



Russian Gold Industry: Time to Address Structural Problems

MINEX FORUM

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Cautionary statements

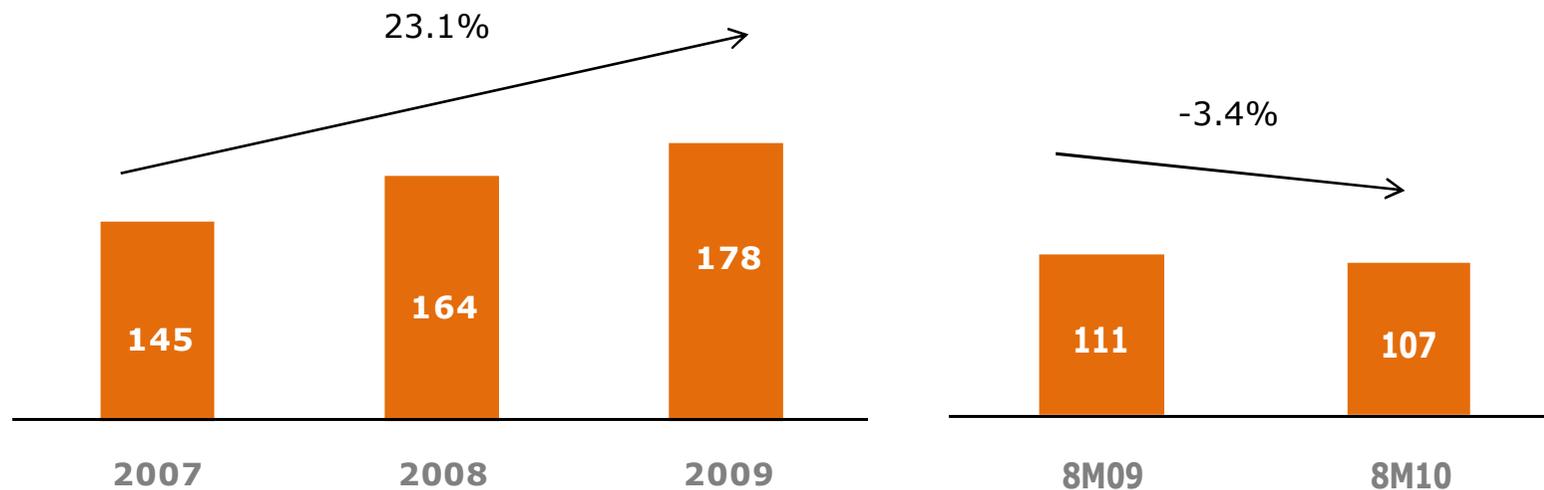
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The Sad Reality

Russian gold production – an unpleasant yet inevitable reversal of the trend

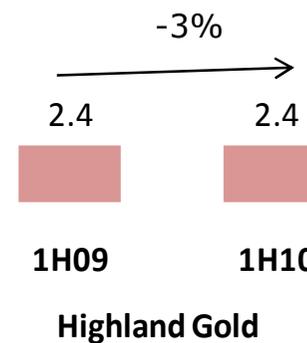
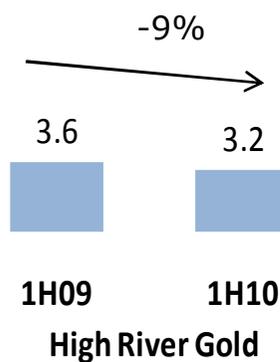
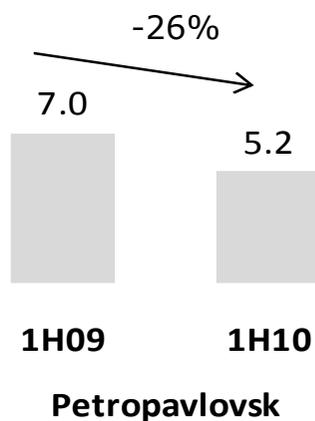
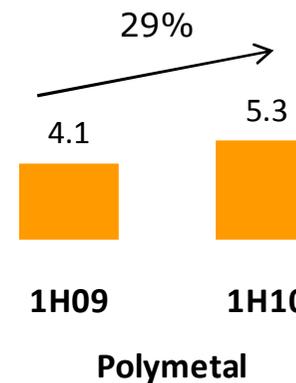
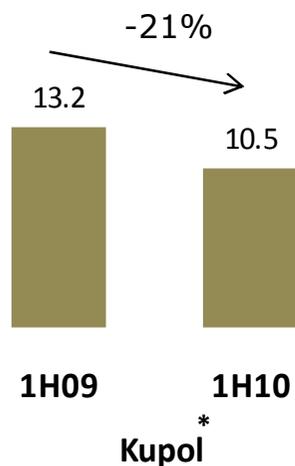
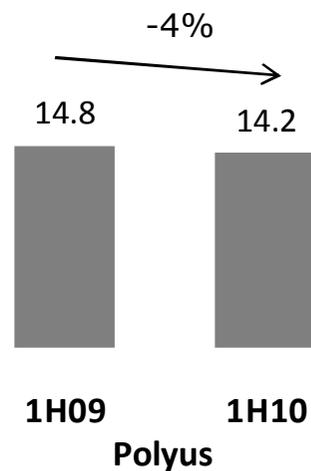
Primary gold production, tonnes



Source: GFMS, Russian Union of Gold Miners

Former growth leaders are now in reverse mode

Gold production, tonnes

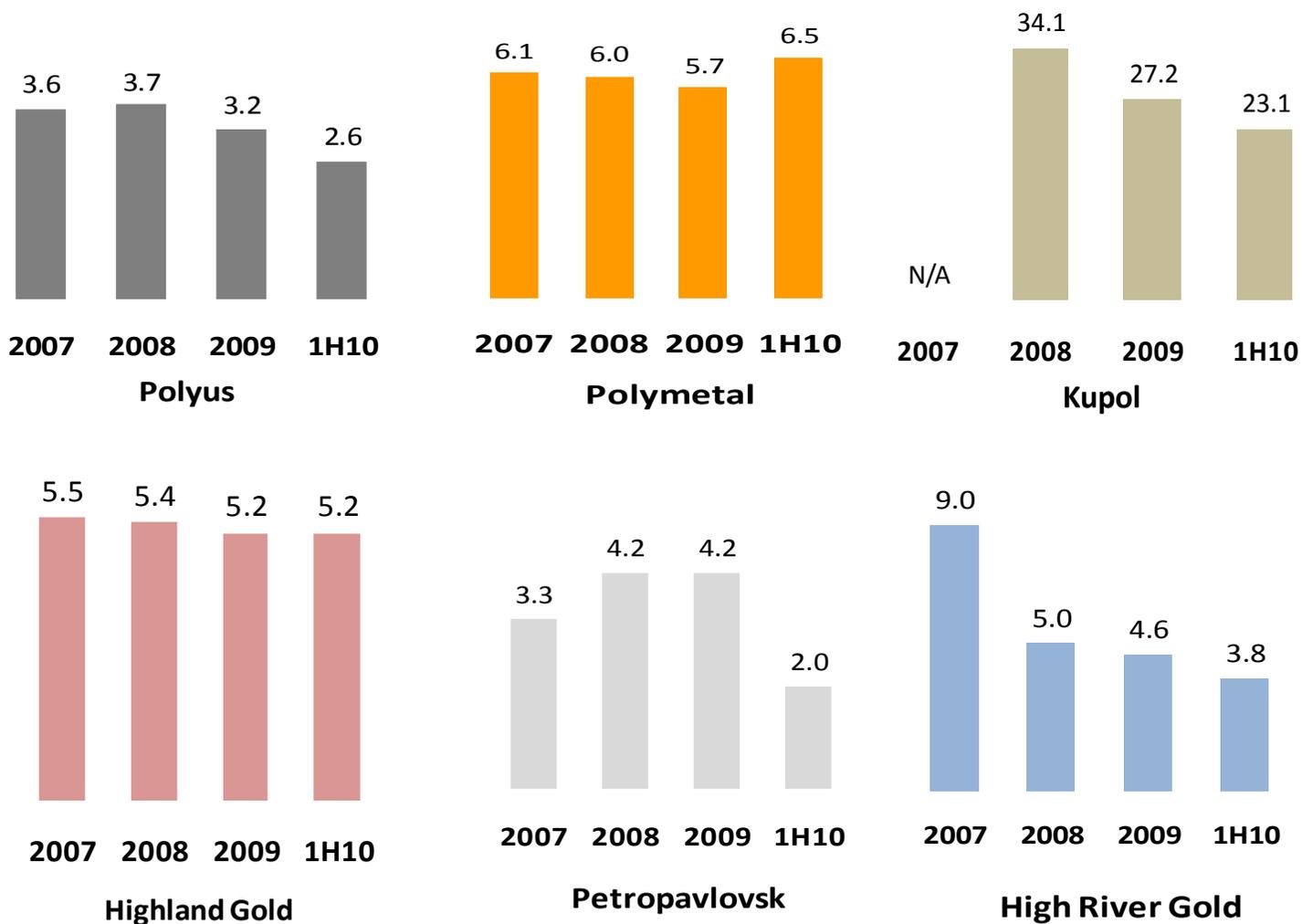


Source: Company reports

* Polymetal estimates

Grades are falling steadily

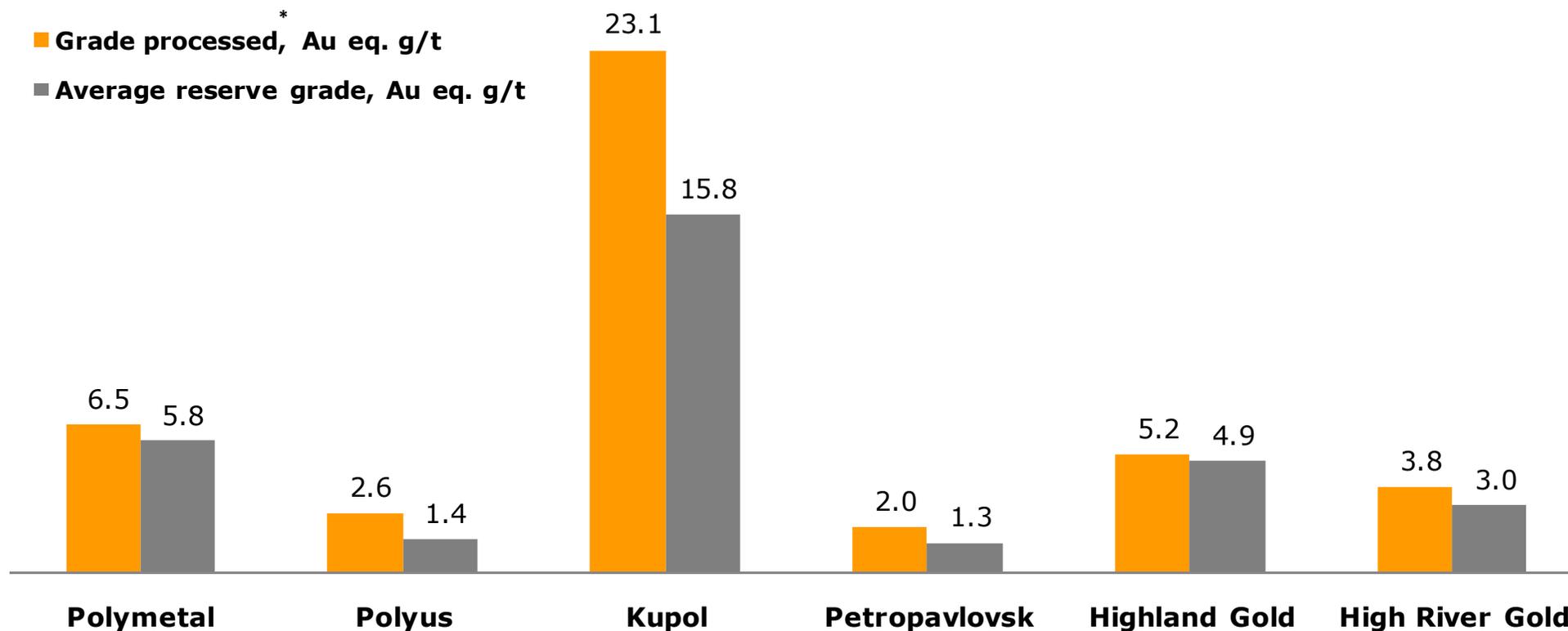
Grade processed, Au eq. g/t*



Source: Company reports.

* Based on 60 Au/Ag conversion rate

Grade decline is expected to continue

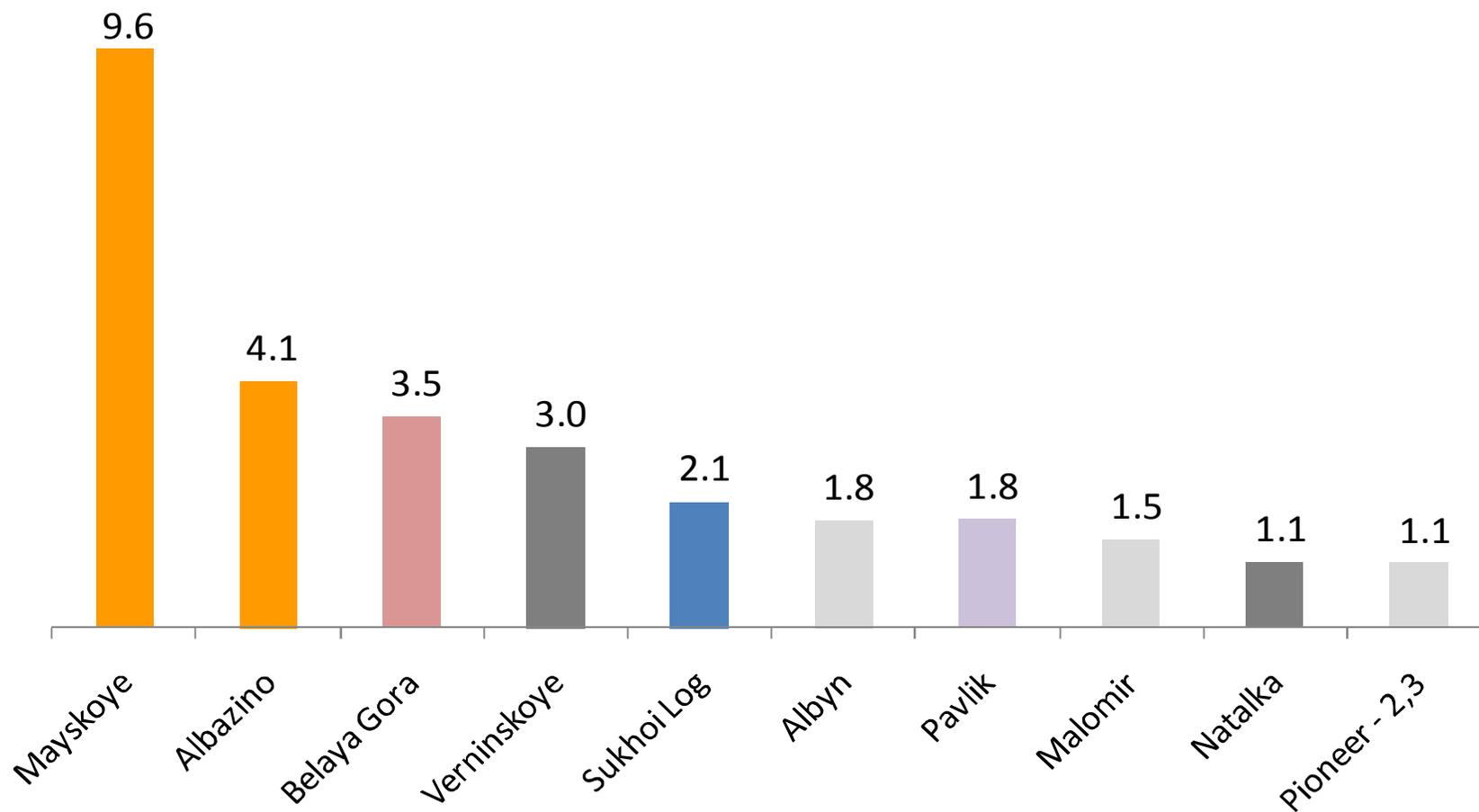


Source: Company reports

* 1H 2010 production results. Russian mines only

Projects in the pipeline are mostly low-grade

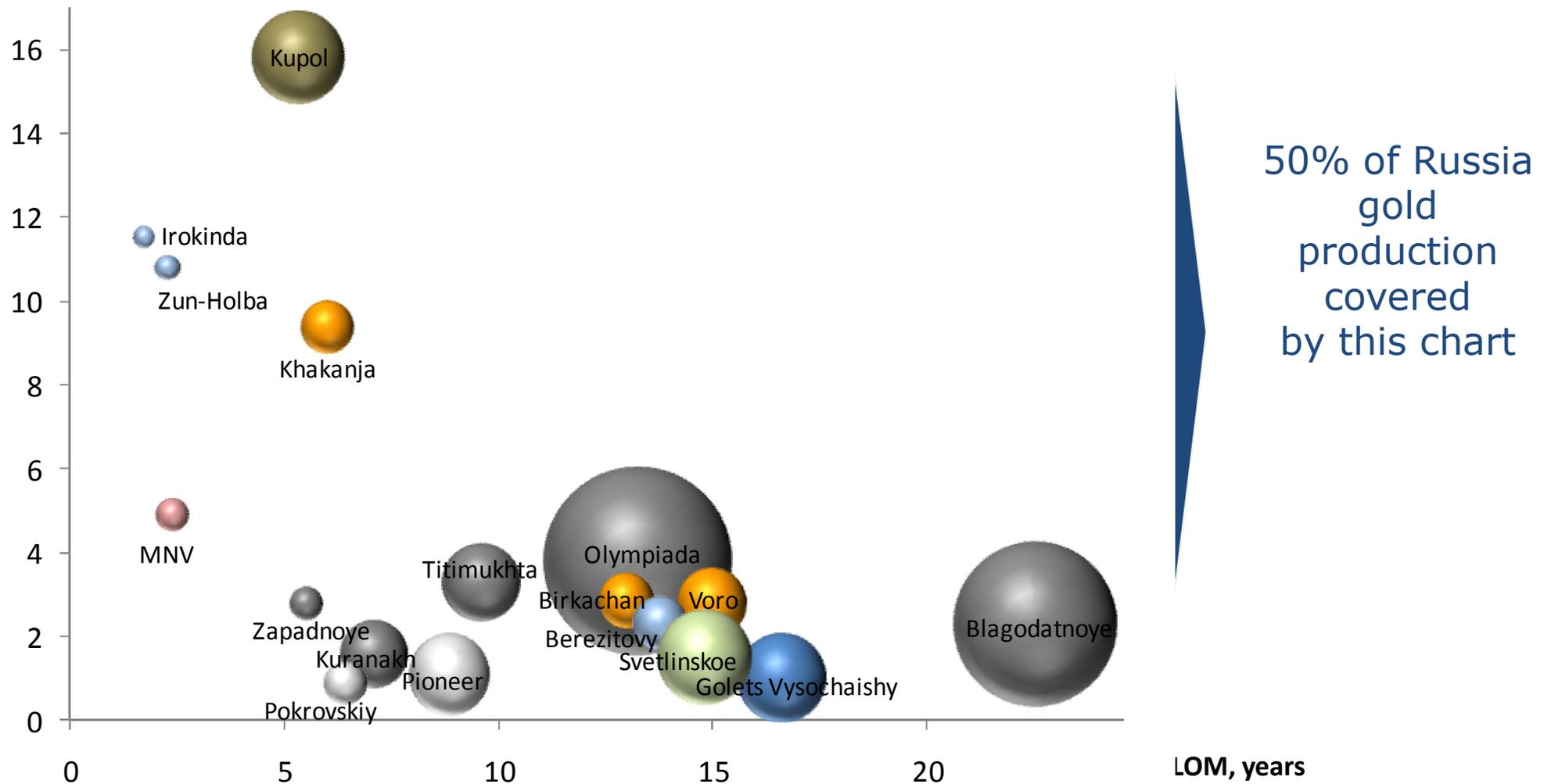
Average gold reserve grade, g/t



Source: Company reports

Life-of-Mine is shrinking, particularly at high-grade mines

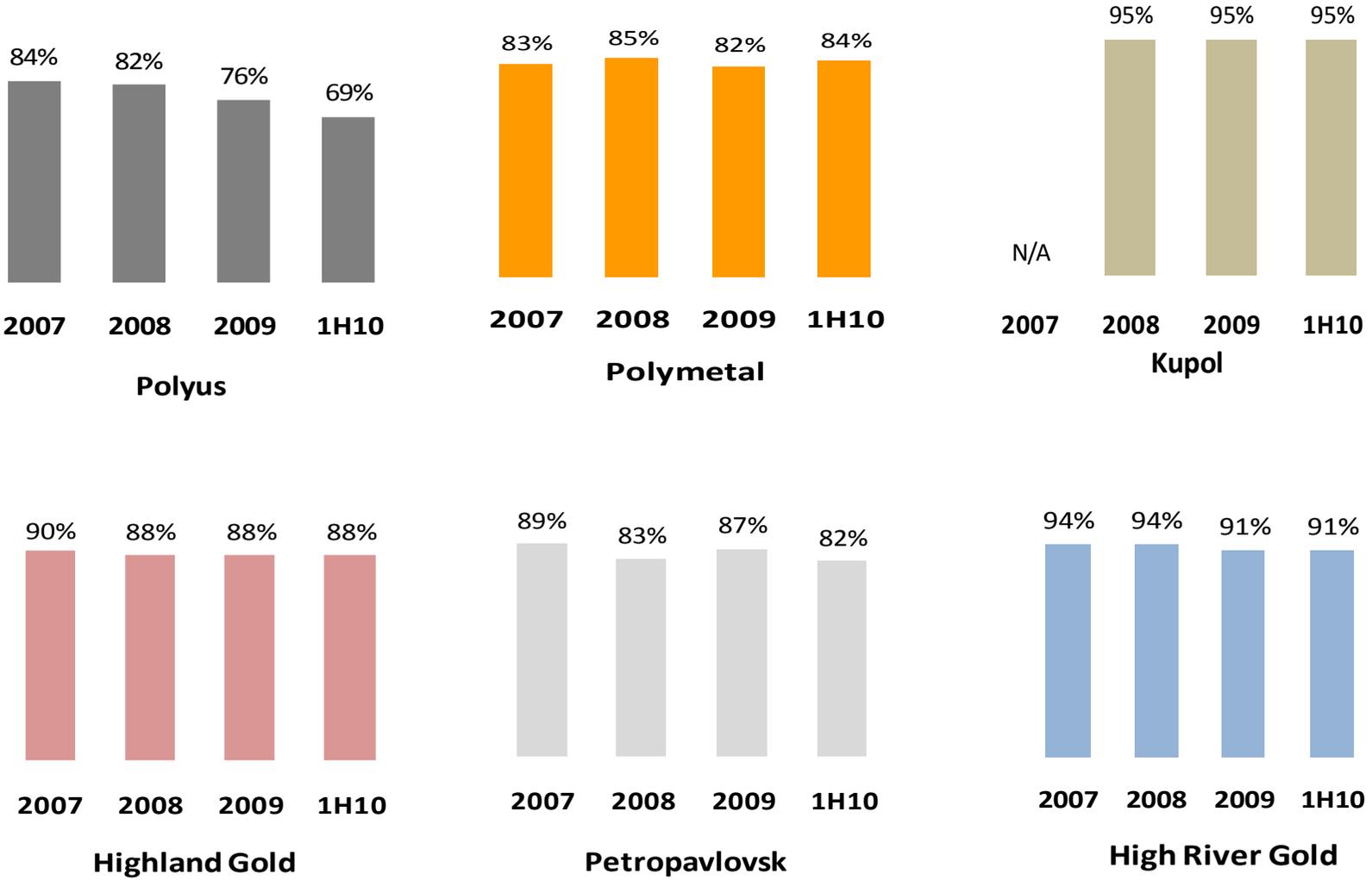
Average reserve grade, Au eq. g/t



Source: Company reports

Metallurgy is slowly, but surely getting more difficult

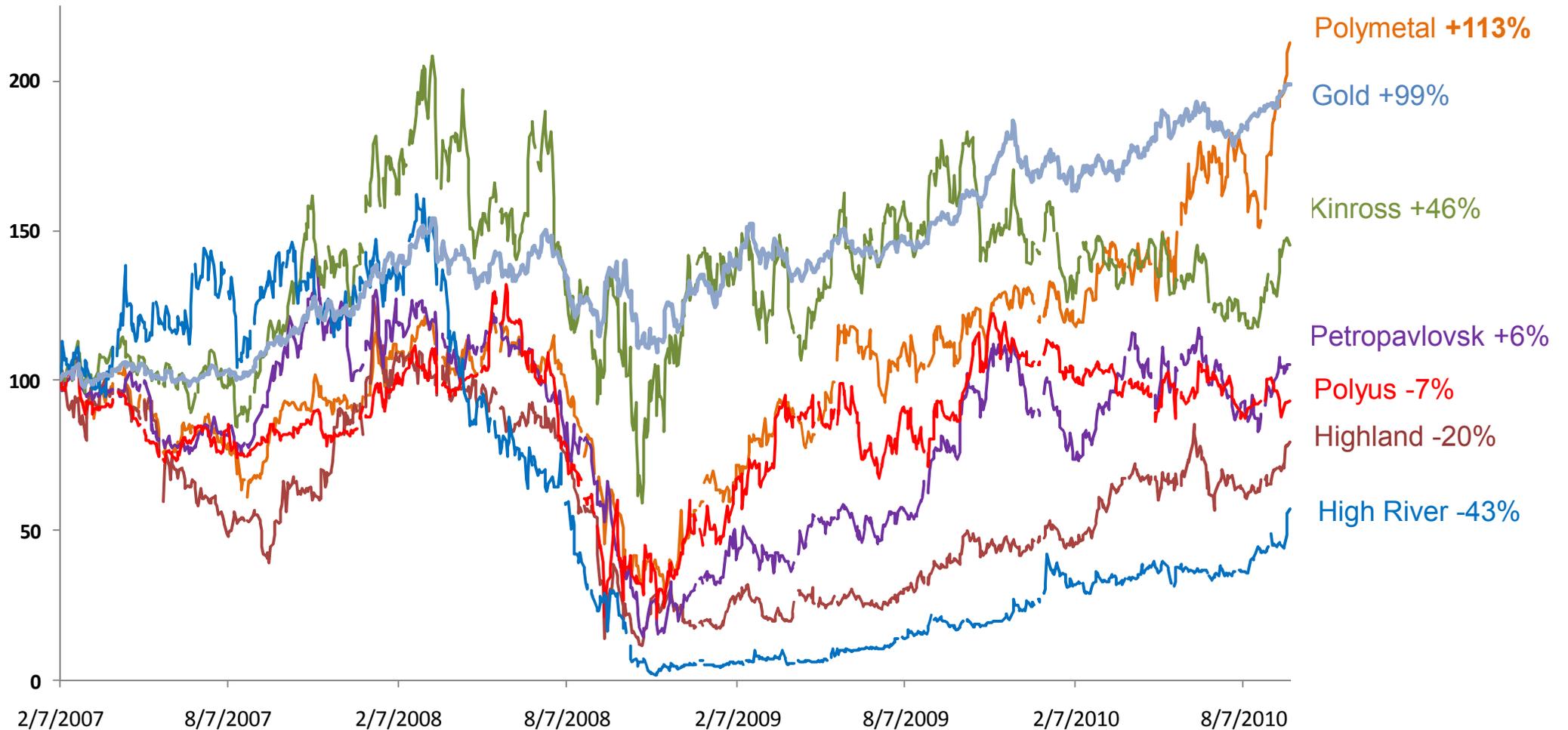
Recoveries, %



Source: Company reports

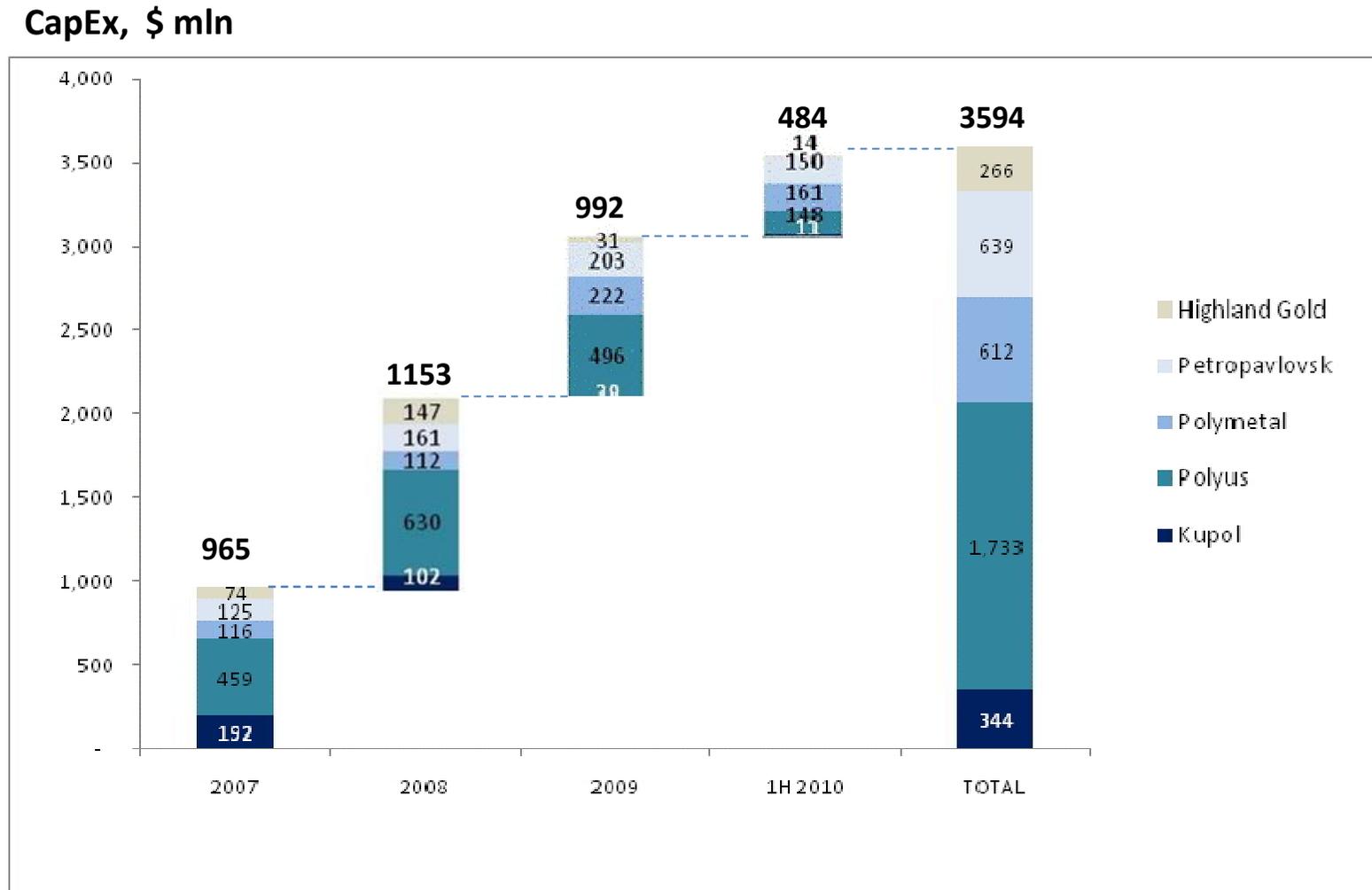
The market appears to be aware of the problems

Share price performance: Feb. 2007 (Polymetal's IPO) - Sept. 2010



What needs to be done ?

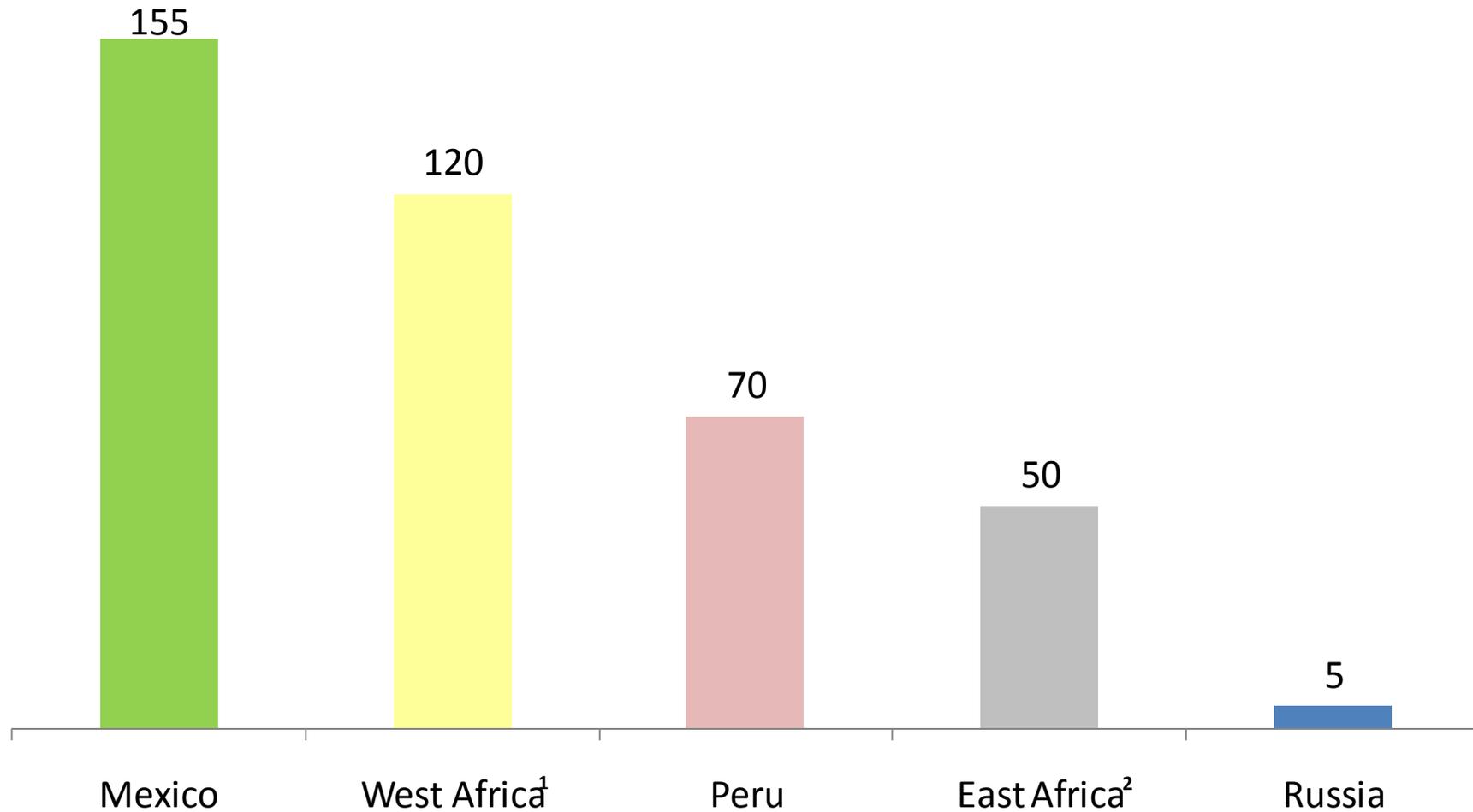
Russian gold mining industry is extremely capital-intensive



Source: Company reports

Foreign presence in the industry is limited

Number of foreign companies active in gold exploration/mining, 2010



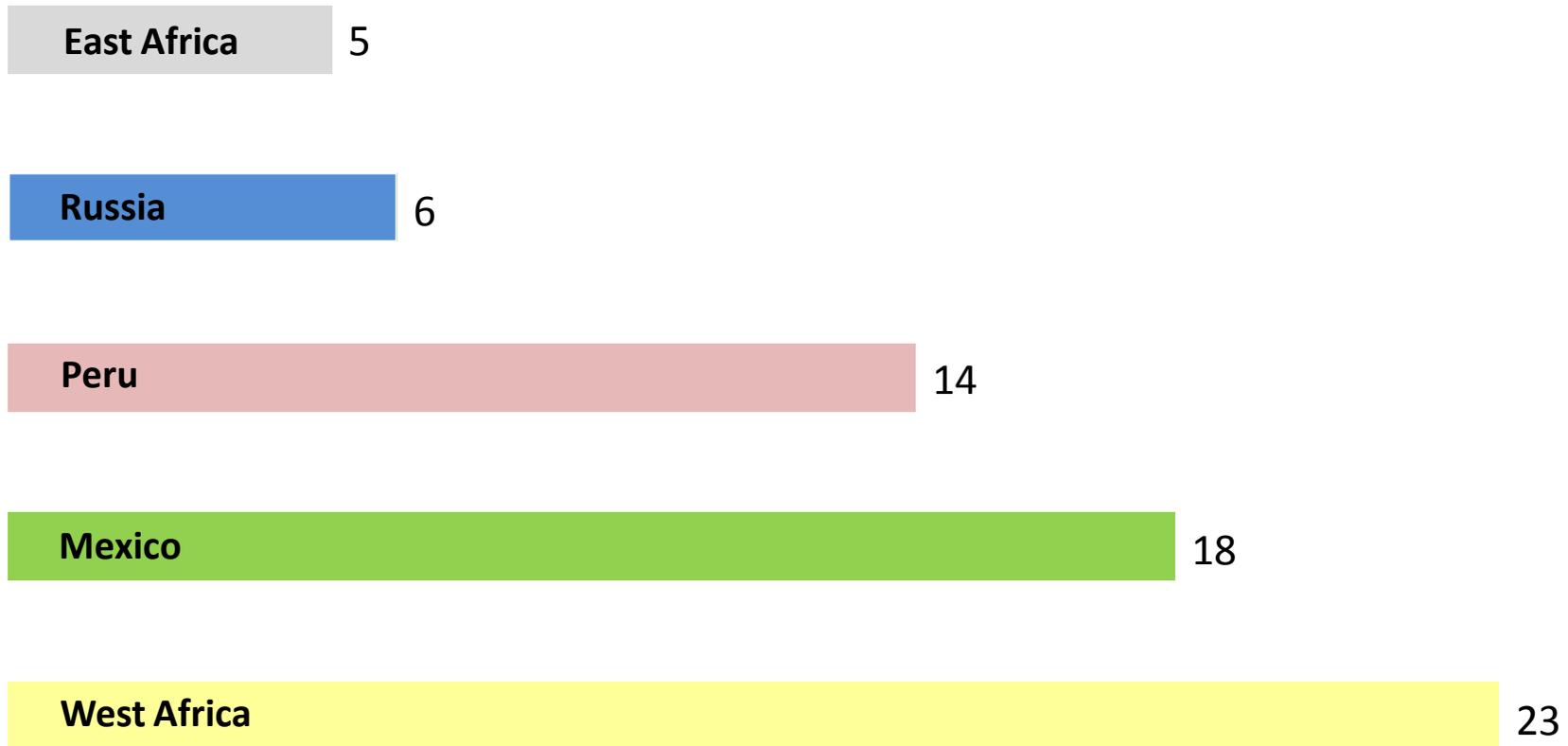
Source: SEG Servey, GFMS

(1) Mali, Ghana, Burkina Faso, Guinea, Cote d'Ivoire

(2) Tanzania, Kenia, DRK, Eritrea, Egypt

Lack of green-field exploration leads to shortage of new mines

2008-2010 green-field gold mine start-ups



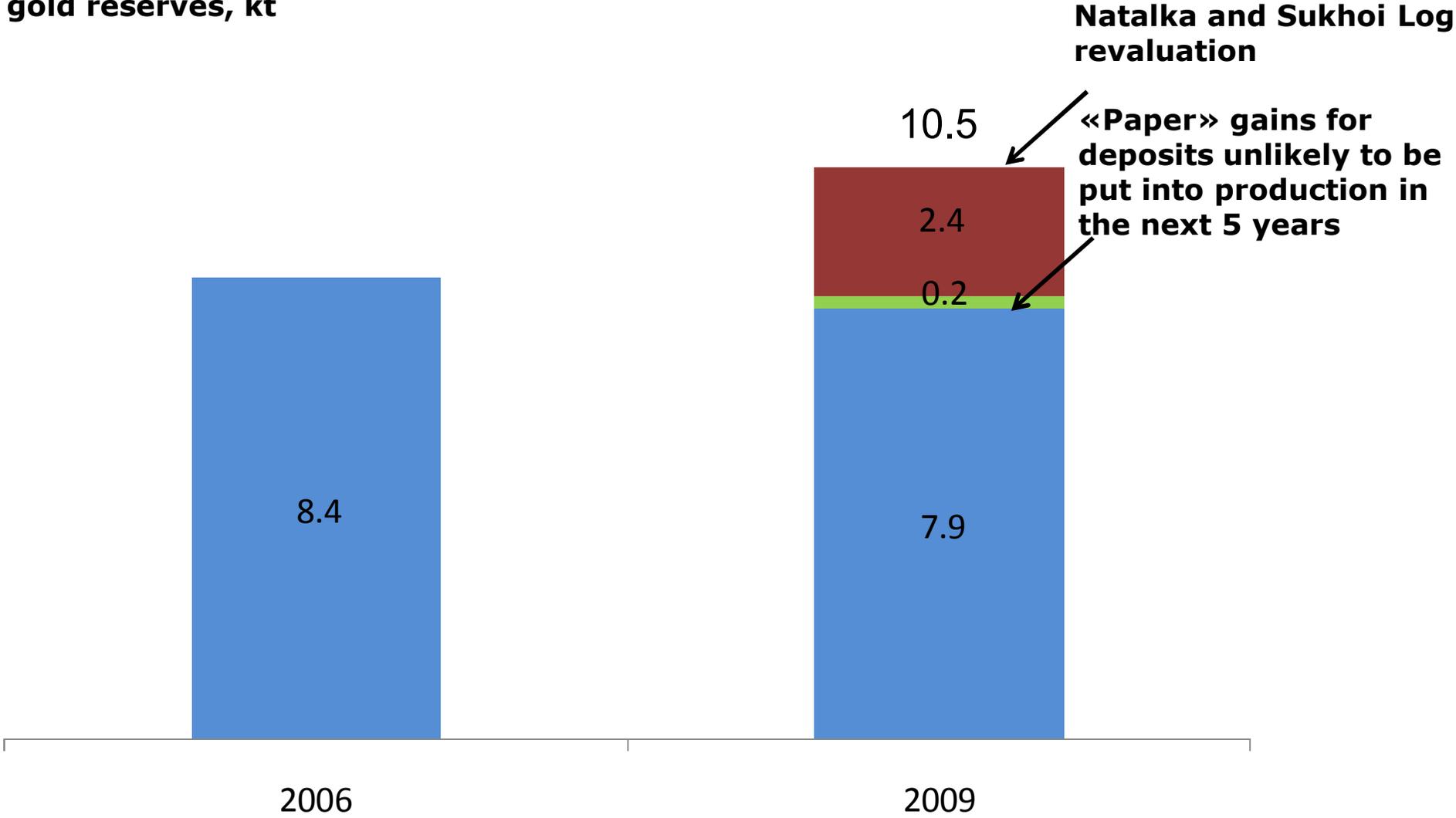
Source: SEG Servey, GFMS

(1) Mali, Ghana, Burkina Faso, Guinea, Cote d'Ivoire

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The active reserve base is shrinking: 6% in 3 years

GKZ gold reserves, kt



Source: Infomine research group, expert estimates

Not a Secret

- Russian gold production is entering a long period of decline/stagnation
- Sensitivity to high gold prices will be very limited
- Any sustained decline in gold prices will wipe out small producers

- The key to overcome the trend is successful green-field exploration
- Russia needs many small, active, flexible and competent juniors

- Regulatory regime needs to change:**
- **More flexible**
 - **More friendly to foreigners**

Changes are crucial and overdue to motivate mining companies to search for new mines

- Depletion of high-grade free-milling reserves
 - Huge number of small mines with minimal exploration upside
 - Inefficient and mostly fruitless exploration
- 
- **To increase the minimum deposit size** which falls under the category of federal reserves to a figure that is sufficient to make standalone exploration and development economically viable **(250 t of gold)**
 - To provide mining companies controlled by foreign investors with the **right to convert their exploration licenses to combined or/and mining licenses** in case of a discovery of precious metals deposits that meet the criteria of federal significance.
 - **To increase the foreign ownership cap** for strategically-significant entities that exploit deposits of federal significance from 10% **to 25%** (by voting power).
 - **To allow award of exploration licenses by application**



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