



Latoon Waterfall, Gilan, Iran

Market Overview 2

In July, the Tehran Stock Exchange (TSE) continued its upward trend following the release of the first quarter earnings reports. The 2013 year to date performance of the TSE has been its best performance since 2010. The average P/E of the market increased to 7 at the end of July. Following the recent share price gains, traders are now waiting to see if the current investment environment will continue its bullish trend in the coming months.

Country Overview 6

Recent developments of the new government will be discussed in this section.

Economy 8

Iran's foreign trade outlook in the first four months of 1392, its steel output in the month of June and an overview of the country's inflation rate are covered in this section.

Following the release of the first quarter earnings reports in the month of July, the Tehran Stock Exchange (TSE) continued its upward trek, with the market's main index rallying by 9.4%. The 2013 year to date performance of the TSE stood at above 50%, recording its best performance since 2010. Following the victory of Rowhani as Iran's next president, more liquidity entered the market and there was an increasing demand for equities. However, investors have greeted the market's recent performance with mixed emotions. While investors are optimistic about a more economically liberal and moderate administration, some analysts are concerned about the sustainability of the current growth in the market. They believe that speculative trades are the main cause of price gains, rather than fundamental reasons. Following the substantial share-price gains over the past few months, traders are now waiting to see if the current investment environment will remain the status quo in the coming months. The stability of foreign exchange prices on the one hand and the unlikelihood of further growth potential for listed industrial companies in the short term on the other hand serve as a harbinger that the continuation of the upward movement of the TSE is unlikely to follow. As a result, analysts believe that if the major economic factors (such as the foreign exchange value) remain unchanged, the stock market will experience a smooth and steady climate in the second half of 2013.

Some of the industrial sectors and market developments are examined in more detail below:

Steel Makers

In July, stocks of steel companies were among the star performers of the market, as shown by a series of positive first quarter corporate earnings announcements from listed giants in this sector. Mobarakeh Steel, the largest steel producer in the Middle East, revised its earnings forecast upwards by 50% for the current Iranian calendar fiscal year. Correspondingly, stock prices of this steel giant surged by 10% this month. In addition, the second largest steel producer in Iran (Khuzestan Steel) announced a positive earnings revision of

38% and experienced a price increase of nearly 19.3%. Zob Ahan (iron smelting) Isfahan Co, Iran's third largest steel producer, published its best seasonal report in two years and achieved 30% of its revised annual target in the first quarter alone. Meanwhile, the weighted average price to earnings ratio (P/E) of the sector stood at 5 in July, almost 2 below the market's average P/E of 7. The profitability prospects and the low P/E ratios of the companies in this sector have led investors to believe that further positive earnings adjustments are likely. Despite the industry outlook which suggests continuous growth for this sector, this industry has two main risks that were not incorporated in recent earning forecasts. A less publicized yet important risk relating to this sector involves rising energy costs, particularly gas and electricity. In addition, Iranian MPs have reportedly forced the country's iron ore producers to transfer at least 5% of the average steel sales prices in each quarter to the state treasury as a licensing fee. Both developments, if true, could increase the overhead costs of such companies to way above their forecasts. Therefore, one could expect the sector to continue its positive performance only if the current conditions remain unchanged. Otherwise, the previously mentioned risks could tumble down the sector profits dramatically. The steel sector index gained nearly 11.7% in value in July.

Edible Oil Manufacturers

The edible oil industry proved to be the best performing sector of the TSE in July. Strong price rallies across the listed edible oil companies pushed the sector index up by 50.2%. Behshahr Industrial Company, with an exceptional share price increase of 153%, was the prime example of the sector's outstanding performance. Financial reports of companies in this sector indicate a five-fold increase in their profitability compared to the previous year. In addition, leading companies in this sector announced a positive profit forecast revision of nearly 200% for the current Iranian fiscal year. The recent price rallies in this sector can be justified due to two main reasons. Firstly, manufacturers' competitive ability has boosted dramatically (domestically and internationally)

as a direct result of the steep devaluation of the Rial (by more than 70%) over the past two years, resulting in a more attractive revenue stream for such companies. Secondly, companies in this sector took advantage of the increased inflation that has swept over the country during the past few years. The cheap raw materials that were purchased previously by manufacturers were hit by the inflationary wave and their value surged significantly, leading to high profits in this sector. However, the above mentioned factors (both the foreign currency leap and inflation) are one-time events and analysts should be cautious in assuming they will be repeated when they make investment decisions. Some analysts now see this sector as overvalued due to speculation. The average P/E of the edible oil sector stood at around 6 during the month of July.

Petrochemicals

In July, the price of domestically produced Urea fertilizer was increased by nearly 75% due to a government decree. This had been a subject that petrochemical producers had lobbied for in recent years. Petrochemical companies which produce Urea reflected the effect of this new decision on their reported budget projections; their average Earnings per Share (EPS) is expected to be positively adjusted by 10% to 15% with the implementation of this ruling. These projections were however based on old gas feedstock prices before the government decided to increase the price of the natural gas it supplies to these companies by a factor of five. This indicates that petrochemical companies are trying to negotiate the price of their feedstock with the government in order to decrease it from what was passed before. Previously, petrochemical companies announced that they would only accept the increase in gas price if the government agrees to a price increase in domestically supplied Urea. These companies have refrained from accepting the feedstock price increase even as this demand has been met. Nonetheless, the government's policy of increasing the price of gas feedstock is an important factor that should not be overlooked in assumptions. Investors have however reacted positively to these developments and their views

on the petrochemical industry in July, despite the risks which remain with regards to gas feedstock prices. This has increased the stock prices of Urea and Ammonia producers by an average of 14.2%.

Banking

Shares of the banking sector witnessed an average growth of 11.8% in July, continuing its previous positive trend. Analysts believe that there are two main reasons that contributed to this growth. Firstly, there is the market's general optimism towards the improvement of conditions in the banking sector with the coming of the new government. The second factor is related to the foreign currency balance of the banks relating to their banking activities with international currencies. The market expects the banks with a positive foreign currency balance to adjust their profits favorably since the official reference rate of the dollar was increased by about a factor of 2 in the second half of July. Unofficial reports suggest that two banks, Mellat and Tejarat, are in a better position than the others. The Central Bank is however unlikely to authorize this adjustment, especially in the case of semi-governmental banks. In addition, a portion of the banks' positive adjustments come from customers holding dollar denominated loans, debt holders who have made a loss as a direct result of the appreciation of the official rate of foreign currencies. In their three month corporate earnings reports, the banks averagely covered 23% of their annual projected budget, an ordinary performance that does not justify the current positive market sentiment towards this sector.

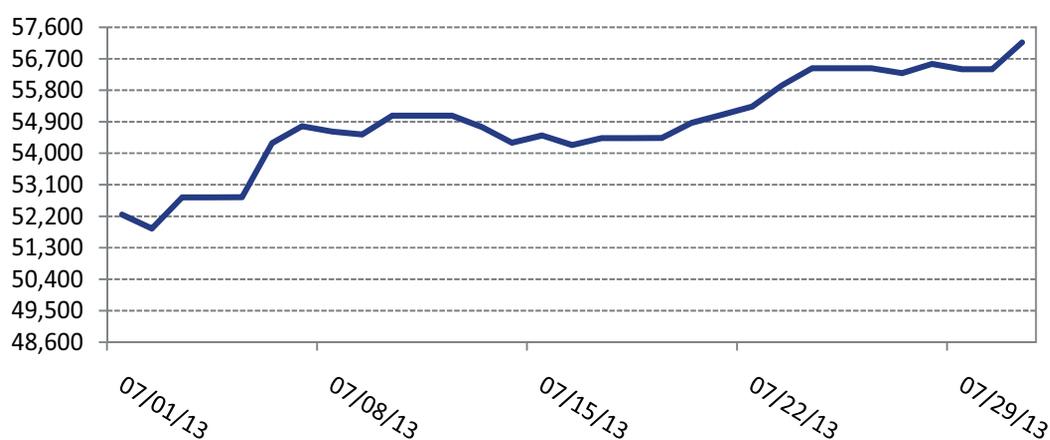
Investment Companies

The stock price of listed investment companies experienced an exceptional growth of 24.3% in the month of July, its best monthly performance in 2013. This trend also caused the investment sector to end up as the most traded sector for the month. In addition, the price to net asset value (P/NAV) of this sector surpassed the average of 80% for the first time in the past seven years (the long term average P/NAV is 70%). Historical data

shows that investment companies usually enter a period of growth with a lag in respect to the market. This is because investment companies possess portfolios which are heavily invested in the stock market and the positive results of these investments are portrayed in their financial outlook with a lag. As investors often tend to invest in industries that reflect the market growth, the market liquidity is absorbed by companies in these sectors rather than sectors that have not yet realized their growth potential (such as investment companies). Therefore, the market liquidity would transfer to the latter with a lag. The current P/NAV figure still illustrates a 20% gap to the intrinsic value of these stocks; analysts believe this gap can continue to be narrowed at times of optimism and bullish market sentiment in case the stock prices keep rising.

Overall, the Tehran Stock Exchange (TSE) had a fantastic month in July with the TSE All-Share Index rising by 9.4%.

Performance of TSE All-Share Index (July)



Market Statistics

Average P/E	6.4
Trade Volume (\$ Billion)	4.9
Trade Value Monthly Change (%)	20
Market Cap (\$ Billion)	111

Top 5 Traded by Value

Rank	Company Name	Turnover Value (\$Million)	% of Total Turnover
1	Persian Gulf Petrochemical Industry	2,294	47
2	Tamin Petrochemical Co.	341	7
3	Shiraz Petrochemical Co.	178	4
4	Iran Power Plant Projects Management Co.	106	2
5	Persian Oil and Gas Development	76	2

Top 5 Companies by Market Cap

Rank	Company Name	Market Cap (\$Million)	% of Total MC
1	Persian Gulf Petrochemical Industry	8,863	8
2	Isfahan Mobarakeh Steel Co.	5,606	5
3	Isfahan Oil Refining Co.	5,056	5
4	Telecommunications Co. of Iran	4,610	4
5	National Iranian Copper Industries Co.	4,532	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 24790, as at 31 July 2013

Despite the increase in TSE's market capitalization and trading value in Rial terms, due to Central Bank's revision on the official exchange rate of the Rial, their equivalent value in USD has reduced dramatically.

The new government: A look into recent developments

The inaugural ceremony of Iran's newly elected President, Mr. Hassan Rowhani, was held in the Iranian Parliament on August 4th where Mr. Rowhani took his oath as President. A day earlier, Iran's Supreme Leader, Ayatollah Khamenei had validated Mr. Rowhani's election to the post of President as is required by the Iranian constitution. For the first time in the history of the Islamic Republic, foreign heads of state and dignitaries were invited to the taking oath ceremony of the President-elect and more than 50 high ranking officials attended the event in Tehran. Among the foreign attendees were the Presidents of Afghanistan, Tajikistan, Armenia, Kazakhstan, Turkmenistan, Pakistan, Lebanon, the Senior North Korean official Kim Yong Nam, six Speakers of Parliament, eight Vice Presidents, three Deputy Prime Ministers, eleven Foreign Ministers and thirteen Ministers from various countries, as well as the Deputy Secretary of the United Nations.

During his inaugural speech, Mr. Rowhani spoke about how the country had voted for moderation rather than extremism, as well as discussing the current economic situation and the sanctions that have been imposed on Iran. Regarding foreign relations, Mr. Rowhani stated that his government is open to dialogue with other countries and Iran will act in kind if talked to with the language of respect rather than pressure. He mentioned that his government will strive to improve Iran's status in the international community while keeping the country's national interests as the top priority. Reflecting on his government's internal policy, the President explained that he will follow a path towards moderation and prudence that will hopefully lead to prosperity and progress.

According to Iranian law, the President has a period of two weeks to submit his ministerial nominations to the Parliament to review and to provide a vote of confidence. However, in his final remarks during the inauguration ceremony, Mr. Rowhani wasted no time in unveiling his list of candidates to lead the government's eighteen ministries and hence officially presented his proposed cabinet to the Speaker of Parliament,

Mr. Ali Larijani. On the same day, Mr. Rowhani also made his first executive decree, appointing Mr. Mohammad Nahavandian as his Chief of Staff. Mr. Nahavandian holds a PhD in Economics from George Washington University in the US and had been serving as the head of Iran's Chamber of Commerce, Industry and Mines since 2010; he was also the head of Iran's membership request commission to the World Trade Organization.

The Parliament held the vote of confidence sessions over a span of four days a week after the introduction of the proposed cabinet, where each candidate along with the supporting and opposing Members of Parliament presented their viewpoints. On the last day of these sessions, Members of Parliament casted their votes and approved 15 of Mr. Rowhani's 18 proposed candidates. The nominees for the Ministries of "Education", "Science, Research and Technology", and "Sport and Youth Affairs" were rejected by the Parliament.

Among Mr. Rowhani's most noteworthy ministers is Mr. Mohammad Javad Zarif as Foreign Minister. Mr. Zarif, a well known and experienced diplomat has served many different posts in Iran's diplomatic establishment including as Iran's permanent representative to the United Nations from 2002 to 2007. Mr. Zarif, who received his BS and MS in International Affairs from the State University of San Francisco and a PhD in Law and International Relations from the University of Denver, has seen his selection being received positively internationally. Western diplomats believe Mr. Zarif's appointment as Foreign Minister illustrates Mr. Rowhani's seriousness and willingness for engagement with the West.

Mr. Bijan Namdar Zanganeh, who has held different ministerial positions in previous governments has also been appointed and approved by the Parliament for the role of Oil Minister. Mr. Zanganeh is a well-known figure in oil circles domestically and internationally since he has previously held this position during Mr. Khatami's presidency. Mr. Zanganeh's return to the Oil Ministry is seen in a positive light by players within Iran's petroleum-related industries.

Generally, there is a greater atmosphere of hope and optimism following the coming to office of the new President and the formation of the new government. Internationally, analysts are pointing towards a renewal of nuclear negotiations with Iran and a possible settlement to the decade old dispute. On the domestic front, the population is hoping Mr. Rowhani and his team move towards lessening the economic hardships and challenges that the country has been facing as a result of high inflation and unemployment.

Iran's non-oil exports nearing its imports

According to the latest statistics published by the Trade Promotion Organization of Iran (TPOI), in the first four months of the Iranian calendar year 1392 (starting on March 2013) Iran's total imports amounted to 12.9 billion dollars. This represents a decrease of 26.27% in comparison to the same period last year. The top 5 exporters to Iran were the United Arab Emirates (\$2.45 billion), China (\$2.32 billion), India (\$ 1.33 billion), Republic of Korea (\$ 1.22 billion) and Turkey (\$ 1.09 billion).

Iran's total non-oil and gas exports in the first four months of 1392 amounted to 12.5 billion dollars, showing a 5.18% cut in comparison to the same period of the previous year. The top 5 importers of non-oil and gas Iranian goods were China (\$2.11 billion), Iraq (\$1.93 billion), the United Arab Emirates (\$ 1.1 billion), Afghanistan (\$ 889 million),

and India (\$ 796 million). The top 5 countries imported 80% of Iran's non-oil exports in terms of volume and 70% of it in terms of value during this period. Iran's foreign trade during the first four months of the current Iranian year exceeded 25.5 billion dollars.

According to the Iran Customs Administration (IRICA), Asia accounted for the majority of Iran's non-oil exports during the first four months of 1392. More than 92% of the country's exports were to Asia, while the share of Europe and Africa were 4.1 % and 3.9% respectively.

The first quarter figures showed a positive trade balance for the country as exports (\$ 9.8 billion) exceeded imports (\$9.4 billion) during this period. However, the trend did not continue in the fourth month of this year, resulting in a negative trade balance in the month of Tir (July 2013).

Iran's foreign trades in the first four months of 1392

	First four months of 1392			First four months of 1391			% Change		
	Ton (000)	Value		Ton (000)	Value		Ton (000)	Value	
		EUR (m)	USD (m)		EUR (m)	USD (m)		EUR (m)	USD (m)
Export	28,663	9,605	12,536	25,679	10,270	13,220	11.62	-6.48	-5.18
Import	9,122	9,899	12,909	12,568	13,549	17,507	-27.42	-26.94	-26.27

Iran's Exports in the first four months of 1392

Exported Goods	First four months of 1392			First four months of 1391			% Change		
	Ton (000)	Value		Ton (000)	Value		Ton (000)	Value	
		EUR (m)	USD (m)		EUR (m)	USD (m)		EUR (m)	USD (m)
Gas condensate	2,986	2,019	2,646	3,228	2,416	3,113	-7.48	-16.43	-15.01
Petrochemical	4,437	2,420	3,157	5,113	2,791	3,609	-13.22	-13.30	-12.52
Others	21,240	5,166	6,733	17,338	5,063	6,499	22.51	2.03	3.60

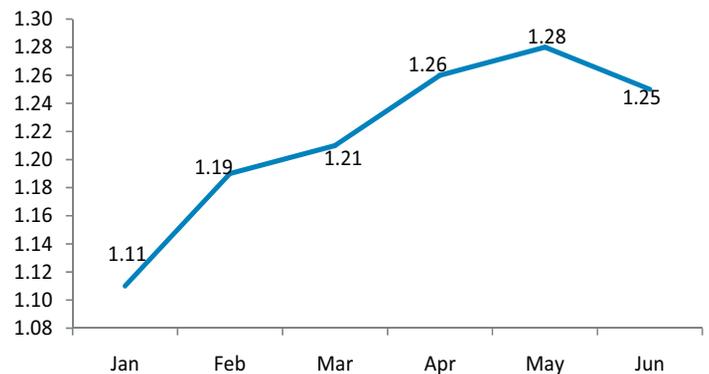
Iran’s steel output hit 1.25 million tons in the month of June

According to the latest report published by the World Steel Association (WSA), Iran produced some 1.25 million tons of crude steel in the month of June, indicating a 2% increase compared to the previous year’s corresponding period. In addition, the country produced 7.33 million tons of steel in the first six months of 2013. This figure was at 3.83 million tons in the first three months of the current Iranian calendar year, which marked a 1.2% increase compared to the same period last year. In addition, Iranian steel smelters produced some 4.05 million tons of steel products in the spring of 2013. The country’s crude steel production amounted to 14.9 million tons in the previous year.

Iran is reportedly the second largest steel producer in the Middle East and North Africa after Turkey. The country’s major steel mills are located in Isfahan and Khuzestan provinces. The main raw steel producers in Iran are Mobarakeh Steel Mill with around 47% of the market share, Khuzestan Steel Company with approximately 23% of the market share and Isfahan Iron Smelting Complex and Iran National Steel Industries Group with about 20% and 10% of the market share respectively.

According to the Ministry of Industry, Mines and Trade, Iran imports around 7.5 million tons of steel annually. A report published by the Customs Administration shows that the country imported some USD 162 million worth of steel and iron ingots in the first three months of the Iranian calendar year 1392. This is a 67% decrease compared to the same period of the previous year. In addition, Iran imported around USD127 million worth of iron-steel products during the first quarter of 1392, indicating a 46% drop in comparison to the same period last year.

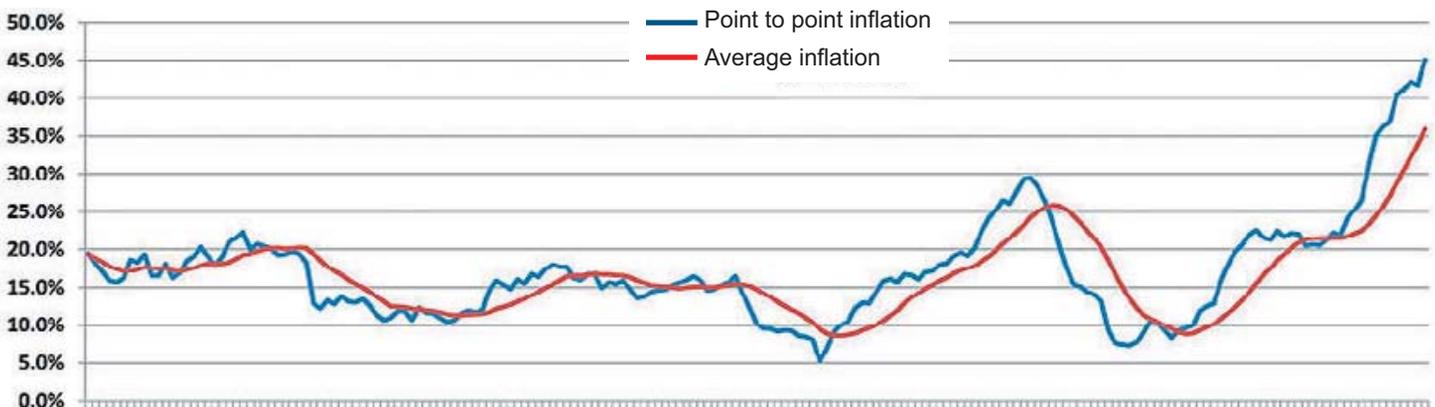
Iran’s steel production –first six months of 2013 (million tons)



Overview of Iran’s inflation rate

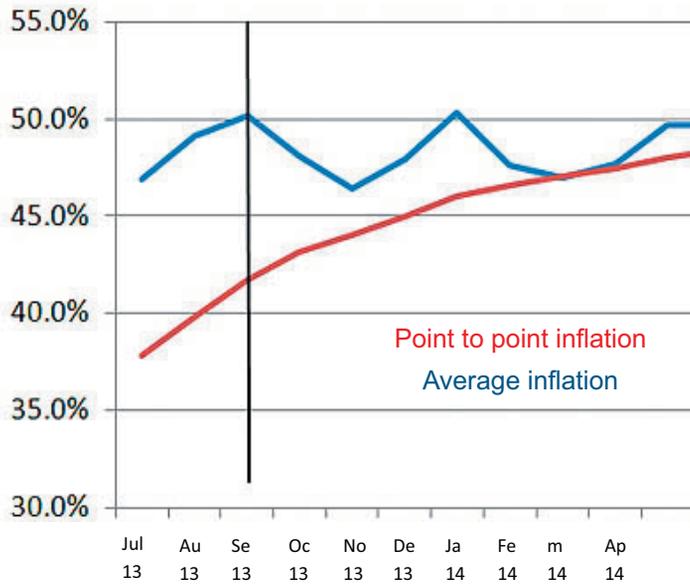
The latest statistics published by the Central Bank of Iran revealed that the point to point inflation rate as of June 2013 was at 45.1% while the average 12-month inflation rate in June with respect to the same period last year was at around 35.9%. The average annual inflation rate at the end of the previous Iranian calendar year was at 30.5%, with a point to point inflation rate of 40.6%.

Iran’s inflation rate from Aug 1997 to June 2013



Iran's inflation rate orecast

According to some economists, the increasing trend of the inflation rate will continue throughout the summer and the point to point inflation rate and average inflation rate are expected to increase to nearly 50% and 45% respectively in the summer. This would be the highest rate of inflation for the country in the past 17 years.



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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.

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