

Imam Mosque, Ancient City of Isfahan, Central Iran

THIS MONTH

Market Overview

2

Following a slow month in May, the Tehran Stock Exchange once again performed strongly in June. A rebound in the global prices of crude oil and commodities was assessed as the main reason for this. The main index reached all time high levels in June. The market was dominated by block sales by the government in the automotive sector.

Turquoise Iran Equity Investments

4

This section provides data and charts on the performance of all portfolios of Turquoise Iran Equity Investments for the month of June.

Country Overview

6

Tensions over the control of the Islamic Azad University of Iran will be discussed in this section.

Economy

7

New contracts in the South Pars field, new oil and gas discoveries, new steel plants and the Iran – ASEAN joint trade centre in Malaysia will be covered in this section.

Iran Investment Monthly is produced by Turquoise Partners. Distributed electronically by exclusive subscription.

*Chief Editor: Ramin Rabii
Consulting Editor: Eddie Kerman
Authors: Shervin Shahriari
Ali Mashayekhi*

*Turquoise Partners, No. 17 East Gord Alley, Bidar St., Fayyazi (Fereshteh) Ave.
Tel: +98 21 220 35 830 Fax: +98 21 220 49 260
Email: ramin.rabii@turquoisepartners.com
To find out more about Turquoise Partners, visit our website at:
www.turquoisepartners.com.
© 2010 All rights reserved*

In June, and after a slow previous month, the Tehran Stock Exchange (TSE) returned to its bull run of the 6 months before. A rebound in the global prices of crude oil and other key commodities was assessed as the main reason for the positive market performance. Since the beginning of 2010, the monthly performance of the TSE has consistently been positive. This means that in the first half of 2010, the TSE main index has grown by approximately 30% and is now at its all time high.

The positive performance of the TSE came despite a fourth round of sanctions being imposed on Iran by the UN Security Council. Analysts believe that the new round of sanctions was anticipated by the market and had already been priced in, and that the impact of the sanctions on most listed companies will be limited.

On 28th June, the Securities & Exchange Organisation (SEO) increased the daily fluctuation cap on stocks from +/- 3.5% to +/- 4%. This means that stock prices can move up or down by a maximum of 4% on any given trading day. This change aims to improve the market liquidity and enhance trading on the equity market. In the view of most market players, this was another milestone in the relaxation of the somewhat restrictive regulations of the TSE and the liberalisation of the Iranian capital market.

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

Automotive

After several months of speculation and contradictory news, the Iranian Privatisation Organisation finally auctioned blocks of shares in Iran Khodro and Saipa, Iran's two largest car manufacturers, on the TSE. An 18% block in each company was offered in the third week of June, at an 80% and 50% premium to the market value respectively.

Given the existing shareholding structures of the two companies, these blocks had strategic importance, particularly for gaining control of the companies. This was more evident in Saipa, where Bahman Group, an existing shareholder with a 14% stake, would get closer to gaining control of Saipa by acquiring the 18% block. In addition, the blocks were offered on very attractive terms, where the buyer would pay 30% cash upfront and the remaining 70% would be paid on an instalment basis over a period of 4 years and with an interest rate of 6%. Not surprisingly, both blocks attracted fierce competition.

On 28th June, Iran Khodro's block was sold to a consortium led by the Iran Khodro Staff Cooperative for the sum of \$420 million. The bidding war for Saipa's block continued into July. The sector index was up 3.1%.

Insurance

In June, Alborz Insurance, the largest listed insurance company by market capitalisation, released its annual results for the year ended 20th March. Despite a 20% out-performance in its net earnings in comparison to the latest forecast, investors did not react positively and the stock reopened slightly lower. This, perhaps, indicates that Alborz's earnings had failed to meet the high expectations of its investors, reflected by its relative high price/earnings ratio of around 11. Since its privatisation in October 2009, Alborz Insurance shares have provided a total return of over 90% to investors.

This past month, Dana Insurance was accepted for listing on the TSE by the SEO Listing Authority. Dana is the third state-owned insurance company to undergo privatisation. The initial public offering is expected to take place in the next month or so. Dana has a share capital of \$10.5 million and is expected to be the smallest listed insurance company by market capitalisation.

Real Estate & Construction

This sector has been out of favour with investors for some time, due to the slow real estate market of the past 2 years. Housing statistics published in May and June showed a considerable rise in both construction activity and also house purchases. Accordingly, property purchases across the country in the first 3 months of the Iranian year jumped by 138% in comparison to the same period last year. However, average house prices did not show any material increase.

Trading activity in the shares of companies in this sector has picked up over the past month. Real estate developers, in particular, have faced liquidity problems over the past 2 years due to their inability to sell newly built property units. However, with the recent pick up in real estate market activity, analysts are becoming increasingly optimistic about the prospects of the real estate market.

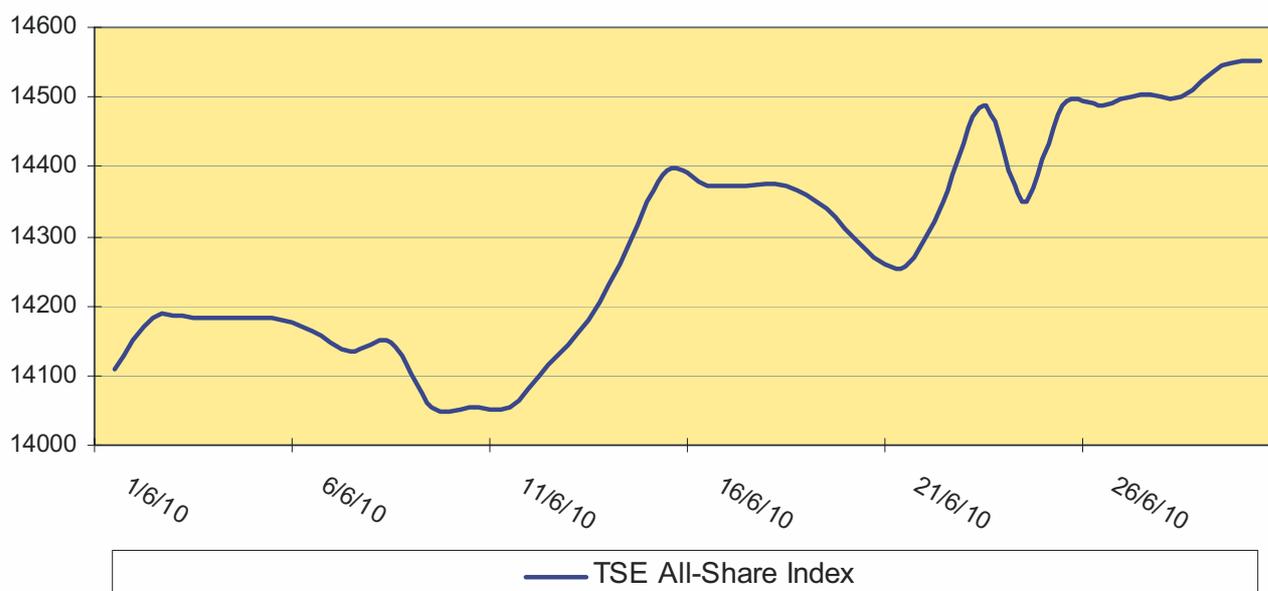
The sector index gained 1.2% in value in June.

Oil and Gas Extraction

Haffari Shomal (North Drilling Co.), which was privatised in July 2009, is the only company in this sector. Its key business is the design, construction, management and leasing of oil and gas platforms in the Caspian Sea, to both Iranian and also foreign customers. In June, leakage from a pipe caused a fire and explosion at one of Haffari's oil rigs. This event, in the mind of investors, resembled BP's oil leakage and its subsequent share price slump of 40%. As a result, Haffari's stock experienced significant selling pressure for several days. The blaze was contained quicker than initially predicted. Also, the CEO of Haffari stated that the effect of the incident on the profitability of the company would be less than 10%. Towards the end of the month, Haffari's shares stabilised. Shares lost 8.5% in value in June.

Overall, the TSE experienced a positive month, with the TSE All-Share Index gaining 3.7% in value. Trade volumes stood at \$2.25 billion, although over 50% related to block trades.

Performance of TSE All-Share Index (June 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 = 200.0

Vehicle Domicile
Iran

Launch Date
30 May 2006

Currency
Iranian Rial (IRR)

Portfolio One Performance (Iranian Rial) - As at 30th June 2010



Period	Portfolio Return
Last Month	3.7 %
Last 3 Months	8.6 %
Last 6 Months	29.5 %
Last 12 Months	43.2 %
Since Inception (30 May 06)	100.0 %

Portfolio Two (Open)

NAV = 143.3

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 30th June 2010



Period	Portfolio Return
Last Month	2.6 %
Last 3 Months	11.2 %
Last 6 Months	29.3 %
Last 12 Months	44.4 %
Since Inception (01 June 09)	43.3 %

Class C (Closed)

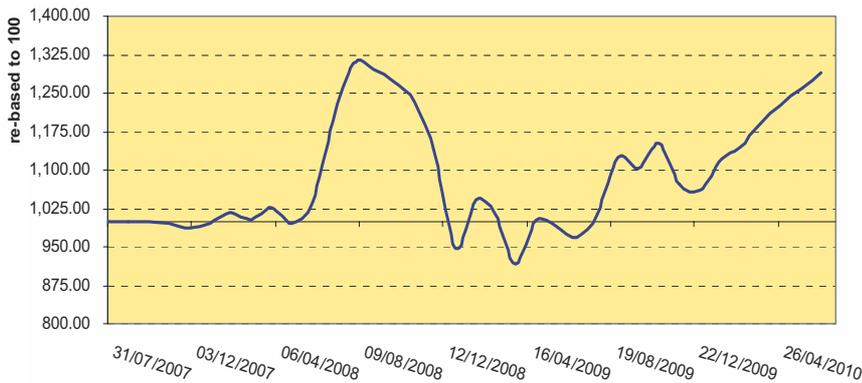
NAV = 1109.2

Vehicle Domicile
British Virgin Islands

Launch Date
10 July 2007

Currency
Euro (€)

Class C Performance (Euro, Inc. Dividend) - As at 30th June 2010



Period	Portfolio Return
Last Month	2.9 %
Last 3 Months	9.8 %
Last 6 Months	23.9 %
Last 12 Months	37.0 %
Since Inception (10 July 07)	28.9 %

Class D (Closed)

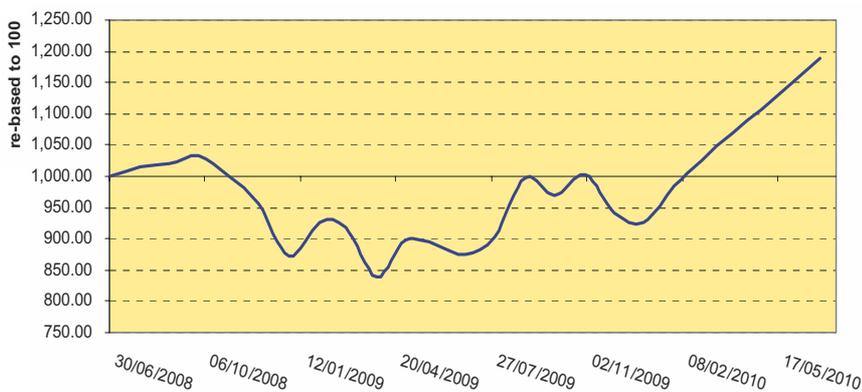
NAV = 1108.6

Vehicle Domicile
British Virgin Islands

Launch Date
30 June 2008

Currency
Euro (€)

Class D Performance (Euro, Inc. Dividend) - As at 30th June 2010



Period	Portfolio Return
Last Month	3.9 %
Last 3 Months	12.0 %
Last 6 Months	28.5 %
Last 12 Months	36.0 %
Since Inception (30 June 08)	18.9 %

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

Domestic tensions over the Azad University will be the topic of this edition of Country Overview.

For several years, there has been a great deal of controversy over the management and the assets of Iran's Azad University. In June, tensions reached their highest point, as the parliament and the government hold very different views on this issue.

Islamic Azad University of Iran is a private entity, which was founded in 1982. Azad University has over 350 branches across the country and also in other countries such as the UAE and the UK. With approximately 1.5 million students, it is the third largest university in the world. Azad University relies on student tuition fees and charitable donations for its funding, and does not receive any government funding. Over the years, the university has accumulated assets estimated to be worth between \$20 and \$25 billion.

Since taking office in 2005, President Ahmadinejad began a series of attacks against the management and the governing bodies of the university. In particular, he criticised the lifetime presidency of Abdullah Jasbi, who has held the position since the university was founded. Many experts believe that there is a political dimension to Ahmadinejad's criticism of the university. The Board of the Founders at the time included Ayatollah Rafsanjani (ex-president), Mir Hossein Mousavi (Ahmadinejad's rival in last year's presidential election), Ali Velayati (senior adviser to the Supreme Leader), Ayatollah Ghomi (a senior cleric) and Hassan Khomeini (the grandson of the late Ayatollah Khomeini). This means that the board appears to be close to the Reformist group. After the 2009 presidential election, the Supreme Council of Cultural Revolution (SCCR), a government body that supervises all universities and higher education centres in Iran and is chaired by Ahmadinejad, removed Mousavi from the Board of Founders of the university.

In 2007, the SCCR requested that a series of amendments be made to the articles of association of Azad University, which would extend its supervisory powers over the university. The opposition accused the government of attempting to increase its influence and control over both the management and also the assets of the university. The Azad University board never acted upon this request. To make matters more complex, in September 2009 the Board of the Founders of the university approved the donation of all assets of the university to the public. Accordingly, a designated board was to be created, which would oversee the donation process. Unsurprisingly, this move was strongly opposed by the government and its supporters, and further heightened the tensions between the two sides. In response, the SCCR proceeded with a unilateral revision of the articles of association of the university. The revised articles of association would make Azad University a public entity, and thereby, would block the donation of its assets. However, according to the existing articles of association, any changes to this document require the approval of the Board of the Founders. The matter was eventually referred to the parliament to resolve the deadlock.

On 21st June, the parliament passed a bill which stipulated that any changes to the articles of association of the Azad University must be approved by the Board of the Founders and cannot be amended by the SCCR. This, in effect, was also an approval of the donation of the assets. The parliament's decision was met with hostility from the government supporters and there were protests outside the parliament building. The opposition accused the pro-government members of parliament of organising the protest. In retaliation, pro-government members accused those in favour of the bill of being "indebted" to the university and its board. Nevertheless, after much heated debate, the parliament reversed its decision. The matter finally came to a halt following an intervention by the Supreme Leader, Ayatollah Khamenei. In separate letters to Ahmadinejad and Rafsanjani, Ayatollah Khamenei ordered the postponement of both the donation of the assets by the Board of the Founders and the revision of the articles of association by the SCCR.

New Contracts in the South Pars Field

In June, a series of contracts for the development of 6 phases (13, 14, 19, 22, 23 and 24) of the South Pars Gas field, located in the Persian Gulf, were awarded by the government. All contracts have been awarded to Iranian developers and are estimated to be worth \$21 billion in total. Developers include Iran Power Plant Project Management Co. (MAPNA), Iran Marine Industries Co. (SADRA), National Iranian Drilling Co., PetroPars and Khatam-Al-Anbia. The development of phases 13 and 14 were initially awarded to Royal Dutch Shell and Repsol. However, due to severe delays in these two companies carrying out these phases, the National Iranian Oil Company (NIOC) re-awarded the contracts to Iranian developers.

Upon completion, these phases collectively are expected to produce 250 million cubic metres of natural gas and 400,000 barrels of Liquefied Petroleum Gas (LPG) on a daily basis. The development of the 6 phases is expected to be completed within 3 years. Financing is expected to come from a variety of sources including the Oil Ministry, withdrawals from the National Development Fund, the issuance of bonds both domestically and also internationally, and from domestic banks through an energy fund.

Despite its vast reserves, the Iranian gas industry is very much underdeveloped. Iran is now under significant pressure to pursue the development of the South Pars field, not only because of the growing demand for gas, but also because the South Pars is shared with Qatar. The project is now behind schedule, partly due to delays and in some cases, due to the abandonment of the projects by foreign contractors. The experts' view is that it will be challenging for these phases to be developed by Iranian developers, given the demands of financing the projects and providing the technological know-how. However, if these projects are successfully completed, this will be a major milestone in the expansion of the Iranian gas industry and in Iran becoming self-sufficient in this field.

New Oil and Gas Discoveries

In June, a large oil deposit was discovered in the Arvand Kenar oil field. Arvand Kenar is situated in the south-western province of Khuzestan and is close to the Iran-Iraq border. The new reserve is estimated to be 30 billion barrels of oil. The exploration of the field is being jointly pursued by an Iranian and a Chinese company. According to the NIOC, works on three wells have begun, with one well already drilled and two in preliminary stages.

Also in June, 62 billion cubic metres of static natural gas reserves were discovered in Toos field, located 100 kilometres from the city of Mashhad, in the north-eastern province of Khorasan. According to the NIOC, 6 wells will be drilled in this field. Production capacity is expected to be approximately 210 million cubic metres per annum. NIOC also stated that evidence of the existence of natural gas in a nearby field, called Attar, has been found and exploration will resume in the near future.

New Steel Plants in Iran

On 28th June, phase 3 commenced of the Natanz Steel Complex, which is located near the city of Isfahan. This plant, which cost \$270 million to be built, has an annual production capacity of 800,000 tonnes of steel rods and is the largest steel rod plant in the Middle East. The new plant is expected to create 700 jobs.

On 5th July, 2 new production units were inaugurated at the Bonab Steel Complex, in the north-western province of East Azerbaijan. The first unit is a corrugated steel bar production line, with a production capacity of 1 million tonnes per annum and is the largest of its kind in the Middle East. The second unit is a steel ingot production plant, with an annual capacity of 500,000 tonnes. The two units collectively cost \$340 million to be completed and are estimated to create 1,500 new jobs.

Currently, Iran is ranked as the world's 16th largest producer of steel. Iran is a net importer of steel and the government, with the help of the private sector, has significant expansion plans in the steel manufacturing industry.

Iran – ASEAN Joint Trade Centre in Malaysia

In June, Iran and the Association of Southeast Asian Nations (ASEAN) jointly opened a trade centre in Malaysia. The aim of establishing this centre is to promote Iranian goods and commodities in ASEAN markets, and also to create new investment opportunities for both Iran and ASEAN member states.

ASEAN is an economic organization which was founded in 1967 and has 10 member states including Malaysia, Indonesia, Singapore, and Thailand. ASEAN has a population of 580 million people which amounts to 8.7% of the world's population. In 2009, the trade volumes between Iran and the ASEAN region stood at \$3.6 billion.

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

Disclaimer

This material is for information purposes only and does not constitute an offer to sell, nor a solicitation of an offer to buy any specific shares.

The analysis provided by this publication is based on information that we consider reliable and every effort is made to ensure that the facts we publish are correct. However, we do not represent that all facts and figures are complete and accurate; therefore, we can not be held legally responsible for errors, omissions and inaccuracy.

This publication does not provide individually tailored investment advice and may not match the financial circumstances of some of its recipients. The securities discussed in this publication may not be suitable for all investors. The value of an investment can go down as well as up. Past performance is no guarantee of future success.

Copyright Notice

No part of this newsletter may be reproduced or transmitted in any form or by any means electronic, mechanical, photocopies, recording or by any information storage or retrieval system without prior written consent of Turquoise Partners.