

## CORPORATE PARTICIPANTS

**Jessica Largent**  
*Investor Relations*

**Kay Priestly**  
*Chief Executive Officer*

**Chris Bateman**  
*Chief Financial Officer*

**Stewart Beckman**  
*Senior Vice President, Operations & Technical Development*

## PRESENTATION

### Operator

Good day, ladies and gentlemen. Thank you for joining us today. Welcome to the Turquoise Hill Conference Call on the Fourth Quarter 2013 Financial Results held on March 26, 2014. The call is being recorded and will be available later today for replay.

I would now like to turn the call over to Ms. Jessica Largent. Please go ahead.

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### Jessica Largent, Investor Relations

Thank you, operator. I want to welcome you to our Fourth Quarter and Full Year 2013 Financial Results Conference Call.

Today we released our fourth quarter results press release, MD&A, and financial statements. These items are available on our website and SEDAR. With me today is Kay Priestly, CEO; Chris Bateman, CFO; and Stewart Beckman, Senior Vice President of Operations and Technical. We will take 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 Kay.

### Kay Priestly, Chief Executive Officer

Thank you, Jess. Hello, everyone.

2013 was a historic year for Oyu Tolgoi as the mine transitioned from construction to commissioning and then became fully operational. There are three key points I want to highlight today. First, since Oyu Tolgoi's first discovery in 2001 it has been quite a journey. The vision of a world-class operation in the Gobi Desert now is a reality. The open-pit mine is developed and producing. The concentrator has achieved nameplate capacity and Oyu Tolgoi is selling copper and gold concentrate to customers in China. Going forward, Oyu Tolgoi is expected to generate positive operating cash flow.

Secondly, we certainly had challenges last year, including delaying the underground; however, we continue to have productive discussions with the Mongolian government to resolve the outstanding shareholder issues. Good progress continues to be made. All parties remain committed to further development of Oyu Tolgoi.

And, lastly, in 2014 we expect to complete the underground feasibility study, obtain all the necessary approvals, and put in place a (funding) plan to proceed. Securing project financing remains our key objective. Oyu Tolgoi shareholders are considering requesting an extension of the project finance lenders commitment in case an agreement on outstanding issues is deferred until after completion and approval of the feasibility study.

Before we get too far I want to thank all of our shareholders for an overwhelmingly successful rights offering that closed in January. The offering was over 99 percent subscribed and the proceeds allowed us to repay the two Rio Tinto loans.

Now let's turn to operations and financial performance. I always like to start with safety, which is of paramount importance to us. There were no fatalities during the year and I am pleased with Oyu Tolgoi's 2013 all-injury frequency rate of 0.43, a strong performance for our first year of operations. There was also a lot of work completed by the health and environment teams, ensuring compliance and paving the way for future development.

Moving now to Oyu Tolgoi's financial performance for 2013 as well as what we are seeing in the first quarter of 2014, gross sales for 2013, which all occurred in the fourth quarter, were \$55 million on 26,400 tonnes of concentrate. After \$3 million in royalties, net sales were approximately \$52 million. Delays that customers experienced with clearing customs in the second half of

2013 were resolved in the fourth quarter and sales commenced when customers started picking up concentrate from the warehouse on the Chinese side of the border.

As we previously disclosed, some sales volumes that we had expected during the first quarter of this year have been deferred into the second and third quarters. Also sales in January and February were slower than expected. On a positive note, we have started seeing an acceleration in March pick-ups and sales are approaching production. Also, throughout the first quarter we have seen a significant increase in the number of customers picking up products. As of March 24<sup>th</sup> of this year, approximately 43,000 tonnes of concentrate has been sold. Sales are expected to increase during the second quarter and match production. During the second half of 2014 Oyu Tolgoi is expected to begin an inventory drawdown. As sales do begin to match production Oyu Tolgoi is expected to generate positive operating cash flow.

Progress is being made with sales and marketing. Oyu Tolgoi has signed sales contracts for 74 percent of 2014 production and 84 percent of 2015 production. Discussions continue with potential customers and we are well advanced in placing the remaining volumes. Our goal is to return to more normal levels of inventory by the end of this year. While we are still seeing lower copper and gold prices than we have in recent years, the underlying fundamentals for both metals remain strong. Although growth rates in China have slowed, the smaller percentage growth on a larger Chinese economy continues to generate significant demand. Oyu Tolgoi is ideally located to take advantage of this.

Turning to production, in 2013 we've produced just over 76,000 tonnes of copper and 157,000 ounces of gold in concentrate. In December Oyu Tolgoi processed 3 million tonnes through the concentrator, which was slightly above the designed rate. On December 2<sup>nd</sup> the concentrator set a production record of approximately 123,000 tonnes of ore processed in one day. Recovery of copper and gold progressively improved during 2013 as the open pit deepened, feed grades increased, and operations normalized.

Typical of commissioning large mines and processing plants, there have been some challenges. During the first quarter production rates have been impacted by the failure of the rake blades in the tailings thickeners and some other equipment failures. The thickener rakes resulted in the shutdown of half of a concentrator for a total of seven weeks. Repairs of the thickeners are now complete and full production recommenced on March

24<sup>th</sup>. Operations now have returned to normal and I am encouraged by the performance of the concentrator.

Transitioning from construction to operations requires a focus on the optimal structure for operations and achieving a sustainable foundation for going forward. Oyu Tolgoi has been focusing on costs as it undertakes this transition and given the economic climate and earlier delay in embedding the sales and marketing activities, Oyu Tolgoi has been conserving cash.

As a result of production being reduced for most of the third quarter and the deferral of some debottlenecking projects to preserve cash, we have adjusted our production guidance for 2014. We now expect Oyu Tolgoi to produce 135,000 to 160,000 tonnes of copper in concentrate and 600,000 to 700,000 ounces of gold in concentrate. Mining of a gold-rich area of the open pit is scheduled to occur in Q3 and Q4 of 2014, resulting in a significant uptick of gold production.

Recoveries of copper and gold continue to improve. We have found that recoveries on higher-grade materials have tended to be better than design and slightly lower than design when grades are lower. The concentrator team is continuing to improve operations and have projects underway aimed at increasing recoveries.

During the first quarter Oyu Tolgoi put in place a \$200 million revolving credit facility with two banks and signed a \$126 million copper concentrate prepayment agreement with one of its customers. These two facilities will provide working capital flexibility to Oyu Tolgoi as needed.

In addition to developing and mining our known deposits we also have continued with a modest on-lease exploration program. This work has been focused on finding depositions that may displace existing resources in the short and medium term. One important example is Hugo West, which demonstrates the continued prospectivity of the mine leases. Results from the first drill hole indicates it has significant tonnage potential. Hugo West results aren't yet of a quality to displace other deposits but we are continuing to investigate shallower mineralization. Late last year we started executing a modest exploration and drilling program on a shallow Hugo West target.

Now turning to our discussions with the Mongolian government, we continue to work together with the aim of resolving all outstanding matters and finalizing project financing. All parties remain committed to the further development of Oyu Tolgoi and we are making good progress. While discussions have been constructive, it

may not be possible to resolve all issues until after the underground feasibility study has been completed, reviewed, and approved by all parties. The feasibility study is expected to be complete in the first half of 2014.

If agreement on outstanding issues is deferred until after the completion and approval of the feasibility study, project financing will not be able to be closed prior to the current expiration of the lender commitment on March 31, 2014. In this event, the shareholders will consider requesting an extension of the commitments from the lenders and finalization of project financing may be deferred to the second half of 2014. It is important that we resolve all outstanding issues and receive all necessary permits before we restart the underground development. I am optimistic that we can successfully resolve these matters.

On the other side of the Gobi Desert, SouthGobi resumed mining in March of last year and has been focused on cost effectiveness and sustainability of operations. In 2013 SouthGobi produced and sold approximately 3 million tonnes of (raw coal) at an average realized selling price of \$24.25 per tonne. SouthGobi reported revenues of approximately \$60 million in 2013. SouthGobi anticipates that coal prices in China will be under pressure in 2014, which will continue to impact its margins and liquidity. SouthGobi continues to focus on cost and productivity initiatives and they are in the process of seeking additional financing and are looking at a broad range of options to re-establish appropriate liquidity levels.

In 2013 we successfully divested two of our non-core assets. On November 1<sup>st</sup> we completed the divestment of our 56 percent interest in Inova Resources for approximately \$83 million, and on November 29<sup>th</sup> we completed the sale of our 50 percent interest in Altynalmas Gold for \$235 million.

In summary, 2014 should be an exciting year for Oyu Tolgoi as we anticipate the first year of positive operating cash flow. January and February sales were slower than expected but we have recently made significant progress in 2014 and 2015 contracted volumes. We are now focused on converting the contracts into revenues and are encouraged by the pickup in sales we are seeing in March and we expect that trend to continue.

Turquoise Hill, Rio Tinto, and the Mongolian government are all committed to Oyu Tolgoi's success and to resolving the outstanding issues in order to realize the mine's full potential. The completion and approval of the underground feasibility study as well as finalization of

long-term funding will be monumental steps in moving forward with the next phase of Oyu Tolgoi's development.

Operator, that concludes our remarks and we are now ready to take questions.

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## QUESTION AND ANSWER SESSION

### Operator

Thank you. We will now take questions from the telephone lines. If you have a question and you are using a speakerphone, please lift the handset before making your selection. If you have a question, please press star one on your telephone keypad. If at any time you would like to cancel your question, please press the pound sign. Please press star one at this time if you have a question. There will be a brief pause while the participants register for questions. Thank you for your patience. The first question is from Tony Robson from BMO Capital Markets. Please go ahead.

Mr. Robson, your line is open. If you are using a speakerphone, could you pick up the handset?

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### Tony Robson, BMO Capital Markets

Thank you. Sorry. Good day, good evening. Kay, Chris, Stewart, and Jessica, thank you for your time on the call. Can we just touch, ah, start with the production guidance for 2014? In the previous production guidance I think you had assumed a six to eight week fix repair to the rake blades, which I think came in within that period, so if you could just give us a little bit more colour please on why roughly the 10 percent reduction in guidance for copper and gold this year. Thank you.

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### Kay Priestly, Chief Executive Officer

Good morning, Tony. Yes, we did discuss the rake failure earlier and it did result in the shutdown of one line in the concentrator, which was approximately 50 percent feed rate for seven weeks. There also have been some other operational issues that you could expect in a start-up the magnitude of this size that also impacted it as we refreshed our guidance for this year. And then the third issue is we referred to some debottlenecking projects that have been deferred. We have been in a cash preservation mode, particularly in the first quarter of this year, as the sales and marketing uptake was delayed due to the issues previously discussed. We're very encouraged now that they're picking up but that did result

in us deferring some of the projects that we have in mind and we'll put in place later in the year to improve recoveries and/or production. But right now we did a refresh and based on all these matters we determined that this is our best guess right now of where we expect guidance to be for the year.

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**Tony Robson, BMO Capital Markets**

Thank you. If I could, I have a follow-up question please. I'm sure somebody else will ask it if I don't. Sales of copper concentrate for this year please. Do you have any further issues with getting the permits to sell your copper concentrate out of the bonded warehouse and, if you don't, can spot sales be possible if you don't contract fully to 100 percent for your planned production for this year? Thank you.

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**Kay Priestly, Chief Executive Officer**

Tony, those issues at the border, the customs issues were resolved at the end of last year, so that's been very positive. In the very start up it took quite a bit of time for our customers to pick up the product. And part of it is because this is a bilateral border, not an international border, and these were first-time procedures for many of our customers, but those issues have been resolved. As a result of that, currently now we see a great uplift in March. We're also diversifying our product (inaudible). Earlier we had mentioned that a couple of our smelters had been having difficulties and now we continue to increase our number of customers and that's a very positive development too but it does take time for them to start their logistics processes at the border. But all the problems we referred to last year with the customs have been cleared. Your question about spot sales, we absolutely are. That is part of our plan too as we progress. We of course are focused on long-term contracts with customers for multi years but we certainly are working and looking at spot contracts to place this product as needed.

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**Tony Robson, BMO Capital Markets**

Great. Thank you very much.

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**Operator**

Thank you. The next question is from Daniel McConvey from Rosspart Investments. Please go ahead.

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**Daniel McConvey, Rosspart Investments**

Hi. Good day. It's actually Daniel McConvey. Thanks for doing the conference call. On the funding side, have you drawn down on those two facilities that you disclosed?

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**Chris Bateman, Chief Financial Officer**

Yes, we have drawn some on each facility.

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**Daniel McConvey, Rosspart Investments**

Okay. Is it—is there a fair bit left? I'm just trying to get a sense how the funding situation is right now.

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**Chris Bateman, Chief Financial Officer**

The funding situation is solid at the moment. As Kay mentioned, sales are picking up and that will generate positive cash flows if sales exceed production and we have adequate facilities available, as disclosed in the liquidity notes of the financial statements.

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**Daniel McConvey, Rosspart Investments**

Okay, thanks. On the underground feasibility, I can understand the government wanting to wait for that to come, but the March 31<sup>st</sup> deadline was, you know, a fairly hard one, but it sounds like now that you've agreed to going—two components to this I guess, how comfortable are you that the banks will wait until the feasibility comes out and, second, what is the sensitivity both for you and for the banks in terms of the copper price? If the copper price stays about, say, \$6,000, is that secure enough for you to go ahead if the financing is there?

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**Kay Priestly, Chief Executive Officer**

Daniel, to address your first question, the proposed lender groups, the commercial banks and FIs have been very supportive and continue to be supportive of project financing and of supporting this project in Mongolia. They are aware of our efforts to work with the government of Mongolia representatives to resolve all the outstanding issues and there is good, constructive engagement among all parties. And we have previously discussed how we are all committed to the further construction of

the underground and development of Oyu Tolgoi subject to these issues and the feasibility study was, you know, one of the issues. We never did intend to restart the underground until the feasibility study was approved and the funding plan was approved. So, you know, there are no guarantees but we are very confident we'll be able to find a way to fund the underground development of Oyu Tolgoi. It's a great project and, as we mentioned earlier, we will consider requesting extensions from the proposed lending group, the lenders and the IFIs, should we need to as we go forward. I'll let Chris address—yes?

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**Daniel McConvey, Rossport Investments**

I was just going to say but the economics are robust enough that anything near current copper prices would be good enough for a go-ahead decision if those conditions are met.

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**Chris Bateman, Chief Financial Officer**

I mean I think if you can look at consensus pricing the long-term price hasn't, people's perception of the long-term price hasn't changed dramatically. We're seeing some shorter-term price volatility and the current price is still well above most people's view of long-term copper prices. The second point I'd note is the debt capacity for this project really exceeds market capacity, so what we've commented on previously is we're looking to get a debt capacity well in excess of the \$4 billion. So to the extent there was any downward revision of the lenders prices it would go more to the overall debt capacity than the current market capacity. So, to answer your question, we don't see gyrations, short-term gyrations in the copper price affecting the financeability of the underground.

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**Daniel McConvey, Rossport Investments**

Great. Thanks, Chris and Kay.

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**Operator**

Thank you. The next question is from Ralph Profit from Credit Suisse. Please go ahead.

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**Ralph Profit, Credit Suisse**

Good afternoon and thank you for taking my question. Chris and Kay, I'd just like to come back to the new

production guidance. Both the copper and the gold guidance was down about the same magnitude, about 10 percent, so my question is between what looks to be a substantial uptick in the back half weighted gold grades and the fact that you'll still be drawing down inventories into the second half, I'm wondering what's the risk that some of these gold sales will be deferred into 2015.

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**Chris Bateman, Chief Financial Officer**

I think what it points to is that we had previously anticipated to get into the gold, high gold bearing ore, slightly earlier in the year. That has moved into the back half of the year, as Kay had suggested. As long as the mining goes according to plan then those gold grades will come through but because the gold is so highly concentrated in certain areas of the pit if there are any delays in the mining schedule then it can move gold production quite dramatically over that year-end period. So the gold is much more sensitive to the mining, the mine plan, than the copper guidance.

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**Ralph Profit, Credit Suisse**

Understood. That's helpful. And, Chris, if I can ask a follow-up, you had previously talked about aiming towards \$1 billion in this operating cost figure for 2014; can you give us an updated number given the changes to the debottlenecking initiatives? Thank you.

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**Chris Bateman, Chief Financial Officer**

Well, again, as Kay mentioned, these debottlenecking initiatives haven't gone away. We had a very tight January and February from a sales perspective, which we've talked about, and obviously a need to put in financing at the OT level. We're very happy with the facilities that we've put on at the OT level and we're now confident of our liquidity. What that's done is it will push some of these costs later in the year as we restart the initiatives of start the initiatives that we previously planned to embark upon earlier. Notwithstanding that, we'll continue to look for cost efficiencies throughout the facility as we bring it on line and fine-tune it. So, at the moment the guidance stands and as the year moves on we'll update you.

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**Ralph Profit, Credit Suisse**

That's great. Thank you very much.

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**Operator**

Thank you. This concludes today's question and answer session. I would like to turn the meeting back over to Ms. Priestly.

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**Kay Priestly, Chief Executive Officer**

Okay. Yes, thank you, operator, and thanks, everyone, for joining us today.

In summary, production at Oyu Tolgoi is advancing and we are very encouraged by the pickup in sales we received at the end of the first quarter. We are focused on resolving all outstanding matters with the Mongolian government and completing project financing. All parties are committed and I am confident that we can successfully resolve the outstanding issues and progress the development of Oyu Tolgoi.

Thank you again for joining us today.

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**Operator**

Thank you. The conference has now ended. Please disconnect your lines at this time. We thank you for your participation.

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