



POLYMETAL

MINEX Forum

*Exploring for Gold in Russia: Peculiarities,
Complications and Opportunities*

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Importance of Exploration for Gold Companies and Investors in Russia

Companies

- ▲ Large underexplored territory
- ▲ Deposits known since Soviet era either problematic or unavailable
- ▲ Expansion opportunities at the existing deposits limited while many mines are facing planned declines in production

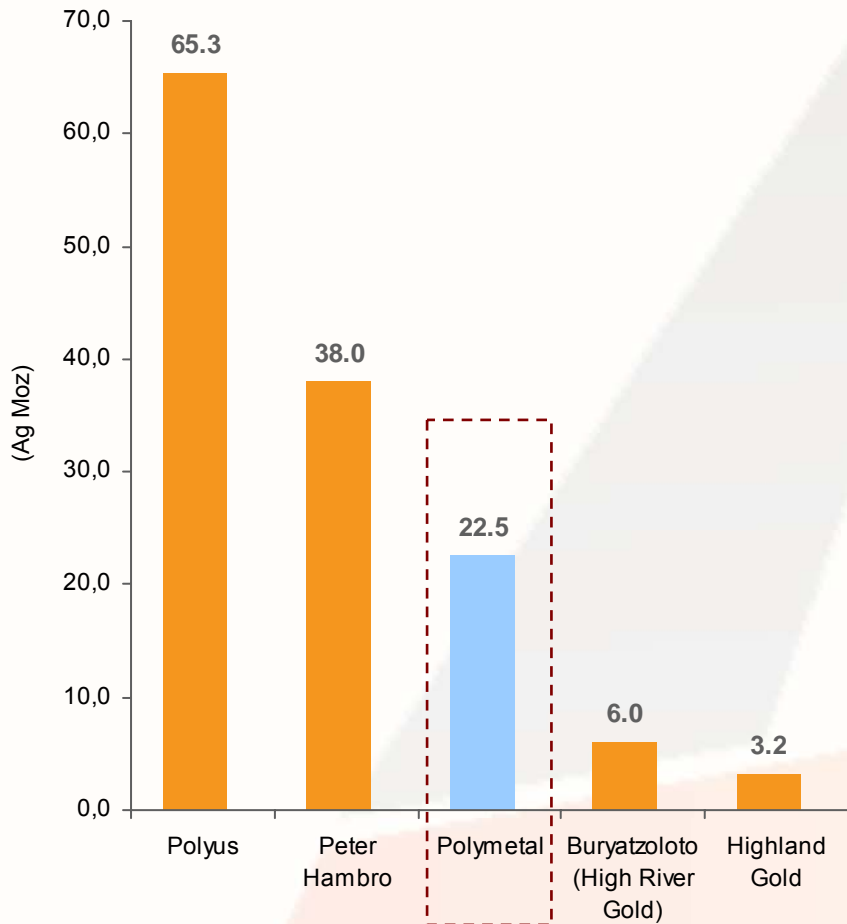
Investors

- ▲ Most industry players spend a lot of money on exploration
- ▲ For many companies a significant chunk of value is attributed to exploration properties
- ▲ Value attributed to exploration properties is hard to estimate and subject to significant uncertainty

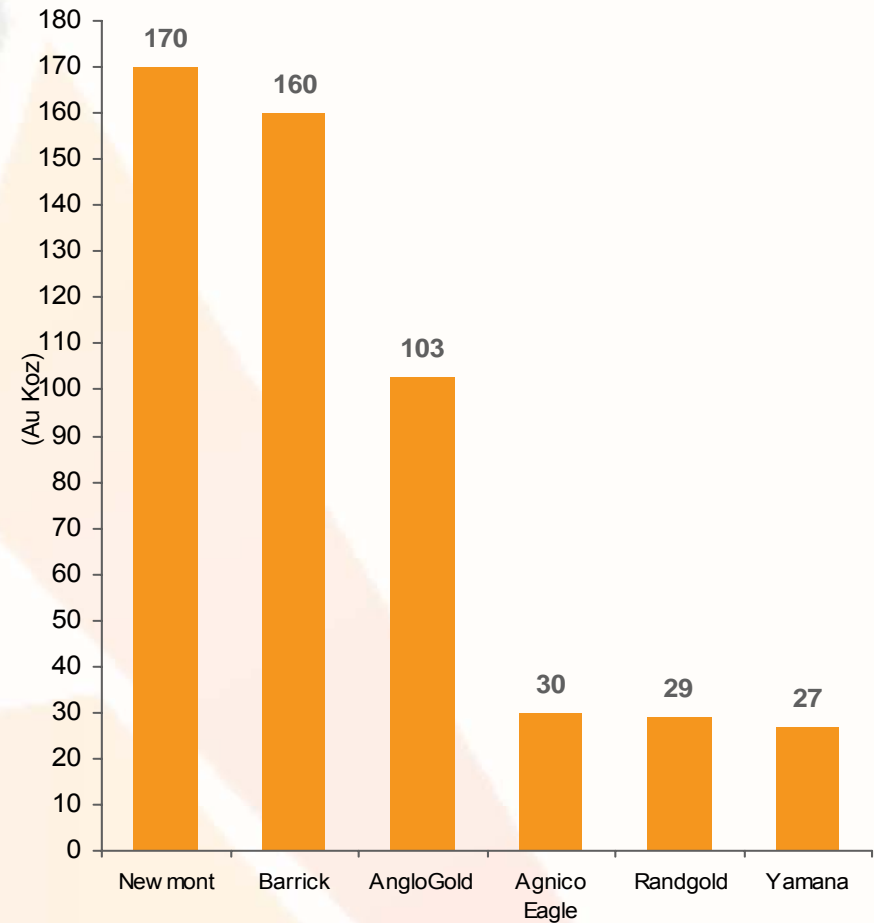
2006 Exploration spend: Russia and World



Russia



World

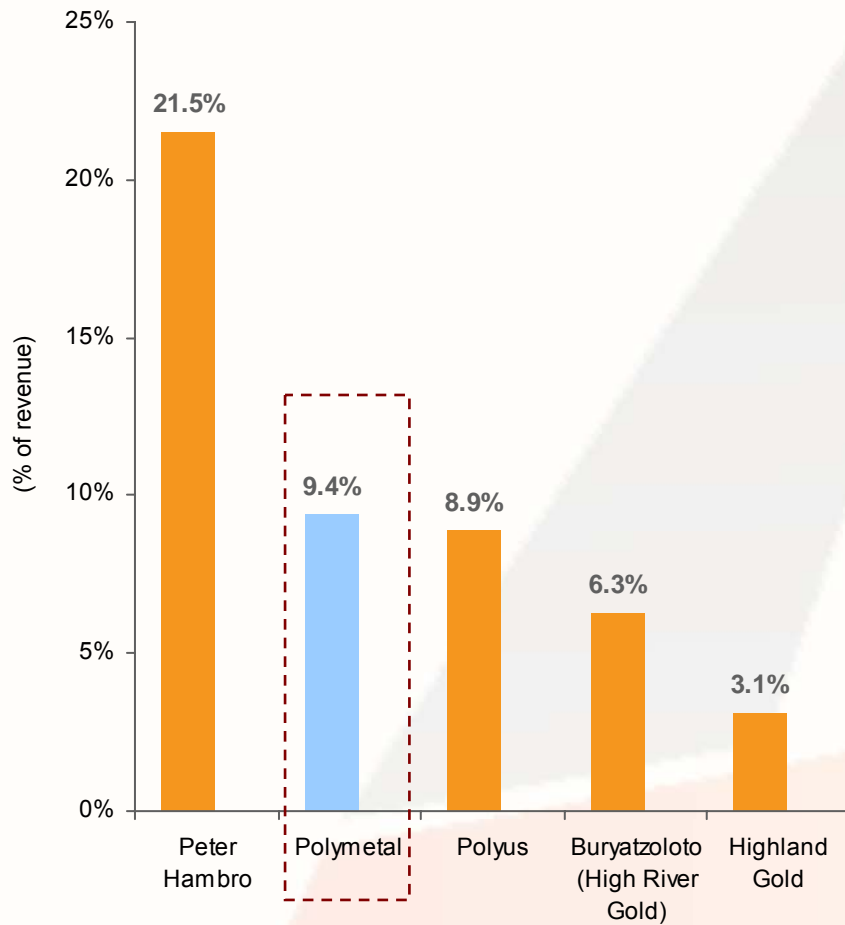


Source: companies' annual reports (websites)

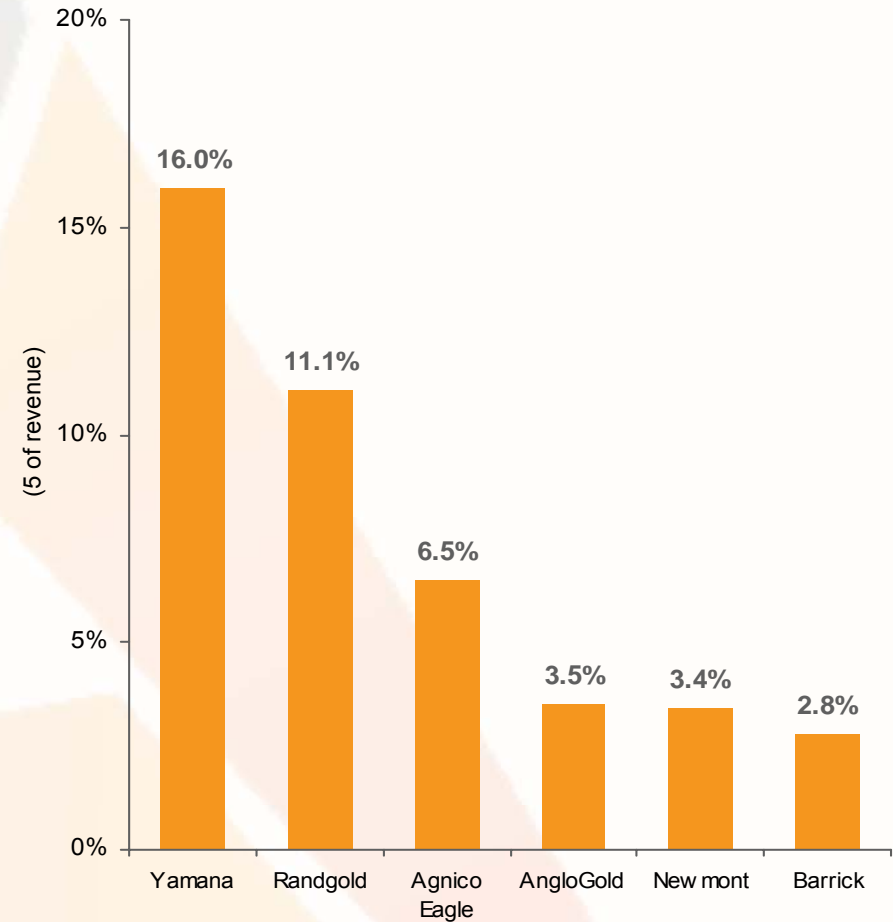
2006 Exploration spend: Russia and World (continued)



Russia



World



Source: companies' annual reports (websites)

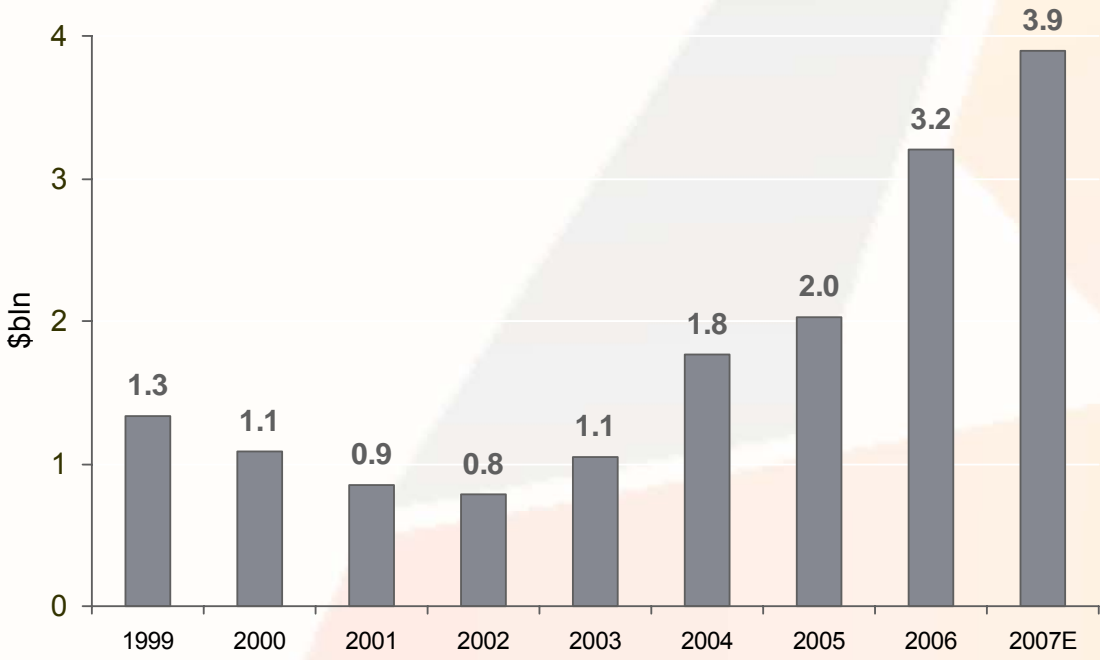
Key Trends Influencing Exploration Strategy



Key Trends in Exploration

- ▲ Labor has become significantly more expensive and more scarce
- ▲ Environmental issues and restrictions are impacting every project through permitting delays and complications
- ▲ Exploration spend is shifting to developing countries

Gold Exploration Expenditures World-wide




Source: World Exploration Trends 2007 (Metals Economic Group, MEG)



Russia-specific factors in exploration

Specific Factors

- ▲ **Productivity-adjusted labor costs in Russia are higher than in most competing locations**
 - *significant shortages of skilled labor*
 - *average wage has risen 65% in 2003-2007 (Ruble-denominated) or 102% in USD terms*
 - *lack of established contractors limits opportunities for outsourcing*
- ▲ **Capital intensity of a new mine in Russia is likely to be significantly higher than in competing locations**
 - *cold climate*
 - *remote locations with challenging transportation logistics*
 - *lack of energy infrastructure*
- ▲ **Soviet system of resource/reserves classification is MATERIALLY different from international systems (JORC, NI 43-101, SAMREC, etc.)**



Implications for gold exploration in Russia: Polymetal View

No

- ▲ **NO** to narrow-vein style of mineralization
- ▲ **NO** to complex technologies in remote locations
- ▲ **NO** to untested/pioneering technologies in any locations
- ▲ **NO** value on P2/P3 numbers; C1/C2/P1 estimates used with utmost caution, particularly if historic

Yes

- ▲ **YES !** Technological testing to establish likely flowsheet as early as possible in exploration process
- ▲ **YES !** Success/rejection criteria established as early as possible and regularly reviewed
- ▲ **YES !** Strict sequential approach to exploration
 - *reconnaissance*
 - *target identification*
 - *definition drilling*
 - *in-fill drilling*

Case Study 1: Why NO to narrow veins

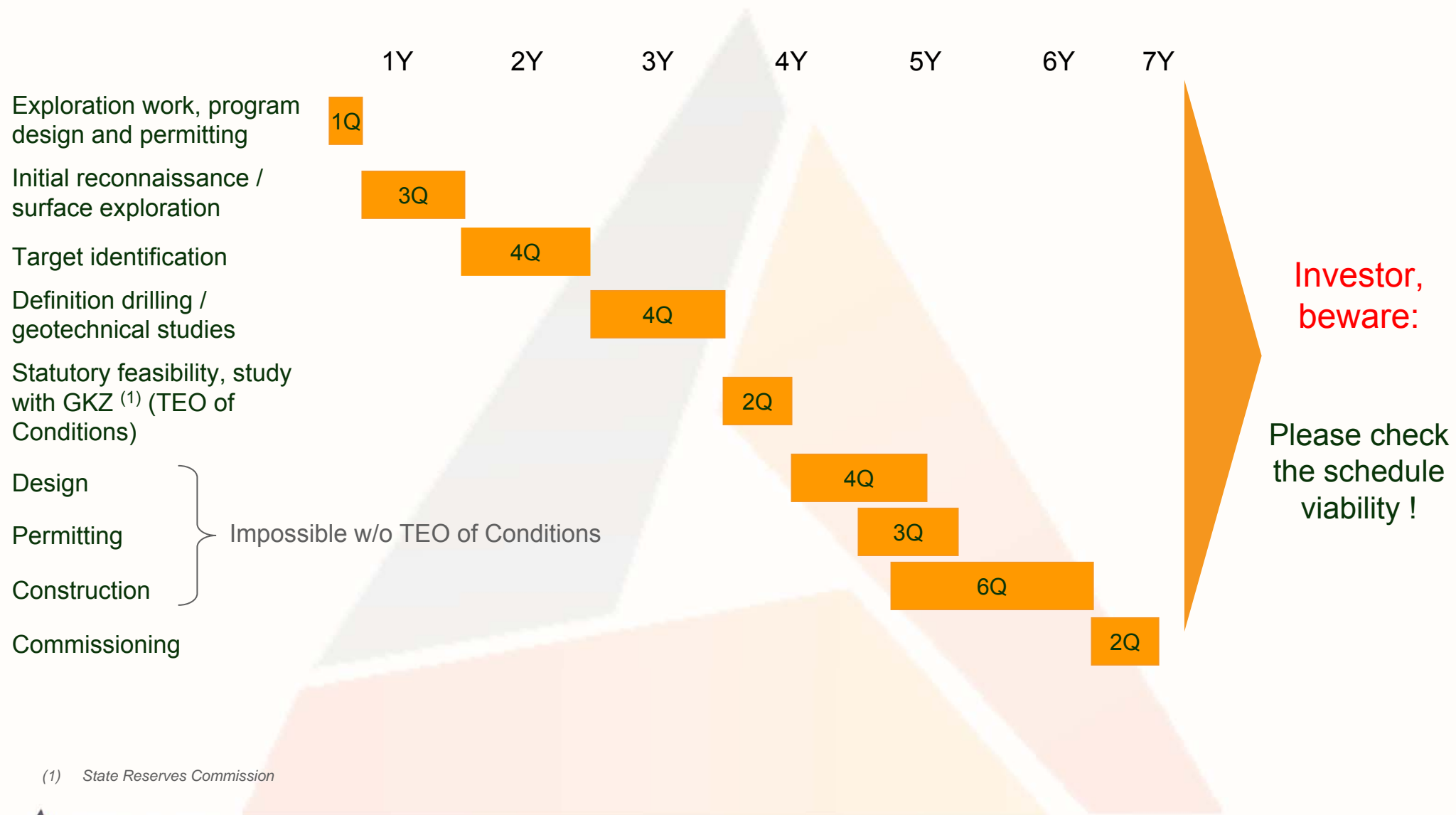
Typical characteristic

- ▲ **Very high-grade intersections with insignificant width (< 2m)**
- ▲ **Lack of continuity along strike and dip in terms of width and grade**
- ▲ **Relatively low tonnage per vertical meter of ore body**

Likely implication

- ▲ **High dilution in both underground and open-pit mining (100% is not unusual) with dramatic declines in grade between resource and reserves stages**
- ▲ **Drilling insufficient to establish reserves and achieve high-quality mine planning; underground workings necessary to establish both vertical and horizontal continuity of ore body**
- ▲ **High development costs for underground mining with very labor-intensive operations (due to inability to mechanize at width < 2m)**
- ▲ **Difficult to establish an operation of sufficient size**

Case Study 2: Realistic timetable for bringing a grass-roots exploration project to production

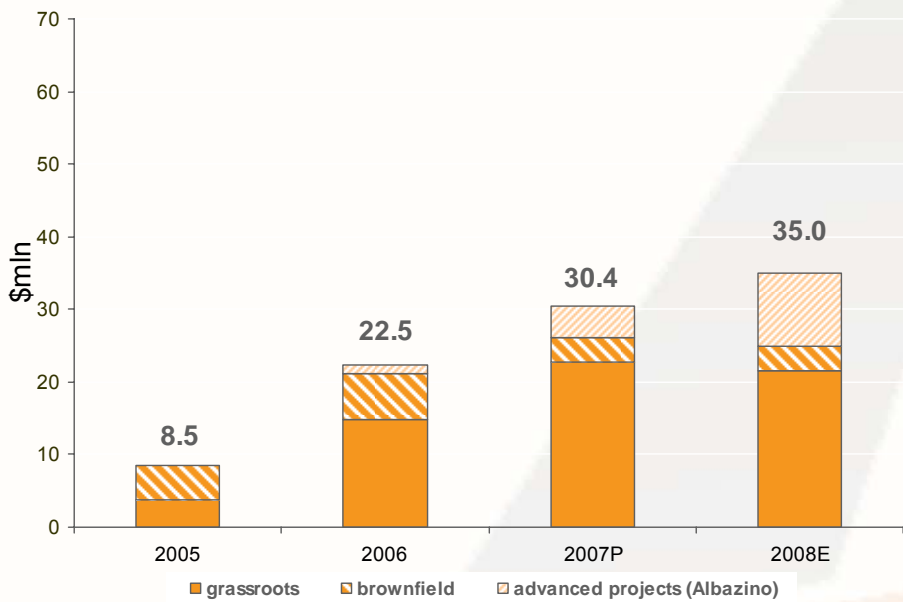


(1) State Reserves Commission

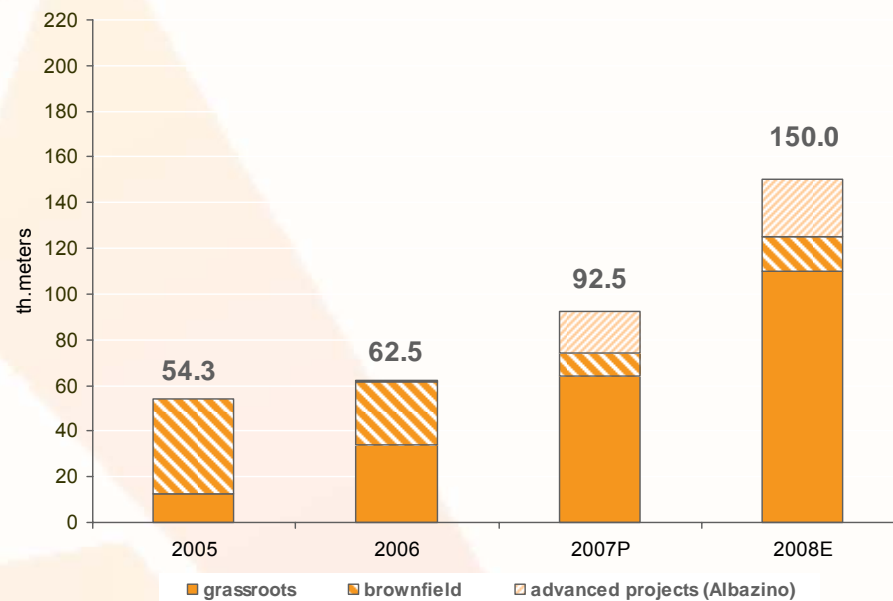
Polymetal's Exploration effort



\$m Investment

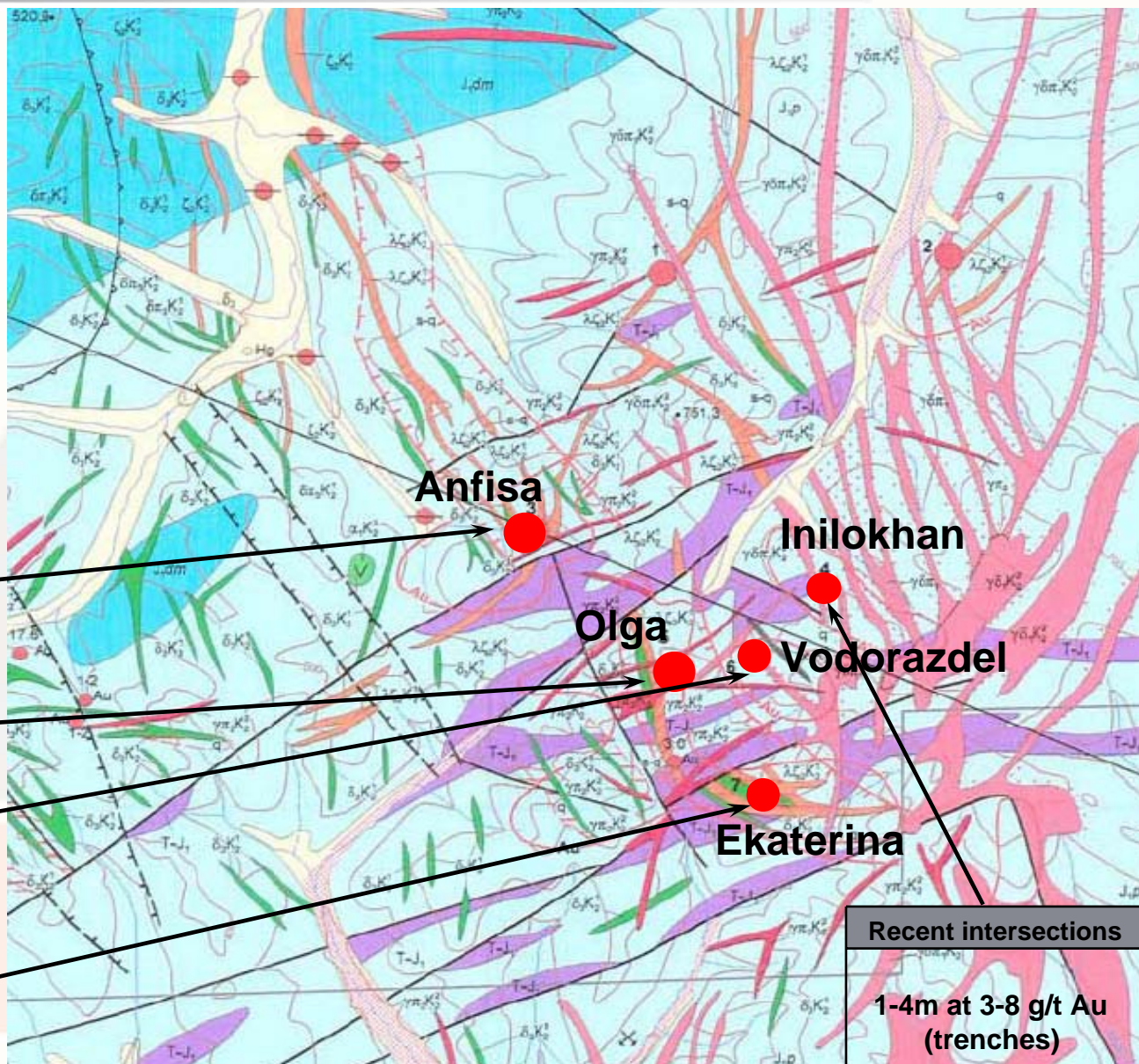


Meters Drilled



Albazino is Polymetal's key medium-term growth project

- ▲ 1.1 Moz of JORC compliant gold resources at 5.2 g/t
- ▲ 2 Moz JORC resources expected by year-end 2007
- ▲ 3 Moz JORC resource targeted by year-end 2008
- ▲ Internal scoping studies suggest annual production of 200-250 Koz of gold
- ▲ Total CAPEX of US\$150-200m



Recent intersections
 32m at 10.6 g/t Au
 24m at 9.6 g/t Au
 19m at 12.3 g/t Au

Recent intersections
 21m at 5.8 g/t Au
 16m at 7.3 g/t Au

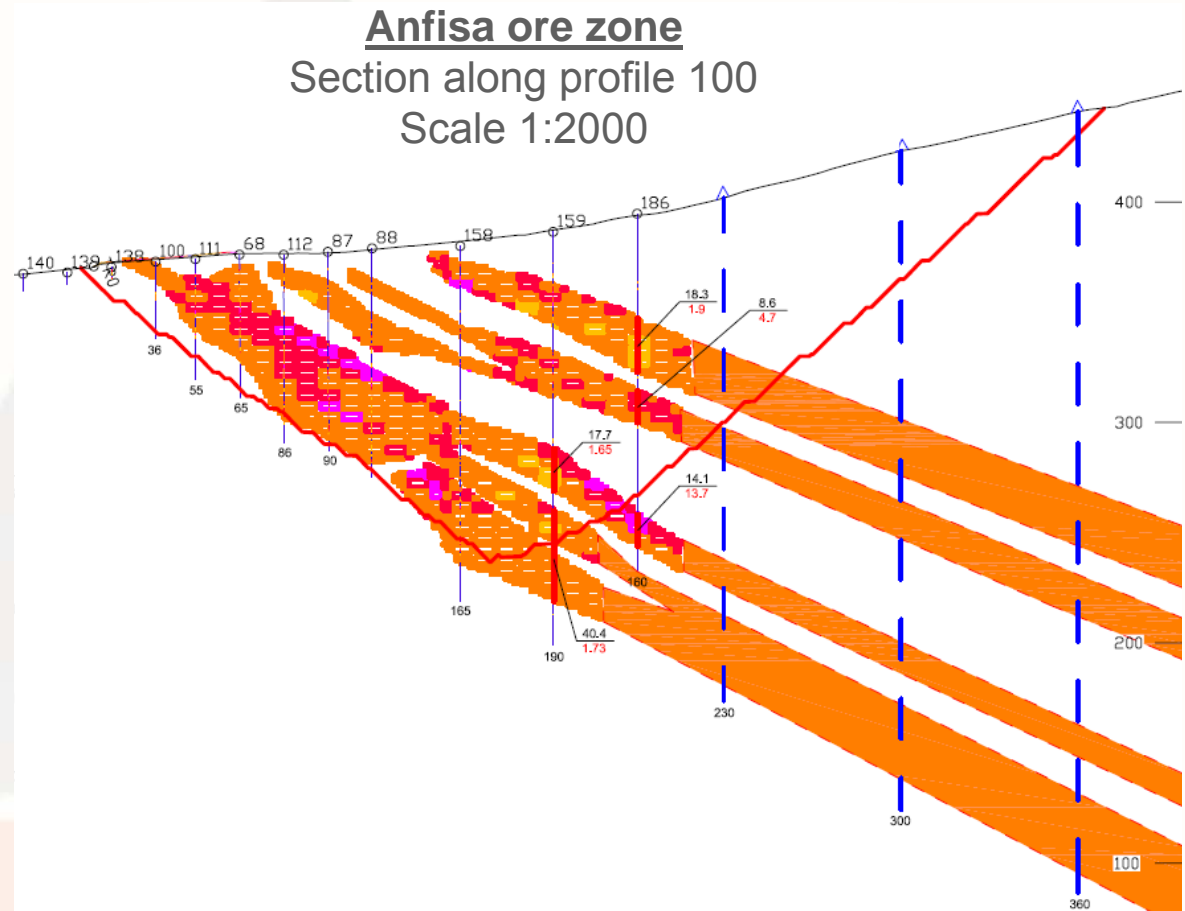
Recent intersections
 2-3m at 3-6 g/t Au
 (trenches)

Recent intersections
 9m at 3.8 g/t Au
 3m at 5.5 g/t Au

Recent intersections
 1-4m at 3-8 g/t Au
 (trenches)

Anfisa's recent intersections indicate both higher thicknesses and grade with depth increase

- ▲ ~8 km already drilled
- ▲ 45km to be drilled by the end of 2008
- ▲ Mineralization at other ore zones similar to Anfisa
- ▲ So far resource base is fully open-pittable



Perevalnoye has the potential to increase the size of Dukat reserve by 50%

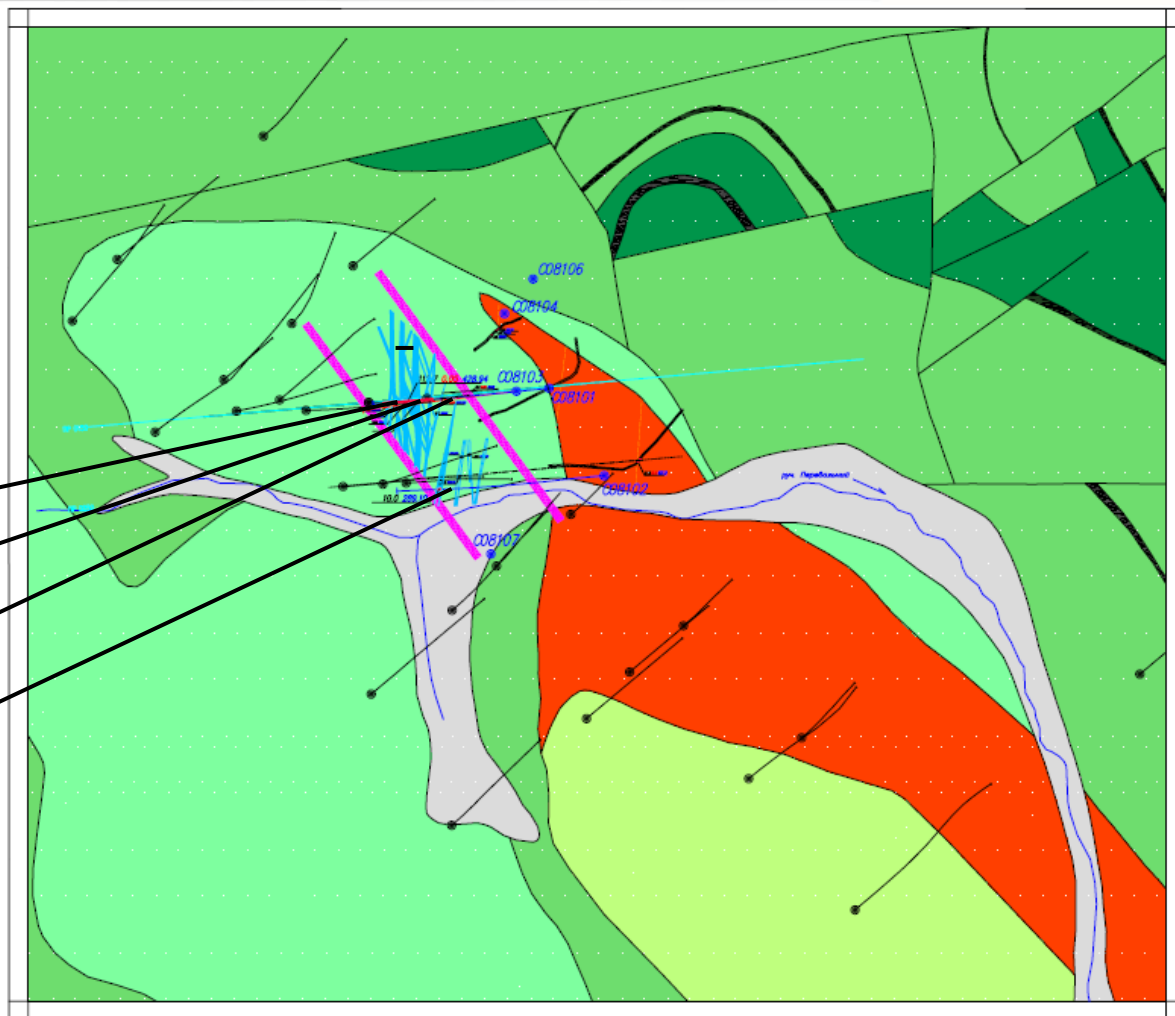
- ▲ Large structurally controlled mineralization with potential strike length of 5 km
- ▲ JORC-compliant reserve audit is expected in Q4 2008
- ▲ Resource potential of up to 150Moz of silver at 400-600 g/t

112.7m at 430 g/t Ag

15.5m at 845 g/t Ag

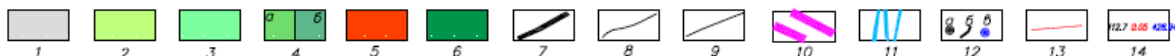
7.6m at 1,142 g/t Ag

10m at 289 g/t Ag



Масштаб 1:2000

УСЛОВНЫЕ ОБОЗНАЧЕНИЯ

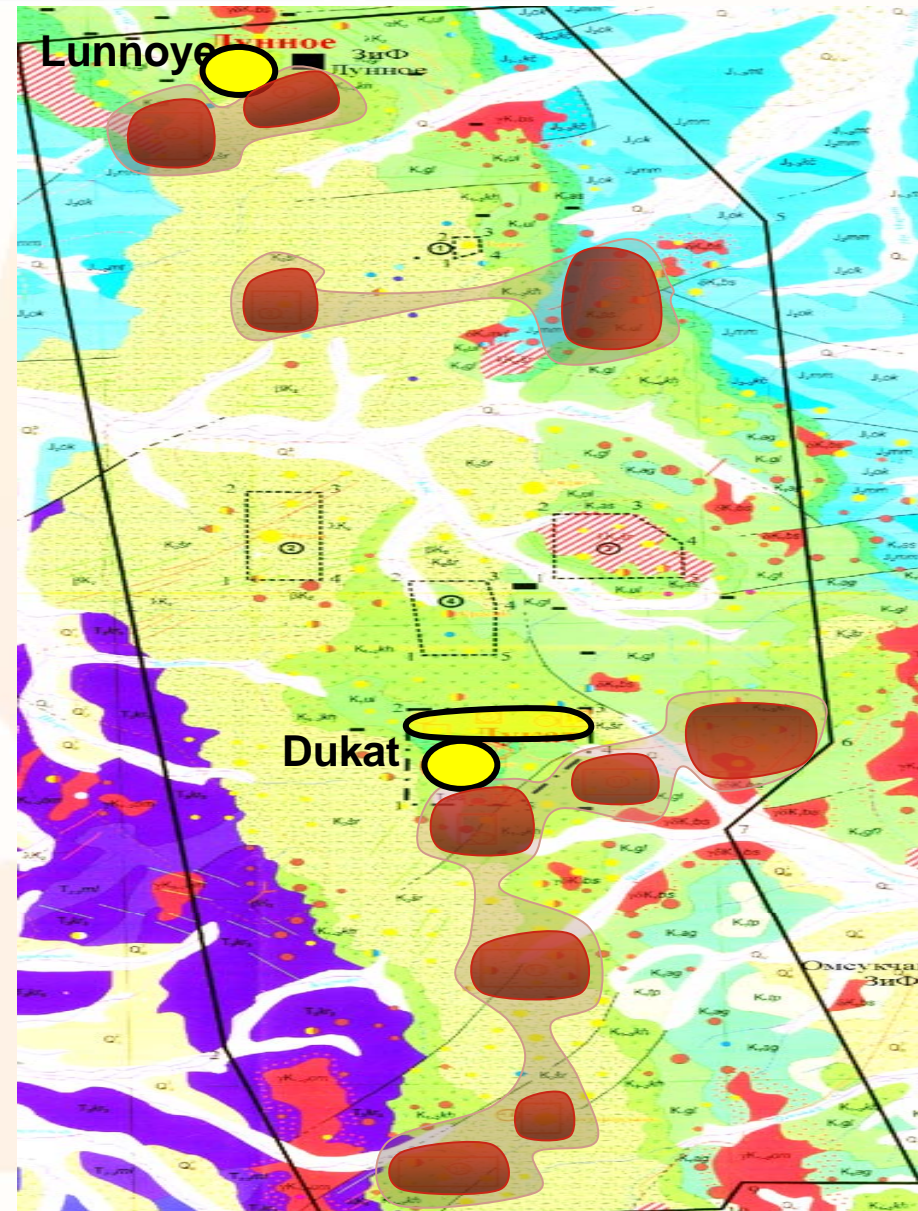


1. Равнины четвертичные отложения 2. Веренинские мезиобриды дилоритов 3. Мелкие андезиты 4. Нижнекаменноугольные сланцы и песчаники - а) и рудиты - б) 5. Палеозойские субдукционные рудиты (кварциты) 6. Панте-позднекаменноугольные дилориты 7. Пласти каменные угли 8. Гидротермические анориты 9. Разбитые интрузии 10. Предполагаемое положение зоны серебристо-оруденчатой сульфидизации с промышленной серебристой минерализацией 12. Боровае субокисление: субокисление - а) и карбонаты - б) преципитационной (1985г.); субокисление прообразованное Дукатом (1991 год "ГОЛДИМСТАЛ" в 2007г. - б) 13. Рудные интервалы выделенные по результатам пробного анализа керновых проб 14. Параметры рудных пересечений: мощность в метрах, содержание золота и серебра в г/т (прт).

Dukat Silver Belt represents a unique primary silver occurrence in Eurasia

- ▲ Total area: 2,420 square km
- ▲ Multiple ore occurrences and known under-explored ore deposits
- ▲ ~ 300 Moz of silver equivalent resources (C1+P1+P2)
- ▲ Targeting a feasibility study for a new mine by Q4 2009

 Exploration target areas



A word of caution for investors: risk/quality profile of various sources of information and analytical techniques

Source/technique

Potential Problem

- | | |
|--|---|
| ▲ Exploration trenching | → Tends to overestimate width and underestimate grade thus leading to mischaracterization of narrow veins at substantial ore bodies |
| ▲ Grab samples | → Cannot be used for any statistically valid grade estimation due to apparent bias in sample selection |
| ▲ Extrapolation of ore intersections down-dip («подвеска») | → Statistically often inappropriate particularly if grade and thickness of ore body are uneven |
| ▲ Conversion coefficients of lower-certainty resources to higher-certainty resources | → Highly misleading and absolutely inappropriate in investor communication |
| ▲ High grade ore shoots/columns/zones | → Potentially insignificant in terms of tonnage yet indicative of high variance in grade |



Conclusion

- ▲ **Exploration can be both a source of tremendous value creation and a sure way of significant value destruction**
- ▲ **It's not the dollar amount invested and not the number of projects but discipline and focus that will determine the winners**
- ▲ **Investors: beware of uncertainty and be prepared for long lead times of greenfield projects**