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TURQUOISE PARTNERS

Tomb of Cyrus the Great, Fars Province, Southern Iran

In January, the Tehran Stock Exchange (TSE) continued its strong performance. This made January 2011 the best-performing January for the TSE since it was established. The continuous inflow of capital coupled with global rallies in commodities prices were assessed as the main reasons for this. The upcoming earnings forecasts for the next Iranian year will be very influential in determining whether this upward trend will continue.

The latest developments on Iran's nuclear program and the recent dispute between Iran and India over oil payments will be discussed in this edition of Country Overview.

The Iran and Pakistan trade cooperation agreement, the 2011 sustainable transport award, the electricity bourse, and the discovery of a new natural gas field will be covered in this section.

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

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The Tehran Stock Exchange (TSE) continued its strong performance after ending 2010 with the second best performance of stock exchanges worldwide. The TSE All-Share Index rose by a staggering record of 11.4 % in January. This made January 2011 the best-performing January for the TSE since it was established. Analysts believe that the continuous inflow of capital to the stock market and bullish sentiment among investors are the main reasons for this upward trend. This has been coupled with the lackluster performance of alternative investment markets such as real estate and foreign currencies in the past two years. This lack of alternatives has directed more resources towards the stock market.

Among the industries represented on TSE, two distinct patterns can be observed. The resource-based industries, such as steel, copper, and other commodities, are among the best performers. This is in accordance with the global upward trends in commodities prices. Some analysts argue that the other top-performers, such as cement, banking, and the auto industry, are driven by factors other than their fundamentals. This has raised a heated debate as to whether a bubble is on the horizon or whether the recent upward trends are merely adjustments to a long-term underpricing of the TSE.

Experts believe that the outlook will become more transparent, as many listed companies publish their earnings forecasts for the next year over the course of February.

Automotive

The auto industry index rose by 21% in January alone, making it the best-performing index on the TSE and further bolstering the automotive sector's position as the best performer of this Iranian year. The rally was spurred by the competition among various shareholders to increase their stakes in IranKhodro Co. and Saipa Corp. The two companies control over 98% of the domestic auto market and are the two largest automakers in the Middle East.

The rally in the automotive shares has happened despite increasing competition in the market and their shrinking profit margins. The average operating margin of the five major Iranian automakers dropped by 1% from 13% to 12% this year. Nonetheless, the average price to earnings (P/E) ratio has risen from 3.2 in March 2010 to 5.5 at the end of January 2011.

The unprecedented rallies in automotive shares prompted the Securities & Exchange Organization (SEO) to step in and suspend trades on IranKhodro Co. and Saipa Corp. shares in mid-January. The suspension is aimed at providing more transparency about the underlying drivers of the price increases. Furthermore, the two automotive giants have recently engaged in share repurchases through some of their subsidiaries. This had been noticed by the regulators. According to the Iranian Commercial Law, companies are prohibited from share repurchases and analysts hope that the upcoming reports from the auto manufacturers to the SEO will result in more transparency to their shares.

Construction Materials

The price rallies in the automotive shares in January were accompanied by yet more surprises on the TSE. Cement and steel shares also had a positive performance in January. This is despite the fact that analysts consider the two industries to be among the most vulnerable to an increase in energy prices and believe that the recent shocks in energy prices do not portray a favorable outlook for these two industries.

Nevertheless, the cement index rose by 3.1% and the steel index by 6.6% in January. The steel index was largely driven by the removal of trading suspension on Mobarakeh Steel Co., the largest steel maker in Iran. The 75-day trade suspension was conducted under the jurisdiction of the SEO as a result of a dispute among the board members. The company eventually approved a $1 billion share capital increase to use the proceeds for its development plans which will expand its production capacity from 5.4 million tonnes to 7.2 million tonnes per annum. Mobarakeh shares rose by 4.2% after the shares started to trade in the last days of January. Overall, experts think that the upcoming performance of cement and steel shares will be largely dependent on their upcoming earnings forecasts for the next financial year.

Banking

The banking industry index increased by 7% in January which was, according to analysts, inconsistent with the banks' published 9-month performance reports. On average, listed banks covered approximately 67% of their annual forecast in the first nine months of the year. This percentage was somewhat below analysts' expectations.

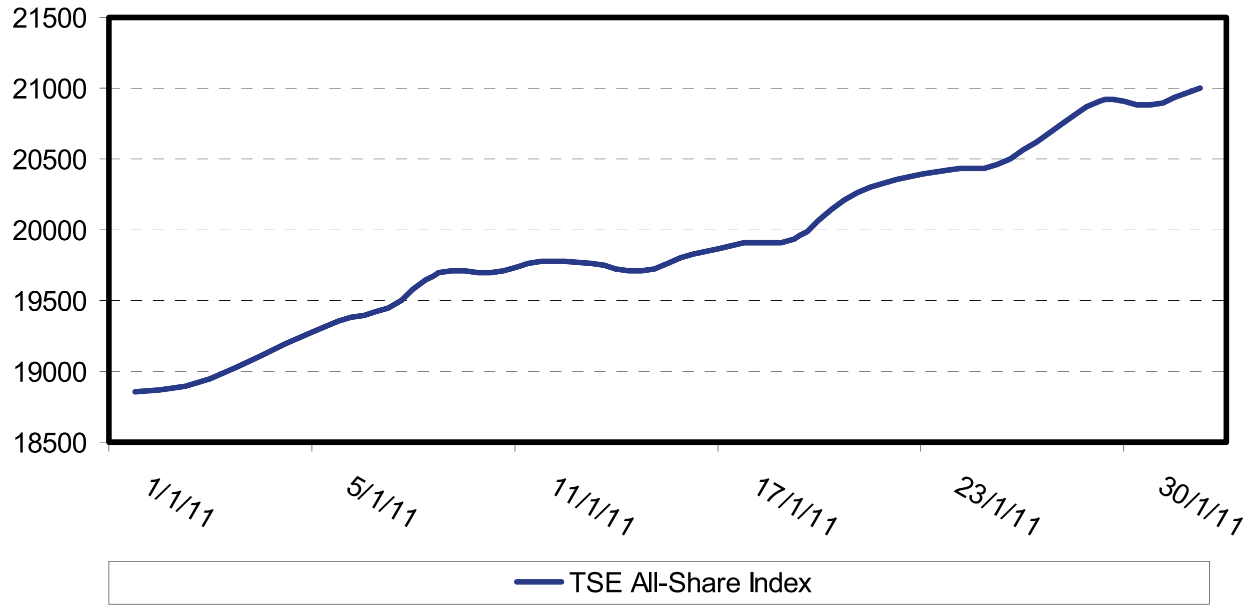
An average increase of 20% in provisions for doubtful debts on banks' books was also a point of concern to some analysts. However, the market did not react to the unfavorable earnings announcements and bank shares had a positive performance in January. The upcoming share capital increases by some of the banks were viewed as one of the reasons for the attractiveness of bank shares in January. Further, Parsian Bank, the largest listed bank was subject to competition between its main shareholders in an effort to win more seats on the bank's board. This drove its P/E ratio up to 8, the highest among the listed banks.

Upcoming IPOs

The positive performance of the Iranian equity market over the past few months and the continuous capital inflows to the equity market has been providing a favorable environment for new share offerings. To capitalize on the current positive atmosphere, a number of private and state-owned companies are planning to get listed in the next few weeks. The Iranian Privatisation Organization (IPO), which is in charge of the broad privatisation plans of the Iranian government, has also announced a number of IPOs for the near future. Arak Refinery Co., the largest oil refinery plant in Iran, and Iran Alloy Steel Co., the largest producer of alloy steel in Iran, are among the expected IPOs on the TSE.

The Over-the-Counter (OTC) market will also have a number of IPOs. Pardis Petrochemical Co., the largest producer of urea and ammonia in the Middle East, Amir Kabir Petrochemical Co., and Pasargad Bank, the largest Iranian bank in terms of capitalisation, will be offered on the OTC market.

Overall, January was a great month for the TSE with the TSE All-Share Index gaining 11.4% and trade volume reaching $1.44 billion. TSE's total market capitalization stood at $96.3 billion at the end of January, close to the $100 billion barrier.



Market Statistics	
Average P/E	6.7
Trade Value ($ Billion)	1.44
Trade Value Monthly Change (%)	-8.7
Market Cap ($ Billion)	96.3

Top 5 Traded by Value

Rank	Company Name	Turnover Value ($million)	% of Total Turnover
1	Parsian Bank	113	8
2	Bahman Group Co.	93	6
3	Post Bank	84	6
4	Telecommunications Co. of Iran	74	5
5	Saipa Co.	69	5

Top 5 Companies by Market Cap

Rank	Name of Company	Market Cap ($Million)	% of Total MC
1	Telecommunications Co. of Iran	13,485	14
2	National Iranian Copper Industries Co.	5,794	6
3	Isfahan Mobarakeh Steel Co.	4,078	4
4	Parsian Bank	3,543	4
5	Mellat Bank	3,323	3

The latest developments on Iran's nuclear program and the recent dispute between Iran and India will be discussed in this edition of Country Overview.

In late January, Iran and the so-called 5+1 Group, consisting of Britain, China, France, Russia, the United States, and Germany, held a meeting in Istanbul in order to negotiate terms with regards to Iran's nuclear program. This meeting was a continuation of talks in Geneva in December. These talks had been resumed after a 14-month suspension in the discussions.

Prior to the talks in Istanbul, the Iranian delegate, Abolfazl Zohrevand, expressed his hope that the Istanbul talks would take place in a more positive atmosphere than the ones in Geneva. Iran had stressed that other issues beside the nuclear negotiations should be discussed in the Istanbul talks, such as global disarmament and regional security issues. Iranian officials had insisted that any attempt to limit the meeting solely to the nuclear issue would fail.

The Western powers were hoping to negotiate the freezing of Iran's nuclear program. They revisited the possibility of providing Iran with technical assistance and the opportunity for a fuel exchange, as ways to reduce international concerns regarding Iran's nuclear ambitions.

As in the talks which took place in Geneva, such concerns remain unchanged. The Western countries declared that their main problem with Iran's nuclear program is over the uncertainty of whether Iran plans to use its enrichment program for solely non-military purposes. Iran continues to insist that its nuclear program is for civilian use only. The talks ended with no definitive conclusion and the two sides have not yet scheduled another round of talks.

Prior to the talks in Istanbul, Iran invited foreign diplomats from 120 countries to take a tour of the Natanz and Arak nuclear facilities. The diplomats were accompanied by the Iranian Ambassador to the International Atomic Energy Agency (IAEA) and Akbar Salehi, the newly appointed foreign minister and the former head of the Atomic Energy Organisation of Iran (AEOI). The invitation was extended to representatives from the 5+1 Group as well as the International Atomic Energy Agency (IAEA), the Non-Aligned Movement (NAM), and the Group of 77. Russia and China were invited to represent the 5+1 Group. The EU delegate to the International Atomic Energy Agency (IAEA) and a representative from Hungary which currently chairs EU were also invited to represent the EU.

The tour was attended by representatives from the NAM, the Group of 77, and the Arab League. Russia, China, and the EU representatives chose not to attend. The visitors later published their observations in a report acknowledging the country's right to peaceful nuclear power and confirming the civilian nature of Iran's nuclear program.

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During the past month, Iran and India have been engaged in a dispute over oil payments. Iran currently exports 400,000 barrels of oil per day to India which makes it India's second largest oil supplier after Saudi Arabia. Iran's oil exports to India amount to $12 billion a year and account for 12% of India's oil imports.

Until recently, Iran and India conducted their payments through the Asian Clearing Union (ACU) mechanism. The ACU was established in 1974 in order to facilitate payments between member countries, and include the central banks and monetary authorities of Iran, India, Bangladesh, Bhutan, Nepal, Pakistan, Sri Lanka, Myanmar and the Maldives. The ACU transactions, including Iran-India transactions, are dominated by US dollar and euro transactions. However, following mounting pressure from the US, all transactions between Iran and India have been carried out exclusively in euro since 2008.

In a recent decision by the Reserve Bank of India (RBI), it was stated that all transactions with Iranian counterparties would also have to be made outside the ACU mechanism. This decision by RBI followed the US raising the concern of Iran using the ACU as a way to avoid sanctions.

After the US intervention, the RBI held back payments for Iran's oil exports. This led to a dispute and went as far as Iran threatening to suspend its exports to India. Iran had stated that it would not accept payments outside the ACU mechanism and the National Iranian Oil Company (NIOC) provided a 90-day deadline for India to offer an alternative solution.

A number of options were suggested in regards to this payment dispute. One suggestion was that payments be made through either Chinese or Japanese banks in currencies other than US dollars. However, this change in payments would have caused additional costs for Iranian exports and would lead to a decrease in oil trades. At some point during these discussions, India offered to make payments for Iran's oil in gold. This also was declined by Iran.

After much deliberation, the decision was made that India would make payments through the German-based Europaeisch-Iranische Handelsbank AG known as EIH Bank. The State Bank of India (SBI) will be responsible for organizing payments to Iran in euro. The SBI is required to provide assurances that payments to Iran will not be used for the development of the country's nuclear program. The new mechanism works so that instead of Indian companies opening accounts with EIH Bank directly, the SBI will be in charge of arranging payments in euro. The SBI has been ordered to make payments to Iran immediately since there is a $2 billion bill to be paid.

During the period 2009-2010, Iran's oil exports to India amounted to 21.3 million tonnes. This amount is predicted to decrease to 18 million tonnes this year due to restrictions applied to a number of Indian companies. The media and some major oil companies in India strongly criticised RBI's decision. They asserted that this decision damaged bilateral trade between the two countries and could jeopardize the country's oil supply in a period of surging oil prices and rising global demand for commodities.

Iran and Pakistan Trade Cooperation Agreement:

In January, Iran and Pakistan signed a Memorandum of Understanding (MOU) in order to increase trade from the current $1 billion to $4 billion by 2016. The MOU was signed by the ministers of commerce during the sixth meeting between Pakistan and Iran's Joint Trade Committee (JTC) which took place in Islamabad.

Since 2006, Iran and Pakistan have been engaged in a Preferential Trade Agreement (PTA). During the recent meeting, it was decided that there should be more items included in the Pakistan-Iran PTA. Pakistani officials called on Iranian oil and gas companies to invest in Pakistan's energy sector. It was also agreed to form a joint working group to further pursue the goals of the MOU. The first meeting of this group is to take place in Tehran within the next four months.

During recent years, Iran and Pakistan have been strengthening their economic ties and as a result, trade volumes between the two countries have increased from $141 million in 2000 to $1 billion last year. Experts believe the two countries can further enhance their economic cooperation given the immense potential for the two to mutually benefit.

2011 Sustainable Transport Award:

During a ceremony held by the Institute for Transportation & Development Policy (ITDP) in Washington D.C. in January, the city of Tehran was among the winners of the 2011 Sustainable Transport Award (STA). The STA is awarded to cities recognized for their achievements in increasing mobility, reducing air pollution and improving safety for cyclists and pedestrians. This year the nominated cities were Guangzhou (China), Leon (Mexico), Lima (Peru), Nantes (France) and Tehran (Iran). Tehran was the runner-up to Guangzhou which was awarded first place by the ITDP.

In 2010, 77 new kilometers of metro lines were added to the previous total of the 159 kilometers of Tehran's subway system. The subway system currently carries approximately 2 million passengers per day. This is in addition to the investments made towards a bus rapid transit (BRT) network of 100 kilometers which transports 1.8 million passengers on a daily basis. The city has also developed a bike share system which includes 12 stations in one of Tehran's districts.

With a population of over 8 million, Tehran has long been struggling with air pollution and traffic jams. Last year, the air pollution problem went as far as to oblige the government to announce a number of public holidays in order to curb the level of pollution. The government was also forced to take measures such as implementing policies which allowed for cars to be driven every other day depending on the number of their license plates. With the improvements in the public transport system and the rise in fuel prices due to the subsidies reform plan, municipal officials are hoping to be able to improve the problems of pollution and traffic.

Electricity Bourse:

The final arrangements for the launch of Iran's electricity bourse were made in January. The arrangements came as part of a series of decisions made by Iran's ministry of energy and the Securities and Exchange Organization of Iran (SEO). The initial steps towards establishing an electricity bourse had begun in 2004 with the establishment of the "electricity market". Approval was granted in 2009 and the bourse is to be inaugurated in the coming months.

With the establishment of the electricity market in 2004, electricity producers and power plants were able to compete in providing electricity to regional electricity distribution companies. However, up until now, the end users have only been supplied by the corresponding regional distribution companies without being able to choose their electricity provider. The electricity bourse will also enable end users such as companies to buy their required electricity from a producer with the best price and quality. Consequently, this will bring about more competition and transparency in Iran's electricity market.

With the implementation of the first phase of the subsidies reform plan in December, the average price of electricity is 450 Rials per kWh. The current prices are to be raised to 1000 Rials per kWh by 2015, the last year of the subsidies reform plan. With predicted price increases, Iran has announced plans to develop its power plants, and reduce production and distribution wastage. According to the ministry of energy, Iran plans to become a major exporter of electricity to neighboring countries and has reportedly attracted about $1.1 billion to invest in three major power plants.

Discovery of a New Natural Gas Field:

In January, a new natural gas field was discovered in Asalouyeh, province of Bushehr in the south of Iran. Khayyam gas field has 260 billion cubic meters of static gas reserves, 80% of which is estimated to be recoverable. In addition, the field has 220 million barrels of gas liquids of which 100 million barrels are recoverable. At a rate of $60 per barrel of gas liquids and 20 cents per cubic meter of gas, the value of this gas field is estimated at $50 billion.

Iran has discovered 13 oil and gas fields between August 2009 and August 2010 with approximately 14 billion barrels of oil and 45 trillion cubic feet of natural gas reserves. As the holder of second largest gas reserves after Russia, Iran plans to develop its oil and gas sector, and boost its exports to the global markets. With the fifth economic development plan being recently approved, Iran plans to direct funds towards the improvement and expansion of its oil and gas sector.

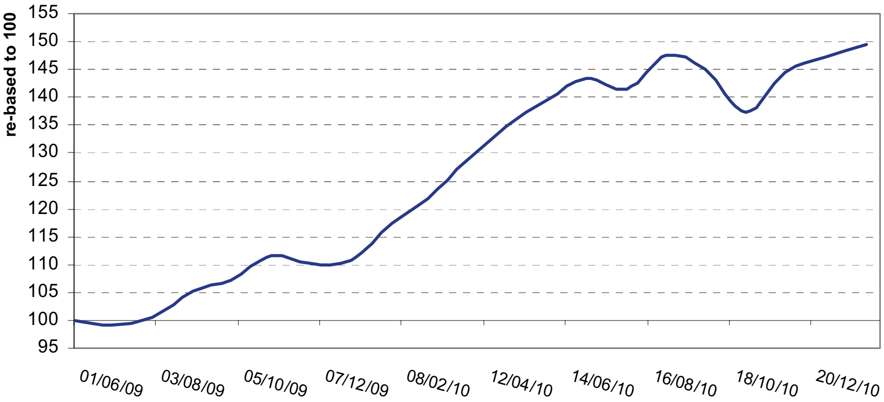
Investment Objective – The Turquoise Equity Investments seeks superior long-term capital growth by investing in the consumer and commodity potential of Iran, one of the most undervalued emerging markets in the world. Turquoise combines international experience with local expertise in investing in equities 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 = 149.4

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 31th January 2011



Period	Portfolio Return
Last Month	1.4 %
Last 3 Months	8.8 %
Last 6 Months	8.7 %
Last 12 Months	27.3 %
Since Inception (01 June 09)	49.4 %

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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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