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In September, the Tehran Stock Exchange (TSE) had a volatile month. Stocks of most commodity companies and the Telecommunications Company of Iran (TCI) lost value, while pharmaceutical and financial stocks rallied. The Iranian OTC market was officially opened in this month.

Turquoise Iran Equity Investments

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The Turquoise Iran Equity Investments portfolios did not change very much in September. Portfolio One NAV lost 0.2% in value while Portfolio Two NAV gained 1.9%. This section provides data and charts on the performance of the portfolios.

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Iran's natural gas industry, the latest inflation data and Iran joining TRACECA will be covered in this section.

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In September, the Tehran Stock Exchange (TSE) had a volatile month. Telecommunications Company of Iran (TCI) and several large commodity-related stocks suffered price losses and weighed heavily on the market's main index. Price corrections in commodity-related stocks were expected, since there had been an overreaction to the global commodity price gains of the past few months. On the other hand, the injection of new funds into the equity market resulted in high demand for stocks in a number of sectors such as industrial and engineering groups, pharmaceuticals and banks. Consequently, there were price rallies in these stocks. Analysts argue that a slow real-estate market and lower bank deposit interest rates are the key reasons for the displacement of funds.

On 28th September, the Iranian Over-The-Counter (OTC) market officially commenced its operations. The Iranian OTC was established in October 2008 with a share capital of \$10 million. Its aim is to promote and expand financial markets and instruments. Its shareholders include the Tehran Stock Exchange Corporation (20%), several banks, insurance companies and other financial institutions (60%), and private and institutional shareholders (20%). In the first week, 3 instruments were traded on the OTC. The new market attracted significant interest from investors, such that by the end of September total trade volumes reached \$2.1 million.

An important development for the Iranian capital markets was the opening of a fixed income market for the first time. Currently, the only type of tradable Islamic bond in Iran is the Participation Paper. These are typically short term bonds (1-3 years) and have the same economic characteristics as fixed-rate conventional corporate bonds. However, their legal structure has been engineered in accordance with Sharia law. Regulations and procedure for the issuance of Sukuk (another form of Islamic bond) have been put in place recently. However, no Sukuk has yet been issued. Banks can also list tradable term deposit papers on the OTC bond market. EN Bank deposit papers were the first to be listed and traded on the OTC, and it is expected that there will be further listings in the near future.

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

Telecom

On 27th September, the TSE experienced the largest single trade in its history. After two postponements and much controversy, a block of 50% plus one share of the TCI was finally sold off. This deal was of paramount importance, as the buyer would gain management control over the largest listed company on the TSE and a dominant position within the Iranian telecommunications sector. The deal also had attractive payment terms. The winning party would pay 20% of the deal value in cash. The remaining 80% would be paid in instalments over a period of 8 years at an interest rate of 6%.

3 consortiums were approved by the Privatisation High Council for competing for the block. However, a day before the trade "Pishgaman Kavir Yazd", a wholly private consortium, was removed from the deal by the same council on security grounds. The remaining two consortiums were led by quasi-government institutions. Finally, the block was bought by a consortium called 'Tose Etemad Mobin', for a total value of \$7.9 billion, only slightly above the base price. This caused a disappointment among many market analysts. The parliament also ordered a probe into the deal by the competition council.

After the deal was concluded, the TCI stock, which had a total return of 45% since the beginning of the Iranian calendar year (21st March), experienced immense selling pressure. Overall, the TCI stock lost 15.8% in value in September.

Pharmaceuticals

Several pharmaceutical stocks were among the best performers in September. Historically, the pharmaceutical

sector is viewed as defensive by investors. When the market is showing signs of weakness, this sector becomes more popular. Also, strong fundamentals along with historically low price/earnings ratios have made some of these stocks very attractive. In addition, rumours of a possible sale price increase by the government on generic drugs boosted the sector as a whole. The sale price of generic drugs, such as antibiotics, is set by the government and has been frozen for the past two years.

Overall, the sector index gained 8.5% in value.

Banks

Parsian Bank, the largest privately owned bank in Iran, was the leading stock in this sector in September. A 5% block of Parsian shares was auctioned and sold off this past month. There was fierce competition for the purchase of the block between several existing shareholders and a number of new buyers. The block was eventually sold off at an 80% premium to market value. In Karafarin Bank, major shareholders increased their holdings as they competed over positions in the board of directors. This resulted in a rapid gain in the stock price. This surge in demand for the stocks of these two banks spread to others in the sector. However, recently privatised banks were less affected. The financial institutions sector index gained 7.5% in value in September.

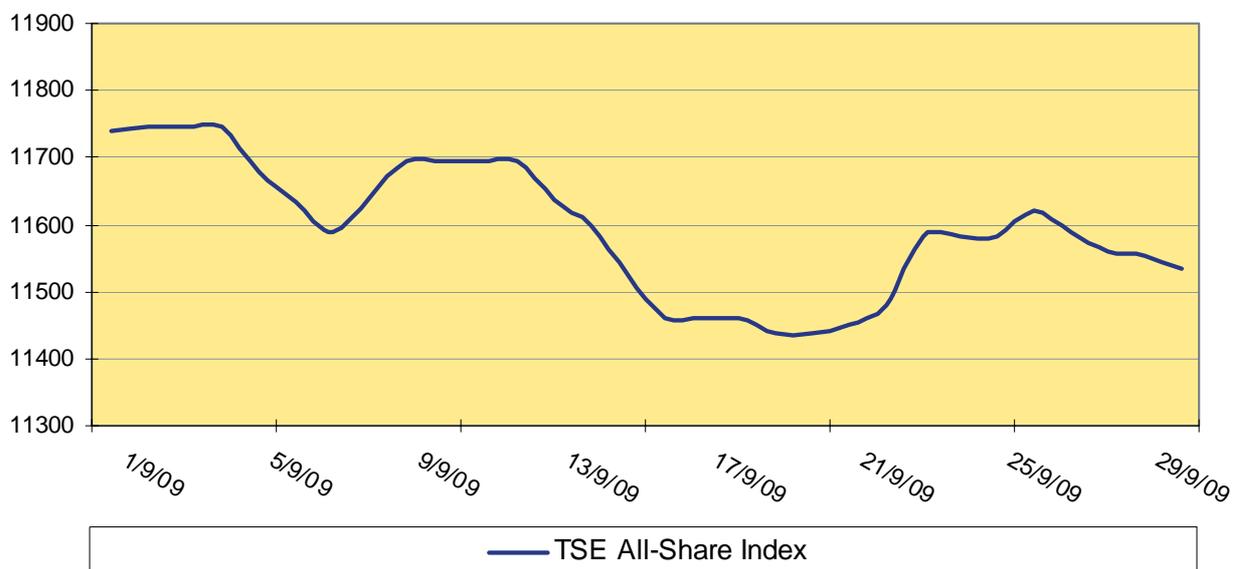
Analysts believe that the recent rallies in banking stocks have put them at fair value, or above it in some cases. Nevertheless, they remain bullish on the long-term outlook of the sector.

Steel and Iron Ore

Stocks in the steel and iron ore sectors suffered price declines during September. The iron ore price remains a risk for both sectors. Every year, the iron ore price is determined by the government after negotiations between iron ore and steel producers. Last year, the average price of iron ore was set at \$56 per tonne. This year, the price is yet to be determined. In their budgets, steel manufacturers have put the price of iron ore at \$40 per tonne on average, whereas iron ore companies have budgeted on a sale price of \$62.

Overall, the TSE All-Share Index lost 1.3% in value in September. Trade volumes stood at \$753 million, a 37% decline from the previous month.

Performance of TSE All-Share Index (September 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.

Portfolio One

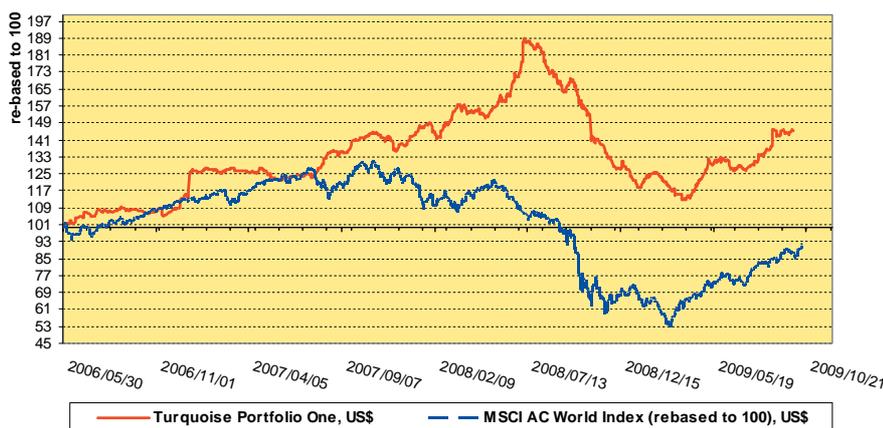
Investment Vehicle Pars Pelican Firouzeh	Currency Iranian Rial (IRR)	Management Fee 2.5% p.a	NAV Calculation Daily
Vehicle Domicile Iran	Benchmark MSCI All Countries (AC) World Index, US\$	Carried Interest and Hurdle 20% - 8%	Liquidity Quarterly
Launch Date 30 May 2006			Minimum Investment US\$100,000

Turquoise Portfolio One, Iranian Rial - As of 15th October 2009



	Jul 09	Aug 09	Sep 09
Turquoise Portfolio One	↑ 1.7 %	↑ 10.8 %	↓ 0.2 %

Turquoise Portfolio One vs. MSCI AC World Index, US Dollar As of 15th October 2009



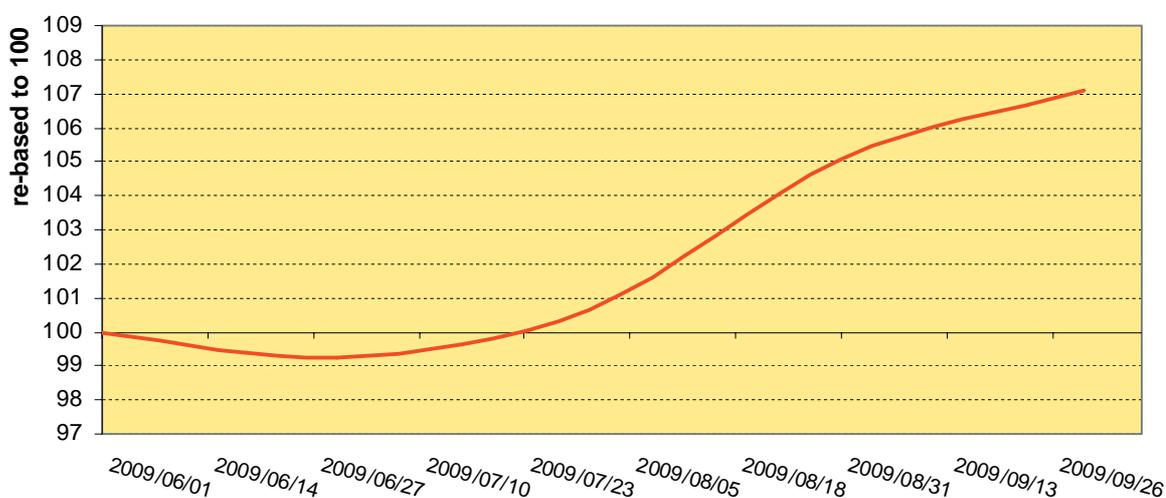
Portfolio One Performance, IRR

As of 15 October 2009	
Period	Portfolio Return
Last Month	↑ 4.4 %
Last 3 Months	↑ 16.8 %
Last 6 Months	↑ 27.4 %
Last 12 Months	↓ 3.0 %
Since Inception (30 May 06)	↑ 62.3 %

Portfolio Two

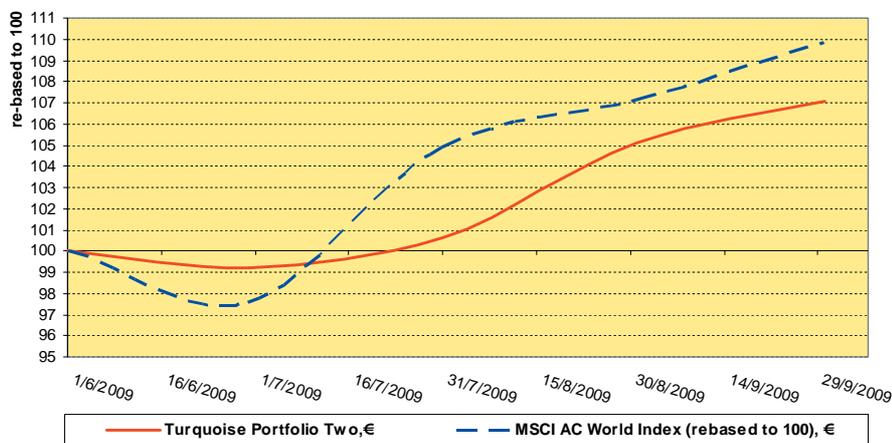
Investment Vehicle Turquoise Partners Ltd.	Currency Euro (€)	Management Fee 2.0% p.a	Liquidity 3 years lock-up with annual liquidity provisions
Vehicle Domicile British Virgin Islands	Benchmark MSCI All Countries (AC) World Index, €	Carried Interest and Hurdle 20% - N/A	Minimum Investment €200,000
Launch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

Turquoise Portfolio Two, Euro - As of 30th September 2009



	Jul 09	Aug 09	Sep 09
Turquoise Portfolio Two	↑ 1.4 %	↑ 4.1 %	↑ 1.9 %

Turquoise Portfolio Two vs. MSCI AC World Index, Euro As of 30th September 2009



Portfolio Two Performance, €

As of 30 September 2009	
Period	Portfolio Return
Last Month	↑ 1.9 %
Last 3 Months	↑ 7.9 %
Last 6 Months	N/A
Last 12 Months	N/A
Since Inception (01 June 09)	↑ 7.1 %

Latest developments on the Iranian nuclear dossier will be discussed in this edition of Country Overview.

For several years, Iran has been in a dispute with the West over its nuclear programme. The US and its Western allies have accused Iran of attempting to build nuclear weapons. However, Iran has rejected the accusations, arguing that its nuclear programme is for power generation purposes only. Despite immense pressure from the West, particularly the US, Iran has continued its uranium enrichment. This has resulted in three rounds of sanctions being imposed on Iran by the UN Security Council. However, with the election of Obama as the US president, optimism for a breakthrough in the dispute has increased.

After several months of inactivity on the Iranian nuclear dossier, major developments occurred this past month. In early September, Iran presented a package of proposals to the 5+1 group (consisting of the United States, Great Britain, France, Russia, China and Germany), outlining areas for negotiation and offering cooperation with the world powers on political, economic and security issues. The US initially rejected the proposals, but later indicated that it remains committed to dialogue with Iran. Russia welcomed Iran's package, saying that some of the terms in the proposal could be used as grounds for negotiation. During the United Nation's annual general assembly in New York, leaders of Iran and the 5+1 group also expressed their willingness for negotiations. Finally, 1st October was set for Iran and the 5+1 group representatives to meet face to face for direct talks.

A week before the meeting of the parties, Iran sent a letter to the International Atomic Energy Agency (IAEA), revealing the existence of a uranium enrichment site outside the city of Qom. This sparked a reaction among several Western countries, accusing Iran of attempting to conceal its nuclear ambitions. However, the Iranian officials asserted that the plant is intended for non-military purposes. Also, the site is far from being operational and that Iran has fully complied with the IAEA regulations in disclosing information about the site. Iran also agreed to an inspection of the site by the IAEA, a move that was welcomed by the US.

On 1st October, representatives from Iran and the 5+1 group met in Geneva, Switzerland. This meeting was viewed by many experts as a major step towards resolving the dispute, for two reasons. Firstly, for the first time in 30 years, Iranian and American officials were directly engaged in negotiations. Since the Islamic Revolution in 1979, the two countries have had no official diplomatic relations. Secondly, the meeting was viewed by both sides as successful and plans for a second meeting, expected to take on 18th October, were revealed. This meeting was a clear indication of major changes of stance on both sides. Under the Bush administration, the US had set the suspension of uranium enrichment as a pre-condition for negotiations with Iran. Iran had also stressed on several occasions that it will not negotiate on its nuclear programme with the West.

The Geneva meeting, and the potential for improved Iran-US relations, was generally perceived positively within Iran, although, there was a degree of suspicion and opposition by a minority of hardliners. The talks also had a positive impact on the equity market, as the TSE experienced a sudden turnaround after the meeting. Experts believe that the next meeting between the two sides will play a vital role in shaping the future developments with respect to Iran's nuclear dossier and its relations with the West.

Iran's Natural Gas Industry

Iran's natural gas industry dates back to 1965, when the National Iranian Gas Company (NIGC) was established. With approximately 29.6 trillion cubic meters of proven reserves and 16% of the world's total, Iran has the world's second largest natural gas reserves (behind Russia). This is equivalent to approximately 185 billion barrels of crude oil. Iran's total crude oil reserves are estimated to be 138 billion barrels.

Despite its massive reserves, Iran plays only a small part in the world's natural gas market. Last year, Iran produced approximately 116 billion cubic meters of gas, making it the fourth largest producer in the world, after Russia, the United States and Canada. However, 96% of this total was consumed domestically and only 4.7 billion cubic meters of gas was exported to Turkey and Armenia. This is less than 1% of the world's demand. Furthermore, last year's total exported volume was 15% lower than that of the previous year. Domestic consumption has been increasing at an average annual rate of 12% for the past 15 years. This is significantly above the global average. Last year, Iran consumed approximately 118 billion cubic meters of gas. This sharp rise is due to both the rapid expansion of sectors with high energy consumption such as steel and cement, and also heavy governmental subsidies on the price of gas for household and industrial consumers.

Meeting domestic demand at consumption peaks has proven to be a challenge for the government. In January 2008, unexpectedly cold weather swept across the country and caused a sharp increase in consumption. The result was that the government was forced to reduce supplies to industrial consumers in order to meet household demand. For the last decade, Iran has been importing gas from and swapping gas with its neighbouring countries in the north. This has been for logistical reasons and to smooth out supply. Last year, Iran imported 8 billion cubic meters of gas from Turkmenistan.

Sharp growth in gasoline consumption has also been a challenge for the government for a number of years. To tackle this problem, major car manufacturers such as Iran Khodro and Saipa have been producing bi-fuel cars running on both gasoline and compressed natural gas (CNG). Although these vehicles have proven popular, the government is facing technological limitations in expanding its CNG production and distribution points. There are currently only 900 CNG stations across the country.

Iran has a comprehensive plan to develop and expand its gas industry. A substantial portion of Iran's reserves are located in the South Pars Field in the Persian Gulf. In 2002, Iran began a major project for the development of the South Pars. The project consists of 28 phases. To date, more than \$20 billion has been invested in the project and several phases have been completed. Iran's target is to increase its annual production capacity to 280 billion cubic meters by the end of 2010 and to complete the South Pars project by 2016. However, the project is behind schedule. Iran requires significant foreign investment and access to technology to carry out the development of South Pars phases. This has become increasingly difficult over the past few years due to sanctions. A number of European partners, such as Total of France and Statoil Hydro of Norway, have abandoned or delayed their contracts. Nevertheless, Iran has been able to sign several major contracts with Asian partners, including China and Malaysia, for the South Pars and other gas fields.

Currently, there are a number of lucrative contracts relating to the South Pars project on offer by Iran. Given its vast reserves, Iran will become a major player in the world's natural gas market upon the completion of the South Pars project.

Iran's Inflation Rate

The latest statistics released by the Central Bank reveal that the Consumer Price Index (CPI) in September increased by 9.3% in comparison to the same month last year. This was the first time in 18 years that the Iranian annual inflation rate fell below 10%. This rate stood at 13.1% in August. Also, the CPI rose by 0.4% month-on-month in September, falling from 1.1% in August.

Iran's annual inflation rate peaked at 29.5% in September 2008. However, since then it has consistently declined. Experts assert that the slowdown in the liquidity growth in the economy is the main reason for the fall in the inflation rate. According to the Central Bank, liquidity growth, which stood at 28% at the end of the Iranian calendar year 1386 (20th March 2008), fell to 15.9% at the end of 1387.

Iran Joins TRACECA

In September, Iran formally joined the Transport Corridor Europe – Caucasus – Asia (TRACECA) programme. TRACECA was founded in 1998 with the aim of promoting economic relations, trade and transport communications between Europe, the Caucasus and Asia. This programme consists of the EU and 14 member states (including Iran) from Eastern Europe and the Caucasus.

Over the past few years, Iran has invested heavily in the expansion of its rail and road networks, and connecting these to international transport routes. Iran's strategic location means that it is a key transport corridor between Europe and Central Asia.

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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