IRAN - A NEW EL DORADO?

Unlocking a US$600 billion opportunity

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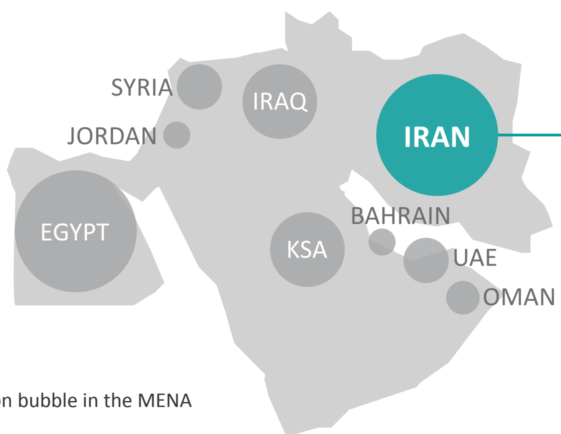
CAN IRAN PROVE TO BE THE NEXT BRIGHT STAR OF THE EMERGING MARKETS THAT INVESTORS AROUND THE WORLD ARE WAITING FOR?

January 16th 2016 will live on in history as the date Iran was allowed to finally rejoin the world economy. On that day, the International Atomic Energy Agency (IAEA) judged that Iran was in full compliance with the Iran Nuclear Accord – a decision that meant lifting sanctions that had crippled the Iranian economy to near collapse.

The lifting of the embargo will help to not only revitalize Iran's oil sector, but also open the doors to international corporations, providing them with access to 78 million potential consumers. The fundamentals of the Iranian economy are unlike anywhere else in the Middle East; even though the country has the world's largest gas reserves and the fourth largest oil reserves, its economy is considerably diversified (including sectors like manufacturing) and draws on a large, young, skilled and well-educated population.

Iran's future will not all be rosy, however. The country is expected to face significant challenges as it marches into this new globalized world. The country's long isolation has left behind an obsolete infrastructure, a weak banking system as well as a large grey economy. Primary sanctions that prohibit US companies from directly doing business in Iran remain largely in place, though some caveats have been introduced that would enable non-US subsidiaries of US companies. Special permission for businesses has also been granted on an ad-hoc basis, a case in point being Boeing.

Despite all its challenges, we still believe Iran to be a true 'El Dorado' for discerning multinational corporations that can swiftly and successfully navigate these challenges and forge strong local partnerships.



Population bubble in the MENA

2nd
Largest Economy in the region

Largest
Proven Gas Reserves in the world

4th
Largest Oil Reserves in the world

85%
of GDP from non-oil & gas sectors

THE SANCTIONS CRIPPLED INDUSTRY & AFFECTED EVERY ASPECT OF EVERYDAY LIFE

The 1979 Iranian Revolution and the subsequent seizure of the US Embassy in Tehran led to the first wave of sanctions being imposed by the United States. These sanctions were further widened in 1995 and also in 2006. The EU and other western countries imposed similar sanctions in 2010, further discouraging international companies from doing business with and in Iran.

The array of sanctions imposed in 2012 by the US and the EU has arguably been the most crippling. The US sanctions caused the removal of 15 Iranian banks from the global SWIFT banking system, excluding them from the international financial sector, while also making it effectively impossible for Iranian businesses and MNC's with a presence in Iran to trade internationally. The EU for its part introduced a boycott on Iranian oil exports and other trade, as well as asset freezes on companies and individuals providing technology to the Iranian oil sector among others. Towards the end of 2012, all non-humanitarian US trade, including the transshipping of US goods to Iran via other nations, was effectively banned. Other asset freezes like gold, bank deposits and other properties were all imposed in a bid to curtail the ability of Iran to extract, refine and trade in oil and gas.

Employment heavy sectors like construction saw a Y-O-Y decline of

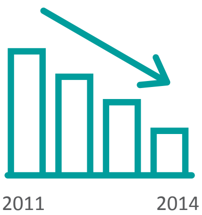
~3%

;automotive production halved

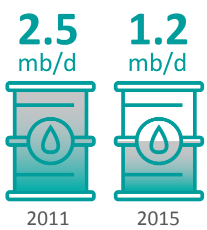
Primarily as a result of these sanctions, the Iranian economy went into a state of recession. Negative growth of 6.8 and 1.9 percent was reported in 2012 and 2013 respectively. A small rebound was reported in 2014, however this merely brought back the GDP to the same levels as in 2009. The oil sector was the most affected. Since the tougher sanctions of 2012, both the production and export of crude oil dropped by 1 million barrels/day, from FY2010/ 2011. Other major job creating sectors (along with services), such as the construction and auto industries, also saw sharp contraction. The construction sector saw a drop of 3.6 and 3.1 percent in 2012 and 2013, primarily due to a fall in material and equipment imports as well as a complete halt in FDI. The demand for construction permits has also been declining by an average of 3 percent.

Production within the auto industry has also almost halved over the same period of time. The unofficial unemployment rates, as official rates often don't capture job losses effectively, is estimated to be around 14 percent in 2014.

The Crippling Effect of the Sanctions



A 30% drop in GDP



A 50% drop in oil exports

US$ **100** Billion
Iranian hard currency assets frozen around the world

VS the USD the Rial lost
2/3rd

Inflation at
40%

Timeline of the sanctions

1979
Following the revolution and embassy crisis, US freezes all Iranian assets in US banks

1955-96
US imposes total economic embargo and imposes sanctions against international companies dealing with Iran's O&G sector

2006-08
UN imposes sanctions against defense sales and select financial assets of both individuals and the government firms

2010-12
UN passes sanctions on shipping lines. The EU bans imports of Iranian oil, several Asian countries also reduce imports. Iran cut off from SWIFT banking system

2015
JCPOA signed between Iran and P5+1. Timeline and conditions for sanctions relief set

THE DAWNING OF THIS NEW POST-SANCTION ERA IS EXPECTED TO HAVE AN IMMEDIATE POSITIVE EFFECT ON THE ECONOMY

With the lifting of the sanctions, the most immediate effect will be on the restoration of oil production to pre-sanctions levels, an increase of around 700,000 barrels/day this year. Iran will be hoping to further increase its daily output to approximately 6 million barrels/day within the next 5 years, but this is highly dependent on whether Iran will be successful in attracting investment from oil majors. Iran also hopes to secure large investments into its unexplored and under-developed natural gas sector.

Other non-oil sectors (which, unlike other states in the region, contribute more than 50% to the GDP) like automotive manufacturing, mining and an array of services industries, are also expected to get a much-needed infusion of investment and technological knowhow. Iran's financial sector, with its reintroduction into the SWIFT network, will greatly change the investment and trading atmosphere in the country. Iran's authorities believe the lifting of this and other financial and investment related sanctions will lead to FDI inflows of close to US$50 billion a year, an almost vertical increase when compared to the US$2.1 billion Iran attracted in 2014.

In addition to the lift of sanction, if Iran is able to build a conducive investment environment, yearly FDI inflows should equal

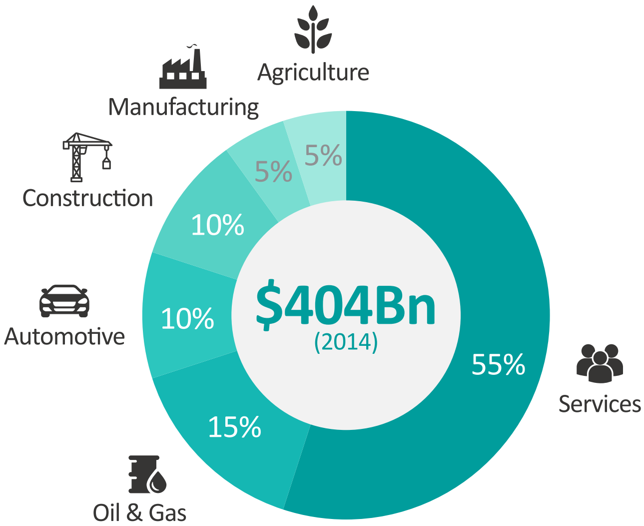
US$50 billion

by 2020

In fact, as a resolution on the nuclear deal seemed imminent, the Iranian government already secured multiple deals with a range of European and Chinese government and private entities on a range of infrastructure, transportation and machinery related projects and investments. Some examples include the deals with Saipem of Italy, which will see US$5.2 billion be invested into building a pipeline and upgrading two refineries, and the JV with Italy's Danieli Group, on setting up a Metals joint venture.

Also, with inflationary pressures expected to ease thanks to the lifting of sanctions and the greater availability of foreign goods, private consumption is expected to significantly increase. This is expected to further increase the share of private consumption within the economy (it currently accounts for 39% of the GDP). All this combined is expected to help the Iranian economy to return to a GDP growth rate of 5%. At the same time, the IMF argues that the expected fall in trade and financial transaction costs alone could add anywhere between 75 and 100 basis points to the country's GDP growth.

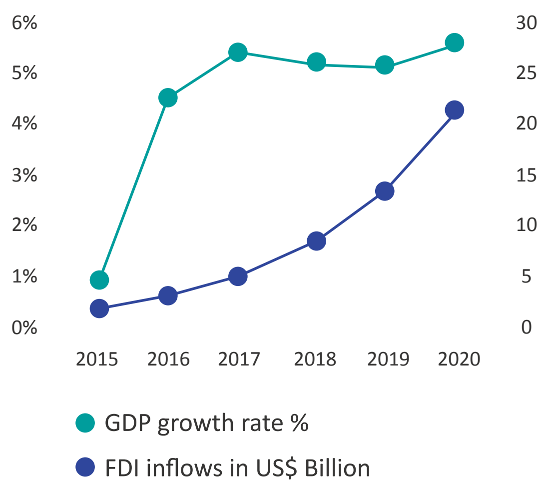
GDP 2014 - Sector wise Split



The Service Sectors Include:
Construction (3.2%), Trade, Restaurants and Hotels (13.2%), Transport, storage and Communications (15.2%), Financial Services (3.9%), Real Estate and Professional Services (17.3%)

GDP Growth Rate Forecast & FDI Inflows

*realistic estimates considering only the lifting of sanctions



NON-OIL SECTORS WILL ALSO GREATLY BENEFIT FROM INFUSION OF CAPITAL AND ARE EXPECTED TO PROVIDE AN ARRAY OF INVESTMENT OPPORTUNITIES

Any revival of the Iranian economy will have to start with the re-building of its infrastructure. All 54 airports will require significant upgrades and expansions. Iran is planning to build seven new international airports over the next decade. As part of this drive, MoUs to upgrade the country's major airports were signed with Italy's Vinci Group to build and operate new terminals at the Mashhad and Isfahan airports, with Aéroports de Paris and Bouygues of France agreeing to build a new terminal at the Imam Khomeini International Airport in Tehran. Iran's state carrier, Iran Air, has already placed orders with Airbus for 114 new aircraft. It is estimated that another 600 new airplanes would be needed in the next decade.

Another key infrastructure project in Iran is the 10,223km long rail network supporting both industrial and commercial corridors. The network, which is state owned and operated, is expected to expand to over 25,000km by 2025. Investment worth US$25 billion is expected to be earmarked for this. Deals have already been secured with France's state owned operator SNCF and Italy's Itinera for the modernisation and overhauling of Iran's rail network.

Iran's indigenous manufacturing sector is one of the strongest in the region. Unlike most of its neighbors it has manufacturing clusters covering almost all sectors, such as steel and glass for construction, a strong pharmaceutical industry and the automotive sector.

The automotive exports of Iran once accounted for close to US$1 billion annually but sanctions and the resulting depreciation caused production to shrink drastically (from 1.6 million cars annually to less than 750,000). A number of auto majors have shown keen interest in Iran with a number of announcements already made. Daimler Trucks has announced that it will restart sales and local production of auto-parts and engines with Iran's auto-making company, Khodro. Peugeot-Citron has committed close to US$455 million and will restart production, aiming to reach an output of 2 million cars annually. Major players like Volkswagen and Continental Tyres are considering investing in the market.

The pharmaceutical industry is also expected to receive a boost, with the industry cluster once again able to import parts and machinery. Prior to 2012, exports to Europe alone accounted for US$2.5 billion.

IRAN'S LARGE YOUNG, EDUCATED AND SKILLED POPULATION PROVIDES BOTH AN ATTRACTIVE CONSUMER BASE AND INDIGENOUS HUMAN CAPITAL FOR INVESTORS

While considering Iran's investment potential, one has to consider Iran's greatest economic strength: its people. Unlike other countries in the region, MNC's in Iran will not have to rely primarily on an imported workforce. Of the 78 million population, 87% are literate. Two-thirds of Iranians are under the age of 35 and literacy in this age bracket is 100%.

Iranians also have a strong background in math, science, information technology, and engineering, with nearly 44% of all university enrollments in these fields. Roughly 70% of science and engineering enrollments are women. In fact, women make up 50% of the tertiary education, which is more than countries like the UK and France.

The government of Iran has had a long history of supporting science and technology education. Iran has close to 38 science and technology parks. Pardis, the largest among them, has a turnover of $1.5 billion. In fact, if you consider the amount of scientific output, Iran is 7th in the world in nanotechnology and 17th in bio-technology.

Years of sanctions have led to Iranians creating their own internet companies. Now, with renewed access to capital, Iran could well become the regional start-up hub.

Over the next 5 to 6 years, an additional **US$600 billion** will be available from Iranian consumer wallet

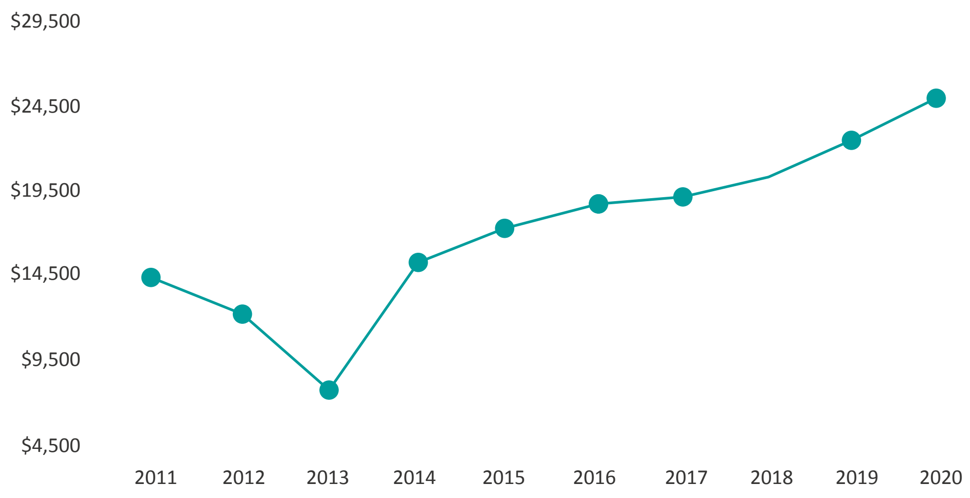
Startup accelerators like Avatech, funded by Sarava Pars, a venture capital firm which has already raised US$10 million from local investors to fund tech startups likes the online retailer Digikala, ANetwork, an online advertising company and Café Bazaar, Iran's answer to the App Store.

Iran is also a highly urbanized state, with more than 70% of its citizens living in urban centres. This ratio is higher than completely modern, developed nations like Germany.

This background, along with impressive levels of education and exposure to the internet, has given rise to a highly discerning set of consumers. The Iranian youth are known to be highly brand conscious, and it is often reported that despite the sanctions, Iranian's demand for international consumer goods, cosmetics, personal care items and electronics have been served by a large grey market.

With sanctions relief, unemployment expected to decline and inflationary pressures easing, it is expected that the per-capita income and disposable income will rise sharply in the years to come. Iran's per capita income (PPP) is currently at US$17,479 and is expected grow to US$25,068 by 2020, potentially adding an extra US$600 billion to the Iranian consumer's wallet over the next 5 to 6 years.

Per Capita Income (PPP) - Current and Forecast



IRAN WILL BE TAKING ITS FIRST STEPS INTO A BRAVE NEW WORLD, BUT CHALLENGES STILL EXIST. A GOOD UNDERSTANDING OF THESE CHALLENGES AND STRONG LOCAL PARTNERSHIP WILL BE THE KEY TO SUCCEEDING IN THIS MARKET

Primary US and other residual sanctions

Most sanctions imposed by the US remain in place, which discourages American companies from doing business in Iran. Special exemptions are granted on a case by case basis. There is also slew of UN and EU sanctions on certain entities and individuals relating to Iran's ballistic and other programs.

Less conducive legal & regulatory environment

Iran currently ranks 118 out of 189 in the ease of doing business rankings. Delayed bureaucratic response, inefficiencies in investment licenses and a highly regulated & weak private sector all contribute to this reality. Iran also has restrictive import tariffs focused on protecting local businesses.

The grey market & counterfeits

Currently the grey market is the majority market, and regarding some brands and products, these are the only channels available to customers. Parallel imports from the CIS region dominate sectors like electronics and home appliances. Iran is currently ranked 111 out of 131 countries in terms of protecting property rights. Counterfeiting has led to many brands in Iran losing substantial brand equity.

A lack of transparency

Iran is currently ranked 136 out of 174 countries on Transparency International’s 2014 corruption perception index. Relationships in Iran are critical to conducting business and navigating the political and bureaucratic class.

EVEN WITH ALL ITS CHALLENGES IRAN’S ECONOMY IS STILL AN ANOMALY IN THE REGION, MANUFACTURING STRONG, WELL DIVERSIFIED AND BACKED BY A HIGHLY EDUCATED, POTENT AND YOUNG POPULACE. PROVIDED THE RIGHT POLICIES ARE PUT IN PLACE, IRAN WOULD NO DOUBT BE THE ‘EL DORADO’ INTERNATIONAL BUSINESSES ARE HOPING FOR.

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