

Metals Mongolia - 2013

The development of a strong industrial sector

T.Munkhbat – Oyu Tolgoi LLC, Deputy Director

This is a translation of a speech made in Mongolian.

Distinguished cabinet members, investors, guests, ladies and gentlemen.

I'm pleased to give a speech here at the second international conference of investors of mining and metallurgy on behalf of the Oyu Tolgoi project - jointly implemented by the government and investors of third neighbour countries.

Although, this conference is a “young” conference that is being organized for the second time only, I vividly remember that the first conference was held very successfully.

Oyu Tolgoi actively participates in this type of conference, playing an important role in the growth of the Mongolian economy by attracting investors to Mongolia. We are very happy to participate in this conference as “Gold sponsor”.

[Latest update of the Project]

Most of you know that Oyu Tolgoi launched in Southern Gobi and has completed the first phase of its construction and development and shifted into production and product sales.

First of all, I want to give you latest update on Oyu Tolgoi.

By late 2012, we launched the commissioning of the concentrator and tested and ramped up the production until June, 2013. In early July, we exported the first concentrate batch.

Our clients that are buying Oyu Tolgoi copper concentrates at world market prices have resolved the transportation issues that had with the customs service of the People's Republic of China. They are now receiving our products.

As of September this year, we had processed a total of 12.5 million tons of ores. During this time, we produced 160 thousand tons of concentrates or 43 thousand tons of copper in concentrate form.

We expect to produce up to 85 thousand tons of copper in concentrates by the end of 2013.

Erdenes Oyu Tolgoi, Turquoise Hill and Rio Tinto, the shareholders of the Oyu Tolgoi company are continuing discussions over some issues in order to continue further mine development work.

Throughout this time, Oyu Tolgoi has been developing South Gobi infrastructure, and undertaking many works under its commitment of Cooperation agreement signed with Khanbogd soum.

This year, we commissioned the international standard Khanbumbat airport and currently construction of a hard paved road from the mine to the border port is 80 percent complete.

Also a hard paved 5 km road in Khanbogd is almost complete. Next week, the building and facilities of a power sub-station to provide a permanent power supply to the Khanbogd soum will be commissioned by state commission.

With completion of this work, power for for the Khanbogd soum will be provided by Oyu Tolgoi mine through the Southern regional power distribution company.

During the first six months of this year, our company paid 168 billion tugrug tax and fees. Since 2009, we paid total one trillion tugrug to the national budget.

In less than three years since the official start of the Oyu Tolgoi development, the open pit and concentrator have been successfully constructed and commissioned and now the mine is fully operational. This shows the solid partnership between government and the international investors.

As a professional geologist, I believe many new deposits like Oyu Tolgoi can be discovered. I'm confident that the current achievements, success and lessons from Oyu Tolgoi can be an important lesson for improving the mining investment atmosphere.

[Strengthening the mining workforce]

One characteristic of countries with strong mining industries is they have created good, broad based workforces and good infrastructure conditions. Our country has a small population, so there is a need to train future specialist mining workers and invest in vocational training.

In the past, the company has made substantial investments towards vocational training and educational sector. We will spend a total of \$126 million dollars during a five year period for public education as well as our employee training programmes.

Training of technical specialists is going on throughout the country at the vocational training centres. The students who are graduating will

be employed by various sectors. This clearly shows the benefits of our vocational training programme.

In the first half of this year, 63 percent of Oyu Tolgoi investment in training and education was not spent on our employees, but for public programmes.

Oyu Tolgoi employees have good opportunities to improve their professional skills not only in our country, but also abroad in other mines of Rio Tinto and learn from their experiences. In another word, our Mongolian youth have the opportunity to learn and study from life “universities” with more than 100 years of mining experiences.

The latest example is our engineers who practiced at the other plants and mines of Rio Tinto in Australia and South Africa. Now they are handling Oyu Tolgoi concentrate production and sharing what they learned with others. They are introducing their knowledge and experiences across the Mongolian mining sector. I’m very proud of this.

In addition, highly skilled international experts working in Oyu Tolgoi in the short term are introducing international best practices to Oyu Tolgoi and the Mongolian mining sector.

Today, 90 percent of our workforce is proudly Mongolian. Most importantly, many of these Mongolian youth have replaced foreign professionals with advanced skills who were working here for the short term. Many of our managers are young Mongolians.

[Centralised supply chain has been developed]

We believe that we can make a substantial contribution to the economic and business development of our country through purchasing the services and products that we need at Oyu Tolgoi from domestic Mongolian companies.

During the initial stage of our development, we had no choice but to import many products, services and equipment from abroad. Now each year, this situation is improving and the number of national businesses and individuals that supplies products and services for our company is increasing.

It is also very important that these suppliers are not only supplying high quality products and services but are working safely.

This year, we set ourselves a goal to spend a minimum of 50 percent of our total procurement funds with Mongolian national companies. Currently, 70 percent of procurement agreements are signed with Mongolian companies.

Mongolian companies are winning our procurement bids even when they quote slightly higher prices than international companies. This shows our support for national companies.

We work with about 1500 national companies. We not only buy services and products from them, but also require the highest safety and service quality standards from them. This is contributing to the development of a long-term and sustainable supply chain in Mongolia.

[Technology]

I see many people among the guests and participants of the conference that have visited our mine. People who visit our mine and the plant express their impressions with two words. These words are “**truly wonderful**”.

We understand that “truly wonderful” means that we have successfully developed an international standard industrial complex that is globally competitive and uses advanced technology in the Mongolian Gobi desert.

We are introducing the best mining technology and equipment to Oyu Tolgoi, using them in our everyday operations.

Open pit mining is done with precision and design, selecting the right equipment and the appropriate workforce and production schedule.

General planning for the open pit operation is based on 34 cubic metre and 56 cubic metre hydraulic and electric excavators from the US Bucyrus company and 290 tonne capacity dump trucks from the Japanese Komatsu company. We also use complex equipment from the Caterpillar company.

Now, the Oyu Tolgoi concentrator is processing 100 thousand tons ore per day from our open pit operation.

Building on the base framework of our open pit development, much work and preparation has also been undertaken to build an underground block-caving mine. Block caving is used by very few mines in the world.

We are committed to developing Oyu Tolgoi as a mine which uses the minimum possible water.

According to research, other comparable global mines use around 1.27 cubic metres of water in order to process one tonne of ore. In comparison to this, Oyu Tolgoi mine, using the latest water efficient technology used 0.43 cube meter water per tonne of ore during the first half of this year.

[Work safety]

Any meeting or gathering at Oyu Tolgoi that involves three people or more starts with a discussion about safety.

This culture, which is followed in all Rio Tinto mines, reminds us that safety is not only the concern of our mine workers, but also our office employees and our guests.

Mining can be a dangerous industry if people work without paying proper attention to safety. Therefore, for us, safety and the health of our employees is the most important value we have.

Although, Oyu Tolgoi is a very young and developing mine, our safety performance has met and exceeded the strict standards that Rio Tinto demands from all of its projects.

Oyu Tolgoi accident frequency is relatively low than the average frequency of mining accidents among global mines managed by Rio Tinto. This is very important and positive indicator for our mine and something that we hope the Mongolian mining sector can learn from.

[Responsible mining]

I want to focus your attention now on the importance of mining responsibly.

I'm not denying that there are lessons behind the success of this large project, launched for the first time in Mongolia. This is natural. People may be challenged and concerned by the potential environmental and social changes as result of sudden development and industrialisation.

Of course, government is closely monitoring environmental issues which go along with accelerating economic development.

People have concerns about dust and water in the Gobi desert. We understand that government is paying much attention to this issue and conducting excellent monitoring of our activities. In addition, the

company is responsibly fulfilling its environmental protection and rehabilitation plan and obligations.

For example, Oyu Tolgoi company uses water under many independent and internal monitoring regimes. Our environmental specialists and the **Ministry of Natural environment and green development** are monitoring water quality on a daily, weekly and monthly basis. Local residents are also monitoring the quality of their drinking water and water well levels and reporting the results back to Oyu Tolgoi.

Our international financiers monitor the operations of the company. Three times a year, independent auditing is done on Oyu Tolgoi's environmental and social operations. The auditing is focused on the implementation of 742 pledges and commitments made by the company and gives us the opportunity to improve our performance in the future if the implementation of these pledges and commitments requires improvement.

We are very proud that this standard of international auditing has begun at Oyu Tolgoi - the first time in our country's mining sector.

[Conclusion]

This event we all taking part in today is very important in helping the government and all decision-making parties to develop powerful economic improvements.

At this time, when it is clear that minerals sector is going to play an important role, not only in Mongolia, but in the global economy, it is appropriate to pay attention to creating a favourable investment environment. We also need to see the diversification of the economy through the strengthening of other industrial sectors.

Oyu Tolgoi, while the largest project in Mongolia and crucial to the mining sector's development, also directly and indirectly benefits other sectors of the economy.

I consider that our programmes and projects to build vocational schools, to strengthen the national supply chain and to build airports and roads in South Gobi are merely the start of the project's benefits.

I see the future of our country as bright and optimistic. I imagine that one day our country will develop to become a country where discussion is not just about Oyu Tolgoi. Many large projects like Oyu Tolgoi will have been implemented and Oyu Tolgoi will be a smaller part of a large economy.

I think you would all agree that Oyu Tolgoi is contributing to that path of development.

Thank you for your attention.

[End]