

## IMPORTANT NOTICE

### NOT FOR DISTRIBUTION IN OR INTO THE UNITED STATES OF AMERICA, ITS TERRITORIES AND POSSESSIONS, ANY STATE OF THE UNITED STATES OR THE DISTRICT OF COLUMBIA (THE "UNITED STATES")

**THIS EXCHANGE OFFER IS AVAILABLE ONLY TO INVESTORS WHO ARE OUTSIDE OF THE UNITED STATES.**

**IMPORTANT:** You must read the following disclaimer before continuing. The following disclaimer applies to the exchange offer memorandum attached to this e-mail. You are therefore advised to read this disclaimer carefully before reading, accessing or making any other use of the attached exchange offer memorandum. In accessing the attached exchange offer memorandum, you agree to be bound by the following terms and conditions, including any modifications to them from time to time, each time you receive any information from us as a result of such access.

**Confirmation of Your Representation:** You have accessed the attached exchange offer memorandum on the basis that you have confirmed your representation to Credit Suisse (Hong Kong) Limited and J.P. Morgan Securities plc (the "Dealer Managers") that (1) you are a holder or a beneficial owner of the Old Notes (as defined in the exchange offer memorandum), (2) you are otherwise a person to whom it is lawful to send the exchange offer memorandum and to make an invitation pursuant to the exchange offer in accordance with applicable laws; (3) you and any person you represent are outside the United States and to the extent you acquire the securities described in the attached exchange offer memorandum, you will be doing so pursuant to Regulation S under the U.S. Securities Act of 1933, as amended (the "Securities Act"), and (4) that you consent to delivery of the attached exchange offer memorandum and any amendments or supplements thereto by electronic transmission.

The attached exchange offer memorandum has been made available to you in electronic form. You are reminded that documents transmitted via this medium may be altered or changed during the process of transmission and consequently none of the Dealer Managers or any person who controls it or any of its directors, employees, representatives or affiliates accepts any liability or responsibility whatsoever in respect of any discrepancies between the exchange offer memorandum distributed to you in electronic format and the hard copy version. We will provide a hard copy version to you upon request.

**Restriction:** The attached exchange offer memorandum is being furnished in connection with an exchange offer exempt from registration under the Securities Act solely for the purpose of enabling a prospective investor to consider the acquisition of the securities described herein. You are reminded that the information in the attached exchange offer memorandum is not complete and may be changed.

THE SECURITIES HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE SECURITIES ACT, OR THE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES OR OTHER JURISDICTION, AND MAY NOT BE OFFERED OR SOLD WITHIN THE UNITED STATES, EXCEPT PURSUANT TO AN EXEMPTION FROM, OR IN A TRANSACTION NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT AND ANY APPLICABLE STATE OR LOCAL SECURITIES LAWS.

Except with respect to eligible investors in jurisdictions where such offer is permitted by law, nothing in this electronic transmission constitutes an offer or an invitation by or on behalf of either the issuer of the securities or the Dealer Managers to subscribe for or purchase any of the securities described herein. In addition, access to this electronic transmission has been limited so that it shall not constitute a general advertisement or solicitation in the United States or elsewhere. If a jurisdiction requires that the offering be made by a licensed broker or dealer and any of the Dealer Managers or any affiliate of any Dealer Manager is a licensed broker or dealer in that jurisdiction, the offering shall be described as being made by such Dealer Manager or its respective affiliates on behalf of the issuer in such jurisdiction.

You are reminded that you have accessed the attached exchange offer memorandum on the basis that you are a person into whose possession this exchange offer memorandum may be lawfully delivered in accordance with the laws of the jurisdiction in which you are located and you may not, nor are you authorized to, deliver this exchange offer memorandum, electronically or otherwise, to any other person. If you have gained access to this transmission contrary to the foregoing restrictions, you should not, and will be unable to, purchase any of the securities described therein.

**Actions That You May Not Take:** You should not reply by e-mail to this electronic transmission, and you may not purchase any securities by doing so. Any reply e-mail communications, including those you generate by using the "Reply" function on your e-mail software, will be ignored or rejected.

YOU ARE NOT AUTHORIZED AND YOU MAY NOT FORWARD OR DELIVER THE ATTACHED EXCHANGE OFFER MEMORANDUM, ELECTRONICALLY OR OTHERWISE, TO ANY OTHER PERSON OR REPRODUCE SUCH EXCHANGE OFFER MEMORANDUM IN ANY MANNER WHATSOEVER. ANY FORWARDING DISTRIBUTION OR REPRODUCTION OF THE ATTACHED EXCHANGE OFFER MEMORANDUM, IN WHOLE OR IN PART, IS UNAUTHORIZED. FAILURE TO COMPLY WITH THIS DIRECTIVE MAY RESULT IN A VIOLATION OF THE SECURITIES ACT OR THE APPLICABLE LAWS OF OTHER JURISDICTIONS.

You are responsible for protecting against viruses and other items of a destructive nature. Your use of this e-mail is at your own risk and it is your responsibility to take precautions to ensure that it is free from viruses and other items of a destructive nature.

NOT FOR DISTRIBUTION IN OR INTO OR TO ANY PERSON LOCATED OR RESIDENT IN THE UNITED STATES. THIS EXCHANGE OFFER IS AVAILABLE ONLY TO INVESTORS WHO ARE OUTSIDE OF THE UNITED STATES.



## THE GOVERNMENT OF MONGOLIA

### OFFER TO EXCHANGE GOVERNMENT OF MONGOLIA NOTES DUE FOR ANY AND ALL OF THE US\$580 MILLION OF DEVELOPMENT BANK OF MONGOLIA LLC'S OUTSTANDING 5.75% GUARANTEED NOTES DUE 2017

Upon the terms and subject to the conditions set forth in this exchange offer memorandum dated February 20, 2017 (this "exchange offer memorandum"), we are offering to exchange (the "exchange offer") any and all of Development Bank of Mongolia LLC's (the "2012 Issuer") outstanding 5.75% Guaranteed Notes due 2017, which we refer to collectively as the "Old Notes," for the Government of Mongolia's (the "2017 Issuer") Notes due \_\_\_\_\_, which we refer to collectively as the "New Notes."

ISIN	Common Code	Coupon	Maturity	Amount Outstanding	New Note Description	Exchange Consideration per US\$1,000 of Old Notes
XS0755567301	075556730	5.75%	March 21, 2017	US\$580,000,000	Notes due	US\$1,000 of New Notes plus certain cash consideration (as described below)

The New Notes will be issued by the Government of Mongolia. Interest on the New Notes will accrue from the Settlement Date (as defined herein) and will be payable semi-annually. Old Notes being tendered for exchange may only be submitted in a minimum size of US\$200,000. The aggregate principal amount of New Notes to be issued to any holder in the exchange offer will be in a minimum size of US\$200,000. As discussed herein, the total principal amount of Old Notes that will be accepted in this exchange offer is equal to US\$580 million.

For each US\$1,000 of Old Notes validly tendered and accepted for exchange, holders will receive the Exchange Consideration. The Exchange Consideration will include the New Notes issued in exchange for validly tendered and accepted Old Notes together with a cash payment equal to the sum of (i) in the event that the New Notes issued in the cash offering are issued at a price less than par, an amount equal to US\$1,000 less the issue price of the New Notes (expressed per US\$1,000 principal amount of Notes) and (ii) the accrued and unpaid interest on such Old Notes from and including the most recent interest payment date to, but excluding, the date from which the New Notes begin to accrue interest.

The exchange offer will expire at 5:00 p.m., Central European time, on March 1, 2017 (such date and time, as they may be extended or earlier terminated, the "Exchange Expiration Date").

You should carefully read the "Risk Factors" section beginning on page 12 before you make any decision regarding the exchange offer.

Valid tenders of Old Notes are irrevocable and may not be withdrawn. Instructions in connection with the exchange offer are irrevocable once you tender old notes in the exchange offer, you may not withdraw from the exchange offer. The exchange offer may be amended, modified, terminated, withdrawn or extended. Notice will be provided of any amendments, modifications, withdrawals or extensions as and if required by applicable law.

You must make your own decision whether to tender your Old Notes for exchange in the exchange offer. Neither the Government, DBM, the Dealer Managers, the Information and Exchange Agent (as defined herein), nor any other person is making any recommendation as to whether or not you should tender your Old Notes for exchange in the exchange offer.

Application has been made to the Singapore Exchange Securities Trading Limited (the "SGX-ST") for the listing and quotation of the New Notes on the Official List of the SGX-ST. The SGX-ST assumes no responsibility for the correctness of any of the statements made or opinions or reports contained in this exchange offer memorandum. Admission of the New Notes to the Official List of the SGX-ST and quotation of the New Notes on the SGX-ST and the above approval in-principle of the SGX-ST are not to be taken as an indication of the merits of the Issuer or the New Notes.

The New Notes have not been nor will they be registered under the United States Securities Act of 1933, as amended (the "Securities Act"), and they may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons (as defined in Regulation S under the Securities Act) except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act and applicable state securities laws. Accordingly, the New Notes offered in exchange for the Old Notes are only being offered outside the United States in offshore transactions pursuant to Regulation S. The New Notes being offered in the separate cash offering as described in "Appendix A — Additional Information regarding the New Notes" are being offered to (A) in the United States or to, or for the account or benefit of, U.S. persons in minimum amounts of US\$200,000, only to persons who are "qualified institutional buyers" ("QIBs") as defined in Rule 144A under the Securities Act in reliance on the exemption from the registration requirements of the Securities Act provided by Rule 144A and (B) outside the United States to investors in offshore transactions pursuant to Regulation S and which are deemed to have made the representations set forth in the section "Appendix A — Additional Information regarding the New Notes — Transfer Restrictions."

Neither the United States Securities and Exchange Commission nor any other federal or state securities commission or regulatory authority nor any commission has approved or disapproved of these securities or determined if this exchange offer memorandum is truthful or complete. Any representation to the contrary is a criminal offense.

*Dealer Managers*

**Credit Suisse**

**J.P. Morgan**

February 20, 2017

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In making your investment decision, you should rely only on the information contained in this exchange offer memorandum including Appendix A — Additional Information regarding the New Notes. We have not, and the Dealer Managers have not, authorized any other person to provide you with different information. If anyone provides you with different or inconsistent information, you should not rely on it. We are not, and the Dealer Managers are not, making an offer to sell or exchange securities, and we are not soliciting an offer to buy or exchange securities, in any jurisdiction where the offer, sale or exchange is not permitted.

### NOTICE TO INVESTORS

Each of the Government and the 2012 Issuer, having made all reasonable inquiries, confirms (i) this exchange offer memorandum contains all information with respect to the Government and the 2012 Issuer, the exchange offer, the Old Notes and the New Notes, that is material to the exchange offer; (ii) such information is true and accurate in all material respects and is not misleading in any material respect; (iii) the opinions, assumptions and intentions expressed in this exchange offer memorandum on the part of the Government and the 2017 Issuer are honestly held or made, have been reached after considering all relevant circumstances, are based on reasonable assumptions and are not misleading in any material respect; (iv) this exchange offer memorandum does not contain any untrue statement of a material fact nor does it omit to state a material fact necessary to make the statements herein, in

light of the circumstances under which they were made, not misleading; and (v) all proper inquiries have been made to ascertain and verify the foregoing. Accordingly, other than as provided above and in the paragraph below, the Government and the 2017 Issuer accept no responsibility for the information contained in this exchange offer memorandum.

Each holder of the Old Notes, by accepting the exchange offer, will be deemed to have made certain acknowledgments, representations and agreements as set forth under “Appendix A —Additional Information regarding the New Notes — Transfer Restrictions.” Each person acquiring New Notes in the exchange offer should be aware that it may be required to bear the financial risks of this investment for an indefinite period of time.

None of the Dealer Managers, DB Trustees (Hong Kong) Limited as trustee of the Old Notes (the “2012 Trustee”) or Deutsche Bank Trust Company Americas, as fiscal agent of the New Notes (the “2017 Fiscal Agent”) makes any representation or warranty, express or implied, as to the accuracy or completeness of any of the information in this exchange offer memorandum. Each person receiving this exchange offer memorandum acknowledges that such person has not relied on the Dealer Managers, the 2012 Trustee or the 2017 Fiscal Agent in connection with its investigation of the accuracy of such information or its investment decision. Each person contemplating accepting the exchange offer and making an investment in the New Notes must make its own investigation and analysis of the creditworthiness of the 2017 Issuer and its own determination of the suitability of such investment, with particular reference to its own investment objectives and experience, and any other factors that may be relevant to it in connection with such investment.

The delivery of this exchange offer memorandum shall not in any circumstances create any implication that there has been no adverse change, or any event reasonably likely to involve any adverse change, in the condition (financial or otherwise) of the Government or the 2012 Issuer since the date of this exchange offer memorandum. Unless otherwise indicated, all information in this exchange offer memorandum is given as of the date hereof. None of the Government or the 2012 Issuer undertake any obligation to update or review this exchange offer memorandum, whether as a result of new information, future events or otherwise.

This exchange offer memorandum does not constitute an offer of, or the solicitation of an offer to exchange, the New Notes in any jurisdiction where it is unlawful to make such an offer or solicitation. The distribution of this exchange offer memorandum in certain jurisdictions may be restricted by law. Persons into whose possession this exchange offer memorandum comes are required by the Dealer Managers, the 2012 Trustee and the 2017 Fiscal Agent to inform themselves about and to observe any such restrictions. This exchange offer memorandum may not be used for, or in connection with, any offer to, or solicitation by, anyone in any jurisdiction or under any circumstances in which such offer or solicitation is not authorized or is unlawful.

None of the Government, the 2012 Issuer, the Dealer Managers, the 2012 Trustee, the 2017 Fiscal Agent and any of their respective affiliates or agents makes any representation about the legality of the acceptance of the exchange offer or the acquisition of the New Notes by an investor under applicable investment or similar laws. None of the Government, the 2012 Issuer, the Dealer Managers, the 2012 Trustee, the 2017 Fiscal Agent and any of their respective affiliates or agents makes any recommendation as to whether holders of Old Notes should tender Old Notes pursuant to the exchange offer and, if given or made any such recommendation may not be relied upon as authorized by the Government, the 2012 Issuer, the Dealer Managers, the 2012 Trustee, the 2017 Fiscal Agent or any of

their respective affiliates or agents. Each prospective investor is advised to consult its own counsel and business adviser as to legal, business and related matters concerning the acceptance of the exchange offer and the New Notes. The contents of this exchange offer memorandum are not to be construed as legal, business or tax advice.

Each prospective purchaser of the New Notes must comply with all applicable laws and regulations in force in any jurisdiction in which it purchases, offers or sells the New Notes and must obtain any consent, approval or permission required of it for the purchase, offer or sale by it of the New Notes under the laws and regulations in force in any jurisdiction to which it is subject or in which it makes such purchases, offers or sales, and none of the Government, the 2012 Issuer, the 2017 Issuer, the Dealer Managers, the 2012 Trustee and the 2017 Fiscal Agent or any of their respective affiliates or agents shall have any responsibility therefor.

To the fullest extent permitted by law, none of the Dealer Managers accept any responsibility for the contents of this exchange offer memorandum or for any statement made or purported to be made by any Dealer Manager or on any of their behalf in connection with the Government, the 2012 Issuer, the 2017 Issuer, the exchange of the Old Notes or the issue and offering of the New Notes. The Dealer Managers accordingly disclaim all and any liability whether arising in tort or contract or otherwise which they might otherwise have in respect of this exchange offer memorandum or any such statement.

This exchange offer memorandum contains summaries intended to be accurate with respect to certain terms of the New Notes and the fiscal agency agreement relating to such New Notes, but reference is made to the actual documents, certain of which will be made available free of charge to prospective investors upon request to the office of the information agent, for complete information with respect thereto, and all summaries are qualified in their entirety by such reference.

#### **NOTICE TO INVESTORS IN CANADA**

This exchange offer memorandum is not an approved offering document pursuant to Canadian securities laws and no offer/sell of securities will be made except in compliance with NI 45-106. Resale of the New Notes may be subject to resale restrictions or seasoning period under Canadian securities laws. Canadian Qualified Holders should seek legal advice as regard to prospectus and registration exemptions available and related restrictions on resale that may be applicable.

The Government, the 2012 Issuer and the 2017 Issuer (the “Foreign Entities”) are entities formed under the laws of jurisdictions outside of Canada. All of the directors and officers of the Foreign Entities may be located outside of Canada and, as a result, it may not be possible for Canadian holders of the New Notes to effect services of process within Canada upon such company or such persons. All or a substantial portion of the assets of the Foreign Entities may be located outside of Canada and, as a result, it may not be possible for Canadian holders of the New Notes to satisfy or collect a judgment in Canada against the Foreign Entities or its directors and officers or to enforce a judgment obtained in Canadian courts against the Foreign Entities or such persons outside of Canada. Interest will not be governed by the laws of any province or territory of Canada. Accordingly, it may not be possible to enforce interest on the New Notes in accordance with their terms in a Canadian court.

## **NOTICE TO INVESTORS IN HONG KONG**

The New Notes have not been offered or sold and will not be offered or sold in Hong Kong, by means of any document, other than to “professional investors” as defined in the Securities and Futures Ordinance (Cap. 571) of Hong Kong and any rules made under that Ordinance.

No steps have been taken to register this exchange offer memorandum as a prospectus in Hong Kong. This exchange offer memorandum is delivered only to the recipient and may not be used, copied, reproduced or distributed, in whole or in part, to any other person. No advertisement, invitation or document relating to the exchange offer, the New Notes (including this exchange offer memorandum) has been issued or will be issued, whether in Hong Kong or elsewhere, which is directed at, or the contents of which are likely to be accessed or read by, the public in Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to New Notes which are or are intended to be disposed of only to persons outside Hong Kong or only to “professional investors” within the meaning of the Securities and Futures Ordinance (Cap. 571) of Hong Kong and any rules made thereunder.

## **NOTICE TO INVESTORS IN THE REPUBLIC OF ITALY**

None of the exchange offer, this exchange offer memorandum or any other documents or materials relating to the exchange offer have been or will be submitted to the clearance procedure of the *Commissione Nazionale per le Società e la Borsa* (“CONSOB”). The Exchange Offer is being carried out in the Republic of Italy as an exempted offer pursuant to article 101-bis, paragraph 3-bis of the Legislative Decree No. 58 of February 24, 1998, as amended (the “Financial Services Act”) and article 35-bis, paragraph 4 of CONSOB Regulation No. 11971 of May 14, 1999, as amended.

Holders or beneficial owners of the Old Notes that are located or resident in Italy can offer to exchange the Existing Bonds through authorized persons (such as investment firms, banks or financial intermediaries permitted to conduct such activities in the Republic of Italy in accordance with the Financial Services Act, CONSOB Regulation No. 16190 of October 29, 2007, as amended from time to time, and Legislative Decree No. 385 of September 1, 1993, as amended) and in compliance with applicable laws and regulations or with requirements imposed by CONSOB or any other Italian authority.

*Each intermediary must comply with the applicable laws and regulations concerning information duties vis-à-vis its clients in connection with the Old Notes or the invitations.*

## **NOTICE TO INVESTORS IN JAPAN**

No securities registration statement pursuant to Article 4, Paragraph 1 of the Financial Instruments and Exchange Law of Japan (the “FIEL”) has been filed or will be filed with respect to the solicitation of an offer to acquire the New Notes, as the case may be, to any resident of Japan (which term as used herein means any person resident in Japan, including any corporation or other entity organized under the laws of Japan) since such solicitations constitute the private placement to qualified institutional investors under Article 2, Paragraph 3, Item 2i of the FIEL.

Neither the New Notes nor any interest therein may be offered, sold, resold or otherwise transferred, directly or indirectly, in Japan or to or for the account of any resident of Japan unless the transferee is a qualified institutional investor within the meaning of Item 1, Paragraph 3 of Article 2 of the FIEL. As used in this paragraph, resident of Japan means any person resident in Japan, including any corporation or other entity organized under the laws of Japan.



## **NOTICE TO INVESTORS IN MALAYSIA**

The exchange offer has not been approved by the Securities Commission of Malaysia and will not be made available in Malaysia except to a Labuan company or foreign Labuan company (as defined under the Labuan Companies Act 1990 of Malaysia) with total net assets exceeding ten million ringgit or its equivalent in foreign currencies based on the last audited accounts.

This exchange offer memorandum has not been and will not be registered as a prospectus with the Securities Commission of Malaysia. Accordingly, this exchange offer memorandum and any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of the New Notes may not be circulated or distributed, nor may the New Notes be offered or sold, or be made the subject of an invitation for subscription or purchase, whether directly or indirectly, to persons in Malaysia other than to a Labuan company or foreign Labuan company (as defined under the Labuan Companies Act 1990 of Malaysia) with total net assets exceeding ten million ringgit or its equivalent in foreign currencies based on the last audited accounts.

## **NOTICE TO INVESTORS IN SWITZERLAND**

The New Notes may not be publicly offered, sold or advertised, directly or indirectly, in or from Switzerland. The New Notes are being offered in Switzerland only (i) on a private placement basis and (ii) to holders of the Old Notes. Neither this exchange offer memorandum nor any other offering or marketing material relating to the Government, the 2017 Issuer, the 2012 Issuer or the New Notes constitutes a prospectus as such term is understood pursuant to article 652a or article 1156 of the Swiss Federal Code of Obligations or a listing prospectus within the meaning of the listing rules of the SIX Swiss Exchange Ltd, and neither this exchange offer memorandum nor any other offering or marketing material relating to the Government, 2017 Issuer, the 2012 Issuer or the New Notes may be publicly distributed or otherwise made publicly available in Switzerland.

## **NOTICE TO INVESTORS IN SINGAPORE**

This exchange offer memorandum has not been and will not be registered as a prospectus with the Monetary Authority of Singapore. Accordingly, this exchange offer memorandum and any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of the New Notes may not be circulated or distributed, nor may the New Notes be offered or sold, or be made the subject of an invitation for subscription or purchase, whether directly or indirectly, to persons in Singapore other than (i) to an institutional investor under Section 274 of the Securities and Futures Act (Chapter 289 of Singapore) (the “Securities and Futures Act”), (ii) to a relevant person pursuant to Section 275(1), or any person pursuant to Section 275(1A), and in accordance with the conditions specified in Section 275, of the Securities and Futures Act or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the Securities and Futures Act.

Where the New Notes are subscribed or purchased under Section 275 of the Securities and Futures Act by a relevant person which is:

- (a) a corporation (which is not an accredited investor (as defined in Section 4A of the Securities and Futures Act)) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or
- (b) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary of the trust is an individual who is an accredited investor;

securities (as defined in Section 239(1) of the Securities and Futures Act) of that corporation or the beneficiaries' rights and interest (howsoever described) in that trust shall not be transferred within six months after that corporation or that trust has acquired the New Notes pursuant to an offer made under Section 275 of the Securities and Futures Act except:

- (i) to an institutional investor (under Section 274 of the Securities and Futures Act), or to a relevant person (as defined in Section 275(2) of the Securities and Futures Act) and in accordance with the conditions specified in Section 275 of the Securities and Futures Act;
- (ii) (in the case of a corporation) where the transfer arises from an offer referred to in Section 276(3)(i)(B) of the Securities and Futures Act or (in the case of a trust) where the transfer arises from an offer referred to in Section 276(4)(i)(B) of the Securities and Futures Act;
- (iii) where no consideration is or will be given for the transfer;
- (iv) where the transfer is by operation of law; or
- (v) as specified in Section 276(7) of the Securities and Futures Act.

#### **NOTICE TO PROSPECTIVE INVESTORS IN THE UNITED KINGDOM**

The communication of this exchange offer memorandum and any other documents or materials relating to the exchange offer is not being made and such documents and/or materials have not been approved by an authorized person for the purposes of section 21 of the Financial Services and Markets Act 2000. Accordingly, such documents and/or materials are not being distributed to, and must not be passed on to, the general public in the United Kingdom. Such documents are only directed at and are only for circulation to (i) persons within the United Kingdom falling within the definition of Investment Professional (as defined in Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the "Order")), (ii) high net worth companies, and other persons to whom it may lawfully be communicated, falling within Article 49(2)(a) to (d) of the Order (all such persons together being referred to as "relevant persons"), or (iii) persons falling within Article 43 of the Order, or other persons to whom it may lawfully be communicated in accordance with the Order.

Insofar as the communication in this exchange offer memorandum and such documents and/or materials is made to or directed at relevant persons, any investment or investment activity to which it relates is available only to relevant persons. Any person who is not a relevant person should not act or rely on this document or any of its contents.

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#### **NOTICE TO INVESTORS IN THE EUROPEAN ECONOMIC AREA**

This exchange offer has been prepared on the basis that any offer of New Notes in any Member State of the European Economic Area which has implemented Directive 2003/71/EC, as amended (the "Prospectus Directive") (each, a "Relevant Member State") will be made pursuant to an exemption under the Prospectus Directive, as implemented in that Relevant Member State, from the requirement to publish a prospectus for offers of New Notes. Accordingly, any person making or intending to make an offer in that Relevant Member State of New Notes which are the subject of an offering contemplated in this exchange offer and consent solicitation memorandum may only do so in circumstances in which no obligation arises for us or any Dealer Manager to publish a prospectus



pursuant to Article 3 of the Prospectus Directive or supplement a prospectus pursuant to Article 16 of the Prospectus Directive, in each case, in relation to such offer. Neither we nor any Dealer Manager has authorized, nor do we or they authorize, the making of any offer of New Notes in circumstances in which an obligation arises for any person to publish or supplement a prospectus for such offer.

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## FORWARD-LOOKING STATEMENTS

This exchange offer memorandum “forward-looking statements”, including statements regarding the Issuer’s economy, fiscal condition, debt or prospects. The words “believe,” “expect,” “anticipate,” “estimate,” “project,” “may,” “will,” “aim,” “will likely result,” “will continue,” “intend,” “plan,” “contemplate,” “seek to,” “future,” “objective,” “goal,” “should,” “will pursue” and similar expressions or variations of these expressions identify forward-looking statements. These statements are based on the Issuer’s current plans, objectives, assumptions, estimates, and projections. Forward-looking statements involve inherent risks. There are many factors that can affect the future performance of the Issuer. These factors include, but are not limited to, external factors, such as:

Such forward-looking statements involve known and unknown risks, uncertainties and other factors, some of which are beyond our control, which may cause the actual results, performance or achievements, or industry results to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements. These forward-looking statements are based on numerous assumptions regarding our respective present and future strategies and the environment in which they will operate in the future and are not a guarantee of future performance. Important factors that could cause the actual results, performance or achievements to differ materially from those in the forward-looking statements include but are not limited those listed in “Appendix A — Additional Information regarding the New Notes — Forward-Looking Statements.” Other important factors that could cause the actual results, performance or achievements to differ materially include, but are not limited to, those discussed under “Risk Factors” and “Appendix A — Additional Information regarding the New Notes — Risk Factors.” When considering the forward-looking statements, you should carefully consider the foregoing factors and other uncertainties and events, especially in light of the political, economic, social and legal environment in which we respectively operate. Such forward-looking statements speak only as of the date on which they are made. Accordingly, we undertake no obligation to update or revise any of them, whether as a result of new information, future events or otherwise. We make no representation, warranty or prediction that the results anticipated by such forward-looking statements will be achieved, and such forward-looking statements represent, in each case, only one of many possible scenarios and should not be viewed as the most likely or standard scenario. Accordingly, you should not place undue reliance on any forward-looking statement.

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## CONVENTIONS

Unless indicated otherwise, in this exchange offer memorandum:

- “2012 Issuer” refers to Development Bank of Mongolia LLC;

- “Dealer Managers” refers to refers to Credit Suisse (Hong Kong) Limited and J.P. Morgan Securities plc;
- The “Government, the “2017 Issuer,” “we,” “us” and “our” refers to the Government of Mongolia.

As used in this exchange offer memorandum, all references to “Mongolia” are references to the Mongolia and all references to the “Government” are references to the government of Mongolia. As used in this exchange offer memorandum, all references to the “PRC” are references to the People’s Republic of China. As used in this exchange offer memorandum, all references to “Tugrik” and “MNT” are to the lawful currency of Mongolia, all references to “RMB” or Renminbi are to the lawful currency of the PRC and all references to “US\$” and “U.S. dollars” are to United States dollars, the lawful currency of the United States of America.

## SUMMARY OF THE EXCHANGE OFFER

*The material terms of the exchange offer are summarized below. In addition, we urge you to read the detailed descriptions in the sections of this exchange offer memorandum entitled “Description of the Exchange Offer.”*

2012 Issuer ..... Development Bank of Mongolia LLC

2017 Issuer ..... The Government of Mongolia

The Exchange Offer..... Upon the terms and subject to the conditions set forth in this exchange offer memorandum, we are offering to exchange the 2012 Issuer’s outstanding 5.75% Guaranteed Notes due 2017 (ISIN: XS0755567301, Common Code: 075556730) (the “Old Notes”) for the 2017 Issuer’s Notes due (the “New Notes”). It is expected that the final yield on the New Notes will be announced on March 2, 2017. As of February 20, 2017, US\$580 million aggregate principal amount of Old Notes were outstanding.

Holders of Old Notes who validly tender in the exchange offer and whose tenders are accepted for exchange by the Government will waive any and all rights with respect to the Old Notes (other than the right to receive all of the relevant components of the Exchange Consideration (as defined herein)) and will release and discharge us from any and all claims such holder may have, now or in the future, arising out of or related to such Old Notes, including any and all accrued and unpaid interest thereon. Such holders, in addition to New Notes, will receive a cash payment equal to the sum of:

- (i) in the event that the New Notes issued in the cash offering are issued at a price less than par, an amount equal to US\$1,000 less the issue price of the New Notes (expressed per US\$1,000 principal amount of Notes); and
- (ii) the accrued and unpaid interest on their Old Notes from the last applicable interest payment date up to but excluding the Settlement Date (as defined below).

The exchange offer may be amended, modified, terminated, withdrawn or extended. Notice will be provided of any amendments, modifications, withdrawals or extensions as and if required by applicable law.

IMF Program Conditions . . . . .	<p>The financing parameters underpinning the program that has been agreed with the International Monetary Fund (“IMF”) staff (subject to IMF Executive Board approval) assume that external private creditor exposure will be maintained at its current level over the program period, on terms consistent with debt sustainability; and that gross financing needs will remain at prudent levels during the post-program period. Accordingly, the Government will only proceed with this exchange offer if the participation rate is sufficiently high and if the terms of the New Notes are consistent with the requirements for debt sustainability and gross financing needs.</p>
Purpose of the Exchange Offer. . .	<p>The purpose of the exchange offer is to extend the maturity profile of a portion of the Government’s guaranteed external indebtedness.</p>
Exchange Consideration. . . . .	<p>For each US\$1,000 principal amount of outstanding Old Notes that is validly tendered and accepted for exchange, holders will receive US\$1,000 principal amount of New Notes and an amount in cash (together with the New Notes, the “Exchange Consideration”) equal to the sum of:</p> <ul style="list-style-type: none"> <li data-bbox="667 981 1422 1153">(i) in the event that the New Notes issued in the cash offering are issued at a price less than par, an amount equal to US\$1,000 less the issue price of the New Notes (expressed per US\$1,000 principal amount of Notes); and</li> <li data-bbox="667 1187 1422 1288">(ii) the accrued and unpaid interest on such Old Notes from and including the most recent interest payment date to, but excluding, the Settlement Date (as defined below).</li> </ul>
Exchange Expiration Date . . . . .	<p>5:00 p.m. Central European time, on March 1, 2017, unless extended or earlier terminated in our sole discretion.</p>
Settlement Date . . . . .	<p>The Settlement Date will occur promptly following the Exchange Expiration Date. We anticipate that the Settlement Date will occur on or about the sixth business day following the Exchange Expiration Date, being March 9, 2017, unless the exchange offer is extended (or otherwise agreed upon by the Government and the Dealer Managers).</p>
Holders Eligible to Participate. . .	<p>The exchange offer will only be made to, and the New Notes are being offered and will be issued only to, eligible holders (the “Eligible Holders”) who are located outside the United States, or certain fiduciaries holding accounts for the benefit of persons outside the United States, as those terms are defined in Regulation S under the Securities Act.</p>

**Only Eligible Holders who have, or on whose behalf their brokers, dealers, custodians, trust companies or other nominees have, completed the procedures described in this exchange offer memorandum are eligible to participate in the exchange offer.**

For a description of restrictions on resale or transfer of the New Notes, see “Appendix A — Additional Information regarding the New Notes — Transfer Restrictions.”

Procedures for Tendering Old  
Notes .....

**To participate in the exchange offer, a holder must validly tender its Old Notes for exchange pursuant to the exchange offer prior to the Exchange Expiration Date pursuant to the procedures described herein.**

If you wish to participate in the exchange offer, you must tender your Old Notes pursuant to the procedures described herein by way of an electronic instruction, which must be submitted or delivered through the relevant Clearing System by each holder of the Old Notes who is shown in the records of such Clearing System as a holder of an interest in the Old Notes, authorizing delivery of your tender to exchange the Old Notes that are the subject of such electronic instruction (the “Electronic Instruction”). A separate Exchange Instruction must be completed on behalf of each beneficial owner. See “Description of the Exchange Offer — Procedures for Tendering Old Notes.”

No guaranteed delivery procedures are being offered in connection with the exchange offer.

Acceptance of Tenders; Delivery  
of New Notes .....

Subject to the terms and conditions of the exchange offer, and assuming we do not otherwise terminate or withdraw the exchange offer, we will accept any and all of the Old Notes that are validly tendered prior to the Exchange Expiration Date. Upon our determination that the conditions to the exchange offer have been satisfied, participants in the exchange offer who validly tender their Old Notes will receive New Notes on the Settlement Date and such New Notes will accrue interest from the New Notes Issuance Date (as defined below).

Minimum Aggregate Principal  
Amount of Old Notes to be  
tendered .....

Old Notes being tendered for exchange may only be submitted in a minimum size of US\$200,000. The aggregate principal amount of New Notes to be issued to any holder in a minimum size of US\$200,000.

Withdrawal of Tenders . . . . .	Valid tenders of Old Notes are irrevocable and may not be withdrawn. Instructions in connection with the exchange offer are irrevocable once you tender old notes in the exchange offer, you may not withdraw from the exchange offer.
Tendering through a Custodian. . .	If you are a beneficial owner of Old Notes that are held by or registered in the name of a custodial entity such as a broker, dealer, commercial bank, trust company or other nominee and you wish to tender your Old Notes, you should contact your custodial entity promptly and instruct it to tender your Old Notes on your behalf pursuant to the procedures of that custodial entity.
Consequences of Failure to Exchange Notes . . . . .	For a description of the consequences of failing to exchange your Old Notes, see “Risk Factors” and “Description of the Exchange Offer — Certain Consequences to Holders of Old Notes Not Participating in the Exchange Offer.”
Use of Proceeds . . . . .	We will not receive any cash proceeds from the exchange offer. We will only receive cash proceeds from the issuance of the New Notes which are purchased by investors for cash and not issued as part of this exchange offer. See “Use of Proceeds.”
Brokerage Commissions . . . . .	No brokerage commissions are payable by the holders of the Old Notes to us, the Dealer Managers or the Information and Exchange Agent.
Dealer Managers . . . . .	Credit Suisse (Hong Kong) Limited and J.P. Morgan Securities plc.
Information and Exchange Agent	Lucid Issuer Services Limited has been appointed as the Information and Exchange Agent for the exchange offer. You can find the address and telephone number for the Information and Exchange Agent on the back cover of this exchange offer memorandum.
Trustee . . . . .	DB Trustees (Hong Kong) Limited is the trustee of the Old Notes appointed under the trust deed dated November 30, 2011 among Development Bank of Mongolia LLC, The Ministry of Finance, on behalf of the Government of Mongolia, and DB Trustees (Hong Kong) Limited (the “2012 Trustee”).
Fiscal Agent . . . . .	Deutsche Bank Trust Company Americas will be the Fiscal agent, paying agent, trustee agent and registrar under the agency agreement for the New Notes.
Clearing Systems . . . . .	Euroclear Bank S.A./N.V. (“Euroclear”) and/or Clearstream Banking S.A. (“Clearstream, Luxembourg”), where the context permits, and each a “Clearing System.”



Further Information . . . . .

Questions about the terms of the exchange offer should be directed to the Dealer Managers, and the Information and Exchange Agent.

If you have questions regarding tender or exchange or require additional copies of this exchange offer memorandum, please contact the Information and Exchange Agent.

Beneficial owners may also contact their brokers, dealers, commercial banks, trust companies or other nominee for assistance concerning the exchange offer.

## SUMMARY OF THE NEW NOTES

*The following is a brief summary of the terms of the offering of the New Notes and is qualified in its entirety by the preliminary offering memorandum included in “Appendix A— Additional Information regarding the New Notes.” For a detailed description of the New Notes, see the section entitled “Appendix A— Additional Information regarding the New Notes — Description of the Notes.” The terms and conditions of the New Notes prevail to the extent of any inconsistency with the summary set forth in this section. This summary is not intended to be complete and does not contain all of the information that is important to an investor. Phrases used in this summary and not otherwise defined shall have the meanings given to them in “Appendix A— Additional Information regarding the New Notes — Description of the Notes.” References to “Notes” in this section are to “New Notes.”*

Issuer . . . . .	The Government of Mongolia.
Notes . . . . .	U.S. dollar-denominated Notes due . . . . .
Interest Payment Dates . . . . .	Semi-annual interest payments.
Maturity Date . . . . .	(maturity date to be determined).
Redemption . . . . .	The Notes will not be redeemable prior to maturity.
Status of Notes . . . . .	The Notes will constitute direct, unconditional, unsubordinated and unsecured general obligations of the Issuer. The Notes will at all times rank <i>pari passu</i> among themselves in all respects without any preference of one over the other by reason of priority of date of issue or otherwise. The Notes will at all times rank at least equally with all other present and future unsecured and unsubordinated External Indebtedness (as defined herein) of the Issuer. The full faith and credit of the Mongolia will be pledged for the due and punctual payment of the principal of, and interest on, the Notes, provided, however, that the Issuer shall have no obligation to effect equal or ratable payment(s) at any time with respect to any such other External Indebtedness (as defined herein) and, in particular, shall have no obligation to pay other External Indebtedness (as defined herein) at the same time or as a condition of paying sums due on the Notes and vice versa.

Limitation on Liens . . . . .

With certain exceptions, so long as any Notes remain outstanding (as defined herein), the Issuer shall not create, incur, assume or permit to subsist any Lien (as defined herein) upon the whole or any part of its present or future assets or revenues to secure (1) any Public External Indebtedness (as defined herein) of the Issuer; (2) any Guarantees (as defined herein) in respect of Public External Indebtedness; or (3) the Public External Indebtedness of any other person; without at the same time or prior thereto securing the Notes equally and ratably therewith or providing such other arrangement (whether or not comprising a Lien) as shall be approved by at least 75.0% of the aggregate principal amount of outstanding Notes which are represented at a meeting of Noteholders (as defined herein) duly convened in accordance with the Fiscal Agency Agreement (as defined herein) or a resolution in writing signed or confirmed in writing on behalf of the holders of at least 75.0% of the aggregate principal amount of the outstanding Notes. See “Description of the Notes — Limitation on Liens.”

Taxation . . . . .

The Issuer will make all payments on the Notes without withholding or deducting any present or future Taxes (as defined herein), imposed or levied by or on behalf of any Tax Jurisdiction (as defined herein) unless required by law. If any Tax Jurisdiction requires the Issuer to deduct or withhold Taxes, it will pay the holders, subject to certain exceptions, such Additional Amounts (as defined herein) as are necessary to ensure that they receive the same amount as they would have received without such withholding or deduction. The Issuer will not, however, pay any such Additional Amounts if the holder or beneficial owner is liable for Taxes imposed by any Tax Jurisdiction under certain circumstances. See “Description of the Notes — Additional Amounts.” For a description of certain United States tax aspects of the Notes, see “Taxation — United States Federal Income Tax Considerations.”

Cross-Defaults . . . . .

Events of default with respect to the Notes include (1) any present or future External Indebtedness shall become (or shall become capable of being declared) due and payable prior to its stated maturity (otherwise than at the option of the Issuer); (2) any default shall occur in the payment of principal of, or premium or prepayment charge (if any) or interest on, any future External Indebtedness when and as the same shall become due and payable if such default shall continue for more than the period of grace, if any, originally applicable thereto; (3) any security given by the Issuer for any present or future External Indebtedness becomes enforceable; or (4) any default shall occur in the payment when due and called upon (after the expiry of any originally applicable grace period) of any Guarantee of the Issuer in respect of any External Indebtedness of any other person, *provided that* the aggregate amount of the relevant External Indebtedness in respect of which one or more of such events have occurred equals or exceeds US\$50.0 million (or its equivalent in any other currency or currencies). See “Description of the Notes — Events of Default.”

Collective Action Clause . . . . .

The Notes will contain provisions, commonly referred to as “collective action clauses,” regarding approval of certain modifications and actions:

- (a) in respect of the Notes only, with the consent of the holders of at least 75.0% of the aggregate principal amount of the outstanding Notes;
- (b) in respect of the Notes and at least one other series of debt securities (capable of aggregation for voting purposes with other series of debt securities) issued by the Issuer, with the consent of both:
  - (i) the holders of at least 66<sup>2</sup>/<sub>3</sub>% of the aggregate principal amount of the outstanding affected debt securities (taken in aggregate); and
  - (ii) the holders of more than 50% of the aggregate principal amount of each series of affected debt securities (taken individually); or
- (c) in respect of the Notes and at least one other series of debt securities (capable of aggregation for voting purposes with other series of debt securities) issued by the Issuer, with the consent of the holders of at least 75% of the aggregate principal amount of the outstanding affected debt securities (taken in aggregate), provided that the “Uniformly Applicable” condition is satisfied.

	See “Description of the Notes — Modifications and Amendments; Meetings of Noteholders.”
Listing . . . . .	Application has been made for the listing and quotation of the Notes on the SGX-ST. The Notes will be traded on the SGX-ST in a minimum board lot size of US\$200,000 for so long as any of the Notes are listed on the SGX-ST.
Ratings of the Notes . . . . .	The Notes are expected to be rated “B-” by S&P and “B-” by Fitch. The ratings assigned by rating agencies are indicative and may go up and down from time to time. A credit rating is not a recommendation to purchase, hold or sell securities and may be subject to suspension, change or withdrawal at any time by the assigning rating agency.
Form, Denomination and Registration . . . . .	The Issuer will issue the Notes in fully registered form in minimum denominations of US\$200,000 and integral multiples of US\$1,000 in excess thereof. The Notes will be represented by one or more Global Notes (as defined herein), registered in the name of a nominee of DTC and deposited with Deutsche Bank Trust Company Americas, as custodian for DTC. Beneficial interests in the Global Notes will be shown on, and the transfer thereof will be effected only through, records maintained by DTC and its direct and indirect participants (including Euroclear and Clearstream, Luxembourg). Settlement of all secondary market trading activity in the Notes will be made in immediately available funds.
Further Issues . . . . .	The Issuer may from time to time, without notice to or the consent of the Noteholders, issue further notes having terms and conditions the same as the Notes or the same in all respects save for the amount and date of the first payment of interest thereon and so that the same shall be consolidated and form a single series and class with the Notes, <i>provided that</i> such further notes must be fungible with the Notes for U.S. federal income tax purposes.
Use of Proceeds . . . . .	The Issuer intends to use the net proceeds of the offering to refinance Old Notes not exchanged in the exchange offer and to retire certain of the Government’s other international debt.
Fiscal Agent; Paying Agent; Transfer Agent; Registrar . . . . .	Deutsche Bank Trust Company Americas.
Governing Law . . . . .	The Notes and the Fiscal Agency Agreement will be governed by and construed in accordance with the laws of the State of New York.

## SUMMARY TIMETABLE

*The following summarizes the current schedule for the exchange offer. Please note that the expiration of the exchange offer and the pricing and closing of the New Notes may be earlier or later than indicated below and that the other events listed below may be later than indicated below. This summary is qualified in its entirety by, and should be read in conjunction with, the more detailed information appearing elsewhere in this exchange offer memorandum.*

*In relation to the times and dates indicated below, the holders holding the Old Notes in Euroclear or Clearstream, Luxembourg should note the particular practices and policies of the relevant Clearing System regarding their communications deadlines, which will determine the latest time at which tenders of the Old Notes for exchange may be delivered to the relevant Clearing System (which may be earlier than the deadlines set forth below) so that they are received by the information agent within the deadlines set forth below.*

*All notices to holders of the Old Notes will be released via SGXNET and through delivery to the Clearing Systems for communication to direct participants.*

Date	Event
February 20, 2017 . . . . .	Commencement of the exchange offer and announcement via SGXNET and through the Clearing Systems.  Exchange offer memorandum delivered to the holders of the Old Notes.  Announcement of the cash offer of the New Notes.
On or around February 22, 2017 . . . . .	Announcement of the minimum yield for the New Notes via SGXNET and through the Clearing Systems.
March 1, 2017 (5:00 p.m., Central European time). . . . .	Exchange Expiration Date. Deadline for the receipt of all Electronic Instructions as this is the last date and time for holders of the Old Notes to participate in the exchange offer.
March 2, 2017 . . . . .	Announcement of the yield for the New Notes (the “New Issue Yield”) via SGXNET and through the Clearing Systems, such yield to be equal to or greater than the minimum yield announced on or around February 22, 2017.
March 2, 2017 . . . . .	Announcement of the final total aggregate amount of the New Notes to be issued to investors for cash consideration.
March 2, 2017 . . . . .	Announcement of the final aggregate principal amount of the Old Notes validly tendered and accepted for exchange (if the Exchange Expiration Date has not extended). Announcements will be submitted via SGXNET and through the Clearing Systems.
March 9, 2017 . . . . .	Closing of the New Notes and delivery of the New Notes to new investors (the “New Notes Issuance Date”).



<b>Date</b>	<b>Event</b>
March 9, 2017 . . . . .	Settlement Date on which the Exchange Consideration is to be delivered to the holders of Old Notes which have been validly tendered for exchange and accepted for exchange.

March 10, 2017 . . . . . Listing of the New Notes on the SGX-ST.

All references in this exchange offer memorandum to times, are to Central European time, unless we state otherwise. The above dates are indicative only.

The exchange offer may be amended, modified, terminated, withdrawn or extended. Notice will be provided of any amendments, modifications, withdrawals or extensions as and if required by applicable law.

The Government reserves the right to extend the Exchange Expiration Date in its sole discretion. In such a case, the date on which the notice of the results of this exchange offer will be delivered and the Settlement Date will be adjusted accordingly. The holders of the Old Notes should inform themselves of any earlier deadlines that may be imposed by the Clearing Systems and/or any intermediaries, which may affect the timing of the submission of a notice of exchange.

## RISK FACTORS

*Before deciding whether to participate in the exchange offer, you should read carefully this exchange offer memorandum and, in particular, the risks described below, prior to making an investment decision with respect to the Old Notes. The risks described below are not the only ones that may affect the 2017 Issuer, the Old Notes or the New Notes. In general, investing in securities of issuers in emerging market countries such as Mongolia involves risks not typically associated with investing in the securities of companies in more developed economies. For further risks, among others, see “Appendix A — Additional Information regarding the New Notes — Risk Factors.” Additional risks and uncertainties not presently known to us or that we currently deem immaterial may also impair our business operations. If any of the risks described below actually occur, our economy and, financial condition could be materially adversely affected. The risks described below also include forward-looking statements and our actual results may differ substantially from those discussed in these forward-looking statements. See “Forward-Looking Statements.”*

### **Risks Related to the Exchange Offer**

#### ***Your decision to tender your Old Notes for New Notes exposes you to the risk of nonpayment for a longer period of time***

The Old Notes mature in 2017. The New Notes will mature in . If, following the maturity date of your Old Notes but prior to the maturity date of the New Notes, we were to become subject to a bankruptcy or similar proceeding, the holders of Old Notes who did not exchange their Old Notes for New Notes could have been paid in full and there would exist a risk that holders of Old Notes who exchanged their Old Notes for New Notes would not be paid in full, if at all. Your decision to tender your Old Notes should be made with the understanding that the lengthened maturity of the New Notes exposes you to the risk of nonpayment for a longer period of time.

#### ***You may have difficulty selling the Old Notes you do not exchange***

The trading market for Old Notes that are not exchanged could become more limited than the existing trading market for the Old Notes and could cease to exist altogether due to the reduction in the principal amount of the Old Notes outstanding upon consummation of the exchange offer. A more limited trading market might adversely affect the liquidity, market price and price volatility of the Old Notes. If a market for Old Notes that are not exchanged exists or develops, the Old Notes may trade at a discount to the price at which they would trade if the principal amount outstanding were not reduced. There can be, however, no assurance that an active market in the Old Notes will exist, develop or be maintained, or as to the prices at which the Old Notes may trade, after the exchange offer is consummated.

#### ***You may not receive New Notes in the exchange offer if the procedures for the exchange offer are not followed***

We will issue the New Notes in exchange for your Old Notes only if you tender the Old Notes and deliver a properly submitted Electronic Instruction through the Clearing Systems. You should allow sufficient time to ensure timely delivery of the Electronic Instruction and the necessary documents. Neither Dealer Managers, the Information and Exchange Agent, nor we are under any duty to give notification of defects or irregularities with respect to the tenders of Old Notes for exchange. If you

are the beneficial owner of Old Notes that are registered in the name of your broker, dealer, commercial bank, trust company or other nominee, and you wish to tender in the exchange offer, you should promptly contact the person in whose name your Old Notes are registered and instruct that person to tender on your behalf.

***The consummation of the exchange offer may be delayed or may not occur***

We are not obligated to complete the exchange offer. The exchange offer may be amended, modified, terminated, withdrawn or extended. Notice will be provided of any amendments, modifications, withdrawals or extensions as and if required by applicable law. Even if the exchange offer is completed, it may not be completed on the schedule described in this exchange offer memorandum. Accordingly, participating holders may have to wait longer than expected to receive their New Notes, during which time those holders will not be able to effect transfers of their Old Notes tendered in the exchange offer.

***The consideration to be received in the exchange offer does not reflect any valuation of the Old Notes or the New Notes and is subject to market volatility***

The Government has made no determination that the consideration to be received in the exchange offer represents a fair valuation of either the Old Notes or the New Notes. We have not obtained a fairness opinion from any financial advisor about the fairness to us or to you of the consideration to be received by holders of Old Notes. Accordingly, none of the Government, the 2012 Issuer, the 2017 Issuer, Dealer Managers and the Information and Exchange Agent or any other person is making any recommendation as to whether or not you should tender Old Notes for exchange in the exchange offer.

***We may repurchase any Old Notes that are not tendered in the exchange offer on terms that are more favorable to the holders of the Old Notes than the terms of the exchange offer***

We may, to the extent permitted by applicable law, purchase Old Notes in the open market, in privately negotiated transactions, through subsequent tender or exchange offers or otherwise. These other purchases may be made on the same terms or on terms that are more or less favorable to holders than the terms of this exchange offer. We also reserve the right to repurchase any Old Notes not tendered. If we decide to repurchase Old Notes on terms that are more favorable than the terms of the exchange offer, those holders who decide not to participate in the exchange offer could be better off than those that participated in the exchange offer.

***Uncertainty as to existing ratings of the Old Notes***

The Government and the 2012 Issuer cannot assure you that, as a result of the exchange offer, the rating agencies, including Moody's Investor Services ("Moody's") and Standard & Poor's Rating Services ("S&P"), will not downgrade or negatively comment upon the ratings for Old Notes which are not exchanged.

***Tenders under the exchange offer are irrevocable***

Tenders of the Old Notes by delivery of any Electronic Instruction to the relevant Clearing System will be irrevocable once submitted. You should carefully inform yourself of the considerations relevant to the exchange offer prior to tendering your Old Notes pursuant to the exchange offer.

### *Responsibility for complying with the procedures of the Exchange Offer*

The holders of the Old Notes are responsible for complying with all of the procedures for offering to exchange the Old Notes. None of the Government, the 2012 Issuer, the Dealer Managers and the Information and Exchange Agent assume any responsibility for informing the holders of the Old Notes of irregularities in any Electronic Instruction or with respect to the acceptance of offers to exchange. Prior to the Settlement Date, no assurance can be given that the exchange offer will be completed. This may depend upon the satisfaction or waiver of the conditions of the exchange offer. Upon giving a blocking instruction relating to the securities account where Old Notes are held in a relevant Clearing System, holders should be aware that they may not transfer title to such Old Notes to other persons and may suffer losses if the market price of the Old Notes changes and the exchange offer, in respect of that holder or generally, is not completed for whatever reason.

The holders holding the Old Notes in Euroclear or Clearstream, Luxembourg should note the particular practices and policies of the relevant Clearing System regarding their communications deadlines, which will determine the latest time at which tenders of the Old Notes for exchange may be delivered to the relevant Clearing System (which may be earlier than the deadlines set forth in this exchange offer memorandum) so that they are received by the Information and Exchange Agent within the deadlines set forth in this exchange offer memorandum. Additionally it is important to note that all references in this exchange offer memorandum to times, are to Central European time, unless we state otherwise.

### *Compliance with offer restrictions*

Each holder of the Old Notes is referred to the offer restrictions herein. Non-compliance with these could result in, among other things, the unwinding of trades and/or heavy penalties.

### *Minimum trading lot requirements*

The New Notes will be traded on SGX-ST in a minimum board lot size of not less than S\$200,000 for so long as any of the New Notes are listed on SGX-ST. Exchanging holders of the Old Notes may be allocated and issued New Notes which are less than the minimum board lot size of not less than S\$200,000 which will result in the exchanging holders of the Old Notes not being able to trade the New Notes on SGX-ST.

### **Further Risks**

**For risks relating to: the offering structure of the New Notes; the Government; Mongolia and the New Notes; and the 2017 Issuer, see “Appendix A — Additional Information regarding the New Notes — Risk Factors.”**

## QUESTIONS AND ANSWERS ABOUT THE EXCHANGE OFFER

**Q: Why is the Government making the exchange offer?**

A: The Government is conducting the exchange offer to extend the maturity profile of a portion of the Government's guaranteed external indebtedness.

**Q: What will I receive if I tender my Old Notes in the exchange offer?**

A: For each US\$1,000 principal amount of outstanding Old Notes that is validly tendered and accepted for exchange, holders will receive US\$1,000 principal amount of New Notes and an amount in cash (together with the New Notes, the "Exchange Consideration") equal to the sum of:

- (i) in the event that the New Notes issued in the cash offering are issued at a price less than par, an amount equal to US\$1,000 less the issue price of the New Notes (expressed per US\$1,000 principal amount of Notes); and
- (ii) accrued and unpaid interest on such Old Notes from and including the most recent interest payment date to, but excluding the Settlement Date (as defined below).

Your right to receive the consideration described above is subject to all the conditions set forth in this exchange offer memorandum.

If all or any portion of the Old Notes tendered by any holder has not been accepted, such holder will receive in relation to the amount of Old Notes validly tendered and accepted in the exchange offer, the Exchange Consideration.

**Q: What are the consequences of not tendering in the exchange offer?**

A: Following the consummation of the exchange offer, the trading market for Old Notes that are not exchanged could become more limited than the existing trading market for the Old Notes and could cease to exist altogether due to the reduction in the amount of the Old Notes outstanding upon consummation of the exchange offer. A more limited trading market might adversely affect the liquidity, market price and price volatility of the Old Notes. We cannot assure you that ratings on the Old Notes will be maintained. See "Risk Factors — Risks Related to the Exchange Offer."

**Q: How do the Old Notes differ from the New Notes to be issued in the exchange offer?**

A: The interest rate on the Old Notes is 5.75% per annum and the Old Notes will mature on March 21, 2017. The New Notes will mature on the \_\_\_\_\_ anniversary of their date of issuance. See "Material Differences Between the New Notes and the Old Notes."

**Q: When will the yield on the New Notes be determined?**

A: On or around February 22, 2017 (or such other date as we determine in our absolute discretion), we will provide minimum yield for the New Notes. This announcement will be via SGXNET and through the Clearing Systems. Further, on March 2, 2017 (or such other date as we determine in our absolute discretion), we will announce the interest rate on the New Notes via SGXNET and through the Clearing Systems.

**Q: When will the exchange offer expire?**

A: The exchange offer will expire at 5:00 p.m., Central European time, on March 1, 2017, subject to our right to extend that time and date in our absolute discretion or to terminate the exchange offer at any time.

**Q: Under what circumstances can the exchange offer be extended, amended or terminated?**

A: We are not obligated to complete the exchange offer. The exchange offer may be amended, modified, terminated, withdrawn or extended. Notice will be provided of any amendments, modifications, withdrawals or extensions as and if required by applicable law. We expressly reserve the right, at any time, to amend the terms of the exchange offer in any respect prior to the Exchange Expiration Date, subject to applicable law. Further, we may be required to extend the exchange offer if we make a material change in the terms of the exchange offer or in the information contained in this exchange offer memorandum. During any extension of the exchange offer, Old Notes that were previously tendered for exchange, will remain subject to the exchange offer. Any waiver, amendment or modification of the exchange offer, including any change in the consideration, will apply to all Old Notes previously validly tendered. For more information regarding our right to extend, amend or terminate the exchange offer, see “Description of the Exchange Offer — Expiration Date; Extensions; Amendments; Termination.”

**Q: When will the Government issue the New Notes?**

A: Assuming the conditions to the exchange offer are satisfied or waived, the Government will issue the New Notes on the New Notes Issuance Date. We anticipate that the settlement of the exchange offer, including the delivery and payment of the Exchange Consideration, will occur on or about the sixth business day following the Exchange Expiration Date (or otherwise agreed upon by the Government and the Dealer Managers).

The exchange offer may be amended, modified, terminated, withdrawn or extended. Notice will be provided of any amendments, modifications, withdrawals or extensions as and if required by applicable law.



**Q: What are my rights if I change my mind after I tender my Old Notes?**

A: Valid tenders of Old Notes are irrevocable and may not be may not be withdrawn.

**Q: Will the Government receive any cash proceeds from the exchange offer?**

A: No. The Government will only receive cash proceeds from the issuance of the New Notes which are purchased by investors which are not holders of the Old Notes for cash and not issued as part of the exchange offer. See “Use of Proceeds.”

**Q: What happens if some or all of my Old Notes are not accepted?**

A: If we decide not to accept some or all of your Old Notes because of an invalid tender, the occurrence of the other events set forth in this exchange offer memorandum or otherwise, the Old Notes not accepted by us will be credited to the tendering holder’s account at Euroclear or Clearstream, Luxembourg, as applicable.

**Q: Will I have to pay any fees or commissions if I tender my Old Notes for exchange in the exchange offer?**

A: If your Old Notes are held through a broker or other nominee who tenders the Old Notes on your behalf, your broker may charge you a commission for doing so. You should consult with your broker or nominee to determine whether any charges apply. Otherwise, you will not be required to pay any fees or commissions to us, the Dealer Managers or the Information and Exchange Agent in connection with the exchange offer.

**Q: How do I tender my Old Notes for exchange in the exchange offer?**

A: If you are a holder of Old Notes and you wish to tender your Old Notes for exchange pursuant to the exchange offer, a holder must validly tender those Old Notes for exchange pursuant to the exchange offer prior to the Exchange Expiration Date. In order to meet this deadline, custodians and Clearing Systems may require you to act on a date prior to the Exchange Expiration Date. Additionally, they may require further information in order to process all requests to tender. Holders are urged to contact their custodians and applicable Clearing System, as soon as possible, to ensure compliance with their procedures and deadlines.

A separate Exchange Instruction must be completed on behalf of each beneficial owner.

The method of delivery of the Old Notes to the Information and Exchange Agent is at the election and risk of the holder. The holder of the Old Notes should allow sufficient time to assure delivery to and receipt by the Information and Exchange Agent prior to the Exchange Expiration Date.

We have not provided guaranteed delivery procedures in connection with the exchange offer. Holders must timely tender their Old Notes in accordance with the procedures set forth herein.

For more information regarding the procedures for tendering your Old Notes pursuant to the exchange offer, see “Description of the Exchange Offer — Procedures for Tendering Old Notes.”

**Q: Will the New Notes be freely tradable?**

A: The transfer of the New Notes is restricted. The New Notes will not be registered under, and the Government is not obligated to register the New Notes under, the Securities Act or the securities laws of any other jurisdiction and, unless so registered, may not be offered or sold except pursuant to an exemption from, or a transaction not subject to, the registration requirements of the Securities Act and any other applicable laws. See “Appendix A — Additional Information regarding the New Notes — Transfer Restrictions.” The Government has not agreed to or otherwise undertaken to register the New Notes, and the Government has no intention to do so. There can be no assurance as to the development or liquidity of any market for the New Notes. See “Appendix A — Additional Information regarding the New Notes — Risk Factors — Risks Relating to the Notes.”

**Q: To whom should I direct any questions?**

A: Questions about the terms of the exchange offer should be directed to the Dealer Managers, and the Information and Exchange Agent. If you have questions regarding tender procedures or require additional copies of this exchange offer memorandum, please contact the Information and Exchange Agent. Contact information for Dealer Managers and the Information and Exchange Agent are set forth on the back cover of this exchange offer memorandum. Beneficial owners may also contact their brokers, dealers, commercial banks, trust companies or other nominee for assistance concerning the exchange offer.

## **THE 2012 ISSUER AND THE 2017 ISSUER**

### **The 2012 Issuer**

The 2012 Issuer was established pursuant to Resolution No. 195 of the Government of Mongolia and the Development Bank Law, with its principal place of business at Peace Avenue 19 Building, 12-13th Floors, Sukhbaatar District, 1st khoroo, Ulaanbaatar 14210, Mongolia. The 2012 Issuer is wholly-owned by the Government and is the only policy bank in Mongolia. It was established to foster the economic and infrastructure development of Mongolia by providing long-term financing for policy-oriented projects consistent with the Government’s macroeconomic development strategy. The 2012 Issuer’s current principal activities focus on raising funds and mobilizing resources to support the development of industries encouraged by the Government. These industries include infrastructure, railway and road transportation, energy, mining supply chain industries and export-oriented and import-substitution industries.

### **The 2017 Issuer**

The 2017 Issuer is the Government of Mongolia, a sovereign entity. For more information, see “Appendix A — Additional Information regarding the New Notes.”

## **USE OF PROCEEDS**

We will not receive any cash proceeds from the exchange offer. We will only receive cash proceeds from the issuance of the New Notes which are purchased by for cash and not issued as part of this exchange offer. The 2017 Issuer will use the proceeds from the issuance of the New Notes to refinance Old Notes not exchanged in this exchange offer and to retire certain of the Government's other international debt.

See "Appendix A — Additional Information regarding the New Notes— Use of Proceeds."

## **DESCRIPTION OF THE EXCHANGE OFFER**

### **General**

We intend to conduct the exchange offer in accordance with the applicable rules and regulations of Mongolia, Singapore and any jurisdiction where the offer or sale of the New Notes and the exchange of the Old Notes is permitted. The exchange offer will only be made to, and the New Notes thereunder are being offered and will be issued only to, eligible holders (the “Eligible Holders”) who are located outside the United States, or certain fiduciaries holding accounts for the benefit of persons outside the United States, as those terms are defined in Regulation S under the Securities Act, who have complied with the procedures set out herein, or on whose behalf their brokers, dealers, custodians, trust companies or other nominees have complied with the procedures herein.

### **Purpose of the Exchange Offer**

The purpose of the exchange offer is to extend the maturity profile of a portion of the Government’s guaranteed external indebtedness.

### **Terms of the Exchange Offer**

Upon the terms and subject to the conditions set forth in this exchange offer memorandum, we are offering to exchange any and all of the US\$580 million of the 2017 Issuer’s outstanding 5.75% Guaranteed Notes due 2017 (ISIN: XS0755567301, Common Code: 075556730) (the “Old Notes”), for the 2017 Issuer’s newly issued Notes due \_\_\_\_\_ (the “New Notes”). It is expected that the final yield on the New Notes will be announced on March 2, 2017. As of February 20, 2017, US\$580 million aggregate principal amount of Old Notes were outstanding.

Holder of Old Notes validly tendered in the exchange offer and accepted will waive any and all rights with respect to the Old Notes (other than the right to receive the consideration in exchange therefor) and will release and discharge us from any and all claims such holder may have, now or in the future, arising out of or related to such Old Notes, including any and all accrued and unpaid interest thereon. Such holders, in addition to New Notes, will receive a cash payment equal to the accrued and unpaid interest on their Old Notes from the last applicable interest payment date up to but excluding the Settlement Date. The accrued interest on the Old Notes will be on the Settlement Date of the exchange offer.

### **Exchange Consideration**

For each US\$1,000 principal amount of outstanding Old Notes that is validly tendered and accepted for exchange, each holder will receive US\$1,000 principal amount of New Notes and an amount in cash (together with the New Notes, the “Exchange Consideration”) equal to the sum of:

- (i) in the event that the New Notes issued in the cash offering are issued at a price less than par, an amount equal to US\$1,000 less the issue price of the New Notes (expressed per US\$1,000 principal amount of Notes); and

- (ii) the accrued and unpaid interest on such Old Notes from and including the most recent interest payment date to, but excluding, the Settlement Date.

Your right to receive the consideration described above is subject to all the conditions set forth in this exchange offer memorandum.

If all or any of a portion of the Old Notes tendered by any holder has not been accepted, you will receive the Exchange Consideration in relation to the amount of Old Notes validly tendered and accepted in the exchange offer.

No other holders of the Old Notes will be entitled to receive the Exchange Consideration.

### **Yield on the New Notes**

On or around February 22, 2017 (or such other date as we determine in our absolute discretion), we will provide the minimum yield for the New Notes. This announcement will be via SGXNET and through the Clearing Systems. Further on March 2, 2017 (or such other date as we determine in our absolute discretion), we will announce the New Issue Yield via SGXNET and through the Clearing Systems. The date on which the New Issue Yield is announced shall be one business day after the Exchange Expiration Date.

Interest on the New Notes will be payable semi-annually. The New Notes will mature on the anniversary of their issuance.

### **Eligibility for Acceptance of the Exchange Offer**

Your submission of an Electronic Instruction to the relevant Clearing System with respect to the Old Notes will only be valid if you certify in such Electronic Instruction that you are an Eligible Holder.

### **Exchange Expiration Date; Extensions; Amendments; Termination**

For purposes of the exchange offer, the Exchange Expiration Date will be 5:00 p.m., Central European time, on March 1, 2017, subject to our right to extend that time and date in our absolute discretion, in which case the Exchange Expiration Date means the latest time and date to which such time and date is extended.

We reserve the right, in our absolute discretion, by giving oral or written notice to the Dealer Managers and the Information and Exchange Agent to:

- extend the exchange offer;
- terminate or withdraw the exchange offer; and
- amend or modify the exchange offer.

If we make a material change in the terms of the exchange offer or the information concerning the exchange offer, we will promptly disseminate disclosure regarding the changes to the exchange offer and extend the exchange offer, if required by law.

During any extension of the exchange offer, all Old Notes previously validly tendered will remain subject to the exchange offer. Any amendment or modification of the exchange offer, including any change in the consideration, will apply to all Old Notes previously validly tendered.

We will promptly announce any extension, amendment or termination of the exchange offer by issuing an announcement via SGXNET and through the Clearing Systems. We will announce any extension of the Exchange Expiration Date no later than 9:00 a.m., Central European time, on the first business day after the previously scheduled Exchange Expiration Date.

The exchange offer may be amended, modified, terminated, withdrawn or extended. Notice will be provided of any amendments, modifications, withdrawals or extensions as and if required by applicable law.

### **IMF Program Conditions**

The financing parameters underpinning the program that has been agreed with the IMF staff (subject to IMF Executive Board approval) assume that external private creditor exposure will be maintained at its current level over the program period, on terms consistent with debt sustainability; and that gross financing needs will remain at prudent levels during the post-program period. Accordingly, the Government will only proceed with this exchange offer if the participation rate is sufficiently high and if the terms of the New Notes are consistent with the requirements for debt sustainability and gross financing needs.

### **Acceptance of Old Notes**

Subject to the terms and conditions of the exchange offer, and assuming we do not otherwise terminate the exchange offer, we will be deemed to accept validly tendered Old Notes when, and if, we give oral or written notice of acceptance to the Dealer Managers and the Information and Exchange Agent. If any tendered Old Notes are not accepted for any reason described in the terms and conditions of the exchange offer, such unaccepted Old Notes will be returned to the tendering holder at our expense promptly after the expiration or termination of the exchange offer. Any unaccepted Old Notes will be credited to the tendering holder's account at the applicable Clearing System. Under no circumstances will we be required to accept Old Notes for exchange that have not been validly tendered prior to the Exchange Expiration Date in accordance with the procedures set forth in this exchange offer memorandum. We reserve the absolute right to reject any and all tenders of Old Notes not in proper form or any Old Notes the acceptance for exchange of which may, in the opinion of counsel, be unlawful. See “— Procedures for Tendering Old Notes.”

### **Settlement Date; Delivery of Consideration**

The Settlement Date will occur promptly following the Exchange Expiration Date. We anticipate that the Settlement Date will occur on or about the sixth business day following the Exchange Expiration Date, being March 9, 2017, unless the exchange offer is extended.

Subject to the terms and conditions of the exchange offer, and assuming that the exchange offer is not otherwise terminated by us, on the Settlement Date, Old Notes validly tendered in accordance with the procedures set forth in this exchange offer memorandum prior to the Exchange Expiration Date that are accepted by us will be exchanged for New Notes in an amount equal to the Exchange Consideration.

If Old Notes validly offered for exchange pursuant to the Exchange Offer are accepted for exchange, the corresponding New Notes will be delivered and the portion of the Exchange Consideration comprising the cash amount in respect of such accepted Old Notes will be paid by us or on our behalf in immediately available funds on the Settlement Date.

At settlement of the Exchange Offer, the New Notes will be delivered and the portion of the Exchange Consideration comprising the cash amount will be made to the Clearing System accounts in which the relevant Old Notes are held. The delivery of such New Notes and payment of the portion of the Exchange Consideration comprising the cash amount to the Clearing Systems will discharge our obligation to all such holders in respect of the delivery of the New Notes and payment of the portion of the Exchange Consideration comprising the cash amount, if applicable.

Provided we deliver, or have delivered on our behalf, the New Notes, and make, or have made on our behalf, full payment of any portion of the Exchange Consideration comprising the cash amount, for all Old Notes accepted for exchange pursuant to the exchange offer to the relevant Clearing Systems, on or before the Settlement Date, under no circumstances will any additional distribution or interest be payable to a holder because of any delay in the delivery of the New Notes by, or transmission of funds from, the relevant Clearing System or any other intermediary with respect to such Old Notes of that holder.

#### **Future Purchases and Exchanges of Old Notes by Us**

Following the consummation of the exchange offer, we may acquire additional Old Notes that remain outstanding in the open market, in privately negotiated transactions, in new exchange offers, by redemption or otherwise. Future purchases, exchanges or redemptions of Old Notes that remain outstanding after the exchange offer may be on terms that are more or less favorable than the exchange offer. Future purchases, exchanges and redemptions, if any, will depend on many factors, which include market conditions and the condition of our economy.

#### **Certain Consequences to Holders of Old Notes Not Participating in the Exchange Offer**

Consummation of the exchange offer may have adverse consequences to holders of Old Notes who elect not to participate. In particular, the trading market for Old Notes that are not exchanged could become more limited than the existing trading market for the Old Notes and could cease to exist altogether due to the reduction in the amount of the Old Notes outstanding upon consummation of the exchange offer. A more limited trading market might adversely affect the liquidity, market price and price volatility of the Old Notes. We cannot assure you that credit ratings on the Old Notes will be maintained. See “Risk Factors — Risks Related to the Exchange Offer.”

#### **Effect of Tender**

Any tender by a holder of Old Notes (and our subsequent acceptance of such tender) will constitute a binding agreement between that holder, the 2012 Issuer and the Government, upon the terms and subject to the conditions of the exchange offer described in this exchange offer memorandum. The acceptance of the exchange offer by a tendering holder of Old Notes will constitute the agreement by that holder to the covenants and the making of the representations and warranties contained herein.



## **Representations, Warranties and Covenants of Holders of Old Notes**

### ***Representations, warranties and covenants of holders of each Eligible Holder***

Upon tender of the Old Notes, which will be irrevocable, and subject to the terms and conditions of the exchange offer generally, each Eligible Holder will be deemed, among other things, to:

- (1) irrevocably sell, assign and transfer to or upon our order or the order of our nominee, all right, title and interest in and to, and any and all claims in respect of or arising or having arisen as a result of such holder's status as a holder of, all Old Notes tendered thereby, such that thereafter it shall have no contractual or other rights or claims in law or in equity against the 2012 Issuer, the Government, the 2012 Trustee or any fiduciary, trustee, fiscal agent, security agent or other person connected with the Old Notes arising under, from or in connection with such Old Notes;
- (2) waive any and all rights with respect to the Old Notes tendered thereby (including, without limitation, any existing or past defaults and their consequences in respect of such Old Notes); and
- (3) release and discharge the 2012 Issuer, the Government, the 2012 Trustee or any fiduciary, trustee, fiscal agent, security agent or other person connected with the Old Notes from any and all claims such holder may have (now or in the future), arising out of or relating to the Old Notes tendered thereby, including, without limitation, any claims that such holder is entitled to receive additional principal or interest payments with respect to the Old Notes tendered thereby (other than as expressly provided in this exchange offer memorandum) or to participate in any redemption or defeasance of the Old Notes tendered thereby.

In addition, such Eligible Holder of Old Notes will be deemed to represent, warrant and undertake that:

- (1) it has received and reviewed this exchange offer memorandum including the terms of the offering memorandum of the New Notes set out in Appendix A;
- (2) it is the beneficial owner (as defined below) of, or a duly authorized representative of one or more such beneficial owners of, the Old Notes tendered thereby;
- (3) it is, or in the event that such holder is acting on behalf of a beneficial owner of the Old Notes tendered thereby, such holder has received a written certification from such beneficial owner (dated as of a specific date no earlier than the close of such beneficial owner's most recent fiscal year) to the effect that such beneficial owner is located outside the United States, and is acquiring New Notes in an offshore transaction in accordance with Regulation S;
- (4) it is not located or resident in the United Kingdom or, if it is located or resident in the United Kingdom, it is a person falling within the definition of investment professionals (as defined in Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the "Order") or within Article 43(2) of the Order, or to whom this Exchange Offer Memorandum may lawfully be communicated in accordance with the Order;

- (5) it acknowledges and agrees that (i) this exchange offer memorandum and any other offering or marketing document relating to the New Notes does not constitute a prospectus as such term is understood pursuant to article 652a or article 1156 of the Swiss Federal Code of Obligations or a listing prospectus within the meaning of the listing rules of the SIX Swiss Exchange Ltd, and (ii) the New Notes may only be distributed or otherwise be made available in or from Switzerland on a private placement basis only;
- (6) it agrees and undertakes not to (i) publicly distribute (or otherwise make publicly available) this exchange offer memorandum or any other offering or marketing document relating to the New Notes in or from Switzerland, or (ii) publicly offer, sell or advertise the New Notes, directly or indirectly, in or from Switzerland;
- (7) the Old Notes being tendered thereby were owned as of the date of tender, free and clear of any liens, charges, claims, encumbrances, interests and restrictions of any kind, and we will acquire good, indefeasible and unencumbered title to such Old Notes, free and clear of all liens charges, claims, encumbrances, interests and restrictions of any kind, when we accept the same;
- (8) it will not sell, pledge, hypothecate or otherwise encumber or transfer any Old Notes tendered thereby and agrees that any purported sale, pledge, hypothecation or other encumbrance or transfer will be void and of no effect;
- (9) in evaluating the exchange offer and in making its decision whether to participate therein by tendering its Old Notes, such holder has made its own independent evaluation of the matters referred to herein and in any related communications and is not relying on any statement, representation or warranty, express or implied, made to such holder by the 2012 Issuer, the Government, the Dealer Managers or the Information and Exchange Agent than those contained in or incorporated by reference into this exchange offer memorandum (as amended or supplemented to the Exchange Expiration Date);
- (10) the delivery of an Electronic Instruction to the relevant Clearing System shall constitute an undertaking to execute any further documents and give any further assurances that may be required in connection with the exchange offer, in each case on and subject to the terms and conditions set out or referred to in this exchange offer memorandum;
- (11) the delivery of an Electronic Instruction to the relevant Clearing System shall constitute (subject to the terms and conditions of the exchange offer generally) the appointment of information and exchange agent, as its attorney and agent, and an instruction to such attorney and agent (such appointment and instruction to be irrevocable) to complete and execute all or any form(s) of transfer and other document(s) at the discretion of such attorney and agent in relation to the Old Notes tendered thereby in favor of the 2012 Issuer and the Government or such other person or persons as the 2012 Issuer or the Government may direct, and to deliver such form(s) of transfer and other document(s) in the attorney's and agent's discretion and/or the certificate(s) and other documents of title relating to such Old Notes' registration and to execute all such other documents and to do all such other acts and things as may be in the opinion of such attorney or agent necessary or expedient for the purpose of, or in connection with, the acceptance of the exchange offer, and to vest in the 2012 Issuer, the Government or their nominees such Old Notes;

- (12) that the terms and conditions of the Exchange Offer shall be deemed to be incorporated in, and form a part of, the Electronic Instruction, which shall be read and construed accordingly;
- (13) a holder of Old Notes who delivers an Electronic Instruction with respect to its Old Notes through Euroclear or Clearstream, Luxembourg will be deemed to have consented to the disclosure by Euroclear or Clearstream, Luxembourg of certain details concerning its identity, the aggregate principal amount of such Old Notes and the account details to the Information and Exchange Agent;
- (14) it understands that the exchange offer memorandum has not been and will not be registered as a prospectus with the Monetary Authority of Singapore under the Securities and Futures Act, and accordingly, the exchange offer memorandum and any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of the New Notes may not be circulated or distributed, nor may the New notes be offered or sold, or be made the subject of an invitation for subscription or purchase, whether directly or indirectly, to persons in Singapore other than (i) to an institutional investor under Section 274 of the Securities and Futures Act, (ii) to a relevant person pursuant to Section 275(1), or any person pursuant to Section 275(1A), and in accordance with the conditions specified in Section 275, of the Securities and Futures Act or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the Securities and Futures Act;
- (15) it understands that the New Notes have not been and will not be registered under the Securities Act or any state securities laws in the United States.
- (16) it is an Eligible Holder.

Each holder of Old Notes that submits an Electronic Instruction will also be deemed to represent, warrant and agree as set forth under “Appendix A — Additional Information regarding the New Notes — Transfer Restrictions” in this exchange offer memorandum.

The representations and warranties and agreements of a holder tendering Old Notes shall be deemed to be repeated and reconfirmed on and as of the Exchange Expiration Date and the Settlement Date. For the purposes of this exchange offer memorandum, the “beneficial owner” of any Old Notes shall mean any holder that exercises sole investment discretion with respect to such Old Notes.

## **Procedures for Tendering Old Notes**

### ***General***

To participate in the exchange offer, a holder must validly tender its Old Notes for exchange pursuant to the exchange offer prior to the Exchange Expiration Date pursuant to the procedures described below.

To meet the deadlines referred to in this exchange offer memorandum, custodians and Clearing Systems may require you to act on a date prior to the Exchange Expiration Date, as the case may be. Additionally, they may require further information in order to process all requests to tender. Holders are urged to contact their custodians and applicable Clearing Systems as soon as possible to ensure compliance with their procedures and deadlines.

The method of delivery of the Old Notes to the Information and Exchange Agent is at the election and risk of the holder. The holder of the Old Notes should allow sufficient time to assure delivery to and receipt by the Information and Exchange Agent prior to the Exchange Expiration Date.

Questions about the terms of the exchange offer should be directed to the Dealer Managers or the Information and Exchange Agent, as applicable. If you have questions regarding tender or require additional copies of this exchange offer memorandum, please contact the Information and Exchange Agent. Contact information for the Dealer Managers and the Information and Exchange Agent are set forth on the back cover of this exchange offer memorandum. Beneficial owners may also contact their brokers, dealers, commercial banks, trust companies or other nominee for assistance concerning the exchange offer for assistance concerning the exchange offer.

### ***Valid Tender of Old Notes***

If you are a holder of Old Notes and you wish to tender your Old Notes for exchange pursuant to the exchange offer, you may accept the exchange offer prior to the Exchange Expiration Date by submitting a valid Electronic Instruction to the relevant Clearing System in accordance with the requirements of the relevant Clearing System. By submitting an Electronic Instruction in accordance with the requirements of the relevant Clearing System, you shall be deemed to represent, warrant and undertake the following to the 2012 Issuer, the 2017 Issuer, the Government, the Dealer Managers and the Information and Exchange Agent on each of the Exchange Expiration Date and the Settlement Date:

- that you wish to receive the New Notes under the terms of the exchange offer;
- that you are located outside the United States;
- the accuracy of your name and securities account number at the relevant Clearing System in which you hold the Old Notes and to which the New Notes are to be credited;
- that you have authorized the Clearing System to block your position in the Old Notes until the Settlement Date or termination or withdrawal of the exchange offer; and
- that you consent to the disclosure by Euroclear or Clearstream, Luxembourg of certain details concerning your identity, the aggregate principal amount of such Old Notes and the account details to the Information and Exchange Agent.

Your acceptance of the exchange offer will constitute a binding agreement between you and us in accordance with the terms, and subject to the conditions, set forth herein and in the Electronic Instruction. Such acceptance will be binding upon receipt by the relevant Clearing System of a valid Electronic Instruction in respect of all matters except your tender of Old Notes for exchange, which will be binding immediately.

By submitting a valid Electronic Instruction to the relevant Clearing System, you are deemed to represent, warrant and undertake to the 2012 Issuer, the Government, the Dealer Managers, and the Information and Exchange Agent that:

- you have received, reviewed and accept the terms of this exchange offer memorandum, and the terms of the offering memorandum of the New Notes set out in “Appendix A —Additional Information regarding the New Notes — Transfer Restrictions”;

- you currently hold the Old Notes at the time of submission of an Electronic Instruction, and will continue to hold the Old Notes, until the time of settlement on the Settlement Date or the termination or withdrawal of the exchange offer;
- you have blocked the Old Notes (and they will remain blocked) in the securities account to which such Old Notes are credited in the relevant Clearing System with effect from, and including, the date on which the relevant Clearing System received the Electronic Instruction until the time of settlement on the Settlement Date or termination or withdrawal of the exchange offer, all in accordance with the normal procedures of such Clearing System and after taking into account the deadlines imposed by such Clearing System;
- you will transfer the Old Notes which are the subject of the Electronic Instruction, on the Settlement Date, with full title, free and clear of any liens, charges, claims, encumbrances, interests and restrictions of any kind, and we will acquire good, indefeasible and unencumbered title to such Old Notes, free and clear of all liens charges, claims, encumbrances, interests and restrictions of any kind, when it accepts the same;
- (i) you are the beneficial owner of, or are a duly authorized representative of one or more such beneficial owners of, the Old Notes and you are not located in the United States of America at the time you submitted the Electronic Instruction and (ii) if you are acting in a fiduciary, agency or other capacity as an intermediary, then either (x) you have full investment discretion with respect to the Old Notes covered by the Electronic Instruction or (y) the person on whose behalf you are acting is and was located outside the United States of America at the time he or she instructed you to accept the exchange offer;
- you are not located or resident in the United Kingdom or, if you are located or resident in the United Kingdom, you are a person falling within the definition of investment professionals (as defined in Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the “Order”) or within Article 43(2) of the Order, or to whom this Exchange Offer Memorandum may lawfully be communicated in accordance with the Order; and
- you are an Eligible Holder.

**If you are unable to give any of the representations and warranties described above, please contact the Dealer Managers. Do not send Old Notes or Electronic Instructions to the Dealer Managers, the 2012 Issuer, the Government, the 2012 Note Trustee, the 2017 Fiscal Agent or the Information and Exchange Agent.**

***Procedures for submitting Electronic Instructions with respect to Old Notes held through Euroclear or Clearstream, Luxembourg or through a Custodian***

If you desire to tender your Old Notes, you should either (i) contact Euroclear or Clearstream, Luxembourg for participation procedures and deadlines regarding the submission of an authenticated SWIFT message, Euroclear’s EUCLID or Clearstream, Luxembourg’s CreationOnline system or other valid Electronic Instruction, to authorize the delivery of your tender to exchange; or (ii) request such holder’s broker, dealer, bank, trust company or other nominee to effect the submission of an Electronic Instruction which includes your Note Instructions (as defined below), to authorize the delivery of your tender to exchange, in accordance with the deadlines specified by Euroclear or Clearstream, Luxembourg prior to the Exchange Expiration Date.

The receipt of such Electronic Instruction by Euroclear or Clearstream, Luxembourg may be acknowledged in accordance with the standard practices of Euroclear or Clearstream, Luxembourg. For the avoidance of doubt, any such acknowledgement does not constitute an acceptance of the tender of the Old Notes by or on behalf of the 2012 Issuer.

Electronic Instructions can be delivered only by direct participants in Euroclear and Clearstream, Luxembourg.

**Your Electronic Instruction must be delivered and received by Euroclear or Clearstream, Luxembourg in accordance with the procedures established by them and on or prior to the deadlines established by each of those clearing systems. You are responsible for informing yourself of these deadlines and for arranging the due and timely delivery of Note Instructions to Euroclear or Clearstream, Luxembourg.**

**Only direct participants in Euroclear or Clearstream, Luxembourg may submit Electronic Instructions through Euroclear and Clearstream, Luxembourg. If you are not a direct participant in Euroclear or Clearstream, Luxembourg you must contact your broker, dealer, bank, custodian, trust company or other nominee to arrange for their direct participant through which you hold Old Notes to submit an Electronic Instruction on your behalf to the relevant Clearing System prior to the deadline specified by the relevant Clearing System.**

#### *Exchange Instructions*

A separate Exchange Instruction must be completed on behalf of each beneficial owner.

#### *Determination of Validity*

All questions as to the validity, form, eligibility (including time of receipt) and acceptance of any tendered Old Notes pursuant to any of the procedures described above, and the form and validity of all documents will be determined by us in our sole discretion, which determination will be final and binding absent a finding to the contrary by a court of competent jurisdiction. We reserve the absolute right to reject any or all tenders of any Old Notes determined by us not to be in proper form, or if the acceptance of or exchange of such Old Notes may, in the opinion of our counsel, be unlawful or result in a breach of contract. A waiver of any defect or irregularity with respect to the tender of one old note shall not constitute a waiver of the same or any other defect or irregularity with respect to the tender of any other old note.

Your tender of Old Notes will not be deemed to have been validly made until all defects or irregularities in your tender has been cured or waived. None of us, the Dealer Managers, the Information and Exchange Agent, or any other person or entity is under any duty to give notification of any defects or irregularities in any tender or withdrawal of any Old Notes, or will incur any liability for failure to give any such notification.

#### **Withdrawal of Tenders**

Old Notes tendered may not be withdrawn at any time prior to the Exchange Expiration Date. Instructions in connection with the exchange offer are irrevocable once you tender old notes in the exchange offer, you may not withdraw from the exchange offer.

### **No Participation by the 2012 Issuer and the Government**

The 2012 Issuer and the Government may not submit any Electronic Instructions.

### **No Guaranteed Delivery**

There are no guaranteed delivery procedures provided by the 2012 Issuer and the Government or any other entity making payments on behalf of the 2012 Issuer or the Government in connection with the in connection with the exchange offer. Eligible Holders must tender their Old Notes in accordance with the procedures set forth herein.

### **The 2012 Trustee**

In accordance with normal practice, the 2012 Trustee expresses no opinion on the terms of the exchange offer. The 2012 Trustee has not been involved in formulating the terms of the exchange offer, and makes no representation that all relevant information has been disclosed to holders of the Old Notes herein or that the information contained here in is accurate or complete. Each holder of the Old Notes is responsible for assessing the merits of the exchange offer. Accordingly, the 2012 Trustee recommends that the holders of the Old Notes seek their own independent financial or legal advice with regard to the impact of the implementation of the exchange offer.

### **The 2017 Fiscal Agent**

In accordance with normal practice, the 2017 Fiscal Agent expresses no opinion on the terms of the exchange offer. The 2017 Fiscal Agent has not been involved in formulating the terms of the exchange offer, and makes no representation that all relevant information has been disclosed to holders of the Old Notes herein or that the information contained here in is accurate or complete. Each holder of the Old Notes is responsible for assessing the merits of the exchange offer. Accordingly, the 2017 Fiscal Agent recommends that the holders of the Old Notes seek their own independent financial or legal advice with regard to the impact of the implementation of the exchange offer.

### **Information and Exchange Agent**

Lucid Issuer Services Limited has also been appointed as the Information and Exchange Agent for the exchange offer. Questions concerning tender procedures and requests for additional copies of this exchange offer memorandum should be directed to the Information and Exchange Agent at the address and telephone numbers listed on the back cover of this exchange offer memorandum. Holders of Old Notes may also contact their broker, dealer, commercial bank, trust company or other nominee for assistance concerning the exchange offer. We will pay the Information and Exchange Agent reasonable and customary fees for its services and will reimburse it for its reasonable out-of-pocket expenses. We have agreed to indemnify the Information and Exchange Agent against certain liabilities, including liabilities arising under the federal securities laws.

### **Dealer Managers**

We have retained Credit Suisse (Hong Kong) Limited and J.P. Morgan Securities plc to act as the Dealer Managers for the exchange offer. We have agreed to pay a fee to the Dealer Managers for soliciting acceptances of the exchange offer. We will reimburse the Dealer Managers for their reasonable out-of-pocket expenses, including the reasonable expenses and disbursements of their legal counsel. The obligations of the Dealer Managers to perform its functions are subject to various



conditions. We have agreed to indemnify the Dealer Managers against various liabilities, including liabilities arising under the federal securities laws. Questions regarding the terms of the exchange offer may be directed to Dealer Managers at their applicable address and telephone number listed on the back cover of this exchange offer memorandum.

The Dealer Managers and certain of its affiliates have provided, from time to time, and in the future may provide, certain commercial banking, investment banking and financial advisory services to us and our affiliates, for which they have received, and in the future will receive, customary fees.

In the ordinary course of their various business activities, the Dealer Managers and their respective affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers, and such investment and securities activities may involve our securities and/or instruments, including the Old Notes. To the extent that the Dealer Managers or their affiliates own Old Notes during the exchange offer, they may tender such Old Notes pursuant to the terms of the exchange offer. Such participation, if any, will be on the same terms and subject to the same conditions set forth in this exchange offer memorandum applicable to other holders of the Old Notes.

The Dealer Managers and their respective affiliates may also make investment recommendations and/or publish or express independent research views in respect of such securities or instruments and may at any time hold, or recommend to clients that they acquire, long and/or short positions in such securities and instruments. In addition, the Dealer Managers and/or their affiliates serve as agents and lenders under certain existing credit facilities with us or our affiliates/agencies.

### **Announcements**

The announcement of the commencement of the exchange offer, minimum yield of the New Notes, the New Issue Price, the New Issue Yield, the final aggregate principal amount of Old Notes tendered and accepted for exchange, the final total aggregate principal amount of the New Notes and the settlement of the Exchange Offer will be released via SGXNET, and made through the Clearing Systems, and will occur as specified in “— Summary Timetable” unless otherwise extended or amended. All other announcements will be made through the Clearing Systems. Significant delays may be experienced in publishing notices through the Clearing Systems and the holders of the Old Notes are urged therefore to contact the Dealer Managers or the Information and Exchange Agent for the relevant announcements. All announcements will be made available upon release at the offices of the information and exchange in London and New York.

The Government will announce the outcome of the exchange offer on the dates set out in “— Summary Timetable” and “— Description of the Exchange Offer.”



### **Other Fees and Expenses**

We will bear the fees and expenses of soliciting tenders for the exchange offer. Tendering holders of Old Notes will not be required to pay any fee or commission to the Dealer Managers or the Information and Exchange Agent. If, however, a tendering holder handles the transaction through its broker, dealer, commercial bank, trust company or other nominee, that holder may be required to pay brokerage fees or commissions.

### **Transfer Taxes**

We will pay all transfer taxes, if any, applicable to the exchange of Old Notes pursuant to the exchange offer. The tendering holder, however, will be required to pay any transfer taxes, whether imposed on the registered holder or any other person, if:

- certificates representing Old Notes for principal amounts not tendered or accepted for exchange are to be delivered to, or are to be issued in the name of, any person other than the registered holder of Old Notes tendered; or
- a transfer tax is imposed for any reason other than the exchange of Old Notes under the exchange offer.

If satisfactory evidence of payment of transfer taxes is not submitted with tendered Old Notes, the amount of any transfer taxes will be billed to the tendering holder.

### **Source of Funds for the Exchange Offers**

We intend to fund all cash payments to holders pursuant to the exchange offer, represented by (i) an amount equal to accrued and unpaid interest from the last applicable interest payment date to but excluding the date on which the New Notes to be issued in the exchange offer begin to accrue interest; and (ii) any cash payments for fractional portions of New Notes, with cash proceeds received from the issuance of the New Notes to investors for cash.

## DESCRIPTION OF MATERIAL DIFFERENCES BETWEEN THE NEW NOTES AND OLD NOTES

*The following summary highlights certain material differences between the New Notes and the Old Notes, and is qualified in its entirety by reference to the more detailed information contained elsewhere in this exchange offer memorandum. Holders of the Old Notes are urged to read this exchange offer memorandum in its entirety, as it contains important information which you should read carefully before you make any decision with respect to the exchange offer memorandum conducted hereby. This summary does not purport to be complete and may not contain all information needed by you in making a decision regarding the exchange offer.*

The purpose of the exchange offer is to extend the maturity profile of a portion of the Government's guaranteed external indebtedness. Set out below is a description of the material differences between the New Notes and the Old Notes.

The terms of the New Notes shall be substantially identical to the terms of the Old Notes except for the following (dates included are indicative based on the expected issue date):

	Old Notes	New Notes
<b>Issuer</b> . . . . .	Development Bank of Mongolia LLC	The Government of Mongolia
<b>Guarantor</b> . . . . .	The Ministry of Finance, on behalf of the Government of Mongolia	None
<b>Yield</b> . . . . .	5.75%	On or around February 22, 2017 the minimum yield for the New Notes will be provided. On March 2, 2017 (or such other date as we determine in our absolute discretion), the New Issue Yield will be announced.
<b>Maturity</b> . . . . .	March 21, 2017	(maturity date to be determined)

## **DESCRIPTION OF THE NEW NOTES**

For additional information regarding the New Notes, see “Appendix A — Additional Information regarding the New Notes — Description of the Notes.”

## BOOK ENTRY SYSTEM

We will issue the New Notes in the form of one or more global securities in fully registered form initially in the name of Cede & Co., as nominee of DTC, or such other name as may be requested by an authorized representative of DTC. The global securities will be deposited with the trustee as custodian for DTC and may not be transferred except as a whole by DTC to a nominee of DTC or by a nominee of DTC to DTC or another nominee of DTC or by DTC or any nominee to a successor of DTC or a nominee of such successor.

DTC has advised us as follows:

- DTC is a limited-purpose trust company organized under the New York Banking Law, a “banking organization” within the meaning of the New York Banking Law, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code, and a “clearing agency” registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934, as amended.
- DTC holds securities that its participants deposit with DTC and facilitates the settlement among direct participants of securities transactions, such as transfers and pledges, in deposited securities, through electronic computerized book-entry changes in direct participants’ accounts, thereby eliminating the need for physical movement of securities certificates.
- Direct participants include securities brokers and dealers, banks, trust companies, clearing corporations and certain other organizations.
- DTC is owned by a number of its direct participants and by the New York Stock Exchange, Inc. and the Financial Industry Regulatory Authority, Inc.
- Access to the DTC system is also available to others such as securities brokers and dealers, banks and trust companies that clear through or maintain a custodial relationship with a direct participant, either directly or indirectly.
- The rules applicable to DTC and its direct and indirect participants are on file with the SEC.

Acquisitions of New Notes in the exchange offer under the DTC system must be made by or through direct participants, which will receive a credit for the New Notes on DTC’s records. The ownership interest of each actual acquiror of New Notes is in turn to be recorded on the direct and indirect participants’ records. Beneficial owners of the New Notes will not receive written confirmation from DTC of their acquisition, but beneficial owners are expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the direct or indirect participants through which the beneficial owner entered into the transaction. Transfers of ownership interests in the New Notes are to be accomplished by entries made on the books of direct and indirect participants acting on behalf of beneficial owners. Beneficial owners will not receive certificates representing their ownership interests in the New Notes, except in the event that use of the book-entry system for the New Notes is discontinued.

To facilitate subsequent transfers, all New Notes deposited by direct participants with DTC are registered in the name of DTC’s partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of New Notes with DTC and their registration in the name of Cede & Co. or such other nominee do not effect any change in beneficial

ownership. DTC has no knowledge of the actual beneficial owners of the New Notes; DTC's records reflect only the identity of the direct participants to whose accounts such New Notes are credited, which may or may not be the beneficial owners. The direct and indirect participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to direct participants, by direct participants to indirect participants, and by direct participants and indirect participants to beneficial owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the global securities. Under its usual procedures, DTC mails an omnibus proxy to the issuer as soon as possible after the record date. The omnibus proxy assigns Cede & Co.'s consenting or voting rights to those direct participants to whose accounts the New Notes are credited on the record date (identified in the listing attached to the omnibus proxy).

All payments on the global securities will be made to Cede & Co., as holder of record, or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit direct participants' accounts upon DTC's receipt of funds and corresponding detail information from us or the trustee on payment dates in accordance with their respective holdings shown on DTC's records. Payments by participants to beneficial owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such participant and not of DTC, us or the trustee, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal, premium, if any, and interest to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) shall be the responsibility of us or the trustee. Disbursement of such payments to direct participants shall be the responsibility of DTC, and disbursement of such payments to the beneficial owners shall be the responsibility of direct and indirect participants.

DTC may discontinue providing its service as securities depository with respect to the New Notes at any time by giving reasonable notice to us or the trustee. In addition, we may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). Under such circumstances, in the event that a successor securities depository is not obtained, note certificates in fully registered form are required to be printed and delivered to beneficial owners of the New Notes representing such New Notes.

Neither we nor the trustee will have any responsibility or obligation to direct or indirect participants, or the persons for whom they act as nominees, with respect to the accuracy of the records of DTC, its nominee or any participant with respect to any ownership interest in the New Notes, or payments to, or the providing of notice to participants or beneficial owners.

So long as the New Notes are in DTC's book-entry system, secondary market trading activity in the New Notes will settle in immediately available funds. All payments on the New Notes issued as global securities will be made by us in immediately available funds.

**The information in this section concerning DTC and its system has been obtained from sources that we believe are reliable, but neither we nor the dealer managers take any responsibility for the accuracy of such information. The information is subject to any changes to the arrangements between us and DTC and any changes to such procedures that may be instituted unilaterally by DTC.**

## **FEES AND EXPENSES**

We will bear the fees and expenses of soliciting tenders for the exchange offer. Tendering holders of the Old Notes will not be required to pay any fee or commission to the Dealer Managers or the Information and Exchange Agent. If, however, a tendering holder handles the transaction through its broker, dealer, commercial bank, trust company or other nominee, that holder may be required to pay brokerage fees or commissions.

We have agreed to pay the Dealer Managers reasonable and customary fees for their services and will reimburse them for their reasonable out-of-pocket expenses in connection therewith. We have agreed to indemnify the Dealer Managers against certain liabilities.

## **TAXATION**

In view of the number of different jurisdictions where tax laws may apply to a holder of the Old Notes or the New Notes, this Exchange Offer Memorandum does not discuss the tax consequences for the holders or beneficial owners of the Old Notes arising from the exchange for New Notes pursuant to the exchange offer. Holders and beneficial owners of the Old Notes are urged to consult their own professional advisers regarding these possible tax consequences under the laws of the jurisdictions that apply to them or to the exchange of their Old Notes for New Notes and the receipt by them pursuant to the exchange offer of the Exchange Consideration. Holders and beneficial owners of the Old Notes and the New Notes are liable for their own taxes and have no recourse to the Government, the 2012 Issuer, the 2017 Issuer, the Dealer Managers or the Information and Exchange Agent with respect to taxes arising in connection with the exchange offer.

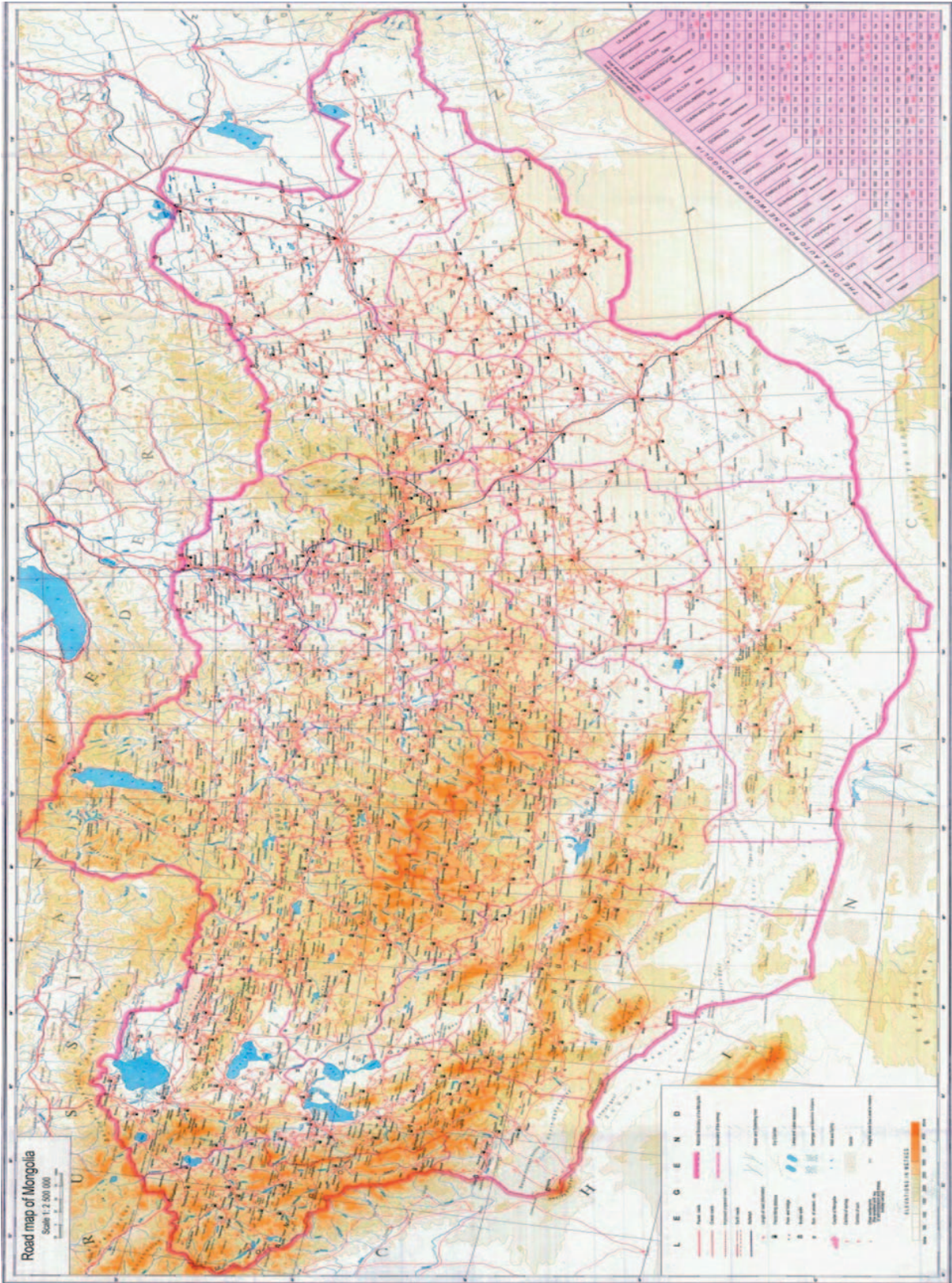
## **LEGAL MATTERS**

Certain legal matters under New York law relating to the New Notes exchange offer will be passed upon for the 2017 Issuer by Mayer Brown LLP, special U.S. counsel to the 2017 Issuer, and for the Dealer Managers by Milbank, Tweed, Hadley & McCloy LLP, special U.S. counsel to the Dealer Managers. Certain legal matters under the laws of Mongolia relating to the New Notes and the exchange offer will be passed upon for the Issuer by Hogan Lovells (Mongolia) LLP, special Mongolian counsel to the Issuer, and the Ministry of Justice and Home Affairs of Mongolia, and for the Dealer Managers by GTs Advocates LLP, special Mongolian counsel to the Dealer Managers. With respect to certain matters governed by the laws of Mongolia, Mayer Brown LLP may rely on the opinion of Hogan Lovells (Mongolia) LLP and the Ministry of Justice and Home Affairs, and Milbank, Tweed, Hadley & McCloy LLP may rely on the opinion of GTs Advocates LLP.



**APPENDIX A — ADDITIONAL INFORMATION REGARDING THE NEW NOTES**





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## ABOUT THIS OFFERING MEMORANDUM

In making an investment decision, you should only rely on the information contained in this offering memorandum. Credit Suisse (Hong Kong) Limited and J.P. Morgan Securities plc will act as initial purchasers with respect to the offering of the Notes (together, the “Initial Purchasers”). The Issuer has not, and the Initial Purchasers have not authorized anyone to provide you with different information. Neither the Issuer nor the Initial Purchasers are making an offer of the Notes in any jurisdiction where the offer is not permitted.

The Issuer, having made all reasonable inquiries, confirms that as of the date on the front cover of this offering memorandum, the information contained in this offering memorandum with regards to Mongolia is true and accurate in all material respects, that the opinions and intentions the Issuer expresses in this offering memorandum are honestly held, and that there are no other facts the omission of which would make this offering memorandum as a whole or any of such information or the expression of any such opinions or intentions misleading in any material respect. The Issuer accepts responsibility for the offering memorandum accordingly.

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**This offering memorandum does not constitute an offer to sell, or a solicitation of an offer to buy, any Notes offered hereby by any person in any jurisdiction in which it is unlawful for such person to make an offer or solicitation. Neither the delivery of this offering memorandum nor any sale made hereunder shall under any circumstances imply that there has been no change in our affairs or that the information set forth in this offering memorandum is correct as of any date subsequent to the date of this offering memorandum.**

## NOTICE TO INVESTORS

**In making an investment decision, you must rely on your own examination of the Issuer and the terms of this offering, including the merits and risks involved. The Notes have not been approved or recommended by the U.S. Securities and Exchange Commission (“SEC”) or any state or foreign securities commission or regulatory authority. Furthermore, these authorities have not confirmed the accuracy or determined the adequacy of this offering memorandum. Any representation to the contrary is a criminal offense.**

**The Notes may not be transferred or resold except as permitted under the U.S. Securities Act and related regulations and applicable state securities laws. In making your purchase, you will be deemed to have made certain acknowledgments, representations, and agreements set forth in this offering memorandum under this caption “Notice to Investors.”**

**This offering memorandum may only be used for the purpose for which it has been published. Neither the Initial Purchasers, Deutsche Bank Trust Company Americas as fiscal agent (the “Fiscal Agent”), and as registrar (the “Registrar”), paying agent (the “Paying Agent”) and transfer agent (the “Transfer Agent” and together with the Fiscal Agent, the Registrar and the Paying Agent, the “Agents”) nor any of their agents is making any representation, undertaking or warranty as to the accuracy or completeness of the information contained in this offering memorandum, and nothing contained in this offering memorandum is, or shall be relied upon as,**

**a promise or representation, whether as to the past or the future. Neither the Initial Purchasers, the Agents nor any of their agents has independently verified any of such information and assumes no responsibility for the accuracy or completeness of the information contained in this offering memorandum.**

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This offering memorandum has been prepared by the Issuer solely for use in connection with the proposed offering of the Notes.

You must (1) comply with all applicable laws and regulations in force in any jurisdiction in connection with the possession or distribution of this offering memorandum and the purchase, offer or sale of the Notes, and (2) obtain any required consent, approval or permission for the purchase, offer or sale by you of the Notes under the laws and regulations applicable to you in force in any jurisdiction to which you are subject or in which you make such purchases, offers or sales, and neither the Issuer nor the Initial Purchasers or their agents have any responsibility therefor. See “Transfer Restrictions” for information concerning some of the transfer restrictions applicable to the Notes.

You acknowledge and agree that:

- the Notes have not been and will not be registered under the U.S. Securities Act or any country’s or state’s securities laws and may not be reoffered, resold, pledged or otherwise transferred except as described under “Transfer Restrictions;”
- you have not relied on the Initial Purchasers, the Agents or their agents or any person affiliated with the Initial Purchasers, the Agents or their agents in connection with your investigation of the accuracy of the information in this offering memorandum or your investment decision;
- the Initial Purchasers and the Agents make no representation, undertaking or warranty, express or implied, as to the accuracy or completeness of such information, and nothing contained in this offering memorandum is, or shall be relied upon as, a promise or representation by the Initial Purchasers or the Agents;
- no person has been authorized to give any information or to make any representation concerning the Issuer or the Notes other than those in this offering memorandum. If given or made, any such other information or representation should not be relied upon as having been authorized by the Issuer, the Initial Purchasers, the Agents or their agents;
- if you are purchasing the Notes pursuant to Rule 144A, you are purchasing the Notes for your own account with respect to which you exercise sole investment discretion and you are a qualified institutional buyer (as defined in Rule 144A) or you are purchasing the Notes for the account of a qualified institutional buyer in compliance with Rule 144A; and
- if you are outside the United States of America and purchasing the Notes through an offshore transaction in reliance on Regulation S, you are not purchasing the Notes with a view to distribution thereof in the United States of America.

See “Risk Factors” for a description of certain factors relating to an investment in the Notes. None of the Issuer, the Initial Purchasers or any of their respective representatives is making any representation to you regarding the legality of an investment by you under applicable legal investment or similar laws. You should consult with your own advisors as to legal, tax, business, financial and related aspects of a purchase of the Notes.

The distribution of this offering memorandum and the offering of the Notes (and beneficial interests therein) in certain jurisdictions may be restricted by law. Persons who come into possession of this offering memorandum are required by the Issuer, the Agents and the Initial Purchasers to inform themselves about and to observe any such restrictions. This offering memorandum does not constitute an offer to sell or the solicitation of an offer to buy the Notes (or beneficial interests therein) in any jurisdiction in which such offer or solicitation is unlawful. See “Transfer Restrictions.”

## CERTAIN DEFINED TERMS AND CONVENTIONS

Unless the context otherwise requires, all references in this offering memorandum to:

- “estimated reserves” are to reserves for which quantity and grade and/or quality are computed from information similarly used for registered reserves, but the sites for inspection, sampling and measurement are not as adequate as registered/probable reserves;
- the “Issuer” or the “Government” are to the government of Mongolia;
- “MW” are to megawatts;
- “probable reserves” are to reserves for which quantity, grade and/or quality are computed from information similar to that used for registered reserves, but the sites for inspection, sampling and measurement are farther apart or are otherwise less adequately spaced, and the degree of assurance, although lower than that for registered reserves, is high enough to assume continuity between points of observation;
- “registered reserves” are to reserves for which (i) quantity is computed from dimensions revealed in outcrops, trenches, workings or drilling holes, (ii) grade and/or quality is computed from the results of detailed sampling, (iii) the sites for inspection, sampling and measurement are spaced closely together and (iv) the geologic character is well-defined that size, shape, depth and mineral content of reserves are well-established; and
- “SDR” are to Special Drawing Rights of the International Monetary Fund.

Unless the context otherwise requires, references to a particular year are to the fiscal or financial year ended December 31 of such year.

All references in this document to “MNT” and “Tugriks” refer to Tugriks, the lawful currency of Mongolia; “U.S. dollars” and “US\$” refer to United States dollars, the lawful currency of the United States of America; “S\$” refers to Singapore dollars, the lawful currency of Singapore; “£” refer to pounds sterling, the lawful currency of the United Kingdom; “RMB” and “Renminbi” are to Renminbi, the lawful currency of the PRC; “euro” and “€” refer to the currency introduced at the start of the third stage of European economic and monetary union pursuant to the Treaty on the Functioning of the European Union (the “EU”), as amended; and “JPY” or “¥” refers to Japanese Yen, the lawful currency of Japan.

For convenience only, certain Tugrik amounts in this offering memorandum have been translated into U.S. dollars. Unless otherwise specified, such conversions were made based on the closing exchange rate between Tugriks and U.S. dollars as of December 30, 2016, as published by the Bank of Mongolia, of MNT 2,489.53 to US\$1.00. Other Tugrik amounts in this offering memorandum were translated into U.S. dollars have been converted at the applicable rates specified. No representation is made that the Tugrik or U.S. dollar amounts referred to herein could have been or could be converted into U.S. dollars or Tugriks, as the case may be, at any particular rate, or at all. The closing exchange rate published by the Bank of Mongolia as of February 16, 2017 was MNT 2,483.39 to US\$1.00. Any discrepancies in any table between totals and the sums of the amounts listed are due to rounding. Unless stated otherwise, all numbers in this offering memorandum expressed as percentages of gross domestic product (“GDP”) refer to nominal GDP and all growth rates of GDP are based on real GDP.



## **STATISTICAL AND OTHER DATA**

All economic data and figures with respect to Mongolia were derived from information compiled and made available by the Bank of Mongolia, the National Statistical Office of Mongolia or other public sources. None of the Issuer, the Agents or any of the Dealers has verified such information with independent sources or makes any representation as to the accuracy or completeness of such information. While the Issuer has taken reasonable actions to ensure that such information has been extracted accurately and in its proper context, the Issuer has not independently verified any of the data from third-party sources or ascertained the underlying economic assumptions relied upon therein.

Certain statistical or financial information included in this offering memorandum may differ from previously published information for a number of reasons, including ongoing statistical revisions. Also, certain monetary amounts included in this offering memorandum have been subject to rounding adjustments. Accordingly, figures shown as totals in certain tables may not be an exact arithmetic aggregation of the figures that precede them.

Unless otherwise indicated, all statistical data and figures for 2016 or any part thereof are provisional figures based on preliminary data and are subject to review and adjustment.

## **FORWARD-LOOKING STATEMENTS**

Certain statements in this offering memorandum constitute “forward-looking statements,” including statements regarding the Issuer’s economy, fiscal condition, debt or prospects. The words “believe,” “expect,” “anticipate,” “estimate,” “project,” “may,” “will,” “aim,” “will likely result,” “will continue,” “intend,” “plan,” “contemplate,” “seek to,” “future,” “objective,” “goal,” “should,” “will pursue” and similar expressions or variations of these expressions identify forward-looking statements. These statements are based on the Issuer’s current plans, objectives, assumptions, estimates, and projections. Forward-looking statements involve inherent risks. There are many factors that can affect the future performance of the Issuer. These factors include, but are not limited to, external factors, such as:

- interest rates in financial markets outside Mongolia;
- the impact of changes in the credit rating of Mongolia;
- the impact of changes in the international prices of commodities;
- economic conditions in Mongolia’s major export markets;
- the decisions of international financial institutions, such as the International Monetary Fund (“IMF”), Asian Development Bank (“ADB”) and World Bank, as well as other potential lenders, regarding the terms of their financial assistance to Mongolia;
- acts of war; and
- the general state of the global economy;

as well as internal factors, such as:

- general economic and business conditions in Mongolia;
- changes in Government policies and regulations;
- present and future exchange rates of the Tugrik, the national currency of Mongolia;
- foreign currency reserves;
- the level of domestic debt;
- domestic inflation;
- the ability of Mongolia to implement important economic and structural reforms;
- the levels of foreign direct and portfolio investment;
- delays in the development of mining and infrastructure assets;
- pending and potential future disputes with investment partners relating to important mines;
- extreme climatic events affecting Mongolia;
- the levels of domestic interest rates; and
- the social and political situation.

All forward-looking statements and risk factors included in this offering memorandum are made as of the date on the front cover of this offering memorandum, based on information available to the Issuer as of such date, and the Issuer assumes no obligation to update any forward-looking statement or risk factor. The Issuer cautions that these and other factors could cause actual results to differ materially from those contained in any forward-looking statement. Therefore, undue reliance should not be placed on them.

## **ENFORCEABILITY OF FOREIGN JUDGMENTS IN MONGOLIA**

The Issuer is the Government of Mongolia, a sovereign nation. As a result, it may be difficult for investors (i) to effect service of process, including judgments, on the Issuer outside of Mongolia, (ii) to enforce, against the Issuer, judgments obtained in such courts that are predicated upon the laws of such other jurisdictions, (iii) to enforce a foreign arbitral award against the Issuer or (iv) to enforce, against the Issuer, in Mongolian courts, judgments obtained in jurisdictions other than Mongolia, including judgments obtained in connection with the Notes and the Agency Agreement (the “Agency Agreement”) in any federal, state or appellate court in the State of New York.

The Notes and the Agency Agreement are governed by New York law and the Issuer has agreed in the Agency Agreement that disputes arising thereunder or in respect of the Notes are subject to arbitration before the Singapore International Arbitration Center. Mongolian courts will not enforce any judgment obtained in a court established in a country other than Mongolia unless, among other things, there is in effect a treaty with such country and Mongolia providing for the reciprocal enforcement of judgments and then only in accordance with the terms of such treaty. There is no such treaty in effect

between Mongolia and the United States of America. However, Mongolia and Singapore are parties to the 1958 New York Convention on Recognition and Enforcement of Arbitral Awards (the “Convention”) and, accordingly, an arbitration award obtained in a state which is party to such Convention, such as Singapore, should be recognized and enforceable in Mongolia provided the conditions to enforcement set out in the Convention are met.

In the event of any proceedings being brought in a Mongolian court in respect of the enforcement in Mongolia of a foreign judgment expressed to be payable in a currency other than Tugriks, provided that there is a legal assistance treaty between Mongolia and the country of jurisdiction of that foreign court permitting enforcement in Mongolia or in the case of an arbitration award enforceable in Mongolia under the Convention, such foreign judgment or arbitration award will be enforceable in Mongolia. However, there can be no assurance that a Mongolian court would not require conversion of the awarded amount into Tugriks and order enforcement of the same in Mongolia in Tugriks.

Article 7.3 of the Civil Code of Mongolia, as amended, provides that the Issuer participates in civil law relations with the same rights and obligations as legal entities. The Issuer will irrevocably waive, to the fullest extent permitted by applicable law, any immunity from a jurisdiction with respect to it and its property to which it might be entitled in any action arising out of or based on the Notes.

## DATA DISSEMINATION

The Issuer is a subscriber to the IMF’s General Data Dissemination Standard (“GDDS”), which is designed to improve the timeliness and quality of information of subscribing member countries. The GDDS requires subscribing member countries to provide schedules indicating, in advance, the date on which data will be released. The summary methodology of Mongolia’s metadata is provided on the Internet under the IMF’s Dissemination Standards Bulletin Board. The Internet website for Mongolia’s metadata is located on the IMF’s website at <http://dsbb.imf.org/Pages/GDDS/CtyCtgList.aspx?ctycode=MNG>. The website and any information contained on it are not part of this offering memorandum.

## EXCHANGE RATES AND EXCHANGE CONTROLS

This offering memorandum contains translations of the Tugrik amounts into U.S. dollar amounts at specific exchange rates solely for the convenience of the reader. For convenience only and unless otherwise noted, all translations from Tugriks into U.S. dollars in this offering memorandum were made at the closing exchange rate of MNT 2,489.53 to US\$1.00, which translation represents the official rate between Tugriks and U.S. dollars closing exchange rate published by the Bank of Mongolia as of December 30, 2016.

The following table sets forth the closing exchange rates from the Bank of Mongolia, in Tugriks per US\$1.00, for each of the periods indicated:

	Mid-Closing Exchange Rate			
	Low <sup>(2)</sup>	Average <sup>(1)</sup>	High <sup>(2)</sup>	Period End <sup>(3)</sup>
2010 .....	1,211.14	1,356.44	1,470.64	1,257.18
2011 .....	1,195.27	1,265.53	1,396.37	1,396.37
2012 .....	1,300.67	1,359.40	1,433.53	1,392.10
2013 .....	1,387.90	1,527.72	1,752.48	1,659.34
2014 .....	1,678.37	1,818.28	1,897.73	1,888.44
2015 .....	1,862.17	1,969.42	1,997.56	1,995.51
2016 .....	1,964.93	2,145.52	2,490.34	2,489.53
2017				
January .....	2,459.44	2,487.79	2,498.75	2,459.44
February (through February 16) .....	2,463.13	2,478.69	2,485.38	2,483.39

(1) Determined by averaging the rates on the last business day of each month during the relevant period for annual periods and each business day for monthly periods.

(2) The high and low figures for each period are determined based on the daily middle exchange rates during the period indicated.

(3) Exchange rates published by the Bank of Mongolia as of December 31 of each year or the last day of each month.

## **Exchange Controls**

Under the Currency Settlement Law of 1994, Mongolian commercial banks require approval from the Bank of Mongolia in order to undertake transactions in amounts that may affect the exchange rate of the Tugrik. There are no other restrictions on repatriation of foreign currencies from Mongolia and there are no foreign exchange controls. Foreign currency is generally freely transferable within or from Mongolia. Foreign exchange policy is under the supervision of the Ministry of Finance and the Bank of Mongolia and is subject to modification.

## SUMMARY

*The following is a summary of certain information contained elsewhere in this offering memorandum. Reference is made to, and this information is qualified in its entirety by, the more detailed information contained elsewhere in this offering memorandum.*

Over the past two decades, Mongolia has transformed itself from a socialist country with a planned economy into a multi-party democracy with one of the world's fastest-growing economies. From 2003 through 2016, Mongolia experienced average real GDP growth of 7.5% per annum according to the IMF. Located between Russia (to its north) and China (to its south), Mongolia possesses vast, largely untapped mineral assets, which have only begun to be developed.

A number of significant projects have been undertaken in recent years to develop Mongolia's extensive mineral resources. The Oyu Tolgoi mine, one of the world's largest copper-gold reserves under development, is expected to commence full operations after the construction of an underground mining expansion to be completed between 2021 and 2024. Approximately US\$180 million was invested in the underground mining development in 2016, with an additional US\$830 million scheduled to follow in 2017. Mongolia continues to develop other major projects in the coal sector, including the Tavan Tolgoi formation, which is believed, according to the World Bank, to be one of the world's largest coal deposits under development with an estimated 7.4 billion tons of coking and thermal coal resources. In addition, Mongolia possesses large reserves of copper, gold, uranium and rare earth minerals that are being developed at numerous sites.

In June 2016, the Mongolian People's Party (the "MPP") won 65 out of 76 seats in Parliament in the general election, winning a clear mandate and avoiding the need to form a coalition government. In early August 2016, the Government announced the creation of a task force to address Mongolia's budget deficit, slowing economic growth and currency devaluation. Ratified by Parliament on September 9, 2016, the Government Action Plan for 2016-2020 aims to overcome short-term economic difficulties while attracting domestic and foreign investment and relieving economic pressure on citizens and domestic businesses by creating a more favorable long-term business environment.

However, despite this rapid response by the new MPP-led government, Mongolia's fiscal position had deteriorated significantly, with high levels of external debt and reduced foreign exchange reserves creating pressure on its near-term fiscal stability. The Tugrik depreciated against the U.S. dollar by 50.5% from December 30, 2013 to December 30, 2016, and by 31.2% against the Renminbi during the same period. In addition, the former government had implemented a number of monetary easing measures through policy lending programs, which resulted in outstanding loans from Bank of Mongolia extended to commercial banks reaching approximately MNT 1,055.6 trillion (US\$425.1 million) and outstanding domestic credit reaching approximately 68.1% of GDP as of December 31, 2016. External indebtedness had risen significantly in recent years, and the near-term maturity of the US\$580,000,000 5.75% Guaranteed Notes due 2017 issued by Development Bank of Mongolia LLC (the "DBM Notes") created concerns regarding depletion of Mongolia's foreign exchange reserves.

These adverse economic indicators led to Mongolia's sovereign credit rating being downgraded in August 2016 by S&P (from "B" to "B-") and Moody's Investor Service ("Moody's") (from "B2" to "B3") with the rating agencies citing slowing growth and other weakened economic fundamentals. On November 18, 2016, Moody's further downgraded Mongolia's government long-term issuer and senior unsecured ratings to "Caa1," citing uncertainty regarding the Government's ability to meet its debt

service obligations, Mongolia’s external liquidity, the continuing budget deficit and a weaker growth outlook. On November 22, 2016, Fitch downgraded Mongolia’s long-term foreign and local currency ratings from “B” to “B-,” citing heightened external liquidity risks and weak economic growth. On February 15, 2017, Moody’s placed Mongolia’s issuer rating on negative watch for downgrade in connection with its review of the upcoming maturity of the DBM Notes.

In response to this difficult near-term fiscal position, the Government submitted a request to the IMF in September 2016 for financial assistance. To support its request, the Government formulated the Economic Recovery Plan, which reflected various policy recommendations made by the IMF, and Parliament subsequently approved the Economic Recovery Plan in November 2016. The Economic Recovery Plan is designed to stabilize short-term macro-economic conditions, to achieve sustainable debt levels and to implement medium-term economic structural reforms. It provides guidance on forming fiscal policies aimed at ensuring a sustainable deficit, monetary policies aimed at reducing the balance of payments pressure and stabilizing the exchange rate and strategies to increase reserves, promote foreign direct investment and address the Government’s short-term payment obligations. It is expected that the coordinated implementation of the Government Action Plan for 2016-2020 and the Economic Recovery Plan will enable the Government to meet its policy targets for the next three years.

Following a visit to Mongolia by the IMF in October 2016, the IMF stated that the visit was very productive and common policy views were developed in many areas. Technical teams have made subsequent visits to Mongolia, and a high-level delegation visited in late January 2017 for two weeks of detailed discussions. On February 19, 2017, the IMF reached staff-level agreement with Mongolia on a three-year extended fund facility of approximately US\$440.0 million. Other international partners also are expected to support the Government’s program with up to US\$3.0 billion in budget and project support, and the People’s Bank of China is expected to extend its RMB 15.0 billion swap line with the Bank of Mongolia for at least another three years. The Government expects to finalize the terms of the IMF’s financial assistance package in March 2017 taking into account that final terms are subject to the finalization of financing assurances and approval by the IMF’s Executive Board. Collectively, these measures are intended to provide near-term fiscal relief as Mongolia continues to develop its substantial mineral resources as the economy normalizes in over the coming years.

**Key Statistical Indicators**

The following tables set forth select recent information on the geography, climate, population, economy and politics of Mongolia:

**Geography:**

Location .....	Northern Asia, landlocked between China and Russia
Area .....	1,565 thousand square kilometers (19th largest in the world)
Boundaries .....	Total: 8,253 kilometers, with China (4,710 kilometers in the south), and with Russia (3,543 kilometers in the north)

Climate . . . . .	Dry continental climate with desert, steppe and mountain zones with large daily and seasonal temperature ranges
Major natural resources . . . . .	Copper, coal, iron ore, gold, silver, fluorspar, uranium, tin, tungsten, oil and rare earth elements
<b>People:</b>	
Population . . . . .	Approximately 3.1 million (2016)
Population growth rate . . . . .	2.1% (2015-2016)
Average life expectancy . . . . .	70.0 years (2016 actual)
Ethnic groups . . . . .	Mongol (94.9%), Kazakh (5%), others (including Turks, Chinese and Russians) (0.1%)
Temples and churches by religion	Buddhist (42.0%), Christianity (48.8%), Islam (7.4%), other (1.8%)
<b>Government:</b>	
Government type . . . . .	Parliamentary
Capital . . . . .	Ulaanbaatar
Head of State . . . . .	President (elected by a universal popular vote for a term of four years)
Executive branch . . . . .	Prime Minister and Cabinet, appointed by Parliament upon proposal or in consultation with the President
Legislative branch . . . . .	State Great Khural (unicameral, 76 seats; members are elected for a term of four years)
Judicial branch . . . . .	Supreme Court (serves as the court of last instance for the district and provincial courts and appellate courts; judges are nominated by the Judicial General Council and appointed by the President)
Political parties . . . . .	Three parties are represented in the present Parliament, including the Democratic Party, the MPP and the New Mongolian People's Revolutionary Party (the "MPRP"). The MPP is currently the ruling party.
Suffrage . . . . .	18 years of age; universal
State structure . . . . .	Unitary state; territory of Mongolia is divided administratively into 21 aimags (provinces) and the capital city



**Economy:**

Key Indicators	As of and for the year ended December 31,					
	2011 <sup>(1)</sup>	2012 <sup>(1)</sup>	2013 <sup>(1)</sup>	2014 <sup>(1)</sup>	2015 <sup>(1)</sup>	2016 <sup>(1)(2)</sup>
Nominal GDP (MNT billions) . . .	13,173.8	16,668.4	19,174.2	22,227.1	23,134.1	23,886.4
Nominal GDP (US\$ millions) <sup>(3)</sup> . .	10,409.7	12,261.6	12,550.9	12,224.2	11,746.6	11,133.2
Nominal GDP growth . . . . .	35.0%	26.7%	14.9%	15.9%	4.1%	3.3%
Real GDP (MNT billions) <sup>(4)</sup> . . . . .	11,443.6	12,853.4	14,350.7	15,482.3	15,847.2	16,001.8
Real GDP (US\$ millions) <sup>(3)(4)</sup> . . . .	9,042.5	9,455.2	9,393.5	8,514.8	8,046.6	7,458.3
Real GDP growth . . . . .	17.3%	12.3%	11.6%	7.9%	2.4%	1.0%
Nominal GDP per capita (MNT thousands) <sup>(5)</sup> . . . . .	4,728.0	5,876.8	6,614.1	7,501.3	7,642.9	7,834.6
Nominal GDP per capita (US\$ <sup>(3)(5)</sup> ) . . . . .	3,031.0	3,939.0	4,563.0	4,551.0	4,182.0	3,651.7
Year-on-year inflation . . . . .	10.2%	14.0%	12.5%	11.0%	1.9%	1.1%
Export (US\$ millions) <sup>(3)</sup> . . . . .	4,817.5	4,384.7	4,269.1	5,774.3	4,669.5	4,917.3
Imports (US\$ millions) <sup>(3)</sup> . . . . .	6,598.4	6,738.4	6,357.8	5,236.6	3,797.2	3,357.9
Balance of payments (US\$ millions) <sup>(3)(6)</sup> . . . . .	27.8	1,705.0	(1,867.3)	(471.1)	(268.1)	(18.2)
Unemployment rate . . . . .	7.7%	8.2%	7.9%	7.9%	7.5%	8.6%
External debt (US\$ millions) <sup>(3)(7)</sup> .	9,627.5	15,385.7	19,022.1	20,942.3	21,602.9	23,784.7
Gross foreign exchange reserves (US\$ millions) <sup>(3)(6)</sup> . . . . .	2,450.6	4,125.8	2,248.0	1,649.9	1,323.1	1,296.3
Gross foreign reserves import cover (months) <sup>(6)</sup> . . . . .	6.3	9.9	5.1	4.9	5.5	4.8
Population . . . . .	2,811,666	2,867,744	2,930,277	2,995,949	3,057,778	3,120,931

Sources: Bank of Mongolia; World Bank; National Statistical Office of Mongolia

(1) National Statistical Office of Mongolia, except otherwise indicated.

(2) Provisional figures subject to further adjustments.

(3) The following exchange average rates were applied: 2011 - MNT 1,265.53 = US\$1.00, 2012 - MNT 1,359.40 = US\$1.00, 2013 - MNT 1,527.72 = US\$1.00, 2014 - MNT 1,818.28 = US\$1.00, 2015 - MNT 1,969.42 = US\$1.00 and 2016 — MNT 2,145.52 = US\$1.00.

(4) Real GDP calculated at 2010 constant prices.

(5) Nominal GDP per capita calculated at 2010 constant prices.

(6) Bank of Mongolia.

(7) "External debt" includes external debt of and external debt guaranteed by the Government and the Bank of Mongolia, external debt of commercial banks and other sectors and direct investment according to the Bank of Mongolia.

## SUMMARY OF THE OFFERING

*The following is a brief summary of certain terms of the Offering. For a complete description of the terms of the Notes, see “Description of the Notes” and “Plan of Distribution.”*

Issuer .....	The Government of Mongolia.
Notes .....	US\$            aggregate principal amount of            % Notes due            .
Interest Payment Dates.....	and                      of each year, commencing on            .
Maturity Date .....	The Notes will mature on            .
Redemption .....	The Notes will not be redeemable prior to maturity.
Status of Notes .....	The Notes will constitute direct, unconditional, unsubordinated and unsecured general obligations of the Issuer. The Notes will at all times rank <i>pari passu</i> among themselves in all respects without any preference of one over the other by reason of priority of date of issue or otherwise. The Notes will at all times rank at least equally with all other present and future unsecured and unsubordinated External Indebtedness (as defined herein) of the Issuer. The full faith and credit of the Mongolia will be pledged for the due and punctual payment of the principal of, and interest on, the Notes, provided, however, that the Issuer shall have no obligation to effect equal or ratable payment(s) at any time with respect to any such other External Indebtedness (as defined herein) and, in particular, shall have no obligation to pay other External Indebtedness (as defined herein) at the same time or as a condition of paying sums due on the Notes and vice versa.
Limitation on Liens .....	With certain exceptions, so long as any Notes remain outstanding, the Issuer shall not create, incur, assume or permit to subsist any Lien (as defined herein) upon the whole or any part of its present or future assets or revenues to secure (1) any Public External Indebtedness (as defined herein) of the Issuer; (2) any Guarantees (as defined herein) in respect of Public External Indebtedness; or (3) the Public External Indebtedness of any other person; without at the same time or prior thereto securing the Notes equally and ratably therewith or providing such other arrangement (whether or not comprising a Lien) as shall be approved by at least 75.0% of the aggregate principal amount of outstanding Notes which are represented at a meeting of Noteholders (as defined herein) duly convened in accordance with the Fiscal Agency Agreement (as defined herein) or a resolution in writing signed or confirmed in writing on behalf of the holders of at least 75.0% of the aggregate principal amount of the outstanding Notes. See “Description of the Notes — Limitation on Liens.”

Taxation . . . . . The Issuer will make all payments on the Notes without withholding or deducting any present or future Taxes (as defined herein), imposed or levied by or on behalf of any Tax Jurisdiction (as defined herein) unless required by law. If any Tax Jurisdiction requires the Issuer to deduct or withhold Taxes, it will pay the holders, subject to certain exceptions, such Additional Amounts (as defined herein) as are necessary to ensure that they receive the same amount as they would have received without such withholding or deduction. The Issuer will not, however, pay any such Additional Amounts if the holder or beneficial owner is liable for Taxes imposed by any Tax Jurisdiction under certain circumstances. See “Description of the Notes — Additional Amounts.” For a description of certain United States tax aspects of the Notes, see “Taxation — United States Federal Income Tax Considerations.”

Cross-Defaults . . . . . Events of default with respect to the Notes include (1) any present or future External Indebtedness shall become (or shall become capable of being declared) due and payable prior to its stated maturity (otherwise than at the option of the Issuer); (2) any default shall occur in the payment of principal of, or premium or prepayment charge (if any) or interest on, any future External Indebtedness when and as the same shall become due and payable if such default shall continue for more than the period of grace, if any, originally applicable thereto; (3) any security given by the Issuer for any present or future External Indebtedness becomes enforceable; or (4) any default shall occur in the payment when due and called upon (after the expiry of any originally applicable grace period) of any Guarantee of the Issuer in respect of any External Indebtedness of any other person, *provided that* the aggregate amount of the relevant External Indebtedness in respect of which one or more of such events have occurred equals or exceeds US\$50.0 million (or its equivalent in any other currency or currencies). See “Description of the Notes — Events of Default.”

Collective Action Clause . . . . . The Notes will contain provisions, commonly referred to as “collective action clauses,” regarding approval of certain modifications and actions:

- (a) in respect of the Notes only, with the consent of the holders of at least 75.0% of the aggregate principal amount of the outstanding Notes;
- (b) in respect of the Notes and at least one other series of debt securities (capable of aggregation for voting purposes with other series of debt securities) issued by the Issuer, with the consent of both:

- (i) the holders of at least 66<sup>2</sup>/<sub>3</sub>% of the aggregate principal amount of the outstanding affected debt securities (taken in aggregate); and
- (ii) the holders of more than 50% of the aggregate principal amount of each series of affected debt securities (taken individually); or
- (c) in respect of the Notes and at least one other series of debt securities (capable of aggregation for voting purposes with other series of debt securities) issued by the Issuer, with the consent of the holders of at least 75% of the aggregate principal amount of the outstanding affected debt securities (taken in aggregate), provided that the “Uniformly Applicable” condition is satisfied.

See “Description of the Notes — Modifications and Amendments; Meetings of Noteholders.”

Listing . . . . . Application has been made for the listing and quotation of the Notes on the SGX-ST. The Notes will be traded on the SGX-ST in a minimum board lot size of US\$200,000 for so long as any of the Notes are listed on the SGX-ST.

Ratings of the Notes . . . . . The Notes are expected to be rated “B-” by S&P and “B-” by Fitch. The ratings assigned by rating agencies are indicative and may go up and down from time to time. A credit rating is not a recommendation to purchase, hold or sell securities and may be subject to suspension, change or withdrawal at any time by the assigning rating agency.

Form, Denomination and Registration . . . . . The Issuer will issue the Notes in fully registered form in minimum denominations of US\$200,000 and integral multiples of US\$1,000 in excess thereof. The Notes will be represented by one or more Global Notes (as defined herein), registered in the name of a nominee of DTC and deposited with Deutsche Bank Trust Company Americas, as custodian for DTC. Beneficial interests in the Global Notes will be shown on, and the transfer thereof will be effected only through, records maintained by DTC and its direct and indirect participants (including Euroclear and Clearstream, Luxembourg). Settlement of all secondary market trading activity in the Notes will be made in immediately available funds.

Further Issues . . . . .	The Issuer may from time to time, without notice to or the consent of the Noteholders, issue further notes having terms and conditions the same as the Notes or the same in all respects save for the amount and date of the first payment of interest thereon and so that the same shall be consolidated and form a single series and class with the Notes, <i>provided that</i> such further notes must be fungible with the Notes for U.S. federal income tax purposes.
Use of Proceeds . . . . .	The Issuer intends to use the net proceeds of the Offering to refinance DBM Notes not exchanged in the exchange offer and to retire certain of the Government's other international debt.
Fiscal Agent; Paying Agent; Transfer Agent; Registrar . . . . .	Deutsche Bank Trust Company Americas.
Governing Law . . . . .	The Notes and the Fiscal Agency Agreement will be governed by and construed in accordance with the laws of the State of New York.

## RISK FACTORS

*An investment in the Notes involves certain risks. You should carefully consider all of the information in this offering memorandum and, in particular, the risks described below, prior to making an investment decision with respect to the Notes. The risks described below are not the only risks that may affect the Issuer or the Notes. You should also note that certain of the statements set forth below constitute forward-looking statements. In general, investing in the securities of issuers in emerging market countries, such as Mongolia, involves risks not typically associated with investing in the securities of issuers in countries with more developed economies and regulatory regimes.*

### **Risks Relating to Mongolia**

***Certain of the Government's debt obligations contain provisions permitting acceleration in the event of a credit rating downgrade and the Government has not yet obtained a waiver in connection with a recent credit rating downgrade***

On August 29, 2014, DBM obtained a US\$300.0 million syndicated loan with a five-year term arranged by Credit Suisse AG, The Export-Import Bank of China, Sumitomo Mitsui Banking Corporation and The Export-Import Bank of the Republic of China, which was guaranteed by the Government (the "DBM Facility"). The DBM Facility has been fully drawn. Acceleration rights under the DBM Facility, as amended, are triggered by withdrawal of or downgrade to Mongolia's long-term foreign currency debt credit rating either by (a) S&P to a rating lower than "B" or (b) Moody's to a rating lower than "B2," upon which DBM must promptly notify the DBM Facility lenders. Following such a downgrade, lenders whose outstanding amounts comprise at least 66-2/3% of the DBM Facility (the "Majority Lenders") may exercise their acceleration rights by providing 10 business days' notice cancelling the loan and declaring all amounts outstanding, together with accrued interest, immediately due and payable.

On August 19, 2016, S&P lowered Mongolia's long-term sovereign rating from "B" to "B-." On August 26, 2016, Moody's lowered Mongolia's government issuer rating from "B2" to "B3," and on November 18, 2016, Moody's further downgraded Mongolia's government long-term issuer and senior unsecured ratings to "Caa1." DBM provided notice of these downgrades to the DBM Facility lenders as required and requested a waiver of their acceleration rights. Such acceleration rights have not been exercised and negotiations between DBM and the DBM Facility lenders regarding the waiver of such rights remain ongoing. If a waiver is not obtained, and the Majority Lenders exercise their acceleration rights under the DBM Facility, DBM must repay the amounts outstanding under the DBM Facility. If DBM were unable to repay such amounts, the Government, as the guarantor, would be obligated to make payments of such amounts, which could materially and adversely affect the Government's liquidity, its ability to repay the Notes and its ability to repay or refinance its other indebtedness. See "—Mongolia faces declining foreign exchange reserves, increasing debt levels and risks of further currency depreciation."

If the Majority Lenders exercise their acceleration rights, then cross-default and cross-acceleration provisions in the Notes and the Government's other indebtedness, including but not limited to the Chinggis Bonds, the RMB 1.0 billion of Renminbi-denominated bonds due June 2018 and the US\$500.0 million of U.S. dollar-denominated bonds due April 2021, and Government-guaranteed indebtedness, may be triggered. Cross-default of material indebtedness would likely result in a significant adverse impact on Mongolia's liquidity position, economic stability, development prospects and investor confidence.

***Further downgrades in Mongolia’s credit rating, or the rating of a borrower with a loan guaranteed by the Government could trigger cross-acceleration or cross-default provisions under other indebtedness of, or guaranteed by, the Government***

Further downgrades in Mongolia’s credit rating, or the rating of a borrower with a loan guaranteed by the Government, could cause outstanding amounts to be due under existing loans entered into or guaranteed by the Government with terms providing for acceleration of amounts outstanding upon a ratings downgrade. In the event of a downgrade and absent a waiver of such a provision, the Government could be obligated to make repayments under these loans, which could materially and adversely affect its ability to repay or refinance its other debt obligations, including the Notes. See “ — Certain of the Government’s debt obligations contain provisions permitting acceleration in the event of a credit rating downgrade and the Government has not yet obtained a waiver in connection with a recent credit rating downgrade” and “ — Any downgrade of Mongolia’s credit rating could have a material adverse effect on the market value and trading price of the Notes.”

***Mongolia’s economy has experienced recent periods of slow or negative growth***

In recent months, Mongolia has experienced periods of slow or negative growth and a devaluation of the Tugrik. The ability of the Issuer to pay amounts of principal or interest under the Notes is subject to, among other considerations, the performance of Mongolia’s economy. Historically, certain policies implemented by the Government from time to time have caused fiscal imbalances or current account deficits. While the Government has implemented various measures in an attempt to stabilize the economy and reduce the budget deficit, factors outside of its control, such as the collapse of copper prices in 2008, continued weak commodity prices, or a slowdown in China’s economic growth, may materially and adversely affect the economy and operating environment in Mongolia. Furthermore, although Parliament has ratified the Economic Recovery Plan and 2016-2020 Government Action Plan, there can be no assurance that these measures will be implemented successfully or in their entirety.

In addition, Mongolia has received and will continue to seek financial support and resources from the international community. The Government has been negotiating financial assistance from the IMF. In addition, Mongolia has US\$500.0 million of U.S. dollar-denominated bonds due January 2018 and US\$1.0 billion of U.S. dollar-denominated bonds due December 2022 (together, the “Chinggis Bonds”), RMB 1.0 billion of Renminbi-denominated bonds due June 2018 and US\$500.0 million of U.S. dollar-denominated bonds due April 2021 outstanding. Mongolia has also entered into a US\$250.0 million syndicated loan facility arranged by Credit Suisse, with a term of five years, under which the full amount was drawn down in 2016 and will mature in 2021. Any slowdown in the Mongolian economy, including a significant deterioration of the fiscal budget or the value of the Tugrik, an increase in interest rates, or future volatility of global commodity prices could adversely affect the ability of Mongolia to meet its obligations under its outstanding and future borrowings, including the Notes.

***Financial assistance to be provided by the IMF will be subject to certain conditions***

The Government expects to finalize the terms of the IMF’s financial assistance package in March 2017 taking into account that final terms are subject to finalization of financing assurances and approval by the IMF’s Executive Board. The financing parameters underpinning the program that has been agreed with the IMF staff (subject to IMF Executive Board approval) assume that external private creditor exposure will be maintained at its current level over the program period, on terms consistent with debt sustainability; and that gross financing needs will remain at prudent levels during the post-program



period. If the Government is unable to comply with these or other requirements of the IMF's financial assistance package, there can be no assurance that such financial assistance would continue to remain available, which could in turn materially and adversely affect Mongolia's liquidity position, economic stability, development prospects and investor confidence.

***Mongolia faces declining foreign exchange reserves, increasing debt levels and risks of further currency depreciation***

The Mongolian economy has faced serious pressure on its balance of payments due to the significant deterioration of commodity export prices and a sharp decline in foreign direct investment. Mongolia recorded a net outflow of foreign direct investment of US\$4,141.0 million for 2016, primarily due to Oyu Tolgoi LLC's repayment of its US\$4.3 billion shareholders' loan in the second quarter of 2016, compared to net inflows of foreign direct investment of US\$4,407.8 million, US\$2,098.1 million, US\$276.0 million and US\$110.2 million for 2012, 2013, 2014 and 2015, respectively. Foreign exchange liquidity also is under pressure due to a sharp decline in inward financial flows and commodity export proceeds. Mongolia's foreign exchange reserves decreased from US\$1,323.1 million as of December 31, 2015 to US\$1,303.9 million as of December 31, 2016. In early August 2016, the new Government formed by the MPP announced an "economic crisis" stemming from a decline in the country's foreign exchange reserves, among other worsening economic fundamentals.

Mongolia has US\$500.0 million and US\$1.0 billion of U.S. dollar-denominated bonds due January 2018 and December 2022, respectively, RMB 1.0 billion of Renminbi-denominated bonds due June 2018 and US\$500.0 million of U.S. dollar denominated bonds due April 2021 outstanding. Mongolia has also entered into a US\$250.0 million syndicated loan facility arranged by Credit Suisse with a term of five years, under which the full amount was drawn down in 2016, and will mature in 2021. In December 2016, US\$10.0 million of the principal amount of this loan facility was repaid and the outstanding principal amount as of the date of this information memorandum is US\$240.0 million. In addition, Mongolia has further outstanding external debt obligations, including borrowings from international financial institutions and bilateral creditors, such as the World Bank and ADB. Furthermore, Development Bank of Mongolia ("DBM") has US\$580.0 million of U.S. dollar-denominated bonds due March 2017, JPY30.0 billion Japanese yen-denominated bonds due December 2023 and a US\$300.0 million syndicated loan facility. This syndicated loan facility has been fully drawn. DBM also has a US\$162.0 million loan from China Development Bank with a term of eight years which matures in 2022. The Trade and Development Bank of Mongolia LLC ("TDBM") has US\$500.0 million of U.S. dollar-denominated bonds due May 2020 outstanding. MIAT Mongolian Airlines JSC has US\$20 million floating rate notes which will mature in 2018. All of these bonds and loan facilities are guaranteed by the Government. Weak external demand, lower capital inflows and the slowdown in the Mongolian economy present refinancing risks with respect to these debt instruments. If foreign exchange reserves continue to decline, Mongolia's ability to repay its foreign currency-denominated debts would be materially and adversely affected. Further downgrades in Mongolia's credit rating, or the rating of a borrower with a loan guaranteed by the Government, could cause outstanding amounts to be due under existing loans entered into or guaranteed by the Government with terms providing for acceleration of amounts outstanding upon a ratings downgrade. In the event of a downgrade and absent a waiver of such a provision, the Government could be obligated to make repayments under these loans, which could materially and adversely affect its ability to repay or refinance its other debt obligations, including the Notes. A continued increase in the fiscal deficit and debt levels could also materially and adversely impact the Government's ability to make repayments on its debt obligations and the Government may require additional external financing to do so. Further ratings downgrades could also have a material adverse impact on the



Government's ability to secure new financing or the cost of such financing, and as a result, the Government's liquidity and ability to fund or refinance its obligations, including the US\$500.0 million of the Chinggis Bonds due in 2018, as they become due. See “— Any downgrade of Mongolia's credit rating could have a material adverse effect on the market value and trading price of the Notes.”

Mongolia's financial situation depends heavily on China due to the significant long-term currency swaps between the People's Bank of China and the Bank of Mongolia through which Tugriks and Renminbi are exchanged. The first arrangement was established in 2011 with the objective of promoting bilateral trade between the two countries and providing short-term liquidity to stabilize the financial markets. In August 2014, a new three-year swap agreement was signed for up to RMB 15.0 billion, which represented over 15% of Mongolia's 2015 GDP. More recently, the prime minister of Mongolia and the premier of China agreed to extend this swap line and discussions are currently underway regarding the increase of the swap line by RMB 5.0 billion to RMB 10.0 billion, which would result in a total available amount under the swap line of RMB 20.0 billion to RMB 25.0 billion, which Mongolia intends to complete in the first quarter of 2017.

There are long-term U.S. dollar to Tugrik swaps between the Bank of Mongolia and certain Mongolian commercial banks, which comprised a significant proportion of Mongolia's GDP in 2014, 2015 and 2016. Under these arrangements, the Bank of Mongolia is required to return U.S. dollars to commercial banks in the coming years to facilitate the commercial banks' repayments of their U.S. dollar-denominated borrowings from international financial institutions and investors. If the level of foreign direct investment does not increase in the next one to five years, the Bank of Mongolia may be unable to meet its payment obligations under these swaps, which would in turn affect the ability of Mongolian banks to satisfy their repayment obligations to international financial institutions and investors.

#### ***Mongolia may experience political and social instability***

Prior to 1990, Mongolia was a socialist country and the only functioning political party was the Mongolian People's Revolutionary Party, which is now the MPP. Since the collapse of communism in 1990, Mongolia has experienced a process of democratic change, resulting in political and social events that have highlighted the unpredictable nature of Mongolia's evolving political landscape. Such events have resulted in political instability as well as general social and civil unrest on certain occasions. See “Mongolia — Governmental Structure — Previous Elections and Political Parties” and “Mongolia — Governmental Structure — Mongolia's New Majority Government.”

Although Mongolia's transition to democracy has been relatively peaceful, transitions between governments have generally been smooth and peaceful (aside from the protests and riots of 2008), and there has historically been representation of various political parties in the Government, tensions continue to exist between the political parties and within political parties. In the 2012 Parliamentary elections, the Democratic Party won the greatest number of seats in Parliament and formed a coalition government with the MPP, the MPRP and the Mongolian National Democratic Party (the “MNDP”). The coalition government consisted of the Prime Minister, the Deputy Prime Minister, the Minister of Mongolia (without portfolio), the Ministers of the 12 ministries and the Head of the Cabinet Secretariat. On November 5, 2014, the coalition government was removed and was replaced on December 4, 2014 by a new coalition government led by Prime Minister Chimed Saikhanbileg, which consisted of the Prime Minister, the Deputy Prime Minister, the Minister of Mongolia (without portfolio) and the Ministers of 15 ministries. On July 6, 2015 the MPP announced its decision to leave the coalition government. After the end of the Parliamentary session in August 2015, Parliament endorsed Prime Minister Chimed Saikhanbileg's proposal to remove six ministers of the MPP, who

were replaced in September 2015, with candidates from the Democratic Party, the MPRP, and the MNDP. The MPP won 65 out of 76 seats in Parliament in the June 2016 general elections. Following this series of political changes, the Issuer cannot assure you that politically generated disturbances will not occur in the future or on a wider scale, or that the new government will not pursue or implement policies that differ significantly from those of the previous government. Future changes in the Government, the ruling party, major policy shifts or lack of consensus between the various political groups and within political parties could lead to political instability and have a significant adverse impact on the economy and development of Mongolia, and investors may adopt an even more cautious approach towards Mongolia's securities markets or investments in Mongolia in general, and such factors could also adversely affect trading in the Notes.

***The Government may be subject to claims and/or liabilities relating to Parliament's repeal of a previous Government authorization***

On February 10, 2017, Parliament approved a resolution to repeal and invalidate the previous Government authorization of the sale of Rostec's (formerly Rostekhnologii) 49% stake in each of Erdenet Mining Corporation and Mongolrostsvetmet Corporation to Mongolian Copper Corporation. The resolution also directed the transfer of the 49% stake to the Government. The Government may be subject to claims and/or liabilities relating to the resolution. In addition, there can be no assurance that the implementation or clarification of the resolution will not have a material adverse impact on the stability of TDBM, which financed a portion of the sale, or Mongolia's banking system.

***Any downgrade of Mongolia's credit rating could have a material adverse effect on the market value and trading price of the Notes***

On November 3, 2015, S&P lowered Mongolia's long-term sovereign credit rating from "B+" to "B" with stable outlook citing weakening fiscal and external performance. On August 19, 2016, S&P further lowered Mongolia's long-term sovereign credit rating from "B" to "B-," while maintaining a stable outlook, citing a lower economic growth estimate for 2016. On November 24, 2015, Fitch lowered Mongolia's long-term and local currency credit rating from "B+" to "B" citing strained external liquidity, weak public finances, and deterioration in its growth outlook. However, Fitch raised its outlook to "stable" from "negative." On August 26, 2016, Moody's lowered Mongolia's issuer rating from "B2" to "B3," maintaining a negative outlook and citing worsening fiscal and economic fundamentals since January 2016. On November 18, 2016, Moody's further downgraded Mongolia's government long-term issuer and senior unsecured ratings to "Caa1," citing uncertainty regarding the Government's ability to meet its debt service obligations, Mongolia's external liquidity, the continuing budget deficit and a weaker growth outlook. On November 22, 2016, Fitch downgraded Mongolia's long-term foreign and local currency ratings from "B" to "B-," citing heightened external liquidity risks and weak economic growth. On February 15, 2017, Moody's placed Mongolia's issuer rating on negative watch for downgrade in connection with its review of the upcoming maturity of the DBM Notes. See "The Mongolian Economy — Ratings."

These downgrades may have already adversely impacted the market value and trading prices of the Chinggis Bonds and the Government's US\$500.0 million bonds due 2021 and other existing sovereign debt. Any further downgrade in Mongolia's sovereign rating or placement of Mongolia on ratings watch may have an adverse effect on the market value and trading price of the Notes. Furthermore, as a consequence of any downgrade, the Issuer's ability to obtain external funding to meet obligations under the Notes may be adversely affected. A credit rating is not a recommendation to buy, sell, or hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency. A credit rating may not reflect the potential impact of all risks related to the structure, market, additional factors above and other factors that may affect the value of the Notes issued. Negative changes to Mongolia's credit ratings may affect the availability of financing for the Issuer from new and existing counterparties.

***Corruption and bribery are threats to Mongolia’s economic growth and democratic governance***

Corruption and bribery are threats to Mongolia’s economic growth and democratic governance. The Independent Authority Against Corruption has investigated, and is conducting ongoing investigations in relation to allegations of corruption, misuse of power, misappropriation of state funds and bribery against former Government officials. See “Mongolia — Legal Reform — Measures against Corruption and Bribery” and “Mongolia — Legal Reform — Draft Parliamentary Report.” These alleged acts of corruption and bribery by Government officials would materially and adversely affect the Government, the Mongolian economy, the political environment and stability, negatively impact investor confidence and adversely affect trading in the Notes.

***Key decisions concerning laws relating to foreign participation in the country’s mining sector may have an adverse impact on the Mongolian economy***

The Mongolian economy depends heavily on commercial activity associated with the Mongolian mining industry. The development of mining laws and regulations in Mongolia continues to be at a nascent stage and is influenced by the interests of political parties, mining interests, domestic financial interests as well as the need to maintain the Mongolian mining industry as a commercially attractive choice for foreign investment.

Laws governing Mongolia’s mining industry, including provisions pertaining to Government participation in or control of certain projects as well as the royalties and other taxes payable by the mining industry, have historically been subject to periodic substantive revision by the Mongolian Parliament. For example, the Government has imposed a windfall profits tax on mining reserves and made changes to the basic royalty rate in order to replace lost tax revenues. In 2012, SEFIL’s passage adversely impacted investments in the mining sector. In addition, the Investment Law requires investors with foreign (direct or indirect) state ownership of 50.0% or more to obtain approval from the National Development Agency when acquiring an interest of 33.0% or more in a company operating in certain strategic sectors. Furthermore, the Government executed the Mine Plan with Oyu Tolgoi LLC, Turquoise Hill and Rio Tinto in May 2015 to address funding and feasibility studies for Oyu Tolgoi and a project financing facility agreement for Oyu Tolgoi’s Phase II was signed in December 2015. The development of underground mining at Oyu Tolgoi was approved in May 2016, with a total expected investment of US\$5.3 billion. Approximately US\$180 million was invested in the underground mining development in 2016, and approximately US\$830 million is expected to be spent on the underground mining development in 2017. Although the Government is significantly involved in major mining projects such as Oyu Tolgoi, recent legislative changes permitting the Government to transfer its equity interests in such projects in exchange for royalties has created uncertainties for investors in the mining sector. Future revisions to this legal regime may adversely impact foreign direct investment in Mongolia, and its mining industry in particular and in turn, the Mongolian economy could be materially adversely affected.

***The Mongolian economy depends heavily on agriculture and commodities for growth, which are cyclical in nature, and is particularly vulnerable to fluctuations in commodity prices***

The Mongolian economy depends heavily on certain market sectors, particularly gold, copper and coal mining and agriculture, including herding livestock. According to the National Statistical Office of Mongolia, mining and agriculture accounted for 17.1% and 13.4%, respectively, of Mongolia’s GDP for 2015, and 20.0% and 12.2%, respectively, of Mongolia’s GDP for 2016. The reliance on mineral revenue makes the economy vulnerable to being an undiversified, dual mining/agricultural economy subject to mineral price volatility and occasional severe winters. Mongolia’s mining boom also carries

with it certain risks associated with mineral dependency, such as “Dutch Disease,” where an increase in the exploration of natural resources is accompanied by a decline in the manufacturing sector, an appreciating currency and inflation, unemployment in the non-mining sectors with a deepening inequality amongst workers by placing a premium on skilled labor, and the “natural resource curse” of rising corruption, unequal distribution of wealth and related social disruption.

Prices for agricultural products and commodities such as gold and copper are based upon or affected by global prices for such products, which tend to be cyclical in nature. The markets for such products are sensitive to changes in industry capacity and output levels and changes in the world and Asian economies (including the imposition of tariffs and/or anti-dumping measures by the United States, the European Union, countries in Southeast Asia or by other principal export markets), all of which can have a significant impact on selling prices. As such, the Mongolian economy is affected by both worldwide and regional levels of demand for these products, along with price competition. Moreover, weak economic conditions or changes in consumer preferences, whether in the world, Asia generally or Mongolia specifically, may reduce demand and put pressure on margins. For example, generally lower prices for copper and coal in the market put pressure on the pricing of Mongolian copper and coal in 2014, 2015 and 2016, which contributed to the slowdown in GDP growth. To the extent that the Mongolian economy is affected by such price fluctuations, this may adversely affect trading in the Notes.

***The Mongolian economy is heavily dependent on its export trade and, in particular, relies on the PRC as its main export market. Any decrease in the level of demand in the PRC for exports from Mongolia will affect the Mongolian economy***

The Mongolian economy relies heavily on its export trade and produces and exports large amounts of metal products, coal and agriculture. Since its transition to a market economy in the 1990s, the PRC has emerged as Mongolia’s largest trading partner, mainly due to its geographic proximity. According to the National Statistical Office of Mongolia, the PRC accounted for 83.7% and 79.3% of Mongolia’s total exports in 2015 and 2016, respectively. Mining products such as copper, coal and other metals represent the majority share of Mongolian exports to the PRC. As the Mongolian economy is heavily dependent on its export trade, trade relationships with other countries can influence Mongolian economic conditions and, in particular, any decrease in the level of demand for its exports would adversely affect Mongolia’s GDP and economy. For example, the recent slowdown in the growth of the PRC’s economy reduced trade volume between the PRC and Mongolia in 2014, 2015 and 2016. There is no assurance that the slowdown in growth of the PRC’s economy will not persist or that such a slowdown would not further adversely impact the PRC’s demand for exports from Mongolia. Furthermore, Mongolia recorded trade deficits in 2012 and 2013. The Issuer cannot assure you that there will not be an increase in Mongolian imports, a decrease in Mongolian exports, or a reduction in prices of Mongolian exports, that would lead to further trade deficits. In addition, the devaluation of the Renminbi in August 2015 and the continued slowdown in the growth of the PRC economy may lead to decreased demand or lower prices for Mongolian exports to the PRC, which would also adversely impact trade between the PRC and Mongolia and potentially give rise to a trade deficit. Any significant trade deficit would adversely affect the Mongolian economy, and therefore, trading in the Notes may be adversely affected.

Currently, exports to the PRC are transported by road and railway. The Government plans to connect the mineral deposits along the southern perimeter of Mongolia to the PRC markets by railway, construction for which is expected to be completed by 2018. Continuing discussions between Mongolian Railway State Owned Shareholding Company (“Mongolian Railway SOSC”) and its creditors relating to difficulties in repaying an aggregate amount of approximately US\$30.0 million

caused delays that were resolved only after payment resumed in February 2016. Previously outstanding amounts were offset by Mongolian Railway SOSC's advance payments to the contractor. These payments to Mongolian Railway SOSC's creditors have been allocated from the annual state budget. Any further delays in the construction of the planned railway link from Tavan Tolgoi to the PRC could adversely affect Mongolia's export volumes.

***A decline in Mongolia's foreign exchange reserves affect liquidity and interest rates in the Mongolian economy***

The Mongolian currency depreciated significantly during the global economic crisis of 2008 and 2009. In 2014 and 2015, the currency depreciation was further aggravated by policies enacted by the Bank of Mongolia to maintain the de facto currency peg to the U.S. dollar. In 2016, currency depreciation accelerated primarily due to significant drops in commodities prices, and political uncertainty that caused investor confidence in the Mongolian economy to deteriorate. The exchange rate of the Tugrik against the U.S. dollar has remained volatile in recent years. The Bank of Mongolia took subsequent measures, including the implementation of a flexible exchange rate regime that limited intervention and opportunistic building of reserves. Intervention was transparently conducted through a bi-weekly foreign exchange auctioning mechanism supported by increasing the policy interest rate from 10.50% in May 2016 to 15.00% in August 2016, which measures were effective in calming markets and attracting capital back to Mongolia. However, foreign exchange reserves continued to fluctuate significantly. According to the Bank of Mongolia, the total foreign exchange reserves of Mongolia declined from US\$1,649.9 million as of December 31, 2014 to US\$1,323.1 million as of December 31, 2015 and further to US\$1,303.9 million as of December 31, 2016, due to fluctuations in levels of foreign investment and the imbalance of trade. In addition, the Issuer cannot assure you that these reserves will not continue to decline significantly, which could result in reduced liquidity and higher interest rates in the Mongolian economy. Reduced liquidity or an increase in interest rates in the Mongolian economy following a decline in foreign exchange reserves could adversely affect trading in the Notes and the Government's ability to repay its foreign currency-denominated obligations.

***Emerging markets such as Mongolia are subject to greater risks than more developed markets, and are particularly vulnerable to fluctuations in the global economy***

The Mongolian market and the Mongolian economy are influenced by economic and market conditions in other countries. Moreover, financial turmoil in any emerging market country tends to adversely affect prices in capital markets of many emerging market countries, including Mongolia, as investors move their money to more stable, developed markets. As has happened in the past, financial problems or an increase in the perceived risks associated with investing in emerging economies could dampen foreign investment in Mongolia and adversely affect the Mongolian economy. A loss of investor confidence in the financial systems of other emerging markets may cause volatility in Mongolian financial markets and indirectly, in the Mongolian economy in general. Any worldwide financial instability could also have a negative impact on the Mongolian economy, including on the movement of exchange rates and interest rates in Mongolia. In addition, during such times, companies that operate in emerging markets can face severe liquidity constraints as foreign funding sources are withdrawn. Thus, even if the Mongolian economy remains relatively stable, financial turmoil in any emerging market country could adversely affect trading in the Notes. Mongolia's inflation rate is also higher than some of the more developed economies. A further increase in Mongolia's inflation rate could materially and adversely affect trading in the Notes.



Generally, investment in emerging markets is only suitable for sophisticated investors who fully appreciate the significance of the risks involved in, and are familiar with, investing in emerging markets. Investors should also note that emerging markets such as Mongolia are subject to rapid change and that the information set out in this offering memorandum may become outdated relatively quickly.

***Certain entities and persons with which the Issuer has limited dealings are subject to U.S. and international trade restrictions, economic embargoes and sanctions***

The Issuer holds a 50.0% interest in Ulaanbaatar Railways Company, which is a joint venture with Russian Railways, a Russian state-owned entity whose President is Vladimir Ivanovich Yakunin, a person on the Specially Designated Nationals & Blocked Persons List of the U.S. Department of Treasury. The Issuer also holds a 51.0% interest in each of the Erdenet Mining Corporation and Mongolrosvetmet Corporation, which were formerly joint ventures with Rostec (formerly Rostekhnologii), a Russian state-owned entity on the Sectoral Sanctions Identification List of the U.S. Department of Treasury. In response to the recent actions and policies of the Government of the Russian Federation, including recent actions in Ukraine and the purported annexation of Crimea, the United States and the EU have also recently initiated sanctions relating to Russia and Ukraine. Numerous individuals and entities, including Rostec (formerly Rostekhnologii) and Vladimir Ivanovich Yakunin, have been sanctioned pursuant to these measures. In addition, DBM (which is wholly-owned by the Government) has conducted and continues to conduct business with certain sanctioned entities. In May 2016, DBM received a US\$300 million revolving export finance credit line from JSC VTB Bank and its affiliates, with the Issuer providing an irrevocable guarantee for the credit line. DBM also obtained a US\$20 million loan from VneshEconombank in June 2015 to facilitate an upgrade to the TPP #4 power plant in Ulaanbaatar. The loan has a term of eight years and bears interest at 3.2% per annum. JSC VTB Bank and VneshEconombank are Russian state-owned entities on the Sectoral Sanctions Identification List of the U.S. Department of Treasury. While the Issuer has not otherwise conducted and does not otherwise conduct business with sanctioned entities, directly or indirectly, there can be no assurance that further or expanded sanctions with respect to Russia or Ukraine will not affect the Issuer's operations. The Issuer has a segregated account so that funds raised from persons investing in the Notes are not commingled with funds for business activities in relation to any of the aforementioned entities or persons, and the funds raised will be used exclusively for the purposes described under "Use of Proceeds and Exchange Offer for DBM Notes" set forth in this offering memorandum.

***Destabilizing events in other parts of the world could affect Mongolia's economy***

Acts of God, wars, terrorist attacks, riots, civil commotions and other events beyond the Issuer's control have increased the uncertainty of global economic prospects in general. The Issuer cannot assure you that further terrorist acts or other destabilizing events will not occur in the future. In addition, although such acts and events have not targeted or directly affected Mongolia or its assets, the Issuer cannot assure you that they will not do so in the future. Any terrorist attack, natural disaster or other such event including damage to Mongolia's infrastructure could have a material adverse effect on its economy and adversely affect trading in the Notes.

***Uncertainties and instability in global market conditions could adversely affect Mongolia's economy***

Global markets have experienced, and may continue to experience, significant dislocation and turbulence due to economic instability in several areas of the world. These ongoing global economic conditions have led to significant volatility in capital markets around the world, including Asia, and further volatility could significantly impact investor risk appetite and capital flows into emerging markets as well as the price of the Notes.

In 2015, the effect of the devaluation of the Renminbi by the PRC, coupled with the slowing of economic growth in various regions around the world, has had an impact on the prospective economic growth in the global financial markets and downward pressure on equity prices. Moreover, anticipated increases in the U.S. Federal Reserve's interest rate in 2015 and 2016 has led to an appreciation of the U.S. dollar relative to a number of emerging economy currencies, resulting in capital outflows from these economies. Meanwhile, the three-year bailout granted by the Eurozone leaders in August 2015 provides Greece a temporary relief from its liquidity pressure, but concerns remain on whether the Greek government will be successful in implementing the proposed austerity measures and necessary economic reforms to satisfy the conditions of the bailout and its creditors.

Further, economic conditions in some Eurozone sovereign states could possibly lead to these member states re-negotiating or restructuring their existing debt obligations, which may lead to a material change in the current political and/or economic framework of the European Monetary Union. One potential change that may result from the crisis is an end to the single-currency system that prevails across much of Europe, with some or all European member states reverting to currency forms used prior to adoption of the euro. The crisis could also lead to the restructuring or breakup of other political and monetary institutions within the European Union. Many economists downgraded their global growth outlook for 2016 and 2017, following the United Kingdom's decision via a referendum to leave the European Union in June 2016. The broad ramifications of "Brexit" to the United Kingdom, the European Union and the global economy have yet to unravel, casting uncertainty to global prospects and possible volatility in financial markets. United Kingdom Prime Minister Theresa May's announcement that the United Kingdom would leave the European Union single market added further uncertainty in that regard. If the United Kingdom or certain states within the Eurozone were to exit the European Union, or following the occurrence of such other reform as contemplated herein, such countries may not be able to meet their existing debt obligations or may default on these obligations, which could have a ripple effect across sovereign states and the private sector in Europe and the rest of the world and possibly lead to a global economic crisis. Any changes to the euro currency could also cause substantial currency readjustments across Europe and other parts of the world, further exacerbating the credit crisis. These events and uncertainties could adversely impact the Mongolian economy and the Notes.

In addition, the uneven and divergent conditions across major economies and the resulting desynchronization in policy environment persist, with the United States continuing to show firmer signs of economic growth and possible monetary tightening in the horizon, while Japan and the Eurozone require more economic stimulus and unconventional monetary measures (e.g., negative interest rates) to revive their economies. Likewise putting a downside risk to the global outlook are the protracted economic slowdown in China, the ongoing geopolitical crises that include among others, the Syrian civil war and terrorist acts committed by ISIS.

There can be no assurance that the uncertainties affecting global markets will not negatively impact credit markets in Asia including Mongolia. These developments may adversely affect trade volumes with potentially negative effects on Mongolia.

#### ***Mongolia faces risks related to health epidemics and other outbreaks of contagious diseases***

The Mongolian economy could be adversely affected by the outbreaks of severe acute respiratory syndrome ("SARS") or an outbreak of any other epidemic, such as Middle East respiratory syndrome ("MERS"), the avian influenza A (H5N1 and H7N9) virus or the influenza A (H1N1) virus or other widespread communicable disease. While there have been no reported cases of such diseases in Mongolia, there have been reports on the occurrences of avian flu or other deadly infectious diseases

in various parts of the PRC, including confirmed cases of human infection. An outbreak of avian flu in the human population of the PRC could result in a widespread health crisis that has the potential to spread to Mongolia and could adversely affect the economies and financial markets of many countries, including Asian countries. In addition, any recurrence of SARS or any other epidemic would also have similar adverse effects. As a significant portion of Mongolia's economy relies on trade with the PRC, these outbreaks of contagious diseases, and other adverse public health developments in the PRC, could have a material adverse effect on its economy and adversely affect trading in the Notes.

***The Mongolian economy, in particular the agricultural and livestock sector, may be negatively affected by climate change and severe weather events***

The agricultural sector in Mongolia comprised approximately 13.4% and 12.2% of nominal GDP in 2015 and 2016. This sector is particularly sensitive to climate changes and severe weather events. Mongolia experiences an extreme continental climate with long winters and short summers. Mongolia has an average annual rainfall of 200 to 220 millimeters, and demand for fresh water is expected to substantially increase in the next decade. Climate change and weather events, such as the early snowfall in the winter of 2016 to 2017, may have a material adverse effect on conditions for agricultural production and the survival of livestock. The availability of water may adversely affect the supply and pricing of agricultural and livestock products and in turn have an adverse effect on Mongolia's economy. In addition, the scarcity of water resources may also affect the development and operation of mines and thermal power plants, which could also have an adverse effect on the Mongolian economy.

**Risks Relating to the Notes**

***Non-enforcement of foreign judgments may limit the ability of Noteholders to recover damages from the Issuer through court proceedings***

The Issuer is the Government of Mongolia, a sovereign nation. As a result, it may be difficult for investors (i) to effect service of process, including judgments, on the Issuer outside of Mongolia, (ii) to enforce, against the Issuer, judgments obtained in such courts that are predicated upon the laws of such other jurisdictions, (iii) to enforce a foreign arbitral award against the Issuer or (iv) to enforce, against the Issuer, in Mongolian courts, judgments obtained in jurisdictions other than Mongolia, including judgments obtained in connection with the Notes, and the Agency Agreement in any federal, state or appellate court in the State of New York.

The Notes and the Agency Agreement are governed by New York law and the Issuer has agreed in the Agency Agreement that disputes arising thereunder or in respect of the Notes are subject to arbitration before the Singapore International Arbitration Center. Mongolian courts will not enforce any judgment obtained in a court established in a country other than Mongolia unless, among other things, there is in effect a treaty with such country and Mongolia providing for the reciprocal enforcement of judgments and then only in accordance with the terms of such treaty. There is no such treaty in effect between Mongolia and the United States of America. As a result, you may be required to pursue claims against the Issuer in Mongolian courts. Although Mongolian courts may enter judgments based on choice of law of jurisdictions other than Mongolia, in view of the lack of experience of the Mongolian courts with foreign law, the results of such judgments may be unsatisfactory to support the legitimate claims of litigants. The Issuer cannot assure you that the claims or remedies available under Mongolian law will be the same, or as extensive, as those available in other jurisdictions.



However, Mongolia and Singapore are parties to the 1958 New York Convention on Recognition and Enforcement of Arbitral Awards (the “Convention”) and, accordingly, an arbitration award obtained in a state which is party to such Convention, such as Singapore, should be recognized and enforceable in Mongolia provided the conditions to enforcement set out in the Convention are met.

In the event of any proceedings being brought in a Mongolian court in respect of the enforcement in Mongolia of a foreign judgment expressed to be payable in a currency other than Tugriks, provided that there is a legal assistance treaty between Mongolia and the country of jurisdiction of that foreign court permitting enforcement in Mongolia or in the case of an arbitration award enforceable in Mongolia under the Convention, such foreign judgment or arbitration award will be enforceable in Mongolia. However, there can be no assurance that a Mongolian court would not require conversion of the awarded amount into Tugriks and order enforcement of the same in Mongolia in Tugriks.

***The Notes may have limited liquidity***

The Notes when issued will constitute a new issue of securities for which there will be no existing trading market. Although the Initial Purchasers may make a market in the Notes, they are not obligated to do so, and any market-making activity with respect to the Notes, if commenced, may be discontinued at any time without notice. The Issuer cannot assure you that a trading market for the Notes will develop or be maintained. If such a market were to develop, it is not possible to predict the price at which Notes will trade in such market or whether such market will be liquid or illiquid. The Issuer may, but are not obliged to, list or admit to trading Notes on a stock exchange or market. If the Notes are not listed or admitted to trading on any stock exchange or market, pricing information for the Notes may be more difficult to obtain and the liquidity of the Notes may be adversely affected. If the Issuer list or admits to trading an issue of Notes, the Issuer cannot assure you that at a later date, the Notes will not be delisted or that trading on such stock exchange or market will not be suspended. The Issuer cannot assure you that a market for the Notes will develop in the future. If such a market were to develop, the Notes could trade at prices that may be higher or lower than the offering price depending on many factors, including, among others:

- the complexity and volatility of the bases of reference applicable to the Notes;
- the method of calculating amounts payable, or other consideration, if any, in respect of the Notes;
- the time remaining to the redemption of the Notes;
- the number of Notes outstanding;
- the settlement features of the Notes;
- the amount of other securities linked to the bases of reference applicable to the Notes;
- prevailing interest rates;
- the rate of exchange between Tugriks and U.S. dollars;
- political and economic developments in Mongolia;
- financial, economic, political or other conditions, performance and prospects of Mongolia; and
- the market conditions for similar securities.

You may not be able to sell Notes readily or at prices that will enable you to realize your anticipated yield. You should not purchase Notes unless you understand and can bear the risk that such Notes may not be readily saleable, that the value of such Notes will fluctuate over time, that such fluctuations may be significant and that you may lose all or a substantial portion of the purchase price of the Notes.

***You may be exposed and subject to exchange rate risks and exchange controls***

The Issuer will pay principal and interest on the Notes in U.S. dollars. This presents certain risks relating to currency conversions if an investor's financial activities are denominated principally in a currency or currency unit (the "Investor's Currency") other than the U.S. dollar. These include the risk that exchange rates may significantly change (including changes due to devaluation of the U.S. dollar or revaluation of the Investor's Currency) and the risk that authorities with jurisdiction over the Investor's Currency may impose or modify exchange controls. An appreciation in the value of the Investor's Currency relative to the U.S. dollar would decrease (i) the Investor's Currency-equivalent yield on the Notes, (ii) the Investor's Currency-equivalent value of the principal payable on the Notes and (iii) the Investor's Currency-equivalent market value of the Notes.

Government and monetary authorities may impose (as some have done in the past) exchange controls that could adversely affect an applicable exchange rate. As a result, investors may receive less interest or principal than expected, or no interest or principal.

***Credit ratings may not reflect all risks relating to an investment in the Notes***

One or more independent credit rating agencies may assign credit ratings to the Notes. The ratings may not reflect the potential impact of all risks related to structure, market, additional factors discussed above, and other factors that may affect the value of the Notes. A credit rating is not a recommendation to buy, sell or hold securities and may be revised or withdrawn by the rating agency at any time.

***The Notes will include provisions commonly referred to as "collective action clauses" that permit the Government to amend, modify or waive certain provisions of the Notes and withdraw declarations of acceleration without the consent of the all the holders of the Notes***

The Notes will include provisions regarding voting on amendments, modifications and waivers which are commonly referred to as "collective action clauses," which permit the Government to amend or modify a provision of the Notes, or obtain the waiver of compliance with a provision of the Notes, without the Government obtaining the consent or affirmative vote of each holder of the Notes. Under the terms of such provisions in the Notes, certain key provisions of the Notes, including, among others, the maturity date, interest rate and other payment terms, may be amended with only the consent of the specified majorities and bind all Noteholders, including Noteholders who did not attend and vote at the relevant meeting and Noteholders who voted against the proposed amendment, modification or waiver. See "Description of the Notes — Modifications and Amendments; Meetings of Noteholders." As a result, material terms of the Notes may be amended, modified or eliminated in a manner that is adverse to Noteholders without their consent. In addition, the Notes contain a provision providing for the withdrawal of a declaration of acceleration in certain circumstances with the consent of at least 50% of the holders of the Notes.

***Change of laws may adversely impact your rights under the Notes***

The terms and conditions of the Notes are based on New York law in effect as of the date of this offering memorandum. The Issuer cannot assure you as to the impact of any possible judicial decision or change to New York law or administrative practice after the date of this offering memorandum.

***Reliance on Euroclear, Clearstream, Luxembourg and DTC procedures may limit your ability to act***

The Notes will be represented on issue by one or more Global Notes that registered in the name of a nominee of DTC and deposited with a custodian for DTC. Except in the circumstances described in each Global Note, Noteholders will not be entitled to receive Notes in definitive form. Each of Euroclear, Clearstream, Luxembourg and DTC and their respective direct and indirect participants will maintain records of the beneficial interests in each Global Note held through it. While the Notes are represented by a Global Note, Noteholders will be able to trade their beneficial interests only through the relevant clearing systems and their respective participants.

While the Notes are represented by Global Notes, the Issuer will discharge its payment obligation under the Notes by making payments through the relevant clearing systems. A holder of a beneficial interest in a Global Note must rely on the procedures of the relevant clearing system and its participants to receive payments under the Notes. The Issuer has no responsibility or liability for the records relating to, or payments made in respect of, beneficial interests in any Global Note.

Holders of beneficial interests in a Global Note will not have a direct right to vote in respect of the Notes so represented. Instead, such holders will be permitted to act only to the extent that they are enabled by the relevant clearing system and its participants to appoint appropriate proxies.

***Notes which have a denomination that is not an integral multiple of the minimum specified denomination may be illiquid and difficult to trade***

In relation to any issue of Notes which have denominations consisting of a minimum specified denomination plus one or more higher integral multiples of another smaller amount, it is possible that such Notes may be traded in amounts that are not integral multiples of such minimum specified denomination. In such a case a holder who, as a result of trading such amounts, holds an amount which is less than the minimum specified denomination in his account with the relevant clearing system at the relevant time may not receive a definitive Note in bearer form in respect of such holding (should such Notes be printed) and would need to purchase a principal amount of Notes such that its holding amounts to a specified denomination.

If definitive Notes are issued, holders should be aware that definitive Notes which have a denomination that is not an integral multiple of the minimum specified denomination may be illiquid and difficult to trade.

***Legal investment considerations may restrict certain investments***

The investment activities of certain investors are subject to legal investment laws and regulations of respective jurisdictions, or review or regulation by certain authorities. Each potential investor should consult its legal advisers to determine whether and to what extent (i) Notes are legal investments for it, (ii) Notes can be used as collateral for various types of borrowing and (iii) other restrictions apply to its purchase or pledge of any Notes. Financial institutions should consult their legal advisors or the appropriate regulators to determine the appropriate treatment of Notes under any applicable risk-based capital or similar rules.

## USE OF PROCEEDS AND EXCHANGE OFFER FOR DBM NOTES

The Issuer estimates that the net proceeds from the sale of the Notes will be approximately US\$ [redacted] after deducting the Initial Purchasers' commission and estimated offering expenses. The Issuer intends to use the net proceeds to refinance DBM Notes not exchanged in the exchange offer and to retire certain of the Government's other international debt.

### Exchange Offer for the DBM Notes

The Government is offering to exchange any and all of the DBM Notes for the Notes. The exchange offer will only be made to eligible holders of the DBM Notes who are located outside the United States, or certain fiduciaries holding accounts for the benefit of persons outside the United States, as those terms are defined in Regulation S under the Securities Act, who have complied with the procedures set out in the exchange offer memorandum, or on whose behalf their brokers, dealers, custodians, trust companies or other nominees have complied with those procedures.

For each US\$1,000 principal amount of outstanding DBM Notes that is validly tendered and accepted for exchange, each holder will receive US\$1,000 principal amount of Notes and an amount in cash (together with the Notes, the "Exchange Consideration") equal to the sum of: (i) in the event that the Notes issued in the cash offering are issued at a price less than par, an amount equal to US\$1,000 less the issue price of the Notes (expressed per US\$1,000 principal amount of Notes); and (ii) the accrued and unpaid interest on such DBM Notes from and including the most recent interest payment date to, but excluding, the settlement date.

Valid tenders of DBM Notes are irrevocable and may not be withdrawn. The exchange offer will expire on March 1, 2017. The exchange offer may be amended, modified, terminated, withdrawn or extended at any time. Notice will be provided of any amendments, modifications, withdrawals or extensions as and if required by applicable law.

The financing parameters underpinning the program that has been agreed with the IMF staff (subject to IMF Executive Board approval) assume that external private creditor exposure will be maintained at its current level over the program period, on terms consistent with debt sustainability; and that gross financing needs will remain at prudent levels during the post-program period. Accordingly, the Government will only proceed with the exchange offer if the participation rate is sufficiently high and if the terms of the Notes are consistent with the requirements for debt sustainability and gross financing needs. See "Risk Factors — Risks Relating to Mongolia — Financial support to be provided by the IMF is subject to certain conditions."

# MONGOLIA

## Overview

Over the past two decades, Mongolia has transformed itself from a socialist country with a planned economy into a multi-party democracy with one of the world's fastest-growing economies. From 2003 through 2016, Mongolia experienced average real GDP growth of 7.5% per annum. Located between Russia (to its north) and China (to its south), Mongolia possesses vast, largely untapped mineral assets, which have only begun to be developed.

A number of significant projects have been undertaken in recent years to develop Mongolia's extensive mineral resources. The Oyu Tolgoi mine, one of the world's largest copper-gold reserves under development, is expected to commence full operations after the construction of an underground mining expansion, which the Government expects will be completed between 2021 and 2024. Approximately US\$180.0 million was invested in the underground mining development in 2016, with an additional US\$830.0 million scheduled to follow in 2017. Mongolia continues to develop other major projects in the coal sector, including the Tavan Tolgoi formation, which is believed, according to the World Bank, to be one of the world's largest coal deposits under development with an estimated 7.4 billion tons of coking and thermal coal resources. In addition, Mongolia possesses large reserves of copper, gold, uranium and rare earth minerals that are being developed at numerous sites.

In June 2016, the MPP won 65 out of 76 seats in Parliament in the general election, winning a clear mandate and avoiding the need to form a coalition government. In early August 2016, the Government announced the creation of a task force to address Mongolia's budget deficit, slowing economic growth and currency devaluation. Ratified by Parliament on September 9, 2016, the Government Action Plan for 2016-2020 aims to overcome short-term economic difficulties while attracting domestic and foreign investment and relieving economic pressure on citizens and domestic businesses by creating a more favorable long-term business environment.

However, despite this rapid response by the new MPP-led government, Mongolia's fiscal position had deteriorated significantly, with high levels of external debt and reduced foreign exchange reserves creating pressure on its near-term fiscal stability. The Tugrik depreciated against the U.S. dollar by 50.5% from December 30, 2013 to December 30, 2016, and by 31.2% against the Renminbi during the same period. In addition, the former government had implemented a number of monetary easing measures through policy lending programs, which resulted in outstanding loans from Bank of Mongolia extended to commercial banks reaching approximately MNT 1,055.6 trillion (US\$425.1 million) and outstanding domestic credit reaching approximately 68.1% of GDP as of December 31, 2016. External indebtedness had risen significantly in recent years, and the near-term maturity of the DBM Notes created concerns regarding depletion of Mongolia's foreign exchange reserves.

These adverse economic indicators led to Mongolia's sovereign credit rating being downgraded in August 2016 by S&P (from "B" to "B-") and Moody's (from "B2" to "B3") with the rating agencies citing slowing growth and other weakened economic fundamentals. On November 18, 2016, Moody's further downgraded Mongolia's government long-term issuer and senior unsecured ratings to "Caa1," citing uncertainty regarding the Government's ability to meet its debt service obligations, Mongolia's external liquidity, the continuing budget deficit and a weaker growth outlook. On November 22, 2016, Fitch downgraded Mongolia's long-term foreign and local currency ratings from "B" to "B-," citing heightened external liquidity risks and weak economic growth. On February 15, 2017, Moody's placed Mongolia's issuer rating on negative watch for downgrade in connection with its review of the upcoming maturity of the DBM Notes.

In response to this difficult near-term fiscal position, the Government submitted a request to the IMF in September 2016 for financial assistance. To support its request, the Government formulated the Economic Recovery Plan, which reflected various policy recommendations made by the IMF, and Parliament subsequently approved the Economic Recovery Plan in November 2016. The Economic Recovery Plan is designed to stabilize short-term macro-economic conditions, to achieve sustainable debt levels and to implement medium-term economic structural reforms. It provides guidance on forming fiscal policies aimed at ensuring a sustainable deficit, monetary policies aimed at reducing the balance of payments pressure and stabilizing the exchange rate and strategies to increase reserves, promote foreign direct investment and address the Government's short-term payment obligations. It is expected that the coordinated implementation of the Government Action Plan for 2016-2020 and the Economic Recovery Plan will enable the Government to meet its policy targets for the next three years.

Following a visit to Mongolia by the IMF in October 2016, the IMF stated that the visit was very productive and common policy views were developed in many areas. Technical teams have made subsequent visits to Mongolia, and a high-level delegation visited in late January 2017 for two weeks of detailed discussions. On February 19, 2017, the IMF reached staff-level agreement with Mongolia on a three-year extended fund facility of approximately US\$440.0 million. Other international partners also are expected to support the Government's program with up to US\$3.0 billion in budget and project support, and the People's Bank of China is expected to extend its RMB 15.0 billion swap line with the Bank of Mongolia for at least another three years. The Government expects to finalize the terms of the IMF's financial assistance package in March 2017 taking into account that final terms are subject to the finalization of financing assurances and approval by the IMF's Executive Board. Collectively, these measures are intended to provide near-term fiscal relief as Mongolia continues to develop its substantial mineral resources as the economy normalizes in over the coming years.

According to the Doing Business 2015 report published by the World Bank and the International Finance Corporation, Mongolia has a relatively friendly and attractive business environment for foreign investment compared to its peers. Out of 189 countries, Mongolia was ranked 30th for ease of registering property, 17th for protecting the interests of minority investors and 42nd for ease of starting a business in 2015.

## **History**

In 1206, Chinggis Khan (also known as Genghis Khan) founded the Mongol Empire, the largest empire in history by land area, and was elected emperor. The Mongol Empire's territory extended from present-day Poland in the west to the Korean peninsula in the east, from Siberia in the north to the Arab peninsula and Vietnam in the south, covering approximately 33 million square kilometers. In 1227, after Chinggis Khan's death, the Mongol Empire was subdivided into four kingdoms. In 1260, Chinggis Khan's grandson, Kublai Khan, ascended the throne of one of the four kingdoms that encompassed present-day Mongolia and China. In 1271, Kublai Khan formally established the Yuan Dynasty by changing the state title into Yuan, with Yuandadu (present-day Beijing) as the capital.

The Yuan Dynasty was the first foreign dynasty to rule all of China, until it was taken over by the Chinese Ming Dynasty in 1368. In 1368, an uprising by the Red Turban army rebel movement broke out against the Mongols. The Red Turban army's leader, Yuan-chang, captured the capital, Yuandadu, and founded the Chinese Ming Dynasty. Once the Chinese Ming Dynasty was established, all Mongols were expelled from China. The Yuan Dynasty's last emperor, Toghhan-Temur, fled to present day Mongolia and became the first ruler of the Northern Yuan Dynasty.



The Northern Yuan Dynasty began with the end of Mongol rule in China and lasted until the emergence of the Manchurian Qing Dynasty in the 17th century. This period in Mongolian history was marked by factional power struggles and repeated invasions from the Manchurian Qing Army. By 1635, the entire territory of the Northern Yuan Dynasty had been invaded by the Manchurian Qing Army and was under Manchurian rule. The Manchurian Qing Dynasty was the last imperial dynasty of China. In 1911, it was overthrown by the Chinese Revolution and the Republic of China was established.

In the aftermath of the Chinese Revolution, Outer Mongolia sought assistance from the Russian government to gain independence from China. Russia provided arms, ammunition and diplomatic support to Outer Mongolia in its efforts to seek independence. On December 1, 1911, Outer Mongolia proclaimed itself independent of China.

On December 28, 1911, Bogd Khan, the spiritual leader of Mongolia's Tibetan Buddhism, came to power in a theocratic Mongolian government. The new Chinese government, however, refused to recognize Mongolian independence and in 1919, after the October Revolution in Russia, Chinese troops once again occupied Mongolia. In 1920, the Russian White Guard, aided by Japan, took control of Ulaanbaatar, Mongolia's capital city. In 1921, Mongolian revolutionaries, with the assistance of the Soviet Red Army, expelled Russian White Guards from the country and Mongolia became the first Asian country to declare a communist revolution. The 1921 Outer Mongolian Revolution firmly established Outer Mongolia's de facto independence from China and ended Chinese sovereignty over Outer Mongolia, which had existed since the 17th century.

On March 1, 1921, the current MPP was established and in 1924, the Mongolian People's Republic was proclaimed. The Mongolian People's Republic was led by communist leader and general chief commander of the Mongolian armed forces, Choibalsan Khorloo. Under his control, Mongolia became a centrally planned economy based on state and cooperative ownership. Over the next 65 years, Mongolia aligned itself closely with the former Soviet Union, particularly after the Sino-Soviet split in the late 1950s.

Mongolia was under a Soviet-dominated communist regime for almost 70 years, from 1921 to 1990. In the fall of 1989 and the spring of 1990, new currents of political thought began to emerge in Mongolia, inspired by the glasnost policies of Mikhail Gorbachev and the collapse of the communist regimes in Eastern Europe. In March 1990, a democratic revolution that started with hunger strikes to overthrow the government of the Mongolian People's Republic led to the peaceful renouncement of communism. Mongolia's renouncement of communism led to a multi-party system, a new constitution and a transition to a market economy. For a description of political events that took place after the democratic revolution, see "Political and Electoral System — Political Parties and Previous Elections."

### **Geography and Climate**

Mongolia is the world's second largest landlocked country and occupies a territory of 1.56 million square kilometers. It extends 2,392 kilometers from west to east and 1,259 kilometers from north to south. Mongolia is located in Northern Asia, bordered by Russia in the north and China in the south, east and west. Mongolia's strategic location provides it with direct access to the markets of these neighboring countries.

Mongolia has a varied geography with forested mountain ranges in the north, desert steppe and steppe areas with low mountains in the south, high mountains and glaciers in the west and vast plains in the east. Mongolia has approximately 3,000 rivers with a combined length of approximately 67,000 kilometers, over 3,000 lakes, 6,900 springs, 190 glaciers and 250 mineral water springs. Situated at

an average altitude of 1,500 meters above sea level, Mongolia experiences an extreme continental climate with long winters and short summers. January is the coldest month and July is the hottest month of the year. Ulaanbaatar has the lowest average temperature of any national capital city in the world. Mongolia’s average annual rainfall, measures between 200 to 220 millimeters and it has approximately 250 cloudless days each year, earning it the nickname “country of blue sky.”

**People**

Mongolia is the world’s least densely populated country. The total population of Mongolia in 2016 was approximately 3.1 million living in a vast area of 1.56 million square kilometers. Mongolia’s land per capita is approximately 0.6 square kilometers, compared to Russia’s land per capita of approximately 0.1 square kilometers and China’s land per capita of approximately 7,204.5 square meters. According to Euromonitor International, Mongolia has a relatively young population compared to other emerging market countries, with an average age of 26.9 years, compared to 36.3 in China, 35.1 in Thailand and 31.4 in Sri Lanka. Ethnic Mongols comprise approximately 94.9% of the population, Kazakh 5% and Turkic, Chinese and Russians make up the remaining population. See “Key Statistical Indicators” below. Ulaanbaatar is Mongolia’s capital and largest city and home to approximately 45% of the country’s population.

Buddhism and Christianity are the most prominent religions in Mongolia, although a small number of Muslims and Shamans reside in Mongolia.

The official language is Mongolian and is spoken by 90% of the population. English is quickly replacing Russian as the most popular language following Mongolian. Many Mongolians also speak Korean, Japanese, Chinese and Western European languages.

**Key Statistical Indicators**

The following tables set forth select recent information on the geography, climate, population, economy and politics of Mongolia:

**Geography:**

Location .....	Northern Asia, landlocked between China and Russia
Area .....	1,565 thousand square kilometers (19th largest in the world)
Boundaries .....	Total: 8,253 kilometers, with China (4,710 kilometers in the south), and with Russia (3,543 kilometers in the north)
Climate .....	Dry continental climate with desert, steppe and mountain zones with large daily and seasonal temperature ranges
Major natural resources .....	Copper, coal, iron ore, gold, silver, fluor spar, uranium, tin, tungsten, oil and rare earth elements



**People:**

Population .....	Approximately 3.1 million (2016)
Population growth rate .....	2.1% (2015-2016)
Average life expectancy .....	70.0 years (2016 actual)
Ethnic groups .....	Mongol (94.9%), Kazakh (5%), others (including Turks, Chinese and Russians) (0.1%)
Temples and churches by religion	Buddhist (42.0%), Christianity (48.8%), Islam (7.4%), other (1.8%)

**Government:**

Government type .....	Parliamentary
Capital .....	Ulaanbaatar
Head of State .....	President (elected by a universal popular vote for a term of four years)
Executive branch .....	Prime Minister and Cabinet, appointed by Parliament upon proposal or in consultation with the President
Legislative branch .....	State Great Khural (unicameral, 76 seats; members are elected for a term of four years)
Judicial branch .....	Supreme Court (serves as the court of last instance for the district and provincial courts and appellate courts; judges are nominated by the Judicial General Council and appointed by the President)
Political parties .....	Three parties are represented in the present Parliament, including the Democratic Party, the MPP and the MPRP. The MPP is currently the ruling party.
Suffrage .....	18 years of age; universal
State structure .....	Unitary state; territory of Mongolia is divided administratively into 21 aimags (provinces) and the capital city

## Economy:

Key Indicators	As of and for the year ended December 31,					
	2011 <sup>(1)</sup>	2012 <sup>(1)</sup>	2013 <sup>(1)</sup>	2014 <sup>(1)</sup>	2015 <sup>(1)</sup>	2016 <sup>(1)(2)</sup>
Nominal GDP (MNT billions) . . . .	13,173.8	16,668.4	19,174.2	22,227.1	23,134.1	23,886.4
Nominal GDP (US\$ millions) <sup>(3)</sup> . . .	10,409.7	12,261.6	12,550.9	12,224.2	11,746.6	11,133.2
Nominal GDP growth . . . . .	35.0%	26.7%	14.9%	15.9%	4.1%	3.3%
Real GDP (MNT billions) <sup>(4)</sup> . . . . .	11,443.6	12,853.4	14,350.7	15,482.3	15,847.2	16,001.8
Real GDP (US\$ millions) <sup>(3)(4)</sup> . . . . .	9,042.5	9,455.2	9,393.5	8,514.8	8,046.6	7,458.3
Real GDP growth . . . . .	17.3%	12.3%	11.6%	7.9%	2.4%	1.0%
Nominal GDP per capita (MNT thousands) <sup>(5)</sup> . . . . .	4,728.0	5,876.8	6,614.1	7,501.3	7,642.9	7,834.6
Nominal GDP per capita (US\$ <sup>(3)(5)</sup> ) . . . . .	3,031.0	3,939.0	4,563.0	4,551.0	4,182.0	3,651.7
Year-on-year inflation . . . . .	10.2%	14.0%	12.5%	11.0%	1.9%	1.1%
Export (US\$ millions) <sup>(3)</sup> . . . . .	4,817.5	4,384.7	4,269.1	5,774.3	4,669.5	4,917.3
Imports (US\$ millions) <sup>(3)</sup> . . . . .	6,598.4	6,738.4	6,357.8	5,236.6	3,797.2	3,357.9
Balance of payments (US\$ millions) <sup>(3)(6)</sup> . . . . .	27.8	1,705.0	(1,867.3)	(471.1)	(268.1)	(18.2)
Unemployment rate . . . . .	7.7%	8.2%	7.9%	7.9%	7.5%	8.6%
External debt (US\$ millions) <sup>(3)(7)</sup> . .	9,627.5	15,385.7	19,022.1	20,942.3	21,602.9	23,784.7
Gross foreign exchange reserves (US\$ millions) <sup>(3)(6)</sup> . . . . .	2,450.6	4,125.8	2,248.0	1,649.9	1,323.1	1,296.3
Gross foreign reserves import cover (months) <sup>(6)</sup> . . . . .	6.3	9.9	5.1	4.9	5.5	4.8
Population . . . . .	2,811,666	2,867,744	2,930,277	2,995,949	3,057,778	3,120,931

Sources: Bank of Mongolia; World Bank; National Statistical Office of Mongolia

(1) National Statistical Office of Mongolia, except otherwise indicated.

(2) Provisional figures subject to further adjustments.

(3) The following exchange average rates were applied: 2011 - MNT 1,265.53 = US\$1.00, 2012 - MNT 1,359.40 = US\$1.00, 2013 - MNT 1,527.72 = US\$1.00, 2014 - MNT 1,818.28 = US\$1.00, 2015 - MNT 1,969.42 = US\$1.00 and 2016 - MNT 2,145.52 = US\$1.00.

(4) Real GDP calculated at 2010 constant prices.

(5) Nominal GDP per capita calculated at 2010 constant prices.

(6) Bank of Mongolia.

(7) "External debt" includes external debt of and external debt guaranteed by the Government and the Bank of Mongolia, external debt of commercial banks and other sectors and direct investment according to the Bank of Mongolia.

## **Political and Electoral System**

Under the 1962 constitution, Mongolia was a single-party state in which the MPRP held a monopoly on political power. In May 1990, after the leaders of the MPRP resigned, the 1962 constitution was amended. The amended 1962 constitution legalized opposition parties, created a standing legislative body (Baga Hural, the then parliament) and established the office of the president. On July 29, 1990, Mongolia held its first multi-party election and elected representatives to the State Great Khural, Mongolia's first freely elected Parliament.

On January 13, 1992, Parliament adopted a new constitution (the "Constitution"), which established Mongolia as an independent, sovereign republic that guarantees the fundamental rights and freedoms of its citizens. The Constitution also restructured the legislative branch of the government by creating a unicameral parliamentary legislature. The Constitution was put into force on February 12, 1992 and amended in 2000.

On December 15, 2011, Mongolia's parliamentary election law was revised to ensure proportionality and gender equality in the election campaign. An electronic voting system was also introduced to ensure an efficient and fair election.

The revised parliamentary election law changed the electoral system from a majoritarian system, where the majority of parliamentary seats went to the party that received the largest number of votes, to a mixed-member proportional system. A mixed-member proportional system ensures proportionality in that the overall result is designed so that each party's share of parliamentary seats is proportional to its share of votes. For example, under the amended election law, 28 of 76 members of parliament shall be elected using a proportional system, based on votes cast for political parties, and the remaining 48 members will be individual candidates from single-member districts who have been nominated by their respective political parties. Voters shall be required to cast two votes: one for an individual candidate and another for a political party. A political party must obtain at least 5.0% of the total national vote for each parliamentary seat.

The revised parliamentary election law requires that women represent a minimum of 20% of the candidates nominated and approved for seats in Parliament. Under the amended election law, Mongolian citizens living overseas can cast their votes through a Mongolian embassy 15 days prior to the election date. Parliamentary elections on June 28, 2012 were the first to take place under the new parliamentary election law and were the first elections to use the new electronic voting system.

On December 25, 2015, Parliament enacted a new election law which (i) replaced and integrated the existing parliamentary election law, presidential election law and municipal elections laws, (ii) set forth principles and procedural regulations for the electoral system in Mongolia, and (iii) maintained the mixed-member proportionate system. However, in April 2016, the Constitutional Court ruled that the proportional representation element of the election law breached the Constitution and those provisions. Parliament further amended the new election law on May 5, 2016 to approve a majoritarian electoral system.

The most recent parliamentary elections took place on June 29, 2016. See "— Governmental Structure — Mongolia's New Majority Government" below.

## **Governmental Structure**

### ***President of Mongolia***

The President is the head of state, commander-in-chief of the armed forces and head of the National Security Council. Presidential candidates are nominated by political parties that have at least one seat in Parliament. Presidents are elected by absolute majority vote to serve a four-year term and are limited to serving two terms. The President is empowered by the Constitution to submit a proposal for the nomination of the Prime Minister, which is then subject to approval by Parliament, call for dissolution of the Cabinet, initiate legislation and veto all or parts of legislation passed by Parliament. A Presidential veto, however, can be overruled if it is rejected by two thirds of the members of Parliament present at the relevant Parliament session. The President may also issue decrees in conformity with laws on issues within its power. The President may also appoint judges and ambassadors, grant pardons and enter into international treaties.

The President can be removed if two-thirds of the members of Parliament decide that the President has breached the President's oath of office by abusing his or her power or by violating the Constitution. Mongolia has no Vice-President; therefore, in the absence, incapacity, or resignation of the President, the Chairman of the State Great Khural assumes the position of the President until a newly elected President is inaugurated.

The next Presidential elections are expected to be held on June 26, 2017.

### ***Executive Branch***

The Prime Minister is the head of the executive branch. The Prime Minister is nominated by the ruling party and confirmed by the President. They are limited to serving a four-year term. The Prime Minister chooses the members of the Cabinet, subject to Parliament's approval. The Cabinet appoints and removes deputy ministers on the basis of the proposal of the Prime Minister and the relevant Minister.

The Cabinet is the highest executive body of Mongolia. The Cabinet is in place for a four-year term or a shorter term when it is dissolved upon either resignation of the Prime Minister, simultaneous resignation of half of the Cabinet or parliamentary vote for dissolution. The Cabinet and its ministries are accountable to Parliament.

The main function of the Cabinet is to implement the laws of Mongolia, in accordance with its duties to direct economic, social and cultural development of Mongolia. The Cabinet has the power to, amongst other things:

- organize and ensure nationwide implementation of the Constitution and other laws;
- create and execute comprehensive policies on economic and social development, the State budget, credit and fiscal plans and the development of science and technology;
- elaborate and implement comprehensive measures on sector, inter-sector and regional development; and
- provide efficient leadership of central State administrative bodies and direct the activities of local administrations.

Prior to December 4, 2014, the Cabinet was composed of 16 ministries under the Prime Minister Norov Altankhuyag. After the resignation of Prime Minister Norov Altankhuyag and the appointment of the new Prime Minister, Chimed Saikhanbileg, Parliament approved an amendment to the Government Structure Law which reduced the number of ministries in the Cabinet to 15.

Under the new Government structure, the Ministry of Economic Development and the Ministry of Culture, Sport and Tourism have been dissolved. The responsibilities of the Ministry of Economic Development have been transferred to the Ministry of Finance and the Prime Minister. The responsibilities of the Ministry of Culture, Sports and Tourism have been transferred to the Ministry of Education, Culture and Science, the Ministry of Environment and Tourism and the Ministry of Health and Sports, respectively. In addition to these changes, the agriculture division of the Ministry of Industry and Agriculture has been removed and a new Ministry of Food and Agriculture has been created. Following the June 2016 elections and appointment of the new Cabinet, the number of ministries was further reduced to 13 due to the reorganization of the Ministry of Social Welfare and the Ministry of Industry under other preexisting ministries. As of the date of this offering memorandum, the ministries of Mongolia are as set forth below:

#### *Ministry of Finance*

The Ministry of Finance is the principal advisor to the Cabinet on Mongolia's fiscal policies. The Ministry of Finance is responsible for budget planning, monitoring government expenditure, formulating budget policies, including policies relating to debt management, taxation and customs, providing project financing and monitoring the financial markets.

#### *Ministry of Justice and Home Affairs*

The Ministry of Justice and Home Affairs is responsible for formulating legal policies, overseeing the enforcement of laws, regulations and judicial decisions and assisting the Cabinet in lawsuits involving the Government.

#### *Ministry of Mining and Heavy Industry*

The Ministry of Mining and Heavy Industry is responsible for forming and implementing strategies and policies for the mining and petroleum sector, issuing mining licenses and overseeing and monitoring other significant mining and petroleum projects.

#### *Ministry of Energy*

The Ministry of Energy is responsible for formulating and implementing policies on the energy sector with an emphasis on electricity and its supply, the central heating system and its maintenance and renewable energy. The Ministry of Energy is also responsible for overseeing and monitoring significant energy projects.

#### *Ministry of Road and Transportation Development*

The Ministry of Road and Transportation Development is responsible for devising and implementing policies regarding transportation and overseeing and monitoring significant transportation projects.

#### *Ministry of Construction and Urban Development*

The Ministry of Construction and Urban Development is responsible for developing and implementing policies relating to construction of residential and commercial buildings, manufacturing of construction materials and urban planning and overseeing and monitoring Government-initiated construction projects.

#### *Ministry of Environment and Tourism*

The Ministry of Environment and Tourism is responsible for formulating and implementing legislation and policies relating to environmental protection and sustainable development, carrying out programs for the protection and rehabilitation of the environment, overseeing national protected areas and conducting environmental assessments and research on environmental issues.

#### *Ministry of Foreign Affairs*

The Ministry of Foreign Affairs is responsible for formulating and implementing policies in relation to Mongolia's foreign relations, conducting researches on foreign countries and international organizations, monitoring the implementation of international agreements, assisting the Government in resolving international disputes and organizing diplomatic events and ceremonies.

#### *Ministry of Education, Culture, Science and Sports*

The Ministry of Education, Culture, Science and Sports is responsible for formulating and implementing policies relating to education, science and culture, administering the national entrance exams, providing support to regional educational agencies and issuing licenses to establish higher education institutions. It is also responsible for formulating and implementing policies to promote physical fitness.

#### *Ministry of Defense*

The Ministry of Defense is responsible for creating defense strategies, overseeing the military, provisioning Mongolia's armed forces, participating in international peace-keeping and humanitarian operations as well as other international cooperation operations.

#### *Ministry of Labor and Social Welfare*

The Ministry of Labor and Social Welfare is responsible for formulating and implementing policies relating to employment, including the reduction of the unemployment rate and the improvement of work conditions and labor compensation, providing assistance and guidelines to resolve major labor disputes among employees, employers, the government and labor unions and overseeing issues relating to Mongolia's labor force working in foreign countries and foreign workers working in Mongolia. The Ministry of Labor and Social Welfare is also responsible for promoting the development of small and medium sized factories and providing training to the labor force in order to increase the number of skilled workers in Mongolia's labor force.

#### *Ministry of Health*

The Ministry of Health is responsible for formulating and implementing health policies to ensure the availability, accessibility and affordability of quality health care services for all Mongolians, as well as providing medical equipment and medicines.

### *Ministry of Food, Agriculture and Light Industry*

The Ministry of Food, Agriculture and Light Industry is responsible for forming strategies and plans for agriculture and population food supply in Mongolia and formulating and implementing policies for food, agriculture and livestock husbandry industries, including value-added goods such as dairy products and cashmere.

### ***Legislative Branch***

The Parliament of Mongolia is referred to as the State Great Khural, which is the highest organ of state power. Parliament consists of 76 members elected through plurality-at-large voting for a term of four years. The most recent parliamentary election was held on June 29, 2016.

Parliament confirms the appointment of the Prime Minister and Cabinet ministers. Parliament has the power to enact and amend laws, approve the annual budget, approve foreign and domestic policies, declare states of emergency and war and ratify international treaties and agreements. Parliament meets twice a year with each session lasting a minimum of 50 business days. The fall session of Parliament is held between October 1 and February 10 and the spring session is held between April 5 and July 1.

Parliament elects a Chairman from its members. The Chairman serves as the speaker of Parliament, supervises the sessions of Parliament and is responsible for its voting procedures. The Chairman automatically becomes a member of the National Security Council.

Local legislatures are elected by the 21 aimags (provinces) and Ulaanbaatar, the capital city. See “Administrative Structure.” The most recent local legislature elections took place on October 19, 2016, with additional voting held on October 23, 2016 in certain areas due to lack of quorum. The MPP won a majority of the seats in the local legislatures of nine out of the 12 districts in Ulaanbaatar and 19 out of the 21 aimags, while the Democratic Party won majorities in the remaining three districts and two aimags.

### ***Judicial Branch***

The judicial system consists of a Supreme Court, the Administrative Court, a Constitutional Court, a Capital City Court (appellate level court), 21 aimag courts (appellate level courts), 28 intersoum courts (court of original instance) and a soum court (court of original instance). According to Article 48 of the Constitution, specialized courts such as criminal, civil, and administrative courts may be formed.

The Supreme Court, Mongolia’s highest judicial body, has the constitutional power to interpret all laws, except for the Constitution, and to review all lower court decisions on appeal. The Administrative Court is the only specialized court that reviews cases brought by individuals and legal entities against government authorities or officials to appeal any decisions made by such authorities or officials. The Constitutional Court reviews the implementation of the Constitution, determines the constitutionality of laws, regulations and decrees and governmental actions and resolves disputes concerning the Constitution. The Constitutional Court can invalidate laws, regulations, decrees, or other decisions or actions of the executive or legislative branch and international treaties entered into by Mongolia if they are deemed unconstitutional. Cases are brought to the Constitutional Court based on petitions received from Mongolian citizens, or at the request of Parliament, the President, the Prime Minister, the Supreme Court or the Prosecutor General.

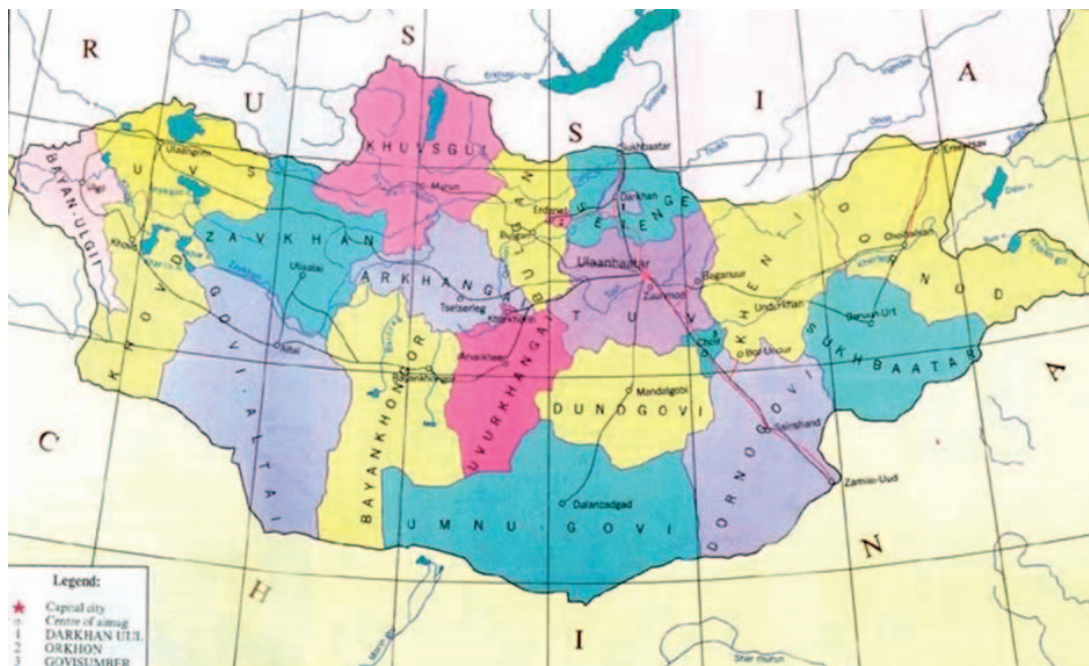


The Constitution provides for a Judicial General Council. Pursuant to the Law on Administration of Courts, the Judicial General Council is composed of five members, with three members from the judges of court of original instance, appellate level court and Supreme Court, respectively, one member from the National Bar Association, and one member from the Ministry of Justice and Home Affairs. All five members are appointed by the President. The Judicial General Council deals primarily with the selection of judges, budget, financing, human resources of Mongolian courts, protection of judges' rights and other matters concerning the independence of the judiciary.

### *Administrative Structure*

Mongolia is divided administratively into 21 aimags (provinces) and the capital city, Ulaanbaatar. Aimags are divided into a total of 329 soums (districts at the provincial level), which are further divided into baghs (villages, or sub-districts at the provincial level). The capital city, Ulaanbaatar, is governed as an autonomous municipality, independent of the Tov aimag in which it is located. Ulaanbaatar is divided into nine duuregs (districts), which are subdivided into 132 khoroos (sub-districts).

The policies of the Government are implemented through aimag governors, who are responsible for exercising administrative control at aimag level and formulating and implementing the region's own policies. The map below shows the 21 aimags of Mongolia and the capital city, Ulaanbaatar:



### *Political Parties and Previous Elections*

After the democratic revolution, one of the first acts ratified by the State Great Khural of 1990 was the Law on Political Parties, which authorized the formation of multiple political parties. Up until then, the unlimited political power of the current MPP was guaranteed by the 1962 constitution. There are currently 18 registered political parties, the two largest being the MPP and the Democratic Party.



In 1996, the Democratic Party won the majority seats in parliamentary elections and became the first political party to form the government other than the current MPP. In 2004, the current MPP and the Motherland Democratic Coalition formed Mongolia's first-ever coalition government. In 2006, a member of the Motherland Democratic Coalition joined the current MPP giving it exactly 50% of the seats in Parliament. The current MPP used this opportunity to withdraw from the coalition, and with the support of smaller political parties and some members of the Democratic Party who joined the current MPP, formed a new Government with Mr. Miyegombo Enkhbold being appointed as the Prime Minister.

In 2008, the current MPP and the Democratic Party formed a coalition government. In 2010, the current MPP changed its name to the MPP. The change of name was not supported by all members and led to the creation of the MPRP, headed by the former President of Mongolia, Mr. Nambaryn Enkhbayar. The MPRP was approved by and registered with the Supreme Court of Mongolia in June 2011.

On January 5, 2012, the Democratic Party announced its decision to withdraw from the coalition government formed with the MPP in 2008. The withdrawal by the Democratic Party left six Cabinet vacancies for the positions of Deputy Prime Minister, Minister of Finance, Minister of Health, Minister of Defense, Minister of Nature, Environment and Tourism and Minister of Road, Transportation, Construction and Urban Development. These positions were filled by members of the MPP, which was led by party Chairman, Mr. Sukhbaatar Batbold. The MPP was the ruling party until June 2012 when the Democratic Party won parliamentary elections. Mr. Sukhbaatar Batbold resigned shortly after the June 2012 parliamentary elections and the MPP party elected Mr. Enkhtuvshin Olziisaikhan, as his replacement. On October 30, 2013, Miyegombo Enkhbold was elected as the new Chairman for MPP and acted as the Deputy Director of Parliament.

During Mongolia's seventh parliamentary elections held on June 28, 2012, the Democratic Party won 31 parliamentary seats, the MPP won 25 parliamentary seats and the other parties shared 16 parliamentary seats in Parliament. The Democratic Party formed a coalition government with the Justice Coalition, which consists of the MPRP and the MNDP, and the Civil Will-Green Party, as the two minority parties. The MPP became the opposition party in Parliament. Then-President Elbegdorj was re-elected President of Mongolia in June 2013 and Norov Altankhuyag served as the Prime Minister of Mongolia. Following a request from MPP, Norov Altankhuyag was dismissed as the Prime Minister by Parliament on October 17, 2014. Chimed Saikhanbileg from the Democratic Party was appointed as the 28th Prime Minister of Mongolia on November 21, 2014.

The structure proposed by then-Prime Minister Chimed Saikhanbileg was ratified by Parliament on December 4, 2014, and consisted of 19 members, including the Prime Minister, the Deputy Prime Minister, the Minister of Mongolia (without portfolio), the Ministers of 15 ministries and the Head of Cabinet Secretariat. After the end of the Parliamentary session in August 2015, Parliament endorsed then-Prime Minister Chimed Saikhanbileg's proposal to remove the MPP from the coalition government. Six ministers were replaced at the conclusion of an extraordinary Parliamentary session in September 2015 with candidates from the Democratic Party, the MPRP and the MNDP.

### *Mongolia's New Majority Government*

General elections were held in June 2016 and subsequently, in July 2016, the new Cabinet, comprising 16 members, including the Prime Minister, the Deputy Prime Minister, the Head of the Cabinet Secretariat and Ministers of 13 ministries, was appointed. The following table sets forth certain information regarding the current Cabinet that was appointed in July 2016:

<b>Position</b>	<b>Name</b>	<b>Political Party</b>
Prime Minister . . . . .	J. Erdenebat	MPP
Deputy Prime Minister . . . . .	U. Khurelsukh	MPP
Head of the Cabinet Secretariat . . . . .	J. Munkhbat	MPP
Minister of Finance . . . . .	B. Choijilsuren	MPP
Minister of Foreign Affairs . . . . .	Ts. Munkh-Orgil	MPP
Minister of Environment and Tourism . . . . .	Ts. Oyunkhorol	MPP
Minister of Justice and Home Affairs . . . . .	S. Byambatsogt	MPP
Minister of Mining and Heavy Industry . . . . .	Ts. Dashdorj	MPP
Minister of Food, Agriculture and Light Industry . . . . .	P. Sergelen	MPP
Minister of Energy . . . . .	P. Gankhuu	MPP
Minister of Construction and Urban Development . . . . .	G. Munkhbayar	MPP
Minister of Labor and Social Welfare . . . . .	N. Nomtoibayar	MPP
Minister of Road and Transportation Development . . . . .	D. Ganbat	MPP
Minister of Defense . . . . .	B. Bat-Erdene	MPP
Minister of Health . . . . .	A. Tsogtsetseg	MPP
Minister of Education, Culture, Science and Sports . . . . .	J. Batsuuri	MPP

The following table sets forth the political parties in Parliament as of the date of this offering memorandum:

<b>Political Parties</b>	<b>Number of Seats</b>	<b>Percentage of Total</b>
Democratic Party . . . . .	9	11.8%
MPP . . . . .	65	85.5%
MPRP . . . . .	1	1.3%
Independent . . . . .	1	1.3%
<b>Total</b> . . . . .	<b>76</b>	<b>100.0%</b>

### **Legal System**

The Mongolian legal system established on the basis of the Constitution is a civil law system primarily based on the Romano-Germanic tradition. The Civil Code itself is modeled on major continental European codifications, in particular the German Civil Code. Several multilateral and development agencies and academics from various countries were involved in the drafting of the legislation.

The main sources of law in Mongolia are: (i) the Constitution, (ii) laws known as statutes in common law jurisdictions, (iii) international treaties to which Mongolia is a party, and (iv) other types of legislative acts within the framework of laws.

The Constitution is the supreme source of law in Mongolia. All laws, decrees and other decisions of State bodies, as well as the activities of other organizations and citizens must fully conform to the Constitution. Under the Constitution, the international treaties to which Mongolia is a party become effective as domestic legislation upon Mongolia's ratification or accession. Mongolia must fulfill in good faith its obligations under international treaties to which it is a party, but it shall not abide by any international treaty or other instruments incompatible with the Constitution. According to the Ministry of Foreign Affairs, Mongolia is currently a party to 289 international treaties and conventions.

In Mongolia, legislative acts include the following acts adopted at the central level: (i) parliamentary resolutions, (ii) presidential decrees, (iii) Government resolutions and ordinances, (iv) ministerial orders and instructions, and (v) orders and instructions of Government agencies. Legislative acts also include acts adopted at the local level, namely resolutions issued by the local parliaments and ordinances issued by the governors at various levels that include the capital city, aimags, soums and districts.

These local self-governing bodies have the power to make independent decisions on matters related to the socio-economic aspects of their respective territories, as well as to organize the participation of their population in solving problems of national security. Authorities of higher instance must not make decisions on matters under the jurisdiction of the local self-governing bodies. If any law or decision of a superior State organ does not specifically deal with a definite local matter, the relevant local self-governing body may independently make decisions on such local matter which must always conform to the Constitution.

## **Legal Reform**

Since 1990, the Government has implemented economic reforms aimed at transforming Mongolia from a single-party planned economy into a multi-party free-market democracy. The Mongolian legal system, however, remains at a nascent stage of development, and the approximate 1,600 laws enacted by the Mongolian Parliament since Mongolia undertook its transition to a market economy are often vaguely or ambiguously drafted. While Mongolia is rapidly developing, its legislative environment requires reforms in order to ensure consistency of laws, eliminate overlapping regulations and to more effectively address legal issues arising from cross border transactions.

### ***Laws Affecting the Mining Sector***

#### ***Minerals Law***

The first minerals law of Mongolia was adopted in 1997 (the "Minerals Law") and sets out the legal basis for mining in Mongolia. The Minerals Law was amended and restated in 2006 to introduce the concept of "strategic deposits" and granted the Government the right to acquire an equity stake of up to 50% in the entity that holds the mining license for such "strategic deposits" if the Government had contributed to the exploration of the "strategic deposit," and an equity stake of up to 34% if the Government made no contribution.

On July 1, 2010, Parliament adopted further amendments to the Minerals Law aimed at bringing small-scale miners into the mining legal framework. Pursuant to this amendment, small-scale miners may explore or extract minerals without a license. On November 25, 2010, Parliament adopted another amendment to the Minerals Law, which introduced a new surtax royalty applicable from January 1, 2011. The new surtax royalty replaced a windfall profits tax and imposed a surtax royalty on the total sales value of 23 types of minerals in addition to the standard flat-rate royalty that was previously

applicable. The rates of the surtax royalty vary depending on the type of mineral, its market prices and its degree of processing. The rates are significantly higher for copper than for other types of minerals. Rates are generally lower for processed minerals as the Government wishes to encourage mining companies to engage in value-added activities within Mongolia. The rates of the new surtax royalty vary from 1% to 5% for minerals other than copper, from 22% to 30% for copper, from 11% to 15% for concentrates and from 1% to 5% for final products. No surtax royalty is charged on any minerals below a certain threshold market price, which varies depending on the type of minerals.

Parliament adopted the State Policy on the Minerals Sector on January 16, 2014. The purpose of the State Policy is to establish a more stable investment environment, to introduce environmentally friendly, leading technology and innovation for a more sustainable and improved minerals exploration, mining, and processing capacity, to produce value added products, and to enhance the competitiveness of the minerals sector on the global markets.

Parliament amended the Minerals Law on January 24, 2014 to reduce the royalty rate from 10.0% to 2.5% with respect to the sale of gold to the Bank of Mongolia or other commercial banks authorized by the Bank of Mongolia. Such amendment also removed the surtax royalty requirement. In 2014, the temporary moratorium on the granting of exploration licenses was also lifted, and the tendering process for minerals exploration licenses was streamlined to ensure no licenses would be granted for exploration in designated restricted areas. A new online system was also established in January 2015 for minerals exploration license applications.

In February 2015, Parliament made further amendments to the Minerals Law to allow the Government to substitute its state ownership stake in mineral deposits, including the Government's stake in strategic deposits, in lieu of a special royalty rate. The amendment capped the special royalty rate at 5.0%.

#### *Renewed Law on Petroleum (July 1, 2014)*

The Renewed Law on Petroleum regulates petroleum activities as well as activities relating to non-conventional resources such as shale and methane gas. On July 1, 2014, Parliament passed the Renewed Law on Petroleum, which implemented international standards and improved transparency in the petroleum industry in Mongolia with the objective of protecting investors' rights. The law also supports local development by allocating portions of license fees, royalties and commissions to the local budget. Pursuant to the Law on Customs Tariffs and Customs Tax and Value Added Tax Law, during the first five years after its enactment, oil and gas, imported equipment, raw materials, chemical and explosives implementation in non-traditional oil and gas exploration are exempt from customs duty and VAT. In addition, oil, gas, coal and oil share producing equipment will be exempt from customs and VAT duty until 2018.

#### *Regulations Affecting Foreign Direct Investment*

On May 17, 2012, Parliament enacted SEFIL with the aim of tightening regulations regarding foreign participation in certain strategic sectors. Under SEFIL, mining, banking and finance and media and telecommunications sectors were designated as sectors of strategic importance to the national security and economic growth of Mongolia. Any entity operating in a strategically important sector was deemed to be a strategic business entity. Under SEFIL, an acquisition by a foreign investor of between 5% to 33.3% of the shares in a strategic business entity required the foreign investor to notify the Government of such acquisition, and an acquisition of more than 33.3% of the shares required notification to, and prior approval from, the Government. In the event a foreign investor intended to

acquire more than 49% of the shares in a strategic business entity, Parliament's approval was required. Under SEFIL, foreign state-owned enterprises (wholly or partially), international organizations and their affiliates were required to obtain the Government's approval regardless of the sector, in which such entity proposed to invest, and irrespective of the investment amounts.

Pursuant to SEFIL, an advance approval from the Government was required before a foreign investor may engage in activities in a strategic sector and before it may enter into certain transactions involving a strategic business entity. Such transactions included those (i) entitling a foreign investor to acquire one-third or more of the shares of a strategic business entity, (ii) entitling a foreign investor to veto the management decisions of a strategic business entity, (iii) establishing a buyer or seller monopoly in the international or domestic market for trading of mining-related raw materials or products, or (iv) decreasing the shareholding of a foreign investor in a strategic business entity.

SEFIL required the Government to adopt implementing regulations. However, uncertainties existed with respect to such implementations, which had a negative impact on foreign investment into Mongolia. For example, once SEFIL was enacted, license-issuing government agencies ceased transferring mineral licenses between or to foreign investors and ceased approving establishment of joint-ventures where one party was a foreign investor. Foreign investors criticized SEFIL and it was widely believed that such regulatory action played a role in reduced levels of foreign direct investment in strategic sectors, particularly the mining sector. Accordingly, foreign direct investment in Mongolia decreased from US\$2.1 billion in 2013 to US\$0.4 billion in 2014, primarily due to the decline of investment in the mining sector.

In an effort to increase transparency and encourage foreign direct investment, Parliament enacted the Investment Law on October 3, 2013 with effect from November 1, 2013. The Investment Law replaced SEFIL and the Foreign Investment Law of 1993. The Investment Law removed requirements for prior Government or Parliamentary approval of any private investments in certain designated strategic sectors of Mongolia (including the banking and finance, media and communications and minerals sectors) that were previously required under SEFIL. However, investors with foreign (direct or indirect) state ownership of 50.0% or more are still required to obtain approval from the National Development Agency when acquiring an interest of 33.0% or more in a company operating in one of the strategic sectors identified in the Investment Law.

The Investment Law provides for equal treatment of investors, whether domestic or foreign. It also provides for granting a tax stabilization certificate to any qualified investor with the aim of allowing such investor to obtain stable rates for a certain period. Qualification for obtaining such a certificate is based on the proposed investment amount, the proposed investment location in Mongolia (there is a lower minimum threshold for investment in rural areas) and the proposed industry sector of the investment. The term of a tax stabilization certificate would be subject to consideration of the foregoing factors as well as other factors, including job creation, introduction of new technologies and generation of export revenue. The Investment Law also allows investors in large projects (with total investment of MNT 500.0 billion or more) to enter into an investment agreement with the Government, which is expected to provide such investors with greater coverage beyond the tax stability coverage under the tax stabilization certificate. Uncertainty remains regarding the application and scope of the Investment Law as the implementing regulations have not been adopted by the Government except the regulation on Investment Agreement which was adopted by the Government in 2014. See "The Mongolian Economy — Taxation."

### *Law on Accession to Safety and Health in Mines Convention*

Parliament enacted the Law on Accession to Safety and Health in Mines Convention on July 3, 2015, under which Mongolia became a party to the Safety and Health in Mines Convention (an International Labor Organization Convention).

### *The State Policy on Energy*

The State Policy on Energy was adopted by Parliament on June 19, 2015. The main objectives of this policy are to ensure an uninterrupted and reliable supply of energy to meet the increasing energy demands of Mongolia and to transform Mongolia into an energy exporting country. The policy reviews the existing energy position and identifies the main policy direction, the key principles, and the strategic goals for each main direction and the objectives under each goal. The policy is expected to be implemented in two phases (between 2015-2023 and 2024-2030). During phase one, it is expected that TPP #5, the expansion of TPP #3, thermal power plants at Tavan Tolgoi, Baganuur and in the eastern and western regions and hydro-power plants at Egiin Gol and Khovd Gol will be completed. In addition, phase one includes plans for the construction of various power transmission lines connecting towns and cities and improving competitiveness in the energy sector.

The Government expects to review its tariffs and pricing policy to move towards free market principles. The Government intends to promote financial independence for power producers and expects to revise its tariffs accordingly.

### *Energy Laws*

In line with the State Policy on Energy, Parliament also amended the Law on Energy and the Law on Renewable Energy on June 19, 2015. The amendments to the Law on Energy introduced important concepts such as methane gas (as a type of energy) and participation of private sector in the energy industry, and clarified the roles and responsibilities of the relevant Government agencies to improve regulation of the energy sector. The amendments to the Law on Renewable Energy also addressed issues relating to subsidized renewable energy tariffs to support the production and supply of renewable energy, and broaden the powers of the Energy Regulatory Commission in this regard.

On November 26, 2015, Parliament adopted the Law on Energy Conservation which provides incentives to business entities to improve energy efficiency and requires certain energy consumers to implement measures to promote the efficient use and conservation of energy.

### *Budget Transparency Law*

On July 1, 2014, Parliament adopted the Law of Mongolia on the Budget Transparency Law, or “Glass Account Law” which was originally proposed by President Tsakhia Elbegdorj. The Glass Account Law became effective on January 1, 2015. Under this law, all government agencies and legal entities with state involvement are obligated to publicly disclose information relating to their use of financing and indebtedness through their websites and a central “glass account” website in a timely manner.

The aim of this law is to enable citizens to monitor and control the use of funds collected from taxpayers. Breaches of this law will be sanctioned with varying degrees of severity depending on the type of violation. For example, if an official of a state entity is found to be in breach of this law, both the official in breach and the official who appointed the breaching official to office, may be subject to disciplinary actions such as pay reductions of up to 20.0% for up to six months, dismissal from



public office with a one-year suspension from holding public office. Executive management members of private entities or public officials who violate the Glass Account Law may also be fined in an amount equal to 50 to 100 times the monthly minimum wage (MNT 240,000 as of January 1, 2017).

### ***Environmental Laws***

In 2009, Parliament passed the Law on Prohibition of Minerals Exploration and Mining in Protected Areas of Headwaters of Rivers, Water Basins and Forested Areas to limit environmental damage caused by mining in and around headwaters in rivers and lakes, protected water basin areas and forest basin areas. Licenses to explore or mine mineral resources located at a distance of not less than 200 meters from a water or forest resource were required to be retroactively revoked or modified within five months of the enactment of this law. Affected license holders were allowed to claim compensation from the Government for exploration expenses incurred or revenue lost from actual mining operations. However, the costs associated with rehabilitating the environment will be deducted from such compensation. In June 2011, the Ministry of Mining (presently the Ministry of Mining and Heavy Industry) announced its intention to initiate revocation on a gradual basis of approximately 1,800 mineral licenses beginning with the revocation of 243 gold exploration and mining licenses. Subsequently, on February 18, 2015 the Government amended the Law on Prohibition of Minerals Exploration and Mining in Water Basins and Forest Areas. This amendment permitted holders of licenses revoked under the earlier version of the law to apply to the Mineral Resource and Petroleum Authority of Mongolia (the “MRPAM”) to resume activity within three months of effect of the amendment. The Ministry of Environment and Tourism, the MRPAM and the governor of each respective aimag may contract with the license holder with regard reinstating these licenses and resuming these mining activities. In addition, this amendment requires the Government to provide a deposit 100% of the expenses of rehabilitating the affected areas. Since January 26, 2015, 1,245 exploration licenses have been issued.

On May 17, 2012, Parliament consolidated 18 existing environmental laws with eight new laws and introduced two new laws. Laws that were amended include the Law of Mongolia on Environmental Protection (the “EP Law”), the Law of Mongolia on Environmental Impact Assessment (the “EIA Law”), the Law of Mongolia on Forest (the “Forest Law”) and the Law of Mongolia on Water (the “Water Law”). Parliament also adopted the Law of Mongolia on Natural Resources Use Fee (the “Natural Resources Use Fee Law”) and the Law of Mongolia on Water Pollution Fees (the “Water Pollution Fees Law”). These laws were officially enacted or amended in May 2012 and came into effect in June 2012.

The main objectives of the EP Law are to reduce duplication and improve the quality of regulation, ensure responsible, environmentally-friendly and sustainable development, improve economic efficiency, introduce international standards in environmental auditing, introduce the “polluter pays” principle, increase public participation in environmental decision-making and secure funds for environmental protection.

According to the Ministry of Environment and Tourism, the known cost of damage caused to the environment to date as a result of non-regulation of the actions of business operators in the mineral extraction industry is estimated to be MNT 1.1 trillion. To address this concern, the “polluter pays” principle was introduced through the revised EP Law. Polluters are now liable for damage caused to the environment and natural resources. Their liability depends on the amount of environmental damage caused to the natural resource and is determined by an environmental assessor. A fine of two to five times the intrinsic value of the resource may be levied on the polluter. Each type of natural resource is assigned an intrinsic value, which may differ between the different regions in Mongolia.



Compensation is payable within 14 working days of the decision. Furthermore, under the revised EP Law, any organization whose activities involve the use of natural resources are required at their own cost to commission an environmental assessor to conduct an environmental audit every two years and to implement the recommendations proposed in such environmental audit. The monies collected from the enforcement of the polluter pays principle will be used to pay for the environmental damage.

The revised Forest Law imposes certain obligations on business entities which use forest resources and regulates their activities. The revised Water Law, the Natural Resources Use Fee Law and the Water Pollution Fees Law set out rules regarding the industrial use of water resources. Under the revised Water Law, a person who wishes to use water for industrial purposes must obtain a water use permit, enter into a water use agreement with the relevant Government body and pay fees for using and, if applicable, for polluting and diminishing water resources.

### ***Laws Affecting Property Rights and Urban Development***

Under Mongolia's Constitution, land is the property of the Government. Private ownership is limited to designated plots of land granted to Mongolian citizens by the Government and all land-related transactions must be authorized by the Government. Government-owned and privatized land have different permitted uses and regulations regarding what entities or individuals may use or own the land. Mongolian citizens and companies (including foreign invested companies) may be granted licenses for possession of land which are valid for up to 60 years and renewable for an additional 40 years. Land use licenses which specify the permitted usage of the relevant land and may be obtained by foreign entities in addition to Mongolian entities and citizens. Land use licenses may be issued for a certain time period and are renewable.

The Land Law, Urban Development Law and Housing Law are the main laws which govern urban planning and land ownership, possession and use. The Government is currently considering revisions to these laws to further promote urban development, city planning and land compensation for relocation.

### ***Amendments to the Land Law***

The Land Law was amended on June 19, June 26 and July 8, 2015. Parliament amended the Land Law to introduce the definition of "public utilization of land," which means usage of state-owned land in accordance with certain procedures. The Land Law was further amended to allow land to be expropriated for special purposes, including: (i) large-scale construction and infrastructure projects and programs of national significance and (ii) construction of waste processing plants for hazardous substances.

### ***Law on Redevelopment of Cities and Settlement Areas***

The Law on Redevelopment of Cities and Settlement Areas was enacted on June 26, 2015 to regulate the redevelopment of urban areas, planning and urbanization of ger districts and the redevelopment of projects that fail to meet standard health and safety requirements.

### ***Law on Pledge of Movable and Intangible Property***

On July 2, 2015, Parliament adopted the Law on Pledge of Movable and Intangible Property. This law is scheduled to become effective on March 1, 2017 and provides a legal framework for the registration and perfection of security over movable and intangible property and improved legal protection and transparency for creditors through an electronic registration system. It also sets forth the content requirements for pledges and procedures for enforcement.

### ***Amendments and Updates to the Law on Immovable Property Pledge***

On July 2, 2015, the Law on Immovable Property Pledge was amended to enable extrajudicial enforcement of land pledge agreements that meet certain formal requirements through the submission of a request to the relevant court to recognize a notarized statement. However, this amendment with respect to immovable property and land pledge agreements was suspended by the Constitutional Court of Mongolia on November 18, 2015 on the basis that it conflicted with certain constitutional rights with respect to bringing claims, the right to a court trial, and human rights and liberties.

On December 9, 2015, the Constitutional Court of Mongolia held that certain provisions of the Law on Immovable Property Pledge and the Civil Code conflicted with the immovable property ownership rights of citizens under the Constitution. Consequently, the Constitutional Court invalidated the requirement for a pledgor to obtain consent from the mortgagee for the disposition, second mortgage, or lease of mortgaged property. After this decision was issued, Mongolian commercial banks suspended the issuance of new mortgage loans.

In response to the Constitutional Court ruling in December 2015, and in order to protect the interests of secured lenders, Parliament amended the Civil Code and the Law on Immovable Property Pledge on January 19, 2016 re-instating the requirement for an owner or a pledgor to seek the obligee's or pledgee's consent before any transfer of ownership of pledged immovable property.

### ***Customs Tariffs and Customs Tax Law***

According to the Customs Tariffs and Customs Tax Law enacted in May 2008, Mongolia's customs tariff consists of general rates, most-favored-nation ("MFN") rates and preferential rates. MFN rates and preferential rates apply to goods from countries that are signatories to certain multilateral or international treaties on tariffs and trade to which Mongolia is a signatory. According to the Customs Tariff and Customs Tax Law, MFN rates must be approved by Parliament and general rates must be twice as high as MFN rates.

### ***Capital City Tax Law***

On June 19, 2015, Parliament adopted the Capital City Tax Law. The Capital City Tax Law imposes taxes on the sale of alcohol and cigarettes, the provision of hotel and resort services, and on services offered in restaurants and bars. The City Council of Ulaanbaatar has the authority to set the tax rate to up to 1.0% depending on the location and population size of a particular area within Ulaanbaatar. Accordingly, the City Council set a capital city tax of 1%. The law has been in effect since October 1, 2015.

### ***Value-Added Tax Law***

The Value-Added Tax Law was revised on July 9, 2015. In addition to introducing and revising key terminology and broadening the types of goods, work and services that are subject to VAT, the law increased the threshold for the requirement to register as a VAT payer from MNT 10.0 million to MNT 50.0 million of sales in an effort to support small and medium-sized enterprises. The existing VAT rate of 10.0% remains the same; however, there have been some changes in the types of goods, work and services that are exempted from VAT.

This law, which came into effect on January 1, 2016, was intended to incentivize taxpayers with the possibility of recovering up to 20.0% of taxes paid, subject to certain conditions. It further attempts to improve the system and procedures for collecting, processing and reporting data relating to the payment of VAT by creating a consolidated registration system. The Value-Added Tax Law was further amended on December 18, 2015 to exempt equipment for renewable energy research and production, including accessories and parts, from VAT.

### ***Law on Promotion of Economic Transparency***

On August 7, 2015, Parliament adopted the Law of Mongolia on Promotion of Economic Transparency, which became effective on the same day. The purpose of this law is to give one-time amnesty to individuals and legal entities that voluntarily declare their previously undisclosed assets and non-compliance or non-payments of duties, tariffs, and taxes, and shield such individuals and entities from possible administrative or criminal sanctions. Only transactions or events that occurred prior to April 1, 2015 are subject to these arrangements under this law. The deadline to submit a disclosure in order to be covered by the amnesty program was December 31, 2015, but was subsequently extended to February 20, 2016. Under the implementation of this law, a total of MNT 33.8 trillion in assets and income was declared, and a total of MNT 7.5 trillion in taxes and MNT 2.4 trillion in penalties were pardoned.

### ***Revised Arbitration Law***

On January 26, 2017, Parliament adopted the Revised Arbitration Law. The Revised Arbitration Law is based on the UNCITRAL Model Law on International Commercial Arbitration, as amended. The Revised Arbitration Law clarified existing regulations on arbitral tribunals operating in Mongolia. It also introduced new regulations with respect to jurisdiction of and venue for arbitral proceedings, interim relief, insolvency and the electronic signature of arbitration agreements.

### ***Laws Affecting the Criminal Justice System***

Mongolia passed the Law on Protection of Witnesses and Victims on July 5, 2013. This law established a witness and victim protection program. In addition, in 2014, the Ministry of Justice (presently the Ministry of Justice and Home Affairs) established a legal assistance center for criminal defendants with insufficient financial resources and Parliament passed the Law to Provide Legal Assistance to Financially Incapable Criminals on July 5, 2013, which has been in effect since January 1, 2014.

Parliament passed the Revised Criminal Code (“RCC”) on December 3, 2015, which expands the level of discretion available to judges when sentencing and imposing other sanctions. The effective date of the RCC has been postponed from September 1, 2016 to July 1, 2017. While Parliament is expected to enact the Revised Criminal Procedure Code and the Law on Court Decisions Enforcement before the RCC comes into effect, the timing of the implementation of these new laws is not specified. It is also unclear whether the RCC will be implemented in its current form.

## *Laws Relating to Fiscal Policy*

### *Budget Law*

Parliament adopted the Budget Law on December 23, 2011, which became effective on January 1, 2013. The most significant change introduced by the Budget Law is greater decentralization by clearly defining delegated functions among provincial and local governments. The Budget Law establishes budgeting principles and scope, clarifies expenditure and revenue categories, specifies the responsibilities of the bodies that participate in the budgeting process and improves budget transparency and accountability.

### *Amendments to the Budget Law*

With the passage of the Debt Management Law on February 18, 2015, the Budget Law was amended to reflect a new regime for managing Government debt and Government-guaranteed debt. These amendments require Government guarantees and foreign loans guaranteed by the State budget to be included in the State budget, which must be approved and ratified by Parliament annually. These new requirements increased the level of control and supervision over the State budget and disbursements of the proceeds from Government bond issuances. For example, beginning in 2015, the annual budget includes a list of projects funded by DBM that are intended to be refinanced by the State budget.

The Budget Law was further amended on October 30, 2015. According to this amendment, the Ministry of Finance was granted the authority to execute agreements accepting foreign grants and aid on behalf of the Government of Mongolia with a specific authorization from the Government. In addition, this amendment increased the amount of Government securities, including foreign currency-denominated securities, that may be issued in foreign markets to up to MNT 2.8 trillion. See “Mongolia — Legal Reform — Laws Relating to Fiscal Policy.”

The Budget Law was amended on November 10 and November 26, 2015. According to the amendment made on November 10, 2015, fully and partly State and locally owned legal bodies must submit their annual financial statements to state audit bodies by February 15 and submit their audited financial statements to their respective general budget governors and the Ministry of Finance by March 15. Additional minor technical amendments to the Budget Law were also made on November 10 and November 26, 2015. These amendments became effective on January 1, 2016, together with the Law on Development Policy and Planning.

The Budget Law was further amended on September 9, 2016. The amendment involved certain minor changes with regards to the powers of authorities that determine the budget allocation.

### *Fiscal Stability Law*

On June 24, 2010, Parliament approved the Fiscal Stability Law, which became effective on January 1, 2013, and has been amended from time to time. The Fiscal Stability Law provides for medium term to long term policies aimed at establishing a sound legal environment for the formulation and implementation of economic and fiscal policies.

Specifically, the Fiscal Stability Law establishes special budgetary requirements and fiscal management principles to stabilize the budget process. The special budgetary requirements, as originally established, are as follows: (i) budget revenue shall be calculated on the basis of prices forecast for key minerals, (ii) the budget deficit of any given year shall not exceed 5.0% of GDP in 2015, 4.0% of GDP in 2016, 3.0% of GDP in 2017 and 2.0% of GDP from 2018, (iii) the growth rate

of the total expenditure of the budget shall not exceed the higher of the growth rate of nominal non-mineral GDP for the given year or for the preceding 12 months, and (iv) the government's debt balance ("Government Debt Ceiling") calculated at net present value shall not exceed a certain percentage of GDP in each year. The Government Debt Ceiling is 58.3% of GDP for 2015, 55.0% of GDP in 2016, 50.0% of GDP in 2017 and 40.0% of GDP starting from 2018.

"Government Debt" includes (a) debt instruments issued by the Government of Mongolia, aimag or capital city payable to others; and (b) payments due under a Government debt guarantee incurred by law or contract. The Government's debt to GDP ratio is expected to be 81.0% for 2016. However, Government debt guarantees backed or secured by domestic Government bonds are excluded from the calculation of this Government Debt Ceiling. For example, in connection with the establishment of a US\$500,000,000 Global Medium Term Note Program by TDBM in April 2015, with notes unconditionally and irrevocably guaranteed (the "Government Guarantee") by the Government ("Guaranteed Notes"), as TDBM holds a position in Government bonds pursuant to the terms of a reimbursement agreement with the Government, for as long as the Guaranteed Notes are outstanding, the Government Guarantee will not be considered additional Government debt that would be added into the calculation of the Government Debt Ceiling.

The Fiscal Stability Law also creates a fiscal stability fund (the "FSF") with the aim of ensuring medium and long term stability of the unified budget of Mongolia. The FSF is to be established by 2020 and will be financed by various sources, including mining sector revenue in excess of that estimated in the budget, net budget surplus and the residual of the Government's reserve and risk funds of a given year. The amount of funds in the FSF must represent at least 5.0% of the GDP and can be used to finance the budget deficit during economic downturns. If the FSF represents more than 10% of the GDP, the president of the Bank of Mongolia and the Minister of Finance shall determine investments to be made from the excess amount of the FSF. Under the Fiscal Stability Law, a portion of the savings generated by the FSF may be used to finance domestic and foreign investments. In particular, the Government is allowed to use this money to purchase long term securities issued by the state-owned DBM.

#### *Amendments to the Fiscal Stability Law*

In May 2015, Parliament approved amendments to the Fiscal Stability Law. These amendments exclude from the calculation of the Government Debt Ceiling any loans or debt guarantee agreements through which the Government invests or receives a stake in an entity operating in the energy, railways, or mining sector, and where such loans and debt guarantee agreements are conditioned to be repaid from the proceeds of such entities. In addition, the Government Guarantees that are wholly backed or secured by domestic Government bonds are excluded from the calculation of the Government Debt Ceiling.

Following the elections in June 2016, the new Parliament enacted transitional changes to the Fiscal Stability Law to allow for temporary increases in the debt-to-GDP ratio. Furthermore, on September 9, 2016, amendments to the Fiscal Stability Law were made, which revised the debt ceiling limit to 88% of GDP in 2016, 85% of GDP in 2017, 80% of GDP in 2018, 75% of GDP in 2019, 70% of GDP in 2020 and 60% of GDP in 2021 and beyond. In addition, the budget deficit limit was revised to not exceed 5.0% of GDP in 2015, 18.5% of GDP in 2016, 9.9% of GDP in 2017, 7.5% of GDP in 2018, 5.5% of GDP in 2019 and 0.0% of GDP, or no deficit, from 2020. These changes are in line with the Government's aim of overcoming economic difficulties in the short-term and sustaining economic growth in the medium-term.

### *Debt Management Law*

On February 18, 2015, Parliament approved the Debt Management Law, which includes procedural guidance regarding how the Government incurs and manages its internal and external debt. The Debt Management Law redefined external state debt, Government debt and Government debt guarantees such that only debt incurred by the Government of Mongolia, aimags and the capital city, and payments under Government debt guarantees under law or contract would be included when calculating the revised debt ceilings under the Fiscal Stability Law. It also clarified the grounds on which the Government is permitted to incur debt as follows:

- financing the budget deficit;
- financing quarterly budget deficits;
- supporting the domestic market for Government securities;
- re-financing debt;
- financing state investment programs; or
- increasing the official net foreign reserves of the Bank of Mongolia for the purpose of facilitating the balance of payments.

The Debt Management Law states that the Government is permitted to issue a debt guarantee to DBM, state-owned entities and legal entities with domestic investment registered in Mongolia. Furthermore, Government debt guarantees may be given for the full amount of borrowings by state-owned DBM or up to 85% of borrowings by other eligible entities. However, if the obligor holds domestic Government bonds, the Government debt guarantee may be given up to the equivalent amount of domestic Government bonds held by the obligor.

The Debt Management Law also establishes procedures for managing Government debt and Government debt guarantees, including guarantee fees payable to the Government, documentation requirements for Government debt guarantees, annual risk assessment of Government guaranteed debt by the Ministry of Finance, notice and other procedural requirements in the event that a Government guarantee is called, and the establishment of a debt guarantee fund for payments due under the Government guarantee agreements with the relevant obligor and creditor.

The Debt Management Law allows the Government to issue government securities in international markets for the purposes of re-financing a budget deficit, re-financing debt, financing state investment plans, and increasing the foreign reserves of the Bank of Mongolia in support of the balance of payments. Such international issuance must also meet the following requirements:

- The issuance must be specified in the relevant year's budget law.
- The amount of the issuance must be within the debt ceiling of the relevant fiscal year approved by Parliament.
- The issuance must conform to the relevant strategy document.

Government securities are to be classified as either short-term with a maturity of less than a year, mid-term with a maturity of one to five years, or long-term with a maturity of more than five years.



### *Amendments to the Debt Management Law*

The Debt Management Law was amended on October 30, 2015. According to this amendment, debts under concession agreements to be financed by funds from the State budget or local budgets must be recorded in the central debt registry. Article 26.10 of the Debt Management Law provides for the adoption of a regulation with regards to the issuance and trading of Government securities on international markets; however, the Government has not yet adopted this regulation.

The Debt Management Law was further amended on September 7, 2016 to prohibit the issuance of municipal securities.

### *Law on Development Policy and Planning*

On November 26, 2015, Parliament adopted the Law on Development Policy and Planning. The purpose of this law is to plan, implement, monitor and evaluate various development policies of Mongolia, to determine the principles, rights, duties, and responsibilities of the relevant parties, and to create an integrated system of development policies. This law aims to ensure that Mongolia's national development policies will continue to be implemented consistently even upon changes in the Government administration. Under this law, political parties may develop action plans within the framework of the national development policy. The law took effect on January 1, 2016.

### ***Laws Relating to the Banking Sector***

#### *Central Bank Law*

The Law of Mongolia on Central Bank (the "Central Bank Law"), enacted on September 3, 1996 and amended on October 20, 2011, established the legal framework for the operations of the Mongolian Central Bank (also referred to as the Bank of Mongolia). The Bank of Mongolia was established in 1924 and its primary activities are formulating and implementing monetary policy, setting the amount and proportion of compulsory reserves of banks, granting credit to banks, issuing banking licenses, supervising the operations of Mongolian commercial banks, facilitating interbank settlements, and regulating foreign currencies. The Monetary Policy Board of the Bank of Mongolia is the monetary policy arm, which consists of the Governor, the First Deputy Governor, departmental directors and representatives from academia and financial sector. The Governor may also attend meetings of cabinet ministers and be consulted on issues related to the Mongolian banking sector.

The Bank of Mongolia uses Central Bank bills, repurchase/reverse repurchase transactions and overnight facilities to achieve policy targets. The Governor decides the amount of liquidity absorbed from or injected into the interbank market on a weekly basis.

#### *Banking Law of Mongolia*

Commercial banks and their activities are governed by the Banking Law promulgated in 2010. Within the context of implementing state policies for the protection and stability of the banking sector, Parliament enacted a new Banking Law effective from March 2010 as a revision and restatement of the previous banking law of 1996. The revisions to this law are aimed at tightening banking sector requirements through increased transparency, adequate monitoring and other preventative measures. In the Banking Law, commercial banks are defined as being state, privately or jointly owned, depending on the ownership of their paid-in capital; as joint-stock companies or limited liability companies; and as general or specialized banks, depending on the type of banking services that are provided.



### *Law of Mongolia on Deposits, Loans, and Transactions of the Bank and Authorized Legal Person*

The Law of Mongolia on Deposits, Loans and Transactions of the Bank and Authorized Legal Person in 1995 regulates deposit of funds with banks and legal persons authorized to carry out deposit-taking activity, conduct of transactions through the banks and legal persons authorized to conduct banking transactions, and operations of granting loan from and repayment of loans to banks and legal persons authorized to carry out lending activities. Under this law, banks are required to pay deposits at the depositors' first demand in accordance with the deposit agreements and pay interest on deposits in accordance with applicable laws and regulations.

### *Bank Deposit Insurance Law*

Parliament adopted the Bank Deposit Insurance Law on January 10, 2013. The Bank Deposit Insurance Law establishes a mandatory scheme to protect bank deposits. The Bank Deposit Insurance Law replaced the Law of Mongolia on Issuing a Guarantee for Savings Held at Banks adopted on November 25, 2008, which expired in November 2012. According to the Bank Deposit Insurance Law, Mongolian banks that are licensed to take deposits and collect bank service related fees or conduct payment settlement services are required to join a deposit guarantee scheme and pay applicable deposit guarantee fees to insure deposits placed with them. Coverage of deposits is limited to a maximum of MNT 20.0 million per depositor and is available to depositors in the event that the Bank of Mongolia requires the compulsory liquidation of the licensed bank holding their deposits.

Under the Bank Deposit Insurance Law, a deposit guarantee corporation was formed to operate the deposit insurance scheme and carry out the overall management of the deposit guarantee fund. A deposit guarantee fund was established from sources including initial contributions from the state budget, the Bank of Mongolia, deposit guarantee fees, income from sale of assets belonging to liquidated banks and bonds issued by the deposit guarantee corporation. The proceeds of the deposit guarantee fund can only be used for compensation payments to depositors, assistance to banks receiving deposits from liquidated banks, operational expenses of the deposit guarantee corporation and payments of the deposit guarantee corporation's principal and interest on loans borrowed or bonds issued. A national committee will be the highest authority governing the deposit guarantee corporation and the deposit guarantee fund.

On December 23, 2013, the Governor of the Bank of Mongolia and the Minister of Finance a joint Order No. A245/292 approving guidance for assessing the risks of banks and determined the calculation of the rate of deposit insurance fees, effective from January 1, 2014. In addition to an initial amount equal to 1% of the bank's paid-in capital, licensed banks pay deposit insurance fees calculated according to joint Order No. A2455/292 on a quarterly basis.

### *Law on Executing Domestic Settlement Transactions by National Currency*

The Mongolian Parliament enacted this legislation in 2009 to control fluctuations as a response to a sudden devaluation of the Tugrik. According to this law, all prices, settlements and advertisements within the territory of Mongolia must be conducted in Tugriks, thereby prohibiting the use of foreign currency for domestic transactions. The law also prohibits the indexing of Mongolian Tugrik contracts to any foreign exchange index. However, this legislation allows savings deposits, loans from bank and non-bank entities, other equivalent services, and derivative financial agreements and their obligations to be expressed and executed in foreign currencies.

### *Law on Non-Banking Financial Activities*

The Law on Non-Banking Financial Activities (2002) allows non-bank financial institutions to engage in lending, factoring, foreign currency exchange, electronic payments, remittance services, issuing of guarantees and payment instruments, investments in short-term financial instruments, trust services and financial and investment consultancy services. These activities must be licensed separately and are subject to prudential regulation by the Financial Regulatory Committee of Mongolia. Non-bank financial institutions are not allowed to accept deposits.

### *Law on Development Bank*

On February 10, 2011, Parliament approved the Law on Development Bank of Mongolia which provides the legal framework for the establishment and operation of DBM. DBM is mandated to finance large-scale development projects and programs to improve living standards in Mongolia and enhance Mongolia's economic competitiveness. In December 2016, the draft of the Revised Law on Development Bank was submitted to Parliament. The proposed Revised Law on Development Bank further clarifies the relationship between Parliament and the Government as regards the operations of DBM, encourages prudent governance, increases oversight of DBM's lending operations, reduces financing obtained from the Government and increases independence from the Government. These amendments are expected to more clearly delineate the decision making process and authority of the Government and DBM. As a result, DBM expects to change its business model in the future to reduce its lending. See "Monetary and Financial System — Financial System — Development Bank of Mongolia."

On February 10, 2017, Parliament approved the Revised Law on Development Bank of Mongolia. This Revised Law aims to strengthen DBM's governance and independence and to enable DBM to focus on commercially viable projects. The Revised Law also has provisions which increase (i) oversight from the Bank of Mongolia, (ii) transparency, and (iii) accountability and will be in force on April 1, 2017.

### *Revised Law on Accounting*

On June 19, 2015, Parliament adopted the Revised Accounting Law of Mongolia, which has been in force since January 1, 2016. It introduced the following changes:

- legal entities and organizations must follow (i) IFRS, (ii) IFRS for small and medium-sized entities or (iii) International Public Sectors Account Standards;
- legal entities and organizations must submit their financial reports electronically once or twice a year (instead of quarterly);
- some of the Government's functions in relation to certified public accountants are delegated to the Mongolian Institute of Certified Public Accountants;
- establishing an Audit and Accounting Standards Committee pursuant to an order by the Minister of Finance;
- providing that all types and forms of legal entities and organizations must record their transactions in Tugriks and prepare their financial statements in the Mongolian language; and

- providing that companies with one or more subsidiaries must prepare and submit a consolidated financial statement once or twice a year prepared in accordance with the applicable financial standards.

### ***Revised Law on Audits***

On June 19, 2015, the Revised Law on Audits (“Revised Audit Law”) was enacted by Parliament, replacing the Audits Law of 1997. The purpose of the law is to determine the principles of auditing activities, clarify the scope of services that an auditing entity may offer to clients and amend the types of business entities that are required to have their financial reports audited. It further regulates relations in respect of granting licenses to conduct auditing activity. The law aims to strengthen the independence and impartiality of auditing entities by prohibiting the engagement of auditing entities with clients in specific circumstances. Moreover, the Revised Audit Law protects the rights of shareholders to demand reports from auditing entities in relation to financial reports, financial status and operational efficiency of the entity concerned. The Revised Audit Law came into effect on January 1, 2016.

### ***Securities Market Law***

In 1994, the Securities Market Law of Mongolia (the “Securities Market Law”) was enacted. On May 24, 2013, Parliament enacted the Revised Securities Markets Law with effect from January 1, 2014. The purpose of the Revised Securities Markets Law was to introduce effective and clear guidance with respect to initial public offerings of shares and to define the distinction between primary and secondary securities market activities while providing measures preventing insider dealing and market abuses. In addition, the Revised Securities Markets Law imposes higher standards and registration requirements for securities markets participants as well as advisory service providers, including law firms and audit firms. The Revised Securities Markets Law defines securities broadly to include derivatives, depository receipts and warrants, and expressly permits over-the-counter trading of securities. The major provisions of the Revised Securities Market Law include, among others:

- allowing dual-listing by companies whose shares are listed on the Mongolian Stock Exchange (the “MSE”);
- expanding issuer’s responsibilities and disclosure requirements;
- clarifying the definition of “regulated operations” and subjecting persons engaged in regulated operations to license or registration requirements;
- allowing the issuance of depository receipts by a legal person authorized to conduct securities custodial services;
- introducing a clear legal-versus-beneficial ownership distinction and permitting trustee and custodial services to be provided to beneficial owners;
- laying out the framework for settling trades in clear terms based on a “T+3” system whereby securities trades are settled via delivery and payment within three business days after the trade is initiated;
- creating a legal framework for self-regulating organizations, such as the MSE and securities clearing, settlement, and depository organizations; and

- increasing individual liability for breaching the Securities Market Law.

## ***Laws Affecting the Political System***

### *Government Structure Laws*

In August 2012, Parliament approved the Government Structure Laws and amended the Law of Mongolia on the Government. The purpose of the Government Structure Laws is to restructure the Government in order to increase efficiency. The Government Structure Laws along with the amendments to the Law of Mongolia on the Government provide for the expansion of the number of ministries from 11 to 16 and a reduction of the number of Government implementing and regulatory agencies from 43 to 28. However, the total number of Government employees at the ministry or agency level was not reduced. On December 4, 2014, Parliament approved the new Government Structure Laws, according to which the number of the ministries was reduced to 15. Following the general elections held in June 2016, Parliament approved the new Government Structure Law on July 21, 2016, pursuant to which the number of ministries was reduced to 13.

### *General Administrative Law*

On June 19, 2015, Parliament enacted the General Administrative Law, which took effect on July 1, 2016. The purpose of this law is to reform the legal framework for regulating actions taken by administrative agencies or decisions, norms, actions, and agreements issued or taken by administrative agencies under public laws that affect citizens and legal entities. The law establishes procedures for the issuance of administrative decisions, acts, rules, and agreements. In addition, it establishes a mechanism for complaints against administrative actions for citizens and legal entities.

In connection with the enactment of the General Administrative Law, Parliament passed a revised Law on Administrative Procedure on February 4, 2016 which also took effect on July 1, 2016. The revised Law on Administrative Procedure provided further guidance on which administrative bodies and officials are subject to the jurisdiction of the administrative courts, introduced strategic or public interest litigation, and introduced special procedures for administrative acts or decisions with a broader or national impact and for disputes relating to elections and public procurement.

### *Law on Public Hearings*

On July 8, 2015, Parliament adopted the Law of Mongolia on Public Hearing to ensure the participation of citizens in public administration and governance. Citizens will be able to participate in drafting, approving, and implementing state policies. The law took effect on January 1, 2016.

## ***Laws relating to Industry and Production***

### *The State Policy on Industry*

The State Policy on Industry was adopted by Parliament on June 19, 2015. The main objective of the policy is to support and foster domestic businesses that are engaged in production of goods that can be exported, competitive, value added or based on innovative technology or may replace imported goods. Production related to mining and minerals concentration is not subject to this policy.

### *Law on Supporting Production*

The Law on Supporting Production was adopted on July 9, 2015 as part of the effort to support export-oriented domestic production of goods that are competitive, add value and are environmentally friendly. Under this law, the Government will support production by:

- subsidizing the difference between commercial interest rates on loans for technological updates and capital investments to manufacturers that export more than 30.0% of their output;
- providing one-time grants equal to 75.0% of the research and development costs incurred by a manufacturer of exports that creates efficient or innovative technology in Mongolia; and
- supporting export-oriented production through various export financing arrangements.

Support will primarily be provided to businesses engaged in the manufacturing sector or the production of value-added goods using domestic or imported raw materials. In addition, preferential treatment may be given to business entities that:

- are joint stock companies;
- source over 60.0% of their primary or secondary raw materials or other required goods, work or services from domestic suppliers; or
- are registered with the technology register database.

However, foreign-invested entities that have entered into an investment agreement with the Government and entities operating in the minerals sector will not be eligible to receive such support.

### *Amendment to the Law on the Procurement of Goods, Works and Services with State and Local Funds*

On July 9, 2015, Parliament amended the Law on the Procurement of Goods, Work and Services with State and Local Funds by including provisions prohibiting the selection of foreign suppliers in the event that goods can be supplied through domestic production, provided that those goods meet relevant quality and other standards. The Government is to approve the list of goods that must be purchased from qualifying domestic producers.

The prohibition will override the former prohibition on state and local authorities from restricting the participation of foreign entities in bidding for works with a budgeted cost of over MNT 10.0 billion and bids on goods and services with a budgeted cost of over MNT 100.0 million.

### *Social Welfare Law*

In January 2012, Parliament approved the revised Social Welfare Law. Under the previous Government, MNT 21,000 or approximately US\$11.8, a universal cash handout was given to every Mongolian citizen on a monthly basis pursuant to the Social Welfare Law. This practice ended in June 2012. The revised Social Welfare Law replaced the universal cash handout with financial and other assistance targeted at specific groups of people such as low income, handicapped and senior citizens. Pursuant to the revised Social Welfare Law, a social care fund was established. The social care fund

is comprised of funds allocated by the state and local budget, foreign and domestic grants and aids and other sources of income. The revised Social Welfare Law further provides for four types of social care activities: social care allowance, social care grants, social care services and social development services.

In the Government's 2014 budget, a total amount of MNT 549.8 billion was allocated to a Human Development Fund, in which MNT 240.0 billion was allocated to a child benefit fund. In 2014, cash handouts from the child benefit fund had been granted to a total of 994,159 children, which accounted for 33.2% of the total population. In 2015, cash handouts amounting to MNT 225.7 billion was granted from the Human Development Fund to a total of 1,027,600 children.

In September 2012, the Government of Mongolia adopted the Regulation for Granting Child Benefits from the Human Development Fund to implement the 2012-2016 Government Action Plan, which was approved by Parliament on September 18, 2012. Under the 2012-2016 Government Action Plan, benefits, such as cash handouts of MNT 20,000 (approximately US\$11.2) on a monthly basis, would be granted to children across the country. It was estimated that the 2012-2016 Government Action Plan will create 150,000 jobs and that approximately 968,000 children of ages 18 years and younger will receive the benefits provided by the 2012-2016 Government Action Plan.

Under the 2012-2016 Government Action Plan, the Government also initiated a national program of "Employed — Income to Mongolian Youth" with eight sub-programs for the purposes of promoting the growth of the national economy, expanding the manufacturing base, increasing employment opportunities and reducing unemployment and poverty rates. The local professional vocation centers and polytechnic colleges have established contractual relationship with more than 2,000 corporations as a result of which more than 6,000 employment opportunities were created.

The Government is also in the process of drafting a law on the development of the youth to promote the education process. The Government also seeks to alleviate high employment among the youth through several policy measures, including program for development of skills, support for new startups and incentives for employers to hire recent college graduates.

On January 1, 2017, an amendment to the Law on Social Welfare of Elderly Persons was implemented. This amendment provides monetary allowances to elderly citizens over the age of 65 twice a year. These allowances ranges from MNT 50,000 to MNT 250,000, depending on the age of the elderly citizen.

### ***Amnesty Law***

A new Law on Amnesty was enacted on August 11, 2015. Under this law, individuals who were sentenced for misdemeanor offenses for the first time, pregnant women or women with children under the age of three and single fathers, as well as individuals sentenced for administrative liabilities, among others, will be exempted from their remaining period of incarceration. In addition, all ongoing cases, investigations, charges and trials against individuals for crimes enumerated in the Amnesty Law will be dropped. The law covers crimes or acts that were committed before July 2, 2015. The Law on Amnesty is not applicable to certain criminal offenses including but not limited to corruption, abuse of authority, illicit usage of State funds, illegal acquisition of property, fraud and trafficking of narcotics.

### ***Law on the Future Heritage Fund***

Under the Law on the Future Heritage Fund, approved by Parliament on February 5, 2016, a fund for the benefit of current and future generations will be created and financed from a certain portion of the taxes imposed on the mining sector (the “Fund”). The Fund will be managed by the Future Heritage Corporation, a wholly state-owned entity, in line with an investment mandate approved by the Minister of Finance and an investment strategy approved by the board of directors of the Future Heritage Corporation. The law provides that no withdrawals, other than with respect to the operational costs of the Future Heritage Corporation, will be made from the Fund until 2030, and investments may only be made into portfolios outside of Mongolia. The law came into effect on January 1, 2017 and the Law on the Human Development Fund has been repealed.

### ***Measures against Corruption and Bribery***

Corruption and bribery are key threats to Mongolia’s economic growth and democratic governance. In an effort to address concerns regarding corruption and bribery, the Government has instituted a variety of measures and participates in international anti-corruption conventions, regimes and protocols, such as the Anti-Corruption Plan of the ADB and the United Nations Convention Against Corruption.

In July 2002, Parliament enacted the National Program to Combat Corruption. In 2005, the Government collaborated with the United Nations to attain goals established by the United Nations Convention Against Corruption. In July 2006, Parliament enacted the Anti-Corruption Law. The Anti-Corruption Law provides for the establishment of an independent anti-corruption agency with its own structure, special powers and functions. In 2007, the Independent Authority Against Corruption (“IAAC”) was established to educate the public, take measures to prevent corruption, examine the property and income declarations of officials and investigate corruption crimes. However, the Prosecutor General is in charge of taking the alleged corruption crimes to court. Within the framework of preventing corruption, the IAAC completed an anti-corruption training program throughout every government unit. Under the Anti-Corruption Law, members of Parliament and high-ranking public officials are required to declare their income and assets within 30 days of being elected. In November 2016, Parliament adopted a new National Program to Combat Corruption. The IAAC is developing an implementation plan for this program and expects that this program will be implemented over the next six years. The new National Program to Combat Corruption aims to prevent corruption by increasing the transparency of public services, appointment of civil servants and financing of political parties and elections, and increasing the transparency and independency of judicial and law enforcement authorities. It also aims to improve the management and oversight of public finances, including budget funds and proceeds from offshore loans. In addition, it aims to increase cooperation with the international community to combat corruption and implement recommendations and guidelines issued by relevant international organizations.

On January 19, 2012, the Parliament of Mongolia adopted the Law on Regulating Public and Private Interests in Public Service and Preventing Conflicts of Interest (the “CIL”) as a further step in Mongolia’s fight against corruption. The CIL came into effect on May 1, 2012. The CIL aims to prevent conflicts of interests arising from an official’s carrying out of public duties and his or her own private interests, and to regulate and monitor conflicts of interest in order to ensure that public service activities accord with the public interest and that transparency and faith in public services are maintained. The key features of the CIL are that it (i) provides a definition of “public official” and his/her related and affiliated persons; (ii) requires public officials to make declarations in respect of no conflicts of interest, and public officials and nominees for public office or public official roles to make declarations in respect of their private interests; (iii) introduces a number of restrictions



applicable to public officials during their term of office/service and following their release from public office/service; and (iv) deems agreements, contracts or licenses that were entered into or obtained in breach of law to be void. The CIL imposes a number of obligations and prohibitions on public officials during their term of office and two years after stepping down from public office or public service. A public official must also file a private interest declaration, which shall be accessible to the public, within 30 days of appointment or election into office and annually (by February 15 of each year) during his/her term of office/service.

According to the IAAC, as of December 31, 2014 and 2015, 38,423 and 39,853 public officials were required to submit their private interest and asset and income declarations, respectively. In 2015, 634 civil servants were released from the civil service due to their failure to report their private interests prior to the initiation of their service. The list of public officials required to report has not yet been released, but may decrease as a result of the Amendment to the “List of Certain Officials Required to Submit Private Interest and Asset and Income Declaration” adopted by Resolution No. 20 of the Legal Standing Committee of Parliament. With respect to a small number of public officials who failed to make the submission, the IAAC requested each individual official’s senior management to take disciplinary actions against them for non-compliance. The IAAC’s enforcement measures include issuing warnings, reducing such officials’ salaries and in some cases demoting such official.

Following the conclusion of an investigation, the IAAC delivers its recommendations to the Prosecutor General, who then decides whether to initiate criminal proceedings. For 2012 and 2013, 85 officials and 255 officials, respectively, had been charged with violating anti-corruption measures. In 2014, 2015 and 2016, the IAAC identified 367, 410 and 459 individuals who had violated certain anti-corruption measures. According to the IAAC, 239, 238 and 235 criminal investigations were initiated in connection with anti-corruption violations in 2014, 2015 and 2016, respectively.

In April 2012, the IAAC arrested former President Nambaryn Enkhbayar and charged him with corruption and abuse of power during his term as President. On October 23, 2012, former President Nambaryn Enkhbayar was found guilty of corruption and sentenced to four years in jail. After the case hearing, former President Nambaryn Enkhbayar’s attorney stated that he intends to appeal to the Supreme Court. Mr. Enkhbayar was subsequently prosecuted and sentenced to a 2.6 year term in prison. After serving less than a month of such term in prison and spending the rest of his prison term as a patient at a government hospital, Mr. Enkhbayar was granted a pardon and released from prison in August 2013.

In 2012, investigations against Mr. O. Chuluunbat, former Governor of the Bank of Mongolia, commenced, followed by legal proceedings in the United States and Canada. However, Mr. O. Chuluunbat is now deceased, and in September 2016, the IAAC recommended dismissal of this case under the criminal procedure law.

In July 2014, the IAAC commenced investigative proceedings under the Criminal Law against Mr. Shinebaatar Begzsuren, the former chairman of the Board of Directors of DBM, regarding an alleged of abuse of power and misappropriation of funds from DBM. This investigation is ongoing.

In November 2015, the IAAC commenced investigative proceedings under the Criminal Law with respect to bribery allegations made against Mr. Gankhuyag Shiilegdamba, the former Minister of Health and Sports, and in relation to Ms. G. Ganchimeg, the former State Secretary of the Ministry of Health and Sports. The IAAC has recommended criminal charges and conviction of Mr. Shiilegdamba and Ms. Ganchimeg.

In March 2016, following an IAAC investigation in relation to allegations of corruption against Mr. Luimed Gansukh, Senior Advisor to the former Prime Minister Mr. Norov Altankhuyag. Mr. Gansukh was sentenced to four and a half years of imprisonment. Pursuant to a Supreme Court decision issued on March 23, 2016, the term of this sentence was decreased to three years and six months. Former Prime Minister Mr. Norov Altankhuyag has been charged with abuse of power and illegal enrichment and investigations in relation to these charges are ongoing.

In August 2016, the IAAC commenced investigative proceedings under the Criminal Law in relation to Mr. Munkhbat Namjid, former executive director of DBM, regarding alleged abuse of power and misappropriation of funds from DBM. This investigation is ongoing.

Since September 2016, Mr. Batbayar Nyamjav, former Minister of Economic Development, has been under investigation in relation to allegations of abuse of power and the misuse and loss of state funds.

In January 2017, the IAAC commenced investigative proceedings in relation to previous findings of the working group established by the Joint Standing Committees (as described below) in January 2015, which alleged abuse of power and misappropriation of state funds or funds of DBM by certain former members of management of DBM. See “ — Draft Parliamentary Report.”

In addition, the IAAC is conducting ongoing investigations with respect to criminal allegations against Amarjargal Gansukh, the former Minister of Road and Transportation, Khaltmai Battulga, a former Member of Parliament and Dashjamts Arvin, a former Member of Parliament.

The Issuer holds a 51% interest in each of the Erdenet Mining Corporation and Mongolrostsvetmet Corporation, which were formerly joint ventures with Rostec (formerly Rostekhnologii), a Russian state owned entity on the Sectoral Sanctions Identification List of the U.S. Department of Treasury. On June 28, 2016, the day before the 2016 Parliamentary elections, then-Prime Minister Chimed Saikhanbileg announced that the shares in Erdenet Mining Corporation held by the Russian joint venture partner Rostec (formerly Rostekhnologii) would be sold to Mongolian Copper Corporation, which the Prime Minister stated is a Mongolian entity. Within this announcement, then-Prime Minister Chimed Saikhanbileg also stated that the shares in Mongolrostsvetmet Corporation held by Rostec would also be sold to Mongolian Copper Corporation. Rostec has since announced that the transactions have been completed and Rostec received the purchase monies from Mongolian Copper Corporation. Subsequently, the Cabinet since established a working group to investigate the process of the sale. The Cabinet working group’s report, which was submitted to Parliament, indicated that further clarification was needed on whether the Government’s actions relating to the sale and whether the subsequent change in management of Erdenet Mining Corporation were in compliance with Mongolian law. In November 2016, Parliament established a working group to further investigate the matter. On January 16, 2017, the Parliamentary working group submitted its recommendations and conclusions in a report to Parliament. The report’s findings included potential violations of the Issuer’s preemptive rights to purchase the 49% shares in Erdenet Mining Corporation and Mongolrostsvetmet Corporation and transparency as related to the financing for the transactions and the declaration and payment of dividends made by Erdenet Mining Corporation to certain Mongolian companies following completion of the transaction. The report recommended the nationalization of the 49.0% of the shares of each of Erdenet Mining Corporation and Mongolrostsvetmet Corporation. On February 10, 2017, Parliament approved a resolution to repeal and invalidate the previous Government authorization of the sale of Rostec’s 49% shares in each of Erdenet Mining Corporation and Mongolrostsvetmet Corporation to Mongolian Copper Corporation for US\$400 million. This

resolution also instructed the Government and the Bank of Mongolia to impose sanctions on the banks and individuals involved in the financing of these transactions. The Cabinet will be responsible for developing a plan for the enforcement of this resolution.

### *The AML Law*

The Law of Mongolia on Combating Against Money Laundering and Terrorism Financing (the “AML Law”) was adopted by Parliament on May 31, 2013, replacing similar legislation adopted in 2006. The purpose of the AML Law is to combat and prevent money laundering and terrorist financing by requiring Mongolian banks and certain other entities, including investment funds, real estate agencies and public notaries, to report “suspicious transactions” to the Financial Information Service (an affiliate organization of the Bank of Mongolia with the specific responsibility of combating money laundering and terrorist financing activities).

Although not defined explicitly, a transaction that is suspected or is known to have any connection to money laundering, terrorist financing or income gained through a crime is considered a “suspicious transaction” and permits the Financial Information Service to suspend and investigate such transactions. The AML Law clarified definitions of politically exposed persons, ultimate beneficial owners and specially controlled transactions. The AML Law imposed obligations on such financial institutions to have their customers verified with “know your customer” procedures. The AML Law introduced new concepts including “politically exposed persons,” “ultimate (beneficial) owner,” and “shell banks.” It also broadened the scope of the anti-money laundering activities by subjecting more institutions, such as public notaries, investment funds and real estate agencies, to the reporting obligations (“Reporting Entities”).

Further, the AML Law created the Financial Intelligence Unit at the Bank of Mongolia, which was mandated to collect and analyze information received from Reporting Entities and monitor implementation of the AML Law. Under the AML Law, Reporting Entities have an obligation to (i) verify customer information in certain circumstances, including prior to entering into monetary transactions, (ii) regularly report those transactions that exceed MNT 20,000,000.0 (approximately US\$11,500), (iii) strictly and closely monitor those transactions that require increased scrutiny, such as transactions made by or on behalf of politically exposed persons, and (iv) develop and implement internal monitoring programs to ensure compliance with the AML Law.

Further, Mongolian banks are prohibited from opening accounts at “shell banks” and are obliged to verify foreign banks prior to opening bank accounts.

According to the 40 Recommendations of the Financial Action Task Force, which is responsible for anti-money laundering measures and combating terrorism financing, all member states have agreed to implement such recommendations. As such, Parliament enacted amendments to the criminal law and also enacted amendments to the criminal procedure law on January 16, 2014 and these amendments took effect on February 19, 2014. According to the amendments, legal entities shall be criminally liable for criminal offenses committed by such legal entities. Therefore, both individuals and legal entities can be subject to criminal prosecution under the new amendments.

In addition, Article 166<sup>1</sup> of the criminal law was amended to define money laundering as a criminal act with intentional change, transfer or hide of the connection, source, location, and disposition method of assets, funds and cash sourced from criminal activities.

Also Article 166<sup>2</sup> and 166<sup>3</sup> of the criminal law were amended with respect to new criminal acts relating to illegal use of securities market and insider information for the purposes of selling and purchasing securities as well as disclosing such insider information to others with a goal to make a profit.

### **Draft Parliamentary Report**

In January 2015, the Parliamentary Standing Committee on Economic Affairs and the Parliamentary Standing Committee on Budget Affairs (together, the “Joint Standing Committees”) established a working group, consisting of members of Parliament representing the Justice Coalition, Democratic Party, MPP and an independent Parliament member, to prepare a report regarding the use of proceeds from the Chinggis Bonds and other bond offerings by DBM.

A preliminary draft of this report, which had not received the required majority support to be formally presented to the Joint Standing Committees, was leaked to the news media by several working group members in November 2015. The draft report contained allegations regarding the manner in which the proceeds of the Chinggis Bonds and the ¥30.0 billion bonds due 2023 issued by DBM have been disbursed by the Government and DBM to fund development projects in Mongolia, and included claims, among others, that certain projects were funded without appropriate authorizations and not in compliance with the Development Bank Law, applicable construction laws, public procurement laws and other laws and regulations, including those relating to the necessary preparatory works, consents and authorizations required to finance projects using these bond proceeds. In addition, the draft report contained allegations that certain projects financed by the Government or DBM were constructed at inflated costs and that the budgeted costs for certain projects did not accurately reflect the actual project costs. The draft report further alleged that certain financings did not comply with the recommendations of the National Security Council (a state council comprising the President, the Prime Minister and the Speaker of Parliament) that the financing of a single project or program should be limited to 33.3% of the total investment required and that projects financed should have a sound basis for repayment.

DBM, with the support of the Ministry of Finance, has contested the allegations in the draft Parliamentary report. At the meeting held by the Joint Standing Committees in December 2015, the draft report had not yet been finalized and discussion of the draft report by the working group, which was established in 2015, and Joint Standing Committees was postponed. The draft report has not been presented to Parliament and it remains uncertain when such report will be presented, and what information it will contain when finalized.

In August 2016, the Government formed a working group to replace the working group established in 2015 to assess and evaluate the current operations, financial position, lending practices and future challenges of DBM. This working group was led by the Vice Minister of Justice and Home Affairs, and comprised of members from the Ministry of Finance, Ministry of Justice and Home Affairs, and the Bank of Mongolia. The report from this working group recommended that DBM improve its (i) corporate governance and independence; (ii) internal audit and supervision through consultation with the Bank of Mongolia; (iii) financial health and prudential ratios by way of a capital injection; and (iv) lending practices with better evaluation of potential projects.

Subsequently, pursuant to Parliament Resolution No. 81 dated December 28, 2016, DBM transferred its loan portfolio to be repaid from the state budget to the Ministry of Finance and provided a capital injection of up to MNT 1.0 trillion to DBM from the Government.

On February 10, 2017, Parliament approved the Revised Law on Development Bank of Mongolia. This Revised Law aims to strengthen DBM's governance and independence and to enable DBM to focus on commercially viable projects. It also includes provisions which increase (i) oversight from the Bank of Mongolia, (ii) transparency, and (iii) accountability and will be in force on April 1, 2017.

The draft Parliamentary report included references to audit reports issued by the National Audit Office describing instances of non-compliance with the Development Bank Law and other administrative rules and regulations. The National Audit Office is the highest state organization responsible for conducting financial, performance and compliance audits of state organizations. The National Audit Office is independent from the Government, including the Cabinet, the ministries and the Government agencies under the ministries, and reports directly to Parliament. The National Audit Office submits final audit reports to Parliament, the audited organization and other relevant agencies. An organization that is the subject of a National Audit Office audit may need to take corrective measures in accordance with the audit report's recommendations and findings.

The 2013 audit report issued by the National Audit Office stated that feasibility studies for the Tavan Tolgoi power plant project and railway project had not been finalized, and that the blueprints and the budget proposal for the development of roads in and around Ulaanbaatar had not been finalized prior to the provision of financing. The 2015 audit report by the National Audit Office set forth the following five recommendations to the Prime Minister regarding DBM and project financing: (i) ensure Parliamentary approval is obtained for a list of projects and programs at each spring session of Parliament, (ii) consolidate interest from projects financed by the proceeds of the Chinggis Bonds to be repaid by the State budget into the State budget, (iii) manage risks associated with depositing unallocated funds deposited at local commercial banks to ensure availability for withdrawal, (iv) ensure compliance with the Development Bank Law and National Security Council recommendations in selecting projects to be financed by DBM, and (v) improve oversight of project implementation, evaluation and loan repayment collections. In addition, the National Audit Office issued the following four corrective orders to DBM: (i) improve payment collection procedures regarding an outstanding and overdue loan to the Mongolian Stock Exchange, (ii) comply with tariff requirements under Finance Resolution No. 188 with respect to business and travel expenses, (iii) conform DBM's internal structure and organization to the requirements of the Development Bank Law, and (iv) appoint an independent board member and conduct board meetings in compliance with the requirements under the Development Bank Law.

The Ministry of Finance has taken the National Audit Office's recommendations into consideration as it continues to implement and improve the relevant policies and procedures. DBM has considered the findings and recommendations provided in the National Audit Office's audit reports and has reviewed its administrative compliance procedures in light of this in an effort to continue to improve its internal processes and documentation of funding for infrastructure and development projects. DBM implemented changes, policies and procedures to address the specific corrective orders of the National Audit Office and submitted an implementation progress report regarding these matters to the National Audit Office on September 30, 2015. On December 20, 2016, DBM responded to the National Audit Office's request for additional information with a confirmation that DBM has taken all of the necessary corrective actions ordered by the National Audit Office.

The National Audit Office expects to submit the 2016 audit report to Parliament on April 1, 2017 which will also be made publically available.

In January 2017, the IAAC commenced investigative proceedings in response to the working group's and the Government alleging abuse of power and misappropriation of state funds or funds of DBM carried out by certain governing persons of DBM.

### **Human Rights**

Mongolia is a party to all United Nation Human Rights Conventions. An independent Human Rights Commission was established in 2001 and is supported by the United Nation Development Program. Mongolia is a party to more than 240 multilateral conventions, including international human rights treaties and conventions. On October 18, 2010, Mongolia signed a bilateral agreement with the Government of Macau, SAR to improve bilateral cooperation in preventing and suppressing human trafficking especially women and children. On March 13, 2012, Mongolia ratified the Second Optional Protocol to the International Covenant on Civil and Political Rights on the abolition of the death penalty. In 2015, Mongolia was elected as a member of the UN Human Rights Council for 2016 to 2018. Awareness of human rights, however, remains low in Mongolia and there is a continuing concern over the conditions of pre-trial detention centers and prisons.

### **Foreign Policy**

Since Mongolia's transition to democracy and a market economy, it has pursued an independent foreign policy. The main components of Mongolia's foreign policy are maintaining friendly and balanced relations with its two neighbors, Russia and China, and developing closer ties with other potentially strategic export and import markets ("Third Neighbor Policy"). Mongolia's economy is significantly influenced by Russia and China. Mongolia purchases nearly all of its petroleum from Russia and China is Mongolia's largest commodity export market. Furthermore, Mongolia's ability to integrate with the global economy is dependent on easy access and efficient transport links to seaports and gateways through Russia and China. Mongolia's Third Neighbor Policy is aimed at diversifying its political and economic dependence on its powerful neighbors by seeking closer ties with the United States, Canada, Australia, Japan, the Republic of Korea and the European Union and its member countries.

Mongolia participates as a member of several international organizations, including the Treaty of Amity and Cooperation in Southeast Asia, the Association of Southeast Asian Nations Regional Forum, the Pacific Economic Cooperation Council, the Shanghai Cooperation Organization, the Asian Cooperation Dialogue, the Asia-Europe Meeting, Economic and Social Council for Asia and Pacific, Group of 77, the International Criminal Court, IFC, ADB, European Bank for Reconstruction and Development, International Monetary Fund and the World Bank. Mongolia joined the United Nations ("UN") in 1961 and is ranked 28 among 116 nations that contribute troops to UN peacekeeping missions. Mongolia has recently acceded to the Asia-Pacific Trade Agreement ("APTA"). Mongolia is currently seeking to become a member of the Asia-Pacific Economic Cooperation ("APEC"), which promotes open trade and practical economic cooperation in the Asia-Pacific region. Membership to APEC is by invitation only and would allow Mongolia to have open trade with more nations. Russia proposed that APEC extends membership to Mongolia. As of the date of this offering memorandum, Mongolia is not a member of APEC.

In July 2016, Mongolia hosted the 11th Asia-Europe Meeting Summit of Heads of State and Government in Ulaanbaatar.

Mongolia joined the World Trade Organization (the "WTO") in 1997, and its trade policy objectives are aimed at developing an outward-oriented trade regime following the principles of the WTO, with the goal of increasing overseas market access for Mongolia's products through greater integration into



the world economy. Mongolia continues to encourage foreign direct investment into the country to expand output and employment and encourage the transfer of skills and knowledge. Mongolia maintains diplomatic relations with more than 164 countries and is actively engaged in negotiations at the multilateral, regional and bilateral levels to accomplish its policy objectives.

### *China*

According to a report issued by the Congressional Research Service under the United States Congress dated June 14, 2011, China is Mongolia's largest trading partner and one of the largest investors in Mongolia. Although diplomatic relations between Mongolia and China were established in October 1949, diplomatic and trade relations improved only in 1984 after the renewal of friendly relations between the former Soviet Union and China, which have historically influenced diplomatic relations between Mongolia and China. The border treaty was signed in 1962 followed by various agreements to improve trade relations. In 1986, agreements to create air and ground transport links were signed. In 1988, Mongolia and China signed a treaty on border control, which led to the removal of Russian troops from the southern borders of Mongolia.

In May 1990, then-Mongolian President Mr. Ochirbat Punsalmaa visited China. This was the first official visit by a Mongolian head of state to China in over 28 years. Since then, Mongolia and China have enjoyed regular high-level diplomatic visits, which have led to an increase in trade between the two countries. In 1991, China and Mongolia signed a transit agreement whereby Mongolia is permitted to use China's Tianjin port to transport goods. In 1994, China and Mongolia signed the Treaty of Friendship and Cooperation. In 2003, Chinese President Hu Jintao made his first international visit as president to Mongolia. In June 2010, Chinese Premier Wen Jiabao visited Ulaanbaatar to inaugurate a new Chinese cultural center, announced educational scholarships for Mongolians and discussed cooperation between the two countries on infrastructure projects.

In May 2011, the Bank of Mongolia and the People's Bank of China signed a bilateral local currency swap agreement in the amount of RMB5 billion/MNT 1.0 trillion for the purpose of stabilizing Mongolia's foreign exchange market and providing short-term RMB liquidity in the financial system. This agreement was amended in March 2012 to expand the scale of the swap from RMB5 billion/MNT 1.0 trillion to RMB10.0 billion/MNT 2.0 trillion. In August 2014, a new three-year swap agreement was signed for up to RMB 15 billion. More recently, the prime ministers of Mongolia and China agreed to increase of the swap line by RMB 5.0 billion to RMB 10.0 billion, which would result in a total available amount under the swap line of RMB 20.0 billion to RMB 25.0 billion, and discussions are currently underway, which is expected to be completed in the first quarter of 2017.

In July 2011, then-Prime Minister Mr. Sukhbaatar Batbold and Chinese Premier Wen Jiabao signed a strategic partnership agreement. They also oversaw the signing of eight other agreements between the two nations including agreements on economic and technical cooperation, expanding cooperation in the petroleum sector and an agreement of cooperation between the Government and the Export-Import Bank of China ("EXIM Bank of China").

In October 2013, then-Prime Minister of Mongolia Norov Altankhuyag paid an official visit to China, during which Prime Minister, Norov Altankhuyag, conducted official discussions with a number of central and provincial level government officials of China, including Xi Jinping and Zhang Dejiang, to seek regional cooperation possibilities and enter into a number of bilateral arrangements. The two countries agreed that establishment of the Sino-Mongolian strategic partnership was a milestone in developing bilateral relations and continuing cooperation was expected to promote and deepen the two countries' relationship.



After Xi Jinping's state visit in August 2014, then-President of Mongolia Tsakhiagiin Elbegdorj held a meeting with President of China, Xi Jinping, in Beijing on November 8, 2014 during the APEC Summit in Beijing, China. At the meeting, the two sides discussed potential methods of resolution for solving issues raised at an earlier trilateral meeting among the leaders of Mongolia, Russia and China. Then-President of Mongolia Tsakhiagiin Elbegdorj also had discussions with Chairman of the 12th NPC Standing Committee, Zhang Dejiang. Further to the discussions in August 2014, China and Mongolia plan to focus on issues concerning bilateral cooperation in the areas of infrastructure, energy and coal gasification, as well as meat supplies to China.

On November 10, 2015, then-President Tsakhiagiin Elbegdorj visited China, during which 11 new cooperation agreements were signed between Mongolia and China. Both sides announced the signing of a treaty aligning China's "One Belt One Road" initiative and Mongolia's "Steppe Road" plan, as well as supporting trilateral cooperation among China, Mongolia and Russia to complete drafting an agreement related to the China-Mongolia-Russia economic corridor. In June 2016, the Presidents of China, Mongolia and Russia signed the Economic Corridor Program Agreement. The framework of the Economic Corridor Program provides for the implementation of over 30 projects across various sectors, including infrastructure, energy and agriculture. In addition, Mongolia and China continue to negotiate cooperative efforts with respect to various infrastructure projects and the proposed opening of a free trade zone in Zamiin-Uud, along the China-Mongolia border.

### ***Russia***

Mongolia and Russia have a long history of joint uranium exploration. Between 1970 and 1990, the former Soviet Union discovered six uranium deposits with an estimated 1.5 million tons of reserves in Mongolia. In April 2008, Russia and Mongolia signed an agreement to cooperate in identifying and developing Mongolia's uranium resources. This agreement was aimed at restoring and consolidating Russia's involvement in Mongolia's uranium sector, notably in the Dornod uranium deposit. In January 2009, Mongolia and Russia announced a joint venture to develop the Dornod uranium deposit (the "Dornod JV"). Although the arbitration relating to the related mining and exploration license between Khan Resources Inc. ("Khan Resources") and the Government has concluded, the Dornod JV remains stagnant as of the date of this offering memorandum. See "— Litigation and Arbitration — Concluded Arbitration."

Mongolia and Russia signed a Joint Declaration of Cooperation and a bilateral trade agreement in 1991 and the two countries signed the Treaty of Friendship and Cooperation in January 1993. In 2000, Russia and Mongolia signed the Ulaanbaatar Declaration, a bilateral agreement that reaffirmed the political and economic relationship between the two countries. In December 2003, in order to encourage bilateral trade and investment ties between the two countries, Russia wrote off 97.8% of the outstanding debt of US\$11.3 billion accrued by Mongolia between 1946 and 1991. The balance of 2.2% was fully paid by Mongolia.

President Putin Vladimir made an official working visit to Mongolia on September 3, 2014. During this visit, President Putin and then-President Tsakhiagiin Elbegdorj signed 15 inter-governmental agreements and the two countries agreed to cooperate in various areas, including civil aviation, railway, finance and economy, justice, education and science, radio television, agriculture and immigration. From December 2014, Mongolia and the Russian Federation started a visa-free travel program. In addition, Mongolia has proposed building a gas pipeline through Mongolia to transport natural gas between Russia and China. It is expected that US\$1.0 billion will be required to carry out the construction of five pipelines for oil and gas. Preliminary feasibility studies were completed in

2016 with construction is expected to commence in 2017 to 2020. In June 2016, the Presidents of China, Mongolia and Russia signed the Economic Corridor Program Agreement. The framework of the Economic Corridor Program provides for the implementation of over 30 projects across various sectors, including infrastructure, energy and agriculture.

The Altanbulag Free Trade Zone opened in 2014. This free trade zone connects Mongolia with Russia and China and is a tax-free zone for goods and services.

### *Japan*

Mongolia established diplomatic relations with Japan on February 24, 1972. Japan is Mongolia's largest bilateral source of loans and grant assistance. In 2008, Japan extended an aid grant of ¥86.312 billion (US\$1,128 million), loan assistance of ¥67.914 billion (US\$887 million) and technical assistance of ¥30.511 billion (US\$399 million) to Mongolia. In 2008, Japan provided Mongolia with developmental assistance loan of approximately ¥28.8 billion (US\$376 million) for the construction of the Ulaanbaatar international airport. In March 2009, the Japanese government announced US\$50 million in new Japanese yen-denominated loans to be provided over two years to assist Mongolia with public finances. On November 19, 2010, then-Mongolian President Mr. Elbegdorj visited Japan and together with Japan's Prime Minister, announced the establishment of a strategic partnership to promote cooperation in policy, economy and culture between the two countries. In March 2012, the Foreign Ministers of both countries met and introduced new objectives to enhance foreign policy between Mongolia and Japan. In October 2012, the "Sun" bridge in Ulaanbaatar city was completed with the grant provided by Japan. In March 2013, Japanese Prime Minister Shinzo Abe paid an official visit to Mongolia. It was the first visit by a Japanese Prime Minister to Mongolia since August 2006. Then-Prime Minister Norov Altankhuyag then visited Japan in September 2013. Both sides pledged to boost their bilateral relations by cooperating at a higher level for their strategic partnership.

Then-Mongolian President Tsakhia Elbegdorj visited Japan from July 21-24, 2014 and met the leader of the Mongolia-Japan Friendship Group, Satsuki Eda, at the House of Councillors on July 23, 2014. Eda spoke of continuing the enhancement of inter-parliamentary relations. The Japanese side offered its full support to Mongolia in all aspects and noted the importance of the newly signed Mongolia-Japan Economic Partnership Agreement. Then-President Elbegdorj also met Heita Kawakatsu, Governor of Shizuoka Prefecture. Economic cooperation between Mongolia and Shizuoka Prefecture has increased in the recent years due to the number of processing plants in the prefecture. During the meeting, the two parties discussed Mongolia's personnel and engineer training issues in the coal industry. They also explored the possibility of connecting local authorities of Mongolia to governors of other prefectures in Japan. Later that afternoon, then-President Elbegdorj received the Vice President of the Friendship Exchange Council ("FEC") and Head of the Japan-Mongolia Culture and Economic Committee, Naohiko Ito. The FEC undertakes surveys for enhancing economic cooperation within the region, organizes training and meetings with representatives from the public and private sector of certain countries to discuss issues related to economy, cultural relations and partnership. Then-President Elbegdorj stressed the importance of providing information to the people of both countries about the ample opportunities which will become available through the Economic Partnership Agreement ("EPA"). He also expressed his faith that cooperation with the FEC will be fruitful for conducting joint research and projects. Afterwards, then-President Elbegdorj received the President of Nikkei Group, Tsuneo Kita. Kita invited then-President Elbegdorj to the annual Future of Asia conference. The conference attracts heads of state and governments of Asian countries, as well as famous politicians, scientists and representatives from international economic organizations including the International Monetary Fund. Then-President Elbegdorj also gave an interview to the Japanese newspaper, Nikkei Weekly. In July 2014, Japan and Mongolia reached a bilateral EPA. The

agreement was signed in February 2015 and took effect in June 2016. The goal of the agreement is to reduce and ultimately eliminate the tariffs on 96.0% of trade between the two countries over the next decade. Approximately 9,300 products are imported from Japan into Mongolia and 5,700 products exported from Mongolia to Japan.

Then-President Tsakhigiin Elbegdorj made an official visit to Japan in July 2014, and attended the Mongolia-Japan Business Forum to promote business and investment cooperation between the two countries. The forum was co-hosted with the Japan Business Federation and the Japan Trade Organization. The Ministry of Foreign Affairs of Mongolia organized a meeting on export loans by Japan Bank International Cooperation (“JBIC”) and Mongolia-Japan Economic Partnership between Private Sectors on January 12, 2015. The meeting was hosted by the Ministry of Foreign Affairs in advance of then-Prime Minister Chimed Saikhanbileg’s visit to Japan in February 2015. During then-Prime Minister Chimed Saikhanbileg’s visit to Japan, the two governments officially signed the Economic Partnership Agreement on February 10, 2015. Then-Speaker of Parliament Mr. Zandaakhuu Enkhbold made an official visit to Japan in February 2015 and met with Japan’s Prime Minister, Shinzo Abe. Then-Speaker Z. Enkhbold asked the Prime Minister of Japan to recommend Japanese companies interested in participating in railway construction projects in the eastern region of Mongolia, where the Japanese company Nippon Steel has already offered to supply Mongolia with rails for the construction.

In October 2016, Prime Minister Erdenebat made an official visit to Japan. During this visit, the Prime Ministers of Mongolia and Japan agreed to establish a medium term program to foster the strategic partnership between the countries and corporations from the two countries signed a letter of intent for exporting coal from Mongolia to the Japanese market.

### ***Republic of Korea***

Mongolia established diplomatic relations with the Republic of Korea on March 26, 1990. According to a census conducted in 2010, approximately 30,000 Mongolians lived in the Republic of Korea and approximately 1,500 Koreans from the Republic of Korea resided in Mongolia. Under a bilateral agreement signed in 2006, citizens of each country residing in the other were exempted from otherwise mandatory contributions to the national pension plans of the country of residence. In 2014, bilateral trade between Mongolia and the Republic of Korea totaled approximately US\$366.3 million and investments from the Republic of Korea in Mongolia totaled approximately US\$44.7 million. More recently, the Republic of Korea and Mongolia have jointly established a US\$300.0 million concessional loan fund to fund health, transportation and education sectors in Mongolia and approximately US\$105.6 has been provided from this fund. In July 2016, the President of Korea paid an official visit to Mongolia and parties agreed to initiate within the year joint research on a potential EPA.

### ***United States***

The United States recognized Mongolia in January 1987 and established a United States embassy in Ulaanbaatar in 1988. A bilateral trade agreement was signed in January 1991 and a bilateral investment treaty was entered into in 1994. In July 2004, the United States signed a Trade and Investment Framework Agreement with Mongolia to promote economic reform and increase foreign investment into Mongolia. United States Vice-President Joseph Biden’s visit to Mongolia in August 2011 coincided with the 25th anniversary of diplomatic relations between Mongolia and the United States. During the visit, United States Vice-President Biden, then-Mongolian President Elbegdorj and then-Prime Minister Mr. Sukhbaatar Batbold discussed the removal of trade barriers and tariffs and the

provision of technical assistance by the United States in the area of Mongolian aviation. The United States Secretary of Defense, Mr. Chuck Hagel, paid an official visit to Mongolia on April 10, 2014 and a joint statement on directions and goals of the bilateral security cooperation between the two countries was signed.

The Parliament of Mongolia ratified the U.S.-Mongolia Transparency Agreement, which is an important milestone in the U.S.-Mongolia trade relationship, on December 8, 2014. On January 19, 2016, the United States and Mongolia signed a letter confirming satisfaction of their respective legal requirements and procedures for the implementation of the U.S.-Mongolia Transparency Agreement. It is expected to take effect on March 20, 2017. The “Agreement on Transparency in Matters Related to International Trade and Investment between the United States of America and Mongolia” applies to matters relating to international trade and investment and includes joint commitments to provide opportunities for public comment on proposed trade-related laws and regulations and to publish final laws and regulations. It includes an obligation to publish final laws and regulations in English, which should make it easier for U.S. and other foreign enterprises to do business in Mongolia. The Transparency Agreement also commits the two parties to ensuring that administrative agencies apply fair, impartial and reasonable procedures and that persons affected by the decisions of administrative agencies have a right to appeal those decisions. Additional commitments address the application of discipline for bribery and corruption.

### *India*

In December 1955, India became the first country outside the former Soviet Union to establish diplomatic relations with Mongolia. An India-Mongolian Joint Declaration was issued following then-Mongolian President Yumjaagiin Tsedenbal’s visit to India in 1973. In 1994, the Treaty of Friendly Relations and Cooperation was signed during then-Mongolian President Punsalmaagiin Ochirbat’s visit to India. In 1996, during the visit of Indian Vice President, K. R. Narayanan, the Agreement on Trade and Economic Cooperation between India and Mongolia was signed in respect of customs duties and taxes on imports and exports.

In September 2001, Indian Minister of Information Technology, Pramod Mahajan, visited Mongolia and established the Atal Bihari Centre of Excellence and community information centers in five Mongolian provinces. In 2005, India agreed to establish five additional community information centers in five aimags. These centers provide improved communication channels between rural areas and Ulaanbaatar.

During the Indian President’s visit to Mongolia in July 2011, multiple agreements relating to defense, economic planning and development, education and innovation were signed between Mongolia and India. The Indian government has also entered into a US\$20 million loan agreement with Mongolia to fund the establishment of a center for information technology and outsourcing in Ulaanbaatar. Approximately US\$440,500 was disbursed from external loans to fund this project in 2015. India has provided financial assistance to Mongolia to develop its agriculture and dairy sectors as well as to advance Mongolia’s information technology.

In May 2012, India and Mongolia signed a memorandum of understanding with respect to the allocation of coking coal mines to India, which was expected to be utilized for the steel plant that India proposed to establish in Mongolia with production to be exported to India through Chinese ports. According to the Ministry of Mining and Heavy Industry, India has sent an initial proposal to Mongolia, which is currently under consideration.

In May 2015, India's Prime Minister Narendra Modi made an official state visit to Mongolia. It was the first ever visit by a Prime Minister of India in the history of the bilateral relations between the two countries. During the visit, Prime Minister Narendra Modi announced that India will provide Mongolia with a credit line of up to US\$1.0 billion to improve Mongolia's infrastructure and economy. Officials from both countries also signed 14 agreements in areas such as policing and surveillance, air services, cyber security, renewable energy and civil nuclear regimes during the state visit. The Minister of Finance signed a Memorandum of Understanding with the Arab CIB Finance Group to establish a US\$1.0 billion Investment Fund in Mongolia. The Investment Fund will provide financial support for major projects on infrastructure development in Mongolia.

### ***International Agreements***

Mongolia acceded to the WTO on January 29, 1997. The WTO agreements, such as Agreement on Agriculture and Agreement on Trade-Related Investment Measures, have been largely incorporated into Mongolia's domestic law. Mongolia has complied with the General Agreement on Tariffs and Trade ("GATT") 1994 upon its accession to the WTO. The majority of Mongolia's tariffs are set at 5% with a ceiling of 20%. Mongolia was also committed to eliminating, within ten years of the date of its accession, an export duty at the rate of not more than 30% ad valorem on the export of raw cashmere. Accordingly, the export duty on raw cashmere was eliminated in 2009.

Mongolia is a party to several other international treaties, including protection of environment, free trade, protection of foreign investments and avoidance of double taxation. Mongolia has also ratified a number of international conventions namely the Treaty on the Civil and Political Rights (New York, 1966) and the Treaty on Economic, Social and Cultural Rights (New York, 1966).

Mongolia has entered into a "Foreign Investment Protection and Promotion Agreement" with approximately 43 countries which offers protection to foreign investors. Mongolia is a party to the convention on the Settlement of Investment Disputes between States and Nationals of Other States. Mongolia is a full member of the Multilateral Investment Guarantee Agency ("MIGA") of the World Bank Group, since January 1999, and investors are eligible for risk insurance through MIGA.

Mongolia is currently negotiating a Transit Transport Framework Agreement with China and Russia to aid the transit of Mongolian products through Russia and China to other countries. The Government believes that this will improve transit efficiency of Mongolian exports in the north-east Asian region and increase competitiveness of Mongolian products in the international markets. Mongolia is also performing feasibility studies with respect to additional free trade agreements with China, South Korea and the Eurasian Economic Community.

As of the date of this offering memorandum, Mongolia has signed trade agreements with 78 countries.

### **Technical and Financial Assistance**

Mongolia has been a member of the United Nations since 1961 and is a member of many other international organizations, including the United States Agency for International Development ("USAID"), ADB, United Nations Development Program, United Nations Industrial Development Organization, Japan International Cooperation Agency, World Bank and the WTO. In 2011, Mongolia was categorized as a developing member country of World Bank and ADB, which gave Mongolia access to more concessional lending from International Bank for Reconstruction and Development of World Bank and to the ordinary capital resources of ADB.



From 1991 to 2016, Mongolia borrowed over US\$3.6 billion from international financial institutions, banks and bilateral partners, including ADB, World Bank, IMF, China and Japan. Prior to 2012, these borrowings were long-term borrowings for the development of Mongolia's infrastructure, energy, social and financial sectors. In 2016, World Bank and International Financial Corporation invested US\$200.0 million and US\$470.0 million, respectively, in the private sector in Mongolia.

Between 1991 and 2011, USAID granted assistance to Mongolia exceeding US\$220 million. USAID's good governance program continues to focus on anti-corruption activities that include assistance to Mongolia's IAAC, building citizen awareness of corruption issues and improving judicial processes of commercial adjudication. In June 2011, USAID commenced a US\$18.2 million five-year "Business Plus Initiative" project aimed at supporting the private and financial sectors of Mongolia. The project has three components: improving the business environment, developing private sector capacity and competitiveness, and supporting financial sector capacity.

In 1991, Mongolia joined the ADB, and as of the end of 2015, has approved approximately US\$1.92 billion in assistance. In 2007, Mongolia became eligible to receive the Asian Development Fund ("ADF") grants. As of 2015, Mongolia has received 20 loans totaling US\$728.3 million, 11 grants totaling US\$102.5 million and 40 technical assistance projects totaling US\$36.5 million. In 2015, ADB increased its commitment by approving an additional US\$297.5 million focused on job creation, social protection and climate change. In 2016, borrowings from ADB amounted to US\$300.0 million. In 2016, the Government implemented a social welfare support program with US\$150.0 million from ADB, with the goal of maintaining social welfare programs, improving fiscal management and consolidating social welfare programs.

The Millennium Challenge Corporation (the "MCC") is an independent U.S. foreign aid agency founded in 2004. The MCC provides financial support to developing countries that are performing above the median in their income peer group on key indicators such as investing in the development of their people and encouraging economic freedom. MCC-eligible countries propose projects intended to significantly reduce poverty in their countries through stimulating economic growth. The Millennium Challenge Compact ("MCC Grant") is a grant given by the MCC to countries that pass MCC's eligibility criteria. Once an MCC Grant has been given, a Millennium Challenge Account ("MCA") is set up in the developing country to manage and implement all aspects of the MCC Grants. The MCA and the MCC Grant are administered by the MCC.

On October 22, 2007, Mongolia and the United States signed a five-year US\$285 million MCC Grant for four projects relating to rail modernization, property rights, vocational education and health. The rail modernization program was initially contemplated to be undertaken by Ulaanbaatar Railway Mongolian- Russian Joint Venture ("UBTZ"), in which the Mongolian and Russian governments are both shareholders holding an equal percentage of shares in the company. However, Russia's refusal to take part in Mongolia's rail modernization program led to the Mongolian Railway Corporation, an entity wholly owned by the Government, being commissioned to undertake the program. The refusal by Russia to co-operate in implementing the rail modernization program will not have any impact on the planned program. Following this event, the Government had also proposed that the rail project funds be reallocated to different projects and had requested additional funds for road and bridge construction, energy and environmental projects. The Government's request was approved by the MCC and the MCC Grant between the two countries was formally amended in January 2010 and ratified by Parliament in February 2010. In December 2014, as a result of its contribution towards enhancing governance, Mongolia was declared eligible for a second MCC Grant, and the terms are currently under negotiation between Mongolia and the United States. With an aim towards promoting

investment and private sector development, MCC will consider the effectiveness of the first grant when deciding whether to award a second MCC Grant as well as the extent of democratic policy development and implementation. MCC's annual policy indicator scorecards are a compilation of the Government's performance statistics measured against internationally accepted standards.

The European Bank of Reconstruction and Development started operations in Mongolia in 2006 and as of December 31, 2015, it has financed 81 projects with cumulative disbursements in the amount of €1,353.0 million (US\$1,534.6 million) to the private sector. In 2016, it disbursed loans in the amount of €1.4 billion (US\$1.5 billion) to the private sector.

In June 2006, Parliament provided in-principle approval to the Ministry of Finance to borrow US\$500 million from the EXIM Bank of China. The loan, which is to be funded over a period of 20 years, will be used to build roads and flyovers and to establish food processing factories for meat, milk and flour and to buy small tractors and a grain elevator. Interest will be charged at 2% and repayment will commence after the seventh year. The Government decided to allocate US\$235.0 million out of the US\$500.0 million to finance infrastructure projects. In its cabinet meeting on May 10, 2014, the Government further decided to allocate US\$193.0 million out of the US\$235.0 million to be spent on the Gudamj Project for the construction of six highways as well as the construction of Yarmag Bridge.

As part of the process of translating the principles and policies of the Agenda 2030 for Sustainable Development into a national strategy, Mongolia articulated its development vision in "Mongolia Sustainable Development Vision 2030," which was approved by Parliament in February 2016. Meanwhile, the United Nations Development Assistance Framework ("UNDAF") 2017-2021 for Mongolia has been designed as an integrated program that fosters cooperation, enhanced coordination and strengthened partnerships in support of efforts to attain the "Mongolia Sustainable Development Vision 2030." During the next five years, Mongolia and the UN intend to cooperate in the following three strategic priority areas: (i) promoting inclusive growth and sustainable management of natural resources; (ii) enhancing social protection and utilization of quality and equitable social services; and (iii) fostering voice and strengthening accountability. The effective implementation of the UNDAF 2017-2021 is expected to contribute to the achievement of the national development objectives of Mongolia.



The following table sets forth Mongolia's affiliations with major international financial organizations as of the end of 2016.

<u>Name of organization</u>	<u>Date of affiliation</u>	<u>Mongolia's subscription</u>	<u>Amount paid in by Mongolia</u>	<u>Mongolia's outstanding borrowing</u>	<u>Type of funding</u>
USAID . . . . .	1991	Not applicable 1,596 shares (15.96 million SDR equivalent)	Not applicable	Not applicable	Grant based
ADB . . . . .	1991	—	US\$83,000	406.5 million SDR	SDR
MCC . . . . .	2004	Not applicable	Not applicable	Not applicable	Grant based
European Bank of Reconstruction and Development	2000	299 shares (2.99 million euro equivalent)	Not applicable	Not applicable	Borrowing
IMF . . . . .	1991	72.3 million SDR	1.5 million SDR	SDR	SDR
UNDAF . . . . .	2011	Not applicable	Not applicable	Not applicable	Grant based

Source: Ministry of Finance.

## THE MONGOLIAN ECONOMY

*Unless otherwise expressly stated, the information set out in this section is derived from publicly available sources. Such information and statistics have not been verified by the Issuer or any of the Dealers or their or the Issuer's respective affiliates or advisors. The information may not be consistent with other information compiled within or outside of Mongolia.*

### Overview

Mongolia operated as a Soviet-style centrally planned economy until the establishment of a democratic government in 1990. Since 1990, Mongolia has transitioned into a market-oriented economy, with the private sector constituting 79.9% of the nation's GDP in 2015, according to the National Statistical Office of Mongolia. Mongolia's economy had a real GDP growth rate of 7.8% in 2014, 2.4% in 2015 and 1.0% in 2016. Recent growth has been primarily driven by expanding coal and copper production, ongoing development of new large mining projects, growth in the agriculture sector due to the sector's recovery from the effects of the severe winter conditions in late 2009 and 2010 and a highly expansionary fiscal policy. Mongolia, however, faces certain challenges, including maintaining a low target inflation rate, a growing dependence on the production and export of commodities, trade dependence on China, a growing need for foreign direct investment to develop infrastructure projects, and fuel and energy requirements.

Mongolia previously experienced extremely high rates of inflation, which peaked at 14.0% in 2012. In 2014, Mongolia's inflation rate was 11.0%, exceeding the Bank of Mongolia's inflation target of 8.0%. Increased government spending on wages and salaries, large cash handouts to the general population, high food and transportation costs and burgeoning capital expenditure have significantly contributed to the increase in inflation. However, Mongolia's inflation rate decreased to 1.9% in 2015 as the implementation of the Fiscal Stability Law reduced demand-pull inflationary pressure. In 2016, Mongolia's inflation rate was 1.1% due to continued implementation of stabilizing policies and the increased policy rate.

Mongolia's economy is highly dependent on the production and export of commodities and on trade with China and Russia. Economic growth has been negatively affected by worsening global economic conditions, weakening coal and copper export prices and, in particular, a slowdown in China's economy, which represented a substantial portion of Mongolia's exports in 2015. The slowdown in China's economy has led to a decrease in Chinese demand for global commodity imports and has put pressure on commodity prices, negatively impacting Mongolia's export growth. Mongolia is also dependent on Russia for a majority of its fuel needs which could lead to price pressure from Russia. The sovereign debt crisis in the European Union and the turbulence in international financial markets could also affect the financing needed to develop Mongolia's infrastructure projects, such as the planned railway networks, that are critical to increasing mineral exports.

In 2016, the price of coal in the global market increased due to a decrease in coal production in China. The Government expects this trend to help alleviate some of the current economic strain in Mongolia.

The global economic slowdown and turmoil in the finance markets starting in the second half of 2008 has had a negative impact on the Mongolian economy, which in turn affected the Mongolian banking sector. In 2012, lower commodity prices, a slowdown in the PRC economy and implementation of SEFIL adversely impacted the Mongolian economy, particularly investments in the mining sector. The Tugrik depreciated against the U.S. dollar by 50.5%, from December 30, 2013 to December 30, 2016. The Tugrik depreciated against the Renminbi by 31.2% from December 30, 2013 to December 30,

2016. Inflow of foreign direct investment decreased from US\$4,407.8 million in 2012 to US\$2,098.1 million in 2013, primarily due to the slowdown of the Mongolian economy as a result of the slowdown in the PRC economy, as well as implementation of SEFIL, decreased to US\$276.0 million in 2014 and further decreased to US\$110.2 million in 2015. For the year ended December 31, 2016, the net outflow of foreign direct investment from Mongolia was US\$4,141.0 million, primarily due to Oyu Tolgoi LLC's repayment of its US\$4.3 billion shareholders' loan in the second quarter of 2016. In early August 2016, the new MPP-led Government announced an "economic crisis" stemming from slow economic growth, a depreciating Tugrik and increased budget deficit. Mongolia also saw its sovereign credit rating downgraded in August 2016 by S&P and Moody's, with the ratings agencies citing slowing growth and other weakened economic fundamentals.

In response to these challenges, the Government has in recent years passed a series of measures and policies with the objective of ensuring macroeconomic and financial stability, including curtailing government spending, ending universal cash handouts and reducing Mongolia's political and economic dependence on China and Russia by seeking closer ties with the United States, the European Union, Canada, Australia, Japan and the Republic of Korea through its Third Neighbor Policy. See "Mongolia — Foreign Policy." The Government amended the Fiscal Stability Law, the Budget Law and the Social Welfare Law in order to sustain the country's long-term growth potential and to ensure that resource-wealthy Mongolia is able to sustain the pace of its economic development and meet its objectives of improving the living standards of its citizens and reducing poverty. The implementation of the Fiscal Stability Law and the Budget Law provide for a reduction in government spending and a more prudent basis for the establishment of future budgets and the funding of these obligations. The revised Social Welfare Law replaced the universal cash handout, as a means of sharing the mining wealth, with financial and other assistance targeted at specific groups of people such as low income, handicapped and senior citizens. The Fiscal Stability Law places a cap on outstanding debt and the fiscal deficit with a limit set as a percentage of Mongolia's GDP. The cap was initially set at 50% for 2013 and decreased to 40% for 2014. In January 2015, Parliament approved an increase of the cap on the Government's debt limit calculated at net present value to 58.3% of GDP in 2015, 55.0% of GDP in 2016, 50.0% of GDP in 2017 and 40.0% of GDP starting from 2018. Moreover, the Debt Management Law was approved on February 18, 2015, which the Government of Mongolia believes will support its development policy and provide financial resources by creating favorable conditions for foreign investment without adversely affecting Government debt levels and the general macroeconomic environment in Mongolia. In August 2016, the Government announced the formation of a task force to examine and recommend steps to be taken in response to the continued slowdown in economic growth and depreciating currency value. On September 9, 2016, Parliament further amended the Fiscal Stability Law and increased the cap on the Government's debt limit calculated at net present value to 88.0% of GDP in 2016, 85.0% of GDP in 2017, 80.0% of GDP in 2018, 75.0% of GDP in 2019, 70.0% of GDP in 2020 and 60.0% of GDP beginning from 2021.

In September 2016, the Government submitted a request to the IMF for financial assistance. To further strengthen its request for financial assistance, the Government proposed the Economic Recovery Plan, which takes into account various policy recommendations by the IMF. Following a visit to Mongolia by the IMF in October 2016, the IMF released a statement stating that the visit was very productive and common policies views were developed in many areas. Technical teams have made subsequent visits to Mongolia, and a high-level delegation visited in late January 2017 for two weeks of detailed discussions. The Government expects to finalize the terms of the IMF's financial assistance package in March 2017 taking into account that final terms are subject to the finalization of financing assurances and approval by the IMF's Executive Board.

Rio Tinto conducted an underground feasibility study with respect to future operations of the Oyu Tolgoi project. In September 2014, the feasibility study was finalized and presented to the board of directors of Oyu Tolgoi LLC. From the feasibility study, expansion capital of US\$5.4 billion is

required for the underground project, which is consistent with the US\$5.1 billion estimate contained in the 2013 OT Technical Report (excluding US\$0.5 billion of capital deployed in 2013 and 2014). In June 2016, Jacobs Engineering Group Inc. was selected as the engineering, procurement and construction management services provider for the development of underground mining at Oyu Tolgoi, and currently the underground mining project remains ongoing as planned. Oyu Tolgoi is expected to commence full operations after completion of the second phase construction, which the Government expects will be completed in four to seven years.

In 2015, the Mongolian economy grew at 2.3%, compared to a growth of 7.8% in 2014. The slowdown in 2015 was principally attributable to lower commodities prices and a reduction in demand from China. China's policies on economic restructuring, increasing domestic consumption and reducing export volume had an adverse effect on Mongolia and resulted in slower economic growth in Mongolia. In 2015 and 2016, the inflation rate of Mongolia was 1.9% and 1.1%, respectively. IMF World Economic Outlook, April 2015 estimated that Mongolia's medium term GDP growth in 2020 will be 9.2%.

The following table sets forth Mongolia's key macroeconomic data for the years or as of the dates indicated below:

Macroeconomic Data	As of and for the year ended December 31,					
	2011 <sup>(1)</sup>	2012 <sup>(1)</sup>	2013 <sup>(1)</sup>	2014 <sup>(1)</sup>	2015 <sup>(1)</sup>	2016 <sup>(1)(2)</sup>
Nominal GDP (MNT billions) . . .	13,173.8	16,668.4	19,174.2	22,227.1	23,134.1	23,886.4
Nominal GDP (US\$ millions <sup>(3)</sup> ) . . .	10,409.7	12,261.6	12,550.9	12,224.2	11,746.6	11,133.2
Nominal GDP growth . . . . .	35.0%	26.7%	14.9%	15.9%	4.1%	3.3%
Real GDP (MNT billions) <sup>(4)</sup> . . . . .	11,443.6	12,853.4	14,350.7	15,482.3	15,847.2	16,001.8
Real GDP (US\$ millions <sup>(3)(4)</sup> ) . . . . .	9,042.5	9,455.2	9,393.5	8,514.8	8,046.6	7,458.3
Real GDP growth . . . . .	17.3%	12.3%	11.6%	7.9%	2.4%	1.0%
Nominal GDP per capita (MNT thousands) <sup>(5)</sup> . . . . .	4,728.0	5,876.8	6,614.1	7,501.3	7,642.9	7,834.6
Nominal GDP per capita (US\$ <sup>(3)(5)</sup> ) . . . . .	3,031.0	3,939.0	4,563.0	4,551.0	4,182.0	3,651.7
Year-on-year inflation . . . . .	10.2%	14.0%	12.5%	11.0%	1.9%	1.1%
Export (US\$ millions <sup>(3)</sup> ) . . . . .	4,817.5	4,384.7	4,269.1	5,774.3	4,669.5	4,917.3
Imports (US\$ millions <sup>(3)</sup> ) . . . . .	6,598.4	6,738.4	6,357.8	5,236.6	3,797.2	3,357.9
Balance of payments (US\$ millions <sup>(3)(6)</sup> ) . . . . .	27.8	1,705.0	(1,867.3)	(471.1)	(268.1)	(18.2)
Unemployment rate . . . . .	7.7%	8.2%	7.9%	7.9%	7.5%	8.6%
External debt (US\$ millions <sup>(3)(7)</sup> ) . . . . .	9,627.5	15,385.7	19,022.1	20,942.3	21,602.9	23,784.7
Gross foreign exchange reserves (US\$ millions <sup>(3)(6)</sup> ) . . . . .	2,450.6	4,125.8	2,248.0	1,649.9	1,323.1	1,296.3
Gross foreign reserves import cover (months) <sup>(6)</sup> . . . . .	6.3	9.9	5.1	4.9	5.5	4.8
Population . . . . .	2,811,666	2,867,744	2,930,277	2,995,949	3,057,778	3,120,931

Sources: Bank of Mongolia; World Bank; National Statistical Office of Mongolia

(1) National Statistical Office of Mongolia, except otherwise indicated.

- (2) Provisional figures subject to further adjustments.
- (3) The following exchange average rates were applied: 2011 - MNT 1,265.53 = US\$1.00, 2012 - MNT 1,359.40 = US\$1.00, 2013 - MNT 1,527.72 = US\$1.00, 2014 - MNT 1,818.28 = US\$1.00, 2015 - MNT 1,969.42 = US\$1.00 and 2016 - MNT 2,145.52 = US\$1.00.
- (4) Real GDP calculated at 2010 constant prices.
- (5) Nominal GDP per capita calculated at 2010 constant prices.
- (6) Bank of Mongolia.
- (7) "External debt" includes external debt of and external debt guaranteed by the Government and the Bank of Mongolia, external debt of commercial banks and other sectors and direct investment according to the Bank of Mongolia.

As of December 31, 2016, the Government allocated MNT 2.02 trillion and US\$269.8 million of the proceeds from the issuance of the Chinggis Bonds to DBM to finance concession projects, including significant infrastructure projects for roads and railways, air transport, energy and housing as well as the export of minerals and cashmere. DBM has disbursed MNT 2.5 trillion in the form of loans for over 200 projects, including MNT 268.2 billion for projects repayment of which were included in the state budget for 2015, MNT 1.3 trillion for the construction of roads, MNT 139.6 billion for the construction of streets, MNT 10.9 billion for the construction of processing factories, MNT 354.1 billion for developing infrastructure, MNT 6.8 billion for mining projects, MNT 57.2 billion for electricity projects and MNT 491.1 billion on the New Railway Project.

Pursuant to Parliament Resolution No. 81 dated December 28, 2016, DBM transferred its loan portfolio to be repaid from the state budget to the Ministry of Finance. Furthermore, under this Resolution, the Government will provide a capital injection of up to MNT 1.0 trillion to DBM.

In an effort to jump-start its economy and resolve a number of important policy objectives, the Government enacted the 100 Days Program in May 2014. The 100 Days Program included amendments to mining regulations to improve the mining sector and various measures to attract foreign investment. The Government decided to invest US\$87.5 million in the Khokh Tsav cement project of MAK LLC with a capacity of one million tons of cement production per year and agreed to finance the Moncement project of Monpolyment LLC, which aims to meet domestic cement demand by increasing domestic production, by deploying funds from the Chinggis Bonds. The 100 Days Program has established a budget of US\$284.8 million for the Moncement project, which began construction in April 2013. The Moncement cement plant opened in August 2015. Financing for this plant in the amount US\$85.0 million was provided by the European Bank for Reconstruction and Development in the form of US\$20.0 million equity investment and a US\$65.0 million loan. Additional financing of US\$65.0 million was provided by DBM. US\$80.0 million was funded by the Monpolyment Group. In June 2016, the project was approximately 94% complete. The Government has developed the policy to reduce the dependency on cement imports and to support the cement and lime production project in Khutul Soum, which has commenced its production of one million tons of cement per year. Upon completion, three plants are expected to collectively produce three million tons of cement per year. As a result, domestic demand for cement is expected to be satisfied by the domestic production.

## **Ratings**

### ***Moody's***

On March 13, 2012, Moody's released Mongolia's long-term domestic and foreign currency issuer ratings at "B1" and its short-term domestic and foreign currency issuer ratings at "Not Prime." In Moody's view, Mongolia's long-term economic prospects were bright, but its near-term fiscal outlook was clouded by spending pressure. In particular, Mongolia's ratings have been constrained by susceptibility to destabilizing boom-bust cycles stemming from (i) an undiversified, dual mining/agricultural economy subject to mineral price vulnerability on one front and occasional severe winters on the other and (ii) pro-cyclical monetary and fiscal policies.

On September 17, 2012, Moody's again affirmed Mongolia's foreign and local currency rating for government bonds at "B1," its foreign-currency country ceiling for bonds at "Ba2" and its foreign-currency ceiling for bank deposits at "B2," along with a "stable" outlook. The agency also affirmed Mongolia's short-term domestic and foreign currency issuer ratings at "Not Prime."

On May 26, 2014, Moody's changed the outlook on the Mongolia's Government bond rating to "negative" from "stable." Concurrently, Moody's affirmed the Government's issuer and bond "B1" ratings, the Government's senior unsecured medium term note ("MTN") rating at "(P)B1" and the Government's issuer short-term "Not Prime" issuer rating. Mongolia's long-term local currency country risk ceiling was affirmed at "Ba3," while the long-term foreign currency bond and bank deposit ceilings were affirmed at "Ba3" and "B2," respectively. The foreign currency short-term debt and deposit ceilings were affirmed at "Not Prime." Moody's decision to change Mongolia's outlook to "negative" reflected its view that the increased external debts, decreased foreign exchange reserves, and increased credit growth increased the possibility of Mongolia's currency or external payments crisis in the next few years. In addition, elevated inflation and rapid credit growth have threatened banking system stability, and may adversely affect the balance of payments. Unpredictability in Mongolia's investment regime further exacerbates risks to the external position and to Government finances, which are highly reliant on mining revenues.

On November 12, 2014, Moody's changed Mongolia's Government bond rating to B2 from B1 with a negative outlook. According to Moody's, Mongolia's external risks are more pronounced due to the drop in foreign direct investment in the previous year and strong correlation between its fiscal performance and commodity cycles. According to Moody's credit opinion published in February 2015, Mongolia's issuer rating was B2 with a negative outlook. On November 12, 2015, Moody's affirmed Mongolia's issuer rating of "B2" with negative outlook.

On May 10, 2016, Moody's affirmed Mongolia's issuer rating of "B2" with a negative outlook. This reflected Mongolia's abundant mineral resources and strong growth potential. However, it also reflected the credit challenges presented by increasing external debt and funding vulnerabilities, uncertainty in the investment regime, economic and fiscal vulnerability to lower commodity prices and harsh weather cycles and low per capita income.

On August 26, 2016, Moody's changed Mongolia's Government bond rating from "B2" to "B3" with a negative outlook. According to Moody's, Mongolia's core fiscal and economic fundamentals have worsened materially since January 2016, exacerbating existing domestic and external liquidity pressures.

On November 18, 2016, Moody's changed Mongolia's issuer and Government bond ratings from "B3" to "Caa1" with a stable outlook. According to Moody's, this downgrade was a result of: (i) heightened uncertainty regarding the Government's ability to meet its direct and indirect debt service obligations over the next two years, (ii) Mongolia's continuing budget deficit, and (iii) forecasted weaker economic growth in the next two years, which are expected to increase Government debt.

On February 15, 2017, Moody's placed Mongolia's issuer rating on negative watch for downgrade in connection with its review of the upcoming maturity of the DBM Notes.

### ***S&P***

On October 29, 2012, S&P again affirmed Mongolia's long-term sovereign credit rating at "BB-" and its short-term sovereign credit rating at "B." The agency revised the outlook from "positive" back to "stable," to reflect the "lower likelihood of an upgrade over the next year in light of the strong inflow of external borrowing and an accompanying strength in domestic credit growth." In S&P's view, Mongolia's outlook was revised based on its "underdeveloped, resource-driven economy and weak policy environment."

On April 29, 2014, S&P lowered its long-term sovereign credit ratings on Mongolia to "B+" from "BB-" and affirmed the short-term sovereign credit rating at "B." The outlook on the long-term rating was stable. At the same time, S&P lowered its transfer and convertibility assessment on Mongolia to "BB-" from "BB."

On April 30, 2015, S&P affirmed Mongolia's long-term sovereign credit rating at "B+" and its short-term sovereign credit rating at "B." The agency revised the outlook from "stable" to "negative" to reflect growing pressure on the rating from Mongolia's twin deficits in its budget and current account.

On November 3, 2015, S&P lowered Mongolia's long-term sovereign credit rating from "B+" to "B" with stable outlook citing weakening fiscal and external performance. S&P affirmed Mongolia's short-term sovereign credit rating of "B."

On April 28, 2016, S&P affirmed Mongolia's long-term and short-term sovereign credit rating of "B" with stable outlook. The stable outlook balances the country's low income, resource-driven economy, weak policy environment and fiscal performance, high external risk, and limited monetary flexibility with the prospect that large mining projects could quickly reverse Mongolia's sovereign credit profile.

On August 19, 2016, S&P lowered Mongolia's long-term sovereign credit rating from "B" to "B-" with stable outlook, citing weakening fiscal and growth performance, as well as materially weaker public finances and balance of payments.

### ***Fitch***

On November 1, 2012, Fitch affirmed Mongolia's long-term foreign and local currency issuer default rating at "B+" with a "stable" outlook. The agency also affirmed Mongolia's short-term foreign currency issuer default rating at "B" and the country ceiling at "B+." In Fitch's view, the affirmation reflected Mongolia's emergence from a banking crisis, its IMF adjustment program and the formation of a new fiscal policy framework. The affirmation also took into account Mongolia's mixed macroeconomic policy stance and the vulnerabilities the country was exposed to in 2009, which remain substantially unaddressed.



On December 13, 2013, Fitch revised the outlook of Mongolia's long-term foreign and local currency issuer default ratings to "negative" from "stable" and affirmed at "B+." The country ceiling was affirmed at "B+" and the short-term foreign-currency issuer default rating at "B." The issue ratings on Mongolia's senior unsecured foreign and local currency bonds were also affirmed at "B+."

On November 24, 2015, Fitch lowered Mongolia's long-term and local currency credit rating from "B+" to "B" citing strained external liquidity, weak public finances and deterioration in its growth outlook. However, Fitch raised its outlook to "stable" from "negative." On November 22, 2016, Fitch downgraded Mongolia's long-term foreign and local currency ratings from "B" to "B-," citing heightened external liquidity risks and weak economic growth.

### **Economic Policy Objectives**

The economic policies and current targets as outlined in the 2016-2020 Government Action Plan are as follows:

- provide for various programs to support the sustainable development of food, agriculture and light industry sectors;
- create a favorable environment for investment in the mining sector, ensure sustainable development and increase Mongolia's competitiveness on international markets;
- achieve sustainable and reliable development of the energy sector, with potential for export;
- continue development of roads to improve transportation infrastructure;
- maintain macroeconomic stability;
- enforce tight monetary policies to maintain inflation at the targeted level;
- develop railway and roads infrastructure;
- increase the domestic production of energy;
- encourage the production of value-added mineral services in order to reduce dependence on the mining sector and to diversify the economy;
- improve rural development;
- provide affordable quality housing for its citizens across the country;
- introduce measures to reduce corruption;
- alleviate poverty and improve living conditions for its citizens;
- strengthen good governance;
- enhance security, law and order; and
- set medium-term macroeconomic targets to facilitate sustained economic growth, reduce poverty and improve standards of living.

## **Economic Recovery Plan**

In November 2016, the Parliament of Mongolia approved the Economic Recovery Plan. The primary goals of the Economic Recovery Plan are to (i) stabilize macroeconomic conditions in the short term; (ii) ensure a sustainable debt level; and (iii) implement structural reforms in the economy for the medium term. The Economic Recovery Plan provides guidance on forming fiscal policies aimed at ensuring sustainable deficit and debt levels, monetary policies aimed at reducing pressure on the balance of payments and stabilizing the exchange rate and strategies to increase reserves, promote foreign direct investment and address the Government's payment obligations in the short term. Furthermore, the Economic Recovery Plan also discusses diversification of the economy and promotion of non-mining industries, implementation of large projects, including mining and infrastructure, for economic growth and development as well as legal and institutional reforms to achieve sustainable and inclusive development. The Cabinet approved a detailed action plan for the implementation of the Economic Recovery Plan in December 2016.

The Economic Recovery Plan proposed increasing the size of the bilateral swap agreement between the Bank of Mongolia and the People's Bank of China. As a result the Bank of Mongolia and the People's Bank of China negotiated the increase of the swap line by RMB 5.0 billion to RMB 10.0 billion, which would result in a total available amount under the swap line of RMB 20.0 billion to RMB 25.0 billion, to increase Mongolia's foreign exchange reserves. The prime ministers of Mongolia and China have agreed to this extension of the swap line and discussions are currently underway, which is expected to be finalized in the first quarter of 2017. The Economic Recovery Plan also aims to boost private sector growth in non-mining sectors, such as the agriculture and construction sectors. Another goal of the Economic Recovery Plan is to encourage large scale projects in mining and infrastructure, including Phase II of Oyu Tolgoi, the Tavantolgoi — Gashuun Sukhait railway, the Tavan Tolgoi mine, the Tavan Tolgoi power plant, the Erdenet — Ovoot railway, the Khuut — Bichigt railway, the Bogd Khan railway and the Nariin Sukhait — Shivee Khuren railway. The Economic Recovery Plan also sets forth various additional key projects in the energy, light industry and tourism industries with the aim of diversifying the economy.

## **Economic History**

Mongolia suffered a “transformational recession” between 1990 and 1993 due to the restructuring and privatization of state enterprises, which resulted in massive layoffs where most workers lost pension and other retirement rights. Since 1993, however, the Mongolian economy has grown steadily. Prior to seeking financial assistance from the ADB in 1991, Mongolia was on the brink of economic collapse due to severance of financial support from the former Soviet Union.

In 2004, the Government launched its free trade zone program. Currently, there are two free trade zones located along the trans-Siberian railway: one at the Russia-Mongolia border town of Altanbulag and the other at the China-Mongolia border town of Zamiin-Uud. The Altanbulag Free Trade Zone opened in 2014. This free trade zone connects Mongolia with Russia and China and is a tax-free zone for goods and services. As of December 31, 2016, the third free trade zone, which is located near the port of entry of Tsagaan Nuur in Bayan-Olgii province, was open and construction of infrastructure in this zone was in progress.

Until 2008, Mongolia was predominantly an agricultural-based economy, with a heavy reliance on the growth of crops and animal husbandry, particularly yaks, goats and sheep. In the last several years, however, Mongolia's main economic driver has shifted to the mining sector. It also possesses significant deposits of uranium, gold, lead, zinc and rare earth metals. The mining sector represents

the predominant source of foreign currency for the country, with mineral products representing approximately 89.2%, 81.9%, 83.0%, 78.8% and 70.8% of total exports in 2012, 2013, 2014, 2015 and 2016, respectively. Furthermore, the mining sector employed 4.1%, 4.2%, 3.4%, 3.4% and 3.4% of Mongolia's total labor force in 2012, 2013, 2014, 2015 and 2016, respectively.

In 2014, Mongolia's nominal GDP reached MNT 21,937.2 billion (US\$11.6 billion) and nominal GDP increased by 14.3% from 2013. In 2013, the economy grew by 11.6%, in direct relation to production of Oyu Tolgoi LLC. Oyu Tolgoi LLC began exporting its products extracted from the open pit since June of 2013. The main export product of Mongolia is coal. However, export of copper concentrate has been increasing sharply. In the near future, the main contributors of the economic growth are predicted to be the mining, construction, trade and industrial sectors. The Government has selected 888 projects of small and medium enterprises to substitute imports and to promote exports. These projects were supported and financed by the Chinggis Bond funds. Accordingly, it is expected that the production output from the industrial and manufacturing sectors will increase and contribute to the further growth of the Mongolian economy.

In 2014, exports increased by US\$1.5 billion, or 35.3%, from 2013 as a result of an increase of export volumes, particularly in the mineral sector, and a decrease in export prices. Because of the increased demand for crude oil, copper concentrate and non-monetary gold, the mining export volume increased by US\$1.3 billion in 2014, compared to 2013. Exports of copper concentrate, crude oil and non-monetary gold increased by 171.2%, 23.1% and 30.8%, respectively, which accounted for 52.6% in the growth of mining export. As a result of the decreased price of coal and iron ore and decreased export volume of iron ore and zinc ore, mining exports declined by US\$487.1 million in 2014 compared to 2013. Exports of zinc ore and iron ore decreased by nearly 5.0% and 31.8%, respectively, which accounted for a 6.1% decrease in the exports in the mining sector. The decreases in exports of copper, coal, crude oil and iron ore from 2014 to 2015 were due to decreases in the export prices of these commodities.

In 2015, exports decreased by US\$1.1 billion, or 22.9%, from 2014, as a result of slower economic growth in China and decreases in exports of coal, copper and other commodities. In 2015, the volume of copper and crude oil exports increased by 7.2% and 17.4%, respectively, as compared to 2014, while the volume of coal exports decreased by 25.8%. Nevertheless, the value of exports of copper, coal and crude oil in 2015 decreased by 11.4%, 34.6% and 40.9%, respectively, compared to 2014, as prices for these exports decreased.

In 2016, exports decreased by US\$0.2 billion, or 5.3%, from 2015, as a result of continuing slow economic growth in China and decreases in exports of copper and crude oil.

The table below sets forth information on the commodities exports of Mongolia for the years indicated.

	<b>For the year ended December 31,</b>					
	<b>2011<sup>(1)</sup></b>	<b>2012<sup>(2)</sup></b>	<b>2013<sup>(2)</sup></b>	<b>2014<sup>(2)</sup></b>	<b>2015<sup>(2)(3)</sup></b>	<b>2016<sup>(3)(4)</sup></b>
	(US\$ thousands)					
Copper .....	968,551	838,579	948,951	2,573,622	2,280,135	1,607,639
Coal .....	2,273,006	1,901,774	1,122,034	849,037	555,027	973,015
Crude oil .....	253,024	336,053	515,456	634,611	387,217	337,181
Iron ore .....	441,515	532,509	654,333	446,364	227,200	249,891
Gold .....	109,778	122,294	309,827	405,244	420,568	758,409

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- (1) National Statistical Office of Mongolia, Statistical Yearbook of 2012.
  - (2) National Statistical Office of Mongolia, Statistical Yearbook of 2015.
  - (3) Provisional figures subject to further adjustments.
  - (4) National Statistical Office of Mongolia, Monthly Bulletin, December 2016.

### ***Global Financial Crisis***

The global economy experienced a severe external shock in late 2008 and early 2009 and as a result, mineral prices collapsed and export demand fell. In particular, a sharp decline in copper prices as well as other commodity prices, combined with a slowdown in China's economy led to a contraction in Mongolia's economic growth from 2008 to 2009.

As a result of reduced export growth, Mongolia's current account balance moved from a surplus of 4.1% of GDP in 2007 to a deficit of 13.1% in 2008 and increased to a deficit of 7.7% in 2009. The Tugrik weakened significantly due to a currency flight that was further aggravated by the Bank of Mongolia maintaining its de facto currency peg to the U.S. dollar. In the process, foreign currency reserves held by the Bank of Mongolia decreased by approximately US\$500 million between July 2008 and February 2009. The Tugrik depreciated by approximately 38% against the U.S. dollar between the end of October 2008 and the middle of March 2009. Subsequent measures taken to prevent excessive movements of the exchange rate included abandoning the exchange rate peg and introducing a transparent bi-weekly foreign exchange auctioning mechanism.

To support Mongolia's economic stabilization program, the IMF approved a US\$240.0 million 18-month Stand-By Program in April 2009 designed to assist Mongolia with revising its fiscal policies, limiting the Government budget deficit to 6% of GDP, strengthening Mongolia's foreign reserves position, revising monetary policy to keep inflation on a downward trend and providing social protection and support to households living in poverty. In response, the Bank of Mongolia raised interest rates, implemented the blanket deposit guarantee scheme, increased supervision of banks, required commercial banks to raise their level of capital and introduced a new system of foreign currency auction to encourage a non-discriminatory and transparent mechanism to sell foreign exchange and allow for the market determination of exchange rates. At the conclusion of the Stand-By Program in October 2011 foreign reserves had been rebuilt to a then all-time high of US\$2.5 billion. The Stand-By Program was a success and contributed to Mongolia's economic turnaround. See "— Economic Turnaround Post Global Financial Crisis" below.

### ***Economic Turnaround Post Global Financial Crisis***

Despite the severe adverse impact of the global financial crisis and the ensuing economic slowdown, Mongolia experienced a turnaround in late 2009 and the beginning of 2010. The last quarter of 2010 ended with a broad-based recovery, supported by transportation, construction, and wholesale and retail trade. The economy recorded a 6.4% recovery in real GDP in 2010, following a contraction of 1.3% of real GDP in 2009. The total net foreign exchange reserves were US\$2.3 billion and US\$3.6 billion as of December 31, 2011 and 2012, respectively. For the year ended December 31, 2012, the foreign trade deficit was US\$2.3 billion, or 23.4% of nominal GDP. For the year ended December 31, 2011, the foreign trade deficit was approximately US\$1.8 billion, or 22.7% of nominal GDP. Revenue also significantly improved, increasing by MNT 1.3 trillion (US\$0.9 billion), or 40.9%, for 2011 compared to 2010. In 2011, both exports and imports increased compared to 2010, primarily driven by improved economic conditions and favorable commodity prices. In 2011, exports increased by 65.6% compared to 2010, primarily driven by an increase in metal prices, coal and copper exports to China, which

accounted for 92.2% of Mongolia's exports. Imports increased by 106.2% in 2011 compared to 2010, primarily as a result of increased transport equipment and machinery imports for the expanding mining sector, particularly in relation to the Oyu Tolgoi mine. In 2012, exports and imports remained stable with a decrease in exports by 9.0% and an increase in imports by 2.1% compared to 2011.

### ***Economic Slowdown In 2013 Through 2016***

In 2014, lower commodity prices, a slowdown in the PRC economy, implementation of SEFIL and mining sector restrictions adversely impacted the Mongolian economy, particularly investments in the mining sector. The Tugrik depreciated against the U.S. dollar by 50.5%, from December 30, 2013 to December 30, 2016. The Tugrik depreciated against the Renminbi by 31.2% from December 30, 2013 to December 30, 2016. Foreign direct investment decreased from US\$4,407.8 million in 2012 to US\$2,098.1 million in 2013, primarily due to the slowdown of the Mongolia economy as a result of the slowdown of the PRC economy as well as implementation of SEFIL. Foreign direct investment decreased further to US\$405.0 million in 2014 primarily due to decreased investment in the mining sector. Mongolia has been experiencing extremely high rates of inflation through 2014. In 2014, Mongolia's inflation rate was 11.0%, exceeding the Bank of Mongolia's inflation target of 8.0%.

In 2015, the inflation rate decreased to 1.9% as a result of recent economic difficulties. As Mongolia's economy is highly dependent on the production and export of commodities and on trade with China and Russia, the slowdown in China's economy has led to a decrease in Chinese demand for global commodity imports and has put pressure on commodity prices, impacting Mongolia's export growth. Although oil prices have recently experienced a significant drop, Mongolia's dependency on Russia for all of its fuel and energy needs could lead to price pressure from Russia and an unreliable supply of power.

In 2016, Mongolia's inflation rate further decreased to 1.1%, primarily due to lower demand-driven pressure.

### **GDP and Major Financial Indicators**

#### ***Gross Domestic Product***

GDP measures the market value of all final goods and services produced within a country during a given period and is an indication of a country's productive output. Nominal GDP, or GDP at current market prices, values a country's output using the actual prices of each year. Real GDP, or GDP at constant market prices, values a country's output using the prices from a base year, thereby eliminating the distorting effects of inflation. Unless stated otherwise, all numbers in this document expressed as percentages of GDP refer to nominal GDP, and all growth rates are based on real GDP using 2010 as the base year.

In 2016, Mongolia's GDP grew by 1.0%, primarily due to an increase in contribution from the financial and insurance activities sub-sector.

In 2015, Mongolia's GDP grew by 2.4% compared to a growth rate of 7.8% in 2014. In 2015, Mongolia's economic growth slowed down primarily due to lower contribution from the mining and quarrying sub-sector due to lower commodities prices and a reduction in demand from China, which was partially offset by significant growth in the agriculture sector.

In 2014, Mongolia's GDP grew by 7.8%, compared to a growth rate of 11.6% in 2013. In 2014, Mongolia's economic growth slowed down, primarily due to weak coal prices in external markets and a reduced inflow of foreign direct investment due to the implementation of SEFIL.

In 2013, Mongolia's GDP grew by 11.6%, compared to a growth rate of 12.3% in 2012. In 2013, Mongolia's economic growth slowed down primarily driven by weak coal prices on external markets and declined inflow of foreign direct investment. However, economic growth maintained double-digit growth due to the start of export of Oyu Tolgoi production as well as the Government and Bank of Mongolia's support of the construction sector within the framework of the Price Stabilization Program and implementation of large scale infrastructure projects funded by the proceeds of the Chinggis Bonds.

	<b>For the year ended December 31,</b>					
	<b>2011<sup>(1)</sup></b>	<b>2012<sup>(1)</sup></b>	<b>2013<sup>(1)</sup></b>	<b>2014<sup>(1)</sup></b>	<b>2015<sup>(1)</sup></b>	<b>2016<sup>(1)(2)</sup></b>
Nominal GDP (MNT billions) . . .	13,173.8	16,668.4	19,174.2	22,227.1	23,134.1	23,886.4
Nominal GDP (US\$ billions <sup>(3)</sup> ) . .	10.4	12.3	12.5	12.2	11.7	11.1
Nominal GDP per capita (US\$ <sup>(3)</sup> ). .	3,031.0	3,939.0	4,563.0	4,551.0	4,182.0	3,651.7
Real GDP growth. . . . .	17.3%	12.3%	11.6%	7.9%	2.4%	1.0%
Nominal GDP growth. . . . .	35.0%	26.7%	14.9%	15.9%	4.1%	3.3%
CPI (Ulaanbaatar)						
(period-over-period change) . . .	10.2%	14.0%	12.5%	11.0%	1.9%	1.1%
Exports (US\$ millions) . . . . .	4,817.5	4,384.7	4,269.1	5,774.3	4,669.5	4,917.3
Imports (US\$ millions) . . . . .	6,598.4	6,738.4	6,357.8	5,236.6	3,797.2	3,357.9

Sources: *National Statistical Office of Mongolia*

(1) National Statistical Office of Mongolia.

(2) Provisional figures subject to further adjustments.

(3) The following exchange average rates were applied: 2011 - MNT 1,265.53 = US\$1.00, 2012 - MNT 1,359.40 = US\$1.00, 2013 - MNT 1,527.72 = US\$1.00, 2014 - MNT 1,818.28 = US\$1.00, 2015 - MNT 1,969.42 = US\$1.00 and 2016 — MNT 2,145.52 = US\$1.00.

The following table presents nominal GDP of Mongolia by sector for the period indicated:

Sectors	For the year ended December 31,					
	2011 <sup>(1)</sup>	2012 <sup>(1)</sup>	2013 <sup>(1)</sup>	2014 <sup>(1)</sup>	2015 <sup>(1)</sup>	2016 <sup>(1)(2)</sup>
	(MNT millions)					
<b>Total GDP</b> . . . . .	13,173,763.4	16,688,419.6	19,174,242.6	22,227,054.3	23,134,067.9	23,886,409.5
Industry . . . . .	4,127,833.9	5,135,292.6	5,849,465.5	7,000,993.8	7,186,006.5	7,719,269.6
Mining and quarrying . . . . .	2,536,239.6	2,742,750.5	2,849,415.3	3,661,031.2	3,955,963.0	4,768,383.3
Manufacturing . . . . .	931,377.5	1,248,666.3	1,672,313.0	1,950,933.7	1,768,221.5	1,593,478.0
Electricity, gas, steam and air conditioning supply . . . . .	212,394.1	233,858.6	270,514.2	313,587.1	379,866.7	430,979.8
Construction . . . . .	402,828.3	837,487.5	979,689.0	988,960.7	977,999.2	822,024.7
Water supply; sewerage, waste management and remediation activities . . . . .	44,994.4	72,529.7	77,534.0	86,481.1	103,956.1	104,403.8
Agriculture . . . . .	1,357,866.8	1,878,786.4	2,572,044.9	2,965,360.5	3,091,999.1	2,913,930.9
Agriculture, forestry and fishing . . . . .	1,357,866.8	1,878,786.4	2,572,044.9	2,965,360.5	3,091,999.1	2,913,930.9
Service . . . . .	6,031,739.5	7,819,922.7	8,574,158.7	10,185,373.2	10,970,378.8	11,262,348.5
Wholesale and retail trade; repair of motor vehicles and motorcycles . . . . .	1,973,260.4	2,231,148.5	2,267,231.1	2,544,761.3	2,714,008.5	2,705,093.4
Transportation and storage . . . . .	802,897.1	894,427.6	843,617.4	1,109,154.6	1,154,694.2	1,246,995.7
Accommodation and food service activities . . . . .	94,304.6	186,231.8	205,536.5	196,564.8	215,806.2	232,915.9
Real estate activities . . . . .	290,259.9	379,560.9	413,946.4	492,124.3	496,609.4	535,443.8
Education . . . . .	381,098.0	583,528.6	782,311.6	1,041,781.8	1,239,660.8	1,263,852.8
Information and communication . . . . .	503,147.4	744,985.1	854,596.2	996,010.5	1,013,979.1	1,071,779.2
Financial and insurance activities . . . . .	884,158.2	957,312.6	1,162,261.2	1,495,080.1	1,586,277.7	1,628,308.3
Professional, scientific and technical activities . . . . .	216,174.5	424,234.5	446,816.2	504,404.5	507,777.4	483,232.2
Administrative and support service activities . . . . .	71,192.8	177,601.3	213,439.1	210,585.1	218,131.3	223,789.7
Public administration and defense; compulsory social security . . . . .	515,326.4	699,143.0	788,848.0	907,187.6	1,059,659.0	1,078,838.5
Human health and social work activities . . . . .	193,160.3	316,964.9	359,094.3	412,347.1	473,140.2	483,704.7
Arts, entertainment and recreation . . . . .	39,526.4	87,023.2	87,184.1	98,102.3	106,724.1	112,229.2
Other service activities <sup>(2)</sup> . . . . .	67,233.5	137,760.7	149,276.6	177,269.2	183,910.9	196,165.1
Net taxes on products . . . . .	1,656,323.2	1,854,417.9	2,178,573.3	2,075,326.7	1,885,683.7	1,990,860.2

(1) National Statistical Office of Mongolia.

(2) Provisional figures subject to further adjustments.

(3) "Other service activities" represents service excluding wholesale and retail trade, transportation and storage and information and communication.



The following table presents the real GDP of Mongolia by sector at 2010 constant prices for the periods indicated:

Sectors	For the year ended December 31,					
	2011 <sup>(1)</sup>	2012 <sup>(1)</sup>	2013 <sup>(1)</sup>	2014 <sup>(1)</sup>	2015 <sup>(1)</sup>	2016 <sup>(1)(2)</sup>
	(MNT millions)					
<b>Total GDP</b> . . . . .	11,443,578.4	12,853,406.6	14,350,689.2	15,482,273.4	15,847,217.1	16,001,832.2
Industry . . . . .	3,522,766.8	4,045,502.3	4,637,826.2	5,224,689.4	5,730,071.8	5,659,232.1
Mining and quarrying . . . . .	2,263,685.0	2,452,170.4	2,905,821.9	3,469,332.6	3,957,728.1	3,984,811.7
Manufacturing . . . . .	717,050.9	779,721.8	859,681.2	895,656.4	907,540.7	891,347.5
Electricity, gas, steam and air conditioning supply . . . . .	203,113.3	213,226.6	224,762.8	238,597.3	249,342.5	260,763.9
Construction . . . . .	307,022.3	568,837.4	614,243.5	588,025.4	584,707.8	491,447.5
Water supply; sewerage, waste management and remediation activities . . . . .	31,895.3	31,546.1	33,316.8	33,077.7	30,752.7	30,861.5
Agriculture . . . . .	1,141,074.1	1,381,284.7	1,646,183.5	1,871,396.9	2,071,966.1	2,170,803.4
Agriculture, forestry and fishing . . . . .	1,141,074.1	1,381,284.7	1,646,183.5	1,871,396.9	2,071,966.1	2,170,803.4
Service . . . . .	5,153,198.7	5,682,234.8	6,127,928.2	6,604,475.1	6,667,798.2	6,783,644.1
Wholesale and retail trade; repair of motor vehicles and motorcycles . . . . .	1,755,361.6	1,965,556.9	2,139,600.0	2,191,308.8	2,038,747.7	1,973,939.0
Transportation and storage . . . . .	779,959.3	843,168.3	830,985.6	953,873.2	996,650.1	1,144,625.2
Accommodation and food service activities . . . . .	66,691.1	75,799.7	79,564.6	70,932.8	73,248.5	77,842.3
Information and communication . . . . .	270,470.9	314,311.5	361,096.2	378,220.8	370,332.7	368,469.5
Financial and insurance activities . . . . .	357,442.1	509,020.8	666,031.1	883,263.8	1,011,836.8	1,025,215.9
Education . . . . .	383,028.4	387,349.7	392,361.5	398,559.9	395,891.0	409,183.6
Real estate activities . . . . .	704,002.9	718,012.6	742,114.6	769,506.2	802,869.5	810,362.9
Professional, scientific and technical activities . . . . .	133,824.7	135,340.1	146,013.4	163,993.3	163,022.9	158,216.8
Administrative and support service activities . . . . .	82,570.6	84,320.2	87,608.7	88,427.8	90,871.2	91,742.1
Public administration and defense; compulsory social security . . . . .	387,494.1	408,031.3	423,600.1	434,276.3	447,416.3	441,123.7
Human health and social work activities . . . . .	151,617.5	154,856.1	166,606.9	182,261.8	185,739.5	187,397.1
Arts, entertainment and recreation . . . . .	28,320.8	28,904.7	30,302.3	30,360.3	31,412.8	33,283.0
Other service activities <sup>(3)</sup> . . . . .	52,414.7	57,562.9	62,043.2	59,490.1	59,759.2	62,243.0
Net taxes on products . . . . .	1,626,538.8	1,744,384.8	1,938,751.2	1,781,712.3	1,377,380.8	1,388,152.5

(1) National Statistical Office of Mongolia.

(2) Provisional figures subject to further adjustments.

(3) "Other service activities" represents service excluding wholesale and retail trade, transportation and storage and information and communication.

The following table sets forth nominal GDP composition by sector (in percentages, including net taxes on products) for the periods indicated:

Nominal GDP composition by industry	For the year ended December 31,					
	2011 <sup>(1)</sup>	2012 <sup>(1)</sup>	2013 <sup>(1)</sup>	2014 <sup>(1)</sup>	2015 <sup>(1)</sup>	2016 <sup>(1)(2)</sup>
Industry . . . . .	31.3%	30.8%	30.5%	31.5%	31.1%	32.3%
Mining and quarrying . . . . .	19.3%	16.4%	14.9%	16.5%	17.1%	20.0%
Manufacturing . . . . .	7.1%	7.5%	8.7%	8.8%	7.6%	6.7%
Electricity, gas, steam and air conditioning supply . . . . .	1.6%	1.4%	1.4%	1.4%	1.6%	1.8%
Construction . . . . .	3.1%	5.0%	5.1%	4.4%	4.2%	3.4%
Water supply; sewerage, waste management and remediation activities . . . . .	0.3%	0.4%	0.4%	0.4%	0.4%	0.4%
Agriculture, forestry and fishing .	10.3%	11.3%	13.4%	13.3%	13.4%	12.2%
Service . . . . .	45.8%	46.9%	44.7%	45.8%	47.4%	47.1%
Wholesale and retail trade; repair of motor vehicles and motorcycles . . . . .	15.0%	13.4%	11.8%	11.4%	11.7%	11.3%
Transportation and storage . . . .	6.1%	5.4%	4.4%	5.0%	5.0%	5.2%
Accommodation and food service activities . . . . .	0.7%	1.1%	1.1%	0.9%	0.9%	1.0%
Real estate activities . . . . .	2.2%	2.3%	2.2%	2.2%	2.1%	2.2%
Education . . . . .	2.9%	3.5%	4.1%	4.7%	5.4%	5.3%
Information and communication . . . . .	3.8%	4.5%	4.5%	4.5%	4.4%	4.5%
Financial and insurance activities . . . . .	6.7%	5.7%	6.1%	6.7%	6.9%	6.8%
Professional, scientific and technical activities . . . . .	1.6%	2.5%	2.3%	2.3%	2.2%	2.0%
Administrative and support service activities . . . . .	0.5%	1.1%	1.1%	0.9%	0.9%	0.9%
Public administration and defense; compulsory social security . . . . .	3.9%	4.2%	4.1%	4.1%	4.6%	4.5%
Human health and social work activities . . . . .	1.5%	1.9%	1.9%	1.9%	2.0%	2.0%
Arts, entertainment and recreation . . . . .	0.3%	0.5%	0.5%	0.4%	0.5%	0.5%
Other service activities <sup>(3)</sup> . . . . .	0.5%	0.8%	0.8%	0.8%	0.8%	0.8%
Net taxes on products . . . . .	12.6%	11.1%	11.4%	9.3%	8.2%	8.3%

(1) National Statistical Office of Mongolia.

(2) Provisional figures subject to further adjustments.

(3) "Other service activities" represents service excluding wholesale and retail trade, transportation and storage and information and communication.

Traditionally, economic activity in Mongolia has been based on agriculture and animal husbandry, but recently the focus has shifted to the mining sector as the country is well-endowed with some of the largest mineral deposits in the world. There is evidence of significant deposits of uranium, gold, lead, zinc and rare earth metals in Mongolia. The mining sector is also a predominant source of foreign currency for the country, with mineral products representing approximately 89.2%, 81.9%, 83.0%, 78.8% and 70.8% of total exports in 2012, 2013, 2014, 2015 and 2016, respectively.

To reduce its reliance on commodity reserves, to create new job opportunities and to develop a diverse and sustainable economy, the Government has proposed further development of the agriculture and tourism industries, including the construction of a casino. Developing and strengthening downstream businesses that can service the mining industries as well as the non-mining industries will be important for Mongolia to ensure development of goods and services beyond mining as well as to provide well-paying jobs and more equitable wealth distribution and diversification of the economy.

In the Spring 2010 session, Parliament passed the State Policy of Railway Development. According to the policy, construction will be divided into three phases as the Government aims to link Mongolia's eastern railways directly to sea ports in China and Russia to increase access to international markets. Phase I involves the construction of a 1,100-kilometer main railway line from the Tavan Tolgoi coal deposit to Choibalsan on the northern Russian border and the progress of the construction of this railway line will depend on Mongolia's economic condition and the availability of financing. Phase II will connect the mineral deposits along the southern perimeter of Mongolia to the main railway line and to the PRC market. Phase II involves the construction of four railway lines: (i) Nariin Sukhait — Shiveekhuren railway line; (ii) Tavan Tolgoi — Gashuun Sukhait railway line; (iii) Khuut — Bichigt railway line; and (iv) Khuut — Numrug railway line. The feasibility study for the Nariin Sukhait — Shiveekhuren railway line has been completed and construction is expected to be completed by 2018 with an expected total investment amount of US\$150.0 million. Completion of the Tavan Tolgoi — Gashuun Sukhait railway line is included in the 2016-2020 Government Action Plan. Mongolian Railway SOCS has been granted a concession to construct the Tavan Tolgoi — Gashuun Sukhait railway line, which is expected to be completed by 2020 with an expected total investment amount of US\$1,100.0 million. The Khuut — Bichigt railway line is included in the 2016-2020 Government Action Plan and construction is expected to be completed by 2019 with an expected total investment amount of US\$988.0 million. As of the date of this offering memorandum, the feasibility study for the Khuut — Numrug railway line is in progress.

### ***Inflation***

Mongolia's economy is subject to supply and demand pressures. On the supply side, Mongolia is a landlocked country, experiences severe winter conditions and is geographically large, all of which result in high transport costs and the potential for supply bottlenecks. On the demand side, mineral exports are a key driver of the economy but are also subject to global commodity price volatility. Government spending, moreover, is largely relative to the non-mineral economy (equivalent to roughly two-thirds of non-mineral GDP), which makes changes in government spending a key source of demand volatility.

According to the IMF, inflation in Mongolia has been volatile, reaching 30% in 2008, decreasing to a negative inflation rate in 2009 and then increasing in each subsequent year. IMF's forecast of the inflation rate of Mongolia was 6.6% for 2015, 6.9% for 2016 and 7.1% for 2017.

Year-on-year inflation is measured by the consumer price index (“CPI”) and reflects the annual percentage change in the cost to the average consumer of acquiring a basket of goods and services that may be fixed or changed at specified intervals, such as on a yearly basis. In January 2012, the CPI basket was extended from 289 to 329 items with prices from December 2010 used as a base period. This change in the CPI basket affects the comparability of year-on-year inflation rates pre and post January 1, 2012.

The following table sets forth the levels of inflation for the major categories of goods contained in the CPI basket for the periods indicated:

Year-on-Year Inflation	For the year ended December 31,					
	2011 <sup>(1)</sup>	2012 <sup>(1)</sup>	2013 <sup>(1)</sup>	2014 <sup>(2)</sup>	2015 <sup>(3)</sup>	2016 <sup>(4)</sup>
	(MNT millions)					
Food and non-alcoholic beverages . . . . .	8.6%	17.5%	13.3%	8.4%	(6.1%)	1.2%
Alcoholic beverages and tobacco . . . . .	2.9%	54.4%	13.4%	10.3%	1.4%	2.7%
Housing, water, electricity and fuels . . . . .	12.7%	11.0%	7.8%	16.3%	3.2%	(0.9%)
Furnishing, household equipment and tools . . . . .	5.6%	10.2%	18.2%	11.5%	5.1%	1.4%
Clothing, footwear and cloth . . . . .	12.4%	16.1%	17.6%	14.3%	5.5%	1.5%
Transport . . . . .	12.5%	6.5%	3.0%	8.6%	1.4%	(0.8%)
Education . . . . .	9.9%	15.2%	27.2%	16.8%	23.1%	2.5%
Miscellaneous goods & services . . . . .	4.7%	7.4%	17.2%	11.8%	5.1%	3.1%
Communication . . . . .	(0.1%)	(1.5%)	(0.3%)	0.0%	(0.8%)	0.1%
<b>Overall . . . . .</b>	<b>10.2%</b>	<b>14.0%</b>	<b>12.5%</b>	<b>11.0%</b>	<b>1.9%</b>	<b>1.1%</b>

- (1) National Statistical Office of Mongolia, Monthly Bulletin, December 2013.  
(2) National Statistical Office of Mongolia, Monthly Bulletin, December 2014.  
(3) National Statistical Office of Mongolia, Monthly Bulletin, December 2015.  
(4) National Statistical Office of Mongolia, Monthly Bulletin, December 2016.

According to the National Statistical Office of Mongolia, the year-on-year inflation in 2012 was 14.0%, compared to 12.5% in 2013. Prior to 2013, the main contributors of the inflation were the rising fuel and meat prices. In October 2012, the Bank of Mongolia and the Government implemented the Price Stabilization Program intended to control and regulate the prices of fuel, food and other common goods and the Government also introduced policies to support the supply of common goods. See below “— Inflation.” As a result, the inflation rate declined to 8.3% in June 2013. Since August 2013, the inflation rate began increasing due to the increase in prices of food, clothing, footwear, housing, water and electricity and depreciation of the Tugrik. In 2014, Mongolia’s year-on-year inflation rate was 11.0%, exceeding the Bank of Mongolia’s target rate of 8.0%. According to the Bank of Mongolia, inflation in the first half of 2014 was driven by increases in food prices and the effects of exchange rate depreciation on import prices. The decline of year-on-year inflation in 2014 to 11.0%, in conjunction with the Price Stabilization Program, reduced food prices in Mongolia. According to the National Statistical Office of Mongolia, inflation for 2015 was 1.9% compared to 2014 as the implementation of the Fiscal Stability Law reduced demand-pull inflationary pressure. This was

primarily attributable to decreases in CPI for food and non-alcoholic beverages, which was partially offset by increases in CPI for education and clothing, footwear and cloth. In 2016, Mongolia's year-on-year inflation rate was 1.1%, which was primarily attributable to decreases in CPI for housing, water, electricity and fuels, furnishing, household equipment and tools, education and transport. According to the Bank of Mongolia, it is expected that there will be reduced inflation in 2017 until the second quarter due to continuing economic difficulties. Going forward, the Government will continue to use initiatives such as the price stabilization program and more prudent fiscal policy to manage inflation.

Target inflation rates have been based on the assumption that the implementation of the Fiscal Stability Law will significantly reduce the demand-pull inflationary pressure in upcoming years, which are caused by pro-cyclical budget expansion. The Government and the Bank of Mongolia have been implementing the Price Stabilization Program in order to manage cost-push inflation, which was caused by supply disruptions and bottleneck effects. The Price Stabilization Program includes specific programs on food price stabilization, retail gasoline price stabilization, trade and logistics financing as well as construction and housing price stabilization. The Price Stabilization Program continued to be implemented until July 2014, when it was discontinued due to increases in the deficit and appreciation of foreign currency. The Bank of Mongolia also increased its policy rate from 10.5% to 13.0% on January 15, 2015, in an attempt to reduce domestic demand, narrow the current account deficit and moderate the inflation rate. The policy rate was subsequently increased to 15.0% in August 2016 to address sudden volatility in the exchange rate and ensure economic stability in the medium term. The policy rate was reduced to 14.0% in December 2016. On November 17, 2016, Parliament approved the Main Guidelines/Directions on Monetary Policy for 2017. Going forward, the Bank of Mongolia aims to maintain a monetary policy that will be directed towards overcoming the current economic difficulties, stabilizing the economy and facilitating sustainable growth. In line with this framework, the Government aims to maintain inflation at below 8.0% from 2017 to 2019.

### ***Commodity Prices and Mining Dependency***

Mongolia's economy is heavily dependent on exports and foreign capital. Any significant decline in international prices for commodities, including coal and copper, Mongolia's main exports, poses risks to Mongolia's export revenue. The sovereign debt crisis in Europe and slowing economic growth in China have negatively affected and may continue to negatively affect Mongolia's economy which is commodity driven. The slowdown in China's economy has led to a decrease in Chinese demand for global commodity imports and has put downward pressure on commodity prices, negatively impacting Mongolia's export growth, which has resulted in a decrease of external balances. However, China remained the largest export market for Mongolia in 2014, 2015 and 2016, comprising 82.3%, 87.9% and 79.3% of Mongolia's exports, respectively. However, China's economic growth slowed to 7.4% in 2014, which has in turn adversely affected Mongolian economy.

### ***Oil Prices and Dependency on Russia***

Mongolia purchases nearly all of its petroleum from Russia. Reliance on essential energy supplies such as oil makes Mongolia vulnerable to supply shortfall and rising prices. Mongolia has suffered numerous fuel shortages since the 1990s. In 2011, Russia cut oil and diesel exports to Mongolia due to shortages in its own domestic market. These circumstances affected Mongolia's mining activity and caused, among other things, a significant increase in gas transportation costs. They also had a negative

impact on various sub-sectors including construction, agriculture and mining, as these oil and diesel shortages arose during the summer months when demand was of its highest. The diesel shortage forced the Government to temporarily halt diesel supplies to certain miners, suspend some railway operations and use emergency funds.

In an effort to reduce its dependence on Russia, the Government is looking to diversify supply by signing contracts with other suppliers. The Government is also planning to increase its domestic production of oil through the construction of its own refineries. The first refinery is expected to be built by Japan's Marubeni Corporation, Toyo Engineering Corporation and Mongolia's Mongol Sekiyu in Darkhan City approximately 200 kilometers north of Ulaanbaatar, requiring an investment of US\$600 million. Feasibility studies, environmental impact assessment and design work were completed in 2015. In 2015, India's Prime Minister Narendra Modi announced the extension of a credit line of US\$1.0 billion to Mongolia to expand Mongolia's economic capacity and infrastructure. The Government intends to use this credit line to finance the construction of a new oil refinery (with an annual processing capacity of 1.5 million tons) once the government of India approves the use of proceeds. The Government expects Parliament to ratify an agreement between the Government and Export-Import Bank of India for this credit line in the first quarter of 2017.

Mongolia uses approximately one million tons of petroleum products annually, with diesel accounting for up to 60% of such consumption. Separately, in an effort to reduce its dependency on Russia, Mongolia has also been conducting exploration activities which revealed positive geological and geophysical data. Recent discoveries of oil have been reported. This indicates a high probability of petroleum reserves existing in Mongolia. While Mongolia's other natural resources, such as coal, are being harvested at a higher rate than oil, the untapped oil deposits represent a favorable petroleum potential in Mongolia.

## **Principal Sectors of the Economy**

### ***Overview***

#### ***Industry***

The industry sector consists of four main sub-sectors: (i) mining and quarrying, (ii) manufacturing, (iii) construction, and (iv) electricity, gas steam and air conditioning supply.

In 2013, 2014, 2015 and 2016, the industry sector represented 30.5%, 31.5%, 31.1% and 32.3%, respectively, of nominal GDP. In 2016, the industry sector recorded a negative growth rate of 1.2%. This negative growth rate was primarily a result of contraction in the construction sub-sector of 15.9% despite positive growth in the mining and quarrying and electricity, gas, steam and air conditioning supply sub-sectors. In 2015, the industry sector recorded a growth rate of 9.7%. This growth rate was mainly driven by the growth of the mining and quarrying sub-sector, which recorded a growth rate of 14.1%, but was offset by the contraction of the water supply and information and communication sub-sectors, which recorded a negative growth rate of 7.0% and 2.1%, respectively. In 2014, the industry sector recorded a growth rate of 12.7%. This growth rate was mainly driven by the growth of the mining and quarrying sub-sector, which recorded a growth rate of 19.4% in 2014. The industry sector grew by 14.6% in 2013 compared to a growth rate of 12.3% in 2012. Growth in the industry sector in 2013 was primarily driven by growth in the agriculture and mining and quarrying sub-sectors, which increased by 19.2% and 18.5%, respectively, in 2013 compared to 21.1% and 8.3%, respectively in 2012.

The Government intends to amend its current legislation regarding industrialization, trade and small and medium manufacturers. The Government aims to provide more support to the industry sector from a technology perspective.

### *Agriculture*

The agriculture sector consists of agriculture, forestry and fishing and represented 13.4%, 13.3%, 13.4% and 12.2% of nominal GDP in 2013, 2014, 2015 and 2016, respectively. In 2016, the agriculture sector recorded a growth rate of 4.8% due to the implementation of projects supported by several international agencies. However, unfavorable weather conditions also affected the agriculture sector in 2016, resulting in slower growth compared to 2015.

In 2015, the agriculture sector recorded a growth rate of 10.7%. In 2014, the agriculture sector recorded a growth rate of 13.7%, primarily due to favorable weather in 2014. In 2013, the agriculture sector recorded a growth rate of 19.2% in 2013, compared to a growth rate of 21.1% in 2012.

### *Service*

The service sector consists of six main sub-sectors: (i) wholesale and retail trade, (ii) transportation and storage, (iii) information and communication, (iv) financial and insurance activities, (v) real estate activities and (vi) education.

In 2016, the service sector represented 47.1% of nominal GDP and recorded a growth rate of 1.7% primarily due to an increase in transportation and storage and accommodation and food service activities. In 2015, the service sector, which represented 47.4% of nominal GDP, recorded a growth rate of 1.0%. In 2014, the service sector, which represented 45.8% of nominal GDP, recorded a growth rate of 7.8%, compared to 7.8% in 2013. The increase in nominal GDP was primarily due to an increase in real estate activities and financial and insurance activities.

### **Industry**

#### *Mining and Quarrying*

Mining and quarrying is Mongolia's most important economic sub-sector and is anticipated to continue to be the main driver of Mongolia's economic growth.

The mining and quarrying sub-sector grew by 0.7% in 2016, compared to a growth rate of 14.1% in 2015, primarily due to continued weak demand and volatile commodities prices, despite increased production of copper concentrate, coal, gold and iron ore. In 2016, the mining and quarrying sub-sector accounted for 20.0% of nominal GDP.

The mining and quarrying sub-sector grew by 14.1% in 2015, compared to a growth rate of 19.4% in 2014, primarily due to weaker demand and lower commodities prices, including for coal and copper. In 2015, the mining and quarrying sub-sector accounted for 17.1% of nominal GDP.

The mining and quarrying sub-sector grew by 19.4% in 2014, compared to a growth rate of 18.5% in 2013, primarily due to the commencement of exports by Oyu Tolgoi in October 2013. In 2014, the mining and quarrying sub-sector accounted for 16.5% of nominal GDP.



The mining and quarrying sub-sector grew by 18.5% in 2013, compared to 8.3% in 2012, primarily due to growth in export and copper production sectors. In 2013, the mining and quarrying sub-sector accounted for 14.9% of nominal GDP.

The mining and quarrying sub-sector is also a predominant source of exports, with mineral products representing approximately 89.2%, 81.9%, 83.0%, 78.8% and 70.8% of total exports in 2012, 2013, 2014, 2015 and 2016, respectively. Mongolia's mineral exports are primarily comprised of coal, copper, gold, zinc and rare earth metals and, to a lesser extent, iron ore, molybdenum and crude petroleum. The contribution of copper to Mongolia's exports significantly increased by approximately 171.2% in 2014 compared to 13.2% in 2013. Total copper exports were 1,378.1 thousand tons in 2014 and approximately 649.8 thousand tons in 2013. Oyu Tolgoi LLC produced 148,400 tons of copper and 589,000 ounces of gold in concentrate in 2014 and 202,200 tons of copper and 656,000 ounces of gold in concentrate in 2015. In 2016, Oyu Tolgoi produced 201,300 tons of copper and 300,000 ounces of gold in concentrate. It is estimated that Mongolia's copper concentrate, gold, coal and iron ore exports will be 1.4 billion tons 31.3 million tons, 19.8 million tons and 5.0 million tons, respectively, in 2015.

The contribution of coal to Mongolia's exports has significantly increased in the last couple of years to approximately 47.2% in 2011 compared to 16.2% in 2009. Total coal exports were 19.5 million tons in 2014, 18.4 million tons in 2013 and 20.9 million tons in 2012. In 2013, exports of Mongolyn Alt Company ("MAK"), a privately held company established in 1993, accounted for approximately 20.7% of Mongolia's coal exports. MAK is one of the largest mining conglomerates in Mongolia and runs coal mining operations at three locations. Meanwhile, Erdenes Tavan Tolgoi exported 5.6 million tons, 4.2 million tons and 7.7 million tons of coal in 2014, 2015 and 2016, respectively. According to the Ministry of Mining and Heavy Industry, once railway infrastructure is in place and total coal export is expected to increase to 50 million tons in 2017. Pursuant to an "Oil Price Stabilization Program" under the "Price Stabilization Program," the Bank of Mongolia has provided discount credits to oil importers and has increased oil inventory to cushion against foreign exchange risk. As a result, the oil price in Mongolia has stabilized in recent periods.

In 2013, 106 mine exploration licenses were revoked by the Government due to a criminal case involving alleged corruption of former senior government employees in the Ministry of Mining and Heavy Industry. Such revocation of licenses became effective on October 30, 2013, and numerous claims by certain licenseholders were raised. In April 2014, the Ministry of Mining (presently the Ministry of Mining and Heavy Industry) proposed a solution for all stakeholders to resolve disputes relating to the revocation. Government Resolution No. 216 dated July 4, 2014 ratified "the regulation on granting 106 exploration rights via fair tender announcement, which have been unlawfully distributed and annulled." This regulation allows companies that had their exploration rights annulled to participate in the tender without paying extra costs in addition to their costs incurred in relation to exploration activities that have already commenced, according to the Ministry of Mining and Heavy Industry.

### *Manufacturing*

Mongolia's manufacturing sub-sector is a significant contributor to increases in GDP. The primary components of the manufacturing sub-sector are processing of food and beverage, wool and cashmere, leather, textiles, basic metals and non-metallic mineral products. Food and beverage manufacturing is the largest component of the manufacturing sub-sector, comprising approximately 40.0% of the manufacturing sub-sector, and which consists mainly of processing of meat, dairy, flour and associated

products, alcoholic beverages and salt. The main focus of the Ministry of Mining and Heavy Industry with regards to heavy industry sector is on exports of processed natural resources and value-added products. The Government offered certain economic incentives for certain products such as wool and leather to improve the quality of these raw material products and their subsequent processing.

The manufacturing sub-sector had a negative growth rate of 1.8% for in 2016, compared to a growth rate 1.3% in 2015, primarily due to a decrease in investment which resulted in a decrease in demand for construction raw materials. In 2016, the manufacturing sub-sector accounted for 6.7% of nominal GDP.

The manufacturing sub-sector had a growth rate of 1.3% in 2015, compared to a growth rate of 4.2% in 2014, primarily due to the continued economic slowdown in Mongolia. In 2015, the manufacturing sector accounted for 7.6% of nominal GDP.

The manufacturing sub-sector grew by 4.2% in 2014, compared to a growth rate of 10.3% in 2013, primarily due to the overall economic slowdown in Mongolia in 2014. In 2014, the manufacturing sector accounted for 8.8% of nominal GDP.

The manufacturing sub-sector grew by 10.3% in 2013, compared to a growth rate of 8.7% in 2012, primarily due to the increased production capacity and efficiency. In 2013, the manufacturing sector accounted for 8.7% of nominal GDP.

### *Construction*

In 2013, 18,012 apartments were constructed. In addition, the Government implemented a Housing Mortgage Program in 2013, which provided Mongolian citizens with housing mortgage loans at an interest rate of 8.0% per annum for a maximum of 20 years with respect to a Mongolian citizen's purchase of an apartment up to 80.0 square meters. Construction of a total of 122,000 apartments is expected to be completed in 2016. Of these 122,000 apartments, 100,000 are part of the "100,000 Housing Project," which was ratified by Government Resolution No. 341 on November 31, 2011 and is one of Mongolia's largest ongoing construction projects, is expected to build 75,000 homes in Ulaanbaatar and 25,000 close to new mining developments. In total, 17 different locations have been set aside for the new housing projects in and around Ulaanbaatar. As of December 31, 2015, 95,985 apartment units had been built since the 100,000 Housing Project was ratified. In line with increased construction activities, the production of construction materials such as cement have also increased in order to meet increased demand. To further support the increased construction activities, the Government initiated a "Program to Support the Production of Construction Materials and Infrastructure Project for Mid-Term."

The construction sub-sector had a negative growth rate of 15.9% in 2016, compared to a negative growth rate of 0.6% in 2015, primarily due to a decrease in investment and the economic slowdown in 2016. In 2016, the construction sub-sector accounted for 3.4% of nominal GDP.

The construction sub-sector had a negative growth rate of 0.6% in 2015, compared to a negative growth rate of 4.3% in 2014, primarily due to a decrease in investment and the economic slowdown in 2015. In 2015, the construction sub-sector accounted for 4.2% of nominal GDP.

The construction sub-sector had a negative growth rate of 4.3% in 2014, compared to a growth rate of 8.0% in 2013, primarily due to an increase in prices for raw materials. In 2014, the construction sub-sector accounted for 4.4% of nominal GDP.

The construction sub-sector grew by 8.0% in 2013, compared to a growth rate of 85.3% in 2012, primarily due to the implementation of the Price Stabilization Program and Housing Mortgage Program. In 2013, the construction sub-sector accounted for 5.1% of nominal GDP. In 2012 and 2013, the Government's Price Stabilization Program and its sub-project on stabilizing apartment prices also contributed to the growth of the construction sub-sector.

#### *Electricity, Gas Steam and Air Conditioning Supply*

The electricity, gas steam and air conditioning supply sub-sector has experienced a high growth rate since 2010 and is expected to continue to grow rapidly in the future as the total demand for energy in Mongolia increases in line with urbanization and industry development.

The electricity, gas, steam and air conditioning supply sub-sector grew by 4.6% in 2016, compared to a growth rate of 4.5% in 2015, primarily due to an increase in the production of electricity and thermal energy by TPP #4. In 2016, the electricity, gas, steam and air conditioning supply sub-sector accounted for 1.8% of nominal GDP.

The electricity, gas, steam and air conditioning supply sub-sector grew by 4.5% in 2015, compared to a growth rate of 6.2% in 2014, primarily due to a continued increase in demand for utilities. In 2015, the electricity, gas, steam and air conditioning supply sub-sector accounted for 1.6% of nominal GDP.

The electricity, gas, steam and air conditioning supply sub-sector grew by 6.2% in 2014, compared to a growth rate of 5.4% in 2013, primarily due to the increased demand for utilities. In 2014, the electricity, gas, steam and air conditioning supply sub-sector accounted for 1.4% of nominal GDP.

The electricity, gas, steam and air conditioning supply sub-sector grew by 5.4% in 2013, compared to a growth rate of 5.0% in 2012, primarily due to the increased demand for utilities. In 2013, the electricity, gas, steam and air conditioning supply sub-sector accounted for 1.4% of nominal GDP.

#### *Agriculture*

The agriculture sector consists of agriculture, forestry and fishing. Mongolia's agriculture sector is heavily focused on livestock, with 73% of land area allocated for pastures. Livestock raised commercially include sheep, goats, cattle, horses and camels, and are used for meat, dairy and fiber production. Primary crops produced include wheat, potatoes and fodder.

The agriculture sector recorded negative growth from 2009 to 2011 due to reduced production of livestock as a result of extreme winter conditions in 2009 and 2010. The agriculture sector subsequently recorded significant growth from 2012 to 2015. The agriculture sector's relative contribution to Mongolia's GDP has been declining since 1995 due to growth in the industry sector. In 1995, the agriculture sector's contribution to GDP was 38.0%, which decreased to 12.2% in 2016.

The agriculture sector grew by 4.8% in 2016, compared to a growth rate of 10.7% in 2015, primarily due to an increase in livestock and the harvest of grain, which was offset by unfavorable weather conditions. In 2016, the agriculture sector accounted for 12.2% of nominal GDP.

The agriculture sector grew by 10.7% in 2015, compared to a growth rate of 13.7% in 2014, primarily due to continued favorable weather conditions and improved production capacity. In 2015, the agriculture sector accounted for 13.4% of nominal GDP.

The agriculture sector grew by 13.7% in 2014, compared to a growth rate of 19.2% in 2013, primarily due to further improved weather conditions compared to 2013, which resulted in stronger production capacity. In 2014, the agriculture sector accounted for 13.3% of nominal GDP.

The agriculture sector grew by 19.2% in 2013, compared to a growth rate of 21.1% in 2012, primarily due to further improved weather conditions compared to 2012, which resulted in stronger production capacity. In 2013, the agriculture sector accounted for 13.4% of nominal GDP.

#### *Agricultural Products*

In 2013, the Government's Resolution No. 141 provided for the establishment of a state-owned exchange for agricultural products and raw materials. Pursuant to this resolution, the State-owned Mongolian Agricultural Commodity Exchange LLC was established in 2013 and commenced operations in the same year. Goat cashmere is the primary commodity traded at the exchange, followed by sheep wool, food grain, oilseed and livestock. As of 2015, the exchange traded 6,611 tons of cashmere for MNT 367.9 billion, 7,714 tons of sheep wool for MNT 13.4 billion and 396.0 tons of camel wool for MNT 2.0 billion.

The Government has provided incentives for wool and leather production since 2011. The purpose for these are to optimize and improve manufacturing systems and the quality of raw material preparation, to provide raw materials to national industries, to improve the processing of raw materials and to create job opportunities. The Government is also working to develop insurance schemes for certain crops.

#### *Forestry*

In 2015, the logging, forest clearance and wood processing industries consists of over 400 entities and 200 businesses and employed approximately 5,000 individuals. Together, these entities and businesses produced 2% to 3% of total output in the processed goods industry. Approximately 30% of wood, lumber and furniture goods is manufactured domestically, and the remainder is imported.

In addition to improving the capacity of the forestry sector to meet the needs of the domestic market, the Government aims to engage in forest clearing with the help of professional forestry organizations and forestry communities. The Government plans to promote the industrialization of the forestry sector and plans to open wood importing/semi-processing centralized supply logistics centers in Selenge and Khuvsgul, as well as wooden raw material processing plants, construction timber plants and pellet factories. These measures are expected to improve utilization rate for wooden raw materials to 90% and is expected to meet at least 70% of domestic demand for wood and wooden products.

Approximately 30.0% of forestry products, including wood, lumber and furniture, are manufactured domestically, while the remainder of forestry products are imported. To improve the performance of forestry sector, the Government is engaged in improving wooden raw material utilization by streamlining operations and engaging in forest cleaning.

#### *Food Production*

The Ministry of Food, Agriculture and Light Industry is also responsible for food production and sustainability and works with the National Council of Food Safety regarding food imports and exports. In 2015, food manufacturing (measured in 2005 constant prices) reached a total of MNT 345.3 billion,

representing an increase of over 50% from the level recorded in 2009. The food production industry comprises approximately 10% of the total output of the industry sector and is expected to maintain this ratio. Domestic supply accounts for 100% of essential products such as meat, flour and potatoes and 10% of milk and dairy products, 52% of vegetables and 26% of eggs.

### *Livestock*

Livestock occupies a critical role in the livelihoods of Mongolian citizens. In 2016, approximately 223,761 families, of which approximately 160,650 were herder families, owned livestock. Individual herders numbered approximately 311,373.

For the year ended December 31,						
	2011 <sup>(1)</sup>	2012 <sup>(2)</sup>	2013 <sup>(3)</sup>	2014 <sup>(3)</sup>	2015 <sup>(3)</sup>	2016 <sup>(3)</sup>
	(thousands)					
Camel .....	280.1	305.8	321.5	349.3	368.0	401.3
Horse .....	2,112.9	2,330.4	2,619.4	2,995.8	3,295.3	3,635.5
Cattle .....	2,339.7	2,584.6	2,909.5	3,413.9	3,780.4	4,080.9
Sheep .....	15,668.5	18,141.4	20,066.4	23,214.8	24,943.1	27,856.6
Goat .....	15,934.6	17,558.7	19,227.6	22,008.9	23,592.9	25,574.9
<b>Total</b> .....	<u>36,335.8</u>	<u>40,920.9</u>	<u>45,144.3</u>	<u>51,928.6</u>	<u>55,979.8</u>	<u>61,549.2</u>

Source: National Statistical Office of Mongolia

- (1) National Statistical Office of Mongolia.
- (2) National Statistical Office of Mongolia, Statistical Yearbook 2015.
- (3) National Statistical Office of Mongolia, Monthly Bulletin, December 2016.

Mongolia has a vast quantity and range of livestock farms. To support the livestock industry, the Government is currently in the process of developing laws to protect pastures, including digging water wells, as part of its “Healthy Food, Healthy Citizen” program.

### *Crop Production*

Crop production in Mongolia was scientifically developed following the First Crop Rehabilitation campaign in 1959 aimed to boost domestic production and supply of wheat, potato and vegetables. Within the crop production sector, flour plants with production capacities of over 200,000 tons per year were established in Ulaanbaatar and the Selenge, Uvs, Khuvsgul, Bulgan, Khentii and Dornod aimags. The success of the first campaign led to further crop rehabilitation campaigns in 1976 and 2008, reaffirming the Government’s policy for development of crop production, increasing arable land and harvest amount and introducing advanced techniques and technologies to the agriculture sector. In line with this goal, the Government is currently taking actions to promote sustainable development of crop production through increasing the domestic supply of grain, potato, vegetables and fruits, improving the legal framework and invigorating the economic environment, advancing technology, improving soil productivity, plant protection and storage as well as establishing distribution networks.

In 2016, the agriculture sector cultivated 293,262 hectares of land for wheat, 15,503 hectares of land for potato and 8,311 hectares of land for vegetables. The agriculture sector harvested 387,043 tons of wheat, 191,619 tons of potatoes and 101,762 tons of vegetables in 2016.

The Government is in the process of implementing two national programs in the agriculture sector, including the “State Policy on Crop Production” and the “Sustainable Development of Crop Production,” which are intended to transform crop production in Mongolia into a sustainable and export-oriented sector. It is intended that these policies will encourage cooperative farming and increase the efficiency of current cultivation and harvesting techniques. The Government is cooperating with a number of foreign institutions in an effort to increase funding for planned improvements to the agricultural sector.

## *Service*

### *Wholesale and Retail Trade*

The wholesale and retail trade sub-sector had a negative growth rate of 3.2% in 2016, compared to a negative growth rate of 7.0% in 2015, primarily due to the economic slowdown in 2016 and a decrease in imports. In 2016, the wholesale and retail trade sub-sector accounted for 11.3% of nominal GDP.

The wholesale and retail trade sub-sector had a negative growth rate of 7.0% in 2015, compared to a growth rate of 2.4% in 2014, primarily due to increased import prices, which allowed the substitution of less expensive domestic wholesale and retail products. In 2015, the wholesale and retail trade sub-sector accounted for 11.7% of nominal GDP.

The wholesale and retail trade sub-sector had a growth rate of 2.4% in 2014, compared to growth of 8.9% in 2013, primarily due to the economic slowdown in 2014. In 2014, the wholesale and retail trade sub-sector accounted for 11.4% of nominal GDP.

The wholesale and retail trade sub-sector grew by 8.9% in 2013, compared to 12.0% in 2012, primarily due to the economic slowdown in 2013. In 2013, the wholesale and retail trade sub-sector accounted for 11.8% of nominal GDP.

### *Transportation and Storage*

The transportation and storage sub-sector is expected to grow due to the increased demand for transportation infrastructure and transportation services driven by overall economic growth resulting from the increase in mining activities. The transport sub-sectors operating in the country are via air, rail, road and water.

In 2016, the transportation and storage sub-sector grew by 14.8%, compared to a growth rate of 4.5% in 2015, primarily due to an increase in the production of commodities, which resulted in an increase in demand for the transportation of these commodities. In 2016, the transportation and storage sub-sector accounted for 5.2% of nominal GDP.

In 2015, the transportation and storage sub-sector grew by 4.5%, compared to a growth rate of 14.8% in 2014, primarily due to a decrease in commodities exports. The overall volume of carried freight was 35,828.9 thousand tons, representing a decrease of 19.7% from 2014, which included 16,682.2 thousand tons of freight transported by roads. Freight transported by roads accounted for 46.6% of total freight transportation. The overall number of passengers increased by 84,200 thousand, or 24.5%, compared to 2014. In 2015, the transportation and storage sub-sector accounted for 5.0% of nominal GDP.



In 2014, the transportation and storage sub-sector increased by 14.8% compared to a negative growth rate of 1.4% in 2013. The decrease in 2013 was influenced by a decline in the amount of coal produced and slower economic growth. The growth of transportation and storage sub-sector was fueled by an increase of in coal produced and a sharp increase of copper exports. The overall volume of carried freight was 58,639.2 thousand tons, representing an increase of 17.7% from 2013, which included 37,639.6 tons of freight transported by roads. Freight transported by roads accounted for 64.2% of total freight transportation. In 2014, 77% of the goods transported by roads was coal and 8% was iron ore. The overall number of passengers increased by 37,279.3 thousand, or 12.1%, compared to 2013. In 2014, the transportation and storage sub-sector accounted for 5.0% of nominal GDP.

The transportation and storage sub-sector had a negative growth rate of 1.4% in 2013, compared to a growth of 8.1% in 2012, primarily due to a decrease in coal prices, which resulted in less coal production and less transportation needs, as well as temporary suspension of operation of some companies as a result of the economic slowdown. The overall volume of carried freight decreased by 3.6 thousand tons compared to 2012, primarily due to the economic downturn. The overall number of passengers decreased by 0.2 million, or 5.1%, compared to 2012. In 2013, the transportation and storage sub-sector accounted for 4.4% of nominal GDP.

### *Real Estate*

The real estate sub-sector grew by 0.9% in 2016, compared to a growth rate of 4.3% in 2015, primarily due to the effects of the economic downturn despite an increase in demand for housing. In 2016, the real estate sub-sector accounted for 2.2% of nominal GDP.

The real estate sub-sector grew by 4.3% in 2015, compared to a growth rate of 3.7% in 2014, primarily due to the increased availability of affordable housing with the completion of construction projects and the continued implementation Housing Mortgage Program. In 2015, the real estate sub-sector accounted for 2.1% of nominal GDP.

The real estate sub-sector grew by 3.7% in 2014, compared to 3.4% in 2013, primarily due to implementation of the Housing Mortgage Program in 2013. In 2014, the real estate sub-sector accounted for 2.2% of nominal GDP.

The real estate sub-sector grew by 3.4% in 2013, compared to 2.0% in 2012, primarily due to implementation of the Housing Mortgage Program in 2013. In 2013, the real estate sub-sector accounted for 2.2% of nominal GDP.

### *Education*

The education sub-sector is expected to continue to grow in the future as the Government increases its investment in education to improve education infrastructure.

The education sub-sector had a growth rate of 3.4% in 2016, compared to a negative growth rate of 0.7% in 2015, primarily due to an increase in enrollment in secondary and higher education institutions. In 2016, the education sub-sector accounted for 5.3% of nominal GDP.

The education sub-sector had a negative growth rate of 0.7% in 2015, compared to a growth rate of 1.6% in 2014, primarily due to rising tuition fees and less income allocated to education. In 2015, the education sub-sector accounted for 5.4% of nominal GDP.



The education sub-sector had a growth rate of 1.6% in 2014, compared to a growth rate of 1.3% in 2013, primarily due to the implementation of a number of training programs at many vocational education and training centers. In 2014, the education sub-sector accounted for 4.7% of nominal GDP.

The education sub-sector grew by 1.3% in 2013, compared to a growth rate of 1.1% in 2012, primarily due to the implementation of a number of training programs at many vocational education and training centers. In 2013, the education sub-sector accounted for 4.1% of nominal GDP.

#### *Information and Communication*

The information and communication sub-sector had a negative growth rate of 0.5% in 2016, compared to a negative growth rate of 2.1% in 2015, primarily due to decreased demand for mobile phone accounts. In 2016, the information and communication sub-sector accounted for 4.5% of nominal GDP.

The information and communication sub-sector had a negative growth rate of 2.1% in 2015, compared to a growth rate of 4.7% in 2014, primarily due to a decreased number of mobile and cable television users and telephone lines. In 2015, the information and communication sub-sector accounted for 4.4% of nominal GDP.

The information and communication sub-sector grew by 4.7% in 2014, compared to a growth rate of 14.9% in 2013, primarily due to increased procurement of advanced equipment and information services as the number of mobile and cable television users increased. In 2014, the information and communication sub-sector accounted for 4.5% of nominal GDP.

The information and communication sub-sector had a growth rate of 14.9% in 2013, compared to a growth rate of 16.2% in 2012, primarily due to increased procurement of advanced equipment and information services. In 2013, the information and communication sub-sector accounted for 4.5% of nominal GDP.

#### *Financial and Insurance Activities*

The financial and insurance activities sub-sector is expected to grow due to the expected increase in demand of financial services fueled by the continued growth of the economy.

The financial and insurance activities sub-sector grew by 1.3% in 2016, compared to a growth rate of 14.6% in 2015, primarily due to an increase in loans and deposits, which was offset by the economic downturn in 2016. In 2016, the financial and insurance sub-sector accounted for 6.8% of nominal GDP.

The financial and insurance activities sub-sector grew by 14.6% in 2015, compared to a growth rate of 32.6% in 2014, primarily due to favorable policies implemented by the Bank of Mongolia. In 2015, the financial and insurance sub-sector accounted for 6.9% of nominal GDP.

The financial and insurance activities sub-sector had a growth rate of 32.6% in 2014, compared to a growth rate of 30.8% in 2013, primarily due to the overall economic downturn in 2014. In 2014, the financial and insurance sub-sector accounted for 6.7% of nominal GDP.

The financial and insurance activities sub-sector grew by 30.8% in 2013, compared to a growth rate of 42.4% in 2012, primarily due to the overall economic downturn in 2013. In 2013, the financial and insurance sub-sector accounted for 6.1% of nominal GDP.

## **Mining**

Mongolia's mining industry is still in its early stage of development due in large part to the rugged and remote terrain where key deposits are located. Recent Government initiatives related to infrastructure development, particularly policy statements for national railroad expansion, are expected to accelerate the development of strategic natural resource deposits in the coming years. Key mining projects as well as improvements to infrastructure supporting these mining projects are expected to have a positive impact on Mongolia's overall economic situation as commercial production commences. Parliament has approved the establishment of a commodities exchange in Mongolia and the relevant legislation and policy are under discussion. In 2014, Mongolia and China also signed a memorandum of understanding, pursuant to which Mongolia expects to supply 1.0 billion tons of coal to China over the next 20 years, priced according to market conditions. As part of the 2016-2020 Government Action Plan and the Economic Recovery Plan, the Government expects to expand its mining industry and revitalize the economy pending improved external conditions regarding commodities prices.

### ***Significant Mining Projects***

Mongolia's key mining projects include Oyu Tolgoi and Tavan Tolgoi:

- **Oyu Tolgoi:** Oyu Tolgoi is believed to be one of the world's largest copper-gold reserves under development and is located in the South Gobi region of Mongolia, approximately 550 kilometers south of the capital, Ulaanbaatar, and 80 kilometers north of the Mongolia-Chinese border. Once Oyu Tolgoi reaches full production, it is expected to be the world's third-largest copper mine and, according to the IMF, generate up to one-third of Mongolia's GDP. The Oyu Tolgoi copper mine was discovered in 2001 and, according to Oyu Tolgoi, is expected to produce more than 600,000 tons of copper, 20.3 tons of gold and 93.8 tons of silver per annum once it reaches full production, which is estimated to occur within five to seven years. It has an estimated 2.7 million tons of recoverable copper and 1.7 million ounces of recoverable gold in reserves. Commercial production of the Oyu Tolgoi mine commenced in 2013. A planned concentrator shutdown at Oyu Tolgoi was successfully completed in July 2015, which increased concentrator throughput by 23.9%, increased concentrate production by 39.9%, copper production by 36.4% and gold production by 10.9% compared to 2014.

On October 6, 2009, Rio Tinto and Ivanhoe Mines signed an investment agreement to develop the Oyu Tolgoi mine (the "Investment Agreement"). Under the Investment Agreement, the Government holds a 34% equity stake through Erdenes Oyu Tolgoi LLC, and Turquoise Hill (formerly known as Ivanhoe Mines) holds a 66.0% equity interest. Rio Tinto, a leading global mining company, holds a 51.0% equity interest in Turquoise Hill Resources; the remaining 49.0% is held by non-controlling shareholders. The Investment Agreement has a term of 30 years and can be renewed once for a period of 20 years. It also provides the Government with an option to acquire a further 16.0% equity stake in the Oyu Tolgoi mines one year after renewal of the Investment Agreement and fixes certain major tax rates relating to the mining of Oyu Tolgoi are fixed for the life of the Investment Agreement. As of March 31, 2014, US\$6.2 billion had been invested by Rio Tinto and Turquoise Hill. In recent years, the Government and Rio Tinto have conducted a number of shareholders' meetings to explore solutions for continuing exploration of Oyu Tolgoi, including with respect to better control of exploration expenses. The Investment

Agreement also covers the construction and operations of the project site, which also includes the construction of a 220-kilovolt electrical power line from Oyu Tolgoi to the Chinese border. In addition, meetings with potential investors for the planned power plant to increase Oyu Tolgoi's energy supply were held in November 2015 in Japan and Korea.

In June 2014, Oyu Tolgoi LLC received a Tax Act (Tax Assessment) from the Mongolian tax authority as a result of a general tax audit for the period 2010 through 2012. Oyu Tolgoi LLC appealed the assessment. In September 2014 the Mongolian tax authority reduced the amount of tax, interest and penalties claimed to be payable, from approximately US\$127.0 million to approximately US\$30.0 million. After discussions, in May 2015, Turquoise Hill, which holds a 66.0% equity interest in the Oyu Tolgoi mine, Rio Tinto, which owns 51% of Turquoise Hill, Oyu Tolgoi LLC and the General Department of Taxation of Mongolia signed a separate agreement pursuant to which Oyu Tolgoi LLC agreed to pay the reduced amount by way of settlement to resolve these tax matters.

On May 18, 2015, the Government executed the Mine Plan to address key issues that arose among the shareholders of Oyu Tolgoi and clears the way forward for the full development of the Oyu Tolgoi mine, including restarting the underground phase, where approximately 80.0% of the mine's value resides. The Mine Plan provided a plan for funding, conducting feasibility studies and securing necessary permits for the underground development according to mining industry best practices. According to the Mine Plan, the development of Oyu Tolgoi's Phase II will require an estimated US\$6.8 billion in capital expenditures on imports and payments to foreign sub-contractors and US\$9.0 billion in expenditures to be spent in Mongolia, including domestic purchases, over seven years. Rio Tinto conducted an underground feasibility study with respect to future operations of the Oyu Tolgoi project in September 2014, which was finalized and presented to the board of directors of Oyu Tolgoi LLC. In March 2015, Oyu Tolgoi LLC filed a statutory feasibility study with the Mongolian Minerals Council ("MMC") which was accepted and approved by the MMC in June 2015. From the feasibility study, expansion capital of US\$5.4 billion is required for the underground project, which is consistent with the US\$5.1 billion estimate in the 2013 OT Technical Report (excluding US\$0.5 billion of capital deployed in 2013 and 2014). In August 2015, the feasibility study was completed and preparations were made to restart Oyu Tolgoi's Phase II underground development. Given the scale of the investment required during the construction phase and anticipated production volumes, the Government expects that the underground expansion will have a significant impact on the national economy.

In September 2015, the Government signed the request of MIGA for host country approval, which represented a significant milestone in the project financing timetable. On December 16, 2015, a US\$4.4 billion project financing facility agreement for Oyu Tolgoi's Phase II was signed. This facility is being funded by a syndicate of various international financial institutions, export credit agencies and commercial banks. The development of underground mining at Oyu Tolgoi was approved in May 2016, with a total expected investment of US\$5.3 billion. Approximately US\$180 million was invested in the underground mining development in 2016, and approximately US\$830 million is expected to be spent on the underground mining development in 2017.

On February 28, 2016, the Project Steering Committee of the Tavan Tolgoi Power Plant announced that Marubeni Corporation of Japan has been selected as an investor in the development of the Tavan Tolgoi Power Plant, which is intended to supply electricity to Oyu Tolgoi. In June 2016, Jacobs Engineering Group Inc. was selected as the engineering,

procurement and construction management services provider, and currently the underground mining project remains ongoing as planned. Oyu Tolgoi is expected to commence full operations after completion of the second phase construction, which the Government expects will be completed in four to seven years.

On November 5, 2012, Oyu Tolgoi LLC signed a binding power purchase agreement with the Inner Mongolia Power Corporation to supply power to the Oyu Tolgoi mine. According to Bertelsmann Stiftung, BTI 2012 — Mongolia Country Report, revenue from the Oyu Tolgoi mine is expected to represent approximately 30% of Mongolia's GDP at full production, which is expected to be reached in 2018.

According to public announcements of Turquoise Hill in May 2014, Oyu Tolgoi has been producing and exporting copper and gold in concentrate since 2013. Repairs to a concentrator following a fire in December 2014 were completed in January 2015, following which full production resumed. Oyu Tolgoi produced 148,400 tons of copper and 589,000 ounces of gold in concentrate in 2014 and 202,200 tons of copper and 656,000 ounces of gold in concentrate in 2015. In 2016, Oyu Tolgoi produced 201,300 tons of copper and 300,000 ounces of gold in concentrate. Oyu Tolgoi is exploring the possibility of further increasing production capacity in the future.

- **Tavan Tolgoi:** The Tavan Tolgoi formation, located in the South Gobi desert near China's northern border, is believed to be one of the world's largest coal deposits under development with an estimated 7.4 billion tons of coking and thermal coal resources. The formation is comprised of six coalfields: (i) Tsankhi, (ii) Ukhaa Khudag, (iii) Bor Tolgoi, (iv) Borteeg, (v) the Southwest coalfield and (vi) the Eastern coalfield. The Tsankhi section is the main coalfield and contains most of the coking coal reserves. It is further divided into East and West Tsankhi.

The majority of Tavan Tolgoi formation is owned by Erdenes MGL (a government-owned company). Erdenes Tavan Tolgoi LLC, holder of the license and a subsidiary of Erdenes MGL, is managing the development of East Tsankhi. East Tsankhi is estimated to have approximately 1.3 billion tons of coal resources. In 2011, production began at East Tsankhi, and one million tons of coking coal were produced that year. In 2012, the estimated production for East Tsankhi was approximately 3.5 million tons of coking coal, and 2.5 million tons of coal was exported. In 2013, Erdenes Tavan Tolgoi produced 5.3 million tons of coal from East and West Tsankhi combined, but only exported 2.1 million tons of coal. Due to the collapse in coal prices, Erdenes Tavan Tolgoi reduced its coal production to 4.5 million tons from East and West Tsankhi combined and exported 5.6 million tons in 2014. In 2015 and 2016, Erdenes Tavan Tolgoi exported 4.2 million tons and 7.7 million tons of coal, respectively. According to Erdenes Tavan Tolgoi, the combined production of East and West Tsankhi is expected to be 13.2 million tons, respectively, of coking coal annually from 2017.

One of the financing options considered by the Government and Erdenes Tavan Tolgoi to further develop East Tsankhi was to conduct an initial public offering ("IPO") of Erdenes Tavan Tolgoi's shares. In May 2012, 20% of all shares of Erdenes Tavan Tolgoi were distributed to the accounts of Mongolian citizens. In June 2012, pursuant to the revised Social Welfare Law, these cash-handouts were replaced by financial and other assistance targeted at specific groups of people such as low income, handicapped and senior citizens. The Government's plan to conduct an IPO of Erdenes Tavan Tolgoi's shares has been delayed and it is uncertain when or if East Tsankhi will be listed.

In October 2013, Erdenes Tavan Tolgoi, Mongolian Mining Corporation and Tavan Tolgoi JSC agreed to export one billion tons of the fuel to China's Shenhua Group Corporation of China ("Shenhua") over 20 years. Through the parties' cooperation, Erdenes MGL had contracted 450,000 tons of coal sales with Shenhua in 2014 and had supplied 444,672 tons by the end of 2014. In addition, in April 2015, Shenhua and Energy Resources LLC entered into an off-take agreement for the purchase of 1.2 million tons of coal from Mongolia pursuant to this arrangement. In 2014, Erdenes Tavan Tolgoi contracted 3,050,000 tons of coal sales with Shenhua and had supplied 1,580,827 tons by the end of 2015.

In 2013, Erdenes Tavan Tolgoi LLC began to mine Mongolia's West Tsankhi coal area as part of its plan to ramp up output and pay off an advanced loan payment US\$350.0 from Aluminum Corporation of China Limited ("Chalco"), a PRC state-controlled aluminum company, in consideration of the coal deposits of Erdenes Tavan Tolgoi loan. In 2016, 7.7 million tons of coal from East Tsankhi was supplied to Chalco. As of December 31, 2016, the loan balance to repay Chalco was approximately US\$76.5 million. The Government expects to fully repay this loan by April 2017. As of the date of this offering memorandum, Erdenes Tavan Tolgoi has announced the tender for mine contracting for West Tsankhi.

A consortium of China Shenhua Energy (China), Sumitomo Corporation (Japan) and Energy Resource LLC (Mongolia) has been selected as the investors for the Tavan Tolgoi coal deposits. The selected investors are expected to develop and conduct mining operations under an Investment and Cooperation Agreement with the coal deposit remaining owned by the Government. The consortium is waiting for final approval from China's State-Owned Assets Supervision and Administration Commission and approval from the Mongolian Parliament. The consortium will be responsible for the railway and infrastructure. The key elements of the consortium's investment proposal include:

- a total investment of US\$4.0 billion;
- commitment to conduct additional exploration at the Tavan Tolgoi deposit with an aim of increasing its reserves;
- taking over the Tavan Tolgoi — Gashuun Sukhait railway construction and development;
- building, operating and transferring the railway base structure to the Government with the transfer of at least 51% of the railway base structure to the Government within 30 years;
- construction of a coal handling and preparation plant with a capacity to process 30 mtpa at Tavan Tolgoi in 2.5 years; and
- settlement of US\$110.0 million in outstanding debts to Chalco and a small amount in outstanding debts to certain domestic banks.

On February 28, 2016, the Tavan Tolgoi power plant concession contract was awarded to Marubeni Corporation of Japan. Two working groups were established after the June 2016 general elections to discuss the agreement with the consortium and the Tavan Tolgoi — Gashuun Sukhait railway project. The Government is currently reviewing the proposal for development of the Tavan Tolgoi mine in conjuncture with the development of the Tavan Tolgoi railway and the Tavan Tolgoi power plant. The parties are finalizing projections and models for the project.

As part of the Economic Recovery Plan, the Government intends to continue construction of the Tavan Tolgoi — Gashuun Sukhait railway by 2018 and according to the 2016 -2020 Government Action Plan, this railway is expected to be completed in 2020.

### ***Other Key Mines***

Mongolia's other key mines include:

- **Ovoot Tolgoi:** The Ovoot Tolgoi coal mine is located in the South Gobi province, approximately 40 kilometers north of the Chinese border. It is wholly-owned and operated by SouthGobi Resources Ltd (“South Gobi”), a Canadian coal mining company with operations in Mongolia. The mine produced approximately 4.6 million tons of coal in 2011. In early 2012, South Gobi began negotiations with Chalco to sell its stake in Ovoot Tolgoi. On April 2, 2012, South Gobi announced that it had signed a cooperation agreement with Chalco and had received notification of Chalco’s intention to make a proportional take-over bid for up to 60% of the issued and outstanding common shares of South Gobi. The cooperation agreement between Chalco and South Gobi was subject to regulatory approval, pursuant to SEFIL, enacted by Parliament on May 17, 2012. In April 2012, the Ministry of Mining (presently the Ministry of Mining and Heavy Industry) suspended South Gobi’s license to mine Ovoot Tolgoi pending an investigation by the IAAC relating to alleged tax evasion by South Gobi. This was part of a wider corruption investigation of former Head of the Mineral Resource Authority, D. Batkhuyag, who was accused of abusing his authority and engaging in illegal actions during his time in the office, including improperly reissuing suspended mining licenses to South Gobi. In March 2015, the Appellate Court determined that South Gobi had committed tax evasion and imposed a fine of US\$17.9 million and in May 2015, the Supreme Court refused to hear South Gobi’s appeal. On September 3, 2012, Chalco issued a press release announcing that it was dropping its proposed bid for a majority stake in Ovoot Tolgoi due to regulatory obstacles. As of the date of this offering memorandum, South Gobi’s license to operate Ovoot Tolgoi had not been reinstated. However, Ovoot Tolgoi continues to be operated by South Gobi. In 2015, South Gobi produced 1.95 million tons of coal from Ovoot Tolgoi and exported 1.07 million tons of coal. In 2016, South Gobi produced 3.4 million tons of coal from Ovoot Tolgoi and exported 4.1 million tons of coal. The Erdenet-Ovoot railway designs were approved by Government Resolution No. 10 on January 11, 2017. Feasibility studies are expected to be completed within the first half of 2017. Construction is expected to commence in the second half of 2017. Pursuant to the National Development Agency’s approval, the feasibility studies are now expected to be completed by August 2018.
- **Nariin Sukhait:** The Nariin Sukhait coal mine has reserves of both thermal and coking coal and is located close to the Chinese border. It is a joint venture between Mongolyn Alt Corporation of Mongolia and the Qinhua Group of China. In 2014, the mine produced approximately 513,600 thousand tons, and exported 647,700 thousand tons, of coking and thermal coal. In 2015, the mine produced approximately 3,106 thousand tons, and exported 3,155 thousand tons, of coking and thermal coal. In 2016, the mine produced approximately 5,358 thousand tons, and exported 5,357 thousand tons, of coking and thermal coal.
- **Tsagaan Suvarga and Khokh Tsav:** On October 13, 2015, the Government and Mongolyn Alt Corporation (“MAK”) signed investment agreements for an aggregate of US\$1.3 billion for the development of the Tsagaan Suvarga copper-molybdenum concentrator project and the Khokh Tsav cement-lime plant project. The invested funds are expected to be used for construction of the concentrator and plant facilities, and also housing and related facilities in provinces where the projects are located. An additional \$600 million of funding is required to complete the



Tsagaan Suvarga concentrator project, which was approximately 43% complete as of December 31, 2016 and operations are expected to begin in July 2018. The Khokh Tsav cement-lime plant project was approximately 95% complete as of December 31, 2016 and operations are expected to begin in March 2017.

- **Gatsuurt and Boroo:** The Gatsuurt and Boroo gold mines, which commenced production in 2004, are owned by Centerra Gold Inc., through its wholly-owned Mongolian subsidiaries, Centerra Gold Mongolia LLC and Boroo Gold LLC, respectively. The Gatsuurt and Boroo mines are connected by a 55-kilometer road, which was constructed in 2010. At December 2010, probable reserves at Gatsuurt for the central and main zones combined were 46.9 tons of contained gold. It is anticipated that oxide and refractory ore from the Gatsuurt mine will be processed at the Boroo facility. A bio-oxidation circuit is planned to be constructed at the Boroo facility to process the refractory ore from Gatsuurt on receipt of final approvals and regulatory commissioning. On February 4, 2016, Parliament approved a resolution for the Government's acquisition of a 34.0% interest in the Gatsuurt gold deposit, which is classified as a strategic deposit under the Minerals Law. Centerra Gold Mongolia LLC, the holder of the relevant license for this deposit, and a working group has been established to negotiate the relevant agreements for development of this deposit with the Government. In 2016, certain environmental protection groups jointly took action against the MRPAM in the Administrative Court of the Capital City to revoke the mining licenses held by Centerra Gold Mongolia LLC. These legal proceedings are ongoing and the mining activities of Centerra Gold Mongolia LLC in the Gatsuurt mine deposit have been, and will, suspended until these legal proceedings are resolved. It is expected that the Boroo bio-oxidation circuit will commence operations after the amended feasibility study by the Minerals Professional Council of Mongolia is approved in February 2017.
- **Ulaan Ovoo:** The Ulaan Ovoo coal mine, wholly-owned by Prophecy Coal Corporation, is located close to the Russian border and the rail link to China. The mine has commenced production, with over 200,000 tons of coal.
- **Chandgana Tal and Khavtgai:** According to Prophecy Resource Corporation, the Chandgana Tal and Khavtgai coal mines are located in southeast central Mongolia and have estimated reserves of 798 million tons. The Nyalga coal basin, which includes the Khavtgai and Chandgana Tal coal mines, ranks among the largest coal deposits in Mongolia. Chandgana Tal produced 42,000 tons of coal in 2016.
- **BurenKhaan Phosphorite Mine:** It is located in 720 kilometers northwest from Ulaanbaatar, 15 to 20 kilometers northwest from Murun, the administrative center of Khuvsgul province and 100 kilometers to south of Khuvsgul Lake. The mining depth is 80 to 380 meters, and the mining depth is estimated to be 1,280 meters. The Government has studied the technical and economic aspects of the BurenKhaan deposit, and it is expected to produce three million tons of ore annually. It is also expected to produce 1.5 million tons of concrete. The BurenKhaan phosphorite mine is not expected to be utilized in the medium term.
- **Aduunchuluun Coal Mine:** This coal mine is located in Kherlen soum of Dornod province and it is six kilometers to the Choibalsan and 655 kilometers to Ulaanbaatar. The mine is owned by the Aduunchuluun LLC and has total reserve resource of 423.8 million tons of coal. Aduunchuluun coal mine has remaining production resource of 241.3 million tons of coal and it is expected to operate with the capacity of producing 600,000 tons of coal per year. In 2014, Aduunchuluun produced 522,800 tons of coal. Mongol Alt Corporation plans to build a coal



gasification plant at Aduunchuluun coal mine in order to produce petroleum and diesel products from coal to be supplied to eastern Mongolia. A feasibility study has been completed and approved by the Mineral Resources Council. Aduunchuluun produced 605,400 tons of coal in 2016.

- **Erdenet:** Erdenet Mining Corporation is one of the largest ore mining and ore processing factories in Asia. Erdenet Mining Corporation was established according to an agreement between governments of Mongolia and the Soviet Union. It started its operations in 1978. At present it is a large complex processing 26 million tons of ore and producing approximately 530.0 thousand tons of copper concentrate and approximately 4.5 thousand tons of molybdenum concentrates annually. The copper and molybdenum field of Erdenetiin-Owoo is 25 kilometers in length, 1.5 to three kilometers in width, stretching from east to west and consists of four main parts; central, south west, south east, and Tsagaanchuluut. The company is currently a party to two arbitration cases initiated by Standard Bank in London asserting that the company is liable as a guarantor in respect of certain facilities extended by Standard Bank to another Mongolian borrower. The amount at issue is approximately US\$100 million. In June 2016, the London Court of Arbitration awarded a judgment of US\$51 million in favor of Standard Bank. The company is currently appealing this decision and a decision is expected later in the first half of 2017. In June 2016, Mongolian Copper Corporation LLC, a Mongolian company, acquired 49% of Erdenet Mining Corporation from Rostec. On January 16, 2017, the Parliamentary working group submitted its recommendations and conclusions in a report to Parliament. The report's findings included potential violations of the Issuer's preemptive rights to purchase the 49% shares in Erdenet Mining Corporation and Mongolrostsvetmet Corporation and transparency as related to the financing for the transactions and the declaration and payment of dividends made by Erdenet Mining Corporation to certain Mongolian companies following completion of the transaction. The report recommended the nationalization of the 49% of the shares of each of Erdenet Mining Corporation and Mongolrostsvetmet Corporation. On February 10, 2017, Parliament approved a resolution to repeal and invalidate the previous Government authorization of the sale of Rostec's 49% shares in each of Erdenet Mining Corporation and Mongolrostsvetmet Corporation by Rostec to Mongolian Copper Corporation for US\$400.3 million. This resolution also instructed the Government and the Bank of Mongolia to impose sanctions on the banks and individuals involved in the financing of these transactions. The Cabinet will be responsible for developing a plan for the enforcement of this resolution.
- **CTL Project:** Baganuur Energy Corporation LLC, a joint venture between POSCO and MCS, is expected to construct a clean energy plant. The plant will be a coal-to-liquid ("CTL") plant utilizing Mongolian coal and is expected to reduce Mongolia's petroleum import dependency without increasing Ulaanbaatar's air pollution. The estimated cost of the CTL Project is US\$2.0 billion, and will be sponsored by Baganuur Energy Corporation LLC.
- **Dornod Uranium Project:** In January 2009, Mongolia and Russia announced the Dornod JV. Although the arbitration relating to the related mining and exploration license between Khan Resources and the Government has concluded, the Dornod JV remains dormant as of the date of this offering memorandum. See "— Litigation and Arbitration — Concluded Arbitration."
- **Areva Uranium Project:** Mining licenses for certain uranium deposits have been issued to Areva Mongolia LLC ("Areva"). Areva and the Mineral Resources and Petroleum Authority of Mongolia has signed a deposits exploitation agreement with respect to these deposits.

- **Coal-to-Synthetic Natural Gas Plant:** China Wuhuan Engineering Corporation, an engineering consulting firm, is conducting feasibility studies for this plant and its potential to reduce air pollution in Ulaanbaatar. World Bank is providing funding for the feasibility studies, which are expected to be completed in the third quarter of 2017.
- **Darkhan-Selenge Non-Ferrous Metallurgical Complex:** Hatch, a Canadian engineering firm, is conducting feasibility studies for this complex. It is intended that production at this complex would meet domestic steel demand, reduce foreign currency outflow and manufacture value-added products. World Bank is providing funding for the feasibility studies, which are expected to be completed in April 2017.

### *Strategic Deposits*

A strategic deposit is defined under the Minerals Law as a deposit having a potential impact on national security, economic and social development at national or regional levels or having a production capacity of more than 5% of Mongolia's GDP. If an asset is deemed a strategic deposit, the Government has the right to acquire an entity stake of up to a 50% in the entity that holds the mining license for such strategic deposits if the Government had contributed to the exploration of the strategic deposit and an equity stake of up to 34% if the Government made no contributions.

On February 18, 2015, Parliament amended the Minerals Law such that if the relevant parties agree to transfer the Government's equity stake in a strategic deposit with the approval of an authorized organization, the recipient of the Government's equity stake in the strategic deposit would be required to pay a royalty of up to 5.0% of the sale of minerals extracted and imported from such strategic deposit. The royalty rate is determined based on the type of minerals in the strategic deposit. As a result, license holders for strategic deposits have the option of paying such royalty in order to obtain the Government's equity stake in the strategic deposit.

As of the date of this offering memorandum, 16 deposits had been designated as strategic, and the Government is currently evaluating another seven mining sites.

The following table sets forth the 16 sites designated as strategic deposits as of the date of this offering memorandum:

<u>Mine</u>	<u>Mineral resource</u>	<u>Estimated reserves</u>
Tavan Tolgoi, South Gobi <sup>(1)</sup> . . .	Coal	7.4 billion tons (approximately 25% coking coal and 75% thermal coal)
Baganuur <sup>(2)</sup> . . . . .	Lignite Coal	600.0 million tons
Nariin Sukhait <sup>(2)</sup> . . . . .	Metallurgical Coal	125.5 million tons
Mardai, Dornod <sup>(2)</sup> . . . . .	Uranium	0.001 million tons at 0.119% O 3 U 8
Dornot, Dornod <sup>(2)</sup> . . . . .	Uranium	0.029 million tons at 0.175% O 3 U 8
Gurvanbulag, Dornod <sup>(2)</sup> . . . . .	Uranium	0.016 million tons at 0.152% O 3 U 8
Tomortei, Selenge <sup>(2)</sup> . . . . .	Iron ore	229.3 million tons at 51.15% iron
Oyu Tolgoi, South Gobi <sup>(2)</sup> . . .	Copper, gold	37 million tons of copper, 1,431 tons of gold
Tsagaan Suvarga, Dornogovi <sup>(2)</sup>	Copper, molybdenum	10.6 million tons of oxides at 0.42% copper, 0.011% molybdenum; 240.1 million tons sulfides at 0.53% Cu/0.018% molybdenum

Mine	Mineral resource	Estimated reserves
Erdenet, Orkhon <sup>(2)</sup>	Copper, molybdenum	1.2 billion tons at 0.51% copper, 0.012% molybdenum
Burenkhaan, Khuvsgul <sup>(2)</sup>	Phosphorite	300 million tons at 19.0% phosphorite
Boroo, Selenge <sup>(2)</sup>	Gold, ore	0.025 million tons at 1.6 grams per metric ton gold
Tomortein Ovoo, Sukhbaatar <sup>(2)</sup>	Zinc	7.7 million tons at 11.5% zinc
Asgat, Bayan-Ulgii <sup>(2)</sup>	Silver	6.4 million tons at 351.08 grams per metric ton silver
Shivee Ovoo, Gobisumber <sup>(2)</sup>	Lignite Coal	646.2 million tons
Gatsuurt Selenge <sup>(3)</sup>	Gold	70 tons

(1) Australasian Joint Ore Reserves Committee

(2) ResCap, Mongolia 101, January 2011

(3) Ministry of Mining and Heavy Industry

The Ministry of Mining and Heavy Industry is responsible for overseeing the granting of mining licenses. A general environmental assessment is performed prior to granting any mining license, and a detailed environmental assessment is performed by government-accredited companies prior to commencement of operations. Non-compliance with these environmental assessments or related rehabilitation requirements would result in license cancellation or imprisonment.

### ***Mineral Resources***

The following table sets forth the estimated reserves of the primary mineral resources as of December 31, 2016:

Minerals	Estimated reserves
Coal (billion tons)	175.5
Copper (million tons)	57.0
Iron ore (billion tons)	1.2
Gold (tons)	2,500.0
Zinc (million tons)	1.7
Fluorspar (million tons)	48.8
Uranium (thousand tons)	180.0
Oil (million tons)	332.6

Source: Ministry of Mining and Heavy Industry

### **Infrastructure**

#### ***Overview***

In recent years, the Government has increased capital spending for the development of railways, roads, airports, housing, electricity, water systems and telecommunications. Investments in infrastructure were 14.0% of total expenditure and 5.6% of GDP in 2016, 12.3% of total expenditure and 3.9% of

GDP in 2015, 51.5% of total expenditure and 18.1% of GDP in 2014, 51.5% of total expenditure and 18.1% of GDP in 2013 and 18.7% of total expenditure and 8.0% of GDP in 2012.

The cost of developing infrastructure to support Mongolia’s mining sector is substantial. A total investment of approximately US\$8.0 billion will be required to upgrade existing railway capacities and to build new ones. Separately, Turquoise Hill estimates that the infrastructure for the Oyu Tolgoi and the Tavan Tolgoi mining projects alone will require an additional investment of US\$6.6 billion over the next five years. All of the machinery and equipment for developing the road network has been imported from overseas.

The Government is also seeking private sector investments through public partnerships. The Concessions Law adopted in 2012 sets out the legal framework for the development of infrastructure projects in Mongolia. The Government has identified a total of 121 projects to be implemented with private sector participation. Both foreign and domestic companies can participate in the projects individually or jointly. Concessions can be gained via open tender, competitive bidding or direct contract. These projects include the Tavan Tolgoi- Sainshand Choibalsan Railway Network, renovation of the Mongolian Railway and the “100,000 Housing Project.”

The Government has proposed the building of a road network connecting all the aimags to Ulaanbaatar and other major cities in Mongolia to provide access to its cities. The Government also plans to construct a railway network and new housing projects near mining towns. These projects are expected to alleviate the problems of urbanization, including overcrowding, inadequate living conditions, lack of sufficient social and public infrastructure, health problems and high crime rates. The Government is working with the provincial and municipal governments to formulate and implement a general plan for the road network in Mongolia.

The following table sets forth information about the Government’s ongoing infrastructure-related projects and the total investment amount:

Sector	Project Name	Commencement Year	Year of Completion or Estimated Year of Completion	Total Amount of Investment <sup>(1)</sup>  (US\$ millions)
Railways . . . . .	Tavan Tolgoi — Gashuun Sukhait	2012	2020	1,100.0
	Tavan Tolgoi — Sainshand — Choibalsan — Khuut — Bishigt — Choibalsan — Ereevtsav	2013	2022	55.0
	Selenge, Tumurtei — Selenge, Khandgait	2014	2015	71.3

Sector	Project Name	Commencement Year	Year of	Total Amount of Investment <sup>(1)</sup>
			Completion or Estimated Year of Completion	
(US\$ millions)				
Roads . . . . .	Tarialan — Murun	2012	2013	36.0
	Undurkhaan — Choibalsan	2012	2013	44.0
	Tosontsengel — Uliastai	2012	2013	41.0
	Murun — Ulaanbaatar	2012	2013	27.0
	Uliastai — Ulaanbaatar	2012	2014	28.0
	Choibalsan — Ulaanbaatar	2012	2014	32.0
	Ulaanbaatar — Baruun Urt	2012	2014	48.0
	Ulaangom — Ulaanbaatar	2012	2013	36.0
	Dalanzadgad — Ulaanbaatar	2012	2013	30.0
	Tsahir — Tosontsengel	2012	2014	45.0
	Ulaanbaatar — Mandalgobi	2012	2013	35.0
	Road constructions for Ulaanbaatar	2012	2014	78.0
	Khovd — Ulaanbaatar	2013	2016	29.7
Housing . . . . .	100,000 Housing Project	2011	2016	59.4
	Buyant Ukhaa	2012	2014	68.8
	Shine yarmag housing complex	2015	2018	83.8
Airports . . . . .	Khushigt Valley Airport	2012	2017	270.0
	Boeing B 767-300ER plane	2013	2013	88.3
Power . . . . .	TPP #3 (250 MW expansion)	2016	2019	350.0
	TPP #4 (123 MW expansion)	2013	2014	70.0
	TPP #5 <sup>(2)</sup>	N/A	N/A	1,400.0
	Amgalan TPP	2013	2015	37.95
	Hydroelectric station River Eg Tavan Tolgoi TPP	2013	2019	5.4
		2013	2017	50.0

Sources: Ministry of Mining and Heavy Industry, Ministry of Road and Transportation Development and Ministry of Construction and Urban Development

(1) Total amount of investment refers to the total investment in the project, whether by the Government or by foreign investors.

(2) The TPP #5 project has been delayed. See “Infrastructure — Electricity.”

### **Railways**

The development of railway infrastructure remains one of the most pressing issues in the Mongolian economy. Lack of railway access and capacity is the major challenge for the development of the Mongolian economy as a whole and the mining sector in particular. The existing railway networks comprise only a few branch lines which are insufficient to transport Mongolia’s growing mining output to its commodity markets. In order to maximize revenue generation from its mineral resources, Mongolia requires a significant expansion of its railway network, an extension of its railway capacity and an increase in border crossings with Russia and China. The Government’s aim is to link the eastern



railways directly to the sea ports in China and Russia to increase access to international markets. In 2014, Mongolia entered into four agreements with China that increased the number of border exits between Mongolia and China and granted Mongolia access to seven ports. It is expected that this will improve Mongolia's ability to export goods to international markets, in particular Japan and Korea.

In order to achieve its aim, the Government is extending the railway system to major mining areas as well as opening trade corridors and export routes to neighboring Russia and China. The Government has formulated the State Policy on Railway Transportation in 2010 under which approximately 5,600 kilometers of new railway lines will be built in three phases on the Russian-gauge standard (the "New Railway Project"). These railways will be connected to Russian seaports and will provide easier access to Mongolian minerals and exports to neighboring countries as well as international markets.



The main aim of the New Railway Project is to connect the mineral deposits in Mongolia to the main markets in a cost competitive way, and allow further access to seaborne markets. Therefore, the rail network is outlined on the southern border region, where coal and copper mines are located, including the Tavan Tolgoi coking coal deposit as the driver of the revenue of the New Railway Project.

Phase I encompasses Tavan Tolgoi — Sainshand — Khuut — Choibalsan and the progress of the construction of this railway line will depend on Mongolia's economic conditions. Phase II is expected to connect the Phase I railway with Gashuun Sukhait to the south and with Bichigt and Numrug in the eastern border stations. It is expected that the construction of these railways on standard gauge along main coal export routes will provide more economical transportation for Mongolia's coal exports. Phase II involves the construction of four railway lines: (i) Nariin Sukhait — Shiveekhuren railway line; (ii) Tavan Tolgoi — Gashuun Sukhait railway line; (iii) Khuut — Bichigt railway line; and (iv) Khuut — Numrug railway line. The feasibility study for the Nariin Sukhait — Shiveekhuren railway line has been completed and construction is expected to be completed by 2018 with an expected total investment amount of US\$150.0 million. Completion of the Tavan Tolgoi — Gashuun Sukhait railway line is included in the 2016-2020 Government Action Plan. Mongolian Railway SOCS has been granted a concession to construct the Tavan Tolgoi — Gashuun Sukhait railway line, which is expected

to be completed by 2020 with an expected total investment amount of US\$1,100.0 million. The Khuut — Bichigt railway line is included in the into the 2016-2020 Government Action Plan and construction is expected to be completed by 2019 with an expected total investment amount of US\$988.0 million. As of the date of this offering memorandum, the feasibility study for the Khuut — Numrug railway line is in progress.

Furthermore, Choibalsan — Ereentsav line was added to the New Railway Project by the Ministry of Road and Transportation Development within the strategic framework to develop the second trans-Mongolian transit corridor, which is expected to benefit the Mongolian economy from cross-border trades between China and Russia. This railway network is planned to be completed prior to 2018.

The New Railway Project will provide direct railroad infrastructure access to key mineral deposits and is expected to provide export routes to international markets through Russian and Chinese ports. The Government is currently working with a Chinese railway company to complete feasibility studies for the Khuut-Bichigt railway by 2016. The total length of Khuut-Bichigt railway is expected to be 334 kilometers and construction is expected to be completed by 2019 with an expected investment amount of US\$988.0 million.

In November 2012, the state-owned Mongolian Railways (the “MTZ”) was granted a license to construct Phases I and II of the New Railway Project on a concession basis. The Government invited local and international investors to participate in the project by co-investment with MTZ through an open invitation on the Financial Times in February 2013. Construction of Tavan Tolgoi — Gashuun Sukhait line commenced in May 2013 and approximately 51.8% of the construction work had been completed as of February 2015. Construction of this railway line is expected to be completed by 2020 with an expected investment amount of US\$1,100.0 million. In addition, Nippon Koei of Japan was engaged to complete the front-end engineering design on the remaining rail line in 2013 and this phase of work was completed in early 2015. Total construction for this line was approximately 50% complete prior to the project stalling due to lack of financing.

The Government allocated US\$200.0 million from proceeds of the Chinggis Bonds and another US\$200.0 million through DBM to the New Railway Project. US\$196.2 million from proceeds of the Chinggis Bonds was transferred to MTZ, and US\$23.5 million was disbursed by DBM. The Government intends to provide additional funding for construction of the railway once negotiations regarding the US\$4.0 billion investment of the consortium of China Shenhua Energy (China), Sumitomo Corporation (Japan) and Energy Resource LLC (Mongolia) for Tavan Tolgoi have been finalized.

In 2012, the Bogd Khan Railway Project was announced. This 170-km railway will connect Mandal to Bagakhangai, passing through the new Ulaanbaatar international airport and cargo logistics center in Khushigt Valley. In October 2014, the Government and ADB entered into a preliminary financing agreement, with ADB providing a US\$500 million loan to finance the project. While parties have conducted the preliminary feasibility study and prepared various approvals and maps, funding for the project remains to be sourced and details remain to be determined. As part of the Economic Recovery Plan, the Government intends to complete feasibility studies and enter into definitive investment agreements in respect of the Bogd Khan Railway Project by 2018.

In December 2012, the Bold Tomer Eroo Gol railway and its surrounding infrastructure commenced operations. The Bold Tomer Eroo Gol railway project ends in Khandgait at the Bayangol iron ore deposit. This railway has a transport capacity of 19 million tons per year.



In February 2016, as part of the “Mongolia Sustainable Development Vision 2030” program, the Government announced the Erdenet-Ovoot railway project, which was subsequently confirmed in the 2016-2020 Government Action Plan. The Erdenet-Ovoot railway project is expected to cost MNT 2,978.4 billion. Upon completion of the 547-kilometer Erdenet-Ovoot railway, the Government expects the railway to transport up to 10 million and 20 million tons of freight in its first and second years of operations, respectively. As a result of this expansion to existing railway lines, the Government expects development of mining deposits located in the western region of Mongolia to become commercially feasible. Furthermore, the railway is expected to connect Mongolia to Kyzyl, Tuva in Russia, which would allow for coal to be transported through Mongolia from Russia’s coal-producing Tuva region and thereby generating freight revenues for Mongolia. The preliminary feasibility study of the Erdenet-Ovoot railway was prepared in 2015. Northern Railways LLC, the concessionaire, has received the license to construct the base structure of the railway and is currently negotiating with international banking and financial institutions for financing. The concession agreement for the Erdenet-Ovoot railway with the Government was signed on August 20, 2015. The Erdenet-Ovoot railway designs were approved by Government Resolution No. 10 on January 11, 2017. Feasibility studies are expected to be completed within the first half of 2017. Construction is expected to commence in the second half of 2017. Pursuant to the National Development Agency’s approval, the feasibility studies are now expected to be completed by August 2018.

The Zuunbayan-Khangai railway is expected to be 281 kilometers connecting the Zuunbayan station with the Mandal port in China. Mongolian Railway SOSC has completed the preliminary studies for this project. The feasibility studies for this railway project are expected to be completed in 2017, with construction commencing in 2018 and expected completion in 2020. This railway is expected to support an increase in iron ore exports transported and reduce traffic along the cross-border Zamiin-Uud-Erlian railway.

### ***Roads***

The Government recognizes the importance of transport and trade as key drivers of the economic development of Mongolia. The continuing economic growth has created new pressures on the developing transport network in Mongolia, and lack of adequate transport infrastructure continues to constrain the growth of economic activity.

Mongolia’s road infrastructure is underdeveloped; only 44.7% of the country’s roads is being paved. Many of the roads in Ulaanbaatar are over 20 years old and improvements are necessary. The total network of paved roads covers 49,200.4 kilometers, of which 40,324.8 kilometers, or 82%, are natural tracks and 8,875.0 kilometers, or 18%, are improved roads. Of the improved roads, 5,838.2 kilometers are asphalt covered, 1,864.8 kilometers are gravel covered and 1,172.6 kilometers are improved earth road. Between 2012 and 2013, Mongolia’s paved road network experienced a significant expansion of 1,755.3 kilometers. In 2014, the paved road network expanded further by approximately 831 kilometers. Improvements were also made to the existing Asia Highways 3 and 4, partly financed by ADB. Approximately 1,100 kilometers of roads, comprising highways and bridges, was completed in 2015. Development of roads has since slowed due to the weakened economic and financial situation.

Mongolia has been party to an intergovernmental agreement on the Asian Highway Network since 2004. The Asian Highway Network comprises 141,000 kilometers of roads across 32 countries. Mongolia is responsible for construction on Asia Highway 3, Asia Highway 32 and Asia Highway 4, which pass through Mongolia. The Government has awarded a concession contract to Chinggis-Land Development Group-New Development Road (“Chinggis-Land”) as project coordinator for the construction of the Altanbulag-Zamiin Uud highway project (also known as the “Steppe Road”), which

is part of Asia Highway 3. The Government plans to repair a 220-kilometer segment of Asia Highway 3 connecting Ulaanbaatar and Darkhan City Highway 3. The cost of these road repairs is expected to be US\$741.9 million. In August 2014, Mongolia and China announced the launch of the Steppe Road project. The Steppe Road project is expected to result in the construction of 997 kilometers of highway road and a distribution network of approximately 1,100 kilometers for energy, gas and oil across Mongolia. The 2016-2020 Government Action Plan further announced the intention to expand the scope of paved roads within Mongolia's road network and to connect the centers of all aimags with the capital city by paved roads.

In order to maximize revenue generation and foster trade flows at regional levels, the Government requires a significant expansion of its road network, an extension of its paved road capacity and an increase in trade and goods transportation across Mongolia. A New Development Medium Term Target Program approved by Parliament and the Government in 2010 reflected the Government's objectives and targets to increase the paved road network by 5,572.0 kilometers. The Government plans to link all soum centers with Ulaanbaatar city in the long-term future. By the end of 2014, Ulaanbaatar was connected to Dornogovi, Dundgovi, Bayankhongor, Umnogovi, Khuvsgul and Sukhbaatar aimag centers by paved roads. Construction of approximately 1,400 kilometers of roads is required to achieve this aim. These roads are expected to reduce the permanent migration of people from rural to urban areas. Due to recent economic difficulty, the Government has delayed full implementation of this project until 2018. The Government also plans to build a 990-kilometer north/south trans-Mongolian highway (the "Trans-Mongolian Highway") with an aim to sustain and promote the development of cross-border trades with China and Russia by improving transport infrastructure and logistics, which was reaffirmed in the 2016-2020 Government Action Plan.

The total investment planned for this road network is estimated to be up to US\$5.0 billion. In order to achieve its aim, the Government has taken measures to implement these expansion strategies.

The Government had been the primary financier of the road projects until 2009, when a public private partnership arrangement ("PPP") was implemented by the State Policy on Public-Private-Partnerships within the scope of realizing privately-led economic growth. The State Policy on Public-Private-Partnerships outlines road projects as one of the key areas to be implemented through PPPs. Together with the State Policy on Public-Private-Partnerships and the 2010 Concession Law, several privately financed road projects launched due to the recent mining development and the continuing economic growth. The Government has also been promoting private sector financings by means of concession agreements. The government-approved concession items for 2013 included projects in paved roads, power plants, airports, logistics centers and schools. The list contains 17 different paved roads projects totaling a length of 2,983 kilometers to be privately financed under a build-transfer structure where construction companies will self-finance the road projects usually through commercial borrowings, on the condition of repayment from the budget at a later date. For example, Chinggis-Land will oversee the construction as project coordinator for the Asia Highway Network under its concession contract from the Government and own the highway until it transfers it back to the Government in 2040.

In February 2016, Parliament approved the "Sustainable Development Vision of Mongolia — 2030," a long-term policy document which, among other goals, announced the Government's intent to develop and improve the road and transportation sector to satisfy public demand. In particular, the document provided for goals of establishing transportation and logistics centers in Zamiin-Uud, Khushigiin Khundii and Altanbulag, expanding cross-country and state road networks by 1,600 kilometers, constructing and operating the Tavan Tolgoi — Gashuun Sukhait railway, initiating the Erdenet-Ovoot

and Bogd-Khan railway projects and improving transit transportation. The document also provided for reducing transportation costs and time for foreign and domestic trade, developing the airports of aimags and larger soums, developing air transportation for general purposes and completing the new Ulaanbaatar airport.

### ***Airports and Flyover Rights***

Due to the vast distances between destinations and the relatively undeveloped road network, Mongolia depends on air transportation to connect its major towns and cities. There are three national airlines: MIAT Mongolian Airlines, Aero Mongolia, and Hunnu Airlines. MIAT Mongolian Airlines is a state-owned airline with regular international flights to Russia, China, Japan, Germany, the Republic of Korea and Hong Kong. In December 2013, MIAT Mongolian Airlines successfully obtained a loan of US\$122.0 million backed by The Export-Import Bank of the United States to finance purchases of new aircraft to reduce its operational costs and improve its service terms. Mongolia has a total of 44 airports, of which 13 have paved runways. The Chinggis Khaan International Airport is the only international airport, connecting Ulaanbaatar to Beijing, Moscow, Seoul, Tokyo, Berlin, Frankfurt and Hong Kong. In 2008, the Government announced its intention to build a new international airport in the Khushigt valley, located approximately 54 kilometers south of Ulaanbaatar. In May 2008, the Government of Mongolia and the Japan Bank for International Cooperation entered into a loan agreement with a term of 40 years for a principal amount of ¥28.8 billion (US\$385.0 million) at an interest rate of 0.2% per annum for the purpose of building the new international airport in Ulaanbaatar. The initial construction work commenced in June 2013 and has been completed. The relevant authorities are in the process of granting approvals and the airport is expected commence operations in the first half of 2018. Meanwhile, the six-lane Khushigiin Khundi highway connecting the new airport with the capital city, financed by a loan from EXIM Bank of China, commenced construction in July 2016 and is expected to be completed in the second half of 2018. The new airport is currently connected to the capital city by an existing road. The new airport is expected to have three times the flight capacity and significantly more refueling capacity as compared to the existing airport.

Given Mongolia's strategic location between Asia and Europe, the country is able to collect a significant amount of revenue from flyover rights paid by passenger and cargo aircraft. Revenue from flyover rights amounted to MNT 144.5 billion, MNT 163.3 billion and MNT 172.4 billion in 2014, 2015 and 2016, respectively. The Government believes this will continue to be an increasingly important source of revenue in the future as international air travel continues to increase to and from expanding Asian economies.

### ***Metro Lines***

Supported by JICA, Mongolia has been researching the introduction of metro lines to its public transportation in 2020. As the population of Ulaanbaatar increases, transportation demand is expected to increase. Construction of metro lines would increase transportation capacity, reduce traffic congestion and also create additional employment opportunities. The estimated cost of the construction of metro lines in Ulaanbaatar is approximately MNT 1.5 trillion, and the Japanese government has announced its support in the form of a US\$600.0 million soft loan for this project.

### ***Light Industrial Technological Park***

Construction of the Light Industrial Technology Park in the Emeelt District commenced in 2015. The project is estimated to cost MNT 182.0 billion and will be partly funded by the city, private investment, the European Bank for Reconstruction and Development and government bond money as approved in Parliament's Resolution No. 75. Facilities at this park will include a 103 MW thermal power plant and a water treatment plant.

### ***Sainshand Industrial Park***

The Sainshand Industrial Park was a planned industrial complex for processing Mongolia's raw materials and producing semi-finished and finished products for export located in Sainshand, Dornogobi. This industrial park was originally intended to develop Mongolia's mineral resources and reduce the Mongolian economy's dependence on commodity prices. Construction for the Sainshand Industrial Park commenced in 2013, and was estimated to require an investment of US\$11.0 billion. However, in 2015, construction of the Sainshand Industrial Park was stopped as no operations on the premises had commenced. The company responsible for the Sainshand Industrial Park project is undergoing restructuring.

### ***Housing***

One of the Government's prime objectives is to provide affordable quality housing for its citizens across the country. Approximately 60% of the Mongolian population and 26% of the population of Ulaanbaatar live in traditional gers. Gers are portable round tents that consist of a wooden frame and felt walls. The streets in the ger communities are unpaved, water supply is sporadic, waste is collected irregularly and the vast majority of the ger population is not connected to any utilities. Instead, during the winter, the ger population heat their gers with thermal coal, which is burnt in primitive coal-burning stoves. The smog caused by the coal-burning has led to high levels of air pollution and has caused a variety of medical problems for the population living in gers. In an effort to encourage the use of energy-efficient stoves and semi-coking coal to reduce air pollution, the Government has worked with MCC to provide subsidies to families who switch from thermal coal stoves to energy-efficient stoves. Towards the end of 2016, air pollution in Ulaanbaatar exceeded 80 times the recommended levels by the World Health Organization. In response, the Government has implemented measures eliminating the nighttime electricity tariff to encourage use of electric sources for heating rather than coal, restricting rural to urban migration in Ulaanbaatar and establishing zones in the city coal burning is prohibited.

The majority of people living in gers are herders who migrated from rural areas. Since the 1990s, there has been a significant increase in the migration of the population from rural to urban areas. In most cases, these herders migrated because they lost their livestock or because they were dismissed from their jobs when state enterprises and government offices closed down in the 1990s.

In an effort to address the environmental and social problems faced by the gers, Parliament passed the New Development Medium-Term Target Program, which approved the 100,000 Housing Project, one of Ulaanbaatar's largest ongoing construction projects. Under the 100,000 housing project, 75,000 homes are planned to be built in Ulaanbaatar and 25,000 are planned to be built close to new mining developments. The 75,000 homes planned for Ulaanbaatar are not expected to be enough to house the entire ger population, but the project is expected to have a significant impact on the current situation by providing affordable housing to a portion of the ger population. In total, 17 different locations have been set aside for the new housing projects in and around Ulaanbaatar.

The majority of the construction for the 100,000 Housing Project will be carried out by the private sector. In an effort to encourage private sector involvement, the Government plans to provide land management services, infrastructure such as power lines and other utilities and social infrastructure such as schools and hospitals. As of December 31, 2016, DBM has provided funding of MNT 352.2 billion to infrastructure projects of the Ministry of Construction and Urban Development, Ministry of Energy and Ulaanbaatar City Mayor's Office.

In order to assist the ger population in financing these new homes, the Government initiated an affordable mortgage system, which features significantly reduced mortgage rates. In November 2011, the Mongolian Housing Finance Corporation announced it would offer eligible first-time homebuyers a 6%, 25-year mortgage for apartments less than 50 square meters in size. Subsequently, the Housing Mortgage Program was implemented in 2013 which provided Mongolian citizens with housing mortgage loans at an interest rate of 8.0% per annum for a maximum of 20 years with respect to a Mongolian citizen's purchase of an apartment of up to 80.0 square meters. As of August 2016, 86,221 citizens had purchased apartments through the mortgage program. In October 2016, the Housing Mortgage Program was revised to increase the tenor of mortgage loan from 25 years to 30 years, and limit the financing of mortgage loans to proceeds from repayments on existing mortgage loans. The Government is currently reviewing its funding plans for the mortgage program in light of the country's present economic difficulties and stricter fiscal and budgetary measures.

Redevelopment of ger districts into apartment districts was included as a goal in the 2012-2016 Government Action Plan. Ger district redevelopment projects have been implemented in 24 ger area locations in Ulaanbaatar, with each project aimed at providing approximately 5,000 households living in ger districts with new apartments.

The "Rental Housing" program, approved under Resolution No. 248 of 2015, was intended to increase the supply of housing. Implementing the program is expected to make 16,000 households in Ulaanbaatar and 4,000 households in the central province areas available for rent from 2015 to 2021. As part of this program, 929 housing units in Ulaanbaatar city and rural areas were transferred to a State-owned housing fund and have been rented out to protected groups. Given difficulties faced by the Mongolian economy, the above projects could not be financed by the state budget and instead were financed with loans from DBM.

The Government intends to continue implementing programs to support the development of households with a view to increasing the income of its economically underprivileged citizens. A total of 96 soums were planned to be developed between 2010 and 2016. The first of the soum centers were developed at Erdenes soum of Tuv aimag and Khanbogd soum of Umnogovi aimag. The soum centers are planned to have improved living conditions and have access to social infrastructure facilities such as hospitals, schools and employment opportunities. By 2015, 95,985 homes were built under this program. In 2016, the Government completed the construction of 13,703 housing units in Ulaanbaatar and 7,805 housing units in urban areas.

### ***Electricity***

From 2007 to 2014, demand for electricity grew at an average of 8.9% annually. The significant increase in Mongolia's energy demand has been driven by the rapid development of the country's mining based economy. Following the recent economic slowdown, total electricity generated increased by 5.5% and 0.4% in 2014 and 2015, respectively, and is expected to increase by only 2.6% to 990 MW in 2016. The Government estimates that total electricity generated will reach 1,150 MW in 2020.

Mongolia's power system consists of three unconnected energy systems: the Western Energy System, the Central Energy System ("CES") and the Eastern Energy System. The CES is Mongolia's most significant energy system, as 91% of the country's electricity being produced by the CES and 96% of the country's electricity demand is met by the CES. In general, electricity and heat are supplied by



five major TPPs. According to the USAID, the total current installed power capacity for coal fired power plants in Mongolia is 828 MW, but only 649 MW are available due to age and deterioration of the power plants. The limited capacity of these existing power plants has resulted in an ongoing energy deficit, which is currently being offset by imports from Russia and China.

Most of the TPPs are located in the properties of the CES, which provides electricity to the central part of the country, including Ulaanbaatar, Darkhan and Erdenet, as well as 140 soum centers. The South Gobi region, which is located in the south of Mongolia, is isolated from the CES. The mines in South Gobi, Oyu Tolgoi and Tavan Tolgoi must therefore have their own supply of electricity. In 2015, 4.5% of Mongolia's electricity was imported from Russia. The Government, in an effort to reduce its dependence on Russia, is promoting the development of domestic energy sources.

The coal industry is Mongolia's primary source of energy and is critical to Mongolia's energy system. According to the Ministry of Energy, Mongolia's electricity generation capacity is comprised of seven thermal coal power plants, 13 hydroelectric power plants, several hundred diesel generators, 20 wind power plants and one solar power plant. Of these sources, a considerable amount of electricity supply comes from the thermal coal power plants, which generated 96.3 %, 96.1% and 96.0% of the country's power in 2014, 2015 and 2016, respectively.

There are currently five major TPPs in the CES. Although the useful life of TPP #2 expired at the end of 2012, it is still in operation. TPP #3 was expected to expire in 2016, but was expanded in 2014 by the addition of 50 MW of electricity capacity. The expansion of TPP #3 cost approximately US\$35.0 million and was financed by DBM. As Ulaanbaatar relies heavily on these plants, lack of a suitable replacement power source would result in both TPP #2 and TPP #3 having to be kept in operation well past their useful lifespan. The consequences of not replacing the TPPs at the time when they are due to be retired will be energy inefficiency and electricity loss caused by lower actual available power capacity and load factors and higher electricity consumption in the power plants. On August 24, 2016, the Government enacted a decree for the extension of TPP #3 by 250 MW. The expected investment amount of the project is US\$350 million. This project is a priority action measure that was taken to meet the ever-growing demand for heat and electricity in Ulaanbaatar. The Government is currently exploring potential financing options for the project.

As a response to the previous increase in demand for energy, the Government expanded the current electricity and heating capacity of TPP #4 to 680 MW and 1,185 gram-calories hour of heating in 2014. The expansion of TPP #4 cost US\$70.0 million and was financed by DBM and supervised by the Ministry of Finance and the Ministry of Energy. The Amgalan TPP, which has 348 MW capacity, commenced its operations September 2015 and supplies heat to the eastern part of Ulaanbaatar. Construction costs were approximately US\$75.9 million, approximately US\$38.0 million of which was provided by DBM.

The Government also planned to build a new TPP in Ulaanbaatar to be fueled by lignite coal, TPP #5. A 25-year concession agreement was awarded to a consortium comprised of GDF SUEZ (30%), Sojitz Corporation (30%), POSCO ENERGY (30%) and Newcom LLC (10%) and signed in June 2014. In July 2015, this consortium entered into a power purchase agreement with the Government for TPP #5. The Government estimates investment costs for the plant to be US\$1.5 billion of which US\$600 million is expected to be required for the first phase of construction. However, the construction of TPP #5 has been delayed until later in the year in 2017 due to a slower growth rate of electricity consumption as a result of weak economic conditions. This project will be the first concession project in the energy sector in Mongolia.

The Government plans to construct an additional thermal coal plant with 700 MW of electricity capacity at Baganuur. Plans and financing for this plant are currently under negotiation between the Government and Chinese Uranium Industry Company 22, with construction expected to take place from 2016 to 2020. The estimated cost of this plant is US\$850.0 million to US\$950.0 million.

In order to better support the mining activities at Tavan Tolgoi and the copper-gold mining projects at Oyu Tolgoi, the Government also plans to construct a thermal coal plant at Tavan Tolgoi with electricity capacity of 450 MW of electricity capacity. This plant will utilize coal produced by Erdenes Tavan Tolgoi and is expected to supply electricity to Erdenes Tavan Tolgoi as well as all of the electricity required for operations at Oyu Tolgoi. It is expected that the completion of this plant will allow Oyu Tolgoi to meet its target of obtaining all of its power supply domestically in Mongolia by the second half of 2017. This is expected to reduce reliance on power supplied from China and reduce outflows of cash for electricity imports. Furthermore, proposal has been made, and is currently under consideration, to increase the plant's design should allow sufficient flexibility to increase its capacity to 600 MW in the event of increased demand. It is expected that the Government will provide approximately up to US\$50 million in mezzanine financing for the Tavan Tolgoi plant. The total amount of financing provided by the Government will not exceed one-third of the total equity of the project. According to the Ministry of Energy, DBM provided approximately US\$14.8 million for pre-feasibility studies and project costs. On February 26, 2016, the Project Steering Committee of the Tavan Tolgoi Power Plant announced that Marubeni Corporation of Japan has been selected as an investor for the development of the Tavan Tolgoi Power Plant, which is intended to supply electricity to Oyu Tolgoi. On June 26, 2016, the Government and a consortium comprised of Marubeni Corporation and MCS Power LLC signed an investment contract for the Tavan Tolgoi Power Plant. Construction of the Tavan Tolgoi Power Plant is expected to commence in mid-2017.

Additional coal-fired power plants at Chandgana and Shivee Ovoo with electricity capacity of 600 MW and 4,800 MW have been proposed, however, construction of these plants has not commenced. The construction of a power station with the capacity of 60 MW is expected to be completed by the end of 2018. The project will be jointly run by Western Mongol Energy LLC and SAK Energy Mongolia LLC. The power station will generate energy using coal, solar and wind sources for Uvs, Khovd and Bayan-Ulgii provinces, which currently source much of their energy needs from Russia.

The Government plans to construct a 315 MW hydroelectric power plant on the Eg River to reduce dependence on energy imports. A feasibility study conducted by French engineering company Tractebel Engineering dated August 25, 2014 estimates that the cost of construction for this plant will be approximately US\$827 million and that the plant will generate approximately 606 million kilowatt hours of electricity annually. According to Tractebel Engineering's feasibility study, the electricity generated by the plant is expected to reduce expenditure on energy imports by approximately US\$25 million each year. The Government plans to obtain financing through a loan from the Chinese government, which is currently under negotiation. Feasibility studies for this hydroelectric power plant are in progress.

Due to government regulations on low tariffs on electricity and heating, energy producers and coal suppliers historically have been unable to operate profitably. In late 2010, Parliament approved a step-by-step liberalization of energy tariffs, which includes increasing energy tariffs and increasing the level of private sector participation in the energy sector. In 2014, tariffs on energy were increased three times. In 2015, tariffs on energy were increased once. At the same time as the tariff increased, the Energy Regulatory Commission introduced the capacity tariff and the renewable energy support tariff, which also resulted in an increase in electricity payments. The Energy Regulatory Commission introduced a resolution to index energy tariffs according to the costs of energy and CPI. In recent



years, the Government has also reduced tariffs for the ger districts during the evening hours to reduce pollution and support persons with low income. The Government expects to review its tariffs and pricing policy to move towards free market principles. The Government intends to promote financial independence for power producers and expects to revise its tariffs accordingly.

In 2014, 74.1% of Mongolia's total electricity consumption was supplied by thermal power plants, 1.1% by hydroelectric generators, 0.1% by diesel stations, and 2.1% by renewable resources, including solar and wind.

Developing renewable energy sources in Mongolia and importing electricity from Russia are alternatives to meet electricity demands. In 2015, renewable energy resources, including hydro, solar and wind, generated 3.1% of Mongolia's electricity. In terms of the wind power, Mongolia's Newcom LLC, which owns a majority interest in the Mongolian project company, Clean Energy LLC, has completed construction of the Salkhit wind farm, the first sizable wind power plant in Mongolia with an installed capacity of 50 MW. Additional wind farm projects at Oyu Tolgoi, Sainshand and Choir are in various stages of construction, and will add an aggregate of 352 MW to existing capacity. In September 2016, financing documents relating to the 50MW Tsetsii wind farm project were signed between the sponsors, Newcom LLC and SB Energy Corporation of Singapore, and the financial institutions, the Japan International Cooperation Agency and the European Bank for Reconstruction and Development. Furthermore, in September 2016, construction commenced for a 50 MW solar power plant near Ulaanbaatar sponsored by Moshea Eco Energy LLC of Mongolia and Idea Bridge Management Inc. of Korea and financed by KEPCO KDN of Korea. In January 2017, a 10MW solar power plant near Darkhan City commenced operations. According to the Ministry of Energy, Mongolia targets producing 20% to 25% of its electricity generation capacity from renewable energy sources by 2020.

In 2016, total production of electricity was 4.7 billion kilowatt hours and Oyu Tolgoi LLC imported 1,095.6 kilowatt hours of electricity. In 2016, heat production was 7,340.1 thousand gram-calories hours of heating. In 2015, total production of electricity was 5.5 billion kilowatt hours, and approximately 20.4% of its annual electricity resources were imported. In 2014, total production of electricity was 5.4 billion kilowatt hours and heat production was 9,126.6 gram-calories hours of heating. In 2014, Mongolia imported approximately 20.1% of its annual electricity resources from Russia and China. Oyu Tolgoi LLC began to import electricity from China in 2013. Therefore, the import volume increased from 0.4 billion kilowatt hours in 2012 to 1.2 billion kilowatt hours in 2013 and further to 1.3 billion kilowatt hours and 1.4 billion kilowatt hours in 2014 and 2015, respectively. The current prices for electricity imports from Russia are significantly lower than the cost of installing new capacity in Mongolia. However, in an effort to decrease its dependence on Russia, the Government has commissioned the Mongolia Integrated Power Systems ("MIPS"), a 40-year power and heat development program, as a way to address shortfalls in capacity. The ultimate goal of the MIPS program is to create a unified power grid connecting the CES with the Western and Eastern Energy Systems.

As part of the 2016-2020 Government Action Plan, the Government intends to achieve the following with respect to the energy sector by 2018:

- complete feasibility studies and enter into definitive investment agreements on the Khovd River hydroelectric power plant;
- commence 250 MW expansion of TPP #3 in Ulaanbaatar;
- commence construction on the Tavan Tolgoi power plant;

- complete feasibility studies and enter into definitive investment agreements on the thermal power plant in Shivee-Ovoo;
- commence construction of the Ulaanbaatar-Mandalgovi transmission line; and
- complete construction and commence operations on the Oyu Tolgoi-Tsagaan Suvarga transmission line.

### ***Water***

Mongolia's population is increasing and is becoming increasingly urbanized, yet only a minority of the population has access to running water and sanitation. Currently, approximately 70% of Mongolia's population is located in the capital. Only 35% of the population had access to water of satisfactory quality and 25% of the population has access to proper sanitation in 2013. The Mongolian National Water Program Support Center has developed a range of projects for water reservoirs and water transfers from the Kherlen river and Orkhon river. Demand for fresh water and sanitation services are expected to substantially increase by 2030 due to increased migration from rural to urban areas. In addition to the expected increase in urban water consumption, increased development of mining will also increase the demand for water supply. The development of the Oyu Tolgoi and Tavan Tolgoi mines in southern Mongolia, for example, will pose a significant challenge to the water sector with demand for water expected to increase seven-fold by 2020.

Furthermore, it is estimated that the population in southern Mongolia will increase from 55,000 in 2009 to 111,000 by 2020, which will increase water consumption from 6,000 cubic meters per day in 2009 to 33,000 cubic meters per day in 2020. Explorations in southern Mongolia suggest groundwater potential of 500,000 cubic meters per day. However, these estimates require further confirmation. The estimated capital cost of groundwater development is approximately US\$260 million. An alternative to ground water is to build long distance pipelines from northern and central Mongolia where water will be extracted from the Orkhon and Kherlen rivers. The estimated capital cost of such project is US\$500 million. However, the environmental impact of using water from the Orkhon and Kherlen rivers is undergoing further assessment.

The Mongolian water sector is underdeveloped primarily due to lack of financial resources and low tariffs that are insufficient to cover related costs. The 2012-2016 Government Action Plan sets forth plans to increase the proportion of the population with access to satisfactory water from 35% to 70% and to increase the access to proper sanitation from 25% to 50% by 2015. To meet this target, total investment in the water sector, including costs relating to water supply, sanitation and sewerage, was estimated to be approximately US\$1.4 billion by 2015.

### **Employment and Wages**

Since 2009, registered unemployment figures, which include only those workers who are registered with the Labor and Social Welfare Service Center, have decreased and real wages have increased.

## Employment

The following table sets out the labor force and a breakdown of paid employment in the principal sectors of the economy for the periods indicated:

	Average number for the year ended December 31,					
	2011 <sup>(1)</sup>	2012 <sup>(1)</sup>	2013 <sup>(1)</sup>	2014 <sup>(1)</sup>	2015 <sup>(1)</sup>	2016 <sup>(1)(2)</sup>
	(by thousand persons)					
Labor force . . . . .	1,124.7	1,151.1	1,198.3	1,206.6	1,243.9	1,239.9
Unemployment rate . . . . .	7.7%	8.2%	7.9%	7.9%	7.5%	8.6%
<b>Paid employment:</b>						
Agriculture . . . . .	342.8	370.0	329.1	310.7	327.6	352.0
Wholesale and retail trade . . . . .	152.5	131.3	156.0	170.2	178.2	172.7
Education . . . . .	85.5	86.3	89.8	89.6	89.0	93.2
Transportation and storage . . . . .	75.8	56.1	65.9	69.8	72.7	61.6
Manufacturing . . . . .	65.8	64.9	81.0	85.5	81.3	88.6
Public administration and defense . . . . .	55.6	62.9	65.3	66.1	68.1	77.6
Construction . . . . .	52.0	59.2	72.4	81.1	88.1	59.1
Human health and social work activities . . . . .	36.4	37.5	40.4	37.5	38.2	37.8
Mining and quarrying . . . . .	45.1	46.7	50.3	41.0	42.6	41.8
Accommodation and food service activities . . . . .	26.4	30.2	31.7	36.6	37.8	34.7
Other service activities . . . . .	21.8	19.8	20.2	20.1	20.2	17.4
Financial and insurance . . . . .	16.6	17.4	20.9	22.9	23.8	23.6
Other . . . . .	61.4	74.1	80.6	79.7	83.6	72.7
<b>Total</b> . . . . .	<u>1,037.7</u>	<u>1,056.4</u>	<u>1,103.6</u>	<u>1,110.7</u>	<u>1,151.2</u>	<u>1,132.8</u>

(1) National Statistical Office of Mongolia.

(2) Provisional figures subject to further adjustments.

For 2016, the unemployment rate was 8.6%, compared to 7.5% for 2015, primarily due to the economic slowdown. For 2015, the unemployment rate was 7.5%, compared to 7.9% for 2014, primarily as a result of increased employment in the agriculture and manufacturing sectors. For 2014, the unemployment rate remained at 7.9% compared to 2013 as a result of increased employment in the wholesale and retail trade and construction sectors, which was offset by decreased employment in agriculture and mining and quarrying sectors. In 2013, the unemployment rate was 7.9%, compared to 8.2% in 2012, as a result of increased employment in the wholesale and retail trade, transportation and storage, manufacturing and construction sectors. In 2014, 39.6% of the employed population were working in Ulaanbaatar, which represented an increase of 2.0% from 2013 due to increased construction activities after implementation of the Housing Mortgage Program.

The expansion of Mongolia's mining sector has created many work opportunities. However, it is highly unlikely that there will be a seamless shift of workers from the low-skilled agricultural sector, which accounts for approximately 40% of total employment, into the mining and non-tradable sectors, such as transportation, construction, finance and retail. The Ministry of Labor and Social Welfare is responsible for providing training to the labor force in order to increase the number of skilled workers in Mongolia's labor force. The Government is also working towards implementing national programs to increase work opportunities and reduce unemployment and poverty. These programs will include setting up professional vocation centers, polytechnic colleges and other institutions to prepare individuals for employment, including skilled workers, temporary employment for students and special employment opportunities for individuals over age 40.

### **Wages**

As of December 31, 2015, the monthly minimum wage set by the labor authorities was MNT 192,000 or approximately US\$96.2. Employers in the transportation, geology and mining, energy, roads and construction are required to adhere to sector-wide minimum wages of MNT 288,000, MNT 384,000, MNT 307,200 and MNT 358,848, respectively. Since January 1, 2017, the monthly minimum wage has been increased to MNT 240,000, or approximately US\$120.2.

The following table sets out the estimated national average monthly wages for the periods indicated:

	Average number for the year ended December 31,					
	2011 <sup>(1)</sup>	2012 <sup>(2)</sup>	2013 <sup>(2)</sup>	2014 <sup>(2)</sup>	2015 <sup>(2)</sup>	2016 <sup>(3)(4)</sup>
	(MNT thousands)					
National average monthly wages . .	424.4	598.5	692.3	844.0	852.7	884.3

(1) National Statistical Office of Mongolia, Statistical Yearbook 2012.

(2) National Statistical Office of Mongolia, Statistical Yearbook 2015.

(3) National Statistical Office of Mongolia.

(4) Provisional figures subject to further adjustments.

National average monthly wages increased from MNT 598,500 (US\$317.4) in 2012 to MNT 692,000 (US\$367.0) in 2013, primarily due to increased wages in the construction and financial sectors. In 2014, national monthly wages increased to MNT 844,000 (US\$447.6) due to increases in salaries in the mining sector. In 2015, national monthly wages further increased to MNT 852,700 (US\$427.2) due to salary increases in the mining and quarrying industry sector. In 2016, national average monthly wages further increased to MNT 884,300 (US\$355.2) due to an increase in salaries in the private sector.

The World Economic Forum's Global Gender Gap Index ranked Mongolia the 42nd in the world in 2014 for its gender equality. Mongolian women, however, have lower levels of income for similar work and higher levels of unemployment and poverty than men due to limited access to assets (land and livestock) and under-representation of women in senior management and decision-making positions in both public and private sectors, which increased vulnerability to poverty and traditional gender-based divisions of labor.

The Government decided to increase the minimum wage by 25% in Resolution No. 4 of National Tripartite Committee on Labor and Social Dialogue dated April 4, 2016. Since January 1, 2017, the hourly minimum wage and the monthly minimum wage have been MNT 1,428.6 and MNT 240,000, respectively.

### **Labor Relations**

Mongolian law allows employees, except for public servants and foreign workers, to form unions and to organize strikes. Mongolian labor law prevents discrimination of people with disabilities for education and employment. Companies that employ more than 25 people are required to hire at least one person with disabilities. The law prohibits children under the age of 16 from working, but children between 14 to 15 years of age may work for 30 hours per week with parental consent. Women are entitled to receive the same pay as men. The standard legal work week is 40 hours and there is a minimum period of 48 hours of rest between work weeks. Overtime work must be compensated, but pregnant and nursing mothers and children between the ages of 16 and 17 are prohibited from working overtime.

### ***Pension Fund***

Mongolia has a national social insurance system for employed individuals with an automatic salary deduction which goes into five co-mingled funds: retirement, benefit, health, industrial accident and occupational disease and unemployment insurance funds, respectively. For 2016, the social insurance fund's revenue was MNT 1,875.7 billion (US\$753.4 million) and expenditure was MNT 1,786.2 billion (US\$717.5 million). For 2015, the social insurance fund's revenue was MNT 1,500.3 billion (US\$751.7 million) and expenditure was MNT 1,560.4 billion (US\$781.8 million). The state pension system was established under the Social Insurance Law of 1994 and is one of the five major programs in social insurance. Currently, the program covers approximately 50% of its citizens and a comprehensive reform of the social insurance system is underway. The Ministry of Labor and Social Welfare is mainly responsible for formulating pension policies and implementing the pension scheme including collection of favorable premiums and payment of benefits.

Citizens of Mongolia and foreigners employed on a contract basis are subject to compulsory insurance contributions. Employees contribute at the rate of 10% of their monthly salary with a maximum of MNT 1.9 million (US\$1,018.2) payable per month and employers are required to contribute 11% to 13% depending upon the industry; their contributions are not capped.

### ***Overseas Mongolians***

According to Tsahim Urtuu, a non-government organization, approximately 200,000 Mongolians live abroad and remit approximately US\$250 million to Mongolia annually. Furthermore, Mongolia's fast economic growth has encouraged many Mongolians to return home, many of whom have set up investment banking services, mutual funds, insurance companies, leasing companies and non-banking financial institutions abroad. The Government recognizes the development potential of overseas Mongolian communities and has taken steps to facilitate and leverage their contributions by approving a US\$1 million budget for the "Beehive" government program (the "Beehive Program") to attract talented Mongolians living overseas to return and provide their skills and expertise to assist in Mongolia's development. The Beehive Program has three main objectives: (i) establishing a database of Mongolians living abroad, (ii) providing incentives and a support network for returning Mongolians and (iii) identifying and matching Mongolians with requisite skills for critical roles within the growing mining sector.

## Taxation

Since the 1990s, USAID has worked closely with the Ministry of Finance, the Mongolian tax authority, the Parliamentary standing committees, and representatives from private sector associations to formulate competitiveness-based tax reform objectives, draft model laws, conduct economic and fiscal impact analysis, raise awareness and engagement of the public, train tax inspectors, revise tax forms and regulations, and conduct information campaigns.

Effective January 1, 2007, the Government passed a comprehensive tax reform which reduced corporate tax with a view to improving competitiveness and reducing personal tax to expand the economy, expand the tax base, simplify tax rates and procedures, and support domestic and international investors. The tax reform created two brackets of corporate income tax rates at 10% and 25%. At the time of the tax reform, approximately 99% of Mongolian companies were eligible to pay corporate income tax rates of 10%. The personal income tax rate was also reduced to 10% with exemptions for those who fall below the poverty line and other low income citizens. Mining companies are allowed to carry forward losses equal to pre-tax income for up to eight consecutive years whereas non-mining related companies were only allowed to carry forward losses equal to 50% of the pre-tax income for up to eight consecutive years. The overall tax revenue increased from MNT 4,179.3 billion (US\$2.2 billion) in 2012 to MNT 5,072.8 billion (US\$2.7 billion) in 2013, an increase of MNT 1,499.2 billion (US\$795.1 million), or 35.9%. The overall tax revenue increased from MNT 5,072.8 billion (US\$2.7 billion) in 2013 to MNT 5,157.0 billion (US\$2.7 billion) in 2014, an increase of MNT 84.2 billion (US\$44.6 million), or 1.7%. The overall tax revenue decreased from MNT 5,157.0 billion (US\$2.7 billion) in 2014 to MNT 5,142.7 billion (US\$2.6 billion) in 2015, a decrease of MNT 14.3 billion (US\$7.2 million), or 0.3%. The overall tax revenue increased from MNT 5,142.7 billion (US\$2.6 billion) in 2015 to MNT 4,996.8 billion (US\$2.0 billion) in 2016, an increase of MNT 145.9 billion (US\$58.6 million), or 2.8%.

In addition, in 2009, Parliament revoked an exemption on value-added tax (“VAT”) on mining equipment used to commence production. In August 2009, following a decline in mineral prices and mining activity due to the global financial crisis, the Government abolished the windfall profits tax of 68% effective January 1, 2011.

A permanent resident taxpayer of Mongolia is subject to tax on his world-wide income whereas a non-resident taxpayer is subject to tax only on income earned in Mongolia in a tax year. All taxes are subdivided into direct and indirect taxes. VAT and excise tax are recognized as indirect taxes.

Principal taxes payable include corporate and personal income tax and VAT. The general income tax rate applicable to business entities with Mongolian source income is 10% on the first MNT 3.0 billion (US\$1.6 million) of taxable income and MNT 300.0 million (US\$0.2 million) plus 25% on amounts in excess thereof. These rates are applicable to operating and certain other types of income (e.g., capital gains on the sale of shares and equipment). Other types of income (e.g., capital gains on the sale of real property, interest, royalty and dividend income) are subject to other varying rates of income tax. In February 2017, Parliament amended the Law on Business Entity Income Tax to reduce the corporate income tax of business entities with an annual sales income of less than MNT 1.5 billion by 90% in the food processing, clothing and textile, production of construction materials, and agriculture and livestock husbandry sectors. This tax reduction will be in effect until January 1, 2021. The losses can be carried forward for four to eight years for mining and infrastructure sectors, and two years for other sectors, and applied against the company’s income earned in those years. However, losses must not exceed 100% of taxable income each year for mining and infrastructure companies and should not exceed 50% for other companies. In addition, foreign entities operating through a



permanent establishment in Mongolia are subject to a profit repatriation tax at 20%. This may be reduced by 5% to 10% under the applicable Double Taxation Agreement (“DTA”). Mongolia has entered into DTAs with approximately 24 countries. Several of Mongolia’s DTAs contain provisions which include the term “beneficial ownership.” Mongolian tax authorities are currently looking at all double tax treaties with the aim to ensure that tax revenue is equitably shared with its double tax treaty partners and to reduce tax leakage in Mongolia by the use of its double tax treaties. On November 2, 2012, Parliament passed a law terminating the DTAs with Luxembourg, the Netherlands, United Arab Emirates and Kuwait due to a significant loss in tax revenue which resulted from taxpayers’ application of the DTAs. The DTAs with Luxembourg and the Netherlands expired on January 1, 2014, and the DTA with the United Arab Emirates expired on January 1, 2015 and the DTA with Kuwait expired on April 1, 2015. The Government does not currently have plans for the renewal for these DTAs.

Withholding tax on dividends and royalties is applicable to corporate entities resident in Mongolia. In both instances, the rate of withholding tax is 10%. Withholding tax is payable on the total sale amount in respect of the sale of immovable property at 2%. Non-residents with no presence in Mongolia are subject to 20% withholding tax on income from Mongolia including dividends, royalties, interest, sales of goods and rental.

Stamp duties are imposed on registration of business entities and organizations, permission to register business entities with foreign investment, consular services, notary services, registration and transfer of land rights and issuance of licenses, among others. The amount of duty varies according to the type of services involved. VAT at the rate of 10% is imposed on the supply of taxable goods and services in Mongolia, and on imports into Mongolia.

According to the Investment Law of Mongolia, a foreign investor investing certain amounts in Mongolia may apply for a stabilization certificate which provides stable rates for certain taxes subject to certain conditions for a fixed term. For investments in the mining, heavy industry and infrastructure sectors, the term of the stabilization certificate ranges from five to 18 years, depending on the region where the investment is made and investment amount. For other sectors, the stabilization certificate has a term of 10 to 15 years, regardless of where the investment is made. The term of the stabilization certificate may be extended by one and a half times for investment projects that (i) engage in the production of exports or import substitutes which are for social and economic development; (ii) have an investment amount not less than MNT 500 billion as of the date the project’s feasibility study is approved; and (iii) will require over three years of construction.

The Value-Added Tax Law was revised in 2015 with effect from January 1, 2016. The revisions to the Value-Added Tax Law were intended to increase the collection of VAT and reduce black market activity by introducing an electronic registration system for VAT payments. In order to incentivize taxpayers to register their VAT payments, the revised law enables them to recover up to 20% of VAT payments made, subject to certain conditions.

Further, Mongolian tax legislation exempts a taxpayer’s income from taxable income if such income was derived from interest payments on Government or municipal securities or securities issued by DBM.

## **Environment**

According to a joint research conducted by the National University of Mongolia (the “National University”), the Norwegian Air Research Institute and the World Bank between 2006 and 2008, one of the worst sources of pollution in Mongolia is dust. This dust originates from the ger heating



appliances, the desert, dry ground condition and ash ponds emanating from the power plants. In Ulaanbaatar, particles that cause damage to the lungs when inhaled have been approximately recorded as 279 micrograms per cubic meter of air. The World Health Organization's recommended level is 20 micrograms per cubic meter of air, which makes the level in Mongolia approximately 14 times higher than the recommended level. Instances of premature death, chronic bronchitis, respiratory and cardiovascular diseases are increasing at a significant rate.

The Air Law was passed in the 2010 by Parliament to reduce air pollution in Mongolia. Individuals and corporate entities may be fined for using air pollutants. Such fines are to be deposited in the Clean Air Fund and used for adopting and publicizing anti-pollution measures, as well as for supporting producers of environment-friendly fuel and stoves.

Under the 2014 budget, MNT 20.3 billion (US\$11.4 million) or 0.3% of the total budget was allocated to the Clean Air Fund. This was lower than the amount allocated under the 2013 budget, which was MNT 31.0 billion (US\$18.7 million) or 0.4% of the total budget, primarily due to the Government's continued commitment to improve the air quality. In addition, for the purpose of lowering the air pollution of the capital city, MNT 2.0 billion was allocated from the 2014 budget to construct a substation of TPP #4 with a total estimated investment of MNT 10.4 billion. The expansion of TPP # 4 by 123 MW was completed in 2014.

## **Foreign Trade**

Mongolia's foreign trade had remained in deficit since 2007 primarily due to Mongolia's dependence on exports of lower-valued raw materials and imports of higher-valued equipment and machinery.

In 2016, foreign trade resulted in a total external trade turnover of US\$8,275.3 million, of which exports represented US\$4,917.3 million and imports represented US\$3,357.9 million. In 2015, foreign trade resulted in a total external trade turnover of US\$8,466.7 million, of which exports represented US\$4,669.5 million and imports represented US\$3,797.2 million. In 2014, foreign trade led to a total external trade turnover of US\$11,011.1 million of which exports represented US\$5,774.3 million and imports represented US\$5,236.7 million, according to the National Statistical Office of Mongolia. Total external trade turnover increased by US\$384.1 million, exports increased by US\$1,505.2 million and imports decreased by US\$1,121.1 million, compared to 2013.

In 2016, Mongolia traded with 157 countries globally. Russia, China, the United States, the European Union, Canada, Japan and the Republic of Korea have been the major trading partners of Mongolia. Mongolia is currently negotiating free trade agreements with China, the Republic of Korea and the EU, and signed a bilateral Economic Partnership Agreement with Japan in February 2015. The EU is Mongolia's third-largest trading partner as measured by trade volume and value. Mongolian exporters benefit from near tariff-free entries in the EU, the United States, Canadian and Japanese markets through the generalized system of preferences programs, which provide developing countries with preferential access to the respective markets through reduced tariffs.

Inadequate road and railway infrastructure is one of the main challenges that Mongolia faces in foreign trade. The Government intends to construct additional road and rail links connecting major mining sites and industrial areas to Russian and Chinese ports and borders and repair existing facilities.

## Exports and Imports

Mongolia principally exports to and imports from its two neighbors, China and Russia. In 2016, foreign trade increased by 5.3% compared to 2015. In 2015, foreign trade decreased by approximately 23.1% compared to 2014. In 2014, foreign trade increased by approximately 3.6% compared to 2013. Major contributors have been mineral commodities and raw materials, including coal, copper concentrate, iron ore, crude oil, combed and washed cashmere, zinc ore and concentrate, and gold. Given that mineral products made up approximately 83.0%, 78.8% and 70.8% of total exports in 2014, 2015 and 2016, respectively, the Government's objective is to develop the non-mineral sectors to promote economic diversity and support long-term economic growth. The following table sets forth total exports from Mongolia by country of destination for the periods indicated:

Total exports from Mongolia by country of destination	For the year ended December 31,					
	2011 <sup>(1)</sup>	2012 <sup>(2)</sup>	2013 <sup>(2)</sup>	2014 <sup>(2)</sup>	2015 <sup>(2)</sup>	2016 <sup>(3)</sup>
	(US\$ millions)					
China . . . . .	4,439.9	4,059.7	3,706.3	5,073.4	3,910.1	3,901.8
Canada . . . . .	90.8	117.3	135.5	1.2	1.6	3.7
United States . . . . .	5.0	3.6	3.9	15.4	18.7	10.5
Russia . . . . .	96.3	79.6	61.8	61.6	76.9	55.8
United Kingdom . . . . .	20.0	11.9	200.7	398.7	337.7	557.2
Italy . . . . .	49.8	31.6	51.5	51.4	43.4	33.6
The Republic of Korea . . . . .	37.9	12.3	13.0	13.5	66.6	8.5
Germany . . . . .	14.9	16.0	18.4	15.0	10.8	43.4
France . . . . .	7.7	3.6	8.5	9.3	7.3	7.6
Switzerland . . . . .	18.0	8.9	3.1	28.1	109.2	230.7
Japan . . . . .	11.0	5.6	10.5	24.5	20.3	14.0
Others . . . . .	26.2	34.6	55.9	82.2	66.7	50.5
<b>Total</b> . . . . .	<u>4,817.5</u>	<u>4,384.7</u>	<u>4,269.1</u>	<u>5,774.3</u>	<u>4,669.3</u>	<u>4,917.3</u>

(1) National Statistical Office of Mongolia, Statistical Yearbook 2012.

(2) National Statistical Office of Mongolia, Statistical Yearbook 2015.

(3) National Statistical Office of Mongolia, Monthly Bulletin, December 2016.

In 2016, China continued to be Mongolia's main export partner, representing 79.3% of Mongolia's total exports. Total exports to China slightly decreased by 0.2% in 2016 compared to 2015.

In 2015, China remained Mongolia's largest export partner, representing 83.7% of Mongolia's total exports. Total exports to China decreased by 22.9% in 2015 compared to 2014, which was primarily attributable to slower economic growth in China and decreases in exports of coal, copper and other commodities. In 2015, the United Kingdom and Russia represented 8.9% of Mongolia's total exports.

In 2014, Mongolia's main export partner was China, which accounted for 87.9% of Mongolia's total exports. The United Kingdom and Russia represented 8.0% of Mongolia's total exports in 2014. Exports mainly consisted of mining products such as copper concentrates, coal, crude oil, iron ore and gold. The total exports of coal increased from 18.4 million tons in 2013 to 19.5 million tons in 2014.

However, the sales income decreased from US\$1,122.0 million in 2013 to US\$849.0 million in 2014, due to the price decrease of coal on the international market. Copper exports increased by 112.0% from 650,000 tons in 2013 to 1,378,000 tons in 2014, which resulted in an increase of copper sales income by US\$1,624.7 million in 2014.

In 2013, the principal destination for exports was China, which accounted for 86.8% of total exports from Mongolia. Other countries, including Canada and Russia, accounted for 13.2% of Mongolia's exports. Exports consisted mainly of mineral products, particularly coal, textiles and precious metals and stones. According to the National Statistical Office of Mongolia, Mongolian coal exports amounted to approximately 18.4 million tons in 2013, representing a 12.2% decrease over the 20.9 tons in 2012. Mongolia continues to be the second largest supplier of coking coal to China, with its exports accounting for approximately 28.8% of China's total coking coal imports in the first three months of 2014, according to the China Coal Resource.

The following table sets forth total imports of Mongolia by country of origination for the periods indicated:

Total imports of Mongolia by country of origin	For the year ended December 31,					
	2011 <sup>(1)</sup>	2012 <sup>(2)</sup>	2013 <sup>(2)</sup>	2014 <sup>(2)</sup>	2015 <sup>(2)</sup>	2016 <sup>(3)</sup>
	(US\$ millions)					
Russia . . . . .	1,624.7	1,847.4	1,561.9	1,549.3	1,021.0	880.4
China . . . . .	2,023.9	1,873.4	1,822.6	1,767.9	1,389.9	1,060.9
United States . . . . .	536.0	535.9	512.7	229.5	116.5	139.2
Japan . . . . .	490.2	501.6	444.2	367.8	274.6	330.2
The Republic of Korea . . . . .	356.7	467.8	507.4	352.6	258.7	197.9
Germany . . . . .	273.6	246.4	252.2	159.2	124.5	120.3
Canada . . . . .	128.3	97.2	80.4	21.5	19.6	19.2
Belarus . . . . .	72.3	129.4	155.0	21.1	17.9	13.1
Australia . . . . .	94.3	80.3	50.4	14.8	11.8	22.0
Singapore . . . . .	69.5	69.2	66.6	52.8	22.1	14.7
Others . . . . .	928.9	889.7	904.5	700.2	540.9	560.0
<b>Total . . . . .</b>	<b><u>6,598.4</u></b>	<b><u>6,738.4</u></b>	<b><u>6,357.8</u></b>	<b><u>5,236.7</u></b>	<b><u>3,797.5</u></b>	<b><u>3,357.9</u></b>

(1) National Statistical Office of Mongolia, Statistical Yearbook 2012.

(2) National Statistical Office of Mongolia, Statistical Yearbook 2015.

(3) National Statistical Office of Mongolia, Monthly Bulletin, December 2016.

In 2016, China was Mongolia's largest import partner, representing 31.6% of Mongolia's total imports. Total imports from China decreased by 23.7% compared to 2015, primarily due to a decrease in domestic demand.

In 2015, China was Mongolia's largest import partner, representing 36.6% of Mongolia's total imports. Total imports from China in 2015 decreased by 21.4% compared to 2014 due primarily to a decrease in imports of rice, petrol, diesel fuel and trucks. Imports from Russia in 2015 decreased by 34.1%, compared to 2014, accounting for 26.9% of Mongolia's total imports due primarily to a decrease in imports of petrol and diesel fuel. China continued to supply a wide range of products to Mongolia ranging from food to machinery to construction materials and electricity.

In 2014, Russia and China continued to be the two major importers to Mongolia with imports from Russia representing 29.6% of Mongolia's total imports and imports from China representing 33.8%. Mongolia primarily imported petroleum products from Russia with total imports amounting to US\$1,002.2 million. China has been the supplier of a wide range of products from food to heavy machinery, construction materials and electricity. In 2014, total imports from China decreased by 17.6% compared to 2013 due to the decreased demand for mining equipment.

In 2014, the three principal origins for imports were: (i) Russia, which accounted for 29.6%, (ii) China, which accounted for 33.8% and (iii) Japan, which accounted for 7.0% of Mongolia's imports. Major imports included mineral products, heavy equipment, machinery, vehicles, food and consumer goods. In particular, imports of heavy machinery and equipment decreased by 29.4% to US\$984.5 million and import of vehicles (other than cars) decreased by 38.5% to US\$615.8 million. Total imports amount decreased 17.6%, or MNT 1,121.2 million (US\$594.6 million), due to the slowdown in the coal mining sector, reduced production and appreciation of foreign currency.

In 2013, the three principal origins for imports were: (i) Russia, which accounted for 24.6%, (ii) China, which accounted for 28.7% and (iii) the United States, which accounted for 8.1% of Mongolia's imports. The major contributors of import were heavy machinery, equipment, spare parts, petroleum products and transportation vehicles. In 2013, total import amount decreased by 5.7% or US\$383.7 million, primarily due to the declined demand in the mining related equipment and machines as well as spare parts.

### ***Trade Balance***

Trade balance figures measure the difference between a country's exports and imports. If exports exceed imports the country has a trade balance surplus and if imports exceed exports the country has a trade balance deficit. A trade balance deficit indicates that a country's receipts from abroad are insufficient compared to its payments to foreigners and therefore, must be financed. This renders the country a debtor nation. A trade balance surplus indicates that a country's receipts exceed its payments to foreigners and therefore, allows the country to finance its trading partners' net deficit to the extent of the trade balance surplus. This renders the country a creditor nation.

In 2016, the trade balance surplus was US\$1.6 billion compared to a trade balance surplus of US\$0.9 billion for 2015, primarily due to significant increases in exports of auto, air and water transport vehicles and their spare parts; natural or cultured stones, precious metal and jewellery; various industrial goods; and vegetable origin products.

In 2015, the trade balance surplus was US\$0.9 billion compared to a trade balance surplus of US\$0.5 billion for 2014, primarily due to significant decreases in imports of mineral products, metals, machinery and vehicles as overall mining production slowed during the period and significant decreases in exports of mineral products and textiles and textile articles.

In 2014, the trade balance surplus was US\$0.5 billion compared to a deficit of US\$2.1 billion in 2013, primarily due to an increase of copper concentrate exports from Oyu Tolgoi.

In 2013, the trade balance deficit was US\$2.1 billion, representing a decrease from US\$2.4 billion in 2012, primarily due to a decrease of the mining related equipment demand.

The following table summarizes Mongolia's trade balance for the periods indicated:

	Exports	Imports	Balance of Trade	Exports as % of Imports
	(US\$ millions)			
2011 <sup>(1)</sup>	4,817.5	6,598.4	(1,780.9)	73.0%
2012 <sup>(2)</sup>	4,384.7	6,738.4	(2,353.7)	65.1%
2013 <sup>(2)</sup>	4,269.1	6,357.8	(2,088.7)	67.1%
2014 <sup>(2)</sup>	5,774.3	5,236.7	537.6	110.3%
2015 <sup>(2)</sup>	4,669.3	3,797.5	871.8	123.0%
2016 <sup>(3)</sup>	4,917.3	3,357.4	1,559.4	146.5%

(1) National Statistical Office of Mongolia, Statistical Yearbook 2012.

(2) National Statistical Office of Mongolia, Statistical Yearbook 2015.

(3) National Statistical Office of Mongolia, Monthly Bulletin, December 2016.

### **Commodities Exports**

The following table sets forth information regarding the commodities exports of Mongolia for the periods indicated:

	For the year ended December 31,					
	2011 <sup>(1)</sup>	2012 <sup>(2)</sup>	2013 <sup>(2)</sup>	2014 <sup>(2)</sup>	2015 <sup>(2)</sup>	2016 <sup>(3)</sup>
	(US\$ thousands)					
Copper	968,551	838,579	948,951	2,573,622	2,280,135	1,607,639
Coal	2,273,006	1,901,774	1,122,034	849,037	555,027	973,015
Crude oil	253,024	336,053	515,456	634,611	387,217	337,181
Iron ore	441,515	532,509	654,333	446,364	227,200	249,891
Gold	109,778	122,294	309,827	405,244	420,568	758,409

(1) National Statistical Office of Mongolia, Statistical Yearbook of 2012.

(2) National Statistical Office of Mongolia, Statistical Yearbook of 2015.

(3) National Statistical Office of Mongolia, Monthly Bulletin, December 2016.

### **Education and Health**

As of December 31, 2015, Mongolia had 768 schools and 181 colleges and technical and vocational schools. There are 376 public libraries in Mongolia, of which 28 are located in Ulaanbaatar. Enrollment in general educational schools was of approximately 535,100 students for the 2015/2016 academic year. According to UNESCO, Mongolia had an adult literacy rate of 98.4% in 2015. Mongolian women are more likely than their male counterparts to graduate from high school and more than two-thirds of all university students are women.

The National University was established on October 5, 1942 in Ulaanbaatar and specializes in science and medicine. Approximately one-third of Mongolians have graduated from the National University. This university offers over 80 undergraduate and graduate programs, primarily using the Mongolian language as the medium of instruction. In the 2015/2016 academic year, there were 162,626 students enrolled in universities and colleges, including approximately 2,300 graduate students and doctorate students.

According to the Ministry of Health, as of December 31, 2013, Mongolia had 774 state health institutions, 1,978 private hospitals and 45,090 physicians of which 23,160 were located in Ulaanbaatar. Over 99.1% of all Mongolian children are vaccinated against tuberculosis, 97.6% against polio and 96.7% against measles. According to the Human Resources Report on the Health Sector by the Health Development Centre, as of December 31, 2014, Mongolia had 3,100 health organizations and 46,057 physicians. According to the Health Development Centre, average life expectancy in Mongolia is 70 years in 2016.

## **Litigation and Arbitration**

### ***Ongoing Arbitration***

As of the date of this offering memorandum, the Government is a defendant in two ongoing arbitration matters, which relate to challenges to the Government's revocation of mining licenses and claims for compensation from the Government in connection with such revocations. In addition to the arbitration matters described below, the Government of Mongolia is a defendant in one additional ongoing arbitration matter, which relates to challenges to the government's revocation of mining licenses and claims for compensation from the government.

In 2013, Dongsheng Petroleum (Mongolia) LLC, a subsidiary of China Petroleum & Chemical Corporation, brought a claim against Mongolia at the Permanent Court of Arbitration in relation to outstanding tax obligations of MNT 6.0 billion relating Dongsheng Petroleum (Mongolia) LLC's production sharing contract arrangement on oilfield with the Government. As of the date of this offering memorandum, this case is pending the judgment by the Permanent Court of Arbitration.

In 2010, a consortium of three Chinese companies, China Heilongjiang International Economic & Technical Cooperative Corp., Beijing Shougang Mining Investment Company Ltd. and Qinhuangdaoshi Qinlong International Industrial Co. Ltd., brought a claim against Mongolia at the Permanent Court of Arbitration in relation to the cancellation of two mining exploration licenses by the Mineral Resource Authority in 2006. The amount in controversy is approximately US\$400 million. In September 2015, the Permanent Court of Arbitration held a hearing regarding this dispute. As of the date of this offering memorandum, the decision of this hearing remains pending.

### ***Concluded Arbitration***

In January 2011, Khan Resources brought an action against the Government in the international arbitration tribunal with a claim value of US\$200 million alleging that the Government, acting in concert with a Russian partner, took actions that amounted to the illegal expropriation of Khan Resources mining and exploration permits of the Dornod uranium deposit. On July 26, 2012, the tribunal ruled in favor of Khan Resources on matters of jurisdiction. In March 2015, the Permanent Court of Arbitration ordered the Government to pay Khan Resources US\$100 million in compensation, including costs of arbitration. On April 27, 2015, the Justice Minister of Mongolia said that the Government would seek to invalidate the arbitral award. In June 2015, Khan Resources filed a case in the United States District Court in Washington D.C. for the recognition of its arbitration award. In

July 2015, the Government filed a claim seeking to invalidate the arbitration award in the Court of Appeal in Paris, France. In March 2016, the Government agreed to pay Khan Resources US\$70 million by May 15, 2016 in respect of the approximately US\$100.0 million arbitration award granted in March 2015. On May 18, 2016, the Government signed the documentation in relation to this settlement required for the release of US\$70 million to Khan Resources. Khan Resources has acknowledged receipt of the US\$70 million, and all outstanding matters with respect to the Khan Resources arbitration have been settled.



## **PUBLIC FINANCE**

### **Mongolia's Budget**

The Fiscal Stability Law and the Budget Law regulate policies relating to planning, approving, financing, and implementing the budget of Mongolia. In order to increase transparency and reduce corruption and bureaucracy, the Government has set up a publicly available website, which is administered by the Ministry of Finance and provides information on the state budget. Mongolia's annual budget preparation process includes the preparation of medium-term strategic documentation of the Government's debt management plan, a medium-term budget framework, an annual budget ceiling for each general budget governor, and an annual budget proposal and budget allocation. The Ministry of Finance leads this process, submitting the requisite materials for review by the Cabinet before submission by the Cabinet for the approval of Parliament.

### ***2017 Budget***

The 2017 budget was approved by Parliament on November 10, 2016. The Government estimated its total consolidated revenue in 2017 to be MNT 6,160.2 billion (US\$2,474.4 million), or 23.3% of the expected GDP, representing an increase of 15.2% from its total consolidated revenue in the 2016 supplementary budget. Tax revenues are projected to amount to MNT 4,983.8 billion, comprising primarily of value added tax revenue, social security tax revenue and income tax revenue. Meanwhile, non-tax revenues are expected to account for the balance of MNT 1,176.4 billion. The mining sector is expected to contribute MNT 1,032.8 billion in 2017, representing an increase of 22.1% from its contribution in the 2016 supplementary budget. Meanwhile, the total budgeted expenditure is projected to be MNT 8,568.9 billion (US\$3,442.0 million), or 32.3% of the projected GDP. Key areas of spending include wages, salaries and social security distributions, as well as subsidies and debt service payments. The Government aims to focus on the goals of (i) ensuring adequate income and security from poverty for the elderly; (ii) continuing its program for sponsorship of youth development; and (iii) providing sufficient social security benefits to the public despite expected increases in expenses due to population growth and aging. As a result of the foregoing, the overall budget deficit in 2017 is projected to be MNT 2,408.7 billion (US\$967.5 million), or 9.1% of the projected GDP, which meets the requirements specified in the Fiscal Stability Law.

### ***2016 Budget and Provisional Results***

The 2016 budget was approved by Parliament on November 13, 2015. The Government estimated its total consolidated revenue in 2016 to be MNT 7,013.9 billion (US\$3,512.2 million), or 25.4% of the expected GDP. The total budgeted expenditure was estimated to be approximately MNT 7,954.4 billion (US\$3,983.2 million), or 28.8% of the expected GDP. The overall budget deficit was estimated to be approximately MNT 940.5 billion (US\$471.0 million), or approximately 3.4% of the expected GDP, which was expected to meet the requirements specified in the Fiscal Stability Law.

On September 9, 2016, Parliament approved the 2016 supplementary budget, which increased Government expenditures by MNT 1,740.0 billion (US\$871.8 million), including increases in Government subsidies and financing cost, primarily as a result of exchange rate translation effects. The 2016 supplementary budget also accounted for an expected revenue shortage of MNT 1,665.7 billion (US\$834.5 million) in 2016 as a result of external factors, including slow economic growth and a decline in prices of commodities. Furthermore, the 2016 supplementary budget accounted for prior

extra-budget expenditure by the Government, including MNT 543.1 billion for subsidy programs and MNT 141.5 billion for settlement of the Khan Resources case, and provided revised estimates and targets based on the Fiscal Stability Law. See “The Mongolian Economy — Litigation and Arbitration — Concluded Arbitration.”

### ***2015 Budget and Actual Results***

The 2015 budget was approved by Parliament on November 14, 2014 and amended on January 23, 2015. The Government estimated its total revenue in 2015 to be MNT 6.6 trillion (US\$3.5 billion), or 27.6% of the expected GDP. The total budgeted expenditure was estimated to be approximately MNT 7.8 trillion (US\$4.2 billion), or 32.7% of the expected GDP. The overall budget deficit was estimated to be approximately MNT 1.2 trillion (US\$0.9 billion), or approximately 5.0% of the expected GDP, which was expected to meet the requirements specified in the Fiscal Stability Law. The budget deficit is expected to be financed through net domestic financing of MNT 1.05 trillion (US\$0.55 billion) and net foreign financing of MNT 0.15 trillion (US\$0.81 billion). In particular, the Government is allowed to issue or refinance securities for up to MNT 2.1 trillion (US\$1.2 billion). In 2015, the Government also implemented a Comprehensive Macro Adjustment Program to address the budget deficit by focusing on boosting exports and substitution of imports.

The actual 2015 expenditure was MNT 7.1 trillion (US\$3.8 billion), which was 90.9% of the budgeted expenditure. The actual deficit in 2015 was MNT 1.2 trillion (US\$0.9 billion). Total revenue and grants decreased by 5.4% compared to 2014, and total current expenditure increased by 8.6% compared to 2014.

### ***2014 Budget and Actual Results***

The 2014 budget was approved by Parliament on November 15, 2013. The Government estimated its total budgeted revenue in 2014 to be MNT 6.9 trillion (US\$4.2 billion), or 33.6% of the expected GDP. Total budgeted expenditure were estimated to be approximately MNT 7.3 trillion (US\$4.4 billion), or 35.5% of the expected GDP. The overall budget deficit is estimated to be approximately MNT 0.4 trillion (US\$0.2 billion), or approximately 2.0% of the expected GDP, which was expected to meet the requirements specified in the Fiscal Stability Law. The total provisional revenue for 2014 was MNT 6,145.1 billion (US\$3.3 billion), which was 89.6% of the budgeted revenue, reflecting less tax revenue than expected. Total actual revenue for 2014 was MNT 6,223.3 billion (US\$3.3 billion), or 90.7% of estimated revenue.

The provisional 2014 expenditure was MNT 7,031.4 billion (US\$3.7 billion), which was 92.4% of the budgeted expenditure. The actual deficit in 2014 was MNT 886.3 billion (US\$0.5 billion). Total revenue and grants increased by 2.6% compared to 2013, and total expenditures increased by 14.1% compared to 2013.

### ***2013 Budget and Actual Results***

The 2013 budget was approved by Parliament on November 8, 2012. Total revenue for the 2013 budget included MNT 445.8 billion (US\$0.3 billion) of expected revenue relating to Oyu Tolgoi, based on the Government’s expectation that it would acquire an additional 16% equity interest in Oyu Tolgoi by amending the vesting period and change of royalty scheme provided by the Oyu Tolgoi investment agreement, which was not accepted by Turquoise Hill. Total expenditure for the 2013 budget included

financing for the various mining and infrastructure projects, particularly the expansion of the country's railway and road networks. The overall deficit for the 2013 budget was estimated to be MNT 0.3 trillion (US\$0.2 billion), or approximately 2% of expected GDP, and would be financed through domestic and foreign financing.

Total actual revenue for 2013 was MNT 5,940.1 billion (US\$3.6 billion), which was 92.3% of budgeted revenue, reflecting in part the shortfall resulting from the Government's unchanged ownership interest in Oyu Tolgoi and royalty scheme, resulting in actual revenue from Oyu Tolgoi in 2013 of only MNT 320.8 billion (US\$0.2 billion).

Actual 2013 expenditure was MNT 6,164.7 billion (US\$3.7 billion), which was 90.6% of budgeted expenditure. The actual deficit in 2013 was MNT 224.6 billion (US\$135.8 million), which meets the requirements specified in the Fiscal Stability Law.

### Budgetary Balances

The following table sets forth the budgetary balances of the Government for the periods indicated:

	For the year ended December 31,					
	2011	2012	2013	2014	2015	2016 <sup>(1)</sup>
Net surplus (deficit)/GDP (%) . . .	(5.8)	(6.8)	(1.2)	(4.0)	(5.0)	(18.0)
Primary balance <sup>(1)</sup> /GDP (%) . . . .	10.1	10.9	5.7	9.1	5.0	(13.6)
Public sector debt/GDP (%) . . . .	32.7	52.9	61.9	69.9	80.6	88.0
Real GDP growth (%) . . . . .	17.3	12.3	11.6	7.8	2.4	1.4
Nominal GDP (MNT billions) . . .	13,173.8	16,688.4	19,174.2	21,937.2	23,166.8	23,886.4
Year-on-year inflation (%) . . . . .	10.2	14.0	12.5	11.0	1.9	1.1

Sources: Ministry of Finance, National Statistical Office.

(1) Provisional figures subject to further adjustments.

## Revenue and Expenditure

The following table sets forth the components of total revenue and total expenditure for the periods indicated:

	For the year ended December 31,					
	2011	2012	2013	2014	2015	2016 <sup>(1)</sup>
	(MNT billions)					
<b>Revenue:</b>						
Indirect taxes . . . . .	2,354.6	2,657.7	3,089.4	3,138.1	2,843.4	2,446.9
Direct taxes . . . . .	1,282.3	1,521.6	1,983.4	2,069.7	2,275.6	2,063.8
Non-tax revenue . . . . .	504.4	648.7	863.9	895.6	862.1	837.5
Capital revenue . . . . .	16.8	10.4	3.4	1.7	55.1	1.6
Grants and transfers . . . . .	1.5	24.7	—	118.2	53.4	7,112.1
Stabilization fund . . . . .	241.0	94.7	46.9	(78.3)	2.3	—
<b>Total revenue and grants (excluding Stabilization fund) . . . . .</b>	<b>4,159.6</b>	<b>4,863.1</b>	<b>5,940.1</b>	<b>6,223.3</b>	<b>5,981.1</b>	<b>5,348.2</b>
<b>Current expenditure . . . . .</b>	<b>3,234.4</b>	<b>4,590.1</b>	<b>4,552.6</b>	<b>5,226.6</b>	<b>5,718.4</b>	<b>6,716.8</b>
Wages and salaries . . . . .	801.2	1,249.5	1,401.5	1,566.9	1,709.8	1,710.2
Social security contributions	74.8	113.6	132.4	147.3	157.7	157.2
Purchase of goods and services . . . . .	726.9	960.3	989.6	1,030.7	1,091.9	1,439.5
Interest payments . . . . .	37.3	126.4	270.4	500.4	731.1	1,047.9
Subsidies to public enterprises . . . . .	111.5	99.3	175.8	178.0	101.5	201.5
Social assistance fund . . . . .	128.4	180.9	214.4	475.5	486.2	518.1
Other current operating expenditure . . . . .	1,354.3	1,860.3	1,368.5	1,327.8	1,679.1	1,799.6
<b>Capital expenditure . . . . .</b>	<b>1,067.2</b>	<b>1,384.4</b>	<b>1,490.7</b>	<b>1,739.9</b>	<b>1,396.7</b>	<b>2,350.0</b>
Domestic investment . . . . .	925.1	1,124.1	1,102.8	1,435.9	688.4	1,461.5
Capital repairs . . . . .	50.2	47.3	88.1	44.4	110.8	44.3
Road fund . . . . .	—	—	—	—	—	—
Geological survey . . . . .	3.9	4.0	6.8	7.5	—	—
Commodity stocks . . . . .	30.7	41.4	33.1	14.5	—	—
Other current capital expenditure . . . . .	56.3	167.6	5.9	4.3	597.5	532.7
<b>Net lending . . . . .</b>	<b>490.5</b>	<b>69.4</b>	<b>121.3</b>	<b>64.9</b>	<b>22.9</b>	<b>627.5</b>
<b>Total expenditure and net lending . . . . .</b>	<b>4,792.0</b>	<b>6,043.9</b>	<b>6,164.7</b>	<b>7,031.4</b>	<b>7,137.9</b>	<b>9,694.4</b>
Fiscal balance . . . . .	(632.4)	(1,180.8)	(224.6)	(886.3)	(1,156.9)	(4,346.2)

Source: Ministry of Finance

(1) 2016 supplementary budget approved on September 9, 2016.

## ***Revenue***

The Government's revenue consists of taxes, non-tax revenue, capital revenue, grants and transfers and stabilization fund revenue, with tax revenue being the largest contributor. Tax revenue accounted for 87.4%, 85.9%, 85.4%, 83.7%, 85.6% and 84.3% for 2011, 2012, 2013, 2014, 2015 and 2016, respectively.

In 2016, total revenue and grants decreased by 3.7%, primarily due to decreases in indirect taxes, non-tax revenue and capital revenue received.

In 2015, total revenue and grants decreased by 3.8% compared to 2014, primarily due to decrease in non-tax revenue and VAT received.

In 2014, total revenue and grants increased by 2.6% compared to 2013, primarily due to increases in both direct and indirect taxes collected.

In 2013, total revenue and grants increased by 20.9% compared to 2012, primarily due to an increase in both direct and indirect taxes. The increase in indirect taxes was mainly due to increased revenue from VAT, comprising 47.1% of indirect taxes revenue growth.

## ***Expenditure***

The Government's expenditure consists of current expenditure, capital expenditure and net lending, with current expenditure (wages and salaries and purchase of goods and services) being the largest contributor. Current expenditure accounted for 67.5%, 75.9%, 73.8%, 74.3%, 80.1% and 69.3% of total expenditure and net lending for 2011, 2012, 2013, 2014, 2015 and 2016, respectively.

In 2016, the total expenditure of the Government increased by 29.5% compared to 2014, primarily due to an increase in other current operating expenditure and domestic investment.

In 2015, the total expenditure of the Government increased by 3.2% compared to 2014, primarily due to an increase in wages and salaries and other current operating expenditure.

In 2014, the total expenditure of the Government increased by 14.1% compared to 2013, primarily due to a significant increase in interest payments.

In 2013, the total expenditure of the Government increased by 0.8% compared to 2012, primarily due to a significant increase in current expenditure. The increase in current expenditure in 2013 was primarily due to increased government wages and salaries.

## **Medium Term Fiscal Framework**

The Government's medium term fiscal policy framework defines policy targets for the medium term based on projected economic conditions for the next three years. The framework provides for the goals of creating a stable tax environment, ensuring fiscal stability, limiting the growth of expenses, stabilizing public debt and ensuring macroeconomic growth. In addition, implementation of the framework is expected to require coordination with the 2016-2020 Government Action Plan and the Economic Recovery Plan. With respect to the specified objectives, the Government aims to (i) enhance tax collection and assessment through upgrading technology; (ii) implement large-scale projects and increase privatization; (iii) improve fiscal discipline and efficiency in expenditures in the budget, including through reduction of public debt; (iv) promote education and health; and (v) improve benefits from foreign aid and loans.

## PUBLIC SECTOR DEBT

### Public Sector Debt

Public sector debt has risen steadily in recent years and, as of December 31, 2015, amounted to US\$9.1 billion. According to the Ministry of Finance of Mongolia, Mongolia has a relatively prudent government debt management system among its Asian peers, with net present value of its total government debt to GDP ratio at 79.4% and total nominal debt to GDP ratio of 93.3% as of December 31, 2016. According to the Ministry of Finance, it is expected that the net present value of total government debt to GDP ratio will not exceed 88.0% at the end of 2016, in line with Fiscal Stability Law. The following table sets forth the level of the public sector's domestic debt, external debt and total debt as of the dates indicated below:

	As of December 31,					
	2011	2012	2013	2014	2015	2016 <sup>(1)</sup>
	(US\$ millions)					
Total public sector domestic debt.	360.5	725.2	1,118.2	1,572.0	1,903.8	2,596.8
% of nominal GDP. . . . .	4.5%	7.2%	10.5%	13.6%	16.4%	27.1%
<b>Public sector external debt</b>						
General Government external						
debt . . . . .	1,911.6	4,188.7	4,385.8	4,959.7	5,268.6	6,352.7
Central Bank external debt. . . . .	267.7	414.6	1,065.3	1,567.6	1,959.6	1,790.7
Total public sector external debt .	2,179.3	4,603.4	5,451.1	6,527.2	7,228.2	8,134.4
% of nominal GDP. . . . .	20.9%	37.5%	43.4%	53.4%	61.5%	73.1%
<b>Total public sector debt . . . . .</b>	<b>2,539.8</b>	<b>5,328.6</b>	<b>6,569.3</b>	<b>8,099.2</b>	<b>9,132.1</b>	<b>10,740.2</b>
% of nominal GDP. . . . .	24.4%	43.5%	52.3%	66.3%	77.7%	96.5%

Source: Ministry of Finance and Bank of Mongolia

(1) Provisional figures subject to adjustment.

Public sector domestic debt is comprised of borrowings by the Government. Domestic commercial banks are major lenders to the Government.

The public sector's outstanding external debt includes external loans outstanding, external securities outstanding, Government guaranteed external debt outstanding and Central Bank debt obligations, including borrowings from international financial institutions and bilateral creditors, such as the World Bank and ADB. However, according to the Debt Management Law approved on February 18, 2015, debt guarantees backed or secured by domestic Government bonds are excluded from the Government debt in the calculation of the Government debt ceiling, to avoid double recording.

According to the Ministry of Finance, public sector external debt, which includes Central Bank debt, was US\$8.1 billion as of December 31, 2016, US\$7.2 billion as of December 31, 2015, US\$6.5 billion as of December 2014, and US\$5.5 billion as of December 2013. The majority of the public sector external debt was denominated in U.S. dollars. Prior to January 20, 2015 under the Fiscal Stability Law, net present value of public debt was not permitted to exceed 50% of GDP for 2013 and 40% of GDP starting from 2014. On January 20, 2015, Parliament amended the Government debt ceiling calculated at net present value to 58.3% of GDP for 2015, 55.0% of GDP in 2016, 50% of GDP in 2017

and 40% of GDP starting from 2018. On September 9, 2016, Parliament further amended the Fiscal Stability Law and increased the cap on the Government's debt limit calculated at net present value to 88.0% of GDP in 2016, 85.0% of GDP in 2017, 80.0% of GDP in 2018, 75.0% of GDP in 2019, 70.0% of GDP in 2020 and 60.0% of GDP starting from 2021. By the end of 2016, the ratio of net present value of the government debt to GDP was 79.4%.

Mongolia has US\$500.0 million and US\$1.0 billion of U.S. dollar-denominated bonds due January 2018 and December 2022, respectively, RMB 1.0 billion of Renminbi-denominated bonds due June 2018 and US\$500.0 million of U.S. dollar denominated bonds due April 2021 outstanding.

In addition, DBM has JPY 30.0 billion Japanese Yen denominated bonds due December 2023, a US\$162.0 million loan with China Development Bank due 2022 and a US\$300.0 million syndicated loan facility with a term of five years, which has been fully drawn, TDBM has US\$500.0 million of U.S. dollar-denominated bonds due May 2020 outstanding and MIAT Mongolian Airlines JSC has US\$20.0 million of U.S. dollar-denominated bonds due December 2018 outstanding, all of which are guaranteed by the Government.

In addition, TDBM has US\$500.0 million of U.S. dollar-denominated bonds due April 2020 outstanding, which are guaranteed by the Government.

On November 30, 2011, the Government provided an unconditional and irrevocable guarantee to DBM for its US\$600,000,000 Euro Medium Term Note Program ("DBM EMTN Program"), under which DBM issued US\$20 million of notes in a private placement in December 2011 and US\$580 million of notes due in 2017 with an interest rate of 5.75% per annum in March 2012.

In August 2014, DBM obtained a US\$300.0 million syndicated loan arranged by Credit Suisse, EXIM Bank of China and Sumitomo Mitsui Banking Corporation. The loan bears interest at LIBOR plus 4.250% to 4.375% per annum with a term of five years and is guaranteed by the Government. The loan contains a mandatory prepayment provision that will be triggered if either S&P or Moody's withdraws or downgrades the Government's long term foreign currency debt credit rating. As of the date of this offering memorandum, the outstanding principal amount is US\$300.0 million.

In March 2016, the Government entered into a US\$250.0 million syndicated loan facility led by Credit Suisse. The use of proceeds from the loan was to finance infrastructure development, including construction and road sector projects. The loan bears interest at LIBOR plus 6.25% per annum and has a term of five years. The loan also contains a mandatory prepayment provision that will be triggered if either S&P or Moody's withdraws or downgrades the Government's long term foreign currency debt credit rating. As of the date of this offering memorandum, a principal amount of US\$240.0 million remains outstanding on the loan and its sole lender is Credit Suisse.

In May 2016, the Government provided an irrevocable guarantee to DBM for its US\$300 million revolving export finance credit line from JSC VTB Bank and its affiliates to finance the purchase of petroleum products by Mongolian importers. The Export Insurance Agency of Russia provided political risk insurance cover on the Mongolian sovereign guarantee.

Pursuant to Government Resolution No. 116 passed in 2016, the Government provided a guarantee in the amount of approximately MNT 11.4 billion in relation to pre-financing to be provided to gold mining companies for the expansion of their business and mining operations, subject to an obligation to sell this gold to the Bank of Mongolia, which expired in 2016.



In 2016, the Government provided a guarantee to Erdenes MGL with respect to a US\$35.0 million technical assistance loan from ADB. The proceeds from the loan were used to enhance the risk and financial management of Erdenes MGL.

### Interest Payments

The following table sets forth the level of interest payments of public sector debt for the periods indicated:

	For the year ended December 31,					
	2011 <sup>(1)</sup>	2012 <sup>(2)</sup>	2013 <sup>(2)</sup>	2014 <sup>(2)</sup>	2015 <sup>(2)</sup>	2016 <sup>(3)</sup>
	(MNT millions)					
Interest payments <sup>(4)</sup> . . . . .	37,321.0	125,913.4	270,442.1	500,351.2	731,090.1	987,598.5
% of GDP . . . . .	0.3%	0.9%	1.5%	2.3%	3.2%	4.1% <sup>(5)</sup>

(1) National Statistical Office of Mongolia, Statistical Yearbook 2012.

(2) National Statistical Office of Mongolia, Statistical Yearbook 2015

(3) National Statistical Office of Mongolia, Monthly Bulletin, December 2016.

(4) Interest payments include interest payments made in connection with borrowings under the DBM EMTN Program.

(5) National Statistical Office of Mongolia.

The increase in interest payments is directly related to the rising level of Government debt in recent years as a result of Government social and infrastructure spending, the impact of the global financial crisis and the impact of the sovereign credit rating downgrades. The significant increase of interest payments after June 30, 2012 was mainly due to the interest payments made under DBM EMTN Program, which bears a higher interest rate compared to the concessional loans taken out by the Government.

### Future Financing

According to the National Statistical Office of Mongolia, Mongolia has a relatively prudent government debt management system among its Asian peers, with the ratio of the net present value of its total Government debt to GDP at 79.4% as of December 31, 2016. The Government is permitted to borrow additional external debt as provided for in the budget.

Going forward, the Government intends to reduce its ratio of external debt versus domestic debt to reduce foreign currency exposure. The Government also intends to increase the average time to maturity for its domestic debt by diversifying its bondholders and introducing new auctions such as bundling and syndicated issuances.

### Debt Management Plans

The Cabinet submitted the Medium-term Debt Management Strategy (2016-2018) to Parliament during the 2015 Spring Session of Parliament, which includes, among other things, plans for the repayment of US\$500 million of the Chinggis Bonds due in 2018 and US\$580 million of the bonds outstanding under the DBM EMTN Program due in 2017. It is expected that these repayments will be funded by budget revenues, revenues generated from project and funds raised from international markets. The Medium-term Debt Management Strategy was ratified by Parliament on May 21, 2015. The Medium-term Debt Management Strategy also gives authorization to the Government to conduct liability management operations to extend domestic and external securities, reduce cost of funding, smoothen the redemption profile, develop benchmark yield curves, enhance liquidity and expand investor base. Based on the Medium-term Debt Management Strategy, a comprehensive external debt repayment plan was developed by the Ministry of Finance, and was submitted to the Cabinet for approval.

## BALANCE OF PAYMENTS

### Overview

Mongolia's balance of payments measures the level of Mongolia's current, capital and financial accounts. The current account measures the levels of imports and exports of goods and services and net transfers, while the capital account and financial account measure the levels of investments and debts. A balance of payments surplus indicates a net inflow of foreign currencies, while a balance of payments deficit indicates a net outflow of foreign currencies. The balance of payments is dependent on international economic developments, as well as domestic economic policies. In response to continuing significant imbalance in the balance of payments in recent years, the Bank of Mongolia implemented several programs to stabilize the economy and control inflation.

The following table sets forth the components of the overall balance of payments for the periods indicated:

	For the year ended December 31,					
	2011	2012	2013	2014	2015	2016
	(US\$ millions)					
<b>Current account</b>						
Goods and services balance . . . .	(2,153.4)	(2,653.6)	(2,634.7)	(559.1)	(337.5)	(225.8)
Goods balance . . . . .	(992.9)	(1,553.3)	(1,320.5)	993.9	1,231.8	1,334.7
Exports (FOB) . . . . .	4,706.6	4,259.2	3,957.9	5,368.5	4,248.9	4,797.7
Imports (FOB) . . . . .	(5,788.2)	(5,910.0)	(5,544.2)	(4,708.1)	(3,414.9)	(3,463.0)
Other goods . . . . .	(21.2)	(24.8)	(44.0)	(71.8)	(22.8)	(22.1)
Services balance . . . . .	(1,160.5)	(1,100.3)	(1,314.2)	(1,553.2)	(894.3)	(1,107.9)
Net income balance . . . . .	(843.4)	(948.1)	(699.1)	(998.6)	(1,078.0)	(754.7)
Net current transfers . . . . .	238.2	239.4	141.8	143.0	173.4	199.7
Total current account . . . . .	<u>(2,758.6)</u>	<u>(3,362.3)</u>	<u>(3,192.0)</u>	<u>(1,405.0)</u>	<u>(567.1)</u>	<u>(329.1)</u>
<b>Capital and financial account</b>						
Capital account . . . . .	113.9	120.4	125.8	100.0	111.9	103.6
Financial account . . . . .	2,750.4	4,809.1	1,312.3	962.0	302.4	501.6
Net direct investment . . . . .	4,620.1	4,407.8	2,098.1	276.0	110.2	(4,141.0)
Direct investment abroad . . . . .	(94.5)	(44.0)	(41.5)	(105.9)	(12.4)	(6.6)
Direct investment in Mongolia . .	4,714.6	4,451.8	2,139.6	381.9	195.1	(4,134.4)
Portfolio investment . . . . .	77.0	2,325.4	(156.1)	276.8	281.7	492.2
Other investment . . . . .	<u>(1,946.7)</u>	<u>(1,924.1)</u>	<u>(629.7)</u>	<u>408.1</u>	<u>(163.3)</u>	<u>4,152.0</u>
Total capital and financial account . . . . .	<u>2,864.2</u>	<u>4,929.5</u>	<u>1,438.1</u>	<u>1,062.0</u>	<u>414.3</u>	<u>605.2</u>
<b>Net errors and omissions . . . . .</b>						
Total net errors and omissions . .	(77.8)	137.8	(113.4)	(128.1)	(115.2)	(294.2)
<b>Overall balance of payments . .</b>	<b><u>27.8</u></b>	<b><u>1,705.0</u></b>	<b><u>(1,867.3)</u></b>	<b><u>(471.1)</u></b>	<b><u>(268.1)</u></b>	<b><u>(18.2)</u></b>
<b>Reserves and related items . . . .</b>	<b><u>(27.8)</u></b>	<b><u>(1,705.0)</u></b>	<b><u>1,867.3</u></b>	<b><u>471.1</u></b>	<b><u>268.1</u></b>	<b><u>18.2</u></b>

Source: Bank of Mongolia

For 2016, the current account reflected a deficit of US\$329.1 million, and the capital and financial account reflected a surplus of US\$605.2 million, resulting in a deficit in the overall balance of payments of US\$18.2 million. The current account increased by 42.0% for 2016 compared to 2015 primarily due to increases in good balance, exports (FOB), net income balance and net current transfers. The capital and financial account increased by 46.1% for 2016 compared to 2015 primarily due to increases in financial account, portfolio investment and other investment.

For 2015, the current account reflected a deficit of US\$567.1 million, and the capital and financial account reflected a surplus of US\$414.3 million, resulting in a deficit in the overall balance of payments of US\$268.1 million. The current account increased by 59.6% for 2015 compared to 2014 primarily due to decreases in imports and services and increases in the goods balance. The capital and financial account decreased by 61.0% for 2015 compared to 2014 primarily due to decreases in foreign direct investment in Mongolia resulting from lower global demand and prices for commodities.

For 2014, the current account reflected a deficit of US\$1,405.0 million, and the capital and financial account reflected a surplus of US\$1,062.0 million, resulting in a deficit of US\$471.1 million. The current account increased by 56.0% for 2014 compared to 2013 primarily due to increases in exports and decreases in imports. The capital and financial account decreased by 26.3% for 2014 compared to 2013 primarily due to a 82.2% decrease in foreign direct investment in Mongolia. Commencement of operations of major mining projects significantly improved exports. Nevertheless, this trend was partially offset by an increase in related expenditures on heavy machinery and petroleum imports, as well as on construction, engineering, management and financial advisory services.

In 2013, the current account was in deficit of US\$3,192.0 million, and the capital and financial account was in surplus of US\$1,438.1 million, resulting in a deficit of US\$1,867.3 million of overall balance of payments. The current account deficit decreased by 5.1% compared to 2012, primarily due to decreases in the goods balance deficit and in the exports surplus as offset by an increase in the services balance deficit. The capital and financial account surplus decreased by 70.8%, compared to 2012. The decrease in the capital and financial account was due to a decrease in direct investment in Mongolia of 52.0% compared to 2012.

## **Foreign Investment**

Parliament enacted the Investment Law on October 3, 2013 with effect from November 1, 2013. The Investment Law removed most of the requirements for prior Government or Parliamentary approval of any private investments in certain designated strategic sectors of Mongolia (including the banking and finance, media and communications and minerals sectors) that were previously required under SEFIL. However, investors with foreign (direct or indirect) state ownership of 50.0% or more are still required to obtain approval from the National Development Agency when acquiring an interest of 33.0% or more in a company operating in one of the strategic sectors identified in the Investment Law. The Investment Law also replaces the Foreign Investment Law of Mongolia (1993). See “Mongolia — Legal Reform — Laws Affecting the Mining Sector — Regulations Affecting Foreign Direct Investment.”

The following table sets forth net direct investment by industry for the periods indicated:

	For the year ended December 31,					
	2011	2012	2013	2014	2015	2016
	(US\$ millions)					
Geology exploration, production and oil . . . . .	3,913.0	3,676.5	1,488.9	(195.5)	(291.1)	(4,244.8)
Banking and financial service . . .	141.0	92.7	25.0	116.1	60.6	30.7
Construction . . . . .	189.0	176.2	42.2	171.2	46.8	46.5
Information and communication technology . . . . .	47.0	96.5	0.9	29.6	26.9	1.1
Others . . . . .	330.0	365.9	541.1	154.6	267	25.5
<b>Net direct investment . . . . .</b>	<b><u>4,620.1</u></b>	<b><u>4,407.8</u></b>	<b><u>2,098.1</u></b>	<b><u>276.0</u></b>	<b><u>110.2</u></b>	<b><u>(4,141.0)</u></b>

Source: Bank of Mongolia

Net direct investment decreased from US\$4,407.8 million in 2012 to US\$2,098.1 million in 2013, primarily due to the slowdown of the Mongolia economy as a result of the slowdown of the PRC economy as well as implementation of SEFIL. Net direct investment decreased from US\$2,098.1 million in 2013 to US\$405.0 million in 2014, primarily due to a decline in investment in the mining sector. Net direct investment decreased to US\$110.2 million for 2015 compared to US\$276.0 million for 2014, primarily due to ongoing uncertainty in the legal and regulatory environment combined with persistent lower global demand and prices for commodities. There was a decrease in Mongolia's investment abroad and a significant decrease in foreign direct investment in Mongolia, resulting in an outflow of net direct investment of US\$4,141.0 million for 2016, primarily due to Oyu Tolgoi LLC's repayment of its shareholders' loan which amounted to US\$4.3 billion in the second half of 2016. Geology exploration, production and oil has historically been the most significant sector for foreign direct investment in Mongolia.

### Reserves

The following table sets forth the level of the official international reserves position as of the dates indicated:

	As of December 31,					
	2011	2012	2013	2014	2015	2016
	(US\$ millions)					
Gross foreign exchange reserves .	2,450.6	4,125.8	2,248.0	1,649.9	1,323.1	1,296.4

Source: Bank of Mongolia

The Bank of Mongolia receives foreign exchange reserves through (i) surplus in balance of payments from export revenue and net foreign direct investment flows, (ii) monetizing gold bought from local producers or overseas and (iii) receiving loans and grants from overseas. The Bank of Mongolia holds foreign-currency assets primarily for the purpose of facilitating policy operations in the foreign exchange market and transferring cross-border payments on the behalf of the Government.

Foreign exchange reserves are primarily used by the Bank of Mongolia to (i) reduce exchange volatility through foreign exchange auctions, (ii) provide foreign exchange liquidity in domestic markets and (iii) make payments on short-term obligations as the Government's fiscal agent.

As of the beginning of 2012, the Bank of Mongolia's gross foreign exchange reserve was equivalent of US\$2.8 billion and to US\$3.7 billion at the end of 2012, primarily due to the issuance of the Chinggis Bonds. Due to an imbalance in the balance of payments, gross foreign exchange reserves have decreased to US\$1.6 billion as of December 31, 2014. As of December 31, 2015, Mongolia's foreign exchange reserves were equivalent to US\$1,323.1 million, reflecting a decrease compared to December 31, 2014, primarily due to a lower level of foreign investment and reduced exports. As of December 31, 2016, foreign exchange reserves decreased to US\$1,296.4 million, representing 4.8 months of import payments and reflecting a 2.0% decrease from 2015 due to outbound payments, including a US\$4.3 billion repayment by Oyu Tolgoi LLC of its shareholders' loan. In 2016, significant domestic purchases of gold partially offset these outbound payments. The Bank of Mongolia purchased 18.3 tons of gold from domestic miners, which contributed to the maintenance of reserves at an adequate level. The Bank of Mongolia allowed the exchange rate to freely float for the remainder of 2016 in anticipation of increases in trade surplus and foreign currency inflows from foreign investment, including in relation to strategic mining projects such as Oyu Tolgoi, narrowing the current account deficit in the short term. As part of the 2016-2020 Government Action Plan, and in order to boost its gold reserves, the Government has implemented the "Gold II Program," which incentivizes the domestic production of gold and subsequent sale to the Bank of Mongolia.

The Government expects this trend to improve in 2017 as a result of its efforts to promote foreign investment, which include the establishment of a council to improve the regulatory regime and protect the rights and interests of foreign investors. Furthermore, the implementation of various large-scale projects in the mining, agriculture, processing and energy sectors, including the underground mine at Oyu Tolgoi, the Tavan Tolgoi project (including the related railway), the Tavan Tolgoi 450 MW power plant and the TPP #3 250 MW expansion, is expected to increase foreign investment and improve Mongolia's balance of payments in 2017.

## Exchange Rates

The following table sets forth the exchange rates between the Tugrik and certain key currencies as of the dates indicated:

	As of December 31,					
	2011	2012	2013	2014	2015	2016
JPY/MNT . . . . .	18.00	16.15	15.80	15.78	16.57	21.19
USD/MNT . . . . .	1,396.37	1,392.10	1,659.34	1,888.44	1,995.51	2,489.53
EUR/MNT . . . . .	1,806.76	1,835.83	2,288.81	2,295.40	2,181.19	2,605.79
RMB/MNT . . . . .	221.63	223.39	274.17	304.59	307.30	357.96
RUB/MNT . . . . .	43.44	45.66	50.58	33.97	27.02	41.03

Source: Bank of Mongolia

## **Exchange Controls**

Under the Currency Settlement Law of 1994, Mongolian commercial banks require approval from the Bank of Mongolia to undertake transactions in amounts that may affect the exchange rate of the Tugrik. There are no other restrictions on repatriation of foreign currencies from Mongolia and there are no foreign exchange controls. Foreign currency is generally freely transferable within or from Mongolia. Foreign exchange policy is under the supervision of the Ministry of Finance and the Bank of Mongolia and remains subject to modification.

Parliament adopted the Law of Mongolia on Settlement of Payments in National Currency (the “National Currency Law”) on July 9, 2009. This law is designed to prohibit any settlement of transactions in foreign currency and to ensure the stability of the national currency. These measures have reportedly been implemented to avoid any “dollarization” of the national economy. The National Currency Law prohibits settling payment for goods and services in the territory of Mongolia in foreign currency as well as setting prices of such goods and services and making advertisements in foreign currency in the territory of Mongolia unless the Bank of Mongolia has granted such permission. However, banking and financial institutions are exempted from the National Currency Law.

The Bank of Mongolia has a floating exchange rate regime, which allows currency fluctuations that are consistent with the prevailing macroeconomic environment. The Bank of Mongolia directly intervenes in the foreign exchange market to resist excessive and undesirable volatility in the currency market, and to provide commercial banks with financial derivative products for liquidity management. Foreign investors are free to repatriate dividends and principal without the necessity of obtaining any governmental approvals. The Tugrik can be converted into foreign currencies through any Mongolian commercial bank or licensed currency exchange.

In response to the sharp depreciation of the Tugrik against major currencies, the Bank of Mongolia increased the policy rate to 15.0% in August 2016. The Bank of Mongolia subsequently reduced the policy rate by one percentage point to 14.0% in December 2016 to accommodate expected lower inflation and expected higher and more stable commodities prices. The Bank of Mongolia does not target any specific rate of exchange through policies or controls. Rather, it intervenes only to mitigate volatility caused by sudden short-term mismatch of supply and demand. The Bank of Mongolia does not expect any change in this policy, and expects to continue to preserve the floating exchange rate regime and permit determination of the exchange rate by the free market.

## MONETARY AND FINANCIAL SYSTEM

### Monetary System

#### *Bank of Mongolia*

According to the Central Bank Law, the main objective of the Bank of Mongolia is to ensure the stability of the Tugrik, Mongolia's currency. Within this main objective, the Central Bank Law states that the Bank of Mongolia is to "promote balanced and sustainable development of the national economy, through maintaining the stability of money, financial markets and the banking system." The Bank of Mongolia formulates and implements monetary policies to achieve its main objective. In addition, the Central Bank Law granted far-reaching financial oversight authorities to the Bank of Mongolia and its functions include management of interest rates and exchange rates, oversight of government borrowing, supervision of interbank settlements and lending, printing and issuance of bank notes and coins, management of Mongolia's foreign currency reserves, and financial supervision of commercial banks. The Bank of Mongolia is the supervisory and regulatory body overseeing all banks operating in Mongolia other than DBM, which is under the jurisdiction of the FRC. The Bank of Mongolia is independent from the Government and the governor of the Bank of Mongolia is appointed by Parliament for a term of six years.

#### *Monetary Policy*

The Bank of Mongolia formulates its monetary policy annually and submits it to Parliament for approval by October 1 of each year. The Financial Stability Committee, consisting of the governor of the Bank of Mongolia, the Minister of Finance and chairperson of the FRC, work together on the monetary policy. Monetary policy is based on a managed foreign exchange ("FX") float and monetary targeting regime, but is, in effect, diverse and pro-growth. The Bank of Mongolia's monetary policy objectives include: (i) maintaining inflation at low and stable levels and (ii) allowing exchange rate flexibility in line with macroeconomic fundamentals. The Bank of Mongolia has been using its conventional monetary policy instruments against demand-pull inflationary pressure and implementing medium-term price stabilization program with the Government against cost-push inflation. The Bank of Mongolia relies on five tools in implementing its monetary policy. These include: (i) setting a policy rate that directly targets inflation; (ii) reserving requirements to affect broad money supply; (iii) open-market operations to absorb excess liquidity; (iv) foreign exchange market intervention to control exchange rate volatility; (v) repo facilities to manage intraday liquidity; and (vi) medium-term price stabilization program with the Government. The Bank of Mongolia plans a shift towards an inflation targeting framework in the medium-term. This will heighten the effectiveness of monetary policy but will require a more enabling fiscal environment that does not hinder monetary transmission or Bank of Mongolia's institutional credibility.



The following table sets forth the policy rates set by the Bank of Mongolia as of the dates indicated:

<u>Date</u>	<u>Policy Rate</u>
April 28, 2011 . . . . .	11.50%
August 29, 2011 . . . . .	11.75%
October 25, 2011 . . . . .	12.25%
March 19, 2012 . . . . .	12.75%
April 17, 2012 . . . . .	13.25%
January 25, 2013 . . . . .	12.50%
March 13, 2013 . . . . .	12.50%
April 5, 2013 . . . . .	11.50%
June 24, 2014 . . . . .	10.50%
July 31, 2014 . . . . .	12.00%
January 15, 2015 . . . . .	13.00%
September 30, 2015 . . . . .	13.00%
November 20, 2015 . . . . .	13.00%
January 14, 2016 . . . . .	12.00%
May 5, 2016 . . . . .	10.50%
August 18, 2016 . . . . .	15.00%
December 19, 2016 . . . . .	14.00%

*Source: Bank of Mongolia*

As of the date of this offering memorandum, the Government has implemented the following measures, which it expects to increase foreign currency inflows to Mongolia:

- amend laws and regulations relating to foreign direct investment and mining to encourage foreign investment in Mongolia;
- work closely with financial institutions to raise additional capital; and
- encourage the rebound observed in the commodities market, which the Government expects to coincide with the commencement of operations of Phase II of the Oyu Tolgoi mine.

On November 17, 2016, Parliament approved the Main Guidelines/Directions for Monetary Policy for 2017.

As part of its strategy to maintain foreign currency reserves, the Government plans to fully utilize the current RMB 15 billion long-term currency swap between the People’s Bank of China and the Bank of Mongolia. Furthermore, a new extension of this swap line was agreed to by the prime ministers of Mongolia and China and discussions are currently underway regarding the expansion of the swap line by RMB 5.0 to RMB 10.0 billion, which would result in a total available amount under the swap line of RMB 20.0 billion to RMB 25.0 billion, which is expected to be completed in the first quarter of 2017.

## *Money Supply*

In recent years, increases in net domestic assets, mainly in the form of bank loans, has been the main determinant of M2 money supply due to the decrease in net foreign assets due to balance of payments issues. The following table sets forth the level of the money supply as measured by the different measures of money as of the dates indicated:

	As of December 31,					
	2011	2012	2013	2014	2015	2016
	(MNT billions)					
Currency outside banks . . . . .	517.5	603.4	582.0	499.3	458.7	562.9
Current account in domestic currency . . . . .	1,223.6	1,231.5	1,511.2	1,317.5	1,226.8	1,527.2
Total (M1) . . . . .	1,741.1	1,834.9	2,093.2	1,816.7	1,685.4	2,090.1
Quasi money . . . . .	4,671.2	5,778.8	7,361.7	8,819.1	8,364.8	9,986.4
Money (M2) . . . . .	6,411.8	7,612.4	9,453.3	10,634.7	10,049.0	12,076.5

Source: Bank of Mongolia

## **Financial System**

### *Overview*

As of December 31, 2016, the Mongolian financial sector comprised 14 commercial banks, 13 of which were privately owned and one state-owned, one state development bank, 468 licensed non-banking financial institutions and 278 saving and credit cooperatives. Of the 14 commercial banks operating in Mongolia, three are wholly foreign-owned; four are partially foreign and partially domestically owned; seven are wholly locally owned. The Mongolian banking system is dominated by four banks. As of December 31, 2016, the leading banks in the industry by the size of assets, loans and deposits were TDBM, Golomt Bank, Khan Bank and XacBank LLC. The non-bank financial sector, including the insurance sector and the stock market, is significantly smaller. The banking and financial sector of Mongolia is regulated by the Bank of Mongolia and the FRC. The Bank of Mongolia is responsible for monitoring the banking system, conducting off-site and on-site reviews and establishing standards for the industry as a whole.

### *Recent Reforms in the Banking Sector*

The Bank of Mongolia has implemented mid-term strategies with respect to regulatory supervision based on the evolving international standards after the 2008 global financial crisis. Within this policy framework, banking regulations will be strengthened through forward-looking and risk-based approach rather than the previous compliance-based approach. In addition, the Bank of Mongolia has commenced the implementation of BASEL III banking standards.

In recent years, in order to maintain financial stability, the Bank of Mongolia has strengthened its regulatory capacity by (i) upgrading its bank supervision process; (ii) enhancing loan classification and loan loss provisioning system; (iii) implementing prudential regulations; and (iv) improving enforcement procedures. Loan loss reserve requirements have increased. For instance, performing loans now require no reserve, while doubtful loans and substandard loans require 50.0% and 25.0%

provision, respectively. Loans must be classified as overdue if interest is overdue, even if the principal is up to date. A 1.0% loan loss provisioning rule was introduced by the Bank of Mongolia for newly extended loans. These changes reflect greater regulatory prudence with a focus on obtaining earlier indications of loan loss problems. More recently, the authorities have further tightened prudential regulations on asset classification and loan loss provisions. New requirements provide for the recognition of restructured loans as non-performing and the establishment of provisioning requirements for excessive related party loans. It is expected that additional conservative measures will be gradually implemented.

In December 2016, the Bank of Mongolia and the Ministry of Finance jointly revised the Bank of Mongolia's regulation on asset classification, provisioning and allocation to improve regulatory oversight over loan provisioning and asset classification.

Prudential norms introduced in 1996 closely mirror key international norms, particularly the capital adequacy principle. The minimum capital adequacy ratios as of December 31, 2015 ("CARs") for commercial banks are currently at 9.0% for the tier I ratio and 14.0% for the systemically important banks and 12.0% for the other banks. In July 2011, the Bank of Mongolia announced its decision requiring all commercial banks in Mongolia to increase their paid-in capital to MNT 16.0 billion (US\$8.5 million) by May 1, 2013. On April 1, 2015, the Bank of Mongolia further increased the minimum required paid-in capital for commercial banks to MNT 50.0 billion. Commercial banks must increase their capital accordingly by December 31, 2017. These steps were intended not only to improve the safety and soundness of the banking system, but also to encourage the shareholders of existing banks to monitor their investments more closely. To monitor the health and stability of the financial system, the financial stability committee, formed by the Bank of Mongolia, the Ministry of Finance and the Financial Regulatory Commission, has effectively been working on analyzing the soundness of the overall financial system since 2005.

The NPL ratio declined from a peak of 17.4% in 2009 to 8.5% in 2016. The systemic CAR also improved to 17.9% as of December 31, 2015. The blanket deposit guarantee was replaced by a restricted deposit guarantee scheme that ensures enhancement of financial institutions' responsibilities and reduction of risks to public sector.

### ***Development Bank of Mongolia***

On March 25, 2011, DBM was established. DBM is wholly-owned by the Government and is the only policy bank in Mongolia. DBM was established to foster the economic and infrastructure development of Mongolia by providing long-term financing for policy-oriented projects consistent with the Government's macroeconomic development strategy. DBM's current principal activities focus on raising funds and mobilizing resources to support the development of industries encouraged by the Government. These industries include infrastructure, railway and road transportation, energy, mining supply chain industries and export-oriented and import-substitution industries. On February 10, 2011, Parliament passed the Law on Development Bank of Mongolia which provides the legal framework for the establishment and operation of DBM. DBM is mandated to finance large-scale development projects and programs to improve living standards in Mongolia and enhance Mongolia's economic competitiveness. In December 2016, the draft of the Revised Law on Development Bank was submitted to Parliament. The proposed Revised Law on Development Bank further clarifies the relationship between Parliament and the Government as regards the operations of DBM, encourages prudent governance, increases oversight of DBM's lending operations, reduces financing obtained from the Government and increases independence from the Government. These amendments are expected to more clearly delineate the decision making process and authority of the Government and

DBM. As a result, DBM expects to change its business model in the future to reduce its lending. On February 10, 2017, Parliament approved the Revised Law on the Development Bank of Mongolia. The revised law aims to strengthen DBM's governance and independence and to enable DBM to focus on commercially viable projects. The revised law also has provisions which increase (i) oversight from the Bank of Mongolia, (ii) transparency, and (iii) accountability. The revised law will come into force on April 1, 2017.

Pursuant to Parliament Resolution No. 81 dated December 28, 2016, DBM transferred its loan portfolio to be repaid from the state budget to the Ministry of Finance. Furthermore, DBM's capital will be increased by up to MNT 1.0 trillion.

DBM is mandated by the Government to finance large-scale development projects and programs to improve the living standards in Mongolia and enhance Mongolia's competitiveness in the international markets. In November 2011, DBM set up the DBM EMTN Program. On March 14, 2012, DBM issued the DBM Notes to international investors under the DBM EMTN Program. The notes were listed on the SGX-ST. The planned use of proceeds from the issuance of the notes was as follows:

- Approximately US\$100 million was used to finance the development of railway infrastructure projects; Approximately US\$61 million was used to finance the development of and construction of a cement factory in Khutul that will produce concrete and other materials for the planned Tavan Tolgoi — Sainshand Choibalsan Railway Network, which will become the main cement supplier for the Sainshand Industrial Park;
- Approximately US\$53.3 million was used to finance the construction of highways and approximately US\$5.3 million was used to finance the development of air transportation; and
- The remaining proceeds was used to finance the development of other infrastructure projects in Mongolia.

As of the date of this offering memorandum, an audit on the use of proceeds from the DBM Notes remains ongoing.

In January 2014, DBM issued ¥30.0 billion of bonds guaranteed by the Government and the Japan Bank for International Cooperation due 2023 with an interest rate of 1.52 % per annum. The guarantee issued by the Japan Bank for International Cooperation for 95% of the principal and interest payments. The bonds were rated "AA" and "Aa3" by S&P and Moody's, respectively. The planned use of proceeds from the issuance of the notes was as follows:

- Approximately ¥16.4 billion was used to finance light industry projects, including upgrades to cashmere and wool processing equipment;
- Approximately ¥4.8 billion was used to finance long-term mortgage loans; and
- Approximately ¥3.0 billion was used to finance SME development funds.

In August 2014, DBM obtained a US\$300.0 million syndicated loan guaranteed by the Government with a term of five years. This loan was arranged by Credit Suisse, EXIM Bank of China and Sumitomo Mitsui Banking Corporation.

On August 21, 2014, DBM entered into a facility agreement with China Development Bank for a loan of US\$162.0 million, guaranteed by the Government, with a term of eight years.

DBM has also entered into other facility agreements, credit lines and financing arrangements with various international financial institutions to fund projects in Mongolia and financing imports.

### ***Deposit Funding and Lending Activity***

The banking system has grown rapidly from a small base, with yearly average asset growth of 28.9% from 2011 to 2016. Improving macroeconomic conditions, rising personal income and competition among commercial banks fueled such asset growth. In 2015, the ratio of total bank assets to GDP was 0.93. Current account and deposits increased to MNT 11,465.7 billion (US\$4.6 billion) due to an increase in foreign currency deposits and current accounts of individuals and represented 45.0% of total assets in 2016. The volume of Tugrik deposits was MNT 3.5 trillion (US\$2.5 billion), MNT 4.9 trillion (US\$3.0 billion), MNT 5.4 trillion (US\$2.9 billion), MNT 5.4 trillion (US\$2.7 billion) and MNT 5.8 trillion (US\$2.3 billion) as of December 31, 2012, 2013, 2014, 2015 and 2016, respectively. In addition, as inflation fell, real interest rates improved.

Outstanding loans increased to MNT 12.3 trillion as of December 31, 2016 compared to MNT 11.6 trillion as of December 31, 2015, primarily due to an increase in demand for consumer loans. Outstanding loans decreased to MNT 11.6 trillion as of December 31, 2015 compared to MNT 12.4 trillion as of December 31, 2014, primarily due to a decrease in demand for loans due to slower economic growth during the year. As of December 31, 2014, outstanding loans increased by 16.1% to MNT 12.4 trillion from MNT 10.7 trillion as of December 31, 2013, primarily due to increased demand for loans in spite of slower economic growth. As of December 31, 2013, outstanding loans increased by 54.4% to MNT 10.7 trillion from MNT 6.9 trillion as of December 31, 2012, primarily due to an increase of capital inflows into the banking sectors, which resulted in a higher number of loans being taken out.

The following table sets forth the year-on-year credit and deposit growth of the banking sector as of the dates indicated:

	As of December 31,					
	2011	2012	2013	2014	2015	2016
	(MNT billions)					
Loans . . . . .	5,597.7	6,941.1	10,715.6	12,440.9	11,633.6	12,337.5
% year-on-year . . . . .	N/A	24.0%	54.4%	16.1%	(6.5%)	6.1%
Deposits <sup>(1)</sup> . . . . .	6,793.3	7,908.7	10,025.0	11,555.0	11,000.9	12,839.6
% year-on-year . . . . .	N/A	16.4%	26.8	15.3%	(4.8%)	16.7%
Loan-to-deposit ratio (“LDR”) . .	82.4%	87.8%	106.9%	107.7%	105.8%	96.1%
Liquidity Ratio <sup>(2)</sup> . . . . .	39.0%	38.7%	44.4%	41.2%	39.7%	41.4%

Source: Bank of Mongolia

(1) “Deposits” include current accounts, deposits and Government deposits.

(2) The minimum liquidity ratio set by the Bank of Mongolia is 25.0%.

The following table sets out a breakdown of deposits in commercial banks and credit institutions into demand and savings as of the dates indicated:

	As of December 31,					
	2011	2012	2013	2014	2015	2016
	(MNT billions)					
Current accounts .....	2,004.4	2,090.6	2,485.4	2,756.5	2,208.5	2,965.2
Deposits .....	3,857.4	4,884.7	6,353.4	7,334.0	7,338.5	8,500.5
<b>Total</b> .....	<b>5,861.8</b>	<b>6,975.3</b>	<b>8,838.8</b>	<b>10,090.5</b>	<b>9,547.0</b>	<b>11,465.7</b>

Source: Bank of Mongolia

The following table sets forth credit extended to banks by the Bank of Mongolia as of the dates indicated:

	As of December 31,					
	2011	2012	2013	2014	2015	2016
	(MNT billions)					
Credit extended to banks .....	341.5	400.6	4,297.0	2,607.8	1,686.4	1,471.3

Source: Bank of Mongolia

### **Bank Asset Quality**

The NPL ratio increased to 8.5% as of December 31, 2016. The increase in NPLs from December 31, 2013 to December 31, 2016 was primarily due to a slowdown in economic growth, low levels of foreign investment and a weak local currency, which had an unfavorable effect on the private sector. The following table sets forth the change in quality of loans outstanding in the banking sector as of the dates indicated:

	As of December 31,					
	2011	2012	2013	2014	2015	2016
	(MNT billions)					
Performing .....	5,196.0	6,538.4	10,034.2	11,549.2	9,953.3	10,390.1
Past due .....	74.7	109.5	117.1	267.8	857.9	899.9
Non-performing <sup>(1)</sup> .....	326.9	293.4	564.3	623.9	867.3	1,047.5
<b>Total</b> .....	<b>5,597.7</b>	<b>6,941.1</b>	<b>10,715.6</b>	<b>12,440.9</b>	<b>11,633.6</b>	<b>12,337.5</b>
NPL ratio .....	5.8%	4.2%	5.3%	5.0%	7.5%	8.5%

Source: Bank of Mongolia

(1) Non-performing refers to loans that are past due in interest and principal payments for a period of more than 90 days.

The following table sets out the total amount of outstanding loans categorized by industry sector as of the dates indicated:

	As of December 31,					
	2011	2012	2013	2014	2015	2016
	(MNT billions)					
Agriculture, forestry, fisheries and subsistence. . . . .	170.0	186.3	227.0	316.8	241.3	282.9
Mining and quarrying . . . . .	670.7	798.5	1,328.4	1,129.5	1,163.6	761.7
Construction . . . . .	661.3	899.9	1,456.9	1,647.4	1,526.8	1,333.8
Manufacturing . . . . .	630.4	797.6	1,085.0	1,317.8	1,285.9	1,294.3
Wholesale and retail trade . . . . .	952.4	1,141.8	1,746.6	1,803.4	1,678.5	1,742.0
Transportation . . . . .	187.9	215.1	196.2	174.8	133.7	155.9
Communication . . . . .	40.1	38.2	46.3	118.1	90.3	83.7
Financial and insurance service . . . . .	67.0	41.4	58.0	232.4	240.7	464.9
Real estate . . . . .	787.4	970.5	1,764.7	2,223.5	1,525.3	1,968.6
Others <sup>(1)</sup> . . . . .	1,430.5	1,851.8	2,806.5	3,477.2	3,747.5	4,249.7
<b>Total . . . . .</b>	<b><u>5,597.7</u></b>	<b><u>6,941.1</u></b>	<b><u>10,715.6</u></b>	<b><u>12,440.9</u></b>	<b><u>11,633.6</u></b>	<b><u>12,337.5</u></b>

Source: Bank of Mongolia

(1) “Others” represents: (i) electricity, gas steam and air conditioning, (ii) water supply and waste management, (iii) professional, scientific and technical activities, (iv) public administration and defense and compulsory social security, (v) education, and (vi) health and social work.

## Banking System Capitalization

Bank capital in Mongolia increased due to better earnings and equity contributions following the Bank of Mongolia’s increase of the minimum capital requirement to the current level of MNT 16.0 billion (US\$8.5 million). See “Regulation and Supervision of the Banking Sector — Banking Related Laws — Governor’s Orders of the Bank of Mongolia.” Foreign banks are required to have a minimum capital of MNT 65.0 billion (US\$34.5 million) in order to set up their branch or subsidiary in Mongolia. Capital in the banking sector (prepaid tax deducted) was MNT 2,462.2 billion (US\$1,233.6 million) as of December 31, 2015, representing an increase of 15.4% from December 31, 2014. Capital in the banking sector (prepaid tax deducted) was MNT 2,134.3 billion (US\$1,131.9 million) as of December 31, 2014, representing an increase of 54.5% from December 31, 2013. Capital in the banking sector (prepaid tax deducted) was MNT 1,381.0 billion (US\$835.0 million) as of December 31, 2013, representing an increase of 35.9% from December 31, 2012. As a result, the risk weighted CAR for the whole banking system, which is one of the main indicators of capability of the banks to withstand risk, stood at 17.9% as of December 31, 2015. The Bank of Mongolia amended its regulations with respect to the risk weighting of certain U.S. dollar-denominated loans effective January 1, 2015. This



amendment increased the risk weighting of certain U.S. dollar-denominated loans from 100.0% to 120.0%. The Bank of Mongolia amended the regulations to allow banks to use Tugrik excess reserves to fulfill up to 50.0% of the foreign currency reserve requirements. The following table sets forth the increase in capital of the banking sector as of the dates indicated:

	<b>As of December 31,</b>					
	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>
	(MNT billions)					
Capital .....	941.0	1,254.7	1,705.5	2,289.4	2,447.7	3,022.5
CAR (%) .....	14.9	16.1	16.0	17.5	17.9	18.6

*Source: Bank of Mongolia.*

## SECURITIES MARKET

### Securities Market

The MSE, Mongolia’s sole stock exchange, was established in 1991 and is located in Ulaanbaatar. It initially assisted the process of privatization of state-owned enterprises under the Government’s “Center of Reform Program” initiative. It is regulated by the FRC. Its core functions are to list and register securities of companies, to organize transparent, fair securities trading, to disseminate securities market related data and news to the public, to provide a regulated market for the trading of existing stocks and bonds and to facilitate the trading of securities by ensuring IT software and equipment safety.

The following table sets forth the number of companies listed on the MSE and the total market capitalization as of the dates indicated:

	As of December 31,					
	2011	2012	2013	2014	2015	2016
	(MNT billions)					
Number of listed companies . . . .	332	329	261	237	235	227
Total market capitalization . . . . .	<u>2,168.6</u>	<u>1,799.9</u>	<u>1,670.5</u>	<u>1,442.7</u>	<u>1,262.5</u>	<u>1,474.1</u>

*Sources: Bank of Mongolia, National Statistical Office*

The stock market index in Mongolia is the Mongolian Stock Exchange Index, a share price index composed of the weighted average of market value listed on the MSE. As of December 31, 2016, there were 42 members of the MSE which were trading companies that have obtained licenses to operate in the securities market from the FRC.

On May 24, 2013, Parliament enacted a revised Law on Securities Markets (“Revised Securities Markets Law”) with effect from January 1, 2014. The purpose of the Revised Securities Markets Law was to introduce effective and clear guidance with respect to initial public offerings of shares and to define the distinction between primary and secondary securities market activities while providing measures preventing insider dealings and market abuses. In addition, it imposes higher standards and registration requirements for securities markets participants as well as advisory service providers, including law firms and audit firms. The Revised Securities Markets Law defines securities broadly to include derivatives, depositary receipts and warrants, and expressly permits over-the-counter trading of securities.

### Financial Regulatory Commission

The FRC was established in 2006 pursuant to the Law of Mongolia on the Legal Status of the FRC enacted on November 17, 2005. It was established to monitor and regulate the securities market, commercial insurance organizations, non-bank financial institutions, and savings and credit cooperatives, with its key goal being to ensure Mongolia’s national financial market stability. Its

functions also include developing and implementing regulations to ensure the stabilization and regulation of the securities markets, supervising compliance with the relevant legislation, granting and monitoring licenses to carry out activities on the securities market and supervising and training participants.

### **Money Market**

The money market consists of short-term securities issued by the Government and the Bank of Mongolia. To meet short-term requirements, treasury bills may be issued by the Government. The Bank of Mongolia issues its own 7-day, 84-day and 196-day notes for the conduct of open market conditions.

### **Capital Markets**

The MSE was established in 1991. In 1992, as part of the privatization framework, 475 state-owned enterprises were reorganized as joint stock companies and 1.3 million people became shareholders of these companies. The Mongolian Securities Exchange Commission was established in 1994 which was succeeded by the FRC in January 2006. The chairman and the commissioners of the FRC are appointed by Parliament. In order to ensure financial stability, the FRC regulates the activities of the securities markets, commercial insurance companies and savings and credit cooperatives. The first Government bond was traded on the MSE in 1995. The Securities Market Law was passed in 2002. In 2003, the Securities Clearing House and Central Depository (“SCHCD”) was organized and the MSE reassigned its savings and clearing and settlement activities to the SCHCD.

On April 7, 2011, the London Stock Exchange Group (the “LSE”) and the State Property Committee entered in to an exclusive Strategic Partnership Agreement (the “Partnership Agreement”) to restructure and develop the MSE. Pursuant to the Partnership Agreement, the LSE appointed a management team of five members to oversee MSE’s development. The MSE is expected to go through a comprehensive reform and upgrade of facilities. The management team from LSE will be involved in advisory and training capacities for creating infrastructure for the capital markets and appropriate legislative framework, modernization of market rules and operations for expansion of tradable asset classes (derivatives and exchange traded funds) and introduction of international standards in the Mongolian market index.

According to Eurasia Capital, under LSE’s management, the MSE is expected to become a source of capital for Mongolian companies and will provide opportunities for local and international investors. Initial public offerings by domestic and international companies and dual listings of state-owned enterprises are expected to be listed on the MSE.

### **Primary Bond Market**

Primary retail domestic bond issues have been auctioned on the MSE, primarily to domestic commercial banks. The local trading of Government bonds are processed through the Bank of Mongolia and domestic banks that actively participating in trading. In 2013, 2014, 2015 and 2016, the total amount of domestic bonds issued was MNT 2,628.8 billion, MNT 2,588.7 billion, MNT 2,545.5 billion and 3,902.5 billion, respectively. The following table sets forth the amount of outstanding Government bonds as of the dates indicated:

	As of December 31,					
	2011	2012	2013	2014	2015	2016
	(MNT billions)					
Total market capitalization . . . . .	503.0	1,009.6	1,849.6	2,964.1	3,333.2	5,488.8

Source: Ministry of Finance

### **M&A and IPO Activity**

In recent years, Mongolia has experienced robust mergers and acquisition activities particularly in the mining sector. According to a report published by Euroasia Capital in January 2012 (the most recently available report published by Euroasia Capital), the Mongolia's coal industry had experienced over 50 M&A transactions with a total value of US\$2.2 billion since 2007. In 2011, 27 coal-related mergers and acquisition transactions with total consideration of US\$1.6 billion were completed. In 2014, Mongolian companies conducting IPOs on the MSE raised approximately MNT 2.6 billion. In 2015, Mongolian companies conducting IPOs on the MSE raised approximately MNT 43.4 billion. In 2016, no Mongolian companies conducted any IPOs listed on the MSE.

In recent years, there have been a number of successful IPOs by Mongolia-linked companies. For example, in October 2010, Mongolian Mining Corporation raised approximately US\$650 million of equity in Hong Kong, thereby becoming the first Mongolian company to list its shares on the Hong Kong Stock Exchange. Several Australian companies, which bought Mongolian mining assets, conducted IPOs within the same year.

## DESCRIPTION OF THE NOTES

*The Notes will be issued under a fiscal agency agreement (the “Fiscal Agency Agreement”) to be dated , 2017 between the Issuer and Deutsche Bank Trust Company Americas as fiscal agent (the “Fiscal Agent”) and as registrar, paying and transfer agent. The following is a summary of certain provisions of the Notes and the Fiscal Agency Agreement. This summary does not purport to be complete and is qualified in its entirety by reference to all of the provisions of the Fiscal Agency Agreement and the Notes. It does not restate those agreements in their entirety. Whenever particular sections or defined terms of the Fiscal Agency Agreement not otherwise defined herein are referred to, such sections or defined terms are incorporated herein by reference.*

### **General**

The Notes will constitute direct, unconditional, unsubordinated and unsecured general obligations of the Issuer and will at all times rank *pari passu* among themselves in all respects, without any preference of one over the other by reason of priority of date of issue or otherwise, and will at all times rank at least equally with all other present and future unsecured and unsubordinated External Indebtedness. The full faith and credit of Mongolia will be pledged for the due and punctual payment of the principal of, and interest on, the Notes, provided, however, that the Issuer shall have no obligation to effect equal or ratable payment(s) at any time with respect to any such other External Indebtedness and, in particular, shall have no obligation to pay other External Indebtedness at the same time or as a condition of paying sums due on the Notes and vice versa.

### **Principal, Interest and Maturity**

The Notes will be issued in an aggregate principal amount of US\$ and will mature on (the “Maturity Date”). Interest on the Notes will be payable semi-annually in arrears on and of each year, commencing on , 2017 (each, an “Interest Payment Date”) to persons in whose names the Notes are registered at the close of business on the fifteenth calendar day preceding each Interest Payment Date. The Notes will bear interest at the rate of % per annum from and including or from the most recent Interest Payment Date to which interest has been paid or provided to, and to and excluding, the Maturity Date. Interest on the Notes will be calculated on the basis of a 360-day year consisting of twelve 30-day months. Unless previously purchased or canceled as described herein, the Notes shall mature on the Maturity Date, and on the Maturity Date, the holders of the Notes shall be entitled to a payment equal to the principal amount of the Notes outstanding on the Notes Maturity Date plus accrued and unpaid interest. The Notes will not be redeemable prior to maturity and will not be entitled to the benefit of any sinking fund.

Any payment of principal or interest otherwise required to be made in respect of a Note on a date that is not a Business Day need not be made on such date, but may be made on the next succeeding Business Day with the same force and effect as if made on such date, and no additional interest shall accrue for the period from and after such date as a result of such delayed payment. “Business Day” means each Monday, Tuesday, Wednesday, Thursday and Friday that is not a day on which banking institutions in London, New York, Ulaanbaatar or Singapore are authorized or obligated by law or executive order to close.

Persons in whose name a registered Note is held are herein referred to as “Noteholders”.

The Notes will be issued only in fully registered form, without coupons, in minimum denominations of US\$200,000 and integral multiples of US\$1,000 in excess thereof.

## **Additional Amounts**

The Issuer will make all payments on the Notes without withholding or deducting any present or future Taxes, imposed or levied by or on behalf of any Tax Jurisdiction, unless such deduction or withholding is required by law. If any Tax Jurisdiction requires the Issuer to deduct or withhold Taxes, it will pay the Noteholders such additional amounts (“Additional Amounts”) as are necessary to ensure that they receive the same amount as they would have received without such withholding or deduction.

The Issuer will not pay, however, any Additional Amounts if the Noteholder or beneficial owner of the Notes is liable for Taxes imposed by any Tax Jurisdiction because:

- the Noteholder or beneficial owner is connected with any Tax Jurisdiction other than by merely owning the Notes or receiving income or payments on the Notes; or
- upon reasonable request by the Issuer or its agent, the Noteholder or beneficial owner failed to comply in a timely manner with any certification, identification or other reporting requirement concerning the Noteholder’s or beneficial owner’s nationality, residence, identity or connection with any Tax Jurisdiction, if compliance with such requirement is required by any statute or regulation of any Tax Jurisdiction as a precondition to exemption from withholding or deduction of Taxes; or
- the Noteholder failed to present its Notes for payment (where presentation is required) within 30 days of when the payment is due or when the Issuer makes available to the Noteholder or the Fiscal Agent a payment of principal or interest, whichever is later. Nevertheless, the Issuer will pay Additional Amounts to the extent the Noteholder would have been entitled to such amounts had it presented its Notes for payment on the last day of the 30 day period; or
- any combination of the above.

The obligation to pay such Additional Amounts shall not apply to (a) any estate, inheritance, gift, sales, transfer, personal property or any similar tax, assessment or other governmental charge or (b) any tax, assessment or other governmental charge which is payable otherwise than by deduction or withholding from payments of principal or interest on the Notes; *provided that*, except as otherwise set forth in the Notes and in the Fiscal Agency Agreement, the Issuer shall pay all stamp and other duties, if any, which may be imposed by any Tax Jurisdiction or any taxing authority of or in the foregoing, with respect to the Fiscal Agency Agreement or as a consequence of the initial issuance of the Notes.

In addition, if the Issuer or any other person is required to withhold amounts pursuant to the Foreign Account Tax Compliance Act (“FATCA”) provisions of the Hiring Incentives to Restore Employment Act of 2010, or any intergovernmental agreement between a non-U.S. government and the United States or any law or rule implementing such an agreement, with respect to the foregoing, from any payments made in respect of the Notes, holders of Notes and beneficial owners of Notes will not be entitled to receive any gross up or other additional amounts to compensate them for such withholding.

Any reference in the Notes to principal or interest shall be deemed also to refer to any Additional Amounts which may be payable with respect thereto as described above.

## **Further Issues**

The Issuer may from time to time, without notice to or the consent of the Noteholders, issue further notes (“Additional Notes”) having terms and conditions the same as the Notes or the same in all respects other than with respect to the date of issuance, issue price and first Interest Payment Date applicable to such Additional Notes. The Issuer may consolidate such Additional Notes with the outstanding Notes to form a single series and class for all purposes under the Fiscal Agency Agreement; *provided that* Additional Notes that are so consolidated with the outstanding Notes must be fungible with the outstanding Notes for U.S. federal income tax purposes.

## **Limitation on Liens**

So long as any Notes remain outstanding, the Issuer shall not create, incur, assume or permit to subsist any Lien upon the whole or any part of its present or future assets or revenues to secure (1) any Public External Indebtedness of the Issuer; (2) any Guarantees in respect of Public External Indebtedness; or (3) the Public External Indebtedness of any other person, without at the same time or prior thereto securing the Notes equally and ratably therewith or providing such other arrangement (whether or not comprising a Lien) as shall be approved by at least 75.0% of the aggregate principal amount of outstanding Notes which are represented at a meeting of Noteholders duly convened in accordance with the Fiscal Agency Agreement or a resolution in writing signed or confirmed in writing on behalf of the holders of at least 75.0% of the aggregate principal amount of the outstanding Notes.

## **Certain Definitions**

“External Indebtedness” means any Indebtedness which is denominated or payable by its terms in, or at the option of the holder thereof or relevant creditor payable in, any currency other than Tugriks.

“Guarantee” means any obligation of a person to pay the Indebtedness of another person including (without limitation):

- (a) an obligation to pay or purchase such Indebtedness;
- (b) an obligation to lend money, to purchase or subscribe for shares or other securities or to purchase assets or services, in order to provide funds for the payment of such Indebtedness;
- (c) any indemnity against the consequences of a default in the payment of such Indebtedness; or
- (d) any other agreement to be responsible for such Indebtedness.

“Indebtedness” means (i) any obligation (whether present or future and whether being principal, premium, interest or other amounts) for the payment or repayment of money which has been borrowed or raised (including money raised by acceptances and leasing) and (ii) any guarantee or indemnity of any such obligation.

“Lien” means any lien, pledge, mortgage, security interest, deed of trust, charge or other encumbrance or preferential arrangement which has the practical effect of constituting a security interest with respect to the payment of any obligations with or from the proceeds of any assets or revenues of any kind, whether in effect on the date the Fiscal Agency Agreement becomes effective or at any time thereafter.



“person” means any individual, company, corporation, firm, partnership, joint venture, association, organization, state or agency of a state or other entity, whether or not having a separate legal personality.

“Public External Indebtedness” means any Indebtedness which (i) is payable, or at the option of the relevant creditor may be payable, in any currency other than Tugriks, and (ii) is in the form of, or is represented by, bonds, notes or other securities or any guarantees thereof with a stated maturity of more than one year from the date of issue which may be quoted, listed or ordinarily purchased or sold on any stock exchange, automated trading system, over the counter or other securities market.

“International Monetary Assets” means all (1) gold, (2) Special Drawing Rights, (3) Reserve Positions in the Fund and (4) Foreign Exchange, and the terms “Special Drawing Rights”, “Reserve Positions in the Fund” and “Foreign Exchange” have, as to the type of assets included, the meaning given to them in the IMF’s publication entitled “International Financial Statistics” or such other meanings as shall be formally adopted by the IMF from time to time.

“Tax” means any tax, duty, levy, impost, assessment or other governmental charge (including penalties, interest and any other liabilities related thereto).

“Tax Jurisdiction” means Mongolia or any political subdivision or any authority thereof or therein having power to tax and any other jurisdiction or any political subdivision or any authority thereof or therein having power to tax (other than the United States) to which the Issuer (other than through the Paying Agents) becomes subject in respect of payments made by the Issuer on the Notes.

### ***Exceptions***

The following exceptions apply to the Issuer’s obligations under “— Limitation on Liens”:

- (a) any Lien securing future Public External Indebtedness of the Issuer or any Guarantee by the Issuer in respect of Public External Indebtedness of any other person incurred for the purpose of financing all or part of the costs of the acquisition, construction, improvement, development or redevelopment of a property, project or asset; *provided that* (i) the holders or beneficiaries of such Public External Indebtedness expressly agree to limit their recourse to the assets and revenues of such property, project or asset or the proceeds of insurance thereon as the principal source of repayments of such Public External Indebtedness and (ii) the property over which such Lien is granted consists solely of such assets and revenues;
- (b) any Lien existing on any property, project or asset at the time of its acquisition (or arising after its acquisition pursuant to an agreement entered into prior to, and not in contemplation of, such acquisition), and extensions and renewals of such Lien limited to the original property or asset covered thereby and securing any extension or renewal of the original secured financing;
- (c) any Lien arising by operation of law, *provided that* any such Lien is not created or permitted to be created by the Issuer to secure any Public External Indebtedness; and
- (d) any Lien arising in the ordinary course of the Issuer’s business activities in connection with borrowing activities which secures Public External Indebtedness maturing (after taking into account any extension, renewal or replacement of such Public External Indebtedness) not more than one year after the date on which it was originally incurred.

*The foreign exchange reserves of the Bank of Mongolia represent substantially all of the official total foreign exchange reserves of the Issuer. Because the Bank of Mongolia is an independent entity, the Issuer is of the view that the foreign exchange reserves owned by the Bank of Mongolia are not subject to the negative pledge covenant of the Notes and that the Bank of Mongolia could in the future incur Public External Indebtedness secured by such foreign exchange reserves without securing amounts payable under the Notes.*

## **Events of Default**

The occurrence and continuance of any of the following will constitute events of default (“Events of Default”) with respect to the Notes:

### **(1) *Non-payment***

The Issuer fails to pay any interest or principal on any of the Notes when due and payable and such failure continues for a period of 15 calendar days (in the case of principal) or 30 calendar days (in the case of interest), or

### **(2) *Breach of other obligations***

The Issuer fails to duly observe or perform any of the other covenants or agreements contained in the Notes or in the Fiscal Agency Agreement for a period of 60 calendar days after the date on which written notice specifying such failure and demanding that the Issuer remedy the same shall have been given to the Issuer by the Noteholders of at least 10.0% of the aggregate principal amount of the outstanding Notes, or

### **(3) *Cross-Default***

- (a) any present or future External Indebtedness shall become (or shall become capable of being declared) due and payable prior to its stated maturity (otherwise than at the option of the Issuer); or
- (b) any default shall occur in the payment of principal of, or premium or prepayment charge (if any) or interest on, any future External Indebtedness when and as the same shall become due and payable if such default shall continue for more than the period of grace, if any, originally applicable thereto; or
- (c) any security given by the Issuer for any present or future External Indebtedness becomes enforceable; or
- (d) any default shall occur in the payment when due and called upon (after the expiry of any originally applicable grace period) of any Guarantee of the Issuer in respect of any External Indebtedness of any other person,

*provided that* the aggregate amount of the relevant External Indebtedness in respect of which one or more of the events mentioned in this paragraph (3) have occurred equals or exceeds US\$50.0 million (or its equivalent in any other currency or currencies), or

(4) ***Moratorium***

A general moratorium on the payment of principal of, or interest on, the External Indebtedness of the Issuer shall be declared by the Issuer, or

(5) ***IMF Membership***

The Issuer shall cease to be a member of the International Monetary Fund (the “IMF”) or shall cease to be eligible to use the general resources of the IMF, or

(6) ***Validity***

The validity of the Notes shall be contested by the Issuer or any legislative or executive body or official of Mongolia which is authorized in each case by law to do so and, acting alone or together with another such body or official, has the legal power and authority to declare the Notes invalid or unenforceable, or the Issuer shall deny any of its obligations under the Notes (whether by a general suspension of payments or a moratorium on the payment of debt or otherwise), or any constitutional provision, treaty, convention, law, regulation, official communique, decree, ordinance or policy of Mongolia or any final and non-appealable decision by any court in Mongolia having jurisdiction, shall purport to render any provision of the Notes invalid or unenforceable or shall purport to prevent or delay the performance or observance by the Issuer of any of its obligations thereunder, or

(7) ***Revocation of Authority***

Any constitutional provision, treaty, convention, law, regulation, ordinance, decree, consent, approval, license or other authority necessary to enable the Issuer to make or perform its obligations under the Notes or for the validity or enforceability thereof, shall expire, be withheld, revoked, terminated or otherwise cease to remain in full force and effect or remain valid and subsisting, or shall be modified in a manner which adversely affects or will adversely affect any rights or claims of any of the Noteholders, or

(8) ***International Monetary Assets***

The Issuer or the Bank of Mongolia shall not at any time exercise full ownership, power and control over any of their International Monetary Assets as they exist from time to time (unless, prior to the occurrence of such an event, a public sector entity has substantially all powers and assets of the Bank of Mongolia (including, without limitation, all of its International Monetary Assets) and performs the functions of a central bank and shall assume and acquire such assets, powers and functions).

If any of the above Events of Default occurs and is continuing, then the Noteholders of not less than 25.0% in aggregate principal amount of the Notes then outstanding, by notice in writing to the Issuer at the specified office of the Paying Agent, may declare the principal amount of all such Notes to be immediately due and payable, whereupon they shall become immediately due and payable at their principal amount together with accrued interest without further formality, unless such Event of Default shall have been remedied prior to the receipt of such written notice by the Paying Agent.

At any time after such a declaration of acceleration has been made and before a judgment or decree for payment of the money due has been obtained by the Noteholders, the Noteholders of at least 50.0% in aggregate principal amount of the outstanding Notes, by written notice to the Issuer, may rescind and annul such declaration and its consequences in accordance with the terms and conditions of the Fiscal Agency Agreement.

## **Redemption, Repurchase and Cancellation**

Unless previously purchased and canceled, the Notes will be redeemed at their principal amount on the Maturity Date.

The Issuer may at any time purchase the Notes by tender (available to all Noteholders alike) or in the open market or otherwise at any price. If the Issuer shall acquire any Notes, such acquisition shall not operate as or be deemed for any purpose to be a satisfaction of the indebtedness represented by such Notes unless and until such Notes are delivered to any Paying Agent or the Registrar for cancellation and are canceled and retired by any Paying Agent or the Registrar.

## **Modifications and Amendments; Meetings of Noteholders**

The Issuer may convene a meeting of the Noteholders at any time in respect of the Notes in accordance with the terms and conditions of the Notes and the Fiscal Agency Agreement. The Issuer will determine the time and place of the meeting. The Issuer will notify the Noteholders of the time, place and purpose of the meeting not less than 21 and not more than 45 days before the meeting.

The Issuer will convene a meeting of holders of the relevant series of Notes if the holders of at least 10.0% in principal amount of the outstanding Notes of such series have delivered a written request to the Issuer setting out the purpose of the meeting. Within 10 days of receipt of such written request or copy thereof, the Issuer shall notify the holders of the Notes of that series, of the time and place of the meeting, which shall take place not less than 21 and not more than 45 days after the date on which such notification is given.

The Issuer will set the procedures governing the conduct of any meeting in accordance with the Fiscal Agency Agreement. If the Fiscal Agency Agreement does not include such procedures, or additional procedures are required, the Issuer shall establish such procedures as are customary in the market and in such a manner as to facilitate any cross series aggregation, if in relation to a Reserved Matter the Issuer proposes any modification to the terms and conditions of, or action with respect to, two or more series of debt securities issued by it

The notice convening any meeting will specify, *inter alia*:

- (a) the date, time and location of the meeting;
- (b) the agenda and the text of any modification to be proposed for adoption at the meeting;
- (c) the record date for the meeting, which shall be no more than five business days before the date of the meeting;
- (d) the documentation required to be produced by a Noteholder in order to be entitled to participate at the meeting or to appoint a proxy to act on the Noteholder's behalf at the meeting;
- (e) any time deadline and procedures required by any relevant international and/or domestic clearing systems through which the Notes of such series are traded and/or held by holders of Notes of such series;

- (f) whether modifications will be proposed under a Single Series Extraordinary Resolution, a Single Series Written Resolution, Multiple Series Single Limb Extraordinary Resolution, a Multiple Series Two Limb Extraordinary Resolution, a Multiple Series Single Limb Written Resolution or a Multiple Series Two Limb Written Resolution and, if relevant, in relation to which other series of debt securities it applies;
- (g) if the proposed modification or action relates to two or more series of debt securities issued by it and contemplates such series of debt securities being aggregated in more than one group of debt securities, a description of the proposed treatment of each such group of debt securities;
- (h) such information that is required to be provided by the Issuer pursuant to “ — Information”‘; and
- (i) the identity of the Aggregation Agent and the Calculation Agent for any proposed modification or action to be voted on at the meeting, and the details of any applicable methodology referred to in “Aggregation Agent; Aggregation Procedures”‘; and
- (j) any additional procedures which may be necessary and, if applicable, the conditions under which a cross series aggregation will be deemed to have been satisfied if it is approved as to some but not all of the affected series of debt securities.

In addition, the Fiscal Agency Agreement contains provisions relating to Written Resolutions. All information to be provided in a notice convening any meeting as set forth above shall also be provided, *mutatis mutandis*, in respect of Written Resolutions.

A “record date” in relation to any proposed modification or action means the date fixed by the Issuer for determining the Noteholders and, in the case of a multiple series aggregation, the holders of debt securities of each other affected series that are entitled to vote on a Multiple Series Single Limb Extraordinary Resolution or a Multiple Series Two Limb Extraordinary Resolution, or to sign a Multiple Series Single Limb Written Resolution or a Multiple Series Two Limb Written Resolution.

An “Extraordinary Resolution” means any of a Single Series Extraordinary Resolution, a Multiple Series Single Limb Extraordinary Resolution and/or a Multiple Series Two Limb Extraordinary Resolution, as the case may be.

A “Written Resolution” means any of a Single Series Written Resolution, a Multiple Series Single Limb Written Resolution and/or a Multiple Series Two Limb Written Resolution, as the case may be.

Any reference to “debt securities” means any notes (including the Notes), bonds, debentures or other debt securities issued by the Issuer in one or more series with an original stated maturity of more than one year.

“Debt Securities Capable of Aggregation” means those debt securities which include or incorporate by reference the provisions described in “Modifications and Amendments; Meetings of Noteholders” and “Aggregation Agent; Aggregation Procedures” or provisions substantially in these terms which provide for the debt securities which include such provisions to be capable of being aggregated for voting purposes with other series of debt securities.

***Modification of this Series of Notes only***

Any modification of any provision of, or any action in respect of, the terms of the Notes or the Fiscal Agency Agreement in respect of the Notes may be made or taken if approved by a Single Series Extraordinary Resolution or a Single Series Written Resolution as set out below.

A “Single Series Extraordinary Resolution” means a resolution passed at a meeting of Noteholders duly convened and held in accordance with the procedures prescribed by the Fiscal Agency Agreement by a majority of:

- (a) in the case of a Reserved Matter, at least 75% of the aggregate principal amount of the outstanding Notes; or
- (b) in the case of a matter other than a Reserved Matter, more than 50% of the aggregate principal amount of the outstanding Notes.

A “Single Series Written Resolution” means a resolution in writing signed or confirmed in writing by or on behalf of the holders of:

- (a) in the case of a Reserved Matter, at least 75% of the aggregate principal amount of the outstanding Notes; or
- (b) in the case of a matter other than a Reserved Matter more than 50% of the aggregate principal amount of the outstanding Notes.

Any Single Series Extraordinary Resolution duly passed or Single Series Written Resolution approved shall be binding on all Noteholders, whether or not they attended any meeting, whether or not they voted in favor thereof and whether or not they signed or confirmed in writing any such Single Series Written Resolution, as the case may be.

#### ***Multiple Series Aggregation — Single limb voting***

In relation to a proposal that includes a Reserved Matter, any modification to the terms and conditions of, or any action with respect to, two or more series of Debt Securities Capable of Aggregation may be made or taken if approved by a Multiple Series Single Limb Extraordinary Resolution or by a Multiple Series Single Limb Written Resolution as set out below, provided that the Uniformly Applicable condition is satisfied.

A “Multiple Series Single Limb Extraordinary Resolution” means a resolution considered at separate meetings of the holders of each affected series of Debt Securities Capable of Aggregation, duly convened and held in accordance with the procedures prescribed by the Fiscal Agency Agreement, as supplemented if necessary, which is passed by a majority of at least 75% of the aggregate principal amount of the outstanding debt securities of all affected series of Debt Securities Capable of Aggregation (taken in aggregate).

A “Multiple Series Single Limb Written Resolution” means each resolution in writing (with a separate resolution in writing or multiple separate resolutions in writing distributed to the holders of each affected series of Debt Securities Capable of Aggregation, in accordance with the applicable bond documentation) which, when taken together, has been signed or confirmed in writing by or on behalf of the holders of at least 75% of the aggregate principal amount of the outstanding debt securities of all affected series of Debt Securities Capable of Aggregation (taken in aggregate). Any Multiple Series Single Limb Written Resolution may be contained in one document or several documents in substantially the same form, each signed or confirmed in writing by or on behalf of one or more Noteholders or one or more holders of each affected series of debt securities.

Any Multiple Series Single Limb Extraordinary Resolution duly passed or Multiple Series Single Limb Written Resolution approved shall be binding on all Noteholders and holders of each other

affected series of Debt Securities Capable of Aggregation, whether or not they attended any meeting, whether or not they voted in favor thereof, whether or not any other holder or holders of the same series voted in favor thereof and whether or not they signed or confirmed in writing any such Multiple Series Single Limb Written Resolution, as the case may be.

The “Uniformly Applicable” condition will be satisfied if:

- (a) the holders of all affected series of Debt Securities Capable of Aggregation are invited to exchange, convert, or substitute their debt securities, on the same terms, for (x) the same new instrument or other consideration or (y) a new instrument, new instruments or other consideration from an identical menu of instruments or other consideration; or
- (b) the amendments proposed to the terms and conditions of each affected series of Debt Securities Capable of Aggregation would, following implementation of such amendments, result in the amended instruments having identical provisions (other than provisions which are necessarily different, having regard to different currency of issuance).

Any modification or action proposed under a Multiple Series Single Limb Extraordinary Resolution or a Multiple Series Single Limb Written resolution may be made in respect of some series only of the Debt Securities Capable of Aggregation and, for the avoidance of doubt, the provisions described in “ — Multiple Series Aggregation — Single Limb Voting” may be used for different groups of two or more series of Debt Securities Capable of Aggregation simultaneously.

#### ***Multiple Series Aggregation — Two limb voting***

In relation to a proposal that includes a Reserved Matter, any modification to the terms and conditions of, or any action with respect to, two or more series of Debt Securities Capable of Aggregation may be made or taken if approved by a Multiple Series Two Limb Extraordinary Resolution or by a Multiple Series Two Limb Written Resolution as set out below.

A “Multiple Series Two Limb Extraordinary Resolution” means a resolution considered at separate meetings of the holders of each affected series of Debt Securities Capable of Aggregation, duly convened and held in accordance with the procedures prescribed by Fiscal Agency Agreement, as supplemented if necessary, which is passed by a majority of:

- (a) at least 66<sup>2</sup>/<sub>3</sub>% of the aggregate principal amount of the outstanding debt securities of all the affected series of Debt Securities Capable of Aggregation (taken in aggregate); and
- (b) more than 50% of the aggregate principal amount of the outstanding debt securities in each affected series of Debt Securities Capable of Aggregation (taken individually).

A “Multiple Series Two Limb Written Resolution” means each resolution in writing (with a separate resolution in writing or multiple separate resolutions in writing distributed to the holders of each affected series of Debt Securities Capable of Aggregation, in accordance with the applicable bond documentation) which, when taken together, has been signed or confirmed in writing by or on behalf of the holders of:

- (a) at least 66<sup>2</sup>/<sub>3</sub>% of the aggregate principal amount of the outstanding debt securities of all the affected series of Debt Securities Capable of Aggregation (taken in aggregate); and



- (b) more than 50% of the aggregate principal amount of the outstanding debt securities in each affected series of Debt Securities Capable of Aggregation (taken individually).

Any Multiple Series Two Limb Extraordinary Resolution duly passed or Multiple Series Two Limb Written Resolution approved shall be binding on all Noteholders and holders of each other affected series of Debt Securities Capable of Aggregation, whether or not they attended any meeting, whether or not they voted in favor thereof, whether or not any other holder or holders of the same series voted in favor thereof and whether or not they signed or confirmed in writing any such Multiple Series Two Limb Written Resolution, as the case may be.

Any modification or action proposed under a Multiple Series Two Limb Extraordinary Resolution or a Multiple Series Two Limb Written Resolution may be made in respect of some series only of the Debt Securities Capable of Aggregation and, for the avoidance of doubt, the provisions described in “ — Multiple Series Aggregation — Two Limb Voting” may be used for different groups of two or more series of Debt Securities Capable of Aggregation simultaneously.

### ***Reserved Matters***

The following shall constitute “Reserved Matters”:

- (a) to change the date, or the method of determining the date, for payment of principal, interest or any other amount in respect of the Notes, to reduce or cancel the amount of principal, interest or any other amount payable on any date in respect of the Notes or to change the method of calculating the amount of principal, interest or any other amount payable in respect of the Notes on any date;
- (b) to change the currency in which any amount due in respect of the Notes is payable or the place in which any payment is to be made;
- (c) to change the majority required to pass an Extraordinary Resolution, a Written Resolution or any other resolution of Noteholders or the number or percentage of votes required to be cast, or the number or percentage of Notes required to be held, in connection with the taking of any decision or action by or on behalf of the Noteholders or any of them;
- (d) to change this definition, or the definition of “Extraordinary Resolution”, “Single Series Extraordinary Resolution”, “Multiple Series Single Limb Extraordinary Resolution”, “Multiple Series Two Limb Extraordinary Resolution”, “Written Resolution”, “Single Series Written Resolution”, “Multiple Series Single Limb Written Resolution” or “Multiple Series Two Limb Written Resolution”;
- (e) to change the definition of “debt securities” or “Debt Securities Capable of Aggregation”;
- (f) to change the definition of “Uniformly Applicable”;
- (g) to change the definition of “outstanding” or to modify the provisions set forth in “Aggregation Agent; Aggregation Procedures”;
- (h) to change the legal ranking of the Notes;
- (i) to change any provision of the Notes describing circumstances in which Notes may be declared due and payable prior to their scheduled maturity date set forth under “Events of Default”;

- (j) to change the law governing the Notes, the courts to the jurisdiction of which the Issuer has submitted in the Notes, any of the arrangements specified in the Notes to enable proceedings to be taken or the Issuer's waiver of immunity, in respect of actions or proceedings brought by any Noteholder, as set out in "Waiver of Immunity";
- (k) to impose any condition on or otherwise change the Issuer's obligation to make payments of principal, interest or any other amount in respect of the Notes, including by way of the addition of a call option;
- (l) to change the definition of "Reserved Matter";
- (m) except as permitted by any related guarantee or security agreement, to release any agreement guaranteeing or securing payments under the Notes or to change the terms of any such guarantee or security;
- (n) to exchange or substitute all the Notes for, or convert all the Notes into, other obligations or securities of the Issuer or any other person, or to modify any provision of the terms of the Notes in connection with any exchange or substitution of the Notes for, or the conversion of the Notes into, any other obligations or securities of the Issuer or any other person, which would result in the terms of the Notes as so modified being less favorable to the Noteholders which are subject to the terms of the Notes as so modified than:
  - (i) the provisions of the other obligations or debt securities of the Issuer or any other person resulting from the relevant exchange or substitution or conversion; or
  - (ii) if more than one series of other obligations or debt securities results from the relevant exchange or substitution or conversion, the provisions of the resulting series of debt securities having the largest aggregate principal amount;
- (o) to sanction any compromise or arrangement proposed to be made between the Issuer and the Noteholders;
- (p) to sanction any abrogation, modification, compromise or arrangement in respect of the rights of the Noteholders against the Issuer or against any of its property whether such rights shall arise under the Fiscal Agency Agreement, the Notes or otherwise;
- (q) to assent to any modification of the provisions contained in the Fiscal Agency Agreement or the terms of the Notes, the Notes which shall be proposed by the Issuer;
- (r) to give any authority or sanction which under the provisions of the Fiscal Agency Agreement or the Notes is required to be given by Extraordinary Resolution;
- (s) to appoint any persons (whether Noteholders or not) as a committee or committees to represent the interests of the Noteholders and to confer upon such committee or committees any powers or discretions which the Noteholders could themselves exercise by Extraordinary Resolution;
- (t) to sanction any scheme or proposal for the exchange or sale of the Notes for, or the conversion of the Notes into or the cancellation of the Notes in consideration of, shares, stock, notes, bonds, debentures, debenture stock and/or other obligations and/or securities of the Issuer or any other

company formed or to be formed, or for or into or in consideration of cash, or partly for or into or in consideration of such shares, stock, notes, bonds, debentures, debenture stock and/or other obligations and/or securities as aforesaid and partly for or into or in consideration of cash; and

- (u) to approve the substitution of any entity in place of the Issuer (or any previous substitute) as the principal debtor in respect of the Notes.

### ***Information***

Prior to or on the date that the Issuer proposes any Extraordinary Resolution or Written Resolution as described in “ — Modification of this Series of Notes only”, “ — Multiple Series Aggregation — Single Limb Voting” or “ — Multiple Series Aggregation — Two Limb Voting”, the Issuer shall publish in accordance with “Aggregation Agent — Manner of Publication”, and provide the Fiscal Agent with the following information:

- (a) a description of the Issuer’s economic and financial circumstances which are, in the Issuer’s opinion, relevant to the request for any potential modification or action, a description of the Issuer’s existing debts and a description of its broad policy reform program and provisional macroeconomic outlook;
- (b) if the Issuer shall at the time have entered into an arrangement for financial assistance with multilateral and/ or other major creditors or creditor groups and/or an agreement with any such creditors regarding debt relief, a description of any such arrangement or agreement. Where permitted under the information disclosure policies of the multilateral or such other creditors, as applicable, a copy of the arrangement or agreement shall be provided;
- (c) a description of the Issuer’s proposed treatment of external debt securities that fall outside the scope of any multiple series aggregation and its intentions with respect to any other debt securities and its other major creditor groups; and
- (d) if any proposed modification or action contemplates debt securities being aggregated in more than one group of debt securities, a description of the proposed treatment of each such group, as required for a notice convening a meeting of the Noteholders.

### ***Claims Valuation***

For the purpose of calculating the par value of the Notes and any affected series of debt securities which are to be aggregated with the Notes as described in “— Modification of this Series of Notes only”, “ — Multiple Series Aggregation — Single Limb Voting” or “ — Multiple Series Aggregation — Two Limb Voting”, the Issuer may appoint a Calculation Agent. The Issuer shall, with the approval of the Aggregation Agent and any appointed Calculation Agent, promulgate the methodology in accordance with which the Calculation Agent will calculate the par value of the Notes and such affected series of debt securities. In any such case where a Calculation Agent is appointed, the same person will be appointed as the Calculation Agent for the Notes and each other affected series of debt securities for these purposes, and the same methodology will be promulgated for each affected series of debt securities.

### ***Manifest Error***

The Notes, the terms of the Notes and the provisions of the Fiscal Agency Agreement (including the schedules thereto) may be amended without the consent of the Noteholders to correct a manifest error.

In addition, the parties to the Fiscal Agency Agreement (including the schedules thereto) may agree to modify any provision thereof, but the Issuer shall not agree, without the consent of the Noteholders, to any such modification unless it is of a formal, minor or technical nature or it is not materially prejudicial to the interests of the Noteholders.

### ***Notes controlled by the Issuer***

For the purposes of (i) determining the right to attend and vote at any meeting of Noteholders, or the right to sign or confirm in writing, or authorize the signature of, any Written Resolution, (ii) the Fiscal Agency Agreement and (iii) Events of Default, any Notes which are for the time being held by or on behalf of the Issuer or by or on behalf of any person which is owned or controlled directly or indirectly by the Issuer or by any Public Sector Instrumentality shall be disregarded and be deemed not to remain outstanding. In this section, “Public Sector Instrumentality” means any department, ministry or agency of the Issuer (any such department, ministry or agency, an “Instrumentality”) or by a corporation, trust or other legal entity that is controlled by the Issuer or an Instrumentality, and “control” means the power, directly or indirectly, through the ownership of voting securities or other ownership interests, by contract or otherwise, to direct the management of or elect or appoint a majority of the board of directors or other persons performing similar functions in lieu of, or in addition to, the board of directors of that legal entity.

A Note will also be deemed to be not outstanding if the Note has previously been cancelled or delivered for cancellation or held for reissuance but not reissued, or, where relevant, the Note has previously been called for redemption in accordance with its terms or previously become due and payable at maturity or otherwise and the Issuer has previously satisfied its obligations to make all payments due in respect of the Note in accordance with its terms.

In advance of any meeting of Noteholders, or in connection with any Written Resolution, the Issuer shall provide to the Paying Agent a copy of the certificate prepared by the Aggregation Agent described in “— Aggregation Agent; Aggregation Procedures — Certificate,” which includes information on the total number of Notes which are for the time being held by or on behalf of the Issuer or by or on behalf of any person which is owned or controlled directly or indirectly by the Issuer or by any public sector instrumentality of the Issuer and, as such, such Notes shall be disregarded and deemed not to remain outstanding for the purposes of ascertaining the right to attend and vote at any meeting of Noteholders or the right to sign, or authorize the signature of, any Written Resolution in respect of any such meeting. The Paying Agent shall make any such certificate available for inspection during normal business hours at its specified office and, upon reasonable request, will allow copies of such certificate to be taken.

### ***Publication***

The Issuer shall publish all Extraordinary Resolutions and Written Resolutions which have been determined by the Aggregation Agent to have been duly passed in accordance with the notice provisions described in “Aggregation Agent; Aggregation Procedures — Manner of Publication.”

### ***Exchange and Conversion***

Any Extraordinary Resolutions or Written Resolutions which have been duly passed and which modify any provision of, or action in respect of, the terms of the Notes may be implemented at the Issuer’s option by way of a mandatory exchange or conversion of the Notes and each other affected series of

debt securities, as the case may be, into new debt securities containing the modified terms and conditions if the proposed mandatory exchange or conversion of the Notes is notified to Noteholders at the time notification is given to the Noteholders as to the proposed modification or action. Any such exchange or conversion shall be binding on all Noteholders.

### **Aggregation Agent; Aggregation Procedures**

#### ***Appointment***

The Issuer will appoint an Aggregation Agent to calculate whether a proposed modification or action has been approved by the required principal amount outstanding of Notes, and, in the case of a multiple series aggregation, by the required principal amount of outstanding debt securities of each affected series of debt securities. In the case of a multiple series aggregation, the same person will be appointed as the Aggregation Agent for the proposed modification of any provision of, or any action in respect of, the terms of the Notes or the Fiscal Agency Agreement (including the schedules thereto) in respect of the Notes and in respect of the terms and conditions or bond documentation in respect of each other affected series of debt securities. The Aggregation Agent shall be independent of the Issuer.

#### ***Extraordinary Resolutions***

If an Extraordinary Resolution has been proposed at a duly convened meeting of Noteholders to modify any provision of, or action in respect of, the terms of the Notes and other affected series of debt securities, as the case may be, the Aggregation Agent will, as soon as practicable after the time the vote is cast, calculate whether holders of a sufficient portion of the aggregate principal amount of the outstanding Notes and, where relevant, each other affected series of debt securities, have voted in favor of the Extraordinary Resolution such that the Extraordinary Resolution is passed. If so, the Aggregation Agent will determine that the Extraordinary Resolution has been duly passed.

#### ***Written Resolutions***

If a Written Resolution has been proposed under the terms of the Notes to modify any provision of, or action in respect of, the terms of the Notes and the terms and conditions of other affected series of debt securities, as the case may be, the Aggregation Agent will, as soon as reasonably practicable after the relevant Written Resolution has been signed or confirmed in writing, calculate whether holders of a sufficient portion of the aggregate principal amount of the outstanding Notes and, where relevant, each other affected series of debt securities, have signed or confirmed in writing in favor of the Written Resolution such that the Written Resolution is passed. If so, the Aggregation Agent will determine that the Written Resolution has been duly passed.

#### ***Certificate***

For the purposes of this section “Aggregation Agent; Aggregation Procedures”, the Issuer will provide a certificate to the Aggregation Agent up to three days prior to, and in any case no later than, with respect to an Extraordinary Resolution, the date of the meeting referred to, as applicable, and, with respect to a Written Resolution, the date arranged for the signing of the Written Resolution.

The certificate shall:

- (a) list the total principal amount of Notes and, in the case of a multiple series aggregation, the total principal amount of each other affected series of debt securities outstanding on the record date; and
- (b) clearly indicate the Notes and, in the case of a multiple series aggregation, debt securities of each other affected series of debt securities which shall be disregarded and deemed not to remain outstanding (as defined above) on the record date identifying the holders of the Notes and, in the case of a multiple series aggregation, debt securities of each other affected series of debt securities.

The Aggregation Agent may rely upon the terms of any certificate, notice, communication or other document believed by it to be genuine.

### ***Notification***

The Aggregation Agent will cause each determination made by it for the purposes of this section “Aggregation Agent; Aggregation Procedures” to be notified to the Agent and the Issuer as soon as practicable after such determination. Notice thereof shall also promptly be given to the Noteholders.

### ***Binding nature of determinations; no liability***

All notifications, opinions, determinations, certificates, calculations, quotations and decisions given, expressed, made or obtained for the purposes of this section “Aggregation Agent; Aggregation Procedures” and any appointed Calculation Agent will (in the absence of manifest error) be binding on the Issuer, the Agent, the Noteholders and (subject as aforesaid) no liability to any such person will attach to the Aggregation Agent or the Calculation Agent in connection with the exercise or non-exercise by it of its powers, duties and discretions for such purposes.

### ***Manner of publication***

The Issuer will publish all notices and other matters required to be published pursuant to the terms of the Notes and the Fiscal Agency Agreement including all Extraordinary Resolutions and Written Resolutions which have been determined by the Aggregation Agent to have been duly passed:

- (a) on [www.mof.gov.mn](http://www.mof.gov.mn);
- (b) through DTC, Euroclear, Clearstream, Luxembourg and any other clearing system in which the Notes are held;
- (c) in such other places and in such other manner as may be required by applicable law or regulation; and
- (d) in such other places and in such other manner as may be customary.

### ***Waiver of Certain Covenants***

The Issuer may omit in any particular instance to comply with any covenant or condition set forth under “Limitation on Liens” if before the time for such compliance the Noteholders of at least 50.0% in aggregate principal amount of the outstanding Notes shall, in accordance with the terms of the Fiscal Agency Agreement, either waive such compliance in such instance or generally waive

compliance with such covenant or condition, but no such waiver shall extend to or affect such covenant or condition except to the extent so expressly waived, and, until such waiver shall become effective, the obligations of the Issuer and any duties of the Fiscal Agent in respect of any such covenant or condition shall remain in full force and effect.

The Issuer will not, directly or indirectly, pay or cause to be paid any consideration, whether by way of interest, fee or otherwise, to any Noteholder for or as an inducement to any consent, waiver or amendment of any of the terms or provisions of the Fiscal Agency Agreement or of the Notes unless such consideration is offered to be paid or agreed to be paid to all Noteholders that consent, waive or agree to amend in the time frame set forth in the solicitation documents relating to such consent, waiver or agreement.

## **Notices**

Where the Fiscal Agency Agreement provides for notice to Noteholders of any event, such notice shall be sufficiently given (unless otherwise expressly provided in the Fiscal Agency Agreement) (a) for so long as the Notes are represented by a Global Note held on behalf of The Depository Trust Company (“DTC”), if sent electronically to DTC (or its representatives) or (b) if the Notes are not represented by a Global Note held on behalf of DTC, if in writing and mailed, first-class postage prepaid, to each Noteholder affected by such event, at his address as it appears in the Register and published once in a leading daily newspaper of general circulation in London and in a leading daily newspaper of general circulation in the United States or, under certain limited circumstances, in other English language newspapers of general circulation in Europe or the United States. Any such Notice shall be deemed to have been given on the later of the date of such publication and the seventh day after being so mailed, as the case may be.

## **Fiscal Agent; Paying Agent; Transfer Agent**

Each of the Agents may resign at any time or may be removed by act of the Noteholders of a majority in principal amount of the outstanding Notes. If any Agent resigns, is removed or becomes incapable of acting as Agent or if a vacancy occurs in the office of any Agent for any reason, a successor Agent will be appointed in accordance with the provisions of the Fiscal Agency Agreement.

The principal office of the Fiscal Agent as at the date hereof is located at 60 Wall Street, 16th Floor, Mail Stop: NYC60-1630, New York, New York 10005. The Paying Agent and Transfer Agent are appointed in accordance with the Fiscal Agency Agreement and, as initially appointed, are set forth on the inside back cover hereof.

## **Governing Law and Jurisdiction**

The Notes and the Fiscal Agency Agreement will be governed by and construed in accordance with the laws of the State of New York.

## ***Arbitration***

- (a) The Issuer agrees that any dispute, claim, difference or controversy arising out of, relating to or having any connection with the Fiscal Agency Agreement and the Notes, including any dispute as to their existence, validity, interpretation, performance, breach or termination or the consequences of their nullity and any dispute relating to any non-contractual obligations arising



out of or in connection with them (a “Dispute”), shall be referred to and finally resolved by arbitration before the Singapore International Arbitration Centre (the “SIAC”) under the Arbitration Rules of SIAC prevailing at the time of any dispute (for the purpose of this section “Arbitration”, the “Rules”).

- (b) The Rules are incorporated by reference into Section 15 of the Fiscal Agency Agreement and capitalized terms used in this section “Arbitration” which are not defined herein shall have the meaning given to them in the Rules.
- (c) The number of arbitrators shall be three, each of whom shall have no connection with any party to the Dispute and shall be a lawyer experienced in international securities transactions.
- (d) Each party to the Fiscal Agency Agreement:
  - (i) expressly agrees and consents to this procedure for nominating and appointing the Tribunal; and
  - (ii) irrevocably and unconditionally waives any right to choose its own arbitrator.
- (e) The seat or legal place of the arbitration shall be Singapore.
- (f) The language used in the arbitral proceedings shall be English. All documents submitted in connection with the proceedings shall be in the English language, or if in another language, accompanied by an English translation.
- (g) Service of any Notice of Arbitration made pursuant to this provision shall be by letter or fax in accordance with the terms of the Fiscal Agency Agreement.
- (h) If, following the time specified for service of the Statement of Claim and the Statement of Defence, as applicable (the “Statements”), it appears to the Tribunal that there is or may be no real prospect of succeeding on any or all of the claims made in the Statements or of successfully defending any or all of the claims made in the Statements, the Tribunal may determine such claim(s) by a summary procedure if it considers that it is in the interests of justice to do so. In the event that a summary procedure is adopted, the Tribunal shall proceed to determine such claim(s) as soon as reasonably practicable. The Tribunal may call for further short written submissions in relation to such claim(s) and shall only hold an oral hearing to determine such claim(s) if it feels that it is necessary to do so. The Tribunal may decide to determine only certain claims advanced in the arbitration by the summary procedure.

#### ***Joinder of Parties and Consolidation of Disputes***

In this section “Arbitration”:

- (a) “Consolidation Order” means an order by a Tribunal that a Primary Dispute and a Linked Dispute be resolved in the same arbitral proceedings.
- (b) “Existing Dispute” means any Dispute and/or any dispute, claim, difference or controversy arising out of, relating to or having any connection with any Linked Agreement, including any dispute as to its existence, validity, interpretation, performance, breach or termination or the consequences of its nullity and any dispute relating to any non-contractual obligations arising out of or in connection with it.

- (c) “Joinder” means the joining of a party to every agreement for the issuance and purchase of Notes as referred to in Section 15(j) of the Fiscal Agency Agreement or a Linked Agreement to an Existing Dispute.
- (d) “Joinder Order” means an order for Joinder made by a Tribunal.
- (e) “Linked Agreement” means the Notes, the Fiscal Agency Agreement and the Purchase Agreement.
- (f) “Linked Dispute” means any Dispute and/or any dispute, claim, difference or controversy arising out of, relating to or having any connection with any Linked Agreement, including any dispute as to its existence, validity, interpretation, performance, breach or termination or the consequences of its nullity and any dispute relating to any non-contractual obligations arising out of or in connection with it, where a Notice of Arbitration is served after a Notice of Arbitration has been served in respect of a Primary Dispute.
- (g) “Notice of Arbitration” means a Notice of Arbitration within the meaning of the Rules.
- (h) “Primary Dispute” means any Dispute and/or any dispute, claim, difference or controversy arising out of, relating to or having any connection with any Linked Agreement, including any dispute as to its existence, validity, interpretation, performance, breach or termination or the consequences of its nullity and any dispute relating to any non-contractual obligations arising out of or in connection with it, where a Notice of Arbitration has been served before a Notice of Arbitration has been served in relation to a Linked Dispute.
- (i) “Tribunal” means any arbitral tribunal appointed under these presents or any Linked Agreement.

***Joinder of Parties***

- (a) Prior to the constitution of the Tribunal in an Existing Dispute, any party to such Existing Dispute may effect a Joinder by serving notice on the party it seeks to join.
- (b) After the constitution of a Tribunal in an Existing Dispute, any party to that Existing Dispute may apply to the Tribunal for a Joinder Order.
- (c) The party seeking Joinder under paragraphs (a) and (b) above must promptly notify all parties to the Existing Dispute of any Joinder or application for a Joinder Order (as applicable). The party seeking a Joinder Order under paragraph (b) above must promptly notify the party it seeks to join.
- (d) On hearing an application under paragraph (b) above, the Tribunal appointed in relation to the Existing Dispute may, if it considers it appropriate in all the circumstances, make a Joinder Order.
- (e) If a Tribunal appointed in relation to an Existing Dispute makes a Joinder Order, it must order that notice of the Joinder Order and its effect be given immediately to all parties to the Existing Dispute, including the party joined to the Existing Dispute by way of the Joinder Order.
- (f) Each Noteholder and every party to the Linked Agreements consents to Joinder in accordance with the procedure set out in this section “Joinder of Parties” and agrees to be bound by any Joinder and any award made by the Tribunal in an Existing Dispute to which it is joined.

### ***Consolidation of Disputes***

- (a) Any party to a Primary Dispute and a Linked Dispute may apply to the Tribunal appointed in relation to the Primary Dispute for a Consolidation Order in relation to any Linked Dispute.
- (b) The applicant must promptly notify all parties to the Primary Dispute and the Linked Dispute of any application under paragraph (a) above.
- (c) The Tribunal appointed in relation to the Primary Dispute may, if it considers it just, make a Consolidation Order on hearing an application brought under paragraph (a) above.
- (d) If the Tribunal makes a Consolidation Order:
  - (i) it will immediately, to the exclusion of other Tribunals, have jurisdiction to resolve finally the Linked Dispute in addition to its jurisdiction in relation to the Primary Dispute to the exclusion of any other Tribunal;
  - (ii) it must order that notice of the Consolidation Order and its effect be given immediately to any arbitrators already appointed in relation to the Linked Dispute and to all parties to the Linked Dispute and to all parties to the Primary Dispute;
  - (iii) any appointment of an arbitrator in relation to the Linked Dispute before the date of the Consolidation Order will terminate immediately and that arbitrator will be deemed to be *functus officio*. The termination is without prejudice to (1) the validity of any act done or order made by that arbitrator or by the court in support of that arbitration before his appointment is terminated; (2) his entitlement to be paid his proper fees and disbursements; and (3) the date when any claim or defense was raised for the purpose of applying any limitation bar or any similar rule or provision;
  - (iv) it may also give any other directions it considers appropriate to (1) give effect to the Consolidation Order and make provisions for any costs which may result from it (including costs in any arbitration terminated as a result of the Consolidation Order); and (2) ensure the proper organization of the arbitration proceedings and the proper formulation and resolution of the issues between the parties.
- (e) If a Tribunal appointed under a Linked Agreement makes a Consolidation Order which confers on that Tribunal jurisdiction to resolve a Linked Dispute arising under these presents, that Consolidation Order and the award of that Tribunal will bind the parties to the Primary Dispute and the Linked Dispute being heard by that Tribunal.

### ***Enforcement of awards in the event of Joinder, Joinder Order or Consolidation Order***

- (a) For the avoidance of doubt, where a Tribunal is appointed under these presents or any other Linked Agreement, the whole of its award (including any part relating to a Linked Dispute) is deemed for the purposes of the New York Convention on the Recognition and Enforcement of Arbitral Awards 1958 to be contemplated by these presents and any other relevant Linked Agreement.
- (b) Each of the parties to these presents waives any objection, on the basis of a Joinder, Joinder Order or Consolidation Order, to the validity and/or enforcement of any arbitral award made by a Tribunal following any Joinder, Joinder Order or Consolidation Order.

### ***Appointment of Process Agent***

The Issuer appoints Law Debenture Corporate Services Inc. at its registered office at 400 Madison Avenue, 4th Floor, New York, NY 10017 as its agent for service of process, and undertakes that, in the event of its ceasing to be registered in the State of New York, it will appoint another person as its agent for service of process in the State of New York in respect of any proceedings. Nothing herein shall affect the right to serve proceedings in any other manner permitted by law.

### ***Waiver of Immunity***

The Issuer will submit to the non-exclusive jurisdiction the exclusive jurisdiction of the state and federal courts sitting in the Borough of Manhattan, New York, New York and all courts to which appeals and/or petitions for certiorari may be presented (the “Courts”) for the sole purpose of judicial relief in support of any arbitration (including judicial proceedings to recognize and enforce a resulting arbitral award) and (i) waives and agrees not to claim any sovereign or other immunity (including, to the fullest extent permitted by law, but not limited to, any immunity to which it might otherwise be entitled under the Foreign Sovereign Immunities Act of 1976, as amended) from the jurisdiction of those courts (including to the extent that such immunity may be attributed to it); (ii) waives and agrees not to raise any objection to the venue of any such court in relation to the giving of such relief; and (iii) agrees to ensure that no such claim or objection is made on its behalf.

The Issuer submits to the exclusive jurisdiction of the Courts in relation to the recognition and enforcement of any judgment or order of the Courts given in accordance with this section or any arbitral award and (i) waives and agrees not to claim any sovereign or other immunity from the jurisdiction of the Courts in relation to the recognition and enforcement of any such judgment or court order or arbitral award; (ii) waives and agrees not to raise any objection to the venue of any such court in relation to the recognition of any such judgment or court order or arbitral award; and (iii) agrees to ensure that no such claim or objection is made on its behalf.

The Issuer consents to the enforcement of any order or judgment or award made or given in accordance with this section or any arbitral award and the giving of any relief in the Courts whether before or after final judgment or arbitral award including, without limitation: (i) relief by way of interim or final injunction or order for specific performance or recovery of any property; (ii) attachment of its assets; and (iii) enforcement or execution against any property, revenues or other assets whatsoever (irrespective of their use or intended use) and (A) waives and agrees not to claim any sovereign or other immunity from the jurisdiction of the Courts in relation to such enforcement and the giving of such relief (including to the extent that such immunity may be attributed to it); (B) waives and agrees not to raise any objection to the venue of any such court in relation to such enforcement and the giving of such relief; and (C) agrees to ensure that no such claim or objection is made on its behalf.

### **The Global Notes**

The Notes sold outside the United States in offshore transactions in reliance on Regulation S under the Securities Act, subject to certain exceptions, will be represented by one or more global Notes in fully registered form, without coupons (collectively, the “Regulation S Global Notes”).

The Regulation S Global Notes will be registered in the name of a nominee of DTC and deposited with Deutsche Bank Trust Company Americas, as custodian for DTC whose participants may include Euroclear and Clearstream, Luxembourg.

The Notes sold in reliance on Rule 144A under the Securities Act, subject to certain exceptions, will be represented by one or more global certificates in fully registered form, without coupons (collectively, the “Rule 144A Global Notes”, and together with the Regulation S Global Notes, the “Global Notes”).

The Rule 144A Global Notes will be registered in the name of a nominee of DTC and deposited with Deutsche Bank Trust Company Americas as custodian for DTC. The Rule 144A Global Notes will be subject to certain restrictions on transfer as set forth in a legend appearing thereon as described in “Notice to Investors”.

Interests in a Rule 144A Global Note may be transferred to a person who takes delivery in the form of an interest in a Regulation S Global Note only upon receipt by the Fiscal Agent of, among other things, written instructions from the transferor in accordance with the Fiscal Agency Agreement.

Any interest in one Global Note will, upon transfer and delivery in the form of an interest in another Global Note, cease to be an interest in the first Global Note and become an interest in the other Global Note and, accordingly, will thereafter be subject to all of its transfer restrictions and other procedures for as long as it remains such an interest. Interests in the Notes represented by such Global Notes will be shown on, and transfers thereof will be effected only through, records maintained by DTC and its direct and indirect participants including Euroclear and Clearstream, Luxembourg.

DTC, as registered Noteholder of such Global Note, will be considered the sole owner or Noteholder of the Notes represented by such Global Note for all purposes under such Notes and the Fiscal Agency Agreement, unless otherwise provided therein.

Payments of principal and interest on any Global Note will be made in accordance with the settlement and clearing procedures of DTC. None of the Issuer, the Fiscal Agent or any Paying Agent or Transfer Agent will have any responsibility or liability for any aspect of any participant’s records, policies or procedures relating to, or for payments made on account of, beneficial interests in a Global Note or for any other aspect of the relationship between DTC, Euroclear or Clearstream, Luxembourg, as the case may be, and their participants, or for maintaining, supervising or reviewing any records relating to such beneficial interests.

All payments on principal and interest on the Global Notes will be made in immediately available funds.

The Issuer expects that DTC or its nominee, upon receipt of any payment of principal or interest, will credit participants’ accounts with payments in amounts proportionate to their respective beneficial interests in the principal amount of such Global Notes as shown on the records of DTC. The Issuer also expects that the payments by participants to owners of beneficial interests in such Global Notes held through such participants will be governed by standing instructions and customary practices, as is now the case with securities held for the account of customers registered in “street names”, and will be the responsibility of such participants.

### **Depository Procedures**

The following description of the operations and procedures of DTC, Euroclear and Clearstream, Luxembourg are provided solely as a matter of convenience. These operations and procedures are

solely within the control of the respective settlement systems and are subject to change by them from time to time. The Issuer and the Fiscal Agent take no responsibility for these operations and procedures and urge investors to contact the system or their participants directly to discuss these matters.

DTC, Euroclear and Clearstream, Luxembourg have advised the Issuer as follows:

*DTC.* The Issuer understands that DTC is a limited purpose trust company organized under the laws of the State of New York, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code, and a “clearing agency” registered pursuant to the provisions of Section 17A of the Exchange Act. DTC was created to hold securities for its participants and to facilitate the clearance and settlement of securities transactions among its participants in such securities through electronic book entry changes in accounts of its participants, thereby eliminating the need for physical movement of securities certificates. DTC’s participants include securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations, some of whom own DTC, and may include the Initial Purchasers. Indirect access to the DTC system is also available to others that clear through or maintain a custodial relationship with a DTC participant, either directly or indirectly. Transfers of ownership or other interests in Notes held by DTC may be made only through DTC participants. In addition, beneficial owners of Bonds held by DTC will receive all distributions of principal of and interest on the Notes from the Paying Agent through such DTC participant.

*Euroclear.* Euroclear advises that it was created in 1968 to hold securities for its participants and to clear and settle transactions between its participants through simultaneous electronic book entry delivery against payment, thereby eliminating the need for physical movement of securities certificates and any risk from lack of simultaneous transfers of securities and cash. Euroclear provides various other services, including securities lending and borrowing, and interfaces with domestic markets in several countries. Euroclear is operated by the Brussels, Belgium office of Morgan Guaranty Trust Company of New York (the “Euroclear Operator”), under contract with Euroclear Clearance Systems, S.C., a Belgian cooperative corporation (the “Cooperative”). All operations are conducted by the Euroclear Operator, and all Euroclear securities clearance accounts and Euroclear cash accounts are accounts with the Euroclear Operator, not the Cooperative. The Cooperative establishes policy for Euroclear on behalf of Euroclear participants. Euroclear participants include banks (including central banks), securities brokers and dealers and other professional financial intermediaries and may include the Initial Purchasers. Indirect access to Euroclear is also available to others that clear through or maintain a custodial relationship with a Euroclear participant, either directly or indirectly.

The Euroclear Operator is the Belgian branch of a New York banking corporation which is a member bank of the United States Federal Reserve System. As such, it is regulated and examined by the Board of Governors of the United States Federal Reserve System and the New York State Banking Department, as well as the Belgian Banking Commission.

Bonds clearance accounts and cash accounts with the Euroclear Operator are governed by the Terms and Conditions Governing Use of Euroclear and the related Operating Procedures of the Euroclear System, and applicable Belgian law (collectively, the “Terms and Conditions”). The Terms and Conditions govern transfers of securities and cash within Euroclear, withdrawals of securities and cash from Euroclear, and receipts of payments with respect to securities in Euroclear. All securities in

Euroclear are held on a fungible basis without attribution of specific certificates to specific securities clearance accounts. The Euroclear Operator acts under the Terms and Conditions only on behalf of Euroclear participants and has no record of or relationship with persons holding through Euroclear participants.

Distributions with respect to Notes held beneficially through Euroclear will be credited to the cash accounts of Euroclear participants in accordance with the Terms and Conditions, to the extent received by Euroclear.

*Clearstream, Luxembourg.* Clearstream, Luxembourg advises that it is incorporated under the laws of The Grand Duchy of Luxembourg as a professional depository. Clearstream, Luxembourg holds securities for its participants and facilitates the clearance and settlement of securities transactions between its participants through electronic book-entry changes in accounts of its participants, thereby eliminating the need for physical movement of securities certificates. Clearstream, Luxembourg provides to its participants, among other things, services for safekeeping, administration, clearance and settlement of internationally traded securities and securities lending and borrowing. Clearstream, Luxembourg interfaces with domestic markets in several countries. As a professional depository, Clearstream, Luxembourg is subject to regulation by the Luxembourg Monetary Institute. Clearstream, Luxembourg participants are financial institutions around the world, including securities brokers and dealers, banks, trust companies, clearing corporations and certain other organizations and may include the Initial Purchasers. Indirect access to Clearstream, Luxembourg is also available to others that clear through or maintain a custodial relationship with a Clearstream, Luxembourg participant either directly or indirectly.

Distributions with respect to Notes held beneficially through Clearstream, Luxembourg will be credited to cash accounts of Clearstream, Luxembourg participants in accordance with its rules and procedures, to the extent received by Clearstream, Luxembourg.

### **Settlement and Clearance**

Initial settlement for the Notes will be made in same-day funds. Transfers between participants in DTC will be effected in accordance with DTC's procedures, which currently provide for settlement in same-day funds. Transfers between participants in Euroclear and Clearstream, Luxembourg will be effected in the ordinary way in accordance with their respective rules and operating procedures.

Ownership of beneficial interests in a Global Note will be limited to persons who have accounts with DTC participants or persons who hold interests through participants. Upon the issuance of a Global Note, DTC or its custodian will credit, on its internal system, the respective principal amount of the beneficial interests represented by such Global Note to the accounts of its participants. Such account initially will be designated by or on behalf of the Initial Purchasers. Ownership of beneficial interests in a Global Note will be shown only on, and the transfer of such ownership interests will be effected only through, records maintained by DTC or its nominee (with respect to interests of participants), or by any such participant (with respect to interests of persons held by such participants on their behalf).

Payments, transfers, exchanges and other matters relating to beneficial interests in a Global Note may be subject to various policies and procedures adopted by DTC, Euroclear or Clearstream, Luxembourg, as the case may be, from time to time.

Subject to compliance with the transfer restrictions applicable to the Notes described above and under "Transfer Restrictions", cross-market transfers of Notes between DTC, on the one hand, and Euroclear or Clearstream, Luxembourg, on the other hand, will be effected in DTC in accordance with DTC rules



on behalf of Euroclear or Clearstream, Luxembourg, as the case may be, by its respective depository; however, such cross-market transactions will require delivery instructions to Euroclear or Clearstream, Luxembourg, as the case may be, by the counterpart in such system in accordance with its rules and procedures and within its established deadlines (Brussels time). Each of Euroclear or Clearstream, Luxembourg, as the case may be, will, if the transaction meets its settlement requirements, deliver instructions to its respective depository to take action to effect final settlement on its behalf by delivering or receiving interests in the Regulation S Global Notes in DTC, and making or receiving payment in accordance with normal procedures for same-day funds settlement applicable to DTC. Clearstream, Luxembourg accountholders and Euroclear accountholders may not deliver instructions directly to the depositories for Clearstream, Luxembourg or Euroclear.

Because of time zone differences, the securities account of a Euroclear or Clearstream, Luxembourg accountholder purchasing an interest in the Notes from a DTC participant will be credited during the securities settlement processing day (which must be a business day for Euroclear and Clearstream, Luxembourg) immediately following the DTC settlement date, and such credit of any transactions in interests in a Global Note settlement during such processing day will be reported to the relevant Euroclear or Clearstream, Luxembourg accountholder on such day. Cash received in Euroclear or Clearstream, Luxembourg as a result of sales of interests in a Global Note by or through a Euroclear or Clearstream, Luxembourg accountholder to a DTC participant will be received with value on the DTC settlement date but will be available in the relevant Euroclear or Clearstream, Luxembourg cash account only as at the business day following settlement in DTC. Settlement between Euroclear or Clearstream, Luxembourg accountholders and DTC participants cannot be made on a delivery versus payment basis. The arrangements for transfer of payments must be established separately from the arrangements for transfer of securities, the latter being effected on a free delivery basis. The customary arrangements for delivery versus payment between Euroclear and Clearstream, Luxembourg accountholders or between DTC participants are not affected.

Although DTC, Euroclear and Clearstream, Luxembourg have agreed to the procedures described above in order to facilitate transfers of interests in the Global Notes among participants of DTC, Euroclear and Clearstream, Luxembourg, they are under no obligation to perform or continue to perform such procedures and such procedures may be modified or discontinued at any time. None of the Issuer, the Fiscal Agent or any of their respective agents will have any responsibility for the performance by DTC, Euroclear or Clearstream, Luxembourg or their respective participants or indirect participants of their respective obligations under the rules and procedures governing their operations.

### **Definitive Notes**

Beneficial interests in any Global Note may be exchanged for definitive (i.e., non-global) Notes in fully registered form, without coupons (collectively, the “Definitive Notes” and each, a “Definitive Note”) only in the event that (1) DTC notifies the Issuer in writing at any time that DTC is unwilling or unable to continue as depository or ceases to be a “clearing agency” registered under the Exchange Act, and a successor is not appointed by the Issuer within 90 days after the Issuer is notified by DTC or (2) the Notes have become immediately due and payable pursuant to the Fiscal Agency Agreement.

Payment of the principal of any Definitive Note shall be made, upon presentation and surrender of such Note, by check drawn on a bank in The City of New York at the option of the Noteholder, either:

- (a) at the principal office of the Fiscal Agent, or

- (b) subject to any applicable laws or regulations and the right of the issuer to terminate the appointment of any paying agent, at the offices of such other paying agents as the Issuer may designate from time to time.

Unless the manner of payment is otherwise agreed by the Issuer and the Fiscal Agent, payments of interest on any Definitive Note shall be made solely in Dollars by check drawn on a bank in The City of New York, mailed to the address of the person entitled thereto as such address shall appear on the Security Register. The Issuer and the Fiscal Agent may deem and treat the Noteholder in whose name a Definitive Note is registered at the close of business on the fifteenth day preceding such Interest Payment Date as the absolute owner of the Definitive Note (notwithstanding any notice of ownership or other writing on such Definitive Note) for the purposes of receiving payment on such Definitive Note or on account of such Definitive Note and for all other purposes.

The Noteholders shall present directly at the principal office of the Fiscal Agent or of any other Transfer Agent, all requests for the registration of any transfer of such Definitive Notes, for the exchange of such Definitive Notes for one or more new Definitive Notes in the like aggregate principal amount and in authorized denominations and for the replacement of such Definitive Notes in cases of mutilation, destruction, loss or theft. Every certificate representing Definitive Notes presented or surrendered for registration of transfer or for exchange shall be duly endorsed, or be accompanied by a written instrument of transfer in form satisfactory to the Issuer and the Fiscal Agent, duly executed by the Noteholder thereof or his attorney duly authorized in writing. The registration of any transfer of Definitive Notes in the Register is also subject to any reasonable requirements of the Issuer and the Fiscal Agent. Except for the expenses of delivery other than by regular mail, no service charge shall be made for any exchange or registration of transfer, but the Issuer may require payment of a sum sufficient to cover any stamp tax or other Governmental charge payable in connection therewith.

The Fiscal Agency Agreement provides that Definitive Notes will be issued to replace Definitive Notes which have been mutilated, destroyed, stolen or lost upon payment of certain costs associated with such replacement and on certain terms as to evidence and indemnity. In the case of destroyed, stolen or lost Definitive Notes, replacement Definitive Notes will not be issued if either the Issuer or the Fiscal Agent has notice that such Definitive Notes have been acquired by a bona fide purchaser. Mutilated Definitive Notes must be surrendered before replacements will be issued. In the event any such mutilated, destroyed, stolen or lost Definitive Note has become or is about to become due and payable, the issuer in its discretion may, instead of issuing a new Definitive Note, pay or cause to be paid such Definitive Note.

All Definitive Notes issued as a result of any partial or whole transfer, exchange or replacement of Notes will be delivered to the Noteholder at the principal office of the Fiscal Agent or at the office of any such other Transfer Agent as the Issuer may designate from time to time, or (at the risk of the Noteholder) sent by mail to such address as is specified by the Noteholder in the Noteholder's request for transfer, exchange or replacement.

### **Restrictions on Transfer**

The Notes may not be sold or otherwise transferred except as described above under “ — The Global Notes” and “ — Definitive Notes”.

## TAXATION

*The following is a general description of certain relevant tax considerations relating to the Notes. It does not purport to be a complete analysis of all tax considerations relating to the Notes, whether in the jurisdictions mentioned below or elsewhere. Prospective purchasers of Notes should consult their own tax advisors as to which countries' tax laws could be relevant to acquiring, holding and disposing of Notes and receiving payments of interest, principal and/or other amounts under the Notes and the consequences of such actions under the tax laws of those countries. This summary is based upon the law as in effect on the date of this offering memorandum and is subject to any change in law that may take effect after such date.*

### **Taxation in Mongolia**

The "Revised Business Entity Income Tax Law of Mongolia" dated June 29, 2006 and the "Personal Income Tax Law of Mongolia" dated June 16, 2006 became effective on January 1, 2007. In general, in the absence of an applicable exemption under Mongolian domestic law, interest paid to Mongolian resident legal entities will be subject to income tax at a rate of 10.0%, while interest paid to non-resident legal entities will be subject to income tax at a rate of 20.0%. Further, interest paid to both Mongolian resident and non-resident individuals will be subject to income tax at the rate of 10.0%. However, the foregoing laws provide that interest paid on notes issued by the Issuer will be exempt from corporate and personal income tax. Accordingly, interest payments made by the Issuer in respect of the Notes issued under the Program to any corporation or individual, including any foreign corporation or individual whether or not such foreign corporation or individual qualifies as a non-resident taxpayer in Mongolia, is exempt from withholding of Mongolian income tax.

In respect of the Notes issued with original discount under Mongolian law the definition of interest may be interpreted to include original issue discount, which is the excess of the redemption price at maturity of the Notes over its issue price. Mongolian law does not, however, provide any guidance as to how original issue discount is to be recognized and the relevant tax is to be paid. If deemed to be interest, then the exemption from Mongolian income tax noted above would apply.

If there were no exemption from Mongolian income tax as described above, then in respect of any non-resident legal entities or individuals not registered as taxpayers in Mongolia, the Mongolian income tax owed on the interest paid under the Notes will be withheld from the interest payment at the rate indicated above or, if the beneficial owner of the interest is resident in a country with which Mongolia has entered into a bilateral convention on the avoidance of double taxation and the prevention of fiscal evasion with respect to taxes on income and property, at a potentially lower rate of tax if so provided in the applicable convention. Certain of Mongolia's bilateral tax conventions provide for two maximum rates of income tax which Mongolia may assess on interest paid by the Issuer to a tax resident of the relevant country, provided such recipient of the interest is also the beneficial owner of the interest. One rate is applicable to some, but not necessarily all, interest payments made to banks or similar financial institutions, while the second rate is applicable to all other recipients of interest (other than banks or similar financial institutions). In each convention, the rate applicable to payments made to banks or other similar financial institutions is lower (in some cases as low as nil per cent.) than the rate applicable to payments of interest made to non-banks. However, in respect of banks and similar financial institutions, the relevant treaty must be examined to determine the availability of such special rate and its applicability to payments of interest under the

Notes, as certain of the conventions do not contain a special rate for payments made to banks or similar financial institutions or, in some cases where a special rate is provided for, the convention restricts the applicability of the rate to certain specified types of interest payments which would not include payments of interest on the Notes.

As of the date of this offering memorandum, bilateral tax conventions are in place between Mongolia and Austria, Belgium, China, France, Germany, Italy, Russia, Singapore, South Korea and Switzerland. This list is not exhaustive. Mongolia has entered into bilateral tax conventions with other countries that were not on this list. In respect of this list, the applicable tax rate in respect of interest payments received by non-banks is 10.0% for each country (other than Korea, where the applicable tax rate is 5.0%). As noted above, a lower rate may be applicable under some of these conventions in respect of interest paid to a bank or similar financial institution. Interested parties should consult their own tax advisers to determine potential applicability.

Mongolian tax residents will be subject to Mongolian income tax in respect of any capital gains realized on the sale of the Notes. The potential application of Mongolian income tax to any capital gains realized on the sale of the Notes by a non-resident entity or individual remains uncertain, although neither the Revised Business Entity Income Tax Law nor the Personal Income Tax Law specifically imposes any withholding tax on capital gains realized on the sale of securities, including the Notes. Relief from Mongolian tax obligations in this regard may be available to non-resident taxpayers covered by one of Mongolia's bilateral tax conventions. No stamp duties or similar taxes or charges are payable under the laws of Mongolia in respect of the execution, issue, sale or transfer of the Notes.

#### **United States Federal Income Tax Considerations**

The following summary describes certain U.S. federal income tax consequences relevant to the purchase, ownership, and disposition of the Notes. This summary applies only to holders that acquire their Notes at original issue at their "issue price" (which is generally the first price at which a substantial amount of the Notes are sold to the public), and hold such Notes as capital assets, within the meaning of Section 1221 of the U.S. Internal Revenue Code of 1986, as amended (the "Code"). This discussion is based upon interpretations of current provisions of the Code, existing and proposed Treasury Regulations thereunder, current administrative rulings, judicial decisions and other applicable authorities, all of which are subject to change. Any such change may apply retroactively and could affect the continued validity of this summary. This summary does not purport to address any aspect of U.S. federal gift or estate tax, nor does it describe any tax consequences arising under the laws of any state, locality or taxing jurisdiction other than the U.S. federal government.

This discussion does not purport to deal with all aspects of U.S. federal income taxation that may be relevant to the Note holders in light of their personal investment circumstances nor, except for limited discussions of particular topics, to holders subject to special treatment under the U.S. federal income tax laws, including: financial institutions; insurance companies; regulated investment companies; securities dealers or traders electing mark-to-market treatment; certain governmental entities; partnerships or any entities treated as partnerships for U.S. federal income tax purposes; "passive foreign investment companies" or "controlled foreign corporations"; tax-exempt organizations; persons that hold the Notes as a position in a "straddle" or as part of a synthetic security or "hedge," "conversion transaction" or other integrated investment; persons that have a "functional currency" other than the U.S. dollar; investors in pass-through entities that hold Notes; investors liable for the alternative minimum tax; and United States expatriates.

This general summary deals only with certain U.S. federal income tax considerations relating to the purchase, ownership, and disposition of certain Notes treated as debt for U.S. federal income tax purposes that are in registered form.

In addition, persons considering the purchase of the Notes should consult their tax advisors with regard to the application of the U.S. federal income tax laws to their particular situations as well as any tax consequences arising under the laws of any state, local or foreign taxing jurisdiction.

For purposes of this discussion, “U.S. Holder” means the beneficial owner of a Note that for U.S. federal income tax purposes is

- a citizen or individual resident of the United States,
- a corporation organized in or under the laws of the United States or any political subdivision thereof,
- a trust subject to the control of one or more U.S. persons and the primary supervision of a U.S. court or that has validly elected to be treated as a U.S. person, or
- an estate the income of which is subject to U.S. federal income taxation regardless of its source.

“Non-U.S. Holder” means any person that is a beneficial owner of a Note that is not a U.S. Holder and is not a partnership for U.S. federal income tax purposes.

The treatment of partners in a partnership (or an entity treated as a partnership for U.S. federal income tax purposes) that owns Notes depends on the status of such partners and the status and activities of the partnership and such persons should consult their own tax advisors about the consequences of an investment in the Notes.

### ***U.S. Holders***

#### *Interest*

Stated interest paid to a U.S. Holder (including amounts of any taxes withheld therefrom and, with duplication, any Additional Amounts paid with respect thereto) will be includible in the U.S. Holder’s gross income as ordinary interest income at the time it is received or accrued in accordance with the U.S. Holder’s regular method of tax accounting for U.S. federal income tax purposes.

Interest and original issue discount received or accrued on Notes will generally be treated as foreign source income for U.S. federal income tax purposes and generally will constitute “passive category” income for most U.S. Holders. The U.S. foreign tax credit rules are extremely complex. U.S. Holders should consult their own tax advisors regarding the availability of U.S. foreign tax credits in their particular circumstances.

#### *Original Issue Discount*

If a Note’s “issue price” (as described above) is less than its “stated redemption price at maturity”, the Note will be considered to have been issued with original issue discount for U.S. federal income tax purposes (and will be referred to herein as a “Discount Note”) unless the Note satisfies a *de*

*minimis* threshold, as described below. A Note's stated redemption price at maturity will equal the sum of all payments under the Note, other than payments of "qualified stated interest". Generally, qualified stated interest is stated interest unconditionally payable (other than in debt instruments of the issuer) at least annually during the entire term of the Note at a fixed rate.

If the difference between a Note's stated redemption price at maturity and its issue price is less than a prescribed *de minimis* amount (generally 1/4 of one percent of the stated redemption price at maturity multiplied by the number of complete years to maturity), the Note will not be considered to have original issue discount and will therefore not be a "Discount Note". If you own a Discount Note, you will be required to include any qualified stated interest in income in accordance with your method of accounting for U.S. federal income tax purposes, as described in "—Interest" above. In addition, you generally will be required to include such original issue discount in gross income (as ordinary income) for U.S. federal income tax purposes on an annual basis under a constant yield accrual method regardless of their regular method of accounting for U.S. federal income tax purposes. The amount of original issue discount includible in your income is the sum of the "daily portions" of original issue discount with respect to the Note for each day during the taxable year or portion thereof in which you hold such Note. A daily portion is determined by allocating to each day in any "accrual period" a pro rata portion of the original issue discount that accrued in such period. The "accrual period" of a Note may be of any length and may vary in length over the term of the Note, provided that each accrual period is no longer than one year and each scheduled payment of principal or interest occurs either on the first or last day of an accrual period. The amount of original issue discount that accrues with respect to any accrual period is the excess of: (i) the product of the Note's "adjusted issue price" at the beginning of such accrual period and its yield to maturity, determined on the basis of compounding at the close of each accrual period and properly adjusted for the length of such period, over: (ii) the amount of stated interest allocable to such accrual period. The adjusted issue price of a Note at the start of any accrual period is equal to its issue price, increased by the accrued original discount for each prior accrual period.

You may make an election to include in income all interest that accrues on a Note (including stated interest, original issue discount and *de minimis* original issue discount), in accordance with a constant yield method based on the compounding of interest.

#### *Sale, Exchange or Other Taxable Disposition*

Upon the sale, exchange or other taxable disposition (including redemption) of a Note, a U.S. Holder generally will recognize taxable gain or loss equal to the difference, if any, between the amount realized on the sale, exchange or other taxable disposition (other than accrued but unpaid interest, which will be taxable as interest) and the U.S. Holder's adjusted tax basis in the Note. A U.S. Holder's adjusted tax basis in a Note generally will be equal to the amount that the U.S. Holder paid for the Note, increased by any original issue discount included in income and decreased by any payments on the Notes other than qualified stated interest. Any such gain or loss generally will be capital gain or loss and generally will be long term capital gain or loss if the Note has been held for more than one year at the time of its sale, exchange or other taxable disposition. Certain non-corporate U.S. Holders (including individuals) may be eligible for preferential rates of U.S. federal income tax in respect of long term capital gains. The deductibility of capital losses is subject to limitations.



### *U.S. Backup Withholding and Information Reporting*

Information reporting generally will apply to payments of principal of, and interest and original issue discount on, Notes (including Additional Amounts), and to proceeds from the sale, exchange or other taxable disposition (including redemption) of Notes within the United States, or by a U.S. payor or U.S. middleman, to a U.S. Holder (other than an exempt recipient). Backup withholding may be required on reportable payments if the holder fails to furnish its correct taxpayer identification number or otherwise fails to comply with, or establish an exemption from, information reporting and backup withholding. Non-U.S. Holders may be required to comply with applicable certification procedures to establish that they are not U.S. Holders in order to avoid the application of information reporting and backup withholding. Backup withholding is not an additional tax. A holder of Notes generally will be entitled to credit any amounts withheld under the backup withholding rules against its U.S. federal income tax liability or to obtain a refund of the amounts withheld provided the required information is furnished to the IRS in a timely manner.

### *Medicare Tax*

Certain U.S. Holders that are individuals, estates or trusts and whose income exceeds certain thresholds will be subject to an additional 3.8% Medicare tax on some or all of such U.S. holder's "net investment income." Net investment income generally includes any income or gain with respect to their Notes unless such income or gain is derived in the ordinary course of the conduct of a trade or business (other than a trade or business that consists of certain passive or trading activities). U.S. Holders should consult their tax advisors regarding the effect this Medicare tax may have, if any, on the acquisition, ownership or disposition of the Notes.

### *"Specified Foreign Financial Asset" Reporting*

Owners of "specified foreign financial assets" with an aggregate value in excess of US\$50,000 (and in some circumstances, a higher threshold), may be required to file an information statement with respect to such assets with their U.S. federal income tax returns, currently on IRS Form 8938. "Specified foreign financial assets" include any financial accounts maintained by foreign financial institutions, as well as any of the following, but only if they are held for investment and not held in accounts maintained by financial institutions: (i) stocks and securities issued by non-United States persons, (ii) financial instruments and contracts that have non-United States issuers or counterparties, and (iii) interests in foreign entities. Such reporting requirement may also apply to certain non-individual holders. U.S. Holders are urged to consult their tax advisors regarding the application of this legislation to their ownership of the Notes.

### *Non-U.S. Holders*

Subject to the discussion of backup withholding below, a Non-U.S. Holder generally will not be subject to U.S. federal withholding tax on interest (including original issue discount) and Additional Amounts on or gain with respect to the Notes. A Non-U.S. Holder also generally will not be subject to U.S. federal income tax on a net income basis with respect to interest and Additional Amounts received in respect of the Notes or gain realized on the sale, exchange or other taxable disposition (including redemption) of the Notes, unless that interest or gain is effectively connected with the conduct by the Non-U.S. Holder of a trade or business within the United States or, in the case of gain realized by an individual Non-U.S. Holder, the Non-U.S. Holder is present in the United States for 183 days or more in the taxable year of the disposition and certain other conditions are met.



Payment of the proceeds from the disposition of Notes to or through the United States office of a broker is subject to information reporting and backup withholding unless the Non-U.S. holder establishes an exemption from information reporting and backup withholding (generally on an applicable IRS Form W-8).

### ***FATCA Withholding***

Pursuant to Sections 1471 to 1474 of the Code and Treasury Regulations thereunder (provisions commonly referred to as “FATCA”), a “foreign financial institution” may be required to withhold U.S. tax on certain “foreign passthru” payments made on or after January 1, 2019. The term “foreign passthru” payment is not yet defined. Obligations issued on or prior to the date that is six months after the date on which applicable final regulations defining “foreign passthru payments” are filed generally will be “grandfathered” and exempt from withholding unless the obligations are materially modified after that date. Accordingly, even if the Issuer were treated as a foreign financial institution, FATCA would apply to payments on the Notes only if there was a significant modification of the Notes for U.S. federal income tax purposes after the expiration of this grandfathering period. Many non U.S. governments have entered into agreements with the United States to implement FATCA in a manner that alters the rules described above. Holders should therefore consult their own tax advisors on how these rules may apply to their investment in the Notes. In the event any withholding under FATCA is imposed with respect to any payments on the Notes, no Additional Amounts will be paid to compensate for the withheld amount.

**The U.S. federal income tax discussion set forth above is included for general information only and may not be applicable depending upon a holder’s particular situation. Holders should consult their own tax advisors with respect to the tax consequences to them of the ownership and disposition of the Notes, including the tax consequences under state, local, foreign and other tax laws and the possible effects of changes in U.S. federal or other tax laws.**

## PLAN OF DISTRIBUTION

Subject to the terms and conditions in the purchase agreement, dated \_\_\_\_\_, 2017 between the Issuer and the initial purchasers named below (the “Initial Purchasers”), each of the Initial Purchasers has severally agreed with the Issuer to purchase the principal amount of Notes set forth opposite such Initial Purchaser’s name:

Name of Initial Purchasers	Principal amount of Notes to be purchased
Credit Suisse (Hong Kong) Limited . . . . .	US\$
J.P. Morgan Securities plc . . . . .	US\$
Total . . . . .	US\$

The Notes will be purchased at the issue price of \_\_\_\_\_ % of the principal amount thereof. The Issuer will be paying a combined management and underwriting commission to the Initial Purchasers and will reimburse the Initial Purchasers in respect of certain of their expenses. The Issuer has agreed to indemnify the Initial Purchasers against certain liabilities incurred in connection with the issue and sale of the Notes, or to contribute to payments that the Initial Purchasers may be required to make because of any of these liabilities.

The Initial Purchasers are offering the Notes in accordance with the terms of the Purchase Agreement and subject to certain conditions contained in the Purchase Agreement, including the receipt by the Initial Purchasers of documentation related to the issuance and sale of the Notes, certificates of the Issuer and legal opinions. The Purchase Agreement may be terminated by the Initial Purchasers in certain circumstances prior to payment of the Notes.

Each of the Initial Purchasers or their respective affiliates may purchase the Notes for its or their own account and enter into transactions, including credit derivatives, such as asset swaps, repackaging and credit default swaps relating to Notes and/or other securities of the Issuer, its subsidiaries or affiliates at the same time as the offer and sale of Notes or in secondary market transactions. Such transactions would be carried out as bilateral trades with selected counterparties and separately from any existing sale or resale of Notes to which this Offering Memorandum relates (notwithstanding that such selected counterparties may also be purchasers of Notes).

### **Other Relationships**

The Initial Purchasers are full service financial institutions engaged in various activities, which may include securities trading, commercial and investment banking, financial advisory, investment management, investment research, principal investment, hedging, financing and brokerage activities. Each of the Initial Purchasers and their respective affiliates have, from time to time, performed, and may in the future perform, various financial advisory and investment banking services for the Issuer and its affiliates, for which they received or will receive customary fees and expenses. In the ordinary course of their various business activities, the Initial Purchasers and their respective affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers, and such investment and securities activities may involve the Issuer’s securities and/or instruments. The Initial Purchasers and their respective affiliates may also make investment recommendations and/or publish or express independent research views in respect of such

securities or instruments and may at any time hold, or recommend to clients that they acquire, long and/or short positions in such securities and instruments. In addition, the Initial Purchasers and/or their affiliates serve as agents and lenders under certain existing credit facilities with the Issuer or its affiliates/agencies.

The Initial Purchasers or certain of their respective affiliates may purchase the Notes and be allocated Notes for asset management and/or proprietary purposes and not with a view to distribution.

The Initial Purchasers have been mandated as dealer managers in connection with the exchange offer for DBM Notes by the Issuer. See “Use of Proceeds and Exchange Offer for DBM Notes.”

## **Selling Restrictions**

### ***United States***

The Notes have not been and will not be registered under the Securities Act and, subject to certain exceptions, may not be offered or sold within the United States except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act. Accordingly, the Notes are being offered and sold only (a) outside the United States as defined in Regulation S in offshore transactions in accordance with Regulation S and (b) in the United States to a limited number of QIBs as defined in Rule 144A in connection with resales by the Initial Purchasers in accordance with Rule 144A.

In addition, until 40 days after the commencement of the Offering, an offer or sale of Notes within the United States by any dealer (whether or not participating in the Offering) may violate the registration requirements of the Securities Act if such offer or sale is made otherwise than in accordance with Rule 144A or another exemption from registration under the Securities Act.

The Notes have not been approved or disapproved by the United States Securities and Exchange Commission, any state securities commission in the United States or any other United States regulatory authority, nor have any of the foregoing authorities passed upon or endorsed the merits of the offering or the accuracy or adequacy of this offering memorandum. Any representation to the contrary is a criminal offense in the United States.

### ***Mongolia***

Each Initial Purchaser has represented and agreed that neither it nor any of its affiliates has offered or sold or will offer or sell any of the Notes in the territory of Mongolia.

### ***European Economic Area***

In relation to each Member State of the European Economic Area which has implemented the Prospectus Directive (each, a “Relevant Member State”), each Initial Purchaser has represented and agreed that with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State it has not made and will not make an offer of Notes which are the subject of the offering contemplated by this offering memorandum to the public in that Relevant Member State other than:

- (a) to any legal entity which is a qualified investor as defined in the Prospectus Directive;
- (b) to fewer than 150 natural or legal persons (other than qualified investors as defined in the Prospectus Directive), as permitted under the Prospectus Directive, subject to obtaining the prior consent of the relevant Initial Purchaser or Initial Purchasers nominated by the Issuer for any such offer; or
- (c) in any other circumstances falling within Article 3(2) of the Prospectus Directive, provided that no such offer of Notes shall require the Issuer or any Initial Purchaser to publish a prospectus pursuant to Article 3 of the Prospectus Directive.

For the purposes of this provision, the expression “an offer of Notes to the public” in relation to any Notes in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the Notes to be offered so as to enable an investor to decide to purchase or subscribe for the Notes, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State, and the expression “Prospectus Directive” means Directive 2003/71/EC (as amended by 2010 PD Amending Directive), and includes any relevant implementing measure in the Relevant Member State.

### ***United Kingdom***

Each Initial Purchaser has agreed that:

- (a) it has only communicated or caused to be communicated, and will only communicate or cause to be communicated, any invitation or inducement to engage in investment activity (within the meaning of section 21 of the Financial Services and Markets Act 2000 (the “FSMA”)) received by it in connection with the issue or sale of any Notes in circumstances in which section 21(1) of the FSMA does not apply to the Issuer; and
- (b) it has complied with, and will comply with, all applicable provisions of the FSMA with respect to anything done by it in relation to the Notes in, from or otherwise involving the United Kingdom.

### ***Japan***

The Notes have not been and will not be registered under the Financial Instruments and Exchange Act of Japan (Act No. 25 of 1948, as amended; the “FIEA”) and each of the Initial Purchasers, on behalf of itself and each of its affiliates that participates in the initial distribution of the Notes has represented and agreed with the Issuer that it has not offered or sold and will not offer or sell any Notes, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan (as defined under Item 5, Paragraph 1, Article 6 of the Foreign Exchange and Foreign Trade Act (Act No. 228 of

1949, as amended)) or to others for re-offering or resale, directly or indirectly, in Japan or to, or for the benefit of a resident of Japan, except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the FIEA and any other applicable laws, regulations and ministerial guidelines of Japan.

### ***Singapore***

This offering memorandum has not been registered as a prospectus with the Monetary Authority of Singapore. Accordingly, this offering memorandum and any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of the Notes may not be circulated or distributed, nor may the Notes be offered or sold, or be made the subject of an invitation for subscription or purchase, whether directly or indirectly, to persons in Singapore other than (i) to an institutional investor under Section 274 of the Securities and Futures Act, Chapter 289 of Singapore (the “SFA”), (ii) to a relevant person pursuant to Section 275(1), or any person pursuant to Section 275(1A), and in accordance with the conditions specified in Section 275, of the SFA, or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

Where the Notes are subscribed or purchased under Section 275 of the SFA by a relevant person which is:

- (a) a corporation (which is not an accredited investor (as defined in Section 4A of the SFA)) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or
- (b) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary of the trust is an individual who is an accredited investor,

securities (as defined in Section 239(1) of the SFA) of that corporation or the beneficiaries’ rights and interest (howsoever described) in that trust shall not be transferred within six months after that corporation or that trust has acquired the Notes pursuant to an offer made under Section 275 of the SFA except:

- (1) to an institutional investor or to a relevant person defined in Section 275(2) of the SFA, or to any person arising from an offer referred to in Section 275(1A) or Section 276(4)(i)(B) of the SFA;
- (2) where no consideration is or will be given for the transfer;
- (3) where the transfer is by operation of law;
- (4) as specified in Section 276(7) of the SFA; or
- (5) as specified in Regulation 32 of the Securities and Futures (Offers of Investments) (Shares and Debentures) Regulations 2005 of Singapore.

### ***Hong Kong***

No steps have been taken to register this offering memorandum as a prospectus in Hong Kong. Subscriptions will not be accepted from any person other than the person to whom this offering memorandum has been delivered. This offering memorandum is delivered only to the recipient and may not be used, copied, reproduced or distributed, in whole or in part, to any other person.

Each Initial Purchaser has represented and agreed that:

- (a) it has not offered or sold and will not offer or sell in Hong Kong, by means of any document, any Notes, other than (i) to “professional investors” as defined in the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (the “SFO”) and any rules made under the SFO; or (ii) in other circumstances which do not result in the document being “prospectus” as defined in the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Cap. 32 of the Laws of Hong Kong) or which do not constitute an offer to the public within the meaning of that Ordinance; and
- (b) it has not issued or had in its possession for the purposes of issue, and will not issue or have in its possession for the purposes of issue, (whether in Hong Kong or elsewhere) any advertisement, invitation or document relating to the Notes, which is directed at, or the contents of which are likely to be accessed or read by, the public in Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to Notes which are or are intended to be disposed of only to persons outside Hong Kong or only to “professional investors” within the meaning ascribed to it in the SFO and any rules made under the SFO.

### ***Republic of Italy***

The offering of the Notes has not been registered pursuant to Italian securities legislation and, accordingly, no Notes may be offered, sold or delivered, nor may copies of the offering memorandum or of any other document relating to the Notes be distributed in the Republic of Italy, except:

- (a) to qualified investors (*investitori qualificati*), as defined pursuant to Article 100 of Legislative Decree No. 58 of February 24, 1998, as amended (the “Financial Services Act”) and Article 34-ter, first paragraph, letter b) of CONSOB Regulation No. 11971 of May 14, 1999, as amended from time to time (“Regulation No. 11971”); or
- (b) in other circumstances which are exempted from the rules on public offerings pursuant to Article 100 of the Financial Services Act and Article 34-ter of Regulation No. 11971.

Any offer, sale or delivery of the Notes or distribution of copies of the offering memorandum or any other document relating to the Notes in the Republic of Italy under (a) or (b) above must:

- (1) be made by an investment firm, bank or financial intermediary permitted to conduct such activities in the Republic of Italy in accordance with the Financial Services Act, CONSOB Regulation No. 16190 of October 29, 2007 (as amended from time to time) and Legislative Decree No. 385 of September 1, 1993, as amended (the “Banking Act”); and
- (2) comply with any other applicable laws and regulations or requirement imposed by CONSOB, the Bank of Italy (including the reporting requirements, where applicable, pursuant to Article 129 of the Banking Act and the implementing guidelines of the Bank of Italy, as amended from time to time) and/or any other Italian authority.

### ***Switzerland***

This offering memorandum does not constitute an issue prospectus pursuant to Article 652a or Article 1156 of the Swiss Code of Obligations and the notes will not be listed on the SIX Swiss Exchange. Therefore, this offering memorandum may not comply with the disclosure standards of the listing rules (including any additional listing rules or prospectus schemes) of the SIX Swiss Exchange. Accordingly, the notes may not be offered to the public in or from Switzerland, but only to a selected and limited circle of investors who do not subscribe to the notes with a view to distribution. Any such investors will be individually approached by the initial purchasers from time to time.

### ***France***

This offering memorandum has not been and will not be submitted to the clearance procedure (*visa*) nor approved by the *Autorité des marchés financiers* (the “AMF”). The Notes have not been and will not be, directly or indirectly, offered or sold to the public in France. This offering memorandum and any other documents or offering materials relating to the offering of the Notes may only be distributed or caused to be distributed to: (i) qualified investors (*investisseurs qualifiés*) acting for their own account and/or (ii) providers of investment services relating to portfolio management for the account of third parties (*personnes fournissant le service d’investissement de gestion de portefeuille pour compte de tiers*), all as defined in, and in accordance with, Articles L. 411-2 and D. 411-1 of the French Financial and Monetary Code (*Code monétaire et financier*).

The Notes so purchased may not be offered or resold, directly or indirectly, to the public in France other than in compliance with Articles L. 411-1, L. 411-2, L. 412-1 and L. 621-8 to L. 621-8-3 of the French Financial and Monetary Code (*Code monétaire et financier*).

### ***Denmark***

Each Initial Purchaser has represented and agreed that it has not offered or sold and will not offer, sell or deliver any Notes directly or indirectly in Denmark by way of a public offering, unless in compliance with the Danish Consolidated Act No. 1229 of 7 September 2016 on Trading in Securities, as amended, and any Executive Orders issued thereunder and in compliance with Executive Order No. 623 of 24 April 2015 to the Danish Financial Business Act.

### ***The Netherlands***

The Notes have not been and will not be offered in The Netherlands other than to persons or entities which are qualified investors (*gekwalificeerde belegger*) as defined in article 1:1 of the Dutch Financial Supervision Act (*Wet op het financieel toezicht*).

### ***People’s Republic of China***

Each Initial Purchaser has represented, undertaken, warranted and agreed that the Notes are not being offered or sold and may not be offered or sold, directly or indirectly, in the People’s Republic of China (for such purposes, not including Hong Kong and Macau Special Administrative Regions or Taiwan), except as permitted by the Securities Laws of the People’s Republic of China.



### ***General***

No action has been taken by the Issuer or any of the Initial Purchasers that would, or is intended to, permit a public offer of the Notes or possession or distribution of this offering memorandum or any other offering or publicity material relating to the Notes in any country or jurisdiction where any such action for that purpose is required. Accordingly, each Initial Purchaser has undertaken that it will not, directly or indirectly, offer or sell any Notes or distribute or publish any offering circular, prospectus, form of application, advertisement or other document or information in any country or jurisdiction except under circumstances that will, to the best of its knowledge and belief, result in compliance with any applicable laws and regulations and all offers and sales of Notes by it will be made on the same terms.

The materials relating to the offering of the Notes do not constitute, and may not be used in connection with, an offer or solicitation in any place where offers or solicitations are not permitted by law. If a jurisdiction requires that the offering of the Notes be made by a licensed broker or dealer and the Initial Purchasers or any affiliate of the Initial Purchasers is a licensed broker or dealer in that jurisdiction, the offering shall be deemed to be made by the Initial Purchasers or such affiliate on behalf of the Issuer in such jurisdiction.

### ***Stabilization***

In connection with the Offering, J.P. Morgan Securities plc (the “Stabilizing Manager”) or persons acting on behalf of J.P. Morgan Securities plc may over-allot Notes or effect transactions with a view to supporting the market price of the Notes at a level higher than that which might otherwise prevail but in doing so the Stabilizing Manager shall act as principal and not as agent of the Issuer. However, there is no assurance that the Stabilizing Manager will undertake stabilization action. Any stabilization will be conducted in accordance with all applicable laws and regulations. Neither the Issuer nor the Stabilizing Manager makes any representation or prediction as to the direction or magnitude of any effect that the transactions described above may have on the price of the Notes. In addition, neither the Issuer nor the Stabilizing Manager makes any representation that the Stabilizing Manager or its agent will engage in such transactions or that such transactions, once commenced, will not be discontinued with or without notice.

## TRANSFER RESTRICTIONS

*Due to the following significant transfer restrictions applicable to the Notes, investors are advised to consult legal counsel prior to making any purchase, offer, resale, pledge, transfer or other transfer of Notes.*

The Notes have not been registered and will not be registered under the Securities Act or any other securities laws, and may not be offered or sold in the United States (as defined in Regulation S) except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act. Accordingly, the Notes are being offered and sold (1) in the United States only to QIBs, as defined in Rule 144A under the Securities Act in compliance with Rule 144A and (2) outside the United States in offshore transactions pursuant to Regulation S.

Each investor of a Note, by its acceptance thereof, will be deemed to have acknowledged, represented to and agreed with the Issuer and the Initial Purchasers as follows:

- (1) represent that it is purchasing the Notes for its own account or an account with respect to which it exercises sole investment discretion and that it and any such account is (a) a QIB, and is aware that the sale to it is being made in reliance on Rule 144A or (b) located outside the United States;
- (2) acknowledge that the Notes have not been registered under the Securities Act and may not be offered or sold within the United States except as set forth below;
- (3) if it is a person other than a purchaser located outside the United States, agree that if it should resell or otherwise transfer the Notes within the time period referred to in Rule 144(d) under the Securities Act after the original issuance of the Notes, it will do so only (a) to the Issuer, (b) to a QIB in compliance with Rule 144A, (c) outside the United States in an offshore transaction in compliance with Rule 903 or 904 of Regulation S under the Securities Act, (d) pursuant to the exemption from registration provided by Rule 144 (if available) but only upon delivery to the Issuer of an opinion of counsel in form and scope satisfactory to the Issuer or (e) pursuant to an effective registration statement under the Securities Act;
- (4) agree that it will deliver to each person to whom it transfers Notes notice of any restriction on transfer of such Notes;
- (5) understand and agree that Notes initially offered in the United States to QIBs will be represented by one or more Rule 144A Global Notes and that Notes offered outside the United States in offshore transactions pursuant to Regulation S will be represented by one or more Regulation S Global Notes;
- (6) understand that unless registered under the Securities Act, the Rule 144A Global Note and Definitive Notes issued in exchange for a beneficial interest in the Rule 144A Global Note will bear a legend to the following effect, unless otherwise agreed by the Issuer and the holder thereof:

“THE SECURITIES EVIDENCED HEREBY HAVE NOT BEEN REGISTERED UNDER THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED (THE “SECURITIES ACT”), OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OF THE UNITED STATES OR ANY OTHER JURISDICTION AND (A) ACCORDINGLY, THE SECURITIES MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED EXCEPT (1) TO A PERSON WHOM THE SELLER REASONABLY BELIEVES IS A QUALIFIED

INSTITUTIONAL BUYER WITHIN THE MEANING OF RULE 144A UNDER THE SECURITIES ACT PURCHASING FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF A QUALIFIED INSTITUTIONAL BUYER IN A TRANSACTION COMPLYING WITH THE REQUIREMENTS OF RULE 144A, (2) IN AN OFFSHORE TRANSACTION COMPLYING WITH RULE 903 OR 904 OF REGULATION S UNDER THE SECURITIES ACT, (3) PURSUANT TO AN EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT PROVIDED BY RULE 144 THEREUNDER (IF AVAILABLE), (4) PURSUANT TO ANY OTHER AVAILABLE EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT, OR (5) PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT, IN EACH CASE IN ACCORDANCE WITH ALL APPLICABLE SECURITIES LAWS OF THE STATES OF THE UNITED STATES; (B) THE HOLDER WILL, AND EACH SUBSEQUENT HOLDER IS REQUIRED TO, NOTIFY ANY SUBSEQUENT PURCHASER OF THESE SECURITIES FROM IT OF THE RESALE RESTRICTIONS REFERRED TO IN (A) ABOVE; AND (C) NO REPRESENTATION CAN BE MADE AS TO THE AVAILABILITY OF THE EXEMPTION PROVIDED BY RULE 144 UNDER THE SECURITIES ACT FOR REALES OF THE SECURITIES.”

- (7) acknowledge that the Issuer and the Initial Purchasers will rely upon the truth and accuracy of the foregoing acknowledgments, representations and agreements, and agree that if any of the acknowledgments, representations or warranties deemed to have been made by it by its purchase of Notes are no longer accurate, it shall promptly notify the Issuer and the Initial Purchasers; and
- (8) if it is acquiring Notes as a fiduciary or agent for one or more investor accounts, represent that it has sole investment discretion with respect to each such account and it has full power to make the foregoing acknowledgments, representations and agreements on behalf of each such account.

## **LEGAL MATTERS**

Certain legal matters under New York law relating to the Notes and this offering will be passed upon for the Issuer by Mayer Brown LLP, special U.S. counsel to the Issuer, and for the Initial Purchasers by Milbank, Tweed, Hadley & McCloy LLP, special U.S. counsel to the Initial Purchasers. Certain legal matters under the laws of Mongolia relating to the validity of the Notes and this offering will be passed upon for the Issuer by Hogan Lovells (Mongolia) LLP, special Mongolian counsel to the Issuer, and the Ministry of Justice and Home Affairs of Mongolia, and for the Initial Purchasers by GTs Advocates LLP, special Mongolian counsel to the Initial Purchasers. With respect to certain matters governed by the laws of Mongolia, Mayer Brown LLP may rely on the opinion of Hogan Lovells (Mongolia) LLP and the Ministry of Justice and Home Affairs, and Milbank, Tweed, Hadley & McCloy LLP may rely on the opinion of GTs Advocates LLP.

## GENERAL INFORMATION

1. The issuance of the Notes has been authorized by Resolution No. 53 of the Government of Mongolia dated February 15, 2017.
2. The Notes have been accepted for clearance through DTC, Euroclear and Clearstream as follows:

<u>Rule 144A ISIN</u>	<u>Rule 144A Common Code</u>	<u>Reg S ISIN</u>	<u>Reg S Common Code</u>
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3. To the best of its knowledge, except as disclosed in this offering memorandum, the Issuer is not involved in any litigation, arbitration, or administrative proceedings relating to the claims or amounts which are material in the context of the issuance of Notes nor, so far as it is aware, having made reasonable inquiries, is any such material litigation or arbitration or administrative proceeding involving it pending or threatened.
4. Except as disclosed in this offering memorandum, there has been no material adverse change in the fiscal, economic or political condition or affairs of the Issuer since December 31, 2016 which is material in the context of the issue of the Notes.
5. Application has been made for the listing and quotation of the Notes on the SGX-ST. The SGX-ST assumes no responsibility for the correctness of any of the statements made or opinions expressed or reports contained herein. Approval in-principle for the listing and quotation of the Notes on the SGX-ST is not to be taken as an indication of the merits of the Issuer or the Notes. The Notes will be traded on the SGX-ST in a minimum board lot size of US\$200,000 for so long as any of the Notes are listed on the SGX-ST.

For so long as the Notes are listed on the SGX-ST and the rules of the SGX-ST so require, the Issuer will appoint and maintain a paying agent in Singapore where the Notes may be presented or surrendered for payment or redemption in the event that a Global Note is exchanged for definitive Notes. In addition, in the event that a Global Note is exchanged for definitive Notes, an announcement of such exchange shall be made by or on behalf of the Issuer through the SGX-ST and such announcement will include all material information with respect to the delivery of the definitive Notes, including details of the paying agent in Singapore.

6. Each of the Purchase Agreement among the Issuer and the Initial Purchasers, the Fiscal Agency Agreement and the Notes are governed by the laws of the State of New York. However, the laws of Mongolia will govern all matters relating to authorization, execution and delivery by the Issuer of the Notes and the Fiscal Agency Agreement.

**ISSUER**

**The Government of Mongolia**  
c/o the Ministry of Finance  
Zasgiin Gazryn II bair  
S. Danzangiin Gudamj 5/1  
Ulaanbaatar 15160  
Mongolia

**FISCAL AGENT, PAYING AGENT, TRANSFER AGENT AND REGISTRAR**

**Deutsche Bank Trust Company Americas**  
16th Floor, 60 Wall Street  
New York, New York 10005  
United States of America

**INITIAL PURCHASERS**

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Kowloon  
Hong Kong

**J.P. Morgan Securities plc**

25 Bank Street  
Canary Wharf  
London E14 5JP  
United Kingdom

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Sukhbaatar District, 1st Khoroo  
Ulaanbaatar-14253  
Mongolia

**SINGAPORE LISTING AGENT**

**Allen & Gledhill LLP**  
One Marina Boulevard #28-00  
Singapore 018989



**US\$**

**THE GOVERNMENT OF MONGOLIA**

**% Notes Due**

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**Offering Memorandum**

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*Joint Bookrunners and Joint Lead Managers  
(in alphabetical order)*

**Credit Suisse**

**J.P. Morgan**

, 2017

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Questions about the terms of the exchange offer should be delivered to the Dealer Managers and the Information and Exchange Agent at the address and telephone number set forth below. If you have questions regarding the tender procedures or require additional copies of this exchange offer memorandum or related documents may be directed to the Information and Exchange Agent at the address and telephone number set forth below. A beneficial owner may also contact their broker, dealer, bank, trust company or other nominee for assistance concerning this exchange offer.

*The Information and Exchange Agent for this exchange offer is:*

## **Lucid Issuer Services Limited**

Tankerton Works  
12 Argyle Walk  
London WC1H 8HA  
United Kingdom

For information by telephone: +44 20 7704 0880

Attention: Thomas Choquet / Arlind Bytyqi

Email: [mongolia@lucid-is.com](mailto:mongolia@lucid-is.com)

*The Dealer Managers for this exchange offer are:*

### **Credit Suisse (Hong Kong) Limited**

Level 88, International Commerce Centre

1 Austin Road West

Kowloon

Hong Kong

Telephone: +852 2101 6000

Email: [list.ibprojectkhuraldai@credit-suisse.com](mailto:list.ibprojectkhuraldai@credit-suisse.com)

### **J.P. Morgan Securities plc**

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