

## Myths and facts about Rio Tinto in Mongolia

### 1. Oyu Tolgoi has made significant economic contributions to Mongolia

#### **Myth: Mongolia is not benefiting from Oyu Tolgoi**

**Fact:** Oyu Tolgoi (OT) has been an economic game changer for Mongolia. Since 2010:

- OT operations spend eight out of every 10 tugriks in Mongolia
- OT had paid more than \$2.7<sup>1</sup> billion (MNT7.5 trillion)<sup>1</sup> to the government of Mongolia in taxes, fees, and other payments
- OT employs more than 13,000 Mongolians (94% the total workforce) directly and indirectly
- OT has spent \$10.7 billion (MNT29.8 trillion) in-country, of which more than \$3.3 billion (MNT9.2 trillion) has been with 700+ Mongolian suppliers
- OT has spent more than \$310 million (MNT863 billion) on infrastructure development in the South Gobi

To put this in context, the \$321 million (MNT893 billion) in taxes, fees and other payments OT made to the government of Mongolia in 2019 is more than the entire national Health Ministry annual expenditure.<sup>2</sup>

### 2. All foundational agreements are publically available

#### **Myth: The agreements between Rio Tinto and the Mongolian government are secret**

**Fact:** The OT Investment Agreement (OTIA), Amended and Restated Shareholder Agreement (ARSHA), Underground Development Plan (UDP), and Power Source Framework Agreement (PSFA) are all publically available on the OT ([www.ot.mn](http://www.ot.mn)) Erdenes Oyu Tolgoi ([eot.mn](http://eot.mn)) and Turquoise Hill Resources (<https://www.turquoisehill.com/>) websites.

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<sup>1</sup> All \$ figures in USD

<sup>1</sup> All calculation in this document is based on April 2020 monthly average exchange rate of US\$1 = MNT2783.16, announced by the Bank of Mongolia.  
(<https://www.mongolbank.mn/dblistofficialaveragemonthlydynamic.aspx>)

<sup>2</sup> Based on 2018 reported budget performance spend of MNT722 billion.

### **Myth: Rio Tinto asked the Mongolian government to sign the Underground Development Plan (UDP) document in Dubai**

**Fact:** We agreed to sign the UDP in Dubai in 2015 at the request of the government of Mongolia during its road show to promote Mongolia. The government believed that signing this agreement would help further promote Mongolia internationally as an attractive investment destination.

### **Myth: OT does not pay any tax**

**Fact:** Since 2010, OT has paid the government of Mongolia more than \$2.7 billion (MNT7.5 trillion) in taxes, fees, and other payments. For seven out of the eight years of 2013-2020, both the government and the Mongolian National Chamber of Commerce and Industry recognised OT as one of Mongolia's top three taxpayers; it was twice named the country's top taxpayer.

### **Myth: OT agreements are not fair to Mongolia**

**Fact:** The key agreements (IA, ARSHA, UDP) were negotiated in good faith over a long period of time and in accordance with Mongolian laws. Today, they form the foundation of the multi-billion dollar investment by TRQ and Rio Tinto in OT and Mongolia. We believe the agreements reflect compromises agreed between the parties in the negotiation process and that they are fair and reasonable for all parties. The government consulted specialist advisory services throughout the negotiation process.

## **3. Oyu Tolgoi brought unprecedented foreign investment in Mongolia**

### **Myth: Rio Tinto used the \$4.4 billion OT project financing to finance other Rio Tinto projects outside of Mongolia**

**Fact:** We have not used any of the OT project financing for projects outside of Mongolia. The finance lenders documents, approved by all shareholders (including Erdenes Oyu Tolgoi, which holds the government of Mongolia's 34% share), clearly states that the project finance can only be used for activities related to the OT project. The loan documents defined the project as "the development of certain copper and gold deposits located primarily within the area of the Mining Licence (together with any additional areas of mining licences as contemplated by the Investment Agreement, the "Mining Area") located in the Aimag of Umnugobi in the South Gobi region of Mongolia".

OT provides quarterly reports to project finance lenders regarding key development and operational activities. The lenders' technical third-party consultant monitors OT's progress.

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**Myth: It is in Rio Tinto's benefit to inflate/increase the costs of the project and collect management fees**

**Fact:** Increases in project costs impacts all shareholders. The more the project costs, the more time it takes for all shareholders to see a return on their investment by repaying the capital outlay and deriving a dividend.

Due to the agreed current funding structure, cost overruns require shareholder TRQ to find additional cash to inject into the project until the end of the agreed funding period. Given Rio Tinto's expertise in operating mining assets similar to OT, it was decided Rio Tinto was the best qualified to provide management services to OT.

We receive a payment (for example, a fixed 3% fee of the underground capital costs) for providing the management services, sharing its know-how and nearly 150 years of accumulated experience, which is common for a project with multiple shareholders. It would not make sense for us to inflate costs and incur a return, which would equate to being far less than its share of the costs. Procurement of additional goods and services requires OT to pay additional VAT, which further contributes to government revenue.

**Myth: The government of Mongolia will be left with a massive debt if there is never enough profit from OT to pay its share of the loans.**

**Fact:** The government has made no equity contribution and the loans to the government shareholders are non-recourse, meaning the government has no obligation to make loan payments if project cash flows were to be insufficient to repay the loan amounts in full. It is the non-government shareholders who are carrying all the financial risk through the outlay of loans and contributing equity to the project to make the investment possible in the first place. Moreover, we have given the completion guarantee (a form of surety) to the lenders on OT's UG project finance.

**Myth: Rio Tinto and TRQ have not put any of their own money into OT**

**Fact:** The non-government shareholders have contributed more than \$4 billion in equity funding and more than \$6 billion in the form of shareholder loans to the OT project. The government of Mongolia has not contributed any funds.

**Myth: The project feasibility studies should be a legally binding account of all costs**

**Fact:** A feasibility study is an estimate, based on information known at the time, and assumptions about many things – costs, schedule, reserves, productivity, grade, recoveries, prices etc and prepared to support investment decisions. We have not been able to identify a case in the mining

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industry where a Feasibility Study is considered a binding document and no more than the best possible forecast of an investment with a certain level of accuracy. If there was a requirement for feasibility studies to be legally binding, companies would not invest. It is no advantage to any shareholders for the project to cost more than the Feasibility study. OT is a generational asset almost 100-year life of mine and incremental investments need to be refined and studied to a detailed level during this period before further investment are made and approved. As the project evolves, the feasibility study is periodically updated.

Nothing in the Mongolian Minerals law suggests a feasibility study is binding.

**Myth: The government of Mongolia will never receive any dividends from the OT project**

**Fact:** It is important to understand the government started receiving benefits from the day of signing of OTIA through taxation and royalty revenues, employment of Mongolian citizens and procurement from local suppliers (see above). Dividends provide investment return and nothing more. They are not compensation for mineral wealth. Dividend inflows are more variable and driven by mine performance and market conditions.

The Amended and Restated Shareholder Agreement (ARSHA) outlines the mechanism by which government's equity stake in OT is funded by TRQ including the carry rate on such funded amounts. OT cash flows generated from operations must first service (in order of priority) third party project financing commitments and secondly shareholder loans. Following this, cash owed to the government in respect of its shareholding in OT will be used to repay the outstanding balance owed to TRQ in the first instance.

**Myth: Rio Tinto/TRQ are hiding something by making sales contracts confidential**

**Fact:** As with all our operations, due to business confidentiality and anti-trust concerns, OT's sales contracts are confidential and commercially sensitive, and not appropriate for public disclosure. OT is rightly prohibited by laws from engaging in anti-competitive conduct. Sharing pricing and other commercial information with competitors is unlawful, and exposes OT and its directors and officers to risks of significant penalties. The contracts are provided to the necessary authorities, including the Mongolian Customs and Tax, as required by law.

**Myth: Given the OT project is going to cost more than first planned, it is no longer viable**

**Fact:** OT is a world class deposit, with it being forecast to become the third largest copper mine in the world, upon completion of the underground project. Although the costs are higher than first planned, the project remains viable. The key to unlocking the value of OT is to deliver the underground project. Ultimately, around 80% of OT's value is contained in the underground mine due to the volume and grade of the mineral reserve.

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#### **4. Oyu Tolgoi is Mongolia's third-largest tax-payer**

##### **Myth: OT does not pay any tax in Mongolia**

**Fact:** Since 2010, OT has paid more than \$2.7 billion (MNT7.5 trillion) in taxes, fees, and other payments, with OT being named the country's top taxpayer for two of those years.

##### **Myth: Rio Tinto has done a deal so OT does not have to pay its fair share of tax**

**Fact:** The OTIA has provisions for a number of taxes and government payments to be stabilised, including income tax, customs duty, VAT, excise tax, and mineral royalties, providing the investors the certainty they require to be able to make a major investment decision of the magnitude of OT. There are many examples in Mongolia whereby other mining companies received tax exemptions over a number of years – OT has had no such exemption.

#### **5. Oyu Tolgoi is one of Rio Tinto's 50+ global assets**

##### **Myth: Rio Tinto makes most of its money from Mongolia**

**Fact:** Rio Tinto has a network for over 50 mining, refining and smelting production assets in Australia, Canada, North and South America, Europe, and Asia. In 2019, the company reported net earnings of \$8 billion. \$25 million of earnings is attributed to OT and Turquoise Hill – approximately 0.3% of Rio Tinto's total. OT is one of Rio Tinto's growth projects currently in the execution stage. More than half of Rio Tinto's total sales revenue is generated from its Australian iron ore assets.

##### **Myth: Rio Tinto is generating huge profits from OT and taking profits off shore**

**Fact:** Since the recommencement of the underground project in 2016, OT has not yet generated a positive free cash flow, meaning as a business OT is not generating enough operating cash flow to cover the costs of the underground development. TRQ has been funding OT's cash requirements beyond internally generated cash flows through a combination of equity investment and shareholder debt. Underground mining projects are extremely

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capital intensive, requiring significant upfront investment to construct the infrastructure that will support operations. This cost is amortized throughout the life of the project.

**Myth: All of Rio Tinto's copper production comes from Mongolia**

**Fact:** In 2019, our direct share of production of mined copper from copper assets in the United States, Chile and Mongolia totalled 577,400 tonnes, OT accounted for 49,100 tonnes – 8.5% of total copper production.

**6. Oyu Tolgoi operates to the highest international environmental standards**

**Myth: OT is stealing the water herders use and not paying for it**

**Fact:** OT signed a long-term water agreement with the government of Mongolia and complies with all technological and hydrogeological conditions of water use, from the deep underground aquifer, under the supervision of the Ministry of Environment and Tourism and Water Basin Administration. The hydrogeological study confirms that there is no negative impact on the natural environment and the livelihood of local residents. OT has been conducting an extensive water monitoring program, and its data demonstrates no impact. All the water monitoring data has been shared with regulatory stakeholders and the local community. There is also a program in place for local herders to participate in water monitoring.

According to the water agreement, OT has an obligation to compensate the local Umnugobi province for water used and has, to date, paid more than MNT100 billion tugriks or \$35.9 million for associated water costs. Furthermore, OT sources water from deep aquifers – this is non-drinkable water and utilises world leading technology to recycle over 85% of its total water used.

**Myth: OT is storing waste underground**

**Fact:** This is false. The underground mine is a workspace operated in accordance with the highest international environmental conditions.

**Myth: The copper produced at OT is tested at international not Mongolian laboratory facilities**

**Fact:** All samples are analysed (assayed) in Mongolia. There are two-forms of sampling. Firstly, a 15 kilogram concentrate sample is taken from every 12 tonnes of filtered concentrate. The sample is collected by ALS laboratory personnel and delivered to the analytical laboratory at the OT site.

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Secondly, at the bagging plant, nine secure packets of 200 gram samples are taken from each two tonne bag of concentrate. The samples are provided to the Mongolian Customers Branch also located at the OT site, who randomly provide samples from separate concentrate bags to the Central Geological laboratory, based in Ulaanbaatar. Here, further analysis of mineral content is undertaken and a Certificate of Analysis is produced that is issued for the customs clearance process.

## **7. Oyu Tolgoi is significantly contributing to the South Gobi region**

### **Myth: The local communities around the OT mine site are not benefiting from OT**

**Fact:** OT has invested over \$310 million (MNT863 billion) in infrastructure in the South Gobi region since 2010. This includes the construction of a new school, hospital, kindergarten, road, water, community, sport, recreation, and airport infrastructure. More than 80 suppliers and approximately 20% of the workforce is comprised of Umnugobi residents. Additionally, the Gobi Oyu Development Support Fund ([www.goviinoyu.mn](http://www.goviinoyu.mn)), fully funded by OT, has been established which provides over \$5 million in funding per year to sustainable development projects in the region.

## **8. Oyu Tolgoi is committed to domestic power**

### **Myth: OT has avoided building a power plant**

**Fact:** OTIA contains provision that, within four years of production commencing, power should be provided from a Mongolian coal-fired power plant or the national grid. In 2014, OT and the government of Mongolia entered into what was known as the Power Sector Cooperation Agreement (PSCA) for the exploration of a Tavan Tolgoi-based independent power producer. In February 2018, the government chose to cancel the PSCA after an exhaustive international search failed to find a proponent to construct the the Tavan Tolgoi Power Project (TTPP) as an Independent Power Provider (IPP). The benefit of an IPP is that OT would receive a certain amount of power offtake, but not incur the capital cost that would have added to overall OT project costs and further delay dividends.

On 31 December, 2018 the government of Mongolia and Oyu Tolgoi LLC signed the Power Sector Framework Agreement (PSFA) under the framework, it was agreed to extend the deadline to supply domestic power until mid-2023. Since then, Oyu Tolgoi has worked hard to deliver a power station at Tavan Tolgoi. However, on 14 April 2020, the government decided to develop a State-Owned Power Plant to supply power to OT.

Securing a long-term power solution is critical to the development of the underground mine.

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