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TURQUOISE PARTNERS

Iran Khodro's Production Line in Tehran , Iran 's Largest Car Manufacturer

THIS MONTH

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March 2010

In March, the Tehran Stock Exchange bucked its historical trend. Every year, trading activity tends to fall in March, as the Iranian New Year (which began on 21st March) approaches. The calendar year-end is also the financial year-end for more than 80% of companies listed on the TSE. This year, the TSE had its best performance in March since 2003. Trade volumes were also considerably higher than usual for this time of the year.

Improvements in global economic data and gains in the prices of crude oil and commodities were assessed as the main reasons for the price rallies in the TSE. A notable observation from this month was the strong presence of individual investors in the market. Institutional investors accounted for less than 50% of the trades in March.

Overall, the TSE All-Share Index gained 7.8% in value in March. Trade volumes amounted to approximately $520 million, 50% lower than the previous month but 225% higher than March 2009.

April 2010

In April, the TSE experienced one of its strongest monthly performances. Trade volumes also reached their highest level for 3 years. Over the past few months, there has been a concerted effort by the government and related authorities to promote the capital market. As a result, a considerable displacement of capital from parallel investment markets, such as the real estate market, into the equity market has taken place. This was assessed as one of the reasons for the strong performance of the Iranian market over the past 6 months. However, some analysts argue that some of the recent trades have been of a speculative nature and that price bubbles are now evident in a number of stocks.

In the final week of April, the TSE experienced a trend reversal, in line with the falls in global prices of crude oil and commodities. The bullish sentiment of the market quickly dissipated and profit taking resulted in increased selling pressure in commodity related stocks. In this one week, the TSE main index lost 0.8% of its gains in April.

On 11th April, the Iranian Privatization Organization published its privatisation list for the new Iranian calendar year. This year's list is substantially larger and more diversified than those of the previous years. Among the companies listed for privatisation, Iran Air, Isfahan Zob Ahan (iron smelting), Homa Hotels Group, Tabriz Refinery, Post Bank and Dana Insurance are the most important.

Overall, the TSE All-Share Index gained 8.2% in value in April. Trade volumes stood at $1.35 billion, showing a 160% increase from March.

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

Engineering & Services

This sector was the best performing sector of the market over the past two months. The sector index gained 30% in value in March and 49% in April. Iran Marine Industries Co. (SADRA) enjoyed a 95% share price increase over the past two months. SADRA specialises in building ships, docks and floating oil rigs, and is very much dependent on the government to win contracts. Since its privatisation in 2003, SADRA had failed to obtain any major contracts from the government. However, the transfer of its management control last year from Melli Bank to a subsidiary of the Revolutionary Guards has proven beneficial to the company. SADRA has managed to secure a series of contracts worth $7 billion in the South Pars oil field. In addition, interest on its bank loans of $300 million and other debts will be frozen for 1 year.

Automotive

News about the sale by the government of 2 blocks of shares of Iran Khodro and Saipa, Iran's two major car manufacturers, sparked huge interest in this sector. The sector index gained 11% in value in March and 18% in April. However, in the third week of April, the government postponed the sale of the blocks. This resulted in the buying demand quickly turning into significant selling pressure, and the shares of Iran Khodro and Saipa plunged for the rest of the month.

The automotive sector in Iran is now on the verge of becoming a loss making sector. The sale price of domestically made cars has been frozen by the government for the past 5 years, while production costs have risen sharply. The weighted average price to earnings ratio of the sector is 3.2.

Steel and Iron Ore

Companies in these two sectors were among the best performers of the past two months. Over the course of March, billet, a key product for steel manufacturing, experienced a 33% price increase on the Iranian Mercantile Exchange (IME). Following the liberalisation of the price of iron ore last year, the iron ore price is now pegged to the price of steel. This means that iron ore producers can also benefit from steel price hikes.

The downturn in global markets in April had its impact on the steel and iron ore sectors too. In the second half of April, the price of steel products fell by an average of 15% on the IME. Not surprisingly, the stocks of companies in these two sectors experienced selling pressure towards the end of the month.

Cement

In April, cement was accepted for trading on the IME. This was deemed as a major development for the cement sector, as it brings transparency to the pricing of cement and eliminates black market activity. However, there was little reaction to this development on the TSE. The cement sector has been out of favour with investors for some time for two main reasons. Firstly, the slowdown in the real estate market has made business conditions more difficult for cement producers. Secondly, in the view of many analysts, the removal of energy subsidies poses the highest risk to the cement sector. The cement sector is heavily dependent on energy. In the case of the more dated production plants, the cost of energy comprises up to 25% of production costs.

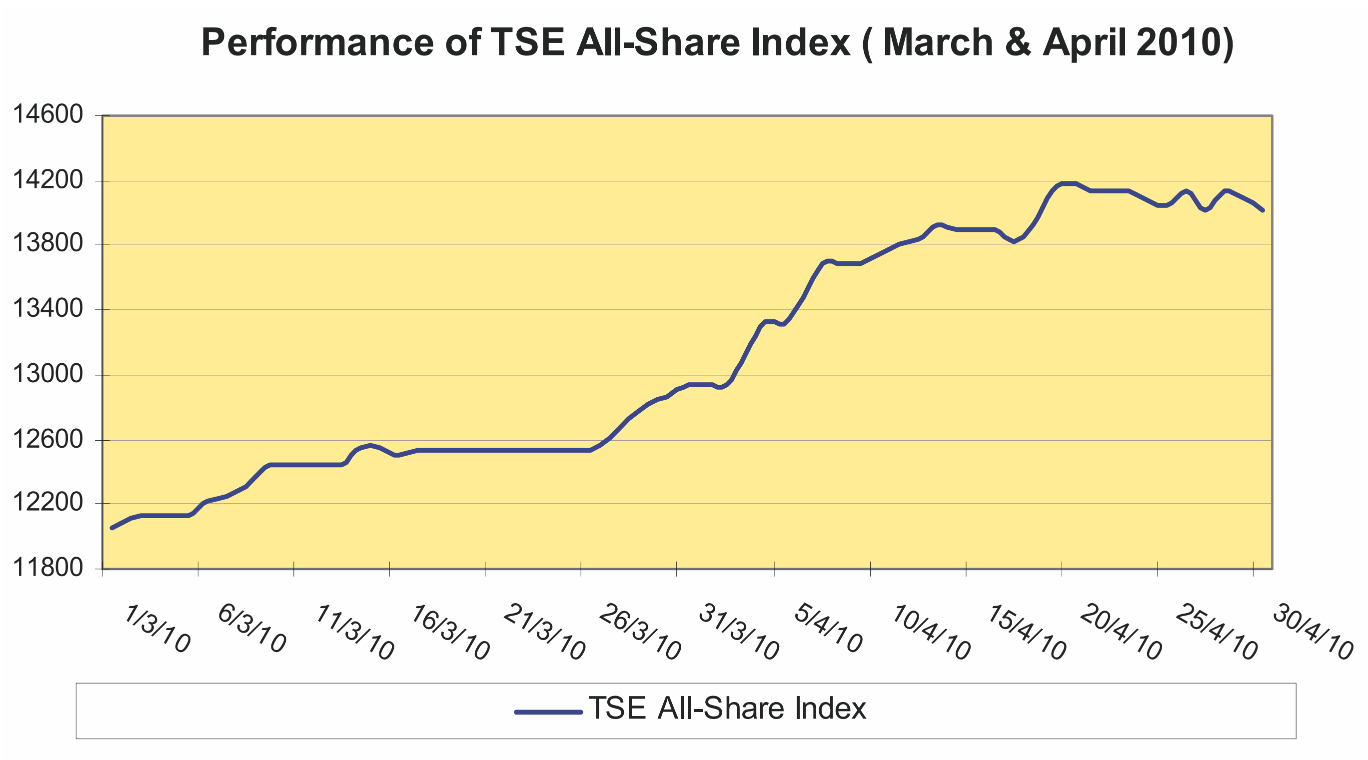
The cement sector's weighted average price to earnings ratio is 4.4, with a number of companies trading at earnings multiples in the region of 3.

Petrochemical

Khark Petrochemical, the largest listed petrochemical company by market capitalisation, appears to be the first victim of the subsidies removal plan. In its budget for the new financial year, Khark has reflected a 150% increase in the price of its feedstock (sour gas). This has resulted in a 23% decline in its earnings forecast, in comparison to the previous year. The company, however, has indicated that it has appealed against the decision of the government. Despite the sharp increase in the price of feedstock, Khark remains a highly profitable methanol producer and retains its competitive advantage over many other producers around the world.

OTC Market

On 15th March, Iranian Leasing Co. became the 4th listed company on the Iranian Over-The-Counter (OTC) market. 10% of this company was sold on the market on this day, at a market capitalisation of $160 million and a price to earnings ratio of 4.8. The Iranian OTC opened for trading in September 2009 and has grown enormously since then.

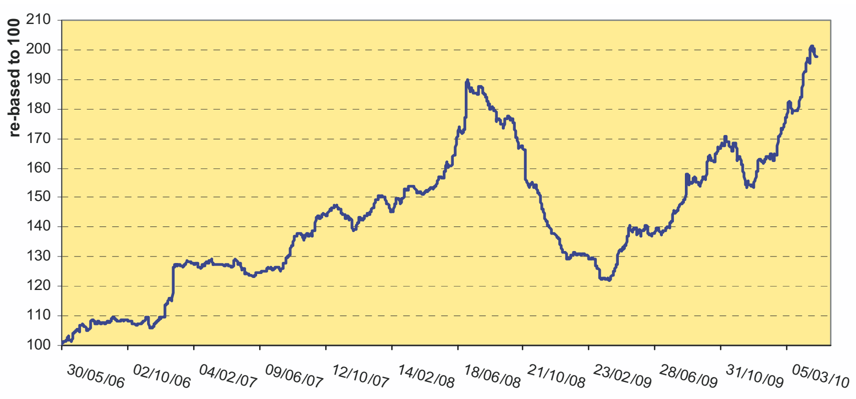


Investment Objective – The Turquoise Equity Investments seeks superior long-term capital growth by investing in the consumer and commodity potential of Iran, one of the most undervalued emerging markets in the world. Turquoise combines international experience with local expertise in investing in equities 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) NAV = 197.8

Vehicle Domicile	Launch Date	Currency
Iran	30 May 2006	Iranian Rial (IRR)

Portfolio One Performance (Iranian Rial) - As at 30th April 2010

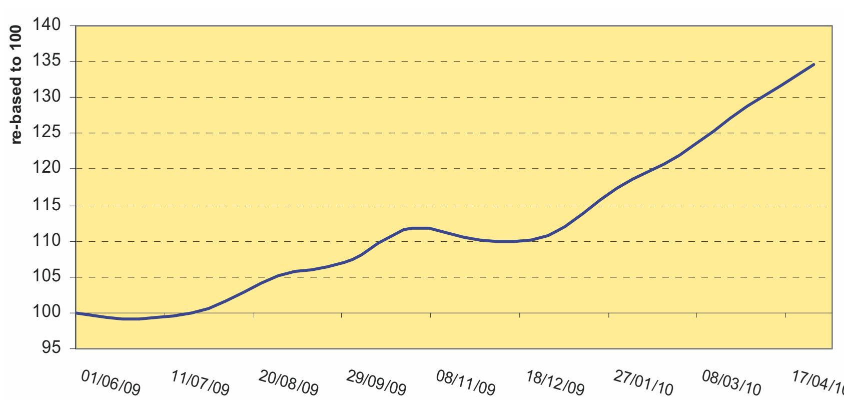


Period	Portfolio Return
Last Month	7.5 %
Last 3 Months	21.2 %
Last 6 Months	18.3 %
Last 12 Months	49.1 %
Since Inception (30 May 06)	97.8 %

Portfolio Two (Open) NAV = 134.7

Vehicle Domicile	Management Fee	Currency
British Virgin Islands	2.0% p.a	Euro (€)
Launch Date	**Carried Interest**	**Minimum Investment**
01 June 2009	20% (High Water Mark Applies)	€100,000

Portfolio Two Performance (Euro) - As at 30th April 2010

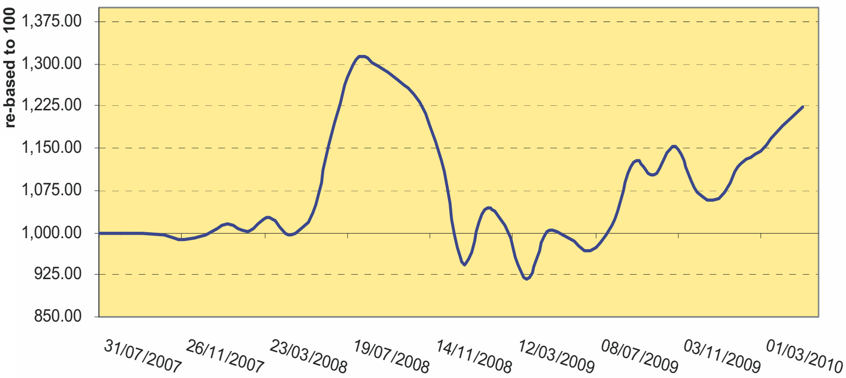


Period	Portfolio Return
Last Month	4.6 %
Last 3 Months	14.8 %
Last 6 Months	20.6 %
Last 12 Months	N/A
Since Inception (01 June 09)	34.7 %

Class C (Closed) NAV = 1044.3

Vehicle Domicile	Launch Date	Currency
British Virgin Islands	10 July 2007	Euro (€)

Class C Performance (Euro, Inc. Dividend) - As at 30th April 2010

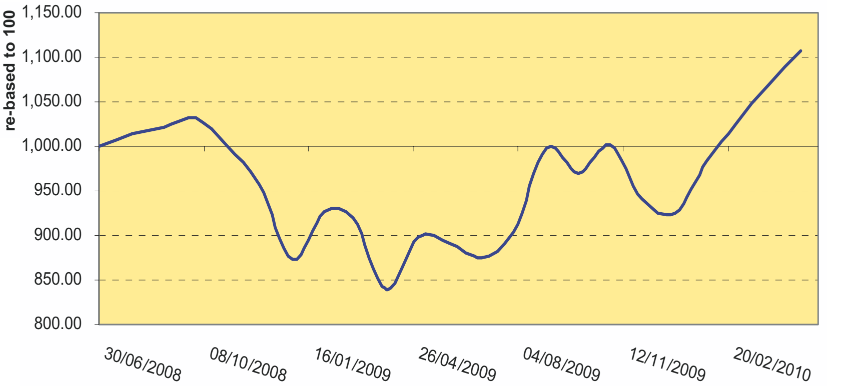


Period	Portfolio Return
Last Month	3.4 %
Last 3 Months	19.5 %
Last 6 Months	6.8 %
Last 12 Months	24.6 %
Since Inception (10 July 07)	22.4 %

Class D (Closed) NAV = 1026.3

Vehicle Domicile	Launch Date	Currency
British Virgin Islands	30 June 2008	Euro (€)

Class D Performance (Euro, Inc. Dividend) - As at 30th April 2010



Period	Portfolio Return
Last Month	3.7 %
Last 3 Months	23.3 %
Last 6 Months	10.4 %
Last 12 Months	23.2 %
Since Inception (30 June 08)	10.6 %

For subscription and further information on our investment products please contact Eddie Kerman on (+44) 20 74 93 04 12 or email eddie.kerman@turquoisepartners.com. For more information about Turquoise Partners please visit our website at: www.turquoisepartners.com

Iran's state budget for the fiscal year 1389 and the government's plans to reduce Tehran's population will be covered in this edition of Country Overview.

In March, Iran's state budget for the calendar year 1389 (which began on 21st March) was approved by the parliament. After a year of budget reductions and the tightening of economic policies in 1388, the government is once again planning to implement expansionary economic and fiscal policies. This is clearly evident from the rise in this year's budget.

The draft budget formulated by the government was at $368 billion. This figure was based on $40 billion of proceeds from the removal of energy subsidies, as proposed by the government. However, after the parliament approved a maximum figure of $20 billion from the proceeds of the removal of subsidies, the state budget was also revised accordingly.

The approved total budget stands at $347 billion, an increase of approximately 18% from last year. Of this amount, $129 billion (37% of the total) is the government's general budget and the remaining $218 billion is allocated to state-owned companies and banks, and other governmental organisations.

The sale price of crude oil has been set at $65 per barrel, at the US Dollar conversion rate of 9,850 Rials. Last year, the crude oil price was set at $37.5 per barrel and the US Dollar exchange rate in the budget was 9,500 Rials. This means that oil revenues will comprise 47% of the government's general budget. Revenues from taxes are expected to amount to $31 billion (24% of the government general budget). This means that expected tax revenues are 19% higher than those in the previous year's budget. In 2008, the government implemented a series of changes to the tax regime, which have resulted in increased tax revenues and more efficient collection of corporation tax. Revenues from the privatisation programme are expected to total $12.5 billion.

A notable feature of this year's budget is an emphasis on the issuance of bonds for infrastructure and industry development. The budget law, as approved by the parliament, allows the government and related institutions to issue up to €11.5 billion of Sukuk (Islamic bonds) internationally for the development of the oil and gas, petrochemical, and mining sectors, as well as other industries. It also allows for the ministries and municipalities to issue up to $11 billion of participation papers domestically. Furthermore, the government can withdraw up to $1.5 billion from the National Development Fund (which has replaced the Oil Surplus Fund this year) for investment in the oil and gas sector, foreign exchange commitments and the repayment of debt to state-owned banks.

In April, the government published a mandate announcing plans to reduce the population of Tehran by 5 million. The plan is to transfer the population from Tehran to nearby cities such as Hashtgerd, Pardis and Parand by offering incentives such as loans and low cost housing.

There are a number of reasons for this decision. An important factor is the possibility of an earthquake occurring in Tehran. According to a recent report from the Building & Housing Research Center, the north and north-east of the capital are situated on earthquake fault lines. The report indicates that if an earthquake with the strength of 7 or above on the Richter scale were to happen in Tehran, approximately 30% of all buildings would be destroyed and the number of casualties could be as high as 100,000. Other reasons include the heavy traffic congestion and air pollution, which at times reach hazardous levels. Currently, approximately 8 million people live in Tehran and another 4-5 million commute into the city on a daily basis. With a population density of 10.5 per square kilometer, Tehran is considered to be a city with a fairly high population density. Cities like London and Madrid have a population density of approximately 5.5 per square kilometer.

The incentives offered by the government for those relocating from Tehran include salary increases of up to 50%, loans with low interest rates, healthcare and insurance benefits, and priority in the Mehr low-cost housing projects. The government plans to transfer social and economic facilities to these new cities so that concentration moves away from the capital. Governmental offices, universities and hospitals are to open branches in these cities. In addition, a number of ministries are also to be transferred to the city of Parand, which is located 35 kilometers south-west of Tehran. Estimates suggest that with the ongoing Mehr housing projects and other private construction plans, these 3 cities will be able to accommodate 1 million of Tehran's population within one year.

One major challenge in the successful implementation of the plan is the under-developed infrastructure and the limited access to welfare and social services within these new, currently lowly-populated cities. This year, there has been a 60% increase in the state budget for infrastructure development. However, it may take several years for these small cities to reach adequate levels of social and public services in order to attract migrants from Tehran. This, in itself, may delay the plan.

This plan has its critics too. They argue that historically, other countries which have made such an attempt have not enjoyed high success rates and even in the best case scenarios, have been able to change the location of their political and/or economic capital. Another concern is the possible effect of this plan in that rural citizens may move to Tehran and then request a transfer in order to benefit from the plan's incentives.

The plan is currently under review and further details are expected in the near future.

Iran's Economy in 1388

Below is a summary of some key statistics and economic indicators for the Iranian calendar year 1388 (which ended on 20th March 2010).

Imports and Exports:

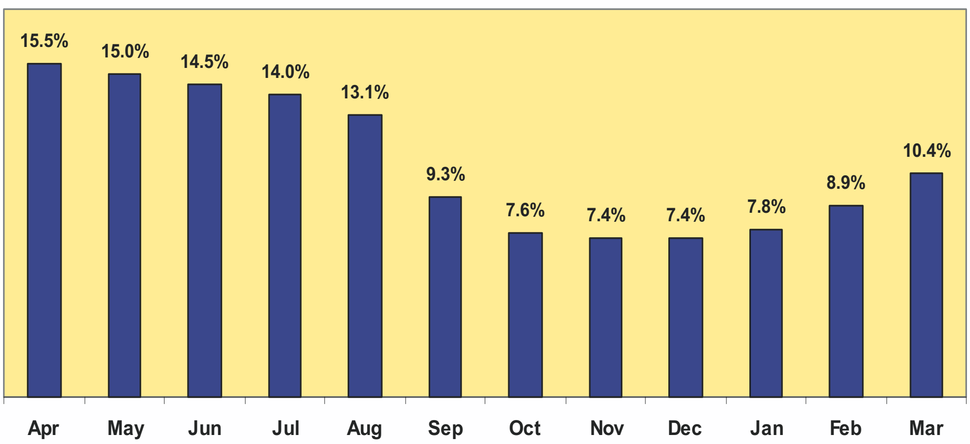
In 1388, Iran's total imports amounted to $47 billion, which shows a decline of 16% in comparison to the previous year. The top 5 exporters to Iran were the UAE, China, Germany, South Korea and Switzerland respectively.

Iran's total non-oil and gas exports in 1388 amounted to $16 billion, a decline of 12% in comparison to the previous year. Total exports of crude oil, natural gas and other gas by-products stood at $71 billion. The top 5 importers of non-oil Iranian goods were Iraq, China, the UAE, India and Afghanistan.

Economic Growth, Inflation and Unemployment:

The latest estimates indicate that economic growth fell from 2.6% in 1387 to 2.1% in 1388. The government's contractionary economic policies and the tightening of monetary policy by the Central Bank in order to bring inflation down were assessed as the main reasons for the slowdown in economic growth.

In line with the above, the inflation rate continued on its declining trend from the previous year. The annual growth rate in the Consumer Price Index (CPI) fell from 17.8% at the end of 1387 to 7.4% in November. However, in the last 3 months of the Iranian year, inflation climbed back to 10.8%. A growth in excess liquidity towards the end of the year is the reason for the increase in the inflation rate. This also signals that the government is planning to stimulate economic growth by injecting more liquidity into the economy. The figure below shows the year-on-year CPI growth for each month of 1388:



According to the Statistical Centre of Iran, the unemployment rate as at the end of 1388 stood at 11.1%. The unemployment rate at the end of 1387 was 10.8%.

Revenues from Crude Oil:

Revenues from the sale of crude oil in 1388 stood at $55 billion, which shows a 29% decline from the previous year. The average sale price of Iranian crude oil in 1388 was $64 per barrel, whereas the average price in 1387 was $94 per barrel. In 1388, Iran's average crude oil production stood at 4 million barrels per day, unchanged from the previous year. Approximately 62% of the oil produced was exported.

Foreign Reserves and Foreign Debt:

The latest estimates put the total funds in the Oil Surplus Fund (which will become the National Development Fund from this year) at $15 billion. This shows a decline of 40% from last year. Also, the Central Bank's

Foreign Reserves are estimated to be $90 billion at the end of 1388, which shows a 5% increase from the previous year.

According to the Central Bank's statistics, as at the end of the third quarter of the Iranian calendar year 1388 (Dec 09), Iran's total foreign debt stood at $14.5 billion. This shows a 35% fall in comparison to the same period in 1387.

New Foreign Investment Law

In April, a new foreign investment by-law was approved by the Iranian government. The new by-law, in the view of experts, is a major step forward in attracting foreign investment into the Iranian capital markets, as a number of restrictions under the existing laws have been removed.

Firstly, obtaining a foreign investment license (FIPPA) prior to investing on the Tehran Stock Exchange will no longer be mandatory. However, it is advisable as it offers a series of protections to foreign investors, such as the Central Bank guarantee of the availability of hard currency upon repatriation of funds. Secondly, the 3-year lockup of the invested capital, as stated in the existing regulations, will be removed under the new law. This means that foreign investors will be able move their capital out of Iran without any restrictions. In addition, thresholds on foreign ownership in listed companies have been increased.

The new by-law is currently under review by the relevant authorities, and the necessary regulations and operational procedures will be put in place in the near future.

Tejarat Bank Credit Rating

In April, Tejarat Bank became Iran's 3rd bank to receive a credit rating from Capital Intelligence (CI). The credit rating agency has assigned Tejarat a financial strength rating of B+ (equivalent of B+ of S&P) and a stable outlook. This puts Tejarat below the other two rated Iranian banks, both of which were given a financial strength rating of BB+. Tejarat has also been given a support rating of 3. Support ratings reflect the likelihood of financial assistance from the Central Bank or State in the case of difficulties, with 1 being the most likely and 5 the least likely.

CI has also assigned Iran with a long term and a short term currency rating of BB and B respectively, both of which are the highest speculative grades. Currently, Iran does not have a sovereign rating. In 2007, Fitch assigned a sovereign rating of B+ to Iran, but later withdrew its rating.

South Pars Field Euro Bonds

In March and April, the Pars Oil and Gas Company, one of the key developers in the South Pars Oil and Gas field in the Persian Gulf, successfully placed €500 million of Euro denominated bonds internationally in two tranches. Two more tranches of €250 million each are expected to be issued by the end of the year.

The proceeds from the issuance will be used for the development of phases 15 to 18 of the South Pars field. The bonds are guaranteed by the National Iranian Oil Company (NIOC). Bank Mellat is the placement agent and the underwriter for these bonds. The placement took place through 22 international branches of Mellat and several other Iranian banks. The bonds have a tenure of 3 years and pay an annual coupon of 8%.

About Turquoise

Turquoise is a boutique investment firm 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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