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TURQUOISE PARTNERS

An Entrance Gate to the Takhte Jamshid, Persepolis , Near the Ancient City of Shiraz

THIS MONTH

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In July, the Tehran Stock Exchange (TSE) continued its rally from the previous month. Trade volumes reached their 2009 high this past month. A sharp global price rise in several commodities was judged to be the principal reason for the bullish market sentiment. Investors have become very sensitive to global prices. Consequently, following price gains in commodities such as copper, zinc and lead, related stocks were in huge demand. The excitement has spread into several other sectors such as steel and iron ore, even though product price increases have been modest. Some analysts, however, have taken a cautious stance. They argue that the market has overpriced the recent gains and that if there is a sudden downturn in commodity prices, the TSE could experience a slump.

A higher oil price has also brought about a degree of optimism about the economic outlook. Last year's oil price slump meant that the government had to abandon some of its infrastructure projects. Experts are hopeful that if the oil price remains at current levels, some of the development projects will resume. Another reason for the strong market performance was the unusually high dividend yields this year. The automotive sector once again paid out the highest dividend yields. Zamyad in this sector had a dividend yield of 70%.

Some of the key events and sectors of the market will be analysed below:

IPO of Haffari Shomal

On 22nd July, a 6% stake in Haffari Shomal (North Drilling Co.) was offered to the market at a price of 1,400 Rials per share, a 40% premium to its book value. This put the market capitalisation of the company at $370 million, making it the 27th largest listed company. Due to massive investor interest, a subsequent 6% stake was sold off and the stock gained 15% in price by the end of July. The company has forecasted a net profit of $41 million for the current year (which ends 20th March 2010). This means that the price to earnings ratio of the company at IPO was 8.9.

Haffari Shomal is the Oil Ministry's third company to undergo privatisation, after Fanavaran Petrochemical and Isfahan Refinery. Its key business is design, construction, management and leasing of oil and gas platforms in the Caspian Sea, to both Iranian and also foreign customers. The company was founded in 2005 by the National Iranian Oil Company. Since then, the company's profits have increased considerably and the management expects its net profit to reach $98 million next year, a year on year growth of 140%.

Telecom

In July, the Annual General Meeting (AGM) of the Telecommunications Company of Iran (TCI), the largest listed company on the TSE (14% of the total market capitalisation), took place. Shareholders approved a dividend yield of 10%. The stock also reopened 10% higher than its closing price, so this resulted in a total return of 20%.

There were two main reasons for the gain. Firstly, the management announced at the AGM that a $300 million fee that was imposed on the company by the government is likely to be refunded. TCI was quoted on the TSE last summer and the government remains the major shareholder in TCI. Secondly, it was announced that a 51% block in the company will be offered in September at a base value of over $7.5 billion. This is at a 130% premium to the market value of the block prior to the AGM.

Zinc and Lead

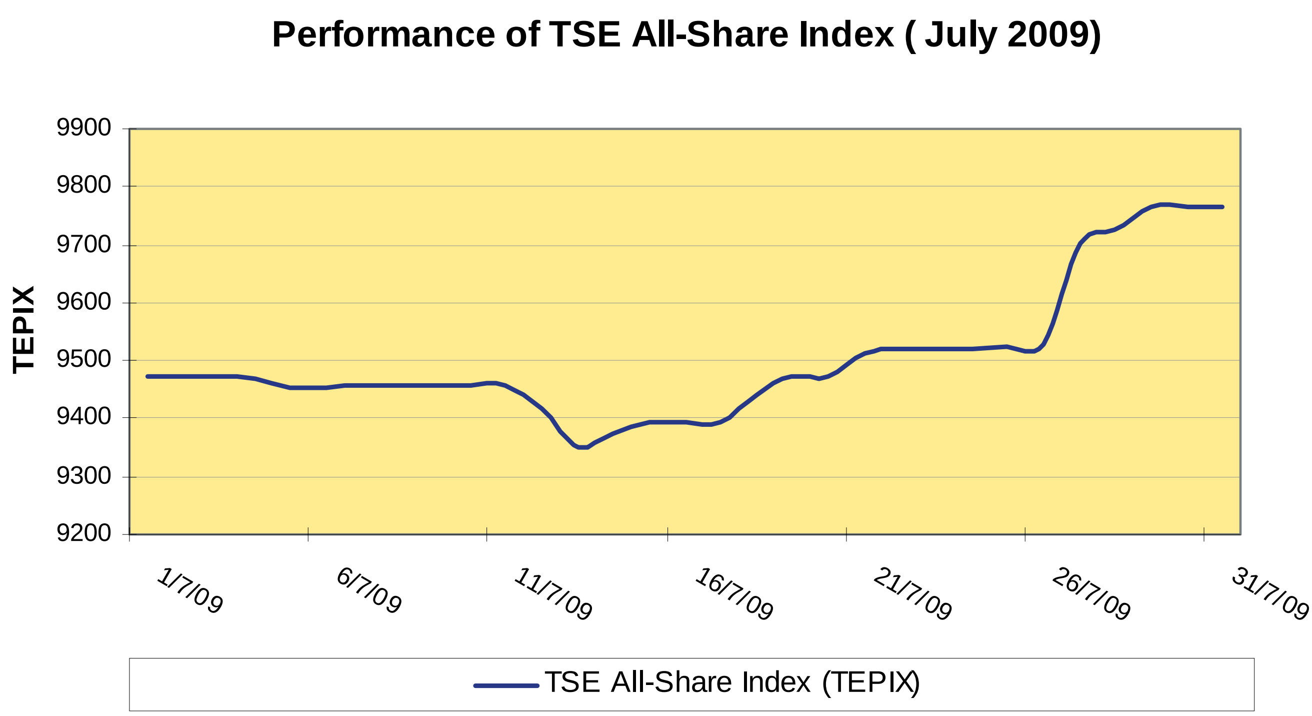
Between 2004 and 2006, these companies were among the best performing on the TSE. However, global prices of zinc and lead fell from their 2006 peaks of $4,400 and $4,000 respectively to levels close to $1,000 towards the end of 2008. As a result, companies in this sector became loss making. The partial collapse of Angouran mine in late 2006 made matters worse, because several companies in the sector are dependent on this mine.

A recovery in global prices of zinc and lead in 2009 led to strong rallies in related stocks. Bama has been the strongest performing company. Bama is one of only two companies in the sector that own their own mines. At current global price levels, this company is profitable again. Its share price has increased by 280% since the beginning of the Iranian calendar year (21st March).

Pharmaceuticals

In July, the majority of companies in this sector released their earnings results for the first quarter. Companies in this sector can be divided into two groups. Those companies with their earnings based on generic drugs released weaker than expected results. The sale price of most generic medicine in Iran is set by the government and has been frozen for the past two years. Most pharmaceutical companies in Iran import their raw materials from Europe and the gains of the recent months of the Euro against the Rial has had an adverse impact on their profits. On the other hand, producers of patented and specialist drugs have typically outperformed analysts' expectations. Alborz Pharmaceutical was a leading company in this sector. The sector index gained 1% in value over the month of July.

Overall, the TSE had a positive month with the TSE All-Share Index (TEPIX) gaining 4.0% in value. Trade volumes stood at $1.8 billion, a sharp increase of 240% from June.



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.

Portfolio One

Investment Vehicle
Pars Pelican Firouzeh

Currency
Iranian Rial (IRR)

Management Fee
2.5% p.a

NAV Calculation
Daily

Vehicle Domicile
Iran

Liquidity
Quarterly

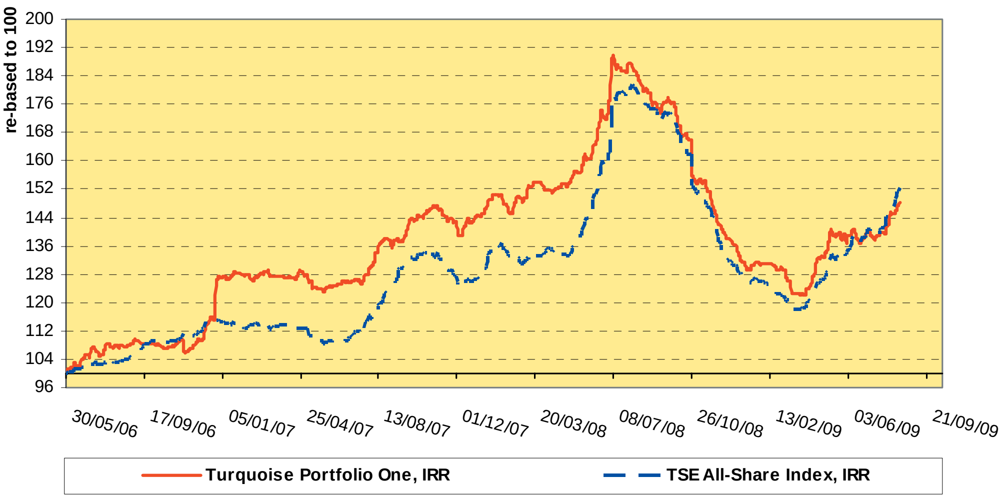
Benchmark
Tehran Stock Exchange All-Share Index (TEPIX), IRR

Launch Date
30 May 2006

Carried Interest and Hurdle
20% - 8%

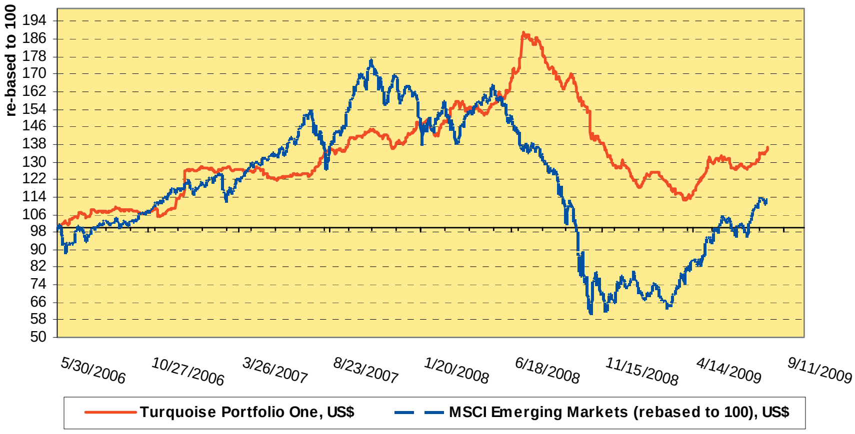
Minimum Investment
US$100,000

Turquoise Portfolio One vs. TSE All-Share Index (TEPIX), Iranian Rial - As of 15th August 2009



	May 09	Jun 09	Jul 09
Turquoise Portfolio One	⬆ 4.7 %	⬆ 0.5 %	⬆ 1.7 %
TEPIX	⬆ 5.4 %	⬆ 4.3 %	⬆ 4.0 %

Turquoise Portfolio One vs. MSCI Emerging Markets, US Dollar - As of 15th August 2009



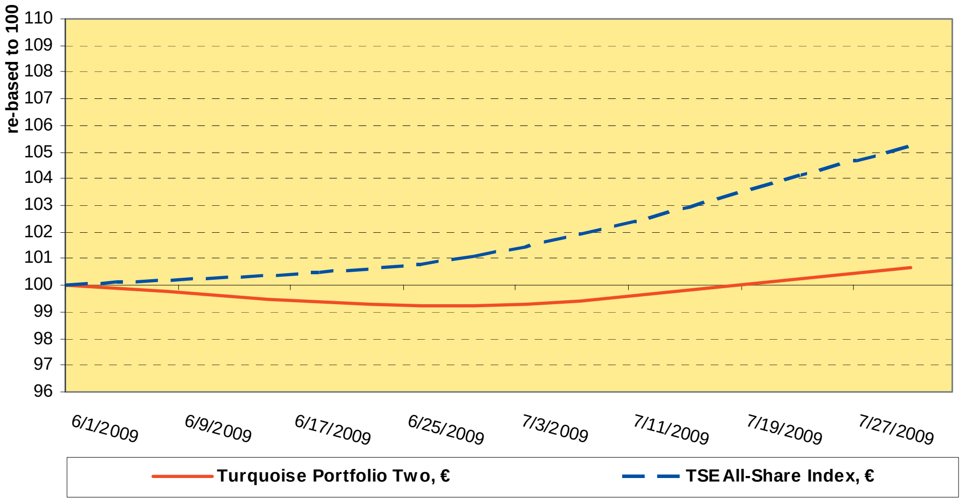
As of 15 August 2009

Period	Portfolio Return
Last Month	⬆ 6.5 %
Last 3 Months	⬆ 6.5 %
Last 6 Months	⬆ 13.2 %
Last 12 Months	⬇ 18.9 %
Since Inception (30 May 06)	⬆ 48.1 %

Portfolio Two

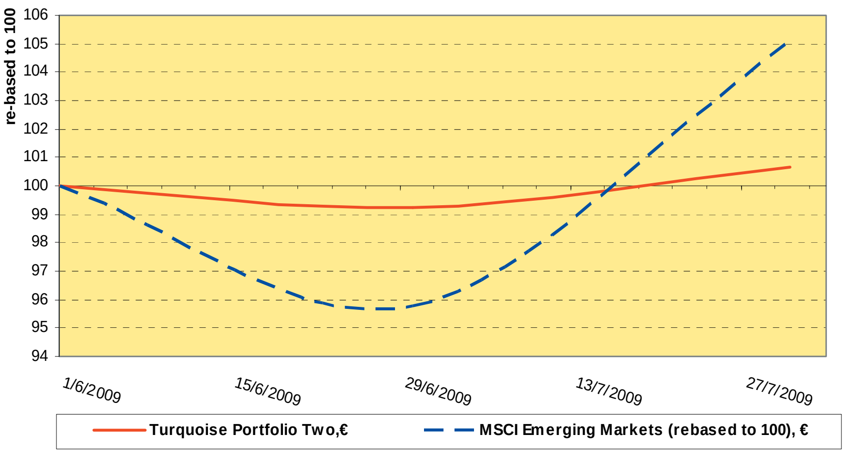
Investment Vehicle Turquoise Partners Ltd.	**Currency** Euro (€)	**Management Fee** 2.0% p.a	**Liquidity** 3 years lock-up with annual liquidity provisions
Vehicle Domicile British Virgin Islands		**Carried Interest and Hurdle** 20% - N/A	
Launch Date 01 June 2009	**Benchmark** Tehran Stock Exchange All-Share Index (TEPIX), €	**NAV Calculation** Monthly	**Minimum Investment** €200,000

Turquoise Portfolio Two vs. TSE All-Share Index (TEPIX), Euro - As of 31st July 2009



	May 09	Jun 09	Jul 09
Turquoise Portfolio Two	- - -	⬇ 0.8 %	⬆ 1.4 %
TEPIX	- - -	⬆ 0.1 %	⬆ 4.1 %

Turquoise Portfolio Two vs. MSCI Emerging Markets, Euro - As of 31st July 2009



As of 31 July 2009

Period	Portfolio Return
Last Month	⬆ **1.4 %**
Last 3 Months	**N/A**
Last 6 Months	**N/A**
Last 12 Months	**N/A**
Since Inception (01 June 09)	⬆ **0.6 %**

The Nabucco gas pipeline deal and Iran's two airplane crashes in July will be the topics of discussion in this edition of Country Overview.

On 13th July, an international gas pipeline deal, known as Nabucco, was signed between Turkey, Romania, Bulgaria, Hungary and Austria. The 3,300 kilometer Nabucco pipeline will transfer natural gas from North West Asia to Europe. The project is estimated to cost €8 billion in total, and is expected to be completed in 2014. Upon completion, approximately 13 billion cubic feet of gas per annum will be transferred to Europe. This amount is expected to increase to 30 billion cubic feet by 2020. The aims of this project are to diversify Europe's gas resources and to reduce its dependency on Russia to supply its natural gas.

Iran's absence from this deal was notable. There has been considerable pressure from the US to keep Iran out of the deal. According to Turkish officials, Iran was not invited to the deal due to the uncertainties surrounding its nuclear dispute with the West. Nevertheless, it was argued that Iran should be a part of the deal. Iran has the world's second largest gas reserves and Europe has expressed its willingness to buy Iranian gas. Initially, Nabucco's gas is to be supplied by Azerbaijan and Turkmenistan. However, the reserves of these two countries will not be sufficient to reach the 30 billion target of the pipeline. Consequently, experts feel that Iran's eventual participation in the deal is inevitable.

Last year, Iran signed a 25 year deal with Switzerland for the annual export of 5.5 billion cubic meters of natural gas. The deal is estimated to be worth €22 billion and the pipeline, which will transfer Iran's gas to Italy, is expected to be completed in 2010.

In July, there were two fatal airplane accidents in Iran that resulted in 185 deaths and 33 injuries. The first incident took place on 15th July, when a Caspian Airlines plane that was flying from Tehran to Yerevan, the Armenian capital, crashed near the city of Qazvin in North Western Iran. In this accident, all 168 people on board were killed. The crash also resulted in fires at several farms near the crash location. The plane was a Russian made Tupolev, Tu-154. The second accident happened on 24th July. An Aria Tour airplane was forced to make an emergency landing in the city of Mashhad's airport. However, it skidded off the runway and collided with a wall, killing 17 and injuring 30 people. The aircraft was an Ilyushin 62, also Russian made.

Over the past 10 years, at least 13 fatal accidents have taken place within Iranian civil aviation. Experts blame US sanctions for these incidents. They argue that due to sanctions; Iran has not been able to renew its ageing aircraft fleet. In addition, obtaining parts has proven cumbersome and expensive. The majority of Airbus and Boeing planes that operate in Iran were purchased before the Islamic revolution in 1979. For this reason, Iran has been forced to purchase or lease other planes such as Russia's Tupolev and Ukraine's Antonov, which have a poor safety record among the world's passenger aircraft. Statistics show that around 25% of aviation accidents in Iran involve Russian planes.

In 2008, Iran signed a deal with Russia for the purchase of 100 new Tupolevs for the sum of $1 billion. The agreement is for the purchase of Tu-204 and Tu-214 models, and the delivery is expected to take place over a period of 10 years.

Iran's Automotive Industry

The establishment of the automotive industry in Iran dates back to over four decades ago. Iran Khodro (previously known as Iran National) began its operations in 1962. Today, Iran Khodro is the largest car manufacturer in the Middle East by volume, and among the 20 largest in the world. In 2008, Iran Khodro produced more than 1 million vehicles. This total comprises 1.2% of global production. Over the years, several other players including Saipa and Pars Khodro have entered the market.

Between 1993 and 2003, the government imposed a series of restrictions on importing passenger vehicles. These restrictions, along with the ever increasing consumer demand, resulted in a very benign market for domestic manufacturers. As a result, these companies have seen their businesses grow strongly and increase their profitability. In 2003, restrictions were lifted and despite high import tariffs (currently 90%), import volumes have shown strong growth year on year. In 2008, 13,500 vehicles with a total value of $275 million were imported into Iran.

Since 2003, conditions have gradually deteriorated for car manufacturers in Iran and companies have seen their profits shrink year on year. One of the key reasons is that the domestic sale price of the vehicles is determined by the government, and the government has kept prices at the same level for the past few years. This means that both the high inflation rates in Iran and also the rise in raw material prices of the past few years have resulted in lower profit margins for these companies. A number of unsuccessful products have also been launched, although some of these have been discontinued. Furthermore, experts have identified low productivity rates as another reason for the troubles of the industry. They argue that the majority of production lines operate inefficiently. In some cases, this is put down to incompetent management teams. Competition from imported vehicles has also had a slight effect. However, due to the high import tariff, there is a considerable price differential between comparable imported and domestically manufactured vehicles.

Among the car manufacturers, Iran Khodro has suffered the most. In 2003, Iran Khodro discontinued its low cost and also its most profitable car, Peykan. Its replacement model was unsuccessful and Saipa, Iran Khodro's main rival, was able to quickly absorb Iran Khodro's market share. Also, over the past few years, Iran Khodro has established a number of production lines in countries such as Syria, Egypt, Azerbaijan and Venezuela. Experts believe that some of these production lines are loss making and that the move was politically motivated.

In 2009, Iran Khodro made a loss for the first time in its history. The company announced a loss of $177 million for the year ended 21st March, $150 million of which has come from its exports and production lines abroad. In addition, its large bank debts of approximately $5.5 billion (against assets of $10 billion) have placed significant financial distress on the company. In July, the government approved a rescue package of $1 billion for Iran Khodro. Half of this amount will be available immediately in the form of a loan from the government and the other half will be provided upon the condition of the sale of some of its assets, including a 30% holding in Parsian Bank, as well as the closure of its non-profitable production lines.

Saipa and Pars Khodro do not currently face financial difficulties. Nevertheless, it is evident that structural changes in the sector and revisions in governmental policies are needed for the Iranian automotive sector to recover and continue its growth.

A New Private Bank in Iran

A new privately owned bank has received a license from the Central Bank. Taat Bank will be the 8th privately owned bank in Iran. This bank is expected to become operational towards the end of this year. Taat has a share capital of $200 million. Of this, 75% has been paid up or committed by the founders and the other 25% will come from public subscription. Founders include Saipa Investment Company, the National Olympic Committee, the Iranian Football Federation and two football clubs.

Historically, the minimum share capital for a bank start-up was $350 million. However, in order to promote the banking sector and encourage new banks to enter the market, the Central Bank reduced this requirement to $200 million in 2008.

Iran's Oil and Gas Explorations

Over the past two years, a total of 15 oil and gas fields have been discovered in Iran. This puts Iran at the top of the list of countries with oil and gas discoveries, ahead of countries such as Brazil, Venezuela, Algeria and Norway. The Iranian Oil Ministry estimates that the newly discovered fields will increase Iran's oil reserves by 4 billion barrels and gas reserves by 73 trillion cubic metres.

A number of exploration projects have taken place around the Caspian Sea region. The Oil Ministry estimates that Iran's extractable oil and gas reserves in the Caspian Sea amount to 15 billion barrels of oil and 11 trillion cubic metres of gas. In July, Iran took the first step towards utilising the Caspian Sea reserves. The Alborz drilling platform was officially launched this past month. This project has needed 8 years and a total cost of $250 million to complete.

About Turquoise

Turquoise is a boutique investment bank based in Iran with offices in Tehran and London. Turquoise creates financial products and offers financial services to select clients and investors who are interested in the Iranian market. Having a qualified and diverse management team based both in Europe and in Iran enables Turquoise to benefit from coupling local knowledge and presence with global expertise.

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

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

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