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SOUTH GOBI SUPPLIER DEVELOPMENT POLICY

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Introduction

1. Policy Number

This document is known as PR-06: **South Gobi Supplier Development Policy**.

2. Purpose

This policy is established to facilitate Oyu Tolgoi LLC's (OT's) commitment to working wherever possible, as a first preference, with those Suppliers classified as South Gobi by definition.

Specifically, this policy provides a clear understanding of:

- the eligibility criteria that must be established to qualify as a South Gobi supplier;
- the OT programs created to facilitate the development of South Gobi suppliers in accordance with globally recognised best practice resource sector requirements and expectations; and
- the reporting requirements for OT employees.

This policy assists OT in realising the dual objectives of:

1. meeting the commitments of their Investment Agreement with the Government of Mongolia with respect to the development and facilitation of local suppliers, especially in the South Gobi region surrounding operations; and
2. providing support for the development of a long term, sustainable, localised supply chain to meet wherever practicable the life of mine requirements of OT from within the surrounding region.

As outlined in Figure 1, the South Gobi Supplier & Development Policy is one of eight core policies underpinning OT's overarching procurement process and philosophy.

FIGURE 1: Core policies governing OT Procurement



3. Application

This policy applies to:

- all employees of OT;
- all Suppliers meeting the eligibility criteria of South Gobi supplier status (as outlined in Section 1 Eligibility Criteria).

4. Commencement

This amended policy applies at OT from November 20, 2012

5. Authority and Management

The OT Board of Directors approved this amended policy on November 20, 2012

It will be reviewed annually or on an as required basis.

The Vice President, Procurement and Infrastructure Development, Oyu Tolgoi LLC is the custodian of this policy. Any requests for changes to this policy must be addressed to this person and will be subjected to the appropriate review and approval processes.

Policy

1. Eligibility criteria

A South Gobi Supplier refers to a National Supplier that supplies their goods or services within the South Gobi aimag with the following characteristics:

- South Gobi Registered Company
- Company's permanent workforce comprised of in excess of 75% Mongolian National employees located in the South Gobi aimag
- Have their business head/branch office registered in the South Gobi aimag where OT uses this office as the contracting entity.

Those suppliers will be eligible for participation in the support programs and enablers outlined in the following OT policy.

2. Characteristics of South Gobi Suppliers

Suppliers within the South Gobi region are currently largely unfamiliar with the requirements and expectations of the mining sector, and in many instances this has prevented their effective participation in competitive tenders for OT's requirements.

The following policy is designed to address those areas where OT can provide targeted enablers to facilitate the preferential engagement of South Gobi suppliers and fast track their ability to make the adjustments to ensure greater alignment and compliance with the requisite mining sector and industry standards moving forward.

To address this, OT has identified some typical characteristics or challenges currently faced by South Gobi suppliers for diagnostic purposes, in ensuring the policy provides the correct support to facilitate their ongoing preferential engagement. South Gobi Suppliers are often:

- producers of low transactional/unit value goods and/or services;
- predominantly suppliers of services as opposed to value added goods;
- limited in their experience of and exposure to supply chain management and logistics;
- restricted by cash flow constraints and the access to competitive capital;
- restricted in knowledge of how to prepare proper invoice payment documentation;
- capacity constrained in terms of their means of production or ability to produce services to the volumes required (and within the timeframes established);
- unfamiliar with competitive tender processes of the comprehensive nature routinely employed by the mining sector;
- operating on singular purchase orders, or informal forms of engagement versus full Contract terms and conditions;

- unable to meet the full Scope of Work/Technical compliance required by Request for tender documentation or site end users functional requirements;
- inexperienced with Quality assurance requirements and systems required to meet mining sector standards and expectations;
- unaware of OT procurement spend typically associated with a mining operation and thus unable to conduct meaningful business development and alignment with sufficient lead time to ensure their operation can benefit from that demand in the region;
- unable to demonstrate total cost of supply chain competitiveness relative to imported content; and
- needing language support in terms of translated materials to participate meaningfully.

3. South Gobi Supplier Development

To facilitate the growth of South Gobi suppliers, OT provides and supports a number of processes for South Gobi suppliers. Outlined below are a number of development processes specifically for South Gobi Suppliers. These processes are in addition to the development programs listed in PR07: National Supplier and Development Policy, which are also available to South Gobi suppliers:

1. **Dalanzadgad Supplier Development Centre:** ensures that South Gobi businesses have access to training, coaching and business development support that will facilitate the emergence of suppliers capable of meeting OT's exacting supply standards and those of the wider Mongolian market.
2. **Micro-credit program:** provides a micro credit program to South Gobi based suppliers to facilitate the emergence of new micro and small to medium sized enterprises and to foster the expansion of existing businesses scope and scale through supported capital acquisitions.
3. **Price Premium:** provides a range of agreed pricing premiums (contingent on the category being sourced and the supplier development strategy being pursued) between 5% and 20%. These premiums will be authorised by OT management and decided by category on an annual basis and posted on the OT procurement website accordingly.
4. **Category Targets:** OT will identify category targets for South Gobi spend. All targets will be advertised to the public annually and made available on the OT procurement website. In the spirit of maintaining the competitiveness there will never be a target greater than 80% for South Gobi suppliers.
5. **Revised payment terms:** OT will provide revised payment terms for South Gobi suppliers (linked to progress payment schedule and achievement of agreed deliverables within nominated timeframes).
6. **Preferred Supplier** – when two or more tenders are technically sufficient and all components of the tender are equal, apart from a small price differential, South Gobi suppliers will be chosen over national and international suppliers on a preferential basis and subject to satisfactory compliance with health, safety and environment requirements.

7. **Right of Reply** – a South Gobi supplier will be given an opportunity to revise their bid price in the following circumstances:
- ▷ if the bid is greater than \$100,000;
 - ▷ if the goods or services are technically sufficient; and
 - ▷ if the price difference between the national or international supplier and the South Gobi supplier is within 10%.

4. Reporting Requirements

OT will commit to a reporting and performance management regime with key stakeholders including but not limited to;

- monthly reporting to management;
- quarterly reporting to the Board; and
- annual internal auditing.

Reporting will measure, as a minimum;

- spend profile penetration;
- percentage spend by South Gobi, National and International supplier; and
- Targets versus Actuals