INVEST MONGOLIA

OPEN FOR BUSINESS

Mr. Irmuun Demberel
InvestMongolia Agency
Open for Business

- Open and stable democracy
- Open investment environment
- Open access to giant economies
- Open access to natural resources
- Open for investment in megaprojects
- Open for Diversification
PART I.
MONGOLIA’S ECONOMY OVERVIEW
MONGOLIA OVERVIEW

Situated between two massive economies, China to the south and Russia to the north, Mongolia promises abundant opportunity for growth.

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: 2.9 million (2013)

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
   
   “Economy could grow at double-digit rates for at least the next decade, raising per capita income fourfold within a decade”
   - Parmeshwar Ramlogan, Former resident representative for Mongolia IMF, Jul 2011

One of the Fastest Growing Economies Globally

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

Real and Nominal GDP

(US$ mm)

GDP Growth Comparison – Emerging Sovereigns

YoY Real GDP Growth at 2013

Inflation Comparison – Emerging Sovereigns

YoY Inflation in July 2013


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)
Mongolia has been growing at double-digit rates in the last few years, making it one of the fastest growing economies in the world. Mongolia’s real GDP growth remain double digit for 2013.

Poverty rate decreased at a fast and steady pace since 2010.

CPI stays at a manageable level near target inflation rate with high GDP growth.

Diversified earnings driver and revenue base.

LARGE MINERAL RESOURCE BASE THAT CAN BE LEVERAGED FOR INDUSTRIALIZATION

Mongolia has been growing at double-digit rates in the last few years, making it one of the fastest growing economies in the world.

A High-Growth Mineral Sector driving the Exports

(US$ mm)

2009-2012 (Total Exports): 23.5%

- 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.
- The current 1H2014 export increased by 31.3%, 5,610 million USD.
- 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.

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
Mongolia has substantial natural resources and minerals, which promise an unprecedented growth potential.

### Strategic Deposits

*(including Oyu Tolgoi and Tavan Tolgoi, world’s largest untapped deposits of its kind)*

<table>
<thead>
<tr>
<th>Location</th>
<th>Commodity</th>
<th>Notes</th>
</tr>
</thead>
<tbody>
<tr>
<td>Asgat</td>
<td>Silver</td>
<td>6.4 mm tons</td>
</tr>
<tr>
<td>Burenkhaan</td>
<td>Phosphorite</td>
<td>300 mm tons</td>
</tr>
<tr>
<td>Erdenet</td>
<td>Copper/molybdenum</td>
<td>1.2 bln tons</td>
</tr>
<tr>
<td>Boroo</td>
<td>Gold</td>
<td>0.025 mm tons</td>
</tr>
<tr>
<td>Tumurtoi</td>
<td>Iron ore</td>
<td>229.3 mm tons</td>
</tr>
<tr>
<td>Gurvanbulag</td>
<td>Uranium</td>
<td>0.016 mm tons</td>
</tr>
<tr>
<td>Mardai</td>
<td>Uranium</td>
<td>0.001 mm tons</td>
</tr>
<tr>
<td>Baganuur</td>
<td>Coal</td>
<td>600.0 mm tons</td>
</tr>
<tr>
<td>Shivee Ovoo</td>
<td>Coal</td>
<td>646.2 mm tons</td>
</tr>
<tr>
<td>Tavan Tolgoi</td>
<td>Coal</td>
<td>7.4 bln tons</td>
</tr>
<tr>
<td>Nariin Sukhait</td>
<td>Coal</td>
<td>125.5 mm tons</td>
</tr>
<tr>
<td>Dornot</td>
<td>Uranium</td>
<td>0.029 mm tons</td>
</tr>
<tr>
<td>Tumurtei Ovoo</td>
<td>Zinc</td>
<td>7.7 mm tons</td>
</tr>
<tr>
<td>Tsagaan Suvarga</td>
<td>Copper/Molybdenum</td>
<td>10.6 mm tons</td>
</tr>
<tr>
<td>Oyu Tolgoi</td>
<td>Copper</td>
<td>37 mm tons</td>
</tr>
<tr>
<td></td>
<td>Gold</td>
<td>1,431 tons</td>
</tr>
</tbody>
</table>

**Mongolia’s world class mineral reserves**

*Estimated reserves 2012*

- **Gold**: 2.4 tons
- **Copper**: 83 mm tons
- **Coal**: 23 bln tons
- **Iron Ore**: 1088 mm tons
- **Lead**: 1.7 mm tons

Source: Ministry of Mining of Mongolia, 2012
Mongolia’s agricultural sector is a major source of revenue base, contributing to the diversified economic drivers.

73% of the total territory of 1.5 mm sq. km is being utilized for agriculture
50 mm heads of live-stock
15.1% of total GDP, ranking after Industrial/Mining sector

Renewable energy sources such as wind and solar power plants have been attractive to many investors.

<table>
<thead>
<tr>
<th>Energy Source</th>
<th>Details</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Wind Power</strong></td>
<td>Mongolia has potential to become one of the major wind power producers. Wind power classification of Good-to-Excellent wind power resources are equivalent to <strong>1,113,300 MW</strong> of wind electric potential.</td>
</tr>
<tr>
<td><strong>Solar Energy</strong></td>
<td>About 270-300 sunny days per year with an average sunlight duration of 2,250-3,300 hours are available in most regions of Mongolia. Annual average amount of solar energy is <strong>1,400 kWh/m²</strong> with solar intensity of 4.3-4.7 kWh/m² per day.</td>
</tr>
<tr>
<td><strong>Hydro Power</strong></td>
<td>There are 3800 small and big streams and rivers in our country, which could support up to 6417.7 MW of power and deliver <strong>56.2 billion kWh</strong> of electric energy annually.</td>
</tr>
</tbody>
</table>

Source: Ministry of Energy, 2013
Mongolia is located next door to the largest commodity consumers and is developing infrastructure to directly reach seaports in Russia and China.

- The Parliament of Mongolia outlined 5,600 km of new railway infrastructure to be built in 3 Phases.
- Phase 1 and 2 already in engineering, financing, and construction stage.
- The railway network will create the most efficient transportation and will connect Mongolia’s vast natural resources with the largest global markets including China, India, Japan, and S.Korea.
- The network will also encourage value added processing and industrial development.

In addition to the above mentioned railway project, the Government of Mongolia is also undertaking construction of 990 km highway to promote cross-border trade.

Source: Ministry of Road and Transportation of Mongolia, 2013
Government of Mongolia

MEGA PROJECTS UNDERWAY

Industrial mega projects to utilize abundant coal resources in order to create value add and domestic sources of strategic products.

1. Coal–to–Gas Plant
   - To increase energy efficiency and cut reliance on oil and gas imports
   - To provide cleaner fuel sources vital for solving pollution in urban centers.

2. Coal–to–Liquid Plant
   - The Project aims to create domestic source of petroleum products thus enhancing energy independence and security of supplies through the introduction of commercially proven, cutting edge technology in Mongolia.

3. Coal Washing and Handling Plant
   - CHPP complex to be constructed as 2 x 10Mtpa modules, and commencement of construction in 2014.
   - CHPP ramping up to processing 20Mt of ROM by 2017.

Source: Ministry of Energy of Mongolia, Ministry of Industry and Agriculture of Mongolia, Erdenes Tavantolgoi LLC, 2013
PART II.

REFORM
The New Investment Law ended the application of different rules and tax codes for domestic and foreign investors.

**Recently approved laws**
- Investment Law (October 2013)
- Investment Fund Law (October 2013)
- Law on Securities (May 2013)

**Annulled laws**
- Foreign Investment Law (1993)
- Foreign Investment Regulations in Entities Operating in Strategic Sectors (SEFIL) (2013)

Source: Government of Mongolia, 2013
Key features

- Applies to both foreign and domestic direct investments.
- Companies with foreign investment need only register with the Legal Entities Registration Office ("LERO").
- No approval requirements are imposed on foreign private investment.
- Registration simplified: 3 steps instead of 6
- Provides the definition of a foreign state-owned legal entity ("FSOE") as "a legal entity in which a foreign state directly or indirectly holds more than 50 per cent of the entity's issued shares".
- Removes the classification of strategic economic sectors for foreign private investment, but maintains the approval requirements for certain equity investments made by FSOEs in those sectors that were regarded as strategically important under the SFI Law.
- Appoints the Ministry of Economic Development ("MED") as the approval authority for certain investments by FSOEs.

Investment Incentives

NON-TAX INCENTIVES
in relation to land rights, customs clearance, foreign labour quotes, immigration matters

TAX INCENTIVES
exemption from the payment of certain taxes WHICH ONES?, preferential tax treatment, accelerated depreciation and amortisation that is deductible from taxable income, carrying forward of losses

TAX STABILIZATION
(i) Stabilisation Certificates
(ii) Investment Agreements
(iii) Other things
(iv) Visa facilitation
(v) Training and skill incentives
FDI in the first two months of 2014, compared to previous years, (2013 Jan-Feb) decreased by 31.7%, however in comparison to last two months of 2013, **FDI increased by 3.1%**.

- This seen as investors confidence is gradually boosting.
## FDI - Regaining

### FDI first half / 2014 (US$ in million)

<table>
<thead>
<tr>
<th></th>
<th>2014 first three months</th>
</tr>
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<tbody>
<tr>
<td></td>
<td></td>
</tr>
<tr>
<td>1</td>
<td>FDI in US$</td>
</tr>
<tr>
<td></td>
<td>Jan – US$183,4</td>
</tr>
<tr>
<td></td>
<td>Feb – US$204,5</td>
</tr>
<tr>
<td></td>
<td>Mar – US$250</td>
</tr>
<tr>
<td></td>
<td>Total: US$637,9</td>
</tr>
<tr>
<td>2</td>
<td>New FDI companies</td>
</tr>
<tr>
<td></td>
<td>82</td>
</tr>
<tr>
<td>3</td>
<td>Estimated number of projects receive Tax Stabilization</td>
</tr>
<tr>
<td></td>
<td>Certificate</td>
</tr>
<tr>
<td></td>
<td>2 companies pre-approved by the investment assessment</td>
</tr>
<tr>
<td></td>
<td>council to bear TSC in first half of 2014 (as such service</td>
</tr>
<tr>
<td></td>
<td>recently launched), and expects more application</td>
</tr>
</tbody>
</table>
Summary of Feedbacks on Investment Law effectiveness from the Investors

- **Pros:**
  1. Major feedback from Investors on the law is very positive in terms of its qualification towards international standard;
  2. IMA’s performance begun to hike to its target group through its various consultancy and wide spreading to the interested potential investors;
  3. Quality of investment (the core idea) has positive prospects through the registered investors number in the 1h Quarter of 2014.

- **Cons:**
  1. Less SME/SMI because of 100.000$ threshold
  2. Inconsistency of Laws and Regulations to the Law of Mongolia on Investment
  3. **Specificity** matters the most-Previous law was more detail oriented and clear in comparison to the current law on investment.
  4. Law enforcement procedures causes negative impact on Investment attraction
Therefore, InvestMongolia Agency

• The primary role of InvestMongolia Agency is to increase the amount of new deals in Mongolia by FDI

• To measure the effectiveness of the Agency, it needs to track the value of closed deals where it has been involved.
But-Attracting FDI and maintaining is not only responsibility of IMA

*IMA is responsible for two of the four ways in which to improve FDI*

1. Create an Investment Strategy e.g attraction, targeting, brand building
2. Provide companies with assistance e.g introductions, intermediation, advisory and facilitation (one-stop shop)

*The rest of the two is TEAM WORK that should involve every stakeholders (government bodies)*

1. Improve the legal environment and effectiveness of law
2. Incentivize companies to do business in Mongolia through less intervention but more support
Strategy to reach outcomes

- **We are making an effort ensure that prospects and leads become closed deals:**
  In order to reach the outcome of seal the deal we are:
  - Targeting companies who are not actively looking at Mongolia opportunities through various promotional pitches.
  - Targeting companies who actively investing time or resources into opportunities in Mongolia by various services.
  - Targeting companies executing a project in Mongolia by ensuring smooth seal-the-deal.

**Result:**
  - International Investment Forums (200 inner mgl, india, austria, spain, japan, usa in upcoming 3 months)
  - 81 companies registered since adoption of new law.
  - FDI increased 3.1% which is far from our target of 15%.
  - Reached and advised in total of 250 companies and individuals on investment law and environment since January.
Fundamental 1. New Investment Law

Pillar 1. Incentive to investors
   Issuance of Stabilization certificate
   Non taxing-taxing incentives

Pillar 2. Equal treatment for both foreign and domestic investors

Pillar 3. Investment Advocacy and Ombudsman services

Fundamental 2.

I. State Policy concept paper towards Mineral Sector adopted and passed by the Parliament.

II. This policy paper ensure the long term stability by:
   - Limited Government Intervention
   - Transparent and responsible mining
   - Good corporate governance, CSR and sustainable mining are encouraged.

Fundamental 3. SMART Governance (President) initiative

- Decisive Regulatory reform aimed to reduce and abolish inefficient, business unfriendly, excessive government regulations and red tapes (via implication of “guillotine” approach)
- Limited and less involvement of Government and more focused on business enabling environment
- More economic freedom

- Sustainability
- Multi-Participatory
- Accessible
- Reform Minded
- Transparent
Investment Guide Book-2014

CONTENTS:

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4. Doing Business
5. Labor Employment
6. Foreign Investment
7. Trade
8. Addresses
PART IV.

MONGOLIA IN SNAPSHOT

(international indexes)
INCREASING EASE OF DOING BUSINESS IN MONGOLIA

According to the 2014 Doing Business report by the World Bank, Mongolia is ranked 76th progressing by four places compared to the previous year.

**DB 2014 Rank**

- Protecting Investors: 22
- Starting a Business: 25
- Registering Property: 27
- Enforcing Contracts: 30
- Getting Credit: 55
- Paying Taxes: 74
Mongolia is ranked at 54 out of 100 Best countries for Business (Forbes)

Forbes 2014

- **Tax Burden**: 59
- **Personal Freedom**: 34
- **Corruption**: 75
- **Investor protection**: 21
- **Red tape**: 21
- **Technology**: 64
- **Innovation**: 106
- **Monetary Freedom**: 70
- **Trade Freedom**: 66
What people are saying about opportunities in Mongolia

Tuyen Nguyen
IFC’s Resident Representative in Mongolia
For the second year in a row, Mongolia has implemented three positive business reform, which demonstrates the country’s commitment toward improving its business environment, particularly for smaller businesses.

Mark Mobius
Executive Chairman, Templeton Asset Management
China's hunger for natural resources gives Mongolia's market "incredible" potential.

Marius Toime
Partner, Berwin Leighton Paisner /international law firm/
Mongolia is democratic and relatively open compared to its neighbors and foreign investors may be able to take advantage of the various bilateral investment treaties. Furthermore, tax position is favorable in certain sectors and Mongolia has signed a number of double tax treaties with other countries.

Harris Kupperman
CEO, Mongolia Growth Group
I was just amazed at how much potential I saw. As an investor, you go to where the growth is. The economy of Mongolia is set to grow 12 percent this year. There is nothing else in the world that is as close to as exciting as what’s happening in Mongolia right now.
MONGOLIA-is the solid reason to invest

THANK YOU