

CORPORATE PARTICIPANTS

Jessica Largent
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Stewart Beckman
Senior Vice President, Operations & Technical

PRESENTATION

Operator

Good day, ladies and gentlemen. Thank you for joining us today. Welcome to the Turquoise Hill Resources Fourth Quarter and Full Year 2014 Financial Results held on March 25, 2015. The call is being recorded and will be available later today for replay. I would now like to turn the call over to Jessica Largent. Please go ahead.

Jessica Largent, Investor Relations

Thank you, Donna. I want to welcome you to our financial results conference call. Yesterday we released our fourth quarter and full year 2014 results press release, MD&A, financial statements, and other annual documents. These items are available on our website and SEDAR.

With me today is Jeff Tygesen, CEO; Steeve Thibeault, CFO; and Stewart Beckman, Senior Vice President of Operations and Technical. 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 would now like to turn the call over to Jeff.

Jeff Tygesen, Chief Executive Officer

Thank you, Jess. It's an honour to be leading my first results conference call since being appointed CEO on December 1st.

While new to the role of CEO, I have been a Turquoise Hill director since August 2012 and in my previous position I began working with Oyu Tolgoi in 2010. I have always been impressed with this world-class asset.

Since my appointment I have made a number of trips to Mongolia to review Oyu Tolgoi's operations, work on planning, develop and maintain strong relationships with key stakeholders. In addition, I have met one-on-one with many of our large shareholders as well as presented and participated at several industry events. These opportunities have allowed me to hear a number of perspectives. One thing is clear: we have a common objective to deliver value for Turquoise Hill.

I'm going to provide a summary of our 2014 results. I will then turn over the call to Steeve, who will address the financial components of both fourth quarter and the year. And then Stewart will cover off operations.

So for 2014 there are several key takeaways I want to highlight. First, safety is one of the most critical aspects of our business and a major focus throughout Oyu Tolgoi's operations. For 2014 Oyu Tolgoi achieved a good safety performance with no fatalities and an all-injury frequency rate of 0.47 per 200,000 hours worked.

Second, Oyu Tolgoi achieved strong financial results in its first full year of production. Turquoise Hill generated its first annual operating cash flow of more than \$650 million, driven by net revenues in excess of \$1.6 billion. We expect another strong year of cash flow generation in 2015.

Third, operations at Oyu Tolgoi performed well during 2014 despite a few challenges. We met our production guidance for the year and we are starting to benefit from the productivity improvements identified during 2014. Production distribution for 2015 is expected to resemble 2014 where significantly higher output in the second half of the year as production from the high-grade zone of the open pit recommences.

Fourth, I wanted to speak about the status of the discussions with the Government of Mongolia. As previously disclosed, we made an offer to the government last year to resolve outstanding matters. The offer remains on the table and we believe it is beneficial to all stakeholders. We continue to engage with the government to resolve matters. Those discussions slowed since late in 2014 with the appointment of the new prime minister and new cabinet. The change in government required a pause in discussion to allow the new parties to get up to speed on the issues being addressed. Engagement is ongoing and I'm confident

that we can resolve the outstanding matters. We continue to work with the government to resolve the outstanding tax matters. Oyu Tolgoi has initiated an appeal to a ruling by the Mongolian tax authority. It is crucial that the tax situation is clear to support further investment.

On project financing, we continued to engage the consortium of banks and they remain supportive of the transaction. Current indications are a suitable financing package will be available once we have successfully resolved the outstanding matters. Until we are able to resolve those matters and restart underground development, I think it's important to remember that we have the open pit mine generating positive operating cash flow.

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

Steeve Thibeault, Chief Financial Officer

Thank you, Jeff.

In 2014 Oyu Tolgoi generated net revenue of \$1.6 billion on sales of approximately 734,000 tonnes of concentrate. The fourth quarter sales increased more than 19 percent over the third quarter.

For three consecutive quarters sales exceeded production and by year end concentrate inventory had been drawn down to more normal levels. Strong sales combined with marketing and logistic improvements throughout the year made this drawdown possible.

Net income for 2014 was \$32 million. Net income from continuing operations was \$141 million entirely from Oyu Tolgoi. In 2014 our cash increased by \$785 million, resulting in a cash balance of \$863 million at December 31st. These funds are currently earmarked for underground development.

As Jeff mentioned, Turquoise Hill delivered its first annual operating cash flow of \$658 million, which includes \$455 million from operational activities and \$251 million from selling down inventories. This allowed Oyu Tolgoi to repay \$477 million of shareholder loans to Turquoise Hill in 2014. In addition, we received \$115 million from the repayment of a Mongolian treasury bill that matured in 2014.

Capital expenditures on a cash basis totalled \$203 million, which includes 2013 accrued CapEx.

Oyu Tolgoi's cash operating costs for 2014 were \$905 million, approximately \$35 million higher than our October guidance. The increase is mainly due to additional costs related to the December concentrator fire and 2015 planned maintenance brought forward to 2014.

Starting in 2015 our financial statement will be prepared in accordance with the International Financial Reporting Standards, or IFRS. In our first quarter 2015 financial statements we will provide the necessary information related to the conversion.

That concludes my comments and I'm going to turn the call over to Stewart.

Stewart Beckman, Senior Vice President, Operations & Technical

Thank you, Steeve.

Operating performance improved through 2014 but was impacted by a series of post commissioning issues in the concentrator, including failure of the rake blades in the thickener in Q1, a different failure of the rake arm in the thickener in Q3, and a fire in one of the four ball mill cyclone packs in Q4.

Recoveries also improved through 2014 driven by operational improvements and the increased ore grades as the mine developed through the high-grade zone in the last half of the year. Lower processing rates in Q4 due to the cyclone fire were partially offset by higher than predicated grades. Recoveries improved with increasing grade and gold recoveries were above expectation for higher-grade ores. Repairs from the concentrator fire were completed in January 2015.

Early in 2014 certain post-commissioning improvement projects were deferred in order to preserve cash. This deferral and operational issues delayed the open pit mine advance. Further, lower mining rates in Q4 reflect the longer haul rates of waste to the tailings facility to complete construction for winter and equipment availability. Pleasingly, the underlying performance of the mine improved towards the end of the year as a number of the improvement projects took effect.

Marketing and logistics improvements allowed the concentrate inventories to be drawn down to normal levels by the end of 2014 and Oyu Tolgoi will continue to work to reduce this working capital.

In the high-grade zone, grades and recoveries are both higher and metal production is variable reflecting mining

source. The current mining schedule has production from the high-grade zone resuming in mid-2015. As mentioned previously by Jeff, this means that we are scheduled to see lower production rates in Q1 with rates building through mid-2015 into the latter half of the year.

Oyu Tolgoi conducted a planned shutdown in January and February to reline both SAG mills and undertake modification and improvement work in the concentrator. We were very happy with this shutdown as there were no injuries and all work was completed within the schedule. The impact of the improvement work is yet to be fully realized.

Oyu Tolgoi is expected to produce 175,000 to 195,000 tonnes of copper and 600,000 to 700,000 ounces of gold in concentrates in 2015.

That concludes my remarks. I'll turn it back over to you, Jeff.

Jeff Tygesen, Chief Executive Officer

Thanks, Stewart.

In summary, Oyu Tolgoi delivered strong 2014 results despite a few operational challenges. Those challenges are common in early-stage operations and I've been impressed with the Oyu Tolgoi team and their eagerness to learn and improve through this process. We continue to engage with the government to resolve outstanding matters and I'm confident that we will reach a successful outcome.

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

QUESTION AND ANSWER SESSION

Craig Hutchison, TD Securities

Good morning. Thanks for taking my call. I guess my first question is in terms of the guidance. I think in December you guys had previously guided for operating costs of, I think, \$900 million in 2015 and CapEx of, I think, \$230 million. Is that guidance still valid?

Jeff Tygesen, Chief Executive Officer

Craig, thank you for that question, and I'll turn that over to Steeve.

Steeve Thibeault, Chief Financial Officer

Hey, Craig; yeah, definitely that's still in line, okay? I think that you've seen the result from this. We had pretty much that amount. Keep in mind that, I don't want to be too technical here but I'm the CFO and I just wanted to remind you that the \$900 million will be based on IFRS and we'll give you all the detail once we go through the year in order to give you the impact in the difference compared to 2014. Okay?

Craig Hutchison, TD Securities

Okay, thanks. Going forward would you guys be reporting C1 cash costs and cost per tonne mine milled? Will that information start coming through in 2015?

Steeve Thibeault, Chief Financial Officer

Yeah, Craig, I thought that we had done a great job in 2014 to give you more information but, no, seriously, we are going to—we're looking at providing information in the C1 costs and maybe other unit costs. We're looking at it and definitely in 2015 that's the goal that we have.

Craig Hutchison, TD Securities

Okay, thanks. Maybe a question for Jeff: Just in terms of resolving the issues with the Mongolian government, have they indicated a timeframe where they're looking to resolve these issues? I know they've been quite public in the past talking about resolving the issues by the end of 2014, and obviously that's got pushed out to 2015. Do you get a sense of when they're looking to have these things resolved? Obviously you guys probably want to resolve it as quickly as possible but, you know, before the summer season, anything to do with parliamentary sessions, et cetera?

Jeff Tygesen, Chief Executive Officer

That's probably been one of the number-one questions I've been getting when I've been meeting with shareholders.

We've been actively working with the government for over a year and a half and, as I mentioned earlier, there was a change in government late last year, and that team is now up to speed and there's active discussions going on. The prime minister came out with an economic

recovery plan which the parliament approved and, I don't know if you're aware, but parliament is on break until April. So we're actively engaged and talking to them. Like I mentioned before, we've had a deal on the table. We think it's a good deal for all stakeholders. So we're actively pursuing that.

Another comment that was made in the press by the president and the PM is they hope to have things activated for the phase two portion at the end of 2015.

Craig Hutchison, TD Securities

Okay. So that's just—when you say activated, it would be approved or actually money being spent or...?

Jeff Tygesen, Chief Executive Officer

Well, once everybody approves everything there's a process to ramp up a project, and if you referenced our technical report, that's been pushed out in time because of the change in government, but there's a ramp up. So immediately will \$1 billion a year be spent once we get through that ramp up? We need to reengage the teams. Then we'll begin with actual production and construction of the site.

Craig Hutchison, TD Securities

Okay, great. Thanks. That's all for me.

Oscar Cabrera, Bank of America Merrill Lynch

Thank you, operator. Good morning, afternoon, or evening, everyone. You know, the negotiations with the Mongolian government have been ongoing for more than four years now and the last feasibility study I believe had assumed that you would be able to start construction of the underground in the second half of last year. I'm just wondering if you have put in place an alternative plan if these negotiations don't get settled until after the election next year and, if so, what would the profile or the production profile for the open pit would look like for the next three to five years?

Jeff Tygesen, Chief Executive Officer

Oscar, thank you for that question. I'm going to turn that over to Stewart to respond. Thank you.

Stewart Beckman, Senior Vice President, Operations & Technical

Thanks, Oscar. So, Oscar, the open pit production profile at this stage will remain reasonably in line with what's in the feasibility study, so the development schedule for the open pit is more or less the same. We're certainly doing a lot of work looking at what we need to do to optimize the open pit given that, you know, when we did the original scheduling of the mine it contemplated the underground much earlier than when it's going to come in now. That said, it will be generally the similar sorts of tonnages coming into production rates with some scheduling and optimization to reduce risk and smooth out the production profile.

As far as needing to make a more drastic change in the mine and increased rates, that wouldn't need to occur until about year 2020, if we still weren't seeing movement forward on the mine. So at this stage, if you're looking at the rule of thumb, if you use what's in the technical report, that will be the plan.

Oscar Cabrera, Bank of America Merrill Lynch

Okay, that's very helpful, Stewart. Thank you. And the other thing is I understand that you have been engaging companies or subcontractors to get, you know, shovel to ground as soon as possible. In the past we had talked about six months to get folks down to the underground to get construction going and then a 30 month construction period. Should we be thinking about those time periods as something that is doable at this point or would you be able to shorten this timeframe with the negotiations or, you know, engagements that you have had with folks?

Stewart Beckman, Senior Vice President, Operations & Technical

So a couple of things. First of all, in your leading comments, when we did the 2014 technical report that contemplated that we started to build resources ready for the restart at the end of last year. So this is starting to employ the owners' team, expand the owners' team to be able to execute the project and then starting to do some enabling projects through the beginning half of this year. You can use as a rule of thumb sort of every month that we push out approval or even approval for us to be able to start to build resources past September last year, is adding a month. So we're roughly six months behind and you can push the underground schedule back by about that much.

We have been doing work and we've been in the market working on, in particular, the EPCM contract, and we're close to the point of being ready to award that contract and potentially awarding the contract subject to notice to proceed of course, and we are doing the same for some of the other contracts, taking the opportunity to get those completed and negotiated ahead of approval, which will help us to accelerate things. At the same time, you know when we closed down over a year and a half ago now we had a more substantial team. We've reduced that team. So I think there's a little bit of swings and roundabouts there, so we're seeing some improvement and also some things that will make it a little bit more difficult for us to reach that. So if you just use, assume that we're pushing out by roughly the same time, past September.

The one other comment that I wanted to make as well as the underlying assumptions for the feasibility study and the technical report were completed at the end of 2013 and the beginning of 2014, so the estimate is starting to get dated, and if we don't get some progress soon we'll need to go back and refresh those estimates.

Oscar Cabrera, Bank of America Merrill Lynch

Presumably that would be lower diesel prices or skilled labour should help, shouldn't it?

Stewart Beckman, Senior Vice President, Operations & Technical

Yeah. Yeah. So we're seeing, we're certainly seeing people more willing to negotiate a bit (harder). The market, the mining industry is very stressed at the moment so it's a good time to be in the market negotiating.

Oscar Cabrera, Bank of America Merrill Lynch

Great. Thanks very much, Stewart.

Operator

Thank you. Mr. Tygesen, there are no further questions.

Jeff Tygesen, Chief Executive Officer

Well, thank you for joining us on today's call. It's an honour to lead the Turquoise Hill team and be associated

with the world-class Oyu Tolgoi asset. Operationally and financially 2014 was a good year and I look forward to building on our successes in 2015. Thank you for attending.
