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Iran – Economical landscape and business opportunities

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Islamic Republic of Iran: country overview

Total area: 1,648,195km² (slightly smaller than Alaska)



Administrative structure: 31 provinces, 172 counties, 499 districts



Population: 78mn (73% urbanised, growth 1.22%, 2014)



Labour force: 28.4mn, unemployment 10.3% (2014)



Top five cities by population:

Tehran: 8.35mn



Mashhad: 2.94mn



Esfahan: 1.85mn



Karaj: 1.75mn



Shiraz: 1.6mn



Infrastructure and cities



Airports: 85 permanently surfaced runways

Top 5 by passenger volume:
Mehrabad International Airport (Tehran)
Imam Khomeini International (Tehran)
Mashhad International
Shiraz International
Kish International



Road network
210,402km (170,000 paved)



Railways: Islamic Republic of Iran
Railways: 11,000km of railways, 10,000km under construction



Economy

\$1,284bn



\$402bn



GDP 1.5%



\$16,500

GDP (purchasing power parity):
\$1,284bn (2014)

GDP (official exchange rate):
\$402bn (2014)

GDP growth:
1.5% (2014)

GDP per capita:
\$16,500



Inflation:
17.8% (2014)



Exchange rate:
USD 1 = IRR 25,780
(Iranian Rials, 2014)



Interest rate:
14% (2014)

Government finances



Revenues:
\$60.5bn (2014)

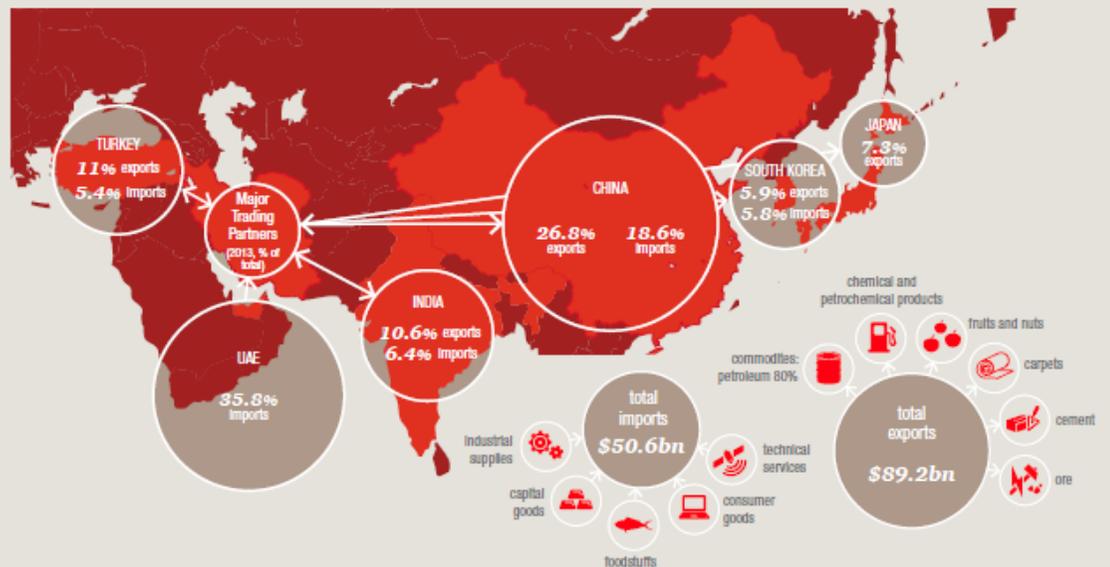


Expenditure:
\$63.3bn



Public debt:
11.4% of GDP

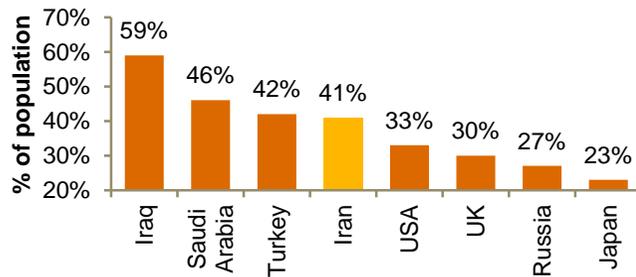
International trade 2014



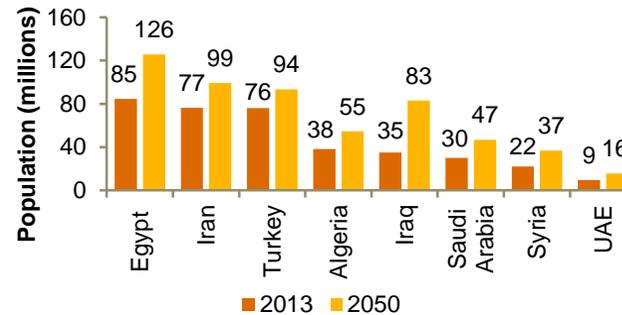
Human capital – Domestic

Despite a number of strengths including a large, young and growing population and strong technical skill base, Iran also faces a number of challenges.

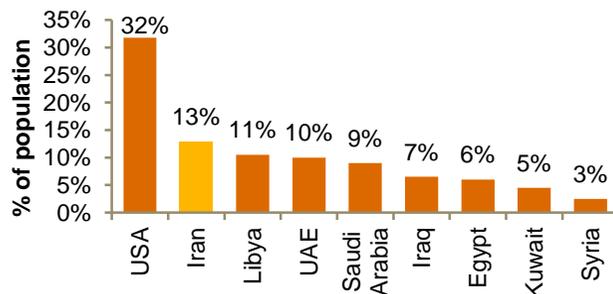
Percentage of population under 25



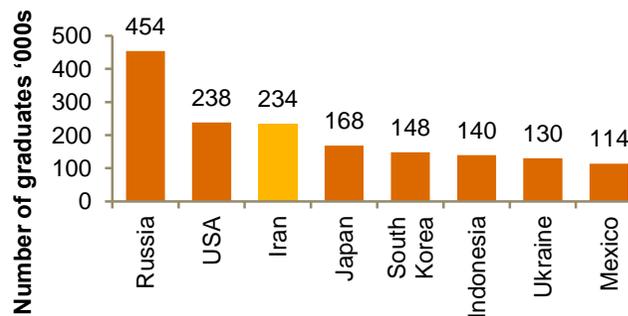
Population growth projections



Percentage of population 25+ who completed tertiary education



Countries with the highest number of engineering, manufacturing and construction graduates in 2015



Iran's domestic challenges include:

- **Unemployment:** 4.5m Iranians set to enter job market over the next few years with there already being more than 3m unemployed.
- **Brain drain:** The migration of 150,000 university educated Iranians each year is estimated by the IMF to cost the Iranian economy \$50bn.
- **Skills mismatch:** Iranian students are focussing on obtaining degrees in specialist areas for which there is inadequate demand at present (e.g. engineering).
- **Female emancipation:** Iran has yet to fully unlock the power of its women; only 13% of its workforce are female.

¹ No data for China and India

Economic priorities

Oil and gas

- World's largest gas and the 4th largest oil reserves
- Production growth opportunities
- New contractual framework to attract investment
- 49 priority projects announced at various stages of exploration and development

Energy-intensive industries

- World's 15th largest cement producer
- Produces same amount of steel as France and 15% more than UK

Petrochemical sector

- Major investments to expand export potential
- Developing petrochemical downstream to add value

Mining sector

- Major investment in mining industry development
- 64 priority projects announced by Iranian Mines and Mining Industries Development and Renovation Organisation (IMIDRO)

Telecoms sector

- Mobile penetration of 110% (about 85 million subscribers)
- Need for IT and telecom solutions
- Smartphone users: 8 million+
- Digital and data opportunities

Power generation/energy efficiency

- Successful indigenous industry, but energy inefficient
- 5 GW of generation capacity expected annually to reach a cumulative output of 96 GW by 2020

Automotive sector

- Largest producer in the ME (1.6 million cars produced in 2011)
- Needs to respond to market demand and modernise the existing capacities

Air and other transport sector

- Domestic air travel stunted due to lack of aircraft; estimates suggest 300-500 more planes are needed
- Substantial investment to expand metro and inter-city train networks

Food, water and wastewater sector

- Water scarcity
- Need for a new concept for food security and water management
- Need for modern equipment

Pharmaceutical sector

- Pharma market stands at c. \$3.6bn, out of which 33.5% is imported and the rest domestically produced
- Need to upgrade existing capacities
- Need for investments in new medicine

Consumer goods sector

- A country of 78m has been all but cut off from global trade for years
- Significant amount of brand loyalty still exists

Capital Markets sector

- Under-developed capital markets
- Stock market trades over \$100m per day and has a market cap to GDP ratio of less than 30%

Islamic Republic of Iran: the economic landscape

Top eight economic sectors

2014, \$bn and % of GDP

\$71.8bn
21.2%

Oil and gas

\$29.5bn
8.7%

Agriculture

\$27.6bn
8.2%

Public administration and defence

\$20.6bn
6.1%

Retail trade

\$19.1bn
5.7%

Wholesale trade

\$18.5bn
5.3%

Real estate

\$17.1bn
5.1%

Construction

\$15.5bn
4.6%

Business services

Bonyads are charitable foundations, which play a significant role in the Iranian economy. The Supreme Leader has ultimate oversight over the Bonyads. Typically he appoints the head of a Bonyad directly for a 10 year tenure, or a supervisory board member.

Bonyads

Mostafaafun Foundation of Islamic Revolution
Head: Mohammed Saadikia (since 2014)

Setad-e Ejraie Farman-e Emam

Astan-e Qods-e Rasayi
Head: Abbas Vaezi-Tabasi

Bonyad-e Shahid (Foundation of the Martyrs)

Imam Khomeini Relief Committee

Bonyad Shahid va Insaar-Garaan (Foundation of the Martyrs and the Affairs of Self-Sacrificers)

Supreme Leader Ayatollah Ali Khamenei

since 1989 (b. 1939)

Head of state

Supreme judicial authority

Supreme commander of the armed forces and IRGC

Judiciary

Supreme Court

No commercial courts exist
Civil courts address commercial disputes
Central Bank of Iran is working with judiciary to improve technical capabilities of court system

The Army

Bonyad taavon arteesh

Law Enforcement (NAJA)

Ghavamini Bank

Bonyad taavon NAJA

Islamic Revolutionary Guard Corps (IRGC or Pasdaran)

Khatam al-Anbia

Khatam al-Osla

Bonyad taavon sepah

Ansar bank

financing

Investment management arms

financing for Bonyads, Khatam al-Anbia etc.

financing

contracts

State-owned banks

Commercial
Sepah
Post
Melli

Industrial

Tose-e-saderate (export-import)
Senato Madan (Industry and mining)
Keshavarzi (Agriculture)
Maskan (Housing)
Tose-e-taavon (cooperative development)

Privately Owned Banks

Pasargad
Parsian
Karafarin
Eghtesad Novin
Ansar (related to IRGC)

Quasi-governmental banks

Also listed on the stock exchange
Mellat
Saderat
Tejarat

Financial sector

Markets

1. Tehran Stock Exchange
2. Iran Fara Bourse (OTC Market)
3. Iran Mercantile Exchange
4. Iran Energy Exchange

Economy and Finance: Minister Ali Tayebnia

Central Bank of Iran

Governor: Valiollah Seif

Since 2 September 2013
Previously governor of the central bank 2003–2007

Oil and gas sector

Exports: \$95.71 billion (2014 est.) – 80% of total exports

In 2012, oil constituted:

30% of GDP

80% of exports

70% of fiscal revenues

Oil Minister: Bijan Namdar Zanganeh

Head: Roknoddin Javadi

National Iranian Oil Company (NIOC)

Head: Hamid Resa Araqi

National Iranian Gas Company (NIGC)

Head: Abbas She'ri Moqaddam

National Petrochemical Company (NPC)

Due diligence – what are we looking for?

- **Sanctions** – are individuals or entities on global sanctions watch-lists, whether nuclear-related, human rights related, ballistic missile-related, or other?
- **Trade regulations and export controls** – are there any relevant regulations and controls which need to be considered?
- **Political exposure** – links (or former links) to government and government entities, whether entities or persons (PEPs);
- **Terrorist finance** (and links to designated terrorist or extremist groups);
- **Financial crime** – eg money-laundering, bribery, embezzlement etc;
- **Adverse / reputational issues** – eg human rights, corruption, litigation etc;
- **Business conduct** – does the proposed business partner have any track record in business?
- **Beneficial ownership** – understanding beneficial ownership is key, and can be difficult.

Important sources – Tehran Stock Exchange



Content

- Farsi-language website publishes corporate information on listed companies, including:
 - Shareholders;
 - Board of Directors;
 - Financial statements;
 - Trading history; and
 - Other information, including address, profile, website etc.
- In the process of being updated, three websites being run simultaneously but with restricted content in English.

Challenges

- Farsi language barrier
- Entity and individual name variations
- Gaps in shareholder details – does not always equate to 100%
- ‘Unspecified’ shareholder entries
- Primitive searching capability requires trial and error
- Absence of date information for changes in directors
- Opaque ownership chains can include an array of public sector pension, welfare and investment funds

Doing business in Iran

Importance of face to face dealings

A deal is not a deal if parties are not negotiating face to face, proving respect and commitment to deliver.

Business dealings style

Business dealings in Iran are rarely direct and to the point. Negotiations progress on personal relationships and trust between the individuals concerned. Business conversations often skirt around the issues and generally lack detail.

Cultural pride

Iranians are very proud of their Persian culture and heritage and prefer direct interaction with western counterparts.

Decisions are made slowly

There is little point in asking for a decision to be made quickly. Pushing for a speedy answer is often counter-productive. Decisions are made at a steady pace after many interactions.

Commitment expectations

Iranians are more comfortable dealing with partners that are committed for the long term. Hence companies that have a permanent base in the country have a significant advantage when concluding deals with their Iranian counterparts.

Respecting organisational hierarchy

The most senior person in the organisation should always be greeted first and addressed correctly using their title and their surname.

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