



We know the worth of gold

WHAT DRIVES GOLD MINING IN RUSSIA

**Adam Smith International Summit on the CIS
Precious Metals and Stones
13-14 February 2006**

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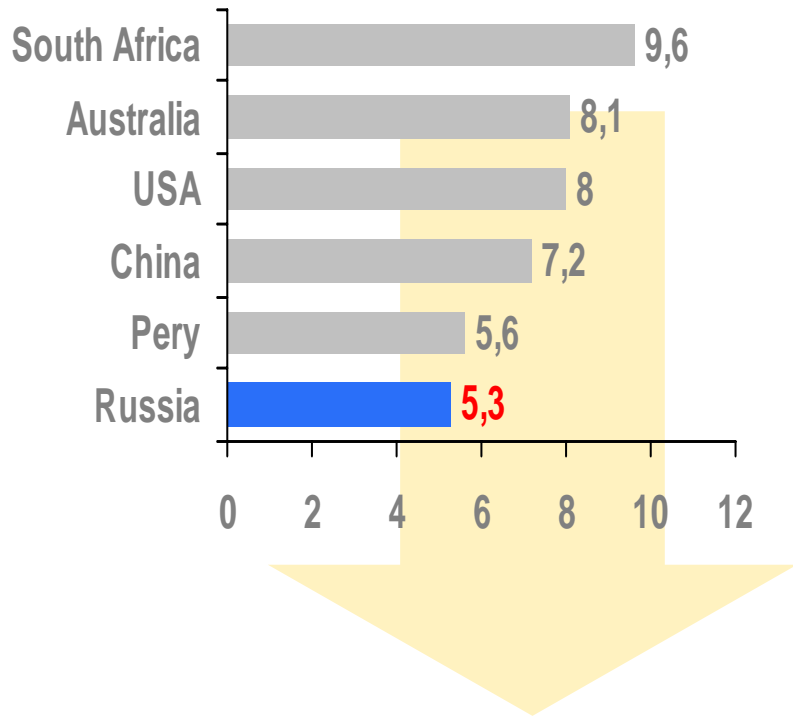


RUSSIA: THE DRIVING FORCE OF GOLD MINING

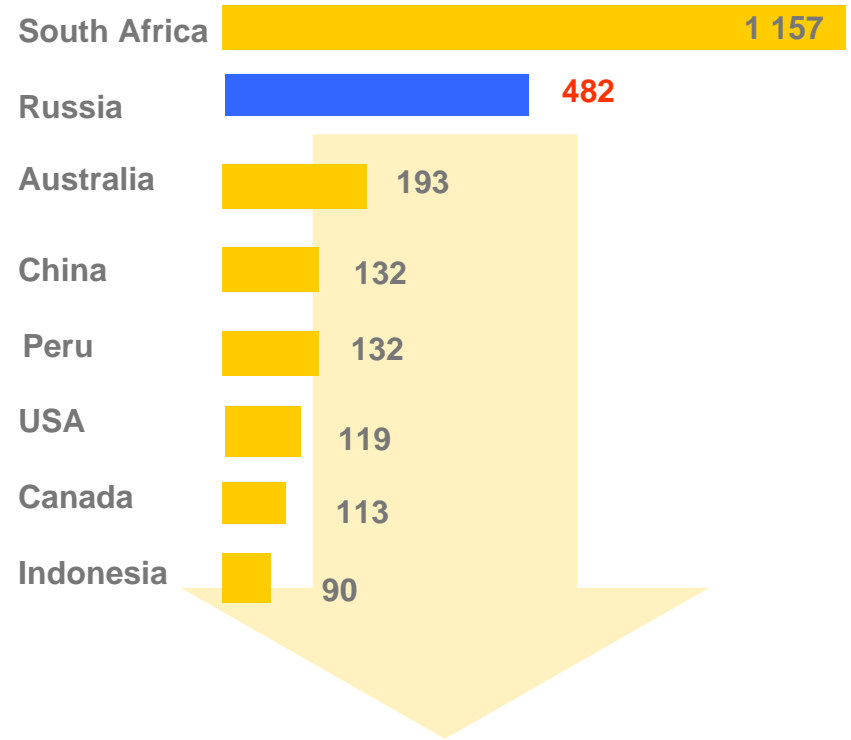


RUSSIA'S GROWTH POTENTIAL...

World's **No 6** gold producer (mln. oz) *



World's **no 2** reserve base**
(mln. oz)



UNIQUE GROWTH POTENTIAL

* Sources: Russian Union of gold miners, GFMS, Troika Dialog

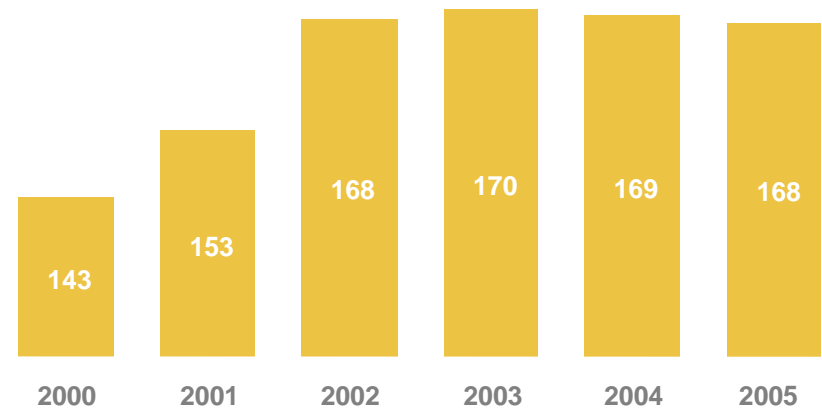
** Sources: GFMS, US Geological Survey



... STILL THERE ARE SIGNS OF STAGNATION IN THE INDUSTRY

- ✓ Growing gold production in Russia in 2000 - 2003 reaching 170 tonnes in 2003.
- ✓ The main growth factor – **growing rock gold production** (its share grew from 39% to 56% in the total gold production).
- ✓ The reduction in gold production in 2003-2005 was caused by **depletion of gold reserves explored by the USSR**, as well as rouble appreciation against USD.
- ✓ **Inflation** also contributed to reduction in gold production. According to analysts' estimates the costs of gold producers will double by 2015.

Gold Production, 2000-2005, tonnes



- ✓ Dramatic reduction of exploration works in post-soviet Russia.
- ✓ Reduction of deposit development works.
- ✓ Underdeveloped infrastructure.



FOR THE INDUSTRY DEVELOPMENT

- ✓ Raising state investments in gold producing regions infrastructure (power lines, roads, bridges).
- ✓ Simplification of the licensing procedure, creating a unified exploration and production license to attract more investments into exploration.
- ✓ Simplification of the procedure to transfer the land into the industrial category.
- ✓ Reduction of royalty.
- ✓ Giving the local regional governments the authority to grant licenses on small and medium-size deposits.
- ✓ Simplification of the procedure for producers to export precious metals.
- ✓ Exemption from VAT of the internal gold bullion turnover to stimulate the domestic demand for investment gold.
- ✓ Raising the share of gold in the state's gold and exchange currency reserves.
- ✓ Abolition of certain “rudimentary” regulations of the Russian precious stones legislation.

Meeting on Russian gold mining development in Magadan, November 2005

Key decisions:

- ☑ Changes in taxation approved (royalty differentiation) aimed to raise the investment appeal of deposits in remote and undeveloped regions.
- ☑ Support the proposal to reduce VAT for gold purchase and sale transactions for natural persons.
- ☑ Support the proposal to grant general licenses to mining companies to stimulate export.
- ☑ A goal set for Russian Central Bank to increase the share of gold in gold and exchange currency reserves.



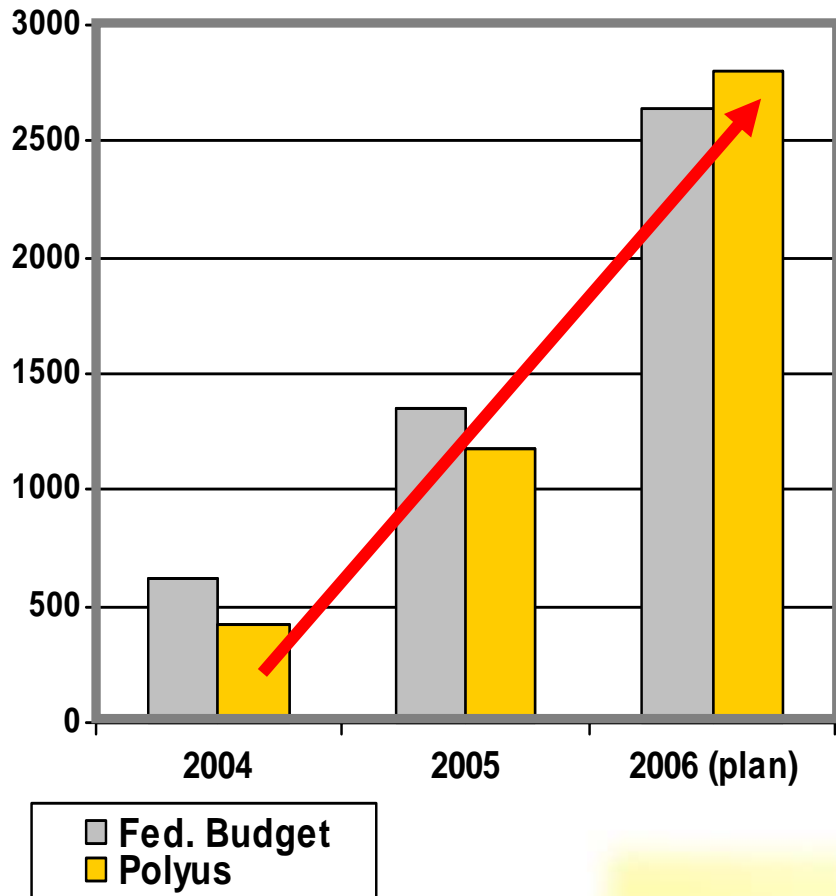


POLYUS: THE LARGEST PROJECTS OF THE INDUSTRY LEADER



POLYUS: NO 1 EXPLORATION BUDGET IN THE INDUSTRY

Raising investments into exploration, mln. rub.



2005: **Blagodatnoye**: the breakthrough
Discovery in Russian gold mining

Addition to reserve base:
222,4 tonnes of gold

- The largest exploration project in recent 10 years that resulted in successful state registration.
- Exploration cost - \$0.8 per oz (well below the world average \$13.8 per oz)
- Replenished gold mined by Polyus in Krasnoyarsk Region in 25 years.

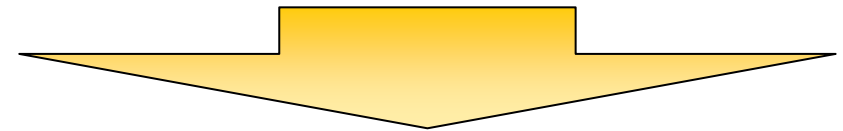


OLIMPIADA EXPANSION

Raising sulfide ore processing capacity to 8 mln. tonnes per year.



- ✓ Construction of Mill-3 will increase sulfide ore processing from the current 3 mln. tons per year to 8 mln. tons in 2008
- ✓ Expansion of Vostochny and Zapadny pits to engage new stocks of sulfide ore



**Organic growth
from 800 k oz today
to 870 k oz in 2008**



OLIMPIADA EXPANSION

Investments totaling \$ 337, including VAT and working capital

	2005	2006	2007	2008
■ CONSTRUCTION OF MILL-3		\$139 mln.		
■ PITS EXPANSION		\$69 mln.		
■ UPGRADING EXISTING PRODUCTION FACILITIES		\$35 mln.		
■ ROAD CONSTRUCTION			\$10 mln.	
■ RESIDENTIAL BUILDINGS		\$9 mln.		

✓ 2007 - Mill-3 start up

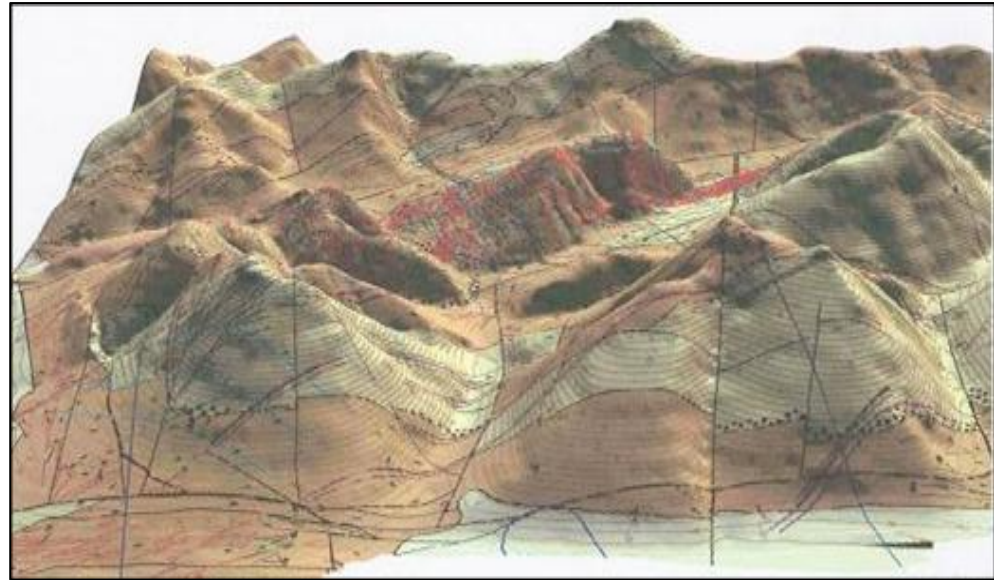
✓ 2008 - Olimpiada expansions project completed



NATALKA: CENTER OF EXPLORATION

✓ Discovered additional **18.51 mln. oz** of resources below 600 meters at a grade of 1.59 g/t.

✓ Estimated total resources (Russian B+C1+C2) – **51.83 mln. oz.**



✓ Exploration cost for B+C1 reserves amounted to **\$2.5 per oz** (well below world's average)

✓ A new ore body **Vostochnaya** identified



CREATING A “BLUE CHIP”: FROM POLYUS TO POLYUS GOLD



2005: MEETING THE TARGETS

STRATEGIC OBJECTIVES 2010-2012

- Market value – up to \$8 bln.
- Annual production – up to 3.2 mln. oz of gold.
- Proven & probable reserves – up to 70.7 mln. oz of gold.
- Total cash costs – \$220-240 per oz.

2005 plan

- Commercial reserves >900 tonnes.
- Stable production volumes.
- M&As resulting in 630 tonnes of reserves.
- State listing of Blagodatnoye reserves.
- JORC audit to be done.
- Intensified exploration – Nataalka and etc.

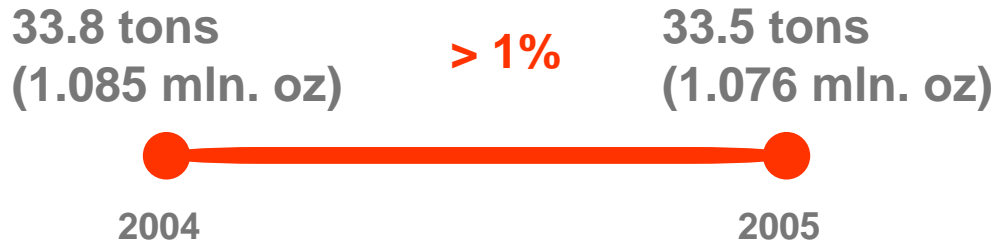
Meeting the targets

- ✓ Commercial reserves doubled to 1758 tonnes.
- ✓ Produced 33.5 tonnes of gold.
- ✓ 3 companies in Yakutia acquired.
- Attributable reserves - 875 tonnes.
- ✓ 222 tonnes of Blagodatnoye certified.
- ✓ JORC audit under way.
- ✓ Additional 18.51 mln.oz discovered at Nataalka. Overall drilling operations increased by 150%.

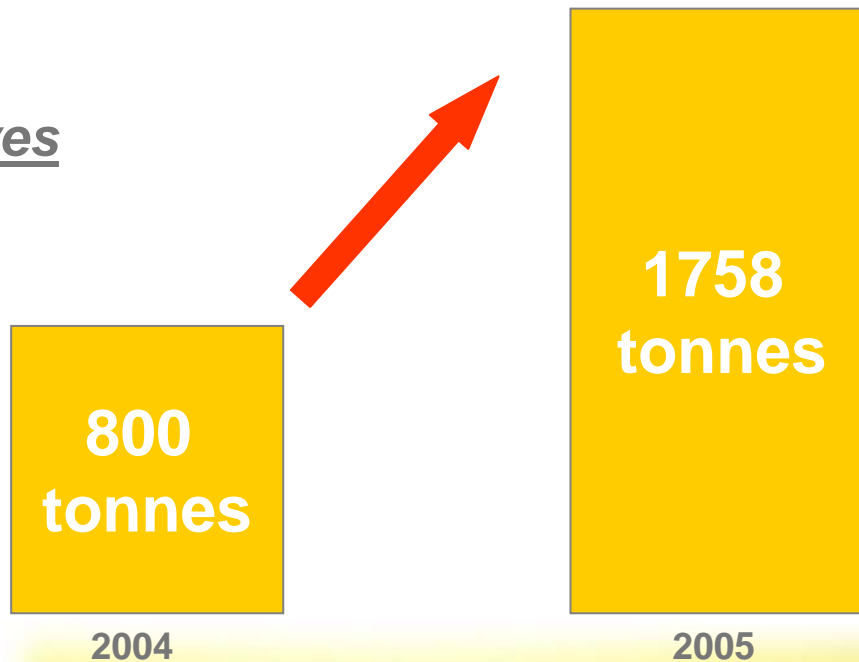


2005: RESERVES DOUBLED, PRODUCTION MAINTAINED

Production



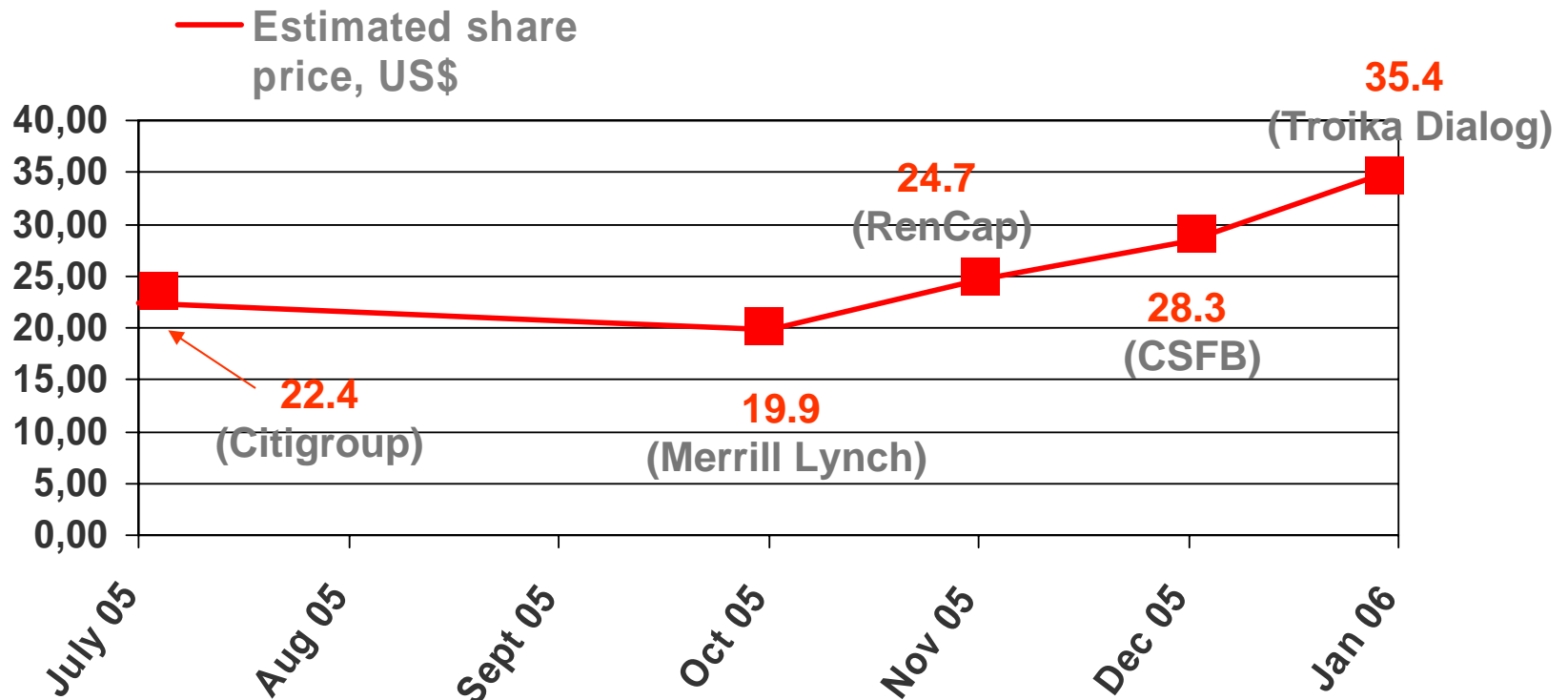
Commercial Reserves Russian B+C1+C2





POLYUS GOLD: STRONG MARKET CONFIDENCE

The market cap is approx. \$6.5 billion with a bullish outlook



Sources: Citigroup, Merrill Lynch, RenCap, CSFB, Troika Dialog



SPIN-OFF UNDER WAY: KEY TRANSACTION DATES

- | | | |
|-------------------------------------|---|-------------------|
| <input checked="" type="checkbox"/> | Norilsk EGM unanimously voted for the spin-off of Polyus. | 30 September 2005 |
| <input checked="" type="checkbox"/> | Record date to receive Polyus Gold shares | 1 January 2006 |
| <input type="checkbox"/> | Organizational meeting of the new company - Polyus Gold | 3 March 2006 |
| <input type="checkbox"/> | State registration of Polyus Gold | March 2006 |
| <input type="checkbox"/> | Trading date for Polyus Gold shares | March-April 2006 |
| <input type="checkbox"/> | Listing of Polyus Gold in Russia | April 2006 |
| <input type="checkbox"/> | Level 1 ADR program set up | April-May 2006 |