



Saffron farms, Khorasan Razavi province, Iran

Market Overview _____ 2

The Tehran Stock Exchange continued its downward trend, which started at the start of 2014, and its index fell by 7 percent during June, making it the worst performing month of 2014. For the first time in the last 15 months, the average P/E ratio of the market, which reached 8.5 at its peak, decreased to levels below its historical average of 6 and stood at 5.6. Trade values also decreased by 42 percent and stood at \$1.8 billion, which shows the current lack of demand in the market.

Turquoise News _____ 5

Turquoise domestic fund, "Firouzeh Fund", is ranked first among more than 70 mutual funds in Iran.

Country Overview _____ 6

Nuclear negotiations and recent sport events will be discussed in this section.

Economy _____ 8

The recent reports on unemployment and GDP growth and gasoline price in Iran will be detailed in this section.

The Tehran Stock Exchange continued its downward trend, which started at the start of 2014, in June. Its index fell by 7 percent during June, making it the worst performing month of 2014. The TSE index has decreased by more than 21 percent from its peak in January 2014, which is now viewed as the fourth bear market of the TSE since its inception.

Historically, the recognition of the entrance of the stock market into a bearish period has led to further decreases in price in the short-term amid negative investors' sentiment. The TSE has experienced recession three times so far and in all of the previous cases, the market experienced accelerating falls in prices. The first bear market occurred between August 1996 and July 1998 when the TSE index fell by 32 percent. The second one took place between December 2004 and July 2006 during which the TSE index decreased by 34 percent. At the same time as the global economic crisis was happening, the market index declined by 38 percent during a nine-month period in 2008. During the previous three bear markets, the TSE experienced a decline of at least 32 percent. Currently the index has dropped more than 21 percent from its height as of June 2014. Having said the above, the market ended the month of June at an average multiple of 5.6, which is below its long-term historical average of 6. As a result of the recent market correction, many companies and sectors have become cheap relative to their historical multiples and are expected to attract investments in the coming months.

Even though the main drivers of this recession in the market are the lack of a positive outlook on the growth of profitability of companies and uncertainties regarding the nuclear deal, other factors such as the Iraq crisis contributed to falling prices in June. In the meantime, quarterly reports of companies and results of the nuclear talks are expected to affect the market in July.

Market performance in spring

From a historical point of view, the spring period (from March 21th to June 21th) is concurrent with

increasing prices in the stock market. However, in 2014, the TSE index fell by 10 percent during the spring. Taking a closer look at the stock market shows that many sectors suffered large losses. Construction sector shares fell on average by 22 percent which is the record loss of this sector during the spring. Refineries, banks, and petrochemicals, which play a significant role in many investors' portfolios, also experienced an average loss of 10 to 13 percent. The other financial-intermediaries sector (leasing companies) and the auto sector were the best performing sectors with growth of approximately 29 and 12 percent respectively. The raising of the leasing interest rate from 15 percent to 22 percent by the Central Bank and the doubling of auto production resulted in the growth of those two sectors. On a macro level, considering the tight monetary policy of the Central Bank and the contractionary fiscal policy of the government, there are no clear signs of how and when economic recovery and positive growth will be achieved.

Sector news

One of the main contributors to the stock market recession in 2014 might be the lack of reliable news regarding a positive outlook of profitability for companies in most sectors. In the biggest sector of the market, namely petrochemicals, the stability of the Rial in regard to foreign currencies in recent months has controlled the main driver of growth in this sector. Furthermore, the global prices of some exported petrochemical products, such as urea and methanol, are at their record-low in recent years. The petrochemical index decreased by 7 percent in June.

In the mining sector and basic metals sector, the fall in demand from China and the stability of Rial is damaging revenue growth. The global iron ore price has fallen by almost 30 percent, pressuring earnings of Iranian iron ore exporters. Although some of these iron ore companies are working on expansion plans to increase their production capacity, liquidity problems caused by sanctions, devaluation of the Rial and high dividend payout ratio forced by shareholders, has slowed down progress. The index of the metal industries sector

declined by 7 percent and that of the mining sector declined 11 percent.

In the cement sector, the Iraq crisis has resulted in an uncertain outlook for the 25 percent of the market of cement producers that export to Iraq. This crisis contributed to the 7 percent drop in the index of this sector. Even the announcement of the 20 percent increase in local cement prices, which is set by government, could not stop the downward trend in stock prices. The cement companies close to the western borders with Iraq experienced a greater decrease in prices than the companies located in eastern and central parts of Iran.

In the pharmaceutical sector, the government did not allow companies to raise prices of their products. However, it is possible for these companies to improve their profitability outlook due to the easing of international trade in this sector. The index of pharmaceutical sector also fell by 11 percent in June.

The low inflation rate (around 15 percent) relative to the one-year deposit interest rates (22 percent) has made it difficult for bank to give high interest loans and banks are in a competition to lower their spread through increasing interest rates on deposits. The average share price in this sector decreased by an average of 8 percent in June.

Despite its promising performance in spring as above, the auto sector had the worst performance among all sectors and its index decreased by 18 percent in June. The 15 percent auto price premium in the free market above the prices set by the government for auto makers has made investors hopeful that the government would allow a price increase soon. However, the government decreed that prices should increase by only 5 to 6 percent on average. Auto makers are unhappy with this decision but the government seems to be unwilling to allow a further price increase.

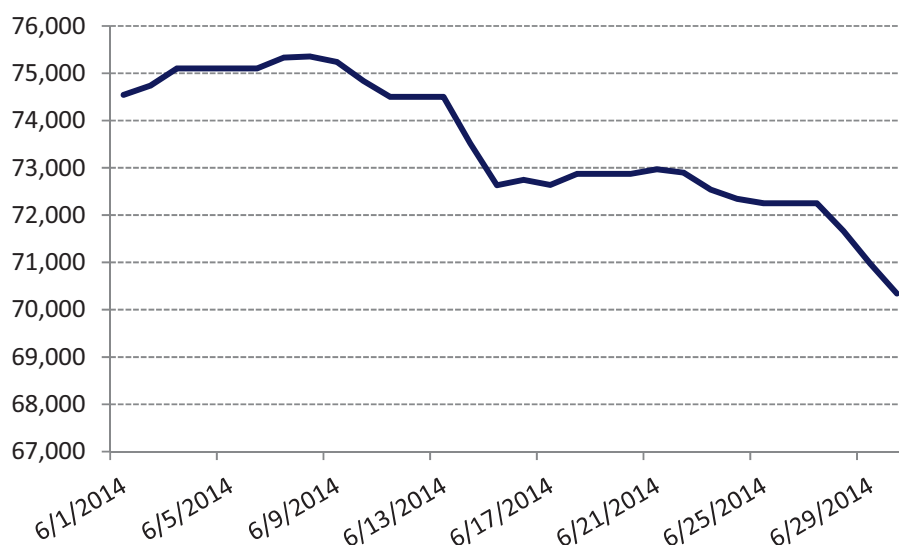
Market Valuation

After the TSE index went down by more than 21 percent from its peak on January 2014, and after

new earnings report and forecast by listed companies were released, the market valuation has decreased substantially. For the first time in the last 15 months, the average P/E ratio of the market, which reached 8.5 at its peak, decreased to levels of below 6 ending up at 5.6. The average P/E of the market over the last two decades is 6. It can be said that after the recent drop of the market, stock prices have reached reasonable levels and are appropriate as long-term investments. According to the historical data on the TSE, the average annual return of the TSE is 35 percent.

In summary, June was the worst performing month of the market in 2014 with a 7.1 percent fall in the TSE index. Trade values also decreased by 42 percent and stood at \$1.8 billion, which shows the current lack of demand in the market.

Performance of TSE All-Share Index (June)



Market Statistics (June)

Average P/E	5.6
Trade Volume (\$ Billion)	1.8
Trade Value Monthly Change (%)	- 42
Market Cap (\$ Billion)	131

Top 5 Traded by Value (May)

Rank	Company Name	Turnover Value (\$Million)	% of Total Turnover
1	Sepahan Oil Co.	93	10
2	Iran Khodro Industrial Group Co.	75	8
3	Saderat Bank	47	5
4	Pasargad Bank	47	5
5	Civil Pension Fund Investment. Co.	38	4

Top 5 Companies by Market Cap (May)

Rank	Company Name	Market Cap (\$Million)	% of Total MC
1	Persian Gulf Petrochemical Industry	14,434	11
2	Esfahan's Mobarakeh Steel Co.	5,576	4
3	Bandar Abbas Oil Refining Co.	5,227	4
4	Tamin Oil & Gas & Petrochemical Inv. Co.	4,715	4
5	Iran Telecommunications Co.	4,573	3

All figures quoted in USD in this Newsletter are calculated based on the Central Bank of Iran's official USD/IRR exchange rate of 25,651 as at 30 June 2014. Due to Central Bank's revision on the official exchange rate of the Rial, TSE's market capitalization and trading value in USD have reduced dramatically.



“Best performing fund out of the over 70 mutual funds in Iran”

	3 months	6 months	12 months
Firouzeh Fund	7.6%	12.5%	44.3%
All Other Funds (Average)	-5.2%	-10.9%	14.9%

Firouzeh Fund, a domestic Iranian mutual fund managed by Turquoise Partners, has been ranked first in the past 3, 6 and 12 months in terms of performance (as of 4/8/2014). It is worth noting that during this period, the market has experienced both very positive and also negative periods. This performance is benchmarked against all other mutual funds in Iran, which include funds managed by banks, investment banks, brokerage companies and asset managers, and shows the proficiency of our investment management team.

Nuclear Negotiations Deadline Extended

The latest round of nuclear talks between Iran and global powers began on July 2nd and continued in Vienna until July 18th. The marathon talks were held in order to reach a comprehensive agreement as the interim agreement which was reached in Geneva last year would expire on July 20th.

The talks in Vienna, held between Iran and the P5+1 group, was one of the rare occurrences in international diplomacy, in that negotiations were held on a daily basis for more than two weeks in order to resolve a decade long dispute. The negotiations were conducted at a technical level many times before the most recent discussions and the Vienna talks included many bilateral meetings as well as multi-party negotiations within the P5+1 and Iran. The countries, excluding Russia and China, sent their highest ranking foreign affairs officials and all sides expressed their seriousness and will to resolve the issues at hand before the self imposed deadline.

The Iranian Foreign Minister, Mohammad Javad Zarif, held many discussions with the European Union's High Representative for Foreign Affairs and Security Policy, Catherine Ashton in order to coordinate negotiations among the different representatives. Ms. Ashton has been representing the P5+1 powers in negotiations with Iran and has played a key role in moving these negotiations forward. Iran's deputy Foreign Minister, Abbas Araghchi, informed the media that the drafting of the text of the comprehensive agreement had started in Vienna but differences still remained between the negotiating parties. These differences were mostly regarding the scope of uranium enrichment Iran would hold after the comprehensive agreement, as well as the timing and scope of sanctions being removed by Western powers.

The US Secretary of State, John Kerry, travelled to Vienna in order to expedite the process as well as to try to close the gaps that remained between Iran and the P5+1. Mr. Kerry held bilateral discussions with his Iranian counterpart in what was one of the rare instances of direct negotiations between the Islamic Republic of Iran

and the United States. Mr. Kerry described the negotiations as serious and stated that tangible progress had been made; however, some major differences still remained.

These discussions were halted once the diplomats reached the conclusion that more time would be needed following the July 20th deadline, in order to close the differences which remained. The interim agreement which was reached in Geneva last November, had allowed the parties to extend that agreement for a period of six months. This was something that neither party wanted as they had tried to reach a comprehensive deal by July 20th. However, the P5+1 and Iran decided to extend the interim agreement for a period of four months in order to give diplomats more time for reaching a deal that would resolve concerns for both Iran and the P5+1 regarding the Iranian nuclear programme. Diplomats have stated that the next round of negotiations will be held in September.

Sports fever hits Iran

With the coming of June, Iranian sport fans witnessed their football and volleyball national teams compete in two international sporting events, the FIFA World Cup as well as the FIVB Volleyball World League. The country had been waiting for a year for the FIFA World Cup to begin, given that the national team had secured a position in the widely anticipated event in June 2013. Last year, Iran's chances of qualifying had seemed dim at times during the qualification stage for the World Cup and Iran needed to win all the last three matches, played away from home, to secure a spot. The national team or Team Melli, as it is known inside Iran, managed to achieve this and secure the top position in their qualification group and advance to the World Cup. There were widespread national celebrations in all major Iranian cities as a result.

With the group stage draw for the FIFA World Cup finals placing Iran with Nigeria, Bosnia and Herzegovina, and two time world champions, Argentina, the team started their preparations under Carlos Queiroz's lead. The team held training

camps and a number of friendly games in South Africa and Austria before the tournament.

The first game played by Iran in the World Cup was against Nigeria. The game was finished with a goalless draw with Iran playing defensively against one of Africa's finest teams. The second game was played against Argentina and was much more anticipated, considering that the Latin American nation has some of the world's finest talents playing in their national team. The star studded Argentine team was held to a goalless draw with Iran for 90 minutes and it was only in extra time that the legendary Lionel Messi was able to break the deadlock and score the winning goal for the Argentines. Even though Iran had lost the game, Iranians expressed their pride for the efforts of their players against such a strong team. Crowds were seen across Tehran waving Iranian flags and honking horns to show support for their team. Iran played its last game against Bosnia and Herzegovina, who had already been eliminated due to their losses in their previous games. The game, however, went in Bosnia's favour with the European side defeating the Iranian national team by a score of 3 to 1. With that result, Iran's Team Melli was eliminated along with Bosnia at the group stages of the World Cup; however, Iranians were generally proud of the performance of the national team in this sporting event.

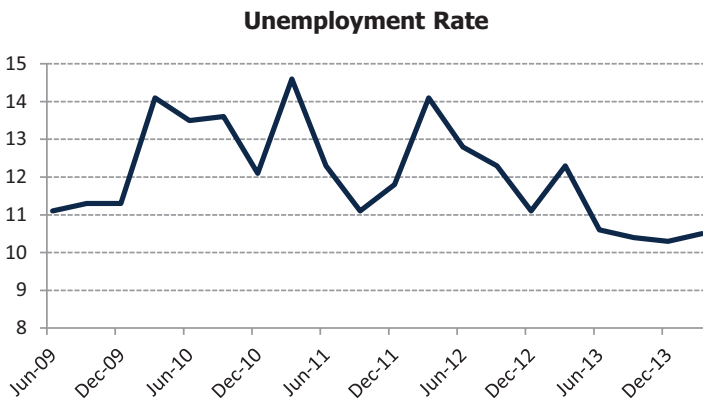
Another sporting event which was widely watched in Iran was the World Volleyball League in which Iran had succeeded in reaching the final stages by becoming one of the top 6 teams competing for the top spot. The Iranian volleyball team has been performing remarkably in recent years, and this year was one of its best ever. This year was the second time ever that Iran's national volleyball team had been able to qualify for the World League. After being positioned in a tough group with the host and eight time World League champions, Italy, and nine time World League title holders, Brazil, as well as Poland, Iran was able to qualify as one of the top teams and become one of the top four teams of the tournament.

Iran was then required to play against Brazil, Italy, and the United States. At this stage, Iran beat

Brazil but was defeated in the games against Italy and the United States. It ended up in fourth spot in the World with the US claiming top spot and Brazil becoming second.

Unemployment

According to the recent report by the Statistical Center of Iran, the unemployment rate reached 10.5 percent in March 2014, showing a decrease of 1.8 percentage point from the figure in March 2013. The unemployment rate reached its peak of 14.6 percent in March 2011 and since then it has roughly been following a downward trend although with some fluctuations. The movement in the unemployment rate has been negligible for the past 12 months.

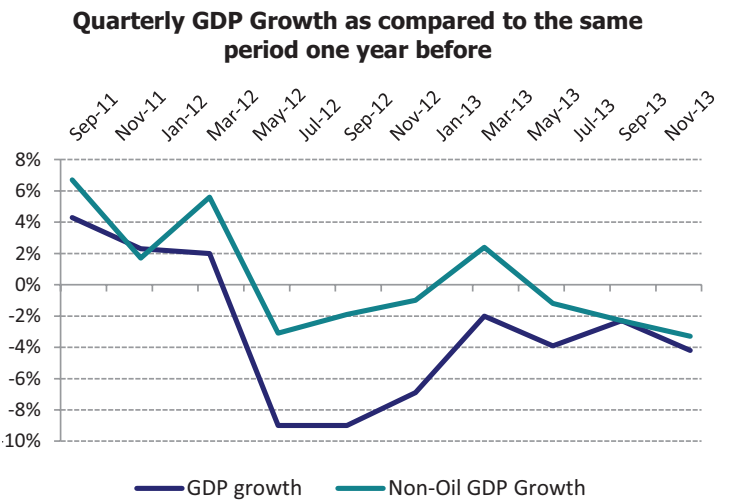


The economic activity rate, the ratio of the total number of employed and unemployed to the number of working age population, reached 35.4 percent in March 2014, showing a decrease of 1.2 percentage point from March 2013. Based on the report, the economic activity rate is more in rural areas (36.7 percent) than in urban areas (34.9), while the unemployment rate of 8.7 percent in rural areas is lower than that of 11.3 percent in urban areas. Another fact about the Iranian labor market is that the economic activity rate for males is 60.6 percent and for females is 10.3 percent. However, the unemployment rate for different age groups of females is almost double the comparable unemployment rate for males. The unemployment rate for the youth population (between the ages of 15 and 29) showed a decline from 24.1 percent in March 2013 to 22.1 percent in March 2014.

Regarding sectoral employment, the services sector contributes the most to employment with 48.6 percent of total employment, while industries and agricultures contribute 35.1 percent and 16.3 percent to employment respectively.

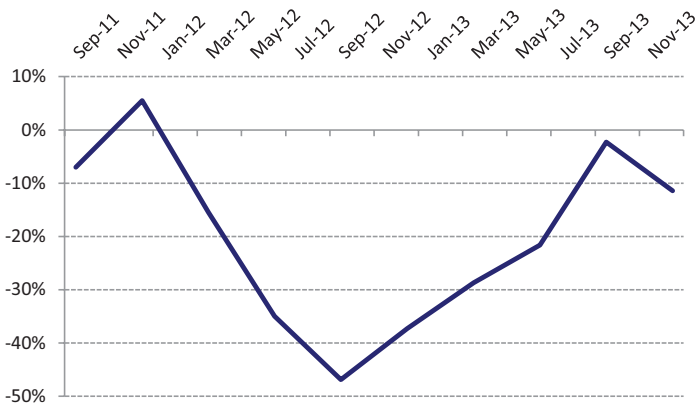
GDP

According to the most recent report by the Central Bank of Iran, Iran's economy shrank by 4.2 percent during the third quarter of the last Iranian year (ending at December 2013) as compared to the same period in 2012. GDP, excluding oil, also shrank by 3.3 percent. The oil sector, which contributed to 10 percent of the GDP during this quarter, showed the biggest decrease among all sectors with a drop of 11.4 percent compared to the same quarter a year before. The agricultural sector within the economy shrank by only 0.8 percent, making it the best performing sector of the economy. The services sector, which contributes to almost 60 percent of the economy, suffered a negative growth of 3.9 percent, and the industries and mining sector contracted by 3.4 percent during this period.



Iran's economy has been experiencing negative growth for several quarters, at a time where there has been a huge decrease in the oil sector due to decreasing oil exports and production as a result of sanctions. While the oil sector shrank by as much as 46 percent during the quarter ending on Sep 2012, the overall economy fell by just under 9 percent due to the relatively small size of the oil sector in the economy. Making up more than 17 percent of the economy some five years ago, the oil sector is now only some 10 percent of the economy.

Quarterly Oil Sector Growth as compared to the same period one year before



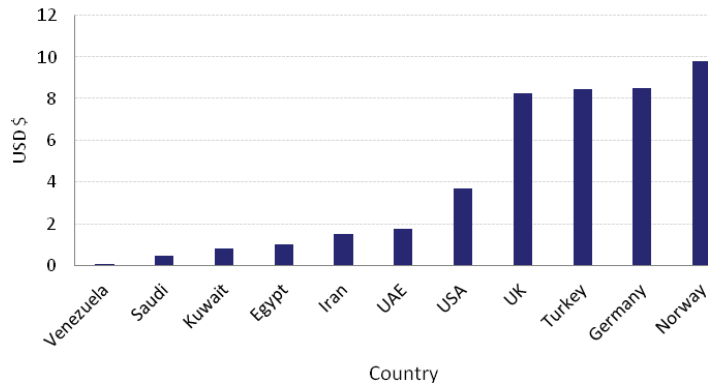
Private consumption expenditure, which is some 50 percent of the economy, increased by 1.4 percent during this period, while government expenditure, which is almost 9 percent of the economy, grew by only 0.1 percent. In the meantime, gross capital expenditure, amounting to almost 25 percent of the economy, decreased by 6.4 percent.

Bloomberg Report specifies Iran as having 5th Cheapest Gasoline prices in the World

A report published by Bloomberg in June 2014 claims Iran has the 5th cheapest gasoline prices in the world. Iran is an energy-rich country possessing 11% of global oil reserves and 15.3% of global natural gas reserves and is ranked as the second largest producer among the Organization of the Petroleum Exporting Countries (OPEC). Iran plays a significant role in the world energy market and the global economy; however, the report raises concerns about the country’s ability to continue to export oil in the next decade given that Iran’s energy consumption growth is about 6 percent per year. The report views the main driving forces behind the rising trend of energy consumption as population growth and a heavily subsidized energy market (statistics from the Central Bank of Iran Economic Indicators 2011). The report continues that each gallon of gasoline is sold at \$1.52 in the country. Venezuela, Saudi Arabia, Kuwait, and Egypt are the four leading countries with the lowest gasoline prices of \$0.04,

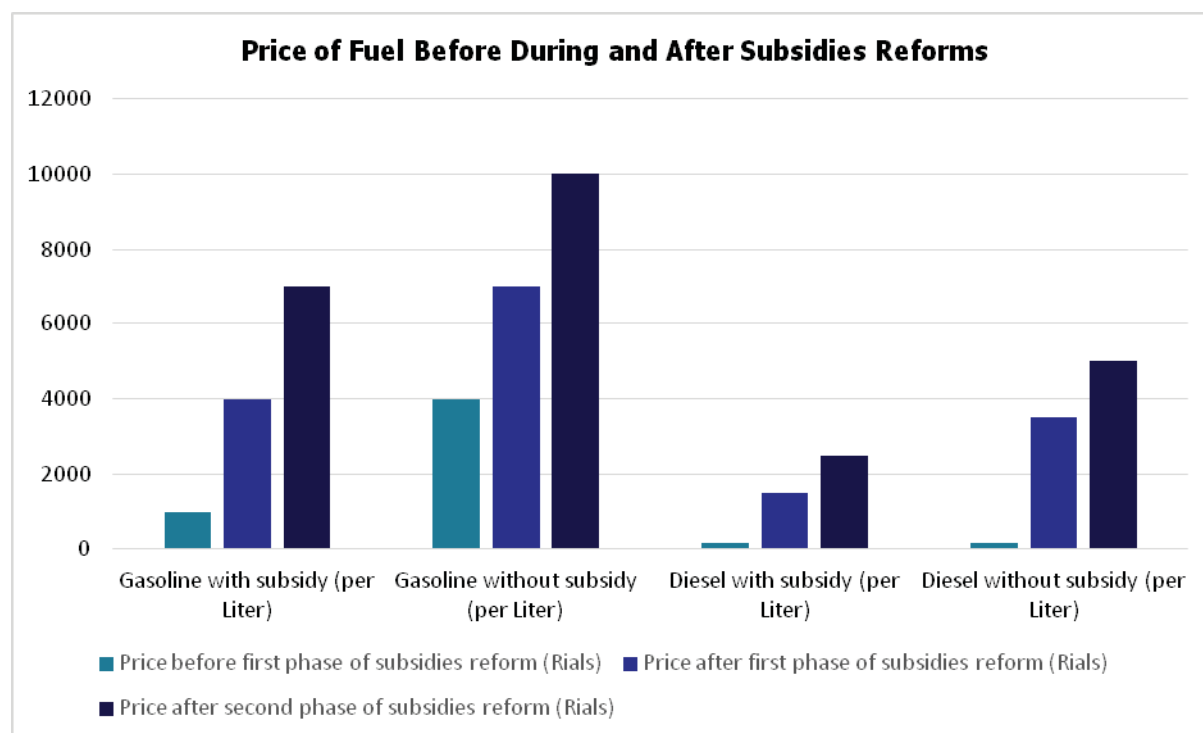
\$0.45, \$0.81, and \$1.01 per gallon. Norway retained the title for the world’s most expensive gasoline of \$9.79 per gallon. The Bloomberg article states that Iran until 2010 had the highest fossil-fuel subsidies in the world, and that in cash terms the world’s biggest subsidies are in Iran, Saudi Arabia, and Russia, all of which are major oil producers.

Gasoline Prices Per Gallon



Reuters, citing figures from the International Energy Agency (IEA) and the International Monetary Fund (IMF), states that subsidies for gasoline cost these three countries a combined total of an average of \$180 billion a year. However, it is not just gasoline which is subsidized; other subsidies account for 74% of the cost of electricity and fuel in Iran. Consequently, this puts the country in fourth place among members of the Organization of the Petroleum Exporting Countries (OPEC), according to IEA and IMF. However, recent measures by the government have aimed at reducing subsidies through subsidies reform as the government raised petrol prices by 75% in April, from 4,000 to 7,000 Rials (\$0.16 to \$0.28) per litre. Current figures show that the price of gasoline after the second phase of subsidies reform is now at 7000 Rials with a subsidy and at 10000 Rials without a subsidy, a rise of 600% with a subsidy and 150% without, to those of before the first phase of subsidies reform. Similarly, diesel is now 2500 Rials with a subsidy and 5000 Rials without, a 1415% and 2930% rise respectively from before the first phase of subsidies reform.

Price of Gasoline and Diesel in Iran before the first phase of subsidies reform, after the first phase and after the second phase of subsidies reform			
	Price before first phase of subsidies reform (Rials)	Price after first phase of subsidies reform (Rials)	Price after second phase of subsidies reform (Rials)
Gasoline with subsidy (per Litre)	1000	4000	7000
Gasoline without subsidy (per Litre)	4000	7000	10000
Diesel with subsidy (per Litre)	165	1500	2500
Diesel without subsidy (per Litre)	165	3500	5000



About Turquoise

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

Disclaimer

This material is for information purposes only and does not constitute an offer to sell, nor a solicitation of an offer to buy any specific shares.

The analysis provided by this publication is based on information that we consider reliable and every effort is made to ensure that the facts we publish are correct. However, we do not represent that all facts and figures are complete and accurate; therefore, we can not be held legally responsible for errors, emissions and inaccuracy.

This publication does not provide individually tailored investment advice and may not match the financial circumstances of some of its recipients. The securities discussed in this publication may not be suitable for all investors. The value of an investment can go down as well as up. Past performance is no guarantee of future success.

Copyright Notice

No part of this newsletter may be reproduced or transmitted in any form or by any means electronic, mechanical, photocopies, recording or by any information storage or retrieval system without prior written consent of Turquoise Partners.