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INTERNATIONAL STRATEGIC SUPPLIER COLLABORATION POLICY

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Introduction

1. Policy Number

This document is known as PP-05: **International Strategic Supplier Collaboration Policy**.

2. Purpose

This International Strategic Supplier Local Content Collaboration Policy establishes a program where the largest existing international suppliers are specifically targeted for co-commitments to local content optimisation. OT will initially target their top 10 suppliers for contracts awarded after Dec 1, 2011 in developing a local content.

Specifically, this policy provides a clear understanding of:

- supplier obligations to local content development; and
- OT supplier evaluations and performance monitoring to ensure compliance.

As outlined in Figure 1, the International Strategic Supplier Collaboration Policy is one of the eight core policies directing OT's overarching procurement process and philosophy.

FIGURE 1: Core policies governing the OT Procurement



3. Application

This policy applies to:

- all employees involved in OT's Procurement function; and
- the largest existing international suppliers to OT.

4. Commencement

This amended policy applies from November 20, 2012

5. Authority and Management

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

It will be reviewed annually or as required.

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. Major Supplier/Contractor Engagement

- Existing major international suppliers will be actively engaged to enter into customised Memorandums of Understanding (MOU's) with OT to support local content optimisation by identifying opportunities for local businesses in the interest of contributing and participating in OT's commitment to the Investment Agreement.
- Existing international suppliers to be committed and understand the on-going benefit of engaging national suppliers (via established targets and thresholds).
- Those exceeding expectations may be rewarded with contract term extensions and preferred supplier status.
- Any new engagements will specifically address local content optimisation in a dedicated schedule attached to the Contract General Terms and Conditions of OT as part of the supplier selection criteria and the Request for Proposal process.

2. Memorandum of Understanding (MOU)

- Obligations including specific targets and thresholds will be captured in dedicated Memorandums of Understanding (MOUs) for local content optimisation with each of the identified top 10 international suppliers where suppliers will be identified on the basis of OT's spend amount. This will be reviewed annually. These targets include but are not limited to:
 - ▷ Training commitments
 - ▷ Apprenticeships
 - ▷ Scholarships
 - ▷ Mentoring programs for local businesses
 - ▷ Mongolian employment
 - ▷ Sub-contracting commitments
 - ▷ Capital Investments in Mongolia
 - ▷ Technical Transfer Opportunities
 - ▷ Joint Ventures
 - ▷ Agency agreements

3. Supplier Evaluations and Performance Monitoring

- This approach will require active contract management of the top 10 suppliers by spend to ensure compliance, resourcing and commitment as well as the requirement to monitor how the suppliers are performing against their obligations.
- Those suppliers who are not complying will be targeted for replacement as compared to those suppliers who share OT's commitment to local content optimisation.