Thank you for your email of 30 May 2016 with comments on the most recent IESC audit report on the OT project. We appreciate your ongoing interest in this project and provide our responses to several of your questions below. Several technical issues were raised in the document provided, and this response does not include a detailed technical response to these issues. We have not focused this response on these technical issues, as we believe the IESC reports address these technical points, and these reports are available in the public domain.

**In the covering email, several points are raised as follows:**

1. Concern is communicated that the most recent IESC report does “not reflect true conditions on the ground and may seriously play down the negative impacts felt by local herders”.

It is important to note that the scope of the audit includes a review of the conformance to commitments contained in the ESIA and Management Plans. We believe that the audits and the related reports do cover this scope adequately, and that the results presented in the reports are a useful tool for lenders in terms of monitoring project compliance. We should note that several Lenders participate on every audit site visit and review all project documents, and therefore we are aware of and have access to the underlying data used for assessing compliance. We also believe there is merit in respecting the independence of the process. The Lenders are able to provide comments to the IESC in terms of scope of the audit (relative to the agreed scope) and factual accuracy of any issue or item raised in the report. We do not try to influence the report in any other way. If a situation were to arise where we did not agree with an issue raised in the report, we could make our concern noted in the report, much like the Project has done in the past. We have had no such concerns to date.

2. The decision to minimise the length of the disclosed audit report.

The entire Lender group reviewed this issue with the Project, and agreed to reduce the volume of material to be disclosed in the audit reports. There were many factors considered as part of this decision making process including improving the timeliness of disclosure: balanced against the need to disclose complete information in a particular language. Of course, reducing the length of the disclosed sections of the report to the Executive Summary and conformance tables in both
Mongolian and English allows the report to be disclosed sooner, and minimises translation time. However, the main objective was to ensure that adequate and complete information remains in the public domain on the IESC auditing of the project. We believe that the disclosure of the Executive Summary and conformance tables provide a complete overview of the process and the details of each raised non-conformance item. The majority of the information that is now left out of the disclosed report relates to introduction of the audit process and a duplication of the information presented in the summary table (which remains part of the disclosed material). We do not think there is a material reduction of the content of what is disclosed, as every identified non-conformance is discussed in detail in the summary table. The Lender group agreed this with the Project based on careful consideration. We note that this reporting goes far beyond Policy requirements of the Lenders and normal practice.

In terms of obtaining the full document in English, as presented on the OT web site, you are provided the contact information online@ot.mn to request the full version. If you have contacted this address with no response, please let us know and we will pursue this as this process is part of our agreement with the Project.

3. Expansion of operations and need for additional ESIA for “Phase 2”

As presented in the ESIA disclosed for the project in September 2012, the existing ESIA covers the project as developed to date and that currently being initiated, which includes the underground mine. The open pit and underground were covered in the original ESIA, as was the Concentrator Plant at a capacity of 100,000 tonnes per day design capacity (and increases to this capacity that may be achieved through process optimization). There is no plan to expand the concentrator, and therefore no need for additional mine footprint or additional water resources. Therefore, we do not see the need for an additional ESIA for those project elements which have been already covered in the 2012 ESIA.

Regarding the Comments to the September 2015 Report, dated 25 May 2016 (8 pages)

1) We urge the project lenders to require OT to disclose the full audit report

As described above the Executive Summary and complete conformance tables are disclosed and directly available for download in both Mongolian and English from the OT Website. The full report is available in English at anyone’s request via a request link on the OT Website.

2) The need for rigorous standards applied to all audits

We agree with this statement and we require the IESC to strive for a high quality and factually correct report confirming the project conformance to the project ESIA and Management Plans, the EBRD Performance Requirements (PRs) and the IFC Performance Standards (PS). However, this does not mean that there needs to be consistency, for example, between this IESC audit report and other reports that may have a different scope of work and/or serve a different function. We believe the reports to date have been of high quality and we are confident that this will continue.

3) The need for independent interpreters during the audit
We recognize your point on this item, although this is not always possible. Many times we have limitations on available translators during the audits, and in such circumstances we may be relying upon OT staff, typically from the Communities or Environment teams.

4) Suggestion to publish the audit Terms of Reference

Each IESC report presents the scope of the audit, which is directly taken from the Terms of Reference. For example, from the most recent report the following information is provided:

*The key role of the IESC is to conduct periodic visits to the Project in order to:*

- assess the level of conformance/non-conformance of the Project with the Operational Environmental and Social Management Plans and the underlying monitoring plans and procedures, as necessary, to verify that OT is implementing the actions/commitments embedded in the plans;
- verify that the activities are carried out consistent with the environmental permits as listed in the Environmental and Social Impact Assessment (ESIA);
- provide professional recommendations relative to Good International Industry Practice (GIIP), if any identified; and
- identify specific issues, and conduct follow-up and closure of findings and observations identified in the April 2015 IESC Interim Audit Report.

This is the agreed scope of the IESC auditing.

While the information provided does not request a response to the items raised in the eight pages of comments, we would like to comment on the issue of the “False claims related to EBRD PCM case”. You are correct that the first draft of the latest IESC report included an incorrect statement about the status of the EBRD PCM case. The resolution to this was to remove this reference in the report, as the scope of the audit does not include monitoring of the PCM case and such information should always come directly from the EBRD PCM office and not from an intermediary. In this case the EBRD pointed out to the IESC that reporting on this was not part of the scope of the audit and we therefore asked for removal. We will wait for the PCM to report on the status of any ongoing cases.

Thanks again for your interest in this ongoing project, and be assured that we are actively monitoring project compliance with commitments made in the ESIA and the Operational ESMPs.

Sincerely yours,

EBRD and IFC

On behalf of the Policy Lenders (EDC, EFIC, EBRD, IFC and USExIm)