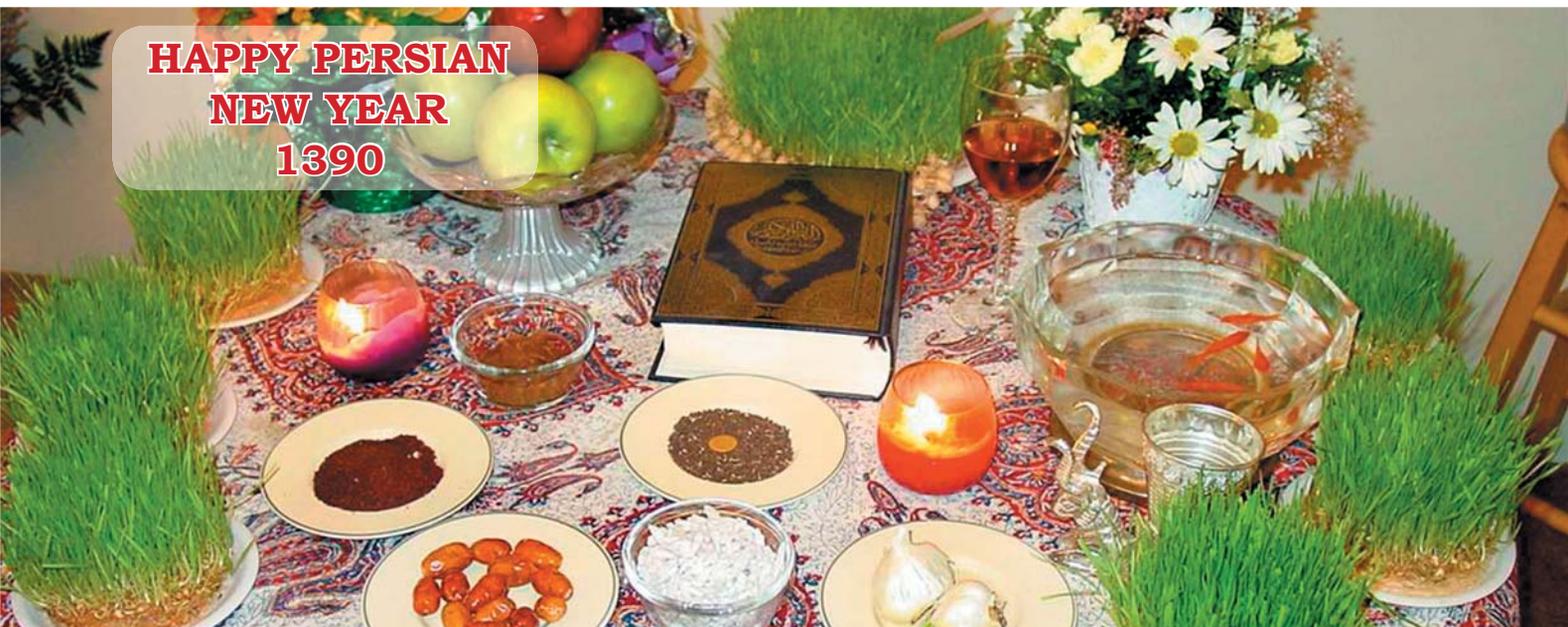


**HAPPY PERSIAN
NEW YEAR
1390**



Haft-Seen table, set up as part of Iranian New Year, Norouz, celebrations

Market Overview _____ **2**

The Tehran Stock Exchange (TSE) bucked its historical trend in February. As opposed to its usual decline at the end of the Iranian year, the TSE had a positive performance despite significant sales by some of the institutional investors. Also, a large number of companies announced their earnings forecast for the coming year.

Country Overview _____ **5**

The Turkish President's visit to Iran, the merger of the Ministry of Housing and Urban Development with that of Roads and Transportation will be discussed in this edition of Country Overview.

Economy _____ **7**

The completion of Iraq's Iranian-constructed power plant, the announcement of the top Iranian companies by sales, a privately-owned power plant, and the latest oil and gas developments will be covered in this section.

Turquoise Iran Equity Investments _____ **9**

This section provides data and charts on the performance of Turquoise Iran Equity Investments Class A for the month of February.

The Tehran Stock Exchange (TSE) bucked its historical trend in February. The TSE has traditionally experienced a decline in late February and early March as the end of the Iranian year approaches. Both institutional and individual investors tend to sell off part of their portfolios in order to realise profits prior to year-end which in turn, puts prices under pressure. However, despite the significant sales by some of the institutional investors, the TSE had a positive performance due to high buying demand from other investors. The TSE All-Share Index rose by 3.2% in Rial terms (2.5% in Euro terms) and the total market capitalisation passed the \$100 billion mark.

February was also an important month due to investor expectations about the profitability prospects of listed companies. A large number of companies announced their earnings forecast for the coming year. With the exception of the pharmaceutical industry, all other industries generally posted lower earnings forecasts compared to their current performance. The lower earnings can be largely attributed to the implementation of the subsidies reform plan which affects the companies' profitability. The earnings announcements resulted in a downturn in the market during the last week of February.

Some analysts believe that the historic positive market performance in the spring months heralds a positive prospect for the market in the coming months.

Metals

The metals sector had an outstanding month in February. The sector index gained 12.3% in value, outperforming all other sectors. National Iranian Copper Industries Company (NICIC) and Mobarakeh Steel Company, which are the 2nd and 3rd largest listed companies in terms of their market capitalisation, rose by 16% and 20%, respectively. In February, NICIC revised its earnings forecast for the financial year ending March 2011 by 16%. This was due to the surge in the copper price in the international markets. Analysts expect another upward revision of about 10% for the company's earnings which are expected to reach \$1.25 billion. Nevertheless, NICIC made its earnings forecasts for March 2012 33% lower than the current year. The company has made the forecast based on a

copper price of \$7,275 per tonne. Analysts view this as overly conservative compared to the current copper prices of around \$ 10,000 per tonne.

Mobarakeh Steel Company shares also gained 20% during February. The company had recently announced a \$1 billion share capital increase, the largest share capital increase in the TSE's history. Mobarakeh also took over Hormozgan Steel Company in February. The company is located in the south of Iran, near the Persian Gulf, and has the production capacity of 1.5 million tonnes of slab. The takeover is expected to facilitate Mobarakeh's access to international markets. The takeover was conducted through an \$855 million deal to further bolster Mobarakeh's position as the largest steel producer in the Middle East.

The two major iron ore mining companies, Gol Gohar and Chadormalu, lowered their earnings forecasts for the next year by 5% and 8%, respectively, in comparison to the current year. This was due to the impending decision by the government to impose export tariffs on iron ore in order to protect the domestic steel market from supply shortages. The tariffs will restrict the mining companies' access to international markets and reduce their export profits. This in turn will affect their profitability.

Automotive

The continuous upward trend in automotive manufacturing shares, which had started since the beginning of this current Iranian year, eventually reversed in February. The industry index declined 5% in February after a 127% increase since the end of March 2010. The decline followed an investigation by the Securities & Exchange Organisation (SEO) and the suspension of trading of Iran Khodro Co. and Saipa Corp. shares, the two largest automotive companies. SEO had required clarification on recent transactions of their shares. The published reports indicated that Saipa Corp. had engaged in share repurchases through some of its subsidiaries and the subsidiaries owned approximately 45% of the parent company's shares.

Another important factor was the announcement of earnings forecasts for automotive manufacturers. Saipa Corp. lowered its earnings forecast for FYE

March 2012 by 17% in comparison to the current year. Along the same vein, Zamyad, the largest commercial car producer in Iran, forecasted a 15% decline and Bahman Group announced a 21% decline in its profitability for the coming year.

Analysts believe that the automotive industry will face significant challenges in coming year, both due to the rise in input prices, and the sale price controls by the government.

Zinc and Lead

February was a very good month for zinc and lead producers. The share price of Kalsimin Co., the largest zinc producer in the Middle East, increased by 20.5% during this month and had high trade volumes. The company set a new production record with the production of 32,000 tonnes by mid-February.

The company's profitability has been boosted by the surge in the global prices of zinc and lead. However, many analysts doubt that the current price levels for zinc will be sustained and believe that prices will eventually ease given the excess supply in the global markets.

Banking

The publication of the first draft for the monetary and banking policy package by the central bank for the coming Iranian year was the most important development related to the banking industry in February. Banks' share prices declined amid the news about governmental intervention in the participation loans (known as Musharakat, and similar to project finance) of banks and setting a ceiling for the interest rates of these contracts.

Each year, the government sets a limit for the interest charged on conventional bank loans (known as Mobadala) by the banks. This has led banks to channel most of their contracts to participation loans whose interest rates were not capped by the government and were determined according to the profitability of the investment made by the loan. The interest rate for the conventional bank loans are set at 12% whereas the participation loans tend to charge an interest of over 20%. As such, limiting the interest rate that the banks could charge on participation loans would have an adverse effect

on banks' profitability. The monetary and banking policy package has not been finalised yet, but the decisions related to the interest rates will have a direct impact on the banks' bottom line.

Another development in the banking industry was an IPO road show on 15th February held by Pasargad Bank. The company is planning to go public next week before the end of the Iranian year in an effort to benefit from tax exemptions for this year, according to its CEO. The bank's share capital is \$2.3 billion which makes it the largest bank in Iran in terms of capital. The bank has announced a net profit forecast of \$720 million for the FYE March 2012, a 50% increase in its profitability compared to this year's forecast.

IPOs in the Over-The-Counter Market

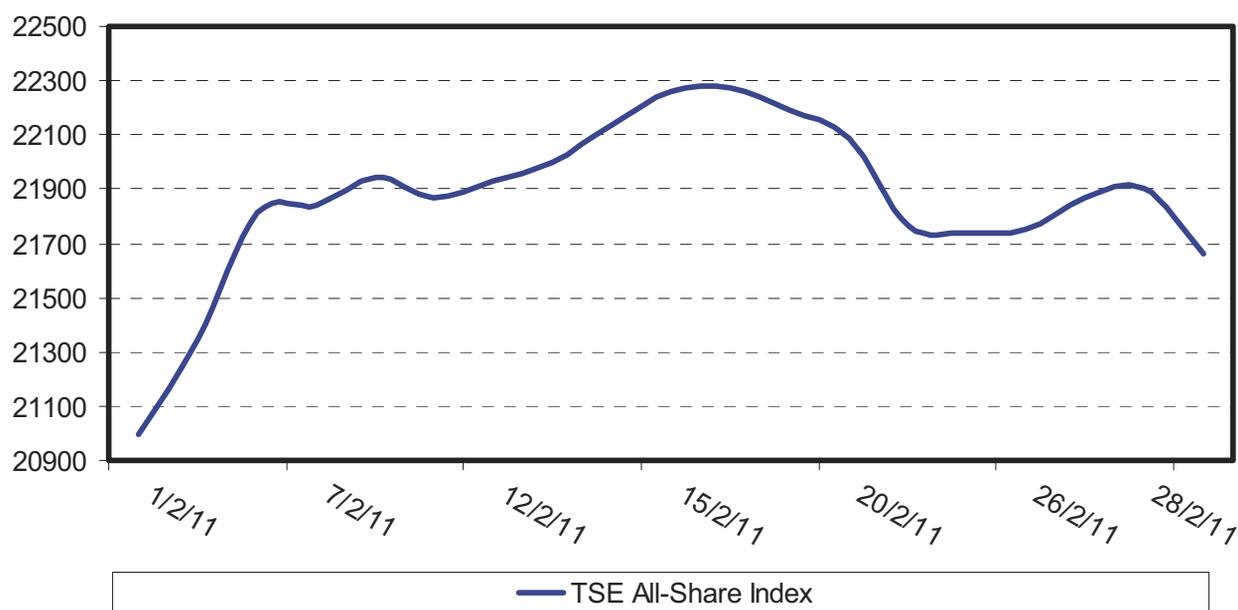
In February, two small IPOs took place in the Iranian Over-The-Counter (OTC) market. Yazd Alloy Steel Co. went public at a price to earnings (P/E) ratio of 8.9 and a market capitalisation of \$6 million. Ravan Fanavar Co., auto parts maker, also went public at the P/E ratio of 2.7 and a market capitalisation of \$2 million. This was the smallest IPO for the OTC market since its establishment. Both companies experienced very high demand for their shares following the IPO. There are currently 13 companies listed on the OTC market.

Surge in Gold Prices

Despite the bullish sentiment in the stock market, a 10% rise in the gold coin prices during February came as a surprise to many analysts. In early November, gold prices in the global markets reached \$1400 per ounce, close to their price at the end of February. However, the gold prices in the domestic market were 10% lower than their current level. As such, some analysts consider the current divergence between the gold price in the domestic market and international markets as a point of concern. The central bank has historically curbed price increases by intervening in the market and analysts are closely monitoring the central bank's reaction to these developments.

Overall, the TSE had a positive performance in February and the TSE All-Share Index rose by 3.2% in Rial terms. The trade volume stood at \$1.16 billion, 20% lower than the previous month.

Performance of TSE All-Share Index (February 2011)



Market Statistics	
Average P/E	7.2
Trade Volume (\$ Billion)	1.16
Trade Value Monthly Change (%)	-19.7
Market Cap (\$ Billion)	100.5

Top 5 Traded by Value

Rank	Company Name	Turnover Value (\$million)	% of Total Turnover
1	Isfahan Mobarakeh Steel Co.	90	8
2	National Iranian Copper Industries Co.	69	6
3	Ghadir Investment Co.	57	5
4	Bahman Group Co.	55	5
5	Telecommunications Co. of Iran	42	4

Top 5 Companies by Market Cap

Rank	Name of Company	Market Cap (\$Million)	% of Total MC
1	Telecommunications Co. of Iran	13,904	14
2	National Iranian Copper Industries Co.	6,767	7
3	Isfahan Mobarakeh Steel Co.	5,694	6
4	Chadormalu Mining and Industrail Co.	3,448	3
5	Parsian Bank	3,382	3

Turkey's President, Abdullah Gul, paid a four day visit to Iran in February. The visit was a continuation of efforts made by the two countries in order to boost economic cooperation.

135 government officials, 100 businessmen, and 25 journalists accompanied President Gul during his trip to Iran. During the visit, he was engaged in a series of talks and conferences aimed at promoting economic relations between the two countries. During the discussions, the two Presidents vowed to increase the amount of bilateral trade up to \$30 billion per annum. The trade balance of the two countries amounted to \$10 billion last year. The Iranian President called for Turkish companies and business leaders to participate in some of Iran's major development projects including in sectors such as housing & construction, railways, and oil and gas.

In their meetings with the Iranian officials and businessmen, the Turkish officials also visited Isfahan and Tabriz. Isfahan is a historical city in the center of Iran and Tabriz is a major industrial city in the north-east of the country. This consisted of a number of meetings and conferences with the business owners and managers along with a visit to the historical sites of these two cities.

The discussions on politics were centered on recent upheavals in the Middle East. The Turkish President had announced that Iran's nuclear program would not be a topic of discussion during the trip. Turkey has previously served as a mediator regarding Iran's nuclear program, and had agreed to be the point of transfer for uranium. The last round of nuclear talks between Iran and the Western powers was held in Istanbul in January.

Since 1926, when Iran and Turkey signed a "treaty of friendship", the two countries have cooperated on various grounds. Before the Islamic revolution of Iran, the two countries were members of the Central Treaty Organization (CENTO) along with Iraq, Pakistan, the UK, and the US. The organization served as a safeguard against communism. After the Islamic revolution, CENTO was dissolved and the relationship between Iran and Turkey be-

came more tense because of the international environment. After the collapse of the former Soviet Union, Turkey and Iran began to compete in increasing their political influence in the newly-formed Central Asian countries. This competition was gradually replaced by joint efforts to tackle the regional challenges, especially after a more Islamist-leaning government came into power in Turkey.

* * * * *

In February, it was announced that the Ministry of Housing and Urban Development, and the Ministry of Roads and Transportation are to be merged. The announcement was made following a series of developments in the two ministries over the past few months.

On February 1st, members of the parliament questioned the Minister of Roads and Transportation following a series of problems in the ministry. The foremost of these issues has been the continuous problems in the airline industry. The Minister and the President did not attend the questioning in the parliament. Analysts attribute their absence to the President's disagreement with the parliament's decision and the series of disputes between the government and the parliament. Mr. Behbahani, who had also been President Ahmadinejad's PhD supervisor, served as Minister of Roads and Transportation from August 2008 to February 2011. Out of the 234 members of the parliament, 147 members voted for Behbahani's impeachment. Following the impeachment, the President announced his dissatisfaction with the parliamentary decision on various occasions and described the decision as unlawful.

The impeachment was immediately followed by the President's announcement of a plan to merge the Ministry of Housing and Urban Development with that of Roads and Transportation. The President also appointed Mr. Nikzad, Minister of Housing and Urban Development, as the acting Minister of Roads and Transportation. The government has related the merger to the fifth development plan which obliges it to reduce the number of ministries from 21 to 17. The merger will need parliamentary

approval before becoming law. A number of parliament members have already expressed their disagreement with the merger of the two Ministries. Despite this, a number of Housing Ministry officials have already been relocated to the Roads and Transportation Ministry building.

Analysts believe that the merger announcement is also linked to the President's unhappiness at the impeachment of the Minister of Roads and Transportation, and the series of disagreements between him and the parliament. The disagreements also stemmed from January following the abrupt dismissal of the Foreign Minister during a trip to Africa. This had resulted in significant objections from members of the parliament.

Completion of Iraq's Iranian-built Power-plant

In February, the Iranian-built Al-Sadr power plant in Iraq became ready to come on stream. The project commenced in October 2007 and consists of two units, the first of which has been completed and is awaiting fuel supply. The plant has a 324 Mega Watt capacity and the second unit is to be completed within the next month.

Iran and Iraq have been engaging in a number of initiatives to improve their bilateral economic ties. Iran has announced that it plans to build 11 more power-plant units in Iraq and increase its electricity exports to Iraq from the current 800 Mega Watts to over 1 Giga Watt. The increase in electricity exports is to be achieved through the Karkheh-Aleamarah power-line. This 400-KiloVolt power line extends to over 150 kilometers between Iran and Iraq, and is currently under construction.

The value of Iran-Iraq trade stood at \$3 billion for the last Iranian year and is expected to reach \$4 billion this year.

Latest Oil and Gas Developments

In February, the second phase of the development project for Darkhovin oilfield was inaugurated. Darkhovin oilfield is located in the south-west of Iran and is to be developed in three phases. The second development phase cost \$1.3 billion and increased the oilfield's production capacity by 110,000 barrels per day.

The development project for Darkhovin oilfield consists of three phases. The first phase came on stream in 2005 with a cost of \$550 million and had a production capacity of 50,000 barrels per day. Both first and second phases were jointly built by Italy's ENI Group and Iran's Naftiran Intertrade Company (NICO).

The contract for the third phase has been granted to a domestic consortium. An Iranian bank, Tejarat Bank, will be financing the third phase. The oilfield will have a production capacity of 200,000 barrels of crude oil and 280 million cubic feet of natural gas per day upon completion of the third phase.

Iran's Top 300 Companies in 2010

In February, the top 300 Iranian companies (IMI

300) in 2010 were announced by the Industrial Management Institute (IMI). Each year, IMI publishes a ranking of top Iranian companies based on total sales. The ranking has been published for 13 years.

This year, the top five companies in the rankings were Iran Khodro Co., Isfahan Oil Co., Saipa Corp., SAPCO and Parsian Bank. Of these top five companies, three belong to the automotive industry, one is a bank holding company and one is an oil refinery company. The sales totals of the top 100 companies on the list range from \$12.8 billion for the top ranking company, Iran Khodro Co., to \$318 million for the 100th company.

According to the report, out of the 22 industries represented in the rankings, the best performing industries, in terms of total sales, were the banking and automotive sectors. The worst performers were home appliances and electronics. In terms of gross profit margin, mining, telecommunications, and oil and gas exploration & production were the best performing industries.

Also, a comparison of the top 100 Iranian companies and the Fortune 500 in 2009 indicated that the gross profit margins of the top 100 Iranian companies were almost double those of the Fortune 500. For Fortune 500 companies, the average gross profit margin was 6.9% and for the Iranian companies, it was 13%.

According to Fortune's list, the top performing industries worldwide were software companies with a gross profit margin of 28% followed by pharmaceuticals, healthcare, tobacco, and oil and mining. The sector with the highest profit margin among the top 100 Iranian companies in 2009 is mining, with a margin of 58%. The mining companies in the Fortune 500 had a gross profit margin of 11%. After mining, other industries with highest margins are base metals, and telecommunications.

Privately-owned Power Plant to be Built

In February, the construction of a privately-owned power plant began in Eshteharod industrial park. The industrial park is located 123 kilometers west of Tehran and provides tax benefits to the

companies established there. The 7-Mega Watt Shahid Esmaili power plant is equipped with the Combined Heat & Power (CHP) system. CHP is a system that involves the recovery of waste heat from power generation to form useful energy for other purposes such as heating. The system increases the efficiency of the power plant to more than 1.5 times that of traditional power plants.

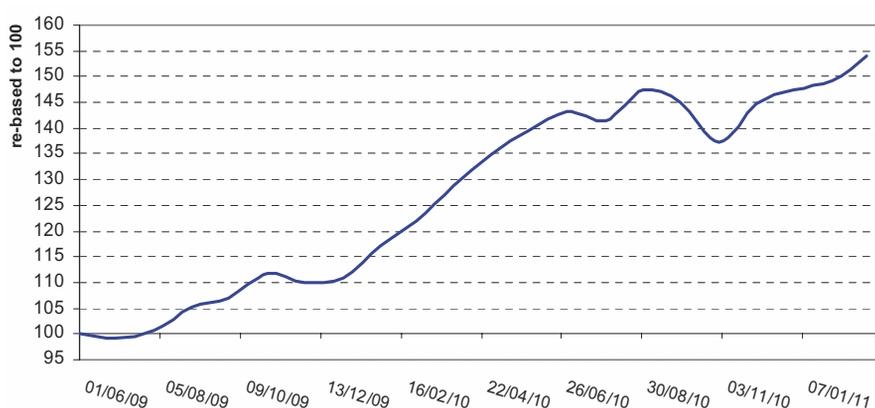
The construction of this power plant comes at a time when the country is in transition due to the removal of energy subsidies. Experts believe that following the launch of the subsidies reform plan, the electricity industry will undergo significant changes and will become more appealing to private investors.

Also in February, the Tehran municipality signed a contract with private investors to construct the first solid waste power plant. The plant has the capacity to burn 300 tonnes of solid waste per day and will become operational within the next year. Iran's electricity production capacity currently stands at 60.7 Giga Watts, a 15% increase compared to 2009 which was 52.9 Giga Watts. This makes the country the largest electricity producer in the Middle East.

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.

Class A		NAV = 154.1
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

Class A Performance (Euro) - As at 28th February 2011



Period	Portfolio Return
Last Month	3.2 %
Last 3 Months	6.6 %
Last 6 Months	4.5 %
Last 12 Months	26.4 %
Since Inception (01 June 09)	54.1 %

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

About Turquoise

Turquoise is a boutique investment firm 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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