



Discover Mongolia - 2013

Cameron McRae's Speech, President and CEO of Oyu Tolgoi

5 September 2013, Thursday

First Prime Minister, dignitaries, Speakers and guests. It is a great pleasure to be here today.

OT is proud that this is the ninth time that we have sponsored Discover Mongolia. This is the last time that I will publicly represent Oyu Tolgoi and Rio Tinto in a major forum like this. And it's also probably the last time that I will get to publicly reflect on my three years in Mongolia in this way, before I stand down as CEO next month.

So today, I'd like to give you my reflections on the extraordinary development of Oyu Tolgoi over the last two decades.

And of course, I speak at a time of continued debate and introspection. And I will reflect on the lessons learned and the road ahead.

Oyu Tolgoi has been an extraordinary saga of opportunity and adversity. But mainly it is a story of a venture backed by incredible belief, commitment and contributions. Many organizations and people have played their parts – and many will be remembered for their positive commitment to making this work.

- Firstly there were the geologists and explorers, both foreign and Mongolian, who have worked together over many years. They knew that something remarkable was under the ground at Oyu Tolgoi. They have revealed three ore bodies and two major water supplies. Yet success did not come quickly or cheaply.
- The geologists would not have been able to do that without the early belief in the business potential. Ivanhoe Mines kept the exploration faith and found the huge sums of money to keep exploration and development alive.
- Then there were the domestic advocates and visionaries – including politicians - who bravely risked their reputations and careers in the belief that we could create something special. Because OT was something so large and different, it required political bravery and foresight. These visionaries knew that a special business model was needed to make OT fly - and they also knew that it may take a generation for history to assess the full benefits of the project.

And yes, it is always easier to throw stones or to sit on the fence. Those promoters and visionaries who pushed for the creation of OT knew that - in the short term - they would endure second guessing and harsh criticism for seeing value and opportunity in a wholly new endeavor. But they believed OT could catalyze unprecedented growth and development. Which is exactly what it did.

No-one can argue that OT led the way in an unprecedented surge of growth. The short term benefits through revenue have already been proven, while the long term benefits have only just begun.

- And from within Rio Tinto there are Executives who have always shown a genuine and sincere belief in this project, and in Mongolia. This is reflected in the perseverance and commitment that Rio Tinto has shown over the last three years. This commitment has been an essential ingredient in delivering a large working business today.

All those who have made a positive contribution, reaching as far back as 1996 deserve our admiration. They took the risks – whether providing the investment, or creating the legal and social conditions to realise it.

An investment of billions of dollars is never completed easily. While an amazing deposit was discovered after millions of years lying dormant, the business was built from scratch in three short years. However getting to the starting line in 2010 was a long and at times frustrating process.

And in three years, OT has demonstrated what can be achieved in leveraging domestic and international resources.

A world class mine has been built quickly and safely - in extreme temperatures - in a location with no infrastructure. It has been built ahead of schedule, and is ramping up quickly to full capacity.

But this investment was not just about marshaling seventeen thousand people, laying concrete and erecting steel, assembling shovels and trucks and installing huge mills.

Yes we have built a big open-cut operation, a road, power lines, water resources, an airport - all in an aimag which was lacking infrastructure.

But we have also built vital community infrastructure, supported healthcare programmes and are spending over 125 million dollars on education. We are building the skilled workforce of the future – not just for OT but for the country more broadly.

While much of what has been achieved has been built in the last few years, the OT story goes back a lot longer.

It took seven years - and five attempts - to get an investment agreement in place. By that point over one billion US dollars had been spent.

Effectively the IA and shareholders agreement provided the stability and operating framework which everyone needed to begin building in earnest.

The IA has acted as a bond – not to dictate that we always agree – but to ensure that we work to find common ground – respecting differences of opinion but working to maximise the value of the partnership.

It is imperative to get this balance right, as many other potential investors - in all industries - are seeing OT as the litmus test for Mongolia.

But let's not forget, that even with the IA in place, OT's investors still faced huge geo-political challenges. There were no secure agreements in place to import fuel from Russia, to import electricity from China, to sell our concentrate to foreign markets. And moving the raw materials and equipment to Mongolia was a monumental logistical challenge.

The investors were willing to face those risks because of a belief in the project. They took these risks when Project financing was unavailable in 2010. They put their money at the mercy of these risks.

When we shipped our first copper concentrates to international customers in July, we began receiving revenue for the very first time. But the time and patience taken to debate the creation of the business delivered early and immediate benefits outside of the mine fence.

- Foreign Direct Investment increased eleven fold in the wake of the agreement, leveraging funding for many other projects.
- Over 1.1 billion dollars in taxes and other payments was made to the Government – before the business made a dollar of revenue.
- Community infrastructure such as power and roads has improved people's lives.
- And thousands of Mongolians have found well paid, high quality employment. With many more studying at colleges across the country.

I am not saying everything has worked perfectly. Of course, OT continues to be a new experience - for Mongolia, and for the international investment community and the mining industry.

There are lessons still to be learned - on all sides. And there are wider questions that remain.

One question is how can we create a business friendly operating environment for future projects, big and small?

- Well -businesses need nurturing, and at an early stage of a project's development, even small delays and difficulties in processes like permitting and licensing can kill a new business. Our experience shows that we have not yet got it right, and this requires urgent attention.

Another question is how do we generate public and political debate that is constructive and sees large strategic projects move off the drawing board and into reality?

- Successfully addressing this question will achieve strong investor confidence, domestic and international.

Importantly, we succeed or fail together depending on our ability to recognize and embrace shared goals and values.

I have often said that I want to see OT as a smaller part of a diverse and strong economy, with many new projects helping to spur growth and prosperity.

But OT's size, for now, means that we ARE the Mongolian benchmark for what other businesses and investments can expect to experience and achieve.

Therefore, it is perfectly understandable that OT generates the scrutiny and debate that it does.

But the atmosphere of the debate is critical and has at times been unhelpful for all parties.

- For Oyu Tolgoi – where we should be focused on making OT a world class business.
- For the Government – where OT has often distracted from other critical policy areas.
- And most of all for the public – who simply want OT to do the very best that it can for Mongolia.

OT's future should not be a re-run of its recent past.

OT's future has to be as a business, not an ongoing political debate.

- A business which is open, transparent and a strong corporate citizen. Where scrutiny is welcomed, where debate is constructive but not where false allegations are allowed to be taken as fact.

I believe that everyone involved wants the same thing - to resolve the issues, and continue to develop OT in partnership. Our shareholders continue to talk and I would ask everyone to give them the time and the space to get this right.

Stopping work on our underground - because continued funding was not there - was one of the hardest things I've done. But I am confident that the shareholders will overcome the issues. Everyone wants to see the underground developed. It is what makes OT special and will ensure our impact is felt for generations to come.

Despite economic pressures and an uncertain world, this remains an exciting time for Mongolia. And I believe many of you in the room want to play an active part.

New sentiments and ideas are emerging, and the debate is shifting towards shaping a new positive vision of Mongolia's economic future.

Right now, there are between 40 and 60 billion dollars' worth of projects identified - from road and rail infrastructure to energy and mining projects.

Business will play its part in delivering these projects when the conditions are right. Economic rationalism and political courage are critical – this will allow the flagship projects to provide the positive examples we need.

I leave my job very proud of what the OT team and its partners have achieved over the past three years. I strongly recognize the contributions of those that came before me, from both Ivanhoe, now Turquoise Hill and Rio Tinto. I leave knowing that my successor still has big challenges to work through.

But the new CEO will quickly realise that this is an amazing place to be.

- We have a young and increasingly well educated workforce – who are proud and committed to contributing to their country.
- We have a supply chain made up of an emerging generation of Small and Medium sized Mongolian businesses, ready to lead the charge towards greater prosperity.
- Yes, we have a challenging environment, demanding resourcefulness and a can-do spirit, but also a spirit infused with optimism about what we can achieve together.
- And above all, my successor has the opportunity to lead a young and ambitious Mongolian company into a bright and exciting future.

Thank you.