



Ghadamgah Garden Mosque, Ancient City of Neishabour , North Eastern Iran

THIS MONTH

Market Overview

2

In June, the Tehran Stock Exchange experienced a positive but volatile month. The presidential election on 12th June was the factor with the greatest influence on market movements. This section provides an analysis of the market and some of the main sectors.

Turquoise Iran Equity Investments

4

On 1st June 2009, Turquoise Partners officially launched its second investment product, Turquoise Iran Equity Investments Portfolio Two. In June, Portfolio One NAV gained 0.5% in value, whereas Portfolio Two NAV lost 0.8% of its value.

Privatization & IPOs

6

In June, a 6% stake in Saderat Bank and two 5% blocks in Mellat Bank were offered to the market.

Country Overview

7

The post-election events of Iran's 10th Presidential election on 12th June will be discussed in this section.

Economy

8

The Iranian real estate sector, the new financial instruments and institutions bill, the inflation rate, and a new petrochemical unit in Iran 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.
© 2009 All rights reserved*

In June, the presidential election was the most influential factor on the Tehran Stock Exchange (TSE). Speculation on the election outcome and the subsequent economic policies continued to increase price volatility in the market. Prior to the election, optimism about a possible change in government sparked rallies in many sectors of the market. However, the election result and subsequent unrest in several major Iranian cities resulted in a sudden trend reversal and a bearish sentiment in the market. Nevertheless, the downturn was short-lived, and towards the end of the month the market returned to its bullish trend.

In the final week of June, the first Annual General Meeting (AGM) of the Iranian Over-The-Counter (OTC) market took place. The Iranian OTC was founded last summer, but has not yet begun its operations. In June, the government submitted a bill for the development of financial instruments for parliamentary approval (see Economy section). Analysts believe that the opening of the OTC and the increasing availability of diverse financial instruments will be major developments for the Iranian capital markets. The OTC Co. has 3,000 private and institutional shareholders, and is expected to be formally open for trading from October this year.

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

Metals

The National Iranian Copper Industries Co. (NICIC), the third largest listed company by market capitalisation, was once again the best performing stock in June. This month, NICIC revised its earnings forecast for the financial year 1388 (ending 20th March 2010) by approximately 30%. This resulted in a stock price hike such that by the end of the month, shares were up 31% from the previous month. A sharp recovery in the global copper price, as well as increased production volumes were the main reasons for the earnings forecast revision.

The picture was very different for Mobarakeh Steel Company, the second largest listed company. Following its rallies of the past two months, the stock started to fall in value after its AGM. Despite a recovery in the global prices of many commodities, the steel price has experienced little change. There has also been a slowdown in demand in the domestic market, due to a slow real estate construction market. In addition, there is currently no import tariff for steel sheets (Mobarakeh's main product) in Iran. This means that domestic manufacturers of this product also face a threat from importers. Mobarakeh shares lost 11.5% in value in June.

Banks

The banking sector was one of the first to react negatively to the election result. However, towards the end of the month most stocks in the sector recouped their losses, such that the sector index lost only 1% of its value in June. Analysts argue that the existing government's policies over the past 4 years have been generally unfavourable for banks, especially those that are privately owned. Nevertheless, these banks have adapted well to such policies and have enjoyed strong profit growth rates over the past few years.

In June, the Central Bank published a draft of the new banking regulations. A notable feature of the new regulations is that banks will have to separate their Gharz Al-Hasanah capital from their general resources. Gharz Al-Hasanah is a form of contract that is compliant under Islamic (Sharia) law, which allows banks to accept non interest bearing deposits and to make interest free loans. State owned banks have been relying on

Gharz Al-Hasanah deposits as a cheap source of capital. Analysts believe that the new regulations will result in a reduction in the interest margin of state owned banks. Privately owned banks should not suffer from the new regulations, as their Gharz Al-Hasanah resources are insignificant in comparison to their general resources.

A 6% stake in Saderat Bank and two further 5% blocks in Mellat Bank were offered to the market this month (see Privatisation and IPO's section). Saderat was the third state-owned bank to undergo privatisation. After this, the sector index weight increased to 14% of the total market index.

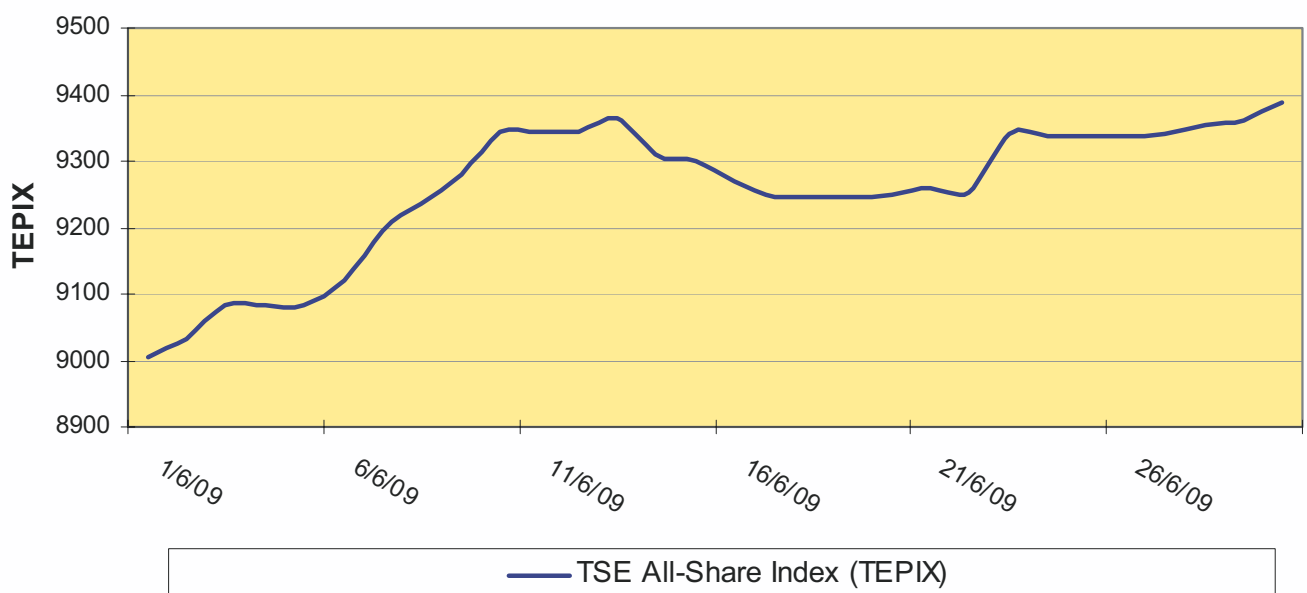
Telecom

The Telecommunications Company of Iran (TCI) is the largest listed company on the TSE and comprises 12% of the total market. Since its IPO last summer, TCI has been the subject of much controversy. Currently, the government is the largest and also the controlling shareholder of the company. As a result, TCI continues to be run in the same manner as a state-owned entity with respect to its budget and tax treatment.

In June, TCI released its annual financial statements for the year 1387 (which ended 20th March 2009). Despite an increase in revenues, net earnings were 23% lower than the previous year. This was due to an unprecedented increase in expenses. Expenses included higher than expected rental costs for the communications infrastructure, which was imposed on the company by the government. As a result, the company lost 3.3% in value in this month. The AGM is expected to take place in July.

Overall, the Tehran Stock Exchange experienced a positive but volatile month in June, with the TSE All-Share Index gaining 4.3% in value. Trade volumes added to \$530 million, a decline of 54% in comparison to the previous month.

Performance of TSE All-Share Index (June 2009)



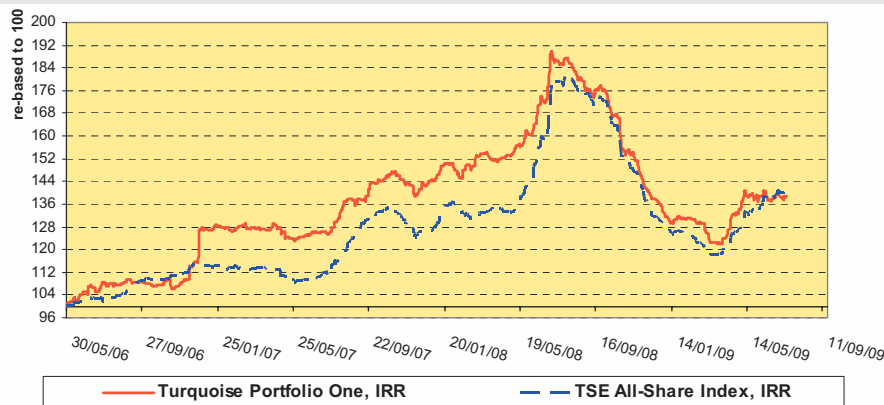
Investment Objective – The Turquoise Equity Investments seeks superior long-term capital growth by investing in the consumer and commodity potential of Iran, one of the most undervalued emerging markets in the world. Turquoise combines international experience with local expertise in investing in equities 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.

On 1st June 2009, Turquoise Partners officially launched its second investment product. Turquoise Iran Equity Investments Portfolio Two is licensed under the Iranian Foreign Investment Protection and Promotion Act (FIPPA). This means that investments made on the Tehran Stock Exchange through this vehicle will benefit from guarantees and protections offered under this Act. This report has been modified so that from this month on, it will reflect the performance of both the existing product (Portfolio One) and also the new product (Portfolio Two).

Portfolio One

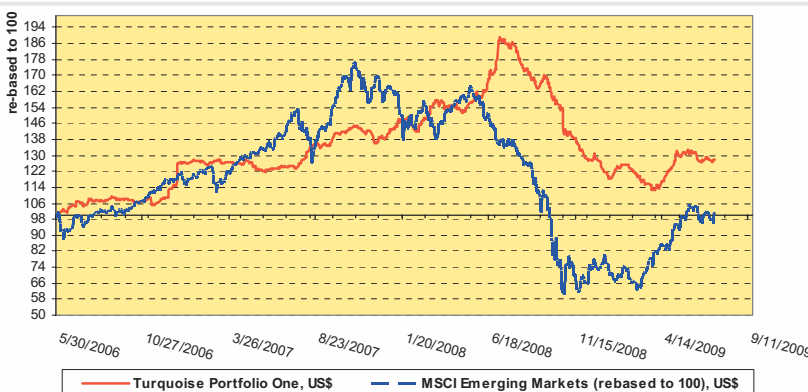
Investment Vehicle Pars Pelican Firouzeh	Currency Iranian Rial (IRR)	Management Fee 2.5% p.a	NAV Calculation Daily
Vehicle Domicile Iran	Benchmark Tehran Stock Exchange All-Share Index (TEPIX), IRR	Carried Interest and Hurdle 20% - 8%	Liquidity Quarterly
Launch Date 30 May 2006			Minimum Investment US\$100,000

Turquoise Portfolio One vs. TSE All-Share Index (TEPIX), Iranian Rial - As of 15th July 2009



	Apr 09	May 09	Jun 09
Turquoise Portfolio One	↑ 8.1 %	↑ 4.7 %	↑ 0.5 %
TEPIX	↑ 6.8 %	↑ 5.4 %	↑ 4.3 %

Turquoise Portfolio One vs. MSCI Emerging Markets, US Dollar - As of 15th July 2009

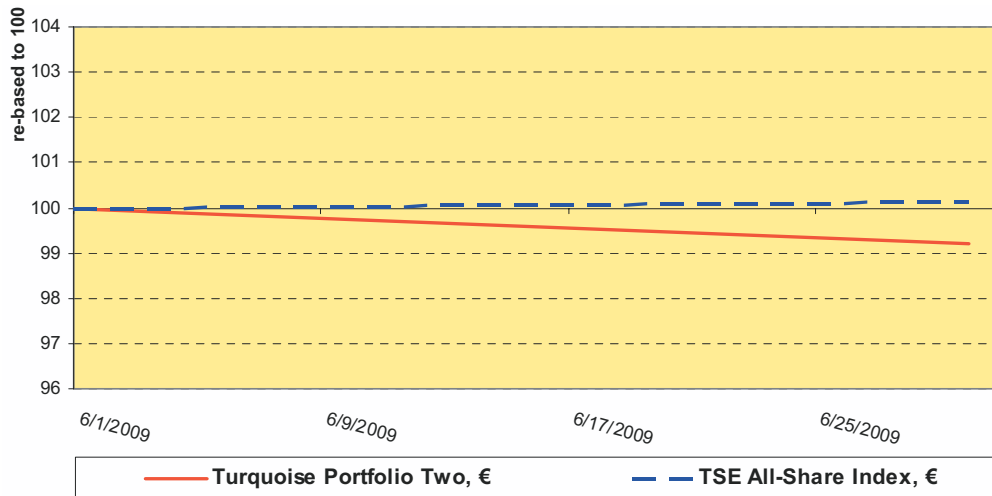


As of 15 July 2009	
Period	Portfolio Return
Last Month	↑ 0.4 %
Last 3 Months	↑ 9.1 %
Last 6 Months	↑ 7.3 %
Last 12 Months	↓ 25.4 %
Since Inception (30 May 06)	↑ 39.0 %

Portfolio Two

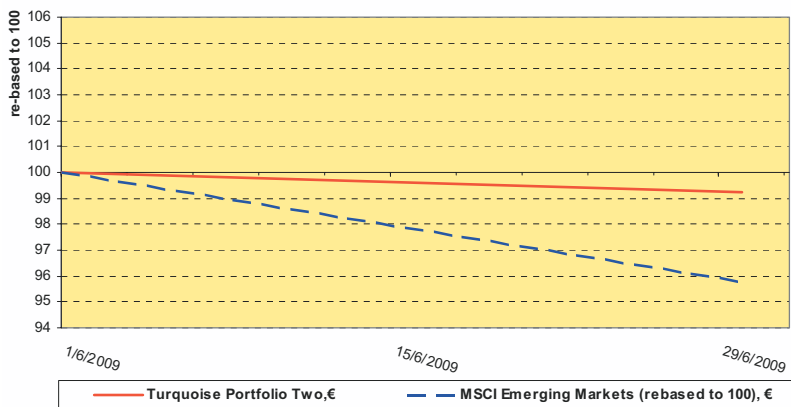
Investment Vehicle Turquoise Partners Ltd.	Currency Euro (€)	Management Fee 2.0% p.a	Liquidity 3 years lock-up with annual liquidity provisions
Vehicle Domicile British Virgin Islands	Benchmark Tehran Stock Exchange All-Share Index (TEPIX), €	Carried Interest and Hurdle 20% - N/A	Minimum Investment €200,000
Launch Date 01 June 2009		NAV Calculation Monthly	

Turquoise Portfolio Two vs. TSE All-Share Index (TEPIX), Euro - As of 1st July 2009



	Apr 09	May 09	Jun 09
Turquoise Portfolio Two	---	---	↓ 0.8 %
TEPIX	---	---	↑ 0.1 %

Turquoise Portfolio Two vs. MSCI Emerging Markets, Euro - As of 1st July 2009



As of 01 July 2009	
Period	Portfolio Return
Last Month	↓ 0.8 %
Last 3 Months	N/A
Last 6 Months	N/A
Last 12 Months	N/A
Since Inception (01 June 09)	↓ 0.8 %

Over the past few months, Iran's privatisation programme has been dominated by banks. In February, Mellat became the first state-owned bank to be privatised. In May, shares of Tejarat Bank were offered for the first time on the TSE. In June, Saderat became the third state-owned bank to be listed on the TSE. Two further blocks of Mellat were also sold off.

Saderat Bank

On 8th June, a 6% stake in Saderat Bank was sold on the TSE. The IPO took place at a price of 1,020 Rials per share, only 2% above the book value of the company. This put the market capitalisation of the bank at \$1.75 billion, making it the largest listed bank and the 6th largest listed company on the TSE. The price to earnings ratio of Saderat on the offering day was 4.4, below the sector average. This reflects the bank's weaknesses in terms of profitability, capital adequacy and bad debts in comparison to both other privatised state-owned and also privately-owned banks.

Saderat Bank was founded in 1952. With a total of \$28.5 billion, Saderat is Iran's 2nd largest retail bank in terms of customer deposits. It has more than 3,000 branches domestically, and 21 branches and 2 subsidiaries internationally. The audited annual financial statements of the bank reveal that its net earnings for the year 1387 (ended 20th March 2009) amounted to \$296 million. The net earnings for Mellat and Tejarat banks were \$312 million and \$295 million respectively. Saderat is forecasting a 16% increase in earnings for the current year.

Mellat Bank

In the third week of June, two 5% blocks of shares in Mellat Bank were offered to the market, at a base price of 1,300 Rials per share (24% above its IPO price). According to the TSE Corporation, four institutional investors competed for the two blocks. Analysts believed that the starting price for the blocks was expensive. However, the attractive payment terms (20% cash payment and 80% in instalments over a period of 5 years and at an interest rate of 6%) made it appear lucrative. After two days of competition, both blocks were sold for a total value of \$180 million.

The aftermath of Iran's 10th Presidential election will be the topic of discussion in this edition of Country Overview.

Iran's 10th Presidential election took place on 12th June. In this election, 4 candidates – Mahmoud Ahmadinejad, Mir Hossein Mousavi, Mehdi Karroubi and Mohsen Rezaei – competed for the presidency. This election was unique in many respects. For the first time in the history of presidential elections in Iran, candidates took part in live televised debates. The heated debate between Ahmadinejad, the incumbent president, and his main rival, Mousavi, resulted in a tense atmosphere prior to the election. Also, with an astonishing turnout of over 38 million (equivalent to 85% of eligible voters), the 10th Presidential election set a new record for the Islamic Republic.

On 13th June, the Interior Ministry announced a landslide victory for Ahmadinejad. According to statistics released by the ministry, Ahmadinejad won 63% of the votes, while Mousavi obtained 34%. The results, however, were strongly disputed by all three defeated candidates, particularly Mousavi. He accused the government of fabricating the results and demanded the annulment of the election. Following this, large crowds took to the streets of Tehran and several other major cities in order to protest against the results. There were many clashes between the protestors and the riot police, resulting in widespread violence and many arrests. Mousavi and Karroubi attended some of the street rallies.

On 19th June, Ayatollah Khamenei, the Supreme Leader, led the Friday prayers in Tehran. In his speech, he defended the integrity of the election and backed Ahmadinejad's presidency. He called for an immediate end to protests and demanded that the defeated candidates pursue their complaints through legal channels. He ordered the Guardian Council (a powerful supervisory body responsible for the supervision of elections) to conduct an investigation into the election result.

The Guardian Council expressed its willingness to look into complaints from all three defeated candidates. After an initial review, the Council said that the complaints of Mousavi and Karroubi were too general in nature, and that there were no specific cases to be investigated. The Council also offered a recount of up to 10% of the ballots. Rezaei was the only candidate to pursue the offer of the Council, although he later withdrew his case. Mousavi and Karroubi did not accept the Guardian Council's offer. They argued that several members of the Council have openly supported Ahmadinejad. Consequently, they did not view the Council as an unbiased entity in the review of their complaints. Nevertheless, the Council recounted the votes in selected ballots. Finally, the Council announced its approval of the election results on 29th June, stating that no major irregularities were found in the results announced by the Interior Ministry.

There were mixed international reactions to Iran's election and the subsequent turmoil. A number of countries including China, Russia and Turkey welcomed the results and congratulated Ahmadinejad. Some other countries expressed concern, while the majority of countries did not react publicly. The US administration of President Obama has been very careful with its reactions to the recent events in Iran to avoid jeopardising the potential for direct negotiations with Iran. For several years, Iran has been in a dispute with the US and its Western allies over its nuclear programme. The Americans have emphasised that despite the recent developments in Iran, they are still committed to dialogue with the Islamic Republic on a wide range of issues, including the nuclear dossier, to resolve the differences.

Real Estate Sector in Iran

The real estate boom over the last decade has played an increasingly important role in Iran's economic growth. As of 20th March 2008, the real estate sector accounted for 5% of Iran's GDP. Between 2004 and 2007, house prices in Iran increased a massive amount. According to statistics from Iran's Housing and Urban Development Ministry, the average house price in Tehran had grown by 130% year-on-year in June 2007. Experts believe that the limited investment opportunities for Iranians and the strong returns of real estate have attracted many unsophisticated investors, as well as professional investors such as development companies, banks and other institutions, into the sector. In their view, one of the main reasons for the extraordinary growth over the past 3 years was the unprecedented oil windfall revenues and the injection of these funds into the economy by the government. A substantial proportion of the excess liquidity in the economy was absorbed by the real estate market, causing sharp rise in house prices in Tehran and other major cities.

From early 2008, a slowdown in the real estate sector began. Experts believe that there has been a significant fall in the amount of transactions and construction, but there have only been modest falls in prices. Statistics released by the Tehran Municipality reveal that there has been a 30% fall in construction volumes in Tehran in the first quarter of the Iranian calendar year 1388 (March-June) in comparison to the same period last year.

Analysts identify several factors that have contributed to the slowdown. The astronomical price rises of previous years mean that despite the growth in demand for housing, the proportion of those who can actually afford to purchase a house has fallen dramatically. Consequently, this has resulted in a reduction in demand. The excess liquidity in the economy is falling sharply due to the slump in the oil price last year. The Central Bank has also had an influential role in dampening increases. In early 2008, the Central Bank placed a ban on mortgage lending by all banks (except for Maskan Bank, a specialist mortgage lender) in order to slow the rate of price rises. Also, the Central Bank banned all regulated financial institutions from directly investing into the real estate sector.

Experts differ in their views about when the market will recover. However, it is evident that a prolonged recession in the market could have serious consequences for related industries such as cement and steel. The government has promised to introduce new measures to stimulate the real estate sector.

New Financial Instruments and Institutions Bill

In June, the government submitted a new bill entitled "the Development of New Financial Instruments and Institutions" to the parliament for approval. According to the government, this bill is an addition to the Capital Markets Act of 2005. The bill is aimed at promoting and developing the capital markets, and introduces some very important amendments to existing regulations.

The proposed bill defines mutual funds as recognised legal entities. Last year, the government implemented a new regulatory framework for the operation of mutual funds. In addition, the new bill introduces regulations regarding the establishment and operation of pension funds. In order to promote the capital market, the bill proposes a series of tax exemptions including reduced taxes and a Value Added Tax waiver for stock trades. Also, listed companies with floating shares in excess of 20% will enjoy various tax reliefs. The bill will also legally recognise the OTC market and related entities as non-banking financial institutions.

Inflation Rate

Statistics released by the Central Bank show that the year-on-year growth in the Consumer Price Index (CPI) in June stood at 14.5%. Since 2005, the inflation rate in Iran continued to increase due to excess liquidity in the economy. The inflation rate peaked at 29.5% in October, but since then, it has declined continuously. The global economic crisis resulting in price falls and measures implemented by the Central Bank to curb inflation, are assessed as the main reasons for the fall in inflation rate.

New Petrochemical Unit in Iran

On 25th June, the inauguration ceremony of Mehr Petrochemical Complex took place and was attended by Ahmadinejad, Iran's president. Mehr Petrochemical has an annual production capacity of 300,000 tonnes of polyethylene, a material used in several downstream sectors such as the production of plastic pipes. Construction of this unit began in 2005 and cost a total of \$230 million to build. Mehr is based in the Assaluyeh Economic Zone, located in the south of Iran.

Mehr is a joint venture between the state-run National Petrochemical Company (NPC) (which owns 40% of the venture), and a consortium including Mitsui and Itochu of Japan and Ramp Co. of Iran (which owns the remaining 60%). Accordingly, 60% of the unit's production will be exported by the consortium and 40% will be sold by the NPC.

Iran is a major global player in the petrochemical industry. Iran's total exports of petrochemical products amounted to \$8.2 billion in the Iranian calendar year 1387 (which ended 20th March 2009). According to the Oil Ministry of Iran, forty six new petrochemical projects will be implemented by the end of 2015. These will require a total investment of \$25 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.