall be issued for the purpose of providing parts of funds required for the government's developmental-profit-making projects as described in the national annual budget laws or for raising the funds required to create, develop and complete the profit-making projects on production, construction and service including the resources for procurement of the raw materials required by the manufacturing units. The certificates shall be issued by the government, state corporations, municipalities, non-governmental public entities/institutions, public utilities and the companies affiliated to such establishments, public and private joint-stock companies and production cooperative companies. The investors may participate in the above-mentioned projects through the public offering of the said securities.

Participation certificates exchangeable for shares mean the securities which shall be issued by the public joint-stock companies and shall be exchanged for shares of other companies listed on the Stock Exchange at the final maturity of participation certificates.

Participation Certificates Convertible into Shares mean the securities which shall be issued by the public joint-stock companies and shall be convertible into the shares of the companies governed by the participation certificates scheme at the final maturity or at the time of capital increase realization.

Issuer means a governmental or a non-governmental agency which has the authorization to issue the participation certificates by virtue of article 1 of the law. Agent means a bank which shall act on behalf of the issuer to offer securities for sale, pay interim and final profits thereon, repay the principal invested in the participation certificates on the maturity date or repurchase them prior to the maturity, deduct and

pay the tax due under article 7 and accomplish the related services pursuant to the agency contract.

Trustee means a natural or legal person who shall be designated by the Central Bank to act towards protecting the interests of the participation certificates holders and ensuring the issuer's good performance as to the given project and shall, for this purpose, continuously examine and comment on the funds expended, procedure for keeping accounts and financial statements and the issuer's functional performance as per the relevant contract. The functions assigned to the trustee as to the government developmental-profit-making projects shall be performed with the responsibility of the Plan and Budget Organization. Central Bank means the Central Bank of the Islamic Republic of Iran.

Verification Committee means a team composed of the representatives from the Ministry of Economic Affairs and Finance, Plan and Budget Organization and the Central Bank who shall approve the profitability of the government's development projects. Article 2- The holders of the participation certificates shall share in the capital gains arising from the execution of the given projects in proportion to the nominal value and the length of their participation.

Article 3- Each participation certificate shall indicate the number of shares owned in the participation process. Upon the sale of participation certificates, a principal-agent relationship shall be established between the issuer and the buyer. The issuer shall, on behalf of the buyers, be entitled to act as to the spending of proceeds derived from sale of participation certificates towards implementation of the project, purchase and sale of any type of goods, service and project-related assets. The transfer of securities shall be without prejudice to the power granted under the title of power delegation and the relationship between the issuer and the certificates holders shall continue to be effective until the maturity date(s) of such certificates.

Article 4- The spending of the funds derived from sale of participation certificates on the purposes other than in connection with the related projects shall be considered unlawful possession of the public property and funds.

Article 5- When the Central Bank approves of the technical, economic and financial feasibility report of the projects being subjected to the applicable law which have, upon the agent's confirmation, been submitted by the applicants, it shall, within one month from the date of receiving the report, issue the required license within the context of the present by-law, taking into account the requirements for issuing the participation certificates.

Note 1- The technical, economic and financial feasibility report on the said non-governmental projects shall, prior to its submission to the Central Bank, have to be considered and confirmed by the agent bank not later than a month.

Note 2- The provision of article 7 of this by-law shall apply to the government's developmental-profit-making projects.

Article 6- The maximum level (limit) of the participation certificates to be issued for the projects referred to in article 4 of the law per annum shall be determined by the Credit and Money Council with a view to the national monetary and financial policies.

Article 7- The technical, economic and financial feasibility report on the government's developmental-profit-making projects shall have to be presented to the Plan and Budget Organization. Thereafter the Plan and Budget Organization shall, within one month, bring up such report along with its expert advice at the Verification Committee for scrutiny of the profitability of the government's developmental-profit-making projects as stated in article 1 of this by-law. The Verification Committee shall, within one month at the latest, communicate its final opinion about the profitability of the given project(s) to the executive establishments or instrumentalities through the Plan and Budget Organization. Such government's developmental-profit-making projects which have been approved by the Verification Committee shall be included by the Plan and Budget Organization in the next year's budget bill with a specific designation. The guarantee for repayment of the principal and the interim profit and the profit allotted to the government's developmental participation certificates shall be furnished in accordance with article 3 of the law.

Article 8- The issuer's minimum equity shares in each project (whether cash or noncash contribution) and the level (individual limit) of participation certificates for the projects which fall within the scope of such issue (except for the government's developmental-profit-making projects) shall be determined by the Central Bank, taking into account the issuer's credit and financial standing.

Article 9- The date, conditions and stages of the certificates issue and offer shall, in view of the capital market condition, be established upon the issuer's proposal and with the Central Bank's approval. It may be possible to extend the offering time-limit if the Central Bank approves.

Article 10- The issuer shall, upon receipt of license to issue the participation certificates, have to make the matter public through the mass media notices. The text of such notices shall be approved by the agent in advance.

Article 11- IF one hundred percent of the participation certificates are sold in the course of the specified period, the Central Bank shall give authorization to the issuer to withdraw the funds so collected. Where one hundred percent of the issued participation certificates have not been sold during the course of the given period, the Central Bank shall, by extending the sales time-limit or through other alternatives, have to determine the method of providing adequate capital resources required for the given project by the issuer. If the issuer is unable to provide the shortage of capital resources (undercapitalization) during the course of the specified period, the Central Bank shall,

within one week at the latest, instruct the agent to publish a media notice concerning the repayment of the funds of the participation certificates. The costs incurred in this respect shall be borne by the issuer.

Article 12- The Central Bank shall, at its own discretion, require the issuer of securing sufficient guarantees with the agent to ensure that the principal of the participation certificates shall be paid back at the stipulated maturity.

Article 13- The amount of the final profit payable to the securities holders shall be calculated by the trustee at the termination of the project within five months as of the final maturity and shall be confirmed by the Central Bank.

Article 14- The Central Bank shall establish the trustee's terms of reference, amount of his service fee and the manner of its payment in a contract signed with him/it.

Article 15- The issuer shall have to undertake the repayment of the principal and interest thereon at the maturities stipulated on the securities and shall have to furnish sufficient guarantees with the agent to ensure the repayment of the principal and interest accrued on securities by the agent. Failure to meet the obligations at the specified maturities shall oblige the agent to directly act and service the obligations out of the said guarantees. The deadline for payment of the differential between the final profits and the interim profits paid shall run not later than six months with respect to the securities type as of the final maturity date.

Article 16- The issuer shall, following the agent's notification, have to provide the agent with necessary financial resources for repayment of the principal and the interest thereon at the specified maturities. Any delay in the provision of such resources shall be liable to payment of the guarantee funds secured for late funding-raising for the amount(s) stipulated in the agency contract.

Article 17- The issuer shall have to fulfill further obligations it has undertaken at the time of selling participation certificates as have accordingly been confirmed by the Central Bank.

Article 18- Any privilege granted to the holders of participation certificates including the power to exchange or convert such certificates and sales reductions shall be subject to the Central Bank's approval and receipt of sufficient guarantees by the agent.

Note- The granting of any such privileges shall be regarded as the obligations which shall require to be performed in due course of time and any delay in giving the privileges so promised shall be liable to penalties arising from time delay and price increase.

Article 19- If the securities, in addition to the Stock Exchange (traded as licensed by the Stock Exchange) are also tradable and redeemable by the agent prior to their maturity,

the issuer shall have to provide the agent with the funding required to repurchase the securities pursuant to the agency contract.

Article 20- The issuer shall have to pay the trustee's service fee in the manner stipulated in the contract made between the Central Bank and the trustee and shall, promptly after the securities sale, have to establish and implement an accounting system for the given project separately and outside its other operations pursuant to the standards which prevail in the Audit Organization.

Note- The trustee assigned to the government's developmental-profit-making projects shall be excluded from the provision of this article.

Article 21- The issuer shall, after obtaining of an authorization from the Central Bank, have to publish a statement containing the report on the financial position and performance of the project along with the trustee's opinion in a mass-circulated newspaper at least every six months or during the periods established by the Central Bank.

Article 22- The trustee shall have to examine and comment on the funds expended, record-keeping of accounts and financial statements of the project and shall submit the related reports and records to the Central Bank once every six months at the latest.

Article 23- The trustee shall have to examine and comment on the rules and regulations governing the issuer's transactions on the project as well as on their compliance with the prevailing standards and rules. Additionally, the trustee shall have to examine and comment on the adequacy of the issuer's accounting system in the project within the time-limit specified in the contract made with the Central Bank.

Article 24- The agent shall have to offer the participation certificates for sale and shall have to pay the interim interest thereon at the specified maturities upon deduction of the relevant tax.

Article 25- The agent shall repay the principal amount invested in the participation certificates on the maturity date in compliance with article 15 of this by-law.

Article 26- The agent shall repay the final accrued interest on the participation certificates upon deduction of the tax thereof and with the Central Bank's approval.

Article 27- The manner of paying the tax under the note of article 7 of the law shall be determined by the Ministry of Economic Affairs and Finance and the Central Bank not later than three months after this by-law has been communicated.

Article 28- The public joint-stock companies listed on the Securities and Exchange Organization shall be authorized to issue the participation certificates exchangeable for

or convertible into shares with the prior approval of the said SEO and in compliance with the prevailing rules.

Article 29- The participation certificates may be exchangeable for shares of other companies listed on the Securities and Exchange Organization. In such a case, the issuer shall have to keep the shares inventory of such companies until the maturity date of the participation certificates at least at the level of exchangeable securities.

Article 30- The participation certificates may be convertible into shares of public joint-stock companies. In such a case, the extraordinary general meeting shall give permission for issuance of participation certificates upon recommendation of the board of directors and on the strength of the company inspector's (inspectors') report. Accordingly, the general meeting shall establish the conditions and the time-limit during which the holders can convert their participation certificates into the company shares and shall further give authorization to the board of directors for capital increase.

Note- The differential between the interim profit and final profit may be exchangeable for or convertible into shares.

Article 31- The shareholders' rights of issue to buy shares convertible into participation certificates shall be derogated upon the approval of the company's extraordinary general meeting.

Article 32- The conditions for participation and the order of exchanging or converting the participation certificates for/into shares shall be laid down in the participation certificate. The act of exchange or conversion of a participation certificate for/into a share shall be subject to the application made by the security holder.

Article 33- In regard to article 30, the company board of directors shall, on the strength of the decision taken by the said general meeting, increase the company's capital at the end of the specified period for the equivalent of the amount receivable (unrepaid) from the participation certificates offered to be converted into the company shares. The board shall, upon registration of the capital increase with the Companies Registry, issue new shares for delivery to the holders of the said securities being equivalent to the unrepaid amounts for the participation certificates they have offered to the company.

Article 34- From the date a decision is taken by the general meeting stated in article 30 to the final maturity of certificates or to the time when the capital increase with participation certificates has been realized, the company shall not be allowed to issue new participation certificates exchangeable for or convertible into shares or act to decrease or increase the capital, or amortize its capital or decrease it by repurchasing the shares or take action to distribute the reserve(s) or change the method of profit distribution. The company capital decrease resulting from the losses incurred which will cause reduction in shares nominal value or reduction in the number of shares shall also

include the shares which the holders of participation certificates receive on account of their securities conversion. Such holders shall be considered the company shareholders from the time of issuing participation certificates.

Article 35- From the date a decision is taken by the general meeting stated in article 30 to the time when the capital increase with participation certificates has been realized, the company shall not be allowed to issue new shares as a result of capital reserve transfer or give any shares or allocate any fund for or make any payment to the shareholders under any title whatsoever such as stock dividend or issue profits unless the rights of the holders who subsequently convert their participation certificates into shares are protected in proportion to the shares they possess on account of the conversion. To this end, the company shall have to adopt the proper measures so that the holders who convert their participation certificates into the company shares will be able to seek their financial rights pro rata and under the same conditions.

Article 36- The participation contracts shall provide the opportunity for the parties to appoint an arbitrator if they mutually agree to do so.

Article 37- The Ministries, governmental agencies or entities, state corporations, municipalities and other executive establishments or instrumentalities shall have to accept the participation certificates issued under this by-law as the collateral security for the transacting parties in the related contracts.

Article 38- The receipt of the bonds issue license by the issuer, acceptance of agency by the agent and the conclusion of auditing contract as the project trustee shall be deemed to undertake the effects and obligations arising from the provisions of this by-law and of its executive regulations.