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TURQUOISE PARTNERS

Alborz , Iran 's First Semi Floating Oil Extraction Platform in the Caspian Sea

THIS MONTH

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The Tehran Stock Exchange (TSE) experienced increased volatility in November. Following its positive performance of the past few months, the TSE began the month on a downward trajectory. Analysts believe that the bullish market sentiment since the beginning of the Iranian year and price gains above most forecasts had resulted in price bubbles in several sectors. Consequently, price corrections were very much expected. The price falls of early November, however, were short lived. An inflow of new funds into the equity market and a demand for shares brought about some level of stability and prevented a significant reversal in the market. This showed that many investors hold different views on the short-term market outlook. Nevertheless, the vast majority of market players demonstrated a greater aversion to risk over the past month and took a more cautious stance.

The targeted subsidies plan had come to a halt due to disagreements between the parliament and the government over some of the operational aspects, and was pushed back by the Guardian Council. The Council's reason was inconsistency with the Iranian constitution. All acts and by-laws approved by the parliament also need the Guardian Council's approval before they can become enforceable. It now seems increasingly less likely that the plan will be implemented from the beginning of next year, as was intended. The targeted subsidies plan would have major implications for the equity market, as it would significantly impact manufacturers' costs.

Increasing tensions between Iran and the West over the Iranian nuclear programme dominated the market sentiment towards the end of the month and heightened selling pressures in the market. Analysts predict that price corrections will continue through the next month.

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

Oil and Gas Extraction

Haffari Shomal (North Drilling Co.) is currently the only listed company within this sector. Haffari was privatised in July 2009 through an offering of 15% of the shares on the TSE. Since then, it has attracted huge attention from investors and enjoyed large trading volumes. The total volume of stock trading for this company has exceeded $300 million since its privatisation.

After a 40% upward adjustment of earnings forecast, the stock re-opened for trading in November. However, the stock's price did not change significantly upon reopening. Analysts believe that the adjustment was widely expected and had already been priced in. The company also announced that its first semi-floating extraction platform in the Caspian Sea will become operational from the beginning of 2010.

On the day of reopening, more than 3.5% of the shares of the company changed hands, amounting to approximately $30 million worth of trades. A 20% stake of the company is expected to be offered as a block by the government next month. Interested parties are believed to be increasing their stakes in the company and are expected to compete fiercely for the block, in order to gain a position on the company's Board of Directors.

Engineering services

On 16th November, an attempt by the Iranian Privatization Organization (IPO) to sell a 20% stake in MAPNA as one block was unsuccessful. MAPNA is a power plant management and engineering services group with electricity production capacity in excess of 5,000 Mega Watts. The IPO gave technical difficulties as the reason for the postponement of the deal. However, there are rumours in the market that there is currently no customer for the block.

Following this, the stock experienced significant selling pressure for the rest of the month. Shares of MAPNA, which have been among the best performing since the beginning of the year, lost 17.8% in value in November.

Steel and Iron Ore

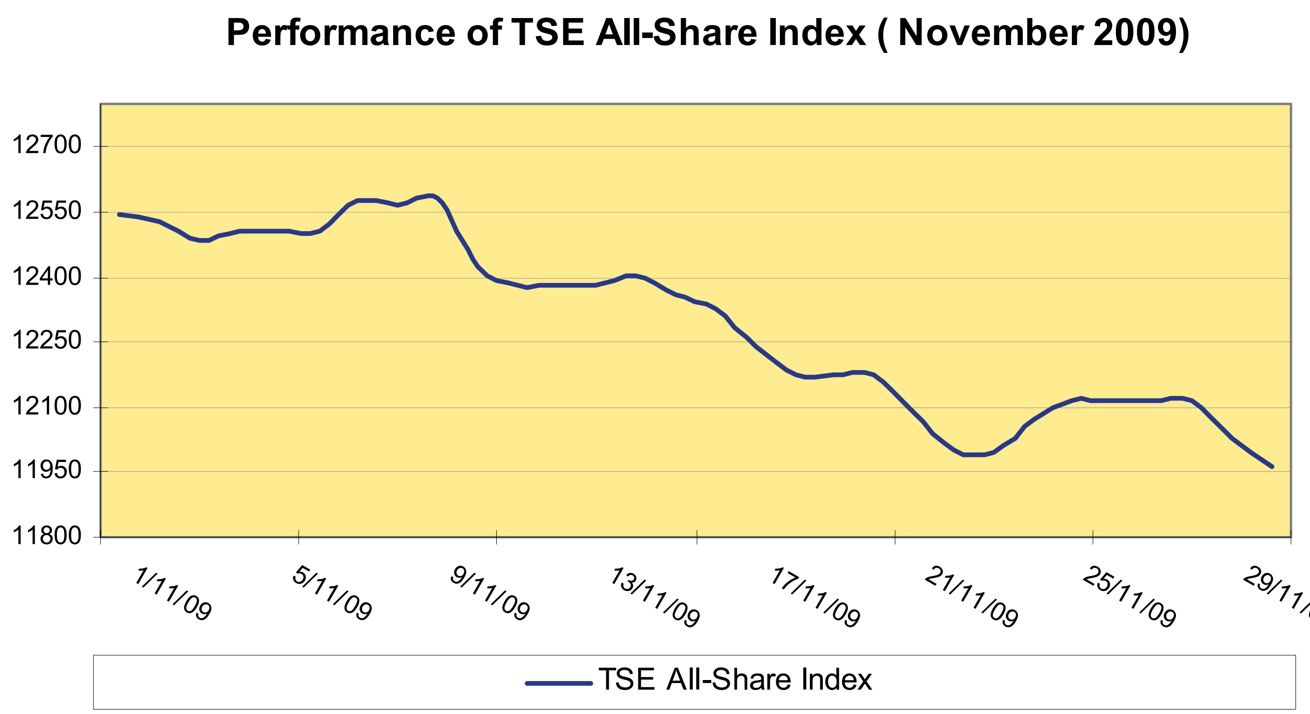
The iron ore price has sparked a great deal of debate between iron ore producers and steel manufacturers this year. Every year, the price is determined by the government through a negotiation process between the two parties. In the third week of November, an agreement on the price of iron ore was finally reached. This year, rather than setting a fixed price, the price of iron ore has been pegged to the price of steel billet, as traded on the Iranian Mercantile Exchange. Although, this will lead to a decline in the earnings of iron ore producers this year, analysts believe that this is a positive outcome for the sector. They argue that since steel prices in Iran are closely linked to global prices, iron ore producers can now benefit from global price gains.

Stocks of iron ore and major steel producers are currently closed to trading for the revision of their earnings forecasts for the existing year.

Telecom

In November, the Telecommunications Company of Iran (TCI) held an Extraordinary General Meeting (EGM). Tose Etemad Mobin consortium, which bought 50% plus one share of TCI in September in a controversial deal, won the majority of seats on the company's Board of Directors. TCI's 3 year business plan was also revealed during the meeting. A notable aspect of the business plan was the company's intention to lobby the government to liberalise tariffs on landline phone calls. This part of TCI's business is currently loss making and according to the management team, liberalisation of tariffs could result in an $800 million increase in revenues. This amount is the equivalent of the TCI's net earnings for the current year.

Overall, the Tehran Stock Exchange experienced a downturn in November, with the TSE All-Share Index losing 4.1% of its value. Trade volumes stood at $920 million, a 16% decline from the previous month.



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 (Closed)

Investment Vehicle
Pars Pelican Firouzeh

Vehicle Domicile
Iran

Launch Date
30 May 2006

Currency
Iranian Rial (IRR)

Benchmark
MSCI All Countries (AC) World Index, US$

Management Fee
2.5% p.a

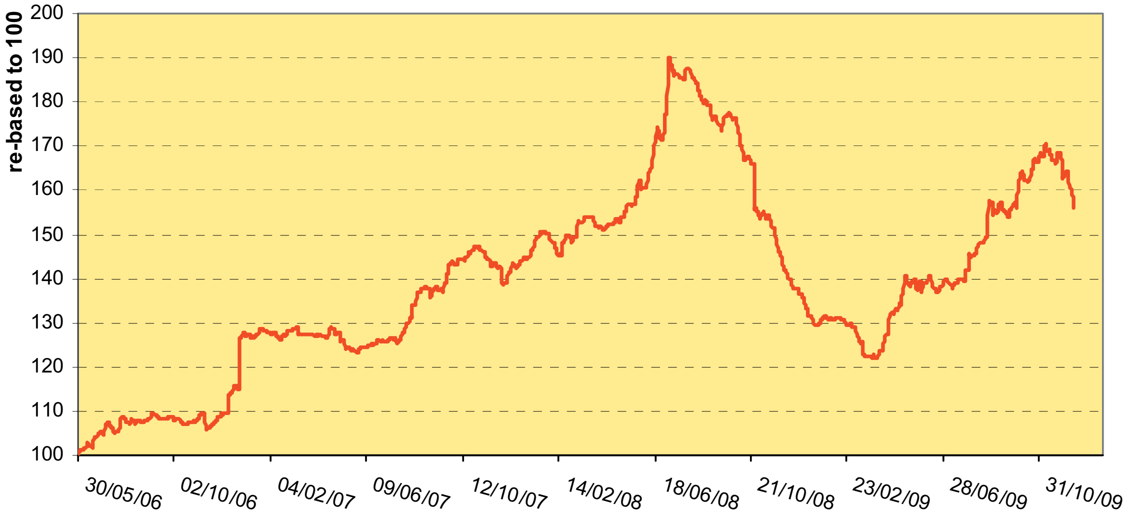
Carried Interest and Hurdle
20% - 8%

NAV Calculation
Daily

Liquidity
N/A

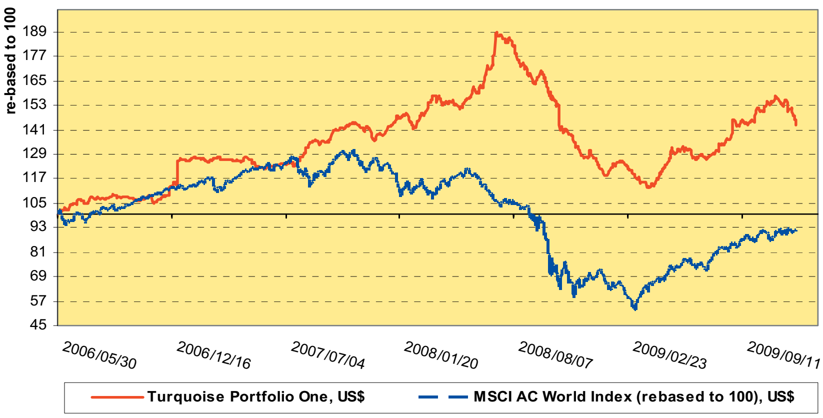
Minimum Investment
Closed to New Investments

Turquoise Portfolio One, Iranian Rial - As of 15th December 2009



	Sep 09	Oct 09	Nov 09
Turquoise Portfolio One	⬇ 0.2 %	⬆ 6.5 %	⬇ 0.4 %

Turquoise Portfolio One vs. MSCI AC World Index, US Dollar As of 15th December 2009



Portfolio One Performance, IRR

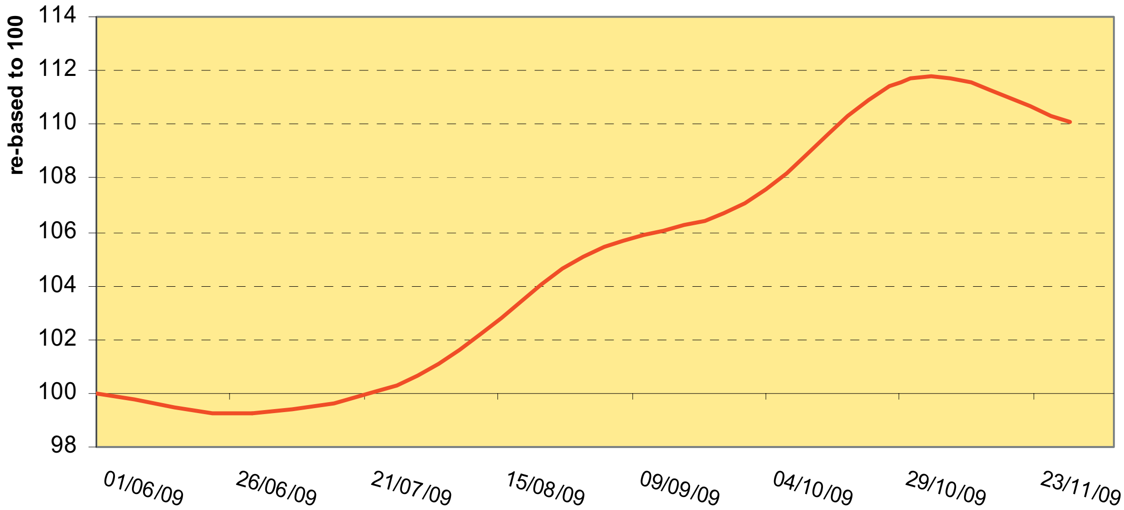
As of 15 December 2009

Period	Portfolio Return
Last Month	⬇ 7.2 %
Last 3 Months	⬆ 0.3 %
Last 6 Months	⬆ 12.6 %
Last 12 Months	⬆ 12.9 %
Since Inception (30 May 06)	⬆ 55.9 %

Portfolio Two

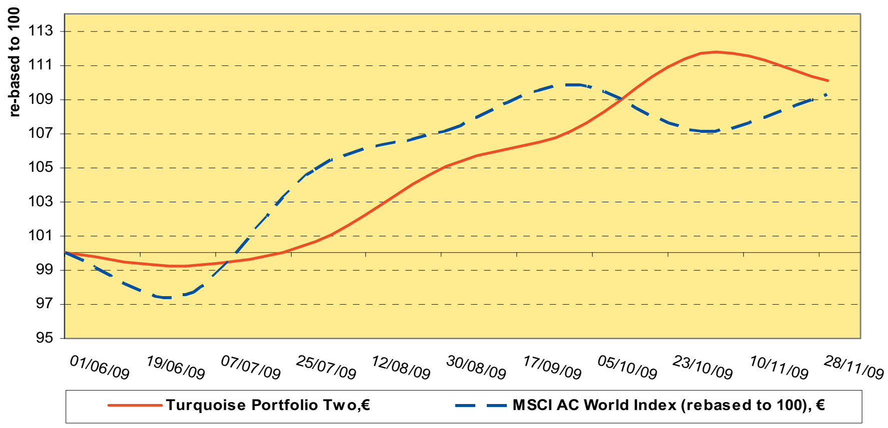
Investment Vehicle Turquoise Partners Ltd.	**Currency** Euro (€)	**Management Fee** 2.0% p.a	**Liquidity** 3 years lock-up with annual liquidity provisions
Vehicle Domicile British Virgin Islands	**Benchmark** MSCI All Countries (AC) World Index, €	**Carried Interest and Hurdle** 20% (High Water Mark Applies)	
Launch Date 01 June 2009		**NAV Calculation** Monthly – by Administrator	**Minimum Investment** €200,000

Turquoise Portfolio Two, Euro - As of 30th November 2009



	Sep 09	Oct 09	Nov 09
Turquoise Portfolio Two	⬆ 1.9 %	⬆ 4.3 %	⬇ 1.4 %

Turquoise Portfolio Two vs. MSCI AC World Index, Euro As of 30th November 2009



Portfolio Two Performance, €

As of 30 November 2009	
Period	**Portfolio Return**
Last Month	⬇ 1.4 %
Last 3 Months	⬆ 4.8 %
Last 6 Months	⬆ 10.1 %
Last 12 Months	N/A
Since Inception (01 June 09)	⬆ 10.1 %

A review of the Iranian privatisation programme; and the tensions over the Tehran Metro are the topics of this edition of Country Overview.

After the Islamic Revolution in 1979, large Iranian corporations were nationalised. Article 44 of the Iranian constitution stated that all important sectors of the economy must be controlled by the state. It was not until the early 90's that economic liberalisation was first seen under the Islamic Republic. During the presidencies of Rafsanjani and Khatami, privately-owned companies began to appear in several sectors such as banking, insurance, telecommunications and the airline industry.

In 2005, a major privatisation programme in Iran commenced. In that year, the Supreme Leader, Ayatollah Khamenei, called for a reinterpretation of Article 44. The reinterpretation requires the government to sell its assets and reduce its role in the economy to a maximum of 20%. Only the upstream oil and gas industry and a number of security-related industries will remain under state control. According to the government's privatisation programme, $120 billion of government assets are to be privatised over a period of 8 to 10 years. The Tehran Stock Exchange has been selected as the main vehicle through which the privatisation occurs, although other methods are also used. To date, 12 companies have undergone privatisation through an exchange listing. The National Iranian Copper Industries Co. (NICIC), Mobarakeh Steel Co. and the Telecommunications Company of Iran (TCI) are some of the principal examples.

One of the key plans implemented by the government as part of the privatisation programme is the "Justice Shares" scheme. In this scheme, stakes of typically between 20 to 30% of companies listed for privatisation are transferred into special funds. The government will be reimbursed for these disposed assets through future dividends of the companies. Shares of these funds are then distributed among families, starting with lower income social classes. The aim is that eventually all Iranians will become shareholders under this scheme. These shares cannot be sold for at least 10 years and the shareholders will receive a dividend for their shares each year. The government claims that the Justice Shares scheme will reduce poverty levels and help bring about an even distribution of wealth among social classes.

The Justice Shares scheme has many critics among the experts. One of the main criticisms is that the scheme will pressure companies to pay high dividends. This could potentially hamper their development plans. In addition, the scheme is operated under the direct supervision of the government. Also, company stakes in the scheme are unable to be transferred to the private sector for the foreseeable future. This, in the view of the opposition, is against the spirit of the privatisation programme.

The need for and the benefits of the privatisation programme are widely recognised. However, the government's execution of the programme has come under heavy criticism by various groups. The discontent reached its peak when 50% plus one share of the TCI was sold to a consortium comprising of quasi-governmental institutions. Criticisms may be best reflected in a parliamentary report published last month. In November, the parliament issued its first assessment of the manner in which the government has carried out the reinterpretation of Article 44. The general consensus seems to be that the privatisation has not taken place exactly as expected, and that a new factor, namely the expansion of quasi-governmental entities, has emerged. Also, according to the parliamentary report, while shares and ownership of state-owned companies have been surrendered, in certain cases the management of the companies has remained closely linked to the government. Experts believe that the report refers to the TCI case. The report also stated that certain senior managers connected to the government have resisted allowing the privatisations to follow their intended course.

Privatisation in Iran is faced with a number of challenges such as the limited amount of investment from the private sector. Nevertheless, despite such difficulties, Iran has demonstrated its commitment towards privatisation. This presents a great opportunity for both private and also foreign investors into the Iranian economy. The outright sale of Razi Petrochemical to a Turkish consortium in 2008 is a good example of foreign participation in the Iranian privatisation programme.

Plans for the construction of the Tehran underground railway system, Metro, date back to the 1970's. However, development was halted after the Islamic revolution and did not resume until a few years after the Iran-Iraq war. The first line became operational in 1999, and construction is still continuing. The Tehran Metro is one of the largest and most advanced transport systems in the Middle East.

In 2000, the management of Metro was transferred from the government to the Tehran Municipality. Since then, there have been numerous disagreements between the government on one side and the Municipality and the Tehran Metro Company on the other. These disagreements relate to the allocation of the budget for the development of the Metro system. On numerous occasions, the Metro's managing director has expressed his discontent with the amount of investment made by the government into the development of the Metro. The government has also criticised the Metro Company and the Municipality for poor service conditions and their inability to improve traffic conditions in Tehran.

Relations between the two parties entered a new phase in November. In a speech, President Ahmadinejad accused the managing director of the Metro of mismanagement and announced his intentions to re-assign management of the Tehran Metro back to the government. This announcement was met with a great deal of disapproval from the Mayor of Tehran, Mr. Ghalibaf, and the managing director of the Tehran Metro Company, Mr. Hashemi. They stated that Ahmadinejad's plan violated the aims of the privatisation programme. In addition, this launched a frenzy of heated exchanges between media supporting the government and media supporting the other parties. The opposition argued that Ahmadinejad's plan had a political dimension. This is because Mr. Hashemi of the Tehran Metro is the son of Ayatollah Hashemi Rafsanjani, head of the Expediency Council and the Assembly of Experts, and Iran's President between 1989 and 1997. Ahmadinejad launched a series of accusations of fraud against Rafsanjani and his sons during his presidential campaign for the June 2009 elections.

Tensions between the two sides were finally eased by a parliamentary intervention. The parliament approved a $1 billion budget for the development project. This amount is to be withdrawn from the foreign reserves.

Real Estate in Iran

The latest published official statistics revealed further declines in activity in the real estate sector. According to the Central Bank of Iran, the amount of investment into the real estate sector in the first 3 months of the existing Iranian calendar year (March – June) fell to $2.1 billion. This total stood at $2.6 billion for the same period last year. It should be added that the 12 month average inflation rate in the Iranian calendar year 1387 (which ended 20th March 2009) stood at approximately 25%. In addition, the number of permits issued for residential apartments for the period in question fell by 62% for Tehran and 44% for other major cities in comparison to the same period last year.

The latest data from the Statistical Centre of Iran shows that house prices on average declined 20% from the summer of 2008 to the summer of 2009. This decline, however, is very modest considering the extraordinary growth of the past few years and also in comparison to many other Middle Eastern markets. Unofficial data from various sources indicate that house prices in summer 2009 have increased by 6-10% from those in the spring of the same year. However, experts argue that any increases are seasonal and do not necessarily indicate a recovery in the market.

The real estate sector has played an increasingly important role in the Iranian economy. As at the end of the Iranian calendar year 1386 (20th March 2008), the real estate sector accounted for 5% of the GDP. Following a decade of sharp rises in real estate prices, the market entered a slow-down period from early 2008. The fall in the crude oil price, and the Central Bank's heavy-handed interventions are viewed as the main reasons for the slow-down in the Iranian real estate market.

Iran's Gold Market

Gold has found a firm place as a safe asset in the Iranian market. For the past three decades, gold coins have been used as a savings mechanism to beat inflation, a low risk investment and as a gift by Iranians. In fact, the price of a gold coin has increased 6 fold over the past decade. Gold coins are made and distributed by the Central Bank. The price of a coin is calculated according to a formula and is a function of the gold price, although supply and demand pressures can distort the price. The gold price in Iran is also a product of the global price and the Central Bank's official US Dollar exchange rate. There is a significantly large secondary market in gold coin in Iran and it is regarded as a very liquid asset. Estimates show that as of March 2007, the size of the Iranian gold coin market stood at $8 billion, and it is growing at tremendous rates.

Increases in the global gold price over the past few months have had an impact on the Iranian gold coin market too. The rising price brought about a surge in demand for gold coins, such that the price of a coin rose from $240 at the end of October to $280 in the final week of November. However, at this point, the Central Bank flooded the market with $1.4 billion of gold coins, resulting in a $10 price fall. The Central Bank stated that a 10-15% price bubble existed in the market and that the Bank's intervention was necessary in order to control the market.

In November 2008, a market for gold coin Futures was opened on the Iranian Mercantile Exchange (IME). This market has grown considerably over the past year. As of the end of November, gold coin Futures open contracts amounted to $3.5 million.

First Sukuk in Iran

In November, Maskan Bank, a state-owned specialist mortgage lender, announced its plan to become the first issuer of Sukuk papers in Iran. Sukuk are Islamic (Sharia-compliant) debt instruments, structured to mimic the economic effects of conventional bonds. In terms of their structure, they are typically asset-backed securities. Maskan Bank has by far the largest mortgage portfolio in Iran and is planning to collateralise a part of its mortgages for the issuance of Sukuk. According to its senior management, Maskan Bank is well positioned to take advantage of its portfolio of high quality assets in order to expand its capital base.

Currently, there are no conventional bonds in Iran. Interest payments are forbidden under Sharia law and for this reason, the Islamic banking law of Iran does not allow for conventional bonds. Regulations relating to Sukuk were put in place by the Securities and Exchange Organization (SEO) approximately two years ago, as part of its plans for the development and expansion of financial markets and instruments in Iran.

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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