



POLYMETAL

MINEX Forum 2008

Time to Buy?

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Cautionary statements

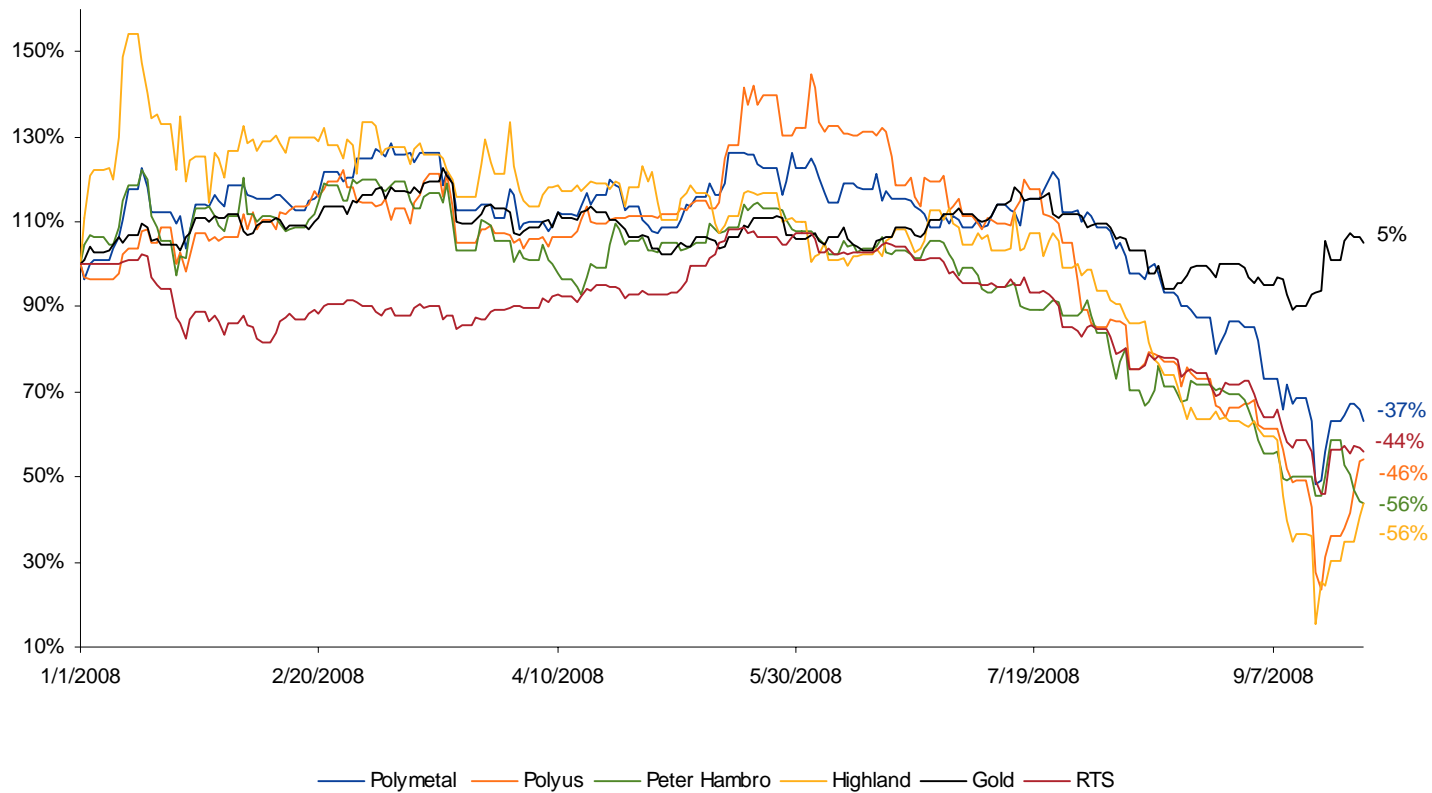
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Current Situation: Global Financial Crisis

Jan 01, 2008 – Sep 26, 2008 (LSE, LME, RTS)



- Liquidity constraints
- De-risking
- Slowing global economy
- Decline in oil price

You name it...



Crisis is a time for buying opportunities?

- ▲ No financing opportunities for exploration/development properties
- ▲ Liquidity complications for some of the projects' owners
- ▲ Less optimistic outlook for gold price
- ▲ Growing uncertainty about long-term ability to access equity markets at attractive valuations

More and more assets are coming to the market

Valuations are falling

Still not much that we (Polymetal) like



What's wrong with Russian gold IPO?

Region	Successful Gold IPOs	Failed Gold IPOs
RUSSIA and FSU(2005-2007)	4	–
RUSSIA and FSU (2007-2008)	1	5
AFRICA(2005-present)	>10	3
LATIN AMERICA (2005-present)	>10	2

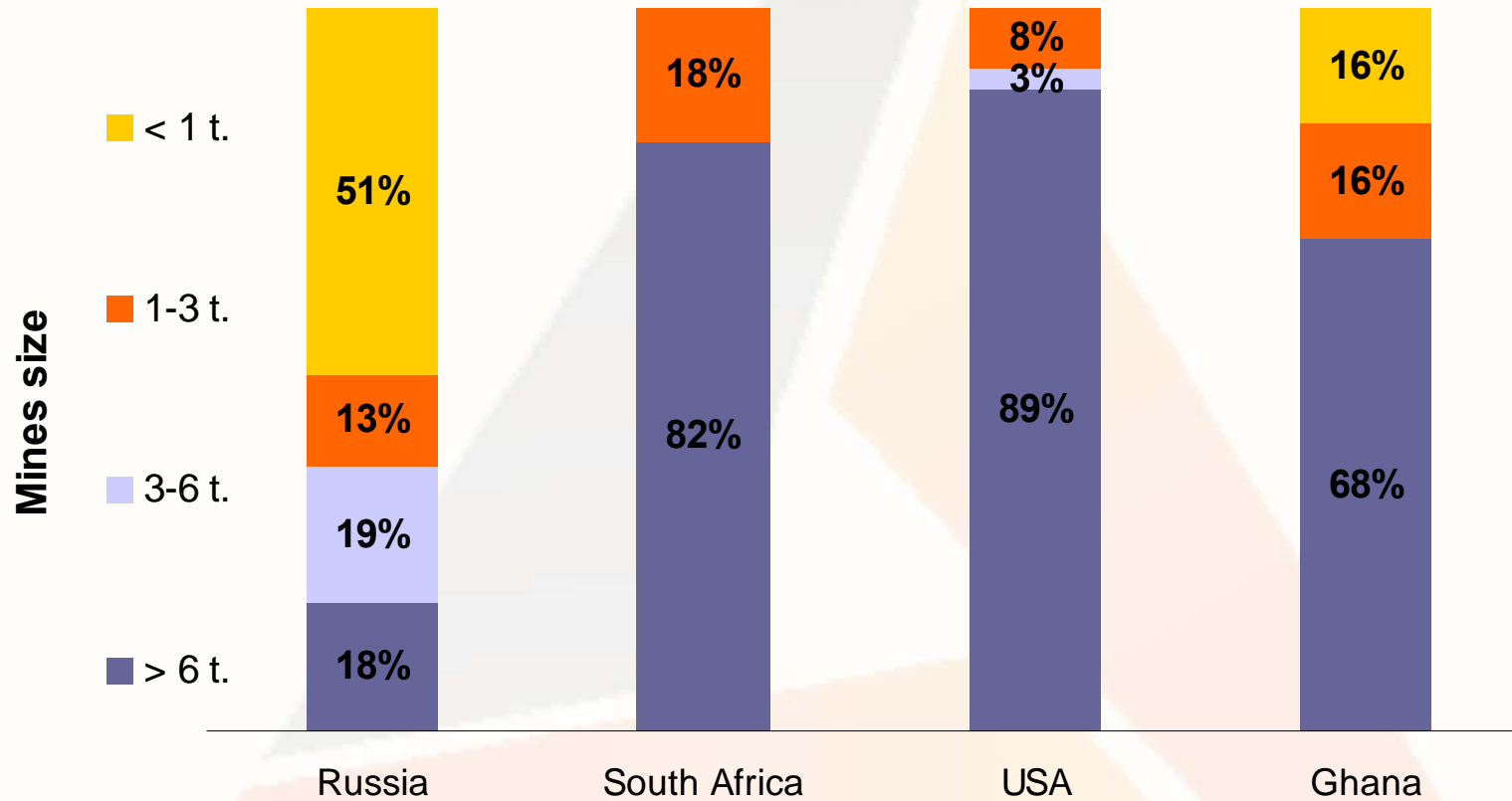
More than 10 companies announced the intention to list, but didn't pursue the offering

- ▲ Assets are small in terms of both production and reserves
- ▲ Development plans have very poor technical quality
- ▲ Exploration /development is focusing on the size of resources with little regard to economic viability of the assets



Small-scale inefficient mines are the most common ones in Russia

Gold production structure by size of mines, 2007



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



Operational delivery on new gold projects has been extremely poor

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



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	790.8	1.5	39.7	Open pit	No	Limited
Blagodatnoe	Polyus	102	2.4	7.9	Open pit	Yes	No
Pioneer	PHM	75.8	1.1	2.7	Open pit	No	Yes
Malomir	PHM	151.9	1.0	5.1	Open pit	Yes	Yes
Nezhdaninskoe	Polyus	71.4	5.5	12.7	Underground	Yes x 2	No
Svetlinskoye	Yuzhuralzoloto	62.7	1.4	2.9	Open pit	No	No
Taseevskoe	HGM	30.0	3.5	3.4	Open pit	Yes	Yes
Svetloye	Fortress	16.23	2.1	1.1	Open pit	No	No
Maiskoe	HGM	21.9	10.4	7.3	Underground	Yes	No
Albazino	Polymetal	13.0	5.3	2.2	Open pit	Yes	No
Vasiljevskoye	Angara Mining	4.7	5.0	0.8	Open pit	No	Limited

* M&I Resources according to the JORC Code 2004



How did Russian gold industry find itself in such position?

CURRENT SITUATION

- ▲ 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

CONSEQUENCE FOR POTENTIAL BUYING OPPORTUNITIES

- ▲ Difficult to negotiate due to significant gap in the level of technical competence
- ▲ Fair value materially less than capital spent
- ▲ Massive value distinction because of crucial mistakes in conceptual design



NOT MUCH TO BUY OR TO FINANCE



VALUE GAP DIFFICULT TO BRIDGE



VALUE DESTRUCTION ONGOING



Are exploration projects any better?

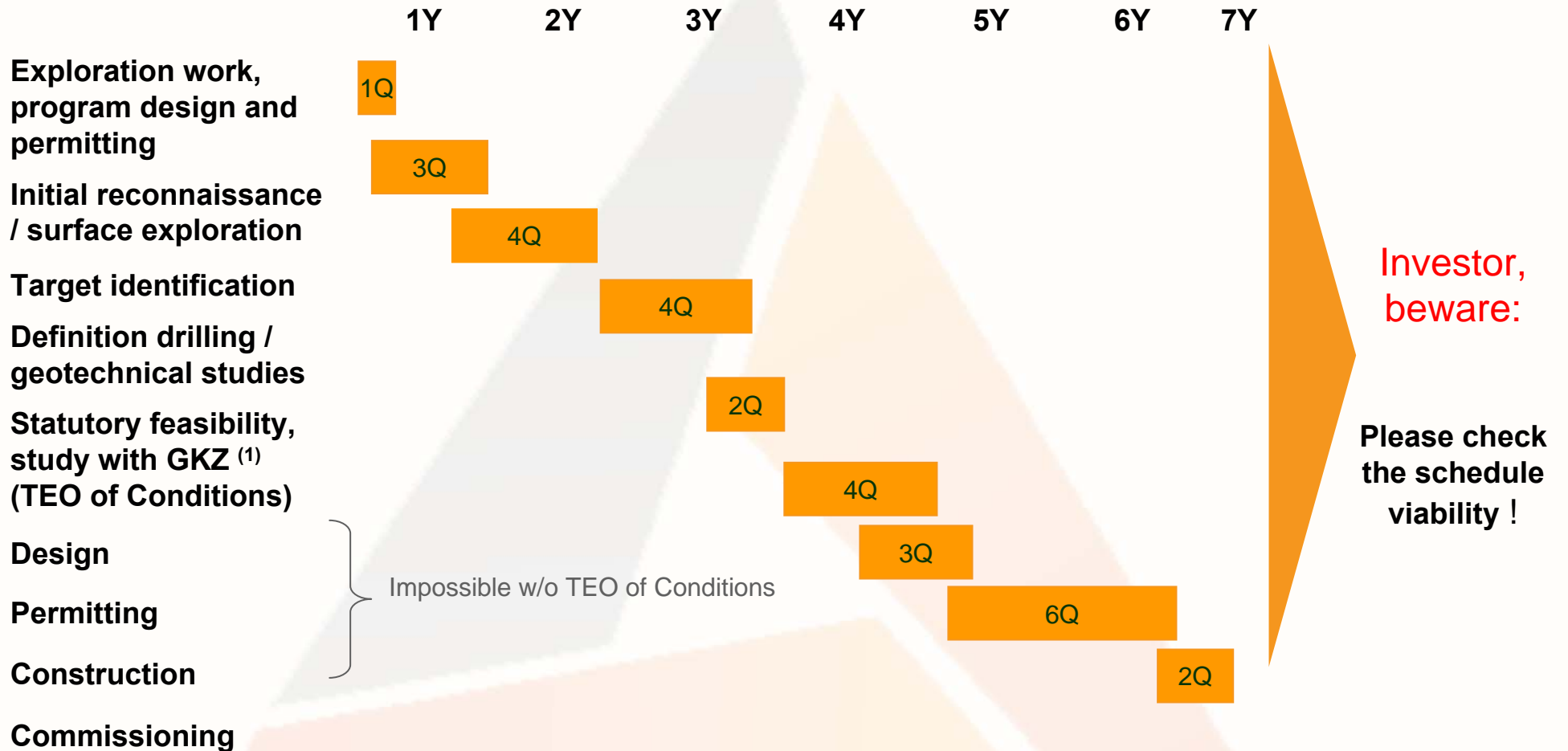
- ▲ Capital intensity of a new mine in Russia is likely to be significantly higher than in competing locations
 - *cold climate*
 - *remote locations with challenging transportation logistics*
 - *lack of energy infrastructure*
- ▲ Soviet system of resource/reserves classification is MATERIALLY different from international systems (JORC, NI 41-101, SAMREC, etc.)
- ▲ Productivity-adjusted labor costs in Russia are higher than in most competing locations
- ▲ Remote locations necessitate longer development schedules

**RUSSIA IS A FINANCIALLY
CHALLENGING
PLACE TO EXPLORE**

**ONLY THOSE QUALIFIED
AND FUNDED SHOULD
VENTURE**



Stand-alone exploration projects are not particularly appealing given the risk and the timing



(1) State Reserves Commission



Conclusion

- ▲ Many sellers will enter gold asset market in the nearest future
- ▲ The quality of assets for sale in most cases will be quite poor
- ▲ Investors and lenders should concentrate on proven operators with advanced projects, preferably brownfield