



Koohrang, Chaharmahal Bakhtiari province, Iran

Market Overview _____ **2**

The Tehran Stock Exchange (TSE) continued its upward trend in early August, but the positive trend didn't last throughout the month and the index entered into a price correction phase in the second half of August. The Syrian crisis was the main reason behind the market's weaker performance. The market's average price to earnings (P/E) ratio reached 6.7, one point higher than the market's long-term average.

Country Overview _____ **5**

Post election changes in Iran, the country's foreign relations and the new government will be discussed in this section.

Economy _____ **7**

Iran's ranking of 88th in the Global Competitive Index, its cement output in the first five months of the current year and the country's oil exports in July are covered in this section.

The Tehran Stock Exchange (TSE) continued its upward trend in early August, particularly after the approval of President Rouhani's economic team by the Iranian Parliament. This team appears to be a coordinated, strong, efficient team representing a moderate government. However, the positive trend didn't last throughout the month and the index entered into a price correction phase in the second half of August. Although the TSE index delivered an overall positive performance, gaining 2.4% in value over the course of August, investment sentiment began to change and the main index fell by 5% in the second half of the month. The Syrian crisis was the main reason behind the market's weaker performance. As a result, the Tehran Stock Exchange Main Index (TEPIX), failed to surpass an all time high of 60,000 index points and fell to 57,000 points at the end of the month. The market's average price to earnings (P/E) ratio has reached 6.7, one point higher than the market's long-term average. In other words, stocks have become less attractive to investors looking for excess returns in the short-term. In addition, companies' profitability growth, which has been driven by foreign currency appreciation over the past two years, has been limited due to the recent stability of foreign exchange prices. As a result, analysts believe that transformations in the country's political and economical policies are required to change the bearish momentum of the market.

Some of the industrial sectors are examined in more detail below:

Banking

The recent speculation regarding the increase of deposit interest rates influenced the banking sector this month. The new Central Bank governor and the Minister of Economy and Finance of Iran signaled that interest rates need to rise in order to tackle inflationary pressures. Year-on-year inflation is running at around 30% which means that, in real terms, Iran has negative interest rates. According to the authorities, by raising savings deposit interest rates, banks will be able to absorb some of the excess liquidity in the market. However, even with current interest

rates, the total cost of funds (or cost of borrowing) for banks is nearly 25%, including the statutory reserve regulated by the Central Bank. Given their high cost of borrowing, banks are having a difficult time finding credible clients (with a smaller likelihood of default risk) for their bank loans in the current economic environment. On the whole, the banking sector reacted negatively to the news and the sector index dropped by nearly 10% in the second half of August. This sudden change in investor sentiment triggered sell-offs across the banking sector after its exceptional growth of approximately 100% so far this year.

Cement

In mid August, Iranian accounting standards in regards to foreign exchange losses on foreign currency denominated loans were adjusted, mainly due to the three-fold increase in the value of foreign currency over the past two years. According to the new standards, the foreign exchange losses on loans will be listed under the asset portion of the balance sheet (through asset revaluation) and it will be depreciated over time. Prior to this change, this item was recorded as a non-operating expense, reducing the retained earnings of a company. This news was embraced by companies with huge exchange rate losses, and particularly those in the cement sector which are one of the largest holders of foreign loans in their balance sheets. As a result of this development, the cement sector index gained 6% in value in the second half of August.

Petrochemical and refining

Without a doubt, 2013 had been a year of unrivalled prosperity and growth for both the refining and also the petrochemical sectors. However, in order for these companies to sustain such prosperity, the new government needs to clarify some ambiguities in regards to its economic policies that will impact the profitability of companies in these sectors. In the petrochemical sector, the uncertainties regarding the gas feedstock prices could threaten the stock prices of companies in this sector in the short term. Managers of these companies are

trying to negotiate the price of their feedstock with the Oil Ministry in order to adjust it from what was passed before by Ahmadinejad's government. The decree by the Oil Ministry (during Ahmadinejad's presidency) stated that the price of sweet natural gas should be set to 13 cents and petrochemical companies that export their products should be obliged to make their payments for feedstock in foreign currency. The new government, however, has not commented on its position towards the matter. In August, the share price of petrochemical companies slipped by 2.5% (on average) under the shadow of this uncertainty. On a separate note, trading in stocks of some refining companies was suspended during August, blocking investors' capital for a long-time. Both refining companies and the government are trying to reach agreement on determining the pricing policy of both feedstock and products. Currently, refining companies have used their own pricing assumptions in estimating their earnings forecasts. Bandar Abbas, the biggest listed refining company, serves as a prime example of the sector's optimistic outlook. This company, increased its profit forecasts by three times in a report released in August, resulting in a 63% hike in its stock value after its trade suspension this month. The overall index of oil and oil refinery products grew by 21% to become one of TSE's best performing sectors in August. Nonetheless, the government remains tight-lipped on the pricing policies refining companies have considered in their forecasts. Therefore, current earnings forecasts are subject to significant changes once the government reveals its proposed pricing policy.

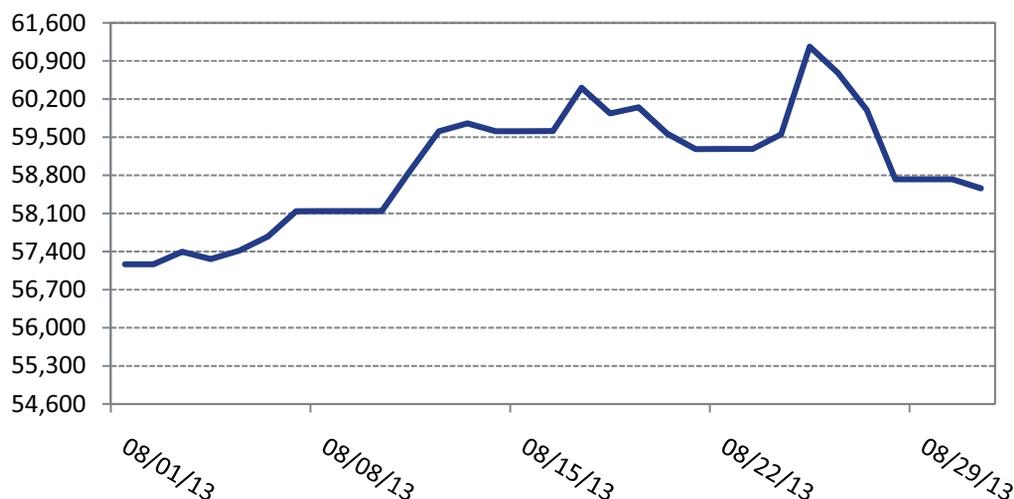
Other Industries

Although, the recent economic development plans suggested by Rouhani's government might bring about positive signals for the macro economic outlook of the country (particularly in curtailing inflation), some equity investors have been jittery over a number of the proposed policies. Speculation regarding the implementation of some of these policies dented investor's confidence in some sectors. During this month, investors limited their

exposure to the telecommunications sector after the Minister of Communication and Information Technology refused to increase the landline and cell phone tariffs. Stocks of these companies witnessed selling queues and the sector index plummeted by more than 5% in the second half of August. On a separate note, the Minister of Industry, Mine and Trade's announcement in regards to foreign currency allocation for importing essential goods and pharmaceutical products at the subsidized exchange rate (IRR 12,260) was criticized by some market players. Prior to this announcement, stocks of companies in the food, sugar and pharmaceutical sectors have enjoyed exceptional price gains from the removal of the subsidized exchange rate (one-third of the unofficial market rate) on imported goods, mainly because of their price advantage over imported items. On the back of this news, the share prices of companies in the food and pharmaceutical sectors dropped by 9.7% and 2.4% respectively. Analysts believe that investors are likely to remain cautious and risk-averse towards these sectors in the near term.

Overall, the month of August was a period marked by increased volatility for the TSE, with the main index growing in the first half of the month and plummeting in the second half. However, the overall performance of the market culminated in a 2.4% rise.

Performance of TSE All-Share Index (August)



Market Statistics	
Average P/E	6.0
Trade Volume (\$ Billion)	2.5
Trade Value Monthly Change (%)	- 49
Market Cap (\$ Billion)	116

Top 5 Traded by Value

Rank	Company Name	Turnover Value (\$Million)	% of Total Turnover
1	Tamin Petrochemical Co.	344	13
2	Shiraz Petrochemical Co.	259	10
3	Iran Power Plant Projects Management Co.	188	7
4	Bandar Abbas Oil Refining Co.	127	5
5	Saderat Bank	66	3

Top 5 Companies by Market Cap

Rank	Company Name	Market Cap (\$Million)	% of Total MC
1	Persian Gulf Petrochemical Industry	8,734	4
2	Bandar Abbas Oil Refining Co.	6,628	3
3	Isfahan Mobarakeh Steel Co.	5,052	2
4	Isfahan Oil Refining Co.	5,051	2
5	National Iranian Copper Industries Co.	4,807	2

All figures quoted in USD in this Newsletter are calculated based on the Central Bank of Iran's official USD/IRR exchange rate of 24790, as at 31 August 2013. Due to Central Bank's revision on the official exchange rate of the Rial, their equivalent value in USD has reduced dramatically.

Post Election Changes in Iran

Despite President Rouhani having been in office for no longer than two months, a change in atmosphere amongst the Iranian people and government can already be felt.

The first change of behavior which can be seen from the new government is various cabinet members' registration and membership in social media networks such as Facebook and Twitter, which enables these government officials to have direct contact with people all over the world. Several Ministers and the President himself seem to be involved in this new attitude towards social media. The Iranian Foreign Minister, Javad Zarif, is one of the most active ministers in this field. Mr. Zarif was the first Minister to join Facebook and officially announced to the public's surprise, that in fact the page he has made in this social network website is administered by both himself and also his children who update the page. The Foreign Minister's page on Facebook has more than 280,000 likes to date and many follow his reports which he writes to people from around the world, describing his work schedule and meetings with foreign dignitaries. This is the first time in the Islamic Republic that a Minister has been directly and so closely in touch with the people. Some other members of the cabinet joined Facebook after Mr. Zarif as well.

The President himself does not have a Facebook account but he has been active on Twitter and has reportedly been tweeting personally. Mr. Rouhani has also been reported to tweet a congratulatory message to the Jewish community for the Jewish New Year which caught international observers by surprise. Mr. Zarif, who has his own Twitter account has also reportedly tweeted the same message and wished all Jews, and especially Iranian Jews, a happy new year. This move was seen as a change of attitude in comparison to the discourse of Iran's previous President, Mahmoud Ahmadinejad. The President has also sent his congratulations on Twitter to Shirin Gerami, the first female triathlete to compete for Iran, which he mentioned was a great achievement and a step towards gender equality.

Since access to social networking sites such as Facebook and Twitter are restricted in Iran and the

people usually use proxy software to connect to these websites from within Iran, the mass opening of Facebook and Twitter accounts by Iranian cabinet members is being closely watched by analysts as it could be a sign of change in attitude towards censorship of internet sites.

In line with these recent developments, Iran also appointed its first ever female Foreign Ministry Spokesperson, Ms. Marziyeh Afkham. Ms. Afkham has been following a career in diplomacy and has been working at the Foreign Ministry for 30 years. This is considered a bold move by the ministry to appoint a woman to such a high ranking position amongst conservative hardliners.

All these developments have helped in creating a change of atmosphere in Iran and to some extent the way in which the country is perceived both domestically and internationally.

Foreign Relations and the New Iranian Government

Since the coming to office of the new Iranian government, a few noteworthy events have taken place in the realm of foreign relations. Sultan Qaboos of Oman, Iran's main ally among Persian Gulf states, was the first foreign head of state to visit the country after the inauguration of Mr. Rouhani's government. During the period of the Sultan's visit, the two countries discussed ways to improve energy and economic cooperation as well as regional issues such as Egypt and Syria. While in Tehran, the Sultan met with the Iranian President Hassan Rouhani, Speaker of Parliament Ali Larijani, former Iranian President Akbar Hashemi Rafsanjani, as well as the country's Supreme Leader Ayatollah Khamenei.

The two countries have enjoyed cordial relations for decades and Oman has previously acted as an intermediary between Iran and the West on a couple of occasions as Iran does not have direct diplomatic relations with the US. An example of such mediation has been Oman's assistance with the release of US and Iranian detainees in either country. Due to the close relations Oman has with Iran and the West, as well as a history of mediating between the two sides, many analysts were speculating whether

the Sultan was carrying a message for the Iranian leadership from President Obama although it is not clear whether this was the case.

Generally, the new Iranian government has indicated that it seeks to improve Iran's relations with other states. Its' priorities for this goal are its fifteen neighbours and other countries in the region. The new government has also been keen to defuse tensions arising from the Syrian civil war. Mr. Javad Zarif, the Iranian Foreign Minister recently travelled to Iraq and held talks with the Iraqi Prime Minister, Nouri al-Maleki, as well as with the Iraqi Foreign Minister. The one day trip was due to an increase in tensions and the possibility of US strikes against Syria, and Mr. Zarif and the Iraqi government officials were to discuss its possible outcomes for the region.

The Iranian President also carried out his first foreign trip when he travelled to the Kyrgyz capital, Bishkek, to attend a meeting of the Shanghai Cooperation Organization. While in Bishkek, Mr. Rouhani met with the Russian and Chinese Presidents, Vladimir Putin and Xi Jinping. The heads of state discussed international security concerns such as Syria and emphasized the need for diplomatic solutions to the stand-off with regards to Iran's nuclear programme.

Another development in recent weeks has been the exchange of letters between President Rouhani and President Obama. Mr. Rouhani acknowledged he had received a letter from Mr. Obama congratulating him on his election victory and raising some issues of interest. Mr. Rouhani further stated that he responded to the letters, thanking the American President for his message and relaying Iran's position on the issues raised. Mr. Rouhani mentioned that he thought the tone of the letters he received were positive and constructive.

The highlight of the new Iranian government's international overtures came in late September when the Iranian President and Foreign Minister travelled to New York to attend the annual General Assembly at the United Nations. Mr. Rouhani addressed the General Assembly and in his speech, he restated Iran's position regarding regional and

international issues such as the use of force and sanctions to achieve political goals. He also made a comment regarding Mr. Obama's speech which he had earlier delivered to the General Assembly. Mr. Rouhani stated that he listened carefully to Mr. Obama's speech, and he believes that by creating the right structure, the differences between Iran and the United States can be managed. Mr. Rouhani also met with the French President, Mr. Francois Hollande on the sidelines of the UN General Assembly meeting.

Mr. Zarif, who had travelled to New York a few days earlier, also had a busy schedule filled with meetings and discussions with other Foreign Ministers and noteworthy individuals. Mr. Zarif met with the Foreign Ministers of France, Britain, the Netherlands, Australia, Italy, Switzerland, Japan, Turkey, Oman, Slovakia, Croatia, Georgia, Bulgaria, Portugal as well as the High Representative of the European Union for Foreign Affairs and Security Policy, Ms. Catherine Ashton. The issues of discussion included the improvement of bilateral ties, the Syrian crisis, and Iran's nuclear programme. Mr. Zarif also met with the US Secretary of State Mr. John Kerry after a meeting of the P5+1 where Foreign Ministers of the five permanent members of the United Nations Security Council, plus Germany, were present. This move can be considered as a renewed and more serious push to reach a diplomatic solution regarding the Iranian nuclear programme.

Many analysts were watching closely for a potential meeting between President Rouhani and President Obama, at the United Nations but the encounter did not occur due to so called "complications". Nevertheless, just as President Rouhani was leaving New York to head back to Tehran, the breakthrough came when the Presidents of Iran and the United States talked directly over the telephone after 34 years. President Rouhani and President Obama discussed the Iranian nuclear programme and ways to push negotiations forward, whereby both Presidents mandated their Foreign Ministers with the task of following through with resolving the Iranian nuclear issue. This was perceived in both countries as a historic phone call and an ice breaker given the decades of hostilities between the two states.

Iran ranked 88th in the Global Competitive Index – World Economic Forum

The World Economic Forum released its annual report in September assessing the competitive landscape of 148 economies, providing insight into the drivers of their productivity, innovation and prosperity. Based on the report, Iran has fallen from 62th spot to 88th spot among the 148 states in the Global Competitiveness Index (GCI) in 2013-2014, compared with the 2012-2013 rankings.

Iran’s Global Competitiveness Index

	Rank (out of 148)	Score (1–7)
GCI 2013–2014	82	4.1
GCI 2012–2013 (out of 144).....	66.....	4.2
GCI 2011–2012 (out of 142).....	62.....	4.3
Basic requirements (48.4%)	75	4.5
Institutions.....	83.....	3.7
Infrastructure.....	65.....	4.1
Macroeconomic environment.....	100.....	4.3
Health and primary education.....	51.....	6.0
Efficiency enhancers (43.7%)	98	3.7
Higher education and training.....	88.....	4.0
Goods market efficiency.....	110.....	3.9
Labor market efficiency.....	145.....	3.0
Financial market development.....	130.....	3.2
Technological readiness.....	116.....	3.0
Market size.....	19.....	5.1
Innovation and sophistication factors (7.9%)	86	3.4
Business sophistication.....	104.....	3.6
Innovation.....	71.....	3.2

According to the GCI, Iran’s performance has weakened in some of the important areas of competitiveness. First, the macroeconomic environment has deteriorated over recent years resulting in Iran falling to 100th position in this category, mainly because of the widening fiscal deficit and persistent inflationary pressures. A credible fiscal consolidation plan, accompanied by structural reforms, will be necessary in order to maintain macroeconomic stability in the country. This may prove difficult in times of rising energy prices, as energy subsidies account

for a considerable share of public expenditure. Second, making labor markets more efficient (145th) would allow the country to increase employment in the medium term. At the same time, financial markets (130th) do not efficiently fulfill their role in providing the business sector with the financial means to grow. Moreover, the banking system needs to be stabilized further to build confidence, which at the present is ranked a low 121st.

The most problematic factors to do business in Iran

Policy instability.....	20.1
Foreign currency regulations.....	14.4
Access to financing.....	13.9
Inflation.....	12.6
Inefficient government bureaucracy.....	10.3
Inadequate supply of infrastructure.....	9.0
Corruption.....	5.0
Restrictive labor regulations.....	2.6
Inadequately educated workforce.....	2.5
Poor work ethic in national labor force.....	2.1
Government instability/coups.....	1.9
Tax rates.....	1.9
Insufficient capacity to innovate.....	1.5
Tax regulations.....	1.3
Crime and theft.....	0.8
Poor public health.....	0.1

As shown in the table above, political and policy instability is regarded as the most problematic factor in doing business in Iran. Another major concern is the country’s increasing difficulty in accessing financing, and the country ranks low in terms of the ease of accessing loans (148th) or other sources of financing, either through equity markets (86th) or venture capital (139th).

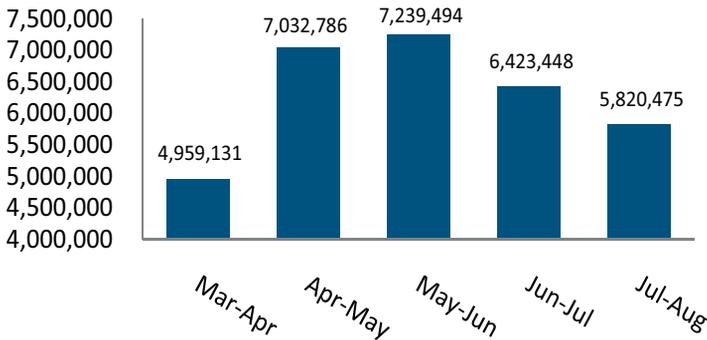
The report findings show that Switzerland tops the overall rankings in the Global Competitiveness report for the fourth consecutive year. Singapore

remains in second position, Finland in third, and Germany is ranked fourth.

Iran Cement Output hit 31.47 million tons

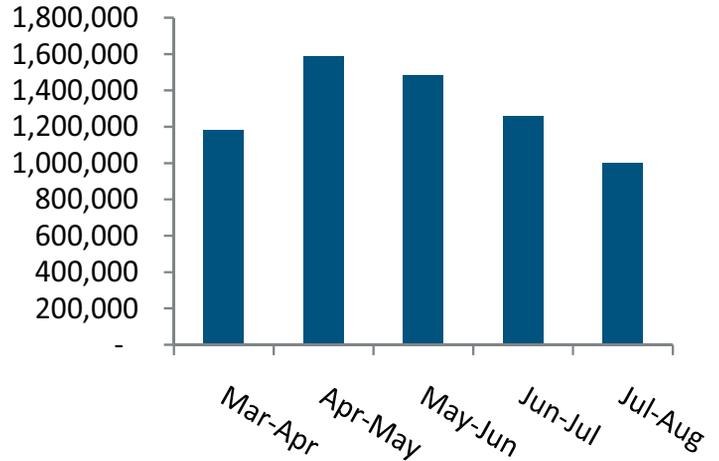
According to Iran’s Cement Producers Association (CPA), the country’s cement output stood at 31.47 million tons in the first five months of the Iranian calendar year 1392, indicating a 3% increase compared to the corresponding period of the previous year. In addition, the country produced some 30.77 million tons of clinker in the same period. More than 77% of the total output (24.23 million tons) was for local consumption and the remaining 23% was exported to neighboring countries.

Iran’s cement production in the first five months of 1392

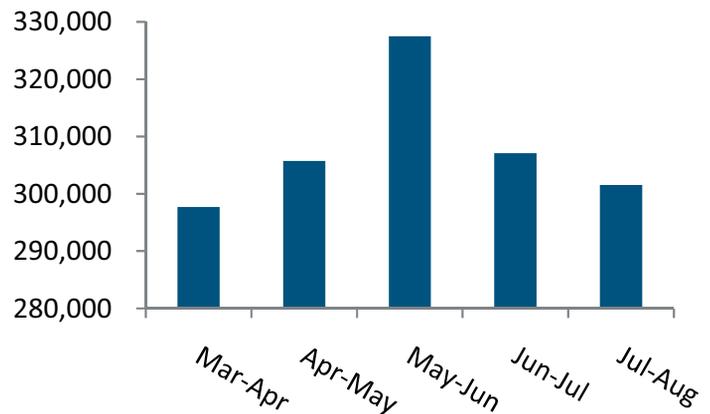


Iran exported cement to 24 countries including Iraq, Azerbaijan, Turkmenistan, Afghanistan, Russia, Kazakhstan, Kuwait, Pakistan, Qatar, Turkey, the United Arab Emirates, Georgia, Oman, India and China in the past Iranian year. Seven countries accounted for 97% of Iran’s total cement exports. Iraq with 63%, Turkmenistan with 7% and Azerbaijan with 4%, were the top three importers of Iranian cement. Iran’s cement and clinker exports stood at over 13.65 million tons in the previous Iranian calendar year, out of which 11.85 million consisted of cement and the remaining 1.8 million tons clinker. The country exported around 8.06 million tons of cement and clinker in the first five months of this year. The CPA has estimated that the country’s total cement exports will reach around 18.5 million tons by the end of the current Iranian calendar year.

Cement export in the first five months of 1392 (tons)



Clinker export in the first five months of 1392 (tons)



Iran produced some 71 million tons of cement in Iranian calendar year 1391, up by 8% from its previous year (66 million tons). The country’s cement production capacity stands at 80 million tons. According to the Ministry of Industry, Mines and Trade, the country is planning to increase its cement production capacity to 110 million tons by the end of 2015.

Iran Oil exports dropped in July

In July, the four major Asian buyers – China, India, Japan and South Korea – imported 796,047 barrels per day (bpd) of Iranian crude oil, down from 798,400 bpd a year ago. These countries had agreed in June to reduce purchases of oil from Iran to extend a six-month waiver on the US sanctions. In the first half of 2013, purchases of

Iranian oil from these four countries, fell more than a fifth from a year ago to around 960,000 bpd.

India's imports plunged by three quarters (75%) in July compared to the previous month. This is because the country's only active importer (Essar Oil) has in the past two months limited its purchases due to Delhi's delay in extending approvals for Iranian insurers covering shipments into India. Essar Oil's purchase of Iranian crude oil dropped from 140,000 bpd in June to only 35,500 bpd in July. As a result, India's Iranian oil imports in July dropped by 82% from 201,900 bpd in the same period of the previous year. Iran dropped to 15th place on the list of India's crude suppliers in July, down from 8th place in June and 4th for the entire year of 2012.

Japan imported some 172,047 bpd of Iranian oil in the month of July, indicating a 16% cut compared to the previous month. Japan imported no Iranian oil in July 2012 for the first time since 1981. Japan could continue raising imports from Iran to offset steep cuts made in April due to uncertainties over the continuation of sovereign insurance on tankers carrying Iranian oil.

South Korea on the other hand increased its Iranian oil imports to 815,447 tons in July, a 38% increase in comparison to the corresponding period of the previous year. The imports marked a 44% climb from a month ago. China, Iran's top trading partner cut its imports by 12.6% in the month of July.

In addition, the U.S. granted exemption from Iran sanctions to 10 European countries. The entire European Union stopped purchasing Iranian oil from July 2012. Because of that reduction, 10 EU countries had qualified for six-month sanctions exemptions: Belgium, the Czech Republic, France, Germany, Greece, Italy, Netherlands, Poland, Spain and Britain.

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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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