



Boroujerdi House, a historical landmark, Kashan, Iran

Market Overview _____ **2**

In June, the Tehran Stock Exchange (TSE) experienced its second consecutive month of price declines. Movements in the currency market, the uncertainties surrounding the global financial markets and further domestic political tensions were assessed as the main reasons for the negative performance.

Country Overview _____ **5**

Anti-Terrorism conference held in Iran and the launch of the Iranian-made Rasad satellite will be discussed in this section.

Economy _____ **7**

Movements in the exchange rates, the inauguration of an \$830 million shopping mall, new policies for the housing market, the latest gas developments, and the recent inflation and unemployment figures will be discussed 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 June.

In June, the movements in the exchange rate, the instability in the global financial markets and further domestic political tensions influenced the Tehran Stock Exchange (TSE). The TSE's performance in June could be characterised by a series of short-lived gains which were followed by retreats, as investors took a cautious stance and preferred to wait for clear signals about the future market direction. As a result, daily retail trade volumes dropped below \$40 million, about half of those of March and April. Many experts anticipate the continuation of this sentiment until July when many companies will begin to announce their first-quarter performance. The first-quarter performance reports are especially important as the current financial year (ending March 2012) is the first year that the companies have planned their budget according to the new energy and utilities prices following the subsidies reform plan. Overall, the TSE had a negative performance in June.

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

Impact of Exchange Rate Movements on the Market

In an unexpected move, the Central Bank depreciated the Iranian currency, the Rial, by 10% on 8th June, in an attempt to eliminate the increasing spread between the official and unofficial exchange rates (see Economy section). Subsequently, stocks of commodity exporters, including mining, metals and petrochemical companies, reacted positively to this change since the appreciation of foreign currencies against the Rial boosts their earnings in Rial terms.

Following the exchange rate jump, the Central Bank gradually lowered the official rates to its previous level. However, the share price of the commodity-exporting companies showed significant resilience. For instance, the share price for the National Iranian Copper Industries Co. (NICIC) and Pardis Petrochemical Co., which are both export-driven companies, gained 9.5% and 8.3% in one week respectively and remained almost unchanged throughout June.

Automotive

Unlike the export-driven companies, automotive producers were adversely impacted by the temporary currency depreciation. They import a portion of auto parts and a depreciation in the Rial could directly increase their production costs. As such, the automotive sector index lost 12% of its value and the three-month total decline for the index reached 25%. The decline was also due to continuation of uncertainties around the government's investigation into ownership changes in the automotive sector; including automotive companies engaging in share repurchases, which is illegal under Iranian Commercial Law.

Banking

In June, shares of the three recently privatised banks – Mellat, Tejarat and Saderat - attracted investor attention. This was because they all outperformed their earnings forecasts for the financial year ending March 2011. These three banks collectively have a market share of 30% in terms of their deposit base and their market capitalisation totals \$8.5 billion. Following their listing on the TSE, many investors were doubtful about their profitability outlook due to their legacy systems and the high volume of bad debts on their balance sheets. However, the banks have performed better than initially expected. The market capitalisations of Mellat, Tejarat, and Saderat have grown by 164%, 114% and 96%, respectively since their IPO's some two years ago. In its Annual General Meeting, Mellat Bank announced that it had outperformed its latest earnings forecasts for the financial year ending March 2011 by 32%. The bank's net profit amounted to \$622 million. Tejarat Bank also outperformed its earnings forecasts by 15% and its net profit was \$445 million. Also, Saderat Bank's share trades were suspended at the end of June for an upward revision to its earnings.

In contrast, the privately-owned banks had a lacklustre performance with Parsian Bank, the largest listed bank by market capitalisation, losing 14.6% of its value as competition amongst major stakeholders finally subsided. Other privately-owned banks had similar performances as a

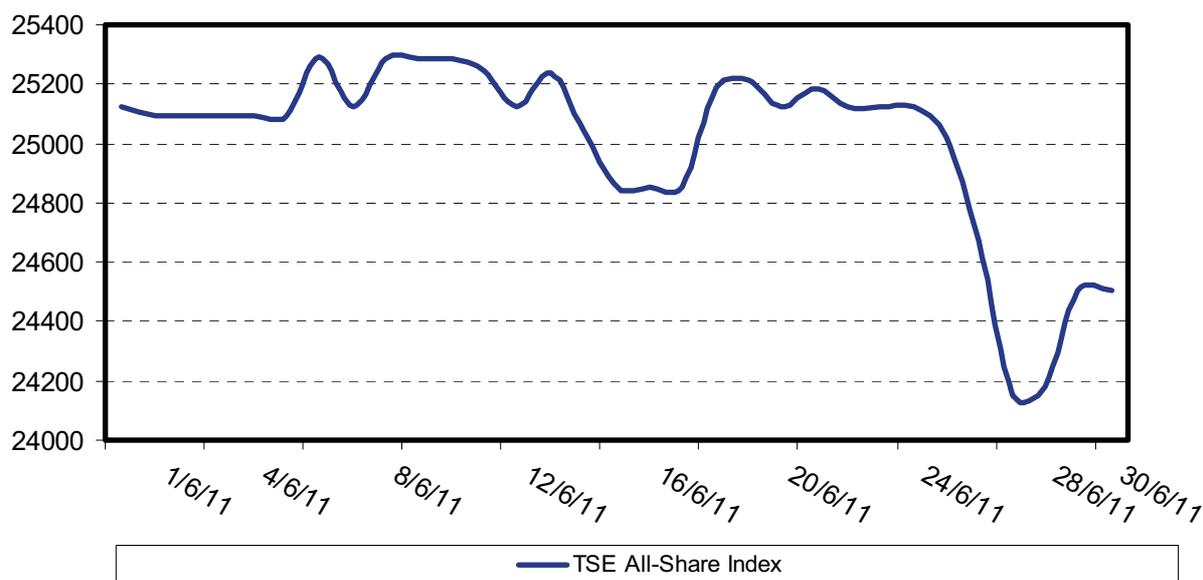
result of the new monetary policy package. This package has restricted their profitability, due to new restrictions on the interest rates that banks can charge on loans. Given current market conditions, recently privatised banks seem to be in better condition than privately-owned banks. This is because the former still maintain a large portion of government deposits, as opposed to the privately-owned banks which are struggling to increase their deposit base. Overall, the banking sector index declined by 3% over the course of June.

Fixed Income Market

In June, a \$100 million Sukuk paper was issued by Saman Bank. Sukuk is an Islamic fixed income instrument, which looks similar to an asset-backed debt instrument. The bank issued the instrument to finance 8 new branches. The instrument offers an attractive annual coupon rate of 17.5%, paid out on a quarterly basis and has a maturity of 4 years. The papers were sold out in the first day of the two-week offering period. This was the second Sukuk issued in Iran, since the regulations were put in place approximately 3 years ago. Earlier this year, Mahan Airlines issued \$30 million worth Sukuk.

Overall, June was a month of cautious sentiment and price declines with the TSE All-Share declining 2.5% in Rial terms (3.3% in Euro terms). Trade volumes stood at \$1.96 billion.

Performance of TSE All-Share Index (June 2011)



Market Statistics	
Average P/E	8.0
Trade Volume (\$ Billion)	1.96
Trade Value Monthly Change (%)	0.0
Market Cap (\$ Billion)	96.0

Top 5 Traded by Value			
Rank	Company Name	Turnover Value (\$million)	% of Total Turnover
1	Omid Investment Co.	477	24
2	Saderat Bank	193	10
3	Parsian Bank	136	7
4	Isfahan Mobarakeh Steel Co.	103	5
5	National Iranian Copper Industries Co.	93	5

Top 5 Companies by Market Cap			
Rank	Name of Company	Market Cap (\$Million)	% of Total MC
1	Telecommunications Co. of Iran	13,116	12
2	National Iranian Copper Industries Co.	8,269	8
3	Isfahan Mobarakeh Steel Co.	7,205	7
4	Ghadir Investment Co.	4,349	4
5	Gol-e-Gohar Iron Ore Co.	3,562	3

Iran's hosting of the International Conference on the Global Fight Against Terrorism and the launch of the Rasad satellite will be discussed in this edition of Country Overview.

This month's International Conference on the Global Fight Against Terrorism was attended by Heads of State and high-ranking officials of 60 countries, including Pakistan, Afghanistan, Iraq, Tajikistan and Sudan.

Delegates reiterated their unequivocal condemnation of all acts of terrorism in all forms and manifestations. It was widely acknowledged at the conference that terrorism is a global challenge, the elimination of which requires a globally approved approach under the United Nations' auspices and through cooperation of all members of the international community. Emphasis was placed on the adoption of a holistic approach to combating terrorism. The importance of addressing the historical and root causes of terrorism was highlighted at the conference.

Iranian President Mahmoud Ahmadinejad delivered a keynote speech at the conference, in which he proposed that a secretariat should be established in an effort to coordinate counter-terrorism activities. He said that the secretariat would make efforts to offer a single definition of terrorism, explore its roots, propose practical ways to campaign against terrorism and mobilise global support for a counter-terrorism campaign. He also argued for the reform of the current colonialist and discriminatory mechanisms that he felt were prevalent in the world. Iran claimed that it had taken great steps forward in the campaign against terrorism and expressed willingness at the conference to share its experiences in this regard with other countries. Iran stated its belief that all countries have untapped potential such as intelligence capabilities which must be utilised in order to help root out terrorism.

The roots of terrorism, the roles of international and regional organisations in the campaign against terrorism, and the attitude of religion towards terrorism were some of the topics that were discussed during the conference.

In addition, United Nations Secretary General Ban Ki-Moon conveyed a message to the conference in which he expressed hope that the conference would achieve its objectives and thanked Iran for organising the conference. He said that all countries in the world must shoulder a responsibility for campaigning against terrorism.

The delegation agreed that Iraq should host the next conference on counter-terrorism and collectively agreed that other countries should help the Iraqi government fight against terrorists. The conference called for all countries to put aside their disagreements and have collective cooperation in campaigning against terrorism.

A domestically produced satellite, called 'Rasad', meaning 'observation', was launched successfully by a Safir missile in June. Rasad is the country's first imaging satellite and is designed to produce high resolution maps. It is also the second satellite Iran has put into orbit, with the first, named Omid, having been launched in 2009. Omid was the first domestically built satellite and was designed for data-processing and telecommunications.

Rasad was launched from a site in Semnan Province which is located in the north of Iran. It is operated by the Iranian Space Agency and its mission duration is for less than 3 months.

Iran's decade-long space programme has raised alarms in the West, largely attributable to the fact that the same technology that allows missiles to launch satellites can be used to fire warheads. Israel, the United States and others charge that Iran is trying to develop nuclear weapons, a charge which Iran firmly denies.

Iran has made a series of claims about advances in its ambitious space programme in recent years, which has Western powers worried about the possibility of its military applications. Iran's space programme has expressed a goal of putting a man in orbit within ten years, despite the vast expense and technological challenges involved. Iran is

showcasing its technological successes as signs it can advance despite the threat of US and UN sanctions over its nuclear programme.

Iran has said it wants to put its own satellites into orbit to monitor natural disasters in the earthquake-prone nation and improve its telecommunications. Iran also points to America's use of satellites to monitor conflicts in Afghanistan and Iraq and claims it needs similar capabilities for its own security.

Movements in Exchange Rates

This month, in a drastic move, the Central Bank of Iran announced an approximately 10 percent depreciation in the exchange rate of the Iranian Rial against the US Dollar. Following the decision, one US Dollar was trading at 11,720 Rials compared to 10,570 Rials the week before the surprise announcement. The Iranian Rial dropped against other foreign currencies as well. The depreciation, however, was quickly reversed by the Central Bank.

According to the Central Bank, the Rial was abruptly depreciated in an attempt to reduce the spread between the official exchange rates and those of unofficial market (i.e. rates at exchange bureaus). In October 2010, there was an unprecedented spike in the unofficial exchange rates. The Central Bank was slow in its intervention by flooding the market with foreign currencies. This caused concern in the market and sparked significant speculative demand for foreign currencies, a substantial portion of which was retail demand for paper currency. According to the Bank, average weekly demand for foreign currency almost doubled post October fluctuations, and stood at \$2 billion. As a result, spreads between the official and the unofficial rates widened from their usual levels (2-3%) to as high as 10%, prior to the sharp depreciation in June.

Following the depreciation, the Central Bank flooded the market with foreign currencies and within two weeks, brought the official rates back to their previous levels. However, the Bank was only partially successful in lowering the spreads. Spread between the US Dollar official rate and that of the market stood at approximately 5% at the end of June.

On the face of it, the Central Bank appears to be in a good position to control the exchange rates given the high level of foreign reserves (estimated to be \$60 billion) and income from the sale of crude oil. However, experts argue that despite the country's rich foreign reserves, the Central Bank possesses limited foreign cash reserves due to the international sanctions and problems in the transfer of funds in and out of country. They

cite the country's recent problems in receiving its revenues from the sale of oil. As a result; meeting the increasing demand for foreign currencies is expected to remain a challenge for the Central Bank.

\$830m Shopping Mall Opens in Shiraz

This month, an \$830m shopping mall project in Shiraz was completed by Royalstar, the UAE group.

The Fars Shopping Complex will be the world's biggest mall in terms of the number of shops in one complex. It will offer to lease 2,500 shops upon its official opening in September. It will also be the world's fourth biggest mall in terms of total area with 420,000 sq m of retail space. The project will also house a luxury five-star hotel, an amusement park, and exhibition and convention centres.

The project has been constructed on a 150,000 sq m plot of land in Sadra, Shiraz, and is currently being prepared for the official opening in September this year.

The mall will house a 14,000 sq m hypermarket; six 240-seat capacity cinemas, an indoor amusement park, a 28,800 sq m video games arcade, bowling alleys and a three-storey billiard hall. It also has parking to accommodate 5,500 cars.

New Policies Announced for Housing Market

In June, the government announced that new measures are to be taken in order to oversee and control the housing market. The announcement comes amid recent housing price increases and a spike in rents. The Iranian real estate market has exhibited highly cyclical behaviour over the past couple of decades with a series of booms and busts. After an unprecedented jump in prices approximately five years ago, the market went into a deep recession for more than three years. The recession was prolonged especially after the Ahmadinejad administration took a number of initiatives to contain the housing price increases. The most important initiative was the

“Mehr Housing Plan”, an ambitious project which aimed to construct around one million affordable houses per annum. The government allocated a vast amount of resources to this plan and the construction started at a rapid pace. This, subsequently, has helped lower housing prices.

Another significant measure for controlling and overseeing housing prices was a national electronic system for the registration and tracking of real estate transactions. In a successful plan, the government managed to record more than 97% of real estate transactions and ownership changes in the system. This brought more transparency to the market and helped policymakers gain a better understanding of the developments in the housing market. In order to ensure the tracking of all transactions, the government provides a certificate of tax clearance only to transactions registered on the national system.

Over the past few months, the housing sector seems to be regaining momentum with prices gaining 5-8% in two months. More importantly, according to the Statistical Centre of Iran, rents have increased by 25% over the past year. The government is working on a number of policies to contain the rental price increases. In its latest initiative, the government outlawed landlords' ability to increase property rents by more than 7 – 9% compared to the previous year's rent for the same property. Also, all real estate agencies are obliged to send a copy of the rental contract to a designated government organisation in order to prove their compliance with the new regulations. It was also announced that real estate agencies are to be monitored by a group of inspectors on a random basis in order to ensure the implementation of the regulations. The government is also contemplating the implementation of a national computerised system for rental contracts, similar to the system already in place for real estate ownership changes.

Many experts attribute the housing price changes to the growth in total liquidity and the government's expansive fiscal and monetary policies, and they question the efficacy of regulatory measures.

Latest gas developments

In June, it was announced that Iran's net export of gas in 2010 was 1.57 billion cubic metres. In the past year Iran's exports and imports of natural gas were 8.42 and 6.85 billion cubic metres respectively. In 2010, Iran exported 0.4, 0.25, and 7.77 billion cubic metres of gas to Armenia, Azerbaijan and Turkey respectively. In terms of imports, Iran has received 0.35 and 6.5 billion cubic metres from Azerbaijan and Turkmenistan respectively.

Iran has approximately 29.6 trillion cubic meters of proven gas reserves which accounts for 16% of the world's total reserves. This places Iran behind Russia with the second largest gas reserves worldwide. In 2009, Iran's natural gas production stood at 116 billion cubic metres. In 2010, this number rose to 138.5 billion cubic metres which shows a 19% increase. Most of Iran's gas is consumed domestically and has been increasing at an average annual rate of 12% for the past 15 years.

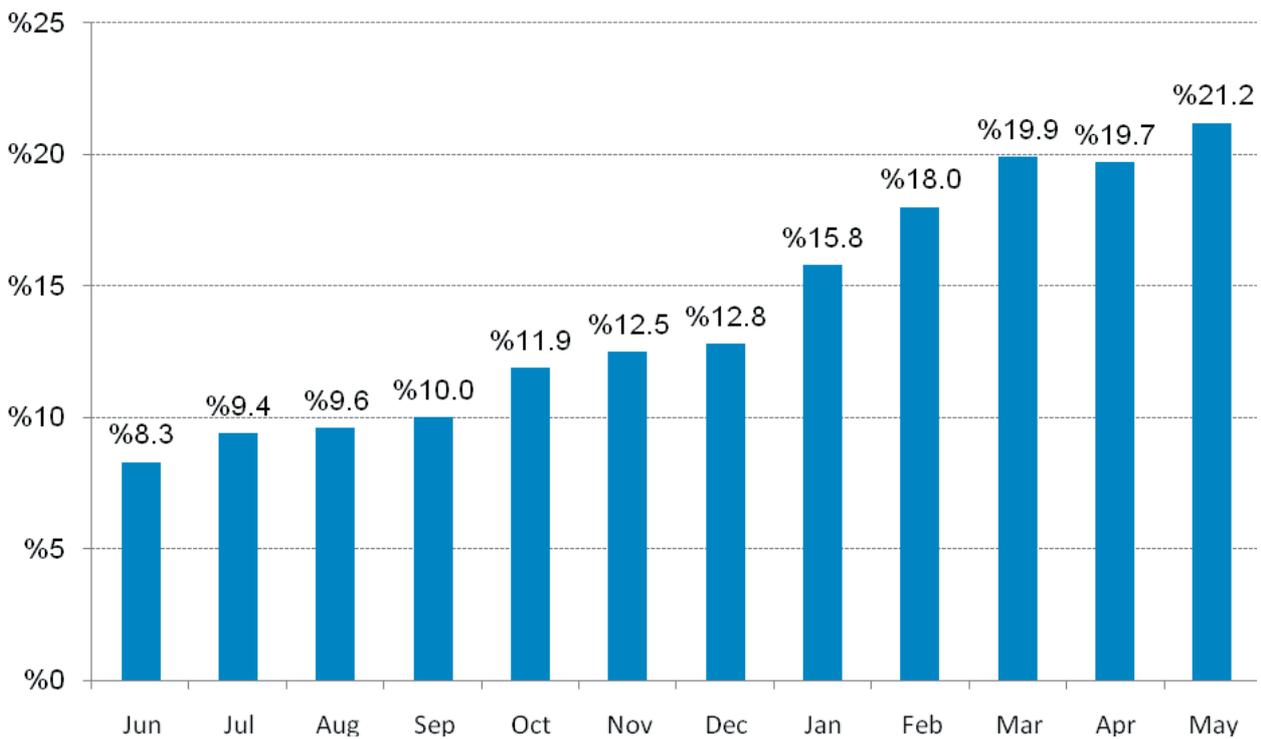
Also in June, it was announced that Iraq has allocated the preliminary budget for the establishment of a gas pipeline which will transfer gas from Iran to Iraq. Reports state that the gas which is to be exported from Iran to Iraq through a pipeline will feed a number of power plants in Mansuriyeh, Alghods and South Baghdad. This pipeline will have the capacity to transfer 25 million cubic metres of gas daily which will be enough for producing 3,000 megawatts of electricity. Iraq's ministry of oil has announced that the country has signed the contract for this pipeline and states that a daily 25 million cubic metres of natural gas will be transferred from Iran in the next five years. The pipeline is estimated to be completed within the next 18 months.

The announcement was made amid a recent contract worth \$10 billion among Tehran, Baghdad and Damascus in order to export Iran's gas to Iraq, Syria, Lebanon, the Mediterranean region and eventually Europe. It is estimated that in the next three to four years there will be an excess production of 200-250 million cubic metres of gas in the South Pars gas field, the largest worldwide gas field located in Persian Gulf.

Inflation & Unemployment

Inflation reached a new peak, according to the latest statistics released in June by the Central Bank. The Year-On-Year growth of the Consumer Price Index (CPI) has been 21.2% in May and the monthly CPI growth in May was 1.7%. Calculations show that the CPI has increased by 11.6% during the first five months after the implementation of the subsidies reform plan at the end of 2010. Some experts expect inflation to go as high as 30% by the end of 2011 as a result of the government’s expansionary budget and the implementation of the subsidies reform plan. The figure below shows the year-on-year CPI growth for the 12 months ending May 2011.

Also, the Statistical Centre of Iran announced that the unemployment rate for spring 1390 (2011) was 11.5%. This shows a 3% decline compared to the similar period last year. The overall unemployment rate for the last Iranian calendar year (ending March 2011) was announced to be 13.5%. The government has announced a number of plans for combating the high unemployment rate. However, many economists are cautious about the repercussions of the plans and their long-term impact on increasing liquidity and thereby inflation.

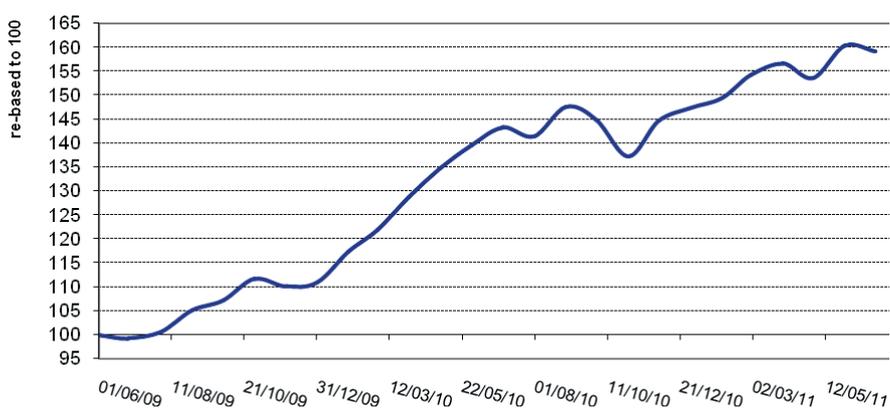


Year-on-year CPI growth for the 12 months ending May 2011

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		NAV = 159.1
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 June 2011



Period	Portfolio Return
Last Month	-0.8 %
Last 3 Months	1.6 %
Last 6 Months	8.0 %
Last 12 Months	11.1 %
Since Inception (01 June 09)	59.1 %

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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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