



Olse-belangah (Masal), Gilan province, Iran

Market Overview _____ **2**

The Tehran Stock Exchange (TSE) experienced its best monthly performance of the year so far over the course of April. The equity market outperformed all parallel investment classes such as gold, real estate and foreign exchange market. Also, many active players have been tempted to take advantage of the lag between the dollar value appreciation and stock market growth. In general, analysts believe that the TSE will continue its positive trend in the coming months, if the political environment within the country remains unchanged.

Country Overview _____ **5**

Candidates for the 2013 presidential elections and recent earthquakes in Iran will be discussed in this section.

Economy _____ **7**

Iran's economy outlook in 1391 and its property boom during the same period will be covered in this section.

Following the continuous upward trend of the Tehran Stock Exchange in the first three months of 2013, the TSE All-Share Index grew by 10% in April, making it the best performing month of the year. The 2013 year to date performance of the TSE stood at 16% at the end of April; this represented a lackluster performance by the equity market against parallel investment classes such as gold, real estate and even foreign exchange. Market players are now tempted to take advantage of the lag between the appreciation of the dollar value (a 300% increase in two years) and the stock market growth, since the stock market's performance has not kept pace with the value of foreign currency. Overall, analysts believe that the TSE will continue its positive trend in the coming months, if the political environment of the country remains unchanged. However, the Iranian presidential elections and the continuation of nuclear talks with the West can influence the country's political climate.

In April, the negotiations between Iran and the West over Iran's nuclear program were viewed as representing progress by both parties. However, the stock market did not have a significant reaction to the outcome and most market players were indifferent to the news. In addition, there are no signs of further improvements in negotiations until the Iranian presidential elections take place in June.

Some of the sectors and events of the market are examined in more detail below:

Petrochemical

In April, the petrochemical and refinery sectors were the leaders of a positive run in the stock market. Parliament's resistance in regards to the implementation of the second phase of the subsidies reform plan on the one hand and the uncertainties about macro economic factors until the Presidential elections on the other hand, have minimized the possibility of price increases in natural gas (the main feedstock for petrochemical production). Therefore, petrochemical companies still have the luxury of purchasing feedstock at the preferential local rate and selling their products

at the global market rate, leading investors to expect higher returns from this sector. In addition, despite international sanctions, Iran's export of petrochemical products has increased significantly since the European sanctions were imposed in the summer of 2012. In 2012, Iran's urea exports reached over 2.5 million tons, a 22% increase compared to the previous year. Also, methanol exports recovered in 2012 after its 40% drop in 2011. This indicates that petrochemical companies are adapting to Western sanctions by finding new approaches to facilitate international transactions. The index for the entire petrochemical industry was up by 15% in April.

Refinery

The refinery industry outperformed all other sectors and was the most active sector of the TSE. The sector index rose by 33%, its best monthly performance in the history of the stock market. Profit forecasts of refining companies increased significantly for the upcoming Iranian calendar year 1392, as a direct result of accounting the official currency room rate (IRR 25,000) instead of the old Central Bank rate (IRR 12,260) in their earnings projections. According to the latest regulation by the government, from this point onwards the currency room rate (twice the official rate) would be the basis for feedstock and sales prices in the refinery sector. As a result, reports published by companies in this sector outlined a 100% increase in their profitability compared to previous forecasts. In addition, according to the Budget Act, listed companies in this sector are obliged to pay 26% of their export revenues to the National Development Fund (NDF). There have been rumors about the removal of this payment to the NDF which according to analysts would double the projected earnings of refining companies this year. Some analysts believe that the approval of this act might be less likely given the Iranian governments' budget shortfalls. However, despite the uncertainties, positive investor sentiment towards this sector continued in April. Following the sector's tremendous performance this month, the P/E ratio of the refinery sector stood at 18 at the beginning of April. As companies revised their earnings forecasts, stocks of this sector were still

trading at P/Es of around 10, still twice the average PE of the overall market (5.8).

Cement

The seasonal popularity of the cement sector is nothing new in the stock market's history. In recent months, this sector has been highly attractive as an investment proposition, resulting in strong price rallies across the sector. In April, the release of positive annual earnings reports from listed companies in this sector resulted in heavy buying queues. There were two main reasons that contributed to this positive performance. Firstly, there was the replacement of the official Central Bank rate with the currency room rate (almost double the official rate) in exporting cement products, which led to favorable revenue reports by companies in this industry. Secondly, there were rumors about ratifying a 20% increase in the price ceiling of cement products; this came as very welcome news to investors. The above mentioned factors along with the high replacement value of this sector indicate that recent stock price rallies of cement companies can be justified for fundamental reasons. Analysts predict that the cement sector has the potential to be amongst the best performing sectors of the TSE this year.

Smaller Sectors

Stocks of some small industries such as producers of glass, rubber, detergents, home appliances, tiles and ceramics have been the laggards of the market in the past decade or so. In April, however, investors witnessed signs of recovery in these sectors. Annual reports of these companies indicate some drastic improvements in the performance of such industries, mainly as a result of appreciation of all major currencies against the Rial. The weakening of the Rial has led to an increase in the prices of products in these industries and has created further exporting opportunities for smaller sectors of the market. Some of these industries are operating with full capacity in order to take advantage of the current circumstances. Therefore, companies in this sector experienced a leap in their share prices following their positive earnings adjustments

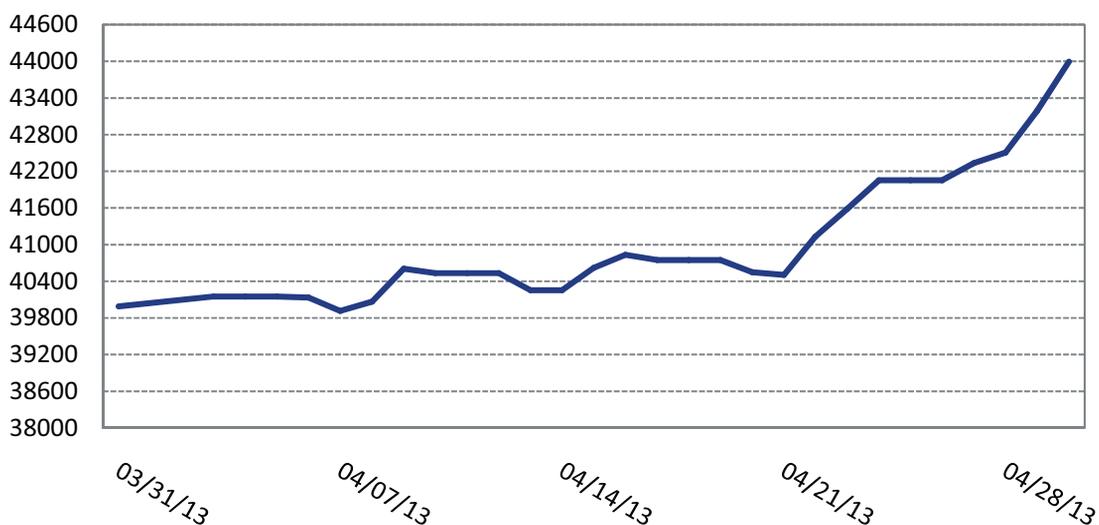
reports. In line with this, the index of the rubber, home appliances and tile sector grew by 32%, 11% and 11% respectively. Many analysts believe that stocks of these companies will continue to soar if the current foreign exchange market remains unchanged.

IPO

On 20th March, a 5% stake in Iran's largest petrochemical holding company (named the Persian Gulf Holding Company) was offered as part of the state's privatization program but failed to attract investors as it was deemed too expensive by the market. In April, the Iranian Privatization Organization offered stocks of the Persian Gulf holding once again with a 25% price adjustment compared to its initial offering in March. The IPO took place at a P/E of 6.36 and a market capitalization of 5.3 billion dollars (based on the unofficial rate). The 5% offering of the company's share raised up to 265 million dollars from the market, the largest offering in the history of the Iranian capital market. Institutional investors showed stronger interest in this listing than individual investors. Some market players believe that the 2 billion dollar loan to banks sitting in the company's balance sheet is a major risk factor for owners of this stock. This holding consists of 15 government-owned petrochemical companies which are the core strategic suppliers of feedstock and supplementary equipment for the Iranian petrochemical industry.

Overall, the month of April was considered to be a period of growth in the market. The TSE All-Share Index gained 10% In April. Trade volumes stood at \$5.7 billion, growing by 128% in comparison to the previous month.

Performance of TSE All-Share Index (April)



Market Statistics	
Average P/E	6.0
Trade Volume (\$ Billion)	5.7
Trade Value Monthly Change (%)	128
Market Cap (\$ Billion)	179

Top 5 Traded by Value

Rank	Company Name	Turnover Value (\$Million)	% of Total Turnover
1	Khouzestan Steel Co.	2,852	50
2	Persian Gulf Petrochemical Industry	862	15
3	Isfahan Oil Refining Co.	522	9
4	Bandar Abbas Oil Refining Co.	310	6
5	Parsian Oil and Gas Development	166	3

Top 5 Companies by Market Cap

Rank	Company Name	Market Cap (\$Million)	% of Total MC
1	Persian Gulf Petrochemical Industry	16,626	9
2	Bandar Abbas Oil Refining Co.	10,476	6
3	Isfahan Oil Refining Co.	9,866	6
4	Isfahan Mobarakeh Steel Co.	9,461	5
5	Telecommunications Co. of Iran.	9,111	5

All figures quoted in USD in this Newsletter are calculated based on the Central Bank of Iran's official USD/IRR exchange rate of 12260, as at 30 April 2013

Candidates 2013 Presidential Elections:

In May, a total of 686 candidates officially registered at the Ministry of Interior to compete to become the Islamic Republic's eleventh President. Figures from different factions in Iranian politics took part in the registration process including conservatives as well as reformists. The President's preferred candidate and top advisor, Esfandiar Rahim Mashaei and the country's former two-time President and political heavyweight Ayatollah Akbar Hashemi Rafsanjani registered during the final moments of the registration period. Among the registrants, the most well known candidates aside from Mr. Rafsanjani and Mr. Mashaei included Mr. Ghalibaf, who is currently the Mayor of Tehran, Mr. Jalili, the current Secretary of Iran's Supreme National Security Council, Mr. Rowhani, the former Secretary of Iran's Supreme National Security Council and a current member of the Expediency Council, and Mr. Velayati, a former Minister of Foreign Affairs and a top advisor on international relations to the Supreme Leader.

The President of Iran is elected for a four year term and the Guardian Council vets the candidates in order to determine whether or not they have the qualifications to become President. The Iranian constitution specifies that presidential candidates must be religious or political figures, be Iranian in origin, have Iranian citizenship, possess resourcefulness and managerial skills, have no criminal record, be trustworthy and devout, and have firm beliefs in the fundamental principles of the Islamic Republic of Iran and the country's official religion. The constitution also bars Presidents from registering for a third consecutive term after they have held the position for two four-year periods; consequently, Mr. Ahmadinejad cannot run for another term.

After a review period of ten days by the Guardian Council, the final list of candidates who are approved to run for the Presidency were announced by the Ministry of Interior. The list included the names of eight candidates: Mr. Hassan Rowhani, Mr. Mohammad-Reza Aref, Mr. Saeed Jalili, Mr. Gholam-Ali Hadad Adel, Mr. Mohsen Rezaei, Mr. Mohammad Gharazi, Mr. Mohammad-

Bagher Ghalibaf, and Mr. Ali-Akbar Velayati. The candidacy of Mr Rafsanjani, who is one of the Islamic Republic's best known figures, a close companion of the late Ayatollah Khomeini and the current head of the Expediency Council, was not approved. The Guardian Council cited age as the reason behind Mr. Rafsanjani's disqualification as he is 79 years old. Mr. Ahmadinejad's hand-picked candidate, Mr. Esfandiar Rahim Mashaei was also not amongst the list of candidates allowed to run in the race; this was expected since Mr. Mashaei had come under fire from many prominent figures in the conservative camp due to his so called deviant ideologies.

The elections are set to take place on the same day as the local council elections, namely on June 14, 2013.

Recent Earthquakes in Iran:

In recent months, a series of earthquakes shook different regions of the country. Iran is one of the most susceptible countries to earthquakes as it is crossed by a large number of major fault lines. These lines cover 90% of the country and earthquakes of medium to high magnitude occur on a regular basis.

In April 2013, two earthquakes occurred in Bushehr and Sistan Baluchestan in the South West and South East of the country.

On April 9, 2013, a 6.3-magnitude earthquake struck the Iranian province of Bushehr, near the city of Khvormuj and the towns of Kaki and Shonbeh. At least 37 people were killed and an estimated 850 were injured by the earthquake. Most of those killed were in the town of Shonbeh and villages of Shonbeh-Tasuj District.

According to the governor of the province, around 1,000 homes were damaged, affecting more than 200 families. Many residents lost power and water services and fled to the streets in search of safety as aftershocks occurred on a frequent basis. Iran's Red Crescent Society sent five teams to Bushehr Province to coordinate rescue efforts. Several helicopters from nearby provinces helped airlift

in emergency supplies. Three days of national mourning were announced on April 9.

The Bushehr earthquakes raised concerns in regards to the possibility of damage to Iran's sole nuclear power plant in the area. However, officials quickly announced that the Bushehr nuclear power plant was not damaged and that the earthquake had not affected the normal situation at the reactor. They announced that the workers continued to work in normal conditions and that radiation levels were within safe limits. The officials continued to mention that the power plant has been designed to withstand earthquakes up to a magnitude of 8 on the Richter scale.

A few days later, on 16 April 2013, an earthquake of magnitude 7.8 struck between the cities of Saravan and Khash in Sistan and Baluchestan Province of Iran, close to the border with Pakistan. This was the strongest earthquake in Iran for the past 50 years. According to the Iranian Red Crescent, all communications in the area were cut, and rescue teams were dispatched immediately after the quake.

People evacuated buildings in Karachi, Pakistan, after feeling the earthquake. The authorities in Iran had initially feared hundreds of deaths from the 7.8-magnitude earthquake, but scaled back their assessment as it became clear that its depth, initially reported to be only about 10 miles beneath the surface, was more than 56 miles beneath and that the center of the quake was in a remote and inhabited area of the province. One death was reported in Iran due to the earthquake; however, there were a number of casualties across the border in Pakistan and the quake was felt as far away as the United Arab Emirates, Kuwait and the Eastern regions of Saudi Arabia.

These earthquakes occurred after a series of earthquakes also shook the cities of Ahar and Varzaqan in Iran's East Azerbaijan Province, on August 11, 2012. The two earthquakes measured 6.4 and 6.3 on the Richter scale. Reports stated that 306 people were killed and more than 3,000 were injured, primarily in the rural and mountainous areas to the northeast of Tabriz.

Iran’s Economy in 1391

Below is a summary of some key statistics and economic indicators for the Iranian calendar year 1391 (which ended on 19th March 2013).

Imports and exports

According to the latest statistics, in 1391, Iran’s total imports amounted to 53.3 billion dollars, which shows a decrease of 14% in comparison to the previous year. The top 5 exporters to Iran were the U.A.E (\$10.2 billion), China (\$8.1 billion), Republic of Korea (\$4.8 billion), Turkey (\$3.7 billion) and Switzerland (\$3.3 billion). Imports to Iran were from 156 countries, out of which 72% was from Asia, 27% from Europe and the remaining 1% from other continents.

Iran’s total non-oil and gas exports in 1391 amounted to 41.3 billion dollars, showing a 6% cut in comparison to the previous year. The top 5 importers of non-oil and gas Iranian goods were Iraq (\$6.25 billion), China (\$5.5 billion), the UAE (\$4.22 billion) Afghanistan (\$2.88 billion) and India (\$2.6 billion). Non-oil and gas exports in 1391 were to 156 countries, and more than 95% of Iran’s exports were to Asia and the Middle East.

Revenues from Crude Oil

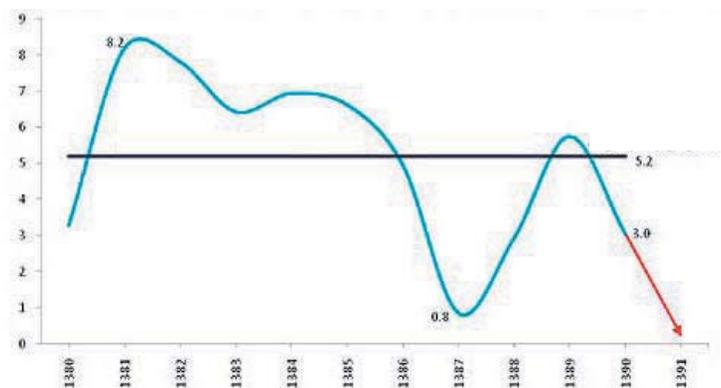
Total revenues from the export of crude oil in 1391 are estimated to be approximately 45 billion dollars, showing a 51% decrease from the previous year. The Central Bank of Iran announced that total oil revenues in autumn this past year compared to the same period in 1390 have decreased by 43%. The average price of Iran’s crude oil over the year was estimated to be around \$ 101 per barrel. The country’s average crude oil production in 1391 stood at 2.9 million barrels per day, showing a decline of 17% in comparison to 1390. Iran’s average daily export of crude oil was approximately 1.2 million barrels per day (excluding gas by-products). Iran’s crude oil exports and revenues fell to its lowest level since 1986, as the US and the European sanctions have tightened this past year. However, according to the Central Bank the Rial

value of Iran’s oil revenue has increased over the past year as a direct result of Rial devaluation. During the first 9 months of 1391, Iran’s total oil revenues in Rial terms reached IRR 112.1 trillion, a 7.5% increase compared to the same period of the previous year.

Economic Growth, Inflation and Unemployment

The actual GDP value for the calendar year 1391 has not been released yet. However, the latest reports estimated that Iran will experience a zero or negative GDP growth rate of this past year. Some analysts have estimated a negative growth rate of around 3%. Iran’s GDP growth in 1390 was 3%. Experts believe that tightening US and European sanctions (which have impeded trade, shipping and banking transactions), exchange rate fluctuations, plummeting oil revenues, and also the government’s inefficient monetary policies are the main reasons for the economic slowdown in Iran during 1391.

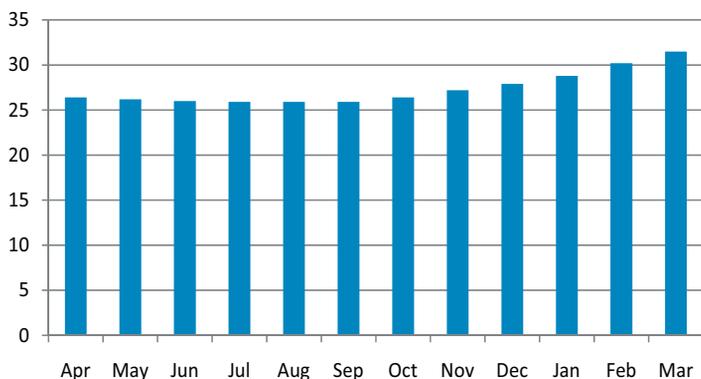
Iran’s GDP growth rate



The latest statistics published by the Central Bank of Iran revealed that the average annual inflation rate at the end of 1391 was at 30.5%, with a point to point inflation rate of 40.6%. Further devaluation of Rial against all major currencies was the main reason for the high inflation rate. Furthermore, the bank deposit interest rates were below the inflation rate throughout the year, causing an outflow of liquidity from the banks into hard currency, gold, real estate, stock market and other investment opportunities; this had an inflationary impact. The country’s monthly

inflation growth rate stood at above 25% in the last 5 months of 1391.

Inflation



According to the latest report by the Statistical Center of Iran, the unemployment rate at the end of 1391 was at 12.2%, showing a 0.1% decrease from the year before. This rate was at 11.5% in 1384, meaning that the unemployment rate in Iran has increased over the past 8 years.

Exchange Rate:

1391 was one of the most eventful years on record for the Iranian Rial. The unofficial US Dollar exchange rate against the Rial had increased by 80% at the end of the year. The pressure started at the end of summer when a series of events including new round of sanctions against the Central Bank of Iran, pessimism regarding negotiations with the West and a steep drop in Iran’s oil revenues triggered unprecedented turmoil in the currency market and the unofficial Rial rate tumbled against all major currencies. In September, the government introduced a currency room rate of IRR 25,000 in order to stop the Rial from sliding any further by making importers fulfill their foreign currency requirements through this room; this would result in less people turning to the unofficial market for their hard currency requirements. The outcome of this plan was not as expected, and in October the weakening of the Rial accelerated; it even reached around IRR 40,000 at one point. The falling trend reversed for a while and in November, the Rial value appreciated once again to around IRR 28,000-29,000. Eventually, the intervention by the Central Bank calmed the

market and stabilized the exchange rate to some extent. Since February, the unofficial US dollar rate has been around IRR 35,000.

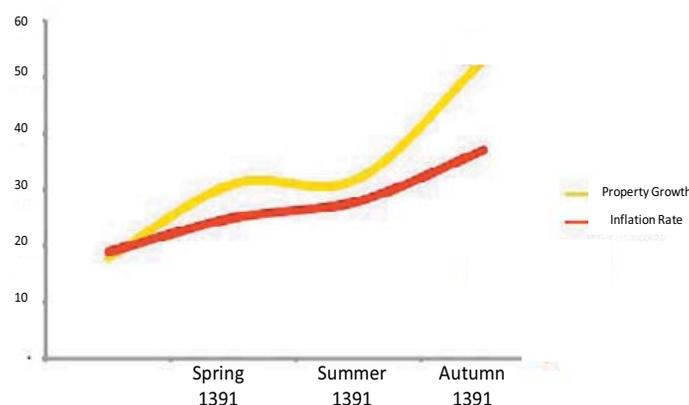
The government has put the blame for the currency collapse on Western sanctions. But some hard-line critics say that the fault mostly lies with the monetary policies of the government. The US government, which is leading the sanctions, has also pointed the finger at Iran’s economic management.

	1390 (IRR)	1391(IRR)
US\$ value at the beginning of the year	11,000	19,000
US \$ value at the end of the year	19,000	34,300
Annual \$ value growth rate	73%	81%
Lowest \$ price during the year	11,000	15,700
Highest \$ price during the year	21,000	40,000
Difference between lowest and highest \$ value	91%	155%

Iran property boom beats inflation rate

According to a report published by the Statistical Centre of Iran, in the autumn of 1391, housing prices in Tehran increased by 52.8% compared to last autumn, recording the largest property boom since 1386. Rental prices also experienced a 33.5% increase in the same period.

After the 1386 property boom, where housing prices increased by around 86%, in recent years housing prices had not experienced average growth of above 30% annually; this figure is considered to be a moderate growth rate as it is somewhat in-line with the country’s annual inflation rate. But as shown in the graph below, the gap between property growth and Iran’s inflation rate has been growing over the past year, particularly over autumn.



House prices showed an increase of 31% in spring, 32.2% in summer and 53% in autumn compared to the same periods in the previous year. Iran's point to point inflation rate increased by 22.4% in spring to 27.4% in autumn. During 1391, the gap between property inflation and the country's annual inflation rate widened from 6% in spring to 16% in autumn.

Analysts believe that the housing boom is partially as a direct result of increases in the price of housing materials and land, which was triggered by the cut in fuel subsidies and the sharp drop of Rial against all major currencies. In addition, the huge amount of liquidity, which has reached over IRR 450 trillion in the past eight years, has contributed to high house prices.

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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.

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