

CORPORATE PARTICIPANTS

Tony Shaffer

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Jeff Tygesen

Chief Executive Officer

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Chief Financial Officer

PRESENTATION

Operator

Good day, ladies and gentlemen. Thank you for joining us today. Welcome to the Q4 and full year results conference call. This call is being recorded and will be available later today for replay.

I would now like to turn the meeting over to Mr. Tony Shaffer. Please go ahead, Mr. Shaffer.

Tony Shaffer, Investor & Media Relations

Thank you, operator. I want to welcome you to our financial results conference call. Yesterday we released our fourth quarter and full year 2015 results press release, MD&A, financial statements, and Annual Information Form. These items are available on our website and SEDAR.

With me today is Jeff Tygesen, our CEO, and Steeve Thibeault, our CFO. We will take your questions after our prepared remarks.

This call will include forward-looking statements. Please refer to the forward-looking language included in our press release and MD&A.

I'd now like to turn the call over to Jeff.

Jeff Tygesen, Chief Executive Officer

Thank you, Tony.

For Turquoise Hill, 2015 was an excellent year for open pit operations and achieving two major milestones; signing both the underground agreement and project financing. In the history of Turquoise Hill I think 2015 will be seen as one of the most pivotal years for the company. I'm proud of what we achieved and I believe

we are all well positioned to restart underground development mid-2016. This morning I'm going to start with a timeline status leading to underground development. I'll then discuss operating results before I turn the call over to Steeve to review our financial results. Following Steeve, we'll take your questions.

In terms of the timeline for restarting underground development, work is ongoing to complete the capital estimate for the latest feasibility study. This is expected to be finished late this quarter. We don't expect the estimate to be materially different than the most recent estimate in the 2014 technical report. I think it's important to point out that the estimate in the most recent technical report was a real estimate in 2014 dollars. The updated estimate will reflect 2016 nominal dollars. One benefit we expect from the capital estimate being completed so close to the restart date is the selected bids will become contracts. Following the capital estimate completion, the Boards of Turquoise Hill, Rio Tinto, and Oyu Tolgoi will make the respective notice-to-proceed decisions, which is expected in the second quarter. Once we have the green light, project finance will be fully drawn down with construction expected to begin around mid-year. In August 2015, early works funding of approximately \$100 million was approved. This allows the underground team to hit the ground running when construction begins. Currently there are roughly 200 people working on the early works underground restart team. This effort will advance the project by approximately nine months.

Turning to open pit operations, one of the highlights of 2015 was Oyu Tolgoi's excellent safety performance. Their 2015 all injury frequency rate of 0.33 per 200,000 hours worked is definitely an industry-leading result. This metric is extremely impressive in the context of a mine that was only in its second full year of production. Revenue in 2015 of \$1.6 billion decreased approximately 6 percent over 2014 due to lower copper and gold prices that were partially offset by more than a 10 percent increase in concentrate sales for the year. Despite the challenging commodity price environment in 2015, operating cash flow for the year was just over \$650 million. For 2015 the mine operated at record levels producing just over 200,000 tonnes of copper and more than 650,000 ounces of gold. The results exceeded our copper guidance and met our gold target. I want to personally thank the team at Oyu Tolgoi for their incredible focus during the year and delivering on guidance.

In the second half of 2014 Oyu Tolgoi began implementing productivity improvements designed to strengthen operations of the open pit and the concentrator. As those improvements took hold in 2015,

we saw the benefit throughout the year. Concentrator throughput for 2015 increased almost 25 percent over 2014. By the fourth quarter, average throughput was above nameplate capacity of 100,000 tonnes per day. Concentrate production increased almost 40 percent over 2014. Looking forward, 2016 is a start of several challenging years of production for Oyu Tolgoi. It is grade related and was anticipated in the 2014 technical report. In 2015 and early 2016, Oyu Tolgoi has been mining the last part of Phase 2, which contains high gold grades. The next area for high-grade gold is in Phase 4, which they are just beginning to strip, and it requires a few years to reach the high-grade gold zone. Given the current price environment, it was decided to bring forward the Phases 3 and 6, which contain strong copper grades with very little gold. The bulk of 2016's gold production is expected in the first half of this year. As copper prices have retreated, I'm often asked about the impact on current operations and cash flow. Given the grade-related challenges over the next few years, the open pit team is very determined on making sure they have a cost structure that is cash flow positive to neutral in a low price scenario.

In summary, 2015 was a tremendous year for Turquoise Hill given the milestones achieved and the open pit operating safely at record levels. Starting 2016 we are well positioned to restart underground development mid-year. Open pit grades will be challenging for the next few years, but the primary focus of Oyu Tolgoi has always been about the underground where 80 percent of the mine's value resides.

At this point I'm going to turn the call over to Steeve to discuss the financial aspects of the quarter and the year in more detail.

Steeve Thibeault, Chief Financial Officer

Thank you, Jeff.

Revenue for the year was \$1.6 billion, a decrease of 5.8 percent over 2014. The decrease is mostly due to lower market prices partially offset by higher sales volume. 2015 average copper and gold prices decreased by 20 percent and 7 percent respectively when compared to 2014. Concentrate sales increased approximately 12 percent over 2014. Income attributable to Turquoise Hill shareholders in 2015 was \$313 million. Income from continuing operations, which relate to Oyu Tolgoi, was \$341 million.

Loss from discontinued operation was \$27 million attributable to Turquoise Hill's shareholders and relates

entirely to SouthGobi and include our share of SouthGobi results up until the divestment to Novel Sunrise on April 23rd, the loss on disposal, and revaluation of Turquoise Hill's remaining investment up until the ownership fell below 20 percent at the end of November.

In the fourth quarter of 2015 Turquoise Hill recognized a deferred tax asset of \$165 million due to the increased confidence around recovery of potential deferred taxes and increased certainty surrounding the project finance. In addition, following an agreement with the Government of Mongolia, an adjustment was made to prior period withholding tax obligations to be in line with Turquoise Hill's 66 percent ownership of Oyu Tolgoi.

Due to the price declines of copper and gold in 2015 as well as changes to the mining plan, a charge of \$91 million was recorded in operating expenses related to adjustment for the net realizable value of medium- and low-grade copper-gold stockpile expected to be processed in more than one year or what we call usually the non-current. Turquoise Hill recorded a write-off of the low-grade inventory stockpile for a total amount of \$73 million with no impact on the income statement as this inventory had been previously fully provided for a provision. At the end of 2015, the non-current inventory stockpile included only the medium-grade ore with a carrying value of \$0.5 million after provision.

Total cash operating costs at Oyu Tolgoi were \$963 million and in line with our guidance of \$900 million when excluding the one-off expenses related to the signing of the underground agreement in May 2015. The non-recurring expenses totalled \$60 million and include settlement of the Tax Act of 2014 for \$22 million, payment of the recalculation of royalty from previous year for \$15 million, and underground remobilization and early work expense for \$23 million. In addition, following the signing of the underground agreement Turquoise Hill recorded a non-cash write-off of the original purchase price of the net smelter royalty for \$37 million.

At the end of 2015 Turquoise Hill cash balance was approximately \$1.3 billion. Operating cash flow for the year was \$656 million, a 10 percent decrease over 2014, mainly due to the impact of lower copper and gold prices on the revenue.

Capital expenditure on a cash basis for 2015 was in line with Turquoise Hill guidance of \$120 million. CapEx was \$116 million and included approximately \$10 million in underground remobilization costs capitalized following the project finance signing in December.

C1 costs for the year were \$0.57 per pound compared to \$1.14 per pound in 2014. C1 costs in 2015 were favourably impacted by production volume increases in cost optimization, partially offset by reduced gold and silver credit per pound of copper produced. All-in sustaining costs were \$1.37 per pound compared to \$1.95 in 2014. All-in sustaining costs were favourable for the same reason as the C1 costs and also included the impact of non-recurring and non-cash items. In the fourth quarter, C1 cost increased to \$0.88 per pound due to a drop in gold revenue and lower grade. The fourth quarter all-in sustaining costs were broadly consistent through the fourth quarter.

That concludes my comments and I'm turning the call back to Jeff.

Jeff Tygesen, Chief Executive Officer

Thanks, Steeve.

In conclusion, Oyu Tolgoi delivered strong results for 2015. The mine operated at record levels for the year with increases in copper and gold production. Cash flow from operations is more than \$650 million and we ended the year with approximately \$1.3 billion in cash. By the fourth quarter the concentrator was averaging above nameplate capacity. We exceeded our copper guidance, while meeting our targets for gold, CapEx, and operating cash costs. Following the signing of the underground agreement and project finance, we expect to restart underground development around mid-year.

That concludes our remarks. Donna, we are ready to take questions.

QUESTION AND ANSWER SESSION

Ralph Profiti, Credit Suisse

Good morning and thank you. A question first on the strategy for the sources of cash for Phase 2, will TRQ use its existing cash down to a certain level before beginning cash calls on the project financing? If that's not the case, how is that going to be balanced and how does the priority work?

Steeve Thibeault, Chief Financial Officer

Ralph, good morning. What we're going to do, Ralph, is that, as I said before, the first source of cash for the underground will be the operating cash flow from OT.

Once we have done that we're going to use the project finance or the supplemental debt that we are going to—and when I talk about the supplemental debt, the project finance is \$4.4 billion, the supplemental debt is the additional \$1.6 billion that we intend to secure pretty soon and you remember the total debt capacity on the project was \$6 billion, so that's really the \$1.6 billion is the incremental debt capacity that we have there or is the debt capacity that we have in addition to the \$4.4 billion. And the last one will be the cash. So that's going to be the hierarchy of cash that we're going to use.

Ralph Profiti, Credit Suisse

Okay. Thanks for that.

And, Steeve, just coming back to the supplemental debt, are there any limits on what it could be used for? Is it only going to be within the scope of the upcoming feasibility study or, if needed, can it be used for potential optionality including concentrator expansion, power plant, and even the smelter perhaps?

Steeve Thibeault, Chief Financial Officer

That's a good question, Ralph, because, as you know, there is limits to what the \$4.4 billion can be used for. Okay? So the \$4.4 billion can be used for the underground only. The \$1.6 billion, we're not planning to have any limits to that one, it could be used for other purpose. Now, as a CFO I would say definitely for the underground, it will be the top priority, but it can also be used if there would be a shortfall, for example, in the operating cash flow for one year.

Ralph Profiti, Credit Suisse

Ah, I see. Thank you very much.

Craig Hutchison, TD Securities

Good morning, guys. I was wondering from the operation point of view, I know you had a really good Q4, you're above the 100,000 tonnes per day, has that extended into Q1 on an operating basis?

Jeff Tygesen, Chief Executive Officer

Yes, Craig, the operation is doing well in Q1. There was some scheduled maintenance in the concentrator to

replace liners but, as I said, as planned, and that went well. So all indications, ah, the last week the numbers were ranging in the 115,000 tonnes to 118,000 tonnes per day. So they're continuing through Q1.

Craig Hutchison, TD Securities

Okay. And I know that the gold grade is heavily weighted to the front half of the year; would it be fair to say that that's mostly weighted in Q1 just given how high the grades were in Q4?

Jeff Tygesen, Chief Executive Officer

I would say that it's a little bit skewed to Q1 but Q2 will still have some portion of the Phase 2. It's when we reach the bottom of Phase 2 that the grades decline. So heavily weighted first half and then in the first half it's weighted to the first quarter.

Craig Hutchison, TD Securities

Okay. And then that you mentioned, you know, you don't expect to get back into or get into the Phase 4 higher-grade material for a few years. Would that be somewhere around 2018, 2019? Can you give some clarity on when you get back into the high-grade material from the gold side?

Jeff Tygesen, Chief Executive Officer

Current estimate is that we'll be getting back into Phase 4 late 2018, early 2019.

Craig Hutchison, TD Securities

Okay. And then just maybe a point of clarification, the \$800 million of operating cost, does that include the royalties or is that excluding the royalties?

Steeve Thibeault, Chief Financial Officer

It does include the royalty.

Craig Hutchison, TD Securities

It does include?

Steeve Thibeault, Chief Financial Officer

Yes. But one point I want to make there, okay, it's the deferred tax, the deferred striping costs are out of it, okay? So that's why when you look, you have to look at the CapEx that went up significantly, that's because of the deferred striping that have been capitalized.

Craig Hutchison, TD Securities

Sure. Okay, thanks. And then just maybe one last question, you know, I know you guys are going to have the updated CapEx completed by the end of this quarter. When would the public markets be seeing some numbers on that?

Jeff Tygesen, Chief Executive Officer

Our target is once we have Board approvals then we can follow-up with providing that information.

Craig Hutchison, TD Securities

So late Q2 or early Q3?

Jeff Tygesen, Chief Executive Officer

My target is Q2. I'm not saying if it's mid or late, sometime in Q2.

Craig Hutchison, TD Securities

Okay. Thanks very much.

Jeff Tygesen

Thank you for joining us on today's call. We expect to restart underground development mid-2016. 80 percent of Oyu Tolgoi's value resides in our underground reserves and, in my opinion, it's the best copper opportunity in development today. Thank you.
