Iran Investment Monthly

August 2011 - Volume 5, No 59

TURQUOISE PARTNERS

Naqsh-e-Jahan Square, Isfahan

Market Overview — 2

In July, the Tehran Stock Exchange (TSE) underwent a crucial month with listed companies holding their AGMs and making first quarter earnings announcements. The overall index made modest gains but was overshadowed by the meteoric success of the Farabourse, with 5 IPOs and one bond issuance all completed this month.

Country Overview — 6

The latest developments on Iran's ongoing payment dispute with India and the Central Bank's bold currency reform plans will be discussed in this edition of Country Overview.

Economy — 8

The approval of ECO Re-insurance's articles of association, Iran-Turkey trade including the agreement between Iran, Turkey and Iraq to establish a joint bank, the proposed formation of a new free-trade zone in Maku and the United Nation's report showing record levels of foreign direct investment in Iran will be covered in this section.

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 July.

Iran Investment Monthly is produced by Turquoise Partners and distributed electronically by exclusive subscription.
Chief Editor: Ramin Rabii
Consulting Editor: Eddie Kerman
Authors: Shervin Shahriari
Ali Mashayekhi
Sanam Mahoozi

Turquoise Partners, No. 17 East Gord Alley, Bidar St., Fayyazi (Fereshteh) Ave.
Tel : +98 21 220 35 830 Fax : +98 21 220 49 260
Email : ramin.rabii@turquoisepartners.com
To find out more about Turquoise Partners, visit our website at: www.turquoisepartners.com.

In the month of July, the Tehran Stock Exchange (TSE) recovered some of price declines of the past two months. Accordingly, the TSE All-Share Index grew overall by 2.5% (3.4% in Euro terms). As in the previous two months, trading volumes and transaction values were down, although the combination of price corrections suffered by stocks in May and June, along with the resilience of high commodity prices, especially oil and base metals, resulted in an overall rebound in the market. Analysts believe that the existing market sentiment is an indication of further modest gains in the short-term.

This month's market activity was largely characterised by two significant events; firstly, many listed companies held their AGMs and, secondly, these firms made earnings announcements to investors outlining their first quarter performance in the Iranian calendar year. Both these factors significantly contributed to a month of limited trading activity, as investors took a cautious stance ahead of the earnings announcements. This AGM season resulted in an average yield of 8%, the lowest in seven years for the TSE. When viewed in the context of overall growth in the index, it is evident that much of the growth in the TSE has derived from dividends, rather than capital gains. Thus, the market capitalisation of the TSE showed little change over the course of July.

Below is a summary of key events in selected sectors for the month of July:

Mining and Metals

The base metals sector had a good month in July, as shown by a series of positive first quarter earnings reports from listed companies in this sector. The strongest reports seemed to be emerging from companies with high levels of exposure to global commodity prices. Mobarakeh Steel revised their profits forecast upwards by 25% and astonishingly still achieved 39% of their revised annual target in the first quarter alone. This led investors to believe that further positive earnings adjustments are likely. Taking into consideration the 5-10% increase in prices of the company's end products in the spring, the revised forecast can be seen as being somewhat conservative.

Kalsimin, the largest lead and zinc producer in Iran, revised their earnings forecast upwards by 20%. This was largely attributed to the firm upscaling production levels at their Anguran mine, the fourth largest zinc mine in the world. Profits forecasts from Kalsimin were calculated on the premise of zinc and lead bullion prices being $2000 per tonne. However, given that current global prices are significantly higher than this, a forecast of positive growth for Kalsimin in the current financial year seems achievable. The high P/E of 11.2 for this firm demonstrates shrewd investors' awareness of this fact.

The National Iranian Copper Industries Company (NICIC), the second largest listed company on the TSE, this month announced a rolling four-year program of upgrades, with the aim of a three-fold increase in production capacity. In addition, positive highlights from the firm's AGM were its dividend yield of 15% and a share capital increase of 200%. All of this led to NICIC retaining the confidence of its investors.

The indices for base metals and mining increased by 4.7% and 1.9% respectively in July.

Cement

Up until 4 years ago, the cement industry was one of the fastest growing in the Iranian market and one of the best performing sectors of the TSE. In more recent times, the industry has largely been affected by state-dictated pricing of cement, a steep increase in production capacity and an overall saturation of the cement market. The energy subsidies reform plan, which commenced in December 2010, was viewed as another setback for the sector, as cement production is one of the most energy-intensive industries.

Positive news reached investors in this sector when the Ministry of Commerce, for the first time in three years, ratified a 14% increase in the price ceiling for cement products.

The recent price increase, equating to the hike in energy costs, came as very welcome news to investors. Additionally, first quarter earnings revealed that most companies in this sector have performed better than expected. The strong export markets in neighbouring countries; along with a recovery in the domestic construction market has enabled the sector to outperform their earnings budgets by an average of 27% in Q1. The sector index gained 8.8% in value over the course of July and was among the best performers of the month. Analysts predict that the cement sector has the potential to be amongst the best performing sectors of the TSE this year.

Insurance

The insurance sector was the worst performing sector in July. The sector index lost 10.9% of its value this past month and has lost over 20% since the beginning of 2011. The main reason for this sector's lacklustre performance was the disappointing first-quarter earnings reports. These showed that all companies in this sector had performed weaker in comparison to the same period in the previous year. Investors had been left feeling short-changed by stocks they bought on the back of a double-digit P/E ratio which they believed were likely to perform strongly. Surprisingly, Alborz Insurance, the most profitable company in this sector, suffered the biggest price decline. As at end of July, the sector average P/E ratio stood at 8, its lowest-ever level.

Petrochemicals

July was a positive month for the petrochemical industry with the two largest petrochemical companies on the TSE and the OTC, Khark (the third largest methanol producer in Iran) and Pardis (the largest urea producer in the Middle East and second largest in the world), both reporting profit growth of 14% and 29%, respectively. On the back of this good news, the share prices for Khark Petrochemical and Pardis Petrochemical increased by 10.1% and 2%. Trends indicate that there is potential for a further 20% growth in earnings of both companies, if product prices remain stable for the rest of the year.

In July, Ghadir Investment Company, the largest petrochemical holding company on the TSE, upwardly revised its earnings forecast by 40%. This subsequently led to a 4.3% increase in its share price this past month. Ghadir's report outlined increases in the profitability of its subsidiary companies of approximately 38% and an increase in sales of 62% in comparison to previous forecasts. Analysts do not anticipate any further adjustments being made to the company's earnings forecast as they believe the firm is fulfilling all its potential currently.

The index for the entire petrochemical industry was up by 1.2% in July, and was certainly influenced by the increase in share prices of such stocks.

OTC Market

The Iranian OTC market (Farabourse) had a busy month, with five new listings and one bond issuance in July. The most significant offering was Zagros Petrochemical with a market capitalisation of $3 billion and forecasted profits of $410 million, culminating in a P/E of 7.3. Zagros, which is the largest methanol producer in the world, has a capacity of 3.3 million tonnes per year.

The IPO of internet service provider, Afranet, the first such company to be listed in Iran, was received warmly by investors. This small company was listed at a market capitalisation of $16.4 million, and a P/E of 8.1. It has forecasted profits of $2 million for the existing year.

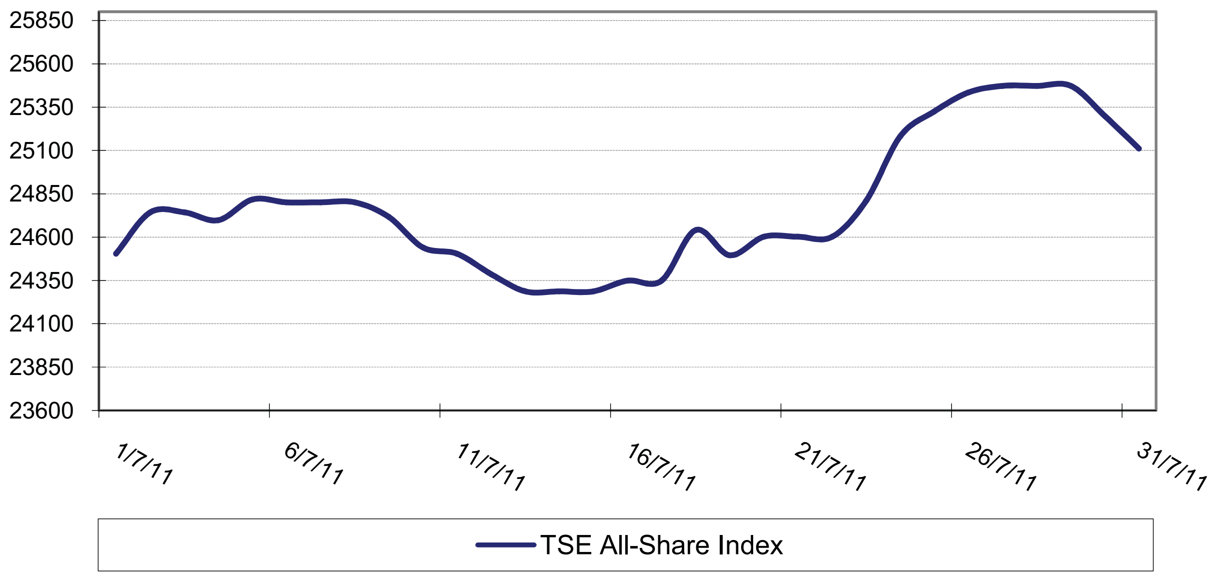
In the banking sector, Gardeshgari (Tourism) Bank and Day Bank were both listed on Farabourse this month. Both are relatively recent entrants to the banking sector and shares of both were offered on the market at a premium of 30% against their nominal values. This made the two banks both also having markets capitalisations of $520 million each. Gardeshgari Bank has a P/E of 10 and Day Bank 6.5. The recent addition of these two banks to the OTC resulted in a total of five banks now being listed on it, and this sector now dominates the OTC market.

ASP Construction was the fifth IPO on the Farabourse this month. The firm was floated at a market capitalisation of $62 million and a profits forecast of $17.6 million resulting in a P/E of 3.5. This meant that ASP was discounted and sits at somewhat below the average P/E of 4.5 for construction firms on the TSE.

Lastly, Narenjestan Hotel Group this month issued bonds to the value of $80 million with a 5-year maturity and an annual coupon rate of 16.5%. The group currently operates an existing hotel in the North of Iran's Caspian Sea region, favoured by Iranian holidaymakers. This bond issue was successfully undertaken with all bonds sold and the proceeds going towards financing the construction of a second 5-star hotel in the resort.

Looking at the eventful month of July, it comes as little surprise that Farabourse broke its historic records and achieved a total market capitalisation of $20 billion. The Farabouse has been exceptionally successful in attracting companies and newly-issued bonds, with an overall growth in its index and maintaining a steady monthly volume of transactions equating to $2 billion.

Performance of TSE All-Share Index (July 2011)



Market Statistics	
Average P/E	7.3
Trade Volume ($ Billion)	1.9
Trade Value Monthly Change (%)	-5.0
Market Cap ($ Billion)	106.0

Top 5 Traded by Value

Rank	Company Name	Turnover Value ($million)	% of Total Turnover
1	North Drilling Co.	698	35
2	Iran Khodro Industrial Group Co.	238	12
3	Parsian Bank	236	12
4	Tolypers Co.	56	3
5	Khark Petrochemical Co.	43	2

Top 5 Companies by Market Cap

Rank	Name of Company	Market Cap ($Million)	% of Total MC
1	Telecommunications Co. of Iran	13,698	13
2	National Iranian Copper Industries Co.	8,712	8
3	Isfahan Mobarakeh Steel Co.	6,887	7
4	Ghadir Investment Co.	4,592	4
5	Gol-e-Gohar Iron Ore Co.	3,753	4

The latest developments on Iran's ongoing payment dispute with India, Iran's radical currency reform plans and the Supreme Leader's employment strategy will be discussed in this edition of Country Overview.

This month, Iran issued a new warning to Indian refiners and the Indian government stating that they could halt their crude shipments to India, averaging 400,000 barrels per day, from next month onwards should a mechanism to transfer more than USD 5 billion, India's debt to Iran, not be found. Last month, the National Iranian Oil Company (NIOC) wrote to its main Indian clients saying that supplies would be stopped by next month unless they could start paying down their considerable debts to the Iranians.

Indian officials meanwhile said that funds would be transferred immediately as soon as the Indian Finance Ministry and the Reserve Bank of India (RBI) were able to find a conduit for the bilateral transaction. The payment problem arose as a result of international sanctions making it hard to find willing institutions to act as financial conduits between the two states.

Iran has barely received any payments for the crude oil exported to India since late last year when the RBI, after years of increasing US pressure, abolished the Asian Clearing Union (ACU) that bound together a number of South Asian states in a bilateral trade currency-clearing mechanism. The ACU made it possible to route payments between countries without the actions of the financial institutions involved being particularly visible on an international level. Following the abolishment of the ACU, Indian banks subsequently refused to handle money transfers involving Iran for fear of being targeted by US financial sanctions and becoming isolated in the global financial system. Thus, a need to find an alternative conduit to act as a buffer between the receiving Iranian banks and the Indian refineries developed. This has proven highly complicated, with alternatives in the UAE failing and a solution using EIH Bank, an Iranian-owned bank in Germany, proving to be very short-lived.

This month, a glimmer of hope appeared when India claimed to have found a solution involving routing payments through Turkey. Iran is now pursuing a strategy of pushing India for a diplomatic solution, as it is Iran that is likely to suffer the most, should it stop its exports to India. Adding to Iran's woes is that a significant portion of the crude supplied to India is of a particular heavy and sour quality. This is always hard to market as very few refineries are able to process these grades of crude. Iran's threats should therefore be seen as shots across the bow for the moment, although it is clear that the Iranian government is becoming increasingly concerned.

This payment spat raises some interesting questions about how long Iran would be willing to continue with its supplies to India in defence of its market share, especially given that India looks set to continue to be one of the fastest growing crude importers. Furthermore, with the possibility that the US and EU will isolate Iran further over its nuclear programme, radical change is unlikely to take place yet.

A solution is hence likely ultimately to be found, although it might end up limiting Iran's financial freedom more than it would like.

*****

The Central Bank of Iran this month announced that it will officially launch a currency reform plan in the near future. The monetary reform calls for a new name and denomination for the national currency. The Rial, which is currently the official national currency, will be given a new, genuine Persian name. Other than the name change which is considered to be a major step, the new currency will have three or four zeros less than the current Rial. The final decision on this will be made after a public consultation period has taken place via an online poll open to all Iranian citizens.

The idea for re-denomination of the national currency was introduced a few years back and was delayed largely because of government reluctance, with the government concerned about any potential disruption to the economy. Countries which carried out this reform faced a period of restructuring in which the economic system was forced to adapt to the changes. Studies show that although decreasing zeros from currencies leads to a more stable monetary structure, the plan needs to be accompanied by constructive fiscal and monetary policies in order to neutralise the negative effects brought on by such aggressive structural transformations.

The Iranian people have various concerns in regards to this plan and fear the possible consequences on their daily lives. The Central Bank, however, is of the opinion that decreasing zeros will help reduce the volume of paper money within the country. The other concern is the current high inflation rate. The fear is that this reform will cause inflation to go even higher than its current rate. In countries such as Turkey, which implemented this strategy, the inflation rate rose temporarily.

In theory, this policy will eventually lead to a lower inflation rate. However, temporarily, the inflation rate may rise. This is due to the fact that prices of commodities that are low tend to be rounded up, causing inflation to rise. According to the Central Bank, however, knocking off zeros will not affect inflation rates and will both facilitate trade and also increase the reliability of bank notes. Analysts believe that the Iranian economy is unpredictable and the effects cannot be determined until policies are officially implemented. In the case of the subsidy reform plan, the general consensus suggested that inflation rates would rise to over 50%, but the reality shows that after the execution of the subsidy reform plan, inflation rates only experienced a modest increase.

The President has announced that the plan to remove zeros off the national currency will make the Rial value real. According to the law, the value of Rial is calculated on the basis of the price of gold and this plan will return the Rial from its current devalued state to real terms.

Experts believe that cutting off zeros from the national currency is inevitable and is a policy which should be implemented sooner rather than later. They believe that calculating large scale amounts has become extremely difficult and has resulted in many people using the Toman (equivalent to 10 Rials), which has no legality. One factor which raises concern is the psychological impact of this reform, in that people may think that that the value of their money has been decreased. However, economists believe that if the government can manage to control inflation and stability as well as to inject money into the economy for a 3 to 4 year period without running a deficit, this policy can have a positive effect on the monetary cycle.

The plan to cut off zeros from the national currency was introduced last year but was dismissed. This July however, Iran’s cabinet approved the plan to re-denominate the Rial. The plan now needs to be officially approved by the parliament and the Guardian Council, which is the country’s top legal authority. According to Central Bank of Iran, this reform will take approximately three years to fully implement. One reason behind this reform has been identified as the authorities desire to seek parity between the new Iranian currency and the US Dollar.

In the long run, this reform plan is seen as theoretically a positive step towards creating a more stable economy.

In July, ECO Reinsurance Company's Articles of Association were approved by the Iranian president. The Iranian Parliament had previously approved these Articles of Association and so brought about the establishment of the reinsurance company.

ECO Reinsurance Company is a reinsurance company established by Iran, Turkey and Pakistan, three founding members of the Economic Cooperation Organisation (ECO). Central Insurance of Iran, Pakistan Reinsurance Company Ltd, and Agricultural Bank of Turkey each hold a one third ownership in the company. With a registered capital of $30 million, ECO Reinsurance Company aims to become an active player in the international reinsurance market and, in particular, the regional market of ECO members. The company will be headquartered in Karachi, Pakistan and may establish representative offices in Iran, Turkey and other countries.

ECO is an organisation for promoting regional economic cooperation and eliminating trade barriers amongst member states. The organisation was established in 1962 by Iran, Turkey and Pakistan. After the Soviet Union's collapse, the organisation was joined by 7 additional countries. As such, ECO currently has 10 member states with a total population of more than 400 million. ECO's secretariat and cultural department are located in Tehran, its economic bureau is in Turkey and its scientific bureau is situated in Pakistan.

Iran-Turkey Bilateral Trade & Iran-Turkey-Iraq Joint Bank:

This month, Iran, Turkey and Iraq signed an MOU to invest $200 million to establish a joint bank. The aim of the agreement is to facilitate capital flows in economic transactions between the three nations.

Tehran and Ankara plan to increase their bilateral trade to $30 billion annually in the next five years by using their regional capabilities. This increase will follow the execution of a preferential trade agreement, which both sides are close to agreeing. Trade ties between the two neighbours reached about $11 billion in 2010. This was up from $7 billion in 2008. Trade volumes between Tehran and Ankara increased by 74% in the first quarter of the current year compared with the same period last year. The report by the Turkish Statistical Institute states that the trade volume between Iran and Turkey surpassed $2,144 billion in the first two months of 2011, showing a 70% growth.

The central branch of the bank will be located in Tehran, with Turkey and Iraq also having branches.

Iran Establishes Free Trade Zone in Maku:

Iran has announced its intention to establish a free trade zone in Maku in the coming two months. Maku is a town in the north western part of the Azerbaijan province of Iran, situated close to the Turkish border. The project will consist of various trade and industrial projects as well as opportunities related to tourism, an airport, services, transportation and other related opportunities.

Establishing such a free trade zone will pave the way for easier imports and exports, attract foreign investment and allow for the transfer of new technology to mainland Iran.

Maku Free Trade and Industrial Zone will be Iran's largest and the world's second largest free trade zone and will encompass an area of 5000 square km.

The accepted definition of free trade zones and special economic zones are those parts of the Iranian territory that are managed according to special laws and bylaws, and are excluded from the laws governing the motherland. These zones are excluded from the domain of the customs authorities and enjoy the full freedom of any flows in goods or commodities. Unique geographical locations, highly developed infrastructure and foreign investment incentives have provided ample opportunity for internal as well as foreign investment in these free trade zones.

Record FDI in Iran:

This month, a report by the United Nations Conference on Trade and Development (UNCTAD) stated that foreign direct investment (FDI) in Iran hit a new record in 2010 and exceeded $3.6 billion despite a general decline in FDI in a majority of other world countries.

According to the UN's report, Iran's new record occurred while many states witnessed a decline of foreign direct investment in 2010. Foreign Direct Investment in the UAE, South Korea, Saudi Arabia, India, Qatar and Kuwait all fell sharply in 2010.

The foreign direct investment flow to Iran in 2010 increased by around 20% in comparison to the previous year, when FDI in Iran in 2009 reached $3 billion. Foreign direct investment in Iran has witnessed a tremendous growth of 139% during 2008-2010, going from $1.6 billion in 2008 to $3.6 billion in 2010. Iran was among the few countries which witnessed FDI growth in 2009 and 2010.

Analysts believe that a sizeable portion of the quoted FDI figures are from the Iranian government re-patriating assets from foreign countries back to Iran.

The total volume of global foreign investment amounted to $1,243 billion last year, $3.6 billion of which was attracted by Iran. This equates to a 20% increase in the volume of foreign investment in Iran.

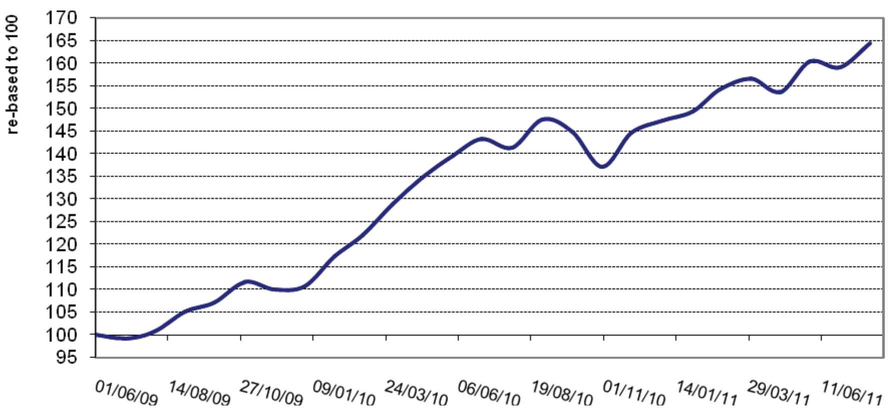
Iran attracted almost $11.9 billion from abroad, of which $3.6 billion was FDI, $7.4 billion was from international commercial bank loans, and around $900 million consisted of loans and projects from international development banks.

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 = 164.4*

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 31th July 2011



Period	Portfolio Return
Last Month	3.3 %
Last 3 Months	7.0 %
Last 6 Months	10.1 %
Last 12 Months	16.3 %
Since Inception (01 June 09)	64.4 %

For subscription and further information on our investment products please contact Eddie Kerman on (+44) 20 74 93 04 12 or email eddie.kerman@turquoisepartners.com. For more information about Turquoise Partners please visit our website at: www.turquoisepartners.com

About Turquoise

Turquoise is a boutique investment firm based in Iran with offices in Tehran and London. 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 based both in Europe and in Iran enables Turquoise to benefit from coupling local knowledge and presence with global expertise.

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: ramin.rabii@turquoisepartners.com

Disclaimer

Copyright Notice