



UNESCO Registered Mansion in Shahzadeh Mahan Garden, Ancient City of Kerman, South East of Iran

Market Overview _____ 2

After a lackluster performance in February, the Tehran Stock Exchange (TSE) enjoyed a strong run in March and April, with the TSE All-Share Index gaining 6.3% in value over the course of the two months. The removal by the Central Bank of a ban on unofficial foreign exchange market transactions and a sense of optimism around Iran's nuclear talks with the 5+1 were the main reasons for the strong performance.

Country Overview _____ 6

Iran's state budget for the calendar year 1391 (2012-2013) and the plan for the second phase of energy subsidies removal will be examined in this section.

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Iran's economy in 1390, currency and gold markets in the New Year, the Economist's report on foreign investment in Iran and new gold reserves in north-western Iran will be discussed in this section.

Turquoise Iran Equity Investments _____ 11

This section provides data and charts on the performance of Turquoise Iran Equity Investments Class A for the month of April.

March 2012

In March, the Tehran Stock Exchange had a volatile month, but delivered an overall positive performance. A continuation of sell-offs from February due to investor concerns surrounding the international political tensions between Iran and the West, meant that the TSE main index lost around 1% of its value in the first half of March. However, in the second half of the month, investor sentiment began to change and the market delivered a strong rally in the final week of March.

In the 3rd week of March, the Central Bank announced the removal of a ban on unofficial foreign exchange market trades; this ban had been put in place in February. The implication of this ban was that all foreign exchange transactions, including cash and cross-border transactions for imports and exports, had to be done at the official Central Bank rates. The enforcement of this ban followed on from the turmoil in the foreign exchange market in December and January, which resulted in the gap between the official Central Bank exchange rates and the unofficial market rates, widening to as much as 50%. The removal of this ban means that exporting companies can now convert their foreign exchange-based revenues at unofficial rates and benefit from the gap between the two rates. Unsurprisingly, stocks of exporting companies such as those in the petrochemicals, basic metals and mining sectors experienced price hikes towards the end of the month.

Overall, the TSE All-Share Index gained 4.8% in value in Rial terms in March. Total trade volumes for the month stood at \$1.9 billion.

April 2012

Positive investor sentiment continued in early April, particularly after Iran and the so-called 5+1 Group agreed to meet in Istanbul to resume the talks over Iran's nuclear programme. Prior to the talks, most market players were cautiously optimistic. The talks took place on 14th April and the outcome was perceived to be positive by many analysts, especially given that the two parties agreed on a second round of negotiations in May.

The 'positive' outcome of the talks brought about much investor excitement as it improved the prospects of the easing of international financial and trade sanctions on Iran; these have put significant pressure on Iran's economy and, in turn, on the equity market. This, also, led to the partial reversal of the devaluation of the Rial against all major currencies in the unofficial foreign exchange market. The unofficial Iranian Rial exchange rate against the US Dollar gained 10% over the course of April. Consequently, investors became increasingly cautious about exporting companies. Additionally, speculation surrounding the commencement of the second phase of the subsidies plan (see Country Overview section for more details) added to the uncertainty and resulted in key players of the equity market becoming cautious. The aggregated result of these events was that the market rally lost its momentum and trade volumes fell sharply towards the end of April.

In April, the TSE All-Share Index gained 1.4% in value and trade volumes stood at \$1.1 billion.

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

Petrochemical

The petrochemical sector attracted the most investor interest and was the most active sector of the TSE in March and April. The sector index gained 27% in value over the course of the past two months, and accounted for almost 20% of the TSE's total trade volume. The price rallies were a direct result of the liberalisation by the Central Bank of the unofficial foreign exchange market trades, as explained previously.

The largest listed petrochemical companies are all exporters and their profitability is heavily dependant on the exchange rate. Analysts estimate that with the current exchange rates, the net earnings of the petrochemical companies will grow by an average of 50% in comparison to the previous year. This puts the average price to earnings ratio of these companies at below 4. Analysts reason that the low P/E ratio's in relation to the market

is a reflection of the risks and the uncertainties that this sector faces, such as the impact of the embargoes on the sales of these companies and also the exchange rates.

Basic Metals

Stocks of steel, aluminium and copper companies were among the gainers these past two months. In March, the Iran Mercantile Exchange (IME) announced the complete liberalisation of the sale price of raw steel and by-products. The price of steel products were liberalised 3 years ago after they were quoted for trading on the IME. However, for the past year, the government has applied price controls on steel. As a result of this, prices have not fully adjusted themselves to the movements in the exchange rates. Following the announcement, prices of steel products soared by an average of 10% on the IME. Stocks of steel producers also moved up accordingly. In particular, shares of Zob Ahan (iron smelting) Isfahan Co, Iran's third largest steel producer, gained 55% in value. Zob Ahan has been loss making for the past two years and is expected to become profitable again this year. Analysts' forecasts indicate that steel producers could outperform their budgets by up to 70% this year, based on the current steel prices.

Iran Aluminium Co. (IRALCO), the largest listed producer of aluminium, was also among the best performers of the past two months, with the share price moving up by 56%. IRALCO was listed on the TSE in 2008, as part of the privatisation programme. The company has been loss making for the past 3 years and has accumulated losses of \$65 million. However, over the past 6 months, and in line with the weakening of the Rial, prices of IRALCO products on the IME have increased by 50%. Based on current prices, IRALCO is expected to fully recover its accumulated losses this year.

The basic metals sector index gained 11% in value over March and April.

Banks

The banking sector was among the few laggards

of the market. Towards the end of March, it was announced that the Central Bank had withdrawn in total \$2.2 billion from the accounts of a number of state- and privately-owned banks without any prior warning. The Central Bank claims that these banks had sold their allocations of foreign exchange from the Central Bank at unofficial rates in the market, rather than the official Central Bank rate. Consequently, the Central Bank has taken back the alleged excess profits that these banks had made. Unsurprisingly, the Central Bank's action was met with strong criticism from the banks and also from the parliament. In the third week of April, the economic commission of the parliament ruled against the decision of the Central Bank. The ruling stated that the Central Bank should not only return the total amounts taken from the banks, but it should also pay them an interest for the period that the funds were held by the Central Bank.

The parliamentary ruling stabilised the sector and some of the price declines were recouped. The sector index was down 1% as at the end of April, in comparison to the end of February. However, analysts believe that a series of similar incidences over the past year have somewhat reduced investor confidence in this sector. Since the beginning of 2012, the banking sector as a whole has lost around 10% of its market capitalisation.

Automotive

Over the past year, the automotive sector has suffered considerably from the devaluation of the unofficial Rial rate. Car manufacturers in Iran are heavily dependant on imports for parts and materials. The sanctions have also created difficulties for the imports and increased the costs for car manufacturers. To make matters worse, the factory sale prices of cars, which are set by the government every year, have changed very little over the past 6 years. Analysts predict that unless the government allows for a sale price increase of at least 20%, Iran's two largest car manufacturers – namely, Iran Khodro and Saipa – will become loss making this year.

Despite strong lobbying from car manufacturers for a substantial price increase this year, in

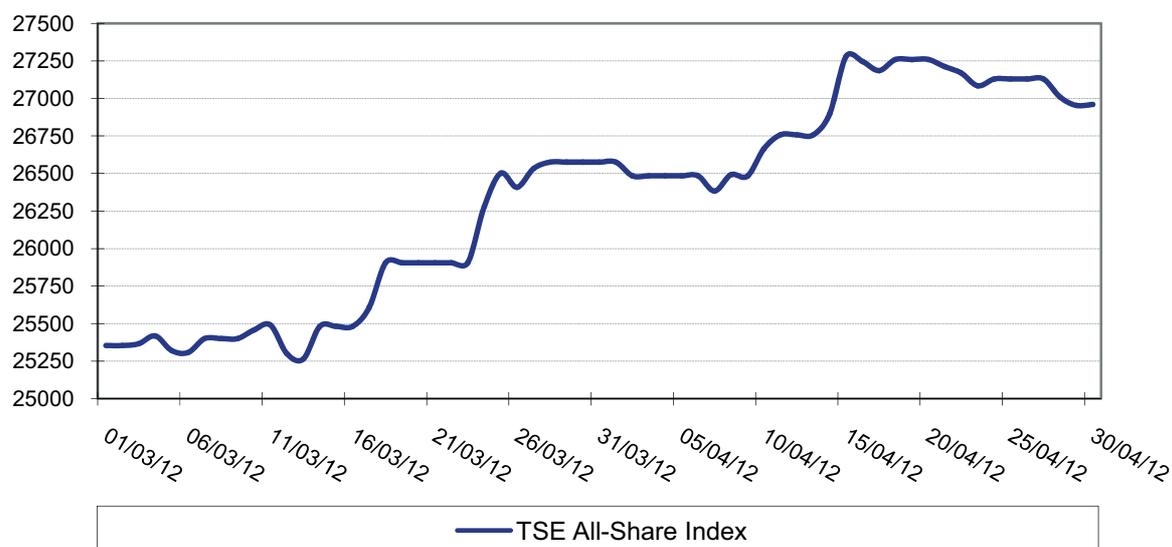
April the government proposed an average 5% increase for this year (with a few exceptions). The automotive sector index lost 2.2% in April, bringing its decline to 46% over the past 12 months.

IPO of Saba-Noor

On 16th April, a 10% Stake in Saba-Noor was offered and successfully sold on the Iranian over-the-counter market (Farabourse). The IPO took place at a market capitalisation of \$294 million and a P/E ratio of 5.4. Saba-Noor is a medium-sized iron ore miner and producer. Its main product is graded iron ore rocks and it exports over 90% of its product. Currently, Saba-Noor has an annual production capacity of 800,000 tonnes, which is expected to increase to 1.4 million tonnes next year, upon the completion of its expansion plan. The company has budgeted net earnings of \$54 million for the current financial year. However, the budget is based on the official US Dollar exchange rate and analysts predict that the company can generate earnings in excess of \$100 million, based on the unofficial exchange rates.

Shares of Saba-Noor were in strong demand and gained 40% in value by the end of April.

Performance of TSE All-Share Index (March & April 2012)



Market Statistics	
Average P/E	6.2
Trade Volume (\$ Billion)	1.1
Trade Value Monthly Change (%)	- 4.1
Market Cap (\$ Billion)	109

Top 5 Traded by Value

Rank	Company Name	Turnover Value (\$Million)	% of Total Turnover
1	Parsian Oil & Gas Development Co.	103	9
2	Parsian Bank	69	6
3	Pardis Petrochemical Co.	59	5
4	Shahed Investment Co.	59	5
5	Gol-e-Gohar Iron Ore Co.	38	3

Top 5 Companies by Market Cap

Rank	Name of Company	Market Cap (\$Million)	% of Total MC
1	Telecommunications Co. of Iran	11,794	11
2	National Iranian Copper Industries Co.	6,933	6
3	Isfahan Mobarakeh Steel Co.	6,515	6
4	Ghadir Investment Co.	4,209	4
5	Pasargad Bank	4,093	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 12260, as at 30 April 2012

Iran's State Budget for 1391

In May, the parliament approved Iran's state budget for the fiscal year 1391 (which commenced on 20th March). This was the second consecutive year that the budget was approved after the New Year, due to a delay in the submission by the government of the draft budget to the parliament. After an initial review, and for the first time in the history of the Islamic Republic, the budget commission of the parliament rejected the draft budget, arguing that the government's proposed budget has significant structural problems. However, with the intervention of the speaker of the parliament, Ali Larijani, and in an attempt to avoid further escalation of already-high-tensions between the parliament and the government, the budget commission gave its approval-in-principle of the budget. The parliament, after making considerable amendments to the initial draft, approved and announced the final budget to the government. Ahmadinejad, in his letters of assignment of the budget to the ministries, bluntly expressed his discontentment with the approved budget; this was an action which was met with widespread criticism from the members of the parliament.

The approved total state budget figure stands at 5,660 trillion Rials (\$477 billion), which shows an 11% increase in Rial terms, in comparison to the previous year's budget. Of this amount, \$134 billion relates to the government's general budget and the remaining \$343 billion relates to state-owned companies and organisations. Of the \$134 billion for the government's general budget, \$117 billion relates to operating expenditure and \$17 billion is for infrastructure developments. The government's general budget for 1391 shows a 3.5% decline in comparison to the previous year, while the budget for state-owned companies and organisations has risen by 18.5%.

In the 1391 budget, the average sale price of crude oil is projected at \$85 per barrel, at a US Dollar conversion rate of 12,260 Rials. Last year, crude oil was put at \$81.5 per barrel and the exchange rate was 10,500 Rials. This means that the official Rial exchange rate against the US Dollar in the budget has been devalued by 16.8%, following the devaluation by the Central Bank in February.

Total revenues from the exports of crude oil in the budget stand at \$49.8 billion, which shows a 12% decline from the previous year's budget figure (although the actual realised oil revenues in 1390 were almost twice the budgeted amount), due to the movement in the exchange rate. Revenues from crude oil make up 37% of the state's total revenues in the budget. Revenues from taxes have been projected at 458 trillion Rials (\$37 billion), which shows a 10% increase year-on-year.

Second Phase of the Subsidies Plan

Tensions between the government and the parliament reached their peak during the review of the proposal for the second phase of the energy subsidies removal plan. Prior to the submission of its proposal, the government indicated that it plans to implement the second phase before the end of the Iranian fiscal year. This was met with a swift reaction from the parliament, banning further removal of any subsidies until mid-June and upon approval by the parliament of the second phase plan. The government's proposal for the second phase was not included in the draft budget and was submitted to the parliament separately.

The government's proposal was for the proceeds from the removal of subsidies to amount to \$106 billion for 1391, the vast majority of which would be paid in cash to households in order to compensate for the increased energy costs. There were also unconfirmed rumours that most of the proceeds would come from a sharp rise in the prices of fuel. In particular, the price of petrol was expected to increase by 150%. In line with this, the government deposited \$23 per person (in addition to the \$37 per person per month from the first phase) in the bank accounts of households, although it immediately announced that this new amount will remain blocked until the commencement of the second phase. The parliament, once again, openly criticised the government; many parliament members viewed the decision to deposit the additional amount as illegal and as an attempt to bypass the parliament. Several members of the parliament went as far as accusing Ahmadinejad's government of trying to use the cash handouts to win further support ahead of the presidential election in June 2013.

Whilst Ahmadinejad cannot take part in the next presidential election (as he has already served two consecutive terms), many experts believe that a candidate close to Ahmadinejad's camp will take part in the election.

Unsurprisingly, the parliament rejected the government's proposal for the second phase of the subsidies plan, arguing that with the already-high inflation rate and the vulnerable foreign exchange market, the government's plan would place excessive pressure on the economy as a whole and would disproportionately increase the costs for industries and households. The parliament revised down the proceeds figure from the removal of subsidies from \$106 billion (as proposed by the government) to \$54 billion, of which, \$40 billion would be paid as cash to households. The government's response to the revision was not particularly welcoming. The economic minister announced that the government will postpone the implementation of the second phase, as it needs to review and amend its implementation plans. There is speculation that the second phase may not occur at all in 1391.

Iran's Economy in 1390

Below is a summary of some key statistics and economic indicators for the Iranian calendar year 1390 (which ended on 19th March 2012).

Imports and Exports:

In 1390, Iran's total imports amounted to \$61.8 billion, which shows a decrease of 4.1% in comparison to the previous year. The top 5 exporters to Iran were the UAE (\$19.7 billion), China (\$7.4 billion), Republic of Korea (\$4.7 billion), Germany (\$3.5 million) and Turkey (\$3.3 billion). Imports to Iran were from 153 countries, out of which 72% was from Asia, 26% from Europe and the remaining 2% from other continents.

Iran's total non-oil and gas exports in 1390 amounted to \$43.8 billion, a 29% increase year-on-year. The top 5 importers of non-oil and gas Iranian goods were China (\$5.7 billion), Iraq (\$5.2 billion), UAE (\$4.5 billion), India (\$2.8 billion) and Afghanistan (\$2.2 billion). Non-oil and gas exports in 1390 were to 160 countries out of which 91% was to Asia, 6.5% to Europe and the remaining 2.5% to other continents.

Iran's trade balance deficit improved significantly this year and moved from \$30.5 billion in 1389 to \$17.9 billion in 1390.

Revenues from Crude Oil:

Total revenue from the export of crude oil and natural gas in 1390 is estimated to be approximately \$95 billion, showing a 15% increase from the previous year. The average price of Iran's crude oil over the year was estimated to be \$108 per barrel. Iran's average crude oil production in 1390 stood at 3.5 million barrels per day, showing a decline of 2% in comparison to 1389. Iran's average daily export of crude oil was approximately 1.9 million barrels per day (excluding gas by-products). This figure at the beginning of 1390 stood at 2 million barrels per day, but in the last quarter dropped considerably and was estimated to have been as low as 1.7 million at the end of the year, due to the sanctions. Estimates indicate that Iran's crude oil

exports to Europe in March 2012 were 60% lower than those at the same time last year.

Economic Growth, Inflation and Unemployment:

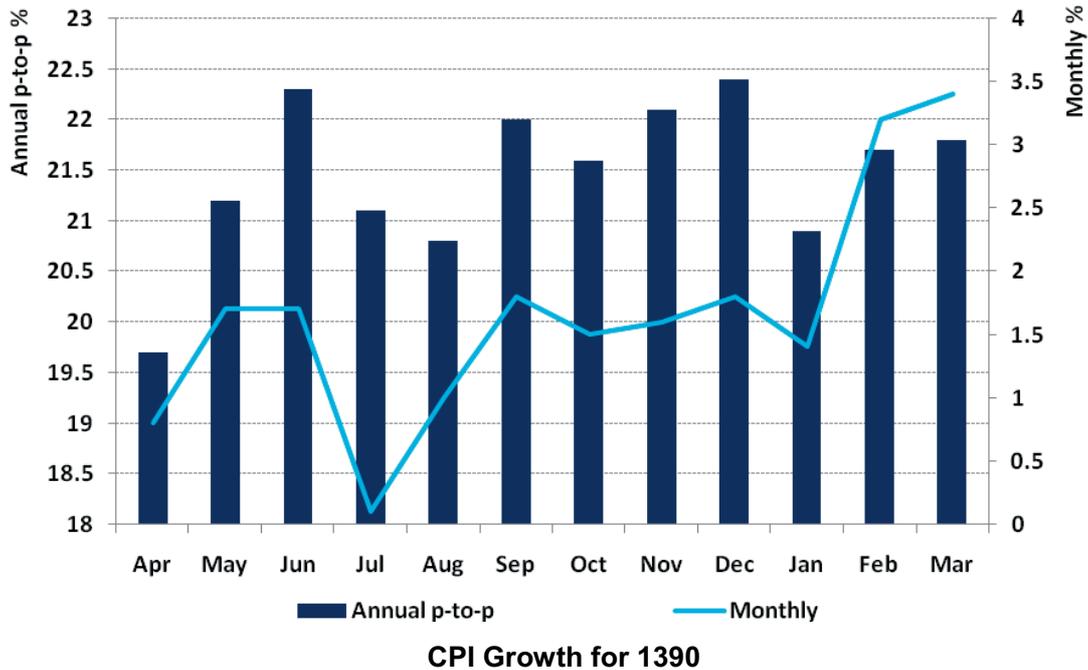
The latest estimates put Iran's GDP for the calendar year 1390 at \$480 billion, which shows a 2.5% year-on-year increase based on the official exchange rate. Iran's GDP growth in 1389 was 3.2%. Experts believe that the adverse short-term impact of the partial removal by the government of energy subsidies at the end of last year, on industrial production and output is the main reason for the slowdown in economic growth. In 1390, the composition of Iran's GDP by sector was 10% agriculture, 25% oil and gas, 20% industries and mines and 45% services.

The latest statistics published by the Central Bank of Iran reveals that the Consumer Price Index (CPI) as the end of 1390 was up 21.8% year-on-year. The inflation rate remained above 20% throughout the year. The first phase of the subsidies reform plan, implemented at the end of last year, along with the weakening of the Rial against all major currencies were the main reasons for the high inflation rate this past year. In addition, the bank deposit interest rates were below inflation in the first 9 months of 1390 and caused an outflow of liquidity from the banks into currency, gold and other goods and services, which had an inflationary impact. The CPI monthly growth accelerated in the last two months of the year, which indicates that the inflation will likely continue to grow into 1391. The figure below shows the annual point-to-point and monthly CPI growth for 1390.

The latest estimates put the unemployment rate at the end of 1390 at 15%, up from 14.6% last year. The unemployment rate in Iran has experienced a steep growth over the past 3 years.

Foreign Reserves and Foreign Debt:

Iran's foreign reserves as at the end of 1390 were estimated to be in the region of \$90 - \$95 billion, up from \$65 billion last year. Also, Iran's foreign debt at the end of the calendar year was



approximately \$18 billion, which shows a decline of 18% in comparison to the previous year.

other currencies. The next article in the Economy section explains.

Exchange Rate:

1390 was one of the most volatile years on record for the Iranian Rial. The unofficial US Dollar exchange rate against the Rial had increased by 70% at the end of the year. The pressure on the Rial was evident from the beginning of the year. However, the Central Bank regularly injected foreign currency into the market and was able to maintain the fluctuations relatively under control. In December, a series of events including new rounds of sanctions against Iran and the closure of several money transfer routes triggered a two-month-long turmoil in the currency market and the unofficial Rial rate tumbled against all major currencies. Eventually, intervention from the Central Bank, a modest devaluation of the official exchange rate (in order to close the gap between the Central Bank and the market rate), an increase in the bank deposit rates and several other restrictive measures calmed the market and stabilised the exchange rates to some extent. The figure below shows the official and the market US Dollar exchange rates against the Rial throughout 1390 and up to 10th May 2012. Since the beginning of 1391, the Rial has had strong rallies against

Currency and Gold Markets After the New Year

After the devaluation of the official Central Bank rate of the Rial against other currencies and several other drastic measures taken by the Central Bank, currency and gold markets were relatively calm and prices remained stable throughout March. In April, however, the Rial started a strong rally against other currencies. In line with this, the price of gold coins began to tumble. Experts have identified two key reasons for this market behaviour.

Firstly, the 14th April negotiations between Iran and the 5+1 Group in Istanbul brought about a degree of optimism about the prospect of a resolution to Iran’s long-standing tensions with the West over its nuclear programme. The perceived positive outcome of the talks had a powerful psychological impact on the markets and changed the balance of currency trades in favour of sellers. Secondly, one of the mechanisms used by the Central Bank to control the currency market in January and February was the forward sale of approximately 4 million gold coins for delivery dates in April and May at a considerable discount to the market price. Gold coins are viewed as an alternative

investment to real estate and bank deposits and also as a hedging tool against the devaluation of the Rial. With the commencement of the delivery by the Central Bank of the gold coins, the increased selling pressure pushed the prices down.

Between the beginning of the Iranian New Year (on 20th March) and 10th May, the unofficial US Dollar exchange rate against the Rial and the price of gold coins in the market fell by 12% and 17% respectively. However, prices were extremely volatile during this period. Analysts expect the currency and gold prices to remain volatile until the next round of negotiations between Iran and the 5+1 Group in May in Baghdad, the outcome of which may have a significant impact on the direction of the prices.

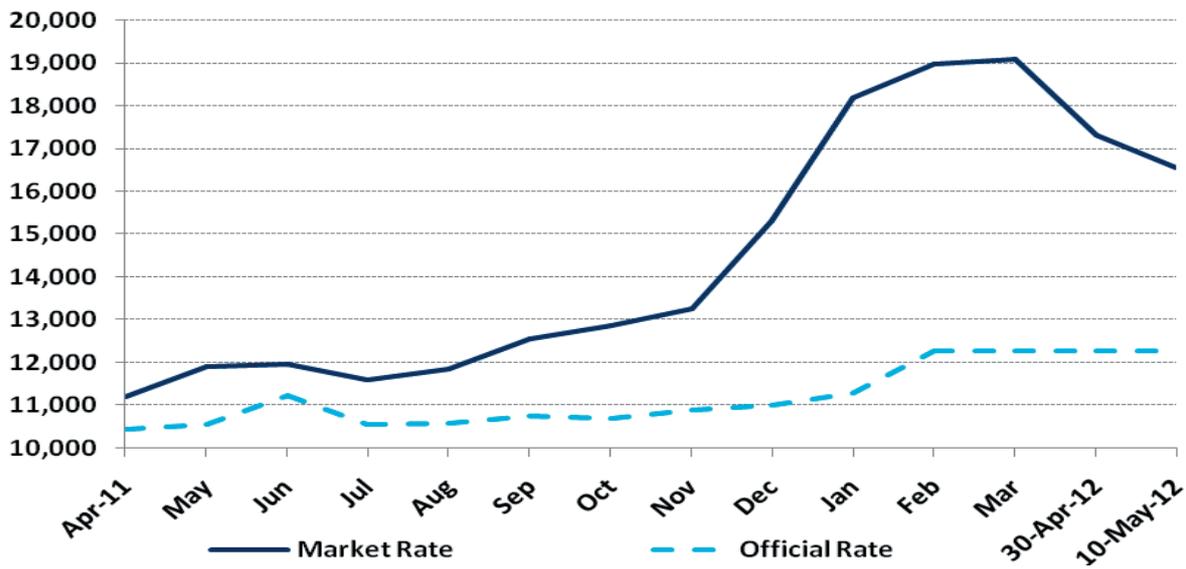
The Economist Reports on Foreign Investment in Iran

A report published by the Economist in March estimates that the total foreign investment in Iran in

the past year to be \$1.4 billion (equivalent to 0.3% of GDP), down from \$3.2 billion the previous year. The main reason for this reduction is assessed as the increased financial and trade embargoes on Iran. The report forecasts this figure for the current year to fall to \$1.25 billion, but increase again for the next 3 years and to reach \$1.8 billion in 2015.

New Gold Reserves Found in Iran

According to Iran’s Geology Organization Exploration Affairs, three new gold mines with a total of 16 tonnes of proven reserves and an estimated total value of \$850 million have been discovered in the city of Saqqez in North Western Iran. With the new discovery, Iran’s gold reserves will increase to 320 tonnes. Iran ranks 22nd in terms of gold and foreign currency reserves based on data released by the Central Intelligence Agency (CIA). The Tehran Chamber of Commerce, Industries and Mines recently stated that Iran’s gold reserves have reached a new record at nearly \$17.5 billion.

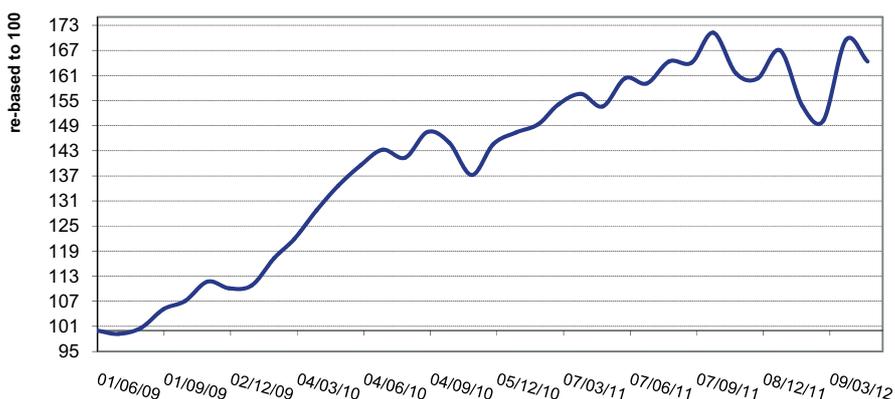


US Dollar vs. Iranian Rial Up to 10 May 2012

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 = 164.4
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 April 2012



Period	Portfolio Return
Last Month	- 3.0 %
Last 3 Months	6.9 %
Last 6 Months	1.7 %
Last 12 Months	7.5 %
Since Inception (01 June 09)	64.4 %



**TURQUOISE
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Turquoise is a boutique investment firm based in Iran. 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 with a wealth of international expertise enables Turquoise to benefit from coupling a network of global expertise with an enviable reputation for local knowledge, professionalism and integrity.

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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