



Isfahan Zob Ahan (iron smelting), City of Isfahan

Market Overview ————— 2

In August, the strong performance of the Tehran Stock Exchange continued with most sectors making positive gains. This performance and the successful IPO of Iran's Pasargad Bank will be discussed in this month's Market Overview.

Country Overview ————— 5

The key appointment of Rostam Ghasemi as Oil Minister and President of OPEC along with several significant developments in Iran-Russia relations will be discussed in this edition of Country Overview.

Economy ————— 7

China's huge investment in the Azadegan oilfield, Iran's inauguration of its own carbon fibre production line, the background to Iran Air's privatisation and the Tehran Stock Exchange topping the World Federation of Exchanges (WFE) rankings 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 August.

Following July's positive performance, the market saw a growth of 2.2% in the main index in August. Despite the turmoil in global economic markets, the Tehran market seemed to emerge relatively unscathed. This immunity to the global economic contagion can be attributed partially to the following reasons:

Firstly, the sustainability of high oil prices, which has been the main source of income for Iran. Secondly, the IPO of the largest bank in terms of market capitalisation, Pasargad Bank, was welcomed by the market. Thirdly, the new minister for industry and mines indicated a willingness to ease price restrictions in products where there was previously state involvement and pricing controls.

We will now examine the performance of several key industries:

AUTOMOTIVE:

The focus for investors in this sector was the easing of price restrictions, with unofficial sources indicating that the state approved a 10% increase in prices of new domestically-produced cars. Saipa emerged as the greatest beneficiary of the price increases after investors reacted positively to this favourable news. Almost all stocks in this sector reacted positively to this news resulting in the sector index surging by 4.3%. This growth was surprisingly sharp and has not been seen in this sector since last year.

SUGAR:

The sugar sector, despite having 14 listed companies on the TSE, has only 0.2% of total market capitalisation of the exchange and is, therefore, a very small industry in Iran. The sector is not favoured by investors due to the high volatility and fluctuations in the profitability of these companies along with the inadequate liquidity of these stocks. Sugar companies suffered from massive imports of cheap sugar over the past few years, which led to a 50% drop in the capacity of the sugar industry's production in 2008. The lack of import tariffs was the main

reason for the domestic sugar industry suffering in this manner. However, the trends are now reversing due to the increase in global sugar prices. The current level of sugar prices set at \$700 per tonne is at a price where domestic producers can compete with foreign imports. This month, the sugar sector leapt 19.2%, its best monthly performance for the past 5 years. The P/E ratio at the end of August was 8.3, which, considering the size of this industry and the high impact of the price volatility, was seen by analysts to be the peak for the sector.

BASE METALS:

The star performers this month in this sector were steel producers, largely because these companies received approval for 10% price increases from the state. On Iran's metal exchange, Mobarakeh Steel's products appreciated by 10%, which put the increase in prices since the start of the year of their steel products at 15%. Following this appreciation in prices, Mobarakeh Steel's product prices are now relatively closely aligned with global prices. Correspondingly, stock prices for Mobarakeh Steel, the largest steel producer in the Middle East, surged 10% this month.

Conversely to the steel industry, a decrease in global copper prices meant that National Iranian Copper Industries Company (NICIC) stock plunged 5.9% this month, due to sharp sell-offs in the global copper market. This was largely triggered by a \$600 drop in copper prices per tonne from \$9500 to \$8900 per tonne. This ate into NICIC's safety margin (NICIC had forecast its future earnings based on \$8200 per tonne).

Despite this, the index of base metals grew 1.5% mainly due to the steel industry's gains.

ENGINEERING & SERVICES:

This sector has been the most volatile sector on the Exchange for the past two years, with investors going from feast to famine month by month. At one point, this sector index soared by 100% in the space of just two months, then investors witnessed a sharp sell-off resulting in a

50% drop in the sector index. The main reason for this volatility has been investors relying on rumours and unofficial news. Once rumours fail to come to fruition, the stock price has been heavily punished through mass sell-offs by disheartened investors.

In August, the appointment of ex-General Rostam Ghasemi as Oil Minister led to the stocks in this sector increasing. Investors took comfort in the fact that Ghasemi used to be Chairman of the Board of Directors of Sadra, the largest engineering company on the TSE. This news seemed to buoy stocks in the sector, leading to a surge of 21% in the sector index this month. Notable beneficiaries of the announcement of Ghasemi's appointment were Sadra and Arak Machinery, whose stock prices increased by 20% and 3.5% respectively.

This sector was the best performer of August but the SEO decided to suspend trading of Sadra stocks until the company clarified their financial position to investors. This is commonplace for stocks which suddenly surge in price.

BANKING:

Despite the much publicised aim of the Iranian government to sell state-owned companies to the private sector, the opposite of this seems to be taking place in the TSE, especially in the banking sector. In recent months, the state sector has been ferociously buying up private banking stocks. In August, this trend was evident in the market with state-controlled institutional investors buying stocks in the banking sector. Karafarin (the first genuinely private bank in Iran) was nearly taken over by state-affiliated institutions who now own over 40%. In other private banks, this pattern seemed to be being repeated, with the state buying up large amounts of free float stock in these institutions. Despite the Central Bank of Iran banning any one entity or individual purchasing a stake greater than 20% in a bank, such activities appear to still continue under the radar, especially in companies with a large free float. The appeal of this is the leverage and control of vast public deposits, resulting in the ability to

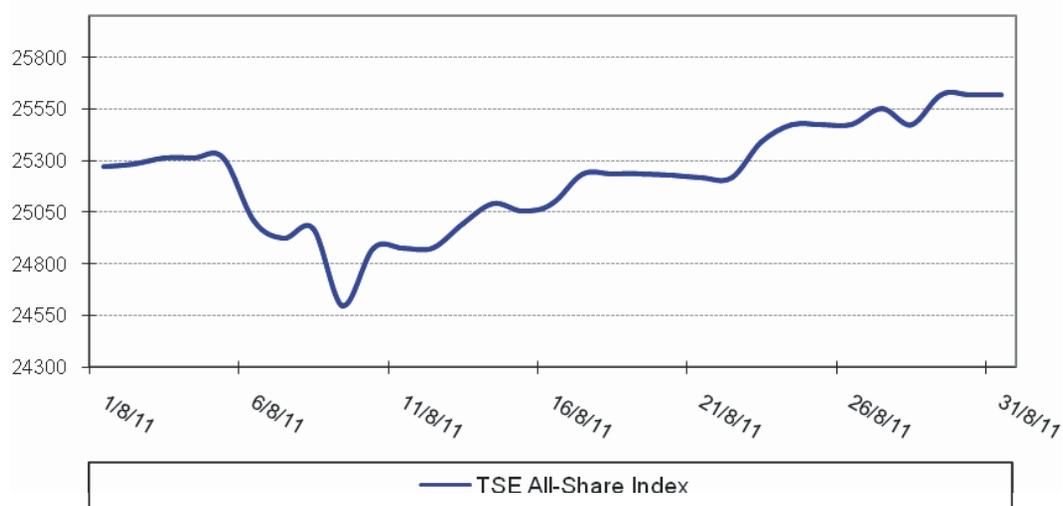
grant themselves loans far greater than the level of their investment in the bank. The index of this sector climbed 9.5% this month.

IPO:

This month, Pasargad Bank was IPO'd with \$14 billion of assets. It is now the largest bank in terms of market capitalisation. In comparison to other semi-government owned banks such as Saderat, Mellat and Tejarat Bank which have been previously IPO'd, Pasargad Bank's assets are small. However, it was listed on the TSE as the fourth largest company on 16th August with a market value of \$6 billion and profit forecasts of \$820 million. The P/E of this company is 7.3 and the average P/E ratio of the banking industry is 6.4. Investors have made a strong profits forecast for this stock and, accordingly have valued the stock above the market average. The bank has forecast a healthy 30% growth in profits for next year. The shares of this company increased by 6% in August after listing. The listing of Pasargad Bank on the market means that the bank is going to have a wider presence in the country's financial market in the near future. The subsidiaries of this bank (Pasargad Insurance, Khavarmiyane Industrial and Mineral Holding Company) will most probably be accepted onto the OTC market at first and subsequently move onto the TSE.

Overall, the month of August was considered to be a period of growth in the market. The index grew by 2.2% although the volume of transactions decreased by approximately 10%, reaching \$1.8 billion.

Performance of TSE All-Share Index (August 2011)



Market Statistics	
Average P/E	7.3
Trade Volume (\$ Billion)	1.8
Trade Value Monthly Change (%)	- 5.3
Market Cap (\$ Billion)	116.0

Top 5 Traded by Value

Rank	Company Name	Turnover Value (\$million)	% of Total Turnover
1	Saderat Bank	204	12
2	Tejarat Bank	183	10
3	Isfahan Mobarakeh Steel Co.	86	5
4	Saipa Investment Co.	79	4
5	Shahed Investment Co.	56	3

Top 5 Companies by Market Cap

Rank	Name of Company	Market Cap (\$Million)	% of Total MC
1	Telecommunications Co. of Iran	13,580	12
2	National Iranian Copper Industries Co.	8,208	7
3	Isfahan Mobarakeh Steel Co.	7,777	7
4	Pasargad Bank	5,918	5
5	Ghadir Investment Co.	4,554	4

This month, Rostam Ghasemi was appointed as Iran's oil minister and took over the presidency of OPEC shortly after his appointment. Ghasemi, head of Khatam al-Anbia, the infrastructure development and construction arm of Iran's Revolutionary Guards, was one of four ministers nominated by President Mahmoud Ahmadinejad to join his cabinet this month and was approved by Iran's parliament. He received 216 votes from the 246 MPs present in the 290-seat parliament.

Ghasemi's appointment is a rare example of a military commander going straight from the Revolutionary Guards to the cabinet. Only in the defence ministry is there a precedent for such a move. Analysts see Ghasemi as well placed to be Oil Minister because of the oil and gas projects that Khatam al-Anbia has undertaken in recent years.

The revenues controlled by the Guards' economic organisation are not known but are believed to run into billions of dollars. The organisation is involved in wide-ranging projects from the development of gas fields, petrochemical plants and the laying of oil and gas pipelines, to the construction of dams and roads.

Iran's oil ministry has been run by a caretaker minister since May when the government of Mahmoud Ahmadinejad decided to merge six ministries into three. However, the parliament subsequently opposed the merger of the oil and energy ministries.

Ghasemi outlined his plans for the Oil Ministry shortly after his appointment and these included attracting more investment and increasing oil and gas production from fields that Iran shares with neighbouring countries. Iran's oil and gas sectors suffer acutely from underinvestment as a result of US sanctions and the unfriendly terms that are offered to foreign companies. This has led to a sharp decrease in production capacity.

The appointment of Ghasemi as Iran's oil minister automatically makes him the head of OPEC which has a crucial role in determining oil prices. Some parliamentarians oppose Ghasemi's appointment

because the EU sanctions bar him from travelling to most of Europe and consequently, he will not be able to attend OPEC meetings in Vienna. Iran is currently the head of the oil cartel. In July last year, the EU placed on its sanctions list six military commanders, one of whom was Ghasemi. This was due to their alleged involvement in Iran's nuclear programme, which Iran maintains is for peaceful purposes.

As its second-largest crude oil exporter, Iran took the presidency of OPEC after 36 years last October.

In the past month, there have also been several significant developments in Iran-Russia relations, concerning international matters such as Iran's nuclear program.

Iran's Foreign Minister, Salehi, met his Russian counterpart Sergey Lavrov in Moscow to discuss a step-by-step approach concerning Iran's nuclear program, which will grant Iran the opportunity to answer questions raised by the International Atomic Energy Agency (IAEA). The plan suggests that in return for Iran agreeing to assure the IAEA of its peaceful intentions towards its nuclear program, the agency will reward the country by way of a partial removal of sanctions.

Also in August, the Russian Security Council Secretary, Nikolai Petrushev, visited Iran to follow up on discussions with regards to Iran's nuclear program. Back in July, the Russian Foreign Minister, Sergey Lavrov, had proposed a new step-by-step approach aimed at kick-starting talks between Iran and the G5+1 group. The upcoming launch of the Bushehr nuclear power plant was also a topic of discussion.

The written step-by-step proposal was presented to Iran during Foreign Minister Salehi's visit to Moscow in August. The plan makes reference to Iran's right to peaceful use of nuclear energy under the NPT (Nuclear Non-Proliferation Treaty) but, crucially, indicates that for every positive step that

Iran takes with regards to its nuclear program, the G5+1 group consisting of Britain, China, France, Russia and the US plus Germany will also be obliged to respond with a positive step in return.

President Ahmadinejad responded by saying that Iran welcomes Russia's latest proposal and is willing to cooperate, whilst being open to suggestions.

Iran has announced that it is ready to start the first phase of its first nuclear power plant this September. The Bushehr Power Plant will join the national grid with a 40% capacity. However, it has been reported that the official launch of this Russian built 1000 megawatt power plant will take place in December.

This is a major step towards strengthening Iran-Russia relations and is perceived by experts as being a positive gesture taken to ease the suspicions surrounding Iran's peaceful intentions of its nuclear program.

This month it was confirmed that China will participate in developing Iran's giant north and south Azadegan oil fields. The total investment for the development of the two fields will exceed \$6 billion, which was apparently too large an investment to be procured from Iranian contractors.

Western firms have been wary of investing in Iran's oil and gas sectors due to concerns regarding sanctions. These sectors need both capital and modern technology to be developed. Iran has increasingly shifted to Asian countries to develop its oil and gas fields. State-owned Asian firms are seen as being less susceptible to Western pressure to stay away from the Iranian market and are eager for energy supplies to feed their future growth.

In 2009, China National Petroleum Corp (CNPC) signed a deal with the National Iranian Oil Company whereby the former took ownership of a 70% stake upon promising to pay 90 percent of the development costs for the South Azadegan oil field, with the project needing investment of up to \$2.5 billion. Earlier that year, CNPC also won a \$2 billion deal to develop the first phase of the North Azadegan oilfield.

This month, Iran inaugurated its own production line of carbon fibre, a material under a U.N. embargo because of its potential use in the country's controversial nuclear program.

The decision to manufacture carbon fibre domestically came after Iran found itself no longer able to access carbon fibre on foreign markets because of the international sanctions. This was causing bottlenecks in Iran's production of advanced and smart defence systems.

Iran uses carbon fibre for more advanced centrifuges, which spin uranium gas to produce enriched uranium. However, carbon fibre is a dual-use material that has many peaceful uses. The properties of the material, such as its high flexibility, high tensile strength, low weight, high resistance, high temper-

ature tolerance and low thermal expansion, make carbon fibre very popular in aerospace, civil engineering, military and motorsports.

Iran claims it uses carbon fibre in the production of advanced and smart defence systems including nozzle heat shields, lightweight composite bodies of motors in solid-fuel missiles, wings and bodies of various types of fighter jets and civilian planes, as well as the bodies of light weapons.

Iran also claims it uses the material in civilian projects, including reinforcement of buildings, construction of oil and gas drilling and exploration platforms, and production of plane brakes, train carriages and sports equipment.

This month, the Iranian government made an unsuccessful first attempt at privatising Iran Air. It valued the airline at over \$1.6bn and had intended for the proceeds of the sale to help the embattled national flag-carrier circumvent US sanctions that bar it from buying aircraft and spare parts.

The government had adopted the stance that a privatised Iran Air would be better placed to deal with sanctions and purchase aeroplanes and spare parts. The tightening of sanctions had caused the government of President Ahmadinejad to expedite the sale of the airline. It was first earmarked for sale in 2007 as part of the government's five year plan to cede control of most state-owned companies to the private sector.

The government's privatisation organisation valued 50% plus one share of Iran Air at just over \$1.6 billion. Analysts had speculated that the majority stake would be bought by one company or a consortium of quasi state-owned companies, however the IPO attempt on the OTC market this month proved to be unsuccessful, with potential buyers rumoured to have been deterred by the high valuation placed on the loss-making airline. The government will now re-attempt the sale with what analysts predict to be more flexible payment terms to attract a new buyer.

Iran Air has been battling sanctions since the 1990s, when the US stopped Tehran buying civil aircraft, spare parts and after-sales services, supposedly to stop Iran from accessing militarily useful technology. Washington went further in June this year by prohibiting any transactions with the national airline because of Iran's alleged pursuit of nuclear weapons.

The pressure on Iran Air has increased further during the past year because it has not been able to refuel in European states, where fuel suppliers are reluctant to anger the US. Iran's ageing aircraft fleets and shortages of spare parts are believed to be the main reason as to why the country's civil aviation is among the world's riskiest. More than 700 Iranian passengers have been killed in 13 aircraft crashes and other incidents over the past six years. Some of Iran Air's 52 aircraft date back to before the 1979 Islamic revolution and the fleet's average age of 21.5 years – in line with the average for all Iranian civil aircraft – is seen as too high.

Iran's national development plan urges the government to reduce the average age of its aircraft to 15 years by 2015, while aviation experts say the country needs at least 150 more to replace some of the current 196 aircraft over the next five years and to improve its flight safety record.

The International Civil Aviation Organisation has criticised Washington's sanctions for affecting the safety of civilian flights. Iran Air has resorted to middlemen to buy spare parts and second-hand aircraft, as have the country's 15 quasi-private airlines. This is believed to be done mainly through Turkey, but also through the United Arab Emirates, Ukraine and central Asian states. This process has meant that aircraft and parts cost Iran Air between 10 to 30% more than market rates, but many also see major American and European companies such as Boeing and Airbus as being equal losers as the airline could potentially afford to buy 100 planes from them now.

Mahan Air, Iran's second-largest airline, which is credited with the country's best flight safety record, has turned into an example of how a "private"

airline can successfully circumnavigate sanctions by renting or buying Airbus aircraft, albeit at a high cost.

When privatised, Iran Air hopes to expand its domestic and international flights, with the help of loans from the National Development Fund. It will also no longer have to fly routes that are not economically viable.

This month the World Federation of Exchanges (WFE) placed the Tehran Stock Exchange (TSE) at the top of its index performance list.

Recent statistics released by WFE show that TSE had the best performance among WFE member exchanges from May 2010 to May 2011. With a staggering 79% growth rate in its main index, the TSE ranked 1st in WFE's "Broad Stock Index Performance" category followed by the Colombo and Lima Stock Exchanges with 75.1% and 48.9% rates respectively.

The WFE is the association of 52 regulated exchanges around the world which aims to develop and promote standards in markets.

The number of shareholders in the Tehran Stock Exchange has reached 4.5 million with the entry of over one million new stockholders since May 2010. Experts attributed this positive news to shareholder enthusiasm for high yield stocks, the entry of new companies and banks as well as easy access to the capital market. The total number of TSE transactions since May 2010 stands at 1.6 million, showing an 80% rise against the figure for the same period last year. Promisingly, Iran has also seen a growth in online trading with about 40,000 shareholders now registered and conducting transactions online.

The TSE's value stood at 650 trillion rials (\$65 billion) in May 2010 and this figure increased to 1,110 trillion rials (\$111 billion) by May 2011.

Over-the-counter (OTC) transactions reached 23

trillion rials (\$2.3 billion) since May 2010, showing a 129% rise.

As part of the implementation of Article 44 of the Constitution (which seeks large-scale privatisation), shares worth 800 trillion rials (\$80 billion) from 500 companies have been ceded to private entities. This is huge increase from the figure of 24 trillion rials' (\$2.4 billion) worth of shares in the state-owned entities in private hands before the implementation of Article 44.

It is stated that the easing of regulatory measures to promote investment has played a role in the growth of the TEPIX, which has the shares of 341 companies from 28 industries.

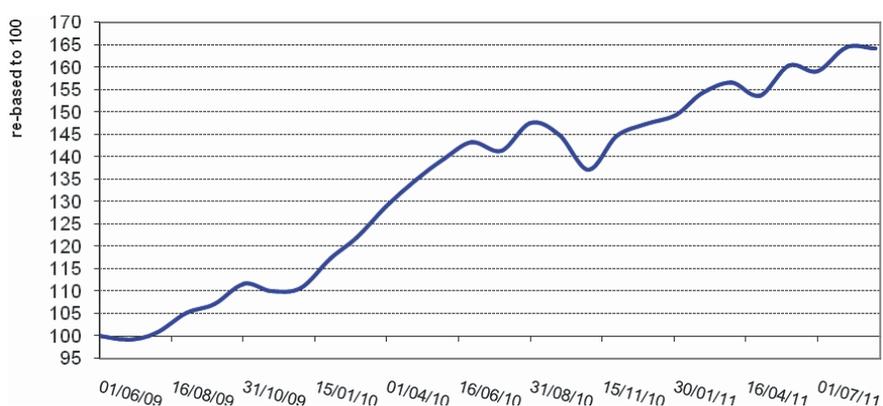
The report also said that with a 55.2% growth in domestic market capitalisation in the first five months in 2011, the TSE ranked 4th among WFE member exchanges in this metric.

The statistics released by WFE shows that the total value of shares traded on the Tehran Stock Exchange in the first five months in 2011 grew by 25.4%. This made the TSE the 10th best stock exchange in the world in terms of growth in volume.

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 = 164.1
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 2011



Period	Portfolio Return
Last Month	-0.2 %
Last 3 Months	2.3 %
Last 6 Months	6.5 %
Last 12 Months	11.2 %
Since Inception (01 June 09)	64.1 %

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

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