

November 2015, Tehran University: Iranian researchers unveiled the third generation of humanoid robot, named Surena III.

Market Overview 2

The Iranian's stock market snapped out of its 2 month losing streak as the overall index rose by 2.4% in October. Stabilization in oil prices and approval of a stimulus package by the government resulted in this modest turnaround for the market. The package included a variety of actions from injecting fresh money to the interbank lending market by the Central Bank of Iran to facilitating retail financing for purchase of locally produced automobiles, household goods and property. Industrial companies welcomed this package by reflecting a 2.5% gain on average in their share prices. The package aimed to bring down sticky interest rates as well as encourage consumption in order to provide a new momentum for the slowdown in the Iranian economy.

Country Highlights 5

The most recent and important news about the country will be mentioned in this section.

Economy 6

This issue reviews a brief outline of Iranian taxation system released by Iranian National Tax Administration Office in 2015.

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Quarterly Earnings Reports

During the month of October, most of the listed companies released their second quarter earnings reports. Reported earnings showed a negative 5% change relative to the previous total profits forecasts for the listed companies. The total earning figure at around \$14 billion was released at a time when many investors, upset by the current slow atmosphere in the market and in the country as a whole, expected weak quarterly performance with higher negative adjustments to the earnings of listed companies. Even though international relations have improved over the last few months, the impact on the profitability of companies is yet to be seen. As stated, one of the reasons behind the price appreciation of stocks in January was very low expectations toward earnings results which ultimately came out better than expected.

The sector that reported the worst results, with a 22% quarterly drop in earnings compared to the previous quarter, was the basic metals. This huge plunge in earnings is the result of the rout in global commodity markets which has been ongoing for the last few months. The sector's index fell by 12% during October which made it the worst performing industry on the market. The metals sector is one of the largest listed sectors on the market with a significant impact on index movements. Most export-oriented companies, especially in the metals and mining sectors, steel makers and iron ore producers, which had been hurt by the depreciation of global prices over the last six months, also reported poor results.

On the other side, one sector that positively surprised the market and beat expectations in its earnings' reports was the pharmaceuticals sector. This is mainly due to price increases that they recently benefited from when the government raised the ceiling on its price controls. The pharmaceuticals index rose by 1.2%, as a result of 2% rise in companies' earnings projections for the current fiscal year.

Automotive

Under the new economic stimulus package, the Central Bank of Iran announced it will implement a broad retail finance program for every Iranian to have access to a 7 year loans up to \$7000 USD to purchase new locally produced cars. With an average price of \$10000 USD for locally manufactured cars, new facilities could result in a real hike in the demand side which has been slowing down significantly over the past 6 months. According to official data, Iranian monthly auto production almost halved from a peak of 90,000 units in June to 47,000 units in October. The new measure is designed to help automakers sellout their current inflated inventories which, have already exceeded 100,000 units. Automotive shares celebrated this news and stocks rallied more than 10% October 11th, after experiencing a two year low.

Real Estate

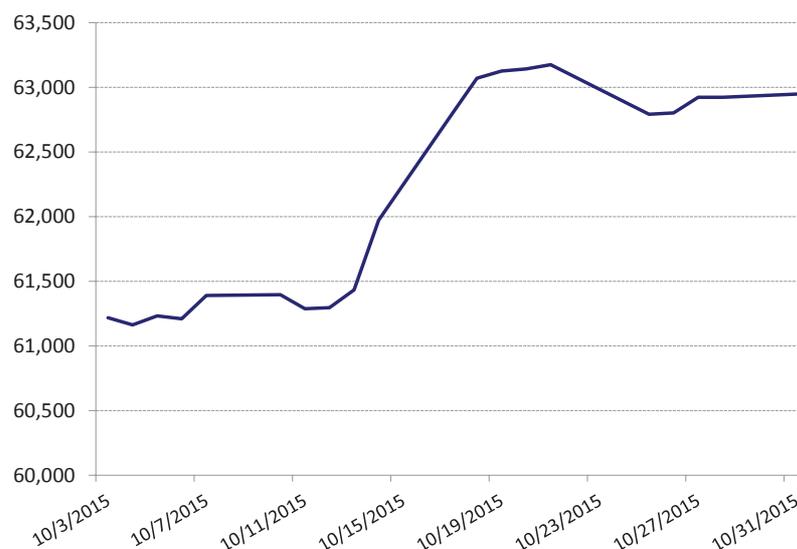
The new stimulus package also includes some new measures taken for the housing market.

Based on the new package, mortgages provided by Maskan Bank, a national bank mandated to provide long-term mortgages, will increase by 55% in value from \$13000 USD to \$20000 USD for each individual. This new amount will roughly cover 25% of a mid-range flats in Tehran. Some believe that this new measure still cannot address the deep recession dominating the Iranian real estate market for more than 30 months. Share prices of listed property developers also ignored the news, plunging 1.8% in the month of October

Banks

Companies in the banking sector decreased their earnings' forecasts by 5% in October. This is largely because of the increasing cost of money due to high interest rates on deposits which was not compensated by the increase in lending activities. The value of the sector's index fell by 3.8% in October. However, some promising news came across the board on the final days of the month. According to officials, Central Bank of Iran will inject cheaper money into the interbank lending market to enable interest rates and therefore, deposit rates to fall. The CBI is also allowed to decrease the Required Reserve Ratio (RRR) for domestic banks from 13% to 10%. This will have a significant expanding effect on money supply in the country. As a result, analysts expect a gradual decrease of interest rates throughout the banking system which, will cause current shrinking margins to improve and also help the broader economy and consumption to revive.

Performance of TSE All-Share Index (October)



Market Statistics (October)

Average P/E	5.6
Trade Value (\$ Billion)	0.5
Trade Value Monthly Change (%)	- 24.5
Market Cap (\$ Billion)	90.9

Top 5 Traded by Value (October)

Rank	Company Name	Turnover Value (\$Million)	% of Total Turnover
1	Saderat Bank	22	5
2	Mellat Bank	21	4
3	Bandar Abbas Oil Refinery Co.	17	3
4	Iran Khodro	15	3
5	Pars Khodro	14	3

Top 5 Companies by Market Cap (October)

Rank	Company Name	Market Cap (\$Million)	% of Total MC
1	Persian Gulf Petrochemical Industry	8,975	10
2	Mobile Communications of Iran	3,909	4
3	Parsian Oil & Gas	3,457	4
4	Telecommunication Co. of Iran	3,427	4
5	Tamin Petrochemical Co.	3,081	3

All figures quoted in USD in this Newsletter are calculated based on the Central Bank of Iran's official USD/IRR exchange rate of 29,957 as at 31 October 2015. Due to Central Bank's revision on the official exchange rate of the Rial, TSE's market capitalization and trading value in USD have reduced dramatically.

➤ For the first time since the onset of the Syrian civil war, Iran attended an international conference on finding solutions to ending the four and a half years old conflict in the Austrian capital city, Vienna. The talks which were held in late October did not include officials from the government of Syria, nor the opposition. More than 20 countries taking part in the discussions were looking at how the conflict, which has created an intense security problem for the region and world, can be overcome. The Iranian Foreign Minister, Javad Zarif, was among the attendees and stated that Iran is pushing for an immediate ceasefire by all sides. The attendees have conflicting ideas on how the fighting can end. On one side, the United States, France, Saudi Arabia, Turkey argue that the removal of President Bashar Assad from office must be the precondition for the political process to begin. On the other hand, Russia, Iran, China state that the terrorist which are now freely active in Syria and are supported by some regional countries, must be defeated first and the future of Syria should only be decided through an internationally monitored election with all sides allowed to run. The second round of talks were held once again in mid-November in Vienna. The Iranian delegation, led by the deputy foreign minister for African and Arab affairs, attended the second round of talks in Vienna where more than a dozen countries discussed issues such as a transition government in Syria as well as the political future of the country.

➤ The Iranian President's planned visit to Italy and France on an official visit in mid-November was cancelled due to terrorist attacks in the French capital, Paris. Mr. Rouhani who was due to visit Rome and later Paris, was travelling to the European countries on an official invitation of the Italian Prime-Minister and the French President. Since the Joint Comprehensive Plan of Action was reached between Iran and the EU3+3 in July, many international business and political delegations have visited Tehran to explore potential opportunities. In the weeks following the agreement, foreign ministers of Italy and France travelled to Iran, during which they extended the official invitation of their respective governments to the Iranian

President. Mr. Rouhani's planned trip to Italy and France will be rescheduled and the Iranian President will visit the European countries in the near future.

➤ The third summit of Gas Exporting Countries Forum (GEFC) was held in the Iranian capital city in late November. The summit which was attended by heads of states from Russia, Iraq, Venezuela, Bolivia, Equatorial Guinea, Turkmenistan, Nigeria and Algeria along with government representatives from 9 other countries was the latest gathering of gas exporters in order to coordinate policies and look at market dynamics. Aside from meetings at the forum, the heads of states from different countries held bilateral meetings with Iranian officials in order to sign deals and expand economic ties. The Russian President, Vladimir Putin, held meetings with the Iranian Supreme Leader, Ayatollah Khamenei, as well as the Iranian President, Hassan Rouhani. The meeting is of significance due to the close viewpoints of the two countries regarding the conflict in Syria and international efforts to defeat terrorism in the region.

The Iranian Tax System – (Inheritance tax & Stamp tax is not included)

Types			Definition	Rates
Direct Taxes	Income Taxes	Real Estate Income Tax	The taxable income of the leased real property consists of the total rent, whether in cash or otherwise, less a deduction of 25% to cover expenses, depreciations, and commitments of the owner, in regards to the leased property.	Individuals: 15 – 35% Legal entities, a flat rate of 25% shall apply.
		Employment Income Tax	The employment income of employees in both the public and private sectors is taxed at progressive rates	0%, 10% , 20%*
		Business & Professional Income Tax	Tax on income earned in Iran by individuals from professions and from all other sources not specified elsewhere in the Act. The most important of these other sources is the income derived from running a business. Assessments are made either on the basis of the figures in the statutory books of account whereby the tax payable is based on a deemed profit not on the profit reflected in the accounting books.	15% - 35%**
		Tax on Incidental Income	The taxable income subject to the tax on incidental income shall consist of 100% of the realized earnings. The non-cash income shall be valued at the current prices on the date of realization of income	Individuals: 15 – 35% Legal entities, a flat rate of 25% shall apply.
		Corporate Tax Income	The aggregate income of companies, and also the income gained from the profit-making activities of other legal persons derived from different sources in Iran or abroad, less the losses resulting from non-exempt sources	Flat rate of 25%
	Property Taxes	Tax on Transfer of Real Properties	The final transfer of real properties, as well as the transfer of goodwill shall be subject to taxation at the time when such transfers take place by the owner of the substance of the property or by the possessor of the right of goodwill.	Properties: 5% Goodwill: 2%
		Shares, bonds and other securities	Any transfer of companies' shares and priority rights of shares as well as transactions on other securities through the stock market shall be taxed at	Companies: • Listed : 0.5% • Non-listed : 4%
	Indirect Taxes	Value-added Tax	Value added resulting from the sales of all goods and services and their imports.	9%
Taxes on Imports		Currently is collectible by the Iranian Customs Organization		

Source: Iranian National Tax Administration

Review of Iranian Tax System 2015

The Iranian tax regime is divided into two general categories of direct and indirect taxes. Direct Taxes includes two major categories of "Income Taxes" and "Property Taxes" with different constituents. Indirect taxes include only two types; 1- Value Added Tax (VAT) and 2- tax on imports. The tax rates are updated by a new tax system introduced and implemented by the Iranian National Tax Administration (INTA) under the supervision of the Ministry of Economic Affairs and Finance, in March 2015 (at the beginning of Iranian New year 1394). The key changes from the old system to the new tax system was in the employment tax rate by introducing a range of minimum thresholds for all employees working in public and private sectors. In the previous system, a lower tax rate was introduced to public sector's employees. The Value Added Tax rate increased from 7% to 9% in the new system.

The following types of income are exempted from paying tax, according to the latest tax system:

- Profit or bonuses accruing on fixed deposit, savings or current accounts with Iranian banks or non-bank credit institutions, but not where the deposit is made by another bank;
- Interest accruing on government and treasury bonds;
- Interest paid on overdrafts and fixed deposits by Iranian banks to foreign banks provided that reciprocal treatment is given;
- Interest payable on land reform bonds;
- Publishing, journalistic, cultural and art activities performed on the basis of a permit of the Ministry of Culture and Islamic Guidance;
- All income from agriculture and horticulture
- Income from export of goods that enter the country on transit basis and are re-exported unchanged.

*Salary Tax Rates (Employment Income Tax)

Annual Taxable Income	Rates
Up to IRR 138,000,000	0%
Up to IRR 966,000,000	10% of the excess over
Over IRR 966,000,000	20% of the excess over

**General Individual Tax Rates on Business & Professional Income Tax

Annual Taxable Income (in IRR)	Rate
Up to 30,000,000	15%
30,000,001 to 100,000,000	20%
100,000,001 to 250,000,000	25%
250,000,001 to 1,000,000,000	30%
Over 1,000,000,000	35%

Source: Iranian National Tax Administration

About Turquoise

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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: info@turquoisepartners.com

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