



Tehran, Iran

Market Overview _____ 2

The Tehran Stock Exchange (TSE) experienced massive fluctuations in November as investors kept an eye on the final round of nuclear negotiations. Optimism on a possible political breakthrough increased significantly in the first three trading weeks of November, resulting in a 3% jump in the main index of the market. However, the negotiations resulted in an extension of talks for another 7 months; as a result, the main index dropped 6% from its previous peak, ending November with a loss of 3.4%. The banking sector index first increased by 10 percent and then dropped by 11 percent after the news about the extension of the nuclear talks came out. The index of the petrochemical sector fell by 7 percent as a result of decreasing oil prices and the negative outlook on the prices of petrochemical products.

Country Highlights _____ 5

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

Economy _____ 6

Iran's trade balance and exchange rate, inflation rate, and natural gas industry will be discussed in this section.

In November, the Tehran Stock Exchange (TSE) experienced significant volatility as investors hoped for a resolution on the decade old nuclear dispute between Iran and world powers. For the first three trading weeks of November, assumptions greatly leaned towards the likelihood of a possible political breakthrough, resulting in a 3% jump in the main index of the market. Positive sentiment in the market peaked on November 24th as foreign ministers of the 5+1 group gathered in Vienna, indicating that a comprehensive deal may have been attainable. Nevertheless, with the news of a 7 month extension in nuclear negotiations, market atmosphere deteriorated which was followed by the onset of a sharp decline. Consequently, with more than a 6% fall from its peak, the market ended November by losing 3.4%. The year to date losses of the Iranian market extended to 18%, making 2014 the third worst performing year of the TSE historically.

We will examine below some important developments of listed sectors in November:

Petrochemicals

Petrochemicals, the largest sector on the TSE, was negatively affected by the fall in global oil prices. The sector index fell 7% in November as investors predicted a potential drop in petrochemical product prices around the world. Despite there being any real sign of price falls in products such as Methanol and Urea, stocks of companies producing natural gas by-products also suffered from sell-offs which resulted from bearish sentiment in the oil market. Subsequently, for the first time in the past 27 months, the average price to earnings ratio of the petrochemical sector plunged to below 4, which is more than 1.5 points lower than 5.5, the average multiple of the broader market.

Banks

Banking stocks were the most volatile in the month of November. A sharp jump of 10% in the average stock prices of banks in the first three weeks followed by an 11% fall in the last trading week, left the industry index unchanged over the course of the month. There is a public belief amongst in-

vestors that the Iranian banking sector will benefit the most from a possible relief in global sanctions. Post sanctions, domestic banks will resume global trading and international financial activities that have been on pause. This being said, as the nuclear negotiations didn't provide any immediate relief on sanctions, this sector is heading for a rough time in December as speculators decide to cash out.

Rial's value

For the first time under the current administration, the value of the Iranian Rial showed signs of significant fluctuation in the free market due to the failure of a solid outcome in nuclear negotiations. Market speculators who had been inactive for a while due to the relative calm political environment began to inject money into the market. The Rial weakened to its lowest level in the past 17 months with a 7% drop in November. Historically speaking, Rial devaluation is not necessarily a bad occurrence for the stock market as it reminds investors of the market boom in 2013 which resulted from 60% depreciation of the Rial in 2012. As the stock market reacts to such currency fluctuations with a lag, it is expected that the TSE will adjust itself to the new currency value in future months.

Next year's government budget

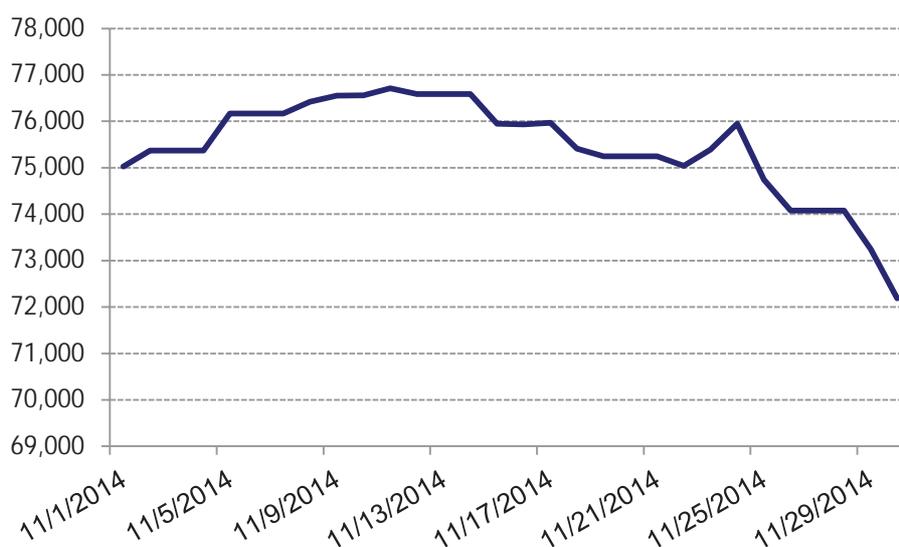
The budget of the country for the coming year was submitted to the parliament for approval on December 8th. Since the Iranian state is the biggest player in the economy, the annual budget strongly influences the outlook of local industries and the stock market. Acknowledging this significance, analysts are investigating the details of the bill. Based on the proposed bill, the government has presented a tight budget which aims to control expenditure, especially in infrastructure. This decision stems from the sharp decline in oil income, which contributes to more than 40% of the total budget of the state. Therefore, it seems that this bill will not bring much growth for many of the domestic industries.

Assuming that the Rial value does not depreciate

further, this is not good news for listed industries, such as steel plants, cement, construction and basic metals, which are affected by government expenditures.

Overall, the TSE had a weak performance in November, with the TSE All-Share Index falling by 3.4%. However, because of an increase in short term trades, trade volumes stood at \$2.1 Billion showing an 84% rise compared to the previous month.

Performance of TSE All-Share Index (November)



Market Statistics (November)

Average P/E	5.5
Trade Volume (\$ Billion)	2.1
Trade Value Monthly Change (%)	84
Market Cap (\$ Billion)	123

Top 5 Traded by Value (November)

Rank	Company Name	Turnover Value (\$Million)	% of Total Turnover
1	Mellat Bank	120	6
2	Iran Khodro Industrial Group	99	5
3	Iran Tractor Manufacturing Co.	76	4
4	Saipa Co.	59	3
5	Saderat Bank	56	3

Top 5 Companies by Market Cap (November)

Rank	Company Name	Market Cap (\$Million)	% of Total MC
1	Persian Gulf Petrochemical Industry	10,992	9
2	Bandar Abbas Oil Refining Co.	5,544	4
3	Telecommunication Co. of Iran	4,659	4
4	Mobile Communications of Iran	4,524	4
5	Ghadir Investment Co.	4,461	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 26,847 as at 30 November 2014. Due to Central Bank's revision on the official exchange rate of the Rial, TSE's market capitalization and trading value in USD have reduced dramatically.

➤ In a ceremony attended by the Presidents of Iran, Turkmenistan, and Kazakhstan, a railway link between the three countries, was officially inaugurated on December 3rd. The railway, which had been in construction since 2009, is of great importance to the land-locked Central Asian states due to its connections to ports on the Persian Gulf with access to international waters. Iran will also benefit greatly from transit charges as well as from imports of grain from Kazakhstan. The rail link is intended to carry oil and agricultural products between the three states. This rail link will cut transportation costs from the Persian Gulf to Central Asia significantly as it is 600km shorter in comparison to a more Eastern route which passes through the Sarakhs region. The link had reportedly cost around \$1.4 billion to complete.

➤ Iran marked its national students' day on December 7th when various political figures traditionally deliver speeches at university campuses around Iran. The most noteworthy events usually take place in one of Tehran's universities where high ranking officials deliver speeches and hold a question and answer session with student groups. This year, President Rouhani attended a ceremony held at the Medical Sciences University of Iran to mark this day. In his speech, Mr. Rouhani defended the students' right to criticize the government and stated that students cannot be oblivious towards sociological and political matters. In a reference to the difficulty the government has had in filling the position of Minister of Science and Technology, President Rouhani stated that the government's policies for this ministry has not changed with the impeachment of the former Minister and the 4 cases of failure in gaining a vote of confidence from the parliament for the government's proposed candidates. Mr. Rouhani stated that the current Minister of Science and Technology, who recently gained the parliament's approval for the post, will continue the path that has been set by the government and would have been taken by the other candidates as well. Students also had a chance to both criticize the government and remind the President that they expect him to follow through on his campaign promises which included better relations with the world, and economic and political stability. The President responded by as-

uring students that his government is keen to respect the promises it had made.

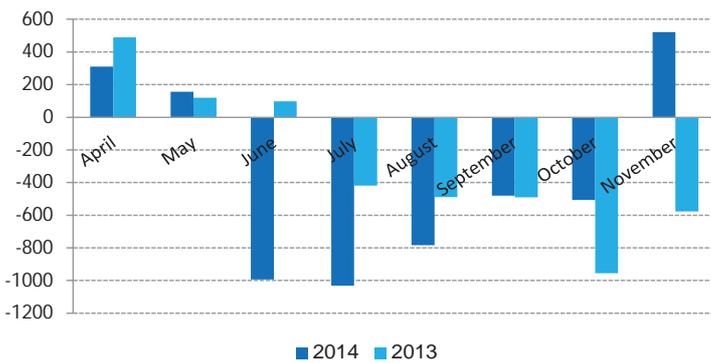
➤ Media reports suggested that for the first time, the Islamic Republic of Iran Air Force, had bombed ISIS positions in Iraq in its fight against Islamic State terrorists. Iran has apparently used its F-4 Phantom fighter jets in this bombing mission as reported by some media outlets. An Iranian deputy foreign minister later confirmed the airstrikes, stating that Iran will act if necessary in order to protect its borders from infiltration by terrorists. Iran was one of the first states to provide military equipment and advice to both the Iraqi government and the Kurdish regional government as a result of the ISIS offensive in Iraq. There has been many media reports in regards to Iran's role in assisting various militant groups in fighting ISIS and rumors regarding possible collaboration between Iran and the US in fighting the terrorist group. Iran and the US, however, have denied any direct military collaboration and have stated that the Iraqi government is responsible for coordination with foreign military forces.

➤ In a conference held on the subject of combating corruption, President Rouhani delivered a strongly worded speech criticizing the current state of affairs and the spread of corruption to various governmental and non-governmental organizations. At the event, where the heads of Parliament and the Judiciary were also present, Mr. Rouhani stated that when certain organizations have access to guns, capital, newspapers and other media outlets at once, it will surely result in corruption. The President also criticized the way corruption has become more evident and the fact that it has become more public in recent years. Mr. Rouhani stated his government's willingness to combat this phenomenon with the help of the legislative and the judicial branches of power. President Rouhani made references to corruption in municipalities where licenses for taller buildings are bestowed and also to the fact that forests are destroyed for various projects through bribes. The president further recommended supervision by the public as well as the media and various unions in order to root out corruption from society.

Trade Balance and Exchange Rate

Iran exported total of \$4.5 billion and imported \$4 billion in November (excluding oil), making a trade surplus after 5 months. This trade surplus of \$521 million is the largest since the beginning of 2014. The total non-oil trade of the country during the first 8 months of the Iranian year (ending in November) stood at \$65.7 billion, an increase of \$10.9 billion compared to the same period last year. Exports and imports during this period were \$34.3 billion and \$31.4 billion respectively. This made the year to date trade deficit of \$2.8 billion, while the number for the same period last year was \$2.2 billion. The significant increase of \$5.2 billion in exports during the specified period was mostly a result of a jump in gas condensates and petrochemical exports. Exports of gas condensates increased by \$3 billion and that of petrochemical products by \$1.6 billion.

Monthly Trade Balance (million USD)



Free Marke Exchange Rate (IRR per USD)



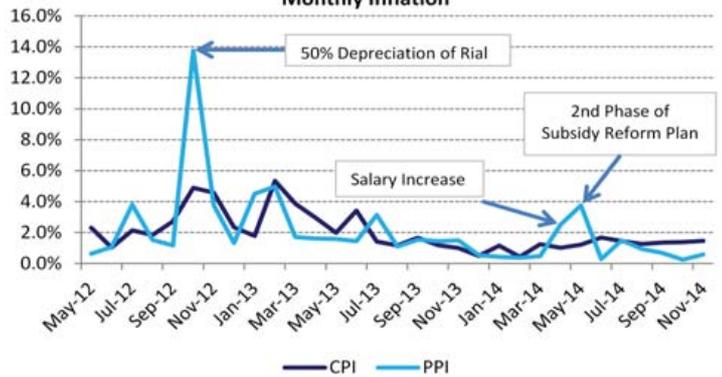
The exchange rate market has been fairly stable after the arrival in office of the new government in August 2013. As can be seen on the chart, the exchange rate during the 8-month period was much less volatile than a year ago and on average it was lower than last year. The appreciation of the Rial in

2013 was concurrent with the decreasing trade balance. Since August 2014, the exchange rate has been moving upward gradually and the trade balance has been increasing. It is worth mentioning that imports in November dropped as a result of importers expecting the possibility of a nuclear deal and a possible appreciation of the Rial. However, with the extension of negotiations, the depreciation of the Rial accelerated up in the last week of November. The continuation of this trend could lead to an increasing trade balance in the coming months.

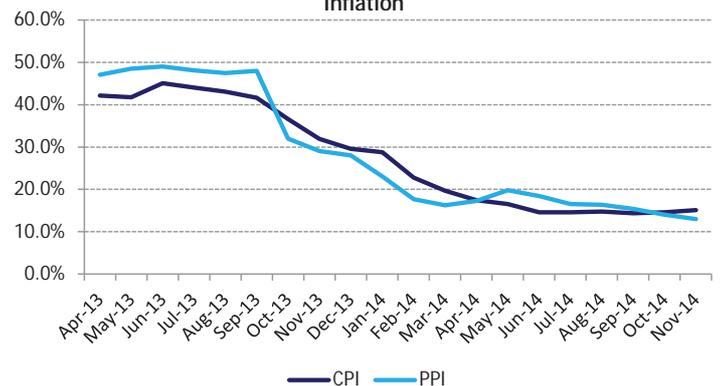
Inflation

Iran has been dealing with a double digit inflation rate for years. The annual inflation rate reached a peak of 45% in July 2013 when the Producer Price Index (PPI) was growing at an annual rate of 49%. Both the Consumer Price Index (CPI) and PPI have been generally decreasing since the coming to office of the new government; CPI growth though, has increased for the last two months. In October 2012, PPI increased massively by 13.8% in just one month as a result of the 50 percent depreciation of the Rial by the Central Bank of Iran (CBI). Following that shock, CPI increased at a monthly rate of 1.8% to 5.3% for 8 months.

Monthly Inflation



Inflation



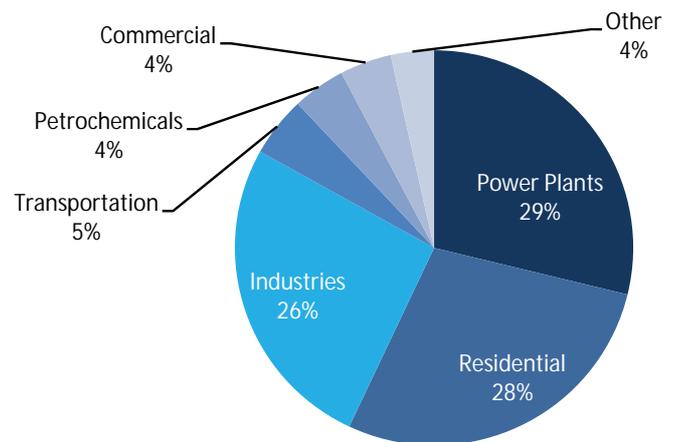
At the beginning of the current Iranian year, a sudden jump of monthly PPI growth from 0.5% to 3.7% in two months concerned market players about the possibility of a higher inflation rate. That jump was a result of a salary increase in April, and the second phase of the subsidy reform plan in May. During the last 6 months, PPI has been growing at an average rate of 0.7%, while that number for CPI growth is 1.4% which could be a result of April and May's developments. Taking into account that CBI is determined to limit the expansion of its balance sheet, and that the government is not willing to use Central Bank resources to pursue its proposed plan to exit recession, liquidity growth could remain in a safe range so as not to trigger further inflation. The CBI's stated goal is to reach a single digit inflation rate in 2 years; however, the recent fall of oil prices together with the depreciation of Rial as a result of the extension of nuclear talks have brought serious concerns about the government's ability to fund its expenses without causing inflation rate to grow higher.

Iran Natural Gas Industry

Iran is the third largest producer of natural gas in the world after the U.S. and Russia. In 2012, Iran produced 232 billion m³ of natural gas. Even though Iran has more than 18% of proven global natural gas reserves, its share of production is 5 percent of total world production. The country's domestic natural gas consumption in 2002 was 76 billion m³ and it has been growing at an average rate of 6.4%, reaching 142 billion m³ in 2012. The biggest sectors consuming natural gas in Iran are power plants, residential use, and industries; combined together, they amount to more than 80 percent of total domestic consumption. According to a report published by the Research Center of the parliament, in 2012, natural gas contributed to 5 percent of the country's GDP (\$25 billion); that figure for Qatar and Russia was 12.5% and 2.3% respectively.

According to this report, the South Pars gas field, with 7% of total global natural gas reserves and 40% of Iran's reserves, is one of the biggest gas fields in the world and is a joint field between Qatar and Iran. Iran started exploiting this field in

Domestic Natural Gas Consumption by Sector 2012



1997 which was 10 years after Qatar had began. In order to develop the South Pars field, there are 24 planned phases and it is estimated that the total amount of investment will reach \$100 billion (excluding investments needed to develop downstream facilities). Currently, phases 1 to 10 and 12 have become operational with the capacity of 0.55 million barrel per day of gas condensates and 0.4 billion m³ of natural gas, and phases 15 and 16 are expected to become operational in 2015. In order to boost exports of natural gas, Iran has been working with its neighboring countries on different pipeline projects, namely Peace pipeline (Iran-Pakistan and potentially India), Iran-Oman pipeline, and Iran-Iraq pipeline. Once they become operational, Iran can potentially export a total of more than 200 million m³ of natural gas every year to Iraq, India, Pakistan, and Oman.

About Turquoise

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Turquoise publishes this electronic newsletter, *Iran Investment Monthly*, with the aim of keeping its recipients updated on the latest macroeconomic developments in Iran, providing an in-depth analysis of the Tehran Stock Exchange as well as introducing new financial products and private equity opportunities to potential investors.

Iran Investment Monthly is distributed exclusively amongst Iran analysts and potential investors who have worked closely or have been in contact with Turquoise Partners. Subscription to this newsletter is by referral only or through an online request sent to: info@turquoisepartners.com

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