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SUPPLIER QUALIFICATION POLICY

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Introduction

1. Policy Number

This document is known as **PR-02: Supplier Qualification Policy**.

2. Purpose

This policy is established to ensure that Oyu Tolgoi LLC (OT) is working with suppliers who are able to comply with resource sector requirements, including but not limited to:

- Health, Safety and the Environment (HSE),
- Finance,
- Ethics and Local Content Development,
- Quality Management,
- Legal and Information Security,
- Human Resource Management,
- Services and References.

As outlined in Figure 1, the Supplier Qualification Policy is one of eight core policies directing OT's procurement practices.

FIGURE 1: Core policies governing OT Procurement



3. Application

This policy applies to:

- all employees of OT;
- all OT Service Suppliers (with site based performance component) want-

- ing to participate in future OT competitive tenders; and
- all OT Service Suppliers currently supplying services to OT.

OT currently has numerous existing suppliers at the OT mine site requiring qualification status. As such, there will be an incremental approach with a project managed, risk based prioritisation process for identifying initial supplier targets. The objective of this program is to have all high risk, Operations site based, services providers with a "qualified" status by August 2012.

4. Commencement

This amended policy applies from November 20, 2012.

5. Authority and Management

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

It will be reviewed annually or on 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.

Procurement Policy

1. The OT Supplier Qualification Policy

The OT Supplier qualification policy has been adapted from the highly successful Rio Tinto International model, developed to identify capability and skills gaps across seven broad qualification areas including:

- Health, Safety and the Environment (HSE),
- Finance,
- Ethics and Local Content Development,
- Quality Management,
- Legal and Information Security,
- Human Resource Management,
- Services and References.

The OT Supplier Qualification policy has been designed to align, and in principal deliver, those requirements as outlined in Clauses 14-16 of the Public Procurement Law of Mongolia. In addition to this, OT's Supplier Qualification Policy extends to be inclusive of specific mining sector requirements including a heavy emphasis on health and safety.

OT's Procurement Function operates a dedicated Local Supplier Development team (comprised of technical engineering and commercial support staff) who will work with Local suppliers and support them through the prequalification and qualification process. This team are bi-lingual and highly experienced in identifying and overcoming the challenges that create barriers to local content optimisation. The OT Supplier Qualification Policy is applicable without exception to all current and future service suppliers across all spend categories, and will be targeted with priority to those services categories with the highest recognized site exposure.

OT segments the spend profile relative to the category of services overall complexity and operational exposure in accordance with the principles outlined in the PR-01: Spend Category Segmentation Policy.

Suppliers wishing to register their intent to participate in competitive tenders or to supply services to OT will be subject to this qualification process. This qualification process will depend on the OT spend category and overall criticality of the service and its exposure to OT's operations.

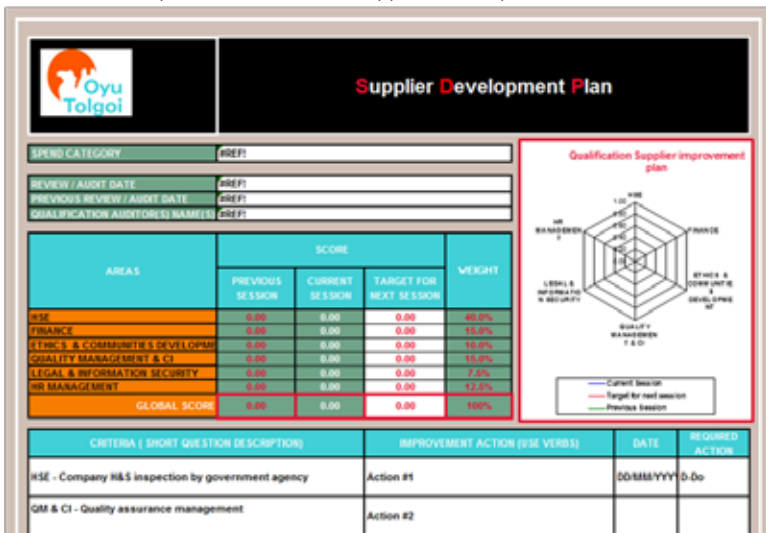
Suppliers in South Gobi categories or with high potential to participate in future competitive tender processes will be targeted for inclusion in OT's Supplier Qualification Policy with first priority.

The qualification process will be comprised of screening and qualification phases where all seven qualification areas and criteria are applied universally to participating suppliers. Suppliers will then be allocated a score against the identified criteria.

- The screening phase is an initial phase of the process for which all suppliers are examined against OT’s basic criteria. The initial screening emphasises the minimum HSE criteria required to be considered further as well as the key criteria as outlined in Clauses 14-16 of the Public Procurement Law of Mongolia.
- A successful initial screening result would enable the suppliers to be informed of tender announcements and to move onto the full qualification phase, where suppliers are examined in accordance with the remaining criteria.

The scoring thresholds for acceptable engagement are customised to accommodate many local suppliers’ developing status and makes provision for tailored supplier development plans to address identified capability and performance gaps. Please refer to FIGURE 2 for an example of a customised Supplier Development Plan. Where gaps are identified, OT shall determine if the gaps are substantive and require the Supplier to take corrective action within a certain time period prior to being allowed to work on OT site or tender proposals to OT.

FIGURE 2: Sample of a customised Supplier Development Plan



Suppliers will be subjected to an annual requalification process to ensure an on-going compliance as well as evaluate the improvements achieved by the supplier in the prior period such that a continuous improvement culture is instilled. This requalification process will insure the supplier cooperation and alignment with the expectations and requirements of the Procurement function of OT. This ensures that the local supplier community has the opportunity to develop both the technical and commercial skills required to engage and meaningfully participate in the competitive tender processes of the operations of OT.

For further details and reference to supplier development and the associated feedback process, please refer to PR 06: South Gobi Supplier Development Policy and PR 07: National Supplier Development Policy.

The Supplier Qualification Process provides local suppliers with valuable experience in meeting the expectations and requirements of the developing mining industry / resource sector within Mongolia. By developing exposure to and experience of meeting world class HSE and quality assurance requirements, the local supply base will be able to establish long term capability and sustainable business practices. In meeting the requirements of the Supplier Qualification Policy local suppliers can be confident of their ability to comply with best practice standards and expectations, which in turn should foster their introduction into new areas of business development and expansion.

1.2 Ensuring Key Current OT Services Suppliers are Qualified

The initial focus of the OT Supplier qualification process is to screen and qualify, with priority, all services suppliers with whom OT currently engage. OT will also screen and qualify those suppliers considered as current or active site services suppliers, for categories of spend already under contract. These service suppliers will be initially targeted on the basis that they currently have an active presence on site and have an operational exposure that requires compliance with OT expectations, particularly HSE requirements.

1.3 Ensuring future OT Services Suppliers are pre-qualified to participate in Competitive Tenders

Once the current OT Suppliers who are engaged on OT Site are prequalified then the next focus of work shall comprise the screening and qualification of Suppliers in those categories of spend where OT has future services requirements to ensure that imminent tenders for services requirements include those suppliers who meet OT's engagement criteria and standards with respect to qualification status.

Qualification status ensures that a Supplier's details can be recorded within OT's Supplier Database and that their status is reflected as "Qualified" signifying their suitability and eligibility to participate in those competitive tenders for categories of services spend for which their organisation would be eligible to provide.

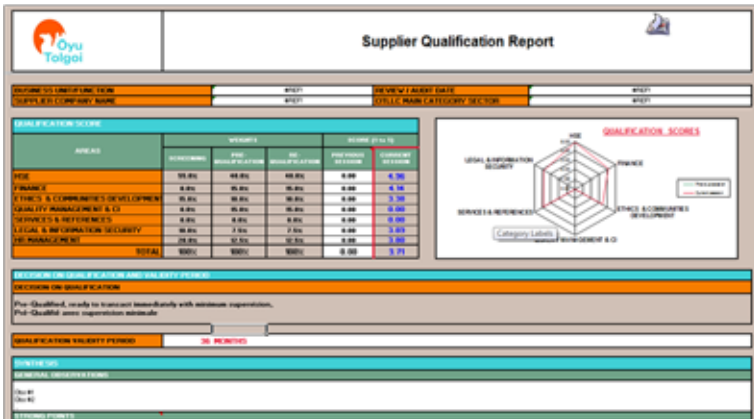
2. The role of the Qualification process within the OT Procurement Function

The role of the Supplier Qualification Policy is to ensure that OT engages only with those Suppliers who share our organisational commitment to HSE and sound business practices as outlined in the initial and full screening processes referred to above.

The following FIGURE 3 illustrates a standard Supplier Qualification Report which typically reflects the performance of a supplier relative to the above articulated criteria of the OT Supplier Qualification Process.

For some highly specialised categories (such as process consumables, and the copper concentrator) there will typically be additional categories where specific requirements due to the technical nature of the products being sourced will be developed. Regardless, OT will develop a Qualified Supplier database (Master Supplier List i.e. MSL) that will identify what spend categories each Supplier has been qualified. This list will be available on the OT Procurement website portal. Should suppliers wish to participate in other spend categories where the qualification process has not noted the supplier as being qualified (i.e. incorrect licenses for service or past experience), then a requalification process will have to be completed prior to the supplier being allowed to participate in a new tender.

FIGURE 3: Supplier Qualification Report



Qualified status allows a services supplier to be considered eligible for participation in a competitive tender process and to have their status within OT's Supplier Database reflected as qualified and eligible for engagement. A Qualified status does not exempt any Supplier from being required to participate and meet the tender standard evaluation criteria for that category of spend, in accordance with OT's suite of Procurement Policies.

