

Khamenei controls massive financial empire built on property seizures

By [Steve Stecklow](#), [Babak Dehghanpisheh](#) and [Yeganeh Torbati](#)

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SUPREME LEADER: Ayatollah Ali Khamenei, shown at a 2009 clerical gathering, oversees an organization called Setad that has assets estimated at about \$95 billion. REUTERS/Khamenei.ir/Handout

Part 1: A Reuters investigation details a key to the supreme leader's power: a little-known organization created to help the poor that morphed into a business

dollars.

The 82-year-old Iranian woman keeps the documents that upended her life in an old suitcase near her bed. She removes them carefully and peers at the tiny Persian script.

There's the court order authorizing the takeover of her children's three Tehran apartments in a multi-story building the family had owned for years. There's the letter announcing the sale of one of the units. And there's the notice demanding she pay rent on her own apartment on the top floor.

Impossible de charger le plug-in.

Pari Vahdat-e-Hagh ultimately lost her property. It was taken by an organization that is controlled by the most powerful man in Iran: Supreme Leader Ayatollah Ali Khamenei. She now lives alone in a cramped, three-room apartment in Europe, thousands of miles from Tehran.

The Persian name of the organization that hounded her for years is "Setad Ejraiye Farmane Hazrate Emam" – Headquarters for Executing the Order of the Imam. The name refers to an

Ruhollah Khomeini, shortly before his death in 1989. His order spawned a new entity to manage and sell properties abandoned in the chaotic years after the 1979 Islamic Revolution.

Setad has become one of the most powerful organizations in Iran, though many Iranians, and the wider world, know very little about it. In the past six years, it has morphed into a business juggernaut that now holds stakes in nearly every sector of Iranian industry, including finance, oil, telecommunications, the production of birth-control pills and even ostrich farming.

The organization's total worth is difficult to pinpoint because of the secrecy of its accounts. But Setad's holdings of real estate, corporate stakes and other assets total about \$95 billion, Reuters has calculated. That estimate is based on an analysis of statements by Setad officials, data from the Tehran Stock Exchange and company websites, and information from the U.S. Treasury Department.

Just one person controls that economic empire – Khamenei. As Iran's top cleric, he has the final say on all governmental matters. His purview includes his nation's controversial nuclear program, which was the subject of intense negotiations between Iranian and international diplomats in Geneva that ended Sunday without an agreement. It is Khamenei who will set Iran's course in the nuclear talks and other recent efforts by the new president, Hassan Rouhani, to improve relations with Washington.

The supreme leader's acolytes praise his spartan lifestyle, and point to his modest wardrobe and a threadbare carpet in his Tehran home. Reuters found no evidence that Khamenei is tapping Setad to enrich himself.

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But Setad has empowered him. Through Setad, Khamenei has at his disposal financial resources whose value rivals the

holdings of the shah, the Western-backed monarch who was overthrown in 1979.

How Setad came into those assets also mirrors how the deposed monarchy obtained much of its fortune - by confiscating real estate. A six-month Reuters investigation has found that Setad built its empire on the systematic seizure of thousands of properties belonging to ordinary Iranians: members of religious minorities like Vahdat-e-Hagh, who is Baha'i, as well as Shi'ite Muslims, business people and Iranians living abroad.

Setad has amassed a giant portfolio of real estate by claiming in Iranian courts, sometimes falsely, that the properties are abandoned. The organization now holds a court-ordered monopoly on taking property in the name of the supreme leader, and regularly sells the seized properties at auction or seeks to extract payments from the original owners.

The supreme leader also oversaw the creation of a body of legal rulings and executive orders that enabled and safeguarded Setad's asset acquisitions. "No supervisory organization can question its property," said Naghi Mahmoudi, an Iranian lawyer who left Iran in 2010 and now lives in Germany.

Khamenei's grip on Iran's politics and its military forces has been apparent for years. The investigation into Setad shows that there is a third dimension to his power: economic might. The revenue stream generated by Setad helps explain why Khamenei has not only held on for 24 years but also in some ways has more control than even his revered predecessor. Setad gives him the financial means to operate independently of parliament and the national budget, insulating him from Iran's messy factional infighting.

Washington has acknowledged Setad's importance. In June, the Treasury Department imposed sanctions on Setad and some of its corporate holdings, calling the organization "a massive network of front companies hiding assets on behalf of ... Iran's leadership." The companies generate billions of dollars in revenue a year, the department stated, but it did not offer a detailed accounting.

The Iranian president's office and the foreign ministry didn't

comment. Iran's embassy in the United Arab Emirates issued a statement calling Reuters' findings "scattered and disparate" and said that "none has any basis." It didn't elaborate.

Setad's director general of public relations, Hamid Vaezi, said by email in response to a detailed description of this series that the information presented is "far from realities and is not correct." He didn't go into specifics.

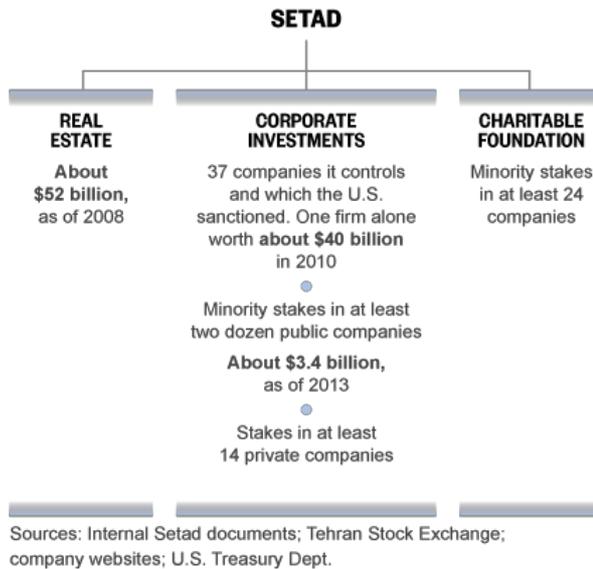
In a subsequent message, he said Setad disputes the Treasury's allegations and is "in the process of retaining U.S. counsel to address this matter." He added: "This communication puts you on notice that any action by your organization could prejudice our dispute in the United States and harm our position for which we hold you responsible."

When Khomeini, the first supreme leader, set in motion the creation of Setad, it was only supposed to manage and sell properties "without owners" and direct much of the proceeds to charity. Setad was to use the funds to assist war veterans, war widows "and the downtrodden." According to one of its co-founders, Setad was to operate for no more than two years.

Setad has built schools, roads and health clinics, and provided electricity and water in rural and impoverished areas. It has assisted entrepreneurs in development projects. But philanthropy is just a small part of Setad's overall operations.

Under Khamenei's control, Setad began acquiring property for itself, and kept much of the funds rather than simply redistributing them. With those revenues, the organization also helps to fund the ultimate seat of power in Iran, the Beite Bahar, or Leader's House, according to a former Setad

Setad's accounts are secret. But Reuters was able to assemble an estimate of its holdings:



employee and other people familiar with the matter. The first supreme leader, Khomeini, had a small staff. To run the country today, Khamenei employs about 500 people in his administrative offices, many recruited from the military and security services.

A complete picture of Setad's spending and income isn't possible. Its books are off limits even to Iran's legislative branch. In 2008, the Iranian Parliament voted to prohibit itself from monitoring organizations that the supreme leader controls, except with his permission.

But Reuters has put together the fullest account yet of the organization's holdings. They include:

*** A giant property portfolio**

The head of Setad's real-estate division said at a ceremony in 2008 that the unit was worth about \$52 billion. The value of Iran's currency has plunged since then, while property values have soared. The property portfolio has also changed, so its current value is hard to establish.

Setad regularly conducts large auctions of its real estate - at least 59 to date, according to a review of Iranian newspaper advertisements and auction websites. One recent auction took place in May , when nearly 300 properties went on the block - including houses, stores, tracts of farmland and even a spa-and-pool complex in Tehran. The required opening bids totaled about \$88 million, based on the official exchange rate that month.

*** An investment unit worth tens of billions of dollars**

In June, the U.S. Treasury Department sanctioned Setad and 37 companies it controls over the organization's alleged role in "assisting the Iranian Government's circumvention of U.S. and international sanctions." The Treasury also said Setad played a role in "generating revenue for the Iranian leadership," and that one of its investment companies alone was worth about \$40 billion in late 2010.

But the June action covered just part of Setad's corporate

apply to subsidiaries if the targeted entity "owns 50 percent or more of a company."

In practice, Setad controls many businesses in which it holds very small stakes. Reuters identified at least 24 public companies in which Setad - or a company it invested in - held less than 50 percent. Those holdings that are publicly traded are worth more than \$3.4 billion, Reuters calculated. That figure includes about \$3 billion Setad paid in 2009 for a stake in Iran's largest telecommunications firm.

Reuters also identified 14 companies Setad has invested in - directly or through other companies - that couldn't be valued because they are not publicly traded.

All told, Reuters was able to identify about \$95 billion in property and corporate assets controlled by Setad. That amount is roughly 40 percent bigger than the country's total oil exports last year. It also surpasses independent historians' estimates of the late shah's wealth.

After toppling the monarchy, the Islamic Republic filed suit in the United States against the shah and his wife, Farah Pahlavi, claiming they had stolen \$35 billion in Iranian funds, according to court records. In today's dollars, that sum would be worth about \$79 billion. The suit was dismissed.

Abbas Milani, director of the Iranian Studies program at Stanford University who wrote a biography of the shah published in 2011, told Reuters he believes the estimate of the shah's fortune was "extremely exaggerated." He said the monarch led a truly opulent lifestyle - including owning an automobile collection that may have included 120 fancy vehicles. But, he wrote in the biography: "Those most likely to know estimate the Shah's fortune to be close to a billion dollars." With inflation, that would equal about \$3 billion in today's money, a fraction of the worth of Setad's holdings.

PROTECTION FEES

Setad officials have offered two justifications for their property activities: that the assets were acquired legitimately, and part of the profits go to charity.

In an interview in April with the Iranian reformist newspaper Shargh, Ali Ashraf Afkhami, who was identified as the head of Tadbir Economic Development Group - the main unit that handles Setad's financial investments - called the organization a "custodian" of "property without owners," and suggested that none had been confiscated. He also described the way Setad had accumulated its real estate as nothing unusual.

"Imagine that a property or piece of land has been left behind by someone after their death without any heirs or, for example, property that has been freed by customs but remains without an owner," he said. "These properties must be managed somehow. If the lack of ownership is confirmed through the order of the court, then the property is given to Setad."

"Like I said," he added, "everywhere in the world systems have been created to take control of property or pieces of land that have no owners and the profits are put toward activities for the public good."

Charities have played an important role in the Islamic Republic. Setad controls a charity. Other charitable trusts, known as "bonyads," served as a vital safety net during and after the 1980-1988 Iran-Iraq War, assisting disabled veterans, widows and orphans, and the poor.

According to the son of one slain soldier, Bonyad Shahid (Martyrs Foundation) provided his and other families' accommodation, wages and household items. A list of current veteran services on its website includes discount airplane tickets, technical training and the installation of wheelchair lifts on vehicles.

Setad, however, is a much broader operation than these foundations. It's unclear how much of its revenue goes to philanthropy. Iranians whose properties have been seized by Setad, as well as lawyers who have handled such cases, dispute the argument that the organization is acting in the public interest. They described to Reuters what amounts to a methodical moneymaking scheme in which Setad obtains court orders under false pretenses to seize properties, and later pressures owners to buy them back or pay huge fees to recover them

"The people who request the confiscation ... introduce themselves as on the side of the Islamic Republic, and try to portray the person whose property they want confiscated as a bad person, someone who is against the revolution, someone who was tied to the old regime," said Hossein Raeesi, a human-rights attorney who practiced in Iran for 20 years and handled some property confiscation cases. "The atmosphere there is not fair."

Ross K. Reghabi, an Iranian lawyer in Beverly Hills, California, said the only hope to recover anything is to pay off well-connected agents in Iran. "By the time you pay off everybody, it comes to 50 percent" of the property's value, said Reghabi, who says he has handled 11 property confiscation cases involving Setad.

An Iranian Shi'ite Muslim businessman now living abroad, who asked to remain anonymous because he still travels to Iran, said he attempted two years ago to sell a piece of land near Tehran that his family had long owned. Local authorities informed him that he needed a "no objection letter" from Setad.

The businessman said he visited Setad's local office and was required to pay a bribe of several hundred dollars to the clerks to locate his file and expedite the process. He said he then was told he had to pay a fee, because Setad had "protected" his family's land from squatters for decades. He would be assessed between 2 percent and 2.5 percent of the property's value for every year.

Setad sent an appraiser to determine the property's current worth. The appraisal came in at \$90,000. The protection fee, he said, totaled \$50,000.

The businessman said he balked, arguing there was no evidence Setad had done anything to protect the land. He said the Setad representatives wouldn't budge on the amount but offered to facilitate the transaction by selling the land itself to recover its fee. He said he hired a lawyer who advised him to pay the fee, which he reluctantly did last year.

This was not the only encounter the businessman's family has had with Setad. He said his sister, who lives in Tehran, recently told him that Setad representatives had gone door-to-door at her

their units.

Several other Iranians whose family properties were taken over by Setad described in interviews how men showed up and threatened to use violence if the owners didn't leave the premises at once. One man said he had been told how an elderly family member had stood by distraught as workmen carried out all of the furniture from her home.

According to this account, she sat down on a carpet, refused to move and pleaded, "What can I do? Where can I go?"

"Then they reached down, lifted her up on the carpet and took her out."

"BEHIND THE DOORS"

Several Iranian foundations, such as Bonyad Mostazafan (The Foundation of the Oppressed), also have been granted legal authority to confiscate certain properties. Those organizations generally are open about the practice, listing their names and logos in real-estate advertisements. Setad's role in confiscations is more hidden.

Neither Setad's logo nor its full name appear in newspaper advertisements listing upcoming auctions. Instead, the organization uses a vague title that doesn't make clear the seller is connected to Setad. A call by a reporter to one of the phone numbers listed in an advertisement in May for property in the northeastern city of Mashhad was greeted by a recording that said: "You have reached Setad Ejraiye Farmane Hazrate Emam."

Many of the newspaper ads found by Reuters also referred readers to a website for further information. That site doesn't contain Setad's proper name either. Internet website ownership records show that the site, which lists auctions for many types of confiscated goods - including boats, motorcycles, flat-screen televisions, automobiles and even fertilizer - is registered to an office in Tehran. When a reporter called it, the person who answered confirmed it was Setad's office.

Some of the properties under Setad's control were confiscated from religious minorities, including members of the Baha'i faith,

Republic. Baha'is are a persecuted religious group in Iran, with some followers blocked from jobs and universities. Baha'i shops and cemeteries also have been vandalized.

Figures compiled by the United Nations office of the Baha'i International Community, a non-governmental organization, show that Setad was occupying 73 properties seized from its members as of 2003, the most recent data available. The real estate was then worth about \$11 million.

That figure captured only a fraction of the value of Baha'i properties taken by Setad. Not on the list were several that belonged to a Baha'i named Aminullah Katirai. According to his daughter, Heideh Katirai, who now lives in Toronto, Setad has been pursuing her family's property for more than two decades.

Her father owned a house and land around the city of Hamedan in northwest Iran, she said. In the early 1990s, Setad confiscated about 750 hectares (1,853 acres) - the family's entire land holdings in the area. Court records documenting the property seizures that were reviewed by Reuters claim Katirai had collaborated with the prior government of the shah. Katirai's daughter says her father never had any ties to the shah's government.

He tried to appeal to government authorities: He wrote a letter to a parliamentary commission in 1993 stating he was being targeted solely because of his religion. In a response seen by Reuters, a commission representative cited Article 13 of Iran's constitution, which says that only Zoroastrians, Jews and Christians are recognized as religious minorities and have the right to practice their religion within the limits of the law. "The Baha'i faith is not among religion minorities," a translation of the letter stated. The commission refused to consider his case.

Setad did not stop there. According to his daughter, Setad representatives showed up several years later at a three-story building her family had owned in central Tehran for 44 years. At the time, Katirai lived on the ground floor, and the upper floors were rented out.

According to his daughter, the Setad representatives claimed the building's owner had left the country and had abandoned it.

the building. They left, but Setad soon began court proceedings to take it over.

In 2008, Katirai died. For the past five years, Setad has been trying to evict the tenants, including Katirai's son, producing court notices and threatening fines. "Each corner of that house is a memory for us," said Katirai's daughter. "I took my kids there every Friday to see the family."

"What has my family done to deserve this kind of treatment?" she asked. "We know that Islam is a religion of peace. But how can a government that claims to be an Islamic government allow this to happen?"

Mohammad Nayyeri, a lawyer who worked in Iran until 2010 and now lives in Britain, said he handled a case involving Setad in which a Muslim man's house had been confiscated in part based on rumors that he had converted to the Baha'i faith and had ties with the monarchy.

The man - Nayyeri declined to name him because he still has family in Iran - relocated to the United States soon after the 1979 revolution. The new government seized the man's home, in a wealthy Tehran neighborhood.

"The Baha'i rumor was one of the triggers of this," Nayyeri said. "They found that this house is empty and the owner had left the country so they came and seized the place." Around 1990, the property was given to Setad, which sold it at auction.

Nayyeri said that in 2008, the owner's son contacted him. By then, the man had died. The son - who told the lawyer his father had never converted to the Baha'i faith and had no ties to the monarchy - wanted to clear his name and try to recover the house.

Nayyeri said he lodged a complaint against Setad and the current owner and successfully challenged the original confiscation. He ultimately obtained a judicial order that the property be returned to the son.

But Setad refused to give it back unless the son offered a "khoms," a religious payment mandated under Islamic law,

Nayyeri said. He totaled \$70,000, 10 percent of the market value



NEW HEIGHTS: A builder at work on a high rise in north Tehran in 2010. Property prices have soared in Iran's capital in recent years. REUTERS/Stringer

assessed value. According to the lawyer, the son had no choice, and paid it.

Reghabi, the Iranian lawyer based in California, said he, too, won a number of property seizure cases involving Setad. But he said no case was simple - the hurdles involved not only untangling a property's ownership and challenging decades-old court decrees, but also identifying and paying off people with connections to the key decision maker.

"The real stuff is what goes on behind the doors," he said. "You have to find the right person."

Reghabi said his clients were responsible for paying the various fees, which were all "subject to negotiation" and could reach millions of dollars.

He added that he always advised clients whose properties had been sold by Setad to try to recover some of the sale proceeds in cash. "That is my advice to them – don't try and be stupid and get your property back."

"COME AND KILL ME"

The case of Vahdat-e-Hagh, who is Baha'i, involved several

organizations over the years, but none was more relentless than Setad, she said.

“This was my property and my family’s property that was built with the blood of myself and my husband.”

She said her troubles began in 1981 when her husband,

Pari Vahdat-e-Hagh, 82, whose Tehran apartment building was seized

Hussein, began working for a company called Asan Gas that had been set up in part to assist unemployed members of the faith.

In September 1981, he was arrested and imprisoned in Tehran. According to Vahdat-e-Hagh, after five months, a cleric from a court sentenced him to death, with no chance to appeal. He was executed in February 1982.

"He was shot with nine bullets," she said, her voice cracking.

To protest her husband's execution, she began writing letters to senior government officials, including Khamenei, then Iran's president. In 1985, she said, she was jailed for three months.

Her protests continued, including a call to Khamenei's office. "I kept begging them to tape my voice, to take my message to Khamenei," she said. Instead, she said, the clerk recorded the conversation and turned the tape over to the intelligence ministry.

The widow's account of what happened next is supported by legal notices and official correspondence seen by Reuters.

A court later ordered the confiscation of her family's apartments in an affluent area of north Tehran. Her children were out of the country at the time and the court order accused them of proselytizing the Baha'i faith abroad, she said.

Two Iranian foundations pressed Vahdat-e-Hagh to turn over her properties to them. She refused, and both eventually dropped the matter, she said.

Then, in November 1991, Setad entered the picture. Another

Tehran and the southern city of Shiraz.

According to Vahdat-e-Hagh, Setad representatives came to her apartment and threatened to beat her if she did not leave. "One even had his fist balled up one time to punch me," she said. "I told them, 'You can come and kill me.'"



CAPITAL VIEW: Setad has sold or managed hundreds of seized properties in Tehran, seen here in 2010.
REUTERS/Stringer

In January 1992, Setad wrote to the property registry office requesting that the names of Vahdat-e-Hagh's children be removed from the deeds to their apartments. A year later, Setad sent a letter to Vahdat-e-Hagh offering to sell her one of the units.

Setad ultimately sold the apartment to an official from Tehran's revolutionary court, she said, who flipped it within a month for a quick profit. Setad later sold three more apartments that belonged to her two other children and late husband.

In the fall of 1993, Vahdat-e-Hagh quietly left Iran, telling only a few friends and relatives. It took six years before Setad authorities realized she was no longer living in her apartment, which she had been renting out.

In a letter in November 1999, Setad offered to sell her own

she pay rent on the unit. She refused again. The organization eventually sold it.

Vahdat-e-Hagh said she later telephoned the new buyer. "This was my property and my family's property that was built with the blood of myself and my husband," she said she told the man. She said he offered her some money, which out of principle she refused.

Today, the building appears to be vacant, except for a business on a lower level. Merchants in the neighborhood said the property's present ownership isn't clear and the building may be under the control of an Islamic organization.

On the top floor, where Vahdat-e-Hagh once lived, most of the windows are broken.

(Additional reporting by Humeyra Pamuk in Ankara)

Next, Part 2: National Champion: How Setad became a corporate giant

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Minority report: Why Baha'is face persecution in Iran

By [Babak Dehghanpisheh](#)

The Islamic Republic's 34-year rule has hurt many religious and political groups in Iran, but one community has borne an especially heavy burden: the Baha'is, a religious minority viewed as heretics by some Muslims.

Dozens of Baha'is were killed or jailed in the years immediately following the Islamic revolution in 1979. Billions of dollars worth of land, houses, shops and other Baha'i belongings were seized in subsequent years by various Iranian organizations, including Setad, the organization overseen by Iran's Supreme

Leader Ayatollah Ali Khamenei

The United Nations office of the Baha'i International Community, a non-governmental organization, estimates that more than 2,000 homes, shops, orchards and other properties were seized from its members in Iran up to 2003, the most recent figure available. The property was then worth about \$10 billion.



PROTEST: Photos of Baha'i religious leaders who have been arrested in Iran. Protesters arranged them on Brazil's Copacabana Beach in 2011. REUTERS/Stringer

"It's really one of the most obvious cases of state persecution," Heiner Bielefeldt, the UN Special Rapporteur on freedom of religion or belief, said about the treatment of Baha'is in Iran at a United Nations conference in Geneva this year. "It's basically state persecution, systematic and covering all areas of state activities, the various systems from family law provisions to schooling, education, security."

One reason clerics in Iran have targeted the group with such zeal is the fact devout Muslims see the Baha'i faith as heresy and an insult to the teachings of Islam. The religion started in 1844 in the southern city of Shiraz when a man named Bab announced the coming of a messenger of God. In 1863, one of Bab's followers named Baha'ullah declared himself to be the messenger and began preaching a message of unity among faiths. His followers were attacked and he spent years in exile, dying in the city of Acre, in what was then Palestine, in 1892.

During most of the 20th century, the monarchs ruling Iran tolerated Baha'is, though there were periodic arrests and attacks against members of the community, according to historians.

After the Islamic revolution, the group was targeted again. While Jews and Christians were recognized as religious minorities in the new constitution, Baha'is were not. Hundreds of Baha'is were expelled from universities or had their businesses attacked or their properties confiscated, members of the community say.

The Iranian government did not respond to a request for comment.

The Baha'i International Community estimates there are 300,000 Baha'is left in Iran. In late July, Khamenei issued an edict stating that Iranians should avoid all dealings with Baha'is, according to Iran's Tasnim news agency.

An Iranian lawyer who represented more than half a dozen Baha'i clients in recent cases involving confiscated property says he was called in for questioning by intelligence agents last year and threatened. The lawyer, who is Muslim and spoke on condition he not be named, told Reuters he had to stop accepting Baha'i clients.

"The government has set up a system where Baha'is are not allowed to build up financial strength," said the lawyer.

2: NATIONAL
CHAMPION

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Khamenei's conglomerate thrived as sanctions squeezed Iran

By [Babak Dehghanpisheh \(mailto:babakd@hotmail.com\)](mailto:babakd@hotmail.com) and [Steve Stecklow \(mailto:steve.stecklow@thomsonreuters.com\)](mailto:steve.stecklow@thomsonreuters.com)

| Filed November 12, 2013

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[Read in Arabic \[PDF\] \(images/part2/arabic.pdf\)](#)



MARKET MOVER: Khamenei's image and stock-price displays at the Tehran Stock Exchange in 2010. Setad now owns stakes in companies worth billions of dollars. REUTERS/Stringer

Part 2: An organization controlled by Iran's supreme leader generates billions of dollars a year, helping to solidify his control over a country hobbled by sanctions.

Seven years ago, the United Nations and Western powers began subjecting Tehran to steadily harsher economic sanctions. Around the same time, an organization controlled by Supreme Leader Ayatollah Ali Khamenei started to study how some developing economies managed to grow fast.

Setad, as the organization is known, had amassed billions of dollars in property seized from Iranian citizens. What Iran lacked and needed, Setad decided, was conglomerates on a par with those of South Korea, Japan, Brazil and the United States.

According to an account this year by a senior official in the unit that oversees Setad's financial investments, Ali Ashraf Afkhami, the organization also picked the perfect candidate to create an Iranian national champion: Setad itself.

The ayatollah's organization would go on to acquire stakes in a major bank by 2007 and in Iran's largest telecommunications company in 2009. Among dozens of other investments, it took over a giant holding company in 2010.

An organizational
chart labeled
"SETAD at a
Glance."

(images/part2/doc_setad_eng.jpg) prepared in 2010 by one of Setad's companies and seen by Reuters, illustrates how big it had grown. The document shows holdings in major banks, a brokerage, an insurance company, power plants, energy and construction firms, a refinery, a cement company and soft drinks manufacturing.

Today, Setad's vast operations provide an independent source of revenue and patronage for Supreme Leader Khamenei, even as the West squeezes the Iranian economy harder with sanctions in an attempt to end the nuclear-development program he controls.

"He has a huge sum at his disposal that he can spend," says Mohsen Sazegara, a co-founder of the powerful Islamic Revolutionary Guard Corps military force, who is now living in exile in the United States. "When you have this much money, that's power itself."

Even as Setad was gaining ever-greater control over the Iranian economy in recent years, the Western powers knew of the organization and its connection to the

supreme leader - the one man with the power to halt Tehran's uranium-enrichment program. But they moved cautiously, and Setad largely escaped foreign pressure.

In July 2010, the European Union included Mohammad Mokhber, president of Setad, in a list of individuals and entities it was sanctioning for alleged involvement in "nuclear or ballistic missiles activities." Two years later, it removed him from the list.

In June, the U.S. Treasury Department added Setad and 37 companies it "oversees" to its list of sanctioned entities. (<http://www.treasury.gov/press-center/press-releases/Pages/jl1968.aspx>) Khamenei wasn't named in the announcement, but a Treasury official later told a Senate committee that Setad is controlled by the supreme leader's office.

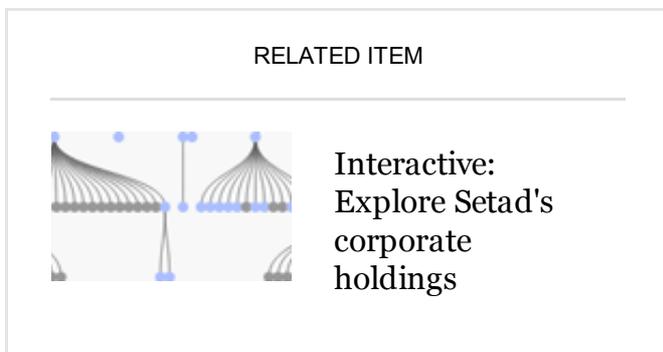
Asked why Khamenei himself wasn't targeted, U.S. officials told Reuters they did not want to play into the hands of Iranian officials who maintain that Washington's ultimate goal in pressuring Iran with sanctions is to topple the government.

"Regime change is not our policy," said one U.S. official. "But putting pressure on this regime certainly is."

By the time Setad felt the pressure, it was already a giant.

As reported in Part 1 of this series, Setad was founded with modest ambitions. Its genesis was a two-paragraph order issued in 1989 by Khamenei's predecessor, Ayatollah Ruhollah Khomeini, shortly before he died. The order directed two aides to sell and manage properties that had supposedly been abandoned during the chaotic years following the 1979 Islamic Revolution, and channel much of the proceeds to charity. The edict ultimately sparked a new organization whose full name in Persian is "Setad Ejraiye Farmane Hazrate Emam" - the Headquarters for Executing the Order of the Imam.

According to one of its co-founders, Setad was meant to last two years. But under Khamenei's control, it remained in business, amassing a giant portfolio of real estate by claiming in Iranian courts, sometimes falsely, that the properties were



abandoned. In fact, many were seized from members of religious minorities, and business people and other Iranians living abroad.

Since 2000 it has moved into almost every area of the economy.

In an interview,
David Cohen, the
Treasury
Department's
Under Secretary
for Terrorism and
Financial
Intelligence, said

“He has a huge sum at his disposal that he can spend. When you have this much money that's power itself.”

Mohsen Sazegara, a co-founder of the Revolutionary Guards

Setad now generates "billions of dollars a year" in revenue. He added that "the supreme leader's own money is handled and invested in" a Setad division known as the Tadbir Economic Development Group, although he said the amount isn't known. A Treasury Department spokesman said Tadbir also manages investments for "other leadership figures" in Iran, but didn't name them.

The Iranian president's office, the foreign ministry and Tadbir Economic Development Group didn't respond to requests for comment. Iran's embassy in the United Arab Emirates issued a statement calling Reuters' findings "scattered and disparate" and said that "none has any basis." It didn't elaborate.

Setad's director general of public relations, Hamid Vaezi, said in an email that the Reuters series is "far from realities and is not correct" but didn't go into specifics. In a subsequent message, he said Setad disputes the Treasury allegations and is in the process of hiring U.S. legal counsel to challenge the sanctions.

Setad's total net worth is difficult to pinpoint due to the secrecy of its accounts and because its stakes in companies frequently change. But Reuters was able to identify holdings of real estate, corporate investments and other assets in Setad's control worth about \$95 billion. That estimate is based on statements by Setad officials, data from the Tehran Stock Exchange and company websites, and information from the Treasury Department.

About \$52 billion of that sum is in property. The head of Setad's real-estate division said the property unit was worth that amount at a press conference in 2008. It is possible that this figure has risen or fallen since then as the portfolio has evolved.

Setad also has an estimated \$43 billion or more in corporate holdings, Reuters found:

- The U.S. Treasury Department assessed Rey Investment Co, controlled by Setad, as worth about \$40 billion in 2010, the year Setad took control of it. (The Treasury did not put an overall value on Setad).
- Through a subsidiary, Setad bought a 19 percent stake in Telecommunication Co of Iran, the country's largest telecom provider, for about \$3 billion.
- Reuters also identified at least 24 publicly traded companies not named in the recent Treasury sanctions in which Setad, or a company it invested in, held a minority stake. At the current official exchange rate, those investments are worth more than \$400 million, according to valuations from the Tehran Stock Exchange and data gleaned from the exchange and company websites.
- Reuters further identified 14 companies Setad has investments in - often through other businesses - that couldn't be valued because they are not publicly traded.

Interactive Explore Setad's corporate holdings

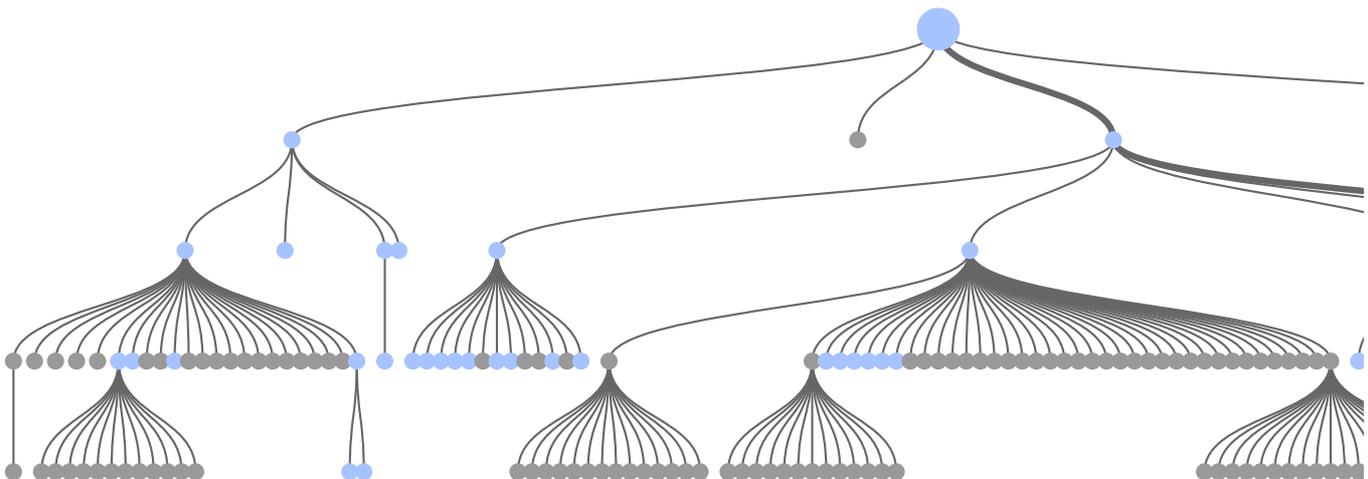
Controlled by Iran's supreme leader, Setad has interests in everything from banks to ostrich farms

Entities sanctioned by the U.S. in June 2013 as part of an action targeting Setad

Entities linked to Setad but not included in June 2013 action; some previously sanctioned by U.S.



SETAD



Mobin Khavar Technology Company

DESCRIPTION

Telecommunicationa and IT

OWNERSHIP

Iran Mobin Electronic Development Company, a Setad holding company, has an unknown stake. Arya Cell Communication, a subsidiary of Setad-controlled Iran Mobin Electronic, has a 40% stake.

SOURCE

Iran Mobin website; Mobin Khavar website.

The Revolutionary Guards, the powerful military unit tasked with protecting Iran from both domestic and foreign threats, has long held a pivotal role in the country's economy, with extensive holdings in defense, construction and oil industries, according to the U.S. State Department.

Setad gives the supreme leader a significant financial resource of his own, one that greatly adds to his power.

Khamenei appoints Setad's board of directors but delegates management of the organization to others, according to one former employee. This person said the supreme leader is primarily concerned about one thing: its annual profits, which he uses to fund his bureaucracy.

"All he cares about is the number," this person said.

"IT'S LIKE A TSUNAMI"

Details of how Setad has acquired so many stakes in public and private businesses are hazy. People familiar with the organization say it has bought shares on the open market and pressured investors to sell it shares. In at least one case, shares Setad now controls were confiscated from their original owner.

Shirin Reghabi, a teacher now living in California, told Reuters she was a major shareholder in Fars & Khuzestan Cement Co, which states on its website it is Iran's largest cement firm. The shares, which she had purchased several years before the 1979 revolution, were seized more than 20 years ago, she said.

Her husband, attorney Ross K. Reghabi, said when he looked into the matter a few years ago, he learned that the shares had been confiscated by a foundation called Bonyad Mostazafan, but then transferred to another company that was connected to Setad. He estimates the shares are now worth close to \$100 million.

"It's like a tsunami now. They are in control of all these companies," he said.

The Reghabis concluded they had no recourse against the ayatollah's organization. "I gave up," Mrs. Reghabi said.

In 2000, Setad took one of its earliest steps to formalize its move beyond property, setting up an investment management firm called Tadbir Investment Co. It would eventually become one of at least five main vehicles through which Setad holds corporate stakes.

Mahmoud Ahmadinejad, a hard-line conservative, was elected Iran's president in 2005, replacing a more moderate leader. Iran holds regular presidential and parliamentary elections, though the real power remains with the supreme leader. Two months later, Tehran announced it had resumed uranium conversion as part of a nuclear program. The West believes Iran wants to build atomic weapons. Iran has long said the program is for peaceful energy development - a position Tehran reiterated in recent days when it and Western powers held marathon talks aimed at a possible rapprochement. Those talks failed to reach a deal; negotiations will resume soon.

In December 2006, the United Nations Security Council imposed sanctions on Iran's trade in nuclear-related materials and technology, and froze assets of key individuals and companies involved in the nuclear program.

A SPECIAL BANK

Meanwhile, Setad was making a push into banking. Parsian Bank had opened for business in 2002, and it was different from other Iranian lenders. It offered interest rates that were slightly higher than government-run banks. But while other financial institutions typically capped the size of their mortgage loans, Parsian was willing to finance 80 percent of a property's value, making financing a real option for many new homebuyers. "People could actually buy houses," said one former employee who requested anonymity.

Parsian was particularly unusual in another aspect: It had a lenient dress code. Men wore ties and women used makeup, which Iran's religious conservatives criticize for contributing to the spread of Western culture.



IN THE FRAME: A schoolgirl holds a picture of Khamenei at a ceremony in 2010. Khamenei controls Setad, whose holdings Reuters estimates to be worth some \$95 billion.
REUTERS/Stringer

"People liked to come in the bank just to watch the people working there," said the ex-employee, who added that in its hiring practices, Parsian "was very much valuing people based on brain and intellectual capacity, not based on their connections."

By 2006, Parsian had opened more than 100 branches and become Iran's largest non-state bank. But the institution faced trouble.

According to people familiar with the matter, in 2005, Mohammad Shariatmadari, who had served on Setad's board of directors, asked Parsian's managing director, Abdollah Talebi, for a \$44 million loan for a foundation he managed.

Shariatmadari offered no collateral for the loan; Talebi refused. Meanwhile, President Ahmadinejad publicly criticized the lending practices of private banks, accusing them of making huge loans to favored clients. News media reported that he had Parsian Bank in his sights. Under pressure, Talebi resigned as managing director in 2006 and later quit the bank's board after Iran's Central Bank disqualified him for allegedly violating its rules on loans.

Neither Talebi nor Shariatmadari responded to requests for comment.

It was during this period that Setad's investment firm, Tadbir Investment Co, acquired a stake in Parsian. Although the stake was small - a Setad official later suggested it was 16 percent - the former employee likened Tadbir's arrival to "a hostile takeover."

The atmosphere at Parsian changed dramatically, according to the ex-employee. Ties were banned for men. Female employees began receiving letters asking, "Why are you wearing jeans? Why are your lips red?"

New managers arrived. "Even the customers of the bank changed," the ex-employee said. "They brought their own customers and clients."

The bank's board also changed. According to Parsian's website, its members now include Aref Norozi, who it also says serves on the board of Tadbir Investment. Norozi was also head of Setad's enormous real-estate division, which sells and manages confiscated properties. It was Norozi who in 2008 put the value of Setad's real-estate holdings at about \$52 billion.

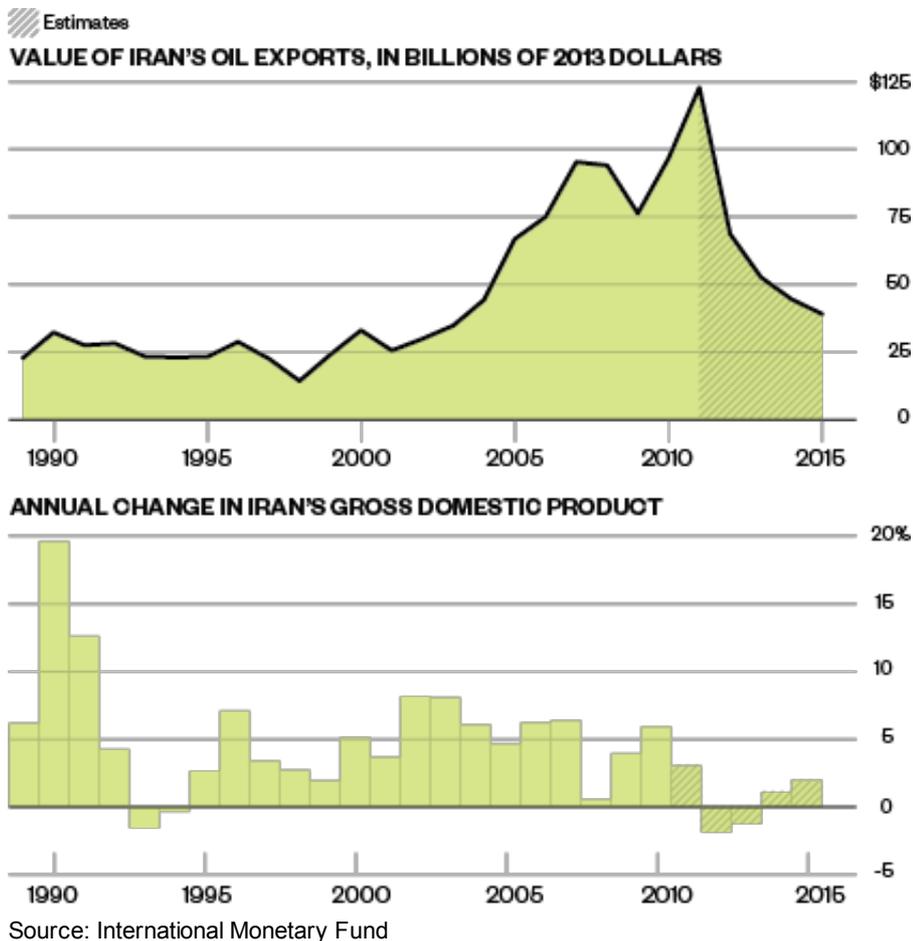
SANCTIONS AND RESILIENCE

Despite the sanctions, Iran's economy grew at a healthy 6 percent in the two years leading up to the financial crisis of 2008. After a sharp drop, growth was back to just below 6 percent in 2010, according to the International Monetary Fund. Oil exports kept the money flowing. Iran exported \$70 billion worth of oil in 2009 and \$90 billion in 2010, according to IMF figures.

GROWTH, SANCTIONS, SETAD The past two decades have seen tightening sanctions, rocky growth and the rise of Setad.

1989

Two months before his death, Ayatollah Ruhollah Khomeini issues two-paragraph order that later spawns Setad.



These were years of expansion for Setad. In 2006 or 2007, Setad conducted a study to explore why certain developing countries were outgrowing Iran. The deliberations were described in an interview given to the reformist Iranian newspaper Shargh in April this year by Afkhami, whom the paper identified as chairman of the Tadbir Economic Development Group, the unit that oversees most of Setad's financial investments.

"In South Korea, companies like Samsung, LG and Hyundai have had an impact on development. In China, Japan, Brazil, Germany and America it's the same," said Afkhami. "We saw that in Iran we don't have these large corporations. With this in mind, within the Tadbir Investment Company we started slowly, slowly discussing the strategy of entering various arenas," he told the paper. "This strategy was approved by the management of Setad."

And it was soon implemented. In September 2008, Norozi, then managing director of Setad's property division, announced a restructuring of the entire organization at an official Setad ceremony in the city of Bushehr, according to a report by the semi-

official Fars news agency. He said Setad had been transformed "from a collective that sells property into an economic conglomerate" that held investments in publicly traded companies. He said it had invested \$833 million so far, including a 16 percent share in Parsian Bank.

Norozi noted that Setad also had another "subsidiary": the Barakat Foundation, which he said "has the duty of eliminating poverty and empowering poor communities."

Shahin A. Shayan, who spent two years working at Goldman Sachs in New York, told Reuters Barakat started about six or seven years ago and was based on a model he developed. A U.S.-born, Columbia University graduate and standout college soccer player, Shayan had spent most of his childhood in Iran and returned there in the mid-1990s.

Shayan said Barakat, a non-profit, was designed to create jobs in rural areas of Iran. The foundation raised capital from private sources, local governments and Setad, and initially began with about \$4 million or \$5 million, he said. But he said Barakat remained "totally independent from any entity." The foundation offered assistance in agriculture and to food businesses and small mining operations, he said, as well as building schools, roads and houses. "It wasn't billions of dollars," he said.

Shayan said he left Barakat about three-and-a-half years ago. "I wanted to go back and do research and lectures and things like that," he said. He said he didn't know what became of the organization after his departure. "Don't ask me what it is now because I have no idea."

It is now part of Setad's empire, according to [the foundation's website](http://www.barakatfoundation.com).
(<http://www.barakatfoundation.com>)

In his interview with Shargh newspaper in April, Setad's Afkhami said "nearly 100 percent of the income of Setad and the Tadbir Group is placed at the disposal" of the Barakat Foundation. The foundation, he said, had spent more than \$1.6 billion in the past five years on development projects, as well as building 200 schools, 400 homes and health clinics.

Setad's claims about its charity spending are impossible to verify because its accounts are not publicly available. Moreover, in the



same interview in
which Afkhami
claimed nearly

WINDOW SHOPPERS: Women shopping in Tehran in 2009.
Sanctions since then have hit the economy hard, though Setad
has flourished. REUTERS/Stringer

100 percent of Setad's income went to Barakat, he later said: "Of course part of the income has been spent on developing companies in the Tadbir Group."

Officials at Barakat could not be reached for comment.

"SENSITIVE LEGAL ISSUES"

One of Setad's biggest deals came in 2009, when it acquired a large minority stake in Iran's biggest telecommunications company, which has a near monopoly on the nation's landline telephone services.

According to [a 2010 slideshow prepared by a Setad subsidiary company \(images/part2/tci_slide.png\)](#), Setad that year held 38 percent of a consortium called Tose'e Etemad Mobin Co. A year earlier, the consortium had acquired 50 percent plus one share of Telecommunication Co of Iran (TCI), for \$7.8 billion. The buyers got favorable terms: The slideshow says the winning consortium - whose largest stakeholder was a company controlled by the Revolutionary Guards - was required to put down 20 percent and had eight years to pay the rest.

In 2010, Setad obtained control of an even bigger prize: Rey Investment Co, whose value the U.S. Treasury in June put at about \$40 billion as of December 2010. A conglomerate within the larger conglomerate of Setad, Rey has investments that include an oil company, a mining company and two ostrich farms. The Treasury Department says Setad took control of Rey Investment after the Iranian government cut off its funding because of alleged mismanagement.

No one at Rey Investment answered the phone despite attempts by reporters to seek comment.

As it grew, Setad began looking outside Iran. In 2010, a unit of the organization tried to woo foreign investors. [The organizational chart titled "SETAD at a Glance," \(images/part2/kpn_slide.png\)](#) written in English, was part of a PowerPoint presentation by Setad-owned electronics firm Iran Mobin Electronic Development Co. The presentation was aimed at attracting a foreign partner.

"Our main expectation," one slide stated, "is to reach to much higher income with an experienced Int'l partner such as KPN." KPN is the largest telecommunications firm in the Netherlands.

A KPN spokesman said: "Naturally KPN respects the trade embargo with Iran. KPN does not and has not done business with this Iranian company."

By this time, Setad was attracting attention in the West. The Treasury Department says Setad used several companies it gained control of in 2010 to bypass sanctions, including transferring funds from Iran to Europe and Africa.

In July 2010, the European Union issued a 12-page list of Iranian individuals and entities it was sanctioning.

([http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?](http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2010:195:0025:0036:EN:PDF)

[uri=OJ:L:2010:195:0025:0036:EN:PDF](http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2010:195:0025:0036:EN:PDF)) Among them: Mohammad Mokhber, **REUTERS INVESTIGATES** (http://www.reuters.com) a company linked to Ali Khamenei, the supreme leader." Mokhber and the others were cited for alleged links to Iran's nuclear or missile programs, but the EU gave no further details. The action

“Why are you wearing jeans? Why are your lips red?”

Ex-Parsian Bank employee, citing the kinds of questions asked by new managers when Setad took control

The broader sanctions effort grew tougher. That same month, Washington enacted its strictest measures so far, the Comprehensive Iran Sanctions, Accountability and Divestment Act, which targeted Iran's oil and gas sector. The Act, and a series of EU and U.S. sanctions over the following two years, increased pressure on Iran, in particular its energy exports and its banks.

Growth slowed to 3 percent in 2011, and the economy shrank 1.9 percent in 2012. Oil exports have fallen by around 60 percent in the past two years as European and most Asian buyers reduced imports because of U.S. and EU sanctions. Iran now earns around \$100 million from oil sales a day, down from \$250 million two years ago.

Setad itself, however, managed to evade the tightening noose. In October 2012, without any explanation, the EU removed Mokhber from its sanctions list.

([http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?](http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2012:282:0016:0022:EN:PDF)
[uri=OJ:L:2012:282:0016:0022:EN:PDF](http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2012:282:0016:0022:EN:PDF))

According to a person familiar with the matter, the EU delisted him in an attempt to fend off a broader Iranian legal challenge to financial sanctions on Iran's banks and bank directors. The EU had listed Mokhber as head of Setad and as chairman of Sina Bank. Sina is among the Iranian banks that have won rounds in European courts seeking to lift sanctions on them. It's not clear whether he had filed an appeal.

A spokesman for the EU's foreign affairs chief, Catherine Ashton, declined to comment, saying, "As I'm sure you understand, these are sensitive legal issues and we'd prefer not to say anything."

INFLUENCE SPREADS

The Treasury Department declined to specify how its June sanctions were affecting Setad. It is possible that the new measures will ramp up the pressure on Khamenei's economic empire. And some of Setad's operations, of course, are in sectors such as oil and banking that have been hammered by prior sanctions.

"Sanctions have had a significant impact on the government of Iran and have pushed the Iranians back to the negotiating table," said a Treasury spokesperson.

Because its holdings are so extensive, however, Setad also has investments that remain relatively untouched.

Take the telecommunications industry, a sector the West has largely spared from sanctions.

Setad's TCI affiliate reported a net profit in 2010, the latest year for which figures are available, of \$1.54 billion. Setad's share of those earnings would work out to \$290 million.

Although Setad holds a minority stake in TCI, its influence can be seen at the highest levels inside the company. TCI's chairman is Mostafa Seyed Hashemi, who previously served as chairman of Iran Mobin, the Setad electronics subsidiary.

Other Setad officials have been named or nominated to top government, military and economic posts in recent years.

The chairman of the board of the Tehran Stock Exchange, Hamidreza Rafiee Keshtli, is a member of Setad's Tadbir Investment, according to the exchange's latest annual report.

Gholam Hossein Nozari, a former oil minister, is chairman of Tadbir Energy Development Co, Setad's energy-holdings division, as well as Pars Oil, in which Setad holds a stake, according to the companies' websites. Iran has been trying, so far unsuccessfully, to have Nozari named secretary general of OPEC, the Organization of the Petroleum Exporting Countries.

In August, newly elected Iranian President Hassan Rouhani named Hossein Dehghan as defense minister. Dehghan served as chairman of Iran Mobin. Last month, Rouhani named Mohammad Shariatmadari - the person who had served on



HEAD: Setad President Mohammad Mokhber was under EU sanctions from 2010 to 2012. His photo is from the website of Sina Bank, which lists him as its chairman.

Setad's board and who allegedly sought a loan from Parsian Bank - as vice president for executive affairs.

Keshtli, Nozari and Dehghan did not respond to interview requests.

NO ORDINARY CHARITY

Setad's expansion appears to continue. In May, its charitable foundation, Barakat, announced it was entering "into new pharmaceutical fields," including biotechnology, nanotechnology and gene therapy. The charity runs a unit called Barakat Pharmaceutical Co that, according to the unit's website, has more than 20 subsidiaries and had more than \$1 billion in sales in 2011.

One of Barakat
Pharmaceutical's
units is ATI
Pharmed
Pharmaceutical
Co. Barakat
Pharmaceutical

**“Families and the youth must
increase the birth rate,
increase the population.”**

Ayatollah Ali Khamenei, 2012

describes ATI as a joint venture between it and a Swiss company, Stragen Pharma SA, to produce oral contraceptives. ATI's website displays information about a number of Stragen products that the Iranian company says it has licensed to produce in Iran. It is not clear whether production has begun.

Officials at Geneva-based Stragen - which according to Barakat Pharmaceutical owns 34 percent of ATI - didn't respond to requests for comment.

Last October, Khamenei warned that family planning would lead to an aging population. "One of the mistakes that we made - and I am also responsible for this mistake - is that the issue of limiting the population growth should have been stopped from the decade of the '70s (1991 in the Western calendar) onward," he said in a speech.

"Families and the youth must increase the birth rate, increase the population," he continued. "This limiting of children in homes, the way it is today, is a mistake."

The business empire controlled by Iran's supreme leader had grown so large that it now owned companies whose products Khamenei opposes. That expansion was the direct result of a legal strategy that came from the very top.

(Additional reporting by Yeganeh Torbati in Dubai)

Next, Part 3: Rough Justice - How Iran stretched its laws to empower Setad

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1: LAND GRAB

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REUTERS INVESTIGATES (<http://www.reuters.com>) *but the series*

to explain Khamenei's grip on the economy Iran stretched its laws

By [Yeganeh Torbati \(mailto:Yeganeh.Torbati@thomsonreuters.com\)](mailto:Yeganeh.Torbati@thomsonreuters.com), [Steve Stecklow \(mailto:steve.stecklow@thomsonreuters.com\)](mailto:steve.stecklow@thomsonreuters.com) and [Babak Dehghanpisheh \(mailto:babakd@hotmail.com\)](mailto:babakd@hotmail.com)

Filed November 13, 2013

[Read in Persian \[PDF\] \(images/part3/persian.pdf\)](#) |

[Read in Arabic \[PDF\] \(images/part3/arabic.pdf\)](#)

LIFE AND TIMES: Khamenei during the Iran-Iraq war. He was president for most of the 1980s. Click above to see a video of his rise to power and his career as Iran's second supreme leader. [REUTERS/Leader.ir/Handout](https://www.reuters.com/Leader.ir/Handout)

Part 3: On the supreme leader's watch, Iran conducted a systematic campaign to legalize and safeguard the seizure of assets on which Setad's wealth was built.

Two months before his death in 1989, Iranian leader Ayatollah Ruhollah Khomeini tried to solve a problem unleashed by the revolution he led a decade earlier.

Land and other assets were being seized en masse from purported enemies of the young theocratic state. Khomeini issued a two-paragraph order asking two trusted aides to ensure that much of the proceeds from the sale of the properties would go to charity.

The result was a new organization - known as Setad, or "The Headquarters" - that reported to Iran's supreme leader. As one of the aides later recounted, Setad was intended to oversee the confiscations and then wind down after two years.

Twenty-four years later, Setad is an economic giant. Khomeini's successor as supreme leader, Ayatollah Ali Khamenei, has used it to amass assets worth tens of billions of dollars, rivaling the holdings of the late shah. Setad's portfolio includes banks, farms, cement companies, a licensed contraceptives maker, apartments seized from Iranians living abroad and much more.

Reuters found no evidence that Khamenei puts these assets to personal use. Instead, Setad's holdings underpin his power over Iran.

To make Setad's asset acquisitions possible, governments under Khamenei's watch systematically legitimized the practice of confiscation and gave the organization control over much of the seized wealth, a Reuters investigation has found. The supreme leader, judges and parliament over the years have issued a series of bureaucratic edicts, constitutional interpretations and judicial decisions bolstering Setad. The most recent of these declarations came in June, just after the election of Iran's new president, Hassan Rouhani.

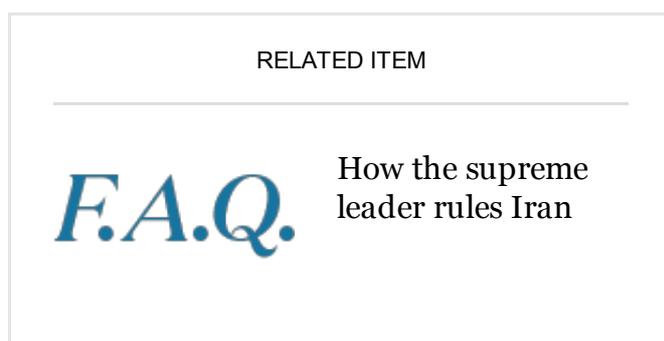
The thinking behind this painstaking legal effort is unclear. The Iranian president's office and the foreign ministry didn't respond to requests for comment. Iran's embassy in the United Arab Emirates issued a statement calling Reuters' findings "scattered and disparate" and said "none has any basis." It didn't elaborate.

Setad's director general of public relations, Hamid Vaezi, said in an email that the Reuters series is "far from realities and is not correct" but didn't go into specifics. He said Setad plans to challenge sanctions imposed on it earlier this year by the U.S. Treasury Department.

But the legal machinations served several purposes. The decrees enabled Setad to beat back rival institutions seeking to take property in the name of the supreme leader. A ruling on the constitutionality of privatizations smoothed Setad's expansion beyond real estate and into owning and investing in companies.

The attention to legal procedure also allows Setad and Khamenei to justify a practice that Khomeini had cited as a reason for overthrowing the shah in 1979: property confiscations. Mohammad Reza Pahlavi, the former king, inherited his fortune from his father, who enriched himself in the first half of the 20th century by expropriating vast amounts of land from his subjects. In October 2010, Khamenei invoked that memory in a speech.

"Our people were living under the pressure of corrupt, tyrannical and greedy governments for many years," Khamenei told officials in the clerical city of Qom, according to an



English-language transcript on his official website. The shah's father "grabbed the ownership of any developed piece of land in all parts of the country.... They accumulated wealth. They accumulated property. They accumulated jewelry for themselves."

The Islamic Revolution promised Iranians a new era of justice, governed strictly in accordance with sharia, Islamic law. Khomeini outlined a "Velayat-e Faqih," or Guardianship of the Jurist - a government ruled by a cleric who spurns personal wealth, values the law above all else and rigorously submits himself to it.

"Islamic government ... is not a tyranny, where the head of state can deal arbitrarily with the property and lives of the people, making use of them as he wills," Khomeini wrote in a 1970 book.

Iranian attorneys who have battled Setad say the governments under Khamenei's watch have not lived up to those ideals. Instead, they allege, the government makes aggressive use of the law to take property from citizens - in particular, Article 49 of

the Iranian constitution, which provides for seizing illicit assets from criminals.

"It is a very powerful tool," said Mohammad Nayyeri, a Britain-based lawyer who worked on several property confiscation cases involving Setad before leaving Iran in 2010. "It opens the door to corruption. There is no limitation. The private ownership and private life of people are not respected."

Setad has emerged as a mainstay for Khamenei. It provides an independent source of revenue to finance his rule even as years of sanctions imposed by the West have squeezed Iran's economy hard. The story of how he used the law to build up Setad is central to understanding how he has managed in some ways to gain even more power than his predecessor.

A ONE-ROOM HOUSE

The supreme leader, now 74 years old, comes from a modest background. He grew up in the holy city of Mashhad in Iran's northeast. His father, Ayatollah Javad Husseini Khamenei, was a religious scholar of ethnic Azeri descent and a prayer leader at a local mosque.

"The house only had one room and a gloomy basement. Whenever a guest came to see my father ... we had to go to the basement until they left," Khamenei is quoted as saying in a biography posted on his official website.

The young Ali Khamenei was known as Seyyed Ali, a title used by families who claim descent from the Prophet Mohammad.

**“They accumulated wealth.
They accumulated property.
They accumulated jewelry for
themselves.”**

Ayatollah Ali Khamenei, on the ousted government of the Shah of Iran

While he chose the same calling as his father, Khamenei embraced radically different views.

The elder Khamenei was a traditionalist opposed to mixing religion and politics. The son took up with the growing Islamist revolutionary cause. One relative says the young cleric appeared as interested in the movement's political dimension as its spiritual side.

"He came across as a modernist or progressive cleric," said Mahmoud Moradkhani, a nephew who opposes Khamenei's rule and lives in exile in Paris. "He was not a part of the fundamentalists ... and only followed the revolutionary movement."

In the early 1960s Khamenei studied under Khomeini in Qom. The young cleric began agitating against the shah's pro-Western regime. In 1963, Khamenei served his first of many terms in prison when, at the age of 24, he was detained by security forces for his political activities. Later that year he was imprisoned for ten days in his home city of Mashhad, where he was put under "severe torture," according to his official biography. (<http://www.leader.ir/langs/en/index.php?p=bio>)

People who knew Khamenei in his formative years describe a complex man. He was an uncompromising revolutionary and Islamist ideologue, but he also had a sociable side, with a sense of humor.

"He has maybe two different personalities," said Houshang Asadi, a dissident journalist who spent months sharing a prison cell with Khamenei in 1974. Asadi recalled one occasion when Khamenei "stood under the window in the little cell, talking to God and crying." On other occasions, "he was a simple man like me. We had different opinions about many things, but we argued, we talked, we laughed, we were joking."

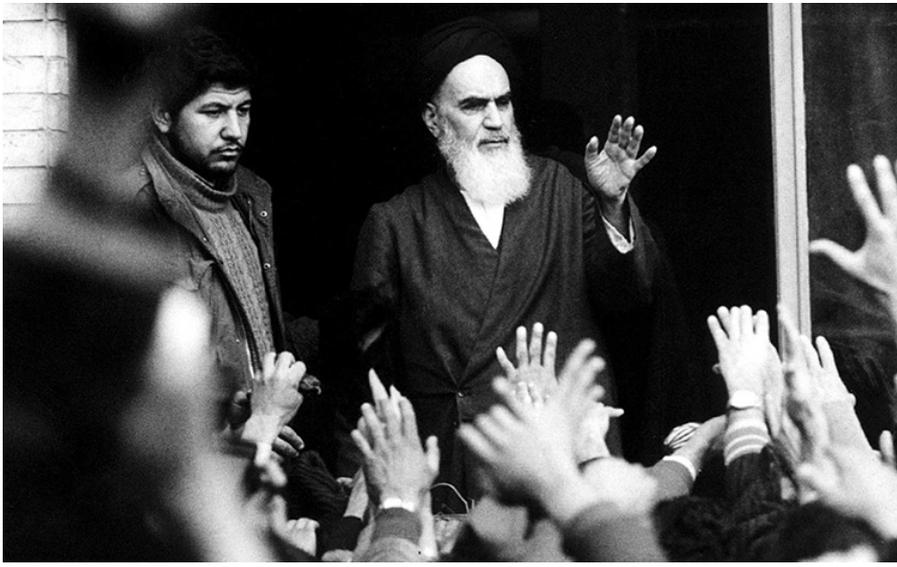
Five years later came the revolution. The shah fled, Khomeini returned in triumph from exile, the clerics emerged pre-eminent. According to historians, Khamenei, then 40, helped found the Islamic Republic Party and went on to serve in increasingly powerful posts.

In 1979, months after taking power, Khomeini pushed through a new constitution that enshrined his concept of the Guardianship of the Jurist, a republic ruled by a leader who is the foremost expert in Islamic law. Among the charter's 175 articles were two that would prove instrumental for Setad. One, Article 45, which deals with public property, gave the government the right to use "abandoned" land and "property of undetermined ownership."

Even more important in the end was Article 49, which allows for the confiscation of wealth acquired through criminal activities. It prescribed broad safeguards against arbitrary confiscations. In practice, this law rarely was followed.

"Article 49 is so broadly written that it allows confiscation and expropriation on the flimsiest of excuses," said Shaul Bakhash, an Iran historian at George Mason University in Virginia. He says property of his own was confiscated by court order in 1992.

Wholesale expropriation of wealth became a hallmark of the early republic. It was a chaotic time. Iraq invaded Iran in 1980. Years of brutal trench warfare followed. There were shortages of rice, milk, meat and fuel. The new regime faced internal threats, carrying out tit-for-tat killings as it consolidated power. And the new state began seizing assets from the deposed royal family and other perceived enemies.



DEVOTION: Founder of the Islamic Revolution Ayatollah Ruhollah Khomeini speaks from a balcony of the Alavi School in Tehran in February 1979. Khomeini signed an order shortly before he died that led to Setad's creation. REUTERS/Handout

"Bonyads," or foundations, were among the first beneficiaries of this transfer of wealth. One of the biggest was Bonyad Mostazafan, or the Foundation of the Oppressed, which took over many of the royal family's assets. It remains in business. A Mostazafan official did not respond to a request for an interview.

"This situation in reality created a struggle and a sort of competition between the revolutionary units and institutions ... for each to find the best properties and introduce them to the court as candidates for confiscation," said Hossein Raeesi, a human-rights attorney who practiced in Iran for 20 years and handled some property confiscation cases.

According to a study published in 1989 in the International Journal of Middle East Studies, in 1982 Bonyad Mostazafan held 2,786 real-estate properties it obtained by court-sanctioned confiscation. Its real estate included a building on Fifth Avenue in Manhattan built in the 1970s by the shah's charity, the Pahlavi Foundation.

The revolutionaries also began turning on some of their own. In 1981, Khamenei helped lead a successful effort to impeach Abolhassan Banisadr, who in 1980 had become the republic's first elected president. Khamenei, then in parliament, introduced a 14-point list of reasons to drive out Banisadr. Less than 17 months after taking office, Banisadr was declared an enemy of the state and fled to Paris, where he now lives.

Later that year, Khamenei survived a bomb attack by a leftist insurgent group that disabled his right arm. The explosives were placed in a tape recorder in the Abuzar mosque in Tehran where he was giving a speech. Two months later, Banisadr's successor as president was assassinated by the same group. In October 1981, Khamenei was elected overwhelmingly as the republic's third president.

"IN THE NAME OF THE REVOLUTION"

In 1982, with factions and organizations feuding over properties, Khomeini tried to control the chaos, issuing a decree that banned confiscations without a judge's order. "It is unacceptable and intolerable that in the name of the revolution and being revolutionary-minded, God forbid, an injustice should be done to someone," Khomeini declared in the order.

Two years later, in 1984, parliament created a special class of property confiscation courts - dubbed "Article 49 courts" - in each of Iran's provinces. They were a branch of the Revolutionary Courts, which had been established to dispense justice to purported enemies of the republic.

The Article 49 courts continue to operate today, but they failed to end the free-for-all. "In practice, the establishment of the Article 49 courts

“Islamic government ... is not a tyranny, where the head of state can deal arbitrarily with the property and lives of the people, making use of them as he wills.”

Ayatollah Ruhollah Khomeini, 1970

systematized and continued the expropriations, and even today the confiscations continue," Raeesi said.

The war with Iraq ended in 1988. It left hundreds of thousands of Iranian soldiers and civilians dead. That meant many mouths to feed.

In April 1989, Khomeini issued his brief order that marked the genesis of Setad, (images/part3/doc_creation_eng.jpg) whose full name in Persian is "Setad Ejraiye Farmane Hazrate Emam" - the Headquarters for Executing the Order of the Imam.

He directed two senior officials to take over all "sales, servicing and managing" of properties "of unknown ownership and without owners." The revenues were to be spent on sharia issues "and as much as possible" to help seven bonyads and charities he named. The officials were to use the money to support "the families of the martyrs, veterans, the missing, prisoners of war and the downtrodden."

At this point, though he had been president for more than seven years, Khomeini wasn't counted among Iran's first rank of power brokers. The presidency had been stripped of key powers during Banisadr's short rule, because he was viewed as a threat to Iran's new clerical elite.

After Khomeini's death in June 1989, Iran's Assembly of Experts selected Khamenei as his successor. Some senior clerics regarded him as unqualified for the job of supreme leader. He hadn't achieved the required rank among Shi'ite clerics that the constitution stipulated. But key supporters backed a constitutional amendment that sealed his elevation, and Khamenei took office in July.

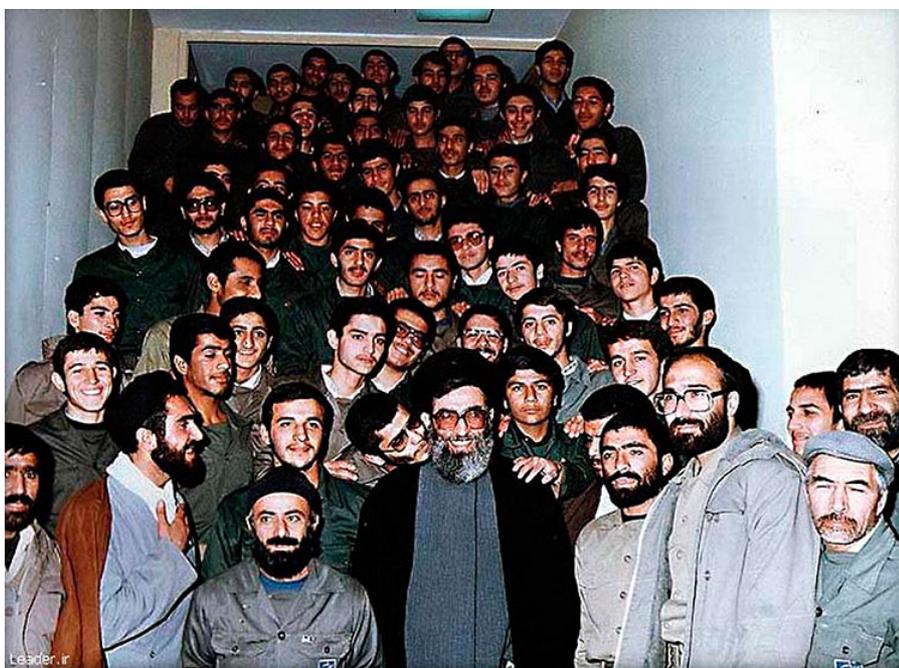
One of his early acts was to order a cleric to follow up on the creation of Setad. The new organization's decisions, he said in an edict that September, "should be just and based on sharia and without negligence."

The new supreme leader quickly set about cultivating the Islamic Revolutionary Guard Corps, an elite military group that had emerged from the war as one of Iran's most powerful institutions.

Droves of its soldiers had returned in 1988 from the battlefield and were seeking opportunity. He began securing their support by helping them receive lucrative reconstruction contracts.

According to Mohsen Sazegara, a co-founder of the Revolutionary Guards who is now in exile in the United States, Khamenei allowed the Guards to enter the construction business. That opening eventually enabled an engineering division of the Guards to evolve into a major conglomerate.

In



EARLY DAYS: A member of the Revolutionary Guard kisses Khamenei on the cheek as he poses for a picture at an undisclosed location in this undated image from the supreme leader's website. REUTERS/Leader.ir/Handout

time the Guards became a pillar of Khamenei's power. So too did Setad.

By the early 1990s, courts were seizing assets and turning them over to Setad, according to documents reviewed by Reuters. The organization began keeping funds from property sales, rather than redistributing all the proceeds. It isn't clear when

Setad began retaining funds or what percentage of the revenue it keeps.

Khamenei, meanwhile, took pains to show Iranians that he was above exploiting his high office. On a visit to his boyhood home in Mashhad in August 1995, he told the story of how while he was president, a next-door neighbor erected a tall building overlooking his yard.

"As a result, my mother could no longer step in the yard without wearing a chador," a long garment worn by devout women in Iran. He asked the neighbor to reconsider, according to an account by Khamenei on his official website, but the owner wouldn't listen.

Khamenei dropped the matter. "Such events bear testimony to the fact that worldly positions and financial means never cause individuals to regard themselves as distinct from the general public, or that they are entitled to live in greater comfort," Khamenei said.

In 1997, the reformist Mohammad Khatami was elected president. Iran's judiciary soon moved to shield Setad from scrutiny. The General Inspection Office is an anti-corruption body that monitors many Iranian institutions and reports to the head of the judiciary, who is appointed by Khamenei. That year, a government legal commission declared that the GIO had no right to inspect Setad unless the supreme leader requested it to do so.

Setad still faced competitors. Among its main rivals for seized assets, according to attorney Mohammad Nayyeri, was another organization: Sazemane Jamavari va Forooshe Amvale Tamliki, or Department for the Collection and Sale of Acquired Property, which is controlled by the Ministry of Economic Affairs and Finance. In 2000, the judiciary adopted a bylaw granting Setad exclusive authority over property taken in the name of the supreme leader.

AN EXPEDIENT RULING

Setad began expanding into corporate investments, taking advantage of another legal initiative by Khamenei.

“This is the reason why no one knows what is going on inside these organizations.”

Mohsen Sazegara, a co-founder of the Revolutionary Guards

In 2004, Khamenei ordered a review of Article 44 of the constitution, which mandates state ownership of critical industries. The Expediency Council, a state advisory body appointed by the supreme leader, issued a new interpretation of Article 44 allowing the privatization of major industries.

"What was the goal?" he asked in a 2011 speech. "The goal was to create a competitive economy with the presence of the private sector and its investments in the economy of the country."

In 2006, with the country facing a ballooning budget deficit under its new hardline president, Mahmoud Ahmadinejad, Khamenei issued an executive order to privatize 80 percent of the shares of some state-owned companies. The targets included banks, insurers and oil-and-gas firms. The step, he said, would change the "government's role from direct ownership and management of companies to policymaking, guidance and monitoring."

In 2009, Setad emerged as a victor in Iran's biggest state asset sale, the privatization of Telecommunication Co of Iran (TCI).

Through a subsidiary, Setad held a 38 percent stake in a consortium that was awarded majority control of the telecommunications provider, Iran's largest, according to Setad documents seen by Reuters. The other big winner was the Revolutionary Guards, which controlled most of the winning consortium.

Even before then, Setad had been drawing attention from the reformist wing of the establishment. During Khatami's second term, moderate members of parliament sought to investigate Setad, according to Nayyeri. The Guardian Council, a body of conservative clerics and jurists who are directly or indirectly appointed by Khamenei, issued a declaration that Setad was beyond parliament's authority, Nayyeri said.



POWER BASE: Khamenei cultivated the support of the Revolutionary Guards, whose naval forces are shown marching in 2011. The Guards, like Setad, are an economic powerhouse. REUTERS/Stringer

Elections in 2008 brought a strongly conservative parliament deeply loyal to Khamenei. In one of its first steps, parliament amended its bylaws to limit its own power to audit institutions under the supreme leader's supervision, except with his permission.

"This is the reason why no one knows what is going on inside these organizations," says Sazegara, the Guards co-founder.

In 2009, hundreds of thousands of Iranians in the so-called Green Movement protested the re-election of President Ahmadinejad. Amid the unrest, one of the two men who established Setad spoke out against the organization.

That man, Mehdi Karoubi, had emerged as a major reformist politician, serving as speaker of parliament and making unsuccessful bids for the presidency in 2005 and 2009. After the 2009 vote, he wrote a letter (images/part3/doc_cofounder_eng.png) to a longtime rival of Khamenei in which he reported that Khomeini had intended Setad to last just two years.

Karoubi went on to accuse Setad and Khamenei's other major power base, the Revolutionary Guards, of corruption. In an apparent reference to the TCI privatization, he wrote that they "put the shares of a government ministry in their own name within half an hour. And in the name of privatization they create another saga that continues and completes the recent saga of the presidential elections?"

Karoubi has been under house arrest in Iran since 2011 and couldn't be reached for comment.

Khamenei is sensitive to suggestions that he and his appointees receive special treatment under the law. "No one is above supervision," he has said in a speech, according to a page on his website titled "The Supreme Leader's View of Supervision." (http://english.khamenei.ir//index.php?option=com_content&task=view&id=1167&Itemid=11#Supervision) "Even the leader is not above supervision, let alone the organizations linked to the leader," he said. "Therefore, everyone should receive supervision, including those who govern the country. Government by its very nature entails accumulation of power and wealth. That is to say, national wealth and social and political power are entrusted to a few government officials. As a result, they must be supervised."

Driving home the point, he added: "I welcome supervision, and I am strongly opposed to evading it. Personally, the more supervision I receive, the happier I will be."

Today, Khamenei's power in some respects exceeds that of his predecessor. He lacks the religious authority of Khomeini but has far greater resources at his disposal.

Khomeini operated from a modest house in northern Tehran with a small staff.

Khamenei lives in a large compound in Tehran. The grounds contain a variety of buildings, including a large hall where Khamenei gives speeches. Setad

“No one is above supervision. Even the leader is not above supervision, let alone the organizations linked to the leader.”

Ayatollah Ali Khamenei, in a speech published on his website, on a page titled “The Supreme Leader’s View of Supervision”

helps to finance his administrative offices, which are known as Beite Rahbar, the Leader's House, according to a former senior Setad employee and other people familiar with its operations. It employs about 500 people, many recruited from the Guards and security services.

Setad itself remains veiled from the public eye. It is led today by Mohammad Mokhber, a Khamenei loyalist who is also the chairman of Iran's Sina Bank, according to its website. The European Union sanctioned him in 2010 but lifted the sanctions last year, without any explanation.

Setad reveals little about its income, expenditures or staffing. Its headquarters is in a large gray concrete building with small windows in the heart of Tehran's commercial district.

"You won't even notice it even if you are walking by," a former employee said.

In June, Supreme Leader Khamenei congratulated Rouhani upon his election as president. That same month, the chief justice, a Khamenei appointee, issued a fresh declaration of support for Setad. According to the Iranian Students' News Agency, Justice Sadeq Larijani told lower courts that Setad's old rival, the Department for the Collection and Sale of Acquired Property, had no authority to take property in the supreme leader's name.

Setad, the justice reminded the courts, "is the only authorized organization in the issue of property related to the supreme leader."

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How the supreme leader rules Iran

Who runs Iran?

The country is a combination of theocracy and democracy. The head of state and leading cleric is the supreme leader, currently Ayatollah Ali Khamenei, who exerts widespread political influence and controls key military, judicial, foreign-policy and commercial institutions, such as Setad, the focus of this series, which Reuters estimates to be worth about \$95 billion.

How is the supreme leader chosen?

The position was created after the fall of the Shah of Iran in 1979 and is appointed for life by the Assembly of Experts, a body of theologians elected from lists of candidates vetted by the powerful Guardian Council. The first holder of the post was Ayatollah Ruhollah Khomeini, a theologian who led the 1979 revolution. He died in 1989 and was succeeded that year by Khamenei.

What about the Revolutionary Guards?

The 125,000-strong Revolutionary Guards, a military force which has accumulated great economic and political power, report directly to Khamenei. Their commanders, such as Major General Qassem Suleimani, head of the elite Quds force, exert powerful influence, but many owe their careers to Khamenei.

What is Khamenei's background?

Born in 1939, Khamenei became a cleric and was one of Khomeini's supporters in his struggle against the shah. He was arrested and imprisoned during the shah's rule, and after the revolution became one of Khomeini's inner circle. He served as Iran's president from 1981 to 1989.

Where does democracy come into it?

As well as the supreme leader, Iran also has a president and the Islamic Consultative Assembly, or Majles, a parliament consisting of 290 seats. Members are elected to serve four-year terms. In June, Hassan Rouhani, a relatively moderate cleric, was elected president with 50.7 percent of the vote.

Why has the West imposed sanctions on Iran?

Some sanctions began after the 1979 revolution that toppled the shah. More recently, sanctions have been used to put pressure on Iran to stop its nuclear development program, which Iran says is for peaceful purposes, but the West believes is aimed at

producing weapons. In 2006, the United Nations passed a resolution demanding that Iran stop its program of uranium enrichment.

Who calls the shots on the nuclear program?

The president and top Revolutionary Guard commanders are important, but ultimately the supreme leader makes the decisions.

2: NATIONAL CHAMPION

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