



GOVERNMENT OF MONGOLIA

MONGOLIA'S OVERVIEW



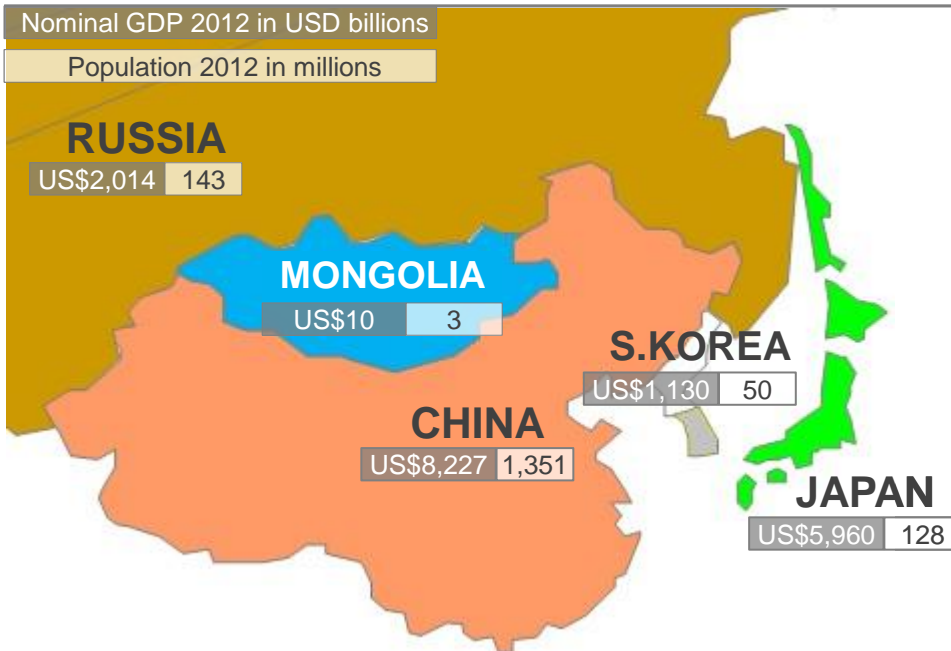
OCTOBER 2013



MONGOLIA OVERVIEW

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

Close Proximity to the Largest Global Resource Markets



- 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

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**

Nominal GDP

GDP/Capita

Real GDP Growth

\$10.3b
(2012)

\$3,365
(2012)

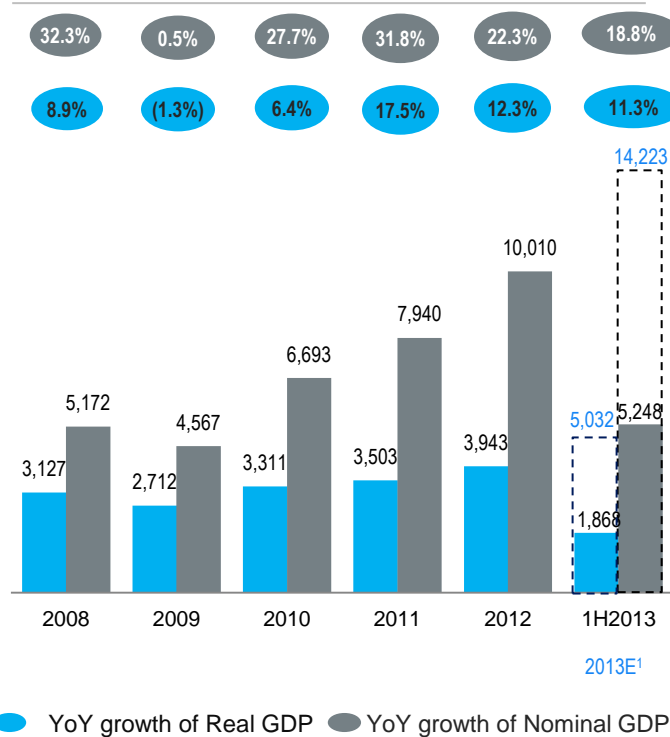
17.5%
(2011)

12.4%
(2012)



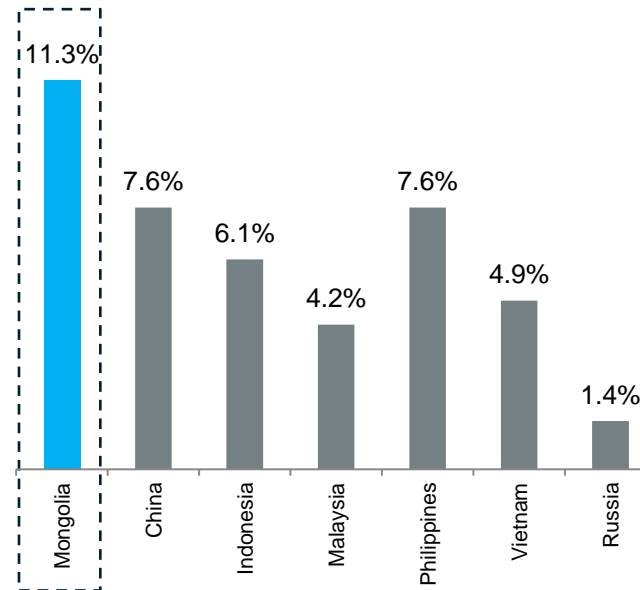
ONE OF THE FASTEST GROWING ECONOMIES GLOBALLY

Real and Nominal GDP (US\$ mm)



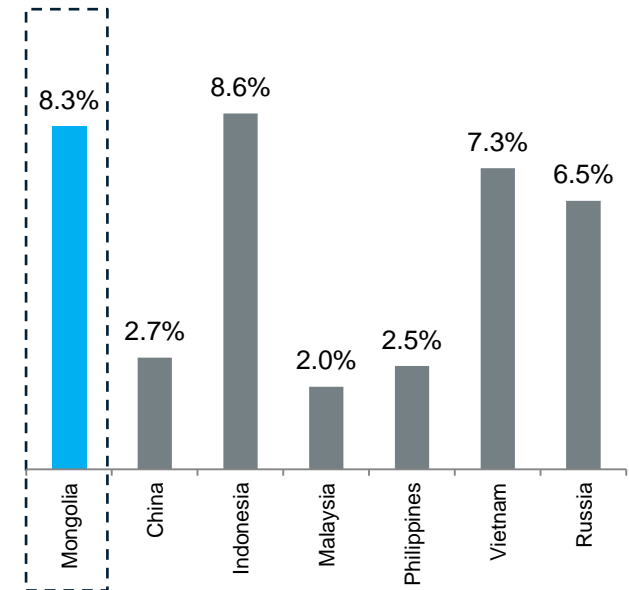
GDP Growth Comparison – Emerging Sovereigns

YoY Real GDP Growth at 1H2013



Inflation Comparison – Emerging Sovereigns

YoY Inflation in September 2013



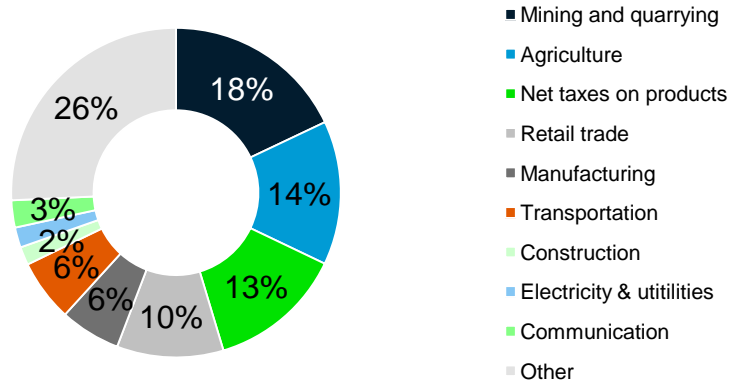
Mongolia continues to perform well compared to its emerging market peers, demonstrating robust growth momentum while maintaining moderate levels of inflation

Source: National Statistical Office of Mongolia, National Bureau of Statistics of China, Badan Pusat Statistik of Indonesia, Department of Statistics of Malaysia, National Statistics Office of Philippines, General Statistics Office of Vietnam, Federal State Statistics Service of Russia, Moody's Country Reports, (1) The Ministry of Economic Development, Mongolia
 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)

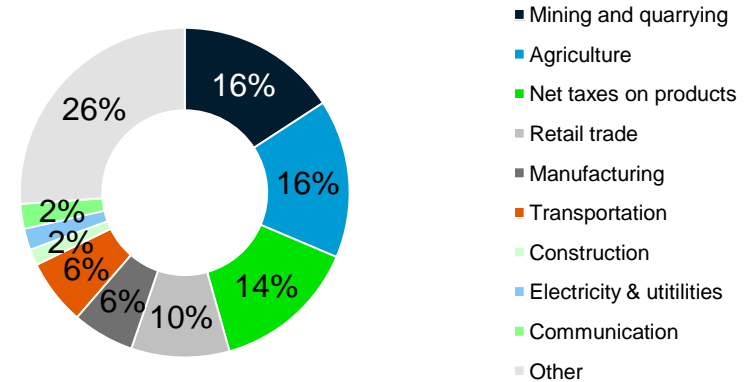


DIVERSIFIED EARNINGS DRIVERS AND REVENUE BASE

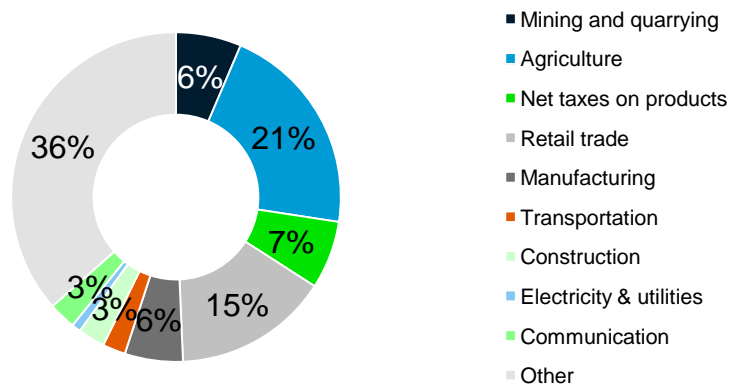
2012 Nominal GDP by Sectors



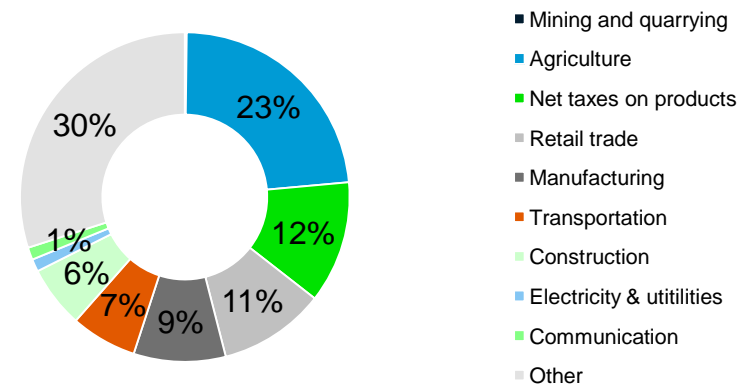
1H2013 Nominal GDP by Sectors



2012 YoY Nominal Growth Drivers



1H2013 YoY Nominal Growth Drivers



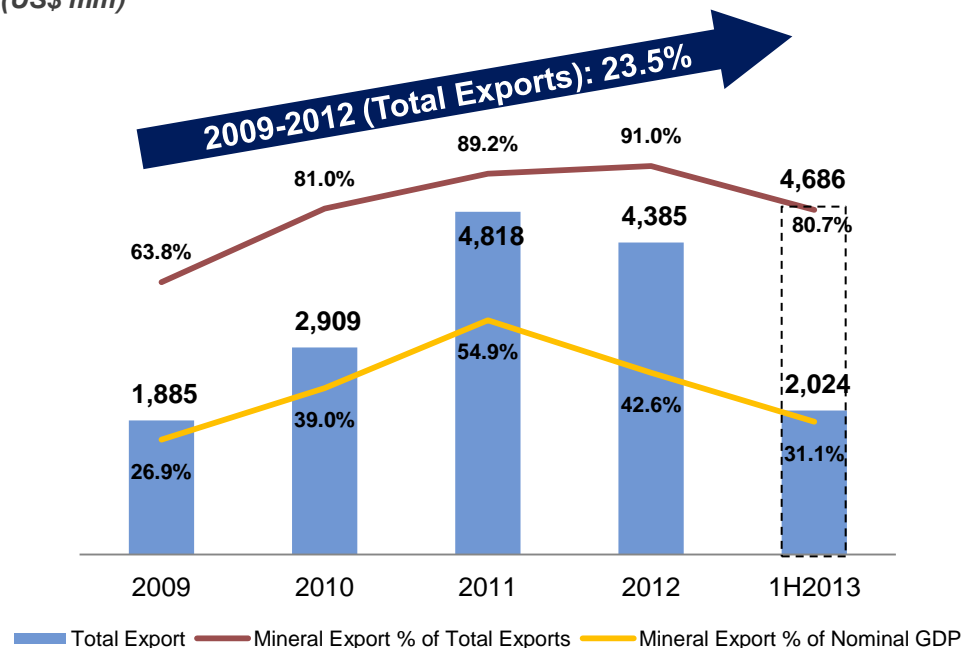
Source: National Statistical Office of Mongolia, Bank of Mongolia;
 Note: Exchange rate (MNT/USD) uses corresponding year end rate, 1,169.97 (2007), 1,267.51 (2008), 1,442.84 (2009), 1,257.18 (2010), 1,396.37 (2011), 1,393 (2012), 1446.17 (2013h) (1) CAGR is calculated by using nominal GDP and total revenue in MNT during the period respectively



LARGE MINERAL RESOURCE BASE THAT CAN BE LEVERAGED FOR INDUSTRIALIZATION

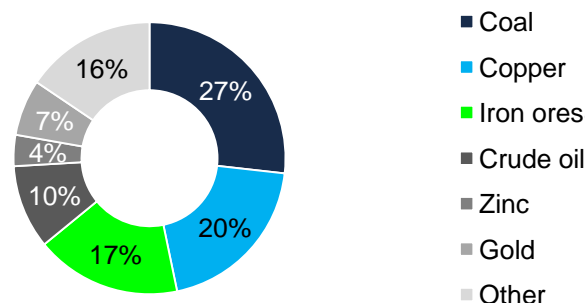
A High-Growth Mineral Sector driving the Exports

(US\$ mm)



- Total coal exports are estimated to exceed 30 million tons at the end of 2015 once railway infrastructure is in place and is expected to further increase to 50 million tons by 2017
- Operations at the Oyu Tolgoi deposit have commenced in 2013 and exports of its products began in July of 2013. These exports are expected to play a crucial role in total exports of Mongolia.

Minerals – Main Composition of Total Exports (1H2013)



Mongolia's World Class Mineral Reserves

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

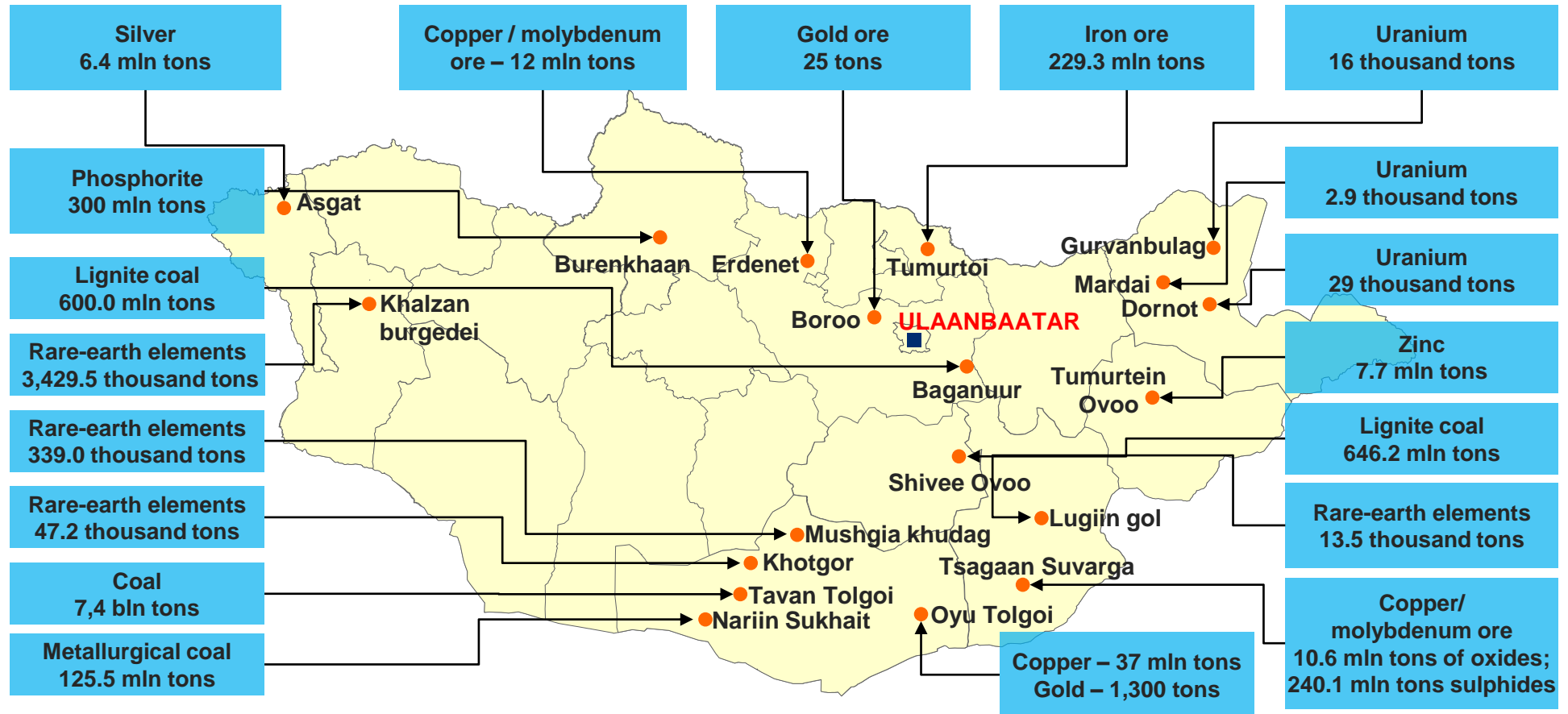
Exports of key commodities continue to grow, demonstrating robust growth momentum in the coming years

Source: National Statistical Office of Mongolia, Erdenes MGL

(1) Using annualized total exports, which equals the total exports as at June 30, 2012 multiplied by two



LARGE MINERAL RESOURCE BASE THAT CAN BE LEVERAGED FOR INDUSTRIALIZATION (CONT'D)



Mongolia has vast and diverse under developed mineral deposits, providing the economy with significant long-term upside potential

This slide outlines the 15 strategic deposits that have been identified by the Mongolian government. The deposits cover a broad basket of minerals, ranging from coal, copper, gold, iron ore, molybdenum, phosphorite, rare earth oxides, silver, uranium, and zinc



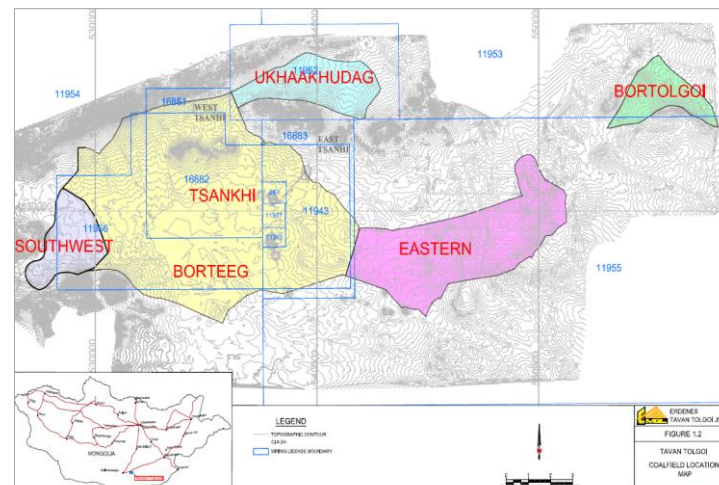
LARGE MINERAL RESOURCE BASE THAT CAN BE LEVERAGED FOR INDUSTRIALIZATION (CONT'D)

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

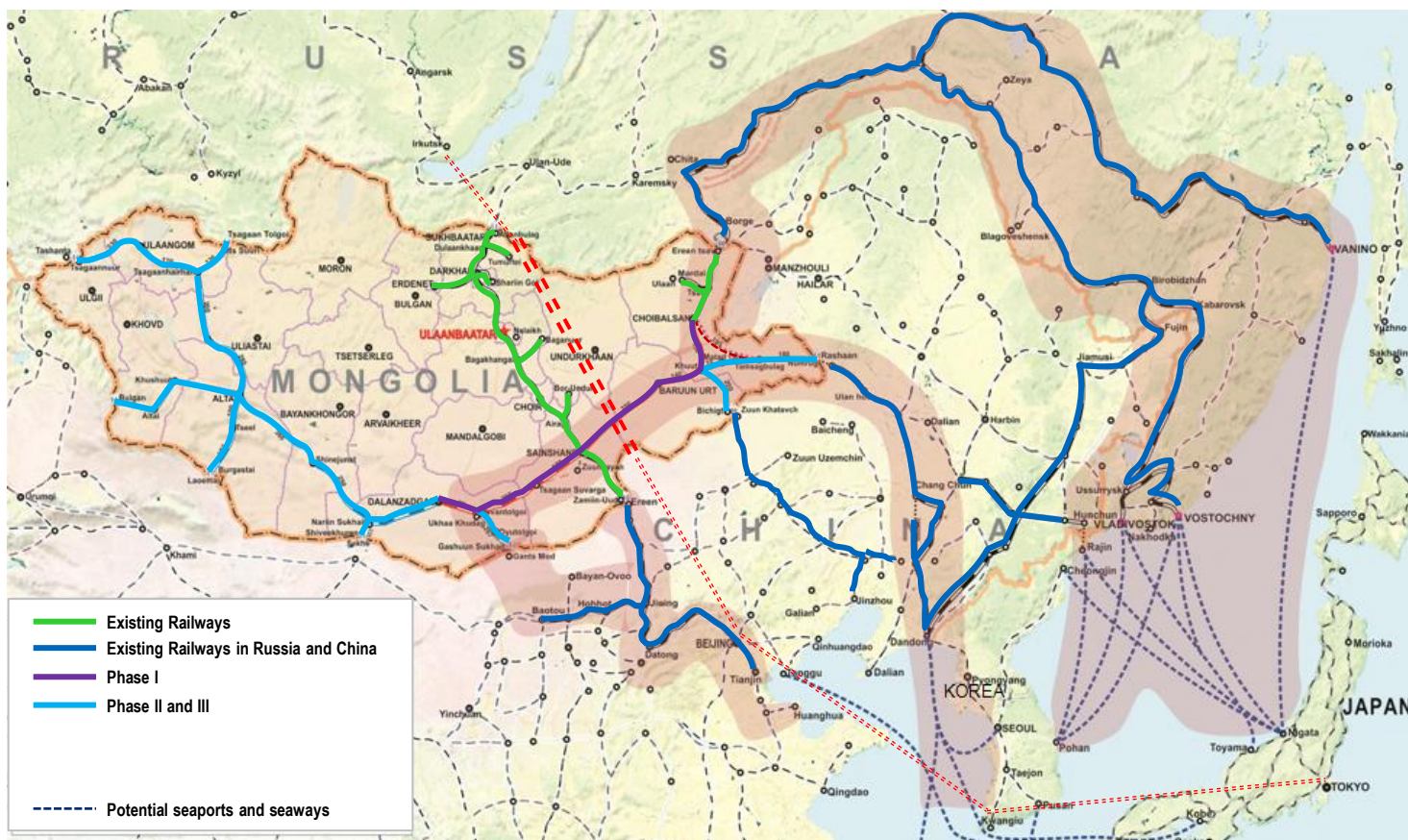


- Australasian Joint Ore Reserves Committee reserve estimate of 7.4 billion tons of coking and thermal coal resources;
- Expected to produce 30 millions tons per year at full capacity, counting for majority of the 50 million tons of targeted exports by 2017;
- Infrastructure: 1) Paved road constructed 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.



LARGE MINERAL RESOURCE BASE THAT CAN BE LEVERAGED FOR INDUSTRIALIZATION (CONT'D)

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

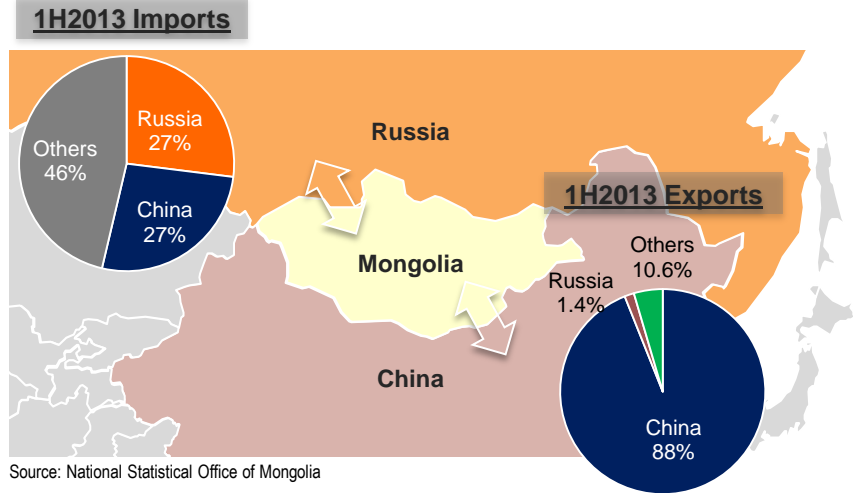
Electricity transmission line

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



ATTRACTIVE ENVIRONMENT FOR FDI AND TRADE

Active trade with immediate regions



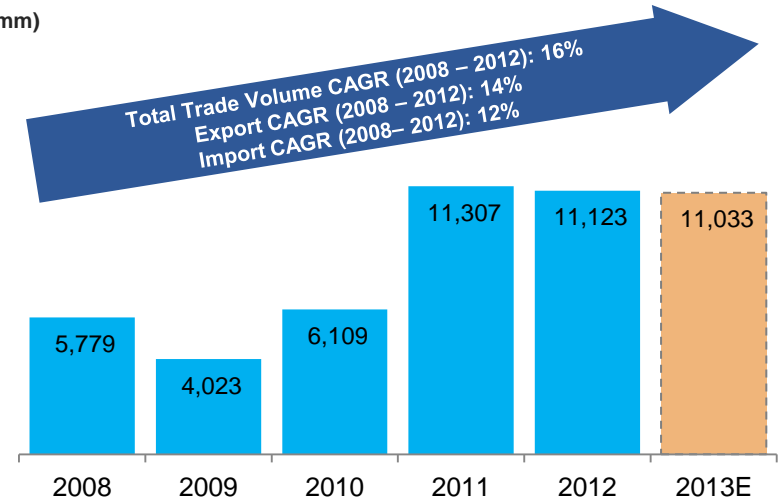
Strategic geographic location to be leveraged for transit trade

- ▶ 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.

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

Total Trade Volume

(US\$ mm)



Legal environment for trade

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



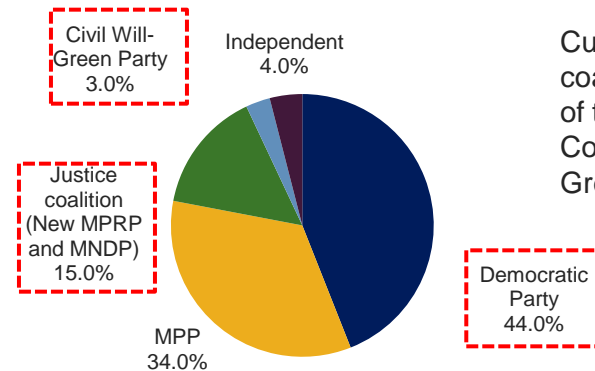
ATTRACTIVE ENVIRONMENT FOR FDI AND TRADE (CONT'D)

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

Parliamentary Election 2012 (76 seats)



Current government is a coalition government consisting of the Democratic Party, Justice Coalition and the Civil Will-Green Party

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

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



The Key Factors of the new Investment Law

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

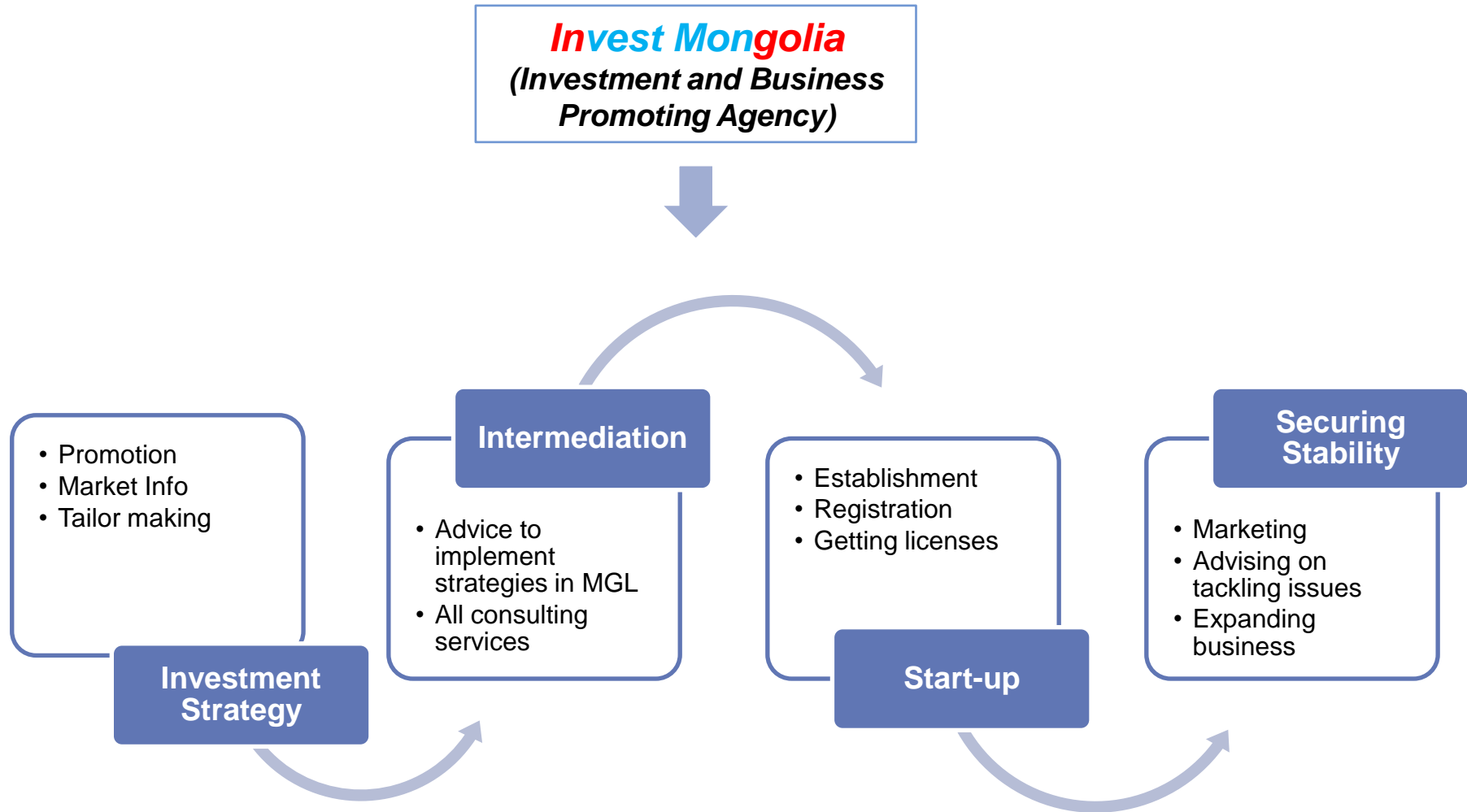
- Facilitates to follow up real projects in economy
- Projects need to be qualified with certain criteria/Environment, Know-How, Jobs e.g.,/
- Increases responsibilities of both state and investors

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)





BUDGET 2014

2014 consolidated budget indicators

Billion tugrug

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



GOVERNMENT OF MONGOLIA





PROBLEMS WITH CURRENT BUDGET

1

Name of project	Location	Capacity	Value of 2013 budget law	Changed value of budget /2014 /	Growth /times/
Building of cultural center	Zavkhan, Ikh-uul	200 seats	700	3200,0	4,57
Building of cultural center	Zavkhan, Tsetsen-uul	200 seats	700	1112,9	1,59
Building of cultural center	Zavkhan, Bayantes	250 seats	600	1593,0	2,66

2

Name of project	Location	Capacity	Value of 2013 budget law	Changed value of budget /2014 /	Growth /times/
School building	Dundgovi, Gurvansaikhan	320 seats	1200,0	2605,5	2.17
School building	Dundgovi, Delgerkhangai	320 seats	1200,0	2029,7	1.69
School building	Khentii, Batshireet	320 seats	1200,0	1687,5	1.41
School building	Zavkhan, Otgon	320 seats	950,0	1233,3	1.29



INVESTMENT BY BUDGET 2014 (3)



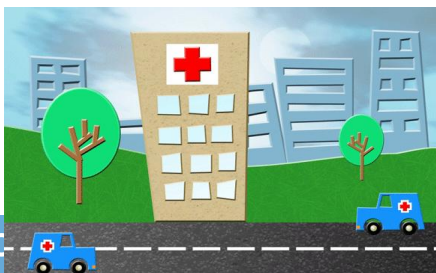
53
kindergardens



64 schools



28 hostels



48 hospitals

in
2014

9 cultural
centers



677 km paved
roads



8 cleaning
buildings



1032 iron and
beton bridges





CHINGGIS BOND

Project	Approved disbursement, MNT billion ₮	Disbursement %	Comment
Rural road projects	570.0	43%	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.
“Street” project	325.9	9%	By September 2013, construction of 12 out of 33 crossroads have been completed. Construction of 4 crossroads are underway and is expected to be completed by October 15.
Infrastructure civil engineering projects	198.7	30%	7 out of 8 residential district civil engineering projects funded by the Government bond is underway and is expected to be completed in 2013.
Tavan tolgoi power plant	81.5	4%	Contract draft and bidding documents are being processed. Geology and engineering study, and environmental and social assessment are completed.
New railroad	325.9	42%	45 percent of ground work is finished. Expected to be commissioned in 2015.
Equipment renovation projects by Ministry of Industry and Agriculture	270.7	100%	142 project proposals out of 148 were considered and in the 1 st 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.
Housing manufacturing plant	22.8	100%	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.
State housing corporation project	162.9	12,3%	20.0 billion MNT will be disbursed to the project. It has been signed and sealed on September 30 th of 2013.
Iron processing and steel manufacturing project	83.5	0%	Preparation is underway to finance 1 project for manufacturing reinforced steel, 3 export oriented projects for manufacturing and processing wet iron ore.
Total	2,199.4	37,0%	



BILATERAL RELATIONSHIP (example of Mongolia and Japan)

❖ Strong Government to Government Relationship

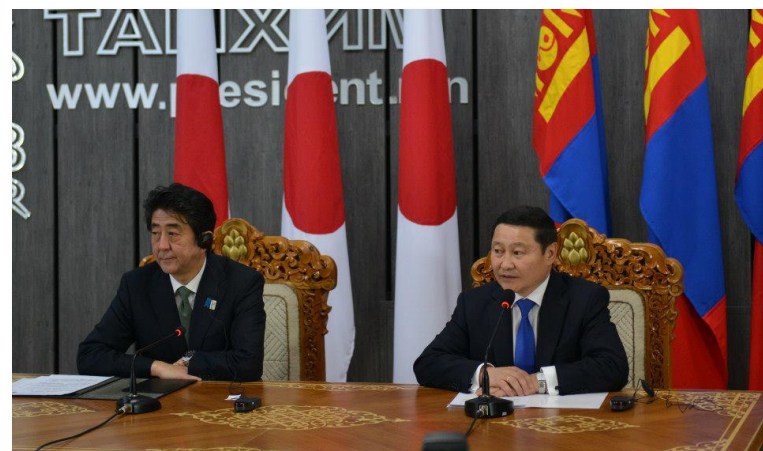
- Development of strategic partnership between Mongolia and Japan
- Japanese support to Mongolia's democracy and economic development

❖ 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



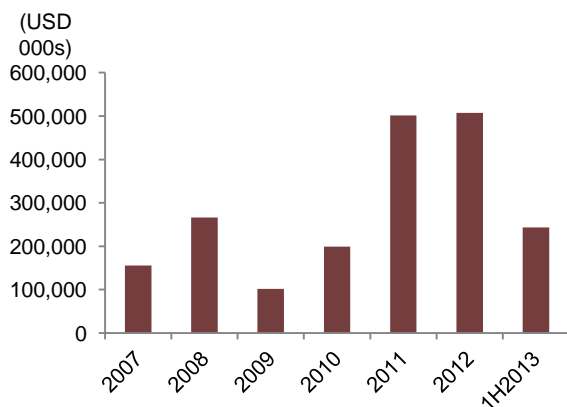


BILATERAL RELATIONSHIP (example of Mongolia and Japan)

Extract of Historic Relations of two countries

1972	Diplomatic relations between Japan and Mongolia were established
1990	Japan became the biggest donor country of Mongolia
1997	"Comprehensive Partnership" between Japan and Mongolia
2010	" Strategic Partnership " following official visit to Japan by President Elbegdorj Tsakhia
2012	Two countries launched negotiations for the Mongolia-Japan Economic Partnership Agreement (EPA)
2013	Japanese Prime Minister Shinzo Abe initiated Erch Initiative

Export/Import Total Trade between Mongolia and Japan



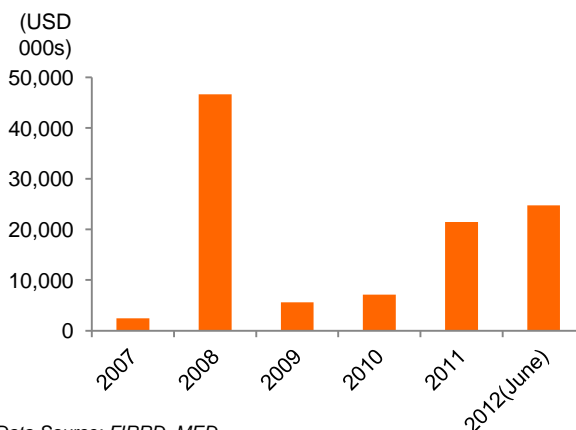
Source: National Statistical Office

Recent Key Development

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

- **"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

Direct Investment From Japan to Mongolia



Data Source: FIRRD, MED

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

Japan's ODA to Mongolia

