Iran Investment Monthly

February 2010
Volume 4, No 41

TURQUOISE PARTNERS

Fanavaran Petrochemical, Mahshahr Port, South Western Province of Khouzestan

THIS MONTH

Iran Investment Monthly is produced by Turquoise Partners. Distributed electronically by exclusive subscription.
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After a couple of months of price declines, in January there were price rallies in the Tehran Stock Exchange (TSE) as well as a significant increase in trading activity. Price recoveries in the global commodity markets at the beginning of January and the relative domestic political stability following the unrest in the Shi'a Holy month of Moharram were assessed as the main reasons for the rebound in the Iranian equity market. However, in the final week of January, concerns over the European sovereign debt situation resulted in a sharp fall in commodity prices, particularly crude oil and base metals. Consequently, the bullish sentiment and the strong buying demand on the TSE quickly dried up, and were replaced by selling pressures. Recent volatility in the commodity markets have resulted in investors becoming very sensitive to commodity prices.

Historically, January is an important month for the TSE. This is because the vast majority of listed companies release their third quarter earnings results in this month. Most companies outperformed their forecasts this year, but performed in line with analysts' predictions. As a result, there were few price gains after the earnings announcements. The National Iranian Copper Industries Co. (NICIC) lost 4% of its value, despite a 30% upwards adjustment to its earnings forecast for the year.

In January, there was further controversy regarding the so-called targeted subsidies plan. On 24th January, the government submitted the draft budget for the Iranian calendar year 1389 (which begins on 21st March) for parliamentary approval. According to the draft, the government is planning to generate $40 billion next year from the reduction or removal of subsidies. However, the targeted subsidies legislation, as approved by parliament, states that total proceeds from the removal of subsidies in the first year of the plan (intended to be next year) must not exceed $20 billion. Not surprisingly, this restarted the dispute between the government and the parliament over this plan. Experts believe that resolving the dispute will cause further delays to the implementation of the plan. The targeted subsidies plan will have significant implications for the TSE, as it will result in higher manufacturing costs and potentially, inflation.

The general opinion of analysts is that the mixed views on the global economic outlook and commodity prices, as well as the uncertainties surrounding the targeted subsidies plan, will keep the equity market volatile for the remainder of the Iranian year.

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

Telecom

Following the controversial sale of a controlling block of the Telecommunications Company of Iran (TCI) by the government in September, the stock had been out of favour with investors for some time. In January, rumours about the possibility of substantial growth in the company's earnings in next year's budget resulted in a surge of demand for the shares. TCI is the largest listed company on the TSE, and with a 9.3% price gain in January, had the largest positive impact on the market index.

Pharmaceuticals

Companies in this sector have been among the strongest performing in terms of profit growth for the past 2 to 3 years, despite the global crisis of 2008 and slower economic growth. This quarter was no exception and most pharmaceutical companies released strong earnings results, which outperformed market expectations in many cases. However, pharmaceuticals are typically viewed as defensive stocks and attract less investor interest during bull markets. In addition, most listed pharmaceutical companies have a small market capitalisation and are relatively illiquid. In January, the sector index gained only 2% in value.

Iron Ore

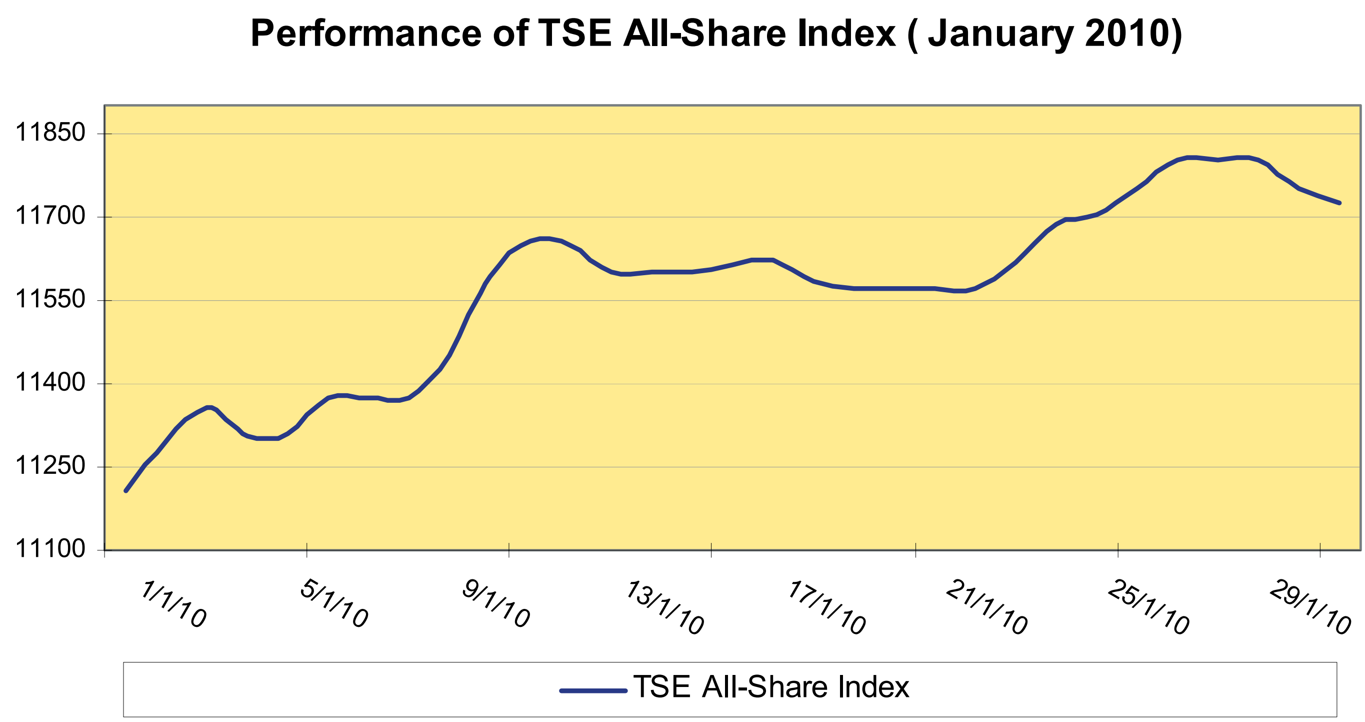
Iron ore companies were probably the biggest underperformers of the current Iranian year on the TSE, prior to January. Over the past 3 months, iron ore companies have suffered a slump in their share price. This slump followed the introduction of the new iron ore pricing mechanism, and the subsequent decline in the earnings of these companies. However, the steel price gains of the past month, and the anticipation of an increase in the global price of iron ore, once again attracted investors to iron ore stocks.

The iron ore sector index gained 11.8% in value in January.

Privatisation Blacklist

In January, the Iranian Privatisation Organisation (IPO) released a list, consisting of a handful of quasi-government institutional investors, who have failed to service the debt obligations that have arisen due to their taking part in privatisation sales. According to the IPO, these companies have bought blocks of shares on an instalment basis and have not fulfilled their payment obligations. Blacklisted companies will be banned from taking part in future privatisation deals until their previous debt has been paid off. The Social Security Investment Company, one of the largest institutional investors on the TSE, is the most notable name on the list.

Overall, the Tehran Stock Exchange experienced a positive month in January, with the TSE All-Share Index gaining 4.6% in value. Trade volumes stood at $640 million, a 70% increase from the previous month.



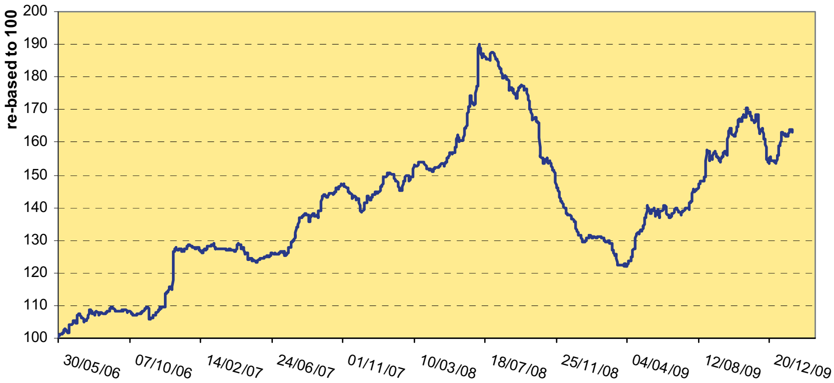
Turquoise Iran Equity Investments

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.

Portfolio One (Closed) — NAV = 163.2

Vehicle Domicile	Launch Date	Currency
Iran	30 May 2006	Iranian Rial (IRR)

Portfolio One Performance (Iranian Rial) - As at 31st January 2010

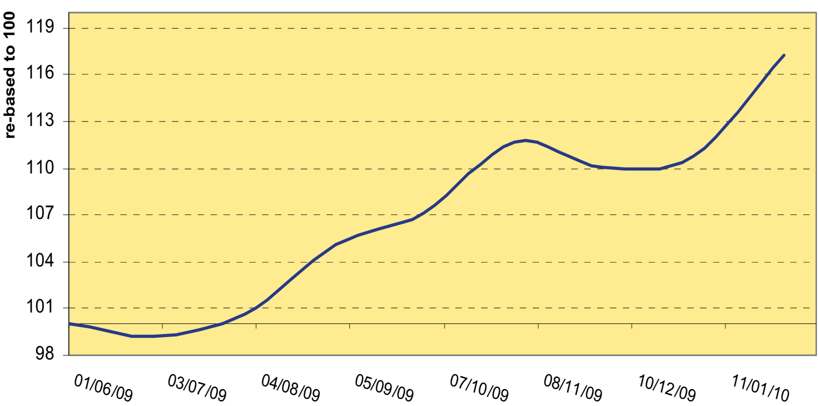


Period	Portfolio Return
Last Month	5.7 %
Last 3 Months	- 2.4 %
Last 6 Months	14.9 %
Last 12 Months	24.9 %
Since Inception (30 May 06)	63.2 %

Portfolio Two (Open) — NAV = 117.3

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

Portfolio Two Performance (Euro) - As at 31st January 2010

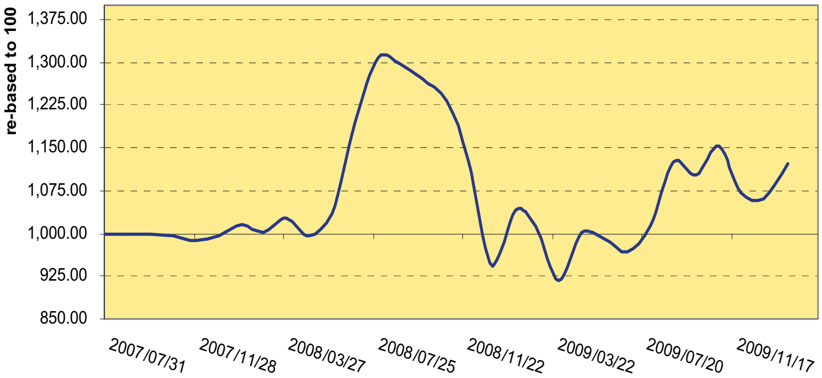


Period	Portfolio Return
Last Month	5.9 %
Last 3 Months	5.0 %
Last 6 Months	16.6 %
Last 12 Months	N/A
Since Inception (01 June 09)	17.3 %

Class C (Closed) — NAV = 940.8

Vehicle Domicile	Launch Date	Currency
British Virgin Islands	10 July 2007	Euro (€)

Class C Performance (Euro, Inc. Dividend) - As at 31st January 2010

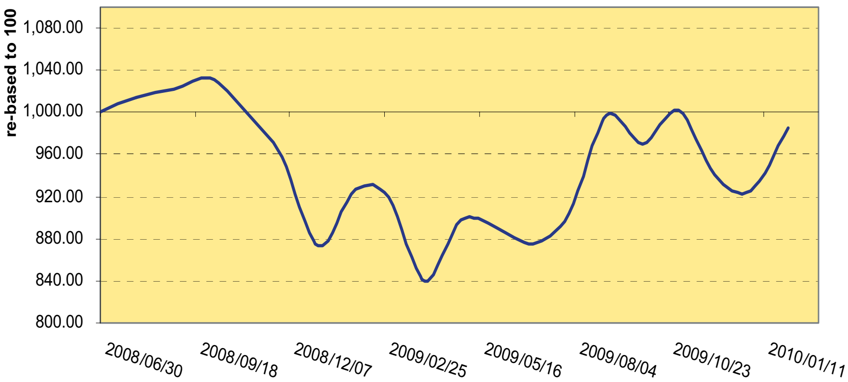


Period	Portfolio Return
Last Month	**6.3 %**
Last 3 Months	**- 3.0 %**
Last 6 Months	**11.8 %**
Last 12 Months	**8.4 %**
Since Inception (10 July 07)	**12.1 %**

Class D (Closed) — NAV = 904.7

Vehicle Domicile	Launch Date	Currency
British Virgin Islands	30 June 2008	Euro (€)

Class D Performance (Euro, Inc. Dividend) - As at 31st January 2010



Period	Portfolio Return
Last Month	**6.5 %**
Last 3 Months	**- 1.8 %**
Last 6 Months	**8.9 %**
Last 12 Months	**6.2 %**
Since Inception (30 June 08)	**- 1.5 %**

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

An assessment of Iran's fourth development plan will be provided in this edition of Country Overview.

With the “fourth 5 year development plan” finishing at the end of this Iranian calendar year (20th March), a parliamentary report was issued in January. This report assessed the plan’s performance and outcomes over the past five years. The report stated that while the plan has been successful in accomplishing a number of its main goals, most of its objectives had not been fulfilled. The report also called for the identification of the fourth plan’s weaknesses, and stressed the importance of rectifying all such shortcomings prior to the implementation of the fifth plan.

Iran’s first 5 year development plan began in 1990, after the Iran-Iraq war. Its key aim was the reconstruction and development of Iran’s economy and industrial base, with an emphasis on becoming self-sufficient in producing strategic industrial and agricultural goods. Subsequent plans also focused upon further economic growth, the improvement of living conditions for people and social development.

The fourth plan began in 2005, with the aim of bringing about an economic growth, which was both fast-paced and also durable, in line with the country’s “20 year outlook plan”. The latter (which also commenced in 2005 and consists of a series of 5 year plans) is a long-term economic, social and cultural development plan, which lays out a framework for the country to attain sustainable socioeconomic growth by 2025. The plan is designed for a larger segment of the economy to go under the control of the private sector in order to boost expansion. It also aims for Iran to become the number one economic, scientific and technological power in the Middle East and West Asia region by the end of the plan’s timeline.

According to the parliamentary report, only 117 out of the 290 articles stipulated in the fourth plan were executed. This means that the plan had a success rate of less than 50%. According to the fourth plan, economic growth was expected to reach an average of 8% per annum between 2006 and 2010. However, the parliamentary report states that this rate stood at 6.3%. Similarly, the average liquidity growth and the inflation rate were expected remain below 20% and 10% respectively. The actual figures were 33% and 16%. Finally, by the end of the fourth plan, unemployment was to reach an average rate of 11%. The Central Bank statistics reveal that unemployment has been at 12% on average throughout the duration of the plan. Approximately 848,000 jobs per year were to be created by the end of the plan. The actual figure stands at 725,000, so this has resulted in an increase in the unemployment rate.

Another disappointing aspect of the plan’s performance that was covered in the parliamentary report was the manner in which foreign exchange reserves were managed. In particular, there were concerns about the government’s excessive withdrawals from the oil surplus revenues account (called the “Oil Stabilisation Fund”). This has caused the supervisory bodies to re-examine and restructure the mechanisms through which oil revenues are used by the government, in order to prevent similar outcomes in the fifth plan.

Despite its shortcomings, the fourth development plan has been successful in a number of key areas. The implementation of the ongoing privatisation programme is an important milestone achieved by the plan. Also, considerable economic liberalisation took place under this plan. Some examples are the steel, cement and iron ore prices being liberalised.

With the fifth plan approaching, the limitations of the fourth plan have become apparent. The fifth plan is the second plan which will be implemented in accordance with the 20 year outlook development plan for Iran. Achieving sustainable economic growth, reducing government dependency on oil revenues, continuing the

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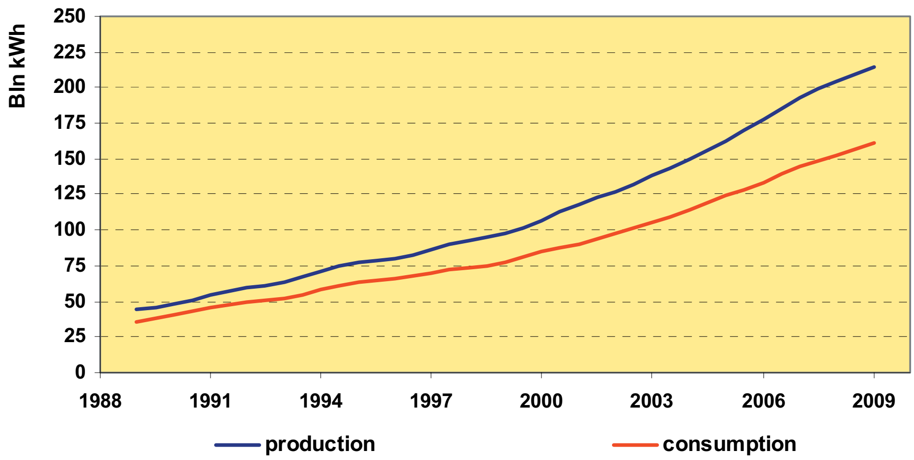
privatisation and liberalisation process, increasing investment into infrastructure, attracting further foreign investment, making improvements in public healthcare, and expanding international relations are some of the main objectives of the fifth plan. It is obvious that substantial improvements are needed in both the content of the new plan and also its implementation, in comparison to the previous plan, in order to achieve the 20 year outlook objectives.

Iran's Power Generation Industry

Iran's power generation industry dates back to 1903, when the first electrical company was petitioned by the Qajar Government and given to an individual. Within the next 30 years, the first state owned electricity company was established. This was due to the expansion of city infrastructure and an increased need for electricity. In 1965, the power generation industry was nationalised. The Farahabad power station, the largest at the time in the Middle East, was established two years later. In 1969, the power ministry founded the Tavanir Company, which plays a crucial role to this day in the expansion of the power generation and distribution industry in Iran.

Over the past two decades, the Iranian power industry has grown enormously. At the end of 2009, Iran's nominal production capacity stood at 52.9 Giga Watts, a 290% growth from 20 years ago and a 54% growth from 5 years ago. Production and consumption in 2009 stood at 214 billion kilo Watt hours (kWh) and 161 kWh respectively. This makes Iran the largest producer and the second largest consumer of electricity in the Middle East. It also places Iran among the top 20 in the world in both production and consumption terms (1% of the world's production and 0.9% of the world's consumption). In 2009, 33% of electricity was consumed by the household, 32% by industry, and 13% by the agricultural sector, with the remaining 22% being used for other purposes. The graph below shows Iran's annual production and consumption of electricity over the past 20 years.



Over the past decade, electricity consumption in Iran has grown by 107%. Taking into account the growth in the economy and the industrial sector, this consumption increase is far from desirable. In 2009, average household consumption stood at 2843 kWh, an 18% increase from 10 years ago and a 13% increase from 5 years ago. Experts believe that aside from the high amount of urbanisation in Iran, the low household electricity price (due to government subsidies) is one of the key reasons for the accelerated growth in household consumption. According to the Statistical Centre of Iran, the cost of electricity for an average household has fallen from 1.3% of its total cost in 2000 to 0.8% in 2009. This consumption trend has placed a significant strain on the power generation sector. In addition, Iran has a low reserve capacity of 5% (of total production capacity), in comparison to an international average of 15 – 20%. In summer 2008, there were widespread power cuts across the country during peak consumption periods. This was due to limitations on the supply side, as a result of low reserve capacity.

Inefficient production and distribution is another challenge that the Iranian power generation industry is facing. Each year, between 15 to 20% of the power produced is lost in power grids and the distribution network. The international average loss ratio is 10%. Also, the power plants function with an average efficiency rate of 36%, and this rate has not improved much over the past decade. A lack of sufficient investment into the industry is one of the reasons for this.

Over the past 2 to 3 years, there have been significant efforts to improve the electrical industry in Iran. Last year, $6.3 billion was invested in the production and distribution of electricity. Total investment in 2007 and 2008 stood at $1.8 billion and $3.2 billion respectively. The role of the private sector is becoming increasingly important. In 2009, approximately 7% of total production came from the private sector. The government is actively encouraging both the domestic private sector and also foreign investors to participate in new projects. There is also a government guarantee for the purchase of all electricity produced by the private sector.

Currently, 98% of Iran's electricity is produced in thermal power stations. However, steps have been taken in order to diversify into alternative electricity production sources that are cleaner. For example, Iran is a member of the Global Wind Energy Council and is ranked 30th in the world in terms of electricity production from wind energy.

Salman Gas Production Platform

The Salman natural gas production platform was launched at the beginning of February. This platform is located in the Persian Gulf. It is close to the Iranian border with the UAE, and is one of Iran's largest gas projects. A daily production of 15 million cubic meters of natural gas is expected from this project. The gas will be piped through to Assaluyeh (a strategic oil and gas production zone in the mainland of Iran) for injection into oil fields in order to improve their production efficiency.

The project began as a joint venture between two Iranian companies (PetroIran Development Co. and Petroleum Engineering & Development Co.) in 2000 and has cost approximately $900 million to complete. As well as having created jobs for approximately 180 people, this project prevents the burning of excess gas that had occurred prior to the project's completion.

The Salman field gas should have been exported to the UAE from 2005, according to a 25 year contract signed between the National Iranian Oil Company (NIOC) and Crescent of the UAE in 2001. However, due to a pricing dispute, no delivery has yet been made.

Inauguration of Tohid Tunnel

On 1st February, the inauguration of Tehran's Tohid Tunnel took place. This underground tunnel is located in one of the most densely populated areas of Central Tehran, which suffers from heavy traffic jams. The tunnel, which has 3 lanes on each side for cars, is aimed at reducing traffic jams and noise pollution. It is estimated that Tohid will result in an annual saving of 26 million litres of fuel and an 11,000 tonne reduction in air pollution particles.

With a length of approximately 2.4 kilometres, Tohid is Iran's longest city tunnel. The construction phase took 31 months and at a total cost of $400 million to complete. According to the Tehran Municipality, Tohid was one of the most complex engineering and urban development projects in Iran. This was due to both the existence of numerous underground water reservoirs beneath the area and also clashes with the Metro tunnels. The project has attracted considerable international attention.

About Turquoise

Turquoise is a boutique investment bank 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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