



Wall Painting, Chehel Sotoun Palace, Esfahan, Iran

Market Overview _____ 2

This month, the Tehran Stock Exchange (TSE) continued its upward trend and the TSE All-Share Index reached its highest value ever in the Iranian stock market's history. The stock market's positive trend is mainly credited to the significant price hikes in companies that have benefited from the devalued Rial. The value of steel products rose significantly on the Iran Mercantile Exchange (IME). TSE investors were also presented with some rather upbeat six month corporate earnings announcements in October.

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Turquoise Iran Equity Investments _____ 10

This section provides data and charts on the performance of Turquoise Iran Equity Investments Class A for the month of October.

This month, the Tehran Stock Exchange (TSE) continued its upward trend with positive growth of 6.4% in Rial terms and the TSE All-Share Index reached its highest value ever in the Iranian stock market's history. Currently, the stock market is divided into two broad categories: the first group includes companies that have prospered from the difference between the official Central Bank rate and the unofficial market rate, resulting in rises in their stock values. Therefore, stocks of exporting companies such as those in the petrochemicals, base metals and mining industries have been very popular amongst TSE investors. On the other hand, the second group which mostly includes stocks of sectors such as automotives and telecommunications experienced relative losses mainly due to high production costs. According to stock market analysts, the positive performance of the market is mainly attributed to the significant price hikes in companies that have benefited from the devaluation of the unofficial rate of the Rial, and not because of company fundamentals and their influence on the stock market. Due to the various political and economical factors that influence the currency market, predicting the movement of the currency is very difficult; consequently, it is very hard for analysts to provide any confident views in regards to the outlook of the Iranian stock market. The astonishing price hike of goods on the Iran Mercantile Exchange (IME), particularly in the metals sector, also had an influence on the positive trend of the stock market. This month, the value of steel products rose by almost 15% on the IME and stocks of steel and iron ore companies (that consist of 25% of the TSE's total market capitalization) were strongly favored by investors. In addition, TSE investors were also presented with six month corporate earnings announcements. These reports were warmly received by investors, who were buoyed by a sense of optimism deriving from some rather upbeat corporate announcements.

We will now examine various industry sectors of the TSE:

Steel Producers

Steel producers had a good month in October, as was shown by a series of positive six month

earnings reports from listed companies in this industry. The strong reports seemed to stem from further weakening of the Rial. Both Mobarakeh and Khouzestan Steel Companies (first and second largest steel producers in Iran) revised their earnings forecasts upwards by 90% and 55% respectively. If current prices remain the same, analysts believe that further positive earnings adjustments of up to 20% are likely to occur. The P/E of steel manufacturing companies is estimated to be around 4.

Automotive

The automotive sector witnessed a 21.4% drop on the month making it one of the worst performers of the stock market in October. Falls in this sector have been 37% since the start of the Iranian calendar year. In their six month earnings report, automotive companies scared investors by revealing a gloomy outlook ahead. The cost of raw materials constitutes more than 80% of the cost of goods sold (COGS) for car manufacturers in Iran. In the past month, the cost of purchasing car parts has increased by more than 50%. Saipa (second largest car manufacturer in Iran), with a negative earning adjustment of nearly 98%, reduced its earnings per share (EPS) forecast to zero. Pars Khodro, Iran's third largest car manufacturer, announced losses in its six month report. In addition, car production at both Saipa and Pars Khodro fell by 55% and 48% respectively in comparison to the first six months of the previous year. The published reports also show that many automotive companies have negative working capital, indicating liquidity problems in this sector.

Based on the above mentioned factors, analysts maintain a poor outlook for this ailing sector. Considering the upward trend of raw material prices in recent weeks, experts believe that immediate actions need to be taken in order to fulfill the liquidity needs of the automotive sector in order to prevent further losses that might lead to bankruptcy in some of these companies.

Pharmaceutical and Banking

Beside the automotive sector, the six month

corporate earnings reports indicate sharp profitability declines in some other sectors which are affected by the exchange rate. The pharmaceutical sector was among the worst hit by the devaluation of the market rate of the Rial and tighter sanctions. Most companies in this sector revealed worrying reports showing negative adjustments, which are mostly attributed to difficulties in importing raw materials and high production costs. The banking sector was also among the laggards of the market. Due to a lack of liquidity in the economy caused by the devaluation of the Rial and a decline in the purchasing power of Iranians, the banking sector is facing increasing demand for loans. In addition, banks are undergoing the risk of losing their long-term deposits as investors find other investment classes such as gold and foreign currency more attractive. Furthermore, as shown in their six month reports, bank's deferred loans increased by around 20% in comparison to the previous year. Analysts expect further liquidity issues in the banking system that might lead to banks borrowing from the Iranian Central Bank at high rates. The sector index was down 1% as at the end of October.

Petrochemical

In October, government took two major steps to calm the currency market. The first step was to convince exporters to convert their foreign currency proceeds to Iranian Rial by selling it at the Currency trading room. Continuous negotiations have occurred between the government, the Iran Chamber of Commerce and the country's major exporters. The government approved a six point plan to bring foreign currency resulting from exports to the trading room. The Central Bank has claimed that this plan has not yet been received for implementation. However, petrochemical companies, who are the largest exporters of the TSE, have so far not engaged in such negotiations. In its second attempt, the government banned exports of 50 various industrial and petrochemical goods, and this news was not well received by the petrochemical sector. A continuation of this ban will force petrochemical companies to cut production. This is due to a decline in demand through losing international customers. Experts hope that further

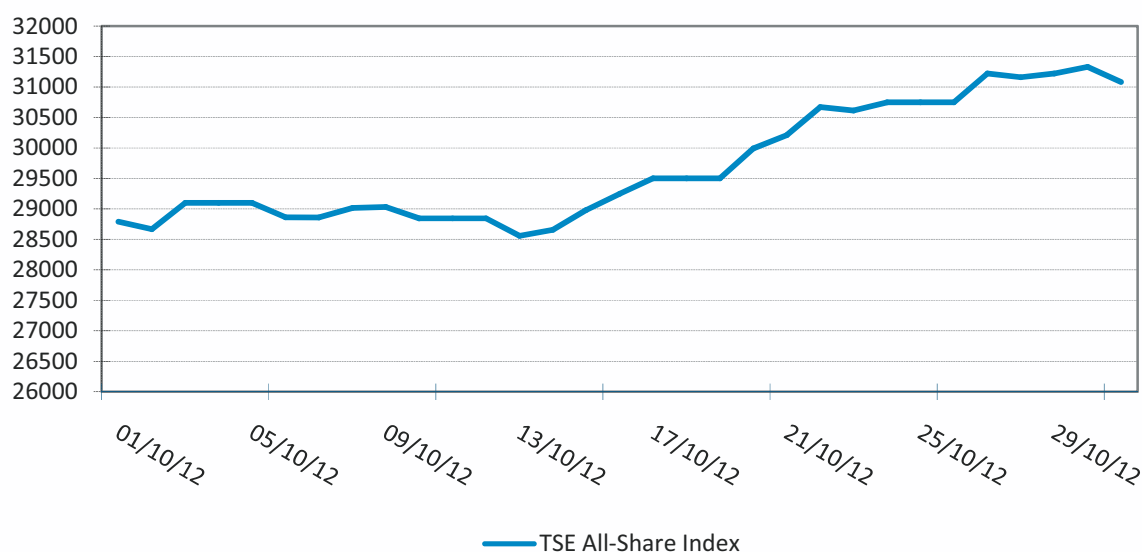
adjustments would be announced in regards to the items that are banned from being exported. Despite the above mentioned concerns, the index for the entire petrochemical industry was up by 14% in October.

Privatization

In October, stocks of three major state owned companies were publicly offered on the Tehran Stock Exchange (TSE) as part of the privatization program. A 53% block in Isfahan Zob Ahan at a market capitalization of nearly IRR 20 thousand billion was publicly offered by the government. Two major private investors started to bid closely for two days. But on the third day the TSE stopped the bid process, saying that the bidders were not qualified to carry out this acquisition. This news was met with strong criticism in regards to the mechanism of the bidding process. Critics believed that the eligibility of bidders should be verified before the bidding begins. Shares of Zob Ahan lost 10% of their value as a result of this news. The second offering was a 50.5% block in Khouzestan Steel Company at a market capitalization of IRR 33 thousand billion which failed and was deemed as too expensive by the market. The third offering, a 17.5% block in Saipa, failed to attract investor interest and was an unsuccessful offering as well.

Overall, in October the market continued its upward trend and the TSE All-Share Index increased by 6.4%. The trade volumes stood at USD 2.18 billion, 32% higher than the previous month.

Performance of TSE All-Share Index (October 2012)



Market Statistics	
Average P/E	5.3
Trade Volume (\$ Billion)	2.2
Trade Value Monthly Change (%)	32
Market Cap (\$ Billion)	116

Top 5 Traded by Value

Rank	Company Name	Turnover Value (\$Million)	% of Total Turnover
1	Telecommunications Co. of Iran	46	10
2	Mellat Bank	33	7
3	Pasargad Bank	30	6
4	Isfahan Mobarakeh Steel Co.	26	5
5	Saderat Bank	23	5

Top 5 Companies by Market Cap

Rank	Company Name	Market Cap (\$Million)	% of Total MC
1	Telecommunications Co. of Iran	8,958	8
2	National Iranian Copper Industries Co.	8,648	8
3	Isfahan Mobarakeh Steel Co.	7,561	7
4	Omid Investment Co.	4,438	4
5	Gol-e-Gohar Iron Ore Co.	4,421	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 October 2012

Ahmadinejad's Letter to the Judiciary:

The news regarding the arrest of President Ahmadinejad's top press advisor and the head of the Islamic Republic News Agency (IRNA), Ali Akbar Javanfekr came out while Ahmadinejad was in New York to attend the 67th session of the UN General Assembly in September 2012. Mr. Javanfekr was sentenced to six months imprisonment based on charges of insulting the Supreme Leader and publishing material contrary to Islamic codes and public morality.

After Ahmadinejad's return to Iran, he reacted to this event by mentioning that he believes the charges against Mr. Javanfekr were political in nature and were meant to pressure the President and his allies.

In October, Ahmadinejad expressed his interest in visiting Evin Prison, where Javanfekr is being held, through sending a letter to the Judiciary. In response he was told that the visit would not be recommended. This prompted President Ahmadinejad into writing an open letter to the head of the Judiciary, Ayatollah Sadegh Larijani. The letter stated that according to the Iranian constitution, the President, as the head of the executive branch, must uphold and defend the constitution and consequently can have oversight over other bodies of power. He further mentioned that as President, he does not require the permission of the Judiciary in order to visit the prison. Ahmadinejad went on to say that he disagrees with Larijani that his proposed visit of Evin is not in the interest of the country; he also questioned the head of the Judiciary on his organisation's commitment to the constitution. He concluded in stating that he would be visiting Evin prison to prepare his report on the way the Judiciary is handling its responsibilities to the Iranian nation and the Supreme Leader.

Ayatollah Larijani responded to Ahmadinejad's letter with a letter of his own, which was also made available to the media. In his letter, Larijani responded to Ahmadinejad by accusing the President of misunderstanding his duties and the powers that have been vested to him by the constitution. He also mentioned that the

President does not understand the separation and independence of the different branches of power. He added that the Judiciary will never allow the Executive branch to interfere in its affairs and would prevent the President from visiting Evin prison without the Judiciary's consent.

Responses to the letters were varied. While some praised Ahmadinejad for his letter, his conservative opponents criticized the President for his actions. The Judiciary Spokesman and Attorney General, Gholam-Hossein Mohseni-Ejei said that visiting Evin Prison was a secondary issue, and that the country's main priority was solving economic problems. The Judiciary had also condemned the President for his public display of the differences between the branches of power and mentioned that this could have been handled in a much more discreet manner.

The exchange of letters and comments stopped after the Supreme Leader urged the different branches of power in the country to set aside their differences and create a calm political atmosphere.

Bilateral Talks between Iran and the United States

During Mr. Ahmadinejad's trip to New York, the President mentioned in a press conference that Iran was open to the idea of direct negotiations with the United States on a basis of mutual respect. The President's comments were widely covered by international media but were later condemned by conservative figures in Iran who suggested that any negotiations with the United States would have to be approved by the Supreme Leader. On this issue, the Supreme Leader, Ayatollah Khamenei mentioned in his speech during a trip to Khorasan a few days later, that Iran would not engage in any negotiations with the United States as long as the US continued its current policies towards Iran.

A report by the New York Times in October, citing an anonymous Obama administration official, suggested that Iran and the United States had agreed in principle for the first time to have direct negotiations. The article also stated that these

negotiations could be the last diplomatic effort in order to prevent military action against Iran. The article then went on to say that the Iranian officials had said they would want to hold back on negotiations until after the US Presidential elections, so there would be certainty as to the negotiating partner. The article gave an extensive account of the plan to hold negotiations and a description of how this could be helpful or harmful to the candidates in the US Presidential election.

The White House later announced that they have in fact not agreed to negotiations and that the article had false implications. The Iranian Foreign Minister Ali Akbar Salehi also said in a news conference that the US and Iran were not engaged in discussions outside the P5+1 group. In another reaction to the report, senior Iranian lawmaker and Chairman of the Parliament's National Security and Foreign Policy Committee, Mr. Boroujerdi also said that the Supreme Leader, Ayatollah Khamenei makes the final decision as to whether Iran would enter into bilateral negotiations with the US and that no such decision had been made.

Some analysts speculated that this article came at a time close to the US Presidential election in order to influence voting. President Obama had previously said the Iranian nuclear crisis could be resolved by bilateral negotiations between Washington and Tehran.

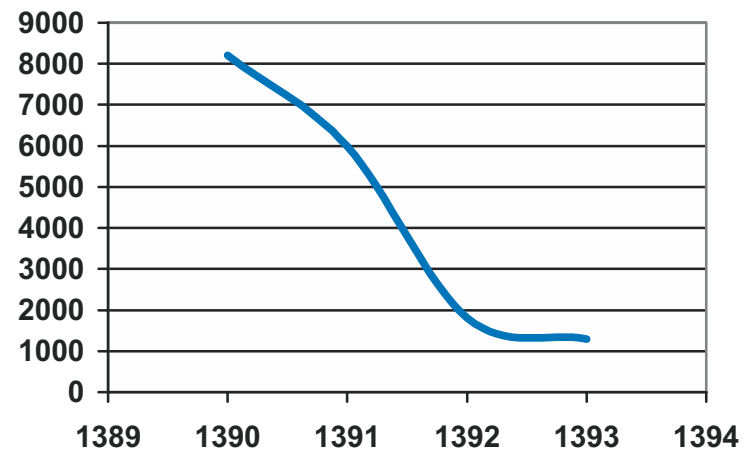
Iran Central Bank's Foreign Reserves and Foreign Debt

According to a report published by the Central Bank, Iran's foreign reserves have increased by 4 billion dollars in the first 6 months of the Iranian calendar year 1390 (starting on March 20th of 2011). In 1386 and 1387, the Central Bank's foreign reserves climbed by USD 3.5 billion and USD 2.8 billion respectively. However, this upward trend did not last long and the Central Bank faced a decline in its foreign reserves in both 1388 and 1389. Based on this report, the country's foreign reserves fell by USD 3.7 billion in 1388 and USD 900 million in 1389. This downward trend continued in the first three months of 1390 with a USD 2.3 billion plunge in Central Bank's foreign reserves.

In addition, the Central Bank's external debt (or foreign debt) amounted to USD21 billion in the first 6 months of 1390. The country's external debt has dropped from USD 22.9 billion in the first three months of 1390 to USD 20.9 billion in the first 6 months of the same year, indicating a 10% drop in three months, the report stated. Of the USD 20.9 billion amount, USD 10.8 billion consists of short-term debt and the remaining USD 10.1 billion relates to medium-term and long-term debt. Iran's total external debt figure stood at USD 21.5 billion in 1387, which shows a 33% decline in comparison to its figure of USD 28.6 billion in the year before. The above mentioned figures show that Iran's external debt has been around USD 21 billion since 1387.

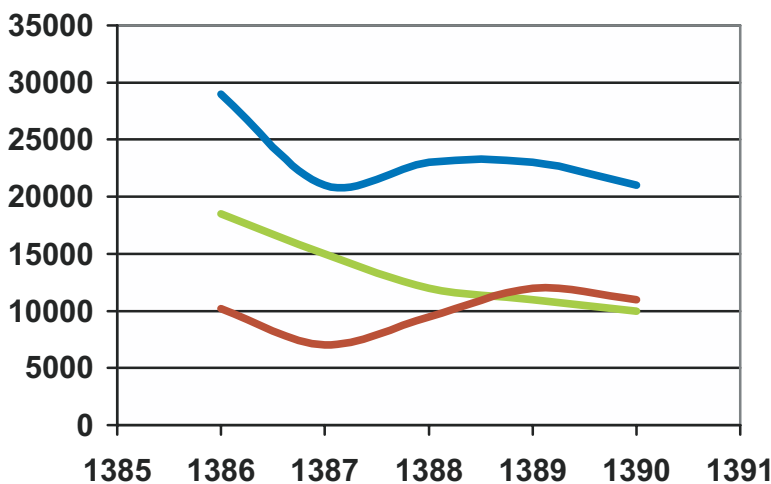
The report also covers the Central Bank's foreign debt by year of maturity. As shown in the graph below, the total amount of foreign debt that needs to be repaid has a descending trend in the next 3 years. According to this report, the total amount of foreign debt to be paid by the Central Bank in 1391 is estimated to be around USD 6 billion, which shows a 28% drop in comparison to last year's figure of USD 8.3 billion. Given the fact that Iran is unable to borrow internationally due to international sanctions imposed mainly by the US and EU, Iran's matured foreign loans will continue to have a downward trend until 1393. The amount of foreign debt to be paid in 1392 and 1393 is estimated to decline to USD 1.7 billion and USD 1.4 billion respectively. However, the amount of foreign debt that matures in 1394 is estimated to be around USD 3.6 billion.

Iran's Foreign Debt by Year of Maturity



■ Foreign Debt by Year of Maturity

Iran's Foreign Debt 1386-1390 (2007-2011)



■ Total Foreign Debt
 ■ Short-term Debt
 ■ Medium & long-term Debt

A volatile month for the unofficial Rial

Foreign currency fluctuations in Iran first occurred more than three decades ago after the Islamic Revolution occurred in 1979. Since then, the inflation rate in Iran has usually been above 10% and Iran's Rial value has decreased year-on-year versus the US dollar. The Central Bank of Iran has, over the past decade, implemented a managed floating exchange rate system by which the rate was fixed through the injection of foreign exchange revenue, mostly generated from oil; however, during the last 18 months the weakening of the Rial has accelerated and in October the acceleration rate increased dramatically.

On Oct 1st, a dollar was selling at 29,700 Rials in the morning, but sharply increased to more than 35,500 Rials in the evening, indicating a 16.5% drop in a day in the value of the Rial. As a result of this plunge, exchange bureaus suspended trade of foreign currency, saying that there is no accurate and reliable information about the actual value of the dollar. In addition, many shop owners and money changers protested in the currency exchange district of Ferdowsi as a sign of complaint over Iran's plunging currency. A protest in Tehran's historic Grand Bazaar – a maze like complex of shops – also took place but was quickly put down by the police. In addition, websites that provide gold and foreign exchange prices gradually eliminated the price of USD and some other major currencies due to constant fluctuations in their value. Ahmadinejad has put the blame for the currency collapse on Western sanctions and other government bodies in Iran. But his hard-line critics say that the fault mostly lies with the monetary policies of Ahmadinejad's government. The US government, which is leading the sanctions, has also pointed the finger at Iran's economic management.

The weakness and volatility in the exchange rate is hurting Iranian businesses that rely on imports of capital or goods. However, the government believes that the launch of the foreign currency trading room will stop the Rial from sliding any further as many importers will fulfill their foreign currency requirements through this center and less people will turn to the unofficial market. There are

doubts, however, about the viability of the current scheme. A number of economists believe that there is no incentive for exporters to exchange their hard currency at this center when they can sell it at 20%-30% higher than the chamber rate in the unofficial market. In addition, the currency chamber is unable to affect the currency market as expected because it currently meets only 10%-20% of the market's needs, according to the head of the Iran Chamber of Commerce Industries and Mines (ICCIM).

However, the descending trend of the unofficial rate of the Rial did not last long and in November the Rial value appreciated to around IRR 26,500, a 30% increase in its value from its lowest value of IRR 37,800 in October. Since then, there has been a relative calmness in the currency market and the Rial value has stabilized at around IRR 28,000-29,000.

Iran's Economic Outlook by International Monetary Fund (IMF)

According to the IMF report, real GDP growth will be held back by sanctions on Iran's oil exports, subsidy cuts and declining oil production. In its report, IMF estimated a contraction of 0.9% in Iran's economy in 2012, as crude exports continue to suffer under US sanctions and the EU import embargo which has forced Iranian authorities to cut back on oil production. However, the economy is forecasted to recover slightly in 2013, growing by around 0.8% assuming that the country's oil exports start to edge up again as the major purchasers of Iranian oil adjust to international sanctions, the report states. Iran's real GDP growth was at 2% in 2011 according to IMF estimates.

The recent report by the IMF reveals that Iran's official inflation rate was 21.5% in 2011 and it has moved up to more than 25.2% in 2012. Both the removal of subsidies and also the further weakening of the unofficial value of the Rial are the main reasons for the high inflation rate. The IMF forecasts that Iran's inflation rate will decline to about 21.8% in 2013 and expects the official average inflation rate to remain above 20% in subsequent years. The declining government revenue may result in authorities printing more

money to fund spending. This would feed an upward inflationary spiral.

Iran's unemployment stood at 12.3% in 2011 but moved up to 14.1% in 2012, according to the IMF report. The unemployment rate is expected to grow further to approximately 15.6% in 2013.

Following perennial current account surpluses in Iran, the current account balance is expected to slide down but will remain positive throughout 2013. IMF estimates a surplus of 3.4% of GDP in 2012 and a surplus of 1.3% of GDP in 2013, reflecting the ongoing squeeze on crude exports.

Iran's Major Macro Economic Factors by IMF (%)

	2011	2012	2013
Real DGP Growth	2	-0.9	0.8
Inflation Rate	21.5	25.2	21.8
Current Account Balance	12.5	3.4	1.3
Unemployment Rate	12.3	14.1	15.6

Iran bans export of 50 items

In October, the Consumer and Producers Protecting Organization (CPPO) announced that exports of 50 various industrial and petrochemical goods as well as food products have been forbidden in order to take a step to preserve supplies of essential

items in the face of tightening Western sanctions.

Based on this announcement, Iranian traders will no longer be able to export the 50 items that have been banned in this list. Some of these items are included in the table below.

Petrochemical	Industrial	Food	Other
Carbon Smut Sodium Sulphate Sodium Carbonate Cosmic Sodium Sulphonic Acid Banzen Bicarbonate of Soda Styrene Monomer Polyethylene Propilen PVC Polystyrene ...	Aluminum Steel Bars Scrap Iron Paper Waste Wood Molybdenum Sulphur Copper Cathode Copper Wire ...	Wheat Flour Sugar Red Meat Butter Soybean Baby Formula Sheep ...	Hay Fodder Car Tire Wet Blue ...

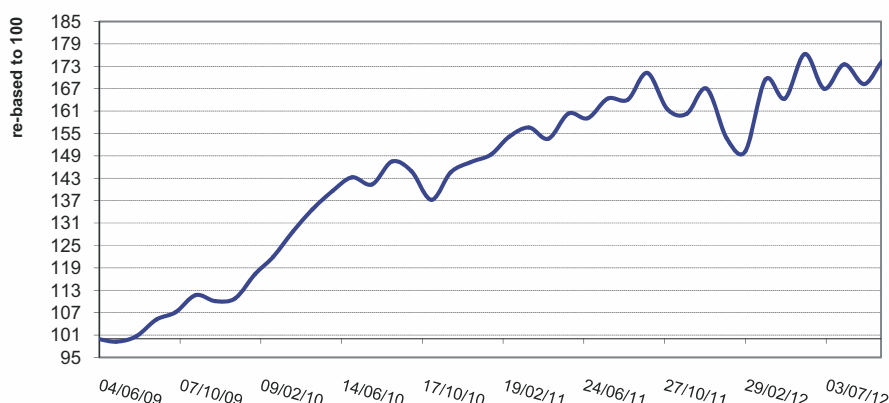
In addition, imported industrial and road-construction machinery, imported car spare parts and papers as well as imported rice and tea have been restricted from re-exporting.

The letter also mentioned that further adjustments in regards to the published list of banned goods would be announced later.

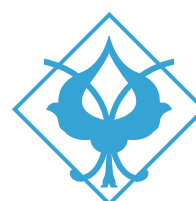
Investment Objective – The Turquoise Equity Investments seeks superior long-term capital growth by investing in the consumer and commodity potential of Iran, one of the most undervalued emerging markets in the world. Turquoise combines international experience with local expertise in investing in equities 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		Estimated NAV = 176.47
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 October 2012



Period	Portfolio Return
Last Month	1.0 %
Last 3 Months	1.7 %
Last 6 Months	7.4 %
Last 12 Months	9.2 %
Since Inception (01 June 09)	76.5 %



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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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