

Cameron McRae Speech
3rd Mongolian Investment Summit
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It is a pleasure to be here today representing Oyu Tolgoi and Rio Tinto at the Third Mongolian Investment Summit.

This is an important moment for the Oyu Tolgoi project and for the future trajectory of Mongolia. In 2013 the Oyu Tolgoi project is poised to deliver its first commercial copper. History is being made in the Gobi desert. Today, I'll talk about the promise of this moment, and what is ultimately needed to fulfil the promise of Oyu Tolgoi.

It has been quite a journey since the first discovery was made in 2001.

We began building the mine in 2010 in an open desert with no infrastructure. Two and a half years later, a world-class mine has been built that now stands ready to produce. These pictures, taken in July, show rocks from the open pit going through the primary crusher and onto stockpile. Oyu Tolgoi's open pit is up and running. The concentrator is built and ready to be switched on. This will one day be one of the top 5 copper mines in the world, supplying 24 per cent of the copper sourced in Asia. It is set to change the future of Mongolia.

Rio Tinto and Turquoise Hill have brought a scale of investment to Mongolia that was unthinkable before Oyu Tolgoi. That investment has brought immediate, tangible benefits. And I don't just mean the more-than-800-million dollars in taxes, loans and other payments we've made to the Government.

We've built the mine – the open pit, the crusher and conveyor, a state-of-the-art concentrator. But we've also built – without government or aid money – the infrastructure the South Gobi requires to support a world-class business and a prosperous community: the 220kV power infrastructure, an international-standard airport with 3.2km runway, 100km of new paved roads.

And, perhaps least visible but most important, we've built human capacity. As part of our commitment, we are in the midst of spending \$126 million creating a world-class workforce in Mongolia, to run all levels of the company. It's a big, multi-year challenge, and it's the right thing both for our business and for Mongolia. Building vocational schools, developing modern curricula, training 1200 teachers. And that does not include our leadership and training programs for our own employees.

And, in addition to human capacity, we've also been building business capacity. Our national procurement programs have, of course, spent hundreds of millions of dollars with Mongolian suppliers. But we have invested directly in developing Mongolian businesses: from the largest Mongolian companies right down to micro-finance and entrepreneurship support for start-ups.

These are all promises we made that we have delivered.

So, once we start production in 2013, what next? The answer is that the most valuable part of the investment is yet to come. So far, we've invested to build the foundation of a world-class mine.

The first investment was a billion in exploration and development before we started real construction.

During that time, we spent years with the Government negotiating the investment agreement that would allow building to start. That investment agreement was the essential pre-requisite for construction. Investors knew that OT would require billions of dollars and many years to develop. So, they weren't willing to proceed until assurances were in place that would carry all partners through that process.

Once the investment agreement was in place, we built the mine in record time. Now, the open pit is running and the concentrator is ready to go.

That's the foundation of a world-class business. But 80% of the value of Oyu Tolgoi lies not in the open pit, but underground. That is our next phase of development and it needs to be funded from international sources.

This investment will realise one of the biggest and deepest underground mining facilities in the world. It will deliver significantly higher grade ore and higher production rates. Years of further development are required to unlock the real riches of Oyu Tolgoi.

So, now, as much as ever, we are seeking reassurance from our government partners that their commitment is unwavering. Commitment to our partnership, as articulated in the Oyu Tolgoi investment agreement, is required to underpin that next stage of development. For those who don't spend their lives in the mining industry, you might ask whether so many years and so much money are worth it. Don't we keep hearing about soft commodity demand? Demand for some commodities has wavered in recent months. But demand for copper is strong and is likely to remain strong over time. Urbanization in China will continue to drive significant investment in copper-intensive infrastructure. Twelve years from now, Chinese copper consumption will have increased by more than 10mt from today's level.

It's a matter of pride for Rio Tinto – and a significant win for Mongolia – that Rio Tinto marketing has already sold 75 per cent of the first three years of Oyu Tolgoi's concentrate production to Chinese smelters at full international market prices. That shows how experienced mining companies can help maximize the value of a host country's minerals. That's another promise of the “**value of partnership**” that we've already delivered, even in advance of production.

It also shows that building a two-way trade relationship between China and Mongolia is necessary for both countries' success. Mongolia can look at its position between China and Russia as a blessing or a curse. To me, Mongolia is **perfectly positioned** to capitalize on Chinese growth and trade.

Beyond marketing strength, why else is Rio's involvement in a project of this scale important to Mongolia?

Firstly, we subscribe to doing things to the highest standards in all aspects of our business. Safety is the start, but our commitment extends to the environment, our relationship with our host communities, and our standards of business practice.

Those standards of business practice govern our own conduct, but they also positively influence the entire supplier base growing in Mongolia.

In addition to standards, of course we also bring advanced technology and mining best-practice. Our block-caving expertise will enable safer and more cost-effective development of the underground resource. Rio Tinto is a world leader in block-caving – involved in 7 of 16 block-cave mines in the world. We're proud to bring this technology to Mongolia.

We also see ourselves as an honest broker in the conversation on economic benefits. The critical point is that **real economic benefits** ARE generated from project like ours. But we are enthusiastic about the possibility for many more projects. Mongolia's prosperity ultimately will depend on a portfolio of investments – perhaps including yours. Mongolia needs your investment. It needs your projects. I believe Mongolia will finish the policy work required to create the right investment climate to enable those projects to move forward, and to bring the economic benefits they will provide.

I am certain that Oyu Tolgoi will play a leading role in Mongolia's growth throughout the this century. However, the full potential of this mine can only be achieved if we maintain the stability that created the conditions for this investment.

In Mongolia, we have a recently elected parliament with a reform agenda. Several key pieces of legislation are either unresolved or uncertain.

At the same time, Mongolia has a queue of projects in different stages of development: from exploration through to pre-construction feasibility studies. Just as OT has been a game-changer for Mongolia, some of these other projects have the potential to make large contributions.

Since 2009, when the Oyu Tolgoi investment agreement was signed, OT has been over 25% of the Mongolian economy. As a consequence, we have attracted a lot of political attention. Some of that attention has called into question the **wisdom of the very agreement** that has **underpinned the Mongolian economic miracle** of the last three years.

The agreement was good enough to kick off the Mongolian growth cycle, but some believe it needs to be renegotiated to transfer even more of the project's value to Mongolia. The problem with this view, for Mongolia, is that those who are considering new projects are watching closely how Oyu Tolgoi's investors are treated. They are also wary of key unresolved pieces of legislation – from FDI, to the mining code, to taxation.

Put another way, I see investors paying attention to two broad challenges in the Mongolian context:

First, we recognize the Government's budgetary challenges in 2012 and 2013. The short-term economic outlook is challenging for the Government.

Second, we hear a **populist political view** that somehow promises and agreements can both be kept and changed at the same time. That makes investors and financiers uncertain.

Recently, the Government called to renegotiate the Oyu Tolgoi Investment Agreement. Rio Tinto declined. Since then, it has been reported that the government doesn't wish to undo the agreement, but wishes to make some changes. We have always maintained, and have recently reaffirmed, that the agreement is the basis for the project, and needs to remain **fully intact**. We also genuinely believe it represents a fair balance of obligation and benefit for all parties.

However, as Mongolia's largest corporate citizen, we recognize the importance of constructive dialog around issues of national significance. The continuing growth and sustainability of the Mongolian economy is an issue at the heart of both the Government's interests and those of international investors. We all want the economy to grow, to diversify, and to create the kind of prosperity that touches all Mongolians.

We have indicated to the Government of Mongolia that we are keen to embrace all opportunities to engage in dialog about the Oyu Tolgoi business.

We also believe that the Government, with its current budget challenges, will welcome all the help it can get from international financiers and investors. Yet, foreign direct investment is currently declining, according to the Government's own statistics. So, for that help to come, it would seem that international investors are seeking further reassurances from the Government that it intends to keep its promises to investors over time.

Now, I believe Mongolia will stand by its promises. This is a project that is delivering and is set for success. The partnership between government and business is working, and it will excel if each concentrates on what it does best.

Rio Tinto and Oyu Tolgoi, our investors, management and staff, and our suppliers, both international and domestic, stand ready to make copper. That is what we are about, and we are good at it.

As for the Government: I am encouraged by recent comments from the Minister for Mining Ganhuyag about another investor's agreement: Petrochina's profit sharing agreement. He spoke clearly and firmly against changing that agreement unilaterally.

We – and the rest of the business community – look forward to further reassurances. We can then proceed with confidence and deliver the full benefits of Oyu Tolgoi, both for the people of Mongolia and for our investors.