



POLYMETAL

Gold Production Growth in Russia: Potential & Constraints

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February 21, 2008





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Perspectives of gold mining in Russia

ISSUE

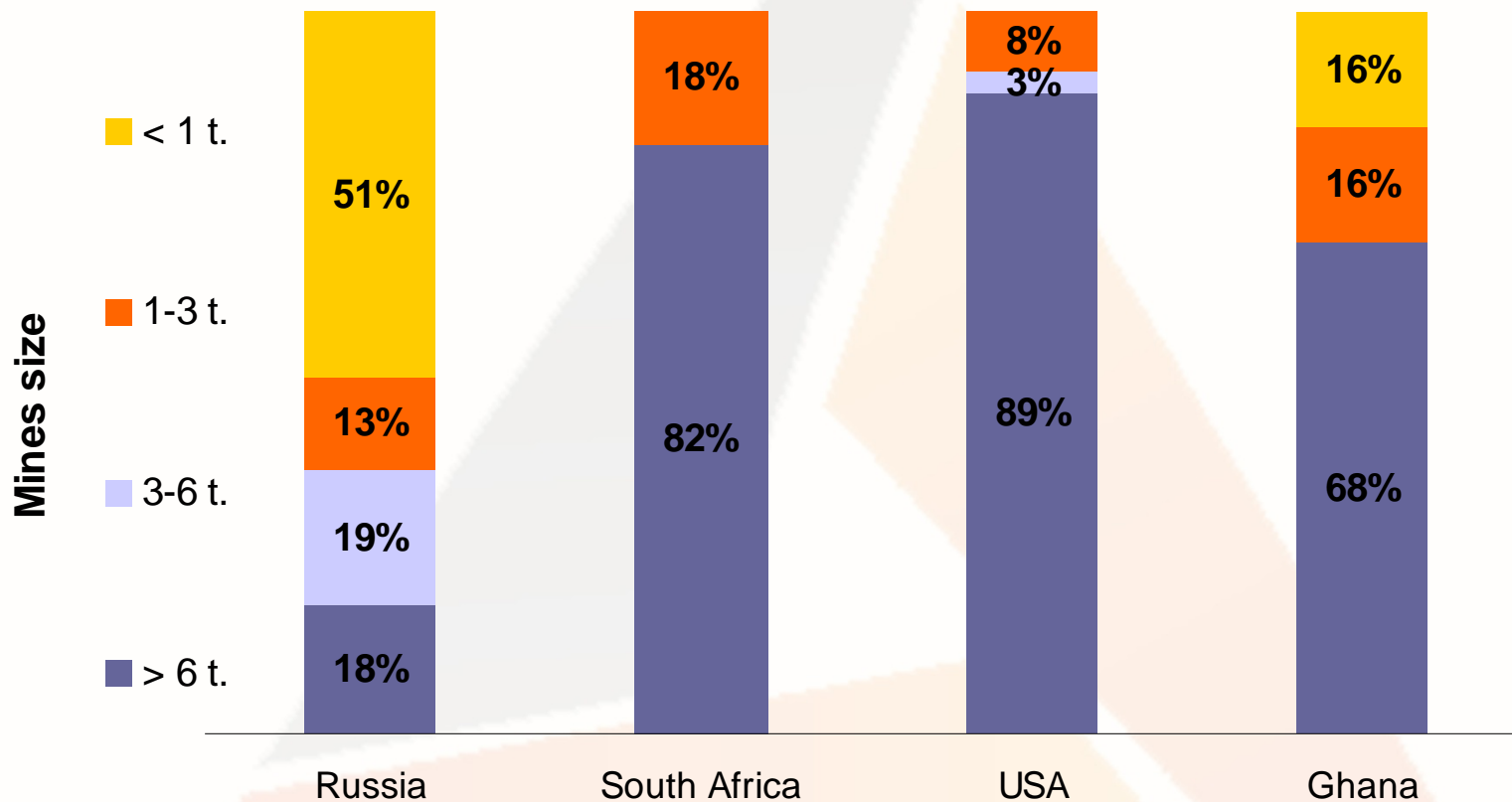
- ▲ What is the future profile of gold production in Russia for the next 5 years?
- ▲ Why gold production in Russia is not growing despite the abundance of gold resources?
- ▲ When will the gold exploration boom translate into new mines?
- ▲ What are the largest obstacles to gold production growth?
- ▲ Will Russian gold industry consolidate?

POINT OF VIEW

- ▲ Stagnant at best, slight decline most likely
- ▲ Existing operations closure/ production declines
- ▲ Quality of known resources is far from excellent
- ▲ With the exception of Kupol, no major deposit in construction stage yet
- ▲ Not any time soon: companies prefer to explore and not to build
- ▲ Lack of grid power in the Far East
- ▲ Lack of gold mining-specific expertise and experience
- ▲ Unlikely as high-quality producing assets are rare and some developing assets' value is being destroyed by resource mismanagement

Russian gold industry is highly fragmented from the operational, not corporate, perspective

Gold production structure by size of mines, 2007



Source: Companies' data, open sources, Polymetal's estimates

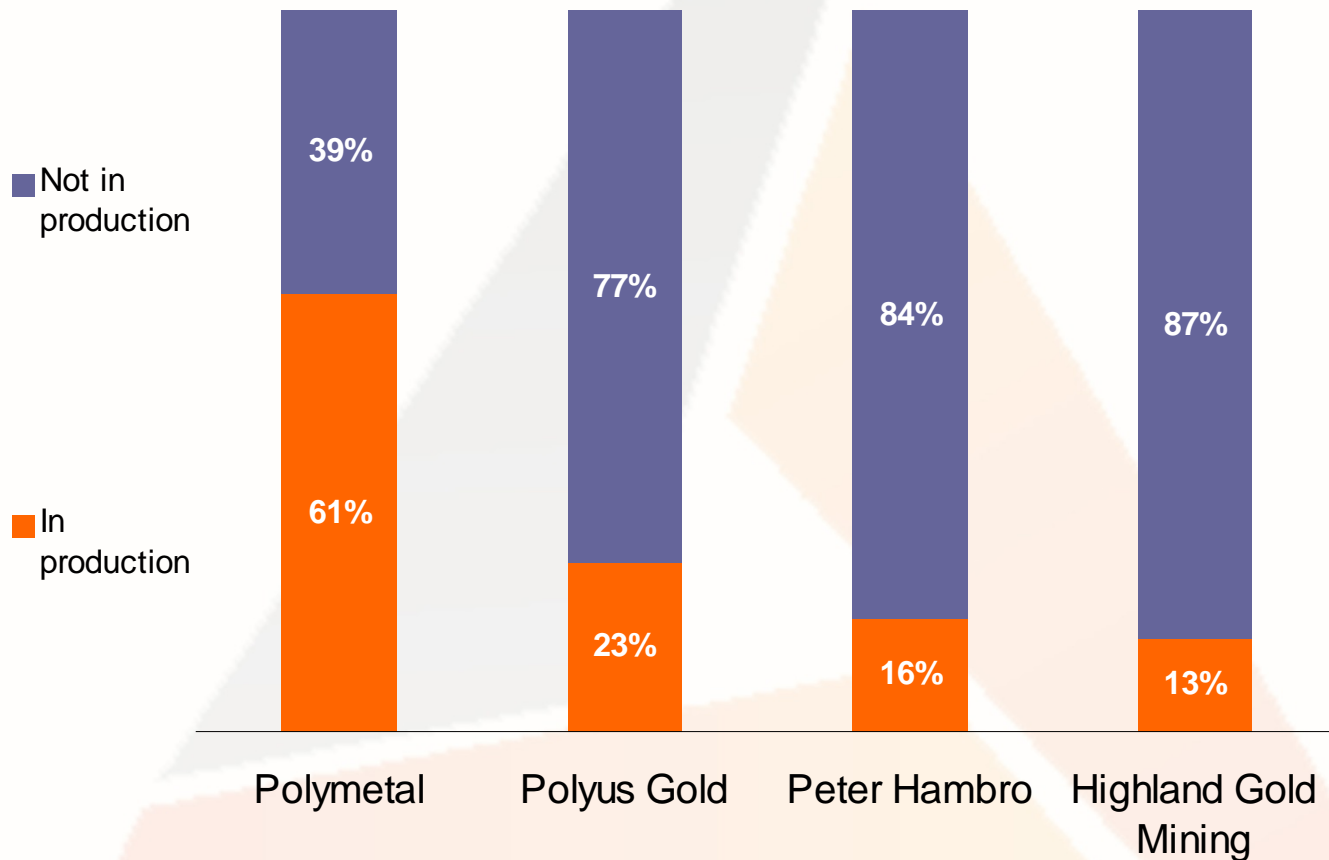
New gold mines of sub-optimal size are prone to severe underperformance

Mine	Owner	Start-up	Design production achieved	Reason for failure
Barun-Kholba	Polymetal	2001	35%	<ul style="list-style-type: none"> ▲ Ore body discontinuity ▲ High underground dilution
Darasun	HGM	2004	40%	<ul style="list-style-type: none"> ▲ High underground dilution ▲ Low recovery from complex ore ▲ Lower throughput due to design mistake
Aginskoe	KamGold	2006	70%	<ul style="list-style-type: none"> ▲ High underground dilution ▲ Low underground ore mining productivity
Suzdal BIOx	Celtic	2004	50%	<ul style="list-style-type: none"> ▲ Low BIOx recovery
Vasilyevsky	Angara Mining	2006	50%	<ul style="list-style-type: none"> ▲ Lower-than-expected reserve grade
Tas-Yuryakh	Amur	2006	50%	<ul style="list-style-type: none"> ▲ Lower-than-expected reserve grade



It is not the lack of resources that limits gold production growth in Russia

Split of resources: producing vs inactive properties




Source: Companies' resource statements in accordance with the 2004 JORC Code (M+I+I) as at 01 Jan 2007 adjusted for 2007 updates

Quality of major undeveloped deposits is close to marginal

Deposit	Owner	Tonnes* (Mt)	Au grade* (g/t)	Au* (Moz)	Type of mining	Refractory ore	Grid power
Natalka	Polyus	1,263	1.5	61.2	Open pit	No	Limited
Sukhoi Log	State	930.4**	2.1**	62.8**	Open pit	No	No
Blagodatnoe	Polyus	139.5	2.4	10.9	Open pit	Yes	No
Nezhdaninskoe	Polyus	71.4	5.5	12.7	Underground	Yes x 2	No
Maiskoe	HGM	21.9	10.4	7.3	Underground	Yes	No
Taseevskoe	HGM	30.0	3.5	3.4	Open pit	Yes	Yes
Pioneer	PHM	94.9	1.1	3.3	Open pit	No	Yes
Malomir	PHM	86.9	1.2	3.4	Open pit	Yes	Yes
Albazino	Polymetal	13.0	5.3	2.2	Open pit	Yes	No
Veduga	AGA/ Polymetal	16.2	5.3	2.8	Open pit	Yes	No

* M+I+I resource, according to the 2004 JORC Code

** According to Russian standards (only balance reserves)



Current state of affairs and the “Blue Sky” for Russian gold

AS IS

- ▲ Most participants are enthusiastic newcomers with limited experience and unrealistic expectations
- ▲ Most new operations are small-scale short-life projects built under “artel-like” mentality or with outright speculative purposes
- ▲ Overly optimistic expectations about implementation of complicated technologies in remote locations

NECESSARY FOR PRODUCTION INCREASE

- ▲ Most participants are gold-focused companies with extensive knowledge and experience
- ▲ World-class, large-scale, long-life
- ▲ Concentration of complex technologies in central locations with good infrastructure and labor availability

Case Study 1: Amursk as a POX hub

Advantages of Amursk centralized location and existing infrastructure:



Transportation

- Amur river, road, railroad
- 45km from Komsomolsk
- 330km from Khabarovsk



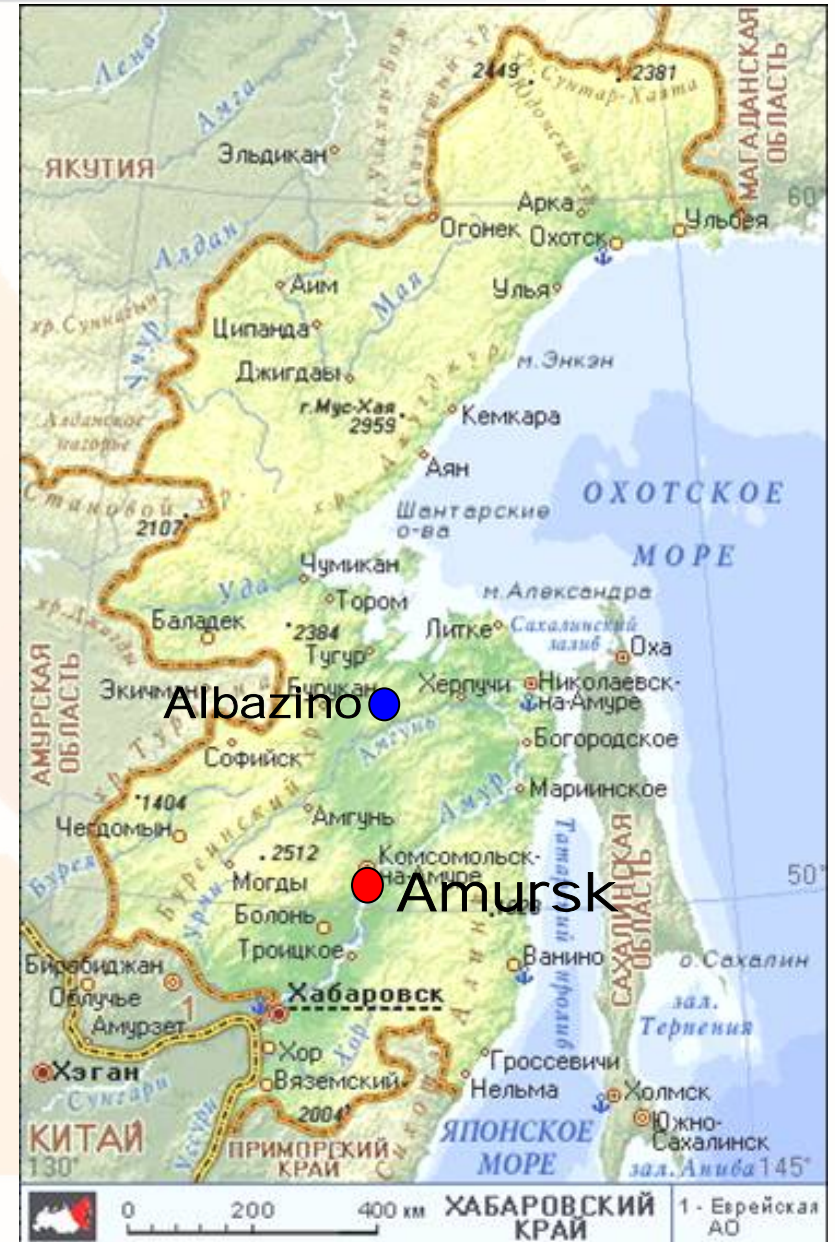
Energy

- coal and gas power plant
- 260Mw of installed capacity
- 160Mw is used at most



People

- 47,000 population
- 3,500 employed in industry
- 7,000 unemployed



Case Study 2: Kubaka processing plant as a district processing hub

Advantages of existing processing capacity for development of new deposits:

▲ Time. It takes approximately

- 3 month to set up ore transportation scheme
- 4 years to build a new processing plant

▲ Money

- no additional CAPEX needed (KINROSS spent c. US\$200m on construction)

▲ Economies of scale

- consolidation of processing from small mines in the surrounding area

