

# TAU CAPITAL PLC

Presentation to Investors

February 2011

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# Tau Capital Performance

	2010	Since Inception
Tau Capital	10.9%	-24.8%
KASE	-1.4%	-48.4%
MSCI Kazakhstan <sup>1</sup>	-14.7%	-16.9%
RENCASIA	17.2%	-29.9%
MSCI World <sup>2</sup>	12.3%	-10.9%

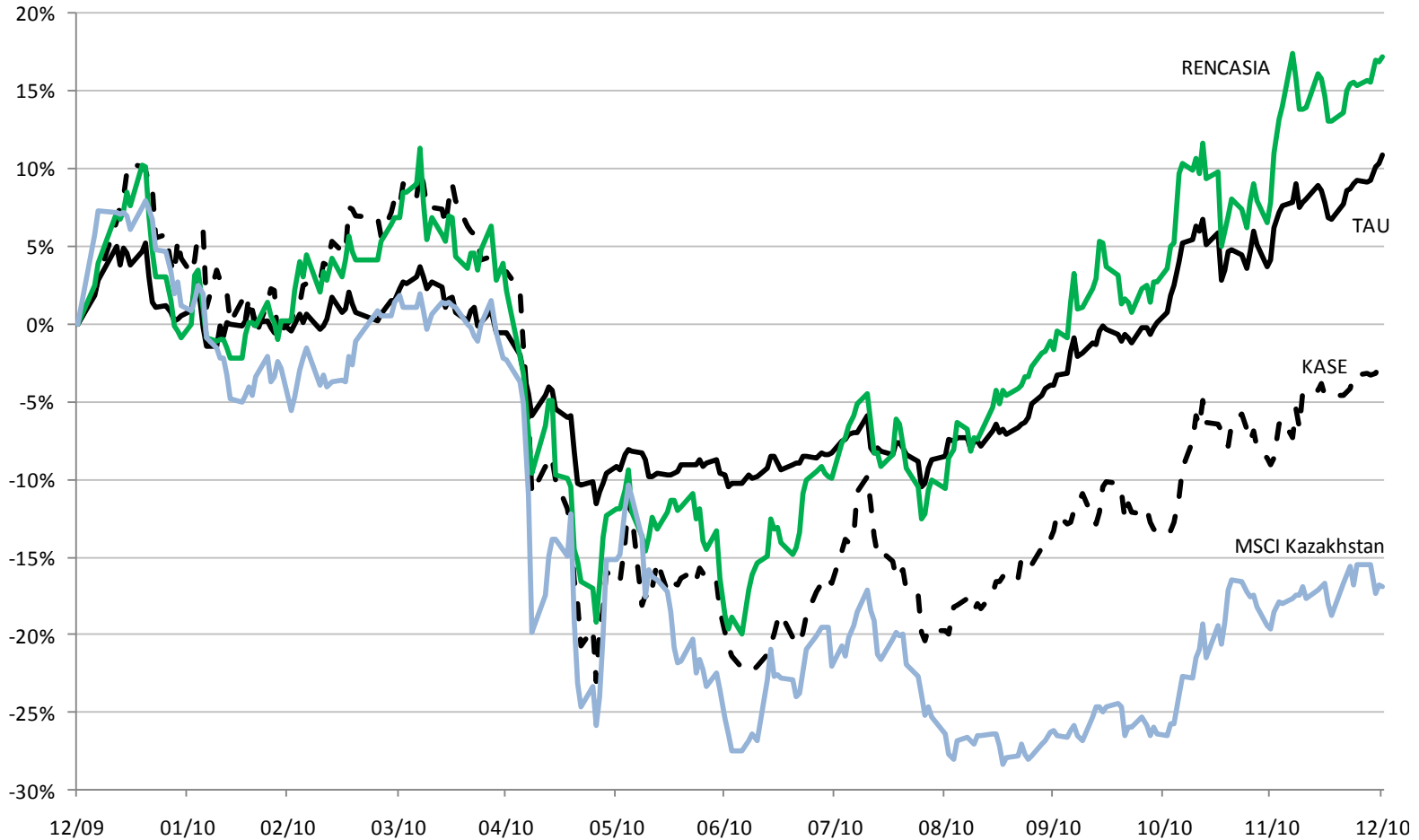
*Total USD returns*

*Tickers: (1) MXKA*

*(2) GDDUWI*

Sources: Bloomberg; Compass Asset Management Company

# Tau Capital Performance vs. Benchmarks



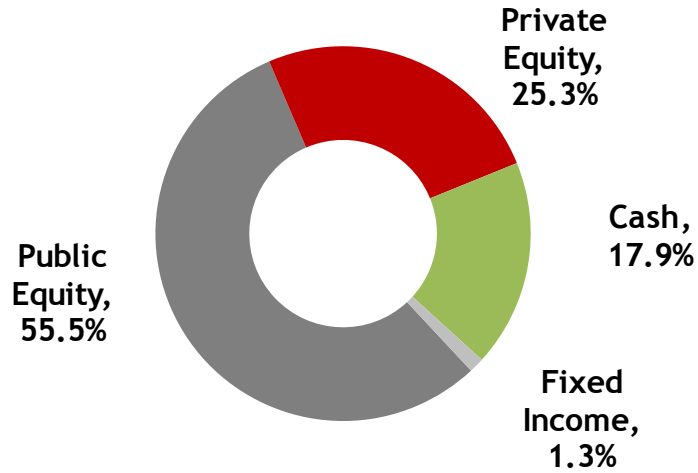
Sources: Bloomberg; Compass Asset Management Company

## Kazakh Economy

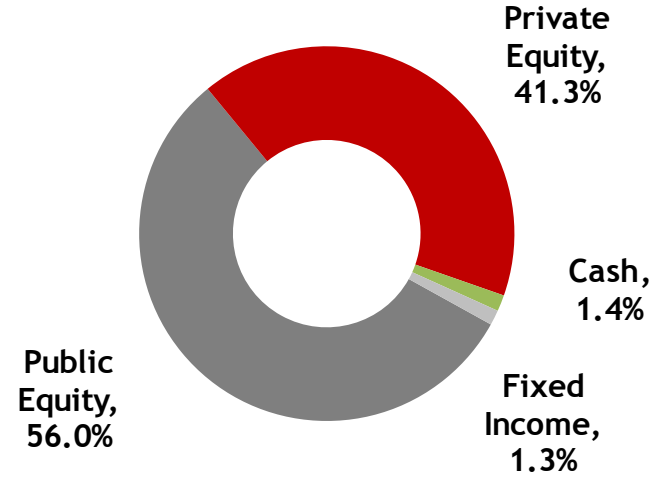
- 2010 Real GDP growth +7.1%; forecast for 2011 is 4-5%
- Main drivers: increased commodity output volumes; well-supported prices
- YoY Industrial Production growth averaged over 10%, in 2010 both inflation (+7.1%) and the currency remained stable (147.4 KZT/\$)
  
- Investment Environment
- Uncertainty on tax and government policy
  - Reintroduction of export duty on oil (\$2.7/bbl) in July (doubled to \$5.4 in Jan 2011);
  - Planned CIT rate decrease from 20% deferred until at least 2014; as a result, planned MET increase also deferred.
- In Oct 2010, Royal Dutch Shell announced that Kashagan Phase II CAPEX would be decreased by \$18B. Even with the reduction, expected IRR remains only 9.3%

# Portfolio Structure

31 Dec 2009



31 Dec 2010



Source: Compass Asset Management Company

# Significant Portfolio Activity

- Reduced gold futures position in Jan 2010 and exited completely in Jul 2010
- Added two new private equity investments: Stopharm and Lucent
- Increased public equity exposure over the summer
- Removed downside protection to participate fully in the rally

# Significant Portfolio Activity

## Private Equity Portfolio

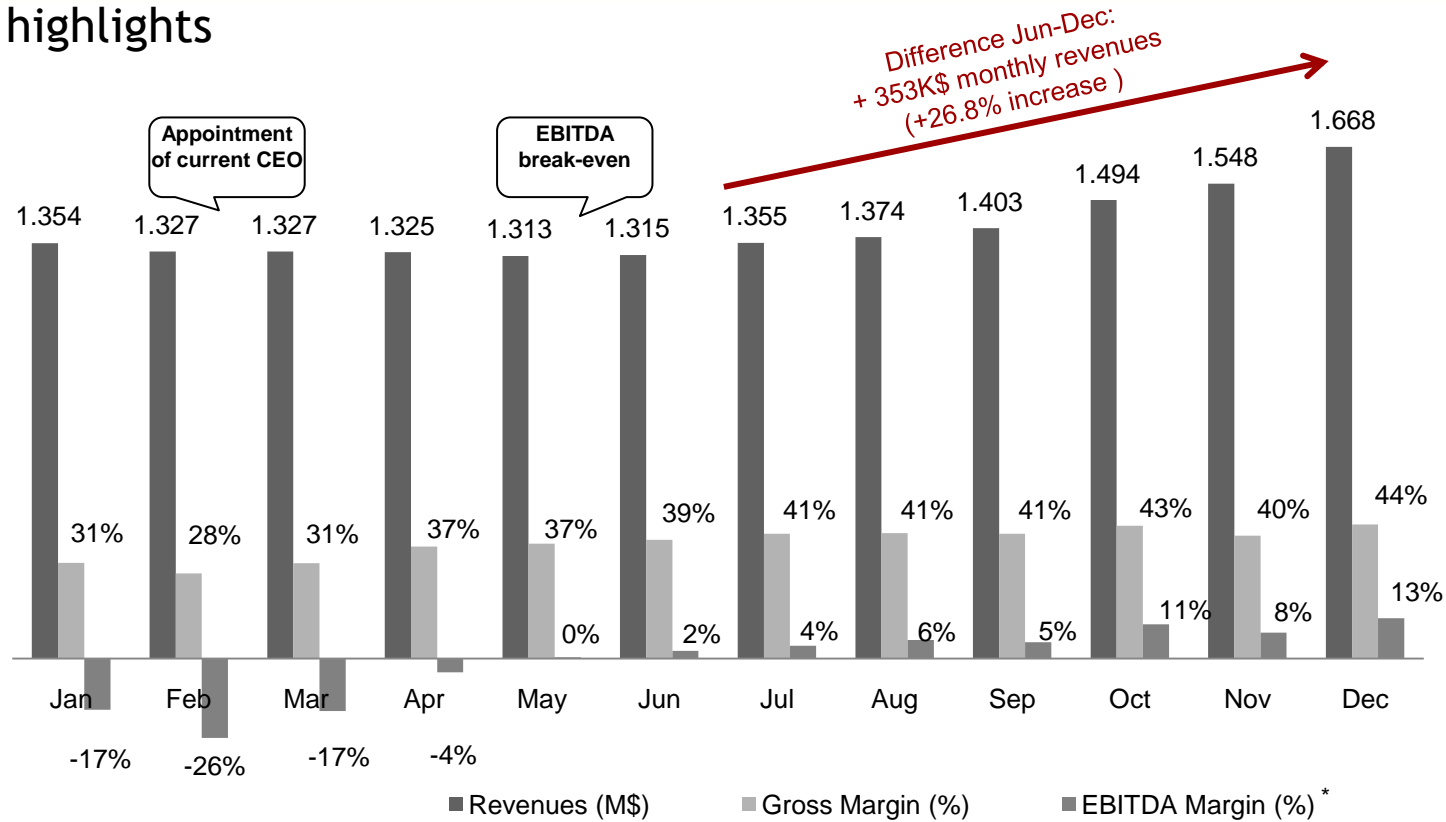
- During 2H2010, PE exposure increased significantly due to three investments:
  - Aug 2010: \$21.5M investment in Stopharm LLP
  - Sep 2010: \$4.5M initial investment in Lucent Petroleum LLP and committed to further \$10.5M
  - Oct 2010: \$1.0M follow-on investment in Alem Communications Holding through DTVI

- Structure of Investment
  - 24% equity stake and option for further 16.4%, exercise of which is subject to approval by the Anti-monopoly Commission of Kazakhstan
  - Total consideration \$21.5M
  - Substantial minority rights, Board representation and active involvement
    - 100 Day Plan in execution
  
- Financial performance\*
  - FY 2010 Revenues increased 88.1% compared to FY 2009 reaching \$171.3M
    - +34% over FY2010 budget
    - +121% in the period post transaction closing (Sep-Dec 2010)
  - EBITDA margin increased from 2.1% in 2009 to 6.1% in 2010
  
- Exit strategy
  - Trade sale to another major international distributor
  - Listing on an internationally recognized stock exchange (several emerging markets pharma distributors currently listed worldwide)



- Structure of investment
  - \$19.5M invested as shareholder loans and equity participation up to regulatory limit with entitlement to 'economic interest' above limit
  - Substantial rights, Board representation and active involvement jointly with Tau's partner Midas Telecom
  
- Operational highlights
  - 1H2010: Consolidation and integration
    - Head-count & cost optimization
    - Staff decreased by 35%
    - **Positive EBITDA achieved in May 2010**
  
  - 2H2010: Expansion and realization of economies of scale
    - Successful WiMax launch across all major cities in Kazakhstan; Astana ahead of OSCE summit
    - Major network coverage increase, service enhancement and expansion continuing into 2011
    - **Subscriber growth: +16% 2H2010 growth to 218.678 RGU (all business lines) as of 31<sup>st</sup> Dec 2010**
    - **ARPUs stable and sustainable across all business lines**

## Financial highlights



## Exit strategy

- Potential merger with another telecom operator
- Trade sale to a strategic acquirer
- Alternative exit through IPO (target Jun 2012)

- Structure of investment
  - Up to \$15M increase of capital to fund drilling program, final equity stake 6.2%
    - Initial \$4.5M bridge loan convertible into equity post approval by Government of Kazakhstan
    - Follow-on commitment of up to \$10.5M provided as a line of equity
  - Substantial rights and Board representation post conversion
  
- Operational and Financial highlights
  - Expenses\* 40% below budget due to tenders negotiation
  - Civil works as of 31<sup>st</sup> Dec 2010 in line with project plan
  - Lucent fully funded to accomplish the exploration of its main two resources
  
- Exit strategy
  - Listing / IPO on AIM or another internationally recognized exchange post-drilling program (planned Dec 2011) pre-agreed with majority shareholder
  - Trade sale to strategic investor also possible

- Structure of investment
  - \$19.5M mezzanine loan
    - 3 year term (maturity Oct 2011)
    - Coupon 18% p.a. non-cash accumulating interest
    - Embedded option allowing conversion of accumulated interest into equity of Waterford at maturity
  
- Status
  - As of 31<sup>st</sup> Dec 2010 principal plus accrued interest amounts to **\$29.8M**
  - Review of reported financials\* of the convertible structure show no impairment to 31<sup>st</sup> Dec 2010
  
- Exit strategy
  - Coupon convertible into equity of Waterford (or equity of Teniz in case of IPO) allowing either:
    - 5.1% ownership of Teniz and repayment of principal in full, or
    - Cash coupon and principal paid in full (locked IRR at 18% p.a.)

# Public Equity Portfolio Structure

## Largest Positions - % of NAV

	31-Dec-09		31-Dec-10
Zhaikmunai	9.2%	Uranium One	11.2%
Dragon Oil	8.8%	Zhaikmunai	8.4%
Uranium One	5.6%	KazMunaiGas*	5.7%
Kazakhmys	4.6%	Dragon Oil	5.3%
Halyk Bank	3.9%	Kazakhmys	4.6%
ENRC	3.9%	Ivanhoe Mines	4.6%

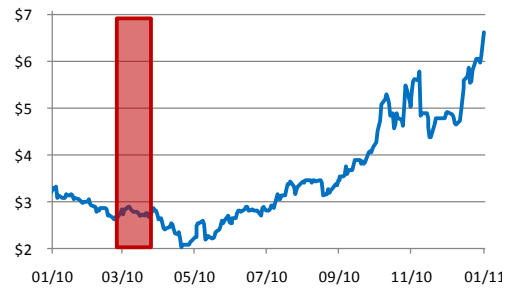
\* With CALL options on a further 1.2% of NAV

- New Positions
  - Ivanhoe Mines
  - Sberbank

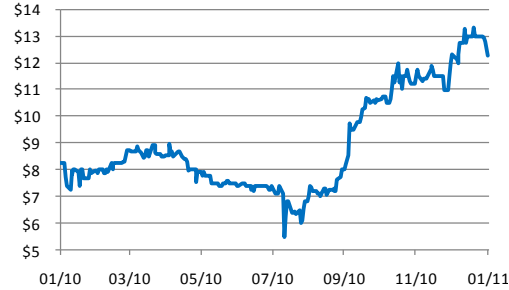
- Positions Traded
  - Bought
    - KazMunaiGas
    - Kazakhmys
    - Eurasian Natural Resources
  - Sold
    - Centerra Gold

# Stock Performance of Largest Equity Holdings

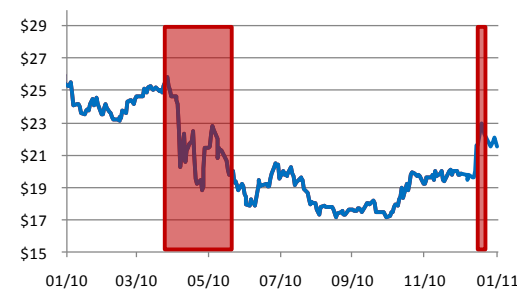
Uranium One US\$/sh



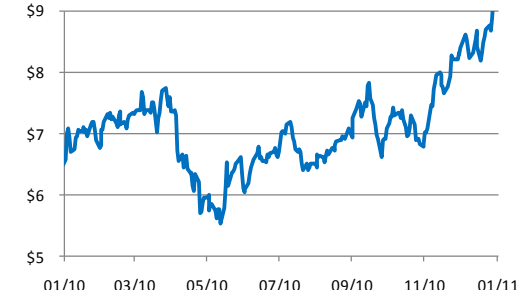
Zhaikmunai US\$/sh



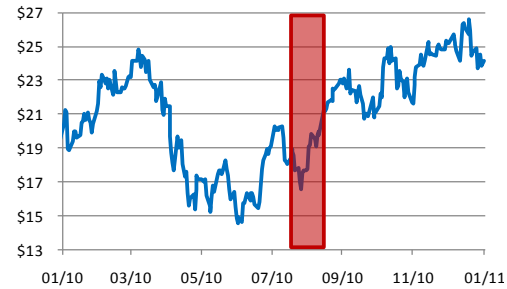
KazMunaiGas US\$/sh



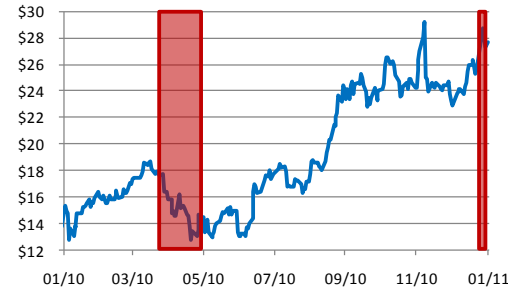
Dragon Oil US\$/sh



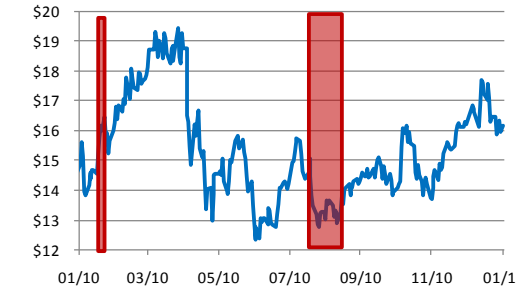
Kazakhmys US\$/sh



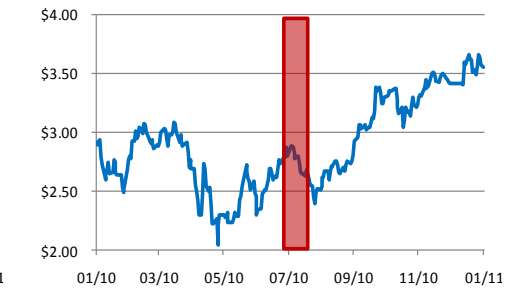
Ivanhoe Mines US\$/sh



ENRC US\$/sh



Sberbank US\$/sh



Red blocks indicate purchases

# Commodity Prices

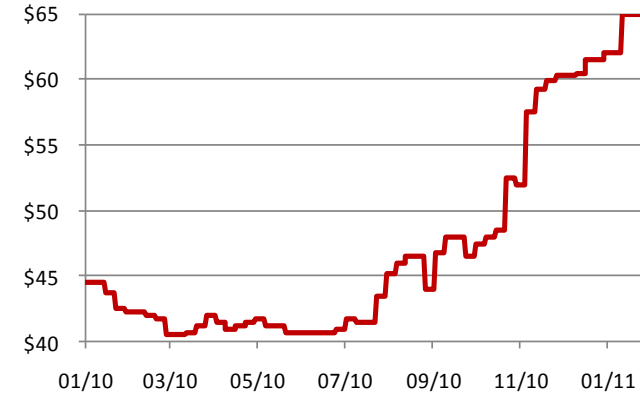
## Gold price \$/oz



## Copper price \$/t



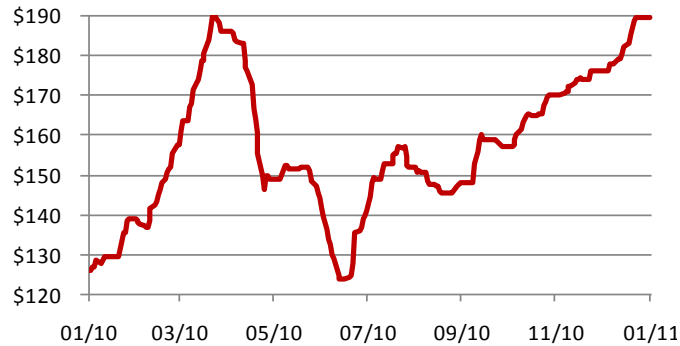
## Uranium price \$/lb



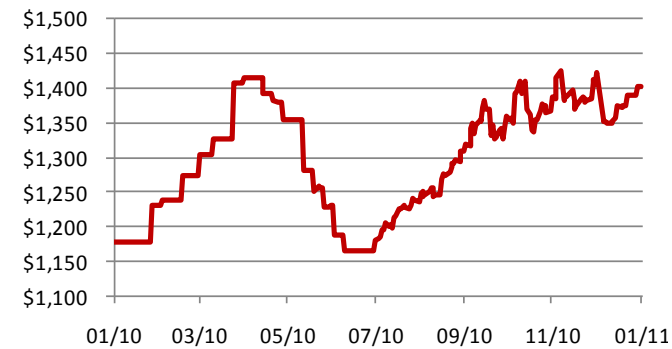
## Oil (Brent) \$/bbl



## Iron Ore price \$/t Main China Port; 63.5% fines



## FerroChrome \$/t China Spot; 6-8%



# Management Restructuring

- As of 31<sup>st</sup> Dec 2010 Compass Asset Management has assumed all investment advisory responsibilities, having taken over the private equity advisory services, which were being provided by Spencer House Capital Management LLP, to the investment manager, Spencer House Compass Capital Limited
- We expect the renaming of the investment manager from Spencer House Compass Capital Limited to Tau Compass Investment Management Limited to be effective by the end of Feb 2011
- Richard Horlick provides continuity in his role as a Director of Tau and CIO of SHCC
- Terrence Currier leads Tau's listed equities activity after a consolidated succession of Atul Patel, who completed a 3 year term
- The Private Equity portfolio, now mature and fully invested as per Tau's current capacity, is overseen from the Almaty office of Compass by the Compass team led by David Herbada



# Investment Management Team - Reinforcement and Changes

- Three new appointments effected at Compass Asset Management (Almaty office)

## David Herbada - Head of Private Equity (Apr 2010)

- 17 years of experience, 11 years in private equity, and 5 years specifically in emerging markets private equity
- David began his career as a practicing industrial engineer, then joining Andersen Consulting in 1997
- From 2000 to 2005 he worked as Investment Director for the private equity portfolio of Durlacher-Panmure Gordon, part of Lazard Group at the time, and GM for the Spanish subsidiary
- David also acted as Fund Manager for Delta Partners, Director at the Emerging Markets practice of Dubai International Capital, and, before joining Compass, as Senior Vice President at a private equity subsidiary of Al Rajhi Investment Group, the Saudi Arabian conglomerate
- David holds a MSc in Industrial Engineering from UPM, an MBA from IEDE, and diplomas in corporate financial strategy from INSEAD and private equity management from EVCA

## Terrence Currier - Head of Public Equities (Jun 2010)

- 16 years of experience in emerging markets and 12 years in international equity markets
- Terrence began his career as a certified public accountant, joining KPMG in 1989 where he spent 10 years and worked in Audit and Corporate Finance in US, Czech Republic and Russia
- In 1999 he joined Sovereign Asset Management in Monaco where he was Head of Trading and a Portfolio Manager
- From 2005 to 2008 he was an emerging markets equities Portfolio Manager at Moore Capital Management in London
- Terrence holds a BS with Summa Cum Laude Honors from Providence College

# Investment Management Team - Reinforcement and Changes

## Brian O'Callaghan - CEO (Aug 2010)

- 17 years of experience, 8 in fund management, 2 of which have been dedicated to emerging markets
  - Brian began his career in management consulting with SJH & Co., initially in Boston, USA, and then later in Warsaw, Poland.
  - In 2002, Brian co-founded and was Chief Operating Officer of Holte Capital Ltd, a London based hedge fund manager, which pursued a European, market neutral, special situations strategy
  - Brian joined Renaissance Investment Management (UK) Ltd, part of the Renaissance Group, which focuses exclusively on emerging markets, as Chief Operating Officer in 2008 and was later promoted to Chief Executive Officer
  - Brian holds a BA degree in economics from Harvard University
- 
- These additions complete the changes following the departures of Darius Daubaras (Spencer House Capital) and Atul Patel (Compass Asset Management)

# Conclusion

- Short-term caution on economy and market; prepared to add downside protection if and when required
- Remain positive on the medium-term outlook, especially in the context of continued strong Chinese economic growth, despite the trend toward monetary policy tightening
- Well supported Oil and Metals prices remain a critical driver of success
- Substantial Private Equity transactions recently executed; focus has turned to active management while keeping an eye on potentially attractive exit opportunities

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