



Mongolia Investor Day

Tuesday, 11th July 2023

Q&A

Menno Sanderse: Great. There's a roving mic in the back. And before I say can we go there, that was a pretty impressive video. So, we've now had Bold present from 1,300 metres down below and we had a symphony orchestra from down below 1,300 metres. And I had a request from a few of you to be able to do some FaceTiming home tomorrow and I've put that with Andrew, the site manager, and see if we can make that work to prove to you that it really works, 1,300 metres underground.

So please keep your questions to the session this morning. Speakers up here, who wants to have the first question?

Speaker: Bold, I think you made a bit of a passing simple comment that you're not resource-constrained, nor are you logistics-constrained. Can you just sort of finish that, so that tells me you're concentrator-constrained, is that right?

Bold Baatar: We're always concentrator-constrained because I want more copper. But the reality is I think we're looking at an expansion of 120,000 tonnes per day. And this is another expansion that's been already poured when we set up the concentrator. So I don't think the concentrated expansion stops at 120,000 tonnes. I really hope the team ramps up the underground safely, but I do think there's a potential another 30,000, 40,000 tonne expansion that can be added within the existing concentrator footprint. So at the moment, we're not at the stage of any studies, but the original SAG mills, when they were installed, there was one line that's been already poured for the foundation to install another line. So once that takes to 160,000, then we're concentrator-constrained.

Speaker: Thank you.

Speaker: Thank you for the presentation. Just a question. For the government or your JV partners, do they prefer further direct investment or they prefer earlier shareholder dividends? Which one is the preference?

Bold Baatar: All shareholders want earlier dividends. And –

Speaker: But for this one, like, the country is the JV partner, right.

Bold Baatar: I think the government is very clear when they were negotiating that they're very sensitive about the timing of dividends, and so are we. So we absolutely focus not to delay the timing of dividends as much as possible. However, we do have to repay the shareholder loans, and this is a commitment we made to project finance lenders and the maturity. So I think as the underground ramps-up, and if we're in a privileged position to generate free cash flow in a good, positive copper demand cycle, I do think it potentially helps everyone. But the government obviously benefits from taxes. They receive about \$200 million to \$300 million in total taxes per year, but the future dividends of this business are going to contribute even more, so, absolutely.

Speaker: Thanks for the presentation. Just a quick one from me on the tax dispute. So can you provide a general overlay, but then specifically, what is the point of contention that's being debated over the tax dispute? And then what is the current status of that progress there?

Bold Baatar: So, as I mentioned, we pay about \$200 million to \$300 million in annual taxes in various forms for OT, and the dispute is about \$25 million to \$30 million premium amount.

It's not on the \$200 million to \$300 million. And on the \$25 million to \$30 million, it's about a withholding tax on the management fee. And some of the other provisions, but by and large, it's about withholding tax that Mongolia has, which is about 20% for distributions outside the country. But with 26 countries, there's double-tax treaty. Of those 26, 24 have a withholding tax of 10%. So we're in pretty good position in terms of Canada-UK jurisdictions in Mongolia have a very positive environment for about a 10% withholding tax. But we're in progress process of discussions around how we settle that in the future, and of course, making sure that the fiscal stability as per investment agreement and the regime is protected.

So at the moment, we are working with the government working group. It is an amount of about, I think, \$350 million. I think the number may have moved around. That is covering six years of the tax calculation. So that's roughly the details. Does that answer your question?

Bob Brackett (Bernstein): Good morning Bob Brackett at Bernstein. I had a question on the pipeline of opportunities slide, a minor one and then kind of a bigger one. The minor one, I didn't see Heruga on that slide explicitly. The major one, talk about the MOU and talk about perhaps, you mentioned leaching, how do you think about downstream opportunities? How do you value or think about those? I'll leave it at that.

Deirdré Lingenfelder: So Heruga is definitely included, as I mentioned. So it might have not been explicit on the slide, but absolutely Heruga is part of the Life of Mine plan. In terms of future opportunities, all of those opportunities need to go through, as you would do with any investment opportunity, the decision-making process according to our investment decision criteria. And these opportunities then go through the different approval processes, both from a Rio Tinto perspective and at the Oyu Tolgoi Board. So we're at early stages on leaching, which you referenced. We are currently in order of magnitude, but progressing that quite quickly. We will have a copper deficit, as we all know, within the next decade. So it's in everyone's interest to firm up on those growth opportunities.

Bold Baatar: Just to be clear, it's a low-grade oxide leaching and potentially with secondary sulphide. It's not a primary sulphide. So it's a proven leaching technology on an existing low-grade stockpile that's been already moved to the side. So it's not a pit. So I hope that's helpful. So I think I'm pretty excited about that one. It's not enough, though.

But I think on your downstream question, as per the investment agreement we had signed, we looked at economic viability of a smelter and whether the actual returns work. In the past, they didn't. And I think, as we're looking at the future phase of a different price environment, but also currently, as we sell concentrate, we don't get the VAT refund. When we sell a cathode, we get a VAT refund. So you automatically get about an 8% benefit from that. And in addition, you may have heard that the French company called Orano is looking to build a uranium business here, and they will need sulphuric acid. And if we can have an integrated market for sulphuric acid, as well as potentially the VAT refund, potentially it changes the economics, but we haven't done the full calculation on that.

Of course, all countries want a bit of downstream in terms of their copper. And the one benefit we have, which is, of course, we do have a smelting expertise at Kennecott. And we are in the downstream business in aluminium, so we have a lot of inside knowledge around smelting.

Paul McTaggart (Citi): Hi, its Paul McTaggart from Citi. So you mentioned bioleaching, not necessarily to do with OT, but the talk is of bioleaching or sulphide leaching ores, primary ores,

at very large scale. And I know historically, this technology has been around for a while, and it's been difficult to get the bugs to work in the right temperature zones, etc. So what are the developments that now will enable this to be efficient at much greater scale? I mean, what has been the things that have moved forward in the technology?

Bold Baatar: I think, Paul, what's driven this more is the demand side of the story, to be honest. And I think the copper demand has not been as clear in the past in terms of doubling of potential demand volumes. So everybody's looking at how to add supply. That's creating urgency of looking at these technologies.

I mean, as you said, this technology has been around. Now, economically, it was always made sense to go the concentrated route because you had a higher grade. And, of course, it made sense to get credit for the by-products. What you don't get with the bioleaching is the by-product credit.

And so, as we're looking at the options, it tends to work at low grade, high arsenic, no by-product orebodies. And when you look at that, there's a very limited universe, and some of them are actually in tailings of the existing old mines and the waste. And I think in Nevada, this is a case in point. So that's how we think about it as an opportunity. But it is at the scale-up study phase. So, we just have to prove up the works.

Lachlan Shaw (UBS): Lachlan Shaw, UBS. So just on the power agreement, can you maybe give us a little more detail there? And then just to expand, how do you think about decarbonisation? Obviously, the President – Prime Minister's presentation yesterday, fantastic renewable assets here in Mongolia. So just interested in if you can give us some more detail there. Thank you.

Deirdré Lingenfelder: I will give you a brief answer now, Lachlan, and we've got a specific section this afternoon on biopower and we will talk about decarb, so it will be covered in more detail this afternoon. But, in short, on the power side, we have signed fairly recently with the Inner Mongolia Power Company, a power purchase agreement that's valid until 2030. So that extends the current contract. So it builds out on what we are currently doing in any event. That agreement takes into consideration our commitment to source power from Mongolia. So disregarding the fact that once power is available from Mongolia, we are committed to source the power locally. What is front of mind for us is making sure we have uninterrupted power supply. So we have de-risked the situation. And it's pretty good terms of contract that was settled. But Duka has got that in her section this afternoon. So I won't take the thunder out of her presentation for this afternoon.

On decarbonisation, we have pathways to carbon neutrality. As I said, our ambition is to be carbon neutral by 2050. That is anchoring that ambition back into what Rio Tinto committed to publicly as well. There are different pathways to take to get to zero and that depends on whether the Mongolia Power Supply is coal-based or not. There's a lot of work being done from the Rio Tinto side in engaging with government around large-scale renewables. It is work in progress. I don't think we've quite landed as yet.

If we don't take that pathway, we do have other options around, well, how do we offset? But ultimately, we're in the business of copper that's needed to electrify the world. And for us to make that claim, we have to be absolutely certain that our own house is in order. So for that reason, we have multiple pathways.

Bold Baatar: One thing I would just add is that I see a good-looking fellow in a hat. That's Munkhsukh. Munkhsukh is our Managing Director of Growth and Development. He's based in Brisbane. He's in charge of a number of our growth options at OT, but also Winu. And Munkhsukh has built one of the first wind power generation projects in Mongolia more than ten years ago, and we do have a – it's 50 megawatts. He's done some recent reviews of the Inner Mongolian power grid's renewable percentage. It's about 35% to 40%. So that is the existing renewable component of our existing OT power supply. I think that's one thing that people forget, actually. China is the leader in renewables, and in particular, in Inner Mongolia, in particular around wind. And that's where we have certain exposure to renewable in our existing power contracts.

Kodees Warran (BMO): Hi. It's Kodees from BMO. So a couple of questions. On CAPEX, so the CAPEX was – last CAPEX was \$7.1 billion. There are – that's two things on that one. One is it's yet to be ratified by the OT board. And then also you highlighted that the CAPEX is subject to COVID-19 impact that has not been taken into account. So whether you have any update on the total CAPEX numbers now? And whether that has been approved by the OT board?

And then second, on the taxes again, so \$356 million that was quoted at the end of December 2022, so you mentioned that most of the dispute is on the management fee. So since the structure has changed now, is it going to accrue now or is it not going to happen, that it's going to be like a history?

Deirdré Lingenfelder: Yeah, so starting - I'll leave the second part to you, Bold. So starting on the CAPEX – sorry? We're covering that both through the project lens as well as the financial lens. Can we hold that until this afternoon? Otherwise, we're just going to get into divergent conversations.

Bold Baatar: And I think on the tax, the key question there is, it's the calculation methodology on the withholding tax. And there's other things that are in that. There's management fees, there's interest rates etc. So there's a breakdown that's quite detailed. I think as far as looking at how we look at the potential situation, there is things like Pillar 2 coming. And, you know, that that is applicable to us as well. So it's a quite complex subject. We're in the midst of a government negotiation. As we settle it down, we'll have to probably give you a bit more detail after that process is complete.

Tyler Broda (RBC): Hello. Tyler Broda from RBC. So, boy, yesterday, I mean, quite clear that there's a lot of growth potential in Mongolia as a whole. But I guess just with the numbers on OT and going up to the revenue levels, the amount of GDP growth that's going to cause Mongolia is going to be quite high. I guess, it puts Mongolia at risk potentially of the Dutch disease, where you have one sector really moving ahead of the rest, usually comes with a strong currency and high rates of labour inflation. I guess in your assessing of the situation, how do you see that potential impact playing through?

Bold Baatar: Yeah, one story that Mongolia is not appreciated for is coal. When you look at the coal revenues, you saw the historical increase in the last few years, in particular because of price environment. So when you're thinking about 20, 30 million tonne coal exports, price ran up to \$200 to \$300. That suddenly became the \$46 billion revenue line that came in suddenly.

So when you see that kind of historical pattern, as we're looking at renewable copper, it's not dissimilar. And in that space, we have not seen a significant appreciation of the tugrik. And that's because the government obviously is spending a lot of capital on infrastructure. So roads still need to be built, housing still needs to be resolved, still a lot of power question. So I look at that kind of benefit that we have, like one-off potentially in coal, and how that potentially translates.

And the other thing to keep in mind is not all exports are GDP growth because GDP when you calculate it is dependent on net exports. So the question is what is the import component of that? And I think the government is spending quite a lot of time of capital on building certain things, such as an oil and gas refinery. So there's a lot of equipment that they're bringing in with those. So, it's not going to be a country that is going to be short of capital or investment needs that will drive the import needs as the exports ramp-up. And the net export is the contribution to GDP

Man Lam (Investbank): Man Lam from Investbank. The government mentioned yesterday about increasing rail capacity in the country and I know that the project is looking at potentially railing its concentrate to the border. Can you just give us an update on that particular option?

Amarjargal Khenchbish: Thanks for the question. I'll take that. The government recently completed two railway projects. So one is now about to be connected to the China side. So I assume, I have heard that, recently Prime Minister visited to China, had an extensive discussion with the Chinese government on the connection for the Gashuun Sukhait railroad. So that's about a bit over 200 kilometres of railroad has been built from Tavan Tolgoi coal mine to Gashuun Sukhait border crossings. So that railroad can be connected to Oyu Tolgoi site. So the team is now currently doing some assessments on this.

Bold Baatar: I think just the other thing to keep in mind is, what's our distance to the border? 80 kilometres?

Amarjargal Khenchbish: 80.

Bold Baatar: We're 80 kilometres from the customer, right. So we have historically sent it by truck and we actually have a paved road that we've built. Andrew completed it last year. So I think, the railway capacity, of course, is potentially interesting. But we're sending concentrate at the moment that does not require the rail capacity for logistics.

Paul Young (Goldman Sachs): Yeah, Paul Young from Goldman Sachs. A question again on the government agreement and the other one you signed in 2022. You said you've completed five of the six measures. Can you step through just high level what those five measures that have been implemented, what they are? And secondly, just on the management fee, can you just remind us, does it step up from 3% to 6% as the underground comes into commercial production?

Amarjargal Khenchbish: Yeah. So Parliament Resolution 103 has been passed end of 2021. So we have been working very closely with the government working group and also Erdenes Oyu. Erdenes Oyu Tolgoi is the government shareholder of Oyu Tolgoi project. So the Resolution 103 has six measures. So from the government side, the Ministry of Justice, who is the lead of the government working group on the implementation of this resolution, so as I mentioned, the five out of six has been jointly successfully completed.

So first one is the writing of the 2.3 billion US shareholder's loan interest. Then second is termination of UDP, so, so-called Nova agreement. And also the independent audit on the project finance expenditure. And fourth is improving the environmental protection commitment to Oyu Tolgoi and the water monitoring and the improving of the governance at OT, and also the commitment to the social – basically the improvement of the ESG and long-term power supply, and the water monitoring. So those have been – the extensive work has been done especially on this space by Oyu Tolgoi and Rio Tinto and Erdenes Oyu Tolgoi.

Paul Young: So the management fee increased when the underground mining started?

Amarjargal Khenchbish: So the – the management fee was actually the part of the UDP agreement, so it's been reduced from 6% to 3% for the underground development.

Bold Baatar: So just to be clear, I don't think there's a step-up to 6%. Is that correct?

Amarjargal Khenchbish: Yes.

Bold Baatar: And I think the other part about the five points is that the UDP agreement was about project financing, and that's largely complete. So that was most of it. So the termination of the UDP from a materiality standpoint, of course, it sent a very strong message in terms of our agreement with the government, but that was all about getting the project financing in place, and that's what is called the Underground Development Plan, so just to be clear.

Jim Xu (Barrenjoey): Jim Xu from Barrenjoey. Just a question on broader Mongolian politics. So last year, there was the coal corruption scandal, which obviously saw some social unrest. What's the latest update in that scandal? Have any members of parliament been involved in that?

Amarjargal Khenchbish: Yeah, that's actually a very good question. So corruption index in Mongolia is not very good at the moment, and government has been taking, currently taking many measures to fight the corruption, especially with this Prime Minister, this cabinet. Not only the coal scandal, it's also the currently government working on the different issues to resolve the – especially related to the corruption matters.

And I would like to mention here that Rio Tinto, we are working together with the Transparency International, also the Chamber of Commerce, contributing to this important initiative in Mongolia fighting against the corruption. So we established a Business Integrity Centre, so that's supported by Transparency International, that's been established in the Chamber of Commerce. So this is actually the private sector contribution. We are actually supporting the government, this initiative.

Bold Baatar: And I can't really comment on whether any politicians were implicated because that investigation is still underway. But obviously, there's a massive effort to improve transparency, and I think the digital effort, the e-digital, e-Mongolia effort is going to be a significant improvement, making sure all the contracts are actually very transparent and posted on the website. So I think that's a clear step. And as a vibrant democracy, I find that actually quite healthy, and I think the social unrest that has happened in December was actually supporting the government to progress the clean-up of the potentially corrupt individuals.