

DEFINING THE MONGOLIAN MINING SECTOR: THE EFFECT OF OYU TOLGOI AND ITS PRODUCTION

Cameron McRae, Speech to Mongolia Investment Summit 2013

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I am delighted to be here today – to speak on behalf of Oyu Tolgoi and Rio Tinto. For those of you who have not yet visited the wonderful country that is Mongolia – you will find a very warm welcome - and a country and people who are motivated and ready to build on an extraordinary heritage.

Progress/impact to date

2013 is a year of incredible significance for Oyu Tolgoi - in terms of what has been achieved already and what is to come. At the start of the year, we produced our very first copper concentrate, and are in line to begin commercial production by the end of June.

In partnership with the Government of Mongolia, our workforce has created something remarkable in the Gobi Desert. From an open wilderness, with no infrastructure, in just 30 months we have built a state-of-the-art mining complex.

The Oyu Tolgoi concentrator is up and running. It is the biggest machine in Mongolia. The overland conveyer – which carries the ore from the open pit to the Concentrator – could run the length of Kensington High Street and almost back again.

Visitors find the physical scale of Oyu Tolgoi impressive – almost intimidating. But even this pales into insignificance compared with the positive human and economic impact the business will bring.

As the biggest investment in Mongolian history, Oyu Tolgoi will eventually be responsible for 30 percent of Mongolia's GDP. But even before we have reached commercial production, Mongolia is benefitting from Oyu Tolgoi.

Since construction commenced, we have paid more than 870 million dollars in taxes, loans and pre-payments to the Government – whose annual revenue is around 4.5 billion dollars.

Last year, Mongolia was the fifth biggest recipient of taxes from Rio Tinto globally. That's notable especially because that is tax paid before we are even generating any revenue or profit.

Tax revenue is important for the Government, but so is what we build. It has a direct impact on people's lives.

Oyu Tolgoi has constructed extensive infrastructure that will benefit the mine's neighbours directly for years to come.

The road to the border will carry our concentrate to market, but will also allow people to travel safely and quickly.

The power infrastructure will run the mine and provide an important link in Mongolia's energy grid, but will also heat people's homes.

The new airport allows travel between the mine and Ulaanbaatar, but will also connect people to their families.

There are also less tangible – but potentially even more valuable contributions to the overall development of Mongolia.

- **Skills/capability development:** In partnership with the Mongolian Government, we are investing time, expertise and 126 million dollars in education. This is training thousands of young Mongolians, constructing vocational schools, developing the curriculum and building the skills of teachers. This programme is developing Mongolia's future technicians and leaders and creating a world class workforce – and not just in mining, but in other sectors like engineering, construction, finance and IT – benefiting all businesses in Mongolia.
- **Regional development:** As well as the shared value of building the mine, Oyu Tolgoi is investing in the South Gobi region. Our investments benefit the people and communities neighbouring our site. We are building colleges and clinics, improving water infrastructure, funding health programmes and preserving the unique cultural heritage of the South Gobi.
- **Supply Chain development:** Creating capacity and developing skills in Mongolia will help Oyu Tolgoi to operate more effectively. It means sourcing as many of our goods and services as we can locally and providing funding and training to help our suppliers develop. We are very proud of the fact that today 67 per cent of our suppliers are Mongolian companies. And those companies that we have supported are also ready to work with other projects and investors.

The 6.2 billion dollar investment we have made in Mongolia – has encouraged many others to invest – in financial services, supply and engineering companies, hospitality and the service industries. This has given our partners in Government the springboard to plan for further growth and invest in new projects.

The next stage

Even though commercial production will be reached by mid-year, Oyu Tolgoi is still in its first phase. For the mine to reach its full output level, we need to move to the next stage.

The minerals near the surface have over the years dyed the ground a dusty blue and given Oyu Tolgoi – Turquoise Hill – its name. But this is only a hint of what is found at Oyu Tolgoi.

Most of the ore body sits deep underground – where 80 per cent of the value lies.

These high-grade deposits are the size of Manhattan Island.

Oyu Tolgoi is moving from being an impressive construction project to a world class mining operation.

Developing the underground phase of Oyu Tolgoi is expected to increase Mongolian GDP by an additional 20% and over time directly contribute 34 billion dollars to the Government of Mongolia – as well as delivering value for our shareholders.

However, building underground mines is expensive. So, even when Oyu Tolgoi begins to generate revenue from the open pit in the second half 2013, we still need significant external funding to complete development of the 250 kilometres of underground tunnels.

Bank funding in the form of project finance is the most attractive finance option because it is cheaper and better tailored to the project than any other option currently available. I am happy to report that the process is now well advanced.

And Oyu Tolgoi's Project Finance – several billion dollars in value – will have a far wider impact on Mongolia.

The Government has identified some 30 billion dollars of major projects on the horizon including power plants, other mining projects, industrial plants, factories, reservoirs, housing, roads and railways.

All of these will require international funding through either equity investment or loans.

Oyu Tolgoi's Project Finance is a rare opportunity for Mongolia to showcase itself as an investment destination. By drawing the attention of more than 20 banks to Mongolia, together we are sending the message that the country is fertile for international investment.

Current discussions

Last autumn, I spoke in Hong Kong about Oyu Tolgoi's perspective on the economic benefits of projects like ours - and how Mongolia's future prosperity will rely on a broad portfolio of investments.

It is in Oyu Tolgoi's interests for the Mongolian economy to flourish and diversify. But we also feel a responsibility in knowing that Oyu Tolgoi needs to flourish in order to prompt others to invest – not just in mining, but across any number of sectors.

Undoubtedly, you will have seen reporting of the issues raised by the Government in recent months around the implementation of the investment agreement.

Let me be clear – Oyu Tolgoi, the international investors – Turquoise Hill and Rio Tinto – and the Government of Mongolia – all want the same thing: a world class mine that delivers value for shareholders and a bright and prosperous future for Mongolia.

Of course, given how crucial Oyu Tolgoi is to Mongolia, it is important that any concerns among shareholders are addressed together, between the partners, and resolved.

And most importantly the Government of Mongolia and Rio Tinto and Turquoise Hill are tackling these issues together for the long term benefit of the Country and all shareholders.

Constructive progress continues to be made. And the focus is both on reviewing progress to date and ensuring that production and future expansions are delivered together – and that critical agreements and finance are supported.

Whilst some of the issues are complex, I am confident these discussions will resolve them and we will deliver the promise of Oyu Tolgoi together.

What other investors want

That promise of course includes returns for our investors – but it includes even more profoundly – a huge contribution to the future development of Mongolia.

The vast majority of business people that I talk to are keen to play their part in that development.

Whether those are business people in Mongolia or investors internationally, I consistently hear three things they feel are needed, to provide even stronger foundations for Mongolia’s continuing development.

Firstly – they all want the immediate stability that would be brought by a legislative programme focused on attracting investment into Mongolia.

The creation of a new FDI policy document, a new minerals law and amendments to the investment law are very welcome. While the business community still has some concerns, these are strong signals from the Government about its commitment to attracting more investment and they are clearly welcomed as a first step by businesses in Mongolia.

Secondly – business wants Oyu Tolgoi’s Project Finance to succeed – to keep Mongolia on the map for international investment. This may sound self-serving, but other business people know that the project financing of Oyu Tolgoi will solidify a set of banking relationships for Mongolia that will make access to capital one step easier for major projects. It is clear that a successful Oyu Tolgoi is needed as a core part of a successful economic and business future for Mongolia.

And, thirdly – they want recognition of the role that business plays in growing the economy, and policies that help businesses deliver sustainable returns. Amongst those policies would be a clear commitment to the rule of law and a guarantee of the sanctity of contracts, delivering a stable, predictable environment for business to get on with the job of business.

Perhaps the most discussed contract in Mongolia’s history has been the Oyu Tolgoi Investment Agreement, the foundation of the Oyu Tolgoi partnership. It is natural, given that Oyu Tolgoi is the country’s biggest investment, there has been and will continue to be considerable debate about how we deliver its promise.

It is similarly understandable that there will be vibrant discussions about whether models such as the Investment Agreement are the best way to deliver both investment and prosperity to Mongolia in the future.

The Investment Agreement will continue to underpin Oyu Tolgoi and it remains my personal opinion – strongly held – that it delivers for both international investors and for Mongolia.

Future

I am confident that both Mongolia and international investors will make Oyu Tolgoi an extraordinary success story. In turn, Oyu Tolgoi's success will be a beacon that continues to declare Mongolia an attractive investment destination. Mongolia has a bright future and its people a prosperous one.

The demand for Mongolia's natural resources is strong. The outlook for China and India means that Rio Tinto, and I'm sure many of you in the room, feel confident about commodities prices in the medium and long term. And Mongolia is perfectly situated, in terms of its people, resources and geography to meet this demand, and elevate itself to be a leader on the world stage

In ten years, I want to look at Oyu Tolgoi and see us as one part of a strong business community in a diversified economy – contributing to the development of Mongolia and the prosperity of ordinary people. That is a vision that we can achieve together.

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