

Arch Bridge over Karoon 4 Dam Lake, Chahar Mahal & Bakhtiari Province, Iran

Market Overview _____ 2

The Tehran Stock Exchange (TSE) index decreased for the third consecutive month in January. The index dropped by 5% and monthly trade value stood at a one year low of \$747 million. The average P/E ratio of the market reached 5.3, the lowest level since October 2013. According to the new reports released by listed companies, total projected earnings dropped by 4% compared to the previous announcements. Declining by 20%, the basic metals sector was the biggest loser among top ten large listed industries in January. This was the steepest drop in this sector since 2008. NICIC, the largest producer of copper in the Middle East, experienced a hit of 19% this month and shares of all steel producers fell by double digits as well.

Country Highlights _____ 5

The most recent and important news about the country will be mentioned in this section.

Economy _____ 6

Real estate market and inflation, Iran's mining industry, and productivity of privatized companies will be discussed in this section.

The fall in the Tehran stock market deepened in January as the main index decreased for the 3rd consecutive month in addition to the sharp fall in market turnover. As a result, the main index of the market shrank by 5% and monthly trade volumes stood at a one year low of \$747 million; this is half of December's turnover. The rout in the global oil market added to investor concerns this month and petrochemicals, as the largest listed industry, suffered a fall of 14%.

Consequently, valuations also became lower and the average forward P/E ratio of the market fell to 5.3, the lowest level since October 2013. Company reports for the third quarter of the Iranian year were also released this month; this didn't result in any positive surprises as the total earning projections of listed companies were down by 4% compared to previous announcements.

As the weakness in the stock market continued, the Minister of Economy and Finance stepped in and tried to calm market sentiment by saying that "a further decline in the stock market doesn't match with the economic realities." Having said that, it seemed that retail investors ignored these comments as the fall in the oil price fuelled a new round of sell offs in the stock market.

Basic metals

With more than a 20% decline in the average market cap of basic metals, this sector was the biggest loser among ten large listed industries in January. It has been the steepest monthly decline in the sector since 2008. Part of the reason for this was concern about the influence of declining oil prices on other commodity prices. NICIC, the largest producer of copper in the Middle East, experienced a hit of 19% this month and shares of all steel producers fell by double digits as well. As basic metals contributes to more than 10% of the total Iranian market cap, sharp declines in this sector have affected the main index significantly.

Cement

Iran is the largest exporter of cement in the world which exports mainly to Iraq. However, the secu-

rity crisis in Iraq caused by Islamic State has had a huge impact on the export of cement. As a result, in 2014, the excess supply of cement was a problem for Iranian producers and this has worsened with time. As the amount of unsold cement in warehouses reached over 18 million tonnes (equal to 30% of the annual production of the country), the union of cement factories announced a coordinated shut down of production for at least one month. Instead, managers of cement companies are trying to receive more subsidies in energy prices next month as this will help the government reduce total energy consumption in the winter. For the past couple of years, the natural gas supply for households has been a challenge for the Iranian government. This news wasn't considered as a positive development in the eyes of investors which resulted in the index of industry falling by 8% in January. Analysts believe that this one month shutdown will not resolve the plant's problems and that this period must extend to a quarter in order to be able to absorb the stockpile on the demand side.

Mining

As the parliament examines the government's budget for next year, different industries have started to bargain with the parliament on the content of the bill. Iron ore producers have established a strong lobby and are trying to reduce the royalty fee for the next year. Last year, miners were required to pay 30% of total revenues as royalty fees in accordance to the government's proposal and final approval of the parliament. After long negotiations, the budget committee decreased this fee by 5% for the next year from 30% to 25% of total sales. Although this will have an 8% positive effect on the net profit of companies, miners are not satisfied with this development as they expected a 15% decrease in fees. They still hope to push down the royalty fees further next month when the bill finalizes during public discussions in the parliament.

Turquoise Launches Iran's First Index ETF

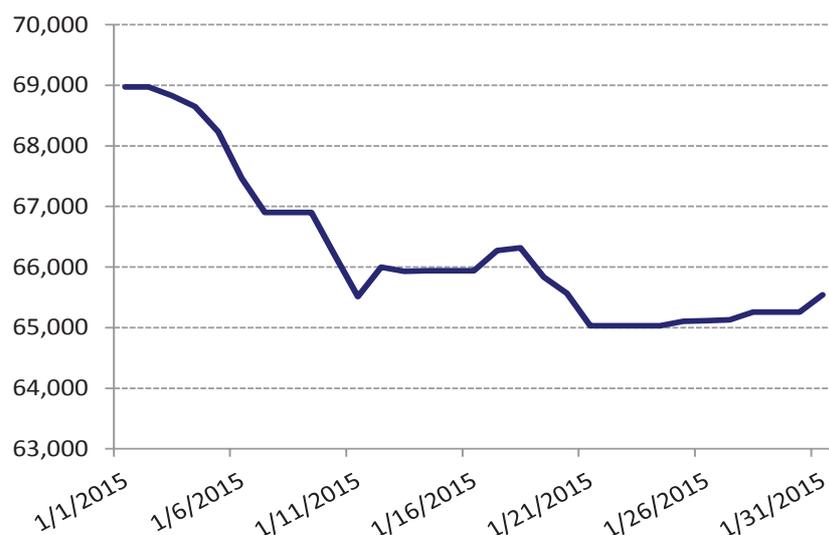
Turquoise Partners, Iran's largest foreign fund manager, launched the country's first Index

Exchange Traded Fund (ETF). In a two-week period, the total of 103 billion Rials was raised and ETF's shares will start trading in the last week of February.

"Turquoise TSE 30 Iran Index ETF", will be mirroring the TSE 30 index which covers the top 30 largest companies by market capitalization on the Tehran Stock Exchange (TSE). The companies listed in the TSE 30 index account for over 70% of market capitalization of the Iranian exchange and include a variety of listed industries such as mining, metals and chemicals.

Firouzeh Asia Brokerage, the brokerage arm of Turquoise Partners Group acquired a license for this fund from the Iranian market regulator, the Securities and Exchange Organization (SEO). "Turquoise TSE 30 Iran Index ETF" is listed on the main Iranian market, the Tehran Stock Exchange board, and is tradable through all registered brokerage stations in Iran.

Performance of TSE All-Share Index (January)



Market Statistics (January)

Average P/E	5.3
Trade Volume (\$ Billion)	0.7
Trade Value Monthly Change (%)	- 48
Market Cap (\$ Billion)	108

Top 5 Traded by Value (January)

Rank	Company Name	Turnover Value (\$Million)	% of Total Turnover
1	Golgozar Mining & Industrial Co.	61	8
2	Saderat Bank	35	5
3	Persian Gulf Petrochemical Industry	34	5
4	Iran Khodro Industrial Group	31	4
5	Mellat Bank	30	4

Top 5 Companies by Market Cap (January)

Rank	Company Name	Market Cap (\$Million)	% of Total MC
1	Persian Gulf Petrochemical Industry	9,812	9
2	Bandar Abbas Oil Refining Co.	5,455	5
3	Mobile Communications of Iran	4,348	4
4	Telecommunication Co. of Iran	4,175	4
5	Esfahan Oil Refining Co.	4,146	4

All figures quoted in USD in this Newsletter are calculated based on the Central Bank of Iran's official USD/IRR exchange rate of 27,504 as at 31 January 2015. Due to Central Bank's revision on the official exchange rate of the Rial, TSE's market capitalization and trading value in USD have reduced dramatically.

➤ Former Iranian vice president, Mohammad Reza Rahimi, has been found guilty of corruption and sentenced to 5 years and 91 days in prison and cash penalty of IRR 10 billion. The court also ordered Rahimi to reconstitute IRR 28 billion of funds obtained illegally. Mr. Rahimi, who was vice president from 2009 to 2013 during Mr. Ahmadinejad's presidency, was transferred to prison on February 15th. The charges against Mr. Rahimi were on the basis of financial corruption and the accumulation of wealth through illicit means. The case against Mr. Rahimi had been under investigation for more than a year and there had been many rumors about him during his time as vice president.

➤ Israeli forces attacked a motorized convoy in Syria close to the Israeli occupied Golan Heights, killing six Hezbollah fighters and an Iranian general. Iran's Islamic Revolution Guards Corps (IRGC) acknowledged the killing of Brigadier General Mohammad Ali Allahdadi in the region of Quneitra by Israeli airstrikes. IRGC commanders argued that General Allahdadi was in Syria to consult Syrian and Hezbollah forces in their fight against terrorist forces such as Islamic State. Israel further stated that it did not intend to kill the Iranian general and its forces were not aware of the ranks and connections of those attacked.

➤ The Iranian Foreign Minister, Mr. Javad Zarif, has continued negotiations regarding the Iranian nuclear dossier with his American counterpart, John Kerry, in two separate occasions over the past month. The first set of negotiations took place on the sidelines of the Munich Security Conference 2015, which both Mr. Zarif and Mr. Kerry attended. The negotiations have become more detailed; however, both sides continue to state the major gaps still remain and the two sides are serious about resolving the outstanding issues before the self imposed deadline of June 30th. The second set of negotiations took place in the Swiss city of Geneva at which the head of Iran's Atomic Energy Organization, Mr. Ali Akbar Salehi, and the American Secretary of Energy, Mr. Ernest Moniz, were also present. The attendance of Mr. Salehi and Mr. Moniz is regarded as necessary to push technical

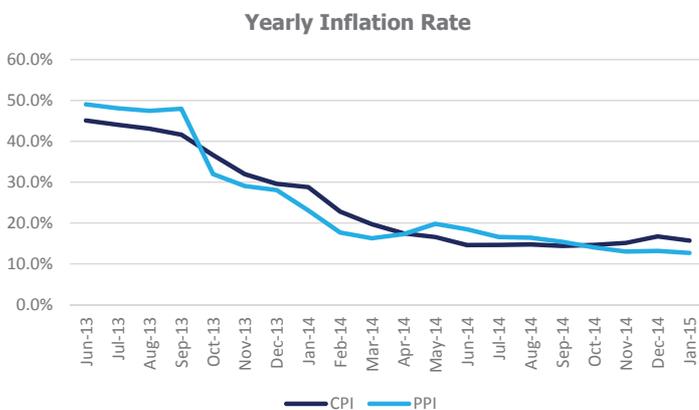
aspects of the negotiations forward. Top Iranian nuclear negotiator, Mr. Abbas Araghchi, stated that the negotiations have reached a position where political decisions are needed to be taken at a higher level in the negotiating states' respective capitals. The sides are trying to reach a political agreement by March 31st as was stated in the extension of negotiations on the previous deadline of November 24, 2014.

➤ The Iranian Supreme Leader, Ayatollah Ali Khamenei, in a meeting with commanders of the Iranian Air Force, commented on the ongoing negotiations between Iran and the P5+1. The Supreme Leader stated that he supports the current negotiations and any possible accord that can be reached. However, he stated that no deal is better than a bad deal in which Iranian national interests and integrity is harmed. Ayatollah Khamenei mentioned that he approves of the current negotiations and the logical steps Iran has taken for the continuation of the negotiations, but that the P5+1 and specifically the US should not push for illogical and excessive demands. The Leader stated that he does not agree with a two step agreement as details can be used in the second step against Iranian interests and the interpretation on details would give the other side excuses for exerting further pressure on Iran. Ayatollah Khamenei finally stated that the country is capable of withstanding pressure and therefore if a deal is not reached, Iran will be able to overcome future obstacles.

Real Estate Market in Tehran and Inflation

In autumn 2014, the average price of land in Tehran reached \$1300 per m² (at the free market exchange rate), an increase of 4.9 percent compared to the summer and 1.1 percent compared to the autumn of 2013. The number of transactions though decreased by 23 percent compared to the summer. During the same period, the average price of apartments increased by 5.9 percent, reaching \$1180 per m², and the number of transactions decreased by 13 percent. In summer 2013, the property market in Tehran reached its peak and after that decreased by more than 15 percent; this happened after the coming to office of the Rouhani government when the Central Bank of Iran tightened its monetary policy and the inflation rate started decreasing. Property prices have been on a gradual upward trend recently but the volume of transactions is still at low levels. Market experts do not expect a jump in the near future as long as there is no positive outlook for growth in the national income due to the low oil price and struggling economy, and as long as tight monetary policies are in place.

The monthly inflation rate in January dropped to 0.3% from 1.9% in December. This decline brought calm to the market as the inflation rate had been increasing for 4 consecutive months prior to January. The yearly point-to-point inflation rate in January 2015 stood at 15.7%. The producer price index, PPI, did not change during the month of January, making a record low for PPI growth over the past few years. The PPI increased by 12.7% in a year as of the end of January.



Iran's Mining Industry

Iran is rich in many mineral resources and is among the larger producers and reserve holders of copper,

iron ore, zinc, lead, and chromite. The country itself is a big consumer of these commodities and also can export them via its southern ports. The mining sector has a lot of potential due to the country's sizeable reserves and relative proximity to large consumers. However, the mining sector suffers from a lack of investment in technology, infrastructure, and research and development. The research center of the parliament recently published a report on the mining industry in Iran and compared it with four countries which are rich in mineral reserves: the US, Canada, Chile, and Australia. In Iran, the mining sector contributes to 1 percent of the country's \$370 billion nominal GDP. The trend of the growth of this sector relative to GDP has been almost stable for the last 8 years. In the four other countries, the mining sector is also a small sector of the economy, although with variations in size. In Australia, Canada, and the US it contributes to less than 6 percent of the economy, while in Chile it is 18 percent of the economy. The trend for all the countries has been relatively flat with the exception of Chile, where the mining sector grew from 7 percent of GDP in 2000 to 18 percent of GDP in 2008.

Investments in the mining sector in Canada and Australia are the second largest after investments in the services sector, even though the industrial sector is significantly larger than the mining sector. However, in Iran, investments in the mining sector is less than 25 percent of investments in the industrial sector. As these numbers suggest, Iran lacks sufficient investment in this sector. Out of the total of \$34 billion of accumulated foreign direct investments in Iran up until 2009, only 7 percent went into the mining sector. In Australia and Canada, this figure is more than 30 percent on average in recent years, while in Chile it is 40 percent. In the US, 7 percent of total foreign investment goes towards the mining sector. The fact that American corporations have much better technology explains why this ratio is not high in the US. As Iran is using old mining technology, it could benefit from massive investment in this sector which would stimulate other related sectors as well.

The mining sector contributes to less than 0.1% of employment in Iran; this is significantly lower than in the other four countries. However, the growth of

employment in this sector is higher than all other sectors in Iran. During the last two decades, the number of jobs created in the mining sector has grown from 100,000 per year to 208,000 per year, an average annual increase of 3.9%.

Productivity and Privatization

Productivity is one of the major sources of economic growth in many countries. In line with this and according to the Fourth and Fifth Development Plan of Iran, it is projected that one third of Iran's economic growth come from improving productivity. In addition, according to the new interpretation of the Article 44, the government is mandated to sell state-owned companies in order to decrease its ownership from 75% to 20% over the course of a ten year period ending in 2016 through a process called the Privatization Program. One of the main objectives of such a program is to improve productivity in the economy by passing ownership and management to the private sector. So far, the government has sold more than \$120 billion through more than 900 offerings.

The research center of the parliament published a report on the effect of privatization on the productivity of companies. An iron ore producer, a steel producer, and a copper producer were selected in order to examine improvements in productivity. According to the report, there is no significant improvement regarding productivity for these companies after privatization. The study argues that, based on certain facts, the management not being transferred to the private sector along with the ownership, and the sales of companies to non-expert private or quasi-governmental sectors in the form of debt repayment, are the main reasons that the privatization might not have had the desired impact on the economy.

About Turquoise

Turquoise is a boutique investment firm based in Iran. 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 with a wealth of international expertise enables Turquoise to benefit from coupling a network of global expertise with an enviable reputation for local knowledge, professionalism and integrity.

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.

Iran Investment Monthly is distributed exclusively amongst Iran analysts and potential investors who have worked closely or have been in contact with Turquoise Partners. Subscription to this newsletter is by referral only or through an online request sent to: info@turquoisepartners.com

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