



Avecina (Abu Ali Sina in Persian) Tomb and Museum, Hamedan, Iran

Market Overview _____ **2**

This month, the Tehran Stock Exchange (TSE) had its best monthly performance in 2012 following a two month slump. Performance had up until this month been lacklustre against parallel investment classes in the market such as gold and foreign currency; however, the positive market movement attracted many investors. Investor behaviour this month shows that individual investors were heavily involved in stock purchases whereas institutional investors reduced their exposure to equities through stock sell-offs. The average P/E of the market increased to around 5.3 in September.

Country Overview _____ **5**

President Ahmadinejad at the United Nations General Assembly session in New York and recent events regarding Hashemi Rafsanjani will be discussed in this section.

Economy _____ **7**

The World Bank praised Iran's Economic outlook, Iran being ranked as the world's 23rd largest exporter in 2011 by the World Trade Organization (WTO) and the opening of the Chamber of Currency Exchange in Tehran will be covered in this section.

Turquoise Iran Equity Investments _____ **10**

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

This month, the Tehran Stock Exchange (TSE) showed the first signs of recovery following a two-month slump, with the market's main index increasing astronomically by 18.5% in Rial terms on the month. This proved to be the best monthly performance in 2012 so far. It is interesting to note that after several rather challenging months, the TSE All-Share index had its best daily performance in the entire history of the stock market with a 2.5% leap on the 25th of September. The 2012 year to date performance of the TSE stood at 10% at the end of September, a lackluster performance against parallel investment classes in the market, particularly foreign currency and gold. A closer look at investor behavior this month shows that institutional investors reduced their exposure to equities through stock sell-offs whereas individual investors were more involved in purchasing stocks. At the end of September, the weighted average price to earnings ratio (P/E) increased from 4.5 last month to around 5.3.

Analysts cited that the Non Aligned Movement (NAM) Summit in Tehran and the US's focus on its presidential election brought about relative calm to the country's political situation resulting in a turnaround in investor sentiment this month. But the most important reason for the hike could be contributed to the expectation of significant positive adjustment to earning forecast of the commodity and mining companies when they release their 6 month corporate earnings reports in October.

We shall now examine in greater detail several individual sectors of the market:

Refinery Sector

The refinery sector has recently gained investors' attention amid rumors about unusual future growth in earnings of companies in this sector. Much of this optimism can be explained by the likelihood of increase in the official dollar rate by the Central Bank of Iran. Refineries receive their raw material (mostly crude oil) at 95% FOB Persian Gulf rate multiplied by the official dollar rate, while their revenues are denominated in global prices again multiplied by the official rate of dollar. Therefore, even though with the appreciation of the official

rate, their profit margins would remain unchanged, their absolute earnings number and profitability would increase. In addition, according to the Budget Act, listed companies in this sector are obliged to pay 23% 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. Due to the above mentioned uncertainties, analysts are unable to provide any accurate analysis in regards to this sector. However, as a result of positive rumors, stocks of these companies experienced significant growth and jumped by 19.9% over the month. The refinery sector had its best monthly performance ever in September.

Metals

Despite an increase in the unofficial US Dollar exchange rate against the Rial which was strongly embraced by mining and metal producers, unusual price hikes in metal products have led to a decrease in demand for these products, as evidenced by trade volumes on the Iranian Mercantile Exchange (IME). This month, perhaps due to a further weakening of the Rial, steel and aluminum producers were unable to sell their products entirely. Therefore, the leap in prices of metal products has shocked consumer demand and as a result pressured producers. Surprisingly, the stock market ignored all the above mentioned industry concerns and the stocks of Mining and Metal companies were strongly favored by TSE investors. As a result, the largest players in this sector, Mobarakeh Steel, National Iranian Copper Industries (NICIC), Zob Ahan and Khuzestan Steel's stocks rose by 15% to 25% this month. Overall, the basic metal sector gained 31.6% in value this month. The 15% rise in metal prices on the IME in September will bring about attractive short term returns for investors in upcoming months.

Automotive

Over the past year, the automotive sector has suffered considerably from the devaluation of

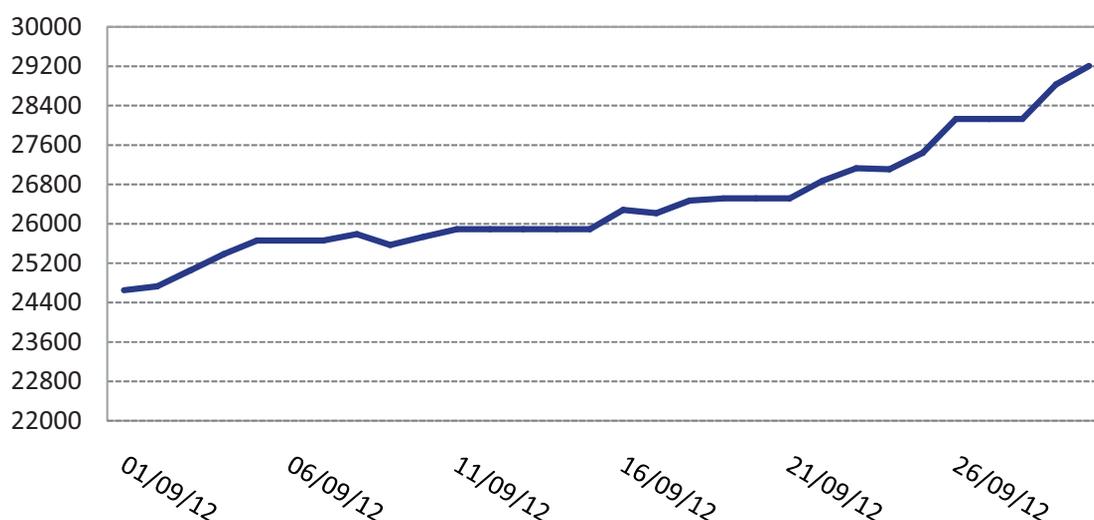
the unofficial Rial rate. Car manufacturers in Iran are heavily dependent on the import of parts and materials. The sanctions have also created difficulties and increased production costs for car manufacturers. Iran Khodro (largest car manufacturer in the Middle East) has dropped its production by 30% in the first five months of Iranian Calendar year 1391. Saipa (second largest car manufacturer in Iran) experienced a 40% fall in its production in the same period. Given their high production costs and shortage of working capital requirements, a short-term improvement in this sector is unlikely to occur. However, there are rumors in the market about Iran Khodro selling its 34% block in one of Iran's largest private banks, Parsian Bank, for 20 trillion Rials. Thus, despite fundamental issues in this sector, the news about the sale of Parsian block by Iran Khodro was positively taken by investors and the sector index gained 36.2% in September.

Cement

The 40% devaluation of the Rial since the beginning of summer has brought a new investment sentiment in the market. Investors prefer to own physical assets rather than holding cash in order to hedge themselves against further weakening of the Rial. Since some major listed companies on the TSE own valuable fixed assets, investors are showing more interest in investing in the stock market. As a result, cement companies, with their rich assets, were favored by many investors in the market and the cement sector was amongst the better performing sectors of the TSE this month. The sector index gained 15.6% in value in September. In addition, the news about Ministry of Commerce ratifying a 22% rise in the price ceiling for cement products was seen as good news by investors. Published data shows that the average projected earnings of cement companies have increased by 30% as a result of the 22% price hike.

Overall, the TSE All-Share Index increased by 18.5% in September and the trade volumes stood at IRR 1.65 billion.

Performance of TSE All-Share Index (September)



Market Statistics	
Average P/E	5.5
Trade Volume (\$ Billion)	1.7
Trade Value Monthly Change (%)	175
Market Cap (\$ Billion)	104

Top 5 Traded by Value

Rank	Company Name	Turnover Value (\$Million)	% of Total Turnover
1	Telecommunications Co. of Iran	45,874	10
2	Mellat Bank	33,100	7
3	Pasargad Bank	27,258	6
4	Isfahan Mobarakeh Steel Co.	25,800	6
5	Saderat Bank	22,906	5

Top 5 Companies by Market Cap

Rank	Company Name	Market Cap (\$Million)	% of Total MC
1	Telecommunications Co. of Iran	9,250	9
2	National Iranian Copper Industries Co.	7,708	7
3	Isfahan Mobarakeh Steel Co.	6,271	6
4	Ghadir Investment Co.	4,134	4
5	Chadormalu Petrochemical Co.	3,683	4

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 September 2012

President Ahmadinejad at the UN

Mahmoud Ahmadinejad, along with his delegation, made their eighth and final trip to New York for the UN General Assembly's 67th session, which took place in September 2012.

Since many consider Mr. Ahmadinejad's previous UN General Assembly speeches as controversial it was anticipated that this speech would be similar in nature. However, the conciliatory tone of his speech caught analysts by surprise and this was one of the only times where his speech did not result in the walking out of Western delegates. That being said, when President Ahmadinejad was speaking, the seats for some countries including the US and Canadian delegates were empty.

His take on issues were no longer presented with his usual nonchalance and he spoke in a more formal and conciliatory manner. Emphasizing on Iran's dedication in promoting peace, he accused the world powers of having double standards with regards to the nuclear issue. In response to a series of accusations from Western countries in relation to Iran's alleged role in the Syrian violence through support for the Syrian President Assad, the president responded with an unexpected tone of conciliation. He said that Iran is a huge supporter of human rights and in no way promotes the use of violence against the Syrian people.

On the issue of Iran's nuclear development, the President yet again reiterated that Iran's program is for peaceful purposes and that Iran is willing to stop 20% uranium enrichment if enriched uranium is provided from abroad for use in Iran's nuclear research reactor which produces medical isotopes. He also emphasized, for the first time, that Iran supports bilateral negotiations with the US over Iran's nuclear program to break the current impasse. This was viewed positively by journalists and analysts as a significant move by Ahmadinejad to create some hope for potential resolution of the nuclear crisis. However, his opponents inside Iran criticized him for interfering in affairs that are outside the authority of the President. Domestically, he was also criticized in regards to the number of delegates travelling with him to New York this year. It has been reported that 160 visa applications

were made to the US Embassy out of which 140 were accepted. Ahmadinejad and his team were criticized for spending so much money on hotel and travel expenses for so many people when the country is going through economic hardships.

The public scolding of Ahmadinejad and Netanyahu was another point of interest for global media this year. The Israeli Prime Minister, Benjamin Netanyahu, used his UN General Assembly speech to yet again accuse Iran of trying to develop nuclear weapons. This time, he was more creative and used a funny drawing of a bomb during the General Assembly in order to highlight the alleged threat of a nuclear armed Iran. Ahmadinejad responded to this later by saying that displaying this drawing was an insult and disrespect to the General Assembly and joked about Netanyahu's need for more practice in drawing to improve his skills!

Recent Events Regarding Hashemi Rafsanjani

Akbar Hashemi Rafsanjani has been well known for his political influence in the Islamic Republic of Iran. Rafsanjani was among the core figures of the Islamic Revolution in 1979 and served as the country's Speaker of the Parliament and President for 16 years afterwards. He later became the Chairman of the Assembly of Experts until 2011 and is currently the Chairman of the Expediency Council of Iran. Rafsanjani has a reputation for being pragmatic, business-friendly with relatively more liberal economic views. During his two terms as President, he supported privatization, a more open market and implemented an economic reform plan which helped reconstruct the country after the destructions caused by the 8-year Iran-Iraq war. Rafsanjani's foreign policy also differentiated him in comparison to most conservative hardliners in the government. He has been against increasing tensions with the West and is believed to be in favor of a deal with the United States (US) in regards to Iran's nuclear development program.

In recent years, however, Rafsanjani's position and influence in Iranian politics has been deteriorating after his defeat to President Ahmadinejad in the Islamic Republic's 8th presidential election in 2005. Ever since, Rafsanjani has taken positions which

have been mostly critical of the government's policies in issues ranging from foreign policy to the economy. In return, Ahmadinejad has also frequently showed his distaste for the policies which had been taken during previous governments including Mr Rafsanjani's term in office. The climax of the differences between the two men occurred when Ahmadinejad accused Rafsanjani's children of financial corruption during a live television debate during the days of campaigning, leading up to the presidential election in 2009. This claim was made due to rumors which were circulating in Iran and abroad regarding Rafsanjani and his family's wealth and his alleged bank accounts around the world. Rafsanjani's daughter, Faezeh Rafsanjani also took very strong positions against Ahmadinejad during the presidential campaigns and took part in protests that followed. She was arrested during one of the demonstrations and was sentenced to six months in prison on charges of spreading propaganda against the Islamic Republic but the sentence was not carried out. Rafsanjani himself also delivered an important sermon during Friday prayers after the election calling for the release of those who were detained during protests and a more conciliatory stance with regards to the opposition. He was then removed from the role of Tehran Friday Prayers Leader and has not addressed this weekly events ever since.

Since then, Rafsanjani and his family have been accused of supporting the opposition Green Movement. He later lost his position as the head of the Assembly of Experts which is tasked with overlooking and appointing Iran's most powerful position of the Supreme Leader. Rafsanjani, despite the immense pressure he has been under, has remained present in the government and even played an important role in last month's Non Aligned Movement (NAM) summit which took place in Tehran. He entered the summit with Ayatollah Khamenei and sat next to the United Nations (UN) Secretary General Ban Ki-Moon. President Ahmadinejad has lessened his public attacks of Rafsanjani and his family as pressure has risen against him.

In September, however, Rafsanjani's son, Mehdi and his daughter Faezeh were arrested again on

charges of anti-state activity. Mehdi Hashemi was detained on his return to Iran after three years of studies in the UK. Faezeh Hashemi, who is a political activist and a former MP, was arrested a few days earlier to serve her six-month sentence for spreading propaganda against the Iranian government.

Both children were arrested and taken to Evin prison where most political prisoners are held. According to reports, Rafsanjani has until now refrained from making comments with regards to the imprisonment of his son and daughter. Some analysts believe that the detention of Rafsanjani's children was a final attempt to prevent his intervening in national matters, especially when the government is faced with domestic and foreign disputes, while others believe that Mehdi's decision to return to Iran and Faezeh serving her six months term is a plan by the Rafsanjanis to prepare for a strong return to Iranian politics during the upcoming presidential election campaigns in a few months time.

World Bank Praises Iran's Economic outlook

Iran is the second largest economy, after Saudi Arabia, in the Middle East and North Africa in terms of Gross Domestic Product (GDP), with a GDP of more than USD 400 billion in 2011. Its economy is characterized by a large hydrocarbon sector, small-scale private agriculture, and a noticeable state presence in manufacturing and finance. In 2007, the service sector (including government) was 56% of GDP, followed by the hydrocarbon sector with 25% and agriculture with 10%.

Iran holds significant energy reserves and ranks second in the world in terms of having the largest natural gas reserves and fourth for crude oil reserves. The country's chief source of foreign income comes from oil and gas exports where it makes up approximately 50% of total government revenue. Therefore, aggregate GDP and government revenues fluctuate with the international prices of these commodities. The Ministry of Economy announced that the country's economic growth was around 5% in 2010-11, a 2.3% drop from its growth of 7.3% the year before. Given Iran's tough economic circumstances, analysts expect a further decrease for 2012. This fall would be mainly attributed to a steep decline in oil exports which have resulted due to an oil trade embargo on Iran by the European Union which purchased about 800,000 barrels of Iran's oil per day starting in July 2012 as well as cut-backs by other customers of Iranian oil in the Asian markets in order to avoid penalties from the US. According to the Central Bank, Iran's oil exports fell from 2.2 million barrels per day (bpd) at the end of 2011 to around 1 million bpd in September 2012. The inflation rate increased to more than 20% in 2011; this was mainly due to the impact of the substantial increase in energy prices, severe fluctuations in the currency market and the removal of subsidies.

Iran's economy is transforming towards a market-based economy. However, the Iranian state still plays a key role in the economy, owning large public and quasi-governmental enterprises. Over 60% of the manufacturing sector's output has been produced by entirely state-owned companies. However, the government's large privatization program is aiming to partially privatize some 20% of

state owned firms each year, as laid out in its 5 year plan. According to Mohammad Rahim Ahmadvand, Head of Iranian Privatization Organization, Iran has privatized up to 500 companies over the past six years.

Period	Economic Growth (Including oil)	Economic Growth (Non-oil)
Spring 2010	4.3 %	5.7%
Summer 2010	5.6%	5.3%
Spring 2011	5.3%	4%
Summer 2011	3.4%	4.1%

Iran ranked as world's 23rd largest exporter in 2011 - WTO

Iranian non-oil trade volumes passed \$47 billion in the first half of the Iranian calendar year 1391, starting on March 20th, 2012, according to data gathered from the Iranian customs administration. Non-oil exports and imports amounted to \$20.62 and \$26.5 billion respectively. Meanwhile, imports have risen by 7.17% in terms of volume but have fallen by 10.39% in terms of value in the same period. The table below shows Iran's largest import partners in the first half of 1391.

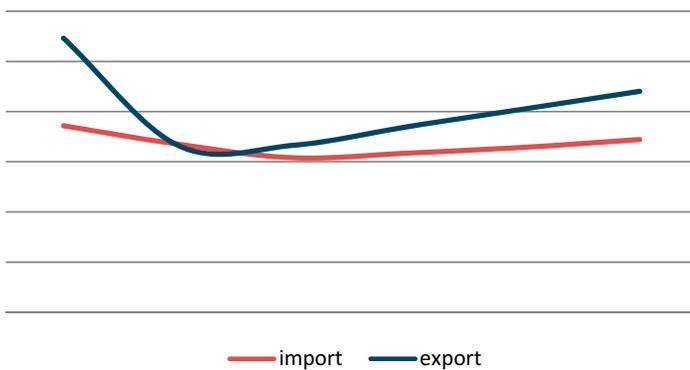
Country	Volume ('000 tons)	Value(\$billions)
UAE	3,566	5.401
China	1,596	3.722
Turkey	1,116	2.56
South Korea	1,243	2.34
Swiss	2,229	1.48

Non-oil exports, which include gas condensates, dropped by 5.66% and 4.01% in terms of volume and value, respectively. The table below shows Iran's largest export partners in the first half of 1391.

Country	Volume ('000 tons)	Value(\$billions)
Iraq	6,487	2.911
UAE	2,065	2.614
China	11,765	2.579
Afghanistan	1,570	1.326
India	2,428	1.189

According to reports by the Economist magazine, Iran's exports will extend their uptrend in the coming Iranian fiscal year. They are estimated to reach \$66.6 billion by the end of 1392. Meanwhile, analysts expect an additional \$7.5 billion increase in 1393 which would bring the total export figure to \$74.1 billion; it would reach \$81.1 billion by the Iranian calendar year 1394. The data also shows that Iran imported a total of \$74.8 billion worth of goods last year. Furthermore, imports are expected to drop in the upcoming years.

Imports vs Exports



The report suggests that Iran would have a trade surplus of \$5 billion in the next Iranian calendar year (1392). It also expects that this uptrend movement will continue in the next 3 years and reach \$19.2 billion by 1395.

Iran ranks as the 23rd largest exporter in the world in 2011, according to a new report by the World Trade Organization (WTO). Based on this report, the European Union, China and United States rank respectively as the largest exporters in the world in 2011. Iran's exports have increased more than 30 percent in 2011 in comparison to 2010, despite the economic sanctions imposed by the U.S. and its allies against the country, the report states. Iran's share of the world's total exports has also improved, increasing from 0.8 percent in 2010 to 0.9 percent in 2011, the WTO said. The country's exports value (including crude oil) has more than doubled in the last six years, from 56.2 billion dollars in 2005 to 131 billion dollars in 2011, the WTO statistics showed.

It is worth noting that due to the recent devaluation of Iranian Rial and for the first time in modern

Iranian history, Iran's non-oil export has passed its total imports in the Iranian month of Shahrivar (20 Aug – 21 Sep).

Chamber of Currency Exchange

After recent currency issues, the government announced that it will distribute currency at the official rate based on a priority list. According to this plan, the first five priority groups were supposed to receive the currency needed at the official dollar rate of 12,260 Rial from the Central Bank; others were to obtain their requirements at the open market rate. But after unsuccessful foreign currency distributions to producers and importers, the government decided to stop providing official dollar rates to all groups. In its next attempt, the government tried to launch a foreign exchange bourse in order to provide foreign currency through other suppliers and not just the Central Bank that channels more than 90% of the hard currency into the local market. However, this proposal failed due to uncertainties about the applicability and legality of the Forex Bourse.

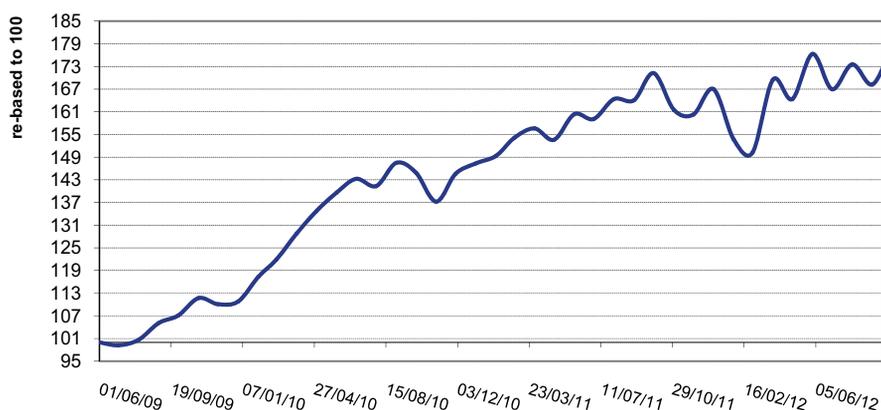
The lack of distribution of foreign currency by the Central Bank and other political issues troubled the currency market and caused appreciation of all major currencies against Rial in the unofficial market. The Central Bank's next decision, to control the market, was to open a foreign currency exchange chamber on 23rd of September. This chamber started as a 100 square meters space for importers to submit their foreign exchange requirements. At this new facility, the government committed to sell 14.5% of the oil export proceeds and 20% of the National Development Fund at 2% below the unofficial market rate. The chamber's rate would be announced at 8 a.m. every day by the Central Bank and trades would take place until 2 p.m. every day except Thursdays and Fridays. On the first day of its operation the rate announced by the Central Bank was IRR 24,040. Currently the chamber's rate has almost stabilized between IRR 24,000 - 25,000 and applications can be submitted through various bank branches across the country. In the early days of trade at the new facility, the demand for foreign currency exceeded supply to a point that worried some of the policy makers. The

parliament suggested that other exporters should be forced by law to convert their foreign currency proceeds to Iranian Rial by selling their foreign currency at the chamber as well. This has scared many exporters that are currently selling their hard currency at around 20-30% over this chamber's rate. This issue is now being negotiated between the government, the Iran Chamber of Commerce and the country's major exporters. The Central Bank believes and hopes that this new facility will help calm the currency market and claims that trade of hard currency at this chamber will remove the "hands of speculators" in that market. Despite Central Banks effort to enforce a single rate for the dollar, the launch of the foreign currency chamber shows that the government has officially admitted the presence of multiple rates in the market, the rate announced by the foreign currency chamber, the official rate of 12,260 fixed by the Central Bank and the floating unofficial market rate.

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		Estimated NAV = 178.1
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 30th September 2012



Period	Portfolio Return
Last Month	5.9 %
Last 3 Months	6.7 %
Last 6 Months	5.1 %
Last 12 Months	4 %
Since Inception (01 June 09)	78.1 %



**TURQUOISE
PARTNERS**

About Turquoise

Turquoise is a boutique investment firm based in Iran. 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 with a wealth of international expertise enables Turquoise to benefit from coupling a network of global expertise with an enviable reputation for local knowledge, professionalism and integrity.

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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