MONGOLIA OVERVIEW

Large land per capita, abundant natural resources, well positioned for rapid economic expansion

Close Proximity to the Largest Global Resource Markets

Mongolia's Key Advantages

1. **LEADING LAND / CAPITA**
   - Territory: 1.6 million sq km
   - Population: 2.8 million
   - Relatively young population with a high literacy rate among emerging economies

2. **ABUNDANCE OF UNEXPLOITED NATURAL RESOURCES**
   - Located close to some of the largest global commodity markets

3. **FLOURISHING DEMOCRACY IN THE REGION**
   - Tested with 7 consecutive successful democratic elections

- One of the fastest growing economies globally
- Large mineral resource base that can be leveraged for industrialization
- Attractive environment for FDI and trade
- Proven fiscal track record augmented by forward looking initiatives
- Strengthening financial sector

Source: World Bank

Nominal GDP 2012 in USD billions
Population 2012 in millions

RUSSIA
US$2,014 143

MONGOLIA
US$10 3

S.KOREA
US$1,130 50

CHINA
US$8,227 1,351

JAPAN
US$5,960 128

Nominal GDP 2012 in USD billions
Population 2012 in millions

Real GDP Growth
Nominal GDP
GDP/Capita
Real GDP Growth

$10.3b (2012)
$3,365 (2012)
17.5% (2011)
12.4% (2012)
Mongolia continues to perform well compared to its emerging market peers, demonstrating robust growth momentum while maintaining moderate levels of inflation.

Note: Exchange rate (MNT/USD) uses corresponding year end rate, 1,267.51 (2008), 1,442.84 (2009), 1,257.18 (2010), 1,396.37 (2011), 1,392.10 (2012), 1,446.48 (1H2013), 1450 (Expectation of 2013)
DIVERSIFIED EARNINGS DRIVERS AND REVENUE BASE

2012 Nominal GDP by Sectors
- Mining and quarrying: 26%
- Agriculture: 14%
- Net taxes on products: 13%
- Retail trade: 10%
- Manufacturing: 6%
- Transportation: 6%
- Construction: 6%
- Electricity & utilities: 2%
- Communication: 2%
- Other: 18%

2012 YoY Nominal Growth Drivers
- Mining and quarrying: 36%
- Agriculture: 21%
- Net taxes on products: 7%
- Retail trade: 15%
- Manufacturing: 6%
- Transportation: 6%
- Construction: 6%
- Electricity & utilities: 3%
- Communication: 3%

1H2013 Nominal GDP by Sectors
- Mining and quarrying: 16%
- Agriculture: 14%
- Net taxes on products: 13%
- Retail trade: 10%
- Manufacturing: 6%
- Transportation: 6%
- Construction: 6%
- Electricity & utilities: 2%
- Communication: 2%
- Other: 26%

1H2013 YoY Nominal Growth Drivers
- Mining and quarrying: 30%
- Agriculture: 23%
- Net taxes on products: 12%
- Retail trade: 9%
- Manufacturing: 7%
- Transportation: 7%
- Construction: 6%
- Electricity & utilities: 1%
- Communication: 1%

Source: National Statistical Office of Mongolia, Bank of Mongolia;
Note: Exchange rate (MNT/USD) uses corresponding year end rate, 1,169.97 (2007), 1,267.51 (2008), 1,442.84 (2009), 1,257.18 (2010), 1,396.37 (2011), 1,393 (2012), 1,446.17 (2013h) (1) CAGR is calculated by using nominal GDP and total revenue in MNT during the period respectively
LARGE MINERAL RESOURCE BASE THAT CAN BE LEVERAGED FOR INDUSTRIALIZATION

A High-Growth Mineral Sector driving the Exports

(US$ mm)

2009-2012 (Total Exports): 23.5%

Minerals – Main Composition of Total Exports (1H2013)

- Coal
- Copper
- Iron ores
- Crude oil
- Zinc
- Gold
- Other

Mongolia’s World Class Mineral Reserves

<table>
<thead>
<tr>
<th>Main Mineral Resources</th>
<th>Approved Reserves (2012)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Copper (thousand tons)</td>
<td>83,807</td>
</tr>
<tr>
<td>Coal (mln tons)</td>
<td>18,473</td>
</tr>
<tr>
<td>Gold (tons)</td>
<td>2,402</td>
</tr>
<tr>
<td>Zinc (thousand tons)</td>
<td>1,740</td>
</tr>
<tr>
<td>Iron ore (mln tons)</td>
<td>1,047</td>
</tr>
<tr>
<td>Uranium (thousand tons)</td>
<td>47.9</td>
</tr>
<tr>
<td>Rare Earth (thousand tons)</td>
<td>3,768</td>
</tr>
<tr>
<td>Conventional crude oil (mln barrel)</td>
<td>2,438</td>
</tr>
</tbody>
</table>

Exports of key commodities continue to grow, demonstrating robust growth momentum in the coming years
Mongolia has vast and diverse underdeveloped mineral deposits, providing the economy with significant long-term upside potential.
**Oyu Tolgoi Overview**

- Exports of gold-copper-silver concentrate from Oyu Tolgoi have officially commenced on 9 July 2013 with planned volumes of 300,000 tons within this year;
- The deposit is ranked as the third largest in the world by its reserves, content of copper, gold and silver contained in concentrates;
- Additional investments are planned for the significantly higher value underground part of the deposit;
- The Government of Mongolia owns 34% of the project.

**Tavan Tolgoi Overview**

- Australasian Joint Ore Reserves Committee reserve estimate of 7.4 billion tons of coking and thermal coal resources;
- Expected to produce 30 millions tons per year at full capacity, counting for majority of the 50 million tons of targeted exports by 2017;
- Infrastructure: 1) Paved road constructed and operational; 2) Railway construction underway with 12% completion as of now, to be finished within 2015; 3) A 450MWt power plant project commenced at the site.
- One of 3 largest deposits of metallurgical coal in the world; premium quality, highly desired coking and thermal coal.

Source: Tavan Tolgoi website, Turquoise Hill website; (1) Erdenes TT is the company that holds GoM’s interests in Tavan Tolgoi.
Expanding our railway network and connecting Mongolia to its immediate neighborhood via 5 transit corridors will significantly contribute to the development of international transit traffic, trade and transportation in North-East Asia.

Railroad
Adding to Trans Mongolia Railway, a New railway, connecting commodities to the Chinese and Japanese market.

Auto road
Connecting the northern border point to the south, 990 km of highway project is under development.

Gas pipeline
Conceptual level. Connect through the Pacific to Japan

Oil pipeline
Conceptual level. Conceptual level. Connect through the Pacific to Japan

Electricity transmission line
Conceptual level. Conceptual level. Connect through the Pacific to Japan
Mongolia is strategically located with direct access to China and Russia, two of the largest markets in the world. Trade volumes are expected to grow alongside GDP as output increases. Transit trade expected to become an important driver of the economy on the wave of trade between Russia and China.

Active trade with immediate regions

- Mongolia has a strategic location between the 2nd and the 6th largest economies of the world;
- Mongolia has good political and economic relations with the two neighbors;
- The strategic location can be used to the advantage of North-East Asian countries.

Total Trade Volume

(US$ mm)

<table>
<thead>
<tr>
<th>Year</th>
<th>1H2013 Imports</th>
<th>1H2013 Exports</th>
</tr>
</thead>
<tbody>
<tr>
<td>2008</td>
<td>5,779</td>
<td>6,109</td>
</tr>
<tr>
<td>2009</td>
<td>4,023</td>
<td>11,307</td>
</tr>
<tr>
<td>2010</td>
<td>11,123</td>
<td>11,123</td>
</tr>
<tr>
<td>2011</td>
<td>11,033</td>
<td>11,033</td>
</tr>
</tbody>
</table>

Strategic geographic location to be leveraged for transit trade

- World Trade Organization Member since 1997
- Bilateral Trade Agreements: with 23 countries
- Bilateral Investment Agreements: with 44 countries

Legal environment for trade

Source: National Statistical Office of Mongolia
Government Overview

- Government type: Mixed parliamentary/presidential
- Head of State: President (elected for a term of four years)
- Executive branch: Prime Minister and Cabinet, appointed by the State Great Khural (the "Parliament") in consultation with the President
- Legislative branch: State Great Khural (unicameral, 76 seats; members are elected for a term of four years)
- Suffrage: 18 years of age; universal
- State structure: Unitary state; territory of Mongolia is divided administratively into 21 aimags (provinces) and the capital city

Balanced Parliamentary and Stable Coalition Government

Recent Developments

Political stability:
Parliamentary, Local and Presidential elections are over. There will be one ruling coalition until 2016.

Favorable legal environment:
- **Law on Securities Market**: Recently approved (Improved to be in line with international standards)
- **Parliament enacted following laws September, 2013**
  - **Law on Investment**: Long term stability of tax environment
  - **Law on Investment Fund**: To open opportunities for institutional investors
  - **Submitted to the Parliament**
  - **Law on Mining Activities in Forested and River Basin Areas**: Expansion of approved mining areas and activities

Mongolia is a vibrant and true democracy with stable institutions and a high degree of rule of law. The population is young and with a high literacy rate.

Current government is a coalition government consisting of the Democratic Party, Justice Coalition and the Civil Will-Green Party.
1. More Liberalized Market Condition
   - Eliminates approval system to foreign investors and replaces it with registration procedure.
   - Terminates the SEFIL which was requiring approvals for foreign private owned investors from the Government.
   - Promises the same guarantees and protection to both Domestic and Foreign Investors.

2. Business Friendly
   - Reduces starting a business procedure at least 30 days
   - Creates a state agency to serve investors in many ways
   - Reveals possible tax and non-tax state supports and incentives to investors

3. Increasing Efficiency of Investment
   - Facilitates to follow up real projects in economy
   - Projects need to be qualified with certain criteria/Environment, Know-How, Jobs e.g.,/
   - Increases responsibilities of both state and investors

4. Towards Economic Diversification
   - First Legal Act including regional and sectors classification in order to diversify the economy as a whole.
   - Helps Decentralization and Urbanization to rural areas
The Key Factors of the new Investment Law (2)

**Invest Mongolia**  
*(Investment and Business Promoting Agency)*

- **Investment Strategy**
  - Promotion
  - Market Info
  - Tailor making

- **Intermediation**
  - Advice to implement strategies in MGL
  - All consulting services

- **Start-up**
  - Establishment
  - Registration
  - Getting licenses

- **Securing Stability**
  - Marketing
  - Advising on tackling issues
  - Expanding business
### 2014 consolidated budget indicators

<table>
<thead>
<tr>
<th>Indicators</th>
<th>2012</th>
<th>2013 expected</th>
<th>2014 MTBF</th>
<th>2014 proj.</th>
<th>difference</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total revenue and grant</td>
<td>4,975.80</td>
<td>5,656.30</td>
<td>7,514.70</td>
<td>6,894.80</td>
<td>-619.90</td>
</tr>
<tr>
<td>Stabilization fund</td>
<td>94.7</td>
<td>54.2</td>
<td>244.7</td>
<td>29.7</td>
<td>-215.00</td>
</tr>
<tr>
<td>Structural revenue and grant</td>
<td>4,881.20</td>
<td>5,602.10</td>
<td>7,270.00</td>
<td>6,865.00</td>
<td>-405.00</td>
</tr>
<tr>
<td>Total expenditure and net borrowing</td>
<td>6,017.80</td>
<td>6,503.20</td>
<td>7,686.30</td>
<td>7,275.10</td>
<td>-411.20</td>
</tr>
<tr>
<td><strong>Structural balance</strong></td>
<td><strong>-1,136.60</strong></td>
<td><strong>-901.1</strong></td>
<td><strong>-416.3</strong></td>
<td><strong>-410.10</strong></td>
<td><strong>6.20</strong></td>
</tr>
<tr>
<td><strong>Structural balance to</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>GDP ratio</strong></td>
<td><strong>-8.10%</strong></td>
<td><strong>-5.30%</strong></td>
<td><strong>-2.00%</strong></td>
<td><strong>-2.00%</strong></td>
<td><strong>0.00%</strong></td>
</tr>
<tr>
<td>GDP</td>
<td>14,012.90</td>
<td>17,000.30</td>
<td>20,782.70</td>
<td>20,503.10</td>
<td>-279.60</td>
</tr>
</tbody>
</table>
## PROBLEMS WITH CURRENT BUDGET

<table>
<thead>
<tr>
<th>Name of project</th>
<th>Location</th>
<th>Capacity</th>
<th>Value of 2013 budget law</th>
<th>Changed value of budget /2014 /</th>
<th>Growth /times/</th>
</tr>
</thead>
<tbody>
<tr>
<td>Building of cultural center</td>
<td>Zavkhan, Ikh-uul</td>
<td>200 seats</td>
<td>700</td>
<td>3200,0</td>
<td>4.57</td>
</tr>
<tr>
<td>Building of cultural center</td>
<td>Zavkhan, Tsetsen-uul</td>
<td>200 seats</td>
<td>700</td>
<td>1112,9</td>
<td>1.59</td>
</tr>
<tr>
<td>Building of cultural center</td>
<td>Zavkhan, Bayantes</td>
<td>250 seats</td>
<td>600</td>
<td>1593,0</td>
<td>2.66</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Name of project</th>
<th>Location</th>
<th>Capacity</th>
<th>Value of 2013 budget law</th>
<th>Changed value of budget /2014 /</th>
<th>Growth /times/</th>
</tr>
</thead>
<tbody>
<tr>
<td>School building</td>
<td>Dundgovi, Gurvansaikhan</td>
<td>320 seats</td>
<td>1200,0</td>
<td>2605,5</td>
<td>2.17</td>
</tr>
<tr>
<td>School building</td>
<td>Dundgovi, Delgerkhangai</td>
<td>320 seats</td>
<td>1200,0</td>
<td>2029,7</td>
<td>1.69</td>
</tr>
<tr>
<td>School building</td>
<td>Khentii, Batshireet</td>
<td>320 seats</td>
<td>1200,0</td>
<td>1687,5</td>
<td>1.41</td>
</tr>
<tr>
<td>School building</td>
<td>Zavkhan, Otgon</td>
<td>320 seats</td>
<td>950,0</td>
<td>1233,3</td>
<td>1.29</td>
</tr>
</tbody>
</table>
INVESTMENT BY BUDGET 2014 (3)

- 53 kindergardens
- 64 schools
- 28 hostels
- 48 hospitals
- 677 km paved roads
- 1032 iron and beton bridges
- 9 cultural centers
- 8 cleaning buildings

in 2014
<table>
<thead>
<tr>
<th>Project</th>
<th>Approved disbursement, MNT billion ₪</th>
<th>Disbursement %</th>
<th>Comment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rural road projects</td>
<td>570.0</td>
<td>43%</td>
<td>Paving of 670 km out of 1800 has been completed at this point. Roughly 243 km of foundation work has been done, on the remaining 887 km of road, ground work is underway.</td>
</tr>
<tr>
<td>“Street” project</td>
<td>325.9</td>
<td>9%</td>
<td>By September 2013, construction of 12 out 33 crossroads have been completed. Construction of 4 crossroads are underway and is expected to be completed by October 15.</td>
</tr>
<tr>
<td>Infrastructure civil engineering projects</td>
<td>198.7</td>
<td>30%</td>
<td>7 out of 8 residential district civil engineering projects funded by the Government bond is underway and is expected to be completed in 2013.</td>
</tr>
<tr>
<td>Tavan tolgoi power plant</td>
<td>81.5</td>
<td>4%</td>
<td>Contract draft and bidding documents are being processed. Geology and engineering study, and environmental and social assessment are completed.</td>
</tr>
<tr>
<td>New railroad</td>
<td>325.9</td>
<td>42%</td>
<td>45 percent of ground work is finished. Expected to be commissioned in 2015.</td>
</tr>
<tr>
<td>Equipment renovation projects by Ministry of Industry and Agriculture</td>
<td>270.7</td>
<td>100%</td>
<td>142 project proposals out of 148 were considered and in the 1st stage, with total cost of MNT 30.0 billion was approved for 13 projects (1 in cashmere, 2 in wool, 1 in sewing, 1 in dairy industry and 1 in greenhouse ) by commercial banks.</td>
</tr>
<tr>
<td>Housing manufacturing plant</td>
<td>22.8</td>
<td>100%</td>
<td>After the transfer of 7 million USD down payment for the equipment, production is underway. Plant is being renovated and is expected to be operational 13 weeks after the transfer of advance payment.</td>
</tr>
<tr>
<td>State housing corporation project</td>
<td>162.9</td>
<td>12.3%</td>
<td>20.0 billion MNT will be disbursed to the project. It has been signed and sealed on September 30th of 2013.</td>
</tr>
<tr>
<td>Iron processing and steel manufacturing project</td>
<td>83.5</td>
<td>0%</td>
<td>Preparation is underway to finance 1 project for manufacturing reinforced steel, 3 export oriented projects for manufacturing and processing wet iron ore.</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>2,199.4</strong></td>
<td><strong>37.0%</strong></td>
<td></td>
</tr>
</tbody>
</table>
Strong Government to Government Relationship
- Development of strategic partnership between Mongolia and Japan
- Japanese support to Mongolia’s democracy and economic development

Elevate the level of cooperation
- Strengthen the political, security and regional cooperation
- From Official Development Assistance to Investment, Trade and Commerce
- Mutually complementary economic relations based on strengths and potentials of each economy
- Launched negotiations on the Economic Partnership Agreement

Main purpose of the current official visit: Deepening and strengthening of Strategic Partnership – establishing Midterm Action Plan for 2013-2017
- Initiate regular Strategic Consultative Meetings between two countries and Policy Consultative Meetings between Foreign Policy, Security and Defense Agencies
- Establish regular Three Party Consultative talks between Mongolia, Japan, and USA
- Launch regular Government and Private sector Joint Consultative Meetings
- Intensify mutually complementary economic cooperation between Japan and Mongolia
- Continue support for cultural and people to people exchange
**BILATERAL RELATIONSHIP (example of Mongolia and Japan)**

**Extract of Historic Relations of two countries**

<table>
<thead>
<tr>
<th>Year</th>
<th>Event</th>
</tr>
</thead>
<tbody>
<tr>
<td>1972</td>
<td>Diplomatic relations between Japan and Mongolia were established</td>
</tr>
<tr>
<td>1990</td>
<td>Japan became the biggest donor country of Mongolia</td>
</tr>
<tr>
<td>1997</td>
<td>“Comprehensive Partnership” between Japan and Mongolia</td>
</tr>
<tr>
<td>2010</td>
<td>“Strategic Partnership” following official visit to Japan by President Elbegdorj Tsakhia</td>
</tr>
<tr>
<td>2012</td>
<td>Two countries launched negotiations for the Mongolia-Japan Economic Partnership Agreement (EPA)</td>
</tr>
<tr>
<td>2013</td>
<td>Japanese Prime Minister Shinzo Abe initiated Erch Initiative</td>
</tr>
</tbody>
</table>

**Recent Key Development**

March 30, 2013, the Japanese Prime Minister Mr. Abe visited Mongolia and met Mongolian President Tsakhiagiin Elbegdorj and Prime Minister Norov Altankhuyag in Ulaanbaatar.

- **“Erch (means vitality in Mongolia) Initiative“** was agreed between the two leaders.
- Development of investment / business environment
  - Economic Partnership Agreement (EPA)
  - Public and Private Sector Joint Committee on Trade & Investment Promotion
  - Japan Business Fair in Mongolia
- Cooperation for Mongolia’s sustainable economic development
  - Environment, Fostering human resources, Improvement of infrastructure basis for development

**Official Development Assistance**

Total ODA volume 1990 – 2012 → 211.8 billion JPY (USD 2.1 billion)

**ODA priority areas to Mongolia:**

- Sustainable mineral resources development
- Assisting inclusive growth
- Enhancement of the capacity and function of Ulaanbaatar as urban center

**Export/Import Total Trade between Mongolia and Japan**

<table>
<thead>
<tr>
<th>Year</th>
<th>Export (USD 000s)</th>
<th>Import (USD 000s)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2007</td>
<td>10,000</td>
<td>20,000</td>
</tr>
<tr>
<td>2008</td>
<td>20,000</td>
<td>30,000</td>
</tr>
<tr>
<td>2009</td>
<td>30,000</td>
<td>40,000</td>
</tr>
<tr>
<td>2010</td>
<td>40,000</td>
<td>50,000</td>
</tr>
<tr>
<td>2011</td>
<td>50,000</td>
<td>60,000</td>
</tr>
<tr>
<td>2012</td>
<td>60,000</td>
<td>70,000</td>
</tr>
</tbody>
</table>

**Direct Investment From Japan to Mongolia**

<table>
<thead>
<tr>
<th>Year</th>
<th>Amount (USD 000s)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2007</td>
<td>1,000</td>
</tr>
<tr>
<td>2008</td>
<td>2,000</td>
</tr>
<tr>
<td>2009</td>
<td>3,000</td>
</tr>
<tr>
<td>2010</td>
<td>4,000</td>
</tr>
<tr>
<td>2011</td>
<td>5,000</td>
</tr>
<tr>
<td>2012</td>
<td>6,000</td>
</tr>
</tbody>
</table>

**Japan’s ODA to Mongolia**

<table>
<thead>
<tr>
<th>Year</th>
<th>Amount (JPY 100 mln)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2007</td>
<td>349.01</td>
</tr>
<tr>
<td>2008</td>
<td>43.07</td>
</tr>
<tr>
<td>2009</td>
<td>73.16</td>
</tr>
<tr>
<td>2010</td>
<td>110.77</td>
</tr>
<tr>
<td>2011</td>
<td>64.09</td>
</tr>
<tr>
<td>2012</td>
<td>29.24</td>
</tr>
</tbody>
</table>

*Source: National Statistical Office*