

The Tehran Stock Exchange (TSE) started off slowly in February, but finished the month on a positive run. In the first half of the month, uncertainties surrounding the targeted subsidies plan and the anticipation of next year's state budget resulted in many investors adopting a cautious approach. However, there were further gains in the global prices of metals and crude oil in the second half of the month, following the weakening of the US Dollar. This resulted in price rallies in most commodity related sectors. Steel, iron ore, and zinc and lead producers were among the top gainers of the month. Recent volatility in the commodity markets have resulted in investors becoming very sensitive to commodity prices. As a result, reactions to price changes are somewhat exaggerated.

Trading activity also reached its highest level of the past four months. Varying investor outlook on the domestic economy and the global markets resulted in a large volume of shares changing hands and consequently, increased market volatility. This was particularly notable in the commodity and manufacturing sectors, as well as several other industrial sectors.

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

Steel

Steel products, such as hot and cold sheets and billet, were traded in February at prices between \$700 and \$800 on the Iranian Mercantile Exchange (IME). These prices, according to the Ministry of Industries and Mines, were the highest on any commodity exchange in the world. Unsurprisingly, the stock prices of steel manufacturers saw price increases. Mobarakeh Steel Co, the third largest listed company on the TSE, gained 11% in value and had the greatest positive impact on the market index. In addition, prices of Salaf contracts (an Islamic form of Futures contract) grew by an average of 20%.

The general consensus seems to be bullish on the price of steel. However, analysts argue that the threat from both mass imports and also the targeted subsidies plan and its potential adverse impact on energy costs, have increased the risks in the steel sector.

Sugar and By-Products

This was the best performing sector in February. Strong earnings results for the first 9 months of the Iranian year along with anticipation of further increases in profitability in the coming year resulted in significant investor attention to this sector. Currently, the weighted average price to earnings ratio of the sector is above 10, which reflects the bullish views of investors on this sector.

After a slump in the global price of sugar in 2007, the domestic market was flooded with imported sugar. This resulted in a fall in domestic production from 1.3 million tonnes in 2007, to just over 500,000 tonnes this year. However, price recoveries since the beginning of the current Iranian year have improved business conditions for sugar manufacturers and there is a considerable amount of investment being made now into expansion plans. Domestic consumption is estimated at 2 million tonnes per annum.

The sector index gained 43% in value over the course of the month and broke the 5-year record of sector index monthly gains. There are 14 listed companies in this sector. However, they all have a small market capitalisation and are relatively illiquid. As at the end of February, total market capitalisation of the sector stood at \$137 million, and only one of these companies ranked among the top 100 largest on the TSE.

Agricultural & Industrial Machinery

This year has been among the worst for companies in this sector. Declines in sales are a common problem

throughout the sector. Delays in payments from customers (the largest of whom is the government), have also brought about significant cash flow problems for these companies. To make matters worse, the high cost of bank loans (with interest rates of 22-26%) is placing considerable financial strain on these companies, to the point that the majority of them have become loss making this year.

In February, Teraktor Sazi, Iran’s largest producer of agricultural machinery and equipment, cut its earnings forecast for the existing year to \$9 million. This is 50% lower than the previous year. However, the company reported a net loss of \$4 million for the first 9 months of the Iranian year and analysts are sceptical about the company’s ability to generate a profit this year. This is the worst profitability performance of the company for a decade. Teraktor Sazi’s shares have lost 30% of their value over the past 6 months.

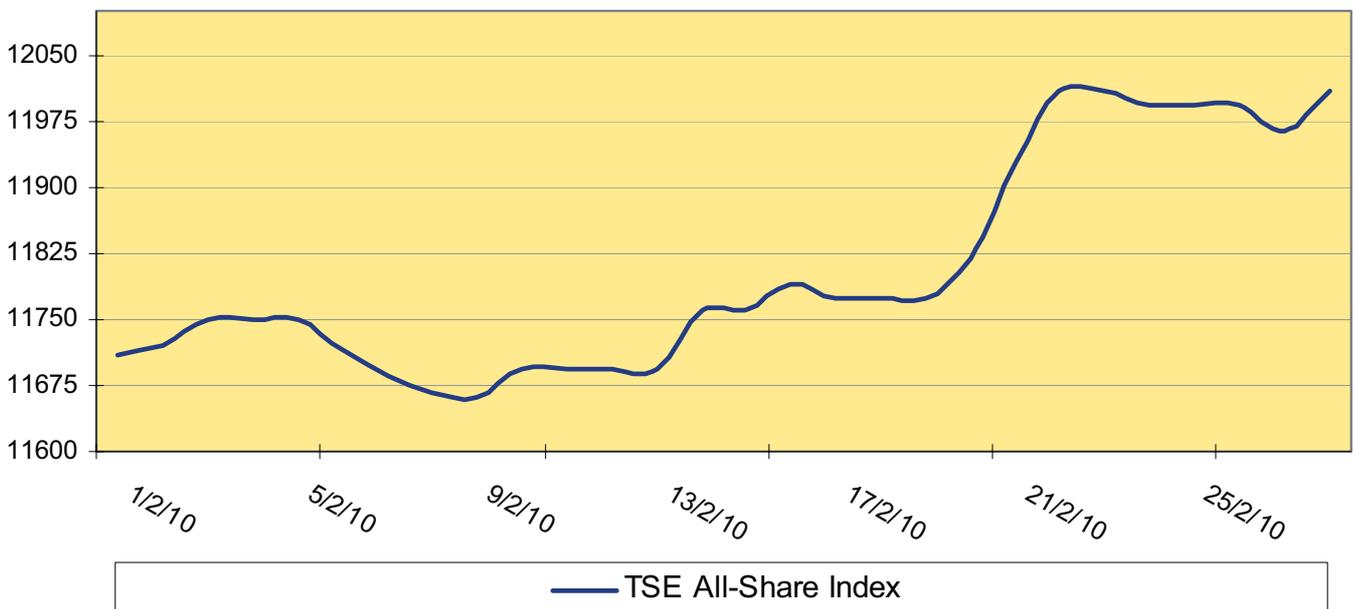
Fixed Income Market

The Iranian fixed income market had another active month in February. In this month, two sets of Participation Papers (an Islamic form of bond) were issued. The first was issued by the Ministry of Industries and Mines for the sum of \$500 million. Proceeds from this issuance will be used to develop 8 steel manufacturing projects. The second was issued by the Tehran Municipality for a total value of \$100 million. The funds will be used for a major real estate development project. Both of these papers pay a coupon of 16% per annum.

In February, the government also announced its plans to issue €1 billion of Euro-denominated bonds next month. The National Iranian Oil Company (NIOC) will be the issuer and the proceeds will be used for the development of 4 phases of the South Pars oil and gas field project, located in the Persian Gulf. These bonds will have a tenure of 3 years and pay a coupon of 8% per annum.

Overall, the Tehran Stock Exchange experienced another positive month in February, with the TSE All-Share Index gaining 2.4% in value. Trade volumes jumped by 62% from last month to stand at \$1.04 billion.

Performance of TSE All-Share Index (February 2010)



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 = 174.0

Vehicle Domicile
Iran

Launch Date
30 May 2006

Currency
Iranian Rial (IRR)

Portfolio One Performance (Iranian Rial) - As at 28th February 2010



Period	Portfolio Return
Last Month	6.6 %
Last 3 Months	4.4 %
Last 6 Months	10.6 %
Last 12 Months	34.2 %
Since Inception (30 May 06)	74.0 %

Portfolio Two (Open)

NAV = 121.9

Vehicle Domicile
British Virgin Islands

Management Fee
2.0% p.a

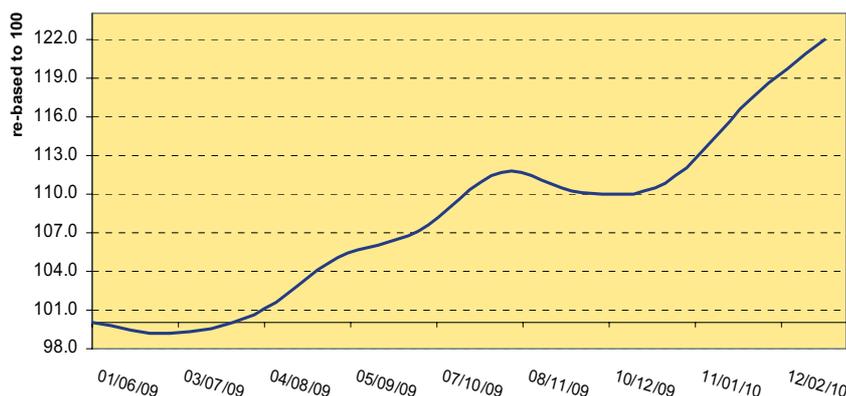
Currency
Euro (€)

Launch Date
01 June 2009

Carried Interest
20% (High Water Mark Applies)

Minimum Investment
€100,000

Portfolio Two Performance (Euro) - As at 28th February 2010



Period	Portfolio Return
Last Month	4.0 %
Last 3 Months	10.8 %
Last 6 Months	16.0 %
Last 12 Months	N/A
Since Inception (01 June 09)	21.9 %

Class C (Closed)

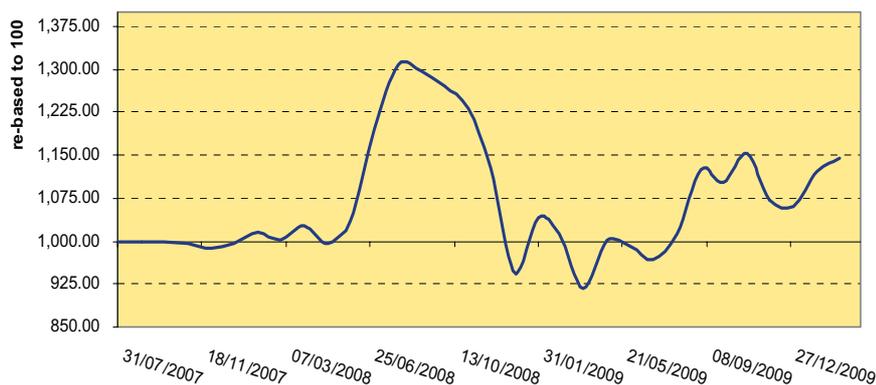
NAV = 964.1

Vehicle Domicile
British Virgin Islands

Launch Date
10 July 2007

Currency
Euro (€)

Class C Performance (Euro, Inc. Dividend) - As at 28th February 2010



Period	Portfolio Return
Last Month	2.5 %
Last 3 Months	7.5 %
Last 6 Months	1.8 %
Last 12 Months	14.3 %
Since Inception (10 July 07)	14.4 %

Class D (Closed)

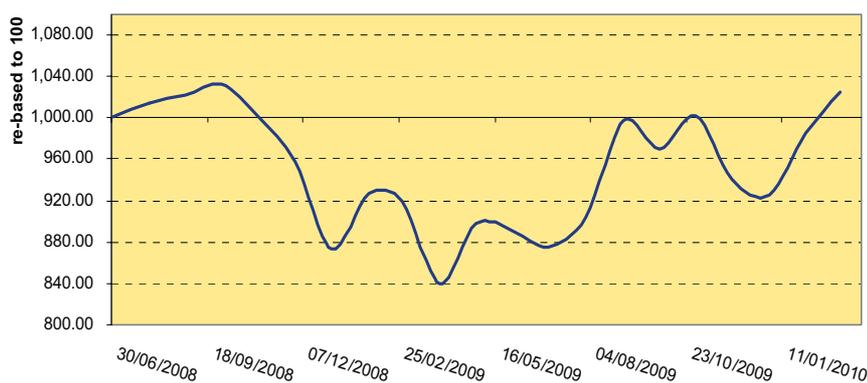
NAV = 945.0

Vehicle Domicile
British Virgin Islands

Launch Date
30 June 2008

Currency
Euro (€)

Class D Performance (Euro, Inc. Dividend) - As at 28th February 2010



Period	Portfolio Return
Last Month	4.5 %
Last 3 Months	9.0 %
Last 6 Months	2.7 %
Last 12 Months	11.5 %
Since Inception (30 June 08)	2.5 %

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

The capture of Abdolmalek Rigi by the Iranian intelligence forces and the Mehr housing project will be discussed in this edition of Country Overview.

Abdolmalek Rigi, the head of the Sunni Muslim Rebel group Jundallah (Army of God), and Iran's most wanted terrorist, was captured on 23rd February by the Iranian intelligence service. Rigi was arrested while on a flight from Dubai to Kyrgyzstan. The flight was intercepted by the Iranian air force and ordered to land in Iran, where he was arrested. He is reported to be responsible for a series of attacks which have killed many civilians, as well as military officials.

Rigi is the founder of Jundallah, which is a Sunni militant organisation based in Western Pakistan. The Iranian government has linked Jundallah to various acts of terror such as mass killing, kidnapping of citizens and the smuggling of narcotics into Iran. Rigi is considered as one of the most active terrorists in Southeast Iran and is said to have links with Al-Qaeda.

Among the noteworthy attacks of Jundallah was the 2005 attack against President Ahmadinejad on his visit to Sistan and Balouchestan province. In 2007, Jundallah organised a bombing and also gunfire aimed at a bus which resulted in the death of 18 members of the Iranian Revolutionary Guards. Jundallah's most recent attack was carried out in October 2009 when at least 21 people died and 200 were injured in a suicide bombing in the Sistan and Balouchestan. Among those killed were 6 members of Iran's Revolutionary Guards, including the Vice Commander of the Revolutionary Guards ground force.

This event was deemed as a significant achievement by Iranian Intelligence and has had a number of positive implications for Iran. The plan for his arrest was a covert operation planned by the intelligence forces and was in preparation for five months. Although Rigi's terrorist operations were not carried out on a global level, his arrest nonetheless has had a widespread effect. Jundallah is considered as a dangerous terrorist group and its leader's capture may eventually lead to the destabilisation of other terrorist groups in the region. Rigi's arrest was broadcasted worldwide and the global reaction was positive with many countries congratulating Iran for this success.

The Mehr housing project, which began in 2007, is a nationwide government plan. This plan intends to provide affordable housing to first-time buyers and lower income families, by eliminating the cost of land. In this scheme, real estate developers are provided with land on a 99-year lease contract, in return for building low cost residential units. According to the Housing and Urban Development Ministry, the Mehr project will in the first phase provide 600,000 units in 18 new cities to low income families.

The Mehr housing scheme has experienced considerable turmoil from the start. The general consensus is that the lack of progress has been unacceptable, and the government has come under a great deal of criticism for its handling and management of the scheme. The Housing and Urban Development Ministry, along with the Cooperatives Ministry, took responsibility for the scheme in 2007. Initially, development contracts were awarded to government affiliated cooperatives. However, the vast majority of these cooperatives have failed to deliver on their contract commitments. Experts have identified two main reasons for this. Firstly, these co-operatives lack the expertise for these projects. Even the housing-related cooperatives do not have the necessary experience and resources for large-scale real estate development. Secondly, the funding required for the construction has not been made available by the government. The plan was that the funding for the scheme would come in the form of lending facilities from state-owned banks. In summer 2008, the Central Bank announced that \$500 million has been dedicated to the Mehr housing scheme. However, financing has remained a challenge for the Mehr scheme up till now.

Over the past few months, the government has taken a series of measures to address the shortcomings of the Mehr housing scheme. Firstly, new contracts will no longer be solely awarded to cooperatives. Instead, consortiums of 3 to 5 developers with the appropriate expertise and financial backing can now bid for the contracts. Secondly, the government has allocated \$540 million for the development of the new cities' infrastructure in its budget for the coming year. This is in order to facilitate the progress of the Mehr project in new cities. Four new cities of Parand and Hashtgerd, near Tehran, and Fooladshahr and Majlesi, near Isfahan, are the prime locations for the current development plans.

The new involvement of foreign developers is also an important step forward for the Mehr scheme. Developers from Italy, Turkey and South Korea are said to have been awarded contracts to build 160,000 housing units. Although the scheme is significantly behind schedule, a widespread effort is now being put into this country-wide programme.

Iran's Copper Industry

Modern copper industry in Iran dates back to 1949 when the first copper mine was discovered in the south western city of Kerman. In 1972, the National Iranian Copper Industries Company (NICIC) was established and it became operational in 1984. NICIC has total control over the country's copper industry. NICIC was privatised in 2007 and is the second largest listed company on the TSE.

With total proven copper ore reserves of approximately 1.9 billion tonnes and metal reserves of 14.3 million tonnes, Iran holds 3% of the world's copper reserves and ranks 10th in the world. NICIC's volume of production ranks it as 12th among global companies. That translates to 1% of the world's production. Last year, NICIC produced a total of 206,000 tonnes of copper. In 2004, NICIC completed a new extraction and production line, which led to a 10% increase in production. In the Iranian year ended March 2005 (upon completion of the new line), NICIC produced 200,000 tonnes of copper. However, there has been little increase in the production volume since then, due to a lack of investment in expansion plans.

Approximately 60% of NICIC's production is consumed domestically. The remaining 40% is exported to Europe, India, China, Saudi Arabia and Oman, or sold on the London Metal Exchange (LME). The electrical and communication sectors are by far the largest consumers of copper, together comprising 20% of domestic consumption. The housing and automotive sectors are also major consumers of copper.

The Iranian copper industry is confronted by two key challenges. Firstly, the production capacity of NICIC is relatively low, given its vast reserves. This is due to a lack of sufficient investment into the sector over the past several years. NICIC is planning to implement a major expansion plan in order to increase its production to 400,000 tonnes per annum. However, this plan will not be completed until 2014. Moreover, the project is expected to cost \$2 billion, and arranging the financing will prove to be a challenge. Secondly, the downstream copper industry in Iran is still somewhat underdeveloped. The vast majority of NICIC's exports are in the form of copper cathode (i.e. raw copper) which has a low profit margin. Therefore, NICIC is incurring a substantial opportunity cost, which could be reduced if exports are oriented towards by-products with higher added value.

Central Bank's Proposed Monetary Policy

In February, the Central Bank published its proposed monetary and supervisory policies for the coming Iranian calendar year (which commences on March 21st). This year, the Central Bank is proposing a floating interest rate for the first time, rather than a fixed rate for the entire year. The Central Bank's proposal is that the interest rate should be reviewed on a quarterly basis in conjunction with the inflation rate and adjusted accordingly. Experts believe that if this proposal is approved by the government, it will be a major breakthrough in the Iranian financial system.

Since the government of Ahmadinejad took office in 2005, the interest rate has always caused much controversy between the Central Bank and the government. The Bank was under immense governmental pressure to cut interest rates at a time when the inflation rate was rapidly increasing. The Bank resisted the government's demands, resulting in two Central Bank governors losing their jobs within 3 years.

A notable feature of the proposal is the Central Bank's plan to publish rankings for banks and other financial institutions in the coming year. The main factor for ranking the institutions will be their level of compliance with the Central Bank's regulations, although other factors will be taken into consideration. The Central Bank also stresses the need for increased transparency in the regulatory reporting of the banks, particularly in relation to their bad debt. The Central Bank has estimated the total bad debt in the Iranian banking system to be approximately \$48 billion.

The Central Bank's proposal will be reviewed by the Government and the High Council of Money and Credit. It will then become enforceable after amendments and a final approval.

Iran's Free Trade Agreements

In February 2010, the Trade Promotion Organization of Iran (TPOI), signed free trade agreements with 12 countries to facilitate trade. These countries, with whom Iran has signed trade agreements, include Bosnia and Herzegovina, Uzbekistan, Cuba, Venezuela, Pakistan, Turkey and Indonesia. Free trade agreements are contracts signed between two or more countries in order to create a free trade area where trade of goods and services can take place across borders without tariffs. These trade agreements cover a wide range of agricultural and industrial products.

The Iranian parliament approved the Free Zones Act in 1993. In Iran, there are specific free trade zones which are administered under their own jurisdiction and have different laws from the governing laws of the mainland. These by-laws are regulations of these zones related to import, export, investment, insurance, banking, labour, and employment. Free trade zones exclude customs authorities and are exempt from exports and imports tariffs. Kish Island, Qeshm Island and the Port of Chabahar are the key free trade zones in Iran.

The Latest D8 Summit

On 28th February, the first meeting of the industry ministers of the Developing 8 Countries (D8) took place in Tehran. The D8 was founded in 1997 and consists of Iran, Turkey, Pakistan, Indonesia, Egypt, Bangladesh, Malaysia and Nigeria.

In this meeting, members agreed to produce a car with a common brand name. The D8 countries have a total population of 950 million and provide a good target market. Currently, only Iran, Turkey and Malaysia have car manufacturing industries and they together comprise 5% of the world's automotive production. Therefore, they are expected to lead the project. Nevertheless, this project will draw upon the expertise of all member states. In this meeting, Iran allocated 50 million euro and thereby became the first member state to make a financial commitment to the project. Iran is expected to lead the preliminary design stage.

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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