

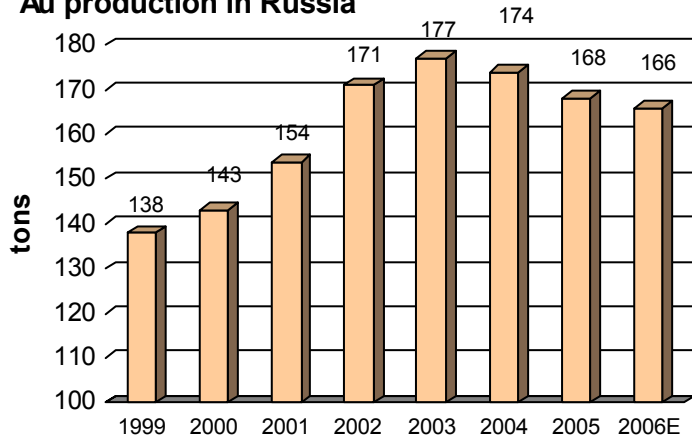
Polymetal

***Exploration in Russia
Risks and Opportunities***

*Precious Metals Summit
Moscow
February 2006*

Russian Precious Metals Market: Production

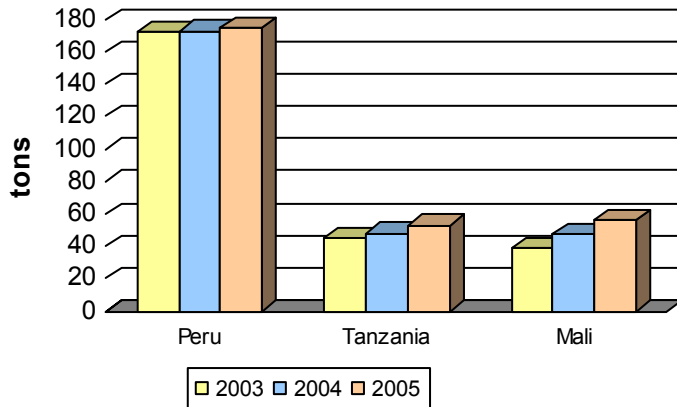
Au production in Russia



Source: Russian Union of Gold Producers

- Russian gold production fell by 3.5% in 2005. The forecast for 2006 is a drop of 1-2%;
- Growth in gold production between 1999 and 2003 was due to modernization and/or putting into operation deposits discovered during the Soviet era;
- Alluvial gold production steadily decreases and based on estimates, it will not exceed 40% in 2006.

Au production in selected countries



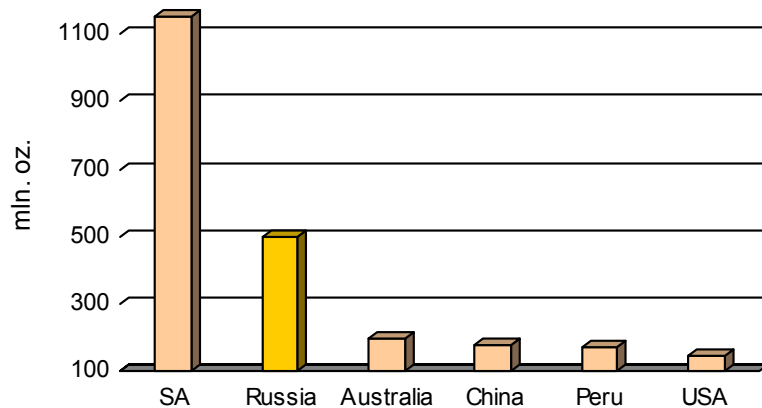
Source: GFMS, USGS

- From 1999 to 2005, Russia was among the top 5 to 7 gold producers in the world (Russia's share of world gold production ranged from 5.7-8.1%);
- There are concrete examples of emerging market countries with stable and successful growth in gold production – Peru, Tanzania and Mali.

Industry is undeveloped and presents high growth opportunities

Russian Precious Metals Market: Reserves & Resources

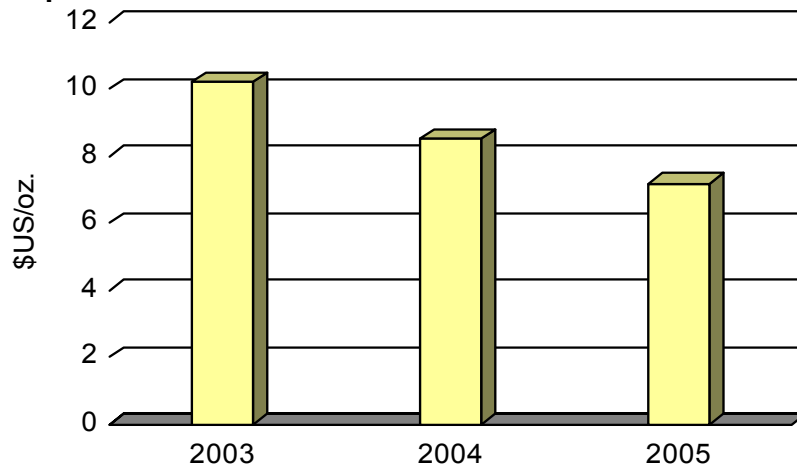
World Au Resources



Source: Metals Economics Group

- Huge mineral resource base, second only to South Africa;
- Russia is the sixth largest gold producer in the world and it holds 2nd place in terms of its gold reserves (based on expert evaluation approximately 500 mln. oz.);
- 80 deposits > 1 mln. oz.; 30 deposits > 3 mln. oz.;
- Based on current production figures, Russia has sufficient resources for approx. 80 years of production.

Acquisition costs for Au Resources in Russia



Source: companies' data, media

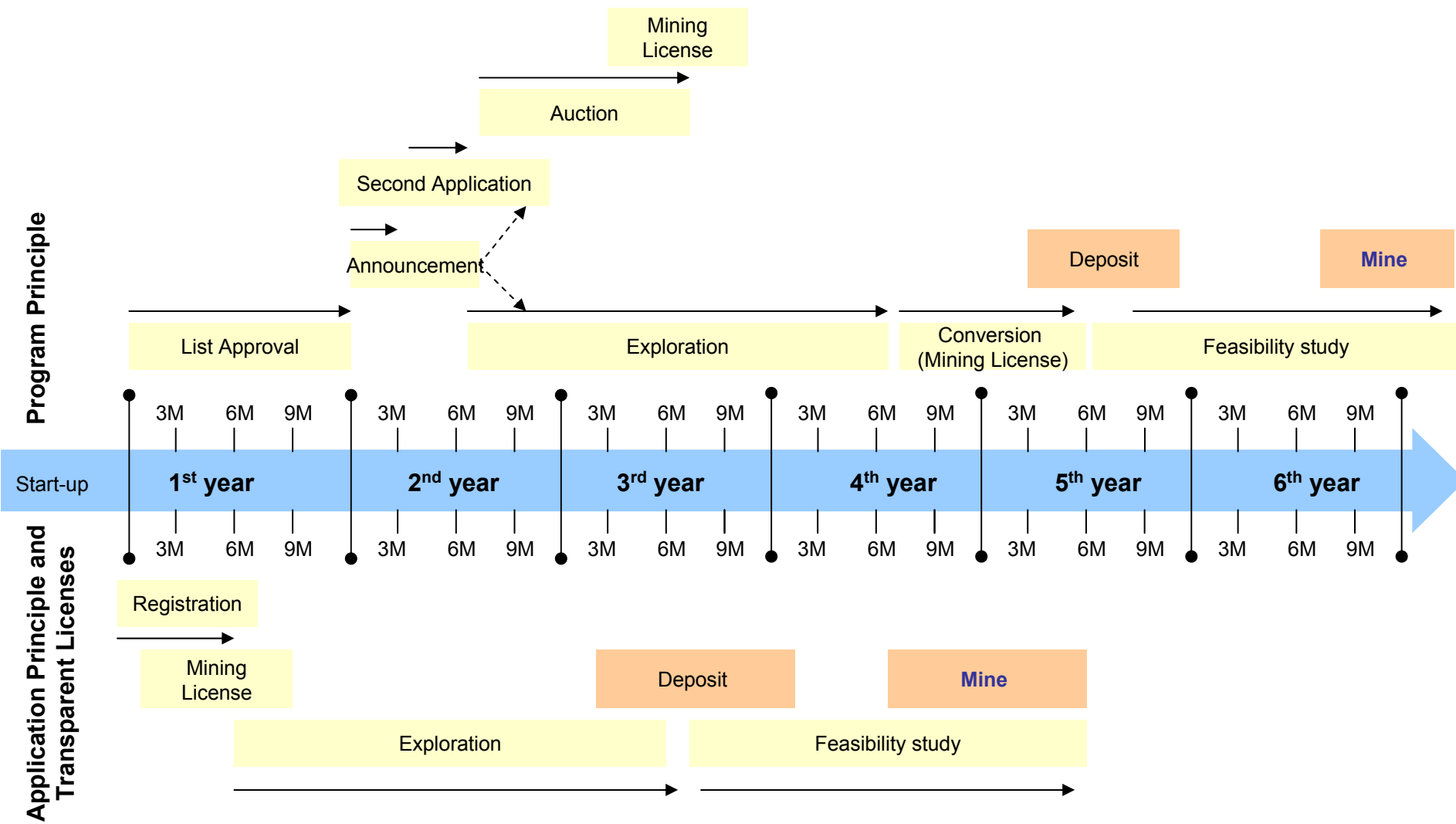
- Low acquisition costs for Au reserves in Russia (the weighted average for public deals - 8 \$US/oz. The world price is 20 \$US/oz.);
- Acquisition costs per ounce are decreasing, because the assets currently being purchased are of lower quality.

Huge mineral resource potential; premium for new deposits

Governmental Regulations – Key Principles

Fact	Consequences	Necessary changes
Program principle for access to deposits (based on list of areas)	Prolonging the period of granting licenses from the moment of decision to receiving	Return to the application principle for obtaining licenses (company-driven initiative)
Granting of exploration licenses on a federal level	<ul style="list-style-type: none"> • Expanding the period for receiving licenses; • Increasing the number of necessary agreements 	Transfer of exploration license granting rights to local authorities
2 lists of licensing areas <ul style="list-style-type: none"> • licenses for exploration (Ministry of Natural Resources) • licenses for auctions (Rosnedra) 	<ul style="list-style-type: none"> • Increasing the time needed to include on licensing list; • Upping the time for receiving licenses 	<ul style="list-style-type: none"> • Using only one list for licensing; • Approval of this list by Rosnedra
Complex granting of transparent licenses by the government	<ul style="list-style-type: none"> • Decreasing appeal for investments in exploration; • Lack of positive precedents 	<ul style="list-style-type: none"> • Recognition of the rights of the first discoverer based on pre-feasibility studies; • Excluding the possibility of refusal to grant mining licenses in this case
Absence of a simple order for expanding mineral resource bases at existing mines	<ul style="list-style-type: none"> • Difficulty in obtaining licenses in the areas of economic interest of producing companies; • Speculation possibilities on the part of unfair competitors 	Organizing fair competitions in the areas of economic interest of producing companies
Exclusively auction principle for granting licenses (including for objects with only resources)	<ul style="list-style-type: none"> • Creating additional geological risks for the companies; • Unfounded purchase prices from auctions; • Appearance of incompetent and unfair players 	<ul style="list-style-type: none"> • Using only competition principles for these areas; • Financing exploration by the state budget until the reserves stage (for prospective areas)

Governmental Regulations – Licensing



Critical need to revamp licensing system

Governmental Regulations – Key Targets

Stable companies – rising GDP, increased employment and growth in the taxes paid to the budgets of different levels

Expansion of the mineral resource base

Attracting investment from Russian and reputable foreign companies

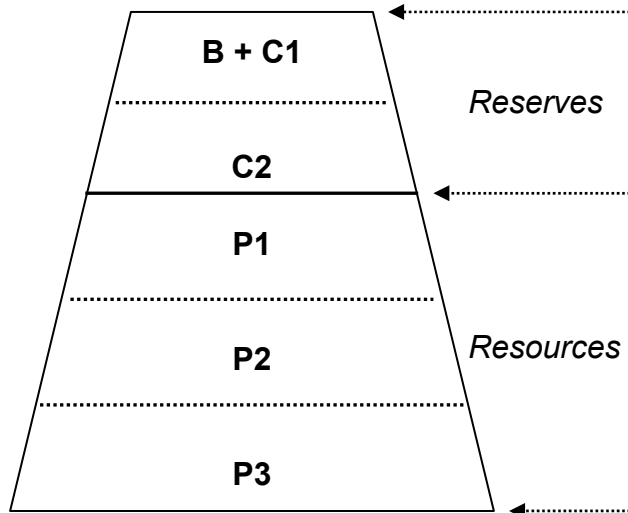
Exploration in Russia: Risks & Opportunities

Opportunities / Advantages	Risks / Disadvantages
Extensive archive of geological information from the Soviet era	Geological data sometimes unreliable and incomplete
Low acquisition costs of resources	All high quality deposits from the Soviet era already purchased
Huge mineral reserve base and high concentration in regions with a long history of gold production	<ul style="list-style-type: none">• Industry is very fragmented with over 600 players and lacks capital to invest in exploration;• Experienced western companies remain a minority;• Lack of modern exploration technologies
Vast country	<ul style="list-style-type: none">• Undeveloped infrastructure, mainly in regions of gold production (Extreme North and Far East), very complex logistics
Long tradition of mining activities	<ul style="list-style-type: none">• High average age of qualified personnel;• Lack of personnel in the remote regions;• Large gap in professional standards between old Soviet and young Russian geologists

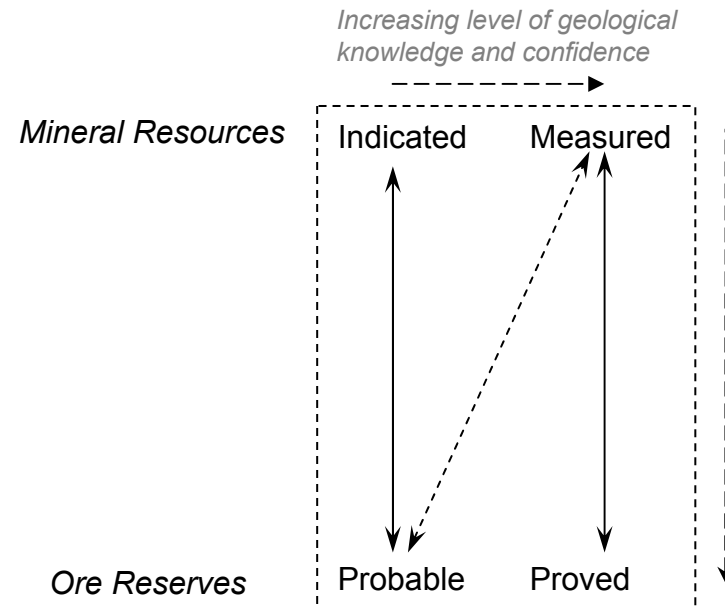
High growth potential for experienced and well-capitalized players

Reserves & Resources Estimation

Annual Report: Company Z



Excerpt from JORC



Note:

- P1, P2, P3 are usually not resources in JORC terms
- C1 & C2 are not necessarily reserves in JORC terms

Exploration in Russia – Personnel

Opportunities / Advantages	Risks / Disadvantages
▲ Large talent pool from the Soviet era	▼ During instability in the 80s and 90s, a large number of qualified geologists exited the industry
▲ Deep traditions and experience in mining activities	▼ Qualified geologists moved from the traditional gold regions, because of decreasing attractiveness of work in remote regions
▲ A long-standing educational tradition	▼ Collapse of unified system for educating and training qualified geologists
▲ Ability to fully rely on local workforce	▼ Significant shortage of qualified exploration workers and mid-level specialists on-site

Polymetal Exploration Strategy

◆ *Reserves Replacement*

Exploration in (flanks & deep layers) and around existing operating mines.
High priority in the recent past and near future.

◆ *Creation of additional mineral reserve base for existing mines*

Identification, acquisition and advancement of nearby exploration properties in the regions of company's activities.
Critical part of the growth strategy

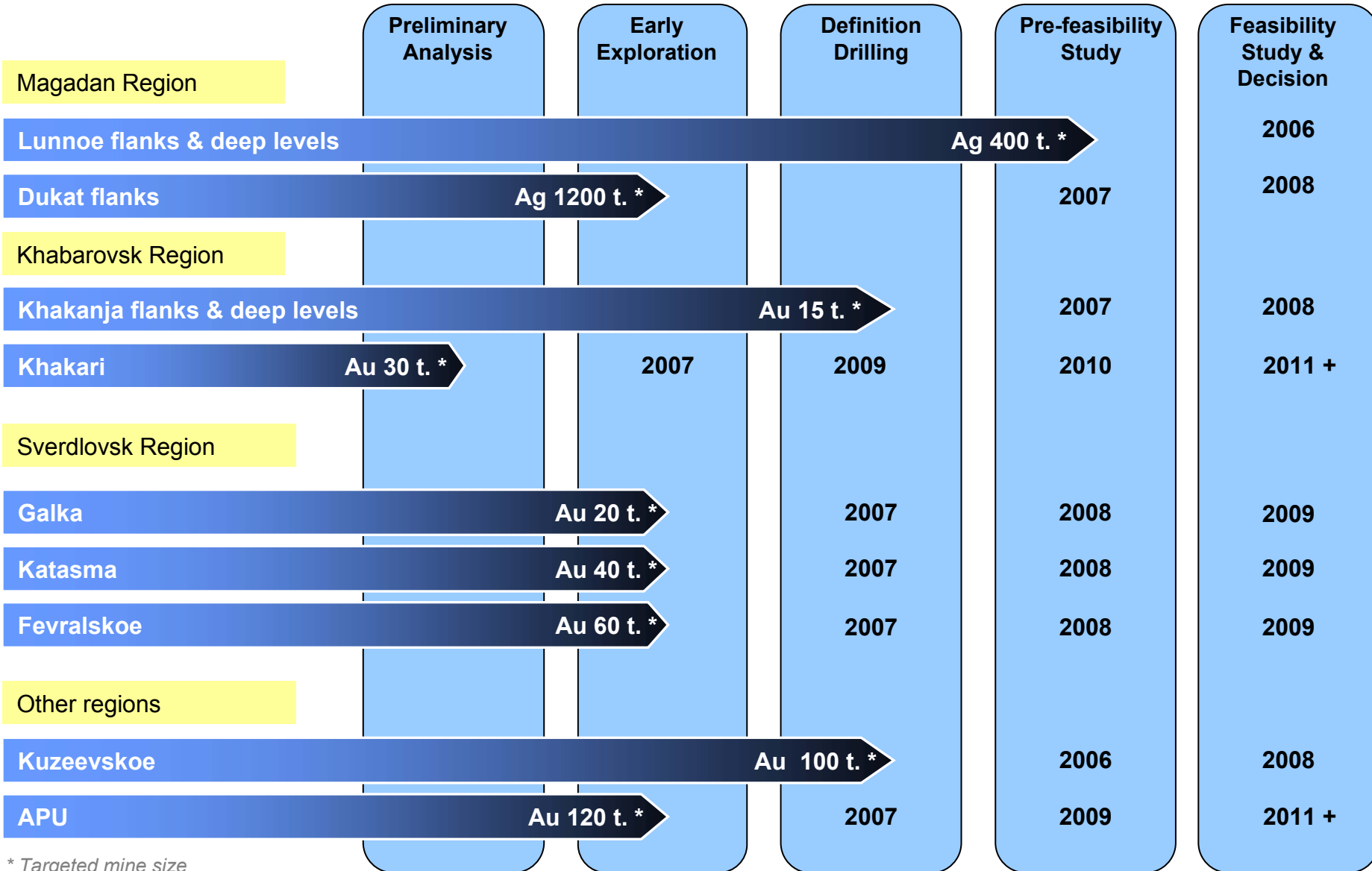
◆ *Formulating a prospective mineral reserve base*

Acquisition of new exploration fields and development projects in different new regions of Russia & CIS
Access to new exploration properties, regions and countries

Key Principles

- ◆ Responsible & conservative approach to resource and reserve estimates
- ◆ Careful staging of exploration efforts to optimize capital spending
- ◆ Designing target parameters and economic models at earlier stages
- ◆ Concentrating efforts

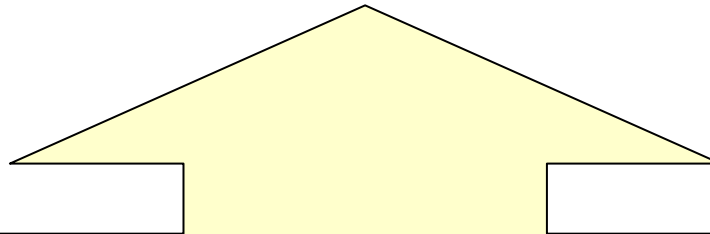
Exploration Projects in 2006



* Targeted mine size

Wide portfolio of prospective exploration assets

Success in discovering and building the next large gold mine in Russia



Dedicated project workgroups

Qualified personnel

Modern exploration technologies

Good relationships with the communities & local government

Early involvement of design engineers, technology researchers and economists