



16th Non-Aligned Movement (NAM) Summit in Tehran , August 2012

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The Tehran Stock Exchange (TSE) showed its first signs of recovery after its fall in July. However, this month had the TSE's lowest monthly trade volumes in the past year as a result of a slow trading environment. The stock market's current trend mainly stems from investor sentiment. The change in sentiment manifested in the foreign exchange market and the US Dollar gained 10% against the Rial. For the first time in Iran's stock market history, equity put options were implemented and traded on the stock market.

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This month, the Tehran Stock Exchange (TSE) showed its first signs of recovery after its fall last month, with the market's main index growing by 0.3% in Rial terms on the month. However, trade volumes suffered a decline as a result of a slow trading environment and trade value reached USD 606 million, a 42% slump in comparison to last month. This proved to be the TSE's lowest monthly trade value in the past year. The 2012 year to date performance of the TSE stood at 1% at the end of August, its weakest performance in the past decade. The stock market's current performance is largely attributed to investor sentiment. The change in sentiment took its toll on the foreign exchange market too, as the unofficial US Dollar exchange rate against the Rial gained 10%. Unsurprisingly, stocks of exporting companies are expecting price hikes as a result of the Rial devaluation. However, in the second half of the month, investor sentiment began to change and the market witnessed signs of recovery.

Some of the key events and sectors of the market will be examined below:

Base Metals

Despite the government's emphasis on allocating official rates to importers of basic goods, their market price indicate that they are priced based on unofficial rates. Shortages of goods in some sectors caused their prices to increase far more than the changes in the exchange rate. For instance, iron prices increased by more than 100% over the past year within Iran. Over the course of the summer of 2012, the base metal sector had its best performance in August. This was largely due to the announcement of the complete liberalization of prices by Iran Mercantile Exchange (IME) that led to astonishing price hikes in this sector. As a result of this announcement, the sales price of raw steel and by-products soared by 15% in comparison to the previous month. In addition, the price of copper cathode increased by 10% during August. The trading value of aluminum had a 15% increase on the IME and Iran Aluminum Co. (IRALCO), the largest listed producer of Aluminum, is expected to benefit massively through this price movement. The metal sector is expected to significantly

outperform and stocks of these companies may well be among the best performers of the market in upcoming months.

The base metals sector index gained 4.8% in value in August.

Mining

Despite the downward movement of the Tehran Stock Exchange (TSE), August was a great month for the mining sector and the sector index grew by 5.7%. Given the current prices of steel (pricing base for iron Ore), Chadormalu and Gol-e-Gohar, the two largest iron Ore mines are expecting positive earnings revisions in their 6 month earnings reports. The stock prices of both companies increased by around 10%. One should note that Iran imports more than 30% of its steel requirements annually (5 million tonnes). Currently, stocks of mining companies are trading at P/E's of around 3. Given the remarkable profitability of companies in this sector, such a P/E ratio in this sector is unprecedented. The ten-year average PE of the mining sector was at 6.5.

Petrochemical

Despite an increase in the unofficial US Dollar exchange rate against the Rial and the great exposure of this sector to exports, stocks of petrochemical companies ended the month lower and the sector index lost 2.5% of its value in August. The main driver of this decline is uncertainty regarding further difficulties in the production and export of petrochemical products due to imposed sanctions by the US and EU. According to Iran's customs administration, the export of petrochemical products has dropped by 37% in the past four months compared to the same period last year. Analysts believe that, given the current political and economic situation in Iran, the concerns surrounding this sector are logical and investors are likely to remain cautious in the near term.

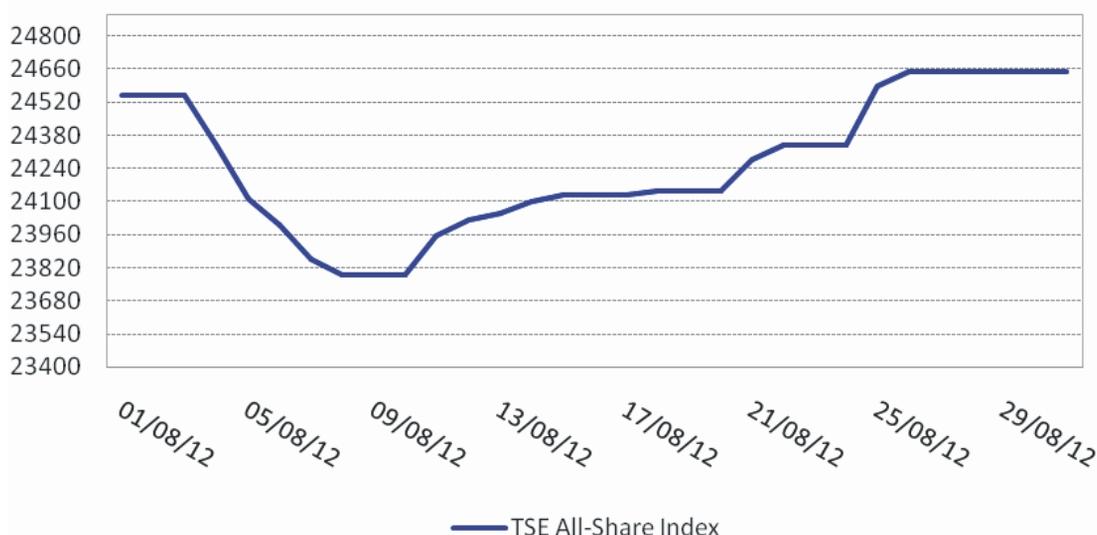
Equity Put Options

The downtrend movement of the TSE market

has forced authorities to think of more innovative instruments to improve the market trend. For the first time in Iran's stock market history, the TSE embedded a special type of equity put options for two mining companies and a petrochemical company in August 2012. This instrument is designed to provide security and assurance to investors in the capital market. The holder of a put option will pay 1% of the stock value and purchase the put option. In return, the major shareholder of the stock (issuer of the put option) will guarantee an annual return of 20%. The option holders have the right, but not the obligation, to exercise their option at a fixed price determined by the TSE. Some experts believe this hedging instrument has some shortfalls. Firstly, there is not much incentive for shareholders to guarantee a 20% return to option holders in the current uncertain economic environment. Secondly, the holder of the option takes no risk other than the price he pays for the put option and all the risk is transferred to the issuer. The TSE has taken a great step by introducing put options to the Iranian stock market. However, experts need to further consider the mechanism of this instrument in order to encourage companies to issue these options.

Overall, the TSE All-Share Index gained 0.3% of its value in August. Trade volumes stood at \$606 million, a considerable decline of 42% in comparison to the previous month.

Performance of TSE All-Share Index (August 2012)



Market Statistics	
Average P/E	4.6
Trade Volume (\$ Billion)	0.6
Trade Value Monthly Change (%)	- 42
Market Cap (\$ Billion)	91

Top 5 Traded by Value

Rank	Company Name	Turnover Value (\$Million)	% of Total Turnover
1	Saipa Automotive Manufacturing Co.	85	14
2	Housing Investment Co.	56	9
3	Piranshahr Sugar Co.	34	6
4	Iran Kish Credit Card Corporation	27	4
5	Hafez Tile and Ceramic Co.	25	4

Top 5 Companies by Market Cap

Rank	Company Name	Market Cap (\$Million)	% of Total MC
1	Telecommunications Co. of Iran	8,157	9
2	National Iranian Copper Industries Co.	5,388	6
3	Isfahan Mobarakeh Steel Co.	4,670	5
4	Omid Investment Co.	3,404	4
5	Ghadir Investment Co.	3,284	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 12260, as at 31 August 2012

16th Summit of the Non-Aligned Movement in Tehran

The 16th Non-Aligned Movement (NAM) summit was held in Tehran from 26th to 31st August 2012. During the summit, Iran hosted various high-ranking officials including 3 Kings, 24 Presidents, 8 Prime Ministers and 50 Foreign Ministers from 120 countries, as well as the Secretary General of the United Nations (UN), Mr. Ban Ki-Moon. Iran has received the rotational presidency of the Non-Aligned Movement from Egypt and will hold the chairmanship from 2012 until 2015, with the Iranian President as its Chairperson.

The Movement's history goes back to the days of the Cold War. In 1961, a group of states that were not aligned with or against the Western or Eastern bloc initiated the Non-Alignment Movement. This was to form an international gathering of states that did not revolve around the bi-polar global status. The movement currently has a membership of 120 countries and 17 countries that hold observer status. This international movement is considered as the second largest global international entity after the United Nations where two thirds of the UN member states, comprising of more than 50% of the world's population, participate. Since the end of the Cold War, the movement has been struggling to find a common purpose and has raised issues concerning nuclear disarmament and human rights.

Iran joined the movement in 1979 and has been an active member ever since. Hosting the summit allowed Iran to receive a great deal of publicity worldwide and created an opportunity during which Iran could flex its diplomatic muscle. Preparations for the summit began months before and the capital was on a five-day holiday in order to improve security during the conference. Government institutions, banks and many businesses were closed for the duration of the meeting and reportedly, 110,000 security guards were summoned to Tehran in order to enhance security.

Iran itself was the focus of much attention at this summit, as major issues such as the Syria conflict and nuclear disarmament were discussed. The

Egyptian president urged for solidarity in fighting against Bashar Assad's regime. He said that the summit had a duty to support the Syrian uprising; this resulted in a walk out by the Syrian delegation. The Egyptian President had defied the US's request not to attend the summit but his speech caused a great deal of controversy. Mohammad Morsi's trip to Iran was also significant because he became the first Egyptian leader to travel to Tehran since the 1979 Islamic Revolution, when Iran broke ties with Cairo over Egypt's peace pact with Israel. The Egyptian President's visit is seen as an effort to reestablish a relationship between the two countries.

Ban-Ki Moon's statement at the event also urged states to stop the supply of weapons to all sides in the Syrian conflict. During his trip to Iran, Ban Ki-Moon met with President Ahmadinejad and the Supreme Leader Ayatollah Khamenei. In this meeting, the UN Secretary General expressed his concerns about human rights issues and urged Ayatollah Khamenei to take real steps towards proving the peaceful intentions of Iran's nuclear program and also to use the country's influence to help end the Syrian conflict. The Supreme Leader who spoke at the summit, said that Iran has a right of access to peaceful nuclear energy and maintained that the country's program is peaceful and not intended for developing weapons. Ayatollah Khomeini also criticized the United Nations Security Council (UNSC) for having an illogical structure which provides support for US policies. Ban Ki-Moon responded by advising the Iranian government to assure the world over its peaceful nuclear ambitions. He also mentioned that the hostility Iran is displaying towards Israel is not acceptable.

Iran also used the Non-Aligned Movement summit to pursue its nuclear diplomacy by restating its peaceful ambitions in its nuclear energy activities. The country displayed the remains of the bombed vehicles of its assassinated nuclear scientists at the summit to show how it had been the victim of terrorist activities. The family of one of the nuclear scientists who was assassinated was also present during the event. The United Nations Secretary General met with the family at one point, held and

kissed the daughter of the assassinated scientist in front of the press. This was significant due to the fact that Iran has accused Western intelligence services, such as the CIA and Mossad, for being behind the assassinations and sabotage attempts.

Domestically, the reaction towards this conference has been somewhat mixed. The majority of people were complaining that with the country's current economic situation, the government should not have spent so much on the summit. Reportedly, millions of dollars had been spent on security and city maintenance. Aside from these expenses, businesses also incurred losses as a result of being closed for five days. Members of the government on the other hand, were extremely keen on having this summit in Tehran and made great efforts to accommodate leaders of visiting countries. Iran had hoped that the high profile event would prove that attempts by the West to punish the country economically for its disputed nuclear program had been unsuccessful. Iran getting the chairmanship of the NAM has had a positive impact on the government's morale. Certain authorities are given to the movement's presidency, which will allow Iran to take on more responsibility in the international arena.

The presence of high level diplomatic leaders and their officials gave Iran the opportunity to discuss political matters in a non-hostile environment. The US and Israel were highly opposed to the summit taking place in Tehran, and they had encouraged Ban Ki-Moon and other officials to avoid attending the summit. They said that in light of sanctions and the West trying to cut all economic ties with Iran, their presence at this conference would provide Iran with unmerited political recognition. However, 120 countries attended the summit, where this amounted to the biggest single voting bloc in the UN General Assembly. Tehran's hope for the conference was to demonstrate to the West that Iran has many friends around the world and that the sanctions that have been implemented, have not been able to adversely affect the country's image. Iranian leaders hope that the NAM summit will have positive implications for Iran as it will hold the leadership for the next three years. Similar

to previous Non-Aligned Movement events, the closing statement of the NAM summit also defended Iran's right to nuclear technology which Iran sees as very important for its diplomatic drive on this issue.

Former ministers' letter to the Supreme Leader

In August, a number of President Ahmadinejad's former ministers wrote a letter to Iran's Supreme Leader, Ayatollah Khamenei, in order to ask him to form an emergency government that would effectively restrain the President's power.

The former foreign Minister, Mr. Mottaki and a former Interior Minister, Mr. Pourmohammadi, were the ones who initiated this action. They cited the country's current sensitive situation and called for the Supreme Leader to form a special cabinet consisting of the heads of the executive, legislative and judicial authorities that could administer the country until the end of President Ahmadinejad's term. It has been reported that the letter was prepared by five former Ministers and signed by fifteen. One of the Ministers who signed the letter said that the reason they addressed this letter to the Supreme Leader was that they thought that he would be the only party who could assess and act on such a request. Later in a meeting with officials, the Supreme Leader referred to the letter and agreed with certain points that it made.

The letter proposed that this cabinet would give the President the right to serve within this body, but with limited authority. His decision making powers would be controlled by the speaker of the Iranian Parliament and the Chairman of the Guardian Council. One Minister, who was dismissed by the President, was quoted as saying that taking into consideration the current economic and political situation in the country, the formation of this new body is extremely necessary. They argued that in light of US and EU sanctions aimed at Iran's oil industry, the country is facing significant challenges and action needs to be taken. In response to the letter, the Iranian state media criticized the former Ministers, accusing them of trying to create a crisis situation in order to disturb the current system of government.

The President, who currently holds a great deal of power in the Islamic Republic, was condemned by the letter over his handling of the economy and inflation. The President's position has been weakened gradually following his struggles with the Supreme Leader and the conservatives. Since the Presidential elections three years ago, President Ahmadinejad has been faced with attacks against his authority and his alleged mismanagement of the country's economy. In recent months, prices and exchange rates have been increasing very rapidly, making life much more challenging for most people.

Some members of the government criticized the letter saying that the authors had ulterior motives and were acting out of revenge against the President. The former Interior Minister, Mr. Pourmohammadi, who was forced to resign from his post by the President, came under particular attack for this letter. He was accused of pushing his own agenda due to his personal hostility. There are rumors that Mr. Pourmohammadi is planning to stand as a candidate in next year's Presidential elections. Mr. Pourmohammadi who currently heads the National General Inspection Organization, responded to rumors saying that the letter was prepared in accordance with his duties to supervise government activities. He also mentioned that he will become a candidate should the country demand it. Mr. Mottaki was also fired by the President in December when he was abroad at an official visit to Senegal; this could lead critics to believe allegations about the former Minister's motives. However, Mr. Mottaki said in a response to criticisms over the letter that it was a culmination of discussions over the past year and a half between a number of officials. He stressed that it was in no way done for personal reasons.

An Iranian newspaper viewed this letter as being part of a larger plan by anti-Ahmadinejad forces to highlight the need for a change in government. This publication, which is supportive of President Ahmadinejad, has named the former Presidents Rafsanjani and Khatami along with Parliament speaker Ali Larijani as the other participants in the plan to dilute President Ahmadinejad's power.

East Azerbaijan Earthquake

On 11th of August 2012, just days before the end of Ramadan, multiple earthquakes occurred in Northwestern Iran. The cities most damaged were Ahar and Varzaqan in East Azerbaijan Province, which are in close proximity to Tabriz.

The two earthquakes were eleven minutes apart and were measured at 6.4 and 6.3 on the Richter magnitude scale. At least 80 aftershocks were reported. This was the most destructive earthquake in Iran since the Bam earthquake in 2003. At least three hundred people were killed and approximately three thousand people were injured. The most damage was done to the rural and mountainous areas northeast from the city of Tabriz, although it has been reported that the shocks were also felt in Azerbaijan and Armenia. It was reported that 130 villages were almost destroyed and 20 were completely ruined.

Domestically, the government initially announced that they would not require any outside help. The Governor of East Azerbaijan province announced two days of mourning in the province, and three days after the earthquake, the Iranian Red Crescent announced that they would accept outside help from foreigners. Many countries expressed their condolences and offered to help.

The help provided by people within Iran was extraordinary. Many people traveled to the region at the end of the Ramadan Holiday weekend with boxes and cars full of food and equipment. There were many rescue teams sent consisting of ordinary citizens who volunteered to go and personally help the victims of the earthquake. The role of social media was also significant in the relief efforts as many Iranians in the region reported on websites such as Facebook and Twitter of shortages and requirements so that the aid could be provided more efficiently.

Top Iranian banks 2012 rankings - The Banker's report

The Banker's top 1000 World Banks ranking published every July gives an insightful snapshot of the state of the global banking market. In their 2012 report, thirteen Iranian banks were ranked based on their profitability, performance, size, credibility and banking power. Note that the ratings are based on the figures of the first three months of 2011.

According to this report, Saderat, Mellat and Pasargad Banks were the most profitable banks in Iran with earnings before tax (EBT) of \$797, \$783 and \$633 million respectively. Looking at return on capital (ROC) as a performance evaluation tool, Parsian with ROC of 43.7%, Melli with ROC of 41.7 and Karafarin with ROC of 37.6 were ranked as the best performing banks in 2011. Another metric observed by the Banker's report is total assets which reflect the size of a bank. In Iran, Melli, Mellat and Saderat were the largest banks in terms of their asset size. Their total assets amounted to \$79,907, \$68,370 and \$54,877 million respectively. Housing Bank, Saman and Pasargad had growth in their assets of 75.42%, 67.17% and 47.41% respectively, signifying the highest percentage increase in total

assets within the sector. The most credible banks according to this report were Export Development Bank of Iran, Industry and Mine bank and Pasargad. The capital to asset ratio, a metric to measure credibility of a bank, for these banks was 28.57%, 27.04% and 16.93% respectively. One should note that the top three most credible banks had the highest level of change in their capital to asset ratio. The report shows that the highest return on assets (ROA) belonged to Karafarin with ROA of 5.10%, Pasargad with ROA of 3.5% and Eghtesad Novin with ROA of 2.41. Banking power is another important factor in this report, and this is measured by the initial capital of a bank. Saderat, Pasargad and Industry and Mine bank with the highest capital base of \$3109, \$3057 and \$2550 million were the strongest amongst all Iranian banks under this metric.

Overall, the Banker report shows that Iranian banks have performed moderately well given their limited operations worldwide. The Banker is a monthly international financial affairs publication owned by The Financial Times.

Top 5 Iranian Banks 2012 ranking

Bank	Score		Banking Power		Total Assets		
	Iran	Global	Capital Base		\$ million	Score	% Change
			\$ million	% change			
Saderat Bank	1	259	3,109	4.46	54,877	3	14.22
Pasargad Bank	2	266	3,057	147.7	18,057	8	47.41
Industry & Mine Bank	3	310	2,550	-2.16	9,432	10	12.1
Mellat Bank	4	320	2,402	NM	68,370	2	NM
Tejarat Bank	5	350	2,103	13.6	45,158	4	18.65

Bank	Credibility		Performance		Return on assets	
	Capital to Asset Ratio		Return on Capital		%	Score
	%	Score	%	Score		
Saderat Bank	5.66	7	25.63	8	1.45	7
Pasargad Bank	16.93	3	20.69	9	3.5	2
Industry & Mine Bank	27.04	2	3.2	13	0.87	10
Mellat Bank	3.51	12	32.59	5	1.14	9
Tejarat Bank	4.66	9	27.14	7	1.26	8

Iranian oil industry under sanctions

The decision by the European Union in January 2012 to cut down purchases of Iranian crude oil were implemented in July 2012 and Iran lost Europe, its biggest customer, but to date Iran continues to export much of its oil production to Asian countries. Asia's major crude buyers are finding ways around US and EU sanctions in order to maintain imports from Iran. China, India, Japan, Turkey and South Korea buy most of the one million barrels per day of crude oil Iran is able to export despite financial, shipping and insurance sanctions.

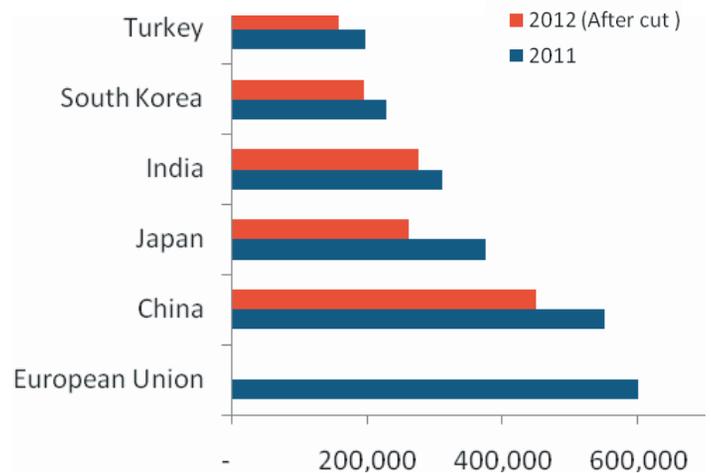
China, Iran's largest single customer, bought about 20% of Iran's total oil exports with a value of around \$16 billion in 2011. Earlier this year, China was given a waiver after imports fell by 18% from 550,000 to 450,000 barrels per day (bpd). However, in August, China kept its loadings unchanged from July at 8 million barrels. Japan is large purchaser of Iranian oil and in 2011, it averaged 327,000 bpd. Japan doubled its August loadings to 7 million barrels in comparison to July; this was in order to make up for disruptions in mid 2012 when Japan had agreed to cut its oil purchases from Iran by around 20%. India however, cut its oil imports from Iran by 42% in July in comparison to June. According to industry sources, India is expected to continue down this path for the time being and load 2 million barrels at most. Turkey was granted a 180 day exemption from sanctions from June 11 as a result of an initial 20 percent cut. Turkish imports of Iranian crude oil surpassed Turkey's 2011 average of 196,000 bpd in August, amounting to 200,000 bpd of Iranian crude oil. The lack of insurance prompted South Korea to halt shipments from Iran in July. Its loadings are set to resume in September after Korean refiners decided to follow the example of their counterparts in China and India in asking Iran to insure the ships.

Iran exported an average of around 1.1 million bpd in August, up from about 1 million barrels in July according to the International Energy Agency (IEA). At current oil prices, the country is losing some \$110 million a day in export earnings in comparison to the beginning of the year. The

country's oil production dropped to 2.8 million bpd in August, a significant drop from 3.5 million bpd in the same month last year.

Top Energy Buyers from Iran and Agreed Reductions in 2012

(Amounts in barrels per day, bpd)



Overview of Iran's Currency Market

International sanctions imposed on Iran are continuing to cause fluctuations in the local currency market as a shortage of foreign exchange bites. The dollar was selling on the open market for IRR 19,620 on August 1st but reached IRR 21,900, suffering an 11.6% drop by the end of the month. Usually when the Rial shows signs of weakening, the Central Bank of Iran pumps foreign currency into the market to intervene. However, sometimes the authorities choose to weaken the national currency internationally by withholding the supply of hard currency to earn more Rial-denominated income, at times when the government faces budget deficit. The managed float mechanism has not functioned properly for much of this year.

Reflecting possible concerns about the flight of hard currency, the government classified imported goods as consisting of 10 groups and announced that it would allocate access to the official rate for basic goods including food and pharmaceutical products. This forced a great number of Iranian importers that were excluded from the list to turn to the unofficial market for dollars and thus drove

the Rial down further. Ultimately the government stopped providing dollar at the official rate to all groups in order to control the gap between the Central Bank rate and the market rate.

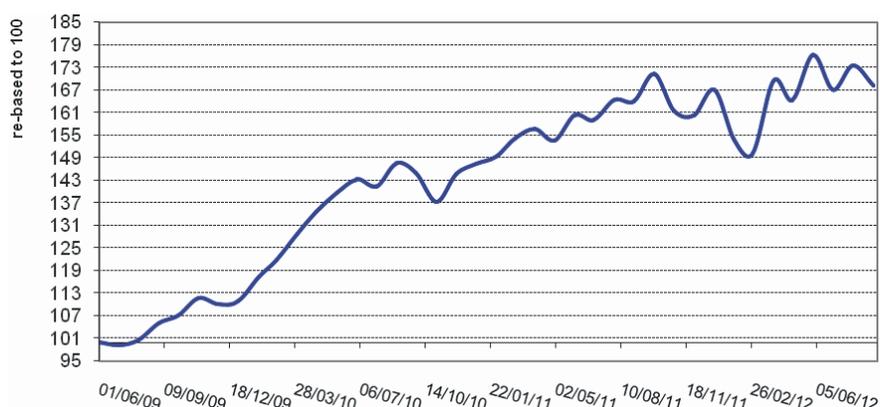
Liquidity, inflation and unemployment in spring

The latest statistics published by the Central Bank of Iran reveals that the point to point annual inflation rate in the first quarter of the Iranian calendar year 1391, starting on March 20th, was up to 27.2%. According to the Statistics Center of Iran, the country's unemployment rate for the same period hit 12.9%, compared to 14.1% in the winter of 1390. Liquidity has increased from IRR 3,520 trillion in the previous year to IRR 3,760 trillion in the spring of 1390, a 7% jump in four months.

Investment Objective – The Turquoise Equity Investments seeks superior long-term capital growth by investing in the consumer and commodity potential of Iran, one of the most undervalued emerging markets in the world. Turquoise combines international experience with local expertise in investing in equities listed on the Tehran Stock Exchange (TSE) and other Iranian-based securities. The goal is to provide superior returns, with greater diversification and lower volatility.

Class A		NAV = 168.2
Vehicle Domicile British Virgin Islands	Management Fee 2.0% p.a	Currency Euro (€)
Launch Date 01 June 2009	Carried Interest 20% (High Water Mark Applies)	Minimum Investment €100,000

Class A Performance (Euro) - As at 31st August 2012



Period	Portfolio Return
Last Month	- 3.0 %
Last 3 Months	- 4.6 %
Last 6 Months	12.0 %
Last 12 Months	2.5 %
Since Inception (01 June 09)	68.2 %



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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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