



## **Russian gold mining: No Time to Rest on Laurels**

**MINEX FORUM, October 1, 2009**

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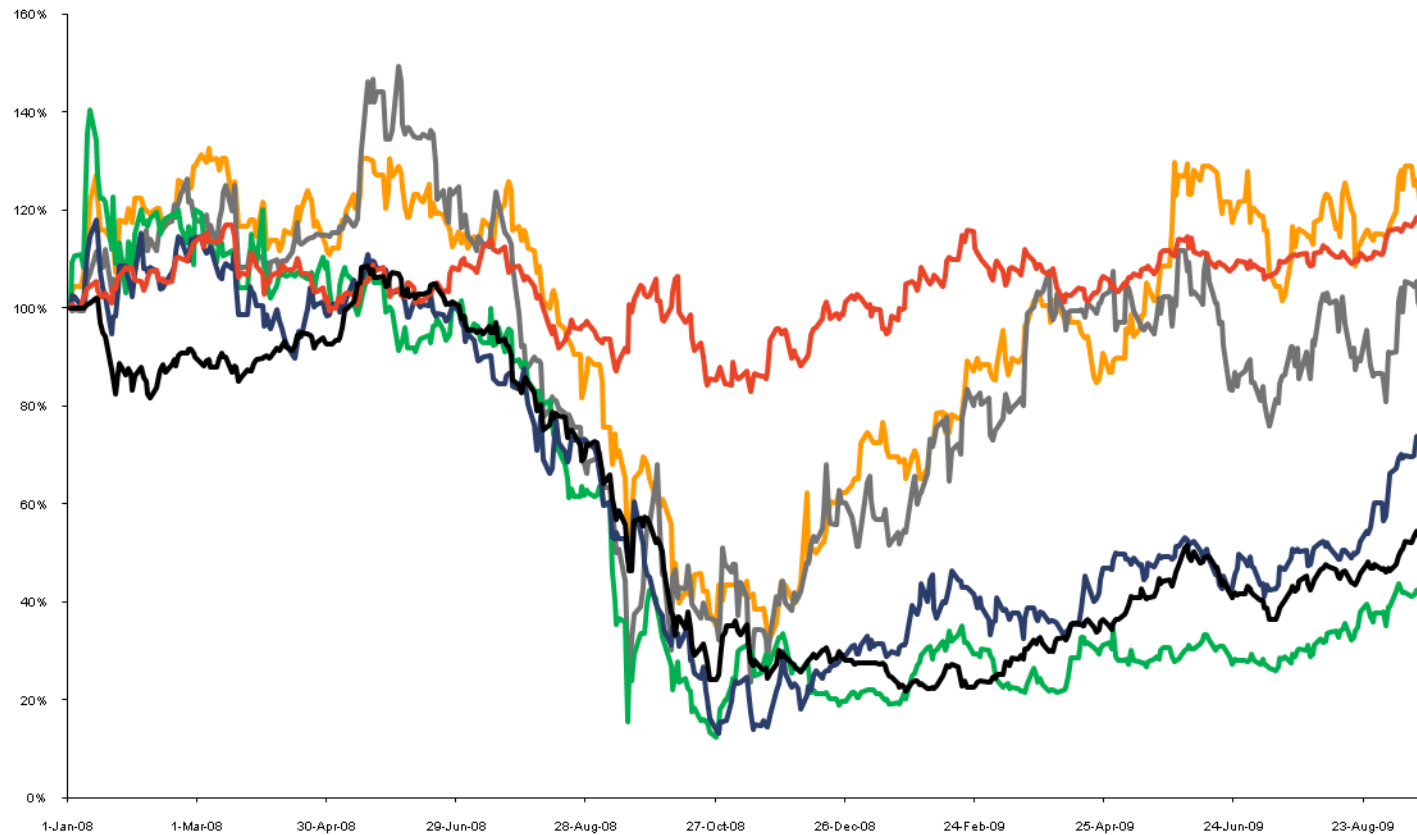
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# Gold companies have outperformed (broad indexes)

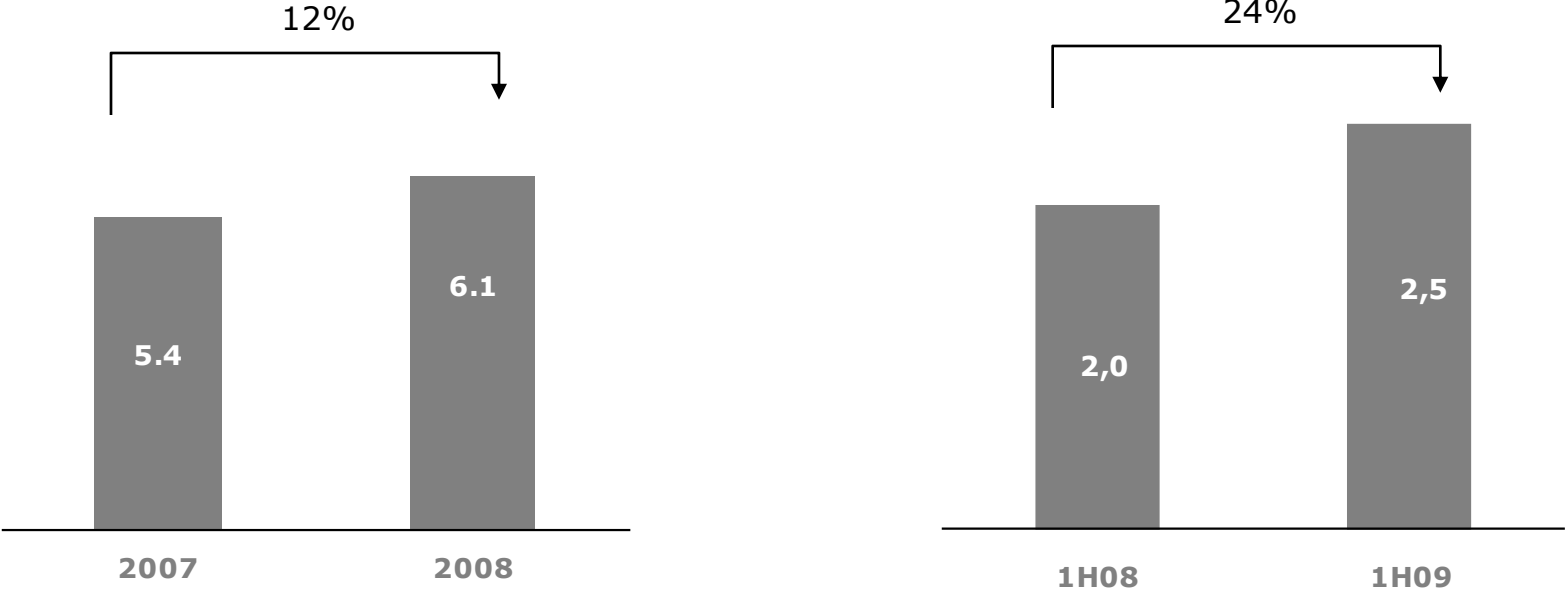
Jan 01, 2008 – Sep 25, 2009 (RTS)



**+22% Polymetal**   **-46% RTS Index**   **+16% Gold price**   **-30% Petropavlovsk**   **-54% Highland Gold**   **-2% Polyus**

# Russian gold production is growing strongly...

Gold production, Moz



Source: Rosstat

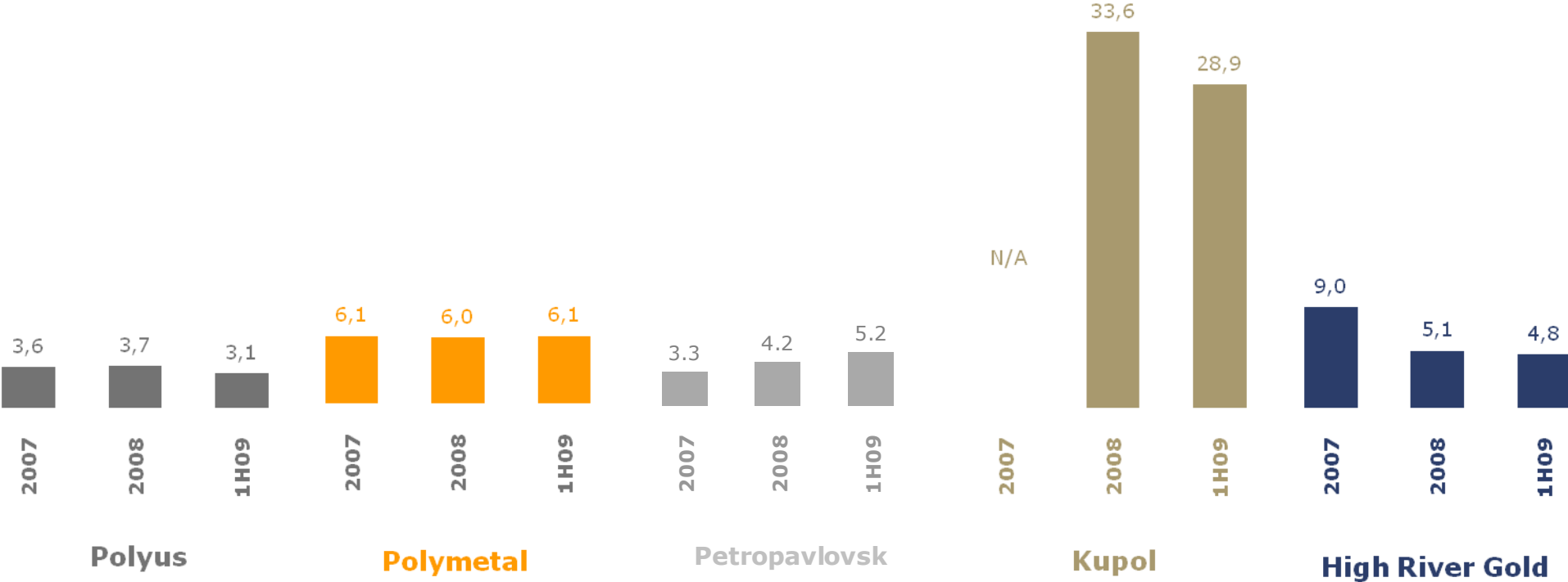
# ...Yet growth is concentrated and not sustainable

## **Production**

- Growth driven by two projects: Kupol and Pioneer
- Grade declines across the board
- Industry remains fragmented, with many small short-lived assets
- Largest deposits far from development

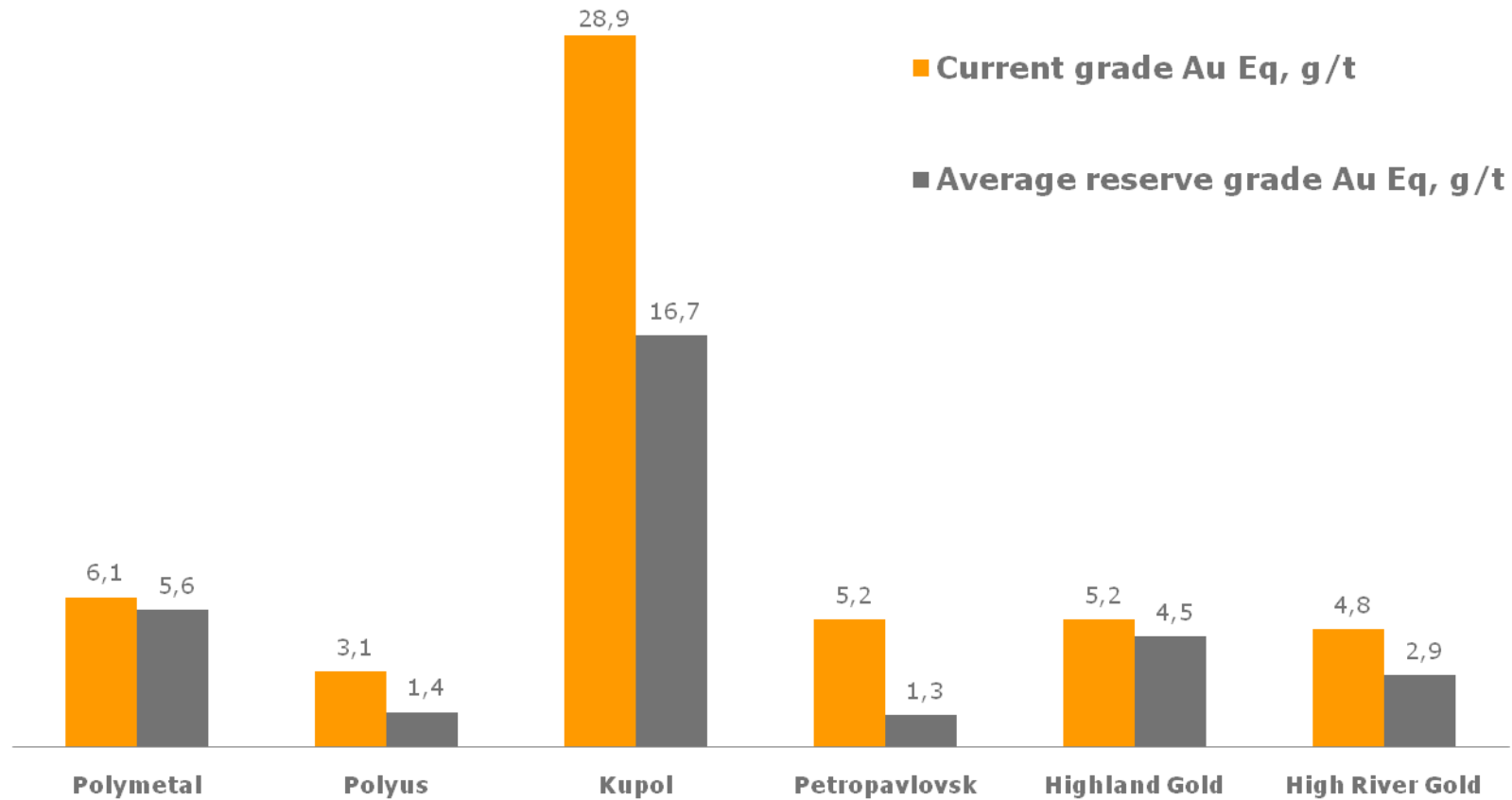
# Grades have generated tendency to decline

Grade processed, g/t



Source: Company reports

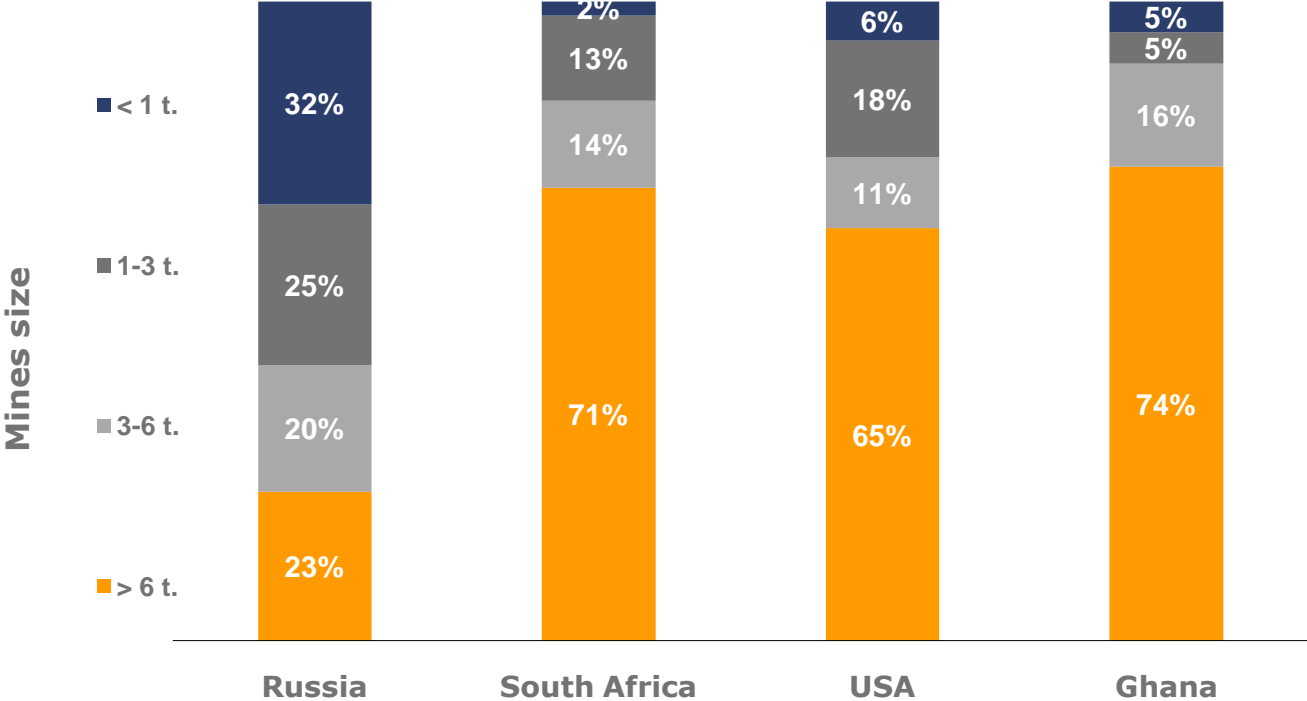
# Absent large new mines, grade decline is expected to intensify



Source: Company reports

# Industry lacks scale and stability

Gold production structure by size of mines, 2008

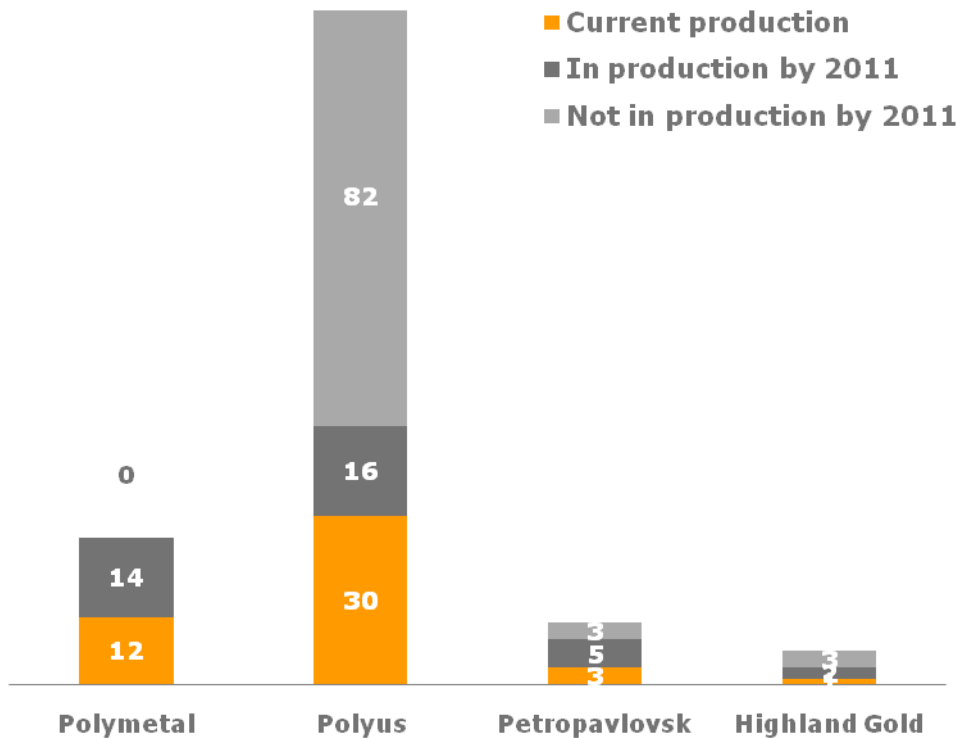


Source: Company reports data, Russian Union of Gold Miners



# The bulk of resources is contained in deposits not yet in production

## Resources, Moz

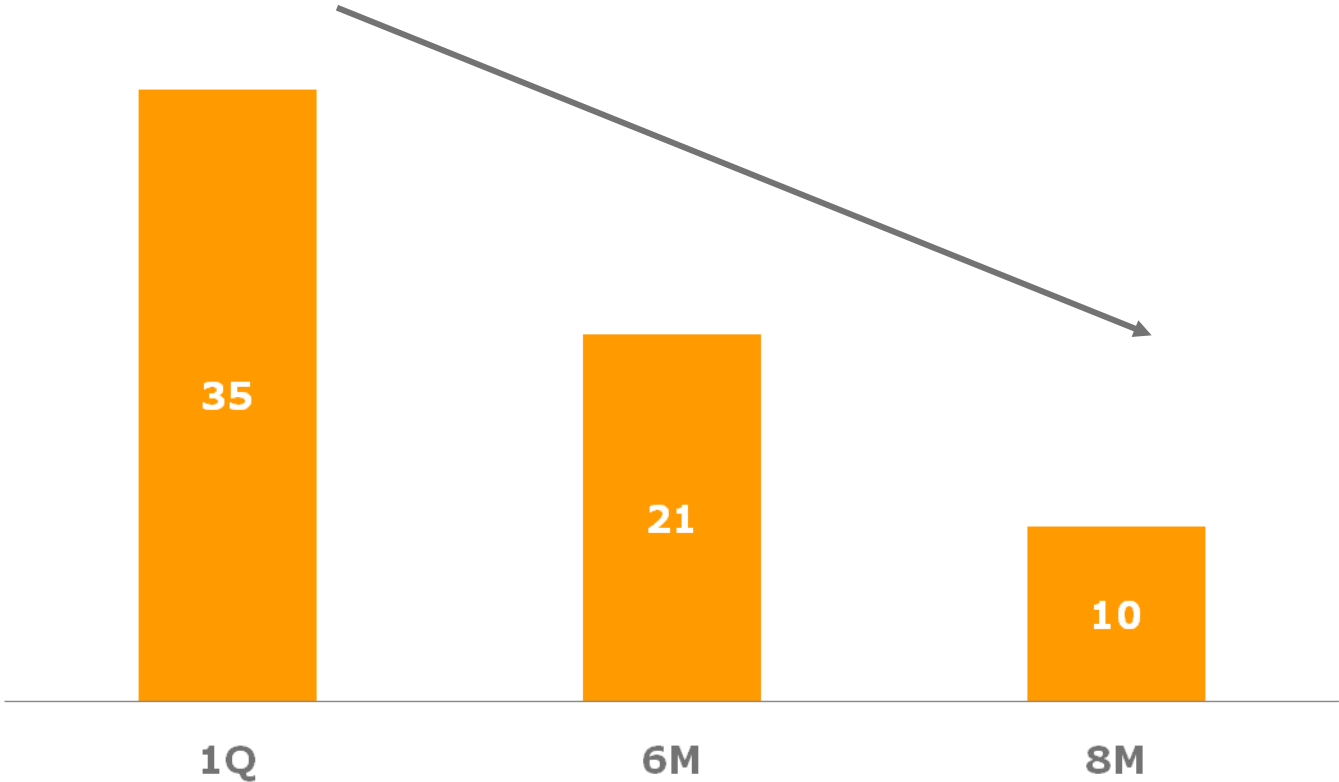


|               |                                       |                                      |   |
|---------------|---------------------------------------|--------------------------------------|---|
| Polymetal     | Dukat, Voro, Khakanzha                | Birkachan, Sopka, Albazino, Mayskoye |   |
| Polyus        | Olimpiada Timukhta Kuranakh Zapadnoye | Verninskoye Blagodatnoye             | Natalka Nezhdan. Chertovo Koryto Kuchus |
| Petropavlovsk | Pokrovskiy Pioneer                    | Malomyr                              | Yamal etc                               |
| Highland Gold | MNV                                   | Novo Belaya Gora                     | Taseevskoye                             |

Source: Company reports

# 2009 dynamics bear an important point

Growth rates 2009 vs. 2008, %



Source: Rosstat

# Investment in exploration plummeted in 2008-2009



Source: Rosstat; Polymetal estimates

# Financial crisis is not the only problem for explorers

- Disappearance of financing for junior explorers in 2009
- Amendments to the subsoil law regarding venders exploration licenses totally unattractive
- “Strategic deposits”
- Bureaucratic wrangling over license issue and permitting intensifies

# Conclusion

## **Russia's gold production potential is still under-developed, sustained increases so far elusive**

- Licensing and permitting increasingly centralized and burdensome
- Governmental actions so far counter-productive to private exploration, particularly funded from abroad
- Undeveloped infrastructure in the Far East with no changes expected in the next 5 years

**Time to relax the regulations!**



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