



Ali-Ghapu Palace, Isfahan

Market Overview _____ **2**

This month, TSE investors' reaction to six-month earnings announcements and the fall in global commodity prices will be covered in Market Overview. The petrochemical, engineering services and mining and base metals sectors are analysed, along with a highly successful IPO on the Farabourse this month.

Country Overview _____ **6**

Iran's Economy Minister surviving an impeachment vote in Parliament following Iran's banking scandal and the positioning of Iran's political factions in the run-up to the country's Parliamentary and Presidential elections will be discussed in this edition of Country Overview.

Economy _____ **8**

The US's withdrawal of its plans to sanction Iran's Central Bank, India's finalisation of its plans to build an Iran-Afghanistan railway, Iran's plans to use Qatari planes for domestic flights and the Iranian Central Bank's efforts to control rising foreign exchange rates 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 October.

The Tehran Stock Exchange started the month off on a low note, largely attributed to a fall in global prices of commodities and metals, however the index regained some of its losses by the second half of October. The market still ended the month down by 6.4% in Euro terms, delivering its worst performance since early January 2011.

What we now appear to be seeing are price corrections to a market that underwent inexplicable rises in the first three months of the year. The market has now stagnated and prices are readjusting to levels analysts would deem more appropriate to current market conditions.

Throughout this month, investor confidence was dented by the continued fallout from the global economic downturn and gloomy reports emanating from the crisis-stricken Eurozone. TSE investors were also presented with six-month corporate earnings announcements. These documents are scrutinised and taken very seriously by investors as they are mandatorily audited prior to publishing and seen as being a reliable source of information. In the majority of cases, analysts warmly received these reports and were buoyed by a sense of optimism derived from some rather upbeat corporate announcements. Most earnings reports suggested robust profits growth, with the average hike in corporate profits being of the order of 10%. This news alone however did not trigger a buy signal in the market and the P/E of the market fell from 7.6 to 7.1, its lowest figure since the beginning of the Iranian calendar year.

Macro factors such as the unofficial appreciation of the US Dollar did not encourage buyers either, although this did give exporters (who make up half of the TSE) a welcome boost in revenues.

We will now examine various industry sectors of the TSE:

Petrochemical products:

This sector outperformed all others in terms of six-month performance data, with average earnings growth for companies in this sector standing at 27%. Three companies - Fanavaran

Petrochemical, Pardis Petrochemical and Khark Petrochemical - which make up 5% of the total market made positive earnings revisions of 45%, 23% and 13% respectively. These upward revisions had little influence on the share price of these companies, with very little price change in these stocks for October. Analysts predict a further 10% upwards revision in the forecast for these three companies this financial year based on current conditions remaining status quo.

Companies in this sector have largely prospered due to the recent unofficial devaluation of the Rial. With over 90% of the products in this sector being exported, the effects have been positive. Many analysts firmly believe that the market has not priced in the potential of this sector, with the sector index falling 0.9% for October and the average P/E for this sector falling from 7.0 to 6.1, although the sector emerged relatively unscathed from the steeper falls elsewhere in the market.

Engineering Services:

This sector fell 16.3% in the month and was the worst-performing industry in October. Rather interestingly, this sector has a large group of investors and market spectators, closely following performance of this sector for the past two years. This has led to the sector becoming an indicator of the broader market's overall performance. Published six-month earnings reports proved to be disappointing with no real change in year-on-year net profit for the same period. Analysts scouring these reports found the underlying reason for this lacklustre performance to be the high levels of debt taken on by companies operating in this sector, negating the effects of any operational improvements. Furthermore, a lack of financial support from investors compounded by high levels of retained debt shown on the books of most companies operating in this sector has meant that the only panacea is likely to be derived serious managerial intervention and creditors extending debt repayment deadlines. In any case, the reports resulted in sell-offs in the sector and a significant fall in this influential sector of the market. MAPNA, the largest company operating in this sector valued at over \$2.5 billion, witnessed a steep fall of 9.6% to its

share price. The downward trend was exacerbated by the government's announcement that it would write-off \$2 billion of its debts by handing over power plants to private sector operators such as MAPNA. MAPNA's investors reacted cautiously to this move, with many believing that a company with liquidity problems should not be undertaking non-cash transactions such as this.

Mining and Base Metals:

Shares in Chadormalu and Gol-e-Gohar Iron Ore, the two largest iron ore mines (accounting for more than 80% of iron ore production) often serve as a good indicator of the state of the market in this sector. This month, following a new law obliging iron ore producers to pay the Ministry of Industries and Mines \$10 in royalties per tonne of iron ore sold being met with staunch opposition from the likes of Chadormalu and Gol-e-Gohar, the Securities and Exchange Organisation (SEO) stepped in and suspended the ticker for these two companies. The dispute was triggered by these companies objecting to a sudden increase in their costs. Many however lauded the SEO's swift and decisive actions, and felt the incident showed a degree of transparency of process and a regulator that was fulfilling its duties effectively. The downside was that investor confidence took a knock and October saw just 0.1% growth in this sector's index.

The six-month earnings reports for the National Iranian Copper Company (NICIC) and Mobarakeh Steel Company were received cautiously by investors. NICIC which sells its products in the domestic commodities market at the unofficial exchange rate has continued to use the official exchange rate for its Q3 and Q4 forecasts and set prices at \$7200 per tonne. Mobarakeh Steel Company, having undertaken a 10% increase in its product prices in the domestic commodities market, has set its sales prices using the unofficial exchange rate. However, both firms have not factored in this increase in prices in their earnings forecasts for next year, resulting in two of the largest companies on the TSE delaying their announcement of positive earnings revisions until the end of Autumn. Both companies published

meagre 5% increases in six-month profits, proving to be insufficient enough to gain the attention of investors in this sector. As a result, NICIC shares fell 3.8% and Mobarakeh Steel's shares fell by 9.2%, leaving the base metals sector index down 6.3% overall for the month.

OTC

This month saw the IPO of 20% of the North East Housing Investment Company on 15th October. The company is one of the most active real estate developers in Mashhad and has a market capitalisation of \$58.8 million with forecast profits of \$13.3 million, which is largely unchanged from the previous year's profitability. This offering, with a P/E of 4.4, was warmly greeted by investors and was the first of its kind where a stake of 20% has been IPO'd with such a degree of success. Indeed such was the success of this initial offering that the majority shareholders decided to float more shares on the first day to cope with demand, although one would expect the market to settle in the near future to a more reasonable price.

Important Changes in the Central Bank

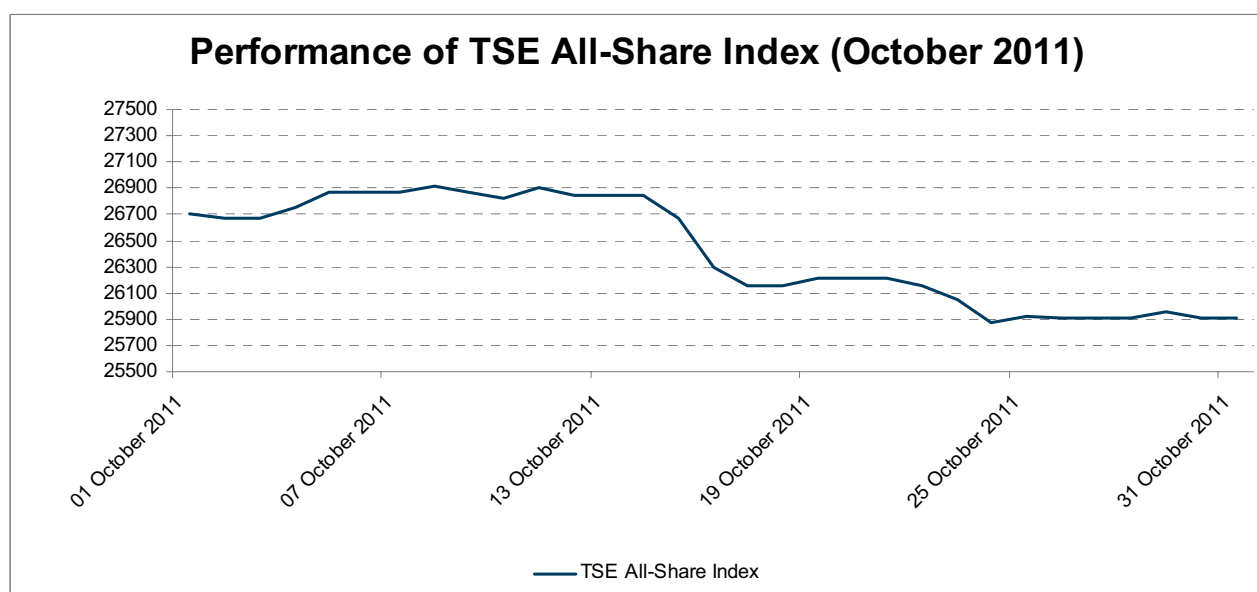
This month, the Central Bank announced inflation at 22%, which left analysts anxious that it might lead to a further increase in the price of goods and services. In the previous two months, the figures for inflation have been 21.1 and 20.8% respectively. The rising rate of inflation has made imports more attractive and spurred demand for foreign currency. The simultaneous widening of the gap between official and unofficial exchange rates in the past year, which now stands at over 20%, shows the correlation between the value of foreign currencies and the domestic inflationary environment. The official rate refers to the Central Bank of Iran's foreign exchange rate and the unofficial rate refers to the open market rates found at exchange bureaus and currency traders.

In response to tackling exchange rate issues, the Central Bank has pledged to intervene in two areas. Firstly, in the foreign currency market, there will be a new method for the pre-sale of US Dollars at the unofficial rate. This caused the unofficial

rate for the US Dollar to fall more than 4% in the last week of October, however the official rate for the US Dollar ended the month up 2%.

The Governor of the Central Bank also pledged his commitment to controlling liquidity in the Iranian economy, announcing that the interest rate on four-year bonds would rise from 15.5% to 17%. Analysts saw this as a shrewd move aimed at attracting investors to the bond market, although there were worries about its actual effect on liquidity, given the current 20%+ inflation rate.

On the whole, the month of October was a turbulent month for the TSE's investors who witnessed a fall in the index of 3.3% in Rial terms and 6.4% in Euro terms. Trading volumes grew from \$1.3 billion in the previous month to \$1.9 billion in October.



Market Statistics	
Average P/E	7.1
Trade Volume (\$ Billion)	1.3
Trade Value Monthly Change (%)	46.2
Market Cap (\$ Billion)	114.0

Top 5 Traded by Value			
Rank	Company Name	Turnover Value (\$million)	% of Total Turnover
1	Parsian Bank	276	14
2	Iran Khodro Industrial Group	215	11
3	Alborz Investment Co.	194	10
4	National Investment Co. of Iran	148	8
5	Tabriz Oil Refining Co.	143	7

Top 5 Companies by Market Cap			
Rank	Name of Company	Market Cap (\$Million)	% of Total MC
1	Telecommunications Co. of Iran	14,779	13
2	National Iranian Copper Industries Co.	7,476	7
3	Isfahan Mobarakeh Steel Co.	6,905	6
4	Pasargad Bank	5,373	5
5	Ghadir Investment Co.	4,676	4

Iranian Economy Minister Survives Impeachment Vote

Iranian Economy Minister Shamseddin Hosseini has survived an impeachment vote linked to a major banking scandal. The Economy Minister had been accused of lax oversight of the banking sector and of failing to take action over an alleged fraud worth \$2.6bn (£1.6bn), the largest fraud in Iran's history.

The vote came amid a power struggle between Iranian President Mahmoud Ahmadinejad and Iran's ruling hierarchy of clerics. Mr Ahmadinejad's allies have accused conservative hardliners of trying to use the alleged fraud to discredit him. Of the 244 parliamentarians present, 141 voted to retain Mr Hosseini and 93 voted against him, while 10 abstained. This resulted in the defeat of the impeachment motion that had originally launched by 22 MPs.

Officials have arrested 38 people and are probing allegations that Amir-Mansour Arya, a private Iranian group, had amassed trillions of Rials through forged letters of credit that had been approved by half a dozen Iranian banks.

Minister Hosseini was accused by critics in parliament of not having implemented sufficient oversight of the banks involved in the scandal, and of handing out posts to individuals who were incompetent or not vetted. In addition, several MPs accused the Economy Minister of not taking responsibility for the scandal by tendering his resignation. Hosseini's appointment as economy minister was approved by lawmakers in August 2008 and he took up the post on promises to curb inflation, reform the banking system and reform oversight in the sector.

Minister Hosseini defended himself by saying he had not been aware of the fraud and offered his apologies to the parliament and the people. The minister unexpectedly received support from one of the main political rivals of Ahmadinejad in the conservative camp, Parliamentary Speaker Ali Larijani.



Build-up to Iranian Parliamentary Elections

This month saw an a heightening of political tensions and legal developments ahead of March 2012 legislative elections, with President Ahmadinejad and his aides on one side, and ultra-conservatives in Iran's judiciary and parliament on the other. The banking scandal was just one of several economic misconduct cases that targets Ahmadinejad's allies and provides strong evidence that political struggles between various factions in Iran are taking place.

Ahmadinejad has been wrestling with the Parliament and the traditional conservatives in the run-up to the parliamentary elections in March and the presidential election in 2013. President Ahmadinejad has found himself coming under increasing attacks in recent months from the same conservative hardliners who brought him to power. Dozens of Ahmadinejad's political backers have been arrested or hounded out of the public eye by hard-line forces in recent months. His protege and top aide, Efsandiar Rahim Mashaei, has been sidelined from the prospect of succeeding Ahmadinejad in 2013 elections by a series of reputation-killing accusations.

President Ahmadinejad's press advisor, Ali Akbar Javanfekr, was also this month sentenced to a year in prison for overseeing controversial media articles, which were deemed to have offended public decency. Javanfekr wrote in an official publication that the practice of women wearing a head-to-toe black covering known as a chador was not originally an Iranian practice but was imported, which was considered offensive by hard-line Iranian clerics. Javanfekr also prompted a separate two-month ban on a reformist newspaper, Etemad, after it ran an interview with him criticising Ahmadinejad's hard-line opponents. Both these incidents highlight a feud between Ahmadinejad's camp and others in the conservative establishment running Iran.

The hardliners and conservatives have been trying to form a coalition to prevent President Ahmadinejad and his supporters from taking control of the next parliament. They have formed a group known as the 7+8 Committee, due to

the way its membership is distributed between the main hard-line and conservative groups. The associated groups are the Society of Militant Clerics of Tehran headed by Ayatollah Kani, Chairman of the Assembly of Experts; the Society of Teachers and Scholars of Qom Seminaries headed by Ayatollah Yazdi; the Front of Followers of Imam and the Leader (FFIL), itself a coalition of 15 political groups, headed by Habibollah Asgar-Oladi, founder of the Islamic Coalition Party; and the recently formed Islamic Revolution Resistance Front (IRRF) which consists of former hard-line officials in the Ahmadinejad administration who are unwilling to work with Esfandiar Rahim Mashaei, the President's Chief of Staff and close confidant. The 7+8 Committee is overseen by three conservative elder statesmen, including Asgar-Oladi and former Foreign Minister Ali Akbar Velayati. Iranian authorities have made attempts to counter this factional infighting by establishing the Principalists' Unity Committee.

Beyond the 2012 parliamentary elections lies the 2013 Presidential vote; both of these events are sure to bring simmering hostilities to a boil with uncertain consequences. Once again, Iran's elite are responding to unpredictable political conditions with rapid fluidity, abandoning long-term alliances in favour of short-term survival pacts.

The true depth of division among Iran's hardliners has been made evident by the Machiavellian maneuverings over the course of the past two years by Ahmadinejad and the Supreme Leader, yet the factional conflict unfolding in the run-up to the parliamentary elections is perhaps more revealing. Despite Khamenei's numerous declamations about unity in Iran, the country's political system is plagued by a disintegrative instability that is an impediment to internal progress and external relations.

US Withdraws Plan to Sanction Iran's Central Bank

This month, the US withdrew its plans to impose sanctions on Iran's Central Bank.

Despite several weeks of tough warnings, the US administration backed down on its calls to impose new and potentially crippling economic sanctions against Iran. Analysts cite the reasons behind this change in stance due to Washington's fear that such sanctions could disrupt oil markets and cause further damage to the reeling US and world economies.

This retreat to more limited tactics has surprised some other governments that had expected bold actions, however, many analysts had warned that sanctioning Iran's central bank could risk the cooperation of several countries that had been less enthusiastic about past international sanctions, including some of the most important developing nations.

Iran-Afghanistan Railway Plan Finalised

This month, India finalised plans to construct a 900-km railway line that will connect Chabahar port in Southern Iran, being built with Indian help, to the mineral-rich Hajigak region of Afghanistan. Chabahar is just 72 kilometres west of Pakistan's Gwadar port.

Experts believe that when completed, this line will open a wealth of geopolitical and economic opportunities for India, with the project increasing both Indian leverage in Afghanistan and also its strategic presence in the region. In the past, however, New Delhi has refuted Pakistani fears that India is encircling it. Analysts see the railway line as giving Afghanistan access to the sea, and consequently reducing its dependence on Pakistan.

It will also open opportunities for Indian companies to explore Afghanistan's mineral wealth, believed to be worth between \$1-3 trillion. This will be for the mutual benefit of the two countries and will add

to the economic rationale for Indian investment in Chabahar.

Once the entire network comprising of road, rail and port is in place, it can become a launching pad for the greater economic and strategic involvement of India in the oil and mineral-rich Central Asia.

Iran Plans to Use Qatari Planes for Domestic Flights

This month saw a surprise announcement that Qatar Airways would be taking over an unspecified number of domestic flights within Iran. The unprecedented announcement was promptly followed by news that the Doha-based airline plans to greatly expand its flight offerings to Iranian cities, increasing the overall frequency of its flights to Iran by 150% from December this year. The airline announced an additional 31 flights each week from Doha with the historic city of Isfahan being added as a destination city, in addition to Qatar Airways' existing flights to Tehran, Mashad and Shiraz.

The deal would see Qatar Airways operate a code-share arrangement with Iranian airlines to comply with laws excluding non-Iranian companies from domestic routes.

Some analysts see this move by the Qataris as likely to upset the US in its efforts to isolate Iran and they believe the deal is part of a pattern of Qatari foreign policy of playing Iran, Saudi Arabia and the US against one another.

Iran has a handful of airlines operating domestic routes, with Iran Air being the oldest and most dominant. Iran's airline sector has suffered badly following three decades of US sanctions, which have left a shrinking, dilapidated fleet unable to keep pace with demand.

The country has struggled to purchase new aircraft under the sanctions, notably US-made Boeings but also European-made Airbus planes, which contain US components. It has also had difficulty in sourcing spare parts and providing necessary

maintenance. Purchases of used aircraft have also been limited. Iran has subsequently turned to Russian-made planes to renew fleets and efforts have been made to circumvent sanctions by producing aircraft domestically.

Qatar Airways domestic flights will be 25 percent more expensive than the ones run by Iranian airlines, partly because the Qatari aircraft would purchase aviation fuel at the market rate of 60 cents a litre rather than the subsidised 33 cents per litre offered to national companies.

Iran's Central Bank Tries to Stop Rising Exchange Rates

This month, the Iranian Central Bank issued a mandate allowing all private and public banks to sell foreign currency in an attempt to control the falling Rial and rapidly rising exchange rates.

The Central Bank announced that central branches of other banks would also be allowed to sell foreign currency to travellers. The Rial experienced a sudden fall this month against all foreign currencies, with the U.S. dollar breaking through the psychologically-significant 13,000 Rials level on the unofficial market. The official bank rate for the U.S. dollar was 10,740 Rials.

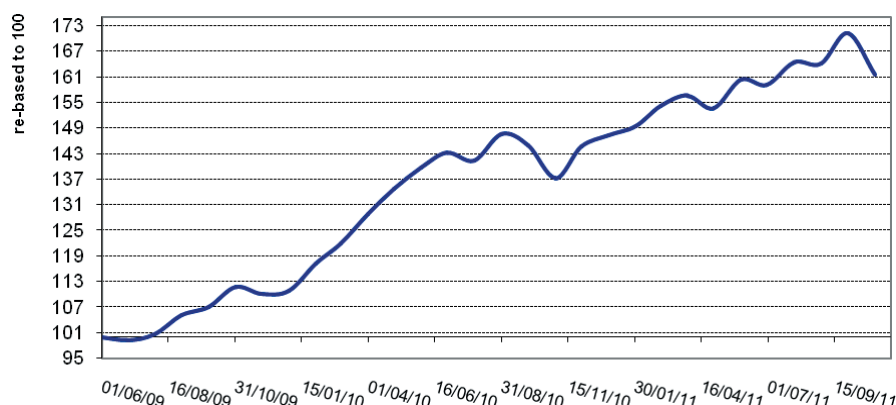
In its attempts to exercise a degree of control over the exchange rate, in recent months the Central Bank has adopted various policies that are occasionally conflicting. In the spring, one such policy was to inject the economy with a high volume of foreign currency, but this proved to be futile and only succeeded in driving all foreign exchange rates higher. Having failed to achieve its goal, the Central Bank then attempted to abruptly raise the official rate for various currencies. This move met with widespread disapproval, resulting in the Central Bank then proceeding to lower the official rates, in order to increase demand in the hope of establishing a degree of equilibrium in the market. Many analysts saw these moves as being a ploy to raise government revenues by selling its petrodollars at a higher rate.

Plans to establish a single rate for foreign exchange, implemented in the prior decade, are being brought forth once again by the Central Bank, in the hopes of returning stability to the currency market. Nonetheless, as seen in recent months, the gap between the official and the unofficial rates seems to only widen, and thus far has been beyond the scope of the Central Bank's preventative measures.

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 = 161.6
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 2011



Period	Portfolio Return
Last Month	- 5.7 %
Last 3 Months	- 1.7 %
Last 6 Months	5.2 %
Last 12 Months	17.7 %
Since Inception (01 June 09)	61.6 %

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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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