

## INFORMATION MEMORANDUM



# U.S.\$5,000,000,000 GLOBAL MEDIUM TERM NOTE PROGRAM THE GOVERNMENT OF MONGOLIA

Under this U.S.\$5,000,000,000 Global Medium Term Note Program (the “Program”), the Government of Mongolia (the “Issuer”) may from time to time issue notes (the “Notes”) denominated in any currency agreed between the Issuer and the relevant Dealer (as defined in “Subscription and Sale”).

Notes may be issued in bearer or registered form (respectively, “Bearer Notes” and “Registered Notes”). The aggregate nominal amount of all Notes to be issued under the Program will not exceed U.S.\$5,000,000,000 or its equivalent in other currencies at the time of agreement to issue.

The Notes and any relative Receipts and Coupons (as defined herein), will constitute direct, unconditional, unsubordinated and (subject to the Terms and Conditions of the Notes (the “Conditions”)) unsecured obligations of the Issuer and rank *pari passu* without any preference among themselves and (save for certain obligations required to be preferred by law) equally with all other unsecured and unsubordinated debt obligations of the Issuer.

The Notes may be issued on a continuing basis to one or more of the Dealers. References in this Information Memorandum to the relevant Dealer shall, in the case of an issue of Notes being (or intended to be) subscribed for by more than one Dealer, be to all Dealers agreeing to subscribe for such Notes.

Approval in-principle has been granted for the listing and quotation of Notes that may be issued pursuant to the Program and which are agreed at or prior to the time of issue thereof to be so listed and quoted on the Singapore Exchange Securities Trading Limited (the “SGX-ST”). Permission to list the Notes will be granted when the Notes have been admitted to the Official List of 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. Admission to the Official List of the SGX-ST and quotation of the Notes on the SGX-ST should not be taken as an indication of the merits of the Issuer, the Program or the Notes. Details of the aggregate nominal amount of Notes, interest (if any) payable in respect of such Notes, the issue price of such Notes and any other terms and conditions not contained herein which are applicable to each Tranche (as defined in the Conditions) of Notes will be set out in a pricing supplement (the “Pricing Supplement”) which, with respect to the Notes to be listed on the SGX-ST, will be delivered to the SGX-ST on or before the date of issue of the Notes of such Tranche.

The Program provides that the Notes may be listed and/or admitted to trading, as the case may be, on or by such other or further stock exchanges, markets and/or competent listing authorities as may be agreed between the Issuer and the relevant Dealer. The Issuer may also issue unlisted Notes and/or Notes which are not admitted to trading on any market.

The Notes have not been and will not be registered under the United States Securities Act of 1933, as amended, (the “Securities Act”) or any U.S. state securities laws and, unless so registered, may not be offered, sold or delivered 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 applicable U.S. state securities laws. Prospective purchasers are hereby notified that sellers of Notes may be relying on the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A.

Bearer Notes are subject to U.S. tax law limitations and may not be offered, sold or delivered within the United States or its possessions or to “U.S. persons,” except in certain transactions permitted by U.S. Treasury regulations. Terms used in this paragraph have the meanings given to them by the U.S. Internal Revenue Code of 1986, as amended and U.S. Treasury regulations promulgated thereunder.

The Issuer may agree with any Dealer and the Principal Paying Agent (as defined herein) that Notes may be issued in a form not contemplated by the Conditions set out herein, in which event a supplemental Information Memorandum, if appropriate, will be made available which will describe the effect of such agreement reached in relation to such Notes.

### Arrangers

**BofA Merrill Lynch**

**Deutsche Bank**

**HSBC**

**J.P. Morgan**

### Dealers

**BofA Merrill Lynch**

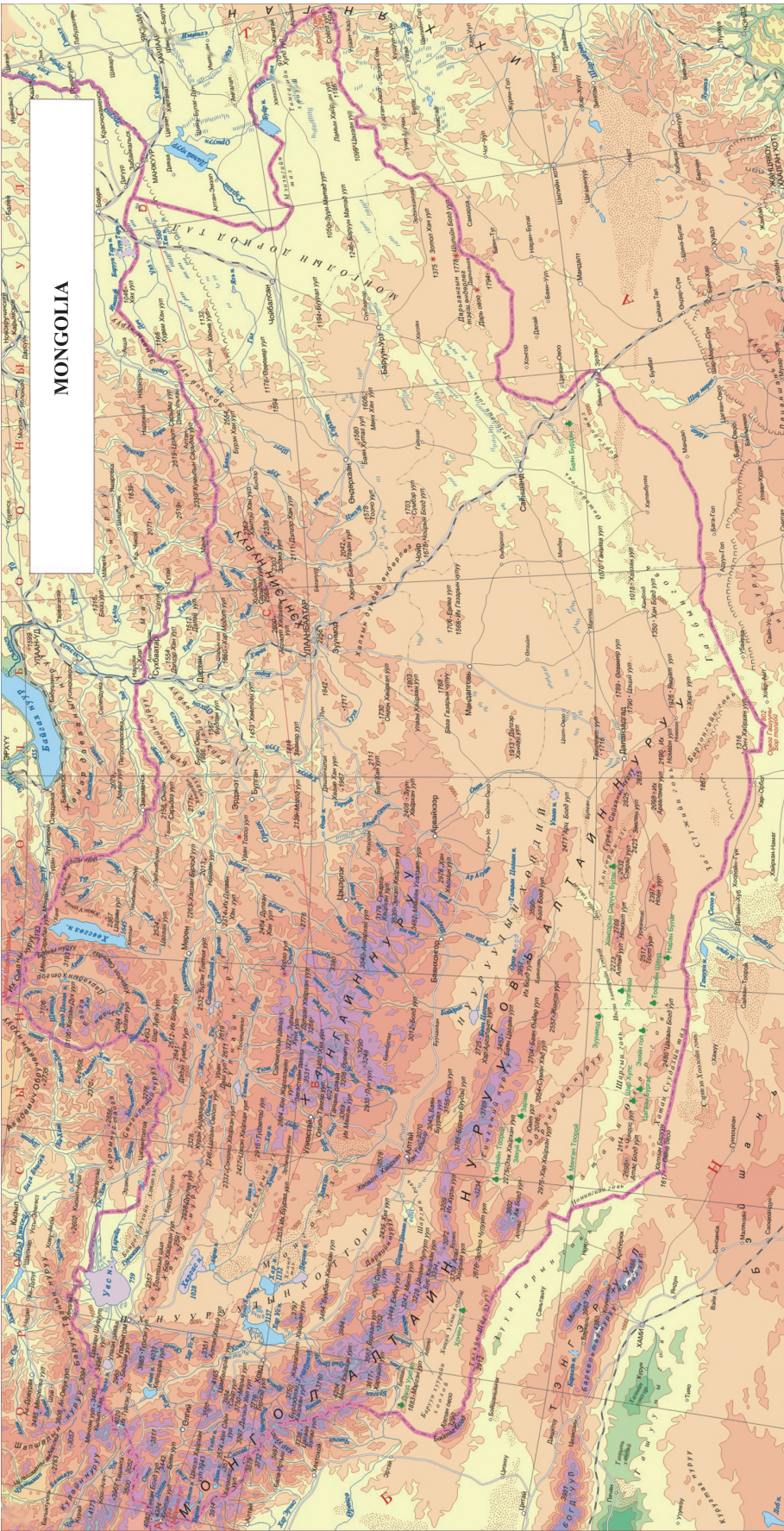
**Deutsche Bank**

**HSBC**

**J.P. Morgan**

**TDB Capital**

November 21, 2012





## TABLE OF CONTENTS

|   | <u>Page</u> |
|---|-------------|
| NOTICE TO NEW HAMPSHIRE RESIDENTS . . . . .                           | iv          |
| FORWARD-LOOKING STATEMENTS . . . . .                                  | v           |
| CERTAIN DEFINED TERMS AND CONVENTIONS . . . . .                       | vii         |
| STATISTICAL AND OTHER DATA . . . . .                                  | viii        |
| ENFORCEABILITY OF FOREIGN JUDGMENTS IN MONGOLIA . . . . .             | ix          |
| INFORMATION INCORPORATED BY REFERENCE . . . . .                       | x           |
| DATA DISSEMINATION . . . . .  | x           |
| SUMMARY . . . . .   | 1           |
| GENERAL DESCRIPTION OF THE PROGRAM . . . . .                          | 4           |
| USE OF PROCEEDS . . . . .   | 5           |
| SUMMARY OF THE PROGRAM . . . . .                                      | 6           |
| MONGOLIA . . . . .  | 11          |
| THE MONGOLIAN ECONOMY . . . . .                                       | 39          |
| PUBLIC FINANCE . . . . .  | 78          |
| PUBLIC SECTOR DEBT . . . . .  | 83          |
| BALANCE OF PAYMENTS . . . . .   | 85          |
| MONETARY AND FINANCIAL SYSTEM . . . . .                               | 89          |
| SECURITIES MARKET . . . . .   | 96          |
| TERMS AND CONDITIONS OF THE NOTES . . . . .                           | 99          |
| PRO FORMA PRICING SUPPLEMENT . . . . .                                | 132         |
| FORM OF THE NOTES . . . . .   | 146         |
| BOOK ENTRY CLEARANCE SYSTEMS . . . . .                                | 151         |
| EXCHANGE RATES AND EXCHANGE CONTROLS . . . . .                        | 155         |
| TAXATION . . . . .  | 156         |
| SUBSCRIPTION AND SALE AND TRANSFER AND SELLING RESTRICTIONS . . . . . | 169         |
| GENERAL INFORMATION . . . . .   | 178         |

The Issuer accepts responsibility for the information contained in this Information Memorandum. To the best of the knowledge and belief of the Issuer (having taken all reasonable care to ensure that such is the case), the information contained in this Information Memorandum is in accordance with the facts and does not omit anything likely to affect the import of such information. This Information Memorandum should be read in conjunction with all information deemed to be incorporated herein by reference. See “Information Incorporated by Reference.”

Except for the Issuer, no party has separately verified the information contained or incorporated by reference herein. Accordingly, no representation, warranty or undertaking, express or implied, is made and no responsibility or liability is accepted by the Dealers or the Principal Paying Agent as to the accuracy or completeness of the information contained or incorporated by reference in this Information Memorandum or any other information provided by the Issuer in connection with the Program.

None of the Issuer, any of the Dealers or the Principal Paying Agent has authorized any person to give any information or to make any representation not contained in or not consistent with this Information Memorandum or any other information supplied in connection with the Program or the Notes and, if given or made, such information or representation must not be relied upon as having been authorized by the Issuer, any of the Dealers or the Principal Paying Agent.

Neither this Information Memorandum nor any other information supplied in connection with the Program or any Notes (i) is intended to provide the basis of any credit or other evaluation or (ii) should be considered as a recommendation by the Issuer, any of the Dealers or the Principal Paying Agent that any recipient of this Information Memorandum or any other information supplied in connection with the

Program or any Notes should purchase any Notes. Each investor contemplating purchasing any Notes should make its own independent investigation of the economy and affairs of the Issuer and its own appraisal of the creditworthiness of the Issuer. Neither this Information Memorandum nor any other information supplied in connection with the Program or the issue of any Notes constitutes an offer or invitation by or on behalf of the Issuer, any of the Dealers or the Principal Paying Agent to any person to subscribe for or to purchase any Notes in any jurisdiction where such offer would be unlawful.

Neither the delivery of this Information Memorandum nor the offering, sale or delivery of the Notes shall in any circumstances imply that the information contained herein concerning the Issuer is correct at any time subsequent to the date hereof or that any other information supplied in connection with the Program is correct as at any time subsequent to the date indicated in the document containing the same. The Dealers and the Principal Paying Agent expressly do not undertake to review the economy or affairs of the Issuer during the life of the Program or to advise any investor in the Notes of any information coming to their attention.

The SGX-ST takes no responsibility for the contents of this Information Memorandum, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this Information Memorandum.

Bearer Notes are subject to U.S. tax law limitations and may not be offered, sold or delivered within the United States or its possessions or to “U.S. persons,” except in certain transactions permitted by the U.S. Treasury regulations. Terms used in this paragraph have the meanings given to them by the U.S. Internal Revenue Code of 1986, as amended (the “Code”) and the U.S. Treasury regulations promulgated thereunder.

The Notes have not been, and will not be, registered under the Securities Act or any U.S. state securities laws and, unless so registered, may not be offered, sold or delivered 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 applicable U.S. state securities laws. Registered Notes are subject to certain restrictions on transfer (see “Subscription and Sales and Transfer and Selling Restrictions”).

This Information Memorandum is being submitted on a confidential basis in the United States to a limited number of QIBs or Institutional Accredited Investors (each as defined under “Form of the Notes”) for informational use solely in connection with the consideration of the purchase of the Notes being offered hereby. Its use for any other purpose in the United States is not authorized. It may not be copied or reproduced in whole or in part nor may it be distributed or any of its contents disclosed to anyone other than the prospective investors to whom it is originally submitted.

Registered Notes may be offered or sold within the United States only to QIBs or to Institutional Accredited Investors, in either case in transactions exempt from registration under the Securities Act. Each U.S. purchaser of Registered Notes is hereby notified that the offer and sale of any Registered Notes to it may be made in reliance upon the exemption from the registration requirements of the Securities Act provided by Rule 144A under the Securities Act (“Rule 144A”) or another available exemption.

Purchasers of Definitive IAI Registered Notes will be required to execute and deliver an IAI Investment Letter (as defined under “Terms and Conditions of the Notes”). Each purchaser or holder of Definitive IAI Registered Notes, Notes represented by a Rule 144A Global Note (as defined under “Form of the Notes”) or any Registered Notes in exchange or substitution therefore (together “Legended Notes”) will be deemed, by its acceptance or purchase of any such Legended Notes, to have made certain representations and agreements intended to restrict the resale or other transfer of such Notes as set out in “Subscription and Sale and Transfer and Selling Restrictions.” Unless otherwise stated, terms used in this paragraph have the meanings given to them in “Form of the Notes.”

This Information Memorandum is for distribution only to persons who (i) are outside the United Kingdom, (ii) have professional experience in matters relating to investments, (iii) are persons falling within Article 49(2)(a) to (d) (“high net worth companies, unincorporated associations etc.”) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (as amended), or (iv) are persons to whom an invitation or inducement to engage in investment activity (within the meaning of section 21 of the Financial Services and Markets Act 2000 (“FSMA”)), in connection with the issue or sale of any Notes may otherwise lawfully be communicated or caused to be communicated (all such persons together being referred to as “relevant persons”). This document is directed only at relevant persons and must not be acted on or relied on by persons who are not relevant persons. Any investment or investment activity to which this Information Memorandum relates is available only to relevant persons and will be engaged in only with relevant persons.

This Information Memorandum does not constitute an offer to sell or the solicitation of an offer to subscribe for or purchase any Notes in any jurisdiction in which it is unlawful to make an offer or solicitation to subscribe for or purchase any Notes. The distribution of this Information Memorandum and the offer or sale of Notes may be restricted by law in certain jurisdictions. None of the Issuer, any Dealer and/or the Principal Paying Agent represent that this Information Memorandum may be lawfully distributed, or that any Notes may be lawfully offered, in compliance with any applicable registration or other requirements in any such jurisdiction, or pursuant to an exemption available thereunder, or assumes any responsibility for facilitating any such distribution or offering. In particular, no action has been taken by the Issuer, any of the Dealers or the Principal Paying Agent which would permit a public offering of any Notes or distribution of this Information Memorandum in any jurisdiction where action for that purpose is required. Accordingly, no Notes may be offered or sold, directly or indirectly, and neither this Information Memorandum nor any advertisement or other offering material may be distributed or published in any jurisdiction, except under circumstances that will result in compliance with any applicable laws and regulations. Persons into whose possession this Information Memorandum or any Notes may come must inform themselves about, and observe, any such restrictions on the distribution of this Information Memorandum and the offering and sale of Notes. In particular, there are restrictions on the distribution of this Information Memorandum and the offer or sale of Notes in the United States, the European Economic Area (including the United Kingdom, Germany and Italy), the Russian Federation (“Russia”), Switzerland, Dubai, Hong Kong Special Administrative Region of the People’s Republic of China (“Hong Kong”), the Republic of Singapore (“Singapore”), Japan, the Republic of Korea (“Korea”), Mongolia, the People’s Republic of China (the “PRC” or “China”), the Republic of the Philippines (the “Philippines”) and the Republic of China (“Taiwan”).

IN CONNECTION WITH THE ISSUE OF ANY TRANCHE OF NOTES, THE DEALER OR DEALERS (IF ANY) NAMED AS THE STABILIZING MANAGER(S) (OR PERSONS ACTING ON BEHALF OF ANY STABILIZING MANAGER(S)) IN THE APPLICABLE PRICING SUPPLEMENT (THE “STABILIZING MANAGERS”) 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. HOWEVER, THERE IS NO ASSURANCE THAT THE STABILIZING MANAGER(S) (OR PERSONS ACTING ON BEHALF OF ANY STABILIZING MANAGER(S)) WILL UNDERTAKE ANY STABILIZATION ACTION. ANY STABILIZATION ACTION MAY BEGIN ON OR AFTER THE DATE ON WHICH ADEQUATE PUBLIC DISCLOSURE OF THE TERMS OF THE OFFER OF THE RELEVANT TRANCHE OF NOTES IS MADE AND, IF BEGUN, MAY BE ENDED AT ANY TIME, BUT IT MUST END NO LATER THAN THE EARLIER OF 30 DAYS AFTER THE ISSUE DATE OF THE RELEVANT TRANCHE OF NOTES AND 60 DAYS AFTER THE DATE OF THE ALLOTMENT OF THE RELEVANT TRANCHE OF NOTES. ANY STABILIZATION ACTION OR OVER-ALLOTMENT SHALL BE CONDUCTED BY THE STABILIZING MANAGERS (OR PERSONS ACTING ON BEHALF OF ANY STABILIZING MANAGER(S)) IN ACCORDANCE WITH ALL APPLICABLE LAWS AND RULES.

## **NOTICE TO NEW HAMPSHIRE RESIDENTS**

NEITHER THE FACT THAT A REGISTRATION STATEMENT OR AN APPLICATION FOR A LICENSE HAS BEEN FILED UNDER CHAPTER 421-B OF THE NEW HAMPSHIRE REVISED STATUTES WITH THE STATE OF NEW HAMPSHIRE NOR THE FACT THAT A SECURITY IS EFFECTIVELY REGISTERED OR A PERSON IS LICENSED IN THE STATE OF NEW HAMPSHIRE CONSTITUTES A FINDING BY THE SECRETARY OF STATE OF NEW HAMPSHIRE THAT ANY DOCUMENT FILED UNDER CHAPTER 421-B IS TRUE, COMPLETE AND NOT MISLEADING. NEITHER ANY SUCH FACT NOR THE FACT THAT AN EXEMPTION OR EXCEPTION IS AVAILABLE FOR A SECURITY OR A TRANSACTION MEANS THAT THE SECRETARY OF STATE HAS PASSED IN ANY WAY UPON THE MERITS OR QUALIFICATIONS OF, OR RECOMMENDED OR GIVEN APPROVAL TO, ANY PERSON, SECURITY OR TRANSACTION. IT IS UNLAWFUL TO MAKE, OR CAUSE TO BE MADE, TO ANY PROSPECTIVE PURCHASER, CUSTOMER OR CLIENT ANY REPRESENTATION INCONSISTENT WITH THE PROVISIONS OF THIS PARAGRAPH.

## FORWARD-LOOKING STATEMENTS

Certain statements in this Information 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, 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 Togrog, 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.

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.



## CERTAIN DEFINED TERMS AND CONVENTIONS

Unless the context otherwise requires, all references in this document 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;
- “KW” are to kilowatts;
- “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 “Togrogs” refer to Togrogs, the lawful currency of Mongolia; “U.S. dollars” and “U.S.\$” 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; “JPY” or “¥” refers to Japanese Yen, the lawful currency of Japan; “AU\$” refers to Australian dollars, the lawful currency of Australia and “RUB” refers to Russian roubles, the lawful currency of Russia.

For convenience only, certain Togrog amounts in this Information Memorandum have been translated into U.S. dollars. Unless otherwise specified, all such conversions were made at the exchange rates based on the official rate of exchange of the Central Bank of Mongolia (the “Bank of Mongolia”) between Togrogs and U.S. dollars (the “Bank of Mongolia Exchange Rate”). For the years ended December 31, 2007, 2008, 2009, 2010 and 2011, the exchange rate used is the Bank of Mongolia Exchange Rate for the respective year end. For 2012, unless otherwise specified, the exchange rate used is the Bank of Mongolia Exchange Rate for June 30, 2012. Other Togrog amounts in this Information Memorandum were translated into U.S. dollars have been converted at the applicable rates specified. No representation is made that the Togrog or U.S. dollar amounts referred to herein could have been or could be converted into U.S. dollars or Togrogs, as the case may be, at any particular rate, or at all. The Bank of Mongolia Exchange Rates on June 30, 2012 and November 15, 2012 were MNT1,342.23 = U.S.\$1.00 and MNT1,393.43 = U.S.\$1.00, respectively. 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 document expressed as percentages of GDP refer to nominal GDP and all growth rates of GDP are based on real GDP. Real GDP figures have been based on 2005 constant prices.

## **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 make 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 Information Memorandum may differ from previously published information for a number of reasons, including ongoing statistical revisions. Also, certain monetary amounts included in this Information 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 2012 or any part thereof are estimates based upon preliminary data and are subject to review and adjustment. Final economic data and figures for 2012 will not be announced by the National Statistical Office of Mongolia until the National Statistical Office of Mongolia publicly announces detailed preliminary statistical data and figures for the first half of 2013.

## **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 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.

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 under applicable law, any immunity from 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.

## **INFORMATION INCORPORATED BY REFERENCE**

All amendments and supplements to this Information Memorandum (if any) prepared and circulated by the Issuer from time to time shall be deemed to be incorporated in, and to form part of, this Information Memorandum, save that any statement contained herein or in a document which is deemed to be incorporated by reference herein shall be deemed to be modified or superseded for the purpose of this Information Memorandum to the extent that a statement contained in any such subsequent document which is deemed to be incorporated by reference herein modifies or supersedes such earlier statement (whether expressly, by implication or otherwise). Any statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this Information Memorandum.

The Issuer will provide, without charge, to each person to whom a copy of this Information Memorandum has been delivered, upon the request of such person, a copy of any or all of the documents deemed to be incorporated herein by reference unless such documents have been modified or superseded as specified above. Requests for such documents should be directed to the Issuer at the address set out at the end of this Information Memorandum. In addition, such documents will be available to holders of Notes from the principal office of Deutsche Bank AG, Hong Kong Branch, the principal paying agent (the “Principal Paying Agent”) at Level 52 International Commerce Centre, 1 Austin Road West, Kowloon, Hong Kong.

In connection with the listing of the Notes on the SGX-ST, and for so long as any Note remains outstanding and listed on such exchange, in the event of any material change in the Issuer’s condition which is not reflected in this Information Memorandum, the Issuer will prepare a supplement to this Information Memorandum or publish a new Information Memorandum for use in connection with any subsequent issue of the Notes to be listed on the SGX-ST.

In addition, if the terms of the Program are modified or amended in a manner which would make this Information Memorandum, as so modified or amended, inaccurate or misleading, the Issuer will prepare a new Information Memorandum.

## **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 on it are not part of this Information Memorandum.

## SUMMARY

### Mongolia

Over the past two decades, Mongolia has transformed itself from a socialist country with a planned economy into a vibrant multi-party democracy with one of the world's fastest growing economies. From 2007 through 2011, Mongolia's real GDP grew at a compound annual growth rate of 7.7%. Mongolia, located between Russia (to its north) and China (to its south), possesses vast, untapped mineral assets, which have begun to be developed.

A number of significant projects have been undertaken in recent years to develop Mongolia's mineral resources. The Oyu Tolgoi mine is believed to be one of the world's largest copper-gold reserves under development. According to Oyu Tolgoi LLC, the operator of the mine, the Oyu Tolgoi mine is expected to produce more than 0.6 million tons of copper, 20.3 tons of gold and 93.8 tons of silver annually by 2018. Other major projects are in the coal sector. According to the World Bank, the Tavan Tolgoi formation 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 Tsankhi section is further divided into East and West Tsankhi. In 2011, production began at the East Tsankhi section of Tavan Tolgoi and one million tons of coking coal were produced that year. In 2012, the estimated production at East Tsankhi is approximately 3.5 million tons of coking coal. It is expected that commercial production of the West Tsankhi section of Tavan Tolgoi will begin in 2013. The combined production of East and West Tsankhi is expected to be 40 to 50 million tons of coking coal annually from 2017.

One of the key objectives of the Government Action Plan for 2012-2016 (the "Government Action Plan") is the further development of Mongolia's abundant resources to transform Mongolia's mining industry from the extraction and export of unprocessed commodities to the domestic production of value-added mining products. The construction of the Sainshand Industrial Park, where facilities to process raw materials and new railway lines are being built, is expected to accelerate progress in this effort.

Mongolia requires significant investments in its infrastructure in order to support its planned mining development. Mongolia requires significant expansion of its railway network and is implementing a plan to construct 5,600 kilometers of new railway lines in three phases. Phase I involves the construction of a 1,800 kilometer railway line project that will connect major mining areas to export markets of Russia and China (the "Tavan Tolgoi-Sainshand Choibalsan Railway Network"). The Government is also in the process of building a 990-kilometer north/south trans-Mongolian highway with the objective of promoting the development of cross-border trade among China, Russia and Mongolia. In order to meet the increased energy demands arising from the planned mining and infrastructure projects, the Government is planning to build a new thermal coal power plant in Ulaanbaatar as well as other energy products.

The Government has recently passed a series of measures and policies targeted at ensuring macroeconomic and fiscal and social stability in order to sustain the country's long-term growth. These measures include enacting the Law of Mongolia on Fiscal Stability (the "Fiscal Stability Law") and the Amended and Restated Law of Mongolia on Budget (the "Budget Law") and revising the Social Welfare Law 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 will create a clearer framework for the establishment of future budgets and funding of these obligations. Measures relating to the foreign investment and social and economic development include the Law of Mongolia on Regulation of Foreign Investment in Business Entities Operating in Sectors of Strategic Importance (the "FIRL") and the Law of Mongolia on the Composition of the Government and the Parliament resolution on the Structure of the Government (the "Government Structure Law"). The FIRL requires foreign investors investing in strategic sectors to notify the Government or obtain Government or parliamentary approvals for certain investments. The



Government Structure Law restructured the Government by expanding the number of ministries from 11 to 16 and establishing the Ministry of Economic Development. The Ministry of Economic Development is responsible for planning the social and economic development of Mongolia with the power to raise and allocate funds raised to various projects.

According to the Doing Business 2013 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. Particularly, out of 185 countries, Mongolia is ranked 22nd in terms of how easy it is to register property, 25th for investor protection and 39th in terms of how easy it is to start a business.

### **Key Statistical Indicators**

The following tables set forth selected 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                 |

#### **People:**

|                               |  |
|-------------------------------|--|
| Population .....              | 2.8 million  |
| Population growth rate .....  | 1.7% (2008 – 2011)   |
| Average life expectancy ..... | 68.3 years (2010 actual)   |
| Ethnic groups .....           | Mongol (94.9%), Kazakh (5%), others (including Turks, Chinese and Russians) (0.1%) |
| Religion .....                | Buddhist (50%), others (6%), Muslim (4%), none (40%)                               |

#### **Government:**

|                          |  |
|--------------------------|--|
| Government type .....    | Mixed parliamentary/presidential   |
| 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 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)  |
| Judicial branch .....    | Supreme Court (serves as appeals court for the district and provincial courts; judges are nominated by the General Council of Courts and appointed by the President) |

|                         |  |
|-------------------------|--|
| Political parties ..... | Four parties are represented in the present Parliament, including the Democratic Party, the Mongolian People's Party ("MPP"), Justice Coalition, which consists of the new Mongolian People's Revolutionary Party (the "New MPRP") and the Mongolian National Democratic Party (the "MNDP"), and the Civil Will-Green Party. The Democratic Party 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 Parameters  | For the year ended or as at December 31 |          |          |          |          | For the six months ended or as at June 30 |
|---|---|----------|----------|----------|----------|---|
|   | 2007                                    | 2008     | 2009     | 2010     | 2011     | 2012                                      |
| Nominal GDP (U.S.\$ millions) . .   | 4,236.5                                 | 5,172.0  | 4,567.8  | 6,693.2  | 7,940.4  | 4,608.5                                   |
| Nominal GDP per capita (U.S.\$) .   | 1,620.1                                 | 1,956.7  | 1,697.3  | 2,444.0  | 2,824.1  | —   |
| Real GDP (U.S.\$ millions) . . . . .  | 3,111.2                                 | 3,127.4  | 2,712.5  | 3,311.2  | 3,503.2  | 1,809.8                                   |
| Real GDP growth . . . . .   | 10.2%                                   | 8.9%     | (1.3%)   | 6.4%     | 17.5%    | 13.2%                                     |
| Year-on-year inflation . . . . .  | 17.8%                                   | 22.1%    | 4.2%     | 13.0%    | 10.2%    | 14.7% <sup>(3)</sup>                      |
| Unemployment rate. . . . .  | 9.2%                                    | 9.2%     | 11.6%    | 9.9%     | 7.7%     | 8.4%                                      |
| Surplus/fiscal deficit (% of nominal GDP) . . . . .                         | 2.7%                                    | (4.5%)   | (5.2%)   | 0.5%     | (3.6%)   | (4.4%) <sup>(1)</sup>                     |
| Total debt (% of nominal GDP) . .   | 36.6%                                   | 30.8%    | 50.6%    | 28.8%    | 28.4%    | 28.6% <sup>(1)</sup>                      |
| Current account balance (% of nominal GDP) . . . . .                        | 4.1%                                    | (13.1%)  | (7.7%)   | (10.7%)  | (30.0%)  | (30.5%)                                   |
| Net foreign exchange reserves (U.S.\$ millions) . . . . .                   | 972.4                                   | 637.2    | 1,145.3  | 2,091.2  | 2,273.9  | 2,909.7                                   |
| Net foreign reserves import cover (months) . . . . .                        | 6.6                                     | 2.7      | 7.5      | 8.4      | 5.3      | 4.8                                       |
| Capital adequacy ratio . . . . .  | 14.0%                                   | 11.1%    | 13.3%    | 15.1%    | 14.8%    | 15.4%                                     |
| Non-performing loans ratio . . . . .  | 3.3%                                    | 7.2%     | 17.4%    | 11.5%    | 5.8%     | 4.9%                                      |
| Loan to deposit ratio. . . . .  | 97.0%                                   | 135.7%   | 102.3%   | 75.2%    | 95.0%    | 98.1%                                     |
| Securities market capitalization <sup>(2)</sup> (U.S.\$ millions) . . . . . | 612.2                                   | 407.0    | 430.2    | 1,092.8  | 1,552.7  | 1,412.0                                   |
| Exchange rate <sup>(2)</sup> (U.S.\$/MNT) . . .                             | 1,169.97                                | 1,267.51 | 1,442.84 | 1,257.18 | 1,396.37 | 1,342.23                                  |

Sources: Bank of Mongolia and National Statistical Office of Mongolia, Statistical Yearbooks of 2010 and 2012 and June 2012 Monthly Bulletin

#### *Notes:*

- (1) Using annualized nominal GDP, which is equal to twice the nominal GDP for the six months ended June 30, 2012.
- (2) Period end data
- (3) Compared against June 30, 2011.

## GENERAL DESCRIPTION OF THE PROGRAM

Under the Program, the Issuer may from time to time issue Notes denominated in any currency, subject as set out herein. A summary of the terms and conditions of the Program and the Notes appears below. The applicable terms of any Notes will be agreed between the Issuer and the relevant Dealer prior to the issue of the Notes and will be set out in the “Terms and Conditions of the Notes” endorsed on, or incorporated by reference into, the Notes, as modified and supplemented by the applicable Pricing Supplement attached to, or endorsed on, such Notes, as more fully described under “Form of the Notes” below.

This Information Memorandum and any supplement will only be valid for listing Notes on the SGX-ST in an aggregate nominal amount which, when added to the aggregate nominal amount of all Notes previously or simultaneously issued under the Program, does not exceed U.S.\$5,000,000,000 or its equivalent in other currencies. For the purpose of calculating the U.S. dollar equivalent of the aggregate nominal amount of Notes issued under the Program from time to time:

- (a) the U.S. dollar equivalent of Notes denominated in another Specified Currency (as specified in the applicable Pricing Supplement in relation to the Notes, described under “Form of the Notes”) shall be determined, at the discretion of the Issuer, either as of the date on which agreement is reached for the issue of Notes or on the preceding day on which commercial banks and foreign exchange markets are open for business in London, in each case on the basis of the spot rate for the sale of the U.S. dollar against the purchase of such Specified Currency in the London foreign exchange market quoted by any leading international bank selected by the Issuer on the relevant day of calculation;
- (b) the U.S. dollar equivalent of Dual Currency Notes, Index Linked Notes and Partly Paid Notes (each as specified in the applicable Pricing Supplement in relation to the Notes, described under “Form of the Notes”) shall be calculated in the manner specified above by reference to the original nominal amount on issue of such Notes (in the case of Partly Paid Notes regardless of the subscription price paid); and
- (c) the U.S. dollar equivalent of Zero Coupon Notes (as specified in the applicable Pricing Supplement in relation to the Notes, described under “Form of the Notes”) and other Notes issued at a discount or premium shall be calculated in the manner specified above by reference to the net proceeds received by the Issuer for the relevant issue.

### **USE OF PROCEEDS**

The Issuer will apply the net proceeds from each issue of Notes to fund or refinance local or foreign currency-denominated loans used to finance infrastructure or other industrial projects in Mongolia, including but not limited to new mining and railway projects, design and construction of roads and highways and construction of new power plants. Pursuant to Parliament Resolution No. 52 passed by the Parliament of Mongolia on October 25, 2012, the Issuer will not apply any proceeds from any issuance of Notes to fund any social welfare programs or government budget deficit. If the Issuer intends to apply the net proceeds of any particular issue of Notes for purposes other than as specified herein, such use of proceeds will be stated in the applicable Pricing Supplement.

## SUMMARY OF THE PROGRAM

*The following summary does not purport to be complete and is taken from, and is qualified in its entirety by, the remainder of this Information Memorandum and, in relation to the terms and conditions of any particular Tranche of Notes, the applicable Pricing Supplement. Words and expressions defined in “Form of the Notes” and “Terms and Conditions of the Notes” below shall have the same meanings in this summary.*

|   |   |
|---|---|
| Issuer .....  | The Government of Mongolia  |
| Description.....  | Global Medium Term Note Program   |
| Arrangers .....   | Deutsche Bank AG, Singapore Branch, The Hongkong and Shanghai Banking Corporation Limited, J.P. Morgan Securities plc and Merrill Lynch (Singapore) Pte. Ltd.   |
| Dealers.....  | Deutsche Bank AG, Singapore Branch, The Hongkong and Shanghai Banking Corporation Limited, J.P. Morgan Securities plc, Merrill Lynch (Singapore) Pte. Ltd., TDB Capital LLC and any other Dealers appointed in accordance with the Program Agreement.   |
| Certain Restrictions .....                                      | Each issue of Notes denominated in a currency in respect of which particular laws, guidelines, regulations, restrictions or reporting requirements apply will only be issued in circumstances which comply with such laws, guidelines, regulations, restrictions or reporting requirements from time to time (see “Subscription and Sale and Transfer and Selling Restrictions”). |
| Principal Paying Agent, Transfer Agent and Exchange Agent ..... | Deutsche Bank AG, Hong Kong Branch  |
| Principal Registrar, Transfer Agent and U.S. Paying Agent ..... | Deutsche Bank Trust Company Americas  |
| Registrar .....   | Deutsche Bank Luxembourg S.A.   |
| Program Size .....  | The aggregate nominal amount of all Notes to be issued under the Program will not exceed U.S.\$5,000,000,000 (or its equivalent in other currencies calculated as described under “General Description of the Program”) at the time of agreement to issue. The Issuer may increase the amount of the Program in accordance with the terms of the Program Agreement.               |
| Distribution.....   | Notes may be distributed by way of private or public placement and in each case on a syndicated or non-syndicated basis.  |



|                           |  |
|---------------------------|--|
| Clearing Systems .....    | Euroclear, Clearstream, Luxembourg, DTC and, in relation to any Tranche, such other clearing system as may be agreed between the Issuer and the relevant Dealer. See “Book Entry Clearance Systems.”   |
| Currencies .....          | Subject to any applicable legal or regulatory restrictions, any currency agreed between the Issuer and the relevant Dealer.  |
| Maturities .....          | Such maturities as may be agreed between the Issuer and the relevant Dealer, subject to such minimum or maximum maturities as may be allowed or required from time to time by the relevant central bank (or equivalent body) or any laws or regulations applicable to the Issuer or the relevant Specified Currency.   |
| Issue Price .....         | Notes may be issued on a fully-paid or a partly-paid basis and at an issue price which is at par or at a discount to, or premium over, par.  |
| Form of Notes .....       | The Notes will be issued in bearer or registered form as described in “Form of the Notes.” Notes of one Specified Denomination may not be exchanged for Notes of another Specified Denomination and Bearer Notes may not be exchanged for Registered Notes and vice versa.   |
| Fixed Rate Notes .....    | Fixed interest will be payable in arrear on the date or dates in each year specified in the relevant Pricing Supplement.   |
| Floating Rate Notes ..... | <p>Floating Rate Notes will bear interest at a rate determined:</p> <ul style="list-style-type: none"> <li>• on the same basis as the floating rate under a notional interest rate swap transaction in the relevant Specified Currency governed by an agreement incorporating the 2006 ISDA Definitions (as published by the International Swaps and Derivatives Association, Inc., and as amended and updated as at the Issue Date of the first Tranche of the Notes of the relevant Series); or</li> <li>• on the basis of a reference rate appearing on the agreed screen page of a commercial quotation service; or</li> <li>• on such other basis as may be agreed between the Issuer and the relevant Dealer.</li> </ul> <p>The margin (if any) relating to such floating rate will be agreed between the Issuer and the relevant Dealer for each Series of Floating Rate Notes.</p> |

|   |  |
|---|--|
| Index Linked Notes.....   | Payments of principal in respect of Index Linked Redemption Notes or of interest in respect of Index Linked Interest Notes will be calculated by reference to such index and/or formula or to changes in the prices of securities or commodities or to such other factors as the Issuer and the relevant Dealer may agree.   |
| Other Provisions in relation to Floating Rate Notes and Index Linked Interest Notes ..... | <p>Floating Rate Notes and Index Linked Interest Notes may also have a maximum interest rate, a minimum interest rate or both.</p> <p>Interest on Floating Rate Notes and Index Linked Interest Notes in respect of each Interest Period, as agreed prior to issue by the Issuer and the relevant Dealer, will be payable on such Interest Payment Dates, and will be calculated on the basis of such Day Count Fraction, as may be agreed between the Issuer and the relevant Dealer.</p>   |
| Dual Currency Notes .....   | Payments (whether in respect of principal or interest and whether at maturity or otherwise) in respect of Dual Currency Notes will be made in such currencies, and based on such rates of exchange, as the Issuer and the relevant Dealer may agree.   |
| Zero Coupon Notes.....  | Zero Coupon Notes will be offered and sold at a discount to their nominal amount and will not bear interest other than in case of late payment.  |
| Redemption.....   | The applicable Pricing Supplement will indicate either that (i) the relevant Notes cannot be redeemed prior to their stated maturity date (other than in specified installments, if applicable) or following an Event of Default or (ii) such Notes will be redeemable at the option of the Issuer and/or the Noteholders upon giving notice to the Issuer, on a date or dates specified prior to such stated maturity and at a price or prices and on such other terms as may be agreed between the Issuer and the relevant Dealer. The applicable Pricing Supplement may also provide that the relevant Notes may be redeemable in two or more installments of such amounts and on such dates as are indicated in the applicable Pricing Supplement. |
| Denomination of Notes .....   | <p>Notes will be issued in such denominations as may be agreed between the Issuer and the relevant Dealer except that the minimum denomination of each Note will be such as may be allowed or required from time to time by the relevant central bank (or equivalent body) or any laws or regulations applicable to the relevant Specified Currency.</p> <p>Unless permitted by then current laws and regulations, Notes (including Notes denominated in sterling), which have a maturity of less than one year must have a minimum redemption amount of £100,000 (or its equivalent in other currencies).</p>   |

Unless otherwise stated in the applicable Pricing Supplement, the minimum denomination of each Definitive IAI Registered Note (as defined under “Form of the Notes”) will be U.S.\$250,000 or its approximate equivalent in other Specified Currencies.

|                           |   |
|---------------------------|---|
| Taxation .....            | All payments in respect of the Notes will be made without deduction for or on account of withholding taxes imposed by any Tax Jurisdiction (as defined in Condition 8), except as provided in Condition 8. In the event that any such withholding or deduction is made, the Issuer will, except in certain limited circumstances provided in Condition 8, be required to pay additional amounts to cover the amounts so withheld or deducted.   |
| Negative Pledge .....     | The terms and conditions of the Notes will contain limitations on security interests as further described in Condition 4.   |
| Events of Default .....   | Certain events will permit acceleration of the principal of the Notes (together with all interest and additional amounts accrued and unpaid thereon). These events include default with respect to the payment of principal of, premium, if any, or interest on, the Notes. Events of Default are further described in Condition 10.  |
| Status of the Notes ..... | The Notes and any relative Receipts and Coupons will constitute direct, unconditional, unsubordinated and, subject to the provisions of Condition 4, unsecured obligations of the Issuer and will rank <i>pari passu</i> , without preference among themselves with all other unsecured and unsubordinated External Indebtedness (as defined in Condition 10).  |
| Listing .....             | Approval in-principle has been granted from the SGX-ST for the listing and quotation of Notes that may be issued under the Program, which are agreed, at or prior to the time of issue thereof, to be so listed on the SGX-ST. Such permission will be granted when such Notes have been admitted to the official list of the SGX-ST. If a Series of Notes is listed on the SGX-ST, such Notes will be traded on the SGX-ST in a minimum board lot size of S\$200,000 (or its equivalent in another currency). The Notes may also be listed on such other or further stock exchange(s) as may be agreed between the Issuer and the relevant Dealer in relation to each Series. Unlisted Notes may also be issued under the Program. The applicable Pricing Supplement will state whether or not the relevant Notes are to be listed and, if so, on which stock exchange(s). |
| Governing Law .....       | The Notes will be governed by, and construed in accordance with, New York law.  |

Selling Restrictions ..... There are restrictions on the offer, sale and transfer of the Notes in the United States, the European Economic Area (including the United Kingdom, Germany and Italy), Japan, Singapore, Switzerland, Dubai, Hong Kong, Mongolia, People’s Republic of China, Taiwan, Russian Federation, Korea and such other restrictions as may be required in connection with the offering and sale of a particular Tranche of Notes. See “Subscription and Sale and Transfer and Selling Restrictions.”

Bearer Notes will be issued in compliance with U.S. Treasury regulations §1.163-5(c)(2)(i)(D) (or substantially similar rules to be issued under Section 4701 of the Internal Revenue Code) (the “D Rules”) unless (i) the relevant Pricing Supplement states that Bearer Notes are issued in compliance with U.S. Treasury regulations §1.163-5(c)(2)(i)(C) (or substantially similar rules to be issued under Section 4701 of the Internal Revenue Code) (the “C Rules”) or (ii) Bearer Notes are issued other than in compliance with the D Rules or the C Rules but in circumstances in which the Notes will not constitute “registration required obligations” for U.S. federal income tax purposes, which circumstances will be referred to in the relevant Pricing Supplement as a transaction to which the Tax Equity and Fiscal Responsibility Act of 1982 (“TEFRA”) is not applicable.

Ratings ..... The Program has been rated.

Tranches of Notes will be rated or unrated. Where a Tranche of Notes is to be rated, such rating will be specified in the relevant Pricing Supplement.

A 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.

## MONGOLIA

### Overview

Over the past two decades, Mongolia has transformed itself from a socialist country with a planned economy into a vibrant multi-party democracy with one of the world's fastest growing economies. From 2007 through 2011, Mongolia's real GDP grew at a compound annual growth rate of 7.7%. Mongolia, located between Russia (to its north) and China (to its south), possesses vast, untapped mineral assets, which have begun to be developed.

A number of significant projects have been undertaken in recent years to develop Mongolia's mineral resources. The Oyu Tolgoi mine is believed to be one of the world's largest copper-gold reserves under development. According to Oyu Tolgoi LLC, the operator of the mine, the Oyu Tolgoi mine is expected to produce more than 0.6 million tons of copper, 20.3 tons of gold and 93.8 tons of silver annually by 2018. Other major projects are in the coal sector. According to the World Bank, the Tavan Tolgoi formation 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 Tsankhi section is further divided into East and West Tsankhi. In 2011, production began at the East Tsankhi section of Tavan Tolgoi and one million tons of coking coal were produced that year. In 2012, the estimated production at East Tsankhi is approximately 3.5 million tons of coking coal. It is expected that commercial production of the West Tsankhi section of Tavan Tolgoi will begin in 2013. The combined production of East and West Tsankhi is expected to be 40 to 50 million tons of coking coal annually from 2017.

One of the key objectives of the Government Action Plan for 2012-2016 (the "Government Action Plan") is the further development of Mongolia's abundant resources to transform Mongolia's mining industry from the extraction and export of unprocessed commodities to the domestic production of value-added mining products. The construction of the Sainshand Industrial Park, where facilities to process raw materials and new railway lines are being built, is expected to accelerate progress in this effort.

Mongolia requires significant investments in its infrastructure in order to support its planned mining development. Mongolia requires significant expansion of its railway network and is implementing a plan to construct 5,600 kilometers of new railway lines in three phases. Phase I involves the construction of a 1,800 kilometer railway line project that will connect major mining areas to export markets of Russia and China (the "Tavan Tolgoi-Sainshand Choibalsan Railway Network"). The Government is also in the process of building a 990-kilometer north/south trans-Mongolian highway with the objective of promoting the development of cross-border trade among China, Russia and Mongolia. In order to meet the increased energy demands arising from the planned mining and infrastructure projects, the Government is planning to build a new thermal coal power plant in Ulaanbaatar as well as other energy products.

The Government has recently passed a series of measures and policies targeted at ensuring macroeconomic and fiscal and social stability in order to sustain the country's long-term growth. These measures include enacting the Law of Mongolia on Fiscal Stability (the "Fiscal Stability Law") and the Amended and Restated Law of Mongolia on Budget (the "Budget Law") and revising the Social Welfare Law 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 will create a clearer framework for the establishment of future budgets and funding of these obligations. Measures relating to the foreign investment and social and economic development include the Law of Mongolia on Regulation of Foreign Investment in Business Entities Operating in Sectors of Strategic Importance (the "FIRL") and the Law of Mongolia on the Composition of the Government and the Parliament resolution on the Structure of the Government (the "Government Structure Law"). The FIRL requires foreign investors investing in strategic sectors to notify the Government or obtain Government or parliamentary approvals for certain investments. The



Government Structure Law restructured the Government by expanding the number of ministries from 11 to 16 and establishing the Ministry of Economic Development. The Ministry of Economic Development is responsible for planning the social and economic development of Mongolia with the power to raise and allocate funds raised to various projects.

According to the Doing Business 2013 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. Particularly, out of 185 countries, Mongolia is ranked 22nd in terms of how easy it is to register property, 25th for investor protection and 39th in terms of how easy it is to start a business.

## **History**

In 1206, Chinggis Khan (also known as Genghis Khan) founded the Mongol Empire, the largest empire in history, 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 Mongolians. The Red Turban army's leader, Yüan-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, Toghan-Temur, fled to 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 People's Republic of China was established.

In the aftermath of the Chinese Revolution, 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 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 Mongolian People's Revolutionary Party (the "MPRP") 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**

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 markets of 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, with a population of approximately 2.8 million people 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 years, compared to 39.7 in China, 35 in Thailand and 31.3 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 is the most prominent religion in Mongolia, although a small number of Christians, 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 other Western European languages.

## Key Statistical Indicators

The following tables set forth selected 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                 |

### **People:**

|                               |  |
|-------------------------------|--|
| Population.....               | 2.8 million  |
| Population growth rate.....   | 1.7% (2008 – 2011)   |
| Average life expectancy ..... | 68.3 years (2010 actual)   |
| Ethnic groups.....            | Mongol (94.9%), Kazakh (5%), others (including Turks, Chinese and Russians) (0.1%) |
| Religion .....                | Buddhist (50%), others (6%), Muslim (4%), none (40%)                               |

### **Government:**

|                         |  |
|-------------------------|--|
| Government type.....    | Mixed parliamentary/presidential   |
| 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 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)  |
| Judicial branch.....    | Supreme Court (serves as appeals court for the district and provincial courts; judges are nominated by the General Council of Courts and appointed by the President)   |
| Political parties.....  | Four parties are represented in the present Parliament, including the Democratic Party, the Mongolian People’s Party (“MPP”), Justice Coalition, which consists of the new Mongolian People’s Revolutionary Party (the “New MPRP”) and the Mongolian National Democratic Party (the “MNDP”), and the Civil Will-Green Party. The Democratic Party 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 Parameters  | For the year ended or as at December 31 |          |          |          |          | For the six months ended or as at June 30 |
|---|---|----------|----------|----------|----------|---|
|   | 2007                                    | 2008     | 2009     | 2010     | 2011     | 2012                                      |
| Nominal GDP (U.S.\$ millions) . .   | 4,236.5                                 | 5,172.0  | 4,567.8  | 6,693.2  | 7,940.4  | 4,608.5                                   |
| Nominal GDP per capita (U.S.\$) .   | 1,620.1                                 | 1,956.7  | 1,697.3  | 2,444.0  | 2,824.1  | —   |
| Real GDP (U.S.\$ millions) . . . . .  | 3,111.2                                 | 3,127.4  | 2,712.5  | 3,311.2  | 3,503.2  | 1,809.8                                   |
| Real GDP growth . . . . .   | 10.2%                                   | 8.9%     | (1.3%)   | 6.4%     | 17.5%    | 13.2%                                     |
| Year-on-year inflation . . . . .  | 17.8%                                   | 22.1%    | 4.2%     | 13.0%    | 10.2%    | 14.7% <sup>(3)</sup>                      |
| Unemployment rate. . . . .  | 9.2%                                    | 9.2%     | 11.6%    | 9.9%     | 7.7%     | 8.4%                                      |
| Surplus/fiscal deficit (% of nominal GDP). . . . .                          | 2.7%                                    | (4.5%)   | (5.2%)   | 0.5%     | (3.6%)   | (4.4%) <sup>(1)</sup>                     |
| Total debt (% of nominal GDP) . .   | 36.6%                                   | 30.8%    | 50.6%    | 28.8%    | 28.4%    | 28.6% <sup>(1)</sup>                      |
| Current account balance (% of nominal GDP). . . . .                         | 4.1%                                    | (13.1%)  | (7.7%)   | (10.7%)  | (30.0%)  | (30.5%)                                   |
| Net foreign exchange reserves (U.S.\$ millions) . . . . .                   | 972.4                                   | 637.2    | 1,145.3  | 2,091.2  | 2,273.9  | 2,909.7                                   |
| Net foreign reserves import cover (months) . . . . .                        | 6.6                                     | 2.7      | 7.5      | 8.4      | 5.3      | 4.8                                       |
| Capital adequacy ratio . . . . .  | 14.0%                                   | 11.1%    | 13.3%    | 15.1%    | 14.8%    | 15.4%                                     |
| Non-performing loans ratio . . . . .  | 3.3%                                    | 7.2%     | 17.4%    | 11.5%    | 5.8%     | 4.9%                                      |
| Loan to deposit ratio. . . . .  | 97.0%                                   | 135.7%   | 102.3%   | 75.2%    | 95.0%    | 98.1%                                     |
| Securities market capitalization <sup>(2)</sup> (U.S.\$ millions) . . . . . | 612.2                                   | 407.0    | 430.2    | 1,092.8  | 1,552.7  | 1,412.0                                   |
| Exchange rate <sup>(2)</sup> (U.S.\$/MNT) . . .                             | 1,169.97                                | 1,267.51 | 1,442.84 | 1,257.18 | 1,396.37 | 1,342.23                                  |

Sources: Bank of Mongolia and National Statistical Office of Mongolia, Statistical Yearbooks of 2010 and 2012 and June 2012 Monthly Bulletin

Notes:

- (1) Using annualized nominal GDP, which is equal to twice the nominal GDP for the six months ended June 30, 2012.
- (2) Period end data
- (3) Compared against June 30, 2011.

## **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 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, the 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 1999 and 2001.

On December 15, 2011, Mongolia's 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 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 election law requires that women represent a minimum of 20% of the candidates nominated and approved for seats in the 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 election law and were the first elections to use the new electronic voting system. See "Mongolia's New Coalition 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. The President is second in authority to the 76-member Parliament. Presidential candidates are nominated by political parties that have at least one seat in the 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 the Parliament, call for dissolution of the Cabinet, initiate legislation and veto all or parts of legislation passed by the Parliament. A Presidential veto, however, can be overruled if it is rejected by two thirds of the members of the Parliament present at the relevant Parliament session. The President may also issue decrees in conformity with laws on issues within its power. These decrees become effective upon approval by the Prime Minister. The President may also confirm appointments of judges, appoint ambassadors, grant pardons and enter into international treaties.

The President can be removed if two-thirds of the members of the Parliament decide that the President has abused his or her power or breached the President's oath of office. 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.

#### ***Executive branch***

The Prime Minister is the head of the executive branch. The Prime Minister and the Deputy Prime Ministers are 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 the 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 the 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.

The Cabinet is currently composed of 16 ministries, which carry out the Cabinet's various programs and projects and formulate policies in their relevant areas. Below is a brief description of each ministry.

#### *Ministry of Economic Development*

The Ministry of Economic Development is responsible for planning the social and economic development of Mongolia and devising policies relating to investments, foreign trade, concessions and government loans and grants for economic development. The Ministry of Economic Development is also responsible for developing programs to attract foreign direct investment and has the power to raise and allocate funds for various Government initiatives for economic development and the development of high technology. The Ministry of Economic Development is also responsible for coordinating with various ministries on economic development and infrastructure improvement, conducting economic and technical cooperation with other countries and international organizations and developing free trade zones.

#### *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 taxation and customs, providing project financing and monitoring the financial markets. The Government Structure Law bifurcated the role of the previous Ministry of Finance between the new Ministry of Finance and the newly created Ministry of Economic Development.

#### *Ministry of Justice*

The Ministry of Justice 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*

The Ministry of Mining is responsible for forming and implementing strategies and policies for the mining sector, issuing mining licenses and overseeing and monitoring significant mining 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*

The Ministry of Road and Transportation 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 Industry and Agriculture*

The Ministry of Industry and Agriculture is responsible for forming strategies and plans for agriculture and rural development in Mongolia and formulating and implementing policies for various industries, including light and heavy industries, food industry and agriculture and livestock husbandry.

### *Ministry of Environment and Green Development*

The Ministry of Environment and Green Development 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 researches 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 dealing with international disputes and organizing diplomatic events and ceremonies.

### *Ministry of Education and Science*

The Ministry of Education and Science 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.

### *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 Population Development and Social Protection*

The Ministry of Population Development and Social Protection is responsible for developing and implementing policies and plans relating to human development and social welfare.

### *Ministry of Labor*

The Ministry of Labor 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 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, providing medical equipment and medicines and promoting physical fitness.

### *Ministry of Culture, Sports and Tourism*

The Ministry of Culture, Sports and Tourism is responsible for formulating and implementing policies on the development of sport's activities, the development of national professional sports, the promotion of tourism, cultural development and the restoration and protection of national heritage.

### ***Legislative branch***

The Parliament of Mongolia is referred to as the State Great Khural, which is the highest organ of state power. The Parliament consists of 76 members appointed for a term of four years. The last parliamentary election was held on June 28, 2012 and the next parliamentary election is expected to be held in June 2016.

The Parliament confirms the appointment of the Prime Minister and Cabinet ministers. The Parliament has the power to draft legislation, 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. The Parliament meets twice a year with each session lasting a minimum of 50 business days. The fall session of the Parliament is held between October 1 and February 10 and the spring session is held between April 5 and July 1.

The Parliament elects a Chairman from its members. The Chairman serves as the speaker of the Parliament, supervises the sessions of the 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 next local legislature elections are scheduled to be held on November 21, 2012.

### ***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 court), 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, except for specialized court rulings. 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 the Parliament, the President, the Prime Minister, the Supreme Court or the Prosecutor General.

The Constitution provides for a General Council of Courts ("GCC") composed of 14 members, including the Chief Justice of the Supreme Court, the Minister of Justice, the Prosecutor General, one member appointed by the President, one member appointed by the Parliament, two members appointed by the Supreme Court, one member from the Administrative Court, one member from the office of the Prosecutor General, four members from the aimag and soum courts and one member from the Capital City Court. The GCC 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 9 duuregs (districts), which are subdivided into 132 khoroots (sub-districts).

The policies of the Cabinet 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 MPRP was guaranteed by the 1962 constitution. There are currently 18 registered political parties, the two largest being the MPP (formerly the MPRP) 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 MPRP. In 2004, the MPRP and the Motherland Democratic Coalition (“MDC”) formed Mongolia’s first-ever coalition government. In 2006, a member of the MDC joined the MPRP giving the MPRP exactly 50% of the seats in the Parliament. The MPRP 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 MPRP, formed a new Government with Mr. Miyeegombo Enkhbold being elected as the Prime Minister.

In 2008, the MPRP and the Democratic Party formed a coalition government. In 2010, the MPRP changed its name to the MPP. The change of name was not supported by all members and led to the creation of the New MPRP, headed by the former President of Mongolia, Mr. Nambaryn Enkhbayar. The New 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. Enkhvuvshin Olziisaikhan, as his replacement.

### ***Mongolia’s New Coalition Government***

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 the Parliament. The Democratic Party having won the most number of seats in the Parliament was entitled to form the current government. They formed a coalition government with the Justice Coalition, which consists of the New MPRP and the MNDP, and the Civil Will-Green Party, as the two minority parties. The new coalition government has been named the Reform Government.

| <b>Political parties</b>                        | <b>Number of seats</b> | <b>Percentage of total</b> |
|---|------------------------|----------------------------|
| Democratic Party . . . . .                      | 31                     | 40.8%                      |
| MPP . . . . .                                   | 25                     | 32.9%                      |
| Justice coalition (New MPRP and MNDP) . . . . . | 11                     | 14.5%                      |
| Civil Will-Green Party . . . . .                | 2                      | 2.6%                       |
| Independent . . . . .                           | 3                      | 3.9%                       |
| Seats under dispute/reelection . . . . .        | 4                      | 5.3%                       |
| <b>Total</b> . . . . .                          | <b>76</b>              | <b>100%</b>                |

### **Legal System**

The Mongolian legal system established on the basis of the constitution adopted in 1992 (the “Constitution”) is a civil law system primarily based on the Romano-Germanic tradition, although it retains some typical aspects of the Soviet legal system. 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.

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 241 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. Accordingly, the Parliament is planning to adopt a comprehensive program to review all of Mongolia's laws by 2016.

### ***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, the 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, the 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. The rates increase as the market prices for the minerals go up. Rates are generally lower for processed minerals as the Government wishes to encourage to incentivize mining companies to engage in value-added activities. 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.

In order to reduce the negative effects of the rapid growth in the mining industry on mine workers and the environment, the Government is discussing adopting a new Minerals Law. However, it is not clear what the main changes to the existing law will be.

#### *Strategic Foreign Investment Law*

On May 17, 2012, the Parliament enacted the FIRL with the aim of tightening regulations regarding foreign participation in certain strategic sectors. Under the FIRL, mining, banking and finance and media and telecommunications sectors have been designated as sectors of strategic importance to the national security and economic growth of Mongolia. Any entity which operates in a strategically important sector is deemed to be a strategic business entity. Under the FIRL, an acquisition by a foreign investor of between 5% to 33.3% of the shares in a strategic company will require the foreign investor to notify the Government of such acquisition, and an acquisition of more than 33.3% of the shares will require notifying the Government and obtaining prior approval from the Government. In the event a foreign investor intends to acquire more than 49% of the shares in a strategic business entity and the amount of investment by such investor exceeds MNT100 billion (approximately U.S.\$75 million), Parliament's approval will also be required. Under the FIRL, foreign state-owned enterprises (wholly or partially), international organizations and their affiliates are required to obtain the Government approval regardless of the sector, in which such entity proposes to invest and irrespective of the level of investment.

Pursuant to the FIRL, a foreign investor must obtain prior approval from the Government before engaging in activities in a strategic sector and before entering into certain transactions involving a strategic business entity, including but not limited to any transaction that: (i) provides the right to acquire one-third or more of the shares of a strategic business entity, (ii) provides the right to veto the management decisions of a strategic business entity, (iii) establishes a buyer or seller monopoly in the international or domestic market for the trading of mining-related raw materials or products or (iv) decreases the shareholding of a foreign investor in a strategic business entity.

Uncertainties around the implementing procedures in respect of the FIRL have had a negative impact on the rate of foreign investment into Mongolia. For example, since the FIRL was enacted, license-issuing government agencies have ceased transferring mineral licenses between or to foreign investors and have ceased approving the establishment of joint-ventures where one of the parties is a foreign investor. The FIRL provides for the Government to adopt a regulation clarifying the implementation procedures. The Government is in the process of formulating this regulation and the relevant ministries have provided their comments and proposals on the proposed regulation. This regulation is expected to be approved by the Government in the near future.



## *Environmental Laws*

In 2009, the Parliament passed the Law on Prohibition of Minerals Exploration and Mining in Water Basins and Forested Areas to limit environmental damage caused by mining in and around headwater 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 are 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 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. As at the date of this Information Memorandum, these 243 licenses have been suspended. According to the Ministry of Environment and Green Development, the revocation of these licenses only affected small-scale mining companies, some of which have already reached an agreement with the Government regarding compensation.

On May 17, 2012, the 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”) and the Law of Mongolia on Water (the “Water Law”). The 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 promulgated 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 Green Development, 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 MNT1.1 trillion (approximately U.S.\$0.8 billion). 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 will be levied on the polluter. Each type of natural resource will be assigned an intrinsic value, which may differ from 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 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 the water.

## *Laws Relating to Fiscal Policy*

### *Budget Law*

The Parliament adopted the Budget Law on December 23, 2011, which will become effective on January 1, 2013. The most significant change introduced by the Budget Law is greater decentralization by clearly defining delegated functions among sub-national 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. The Budget Law provides that the Government may incur indebtedness for the following purposes:

- financing a Government project or program;
- increasing the Bank of Mongolia's net international reserves in order to support the State balance of payments;
- financing budget deficit;
- refinancing debts in order to decrease interest rates and expenses; or
- financing seasonal State budget revenue deficiencies.

### *Fiscal Stability Law*

On June 24, 2010, the Parliament approved the Law of Mongolia on Fiscal Stability (the "Fiscal Stability Law"), which will become effective on January 1, 2013. The Fiscal Stability Law provides for medium term to long term policies aimed at establishing a sound legal environment to implement economic and fiscal policies to be formulated.

Specifically, the Fiscal Stability Law establishes special budget requirements and fiscal management principles to stabilize the budget process. The special budget requirements are (i) budget revenue shall be calculated on the basis of price forecast for key minerals, (ii) the budget deficit of any given year shall not exceed 2% of GDP, (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) external state debt (calculated at net present value and excluding any Government loans borrowed for the acquisition of the shares in a foreign invested company operating in the mineral sector and to be re-paid from the future dividends distributed by such company or any Government guarantee issued with the same terms) shall not exceed 50% of GDP for 2013 and 40% of GDP starting from 2014. External state debt includes domestic and foreign loans borrowed by the Government, financial leasing, Government guarantees, debt instruments and all other types of payment obligations by state-owned entities including any default interest, fines and penalties payable in relation to such debt.

The Fiscal Stability Law also creates a fiscal stability fund (the "FSF"), which provides that any mineral revenue in excess of that estimated in the budget be placed in the FSF. These savings would then be used during a downturn to finance the budget. The FSF is to be deposited at a special treasury account with the Bank of Mongolia. It is expected that the FSF will be funded by Government revenue from major mining projects with revenue equal to or greater than 3% of the consolidated general Government budget revenue. The FSF must represent at least 5% of the GDP of any given fiscal year. If the FSF represents more than 5% of the GDP, the Government has the option to transfer the excess amount back to the budget.

If the FSF represents more than 10% of the GDP, the president of the Bank of Mongolia and the Cabinet member in charge of finance and budget 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 Development Bank of Mongolia LLC (“DBM”). As at the date of this Information Memorandum, there is approximately MNT400 billion (U.S.\$298.0 million) in the FSF.

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

In 1994, the Securities Market Law of Mongolia (the “Securities Market Law”) was enacted. This law was replaced by a new Securities Market Law on December 12, 2002. As at the date of this Information Memorandum, the Parliament is in the process of passing a new Securities Market Law. The objective of the proposed new Securities Market Law is to align Mongolia’s securities and corporate governance laws to international standards. The need for an amended securities law was primarily driven by the economy’s rapid growth and desire to capture the benefits of the developing domestic securities market. The major provisions of the new Securities Market Law include, among others:

- allowing dual-listing by companies whose shares are listed on the Mongolian Stock Exchange (“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;
- incorporating sections of the U.K. Financial Services and Markets Act 2000 to provide a legislative framework for listing and governing publicly listed companies;
- 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***

#### ***Law of Mongolia on the Composition of the Government and the Law of Mongolia on the Structure of the Government***

On August 2012, the 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.

### ***Social Welfare Law***

In January 2012, the Parliament approved the revised Social Welfare Law. Under the previous Government, MNT21,000 or approximately U.S.\$15.6, was given to every Mongolian citizen on a monthly basis pursuant to the Social Welfare Law. Such practice ended in June 2012. 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. Pursuant to the 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 Social Welfare Law further provides for four types of social care activities: social care allowance, social care grant, social care services and social development services.

In September 2012, the Government of Mongolia adopted the Regulation for Granting Child Benefits from the Human Development Fund to implement the Government Action Plan, which was approved by the Parliament on September 18, 2012. Under the Government Action Plan, benefits, such as cash handouts of MNT20,000 (approximately U.S.\$15.0) on a monthly basis, will be granted to children across the country. It is estimated that the 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 Government Action Plan.

### **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, the 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 January 2006, the Government passed 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 promoting anti-corruption, the IAAC completed an anti-corruption training program throughout every government unit. Under the Anti-Corruption Law, members of the Parliament and high-ranking public officials are required to declare their income and assets within 30 days of being elected.

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"). 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 conflict 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) during his/her term of office/service. The enactment of the CIL is a further step in Mongolia's fight against corruption.

According to the IAAC, as of November 15, 2012, 45,096 public officials were required to submit their Private Interest and Asset and Income Declarations. Only 96 out of the 45,096 public officials have not yet submitted their declarations. In response to this non-submission, the IAAC sent letters to each individual's senior management requiring that senior management take disciplinary action against them for non-compliance. In 2011, the IAAC identified 73 officials that had violated certain anti-corruption measures and as at the date of this Information Memorandum, 85 officials have been charged with violating anti-corruption measures for the year 2012. The IAAC's enforcement measures include issuing warnings, reducing such officials' salaries and in some cases demoting such official to a lower position. Following the conclusion of an investigation, the IAAC delivers its recommendations to the Prosecutor General, who then decides whether to initiate criminal proceedings. Investigations by the IAAC of alleged corruption crimes by members of Parliament and other high-ranking public officials are not uncommon, and the IAAC's ongoing investigations include that of the deputy minister of the Ministry of Economic Development relating to alleged misconduct including embezzlement while such official was serving in a different senior policy making role.

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.

## **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. 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, the European Union, Canada, Australia, Japan and South Korea.

Mongolia participates as a member of several international organizations, including the ASEAN Regional Forum, Economic and Social Council for Asia and Pacific, Group of 77, the International Criminal Court, International Finance Corporation, 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 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, which would allow Mongolia to have open trade with more nations. Membership to APEC is by invitation only. Russia proposed that APEC extends membership to Mongolia. As at the date of this Information Memorandum, Mongolia has not been invited.

Mongolia’s trade policy objectives are aimed at developing an outward-oriented trade regime following the principles of the World Trade Organization (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 140 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, 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/MNT1 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/MNT1 trillion to RMB10 billion/MNT 2 trillion.

In July 2011, 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 June 2012, President, Mr. Tsakhiagiin Elbegdorj met with the Executive Vice-Premier of the State Council of China. At the meeting, President Elbegdorj noted that developing



friendly neighbor relations and mutually beneficial bilateral cooperation with China in the long-term was a high priority under Mongolian foreign policy. Executive Vice-Premier Li Keqiang also stressed that Mongolia and China were prominent partners and expressed China's commitment to deepening the relationship between the two countries.

### ***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 ("Dornod"). In January 2009, Mongolia and Russia announced a joint venture to develop Dornod (the "Dornod JV"). Commencement of the Dornod JV is subject to the outcome of the ongoing arbitration relating to the mining and exploration license of Dornod between Khan Resources and the Government. See "Litigation and 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 October 2003, in order to encourage bilateral trade and investment ties between the two countries, Russia wrote off 97.8% of the outstanding debt of U.S.\$174.2 million accrued by Mongolia between 1946 and 1991. The balance of 2.2% was fully paid by Mongolia.

### ***Germany***

During German President Horst Kohler's visit to Mongolia in 2008, a Declaration of Partnership was signed between Mongolia and Germany. President Kohler's visit also established German efforts to help improve Mongolian historical and archaeological research. During German Chancellor Angela Merkel's visit to Mongolia on October 2011, several cooperation agreements in relation to mining, manufacturing and technology were signed between Germany and Mongolia, including the cooperation in the fields of raw materials, industry and technology agreement (the "Cooperation Agreement"). The aim of the Cooperation Agreement is to foster the comprehensive exploitation of Mongolia's raw materials by way of investment and high-end technology transfer from Germany. On March 30, 2012, the first economic joint conference on the implementation of the Cooperation Agreement took place in Germany. In the conference, both countries reaffirmed their commitment to the establishment of a coal gasification plant in Mongolia and increased cooperation in the renewable energy sector.

### ***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 (U.S.\$1,128 million), loan assistance of ¥67.914 billion (U.S.\$887 million) and technical assistance of ¥30.511 billion (U.S.\$399 million) to Mongolia. In 2008, Japan provided Mongolia with developmental assistance loan of approximately ¥28.8 billion (U.S.\$376 million) for the construction of the Ulaanbaatar international airport. In March 2009, the Japanese government announced U.S.\$50 million in new Yen-denominated loans to be provided over two years to assist Mongolia with public finances. On November 19, 2010, 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 funding provided by Japan under their March 2009 loans.



### ***South Korea***

Mongolia established diplomatic relations with South Korea on March 26, 1990. According to a census conducted in 2010, approximately 30,000 Mongolians lived in South Korea and approximately 1,500 South Koreans 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. As at December 31, 2011, bilateral trade between Mongolia and South Korea totaled approximately U.S.\$395 million and South Korean investments in Mongolia totaled approximately U.S.\$55 million.

South Korea provides Mongolia with development assistance funding, primarily in the energy and health sectors. In August 2011, during the South Korean President's visit to Mongolia, the Mongolian former Ministry of Mineral Resource and Energy and the South Korean Ministry of Economy and Knowledge signed a memorandum of understanding to cooperate in the areas of mineral resources and energy. Furthermore, during the visit, the health ministers of Mongolia and South Korea signed a health cooperation agreement under which South Korea agreed to grant Mongolia a credit of U.S.\$300 million. The Parliament approved these conditions on February 10, 2012. Pursuant to this health cooperation agreement, in July 2012, the Export-Import Bank of Korea agreed to provide a loan facility of U.S.\$55.5 million for the development of a National Diagnosing Treatment Center in Mongolia.

### ***United Kingdom***

In 1963, the United Kingdom became the first western country to establish diplomatic relations with Mongolia. United Kingdom-Mongolia round table conferences have been held approximately every two years since 1987 to encourage trade and bilateral relations. In 2011, exported goods from the United Kingdom to Mongolia amounted to U.S.\$47.4 million and mainly included road vehicles, specialized industrial machinery, such as stone-crushing equipment, and gas turbines. In 2011, imports to the United Kingdom from Mongolia totaled U.S.\$20.0 million and consisted mainly of clothing and cashmere.

### ***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. In October 2005, the United States and Mongolia signed the Millennium Challenge Compact for 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, Mongolian President Elbegdorj and 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.

### ***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 Mongolian President Yumjaagiin Tsedenbal's visit to India in 1973. In 1994, the Treaty of Friendly Relations and Cooperation was signed during 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 agreed to enter into a U.S.\$20 million loan agreement with Mongolia to fund the establishment of a center for information technology education and outsourcing in Ulaanbaatar. India has provided financial assistance to Mongolia to develop its agriculture and dairy sectors as well as to advance Mongolia's information technology.

### **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. MIGA also provides technical assistance to the Ministry of Economic Development for investment promotion.

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. The agreement is expected to be finalized in 2013.

Mongolia has signed trade agreements with 78 countries. They include the following:

| Agreement   | Date              | Description  |
|---|-------------------|--|
| Trade Agreement between the Government of Mongolia and the Government of Japan                                  | March 1, 1990     | Accords most favored nation (“MFN”) treatment with regard to customs duties, clearance and products of both parties in the territory of the other party, and establishes a mixed commission to examine the problems arising from the implementation of the agreement.  |
| Trade Agreement between the Government of Mongolia and the Government of Laos                                   | December 25, 1990 | Accords MFN to trade between the two countries and provides for dispute settlement, transportation, settlement of payments.  |
| Agreement concerning Trade Relations between the Government of Mongolia and the Government of the United States | January 23, 1991  | Accords MFN treatment and non-discriminatory conditions for products, customs duties, market access for goods and services, provides for trade expansion and promotion, promotion of intellectual property, framework for further economic cooperation.  |
| Agreement between the Government of Mongolia and Russia (former Soviet Union) on Trade and Economic Cooperation | February 12, 1991 | Covers the development of trade and economic cooperation, promotion of investment, cooperation in establishing economic zones, the development of transit transportation, the increase of the exchange of goods, the increase and expansion of border trade and economic relations; a joint commission was established to monitor the implementation of the agreement. |
| Trade Agreement between the Government of Mongolia and the Government of the Republic of Korea                  | March 28, 1991    | Accords MFN and national treatment, non-discrimination with regard to imports from both countries, facilitates transit transportation, and provides for dispute settlement.  |

| Agreement   | Date            | Description   |
|---|-----------------|---|
| Trade and Economic Cooperation Agreement between the Government of Mongolia and the Government of Bulgaria  | May 1, 1991     | Accords MFN treatment to trade and economic cooperation, including customs tariffs, transportation, and provides for the negotiation of bilateral agreements on investment promotion and protection, avoidance of double taxation, exchange of information with regard to economic activities, investment, taxation, banking, insurance, etc. |
| Trade Agreement between the Government of Mongolia and the Government of China  | August 26, 1991 | Encourages, protects and creates favorable conditions for investment by investors of one contracting state in the territory of the other contracting state.   |
| Agreement between the Government of Mongolia and the Government of China on the Access to Sea and Transit Transportation by Mongolia through the territory of China | August 26, 1991 | Recognizes the rights of Mongolia to access the sea and transit goods through the territory of PRC, sets out general rules for transiting poisonous and perishable goods, restricts transit transportation of narcotic drugs, infectious micro-organisms, etc., and also sets rules for charges related to transit transportation.            |
| Trade Agreement between the Government of Mongolia and the Government of Nepal  | January 1992    | Accords MFN treatment; parties undertake to facilitate transportation.  |
| Agreement between the Government of Mongolia and the Government of India on Trade and Economic Cooperation  | April 17, 1992  | Promotes economic and technical cooperation between Mongolia and India.   |
| Trade, Economic and Technical Cooperation Agreement between the Government of Mongolia and the Government of Turkey   | May 29, 1992    | Accords MFN treatment, non-discrimination, identifies sectors for cooperation such as agriculture, industry, SMEs, construction, transportation, free zones, etc., and provides for dispute settlement.   |

| Agreement   | Date              | Description   |
|---|-------------------|---|
| Agreement between the Government of Mongolia and the EEC on Trade and Economic Cooperation  | June 16, 1992     | Accords MFN treatment with regard to imports, exports and re-exports of all goods exchanged between Mongolia and the Community, identifies sectors of economic cooperation, including industry, mining, agriculture, science, energy, communication, environmental protection, tourism, intellectual property, standards, and statistics. |
| Agreement between the Government of Mongolia and the Government of the Russian Federation on Mongolia's Access to the Sea by transiting through Russian Territory | October 19, 1992  | Covers the rights of Mongolia on free movement of transit transportation, utilization of sea ports, freight storage, reshipment, application of Russian domestic tariffs on transportation and compliance by both parties with tariffs imposed under international agreements to which both countries are parties.                        |
| Trade and Economic Cooperation Agreement between the Government of Mongolia and the Government of the Republic of Kazakhstan                                      | October 27, 1992  | Accords MFN treatment to trade and economic cooperation, including customs, transit transportation; establishes Intergovernmental Commission.   |
| Agreement between the Government of Mongolia and the Government of Austria Concerning Economic Cooperation  | December 15, 1992 | Promotes economic cooperation and identifies sectors of cooperation such as energy, roads, construction, railways, etc.; establishes a Joint Commission to monitor the implementation of the agreement.   |
| Trade and Economic Cooperation Agreement between the Government of Mongolia and the Government of Kyrgyz Republic   | July 10, 1993     | Accords MFN treatment to trade and economic cooperation, as well as transit transportation and customs services.  |
| Trade and Commerce Agreement between the Government of Mongolia and the Government of Canada  | June 8, 1994      | Accords MFN treatment with regard to tariffs and other export and import charges, provides for facilitation of transit transportation, transparency of information and settlement of disputes.  |

| Agreement  | Date                             | Description  |
|--|----------------------------------|--|
| Agreement between the Government of Mongolia and the EEC on Trade in Textiles  | December 31, 1997                | Applies to trade in textile products originating from Mongolia, and sets limits to its exports to the Community.   |
| Trade Agreement between the Government of Mongolia and the Government of Vietnam   | December 13, 1999                | Accords MFN to trade, transportation, customs and taxation, and provides for transit transportation through the territories of the parties, as well as for dispute settlement.                                 |
| Agreement between the Government of Mongolia and the Government of the United States concerning the Development of Trade and Investment Relations/Trade and Investment Framework Agreement | July 15, 2004                    | Establishes Joint Trade and Investment Council and provides for further development of trade and investment relations between the two countries.   |
| Loan Agreement between the Ministry of Finance and Export-Import Bank of China   | June 2006                        | Loan to be used to build roads and flyovers, establish food processing factories and buy small tractors and a grain elevator.  |
| Bilateral Local Currency Swap Agreement between the Bank of Mongolia and the People's Bank of China  | May 2011 (amended in March 2012) | Creates a swap of RMB10 billion/MNT2 trillion.   |
| Loan Agreement between the Government of China and the Government of Mongolia  | June 2011                        | Approximately U.S.\$200 million will be used for financing projects in the agriculture sector and approximately U.S.\$300 million will be used to finance projects in infrastructure and other social sectors. |
| Agreement on Economic and Technical Cooperation between the Government of China and the Government of Mongolia   | June 2011                        | Promotes economic and technical cooperation between Mongolia and China.  |
| Agreement between the Government of China and the Government of Mongolia Concerning Auto Transportation  | June 2011                        | Promotes auto transportation between Mongolia and China.   |
| Agreement between the Government of China and the Government of Mongolia Concerning Transfer of Convicts   | June 2011                        | Governs the transfer of convicts between Mongolia and China.   |

| Agreement  | Date      | Description   |
|--|-----------|---|
| Agreement between the Government of China and the Government of Mongolia Concerning Cultural Heritage Preservation | June 2011 | Protects cultural heritage and restricts illegal excavation of and damage to historical and sightseeing locations. The Agreement also governs an exchange program to be jointly implemented by the Mongolian Ministry of Education and Science and the PRC Ministry of Education from 2011 to 2016. |

### 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.

Between 1991 and 2011, USAID granted assistance to Mongolia exceeding U.S.\$220 million. USAID’s good governance programing continues to focus on anti-corruption activities that include assistance to Mongolia’s Independent Authority Against Corruption, building citizen awareness of corruption issues and improving judicial processes of commercial adjudication. In June 2011, USAID commenced a U.S.\$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 business environment, developing private sector capacity and competitiveness, and supporting financial sector capacity.

In 1991, Mongolia joined the ADB and has received loans for 46 projects totaling U.S.\$839.7 million since then. In 2007, Mongolia became eligible to receive the Asian Development Fund (“ADF”) grants. Since 2007, the ADF has granted Mongolia 12 ADF grants totaling U.S.\$172.2 million.

The Millennium Challenge Corporation (the “MCC”) is an independent U.S. foreign aid agency started 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 U.S.\$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 the Parliament in February 2010.



The European Bank of Reconstruction and Development started operations in Mongolia in 2006 and as of April 2012, Mongolia had signed 43 transactions with the European Bank of Reconstruction and Development totaling gross disbursements in the amount of EUR283.0 million (U.S.\$358.7 million) of which 100% is invested in the private sector.

In June 2006, the Parliament provided in-principle approval to the Ministry of Finance to borrow U.S.\$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. As at the date of this Information Memorandum, U.S.\$331 million out of the U.S.\$500 million has been drawn down. This amount is being used to finance the construction of six flyovers in the southern town of Hambantota with the aim of making it a transportation hub (the “Hambantota Project”). Construction of this project is expected to commence before the end of 2012 with an expected completion date of October 30, 2015. See “Infrastructure – Roads”

In 2009, the IMF provided Mongolia with a U.S.\$242 million loan facility under the 2009 Stand-By Program, of which U.S.\$194 million has been drawn down.

On March 17, 2011, the Government and the United Nations signed the United Nations Development Assistance Framework (“UNDAF”) for 2012-2016. The UNDAF is a strategic programming framework of the United Nations system to support the achievement of national development priorities contained in Mongolia’s Comprehensive National Development Strategy for 2008-2015, as well as the achievement of the Millennium Development Goals by 2015. Through the UNDAF, the United Nations will work with the Government, the civil society organizations and other development partners on four strategic priorities: (i) sustainable economic development; (ii) basic social services and social protection; (iii) environment, climate change and disaster risk reduction and (iv) governance and human rights. The budget for UNDAF is U.S.\$100 million, part of which is expected to be funded by donor organizations.

The following table sets forth Mongolia’s affiliations with major international financial organizations as at year end 2011.

#### Membership in International Financial Organizations

| Name of organization                                    | Date of affiliation | Mongolia’s subscription                   | Amount paid in by Mongolia | Mongolia’s outstanding borrowing | Type of funding |
|---|---------------------|---|----------------------------|----------------------------------|-----------------|
| USAID . . . . .   | 1991                | Not applicable                            | Not applicable             | Not applicable                   | Grant based     |
| ADB . . . . .   | 1991                | 1,596 shares                              | U.S.\$83,000               | 394,017,652.55 SDR               | SDR             |
| MCC . . . . .   | 2004                | Not applicable                            | Not applicable             | Not applicable                   | Grant based     |
| European Bank of Reconstruction and Development . . . . | 2006                | 299 shares (2.99 million euro equivalent) | Not applicable             | EUR1.134 billion                 | Borrowing       |
| IMF . . . . .   | 2009                | 51.1 million SDR                          | 1.5 million SDR            | 2,821,035.68 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 new coalition government in 1990. Since 1990, Mongolia has transitioned into a market-oriented economy, with the private sector constituting 75.2% of the nation's GDP in 2011, according to the National Statistical Office of Mongolia. Today, Mongolia is one of the world's fastest growing economies, with a real growth rate of 17.5% in 2011. 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 high rates of inflation, a growing dependence on the production and export of commodities, trade dependence on China and Russia, a growing need for foreign direct investment ("FDI") to develop infrastructure projects, and fuel and energy requirements.

Mongolia has been experiencing extremely high rates of inflation in the last few years. As at September 30, 2012, Mongolia's year-on-year inflation rate was 15.1%, exceeding the Bank of Mongolia's inflation target of 10%. Increasing 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. 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, higher oil prices, weakening coal export prices and, in particular, a slowdown in China, which accounted for 94.0% of Mongolia's exports in the first half of 2012. 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. Rising oil prices and Mongolia's dependency on Russia for all of its fuel and energy needs has led to price pressure from Russia and an unreliable supply of power. The sovereign debt crisis in the European Union, the turbulence in international financial markets and the unknown impact of the recently enacted FIRL 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 response to these challenges, the Government 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 South Korea through its Third Neighbor Policy. The Government recently passed the Fiscal Stability Law and the Budget Law and amended 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 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 ADB, in its Asian Development Outlook 2012 report, states that it expects Mongolia's double-digit inflation rates to continue in the next few years as government and private spending boosts domestic

demand. The IMF estimates that Mongolia's near-term outlook for growth is favorable despite inflation being projected to remain elevated due to a weakening of the exchange rate and rising oil import prices. The IMF estimates that in 2013 nominal mining GDP will increase by over 50% as the Oyu Tolgoi mine starts commercial production and the Tavan Tolgoi mine expands further. Nominal non-mining GDP growth is estimated by the IMF to grow by 5.4% in 2013, primarily due to an increase in government spending and disbursements by DBM for investments in infrastructure projects by the end of 2012.

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

| Macroeconomic data                               | For the year ended or as at December 31, |                     |                     |                     |                     | For the six months ended or as at June 30, |
|--|--|---------------------|---------------------|---------------------|---------------------|--|
|  | 2007 <sup>(1)</sup>                      | 2008 <sup>(2)</sup> | 2009 <sup>(2)</sup> | 2010 <sup>(2)</sup> | 2011 <sup>(3)</sup> | 2012 <sup>(3)(4)</sup>                     |
| Nominal GDP (MNT billions) . . .                 | 4,956.6                                  | 6,555.6             | 6,590.6             | 8,414.5             | 11,087.7            | 6,185.7                                    |
| Nominal GDP (U.S.\$ millions) . .                | 4,236.5                                  | 5,172.0             | 4,567.8             | 6,693.2             | 7,940.4             | 4,608.5                                    |
| Real GDP (MNT billions) . . . . .                | 3,640.0                                  | 3,964.0             | 3,913.7             | 4,162.8             | 4,891.8             | 2,429.2                                    |
| Real GDP (U.S.\$ millions) . . . . .             | 3,111.2                                  | 3,127.4             | 2,712.5             | 3,311.2             | 3,503.2             | 1,809.8                                    |
| Real GDP growth . . . . .                        | 10.2%                                    | 8.9%                | (1.3%)              | 6.4%                | 17.5%               | 13.2%                                      |
| Nominal GDP per capita                           |  |                     |                     |                     |                     |  |
| (MNT thousands) . . . . .                        | 1,895.5                                  | 2,480.2             | 2,449.0             | 3,072.5             | 3,943.5             | —  |
| Year-on-year inflation <sup>(5)</sup> . . . . .  | 17.8%                                    | 22.1%               | 4.2%                | 13.0%               | 10.2%               | 14.7% <sup>(6)</sup>                       |
| Exports (U.S.\$ millions) . . . . .              | 1,947.5                                  | 2,534.5             | 1,885.4             | 2,908.5             | 4,817.5             | 2,262.3                                    |
| Imports (U.S.\$ millions) . . . . .              | 2,061.8                                  | 3,244.5             | 2,137.7             | 3,200.1             | 6,598.4             | 3,313.3                                    |
| Balance of payments                              |  |                     |                     |                     |                     |  |
| (U.S.\$ millions) <sup>(5)</sup> . . . . .       | 288.0                                    | (232.6)             | 555.5               | 873.1               | 27.8                | 471.1                                      |
| Unemployment rate . . . . .                      | 9.2%                                     | 9.2%                | 11.6%               | 9.9%                | 7.7%                | 8.4%                                       |
| External debt (U.S.\$ millions) <sup>(1)</sup> . | 1,741.8                                  | 2,183.5             | 2,985.8             | 3,996.9             | 9,621.6             | 11,435.7                                   |
| Net foreign exchange reserves                    |  |                     |                     |                     |                     |  |
| (U.S.\$ millions) . . . . .                      | 972.4                                    | 637.2               | 1,145.3             | 2,091.2             | 2,273.9             | 2,909.7                                    |
| Net foreign reserves import cover                |  |                     |                     |                     |                     |  |
| (months) . . . . .                               | 6.6                                      | 2.7                 | 7.5                 | 8.4                 | 5.3                 | 4.8  |

*Sources:*

- (1) Unless otherwise stated, the data are from National Statistical Office of Mongolia, Statistical Yearbook 2010.
- (2) Unless otherwise stated, the data are from National Statistical Office of Mongolia, Statistical Yearbook 2011.
- (3) Unless otherwise stated, the data are from National Statistical Office of Mongolia, June 2012 Monthly Bulletin.
- (4) Provisional figures subject to further adjustments.
- (5) Bank of Mongolia.
- (6) Compared against June 30, 2011.

*Note:*

- (1) 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.

## Ratings

On June 10, 2009, Moody's Investors Service ("Moody's") affirmed Mongolia's foreign and local currency rating for government bonds at "B1," its foreign-currency country ceiling for bonds at "B2" and its foreign-currency ceiling for bank deposits at "B2," along with a "negative" outlook. The affirmation was a reflection of "the policy tightening undertaken by the Mongolian authorities and the subsequent stabilization of Mongolia's balance of payments." On October 30, 2009, Moody's revised the outlook on

Mongolia's foreign and local currency ratings for government bonds as well as its foreign-currency country ceiling for bonds and for bank deposits to "stable" from "negative," to reflect "the government's policy tightening, which has contributed to a shorting-up of Mongolia's balance of payments, the containment of its burgeoning fiscal deficit and the elimination of the nearly runaway inflation." On May 2, 2011, Moody's 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. 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 "NP." 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 "NP."

On July 9, 2009, Standard & Poor's Rating Services ("S&P") released Mongolia's long-term sovereign credit rating at "BB-" and its short-term sovereign credit rating at "B" with a "negative" outlook. According to S&P, the ratings were constrained by Mongolia's "narrowly based, low income and underdeveloped economy, and the mounting contingent liabilities posed by its banking sector," but were supported by Mongolia's "underlying strong growth potential and its cooperative relations with the international donor community and multilateral agencies." On November 20, 2009, S&P affirmed Mongolia's sovereign credit rating at "BB-/B," but revised the outlook to "stable" from "negative," to reflect Mongolia's success in achieving stabilization under the aegis of the IMF program. On December 19, 2011, S&P affirmed Mongolia's long-term sovereign credit rating at "BB-" and its short-term sovereign credit rating at "B." The agency revised the outlook to "positive" from "stable," citing expectations that Mongolia's "significant real per capita GDP would continue to grow through to 2014, as the ongoing large-scale expansion of output and exports in the extractive industries fully unfolds." 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 January 18, 2009, Fitch Ratings ("Fitch") downgraded Mongolia's long-term foreign and local currency issuer default rating to "B" from "B+" with a "negative" outlook. The agency also downgraded the country ceiling to "B" from "B+" and affirmed the short-term foreign currency issuer default rating at "B." Fitch cited that the downgrade of ratings was a reflection of continued pressures on Mongolia's external finances and ongoing problems with respect to economic policy continuity. On October 11, 2009, Fitch affirmed Mongolia's long-term foreign and local currency issuer default ratings at "B" but revised the outlook to "stable" from "negative" to reflect "the stabilization of Mongolia's sovereign credit fundamentals, particularly since the IMF program was approved in April 2009 and new external borrowing agreements were reached with multilateral and bilateral entities." The agency also affirmed the country ceiling and the short-term foreign currency issuer default rating at "B." On November 23, 2010, Fitch upgraded Mongolia's long-term foreign and local currency issuer default ratings to "B+" from "B" with a "stable" outlook and upgraded the country ceiling to "B+" from "B" to reflect "Mongolia's successful completion of its IMF program, under which official foreign reserves have risen to a record high and the economy has returned to growth." The agency affirmed the short-term foreign currency issuer default rating at "B." 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.

### **Economic Policy Objectives**

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

- maintain macroeconomic stability;
- enforce tight monetary policies to reduce inflation;
- 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 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 third free trade zone, which is located near the port of entry of Tsagaan Nuur in Bayan-Olgii province, is under construction and is expected to be completed in 2015.

Until 2008, Mongolia was predominantly an agricultural-based economy, with a heavy reliance on the growth of cereals 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. According to Erdenes Tavan Tolgoi LLC, a state-owned limited liability company, Mongolia currently has the world's fourth-largest copper reserve and ninth-largest coal reserve. 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 81.0% and approximately 89.2% of total exports in 2010 and in 2011, respectively. In the first half of 2012, the total industrial output increased by MNT81.8 billion (U.S.\$60.9 million), or 8.7% to MNT1,018.8 billion (U.S.\$759.0 million) (at 2005 constant prices) compared to the same period of the previous year. The increase in the industrial output was mainly due to increases of 1.6% to 63.8% in mining and quarrying products such as copper concentrate and iron ore.

### ***Global Financial Crisis***

The global economy experienced a severe external shock in late 2008 and early 2009 as mineral prices collapsed and export demand fell. The sharp decline in mineral prices negatively affected the economy, with GDP contracting by 1.3% in 2009 compared to a growth rate of 8.9% in 2008. The contraction in economic growth was primarily due to the sharp decline in the price of copper, Mongolia's main export, which fell by as much as 65% from U.S.\$8,700 per ton in April 2008 to U.S.\$3,000 per ton in March 2009. Prices of other key export commodities such as coal, zinc, cashmere and crude oil also fell significantly. These external price pressures combined with the external demand constriction that resulted from a slowdown in China, which accounted for 64.5% of Mongolia's exports in 2008, resulted in a sharp decline in China's demand for Mongolian copper imports, which decreased Mongolia's export growth by approximately 50% in the first half of 2009.

Mongolia's export growth slowed down significantly, offsetting the growth in imports. As a result, the 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 Togrog 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 U.S.\$500 million between July 2008 and February 2009. The Togrog 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 U.S.\$240.0 million 18-month Stand-By Program in April 2009 designed to restore macroeconomic stability through fiscal, monetary and financial sector policies. The key elements of the Stand-By Program included assisting Mongolia to revise 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. These policies, combined with the narrowing of the trade deficit, resulted in a stabilization of the nominal exchange rate and enabled the Bank of Mongolia to rebuild its foreign exchange reserves. The Stand-By Program ended in October 2011 at which time foreign reserves were at a then all-time high of U.S.\$2.5 billion. The Stand-By Program was a success and contributed to Mongolia's economic turnaround. See "Economic Turnaround" below.



## ***Economic Turnaround***

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 U.S.\$2.3 billion and U.S.\$2.9 billion as at December 31, 2011 and June 30, 2012, respectively. For the year ended December 31, 2011, the foreign trade deficit was approximately U.S.\$1.8 billion, or 22.7% of nominal GDP. For the six months ended June 30, 2012, the foreign trade deficit was approximately U.S.\$1.1 billion, or 23.9% of nominal GDP. Revenue also significantly improved, increasing by MNT1.3 trillion (U.S.\$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 the first half of 2012, exports increased by 13.5% and imports increased by 21.6% compared to the first half of 2011.

## **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 2005 as the base year.

In 2011, Mongolia's GDP grew by 17.5%, compared to a growth rate of 6.4% in 2010. This was mainly because of the favorable performance of both the industry and service sectors due to the increase in foreign direct investment in the mining industry, upward price trends for commodities, such as copper, gold and iron, an increase in export volumes and an increased demand for transportation infrastructure and transportation services driven by the economic development in Mongolia.

In 2010, Mongolia's GDP grew by 6.4%, compared to a negative growth rate of 1.3% in 2009. This was mainly due to the favorable performance of the industry and service sectors offset by the continued effect of the severe loss of livestock in late 2009 and early 2010 as a result of extreme weather conditions, which resulted in a significant increase in meat prices.



The following table presents nominal GDP of Mongolia by sector for the periods indicated:

### Nominal GDP at Current Prices

| Sectors  | For the year ended December 31, |                     |                     |                     |                     |
|--|---------------------------------|---------------------|---------------------|---------------------|---------------------|
|  | 2007 <sup>(1)</sup>             | 2008 <sup>(1)</sup> | 2009 <sup>(2)</sup> | 2010 <sup>(2)</sup> | 2011 <sup>(2)</sup> |
|  | (Million MNT)                   |                     |                     |                     |                     |
| <b>Total GDP</b> . . . . .   | <b>4,956,647.2</b>              | <b>6,555,569.4</b>  | <b>6,590,637.1</b>  | <b>8,414,504.6</b>  | <b>11,087,723.8</b> |
| <b>Industry</b> . . . . .  | <b>1,870,379.7</b>              | <b>2,022,461.1</b>  | <b>1,980,918.7</b>  | <b>2,780,489.5</b>  | <b>3,419,441.8</b>  |
| Mining and quarrying . . . . .   | 1,340,854.4                     | 1,324,247.7         | 1,285,899.7         | 1,913,040.1         | 2,329,330.6         |
| Manufacturing . . . . .  | 309,500.4                       | 430,179.4           | 425,000.6           | 539,836.0           | 665,537.0           |
| Electricity, gas, steam and air<br>conditioning supply . . . . .                     | 97,309.1                        | 119,968.0           | 157,422.9           | 190,211.6           | 211,955.5           |
| Construction . . . . .   | 106,421.1                       | 122,051.0           | 86,238.7            | 107,201.6           | 173,272.4           |
| Water supply; sewerage, waste<br>management and<br>remediation activities . . . . .  | 16,294.7                        | 26,015.0            | 26,356.8            | 30,200.2            | 39,346.3            |
| <b>Agriculture</b> . . . . .   | <b>913,409.2</b>                | <b>1,259,660.8</b>  | <b>1,177,380.3</b>  | <b>1,202,155.6</b>  | <b>1,365,115.0</b>  |
| Agriculture, forestry and<br>fishing . . . . .                                       | 913,409.2                       | 1,259,660.8         | 1,177,380.3         | 1,202,155.6         | 1,365,115.0         |
| <b>Service</b> . . . . .   | <b>1,680,992.1</b>              | <b>2,600,630.8</b>  | <b>2,840,570.4</b>  | <b>3,428,244.3</b>  | <b>4,640,070.7</b>  |
| Wholesale and retail trade;<br>repair of motor vehicles and<br>motorcycles . . . . . | 313,204.4                       | 472,226.5           | 432,646.2           | 696,502.6           | 1,020,944.4         |
| Transportation and storage . . .   | 322,307.0                       | 419,323.2           | 546,745.5           | 645,747.5           | 785,475.4           |
| Accommodation and food<br>service activities . . . . .                               | 28,806.4                        | 38,971.4            | 43,680.8            | 47,522.9            | 93,348.5            |
| Real estate activities . . . . .   | 186,823.5                       | 345,984.2           | 479,635.3           | 554,498.9           | 768,719.9           |
| Education . . . . .  | 170,563.4                       | 272,562.3           | 312,138.4           | 336,646.3           | 441,036.0           |
| Information and<br>communication . . . . .   | 166,189.0                       | 221,339.0           | 215,504.0           | 245,884.3           | 295,315.0           |
| Financial and insurance<br>activities . . . . .                                      | 155,198.1                       | 236,327.4           | 212,724.0           | 239,607.2           | 381,098.0           |
| Professional, scientific and<br>technical activities . . . . .                       | 36,068.4                        | 76,694.6            | 65,655.8            | 69,976.0            | 101,074.3           |
| Administrative and support<br>service activities . . . . .                           | 51,218.0                        | 98,499.8            | 88,804.4            | 88,090.4            | 128,534.2           |
| Public administration and<br>defense; compulsory social<br>security . . . . .        | 141,514.3                       | 247,723.6           | 267,246.3           | 303,036.1           | 366,726.8           |
| Human health and social work<br>activities . . . . .                                 | 72,616.0                        | 119,817.4           | 123,042.0           | 143,194.3           | 181,390.4           |
| Arts, entertainment and<br>recreation . . . . .                                      | 12,980.0                        | 23,211.4            | 27,876.2            | 31,064.1            | 37,609.2            |
| Other service activities . . . . .   | 23,503.6                        | 27,950.0            | 24,871.5            | 26,473.7            | 38,798.6            |
| <b>Net taxes on product</b> . . . . .  | <b>491,866.0</b>                | <b>672,817.0</b>    | <b>591,767.8</b>    | <b>1,003,615.1</b>  | <b>1,663,096.2</b>  |

Sources:

(1) The numbers are from National Statistical Office of Mongolia, Statistical Yearbook 2010.

(2) The numbers are from National Statistical Office of Mongolia, June 2012 Monthly Bulletin.

The following table presents the real GDP of Mongolia by sector at 2005 constant prices for the periods indicated:

### Real GDP at 2005 Constant Prices

| Sectors  | For the year ended December 31, |                     |                     |                     |                     |
|--|---------------------------------|---------------------|---------------------|---------------------|---------------------|
|  | 2007 <sup>(1)</sup>             | 2008 <sup>(1)</sup> | 2009 <sup>(2)</sup> | 2010 <sup>(2)</sup> | 2011 <sup>(2)</sup> |
|  | (Million MNT)                   |                     |                     |                     |                     |
| <b>Total GDP</b> . . . . .   | <b>3,639,987.7</b>              | <b>3,963,960.0</b>  | <b>3,913,673.2</b>  | <b>4,162,784.9</b>  | <b>4,891,840.4</b>  |
| <b>Industry</b> . . . . .  | <b>1,124,302.7</b>              | <b>1,115,427.5</b>  | <b>1,110,829.8</b>  | <b>1,158,526.9</b>  | <b>1,264,227.7</b>  |
| Mining and quarrying . . . . .   | 683,848.5                       | 672,649.2           | 711,478.9           | 736,944.1           | 791,019.7           |
| Manufacturing . . . . .  | 250,807.8                       | 257,538.2           | 234,276.8           | 248,573.0           | 269,176.8           |
| Electricity, gas, steam and air<br>conditioning supply . . . . .                     | 83,531.6                        | 90,303.7            | 96,023.7            | 96,144.1            | 103,804.1           |
| Construction . . . . .   | 90,895.4                        | 78,397.1            | 51,716.6            | 60,225.6            | 81,693.8            |
| Water supply; sewerage, waste<br>management and<br>remediation activities . . . . .  | 15,219.4                        | 16,539.3            | 17,333.8            | 16,640.1            | 18,533.3            |
| <b>Agriculture</b> . . . . .   | <b>734,097.9</b>                | <b>768,399.4</b>    | <b>796,318.3</b>    | <b>664,150.1</b>    | <b>660,682.7</b>    |
| Agriculture, forestry and<br>fishing . . . . .                                       | 734,097.9                       | 768,399.4           | 796,318.3           | 664,150.1           | 660,682.7           |
| <b>Service</b> . . . . .   | <b>1,186,481.0</b>              | <b>1,599,979.0</b>  | <b>1,612,571.0</b>  | <b>1,770,178.4</b>  | <b>2,066,778.4</b>  |
| Wholesale and retail trade;<br>repair of motor vehicles and<br>motorcycles . . . . . | 274,253.4                       | 315,490.3           | 278,185.3           | 387,486.2           | 535,791.0           |
| Transportation and storage . . .   | 356,819.6                       | 425,540.7           | 459,404.4           | 491,459.4           | 536,335.3           |
| Accommodation and food<br>service activities . . . . .                               | 24,150.3                        | 25,539.8            | 24,669.4            | 23,307.0            | 41,525.1            |
| Information and<br>communication . . . . .   | 132,439.7                       | 157,640.1           | 169,469.7           | 180,325.1           | 189,726.3           |
| Financial and insurance<br>activities . . . . .                                      | 130,038.2                       | 169,610.9           | 143,092.9           | 143,563.3           | 198,795.8           |
| Education . . . . .  | 90,357.5                        | 96,087.4            | 100,168.8           | 99,089.4            | 100,752.2           |
| Real estate activities . . . . .   | 166,500.6                       | 180,334.4           | 195,502.6           | 195,850.6           | 204,881.7           |
| Professional, scientific and<br>technical activities . . . . .                       | 16,835.4                        | 27,355.3            | 30,391.8            | 41,916.8            | 46,545.3            |
| Administrative and support<br>service activities . . . . .                           | 41,049.4                        | 54,818.8            | 59,911.0            | 52,767.7            | 67,472.0            |
| Public administration and<br>defense; compulsory social<br>security . . . . .        | 68,845.0                        | 70,979.8            | 75,588.6            | 76,079.9            | 69,308.8            |
| Human health and social work<br>activities . . . . .                                 | 44,476.2                        | 46,581.0            | 47,910.3            | 50,138.4            | 45,365.5            |
| Arts, entertainment and<br>recreation . . . . .                                      | 8,660.7                         | 9,882.0             | 9,315.0             | 11,475.0            | 9,912.7             |
| Other service activities . . . . .   | 17,631.8                        | 20,118.5            | 18,961.2            | 16,719.6            | 20,366.7            |
| <b>Net taxes on products</b> . . . . .   | <b>409,529.3</b>                | <b>480,154.2</b>    | <b>393,954.1</b>    | <b>569,929.4</b>    | <b>900,151.5</b>    |

Sources:

- (1) The data are from National Statistical Office of Mongolia, Statistical Yearbook 2010.
- (2) The data are from National Statistical Office of Mongolia, June 2012 Monthly Bulletin.

The following table sets forth nominal GDP composition by sector (in percentages) for the periods indicated:

| Nominal GDP composition by industry  | For the year ended December 31, |                     |                     |                     |                     |
|--|---------------------------------|---------------------|---------------------|---------------------|---------------------|
|  | 2007 <sup>(1)</sup>             | 2008 <sup>(2)</sup> | 2009 <sup>(2)</sup> | 2010 <sup>(2)</sup> | 2011 <sup>(3)</sup> |
| <b>Industry</b> . . . . .  | <b>37.7%</b>                    | <b>30.9%</b>        | <b>30.1%</b>        | <b>30.0%</b>        | <b>30.8%</b>        |
| Mining and quarrying . . . . .   | 27.1%                           | 20.2%               | 19.5%               | 22.7%               | 21.0%               |
| Manufacturing . . . . .  | 6.2%                            | 6.6%                | 6.4%                | 6.4%                | 6.0%                |
| Electricity, gas steam and air conditioning supply . . . . .                   | 2.0%                            | 1.8%                | 2.4%                | 2.3%                | 1.9%                |
| Construction . . . . .   | 2.1%                            | 1.9%                | 1.3%                | 1.3%                | 1.6%                |
| Water supply; sewerage, waste management and remediation activities. . . . .   | 0.3%                            | 0.4%                | 0.4%                | 0.4%                | 0.4%                |
| <b>Agriculture</b> . . . . .   | <b>18.4%</b>                    | <b>19.2%</b>        | <b>17.9%</b>        | <b>14.3%</b>        | <b>12.3%</b>        |
| Agriculture, forestry and fishing . . . . .                                    | 18.4%                           | 19.2%               | 17.9%               | 14.3%               | 12.3%               |
| <b>Service</b> . . . . .   | <b>33.9%</b>                    | <b>39.7%</b>        | <b>43.1%</b>        | <b>40.7%</b>        | <b>41.8%</b>        |
| Wholesale and retail trade; repair of motor vehicles and motorcycles . . . . . | 6.3%                            | 7.2%                | 6.7%                | 8.3%                | 9.2%                |
| Transportation and storage . . . . .   | 6.5%                            | 6.4%                | 8.3%                | 7.7%                | 7.1%                |
| Accommodation and food service activities . . . . .                            | 0.6%                            | 0.6%                | 0.7%                | 0.6%                | 0.8%                |
| Real estate activities . . . . .   | 3.8%                            | 5.3%                | 7.3%                | 6.6%                | 6.9%                |
| Education . . . . .  | 3.4%                            | 4.2%                | 4.7%                | 4.0%                | 4.0%                |
| Information and communication . . . . .  | 3.4%                            | 3.4%                | 3.3%                | 2.9%                | 3.1%                |
| Financial and insurance activities . . . . .                                   | 3.1%                            | 3.6%                | 3.2%                | 2.8%                | 3.4%                |
| Professional, scientific and technical activities . . . . .                    | 0.7%                            | 1.2%                | 1.0%                | 0.8%                | 0.9%                |
| Administrative and support service activities . . . . .                        | 1.0%                            | 1.5%                | 1.3%                | 1.0%                | 1.2%                |
| Public administration and defense; compulsory social security . . . . .        | 2.9%                            | 3.8%                | 4.1%                | 3.6%                | 3.3%                |
| Human health and social work activities . . . . .                              | 1.5%                            | 1.8%                | 1.9%                | 1.7%                | 1.6%                |
| Arts, entertainment and recreation . . . . .                                   | 0.3%                            | 0.4%                | 0.4%                | 0.4%                | 0.3%                |
| Other service activities . . . . .   | 0.5%                            | 0.4%                | 0.4%                | 0.3%                | 0.3%                |
| <b>Net taxes on products</b> . . . . .   | <b>9.9%</b>                     | <b>10.3%</b>        | <b>9.0%</b>         | <b>11.9%</b>        | <b>15.0%</b>        |

Sources:

(1) Unless otherwise stated, the data are from National Statistical Office of Mongolia, Statistical Yearbook 2010.

(2) Unless otherwise stated, the data are from National Statistical Office of Mongolia, Statistical Yearbook 2011.

(3) Unless otherwise stated, the data are from National Statistical Office of Mongolia, June 2012 Monthly Bulletin.

## Inflation

In September 2012, Mongolia's year-on-year inflation rate was 15.1%, exceeding the Bank of Mongolia's inflation target of 10%. According to IMF, inflation in Mongolia has been volatile, reaching 30% in 2008, decreasing to negative inflation in 2009 and then increasing to double digits in mid-2010.

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 Bank of Mongolia, the year-on-year inflation in 2011 was 10.2%, compared to 13.0% in 2010. Although the rate of inflation decreased, the rate in 2011 reflected inflationary pressures caused by an increase in government spending on wages and salaries, large cash handouts to the general population, burgeoning capital expenditure and higher food and transportation prices. Mongolia's inflation rate in 2010 was 13.0%, compared to 4.2% in 2009. The increase in the rates of inflation was primarily due to an increase in food prices and imported goods from China. Food prices, particularly meat prices, increased due to the severe loss of livestock in late 2009 and early 2010 as a result of extreme winter conditions. The increase in inflation was also due to an increase in prices of consumer and other goods imported from China as a result of inflationary pressures in China.

The 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 2009 and 2010, food prices accounted for approximately 43% of the CPI.

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, |                     |                     |                     |                     |
|---|---------------------------------|---------------------|---------------------|---------------------|---------------------|
|   | 2007 <sup>(1)</sup>             | 2008 <sup>(2)</sup> | 2009 <sup>(2)</sup> | 2010 <sup>(2)</sup> | 2011 <sup>(3)</sup> |
| Food . . . . .                                  | 28.3%                           | 24.0%               | 0.4%                | 18.6%               | 8.2%                |
| Alcoholic drinks and tobacco . . . . .          | 11.9%                           | 12.4%               | 20.2%               | 4.2%                | 3.3%                |
| Housing, water, electricity and fuels . . . . . | 10.7%                           | 22.6%               | 0.6%                | 12.7%               | 14.1%               |
| Furnishing, household equipment . . . . .       | 15.1%                           | 15.4%               | 9.2%                | 6.6%                | 8.9%                |
| Clothing and footwear . . . . .                 | 8.1%                            | 16.5%               | 10.9%               | 10.5%               | 13.9%               |
| Transport . . . . .                             | 16.1%                           | 25.8%               | 1.4%                | 1.3%                | 16.1%               |
| Education . . . . .                             | 13.2%                           | 39.9%               | 10.0%               | 18.8%               | 11.9%               |
| Miscellaneous goods & services . . . . .        | 9.4%                            | 14.6%               | 14.1%               | 4.2%                | 11.2%               |
| Communication . . . . .                         | (4.3%)                          | (3.0%)              | 4.8%                | 14.6%               | 0.3%                |
| Overall . . . . .                               | 17.8%                           | 22.1%               | 4.2%                | 13.0%               | 10.2%               |

*Sources:*

- (1) The data are from National Statistical Office of Mongolia, Statistical Yearbook 2010.
- (2) The data are from National Statistical Office of Mongolia, Statistical Yearbook 2011.
- (3) The data are from National Statistical Office of Mongolia, June 2012 Monthly Bulletin.

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.

According to the approved monetary policy guidelines for 2013, the year-on-year inflation will be less than 8% at the end of 2013, 5% in 2014 and 7% in 2015. These target year-on-year inflation rates are 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. In addition, the Government and the Bank of Mongolia have been implementing a medium-term price stabilization program in order to manage cost-push inflation, which is caused by supply disruptions and bottleneck effects. The price stabilization program includes specific programs on food price stabilization, retail gasoline price stabilization, and trade and logistics financing.

### ***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. A sluggish U.S. economy, 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. The ADB lowered its economic growth forecast for China, the largest export market for Mongolia, in 2012, to 7.7%, but predicted that domestic demand will help China's economic growth recover to 8.1% in 2013.

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.

### ***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 at its highest. The diesel shortage forced the Government to temporarily halt diesel supplies to certain miners, suspend some railway operations and use funds from the federal reserve.

In an effort to reduce its dependence on Russia, the Government is planning to increase its domestic production of oil through the construction of its own refineries. The first refinery is to be built by 2014 by Japan's Marubeni Corp, Toyo Engineering Corp and Mongolia's Mongol Sekiyu in Darkhan City about 200 kilometers north of Ulaanbaatar, requiring an investment of U.S.\$600 million. 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 2011, the industry sector, which accounted for 30.8% of nominal GDP, recorded a growth rate of 9.1%. This growth rate was mainly driven by the growth of the mining and quarrying sub-sector, which recorded a growth rate of 9.1% in 2011. The industry sector accounted for 30.0% of nominal GDP in 2010 and 30.1% of nominal GDP in 2009. The industry sector grew by 4.3% in 2010 compared to a negative growth

rate of 0.5% in 2009. Growth in the industry sector in 2010 was primarily driven by growth in the mining and quarrying sub-sector, which increased by 3.6% in 2010 compared to 5.8% in 2009.

### *Agriculture*

The agriculture sector consists of agriculture, forestry and fishing and accounted for 12.3% of nominal GDP in 2011. In 2011, the agriculture sector recorded a growth rate of negative 0.5%. This decrease in growth was mainly a result of the continued effect of the severe loss of livestock in late 2009 and early 2010 as a result of extreme winter conditions. The agriculture sector accounted for 14.3% of nominal GDP in 2010 and 17.9% of nominal GDP in 2009. The agriculture sector recorded a negative growth rate of 16.6% in 2010, compared to a positive growth rate of 3.6% in 2009. The negative growth recorded in the agriculture sector in 2010 was due to the continued effect of the severe loss of livestock in late 2009 and early 2010 as a result of extreme winter conditions.

### *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 2011, the service sector, which accounted for 41.8% of nominal GDP, recorded a growth rate of 26.8%, compared to 16.7% in 2010. Growth in the service sector in 2011 was attributable to growth in almost all six service sub-sectors, which was primarily driven by the rapidly growing economy. The service sector accounted for 40.7% of nominal GDP in 2010 and 43.1% of nominal GDP in 2009. The service sector grew by 16.7% in 2010 compared to 5.7% in 2009.

### *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. In 2011, the mining and quarrying sub-sector accounted for 21.0% of nominal GDP.

The following table sets forth the estimated reserves of main mineral resources as at January 1, 2012:

| <b>Minerals</b>                           | <b>Estimated reserves</b> |
|---|---------------------------|
| Coal (million tons) . . . . .             | 18,473.2                  |
| Iron (million tons) . . . . .             | 1,046.6                   |
| Copper (thousand tons) . . . . .          | 83,807                    |
| Lead (thousand tons) . . . . .            | 1,740                     |
| Gold (placer) (tons) . . . . .            | 221.47                    |
| Gold (hard rock deposit) (tons) . . . . . | 2,180.9                   |

*Source: Mineral Resources Authority of Mongolia*

The mining and quarrying sub-sector grew by 7.3% in 2011, compared to 3.6% in 2010, primarily due to the significant increase of foreign direct investment in the mining industry and upward price trends for commodities such as copper, gold and iron. In 2011, the mining and quarrying sub-sector accounted for 21.0% of nominal GDP.

The mining and quarrying sub-sector grew by 3.6% in 2010, compared to 5.8% in 2009, primarily due to the significant decline in the price of copper. In 2010, the mining and quarrying sub-sector accounted for 22.7% of nominal GDP.

The mining and quarrying sub-sector grew by 5.8% in 2009, compared to a negative growth rate of 1.6% in 2008, primarily due to various measures taken by the Government to develop and increase foreign investment in the mining industry. In 2009, the mining and quarrying sub-sector accounted for 19.5% of nominal GDP.

The mining and quarrying sub-sector is also a predominant source of exports, with mineral products representing approximately 81.0% of total exports in 2010 and approximately 89.2% in 2011. 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 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 21.3 million tons in 2011 and approximately 16.7 million tons in 2010. In 2011, exports of Mongolyn Alt Company ("MAK"), a privately held company established in 1993, accounted for approximately one-third of Mongolia's coal exports. MAK is one of the largest mining conglomerates in Mongolia and runs coal mining operations at three locations. According to the Ministry of Mining, total coal exports are estimated to exceed 30 million tons in 2014 once railway infrastructure is in place and is expected to further increase to 50 million tons in 2017.

### *Manufacturing*

Mongolia's manufacturing sub-sector is a main contributor to increases in GDP. The main components of the manufacturing sub-sector are processing of food and beverage, textiles, basic metals and non-metallic mineral products. Food and beverage manufacturing is the largest component of the manufacturing sub-sector, which consists mainly of processing of meat, dairy, flour and associated products, alcoholic beverages and salt.

The manufacturing sub-sector grew by 8.3% in 2011, compared to 6.1% in 2010, primarily due to the significant increase in foreign investment in the manufacturing industry, which led to the expansion of manufacturing production capacity. In 2011, the manufacturing sector accounted for 6.0% of nominal GDP.

The manufacturing sub-sector grew by 6.1% in 2010, compared to a negative growth rate of 9.0% in 2009, primarily due to the expansion of production capacities and the increase of production efficiencies in the manufacturing industry. In 2010, the manufacturing sector accounted for 6.4% of nominal GDP.

The manufacturing sub-sector had a negative growth rate of 9.0% in 2009, compared to growth of 2.7% in 2008, primarily due to the significant decline in demand for manufactured goods due to the global financial crisis. In 2009, the manufacturing sub-sector accounted for 6.4% of nominal GDP.

### *Construction*

The construction sub-sector has experienced a high growth rate since 2010 and is expected to continue to grow rapidly in the future. In 2011, 13,349 apartments were constructed and approximately 28,300 additional apartments are expected to be constructed in the first half of 2013. Furthermore, "100,000 housing project," one of Ulaanbaatar's largest ongoing construction projects is expected to have 75,000 homes built in Ulaanbaatar and 25,000 built close to new mining developments. In total, 17 different locations have been set aside for the new housing projects in and around Ulaanbaatar. As at the date of this Information Memorandum, the Government has commenced work on six locations. This housing project is expected to be completed by 2016. See "Infrastructure – Housing."

The construction sub-sector grew by 35.6% in 2011, compared to 16.5% in 2010, primarily due to continued urbanization and the increased demand for construction work as a result of an increase in mining activities, an increased number of expatriates relocating to Mongolia and improved living standards of the local population. In 2011, the construction sub-sector accounted for 1.6% of nominal GDP.



The construction sub-sector grew by 16.5% in 2010, compared to a negative growth rate of 34.0% in 2009, primarily due to the rising domestic demand for affordable accommodation and commercial property as a result of an increase in mining activities, an increased number of expatriates relocating to Mongolia and improved living standards of the local population. In 2010, the construction sub-sector accounted for 1.3% of nominal GDP.

The construction sub-sector had a negative growth rate of 34.0% in 2009, compared to a negative growth rate of 13.8% in 2008, primarily due to a decrease in demand of construction work as a result of the global financial crisis. In 2009, the construction sub-sector accounted for 1.3% of nominal GDP.

#### *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.

The electricity, gas steam and air conditioning supply sub-sector grew by 8.0% in 2011, compared to 0.1% in 2010, primarily due to the continued rising domestic demand for energy driven by the increasing mining activities. In 2011, the electricity, gas, steam and air conditioning supply sub-sector accounted for 1.9% of nominal GDP.

The electricity, gas steam and air conditioning supply sub-sector grew by 0.1% in 2010, compared to 6.3% in 2009. The reduction in growth rate is primarily due to the decrease in demand for energy in line with reduced economic activities in response to the global financial crisis. In 2010, the electricity, gas, steam and air conditioning supply sub-sector accounted for 2.3% of nominal GDP.

The electricity, gas steam and air conditioning supply sub-sector grew by 6.3% in 2009, compared to 8.1% in 2008. The reduction in growth rate is primarily due to the decrease in demand for energy in line with reduced economic activities in response to the global financial crisis. In 2009, the electricity, gas, steam and air conditioning supply sub-sector accounted for 2.4% of nominal GDP.

#### *Agriculture*

The agriculture sector consists of agriculture, forestry and fishing. The agriculture sector recorded negative growth from 2009 to 2011, partly due to the reduced production of livestock due to extreme winter conditions in 2009 and 2010 and partly because growth of the industry sector, particularly the mining and quarrying sub-sector, and the service sector outpaced the growth of the agriculture sector.

The agriculture sector had a negative growth rate 0.5% in 2011, compared to a negative growth rate of 16.6% in 2010. The improvement on growth rate was primarily due to the implementation of the “Livestock Program” by the Government in 2011 to increase the production of livestock and related products. In 2011, the agriculture sector accounted for 12.3% of nominal GDP.

The agriculture sector experienced a negative growth rate of 16.6% in 2010, compared to a growth of 3.6% in 2009, primarily due to the severe loss of livestock in late 2009 and early 2010 as a result of extreme winter conditions. In 2010, the agriculture sector accounted for 14.3% of nominal GDP.

The agriculture sector grew by 3.6% in 2009, compared to 4.7% in 2008. The reduced growth rate in 2009 was primarily due to the continued effect of the severe loss of livestock in late 2009 as a result of extreme winter conditions. This was offset by the increased production in response to the Atar Campaign 3, one of the three campaigns to reclaim abandoned agricultural lands, which was launched by the Government in May 2008 to promote the agriculture sector. In 2009, the agriculture sector accounted for 17.9% of nominal GDP. Mongolia exports meat products to Russia, Japan, South Korea and China.

The following table sets forth volumes of meat exports for the periods indicated:

|                      | Year ended December 31, |                     |                     |                     |                     |
|----------------------|-------------------------|---------------------|---------------------|---------------------|---------------------|
|                      | 2007 <sup>(1)</sup>     | 2008 <sup>(2)</sup> | 2009 <sup>(2)</sup> | 2010 <sup>(2)</sup> | 2011 <sup>(2)</sup> |
|                      | (Thousand tons)         |                     |                     |                     |                     |
| Meat export. . . . . | 10.9                    | 10.3                | 18.0                | 26.8                | 10.6                |

*Sources:*

- (1) Unless otherwise stated, the data are from National Statistical Office of Mongolia, Statistical Yearbook 2010.  
(2) Unless otherwise stated, the data are from National Statistical Office of Mongolia, Statistical Yearbook 2011.

## ***Service***

### *Wholesale and Retail Trade*

The wholesale and retail trade sub-sector grew by 38.3% in 2011, compared to 39.3% in 2010. The growth of the wholesale and retail trade sub-sector in 2011 was mainly driven by robust economic growth and improved living standards of the local population. In 2011, the wholesale and retail trade sub-sector accounted for 9.2% of nominal GDP.

The wholesale and retail trade sub-sector grew by 39.3% in 2010, compared to a negative growth rate of 11.8% in 2009, primarily due to the increase in export and import activities in connection with the gradual recovery in international markets from the financial crisis and growth in domestic trade. In 2010, the wholesale and retail trade sub-sector accounted for 8.3% of nominal GDP.

The wholesale and retail trade sub-sector had a negative growth rate of 11.8% in 2009, compared to a growth rate of 15.0% in 2008, primarily due to reduced exports as a result of the global recession. In 2009, the wholesale and retail trade sub-sector accounted for 6.7% 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 are air, rail, road and water operating in the country.

The transportation and storage sub-sector grew by 9.1% in 2011, compared to 7.0% in 2010. This increase in growth rate was primarily due to the increased demand for transportation infrastructure and transportation services driven by Mongolia's overall economic growth. The overall volume of freight transport grew by 14.7 million tons or 49.9% compared to 2010. This was mainly caused by a rise in the amount of coal mined in the territory of Omnogovi province. The overall number of passengers grew by 45.5 million passengers or 18.2% compared to 2010. In 2011, the transportation and storage sub-sector accounted for 7.1% of nominal GDP.

The growth in the transportation and storage sector slowed down in 2010. In 2010, the growth rate was 7.0%, compared to 8.0% in 2009. This reduction in the growth rate in 2010 was due to a continuous slowdown in economic activities as a result of the financial crisis. The overall volume of freight transport grew by 4.7 million tons or 18.9% compared to 2009. The overall number of passengers grew by 18.2 million or 7.8% compared to 2009. In 2010, the transportation and storage sub-sector accounted for 7.7% of nominal GDP.

The growth in the transportation and storage sector slowed down in 2009. In 2009, the growth rate was 8.0%, compared to 19.3% in 2008. The reduction in the growth rate in 2009 was mainly due to a slowdown

in economic activities as a result of the financial crisis. In 2009, the transportation and storage sub-sector accounted for 8.3% of nominal GDP.

### *Real Estate*

The real estate sub-sector grew by 4.6% in 2011, compared to 0.2% in 2010, primarily due to the rising demand for affordable accommodation and commercial property driven by an increase in mining activities, an increased number of expatriates relocating to Mongolia and improved living standards of the local population. In 2011, the real estate sub-sector accounted for 6.9% of nominal GDP.

The real estate sub-sector grew by 0.2% in 2010, compared to 8.4% in 2009. The significant decline in growth rate was mainly due to the impact on the local housing market as a result of the financial crisis. In 2010, the real estate sub-sector accounted for 6.6% of nominal GDP.

The real estate sub-sector grew by 8.4% in 2009, compared to 8.3% in 2008. In 2009, the real estate sub-sector accounted for 7.3% 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 grew by 1.7% in 2011, compared to a negative growth rate of 1.1% in 2010, primarily due to an increase in investment in education to improve educational infrastructure initiated by the Government. In 2011, the education sub-sector accounted for 4.0% of nominal GDP.

The education sub-sector had a negative growth rate of 1.1% in 2010, compared to a growth rate of 4.2% in 2009, primarily due to an almost flat investment in education from 2009 to 2010 as well as Government initiative to improve educational infrastructure. In 2010, the education sub-sector accounted for 4.0% of nominal GDP.

The education sub-sector grew by 4.2% in 2009, compared to 6.3% in 2008, primarily due to yearly flat budgetary investment in education to improve educational infrastructure initiated by the Government. In 2009, the education sub-sector accounted for 4.7% of nominal GDP.

### *Information and Communication*

The information and communication sub-sector grew by 5.2% in 2011, compared to 6.4% in 2010, primarily due to an increase in number of fixed lines, number of cellular subscribers and number of cable television subscribers. In 2011, the information and communication sub-sector accounted for 2.7% of nominal GDP.

The information and communication sub-sector grew by 6.4% in 2010, compared to 7.5% in 2009, primarily due to an increase in number of fixed lines, number of cellular subscribers and number of cable television subscribers. In 2010, the information and communication sub-sector accounted for 2.9% of nominal GDP.

The information and communication sub-sector grew by 7.5% in 2009, compared to 19.0% recorded in 2008, primarily due to an increase in number of fixed lines, number of cellular subscribers and number of cable television subscribers. In 2009, the information and communication sub-sector accounted for 3.3% 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 38.5% in 2011, compared to 0.3% in 2010, primarily due to an increase in demand of financial services fueled by the continued growth of the economy and an increased demand of real properties. In 2011, the financial and insurance sub-sector accounted for 3.4% of nominal GDP.

The financial and insurance activities sub-sector grew by 0.3% in 2010, compared to a negative growth rate of 15.6% in 2009, primarily due to the Government's recovery policy in response to the global financial crisis. In 2010, the financial and insurance activities sub-sector accounted for 2.8% of nominal GDP.

The financial and insurance activities sub-sector had a negative growth rate of 15.6% in 2009, compared to a growth rate of 30.4% in 2008, primarily due to the negative effects of the global financial crisis on domestic financial and insurance markets. In 2009, the financial and insurance activities sub-sector accounted for 3.2% of nominal GDP.

### **Mining**

Mongolia's mining industry is still in its early stages 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 are expected to have a positive impact on Mongolia's overall economic situation as commercial production commences.

#### ***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. The Oyu Tolgoi copper mine was discovered in 2001 and is expected to produce more than 0.6 million tons of copper, 20.3 tons of gold and 93.8 tons of silver per annum once it reaches full production in 2018.

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 Resources ("Turquoise Hill") (formerly known as Ivanhoe Mines) holds a 66% equity interest. Rio Tinto, a leading global mining company, holds a 51% equity interest in Turquoise Hill Resources; the remaining 29% 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. After the first 30 years have expired and within one year after the Investment Agreement has been renewed, the Government has the option to acquire a further 16% equity stake in the Oyu Tolgoi mines, subject to the unanimous agreement among the project owners. Pursuant to the Investment Agreement, major tax rates relating to the mining of Oyu Tolgoi are fixed for the life of the Investment Agreement, including but not limited to corporate income tax, customs duty, value-added tax, excise tax, royalties and taxes related to the payment of exploration and mining licenses.

In 2011, the Government and Rio Tinto discussed the possibility of amending the vesting period for the Government's option to acquire a further interest in the Oyu Tolgoi mine. On October 6, 2011, the Government and Rio Tinto issued a joint statement providing that they had concluded discussions and confirmed that both parties had reaffirmed their continued support for the Investment Agreement and its implementation.

In 2012, the Government passed a proposal to increase taxes relating to the mining of Oyu Tolgoi by imposing a progressive royalty scheme as a replacement for the abolished windfall profits tax on copper and gold. The proposed increase in taxes and royalties is part of the Government's 2013 budget. On October 15, 2012, Turquoise Hill reported on its website that it had rejected the Government's request to renegotiate the Investment Agreement. As at the date of this Information Memorandum, the Government and Turquoise Hill have decided not to amend the Investment Agreement. However, the Government and Turquoise Hill are further discussing clarifications to certain provisions of the Agreement. The Government Action Plan specifies that the Government "will study making amendments to the stability, investment and product-sharing agreements concluded with investors in the mining, energy, and petroleum sectors and will decide on amendments through mutual discussion with investors."

Oyu Tolgoi is the largest financial undertaking in Mongolia's history. As of August 31, 2012, U.S.\$6.2 billion has already been invested by Rio Tinto and Turquoise Hill. The Investment Agreement 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. Commercial production of the Oyu Tolgoi mine was originally scheduled to commence in the third quarter of 2012 but was delayed due to prolonged negotiations between Mongolia and China regarding the details of the power supply agreement to supply power to the mine. Commercial production at Oyu Tolgoi is scheduled to commence in the first half of 2013. 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. After the power purchase agreement was signed, Turquoise Hill began commissioning the power plant, which is expected to last for seven weeks. If there are no other delays, first production is expected to start approximately one month after the commissioning is completed and will then be followed by commercial production three to five months thereafter. According to Bertelsmann Stiftung, BTI 2012 – Mongolia Country Report, revenue from the Oyu Tolgoi mine is expected to account for approximately 30% of Mongolia's GDP at full production, which is expected to be reached in 2018.

- **Tavan Tolgoi:** According to the Australasian Joint Ore Reserves Committee, 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 ("Erdenes TT"), 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 is approximately 3.5 million tons of coking coal. It is expected that commercial production of West Tsankhi will begin in 2013. The combined production of East and West Tsankhi is expected to produce 40 to 50 million tons of coking coal annually starting from 2017. Total production for both East and West Tsankhi, which includes both coking and thermal coal, is estimated to reach approximately 6 to 7 million tons annually in 2013, approximately 10 million tons annually in 2014 and approximately 20 million tons annually in 2015.

One of the financing options considered by the Government and Erdenes TT to further develop East Tsankhi was to conduct an initial public offering (“IPO”) of Erdenes TT’s shares. The proceeds of the IPO would be used to finance the infrastructure investment in East Tsankhi as well as to make a tax prepayment to the Government that would then be channeled to the Human Development Fund to finance MNT1.0 million (approximately U.S.\$745) cash transfers to every Mongolian citizen. These welfare transfers are part of the wealth distribution scheme passed by the Mongolian People’s Party before the June 28, 2012 parliamentary elections and were paid with cash or by distributing shares of Erdenes TT to Mongolian citizens. In April 2012, the Parliament resolved to distribute 20% of Erdenes TT shares for free to Mongolian citizens. In May 2012, 20% of all shares of Erdenes TT were distributed to the accounts of Mongolian citizens. In June 2012, the Cabinet further resolved to distribute one preferred stock of Erdenes MGL, a state-owned company having interests in various strategic mines, to each citizen. In June 2012, pursuant to the 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 TT’s shares, however, has been delayed. As at the date of this Information Memorandum, it is uncertain when or if East Tsankhi will be listed. The Government is currently evaluating the possibility of developing Tavan Tolgoi as one entity.

### ***Key Mines***

*Mongolia’s 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 Aluminum Corporation of China Limited (“Chalco”), a Chinese state-controlled aluminum company, 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 the FIRL, enacted by the Parliament on May 17, 2012. In April 2012, the Ministry of Mining suspended South Gobi’s license to mine Ovoot Tolgoi pending an investigation by the IAAC relating to alleged tax evasion by South Gobi. This is part of a wider corruption investigation into 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 connection with this investigation, the Government is currently questioning South Gobi’s internal legal counsel in order to ascertain the allegations of tax evasion. 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 at the date of this Information Memorandum, South Gobi’s license to operate Ovoot Tolgoi had not been reinstated.
- **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 2011, the mine produced approximately 1.8 million tons of coking thermal coal;
- **Gatsuurt and Boroo:** The Gatsuurt and Boroo gold mines, which commenced production in 2004, are owned by Boroo Gold LLC, a wholly-owned Mongolian subsidiary of Centerra Gold, a Canadian gold mining company. 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;

- **Ulaan Ovoo:** The Ulaan Ovoo coal mine, wholly owned by Prophecy Coal Corporation, is located close to the Russian border as well as the rail link to China. The mine has commenced production, with over 200,000 tons of coal; and
- **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, of which Khavtgai and Chandgana Tal are part, ranks among the largest coal deposits in Mongolia.

### *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. All license holders of strategic deposits are expected to sell a minimum of 10% of their shares on the MSE.

As at the date of this Information Memorandum, 15 deposits have been designated as strategic, and the Government is currently evaluating another 39 mining sites.

The following table sets forth the 15 sites designated as strategic deposits:

| Mine  | Mineral resource   | Estimated reserves   |
|---|--------------------|--|
| 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% O3U8  |
| Dornot, Dornod <sup>(2)</sup> . . . . .             | Uranium            | 0.029 million tons at 0.175% O3U8  |
| Gurvanbulag, Dornod <sup>(2)</sup> . . . . .        | Uranium            | 0.016 million tons at 0.152% O3U8  |
| 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 sulphides at 0.53% Cu/0.018% Molybdenum |
| 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   |



| Mine   | Mineral resource | Estimated reserves                                     |
|--|------------------|--|
| 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                                     |

*Sources:*

- (1) Australasian Joint Ore Reserves Committee
- (2) ResCap, Mongolia 101, January 2011

The Ministry of Mining 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.

## Infrastructure

### *Overview*

In recent years, the Government has increased capital spending for the development of its railways, roads, airports, housing, electricity, water systems and telecommunications. Investments in infrastructure were 9.2% of total expenditure (4% of GDP) in 2011, 5.3% of total expenditure (1.8% of GDP) in 2010 and 6.8% of total expenditure (2.5% of GDP) in 2009, respectively. The Government will apply a portion of the net use of proceeds from each issue of Notes (unless specified otherwise in the relevant Pricing Supplement) to fund new railway projects, design and construction of roads and highways and construction of new power plants.

The cost of developing infrastructure to support Mongolia's mining sector is substantial. A total investment of approximately U.S.\$8.0 billion will be required to upgrade existing railway capacities and to build new ones. Separately, the World Bank estimates that the infrastructure for the Oyu Tolgoi and the Tavan Tolgoi mining projects alone will require an additional investment of U.S.\$5.0 billion over the next five years.

The Government is also seeking private sector investments through public partnerships. The Concessions Law adopted in 2012 sets the legal framework for the development of infrastructure projects in Mongolia. The Government has thus far identified 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, the Sainshand Industrial Park and the "100,000 housing project."

The Government proposes the building of a road network connecting all the aimags to Ulaanbaatar and other major cities in Mongolia allowing its population access to its cities. The Government also aims to construct a railway network and new housing projects near mining towns. These projects are expected to alleviate the problems of urbanization, such as overcrowding, inadequate living conditions, lack of sufficient social and public infrastructure, health problems and high crime rates.

The following table sets forth information about the Government's ongoing infrastructure-related projects and the total investment amount for the six months ended June 30, 2012:

| Sector                              | Project Name                                  | Commencement Year | Estimated Year of Completion | Total Amount of Investment <sup>(1)</sup><br>(U.S.\$ millions) |
|-------------------------------------|---|-------------------|------------------------------|--|
| Railway . . . . .                   | Tavan Tolgoi – Gashuun Sukhait                | 2012              | 2015                         | 625  |
|                                     | Tavan Tolgoi – Sainshand                      | 2013              | 2016                         | 1,125  |
|                                     | Sainshand – Choibalsan                        | 2013              | 2016                         | 1,625  |
| Road . . . . .                      | Tarialan – Murun                              | 2012              | 2013                         | 36   |
|                                     | Undurkhaan – Choibalsan                       | 2012              | 2013                         | 44   |
|                                     | Tosontsengel – Uliastai                       | 2012              | 2013                         | 41   |
|                                     | Murun – Ulaanbaatar                           | 2012              | 2013                         | 27   |
|                                     | Uliastai – Ulaanbaatar                        | 2012              | 2014                         | 28   |
|                                     | Choibalsan – Ulaanbaatar                      | 2012              | 2014                         | 32   |
|                                     | Ulaanbaatar – Baruun Urt                      | 2012              | 2014                         | 48   |
|                                     | Ulaangom – Ulaanbaatar                        | 2012              | 2013                         | 36   |
|                                     | Dalanzadgad – Ulaanbaatar                     | 2012              | 2013                         | 30   |
|                                     | Tsahir – Tosontsengel                         | 2012              | 2014                         | 45   |
|                                     | Ulaanbaata – Mandalgobi                       | 2012              | 2013                         | 35   |
|                                     | Road constructions for Ulaanbaatar            | 2012              | 2014                         | 78   |
| Housing . . . . .                   | 100,000 Housing Project                       | 2011              | 2016                         | –  |
|                                     | Buyant Ukhaa                                  | 2012              | 2014                         | 68   |
| Airport. . . . .                    | Koshigt Valley Airport                        | 2012              | 2017                         | 270  |
| Electricity . . . . .               | TPP#4 <sup>(2)</sup><br>(expansion by 100 MW) | 2012              | 2014                         | 70   |
|                                     | TPP#5 <sup>(3)</sup>                          | 2011              | 2015                         | 1,400  |
| Sainshand Industrial Park . . . . . | Sainshand Industrial Park                     | 2013              | 2020                         | 9,500  |

Sources: Ministry of Mining, Ministry of Road and Transportation and Ministry of Construction and Urban Development

Notes:

- (1) Total amount of investment refers to the total investment in the project, whether by the Government or by foreign investors.
- (2) TPP#4 is a major thermal coal power plant in Mongolia's Central Energy System.
- (3) TPP#5 is the planned thermal coal power plant to be fueled by lignite coal.

### 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 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 a railway policy under which approximately 5,600 kilometers of new railway lines will be built

in three phases on the Russian-gauge standard. 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 Government plans to implement the railway projects pursuant to design, build, operate, maintain and transfer concession agreements but, in accordance with Mongolian law, it will retain majority ownership rights in all three phases of the railway network. Both Phase I and Phase II are expected to have private sector participation. The following map sets out the existing railway network of Mongolia and Phase I and II of the proposed constructions:



Phase I involves the construction of the Tavan Tolgoi – Sainshand Choibalsan Railway Network, a 1,800-kilometer main railway line from the Tavan Tolgoi coal deposit to Choibalsan on the northern Russian border via the Sainshand Industrial Park. This new main line will intersect at the existing railway at Sainshand (the “Mongolian Railway”). The Government believes that completion of Phase I will diversify the export routes away from China, opening the possibility of exporting to Japan, South Korea, the United States and other countries through Russia’s Far East ports. Phase II will connect the mineral deposits along the southern perimeter of Mongolia to the main railway line and to the Chinese markets.

The Government began combined construction of Phases I and II in July 2012 after completing feasibility studies. The estimated completion for both phases is 2014. Currently, environmental impact and geological studies are being conducted on both phases.

The proposed routes for Phases I and II are as follows:

Phase I (approximately 1,800 kilometers in total)

- Dalanzadgad – Tavantolgoi – Tsagaan Suvruga – Zuunbayan – 400 kilometers
- Sainshand – Baruun Urt – 350 kilometers
- Baruun Urt – Khuut – 140 kilometers

- Khuut – Choibalsan – 150 kilometers
- Nariin Sukhait – Shivee Khuren – 45.5 kilometers
- Ukhaa Hudag – Gashuun Sukhait – 267 kilometers
- Khuut – Tamsagbulag – Numrug – 380 kilometers

Phase II (approximately 200 kilometers in total)

- Khuut – Bichigt – 200 kilometers

Phase III would connect Mongolia to Russia and would eventually connect Mongolia to other international markets in the west by approximately 3,700 kilometers of railway lines. As at the date of this Information Memorandum, feasibility studies are being conducted for the Phase III routes.

The ongoing and planned expansion of the railway lines will provide direct railroad infrastructure access to key mineral deposits. These deposits will be connected to the Sainshand Industrial Park (where facilities to process the raw materials are being built) and will open up export routes to international markets via Russian and Chinese ports. Railway construction is expected to create opportunities for investors as well as construction and operating companies. Involvement of the private sector will include conducting geotechnical and environmental analysis, such as soil stripping.

### ***Roads***

Mongolia's road infrastructure is inadequate with only 3.5% of the roads being paved and many of the roads in Ulaanbaatar being over 20 years old and requiring maintenance. The total road network covers 49,250 kilometers of which 11,218 kilometers are state roads and 38,032 kilometers are provincial roads. Due to Mongolia's small population outside of Ulaanbaatar, road-population density is low, and the road network does not provide adequate geographical coverage within its territory. Low traffic volumes in most of the regions do not justify expanding roads and, due to weather conditions, construction of roads can only be carried out for six months in any given year.

The Government is also in the process of building a 990-kilometer north/south trans-Mongolian highway (the "Trans-Mongolian Highway") with the objective of sustaining and promoting the development of cross-border trade between China, Russia and Mongolia by improving transport infrastructure and logistics. It is expected that the Highway will facilitate Mongolia's goal of increasing exports. The Parliament approved its construction under the New Development Medium-Term Target Program in 2006. The estimated cost for construction is U.S.\$2 billion. The Government believes that it is likely to receive financial support from China and Russia for the construction of the Trans-Mongolian Highway because trade between China and Russia has been increasing. Furthermore, both China and Russia have discussed the possibility of establishing trade zones in strategic locations in proximity to the Trans-Mongolian



Highway and the current trade route from China to Russia, which goes around Mongolia, is approximately 700 kilometers longer than the proposed Trans-Mongolian Highway.



The Government also plans to build 5,570 kilometers of two-lane asphalt roads inter-connecting 21 aimags and connecting each aimag to Ulaanbaatar. Although these roads are not essential for trade purposes, they will form part of the public infrastructure and support the Government's plans to rebuild soum centers, and the existence of the roads is expected to help reduce the permanent migration of people from rural to urban areas. The estimated cost for this project is U.S.\$350 million. A feasibility study has not yet been conducted.

The Government also plans to rebuild an additional 350 kilometers of existing roads and build seven new flyovers and 212 kilometers of new roads. Construction for six of the seven flyovers as part of the Hambantota Project will commence before the end of 2012 with financing from the EXIM Bank of China. The expected completion date is October 30, 2015. The total EXIM Bank of China financing amount is U.S.\$500 million, repayable in 20 years with 2% annual interest, part of which has been used for the construction of various facilities and projects. The loan repayment will only begin after the seventh year. The Hambantota Project will be 85% financed by EXIM Bank of China and 15% by the Government of Sri Lanka. Construction of this project is expected to commence before the end of 2012 with an expected completion date of October 30, 2015. Contractors have not yet been appointed for this project. See "Technical and Financial Assistance."

## ***Airports***

Due to vast distances between destinations and the relatively undeveloped road network, Mongolia depends on air transportation to connect its major towns and cities. There are four national airlines: MIAT Mongolian Airlines (“MIAT”), Aero Mongolia, Blue Sky Aviation and Eznis Airways. MIAT is a state-owned airline with domestic flights and regular international flights to Russia, China, Japan, Germany, South Korea and Hong Kong. Mongolia has a total of 44 airports, of which 13 airports have paved runways. The Chinggis Khaan International Airport connects Ulaanbaatar to Beijing, Moscow, Seoul, Hong Kong and other destinations. In 2008, the Government announced its intention to build a new international airport in the Koshigt valley, 54 kilometers from Ulaanbaatar. The project is being financed through a 40-year U.S.\$270 million loan from the government of Japan. The initial construction work commenced in April 2012. The expected completion date has not yet been determined.

## ***Sainshand Industrial Park***

The Sainshand Industrial Park is expected to become a significant industrial complex for processing Mongolia’s raw materials and producing semi-finished and finished products for export. The Sainshand Industrial Park will be located in Sainshand, Dornogobi and will include a copper smelting factory, a crude petroleum refining factory and a coal gasification power plant. The Sainshand Industrial Park will also have mineral processing facilities. The Government views the development of its mineral resources via the Sainshand Industrial Park as an important part of its economic strategy to the extent that it will reduce the level of dependence of the Mongolian economy on commodity prices. The Government expects that the Sainshand Industrial Park will increase the competitiveness of Mongolia’s industry sector and foster the development and integration of industries that are inter-related in terms of sector activities, techniques and technology. The Sainshand Industrial Park is also expected to increase the production of value-added products, which will help diversify the economy and create a positive impact on the social and economic development of Mongolia. Construction for the Sainshand Industrial Park will commence in 2013 and is expected to be completed in 2016.

The Tavan Tolgoi – Sainshand Choibalsan Railway Network will be built from Tavan Tolgoi through the Sainshand Industrial Park to Choibalsan, where it will connect to the Russian Trans-Siberian railway. Coal from Tavan Tolgoi, iron ore from Darkhan and copper concentrates from Oyu Tolgoi and Tsagaan Suurga will be transported by railway to the Sainshand Industrial Park to be processed before being exported.

The Sainshand Industrial Park requires an investment of approximately U.S.\$10 billion, 60% of which is intended to come from the private sector and 40% of which will be financed by the Government. Financing is expected to come in the form of borrowings from private and public institutions and issuances of equity. The Government has appointed Bechtel Corp. (“Bechtel”) as its engineering consultant. Bechtel will oversee debt financing options for each component of the site and will handle any related economic analyses. In order to encourage private sector involvement, the Government plans to provide land management services, infrastructure such as power lines and other utilities and create a favorable investment environment by providing tax incentives and subsidies.

## ***Housing***

One of the Government’s prime objectives is to provide affordable quality housing for its citizens across the country. Approximately 60% of the population lives in traditional gers. Gers are portable round tents that consist of a wooden frame and felt walls. The streets in the gercommunities are unpaved, water supply is sporadic, waste is collected irregularly and the vast majority of the gerpopulation is not connected to any utilities. Instead, during the winter, the gerpopulation 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 gerpopulation. In an effort to encourage

the use of energy-efficient stoves and semi-coking coal to reduce air pollution, the Government is working with MCC to provide subsidies to families who switch from thermal coal stoves to energy-efficient stoves.

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. Their low income in addition to inadequate social services, medical facilities, urban services and education have caused various social problems.

In an effort to address the environmental and social problems caused by the gers, the 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 will be built in Ulaanbaatar and 25,000 will be built close to new mining developments. The 75,000 homes planned for Ulaanbaatar will not be enough to house the entire gerpopulation, but the project is expected to have a significant impact on the current situation by providing affordable housing to a portion of the gerpopulation. In total, 17 different locations have been set aside for the new housing projects in and around Ulaanbaatar. As at the date of this Information Memorandum, the Government has commenced work on six locations. This housing project is expected to be completed by 2016.

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.

In order to assist the gerpopulation 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.

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 are expected to be developed between 2010 and 2016. The first of the soum centers were developed at Erdene soum of Tuv aimag and Khanbogd soum of Umnogovi aimag. The soum centers will have improved living conditions and have access to social infrastructure facilities such as hospitals, schools and employment opportunities. In 2011, 13,349 apartments were constructed, and approximately 28,300 additional apartments are expected to be constructed in the first half of 2013. Of the 28,300 additional apartments to be constructed, approximately 17,000 will have an area of less than 50 square meters.

### ***Electricity***

From 2007 to 2011, demand for electricity grew at an average of 6% annually. The significant increase in Mongolia’s energy demand is being driven by the rapid development of the country’s mining based economy. The total demand for energy in Mongolia is expected to increase from 711 megawatts (“MW”) in 2011 to 1,375 MW in 2015. The Government estimates that approximately 770-840 MW of new generation capacity must be built over the next four years in order to meet the energy demands of Mongolia’s planned mining developments and infrastructure projects.

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, 91% of the country’s electricity being produced by the CES and 96% of the country’s electricity demand being met by the CES. In general, electricity and heat are supplied by five combined



heat and power (“CHP”) plants. 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 is causing an ongoing energy deficit, which is currently being offset by imports from Russia.

Most of the CHP plants 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. Power interruptions are common, and some remote areas remain without electricity. In these areas, diesel oil, wood, and dried horse and camel dung is used as fuel. 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 2011, 5.8% 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 the operation of 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 approximately 80% of the country’s power in 2011.

There are currently five major thermal coal power plants (each a “TPP”) in the CES. TPP #2 is expected to retire at the end of 2012, and TPP #3 is expected to retire in 2016. As Mongolia’s capital, 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 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 power plants.

As a response to the increased demand for energy, the Government plans to expand the current electricity and heating capacity of TPP #4 to 580 MW and 1,185 gram-calories per hour of heating and to build a new TPP in Ulaanbaatar to be fueled by lignite coal, TPP #5. The expansion of TPP #4 will be financed by DBM and supervised by the Ministry of Economic Development and the Ministry of Energy. The expansion project is to be completed within the first half of 2014. The budget for the overall project is not to exceed U.S.\$70 million.

In July 2008, the Government issued a request for proposals for TPP #5, with a capacity of 300 MW of electricity and 700 gram-calories per hour of heating. In July 2009, the Ministry of Mineral Resources and Energy and the Ministry of Finance signed a Memorandum of Understanding with ADB to finance the project’s feasibility study. The project will be constructed pursuant to a design, build, operate, maintain and transfer concession agreement. The Government’s preferred bidder is a consortium that comprises International Power (30%), Sojitz Corporation (30%), POSCO ENERGY (30%) and Newcom LLC (10%). TPP #5’s original proposed location was changed due to high property relocation costs, insufficient road capacity, poor water supply and limited storage space. The Parliament is currently considering two other potential locations for the plant, one in the Bayanzurh area and the other in the Honhor area. Both locations are outside the city in the east, accessible by railway and have sufficient space for the plant. The Government estimates investment costs for the plant to be U.S.\$1.4 billion of which U.S.\$600 million is expected to be required for the first phase of construction. As at the date of this Information Memorandum, the Government expects the first phase of construction to be completed by 2016 with the plant functioning at full capacity by 2020.

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, the 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. As at the date of this Information Memorandum, it is uncertain when this step-by-step liberalization of energy tariffs will be implemented.

Developing Mongolia's renewable energy sources and importing electricity from Russia are other alternatives to meet electricity demands. Currently, renewable energy (hydro, solar and wind) only represents 4% of Mongolia's total electricity generating capacity. In terms of wind power, Mongolia's Newcom LLC, which retains a majority interest in the Mongolian project company, Clean Energy LLC, will begin construction of the Salkit wind farm, the first sizable wind power plant in Mongolia with an expected installed capacity of 50 MW. In 2011, total production of electricity was 4.8 billion KW per hour and heat production was 8,682.9 gram-calories per hour of heating. In 2011, Mongolia imported 5.7% of its annual utilized electricity from Russia. 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.

### ***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 has access to water of satisfactory quality and 25% to proper sanitation. 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 U.S.\$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 Orhon and Kherien rivers. The estimated capital cost of such project is U.S.\$500 million. However, the environmental impact of using water from the Orhan and Kherien rivers has yet to be assessed.

The Mongolian water sector is underdeveloped primarily due to a lack of financial resources and low tariffs that are insufficient to cover related costs. The Government Action Plan sets forth plans to increase the proportion of the population having access to satisfactory water from 35% to 70% and increase access to proper sanitation from 25% to 50% by 2015. To meet the Government Action Plan targets, investments in the water sector, including costs relating to water supply, sanitation and sewerage, are estimated to be approximately U.S.\$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, |                     |                     |                     |                     | Average number for the six months ended June 30, |
|---|--|---------------------|---------------------|---------------------|---------------------|--|
|   | 2007 <sup>(1)</sup>                            | 2008 <sup>(2)</sup> | 2009 <sup>(2)</sup> | 2010 <sup>(2)</sup> | 2011 <sup>(2)</sup> | 2012 <sup>(3),(4)</sup>                          |
|   | (by thousand persons)                          |                     |                     |                     |                     |  |
| Labor force . . . . .                               | 1,054.0  | 1,071.5             | 1,137.9             | 1,147.1             | 1,124.7             | 1,155.3  |
| Unemployment rate . . . . .                         | 9.2%   | 9.2%                | 11.6%               | 9.9%                | 7.7%                | 8.4%   |
| <b>Paid employment</b>                              |  |                     |                     |                     |                     |  |
| Agriculture . . . . .                               | 385.6  | 377.6               | 348.8               | 346.6               | 342.8               | 345.0  |
| Wholesale and retail trade . . . . .                | 162.2  | 169.7               | 160.3               | 146.2               | 152.5               | 141.0  |
| Education . . . . .                                 | 64.8   | 66.2                | 74.9                | 85.3                | 85.5                | 82.9   |
| Transportation and storage . . . . .                | 33.2   | 35.8                | 68.7                | 76.5                | 75.8                | 60.3   |
| Manufacturing . . . . .                             | 47.9   | 47.5                | 62.7                | 64.8                | 65.8                | 70.2   |
| Public administration and defense . . . . .         | 48.5   | 50.9                | 56.1                | 61.0                | 55.6                | 72.9   |
| Construction . . . . .                              | 60.0   | 66.8                | 49.6                | 48.8                | 52.0                | 56.3   |
| Human health and social work activities . . . . .   | 40.2   | 42.3                | 35.7                | 40.3                | 36.4                | 45.1   |
| Mining . . . . .                                    | 44.1   | 46.5                | 34.8                | 34.1                | 45.1                | 50.8   |
| Accommodation and food service activities . . . . . | 32.4   | 34.5                | 23.3                | 27.7                | 26.4                | 26.9   |
| Other service activities . . . . .                  | 19.7   | 19.7                | 22.3                | 21.4                | 21.8                | 21.6   |
| Financial and insurance . . . . .                   | 17.4   | 19.8                | 12.3                | 15.2                | 16.6                | 14.5   |
| Other . . . . .                                     | 68.1   | 64.4                | 56.8                | 65.8                | 70.5                | 71.2   |
| <b>Total . . . . .</b>                              | <b>1,024.1</b>                                 | <b>1,041.7</b>      | <b>1,006.4</b>      | <b>1,033.7</b>      | <b>1,037.7</b>      | <b>1,058.4</b>                                   |

Sources:

- (1) The data are from National Statistical Office of Mongolia, Statistical Yearbook 2010.
- (2) The data are from National Statistical Office of Mongolia, Statistical Yearbook 2011.
- (3) The data are from National Statistical Office of Mongolia, June 2012 Monthly Bulletin.
- (4) Provisional figures subject to further adjustments.

For the six months ended June 30, 2012, the formal unemployment rate was 8.4%. In 2011, the formal unemployment rate was 7.7%, compared to 9.9% in 2010. This decrease was due to an increase in mining-related jobs. In 2010, the formal unemployment rate was 9.9%, compared to 11.6% in 2009. This decrease was primarily due to an increase in mining-related jobs. The formal unemployment rate, however, has tended to underestimate the true extent of unemployment, which is better gauged through labor force surveys. The last survey from the National Statistics Office for the year ended December 31, 2011 estimated the unemployment rate at 9%, down from 13% in the fourth quarter of 2010. In 2011 and for the six months ended June 30, 2012, the highest percentage of paid employers worked in the agriculture

sector (including forestry, fishing and hunting). For the year ended December 31, 2010, the estimated unemployment rate was 9.9% down from 11.6% in 2009.

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 is responsible for providing training to the labor force in order to increase the number of skilled workers in Mongolia's labor force.

### **Wages**

As at the date of this Information Memorandum, the monthly minimum wage set by the labor authorities is MNT140,400 or approximately U.S.\$104.6.

The following table sets out the estimated national average monthly wages for the periods indicated:

|                                  | For the year ended December 31, |                     |                     |                     |                     | For the six months ended June 30, |
|----------------------------------|---------------------------------|---------------------|---------------------|---------------------|---------------------|-----------------------------------|
|                                  | 2007 <sup>(1)</sup>             | 2008 <sup>(2)</sup> | 2009 <sup>(2)</sup> | 2010 <sup>(2)</sup> | 2011 <sup>(2)</sup> | 2012 <sup>(3)(4)</sup>            |
|                                  | (MNT thousands)                 |                     |                     |                     |                     |                                   |
| National average monthly wages . | 173.0                           | 274.2               | 300.5               | 341.5               | 424.2               | 571.7                             |

#### *Sources:*

- (1) The data are from National Statistical Office of Mongolia, Statistical Yearbook 2010.
- (2) The data are from National Statistical Office of Mongolia, Statistical Yearbook 2011.
- (3) The data are from National Statistical Office of Mongolia, June 2012 Monthly Bulletin.
- (4) Provisional figures subject to further adjustments.

National average monthly wages increased from MNT341,500 (U.S.\$271.6) in 2010 to MNT424,200 (U.S.\$303.8) in 2011, primarily due to an increase in the wages of government employees and the growth in the mining sector. Estimated growth in real wages for the six months ended June 30, 2012 was MNT571,700 (U.S.\$425.9). In 2011, salaries were highest in the mining sector followed by the manufacturing, transport and communication, public sector and education sectors. According to "Informal Labor Market Survey," the wages paid to casual labor showed an increase of almost 50% in the second quarter of 2011 compared to the first quarter of 2011.

The World Economic Forum's Global Gender Gap Index ranked Mongolia 36th in the world in 2011 for its gender equality. Mongolian women, however, have lower levels of income for similar work and higher levels of unemployment and poverty than men. Limited access to assets (land and livestock), under-representation of women in senior management and decision-making positions in both public and private sectors, increased vulnerability to poverty and traditional gender-based divisions of labor.

### **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 the year ended December 31, 2011, the social insurance fund's revenue was MNT755.5 billion (U.S.\$541.0 million) and expenditure was MNT599.1 billion (U.S.\$429.0 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 Population Development and Social Protection 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 MNT140,400 (U.S.\$104.6) payable per month and employers are required to contribute 11% to 13% depending upon the industry, and their contributions are not capped.

### ***Overseas Mongolians***

According to Tsahim Urtuu, a non-government organization, approximately 200,000 Mongolians live abroad and remit approximately U.S.\$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 U.S.\$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 Parliament standing committees, and representatives from private sector associations to formulate competitiveness-based tax reform objectives, draft model laws, conduct economic and fiscal impact analyses, 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 improve competitiveness and reduced 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 MNT2,688.2 billion (U.S.\$2,138.3 million) in 2010 to MNT3,636.9 billion (U.S.\$2,604.5 million) in 2011, an increase of MNT948.6 billion (U.S.\$679.3 million), or 35.3%.

Additionally, in 2009, the 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 MNT3 billion (U.S.\$2.2 million) of taxable income and MNT300 million (U.S.\$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. 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 thirty-three countries, and six other jurisdictions are pending finalization. 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, the 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 will terminate on January 1, 2014, and the DTAs with the United Arab Emirates and Kuwait will terminate on January 1, 2013.

Withholding tax on dividends and royalties is applicable to corporate entities resident in Mongolia. Dividends and interest income are exempt from taxation for individuals until 2013. However, withholding tax on royalties is payable. 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.

A foreign investor investing certain amounts may apply for a stability agreement to govern their investment, providing stable tax conditions for a fixed term. Currently, an initial investment in the amount of U.S.\$20 million will permit a ten-year term and an investment of more than U.S.\$50 million investment will permit a fifteen-year term. A stability agreement covers tax stability and other business rights.



## **Environment**

Ulaanbaatar is the world's coldest capital city. During the winter months of December to February, the air quality worsens because of coal-fueled stoves and boilers used in the gers for heating and cooking. For 33% of the population that lives below the poverty line, the only source of heating is poor quality stoves or individual household boilers fueled by coal, wood and in some cases, black tar dipped bricks or old car tires. Apartment buildings in Ulaanbaatar are heated by three coal-burning heat and power stations. All forms of household heating in Ulaanbaatar contribute to air pollution. Further, an increasing number of cars combined with poor road infrastructure lead to emissions of carbon dioxide, carbon monoxide, sulphur dioxide and nitrogen oxide into the air.

According to 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. 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 rapid rate.

The Air Law was passed in the 2010 by the Parliament to reduce air pollution in Mongolia. Individuals and corporate entities will be fined for using air pollutants. Such fines will be deposited in the Clean Air Fund and will be used for adopting and publicizing anti-pollution measures, and for supporting producers of environment-friendly fuel and stoves. Under the 2013 budget, MNT31 billion (approximately U.S.\$23.1 million) or 0.4% of the total budget was allocated to Clean Air Fund. This was slightly higher than the amount allocated under the 2012 budget, which was MNT30 billion (approximately U.S.\$22.4 million) or 0.5% of the total budget, primarily due to the Government's continued commitment to reduce air pollution. Under the 2010 budget, MNT13 billion (U.S.\$10.3 million) was assigned to the Clean Air Fund.

## **Foreign Trade**

In the first half of 2012, foreign trade led to a total external trade turnover of U.S.\$5.6 billion of which exports represented U.S.\$2.3 billion and imports represented U.S.\$3.3 billion, according to the National Statistical Office of Mongolia. Total external trade turnover increased by U.S.\$0.9 billion, exports increased by U.S.\$0.3 billion and imports increased by U.S.\$0.6 billion, compared to the same period in 2011.

Mongolia is currently negotiating free trade agreements with China, Japan, South Korea and the EU. The EU is Mongolia's third largest trading partner 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 program, 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. Under the Government Action Plan, additional road and rail links connecting major mining sites and industrial areas to Russian and Chinese ports and borders will be constructed and existing facilities will be rehabilitated.

## Exports and Imports

Mongolia principally exports to and imports from its two neighbors, China and Russia. During the first half of 2012, foreign trade increased approximately 18.2% compared to the same period in 2011. The major contributors were mineral commodities and raw materials, specifically coal, copper concentrate, iron ore, crude oil, combed and washed cashmere, zinc ore and concentrate, gold, fluorspar and molybdenum concentrate. In 2011, mineral exports were comprised of coal (47.2%), copper (20.9%), iron ores and scrap (9.2%), crude oil (5.3%), zinc 3.0% and gold (2.3%). Given that mineral commodities and raw materials made up approximately 91% of the total exports, 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<br>by country of destination | For the year ended December 31, |                       |                       |                       |                       | For the six<br>months<br>ended<br>June 30, |
|--|---------------------------------|-----------------------|-----------------------|-----------------------|-----------------------|--|
|  | 2007 <sup>(1)</sup>             | 2008 <sup>(2)</sup>   | 2009 <sup>(2)</sup>   | 2010 <sup>(2)</sup>   | 2011 <sup>(3)</sup>   | 2012 <sup>(3)(4)</sup>                     |
|  | (U.S.\$ millions)               |                       |                       |                       |                       |  |
| China . . . . .  | 1,411.4                         | 1,635.9               | 1,393.9               | 2,466.3               | 4,439.9               | 2,125.5                                    |
| Canada . . . . .   | 178.6                           | 174.6                 | 147.5                 | 141.6                 | 90.8                  | 40.1                                       |
| United States . . . . .                                  | 99.9                            | 114.2                 | 13.9                  | 6.0                   | 5.0                   | 2.1  |
| Russia . . . . .   | 58.5                            | 86.3                  | 68.2                  | 82.7                  | 96.3                  | 33.9                                       |
| United Kingdom . . . . .                                 | 22.1                            | 165.8                 | 126.9                 | 67.4                  | 20.0                  | 3.9  |
| Italy . . . . .  | 56.7                            | 42.2                  | 31.4                  | 31.8                  | 49.8                  | 9.3  |
| South Korea . . . . .                                    | 41.5                            | 29.9                  | 15.5                  | 30.5                  | 37.9                  | 4.9  |
| Germany . . . . .  | 17.8                            | 11.0                  | 15.6                  | 22.1                  | 14.9                  | 7.7  |
| France . . . . .   | 5.4                             | 30.3                  | 2.2                   | 3.9                   | 7.7                   | 1.3  |
| Switzerland . . . . .                                    | 1.8                             | 2.1                   | 2.8                   | 2.9                   | 18.0                  | 7.3  |
| Japan . . . . .  | 15.1                            | 27.6                  | 4.6                   | 2.7                   | 11.0                  | 1.7  |
| Others . . . . .   | 38.7                            | 214.6                 | 62.8                  | 50.6                  | 26.2                  | 24.6                                       |
| <b>Total . . . . .</b>                                   | <b><u>1,947.5</u></b>           | <b><u>2,534.5</u></b> | <b><u>1,885.4</u></b> | <b><u>2,908.5</u></b> | <b><u>4,817.5</u></b> | <b><u>2,262.3</u></b>                      |

### Sources:

- (1) The data are from National Statistical Office of Mongolia, Statistical Yearbook 2010.
- (2) The data are from National Statistical Office of Mongolia, Statistical Yearbook 2011.
- (3) The data are from National Statistical Office of Mongolia, June 2012 Monthly Bulletin.
- (4) Provisional figures subject to further adjustments.

In the first half of 2012, the principal destination for exports was China, which accounted for 94.0% of total exports from Mongolia. Other countries, including Canada and Russia, accounted for less than 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 10.3 million tons in the first half of 2012, representing a 33.8% increase over the 7.7 million tons in the same period in 2011. Mongolia continues to be the largest supplier of coking coal to China, with its exports accounting for approximately 33.7% of China's total coking coal imports in the first half of 2012, according to the China Coal Resource.

In 2011, earnings from exports increased by 65.6% to U.S.\$4,817.5 million, compared to 2010, reflecting improved external demand amidst the global economic recovery and enhanced domestic economic activity. The largest contribution to the growth in exports was from the industry sector. Coal exports grew by 27.3% to 21.3 million tons in 2011, compared to 2010, reflecting higher volumes and prices. Within the agriculture sector, the largest contribution to the growth in exports was from textiles and textile articles, which accounted for 5.0% of total earnings from exports in 2011. In particular, knitted or crocheted sweater exports and sewn coat and jacket exports grew by 92.2% and 40.5% in 2011, respectively, compared to 2010.

In 2010, earnings from exports increased by 54.3% to U.S.\$2,908.5 million, compared to 2009, reflecting the improved investment climate, attractive prices and gradual recovery in external demand. The largest contribution to the growth in exports came from the industry sector, reflecting growth in all sub-sectors, mainly due to the recovery of global demand. The largest contribution to the growth in industrial exports was from coal exports, which grew significantly by 135.1% to 16.7 million tons in 2010, compared to 2009. Within the agriculture sector, textiles and textile articles exports were the largest contributor to the growth, which accounted for 7.4% of total earnings from exports in 2010. In particular, knitted or crocheted underwear exports grew by 81.8% in 2010, compared to 2009.

The following table sets forth total imports of Mongolia by country of origination for the periods indicated:

| Total imports from Mongolia<br>by country of origin | For the year ended December 31, |                       |                       |                       |                       | For the six<br>months<br>ended<br>June 30, |
|---|---------------------------------|-----------------------|-----------------------|-----------------------|-----------------------|--|
|   | 2007 <sup>(1)</sup>             | 2008 <sup>(2)</sup>   | 2009 <sup>(2)</sup>   | 2010 <sup>(2)</sup>   | 2011 <sup>(3)</sup>   | 2012 <sup>(3)(4)</sup>                     |
|   | (U.S.\$ millions)               |                       |                       |                       |                       |  |
| Russia . . . . .                                    | 745.0                           | 1,242.3               | 772.8                 | 1,046.7               | 1,624.7               | 893.9                                      |
| China. . . . .                                      | 568.9                           | 898.7                 | 538.6                 | 971.0                 | 2,023.9               | 884.9                                      |
| United States . . . . .                             | 55.7                            | 84.1                  | 103.7                 | 158.9                 | 536.0                 | 321.0                                      |
| Japan . . . . .                                     | 140.2                           | 238.5                 | 97.0                  | 196.5                 | 490.2                 | 266.7                                      |
| Korea. . . . .                                      | 119.6                           | 194.8                 | 155.1                 | 181.8                 | 356.7                 | 225.9                                      |
| Germany . . . . .                                   | 76.5                            | 92.6                  | 70.3                  | 87.2                  | 273.6                 | 111.0                                      |
| Canada. . . . .                                     | 10.6                            | 10.8                  | 7.5                   | 22.3                  | 128.3                 | 49.1                                       |
| Belarus . . . . .                                   | 7.4                             | 8.9                   | 11.4                  | 15.2                  | 72.3                  | 45.9                                       |
| Australia . . . . .                                 | 18.6                            | 17.7                  | 15.3                  | 38.6                  | 94.3                  | 42.5                                       |
| Singapore. . . . .                                  | 29.3                            | 45.6                  | 27.7                  | 51.0                  | 69.5                  | 38.2                                       |
| Others . . . . .                                    | 290.0                           | 410.5                 | 338.3                 | 430.9                 | 928.9                 | 434.2                                      |
| <b>Total . . . . .</b>                              | <b><u>2,061.8</u></b>           | <b><u>3,244.5</u></b> | <b><u>2,137.7</u></b> | <b><u>3,200.1</u></b> | <b><u>6,598.4</u></b> | <b><u>3,313.3</u></b>                      |

*Sources:*

- (1) The data are from National Statistical Office of Mongolia, Statistical Yearbook 2010.
- (2) The data are from National Statistical Office of Mongolia, Statistical Yearbook 2011.
- (3) The data are from National Statistical Office of Mongolia, June 2012 Monthly Bulletin.
- (4) Provisional figures subject to further adjustments.

In the first half of 2012, the three principal origins for imports were: (i) Russia, which accounted for 27.0%, (ii) China, which accounted for 26.7% and (iii) the United States, which accounted for 9.7% of Mongolia's imports. The major contributors of import were heavy machinery, equipment, spare parts, petroleum products and transportation vehicles. The growing mining industry is capital intensive and demand for heavy machinery, equipment and spare parts increased by 17.8% in the first six months of 2012 compared to the same period in 2011 because of growth in the mining sector.

In 2011, expenditure on imports increased by 106.2% to U.S.\$6,598.4 million in 2011, compared to 2010, reflecting higher prices in the international market and higher domestic demand. The largest contribution to the overall increase was from the industry sector, within which machinery, equipment electric appliances, recorders, TV sets and spare parts imports accounted for 27.0% of total expenditure on imports in 2011 while auto, air and water transport vehicles and their spare parts imports accounted for 22.9%. Machinery for sorting, screening mixing of stones imports grew by 173.5% in 2011, compared to 2010, while knitting and stitch-bonding machines grew by 167.5% in 2011, compared to 2010. Within the agriculture sector, the largest contribution to the growth in imports was from food products imports, which accounted for 5.0% of total expenditure on imports in 2011.

In 2010, expenditure on imports increased by 49.7% to U.S.\$3,200.1 million in 2010, compared to 2009, reflecting higher international commodity prices and increased import volumes due to increases in domestic economic activity. The largest contribution to the growth in imports was from the industry sector, within which mineral products imports accounted for 23.6% of total expenditure on imports in 2010 while machinery, equipment electric appliances, recorders, TV sets and spare parts imports accounted for 21.3%. Trucks imports and cars imports grew by 168.1% and 126.3% in 2010, respectively, compared to 2009. Within the agriculture sector, the largest contribution to the growth in imports was from food products imports, which accounted for 7.5% of total expenditure on imports in 2010.

### ***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.

The trade balance deficit in the first half of 2012 was U.S.\$1.1 billion, representing an increase of U.S.\$0.3 billion, or 43.4%, compared to the same period in 2011. The increase in the trade balance deficit in the first half of 2012 was due to significant increases in the import of machinery, equipment and petroleum products.

In 2011, the trade balance deficit was U.S.\$1.8 billion, a significant increase from U.S.\$0.3 billion in 2010. This was primarily due to a rapidly growing domestic economy as well as the early stages of a mining boom in Mongolia, which led to a significant increase in expenditure on imports in 2011 compared to 2010.

In 2010, the trade balance deficit was U.S.\$0.3 billion, as was in 2009. The trade balance deficit remained approximately the same between 2010 and 2009, primarily because of the continued importation of equipment and machinery for large scale mining projects such as Ovoot Tolgoi.

The following table summarizes Mongolia's trade balance for the periods indicated:

|                                      | Exports           | Imports | Balance of Trade | Exports as % of Imports |
|--------------------------------------|-------------------|---------|------------------|-------------------------|
|                                      | (U.S.\$ millions) |         |                  |                         |
| 2007 <sup>(1)</sup>                  | 1,947.5           | 2,061.8 | (114.3)          | 94.5%                   |
| 2008 <sup>(2)</sup>                  | 2,534.5           | 3,244.5 | (710.0)          | 78.1%                   |
| 2009 <sup>(2)</sup>                  | 1,885.4           | 2,137.7 | (252.3)          | 88.2%                   |
| 2010 <sup>(2)</sup>                  | 2,908.5           | 3,200.1 | (291.6)          | 90.9%                   |
| 2011 <sup>(2)</sup>                  | 4,817.5           | 6,598.4 | (1,780.9)        | 73.0%                   |
| First half of 2012 <sup>(3)(4)</sup> | 2,262.3           | 3,313.3 | (1,051.0)        | 68.3%                   |

*Sources:*

- (1) Unless otherwise stated, the data are from National Statistical Office of Mongolia, Statistical Yearbook 2010.
- (2) Unless otherwise stated, the data are from National Statistical Office of Mongolia, Statistical Yearbook 2011.
- (3) Unless otherwise stated, the data are from National Statistical Office of Mongolia, June 2012 Monthly Bulletin.
- (4) Provisional figures subject to further adjustments.

## Education and Health

As at December 31, 2011, Mongolia had 752 schools and 172 colleges and technical and vocational schools. There are a total of 373 public libraries in Mongolia of which 28 are located in Ulaanbaatar. School enrollment and attendance is 97%. According to Euromonitor International, Mongolia had an adult literacy rate of 97.4% as at December 31, 2011. 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. In 2011, there were approximately 172,728 students enrolled, including approximately 17,922 graduate students and doctorate students. The National University offers over 80 undergraduate and graduate programs, mostly using the Mongolian language as the medium of instruction.

As at December 31, 2011, Mongolia had 362 state health institutions, 1,184 private hospitals and 7,943 physicians of which 4,907 were located in Ulaanbaatar. Over 98.8% of all Mongolian children are vaccinated against tuberculosis, 99.2% against polio and 98.1% against measles. Average life expectancy in Mongolia is 68.3 years. The Government's budget for the health sector for 2010 was MNT250.3 billion (U.S.\$179.3 million) and for 2011 was MNT331.3 billion (U.S.\$237.3 million). Respiratory and cardiovascular diseases were the main cause of illnesses in 2010. See "Environment."

## Litigation and Arbitration

### *Ongoing Arbitration*

As at the date of this Information Memorandum, the Government is a defendant in three 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 January 2011, Khan Resources brought an action against the Government in the international arbitration tribunal with a claim value of U.S.\$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. The Government is in the process of preparing responses to Khan

Resources' allegations. The final decision is expected to be reached by the end of 2013. Commencement of the Dornod JV is subject to the outcome of the ongoing arbitration relating to the mining and exploration license of Dornod between Khan Resources and the Government. See "Foreign Policy – Russia."

In July 2012, SGQ Coal Investment Pte. Ltd. ("SGQ"), a wholly-owned subsidiary of SouthGobi Resources Ltd., served a notice of investment dispute on the Government claiming that the Mineral Resources Authority of Mongolia failed to execute the pre-mining agreements ("PMAs") associated with certain of SGQ's exploration licenses. The areas covered by the PMAs include the resource known as Zag Suuj Deposit and certain areas in the Soumber Deposit, both of which are located approximately 40 kilometers north of the border between Mongolia and China. SGQ is claiming U.S.\$500 million.

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 a mining license. As at the date of this Information Memorandum, arbitration proceedings have not yet been initiated.

### ***Concluded Arbitration***

On April 29, 2011, the Government won in an arbitration case in Frankfurt, Germany, against Altan Dornod Mongol LLC ("Altan Dornod"), a Russian invested gold mining company. Altan Dornod claimed that the windfall profits tax levied by the Government in 2007 was discriminatory, put pressure on investors leading to significant business losses for them. Altan Dornod also claimed that such action taken by the Government was in violation of the two nation's bilateral international agreement. Altan Dornod's claim against the Government was U.S.\$1.6 billion.

### ***Proceedings against Third Parties***

As at the date of this Information Memorandum, the Government has not instituted proceedings against any third party.



## **PUBLIC FINANCE**

### **Mongolia's Budget**

The Management and Financing of State Entities Law and the Integrated 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 involves preparing a medium-term budget framework and an expenditure framework, preparing the budget and budget allocation:

- Preparing expenditure framework: the aimag governors prepare a medium-term budget framework for their respective aimags and present such framework proposals to the Ministry of Finance, which then submits the consolidated medium-term budget framework to the Cabinet for approval prior to public release;
- Preparing a medium-term budget framework: the Ministry of Finance prepares the medium-term budget framework and presents it to Cabinet and then to the Parliament for approval;
- Preparing the budget: the Ministry of Finance provides the approved medium-term budget framework to the aimag governors. The soum governors prepare medium-term budget frameworks for their respective soums and provide the same to the aimag governors who will subsequently forward the same to the Ministry of Finance. The Ministry of Finance uses this information to finalize the budget and submits it to the Cabinet, which then presents the proposed budget in the Parliament; and
- Budget allocation: if passed by the Parliament, the budget is adopted and released to the aimag and soum governors, who in turn prepare budget allotments for presentation to the Ministry of Finance for approval.

### **2013 Budget**

The 2013 budget was approved by the Parliament on November 8, 2012. The Government currently estimates its total revenue in 2013 to be MNT7.1 trillion (U.S.\$5.3 billion), or 40.2% of the expected GDP. Total revenue for the 2013 budget includes MNT445.8 billion (U.S.\$0.3 billion) of expected revenue from the proposed royalty scheme on Oyu Tolgoi. It is uncertain whether the expected revenue from Oyu Tolgoi will be collected. See "Significant Mining Projects – Oyu Tolgoi." If it is not, the expected tax revenue from Oyu Tolgoi for 2013 is MNT151.7 billion (U.S.\$0.1 billion). Total budgeted expenditure are estimated to be approximately MNT7.4 trillion (U.S.\$5.5 billion), or 42.2% of the expected GDP. Total expenditure for the 2013 budget includes financing for the various mining and infrastructure projects, particularly the expansion of the country's railway and road networks. It is expected that there would be excess mineral revenue amounting to an additional MNT322.4 billion (U.S.\$0.2 billion). This amount will accrue in the FSF, which is set up to save mineral revenue that exceeds the amount estimated in the budget's revenue. See "Legal Reforms – Laws Relating to Fiscal Policy – Fiscal Stability Law." The overall budget deficit is estimated to be approximately MNT0.3 trillion (U.S.\$0.2 billion), or approximately 2% of the expected GDP, which meets the requirements specified in the Fiscal Stability Law. The budget deficit is expected to be financed through net domestic financing of MNT0.1 trillion (U.S.\$0.07 billion) and net foreign financing of MNT0.4 trillion (U.S.\$0.3 billion).

## ***2012 Budget***

The 2012 budget policy guidelines outlined a framework for continued economic growth while practicing fiscal discipline. The Government expects its total revenue to be approximately MNT5.8 trillion (U.S.\$4.3 billion), or 36.1% of the expected GDP. Of the 2012 budget, 77% of the total revenue was expected to come from taxes, of which 35% represented VAT and 20% represented income tax. Total budgeted expenditure is estimated to be approximately MNT6.3 trillion (U.S.\$4.7 billion), or 39.1% of the expected GDP. Total expenditure for the 2012 budget is expected to include expenditure for public sector salary increases, revenue-sharing transfers and optional government repurchase of Erdenes TT's shares handed out to its citizens. The overall budget deficit is estimated to be approximately MNT0.4 trillion (U.S.\$0.3 billion), or 3% of the expected GDP and is expected to be financed through net domestic financing of MNT660.8 billion (U.S.\$0.5 billion) and net foreign financing of MNT121.1 billion (U.S.\$90.2 million). It is expected that there will be excess mineral revenue amounting to an additional MNT322.4 billion (U.S.\$0.2 billion). This amount will accrue to the FSF, which is set up to save excess mineral revenue above the amount estimated in the budget's revenue. See "Legal Reforms – Laws Relating to Fiscal Policy – Fiscal Stability Law."

## ***2011 Budget and Actuals***

The 2011 budget policy guidelines outlined the framework for economic growth for the medium-term, such as supporting sustainable economic growth through tax reforms, reducing dependence on the mining sector, reducing the unemployment rate by assisting the development of SMEs and diversifying the economy. The Government expected its total revenue to be MNT3.3 trillion (U.S.\$2.4 billion), or 42.2% of the GDP. Total revenue for the 2011 budget was expected to include an advance payment from the Tavan Tolgoi agreement and income from progressive royalties on selected minerals and other mineral resources that were imposed to replace the windfall profit tax, which was abolished on January 1, 2011. Total actual revenue in 2011 was MNT4.5 trillion (U.S.\$3.2 billion), or 28.1% higher than the budgeted revenue.

Total budgeted expenditure was estimated to be MNT4.1 trillion (U.S.\$2.9 billion), or 52.1% of the GDP. Total expenditure for the 2011 budget was expected to include expenditure for revenue-sharing transfers and public sector salary increases. The substantial increase in budgeted spending on salaries and transfers represents a reversal of fiscal austerity measures adopted in 2009. Total actual expenditure in 2011 were MNT4.8 trillion (U.S.\$3.4 billion), or 17.3% higher than budgeted expenditure. The Government spent approximately MNT131.9 billion (U.S.\$98.3 million) on social welfare pension and allowances, MNT32.2 billion (U.S.\$23 million) on conditioned cash benefits (allowances to pregnant or nursing mothers, allowances in discounted care for the elderly, allowances for disabled persons and allowances for orphans and adopted persons), MNT35.4 billion (U.S.\$25.4 million) on long-term pensions and MNT733.1 billion (U.S.\$525 million) was allotted to the Human Development Fund.

The budget deficit was estimated to be MNT0.8 trillion (U.S.\$0.6 billion), or 9.7% of the GDP. The budget deficit was expected to be financed through net domestic financing of MNT668.2 billion (U.S.\$478.5 million) and net foreign financing of MNT93.2 billion (U.S.\$66.7 million). The actual deficit in 2011 was MNT769.8 billion (U.S.\$573.5 million). The actual deficit was financed through net domestic financing of MNT570.6 billion (U.S.\$408.6 million) and net foreign financing of MNT199.3 billion (U.S.\$142.7 million).

## ***2010 Budget and Actuals***

The 2010 budget sought to limit overall expenditure in accordance with the medium-term budget framework and to identify sources of financing to cover budget deficits caused by excess expenditure and the global financial crisis. As a result, the 2010 budget conformed to the medium-term budget framework, the target indicators of the Stand-By Program agreed with the IMF and made financing provisions to cover the budget deficit.

The Government estimated its total revenue for 2010 to be MNT2.4 trillion (U.S.\$1.9 billion), or 33.8% of the GDP. Of the 2010 budget, 87% of the total revenue was expected to come from taxes, of which 39% represents income tax and 20% represents VAT. Total actual revenue in 2010 was MNT3.1 trillion (U.S.\$2.5 billion), or 28.7% higher than the budgeted revenue. The total actual revenue in 2010 was MNT2.5 trillion (U.S.\$1.9 billion) or 16.3% higher than expected.

Total budgeted expenditure was estimated to be MNT2.7 trillion (U.S.\$2.1 billion), or 38.8% of the total GDP. Of the 2010 budget, 78% of the total expenditure was expected to come from current expenditure and 19% from capital expenditure. Total actual expenditure in 2010 was MNT3.1 trillion (U.S.\$2.5 billion), or 10.6% higher than budgeted expenditure. The Government spent approximately MNT99.3 billion (U.S.\$79.0 million) on social welfare pension and allowances, MNT24.3 billion (U.S.\$19.3 million) on conditioned cash benefits (allowances to pregnant or nursing mothers, allowances in discounted care for the elderly, allowances for disabled persons and allowances for orphans and adopted persons) and MNT27.9 billion (U.S.\$22.2 million) on long-term pensions and MNT277.1 billion (U.S.\$ 220.4 million) was allotted to the Human Development Fund.

The budget deficit was estimated to be MNT0.4 trillion (U.S.\$0.3 billion), or 5% of the GDP, whereas the actual surplus in 2010 was MNT41.8 billion (U.S.\$29.9 million), or 0.4% of the GDP. The reason for this surplus was primarily due to increased revenues resulting from higher than expected commodity prices.

### Budgetary Balances

The following table sets forth the budgetary balances of the Government for the periods indicated:

|   | For the year ended December 31, |                     |                     |                     |                     | For the six months ended June 30, |
|---|---------------------------------|---------------------|---------------------|---------------------|---------------------|-----------------------------------|
|   | 2007 <sup>(1)</sup>             | 2008 <sup>(2)</sup> | 2009 <sup>(2)</sup> | 2010 <sup>(2)</sup> | 2011 <sup>(3)</sup> | 2012 <sup>(3)</sup>               |
| Net surplus (deficit)/GDP (%) . . .             | 2.7                             | (4.5)               | (5.2)               | 0.5                 | (3.6)               | (4.4) <sup>(4)</sup>              |
| Primary balance <sup>(1)</sup> /GDP (%) . . . . | 9.9                             | 6.0                 | 2.8                 | 9.3                 | 8.4                 | —                                 |
| Debt/GDP (%) . . . . .                          | 36.6                            | 30.8                | 50.6                | 28.8                | 28.4                | 28.6 <sup>(4)</sup>               |
| Real GDP growth (%) . . . . .                   | 10.2                            | 8.9                 | (1.3)               | 6.4                 | 17.5                | 13.2                              |
| Nominal GDP (MNT trillion) . . .                | 4,956.6                         | 6,555.6             | 6,590.6             | 8,414.5             | 11,087.7            | 6,185.7                           |
| Year-on-year inflation (%) . . . . .            | 17.8                            | 22.1                | 4.2                 | 13.0                | 10.2                | 14.7 <sup>(5)</sup>               |

Sources:

- (1) The data are from National Statistical Office of Mongolia, Statistical Yearbook 2010.
- (2) The data are from National Statistical Office of Mongolia, Statistical Yearbook 2011.
- (3) The data are from National Statistical Office of Mongolia, June 2012 Monthly Bulletin.
- (4) Using annualized nominal GDP which is equal to twice the nominal GDP for the six months ended June 30, 2012.
- (5) Compared against June 30, 2011.

## 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, |                     |                     |                     |                     | For the six months ended June 30, |
|--|---------------------------------|---------------------|---------------------|---------------------|---------------------|-----------------------------------|
|  | 2007 <sup>(1)</sup>             | 2008 <sup>(2)</sup> | 2009 <sup>(2)</sup> | 2010 <sup>(2)</sup> | 2011 <sup>(2)</sup> | 2012 <sup>(3)</sup>               |
|  | (MNT billions)                  |                     |                     |                     |                     |                                   |
| <b>Revenue</b>                                     |                                 |                     |                     |                     |                     |                                   |
| Indirect taxes . . . . .                           | 685.0                           | 897.5               | 825.7               | 1,368.1             | 2,337.7             | 1,383.2                           |
| Direct taxes . . . . .                             | 817.3                           | 993.4               | 794.9               | 1,320.0             | 1,299.0             | 722.9                             |
| Non-tax revenue . . . . .                          | 353.7                           | 260.2               | 352.1               | 390.1               | 504.4               | 241.6                             |
| Capital revenue . . . . .                          | 2.5                             | 3.2                 | 2.3                 | 5.7                 | 16.8                | 6.6                               |
| Grants and transfers . . . . .                     | 22.0                            | 16.1                | 19.1                | 38.5                | 1.5                 | 1.0                               |
| Stabilization fund . . . . .                       | —                               | —                   | —                   | —                   | 241.0               | 25.5                              |
| <b>Total revenue and grants . . . . .</b>          | <b>1,880.5</b>                  | <b>2,170.4</b>      | <b>1,994.0</b>      | <b>3,122.4</b>      | <b>4,400.6</b>      | <b>2,380.8</b>                    |
| <b>Expenditure</b>                                 |                                 |                     |                     |                     |                     |                                   |
| <b>Current expenditure . . . . .</b>               | <b>1,367.7</b>                  | <b>1,761.2</b>      | <b>1,788.2</b>      | <b>2,256.3</b>      | <b>3,234.4</b>      | <b>2,282.5</b>                    |
| Wages and salaries . . . . .                       | 296.3                           | 544.5               | 575.9               | 648.1               | 801.2               | 562.0                             |
| Social security contributions . . . . .            | 65.1                            | 47.5                | 54.8                | 62.1                | 74.8                | 52.7                              |
| Purchase of goods and services . . . . .           | 376.4                           | 510.5               | 394.2               | 518.2               | 726.9               | 373.9                             |
| Interest payments . . . . .                        | 18.6                            | 19.9                | 29.6                | 42.3                | 37.3                | 55.3                              |
| Subsidies to public enterprises . . . . .          | 284.7                           | 72.8                | 35.8                | 80.5                | 111.5               | 41.4                              |
| Social assistance fund . . . . .                   | 114.4                           | 212.9               | 228.3               | 97.9                | 128.4               | 91.3                              |
| Other current operating expenditure . . . . .      | 212.1                           | 353.2               | 469.5               | 804.1               | 814.3               | 631.4                             |
| <b>Capital expenditure . . . . .</b>               | <b>299.5</b>                    | <b>624.4</b>        | <b>460.6</b>        | <b>591.0</b>        | <b>1,067.2</b>      | <b>606.5</b>                      |
| Domestic investment . . . . .                      | 218.6                           | 476.9               | 379.5               | 506.6               | 925.1               | 556.8                             |
| Capital repairs . . . . .                          | 28.4                            | 27.5                | 11.8                | 30.3                | 51.2                | 23.3                              |
| Road fund . . . . .                                | 20.7                            | 5.8                 | 17.1                | 9.0                 | —                   | 15.6                              |
| Geological survey . . . . .                        | 2.1                             | 2.3                 | 2.0                 | 3.7                 | 3.9                 | 0.8                               |
| Commodity stocks . . . . .                         | 5.6                             | 87.6                | 20.4                | 6.8                 | 30.7                | 7.6                               |
| Other current capital expenditure . . . . .        | 24.1                            | 24.3                | 29.8                | 18.4                | 39.5                | 2.4                               |
| <b>Net lending . . . . .</b>                       | <b>80.1</b>                     | <b>81.2</b>         | <b>87.9</b>         | <b>233.4</b>        | <b>490.5</b>        | <b>41.2</b>                       |
| <b>Total expenditure and net lending . . . . .</b> | <b>1,747.3</b>                  | <b>2,466.8</b>      | <b>2,336.6</b>      | <b>3,080.7</b>      | <b>4,792.0</b>      | <b>2,930.1</b>                    |
| Fiscal balance . . . . .                           | 133.2                           | (296.4)             | (342.6)             | (41.7)              | (391.4)             | (549.3)                           |

Sources:

- (1) The data are from National Statistical Office of Mongolia, Statistical Yearbook 2010.
- (2) The data are from National Statistical Office of Mongolia, Statistical Yearbook 2011.
- (3) The data are from National Statistical Office of Mongolia, June 2012 Monthly Bulletin.

## ***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 87.1%, 81.3%, 86.1%, 82.6% and 88.5% for 2008, 2009, 2010, 2011 and for the six months ended June 30, 2012, respectively.

In 2011, total revenue and grants increased by 40.9% compared to 2010, primarily due to an increase in indirect taxes, which was partially offset by a decrease in direct taxes. This increase in indirect taxes was mainly due to increased revenue from VAT, comprising 55% of the indirect tax revenue growth. In 2010, the total revenue and grants of the Government increased by 56.6% compared to 2009, primarily due to an increase in both indirect and direct taxes. This increase in indirect taxes and direct taxes was mainly due to increased revenue from VAT, comprising 47% of the indirect tax revenue growth. In 2009, total revenue and grants decreased by 8.1% compared to 2008, primarily due to a decrease in direct taxes. The decrease in direct taxes was mainly due to a decrease in windfall profits tax revenue, which resulted from a decrease in commodity prices.

## ***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 71.4%, 76.5%, 73.2%, 67.5% and 77.9% of total expenditure and net lending for 2008, 2009, 2010, 2011 and for the six months ended June 30, 2012, respectively.

In 2011, the total expenditure of the Government increased by 55.6% compared to 2010, primarily due to a significant increase in both current expenditure and capital expenditure. The increase in current expenditure in 2011 was mainly due to increased government subsidies. The increase in capital expenditure in 2011 was primarily due to increased capital investments in construction, infrastructure, road construction and repairs and other fields. In 2010, the total expenditure of the Government increased by 31.8% compared to 2009, primarily due to an increase in current expenditure. The increase in current expenditure in 2010 was mainly due to increased government subsidies. In 2009, the total expenditure of the Government decreased by 5.3% compared to 2008, primarily due a decrease in capital expenditure. The decrease in capital expenditure in 2009 was primarily due to decreased capital expenditure.

## PUBLIC SECTOR DEBT

### Public Sector Debt

Public sector debt has risen steadily in recent years and, as at June 30, 2012, amounted to U.S.\$3.5 billion. According to the National Statistical Office of Mongolia, Mongolia has a relatively prudent government debt management system among its Asian peers, with its total government debt to GDP ratio at 38.3% as at June 30, 2012. The following table sets forth the level of the public sector's domestic debt, external debt and total debt as at the dates indicated below:

|   | As at December 31, |                |                |                |                | As at<br>June 30,    |
|---|--------------------|----------------|----------------|----------------|----------------|----------------------|
|   | 2007               | 2008           | 2009           | 2010           | 2011           | 2012                 |
|   | (U.S.\$ millions)  |                |                |                |                |                      |
| <b>Public sector domestic debt</b>          |                    |                |                |                |                |                      |
| Total public sector domestic debt . . . . . | 18.6               | 1.2            | 269.0          | 341.5          | 360.5          | 759.0                |
| % of nominal GDP . . . . .                  | 0.4%               | 0.0%           | 5.9%           | 5.1%           | 4.5%           | 8.2% <sup>(1)</sup>  |
| <b>Public sector external debt</b>          |                    |                |                |                |                |                      |
| General government external debt . . . . .  | 1,528.7            | 1,602.2        | 1,818.1        | 1,767.0        | 1,927.2        | 2,511.2              |
| Central bank external debt . . . . .        | 1.2                | 0.7            | 245.6          | 264.5          | 267.7          | 264.5                |
| Total public sector external debt . . . . . | 1,529.9            | 1,602.9        | 2,063.7        | 2,031.5        | 2,194.9        | 2,775.7              |
| % of nominal GDP . . . . .                  | 36.1%              | 31.0%          | 45.2%          | 30.4%          | 27.6%          | 30.1% <sup>(1)</sup> |
| <b>Total public sector debt . . . . .</b>   | <b>1,548.5</b>     | <b>1,604.1</b> | <b>2,332.7</b> | <b>2,373.0</b> | <b>2,555.4</b> | <b>3,534.7</b>       |
| % of nominal GDP . . . . .                  | 36.6%              | 31.0%          | 51.1%          | 35.5%          | 32.2%          | 38.3% <sup>(1)</sup> |

Sources: Ministry of Finance; Bank of Mongolia

Note:

(1) Using annualized nominal GDP, which is equal to twice the nominal GDP for the six months ended June 30, 2012.

Public sector domestic debt is comprised of borrowings by the Government. The Bank of Mongolia is a major lender to the Government, holding approximately 33% of the total outstanding public sector bonds as at December 31, 2011. Other major lenders include domestic commercial banks.

The public sector's outstanding external debt include external debt of and loans guaranteed by the Government and the Bank of Mongolia, including borrowings from foreign financial institutions and banks such as the World Bank, the IMF and European Bank for Reconstruction and Development.

According to the Bank of Mongolia, public sector external debt was U.S.\$2.8 billion as at June 30, 2012, and U.S.\$2.2 billion as at December 31, 2011. The public sector external debt volume has increased by 26.5% since 2011. The majority of the public sector external debt was denominated in U.S. dollars. Under the Fiscal Stability Law, total public sector external debt should not exceed 50% of GDP for 2013 and 40% of GDP starting from 2014.

On November 30, 2011, the Government provided an unconditional and irrevocable guarantee to DBM for its U.S.\$600,000,000 Euro Medium Term Note Program ("EMTN Program") under which DBM issued a total of U.S.\$20 million of notes in a private placement under the program in December 2011 and U.S.\$580 million of notes due in 2017 with an interest rate of 5.75% per annum in March 2012.



## 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, |                     |                     |                     |                     | For the six months ended June 30, |
|-----------------------------|---------------------------------|---------------------|---------------------|---------------------|---------------------|-----------------------------------|
|                             | 2007 <sup>(1)</sup>             | 2008 <sup>(2)</sup> | 2009 <sup>(2)</sup> | 2010 <sup>(2)</sup> | 2011 <sup>(3)</sup> | 2012 <sup>(3)(4)(5)</sup>         |
|                             | (MNT millions)                  |                     |                     |                     |                     |                                   |
| Interest payments . . . . . | 18,575.5                        | 19,949.0            | 29,621.6            | 42,327.8            | 37,329.0            | 55,286.3                          |
| % of GDP . . . . .          | 0.4%                            | 0.3%                | 0.5%                | 0.5%                | 0.3%                | 0.9%                              |

*Sources:*

- (1) Unless otherwise stated, the data are from National Statistical Office of Mongolia, Statistical Yearbook 2010.
- (2) Unless otherwise stated, the data are from National Statistical Office of Mongolia, Statistical Yearbook 2011.
- (3) Unless otherwise stated, the data are from National Statistical Office of Mongolia, June 2012 Monthly Bulletin.
- (4) Provisional figures subject to further adjustments.
- (5) The interest payments include interest payments made for DBM's EMTN Program.

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 and the impact of the global financial crisis. The significant increase of interest payments for the six months ended June 30, 2012 was mainly due to the interest payments made under DBM's EMTN Program, which bears a higher interest rate compared to the concessional loans taken out by the Government.

## Future Financing

Given its relatively low level of external debt, the Government plans to incur additional external debt over the next few years from multilateral institutions to finance infrastructure projects. These funds will be primarily directed towards the expansion of the railway and road networks.

## 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.

The following table sets forth the components of the overall balance of payments for the periods indicated:

|  | For the year ended December 31, |                |                |                |               | For the<br>six months<br>ended<br>June 30, |
|--|---------------------------------|----------------|----------------|----------------|---------------|--|
|  | 2007                            | 2008           | 2009           | 2010           | 2011          | 2012                                       |
|  | (U.S.\$ millions)               |                |                |                |               |  |
| <b>Current account</b>                           |                                 |                |                |                |               |  |
| Goods and services balance . . .                 | 57.0                            | (738.0)        | (332.0)        | (474.9)        | (2,153.4)     | (1,294.0)                                  |
| Goods balance . . . . .                          | (52.4)                          | (627.2)        | (188.8)        | (180.4)        | (992.9)       | (631.3)                                    |
| Exports (FOB) . . . . .                          | 1,950.7                         | 1,908.7        | 1,572.4        | 2,729.5        | 4,706.6       | (677.7)                                    |
| Imports (FOB) . . . . .                          | (2,003.1)                       | (3,121.9)      | (2,044.2)      | (3,067.6)      | (5,788.2)     | 421.8                                      |
| Other goods . . . . .                            | 0.0                             | 586.0          | 283.0          | 157.7          | 88.6          | (375.4)                                    |
| Services balance . . . . .                       | 109.4                           | (110.8)        | (143.2)        | (294.5)        | (1,160.5)     | (662.7)                                    |
| Net income balance . . . . .                     | (97.5)                          | (172.7)        | (195.4)        | (598.8)        | (843.4)       | (283.7)                                    |
| Net current transfers . . . . .                  | 212.3                           | 220.7          | 185.7          | 187.0          | 238.2         | 167.0                                      |
| Total current account . . . . .                  | 171.8                           | (690.1)        | (341.8)        | (886.7)        | (2,758.6)     | (1,410.7)                                  |
| <b>Capital and financial account</b>             |                                 |                |                |                |               |  |
| Capital account . . . . .                        | 0.0                             | 84.1           | 160.5          | 152.2          | 113.9         | 72.5                                       |
| Financial account . . . . .                      | 328.7                           | 1,148.1        | 608.3          | 1,591.5        | 2,750.3       | 1,606.6                                    |
| Net direct investment . . . . .                  | 360.0                           | 838.5          | 569.8          | 1,629.7        | 4,620.1       | 1,886.0                                    |
| Direct investment abroad . .                     | N/A                             | (6.2)          | (53.8)         | (61.7)         | (94.5)        | (12.6)                                     |
| Direct investment in                             |                                 |                |                |                |               |  |
| Mongolia . . . . .                               | N/A                             | 844.7          | 623.6          | 1,691.4        | 4,714.6       | 1,898.6                                    |
| Portfolio investment . . . . .                   | 74.9                            | (36.0)         | (82.1)         | 894.3          | 77.0          | 591.8                                      |
| Other investment . . . . .                       | (106.2)                         | 345.6          | 120.6          | (932.5)        | (1,946.8)     | (871.2)                                    |
| Total capital and financial<br>account . . . . . | 328.7                           | 1,232.1        | 768.8          | 1,743.7        | 2,864.2       | 1,679.1                                    |
| <b>Net errors and omissions</b>                  |                                 |                |                |                |               |  |
| Total net errors and omissions .                 | (212.4)                         | (774.6)        | 128.5          | 16.1           | (77.8)        | 202.8                                      |
| <b>Overall balance of payments . . .</b>         | <b>288.0</b>                    | <b>(232.6)</b> | <b>555.5</b>   | <b>873.1</b>   | <b>27.8</b>   | <b>471.1</b>                               |
| <b>Reserves and related items . . . .</b>        | <b>(288.0)</b>                  | <b>232.6</b>   | <b>(555.5)</b> | <b>(873.1)</b> | <b>(27.8)</b> | <b>(471.1)</b>                             |

Sources: Bank of Mongolia; National Statistical Office of Mongolia, Statistical Yearbook 2010 and 2011

In the first half of 2012, Mongolia recorded a surplus in balance of payments of U.S.\$471.1 million. The capital and financial account was in surplus of U.S.\$1,679.1 million. Inward foreign investment and outward investment decreased compared to the same period in 2011. The current account deficit was U.S.\$1,410.7 million, which was mainly due to an increase in imports of goods and services. The increase in imports corresponded to an increase in demand for capital, machinery and equipment which resulted from the growth in the mining industry.

In 2011, the current account was in deficit of U.S.\$2,758.6 million, and the capital and financial account was in surplus of U.S.\$2,864.2 million, resulting in a surplus of U.S.\$27.8 million of overall balance of payments. The current account deficit percentage to GDP increased by 19.3% compared to 2010. The reasons for the rapid increase were mainly due to an increase in goods and services balance, which was a result of Mongolia's economic growth, implementation of large infrastructure projects and an increase in domestic demand. Approximately 78.1% of the current account deficit was attributable to goods and services balance deficits, which experienced a 350% increase compared to 2010. Capital and financial account surplus increased by 64.3%, compared to 2010. The increase in the capital and financial account was due to an increase in FDI, which increased by 180% compared to 2010. Portfolio investment account surplus, however, decreased to U.S.\$77.0 million and other investment account deficit increased 110% reaching U.S.\$1,946.8 million.

In 2010, Mongolia recorded a surplus in balance of payments of U.S.\$873.1 million. This was mainly due to the capital and financial account surplus, which was partially reduced by the deficit in the current account. The capital and financial account was in surplus of U.S.\$1,743.7 million. This was mainly due to an increase in FDI and portfolio investment. Both inward foreign investment and outward investment increased. The current account deficit was U.S.\$886.7 million, which was mainly due to an increase in imports and net income balance deficit. The growth in imports was mainly due to an increase in demand for machinery and equipment which resulted from the growth in the mining industry.

In 2009, Mongolia recorded a balance of payments surplus of U.S.\$555.5 million. This was mainly due to the implementation of the macroeconomic stability policy and an increase in foreign reserves. The capital and financial account surplus was U.S.\$768.8 million, while the current account deficit was U.S.\$341.8 million. The current account deficit was mainly due to the global economic recession, decline in foreign trade and decrease in imports.

## **Foreign Investment**

The main laws governing foreign investment in Mongolia are the Foreign Investment Law, adopted on May 10, 1995, as amended, and the FIRL, which the Parliament enacted on May 17, 2012. Under the FIRL, the mining, banking and finance and media and telecommunications sectors have been designated as sectors of strategic importance to the national security and economic growth of Mongolia. Any entity which operates in a strategically important sector is deemed to be a strategic business entity. An acquisition by a foreign investor of the shares in a strategic company will require the foreign investor to notify the Government of such acquisition or to obtain approvals from the Government depending on the percentage of equity a foreign investor will have in such strategic company. See "Legal Reform – Laws Affecting the Mining Sector – Strategic Foreign Investment Law."

The following table sets forth FDI by industry for the periods indicated:

|   | As at December 31, |            |            |              |              | As at<br>June 30, |
|---|--------------------|------------|------------|--------------|--------------|-------------------|
|   | 2007               | 2008       | 2009       | 2010         | 2011         | 2012              |
|   | (U.S.\$ millions)  |            |            |              |              |                   |
| Geology exploration, production<br>and oil . . . . .  | 243                | 574        | 458        | 1,080        | 3,913        | 1,410             |
| Banking and financial service . . .                   | 16                 | 5          | 2          | 65           | 141          | 16                |
| Construction . . . . .                                | 3                  | 2          | 7          | 97           | 189          | —                 |
| Information and communication<br>technology . . . . . | 5                  | 2          | 1          | 45           | 47           | —                 |
| Others . . . . .                                      | 94                 | 256        | 102        | 343          | 330          | 460               |
| <b>Total FDI . . . . .</b>                            | <b>360</b>         | <b>839</b> | <b>570</b> | <b>1,630</b> | <b>4,620</b> | <b>1,886</b>      |

Source: Bank of Mongolia

FDI significantly increased from U.S.\$1.6 billion in 2010 to U.S.\$4.6 billion in 2011, primarily due to a significant increase in FDI directed at geology exploration, production and oil which increased from U.S.\$1.1 million in 2010 to U.S.\$3.9 million in 2011. This increase in mining related FDI was primarily due to several large resource companies obtaining additional investments from abroad to develop their mining operations in Mongolia. For example, in 2011, Turquoise Hills invested U.S.\$2.3 billion for the development of the Oyu Tolgoi mine.

## Reserves

The following table sets forth the level of the official net international reserves position as at the dates indicated:

|                                    | As at December 31, |       |         |         |         | As at<br>June 30, |
|------------------------------------|--------------------|-------|---------|---------|---------|-------------------|
|                                    | 2007               | 2008  | 2009    | 2010    | 2011    | 2012              |
|                                    | (U.S.\$ millions)  |       |         |         |         |                   |
| Net foreign exchange reserves. . . | 972.4              | 637.2 | 1,145.3 | 2,091.2 | 2,273.9 | 2,909.7           |

Source: Bank of Mongolia

## Exchange Rates

The following table sets forth the exchange rates between Togrogs and certain key currencies as at the dates indicated:

|                   | As at December 31, |          |          |          |          | As at<br>June 30, |
|-------------------|--------------------|----------|----------|----------|----------|-------------------|
|                   | 2007               | 2008     | 2009     | 2010     | 2011     | 2012              |
| JPY/MNT. . . . .  | 10.24              | 14.04    | 15.66    | 15.45    | 18.00    | 16.86             |
| USD/MNT . . . . . | 1,169.97           | 1,267.51 | 1,442.84 | 1,257.18 | 1,396.37 | 1,342.23          |
| EUR/MNT . . . . . | 1,694.64           | 1,786.75 | 2,071.34 | 1,679.97 | 1,806.76 | 1,687.12          |
| RMB/MNT. . . . .  | 159.85             | 185.25   | 211.35   | 190.78   | 221.63   | 211.19            |
| RUB/MNT . . . . . | 47.44              | 43.12    | 47.67    | 41.13    | 43.44    | 40.86             |

Source: Bank of Mongolia

Since March 2009, post-economic crisis, the Togrog has remained relatively stable with a daily average volatility of 0.2%.

### **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 Togrog. 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.

The Parliament adopted the Law of Mongolia on Settlement of Payments in National Currency (the “National Currency Law”) on July 9, 2009. This new 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 permission to do so.

Foreign investors are free to repatriate dividends and principal without the necessity of obtaining any governmental approvals. Togrogs can be converted into foreign currencies through any Mongolian commercial bank or licensed currency exchange.

## MONETARY AND FINANCIAL SYSTEM

### Monetary System

#### *Bank of Mongolia*

According to the Law on the Central Bank enacted on September 3, 1996, and as amended on October 20, 2011 (the “Central Bank Law”), the main objective of the Bank of Mongolia is to ensure the stability of the Togrog, 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. Additionally, 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 independent from the Government and the governor of the Bank of Mongolia is appointed by the Parliament for a term of six years.

#### *Monetary Policy*

The Bank of Mongolia formulates its monetary policy annually and submits it to the Parliament for approval by October 1 of each year. 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) allow 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) opening market operations to absorb excess liquidity; (iv) FX 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 it needs 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 at the dates indicated:

|                  | 2007      |           |           | 2008      |           |           |           | 2009      |           |           |           | 2010      | 2011      |           |           | 2012      |           |
|------------------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|
|                  | July<br>9 | Oct<br>17 | Nov<br>21 | Mar<br>19 | Sep<br>10 | Nov<br>13 | Nov<br>19 | Mar<br>11 | May<br>12 | Jun<br>12 | Sep<br>30 | May<br>12 | Apr<br>28 | Aug<br>29 | Oct<br>25 | Mar<br>19 | Apr<br>17 |
| Policy Rate. . . | 6.40%     | 7.40%     | 8.40%     | 9.75%     | 10.25%    | 10.25%    | 9.75%     | 14.00%    | 12.75%    | 11.50%    | 10.00%    | 11.00%    | 11.50%    | 11.75%    | 12.25%    | 12.75%    | 13.25%    |

Source: Bank of Mongolia



The following table sets forth the Mongolian commercial banks' interest rates as at the dates indicated:

|  | As at December 31, |          |          |          |          | As at<br>June 30,   |
|--|--------------------|----------|----------|----------|----------|---------------------|
|  | 2007               | 2008     | 2009     | 2010     | 2011     | 2012 <sup>(1)</sup> |
| Commercial banks' weighted<br>average lending rate (%) . . . . . | 19.9               | 20.4     | 20.8     | 17.9     | 15.5     | 17.9                |
| Commercial banks' weighted<br>average deposit rate (%) . . . . . | —                  | 13.6     | 12.9     | 10.7     | 10.5     | 11.0                |
| Commercial banks' demand<br>deposit rate (%) . . . . .           | 6.0-10.3           | 4.8-12.0 | 3.6-12.0 | 0.0-8.4  | 0.0-8.4  | 0.0-8.4             |
| Commercial banks' time deposit<br>rate (%) . . . . .             | 7.6-17.3           | 2.4-19.4 | 2.4-19.2 | 6.0-18.0 | 3.0-18.0 | 3.0-18.0            |

Source: Bank of Mongolia

Note:

(1) Provisional figures subject to further adjustments.

The following tables set forth the licensed credit institutions' interest rates as at the dates indicated:

|   | As at December 31, |          |          |          |          | As at<br>June 30,   |
|---|--------------------|----------|----------|----------|----------|---------------------|
|   | 2007               | 2008     | 2009     | 2010     | 2011     | 2012 <sup>(1)</sup> |
| Licensed credit institutions'<br>weighted average lending<br>rate (%) . . . . . | 14.2               | 16.8     | 16.5     | 12.6     | 12.1     | 14.2                |
| Licensed credit institutions' time<br>deposit rate (%) . . . . .                | 1.2-11.4           | 1.2-14.0 | 1.2-14.0 | 0.6-14.0 | 0.6-14.4 | 3.0-18.0            |

Source: Bank of Mongolia

Note:

(1) Provisional figures subject to further adjustments.

## Money Supply

The following table sets forth the level of the money supply as measured by the different measures of money as at the dates indicated:

|  | As at December 31, |         |         |         |         | As at<br>June 30,   |
|--|--------------------|---------|---------|---------|---------|---------------------|
|  | 2007               | 2008    | 2009    | 2010    | 2011    | 2012 <sup>(1)</sup> |
|  | (MNT billions)     |         |         |         |         |                     |
| Currency outside banks . . . . .         | 283.3              | 328.7   | 285.0   | 388.2   | 517.5   | 662.9               |
| Current account in DC . . . . .          | 307.1              | 318.6   | 366.3   | 769.4   | 1,223.6 | 1,134.2             |
| Narrow money (M <sub>1</sub> ) . . . . . | 590.5              | 647.3   | 651.2   | 1,157.6 | 1,741.1 | 1,797.2             |
| Quasi money . . . . .                    | 1,810.8            | 1,622.7 | 2,228.8 | 3,522.4 | 4,671.2 | 5,254.0             |
| Broad money (M <sub>2</sub> ) . . . . .  | 2,401.2            | 2,270.0 | 2,880.0 | 4,680.0 | 6,412.3 | 7,051.2             |

Sources: Bank of Mongolia, Monthly Statistical Bulletins

Note:

(1) Provisional figures subject to further adjustments.

## Financial System

### Overview

As at the end of 2011, the Mongolian financial sector consisted of 14 commercial banks, 195 non-bank financial institutions (“NBFIs”), 162 saving and credit cooperatives and 17 insurance companies. Of the 14 commercial banks operating in Mongolia, three are wholly foreign-owned; four are partially foreign and partially domestically owned; six are wholly locally owned; and one is state-owned. As at the end of 2011, the 14 commercial banks accounted for 96% of the total financial system assets. The Mongolian banking system is dominated by five banks. The leading banks in the industry by the size of assets, loans and deposits were Golomt Bank, Khan Bank, Trade and Development Bank of Mongolia LLC, Savings 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.

### Recent Reforms in the Banking Sector

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 a 1% reserve, while overdue loan provisions have increased to 5% from 1%. Loans must be classified as overdue if interest is overdue, even if the principal is up to date. 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.

Prudential norms introduced in 1996 closely mirror key international norms, particularly the capital adequacy principle. The minimum capital adequacy ratios (“CARs”) for commercial banks are currently at 6% for the tier I ratio and 12% for the total capital ratio, compared to 2% and 4%, respectively, before the reform. In July 2011, the Bank of Mongolia announced its decision requiring all commercial banks in

Mongolia to increase their paid-in capital to MNT16 billion (U.S.\$11.9 million) by May 1, 2013. 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 average NPL ratio declined from a peak of 17.1% in 2009 to 4.9% in the first half of 2012. The systemic CAR also improved to 15.1% in 2010. The blanket deposit guarantee will be replaced by restricted deposit insurance scheme that ensures enhancement of financial institutions' responsibilities and reduction of risks to public sector.

Financial system's data shows that banking sector expanded at the rate of 50.1% in 2011 and net earnings exceeded U.S.\$130.0 million.

On March 25, 2011, DBM was established. DBM is Government-owned 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.

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 a U.S.\$600 million EMTN Program. On March 14, 2012, DBM issued U.S.\$580 million of sovereign-guaranteed notes due in 2017 with an interest rate of 5.75% per annum to international investors under the EMTN Program. The notes were listed on the Singapore Stock Exchange. As at the date of this Information Memorandum, the proceeds from the issuance of the notes were used as follows:

- Approximately U.S.\$100 million was used to finance the development of railway infrastructure projects;
- Approximately U.S.\$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; and
- Approximately U.S.\$53.3 million was used to finance the construction of highways and approximately U.S.\$5.3 million was used to finance the development of air transportation.

The remaining proceeds will be used to finance the development of various other infrastructure projects in Mongolia, including the expansion of TPP #4. See "Infrastructure – Electricity."

### ***Deposit Funding and Lending Activity***

The banking system has grown rapidly from a small base, with yearly average asset growth of over 30% from 2006 to 2009. Improving macroeconomic conditions, rising personal income and competition among commercial banks were fueling such asset growth. In 2011, the ratio of total bank assets to GDP was 86.5% higher than in 2010. Current account and deposits increased to U.S.\$4.1 billion due to an increase in disposable income and corporate profits and represent 61.0% of total assets in 2011, accounting for 50.0%

of the growth in the banking sector. As at December 31, 2011, the volume of MNT deposits was MNT5.9 trillion (U.S.\$4.2 billion) compared to MNT4.3 trillion (U.S.\$3.4 billion) as at December 31, 2010 due to the combined effect of the public's expectations of domestic currency appreciation and the "blanket guarantee law" covering bank deposits apart from the post-crisis economic growth led by the mining sector. In addition, as inflation fell, real interest rates improved.

As at December 31, 2011, outstanding loans increased by 73.4% to MNT5.6 trillion (US\$4.0 billion) from MNT3.2 trillion (US\$2.6 billion) as at December 31, 2010, primarily due to an increase of capital inflows into the banking sectors, which resulted in a higher number of loans being taken out. The loan to deposits ratio ("LDR") rose to 95.0% as at December 31, 2011. As at December 31, 2010, outstanding loans increased by 21.6% to MNT3.2 trillion (US\$2.6 billion) from MNT2.7 trillion (US\$1.8 billion) as at December 31, 2009. As loans grew at a slower rate than current accounts and deposits, the LDR declined to 75.2% as at December 31, 2010 from 102.3% in 2009. The high LDR in 2009 was primarily due to negative impact of the economic crisis. The following table sets forth the year-on-year credit and deposit growth of the banking sector as at the dates indicated:

|                                   | As at December 31,                 |         |         |         |         | As at<br>June 30,    |
|-----------------------------------|------------------------------------|---------|---------|---------|---------|----------------------|
|                                   | 2007                               | 2008    | 2009    | 2010    | 2011    | 2012                 |
|                                   | (MNT billions, except percentages) |         |         |         |         |                      |
| Loans. . . . .                    | 2,055.3                            | 2,635.1 | 2,655.0 | 3,228.2 | 5,597.7 | 6,266.0              |
| % year-on-year. . . . .           | 68.1                               | 28.2    | 0.8     | 21.6    | 73.4    | 38.7 <sup>(2)</sup>  |
| Deposits <sup>(1)</sup> . . . . . | 2,118.0                            | 1,941.3 | 2,595.0 | 4,291.8 | 5,894.7 | 6,388.3              |
| % year-on-year. . . . .           | 64.7                               | (8.3)   | 33.7    | 65.3    | 37.3    | 20.7                 |
| LDR . . . . .                     | 97.0%                              | 135.7%  | 102.3%  | 75.2%   | 95.0%   | 98.1% <sup>(2)</sup> |

Source: Bank of Mongolia

Notes:

(1) "Deposits" includes current accounts, deposits and Government deposits.

(2) Compared against June 30, 2011.

The following table sets out a breakdown of deposits in commercial banks and credit institutions into demand and savings as at the dates indicated:

|   | As at December 31, |                    |                    |                    |                    | As at<br>June 30,   |
|---|--------------------|--------------------|--------------------|--------------------|--------------------|---------------------|
|   | 2007               | 2008               | 2009               | 2010               | 2011               | 2012 <sup>(1)</sup> |
|   | (MNT millions)     |                    |                    |                    |                    |                     |
| Demand (includes current accounts). . . . . | 628,009.2          | 602,385.5          | 738,616.7          | 1,535,562.6        | 2,004,430.5        | 2,020,662.2         |
| Savings (includes deposits) . . . . .       | 1,489,716.9        | 1,338,892.0        | 1,856,423.3        | 2,756,216.1        | 3,890,334.7        | 4,367,604.1         |
| <b>Total. . . . .</b>                       | <b>2,117,726.1</b> | <b>1,941,277.5</b> | <b>2,595,040.0</b> | <b>4,291,778.7</b> | <b>5,894,765.2</b> | <b>6,388,266.3</b>  |

Source: Bank of Mongolia

Note:

(1) "Deposits" includes current accounts, deposits and Government deposits.

### Bank Asset Quality

The NPL ratio has declined to 4.9% as at June 30, 2012. The ratio of NPLs to total outstanding loans was 5.8% as at December 31, 2011 compared to 11.4% as at December 31, 2010. The following table sets forth the change in quality of loans outstanding in the banking sector as at the dates indicated:

|   | As at December 31,                 |                |                |                |                | As at<br>June 30, |
|---|------------------------------------|----------------|----------------|----------------|----------------|-------------------|
|   | 2007                               | 2008           | 2009           | 2010           | 2011           | 2012              |
|   | (MNT billions, except percentages) |                |                |                |                |                   |
| Performing loans . . . . .                    | 1,947.2                            | 2,353.2        | 2,071.4        | 2,770.0        | 5,198.3        | 5,910.0           |
| Past due . . . . .                            | 40.3                               | 93.3           | 121.7          | 87.8           | 72.6           | 50.6              |
| Non-performing loans <sup>(1)</sup> . . . . . | 67.8                               | 188.6          | 461.9          | 370.4          | 326.8          | 305.4             |
| <b>Total . . . . .</b>                        | <b>2,055.3</b>                     | <b>2,635.1</b> | <b>2,655.0</b> | <b>3,228.2</b> | <b>5,597.7</b> | <b>6,266.0</b>    |
| NPL ratio . . . . .                           | 3.3%                               | 7.2%           | 17.4%          | 11.5%          | 5.8%           | 4.9%              |

Source: Bank of Mongolia

Note:

(1) Non-performing loans are 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 at the dates indicated:

|   | As at December 31, |                |                |                |                | As at<br>June 30,   |
|---|--------------------|----------------|----------------|----------------|----------------|---------------------|
|   | 2007               | 2008           | 2009           | 2010           | 2011           | 2012 <sup>(1)</sup> |
|   | (MNT billions)     |                |                |                |                |                     |
| Agriculture, forestry, fisheries<br>and subsistence . . . . . | 156.1              | 67.7           | 155.0          | 141.8          | 170.0          | 171.0               |
| Mining and quarrying . . . . .                                | 130.0              | 169.8          | 349.9          | 387.1          | 670.7          | 806.7               |
| Construction . . . . .  | 321.6              | 383.2          | 383.0          | 349.4          | 661.3          | 738.4               |
| Manufacturing . . . . .                                       | 429.0              | 381.8          | 412.3          | 456.2          | 630.4          | 675.6               |
| Wholesale and retail trade . . . . .                          | 600.5              | 598.6          | 478.0          | 599.0          | 952.4          | 1,054.4             |
| Transportation . . . . .                                      | 29.1               | 60.5           | 62.8           | 87.1           | 187.9          | 195.5               |
| Communication . . . . .                                       | 5.7                | 9.5            | 13.2           | 23.1           | 40.1           | 37.3                |
| Financial and insurance service . . . . .                     | 14.5               | 30.9           | 18.8           | 38.0           | 67.0           | 64.4                |
| Real estate . . . . .   | 50.6               | 142.1          | 187.2          | 437.7          | 787.4          | 870.6               |
| Others . . . . .  | 513.3              | 935.7          | 773.3          | 1,163.6        | 1,430.5        | 1,652.0             |
| <b>Total . . . . .</b>  | <b>2,055.3</b>     | <b>2,635.1</b> | <b>2,655.0</b> | <b>3,228.2</b> | <b>5,597.7</b> | <b>6,266.0</b>      |

Source: Bank of Mongolia

Note:

(1) Provisional figures subject to further adjustments.

### ***Banking System Capitalization***

Banks' capital 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 MNT8 billion (U.S.\$5.9 million). The commercial banks will need to increase their capital to MNT16 billion (U.S.\$11.9 million) by May 1, 2013 in accordance with Bank of Mongolia's directive. Foreign banks are required to have a minimum capital of MNT65 billion (U.S.\$48.4 million) in order to set up their branch or subsidiary in Mongolia. Capital in the banking sector (prepaid tax deducted) was MNT688.9 billion (U.S.\$493.4 million) as at December 31, 2011, which increased by 75.1% from the amount as at December 31, 2010. As a result, the risk weighted capital adequacy ratio ("CAR") for the whole banking system, which is one of the main indicators of capability of the banks to withstand risk, stood at 14.8% as at December 31, 2011. The following table sets forth the increase in capital of the banking sector as at the dates indicated:

|                   | As at December 31,                 |       |       |       |       | As at<br>June 30,   |
|-------------------|------------------------------------|-------|-------|-------|-------|---------------------|
|                   | 2007                               | 2008  | 2009  | 2010  | 2011  | 2012 <sup>(1)</sup> |
|                   | (MNT billions, except percentages) |       |       |       |       |                     |
| Capital. . . . .  | 376.4                              | 340.6 | 230.2 | 393.5 | 688.9 | 864.4               |
| CAR (%) . . . . . | 14                                 | 11.1  | 13.3  | 15.1  | 14.8  | 15.4                |

*Source: Bank of Mongolia*

*Note:*

(1) Provisional figures subject to further adjustments.



## 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.

For the six months ended June 30, 2012, there were 331 companies with shares listed on the MSE. Of these, 279 of these companies were private companies, 23 of these companies were 100% state-owned and 29 were partially state-owned. The following table sets forth the number of companies listed on the MSE and the total market capitalization as at the dates indicated:

|                                       | For the year ended December 31, |       |       |         |         | For the six months ended June 30, |
|---------------------------------------|---------------------------------|-------|-------|---------|---------|-----------------------------------|
|                                       | 2007                            | 2008  | 2009  | 2010    | 2011    | 2012                              |
|                                       | (MNT billions)                  |       |       |         |         |                                   |
| Number of listed companies . . . .    | 383                             | 376   | 358   | 336     | 332     | 331                               |
| Total market capitalization . . . . . | 716.3                           | 515.9 | 620.7 | 1,373.9 | 2,168.1 | 1,895.2                           |

Source: MSE

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.

For the six months ended June 30, 2012, there were 78 members of the MSE which were broker dealer companies that have obtained licenses to operate in the securities market from the FRC, in which 25 have licenses to be underwriters and 17 are foreign invested companies. The three broker dealers with the highest trading volume for the six months of June 30, 2012 were BDSec JSC followed by National Securities LLC and Rescap Securities LLC.

The Parliament is in the process of passing a new Securities Market Law to align Mongolia's securities and corporate governance laws to international standards. See "Legal Reform – Securities Market Law."

### 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, NBFIs, 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 policies 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 the 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 Mongolia 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 domestic bond issues have been auctioned on the MSE, primarily to domestic commercial banks. In 2011, the total amount of primary Government bond issues was MNT236 billion (U.S.\$169 million). The following table sets forth the amount of outstanding Government bonds as at the dates indicated:

|                            | As at December 31, |                |                  |                  |                  | As at<br>June 30, |
|----------------------------|--------------------|----------------|------------------|------------------|------------------|-------------------|
|                            | 2007               | 2008           | 2009             | 2010             | 2011             | 2012              |
|                            | (MNT millions)     |                |                  |                  |                  |                   |
| Government bonds . . . . . | 39,599.3           | 1,494.7        | 338,150.0        | 180,000.0        | 358,330.6        | 174,223.0         |
| <b>Total . . . . .</b>     | <b>39,599.3</b>    | <b>1,494.7</b> | <b>338,150.0</b> | <b>180,000.0</b> | <b>358,330.6</b> | <b>174,223.0</b>  |

Source: Ministry of Finance

On June 8, 2011, the Government raised MNT36 billion (U.S.\$28.6 million) through a bond offering. Khan Bank, the Trade and Development Bank, ING Bank, Capital Bank and Golomt Bank each participated in the issuance.

### ***M&A and IPO Activity***

In recent years, Mongolia has seen robust mergers and acquisitions activity particularly in the mining sector. According to a report published by Eurasia Capital in January 2012, the Mongolian coal industry has experienced over 50 M&A transactions with a total value of U.S.\$2.19 billion since 2007. In 2011, 27 coal-related M&A deals worth U.S.\$1.65 billion were completed. In 2012, M&A activity in Mongolia slowed down partly due to the steep decline in commodity prices. See “Legal Reform – Laws Affecting the Mining Sector – Strategic Foreign Investment Law.”

In recent years, there have been a number of successful IPOs by Mongolia-linked companies. For example, in October 2010, Mongolia Mining raised approximately U.S.\$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.

## TERMS AND CONDITIONS OF THE NOTES

*The following are the Terms and Conditions of the Notes (the “Conditions”) which will be incorporated by reference into each Global Note (as defined below) and each definitive Note, in the latter case only if permitted by the relevant stock exchange or other relevant authority (if any) and agreed by the Issuer and the relevant Dealer at the time of issue but, if not so permitted and agreed, such definitive Note will have endorsed thereon or attached thereto such Conditions. The applicable Pricing Supplement in relation to any Tranche of Notes may specify amendments or changes to the Conditions and/or specify other terms and conditions which, in any case, shall, to the extent so specified or to the extent inconsistent with these Conditions, replace or modify these Conditions for the purpose of such Notes. The applicable Pricing Supplement (or the relevant provisions thereof) will be endorsed upon, or attached to, each Global Note and definitive Note. Reference should be made to “Form of the Notes” for a description of the content of Pricing Supplement which will specify which of such terms are to apply in relation to the relevant Notes.*

This Note is one of a Series (as defined below) of Notes issued by The Government of Mongolia (the “Issuer”) pursuant to the Agency Agreement (as defined below).

References herein to the “Notes” shall be references to the Notes of this Series and shall mean:

- (a) in relation to any Notes represented by a global Note (a “Global Note”), units of the lowest Specified Denomination in the Specified Currency;
- (b) any Global Note;
- (c) any definitive Notes in bearer form (“Bearer Notes”) issued in exchange for a Global Note in bearer form; and
- (d) any definitive Notes in registered form (“Registered Notes”) (whether or not issued in exchange for a Global Note in registered form).

The Notes, the Receipts (as defined below) and the Coupons (as defined below) are issued pursuant to an Agency Agreement (such Agency Agreement, as amended and/or supplemented and/or restated from time to time, the “Agency Agreement”) dated November 21, 2012 and made between the Issuer, Deutsche Bank AG, Hong Kong Branch as principal paying agent (the “Principal Paying Agent,” which expression shall include any successor principal paying agent), as transfer agent and as exchange agent (the “Exchange Agent,” which expression shall include any successor exchange agent) and Deutsche Bank Trust Company Americas as principal registrar (the “Principal Registrar,” which shall include any successor principal registrar), as transfer agent (together with the Principal Registrar, the “Transfer Agents,” which expression shall include any successor as any additional transfer agents appointed in accordance with the Agency Agreement) and as “US paying agent” (the US Paying Agent and together with the Principal Paying Agent, the “Paying Agents” which expression shall include any additional or successor paying agents appointed hereunder and “Paying Agent” shall mean any of the Paying Agents).

As used in these Conditions, the term “Registrar” shall mean the Principal Registrar or, as the case may be, Deutsche Bank Luxembourg S.A. as specified in the applicable Pricing Supplement (as defined below).

Interest bearing definitive Bearer Notes have interest coupons (“Coupons”) and, if indicated in the applicable Pricing Supplement, talons for further Coupons (“Talons”) attached on issue. Any reference herein to Coupons or coupons shall, unless the context otherwise requires, be deemed to include a reference to Talons or talons. Definitive Bearer Notes repayable in installments have receipts (“Receipts”) for the payment of the installments of principal (other than the final installment) attached on issue. Registered Notes and Global Notes do not have Receipts, Coupons or Talons attached on issue.

The Pricing Supplement for this Note (or the relevant provisions thereof) is attached to or endorsed on this Note and supplements these Conditions and may specify other terms and conditions which shall, to the extent so specified or to the extent inconsistent with the Conditions, replace or modify the Conditions for the purposes of this Note.

References to the “applicable Pricing Supplement” are to the Pricing Supplement (or the relevant provisions thereof) attached to or endorsed on this Note.

Any reference to “Noteholders” or “holders” in relation to any Notes shall mean (in the case of Bearer Notes) the holders of the Notes and (in the case of Registered Notes) the persons in whose name the Notes are registered and shall, in relation to any Notes represented by a Global Note, be construed as provided below. Any reference herein to “Receiptholders” shall mean the holders of the Receipts and any reference herein to “Couponholders” shall mean the holders of the Coupons and shall, unless the context otherwise requires, include the holders of the Talons.

As used herein, “Tranche” means Notes which are identical in all respects (including as to listing and admission to trading) and Series means a Tranche of Notes together with any further Tranche or Tranches of Notes which are (a) expressed to be consolidated and form a single series and (b) identical in all respects (including as to listing and admission to trading) except for their respective Issue Dates, Interest Commencement Dates and/or Issue Prices.

A copy of the Agency Agreement, as amended or supplemented and/or restated from time to time, is available for inspection during normal business hours at the specified office of each of the Principal Paying Agent, the Registrar and the other Paying Agents and Transfer Agents (such Agents and the Registrar being together referred to as the “Agents”). Copies of the applicable Pricing Supplement are available for viewing at the registered office of the Issuer and of the Principal Paying Agent and copies may be obtained from those offices save that, if this Note is neither admitted to trading on a regulated market in the European Economic Area nor offered in the European Economic Area in circumstances where a prospectus is required to be published under the Prospectus Directive, the applicable Pricing Supplement will only be obtainable by a Noteholder holding one or more Notes and such Noteholder must produce evidence satisfactory to the Issuer and the relevant Agent as to its holding of such Notes and identity. The Noteholders, the Receiptholders and the Couponholders are deemed to have notice of, and are entitled to the benefit of, all the provisions of the Agency Agreement and the applicable Pricing Supplement which are applicable to them. The statements in the Conditions include summaries of, and are subject to, the detailed provisions of the Agency Agreement.

Words and expressions defined in the Agency Agreement or used in the applicable Pricing Supplement shall have the same meanings where used in the Conditions unless the context otherwise requires or unless otherwise stated and provided that, in the event of inconsistency between the Agency Agreement and the applicable Pricing Supplement, the applicable Pricing Supplement will prevail.

## **1. FORM, DENOMINATION AND TITLE**

The Notes are in bearer form or in registered form as specified in the applicable Pricing Supplement and, in the case of definitive Notes, serially numbered, in the Specified Currency and the Specified Denomination(s). Notes of one Specified Denomination may not be exchanged for Notes of another Specified Denomination and Bearer Notes may not be exchanged for Registered Notes and vice versa.

This Note may be a Fixed Rate Note, a Floating Rate Note, a Zero Coupon Note, an Index Linked Interest Note, a Dual Currency Interest Note or a combination of any of the foregoing, depending upon the Interest Basis shown in the applicable Pricing Supplement.

This Note may be an Index Linked Redemption Note, an Installment Note, a Dual Currency Redemption Note, a Partly Paid Note or a combination of any of the foregoing, depending upon the Redemption/Payment Basis shown in the applicable Pricing Supplement.

Definitive Bearer Notes are issued with Coupons attached, unless they are Zero Coupon Notes in which case references to Coupons and Couponholders in the Conditions are not applicable.

Subject as set out below, title to the Bearer Notes, Receipts and Coupons will pass by delivery and title to the Registered Notes will pass upon registration of transfers in accordance with the provisions of the Agency Agreement. The Issuer and any Agent will (except as otherwise required by law) deem and treat the bearer of any Bearer Note, Receipt or Coupon and the registered holder of any Registered Note as the absolute owner thereof (whether or not overdue and notwithstanding any notice of ownership or writing thereon or notice of any previous loss or theft thereof) for all purposes but, in the case of any Global Note, without prejudice to the provisions set out in the next succeeding paragraph.

For so long as any of the Notes is represented by a Global Note held on behalf of Euroclear Bank SA/NV (“Euroclear”) and/or Clearstream Banking, société anonyme (“Clearstream, Luxembourg”), each person (other than Euroclear or Clearstream, Luxembourg) who is for the time being shown in the records of Euroclear or Clearstream, Luxembourg as the holder of a particular nominal amount of such Notes (in which regard any certificate or other document issued by Euroclear or Clearstream, Luxembourg as to the nominal amount of such Notes standing to the account of any person shall be conclusive and binding for all purposes save in the case of manifest error) shall be treated by the Issuer and the Agents as the holder of such nominal amount of such Notes for all purposes other than with respect to the payment of principal or interest on such nominal amount of such Notes, for which purpose the bearer of the relevant Bearer Global Note or the registered holder of the relevant Registered Global Note shall be treated by the Issuer and any Agent as the holder of such nominal amount of such Notes in accordance with and subject to the terms of the relevant Global Note and the expressions “Noteholder” and “holder of Notes” and related expressions shall be construed accordingly.

For so long as the Depository Trust Company (“DTC”) or its nominee is the registered owner or holder of a Registered Global Note, DTC or such nominee, as the case may be, will be considered the sole owner or holder of the Notes represented by such Registered Global Note for all purposes under the Agency Agreement and the Notes except to the extent that in accordance with DTC’s published rules and procedures any ownership rights may be exercised by its participants or beneficial owners through participants.

Notes which are represented by a Global Note will be transferable only in accordance with the rules and procedures for the time being of DTC, Euroclear and Clearstream, Luxembourg, as the case may be. References to DTC, Euroclear and/or Clearstream, Luxembourg shall, whenever the context so permits, be deemed to include a reference to any additional or alternative clearing system specified in the applicable Pricing Supplement.

## **2. TRANSFERS OF REGISTERED NOTES**

### ***2.1 Transfers of interests in Registered Global Notes***

Transfers of beneficial interests in Registered Global Notes will be effected by DTC, Euroclear or Clearstream, Luxembourg, as the case may be, and, in turn, by other participants and, if appropriate, indirect participants in such clearing systems acting on behalf of beneficial transferors and transferees of such interests. A beneficial interest in a Registered Global Note will, subject to



compliance with all applicable legal and regulatory restrictions, be transferable for Notes in definitive form or for a beneficial interest in another Registered Global Note only in the authorized denominations set out in the applicable Pricing Supplement and only in accordance with the rules and operating procedures for the time being of DTC, Euroclear or Clearstream, Luxembourg, as the case may be, and in accordance with the terms and conditions specified in the Agency Agreement. Transfers of a Registered Global Note registered in the name of a nominee for DTC shall be limited to transfers of such Registered Global Note, in whole but not in part, to another nominee of DTC or to a successor of DTC or such successor's nominee.

## **2.2 *Transfers of Registered Notes in definitive form***

Subject as provided in paragraphs 2.6, 2.7 and 2.8 below, upon the terms and subject to the conditions set forth in the Agency Agreement, a Registered Note in definitive form may be transferred in whole or in part (in the authorized denominations set out in the applicable Pricing Supplement). In order to effect any such transfer (a) the holder or holders must (i) surrender the Registered Note for registration of the transfer of the Registered Note (or the relevant part of the Registered Note) at the specified office of any Transfer Agent, with the form of transfer thereon duly executed by the holder or holders thereof or his or their attorney or attorneys duly authorized in writing and (ii) complete and deposit such other certifications as may be required by the relevant Transfer Agent and (b) the relevant Transfer Agent must, after due and careful enquiry, be satisfied with the documents of title and the identity of the person making the request. Any such transfer will be subject to such reasonable regulations as the Issuer and the Registrar may from time to time prescribe (the initial such regulations being set out in Schedule 10 to the Agency Agreement). Subject as provided above, the relevant Transfer Agent will, within three business days (being for this purpose a day on which banks are open for business in the city where the specified office of the relevant Transfer Agent is located) of the request (or such longer period as may be required to comply with any applicable fiscal or other laws or regulations), deliver, or procure the delivery of, at its specified office to the transferee or (at the risk of the transferee) send by uninsured mail, to such address as the transferee may request, a new Registered Note in definitive form of a like aggregate nominal amount to the Registered Note (or the relevant part of the Registered Note) transferred. In the case of the transfer of part only of a Registered Note in definitive form, a new Registered Note in definitive form in respect of the balance of the Registered Note not transferred will be so delivered or (at the risk of the transferor) sent to the transferor.

## **2.3 *Registration of transfer upon partial redemption***

In the event of a partial redemption of Notes under Condition 7, the Issuer shall not be required to register the transfer of any Registered Note, or part of a Registered Note, called for partial redemption.

## **2.4 *Costs of registration***

Noteholders will not be required to bear the costs and expenses of effecting any registration of transfer as provided above, except for any costs or expenses of delivery other than by regular uninsured mail and except that the Issuer may require the payment of a sum sufficient to cover any stamp duty, tax or other governmental charge that may be imposed in relation to the registration.

## **2.5 Transfers of interests in Regulation S Global Notes**

Prior to expiry of the applicable Distribution Compliance Period, transfers by the holder of, or of a beneficial interest in, a Regulation S Global Note to a transferee in the United States or who is a U.S. person will only be made:

- (a) upon receipt by the Registrar of a written certification substantially in the form set out in the Agency Agreement, amended as appropriate (a “Transfer Certificate”), copies of which are available from the specified office of any Transfer Agent, from the transferor of the Note or beneficial interest therein to the effect that such transfer is being made:
  - (i) to a person whom the transferor reasonably believes is a QIB in a transaction meeting the requirements of Rule 144A; or
  - (ii) to a person who is an Institutional Accredited Investor, together with, in the case of (ii), a duly executed investment letter from the relevant transferee substantially in the form set out in the Agency Agreement (an “IAI Investment Letter”); or
- (b) otherwise pursuant to the Securities Act or an exemption therefrom, subject to receipt by the Issuer of such satisfactory evidence as the Issuer may reasonably require, which may include an opinion of U.S. counsel, that such transfer is in compliance with any applicable securities laws of any State of the United States,

and, in each case, in accordance with any applicable securities laws of any State of the United States or any other jurisdiction.

In the case of (i) above, such transferee may take delivery through a Legended Note in global or definitive form and, in the case of (ii) above, such transferee may take delivery only through a Legended Note in definitive form. After expiry of the applicable Distribution Compliance Period (a) beneficial interests in Regulation S Global Notes registered in the name of a nominee for DTC may be held through DTC directly, by a participant in DTC, or indirectly through a participant in DTC and (b) such certification requirements will no longer apply to such transfers.

## **2.6 Transfers of interests in Legended Notes**

Transfers of Legended Notes or beneficial interests therein may be made:

- (a) to a transferee who takes delivery of such interest through a Regulation S Global Note, upon receipt by the Registrar of a duly completed Transfer Certificate from the transferor to the effect that such transfer is being made in accordance with Regulation S and that in the case of a Regulation S Global Note registered in the name of a nominee for DTC, if such transfer is being made prior to expiry of the applicable Distribution Compliance Period, the interests in the Notes being transferred will be held immediately thereafter through Euroclear and/or Clearstream, Luxembourg; or
- (b) to a transferee who takes delivery of such interest through a Legended Note:
  - (i) where the transferee is a person whom the transferor reasonably believes is a QIB in a transaction meeting the requirements of Rule 144A, without certification; or

- (ii) where the transferee is an Institutional Accredited Investor, subject to delivery to the Registrar of a Transfer Certificate from the transferor to the effect that such transfer is being made to an Institutional Accredited Investor, together with a duly executed IAI Investment Letter from the relevant transferee; or
- (c) otherwise pursuant to the Securities Act or an exemption therefrom, subject to receipt by the Issuer of such satisfactory evidence as the Issuer may reasonably require, which may include an opinion of U.S. counsel, that such transfer is in compliance with any applicable securities laws of any State of the United States,

and, in each case, in accordance with any applicable securities laws of any State of the United States or any other jurisdiction.

Notes transferred by Institutional Accredited Investors to QIBs pursuant to Rule 144A or outside the United States pursuant to Regulation S will be eligible to be held by such QIBs or non-U.S. investors through DTC, Euroclear or Clearstream, Luxembourg, as appropriate, and the Registrar will arrange for any Notes which are the subject of such a transfer to be represented by the appropriate Registered Global Note, where applicable.

Upon the transfer, exchange or replacement of Legended Notes, or upon specific request for removal of the Legend, the Registrar shall deliver only Legended Notes or refuse to remove the Legend, as the case may be, unless there is delivered to the Issuer such satisfactory evidence as may reasonably be required by the Issuer, which may include an opinion of U.S. counsel, that neither the Legend nor the restrictions on transfer set forth therein are required to ensure compliance with the provisions of the Securities Act.

## ***2.7 Exchanges and transfers of Registered Notes generally***

Holders of Registered Notes in definitive form, other than Institutional Accredited Investors, may exchange such Notes for interests in a Registered Global Note of the same type at any time.

## ***2.8 Definitions***

In this Condition, the following expressions shall have the following meanings:

“Distribution Compliance Period” means the period that ends 40 days after the completion of the distribution of each Tranche of Notes, as certified by the relevant Dealer (in the case of a non-syndicated issue) or the relevant Lead Manager (in the case of a syndicated issue);

“Institutional Accredited Investor” means “accredited investors” (as defined in Rule 501(a)(1), (2), (3) or (7) under the Securities Act that are institutions;

“Legended Note” means Registered Notes in definitive form that are issued to Institutional Accredited Investors and Registered Notes (whether in definitive form or represented by a Registered Global Note) sold in private transactions to QIBs in accordance with the requirements of Rule 144A;

“QIB” means a “qualified institutional buyer” within the meaning of Rule 144A;

“Regulation S” means Regulation S under the Securities Act;

“Regulation S Global Note” means a Registered Global Note representing Notes sold outside the United States in reliance on Regulation S;

“Rule 144A” means Rule 144A under the Securities Act;

“Rule 144A Global Note” means a Registered Global Note representing Notes sold in the United States or to QIBs; and

“Securities Act” means the United States Securities Act of 1933, as amended.

### **3. STATUS OF THE NOTES**

The Notes and any relative Receipts and Coupons are direct, unconditional, unsubordinated and (subject to the provisions of Condition 4) unsecured obligations of the Issuer and rank and will rank *pari passu*, without preference among themselves, with all other unsecured and unsubordinated External Indebtedness (as defined in Condition 10) of the Issuer, from time to time outstanding.

The full faith and credit of Mongolia is and will be pledged for the due and punctual payment of all amounts payable (including principal, interest and other amounts) in respect of the Notes.

### **4. NEGATIVE PLEDGE**

#### **4.1 Negative Pledge**

So long as any of the Notes remains outstanding, the Issuer will not create or have outstanding any mortgage, charge, lien, pledge or other security interest (each a “Security Interest”) upon, or with respect to, the whole or any part of its present or future assets or revenues to secure (i) any Public External Indebtedness (as defined below), or (ii) any guarantee or indemnity by the Issuer in respect of Public External Indebtedness, unless the Issuer, in the case of the creation of a Security Interest, before or at the same time and, in any other case, promptly, takes any and all action necessary to ensure that:

- (a) all amounts payable by the Issuer under the Notes and the Coupons are secured by the Security Interest equally and rateably with the Public External Indebtedness or such guarantee or indemnity in respect of Public External Indebtedness; or
- (b) such other Security Interest or other arrangement (whether or not it includes the giving of a Security Interest) is provided as is approved by an Extraordinary Resolution (as defined in the Agency Agreement) of the Noteholders; and

provided, however, that the foregoing provisions of this Condition 4.1 shall not apply to:

- (1) any Security Interest securing future Public External Indebtedness of the Issuer or any guarantee or indemnity 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 (A) the holders or beneficiaries of such Public External Indebtedness or guarantee or indemnity 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 repayment of such Public External Indebtedness and (B) the property over which such Security Interest is granted consists principally of such assets and revenues;
- (2) any Security Interest existing on any property, project or asset at the time of its acquisition, and extensions and renewals of such Security Interest limited to the original project, property or asset covered thereby and securing any extension or renewal of the original secured financing;

- (3) any Security Interest arising by operation of law, provided that any such Security Interest is not created or permitted to be created by the Issuer to secure any Public External Indebtedness; or
- (4) any Security Interest 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 Central Bank of Mongolia represent substantially all of the official total foreign exchange reserves of the Issuer. Because the Central Bank of Mongolia is an independent entity, the Issuer is of the view that the foreign exchange reserves owned by the Central Bank of Mongolia are not subject to the negative pledge covenant of the Notes and that the Central Bank of Mongolia could in the future incur Public External Indebtedness secured by such foreign exchange reserves without securing amounts payable under the Notes.*

## **4.2 Interpretation**

For the purposes of these Conditions:

- (a) "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;
- (b) "Person" includes any individual, company, corporation, firm, partnership, joint venture, undertaking, association, organization, trust, state or agency of the state (in each case, whether or not having separate legal personality); and
- (c) "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 Togrogs, 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.

## **5. INTEREST**

### **5.1 Interest on Fixed Rate Notes**

Each Fixed Rate Note bears interest on its outstanding nominal amount (or, if it is a Partly Paid Note, the amount paid up) from (and including) the Interest Commencement Date at the rate(s) per annum equal to the Rate(s) of Interest. Interest will be payable in arrear on the Interest Payment Date(s) in each year up to (and including) the Maturity Date.

If the Notes are in definitive form, except as provided in the applicable Pricing Supplement, the amount of interest payable on each Interest Payment Date in respect of the Fixed Interest Period ending on (but excluding) such date will amount to the Fixed Coupon Amount. If (i) the first anniversary of the Interest Commencement Date is not a Interest Payment Date, or (ii) the Maturity Date is not a Interest Payment Date, the interest from (and including) the preceding Interest Payment Date (or the Interest Commencement Date, as the case may be) to (but excluding) the next following Interest Payment Date (or the Maturity Date, as the case may be) will amount to the broken amount, as specified in the applicable Pricing Supplement (the "Broken Amount").

As used in the Conditions, “Fixed Interest Period” means the period from (and including) an Interest Payment Date (or the Interest Commencement Date) to (but excluding) the next (or first) Interest Payment Date.

Except in the case of Notes in definitive form where a Fixed Coupon Amount or Broken Amount is specified in the applicable Pricing Supplement, interest shall be calculated in respect of any period by applying the Rate of Interest to:

- (a) in the case of Fixed Rate Notes which are represented by a Global Note, the aggregate outstanding nominal amount of the Fixed Rate Notes represented by such Global Note (or, if they are Partly Paid Notes, the aggregate amount paid up); or
- (b) in the case of Fixed Rate Notes in definitive form, the Calculation Amount;

and, in each case, multiplying such sum by the applicable Day Count Fraction, and rounding the resultant figure to the nearest sub-unit of the relevant Specified Currency, half of any such sub-unit being rounded upwards or otherwise in accordance with applicable market convention. Where the Specified Denomination of a Fixed Rate Note in definitive form comprises more than one Calculation Amount, the amount of interest payable in respect of such Fixed Rate Note shall be the aggregate of the amounts (determined in the manner provided above) for each Calculation Amount comprising the Specified Denomination without any further rounding.

“Day Count Fraction” means, in respect of the calculation of an amount of interest, in accordance with this Condition 5.1:

- (i) if “Actual/Actual” (“ICMA”) is specified in the applicable Pricing Supplement:
  - (A) in the case of Notes where the number of days in the relevant period from (and including) the most recent Interest Payment Date (or, if none, the Interest Commencement Date) to (but excluding) the relevant payment date (the “Accrual Period”) is equal to or shorter than the Determination Period during which the Accrual Period ends, the number of days in such Accrual Period divided by the product of (1) the number of days in such Determination Period and (2) the number of Determination Dates (as specified in the applicable Pricing Supplement) that would occur in one calendar year; or
  - (B) in the case of Notes where the Accrual Period is longer than the Determination Period during which the Accrual Period ends, the sum of:
    - (1) the number of days in such Accrual Period falling in the Determination Period in which the Accrual Period begins divided by the product of (x) the number of days in such Determination Period and (y) the number of Determination Dates that would occur in one calendar year; and
    - (2) the number of days in such Accrual Period falling in the next Determination Period divided by the product of (x) the number of days in such Determination Period and (y) the number of Determination Dates that would occur in one calendar year; and
- (ii) if “30/360” is specified in the applicable Pricing Supplement, the number of days in the period from (and including) the most recent Interest Payment Date (or, if none, the Interest Commencement Date) to (but excluding) the relevant payment date (such number of days being calculated on the basis of a year of 360 days with 12 30-day months) divided by 360.



In these Conditions:

“Determination Period” means each period from (and including) a Determination Date to but excluding the next Determination Date (including, where either the Interest Commencement Date or the final Interest Payment Date is not a Determination Date, the period commencing on the first Determination Date prior to, and ending on the first Determination Date falling after, such date); and

“sub-unit” means, with respect to any currency other than euro, the lowest amount of such currency that is available as legal tender in the country of such currency and, with respect to euro, one cent.

## **5.2 *Interest on Floating Rate Notes and Index Linked Interest Notes***

### **(a) *Interest Payment Dates***

Each Floating Rate Note and Index Linked Interest Note bears interest from (and including) the Interest Commencement Date and such interest will be payable in arrear on either:

- (i) the Specified Interest Payment Date(s) in each year specified in the applicable Pricing Supplement; or
- (ii) if no Specified Interest Payment Date(s) is/are specified in the applicable Pricing Supplement, each date (each such date, together with each Specified Interest Payment Date, an “Interest Payment Date”) which falls the number of months or other period specified as the Specified Period in the applicable Pricing Supplement after the preceding Interest Payment Date or, in the case of the first Interest Payment Date, after the Interest Commencement Date.

Such interest will be payable in respect of each Interest Period (which expression shall, in these Conditions, mean the period from (and including) an Interest Payment Date (or the Interest Commencement Date) to (but excluding) the next (or first) Interest Payment Date).

If a Business Day Convention is specified in the applicable Pricing Supplement and (x) if there is no numerically corresponding day on the calendar month in which an Interest Payment Date should occur or (y) if any Interest Payment Date would otherwise fall on a day which is not a Business Day, then, if the Business Day Convention specified is:

- (A) in any case where Specified Periods are specified in accordance with Condition 5.2(a)(ii) above, the Floating Rate Convention, such Interest Payment Date (i) in the case of (x) above, shall be the last day that is a Business Day in the relevant month and the provisions of (B) below shall apply mutatis mutandis or (ii) in the case of (y) above, shall be postponed to the next day which is a Business Day unless it would thereby fall into the next calendar month, in which event (1) such Interest Payment Date shall be brought forward to the immediately preceding Business Day and (2) each subsequent Interest Payment Date shall be the last Business Day in the month which falls the Specified Period after the preceding applicable Interest Payment Date occurred; or
- (B) the Following Business Day Convention, such Interest Payment Date shall be postponed to the next day which is a Business Day; or
- (C) the Modified Following Business Day Convention, such Interest Payment Date shall be postponed to the next day which is a Business Day unless it would thereby fall into the next calendar month, in which event such Interest Payment Date shall be brought forward to the immediately preceding Business Day; or

- (D) the Preceding Business Day Convention, such Interest Payment Date shall be brought forward to the immediately preceding Business Day.

In these Conditions, “Business Day” means a day which is both:

- (a) a day (other than a Saturday or Sunday) on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in Ulaanbaatar, Hong Kong, New York City (in the case Registered Notes represented by a Global Note are registered in the name of a nominee for DTC) and any Additional Business Center specified in the applicable Pricing Supplement; and
- (b) either (1) in relation to any sum payable in a Specified Currency other than euro, a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in the principal financial center of the country of the relevant Specified Currency or (2) in relation to any sum payable in euro, a day on which the Trans-European Automated Real-Time Gross Settlement Express Transfer (TARGET 2) System (the “TARGET 2 System”) is open for settlement of payments in euro.

(b) *Rate of Interest*

The Rate of Interest payable from time to time in respect of Floating Rate Notes and Index Linked Interest Notes will be determined in the manner specified in the applicable Pricing Supplement.

(i) ISDA Determination for Floating Rate Notes

Where ISDA Determination is specified in the applicable Pricing Supplement as the manner in which the Rate of Interest is to be determined, the Rate of Interest for each Interest Period will be the relevant ISDA Rate plus or minus (as indicated in the applicable Pricing Supplement) the Margin (if any). For the purposes of this subparagraph (i), “ISDA Rate” for an Interest Period means a rate equal to the Floating Rate that would be determined by the Principal Paying Agent under an interest rate swap transaction if the Principal Paying Agent were acting as Calculation Agent for that swap transaction under the terms of an agreement incorporating the 2006 ISDA Definitions, as published by the International Swaps and Derivatives Association, Inc. and as amended and updated as at the Issue Date of the first Tranche of the Notes (the “ISDA Definitions”) and under which:

- (A) the Floating Rate Option is as specified in the applicable Pricing Supplement;
- (B) the Designated Maturity is a period specified in the applicable Pricing Supplement; and
- (C) the relevant Reset Date is either (1) if the applicable Floating Rate Option is based on the London interbank offered rate (“LIBOR”) or on the Euro-zone interbank offered rate (“EURIBOR”), the first day of that Interest Period or (2) in any other case, as specified in the applicable Pricing Supplement.

For the purposes of this subparagraph (i), “Floating Rate,” “Calculation Agent,” “Floating Rate Option,” “Designated Maturity” and “Reset Date” have the meanings given to those terms in the ISDA Definitions.

Unless otherwise stated in the applicable Pricing Supplement, the Minimum Rate of Interest shall be deemed to be zero.

(ii) **Screen Rate Determination for Floating Rate Notes**

Where Screen Rate Determination is specified in the applicable Pricing Supplement as the manner in which the Rate of Interest is to be determined, the Rate of Interest for each Interest Period will, subject as provided below, be either:

(A) the offered quotation; or

(B) the arithmetic mean (rounded if necessary to the fifth decimal place, with 0.000005 being rounded upwards) of the offered quotations,

(expressed as a percentage rate per annum) for the Reference Rate which appears or appear, as the case may be, on the Relevant Screen Page as at 11.00 a.m. (London time, in the case of LIBOR, or Brussels time, in the case of EURIBOR) on the Interest Determination Date in question plus or minus (as indicated in the applicable Pricing Supplement) the Margin (if any), all as determined by the Principal Paying Agent. If five or more of such offered quotations are available on the Relevant Screen Page, the highest (or, if there is more than one such highest quotation, one only of such quotations) and the lowest (or, if there is more than one such lowest quotation, one only of such quotations) shall be disregarded by the Principal Paying Agent for the purpose of determining the arithmetic mean (rounded as provided above) of such offered quotations.

The Agency Agreement contains provisions for determining the Rate of Interest in the event that the Relevant Screen Page is not available or if, in the case of (A) above, no such offered quotation appears or, in the case of (B) above, fewer than three such offered quotations appear, in each case as at the time specified in the preceding paragraph.

If the Reference Rate from time to time in respect of Floating Rate Notes is specified in the applicable Pricing Supplement as being other than LIBOR or EURIBOR, the Rate of Interest in respect of such Notes will be determined as provided in the applicable Pricing Supplement.

(c) *Minimum Rate of Interest and/or Maximum Rate of Interest*

If the applicable Pricing Supplement specifies a Minimum Rate of Interest for any Interest Period, then, in the event that the Rate of Interest in respect of such Interest Period determined in accordance with the provisions of paragraph (b) above is less than such Minimum Rate of Interest, the Rate of Interest for such Interest Period shall be such Minimum Rate of Interest.

If the applicable Pricing Supplement specifies a Maximum Rate of Interest for any Interest Period, then, in the event that the Rate of Interest in respect of such Interest Period determined in accordance with the provisions of paragraph (b) above is greater than such Maximum Rate of Interest, the Rate of Interest for such Interest Period shall be such Maximum Rate of Interest.

(d) *Determination of Rate of Interest and calculation of Interest Amounts*

The Principal Paying Agent, in the case of Floating Rate Notes, and the Calculation Agent, in the case of Index Linked Interest Notes, will at or as soon as practicable after each time at which the Rate of Interest is to be determined, determine the Rate of Interest for the relevant

Interest Period. In the case of Index Linked Interest Notes, the Calculation Agent will notify the Principal Paying Agent of the Rate of Interest for the relevant Interest Period as soon as practicable after calculating the same.

The Principal Paying Agent, in the case of Floating Rate Notes, and the Calculation Agent, in the case of Index Linked Interest Notes, will calculate the amount of interest (the “Interest Amount”) payable for the relevant Interest Period by applying the Rate of Interest to:

- (i) in the case of Floating Rate Notes or Index Linked Interest Notes which are represented by a Global Note, the aggregate outstanding nominal amount of the Notes represented by such Global Note (or, if they are Partly Paid Notes, the aggregate amount paid up); or
- (ii) in the case of Floating Rate Notes or Index Linked Interest Notes in definitive form, the Calculation Amount;

and, in each case, multiplying such sum by the applicable Day Count Fraction, and rounding the resultant figure to the nearest sub-unit of the relevant Specified Currency, half of any such sub-unit being rounded upwards or otherwise in accordance with applicable market convention. Where the Specified Denomination of a Floating Rate Note or an Index Linked Interest Note in definitive form is a multiple of the Calculation Amount, the Interest Amount payable in respect of such Note shall be the product of the amount (determined in the manner provided above) for the Calculation Amount and the amount by which the Calculation Amount is multiplied to reach the Specified Denomination without any further rounding.

“Day Count Fraction” means, in respect of the calculation of an amount of interest in accordance with this Condition 5.2:

- (A) if “Actual/Actual” (“ISDA”) or “Actual/Actual” is specified in the applicable Pricing Supplement, the actual number of days in the Interest Period divided by 365 (or, if any portion of that Interest Period falls in a leap year, the sum of (I) the actual number of days in that portion of the Interest Period falling in a leap year divided by 366 and (II) the actual number of days in that portion of the Interest Period falling in a non-leap year divided by 365);
- (B) if “Actual/365 (Fixed)” is specified in the applicable Pricing Supplement, the actual number of days in the Interest Period divided by 365;
- (C) if “Actual/365 (Sterling)” is specified in the applicable Pricing Supplement, the actual number of days in the Interest Period divided by 365 or, in the case of an Interest Payment Date falling in a leap year, 366;

if “Actual/360” is specified in the applicable Pricing Supplement, the actual number of days in the Interest Period divided by 360;

- (D) if “30/360,” “360/360” or “Bond Basis” is specified in the applicable Pricing Supplement, the number of days in the Interest Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

“Y<sub>1</sub>” is the year, expressed as a number, in which the first day of the Interest Period falls;

“Y<sub>2</sub>” is the year, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

“M<sub>1</sub>” is the calendar month, expressed as a number, in which the first day of the Interest Period falls;

“M<sub>2</sub>” is the calendar month, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

“D<sub>1</sub>” is the first calendar day, expressed as a number, of the Interest Period, unless such number is 31, in which case D<sub>1</sub> will be 30; and

“D<sub>2</sub>” is the calendar day, expressed as a number, immediately following the last day included in the Interest Period, unless such number would be 31 and D<sub>1</sub> is greater than 29, in which case D<sub>2</sub> will be 30;

- (E) if “30E/360” or “Eurobond Basis” is specified in the applicable Pricing Supplement, the number of days in the Interest Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

“Y<sub>1</sub>” is the year, expressed as a number, in which the first day of the Interest Period falls;

“Y<sub>2</sub>” is the year, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

“M<sub>1</sub>” is the calendar month, expressed as a number, in which the first day of the Interest Period falls;

“M<sub>2</sub>” is the calendar month, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

“D<sub>1</sub>” is the first calendar day, expressed as a number, of the Interest Period, unless such number would be 31, in which case D<sub>1</sub> will be 30; and

“D<sub>2</sub>” is the calendar day, expressed as a number, immediately following the last day included in the Interest Period, unless such number would be 31, in which case D<sub>2</sub> will be 30;

if “30E/360 (ISDA)” is specified in the applicable Pricing Supplement, the number of days in the Interest Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

“Y<sub>1</sub>” is the year, expressed as a number, in which the first day of the Interest Period falls;

“Y<sub>2</sub>” is the year, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

“M<sub>1</sub>” is the calendar month, expressed as a number, in which the first day of the Interest Period falls;

“M<sub>2</sub>” is the calendar month, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

“D<sub>1</sub>” is the first calendar day, expressed as a number, of the Interest Period, unless (I) that day is the last day of February or (II) such number would be 31, in which case D<sub>1</sub> will be 30; and

“D<sub>2</sub>” is the calendar day, expressed as a number, immediately following the last day included in the Interest Period, unless (I) that day is the last day of February but not the Maturity Date or (II) such number would be 31, in which case D<sub>2</sub> will be 30.

(e) *Notification of Rate of Interest and Interest Amounts*

The Principal Paying Agent will cause the Rate of Interest and each Interest Amount for each Interest Period and the relevant Interest Payment Date to be notified to the Issuer and any stock exchange on which the relevant Floating Rate Notes or Index Linked Interest Notes are for the time being listed and notice thereof to be published in accordance with Condition 14 as soon as possible after their determination but in no event later than the fourth London Business Day thereafter. Each Interest Amount and Interest Payment Date so notified may subsequently be amended (or appropriate alternative arrangements made by way of adjustment) without prior notice in the event of an extension or shortening of the Interest Period. Any such amendment will be promptly notified to the Issuer and each stock exchange on which the relevant Floating Rate Notes or Index Linked Interest Notes are for the time being listed and to the Noteholders in accordance with Condition 14. For the purposes of this paragraph, the expression “London Business Day” means a day (other than a Saturday or a Sunday) on which banks and foreign exchange markets are open for general business in London.

(f) *Certificates to be final*

All certificates, communications, opinions, determinations, calculations, quotations and decisions given, expressed, made or obtained for the purposes of the provisions of this Condition 5, whether by the Principal Paying Agent or, if applicable, the Calculation Agent, shall (in the absence of wilful default, bad faith, gross negligence or manifest error) be binding on the Issuer, the Principal Paying Agent, the Calculation Agent (if applicable), the other Agents and all Noteholders, Receiptholders and Couponholders and (in the absence of wilful default, bad faith or gross negligence) no liability to the Issuer, the Noteholders, the



Receiptholders or the Couponholders shall attach to the Principal Paying Agent or, if applicable, the Calculation Agent in connection with the exercise or non-exercise by it of its powers, duties and discretions pursuant to such provisions.

### **5.3 *Interest on Dual Currency Interest Notes***

The rate or amount of interest payable in respect of Dual Currency Interest Notes shall be determined in the manner specified in the applicable Pricing Supplement.

### **5.4 *Interest on Partly Paid Notes***

In the case of Partly Paid Notes (other than Partly Paid Notes which are Zero Coupon Notes), interest will accrue as aforesaid on the paid up nominal amount of such Notes and otherwise as specified in the applicable Pricing Supplement.

### **5.5 *Accrual of interest***

Each Note (or in the case of the redemption of part only of a Note, that part only of such Note) will cease to bear interest (if any) from the date for its redemption unless, upon due presentation thereof, payment of principal is improperly withheld or refused. In such event, interest will continue to accrue until whichever is the earlier of:

- (a) the date on which all amounts due in respect of such Note have been paid; and
- (b) seven days after the date on which the full amount of the moneys payable in respect of such Note has been received by the Principal Paying Agent or the Registrar, as the case may be, and notice to that effect has been given to the Noteholders in accordance with Condition 14.

## **6. PAYMENTS**

### **6.1 *Method of payment***

Subject as provided below:

- (a) payments in a Specified Currency other than euro will be made by credit or transfer to an account in the relevant Specified Currency (which, in the case of a payment in Japanese yen to a non-resident of Japan, shall be a non-resident account) maintained by the payee with, or, at the option of the payee, by a check in such Specified Currency drawn on, a bank in the principal financial center of the country of such Specified Currency (which, if the Specified Currency is Australian dollars or New Zealand dollars, shall be Sydney and Auckland, respectively); and
- (b) payments in euro will be made by credit or transfer to a euro account (or any other account to which euro may be credited or transferred) specified by the payee or, at the option of the payee, by a euro check.

Payments will be subject in all cases to any fiscal or other laws and regulations applicable thereto in the place of payment, but without prejudice to the provisions of Condition 8.

## **6.2 *Presentation of definitive Bearer Notes, Receipts and Coupons***

Payments of principal in respect of definitive Bearer Notes will (subject as provided below) be made in the manner provided in paragraph 6.1 above only against presentation and surrender (or, in the case of part payment of any sum due, endorsement) of definitive Bearer Notes, and payments of interest in respect of definitive Bearer Notes will (subject as provided below) be made as aforesaid only against presentation and surrender (or, in the case of part payment of any sum due, endorsement) of Coupons, in each case at the specified office of any Paying Agent outside the United States (which expression, as used herein, means the United States of America (including the States and the District of Columbia and its possessions)).

Payments of installments of principal (if any) in respect of definitive Bearer Notes, other than the final installment, will (subject as provided below) be made in the manner provided in paragraph 6.1 above only against presentation and surrender (or, in the case of part payment of any sum due, endorsement) of the relevant Receipt in accordance with the preceding paragraph. Payment of the final installment will be made in the manner provided in paragraph 6.1 above only against presentation and surrender (or, in the case of part payment of any sum due, endorsement) of the relevant Bearer Note in accordance with the preceding paragraph. Each Receipt must be presented for payment of the relevant installment together with the definitive Bearer Note to which it appertains. Receipts presented without the definitive Bearer Note to which they appertain do not constitute valid obligations of the Issuer. Upon the date on which any definitive Bearer Note becomes due and repayable, unmatured Receipts (if any) relating thereto (whether or not attached) shall become void and no payment shall be made in respect thereof.

Fixed Rate Notes in definitive bearer form (other than Dual Currency Notes, Index Linked Notes or Long Maturity Notes (as defined below)) should be presented for payment together with all unmatured Coupons appertaining thereto (which expression shall for this purpose include Coupons falling to be issued on exchange of matured Talons), failing which the amount of any missing unmatured Coupon (or, in the case of payment not being made in full, the same proportion of the amount of such missing unmatured Coupon as the sum so paid bears to the sum due) will be deducted from the sum due for payment. Each amount of principal so deducted will be paid in the manner mentioned above against surrender of the relative missing Coupon at any time before the expiry of ten years after the Relevant Date (as defined in Condition 8) in respect of such principal (whether or not such Coupon would otherwise have become void under Condition 9) or, if later, five years from the date on which such Coupon would otherwise have become due, but in no event thereafter.

Upon any Fixed Rate Note in definitive bearer form becoming due and repayable prior to its Maturity Date, all unmatured Talons (if any) appertaining thereto will become void and no further Coupons will be issued in respect thereof.

Upon the date on which any Floating Rate Note, Dual Currency Note, Index Linked Note or Long Maturity Note in definitive bearer form becomes due and repayable, unmatured Coupons and Talons (if any) relating thereto (whether or not attached) shall become void and no payment or, as the case may be, exchange for further Coupons shall be made in respect thereof. A "Long Maturity Note" is a Fixed Rate Note (other than a Fixed Rate Note which on issue had a Talon attached) whose nominal amount on issue is less than the aggregate interest payable thereon provided that such Note shall cease to be a Long Maturity Note on the Interest Payment Date on which the aggregate amount of interest remaining to be paid after that date is less than the nominal amount of such Note.

If the due date for redemption of any definitive Bearer Note is not an Interest Payment Date, interest (if any) accrued in respect of such Note from (and including) the preceding Interest Payment Date or, as the case may be, the Interest Commencement Date shall be payable only against surrender of the relevant definitive Bearer Note.

### **6.3 *Payments in respect of Bearer Global Notes***

Payments of principal and interest (if any) in respect of Notes represented by any Global Note in bearer form will (subject as provided below) be made in the manner specified above in relation to definitive Bearer Notes and otherwise in the manner specified in the relevant Global Note against presentation or surrender, as the case may be, of such Global Note at the specified office of any Paying Agent outside the United States (which expression, as used herein, means the United States of America (including the States and the District of Columbia and its possessions)). A record of each payment made against presentation or surrender of any Global Note in bearer form, distinguishing between any payment of principal and any payment of interest, will be made on such Global Note by the Paying Agent to which it was presented and such record shall be *prima facie* evidence that the payment in question has been made. None of the Issuer or the Agents will have any responsibility or liability for any aspect of the records relating to, or payments made on account of, beneficial ownership interests in the Bearer Global Notes or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests.

### **6.4 *Payments in respect of Registered Notes***

Payments of principal (other than installments of principal prior to the final installment) in respect of each Registered Note (whether or not in global form) will be made against presentation and surrender (or, in the case of part payment of any sum due, endorsement) of the Registered Note at the specified office of the Registrar or any of the Paying Agents. Such payments will be made by transfer to the Designated Account (as defined below) of the holder (or the first named of joint holders) of the Registered Note appearing in the register of holders of the Registered Notes maintained by the Registrar (the “Register”) (a) where in global form, at the close of the business day (being for this purpose a day on which DTC, Euroclear or Clearstream, Luxembourg, as the case may be, is open for business) before the relevant due date, and (b) where in definitive form, at the close of business on the third business day (being for this purpose a day on which banks are open for business in the city where the specified office of the Registrar is located) before the relevant due date. Notwithstanding the previous sentence, if (i) a holder does not have a Designated Account or (ii) the principal amount of the Notes held by a holder is less than U.S.\$250,000 (or its approximate equivalent in any other Specified Currency), payment will instead be made by a check in the Specified Currency drawn on a Designated Bank (as defined below). For these purposes, “Designated Account” means the account (which, in the case of a payment in Japanese yen to a non-resident of Japan, shall be a non-resident account) maintained by a holder with a Designated Bank and identified as such in the Register and “Designated Bank” means (in the case of payment in a Specified Currency other than euro) a bank in the principal financial center of the country of such Specified Currency (which, if the Specified Currency is Australian dollars or New Zealand dollars, shall be Sydney and Auckland, respectively) and (in the case of a payment in euro) any bank which processes payments in euro.

Payments of interest and payments of installments of principal (other than the final installment) in respect of each Registered Note (whether or not in global form) will be made by a check in the Specified Currency drawn on a Designated Bank and mailed by uninsured mail on the business day in the city where the specified office of the Registrar is located immediately preceding the relevant due date to the holder (or the first named of joint holders) of the Registered Note appearing in the Register (a) where in global form, at the close of the business day (being for this purpose a day on which DTC, Euroclear or Clearstream, Luxembourg, as the case may be, is open for business) before the relevant due date, and (b) where in definitive form, at the close of business on the fifteenth day (whether or not such fifteenth day is a business day) before the relevant due date (the “Record Date”) at his address shown in the Register and at his risk. Upon application of the holder to the specified office of the Registrar not less than three business days in the city where the specified office of the

Registrar is located before the due date for any payment of interest in respect of a Registered Note, the payment may be made by transfer on the due date in the manner provided in the preceding paragraph. Any such application for transfer shall be deemed to relate to all future payments of interest (other than interest due on redemption) and installments of principal (other than the final installment) in respect of the Registered Notes which become payable to the holder who has made the initial application until such time as the Registrar is notified in writing to the contrary by such holder. Payment of interest due in respect of each Registered Note on redemption and the final installment of principal will be made in the same manner as payment of the principal amount of such Registered Note.

Holders of Registered Notes will not be entitled to any interest or other payment for any delay in receiving any amount due in respect of any Registered Note as a result of a check posted in accordance with this Condition arriving after the due date for payment or being lost in the post. No commissions or expenses shall be charged to such holders by the Registrar in respect of any payments of principal or interest in respect of the Registered Notes.

All amounts payable to DTC or its nominee as registered holder of a Registered Global Note in respect of Notes denominated in a Specified Currency other than U.S. dollars shall be paid by transfer by the Registrar to an account in the relevant Specified Currency of the Exchange Agent on behalf of DTC or its nominee for conversion into and payment in U.S. dollars in accordance with the provisions of the Agency Agreement.

Neither the Issuer nor the Agents will have any responsibility or liability for any aspect of the records relating to, or payments made on account of, beneficial ownership interests in the Registered Global Notes or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests.

#### **6.5 *General provisions applicable to payments***

The holder of a Global Note shall be the only person entitled to receive payments in respect of Notes represented by such Global Note and the Issuer will be discharged by payment to, or to the order of, the holder of such Global Note in respect of each amount so paid. Each of the persons shown in the records of Euroclear, Clearstream, Luxembourg or DTC as the beneficial holder of a particular nominal amount of Notes represented by such Global Note must look solely to Euroclear, Clearstream, Luxembourg or DTC, as the case may be, for his share of each payment so made by the Issuer to, or to the order of, the holder of such Global Note.

Notwithstanding the foregoing provisions of this Condition, if any amount of principal and/or interest in respect of Bearer Notes is payable in U.S. dollars, such U.S. dollar payments of principal and/or interest in respect of such Notes will be made at the specified office of a Paying Agent in the United States if:

- (a) the Issuer, pursuant to Condition 12, has appointed Paying Agents with specified offices outside the United States with the reasonable expectation that such Paying Agents would be able to make payment in U.S. dollars at such specified offices outside the United States of the full amount of principal and interest on the Bearer Notes in the manner provided above when due;
- (b) payment of the full amount of such principal and interest at all such specified offices outside the United States is illegal or effectively precluded by exchange controls or other similar restrictions on the full payment or receipt of principal and interest in U.S. dollars; and
- (c) such payment is then permitted under U.S. law without involving, in the opinion of the Issuer, adverse tax consequences to the Issuer.

## **6.6 *Payment Day***

If the date for payment of any amount in respect of any Note, Receipt or Coupon is not a Payment Day, the holder thereof shall not be entitled to payment until the next following Payment Day in the relevant place and shall not be entitled to further interest or other payment in respect of such delay. For these purposes, “Payment Day” means any day which (subject to Condition 9) is:

- (a) a day (other than a Saturday or Sunday) on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in:
  - (i) in the case of definitive Notes only, the relevant place of presentation;
  - (ii) any Additional Financial Center specified in the applicable Pricing Supplement;
- (b) either (i) in relation to any sum payable in a Specified Currency other than euro, a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in the principal financial center of the country of the relevant Specified Currency (if other than the place of presentation, London and any Additional Financial Center and which if the Specified Currency is Australian dollars or New Zealand dollars shall be Sydney and Auckland, respectively) or (ii) in relation to any sum payable in euro, a day on which the TARGET 2 System is open; and
- (c) in the case of any payment in respect of a Registered Global Note denominated in a Specified Currency other than U.S. dollars and registered in the name of DTC or its nominee and in respect of which an accountholder of DTC (with an interest in such Registered Global Note) has elected to receive any part of such payment in U.S. dollars, a day on which commercial banks are not authorized or required by law or regulation to be closed in New York City.

## **6.7 *Interpretation of principal and interest***

Any reference in the Conditions to principal in respect of the Notes shall be deemed to include, as applicable:

- (a) any additional amounts which may be payable with respect to principal under Condition 8;
- (b) the Final Redemption Amount of the Notes;
- (c) the Early Redemption Amount of the Notes;
- (d) the Optional Redemption Amount(s) (if any) of the Notes;
- (e) in relation to Notes redeemable in installments, the Installment Amounts;
- (f) in relation to Zero Coupon Notes, the Amortized Face Amount (as defined in Condition 7.4);
- (g) in relation to Dual Currency Interest Notes, the principal payable in any currency specified in the applicable Pricing Supplement; and
- (h) any premium and any other amounts (other than interest) which may be payable by the Issuer under or in respect of the Notes.

Any reference in the Conditions to interest in respect of the Notes shall be deemed to include, as applicable, any additional amounts which may be payable with respect to interest under Condition 8.

## **7. REDEMPTION AND PURCHASE**

### **7.1 *Redemption at maturity***

Unless previously redeemed or purchased and cancelled as specified below, each Note (including each Index Linked Redemption Note and Dual Currency Redemption Note) will be redeemed by the Issuer at its Final Redemption Amount specified in, or determined in the manner specified in, the applicable Pricing Supplement in the relevant Specified Currency on the Maturity Date.

### **7.2 *Redemption at the option of the Issuer (Issuer Call)***

If Issuer Call is specified in the applicable Pricing Supplement, the Issuer may, having given:

- (a) not less than 15 nor more than 30 days' notice to the Noteholders in accordance with Condition 14; and
- (b) not less than 15 days before the giving of the notice referred to in (a), notice to the Principal Paying Agent and, in the case of a redemption of Registered Notes, the Registrar;

(which notices shall be irrevocable and shall specify the date fixed for redemption), redeem all or some only of the Notes then outstanding on any Optional Redemption Date and at the Optional Redemption Amount(s) specified in, or determined in the manner specified in, the applicable Pricing Supplement together, if appropriate, with interest accrued to (but excluding) the relevant Optional Redemption Date. Any such redemption must be of a nominal amount not less than the Minimum Redemption Amount and not more than the Maximum Redemption Amount in each case as may be specified in the applicable Pricing Supplement. In the case of a partial redemption of Notes, the Notes to be redeemed ("Redeemed Notes") will be selected individually by lot, in the case of Redeemed Notes represented by definitive Notes, and in accordance with the rules of Euroclear and/or Clearstream, Luxembourg and/or DTC, in the case of Redeemed Notes represented by a Global Note, not more than 30 days prior to the date fixed for redemption (such date of selection being hereinafter called the "Selection Date"). In the case of Redeemed Notes represented by definitive Notes, a list of the serial numbers of such Redeemed Notes will be published in accordance with Condition 14 not less than 15 days prior to the date fixed for redemption. No exchange of the relevant Global Note will be permitted during the period from (and including) the Selection Date to (and including) the date fixed for redemption pursuant to this Condition 7.2 and notice to that effect shall be given by the Issuer to the Noteholders in accordance with Condition 14 at least five days prior to the Selection Date.

### **7.3 *Redemption at the option of the Noteholders (Investor Put)***

If Investor Put is specified in the applicable Pricing Supplement, upon the holder of any Note giving to the Issuer in accordance with Condition 14 not less than 15 nor more than 30 days' notice the Issuer will, upon the expiry of such notice, redeem, subject to, and in accordance with, the terms specified in the applicable Pricing Supplement, such Note on the Optional Redemption Date and at the Optional Redemption Amount together, if appropriate, with interest accrued to (but excluding) the Optional Redemption Date. Registered Notes may be redeemed under this Condition 7.3 in any multiple of their lowest Specified Denomination. It may be that before an Investor Put can be exercised, certain conditions and/or circumstances will need to be satisfied. Where relevant, the provisions will be set out in the applicable Pricing Supplement.



To exercise the right to require redemption of this Note the holder of this Note must, if this Note is in definitive form and held outside Euroclear, Clearstream, Luxembourg and DTC, deliver, at the specified office of any Paying Agent (in the case of Bearer Notes) or the Registrar (in the case of Registered Notes) at any time during normal business hours of such Paying Agent or, as the case may be, the Registrar falling within the notice period, a duly completed and signed notice of exercise in the form (for the time being current) obtainable from any specified office of any Paying Agent or, as the case may be, the Registrar (a “Put Notice”) and in which the holder must specify a bank account (or, if payment is required to be made by check, an address) to which payment is to be made under this Condition and, in the case of Registered Notes, the nominal amount thereof to be redeemed and, if less than the full nominal amount of the Registered Notes so surrendered is to be redeemed, an address to which a new Registered Note in respect of the balance of such Registered Notes is to be sent subject to and in accordance with the provisions of Condition 2.2. If this Note is in definitive bearer form, the Put Notice must be accompanied by this Note or evidence satisfactory to the Paying Agent concerned that this Note will, following delivery of the Put Notice, be held to its order or under its control.

If this Note is represented by a Global Note or is in definitive form and held through Euroclear, Clearstream, Luxembourg or DTC, to exercise the right to require redemption of this Note the holder of this Note must, within the notice period, give notice to the Principal Paying Agent of such exercise in accordance with the standard procedures of Euroclear, Clearstream, Luxembourg and DTC (which may include notice being given on his instruction by Euroclear, Clearstream, Luxembourg, DTC or any depositary for them to the Principal Paying Agent by electronic means) in a form acceptable to Euroclear, Clearstream, Luxembourg and DTC from time to time.

Any Put Notice or other notice given in accordance with the standard procedures of Euroclear, Clearstream, Luxembourg and DTC given by a holder of any Note pursuant to this Condition 7.3 shall be irrevocable except where, prior to the due date of redemption, an Event of Default has occurred and in which event such holder, at its option, may elect by notice to the Issuer to withdraw the notice given pursuant to this Condition 7.3.

#### **7.4 Early Redemption Amounts**

For the purpose of Condition 10, each Note will be redeemed at its Early Redemption Amount calculated as follows:

- (a) in the case of a Note with a Final Redemption Amount equal to the Issue Price, at the Final Redemption Amount thereof;
- (b) in the case of a Note (other than a Zero Coupon Note but including an Installment Note and a Partly Paid Note) with a Final Redemption Amount which is or may be less or greater than the Issue Price or which is payable in a Specified Currency other than that in which the Note is denominated, at the amount specified in, or determined in the manner specified in, the applicable Pricing Supplement or, if no such amount or manner is so specified in the applicable Pricing Supplement, at its nominal amount; or
- (c) in the case of a Zero Coupon Note, at an amount (the “Amortized Face Amount”) calculated in accordance with the following formula:

$$\text{Early Redemption Amount} = \text{RP} \times (1 + \text{AY})^y$$

where:

“RP” means the Reference Price; and



“AY” means the Accrual Yield expressed as a decimal; and

“y” is a fraction the numerator of which is equal to the number of days (calculated on the basis of a 360-day year consisting of 12 months of 30 days each) from (and including) the Issue Date of the first Tranche of the Notes to (but excluding) the date fixed for redemption or (as the case may be) the date upon which such Note becomes due and repayable and the denominator of which is 360,

or on such other calculation basis as may be specified in the applicable Pricing Supplement.

#### **7.5 *Installments***

Installment Notes will be redeemed in the Installment Amounts and on the Installment Dates. In the case of early redemption, the Early Redemption Amount will be determined pursuant to Condition 7.4 above.

#### **7.6 *Partly Paid Notes***

Partly Paid Notes will be redeemed, whether at maturity, early redemption or otherwise, in accordance with the provisions of this Condition and the applicable Pricing Supplement.

#### **7.7 *Purchases***

The Issuer may at any time purchase Notes (provided that, in the case of definitive Bearer Notes, all unmatured Receipts, Coupons and Talons appertaining thereto are purchased therewith) at any price in the open market or otherwise. All Notes so purchased will be surrendered to a Paying Agent or the Registrar for cancellation.

#### **7.8 *Cancellation***

All Notes which are redeemed will forthwith be cancelled (together with all unmatured Receipts, Coupons and Talons attached thereto or surrendered therewith at the time of redemption). All Notes so cancelled and the Notes purchased and cancelled pursuant to Condition 7.7 above (together with all unmatured Receipts, Coupons and Talons cancelled therewith) shall be forwarded to the Principal Paying Agent and cannot be reissued or resold.

#### **7.9 *Late payment on Zero Coupon Notes***

If the amount payable in respect of any Zero Coupon Note upon redemption of such Zero Coupon Note pursuant to Conditions 7.1, 7.2 or 7.3 above or upon its becoming due and repayable as provided in Condition 10 is improperly withheld or refused, the amount due and repayable in respect of such Zero Coupon Note shall be the amount calculated as provided in Condition 7.4(c) above as though the references therein to the date fixed for the redemption or the date upon which such Zero Coupon Note becomes due and payable were replaced by references to the date which is the earlier of:

- (a) the date on which all amounts due in respect of such Zero Coupon Note have been paid; and
- (b) five days after the date on which the full amount of the moneys payable in respect of such Zero Coupon Notes has been received by the Principal Paying Agent or the Registrar and notice to that effect has been given to the Noteholders in accordance with Condition 14.

## 8. TAXATION

All payments of principal and interest in respect of the Notes, Receipts and Coupons by the Issuer will be made without withholding or deduction for or on account of any present or future taxes, duties, assessments or governmental changes of whatever nature imposed or levied by or on behalf of any Tax Jurisdiction unless such withholding or deduction is required by law. In such event, the Issuer will pay such additional amounts as shall be necessary in order that the net amounts received by the holders of the Notes, Receipts or Coupons after such withholding or deduction shall equal the respective amounts of principal and interest which would otherwise have been receivable in respect of the Notes, Receipts or Coupons, as the case may be, in the absence of such withholding or deduction; except that no such additional amounts shall be payable with respect to any Note, Receipt or Coupon:

- (a) presented for payment in Mongolia; or
- (b) the holder of which is liable for such taxes, duties, assessments or governmental changes in respect of such Note, Receipt or Coupon by reason of his having some connection with a Tax Jurisdiction other than the mere holding of such Note, Receipt or Coupon; or
- (c) presented for payment more than 30 days after the Relevant Date (as defined below) except to the extent that the holder thereof would have been entitled to an additional amount on presenting the same for payment on such thirtieth day assuming that day to have been a Payment Day (as defined in Condition 6.6); or
- (d) where such withholding or deduction is imposed on a payment to an individual and is required to be made pursuant to European Council Directive 2003/48/EC on the taxation of savings income or any law implementing or complying with, or introduced in order to conform to, such Directive; or
- (e) presented for payment by or on behalf of a holder who would be able to avoid such withholding or deduction by presenting the relevant Note, Receipt or Coupon to another Paying Agent in a Member State of the European Union; or
- (f) where such withholding or deduction would not have been imposed but for the failure of the holder or beneficial owner to comply with a timely request of the Issuer to provide information concerning such holder's or beneficial owner's nationality, residence, identity or connection with any Tax Jurisdiction; or
- (g) with respect to any payment if the holder is a fiduciary, partnership or person other than the sole beneficial owner of any payment to the extent that such payment would be required to be included in the income under the laws of a Tax Jurisdiction, for tax purposes, of a beneficiary or settlor with respect to the fiduciary, or a member of that partnership or a beneficial owner who would not have been entitled to such additional amounts had that beneficiary, settlor, partner, or beneficial owner been the holder thereof; or
- (h) any combination of items (a) through (g) above.

As used herein:

- (i) "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 to which the Issuer (other than through the Paying Agents) becomes subject in respect of payments made by the Issuer on the Notes, the Receipts or the Coupons; and

- (ii) the “Relevant Date” means the date on which such payment first becomes due, except that, if the full amount of the moneys payable has not been duly received by the Principal Paying Agent or the Registrar, as the case may be, on or prior to such due date, it means the date on which, the full amount of such moneys having been so received, notice to that effect is duly given to the Noteholders in accordance with Condition 14.

## **9. PRESCRIPTION**

The Notes (whether in bearer or registered form), Receipts and Coupons will become void unless presented for payment within a period of ten years (in the case of principal) and five years (in the case of interest) after the Relevant Date (as defined in Condition 8) therefor.

There shall not be included in any Coupon sheet issued on exchange of a Talon any Coupon the claim for payment in respect of which would be void pursuant to this Condition or Condition 6.2 or any Talon which would be void pursuant to Condition 6.2.

## **10. EVENTS OF DEFAULT**

### ***10.1 Events of Default***

If any one or more of the following events (each an “Event of Default”) shall occur and be continuing with respect to any Note:

- (a) default is made in the payment of any principal or interest due in respect of the Notes or any of them and, in the case of interest, the default continues for a period of 15 calendar days (in the case of principal) or 30 calendar days (in the case of interest); or
- (b) the Issuer fails to perform or observe any of its other obligations under these Conditions, the Notes or the Agency Agreement and (except in any case where the failure is incapable of remedy when no such continuation or notice as is hereinafter mentioned will be required) the failure continues for the period of 60 days after the date on which written notice specifying such failure and demanding that the Issuer remedy the same shall be given by the holders of at least 10% in aggregate principal amount of the Notes outstanding on the Issuer; or
- (c) (i) any present or future External Indebtedness (as defined below) of the Issuer is declared due and repayable prematurely by reason of an event of default (however described); (ii) the Issuer fails to make any payment in respect of any present or future External Indebtedness on the due date for payment, and such default of payment continues for more than the applicable grace period, if any, originally applicable thereto; (iii) any security given by the Issuer for any present or future External Indebtedness becomes enforceable; or (iv) default is made by the Issuer in making any payment due under any guarantee and/or indemnity given by it in relation to any present or future External Indebtedness of any other person; provided that no event described in this Condition 10.1 shall constitute an Event of Default unless the External Indebtedness due and unpaid, either alone or when aggregated (without duplication) with other amounts of External Indebtedness due and unpaid relative to all (if any) other events specified in (i) to (iv) above, amounts to at least U.S.\$50,000,000 (or its equivalent in any other currency or currencies); or
- (d) the validity of the Notes and the Agency Agreement is contested by the Issuer, or the Issuer denies any of its obligations under the Notes or the Agency Agreement or it is or will become unlawful for the Issuer to perform or comply with any of its obligations under or in respect of the Notes or the Agency Agreement or any of such obligations are or become unenforceable or invalid; or

- (e) a moratorium on the payment of principal of, or interest on, the External Indebtedness of the Issuer is declared by the Issuer; or
- (f) any regulation, decree, consent, approval, license or other authority necessary to enable the Issuer to make or perform its obligations under the Notes or the Agency Agreement, or for the validity or enforceability thereof, expires, is (i) withheld, revoked, terminated or otherwise ceases to remain in full force and effect, or (ii) modified; or
- (g) the Issuer ceases to be a member of the International Monetary Fund (“IMF”) or shall cease to be eligible to use the general resources of the IMF; or
- (h) the Issuer or the Central Bank of Mongolia does not at all times exercise full ownership, power and control over any of their respective 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 Central 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,

then the holders of at least 25% in aggregate principal amount of the Notes outstanding may, by written notice to the Issuer at the specified office of the Principal Paying Agent, effective upon the date of receipt thereof by the Principal Paying Agent, declare all of the Notes outstanding to be forthwith due and payable whereupon the same shall become forthwith due and payable at its Early Redemption Amount (as defined in Condition 7.4), together with accrued interest (if any) to the date of repayment, without presentment, demand, protest or other notice of any kind.

## **10.2 Definitions**

For the purposes of these Conditions:

- (a) “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 Togrogs.
- (b) “International Monetary Assets” means all (i) gold, (ii) Special Drawing Rights, (iii) Reserve Positions in the Fund and (iv) Foreign Exchange, and the terms “Special Drawing Rights,” “Reserve Positions in the Fund” and “Foreign Exchange” have, as to the types of assets included, the meanings 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.

## **11. REPLACEMENT OF NOTES, RECEIPTS, COUPONS AND TALONS**

Should any Note, Receipt, Coupon or Talon be lost, stolen, mutilated, defaced or destroyed, it may be replaced at the specified office of the Principal Paying Agent (in the case of Bearer Notes, Receipts or Coupons) or the Registrar (in the case of Registered Notes) upon payment by the claimant of such costs and expenses as may be incurred in connection therewith and on such terms as to evidence and indemnity as the Issuer may reasonably require. Mutilated or defaced Notes, Receipts, Coupons or Talons must be surrendered before replacements will be issued.

## **12. AGENTS**

The names of the initial Agents and their initial specified offices are set out below.

The Issuer is entitled to vary or terminate the appointment of any Agent and/or appoint additional or other Agents and/or approve any change in the specified office through which any Agent acts, provided that:

- (a) there will at all times be a Principal Paying Agent and a Registrar;
- (b) so long as the Notes are listed on any stock exchange or admitted to trading by any other relevant authority, there will at all times be a Paying Agent (in the case of Bearer Notes) and a Transfer Agent (in the case of Registered Notes) with a specified office in such place as may be required by the rules and regulations of the relevant stock exchange or other relevant authority;
- (c) so long as any of the Registered Global Notes payable in a Specified Currency other than U.S. dollars are held through DTC or its nominee, there will at all times be an Exchange Agent with a specified office in New York City;
- (d) there will at all times be a Paying Agent in a Member State of the European Union that will not be obliged to withhold or deduct tax pursuant to European Council Directive 2003/48/EC or any law implementing or complying with, or introduced in order to conform to, such Directive; and
- (e) so long as the Notes are listed on the Singapore Exchange Securities Trading Limited (the “Singapore Stock Exchange”), if the Notes are issued in definitive form, there will at all times be a Paying Agent in Singapore unless the Issuer obtains an exemption from the Singapore Stock Exchange.

In addition, the Issuer shall promptly appoint a Paying Agent having a specified office in New York City in the circumstances described in Condition 6.5. Any variation, termination, appointment or change shall only take effect (other than in the case of insolvency, when it shall be of immediate effect) after not less than 30 nor more than 45 days’ prior notice thereof shall have been given to the Noteholders in accordance with Condition 14.

In acting under the Agency Agreement, the Agents act solely as agents of the Issuer and do not assume any obligation to, or relationship of agency or trust with, any Noteholders, Receiptholders or Couponholders. The Agency Agreement contains provisions permitting any entity into which any Agent is merged or converted or with which it is consolidated or to which it transfers all or substantially all of its assets to become the successor agent.

## **13. EXCHANGE OF TALONS**

On and after the Interest Payment Date on which the final Coupon comprised in any Coupon sheet matures, the Talon (if any) forming part of such Coupon sheet may be surrendered at the specified office of any Paying Agent in exchange for a further Coupon sheet including (if such further Coupon sheet does not include Coupons to (and including) the final date for the payment of interest due in respect of the Note to which it appertains) a further Talon, subject to the provisions of Condition 9.

## 14. NOTICES

All notices regarding the Bearer Notes will be deemed to be validly given if published (a) in a leading English language daily newspaper of general circulation in Singapore or (b) otherwise in accordance with the rules of the Singapore Stock Exchange. It is expected that any such publication in a newspaper will be made in the *Business Times* in Singapore. The Issuer shall also ensure that notices are duly published in a manner which complies with the rules of any stock exchange or other relevant authority on which the Bearer Notes are for the time being listed or by which they have been admitted to trading. Any such notice will be deemed to have been given on the date of the first publication or, where required to be published in more than one newspaper, on the date of the first publication in all required newspapers.

All notices regarding the Registered Notes will be deemed to be validly given if sent by first class mail or (if posted to an address overseas) by airmail to the holders (or the first named of joint holders) at their respective addresses recorded in the Register and will be deemed to have been given on the fourth day after mailing and, in addition, for so long as any Registered Notes are listed on a stock exchange or are admitted to trading by another relevant authority and the rules of that stock exchange or relevant authority so require, such notice will be published in a daily newspaper of general circulation in the place or places required by those rules.

Until such time as any definitive Notes are issued, there may, so long as any Global Notes representing the Notes are held in their entirety on behalf of Euroclear and/or Clearstream, Luxembourg and/or DTC, be substituted for such publication in such newspaper(s) the delivery of the relevant notice to Euroclear and/or Clearstream, Luxembourg and/or DTC for communication by them to the holders of the Notes and, in addition, for so long as any Notes are listed on a stock exchange or are admitted to trading by another relevant authority and the rules of that stock exchange or relevant authority so require, such notice will be published in a daily newspaper of general circulation in the place or places required by those rules. Any such notice shall be deemed to have been given to the holders of the Notes on the seventh day after the day on which the said notice was given to Euroclear and/or Clearstream, Luxembourg and/or DTC.

Notices to be given by any Noteholder shall be in writing and given by lodging the same, together (in the case of any Note in definitive form) with the relative Note or Notes, with the Principal Paying Agent (in the case of Bearer Notes) or the Registrar (in the case of Registered Notes). If sent to the Issuer, such notices or communications shall be delivered to The Ministry of Economic Development of the Government of Mongolia at Government Building-2, United Nations Street-5/1, Ulaanbaatar-15160, Mongolia (fax no: (976) 1132 7914). If the Principal Paying Agent or the Registrar shall receive any notice or demand addressed to the Issuer by a Noteholder, the Principal Paying Agent or the Registrar shall promptly forward such notice or demand to the Issuer. Whilst any of the Notes are represented by a Global Note, such notice may be given by any holder of a Note to the Principal Paying Agent or the Registrar through Euroclear and/or Clearstream, Luxembourg and/or DTC, as the case may be, in such manner as the Principal Paying Agent, the Registrar and Euroclear and/or Clearstream, Luxembourg and/or DTC, as the case may be, may approve for this purpose.

## 15. MEETINGS OF NOTEHOLDERS AND MODIFICATION

The Agency Agreement contains provisions for convening meetings of the Noteholders of any Series of Notes to consider any matter affecting their interests, including the sanctioning by Extraordinary Resolution of a modification of the Notes, the Receipts, the Coupons or any of the provisions of the Agency Agreement. Such a meeting may be convened by the Issuer or Noteholders holding not less than 5% in nominal amount of the Notes for the time being remaining outstanding. The quorum at any such meeting for passing an Extraordinary Resolution is one or more persons holding or



representing not less than 50% in nominal amount of the Notes for the time being outstanding, or at any adjourned meeting one or more persons being or representing Noteholders whatever the nominal amount of the Notes so held or represented, except that at any meeting the business of which includes the modification of certain provisions of the Notes, the Receipts or the Coupons (including modifying the date of maturity of the Notes or any date for payment of interest thereon, reducing or cancelling the amount of principal or the rate of interest payable in respect of the Notes or altering the currency of payment of the Notes, the Receipts or the Coupons), the quorum shall be one or more persons holding or representing not less than two-thirds in nominal amount of the Notes for the time being outstanding, or at any adjourned such meeting one or more persons holding or representing not less than one-third in nominal amount of the Notes for the time being outstanding. An Extraordinary Resolution passed at any meeting of the Noteholders shall be binding on all the Noteholders, whether or not they are present at the meeting, and on all Receiptholders and Couponholders.

The Principal Paying Agent and the Issuer may agree, without the consent of the Noteholders, Receiptholders or Couponholders, to:

- (a) any modification (except such modifications in respect of which an increased quorum is required as mentioned above) of the Notes, the Receipts, the Coupons or the Agency Agreement which is not prejudicial to the interests of the Noteholders; or
- (b) any modification of the Notes, the Receipts, the Coupons or the Agency Agreement which is of a formal, minor or technical nature or is made to correct a manifest or proven error or to comply with mandatory provisions of the law.

Any such modification shall be binding on the Noteholders, the Receiptholders and the Couponholders and any such modification shall be notified to the Noteholders in accordance with Condition 14 as soon as practicable thereafter.

## **16. FURTHER ISSUES**

The Issuer shall be at liberty from time to time without the consent of the Noteholders, the Receiptholders or the Couponholders to create and issue additional 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 with the outstanding Notes, provided that any such additional Notes shall not be issued under the same CUSIP or other identifying number unless such additional Notes are fungible with the outstanding Notes for U.S. federal income tax purposes.

## **17. GOVERNING LAW AND DISPUTE RESOLUTION**

### ***17.1 Governing law***

The Agency Agreement, the Notes, the Receipts and the Coupons (for the avoidance of doubt, including (but not limited to) Condition 17.2) are governed by, and shall be construed in accordance with, the laws of the State of New York.

### ***17.2 Arbitration***

- (a) The Issuer agrees that any dispute, claim, difference or controversy arising out of, relating to or having any connection with the Agency Agreement, the Notes, the Receipts and the Coupons, 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 Condition 17, the “Rules”).

- (b) The Rules are incorporated by reference into this Condition 17 and capitalized terms used in this Condition 17 which are not defined in these Conditions 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 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 Condition 17 shall be by letter or fax in accordance with Condition 14.
- (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.

### ***17.3 Joinder of Parties and Consolidation of Disputes***

- (a) In this Condition 17:
  - (i) “Consolidation Order” means an order by a Tribunal that a Primary Dispute and a Linked Dispute be resolved in the same arbitral proceedings.
  - (ii) “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.
  - (iii) “Joinder” means the joining of a party to every agreement for the issuance and purchase of Notes as referred to in clause 2 of the Program Agreement or a Linked Agreement to an Existing Dispute.

- (iv) “Joinder Order” means an order for Joinder made by a Tribunal.
  - (v) “Linked Agreement” means the Agency Agreement and the Program Agreement (as defined in the Agency Agreement) and every agreement for the issuance and purchase of Notes as referred to in clause 2 of the Program Agreement.
  - (vi) “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.
  - (vii) “Notice of Arbitration” means a Notice of Arbitration within the meaning of Article 3 of the Rules.
  - (viii) “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.
  - (ix) “Tribunal” means any arbitral tribunal appointed under these presents or any Linked Agreement.
- (b) Joinder of Parties
- (i) 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.
  - (ii) 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.
  - (iii) The party seeking Joinder under Conditions 17.3(b)(i) or 17.3(b)(ii) 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 (ii) above must promptly notify the party it seeks to join.
  - (iv) On hearing an application under Condition 17.3(b)(ii) above, the Tribunal appointed in relation to the Existing Dispute may, if it considers it appropriate in all the circumstances, make a Joinder Order.
  - (v) 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.
  - (vi) Each Noteholder and every party to the Linked Agreements consents to Joinder in accordance with the procedure set out in this Condition 17.3(b) and agrees to be bound by any Joinder and any award made by the Tribunal in an Existing Dispute to which it is joined.

(c) Consolidation of Disputes

- (i) 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.
- (ii) The applicant must promptly notify all parties to the Primary Dispute and the Linked Dispute of any application under Condition 17.3(c)(i) above.
- (iii) 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 Condition 17.3(c)(i) above.
- (iv) If the Tribunal makes a Consolidation Order:
  - (A) 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;
  - (B) 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;
  - (C) 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;
  - (D) 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.
- (v) 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.

(d) Enforcement of awards in the event of Joinder, Joinder Order or Consolidation Order

- (i) 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.
- (ii) 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.

#### ***17.4 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.

#### ***17.5 Waiver of Immunity***

To the fullest extent permitted by applicable law, the Issuer irrevocably and unconditionally:

- (a) submits to the exclusive jurisdiction of the federal, state and appellate courts of the State of New York exclusively for the 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 the federal, state and appellate courts of the State of New York (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;
- (b) submits to the exclusive jurisdiction of the federal, state and appellate courts of the State of New York in relation to the recognition of any judgment or order of the federal, state and appellate courts of the State of New York given in accordance with this Condition 17 or any arbitral award and (i) waives and agrees not to claim any sovereign or other immunity from the jurisdiction of the federal, state and appellate courts of the State of New York in relation to the recognition 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; and
- (c) consents to the enforcement of any order or judgment or award made or given in accordance with this Condition 17 or any arbitral award and the giving of any relief in the federal, state and appellate courts of the State of New York 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 federal, state and appellate courts of the State of New York 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.

## PRO FORMA PRICING SUPPLEMENT

*Set out below is the form of Pricing Supplement which will be completed for each Tranche of Notes issued under the Program.*

Date

**Issue of [Aggregate Nominal Amount of Tranche] [Title of Notes]  
The Government of Mongolia  
under the U.S.\$5,000,000,000  
Global Medium Term Note Program**

This document constitutes the Pricing Supplement relating to the issue of Notes described herein. Capitalized terms used but not otherwise defined herein shall have the respective meanings ascribed to them in the Conditions set forth in the Information Memorandum dated November 21, 2012 [and the supplemental Information Memorandum dated [●]]. This Pricing Supplement contains the final terms of the Notes and must be read in conjunction with such Information Memorandum (as so supplemented). Full information regarding the Issuer and the offer of the Notes is only available on the basis of the combination of this Pricing Supplement and the Information Memorandum (as so supplemented).

*[The following alternative language applies if the first tranche of an issue which is being increased was issued under an Information Memorandum with an earlier date.]*

Capitalized terms used but not otherwise defined herein shall have the respective meanings ascribed to them in the Conditions (the “Conditions”) set forth in the Information Memorandum dated [original date]. This Pricing Supplement contains the final terms of the Notes and must be read in conjunction with the Information Memorandum dated current date and the supplemental Information Memorandum dated [●], save in respect of the Conditions which are extracted from the Information Memorandum dated [original date] and which are attached hereto.

*[Include whichever of the following apply or specify as “Not Applicable.” Note that the numbering should remain as set out below, even if “Not Applicable” is indicated for individual paragraphs or subparagraphs. Italics denote directions for completing the Pricing Supplement.]*

*[If the Notes have a maturity of less than one year from the date of their issue, the minimum denomination may need to be £100,000 or its equivalent in any other currency.]*

1. Issuer: ..... The Government of Mongolia
2. (a) Series Number: ..... [●]
- (b) Tranche Number: ..... [●]

*(If fungible with an existing Series, details of that Series, including the date on which the Notes become fungible and the Aggregate Nominal Amount of the Series)*

- (c) Date on which the Notes will be consolidated and form a single Series: ..... [The Notes will be consolidated and form a single Series with *[identify earlier Tranches]* on *[the Issue Date/exchange]* of the Temporary Global Note for interests in the Permanent Global Note, as referred to in paragraph *[●]* below, which is expected to occur on or about *[date]*] [Not Applicable]
3. Specified Currency or Currencies (in the case of Dual Currency Notes): . [●]
4. Aggregate Nominal Amount: ..... [●]
- (a) [Series: ..... [●]]
- (b) [Tranche: ..... [●]]
5. (a) Issue Price: ..... [●]% of the Aggregate Nominal Amount plus accrued interest from *insert date (in the case of fungible issues only, if applicable)*
- [(b) Net Proceeds: ..... [●]]
6. (a) Specified Denominations: ..... [●] (*Notes (including Notes denominated in Sterling) in respect of which the issue proceeds are to be accepted by the Issuer in the United Kingdom or whose issue otherwise constitutes a contravention of section 19 of the FSMA and which have a maturity of less than one year must have a minimum redemption value of £100,000 (or its equivalent in other currencies).*)

*(N.B. Notes must have a minimum denomination of €100,000 or equivalent unless the issue of Notes is (i) NOT admitted to trading on a European Economic Area exchange; and (ii) only offered in the European Economic Area in circumstances where a prospectus is not required to be published under the Prospectus Directive)*

*(N.B. – Where Bearer Notes with multiple denominations above €100,000 or equivalent are being used with respect to Bearer Notes, the following sample wording should be followed:*

*“€100,000 and integral multiples of €1,000 in excess thereof, up to and including €199,000. No notes in definitive form will be issued with a denomination above €199,000.”) (In the case of Registered Notes, this means the minimum integral amount in which transfers can be made)*



(b) Calculation Amount: ..... [●]

*(If there is only one Specified Denomination, insert the Specified Denomination. If there is more than one Specified Denomination, insert the highest common factor. NB: There must be a common factor in the case of two or more Specified Denominations.)*

7. (a) Issue Date: ..... [●]

(b) Interest Commencement Date: ... (specify other)/Issue Date/Not Applicable

*(N.B. An Interest Commencement Date will not be relevant for certain Notes, for example Zero Coupon Notes.)*

8. Maturity Date: ..... [Fixed rate – specify date/Floating rate – Interest Payment Date falling in or nearest to [specify month and year]]

9. Interest Basis: ..... [[●] per cent. Fixed Rate]

[LIBOR/EURIBOR +/-[●]% Floating Rate]

[Zero Coupon]

[Index Linked Interest]

[Dual Currency Interest]

[specify other]

(further particulars specified below)

10. Redemption/Payment Basis: ..... [Redemption at par]

[Index Linked Redemption]

[Dual Currency Redemption]

[Partly Paid]

[Installment]

[specify other]

11. Change of Interest Basis or Redemption/Payment Basis: ..... [Not Applicable/Applicable] *[If applicable, specify details of any provision for change of Notes into another Interest Basis or Redemption/Payment Basis]*

[Investor Put]

[Issuer Call]

[(further particulars specified below)]

13. (a) Date of Parliament approval for issuance of Notes obtained:..... [●] [and [●], respectively]/[None required]

(N.B. Only relevant where Board (or similar) authorization is required for the particular tranche of Notes)

(b) Date of regulatory approval/  
consent for issuance of Notes  
obtained:..... [[●]/None required]

*(N.B. Only relevant where regulatory (or similar) approval or consent is required for the particular tranche of Notes)*

14. Listing:..... [Singapore/(specify other)/None]

*(N.B. Consider disclosure requirements under the Prospectus Directive applicable to securities admitted to a regulated market in the European Economic Area)*

15. Method of distribution: ..... [Syndicated/Non-syndicated]

**PROVISIONS RELATING TO INTEREST (IF ANY) PAYABLE**

16. Fixed Rate Note Provisions: ..... [Applicable/Not Applicable]

(If not applicable, delete the remaining subparagraphs of this paragraph)

(a) Rate(s) of Interest:..... [☐] % per annum [payable [annually/semi-annually/  
quarterly/ (*specify other*)] in arrear]

(b) Interest Payment Date(s): ..... [[●] in each year up to and including the Maturity Date]/[specify other]

(N.B. amended appropriately in the case of irregular coupons)

(c) Fixed Coupon Amount(s)

(applicable to the Notes in definitive form):..... [●] per Calculation Amount

- (d) Broken Amount(s)
- (applicable to the Notes in definitive form):*..... ☐ per Calculation Amount, payable on the Interest Payment Date falling in/on ☐.
- (e) Day Count Fraction: ..... [30/360]
- [Actual/ Actual (ICMA)]
- [specify other]
- (f) Determination Date(s): ..... ☐ in each year [Not Applicable] *[Insert regular interest payment dates, ignoring issue date or maturity date in the case of a long or short first or last coupon. N.B. This will need to be amended in case of regular interest payment dates which are not of equal duration. N.B. Only relevant where Day Count Fraction is Actual/Actual (IMCA)]*
- (g) Other terms relating to the method of calculating interest for Fixed Rate Notes: ..... [Not Applicable/Give details]
- (h) Additional Business Center(s): ... ☐
17. Floating Rate Note Provisions: ..... [Applicable/Not Applicable]
- (If not applicable, delete the remaining subparagraphs of this paragraph)*
- (a) Specified Period(s)/Specified Interest Payment Dates:..... ☐
- (b) Business Day Convention:..... [Floating Rate Convention/Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention/(specify other)]
- (c) Additional Business Center(s): ... ☐
- (Insert New York City for U.S. dollar denominated Notes to be held through DTC and for non-U.S. dollar denominated Notes where exchange into U.S. dollars is contemplated for DTC participants holding through Euroclear and Clearstream)*

- (d) Manner in which the Rate of Interest and Interest Amount is to be determined: ..... [Screen Rate Determination/ISDA Determination/(specify other)]
- (e) Party responsible for calculating the Rate of Interest and Interest Amount (if not the Principal Paying Agent): ..... [●]
- (f) Screen Rate Determination
- Reference Rate: ..... [●]
- (Either LIBOR, EURIBOR or other, although additional information is required if other – including fallback provisions in the Agency Agreement)*
- Interest Determination Date(s): .. [●]
- (Second London business day prior to the start of each Interest Period if LIBOR (other than Sterling or Euro LIBOR), first day of each Interest Period if Sterling LIBOR and the second day on which the TARGET 2 system is open prior to the start of each Interest Period if EURIBOR or Euro LIBOR)*
- Relevant Screen Rate: ..... [●]
- (In the case of EURIBOR, if not Reuters EURIBOR01 ensure it is a page which shows a composite rate or amend the fallback provisions appropriately)*
- (g) ISDA Determination
- Floating Rate Option: ..... [●]
- Designated Maturity: ..... [●]
- Reset Date: ..... [●]
- (h) Margin(s): ..... +/- [●] per cent. per annum
- (i) Minimum Rate of Interest: ..... [●] per cent. per annum
- (j) Maximum Rate of Interest: ..... [●] per cent. per annum

- (k) Day Count Fraction: ..... [Actual/Actual (ISDA) or Actual/Actual]  
 [Actual/365 (Fixed)]  
 [Actual/365 (Sterling)]  
 [Actual/360 30/360 or 360/360 or Bond Basis]  
 [30E/360 or Eurobond Basis]  
 [30E/360 (ISDA)]  
*(See Condition 5 for alternatives)*
18. Zero Coupon Note Provisions: ..... Applicable/Not Applicable  
*(If not applicable, delete the remaining subparagraphs of this paragraph)*
- (a) Accrual Yield: ..... [●] per cent. per annum
- (b) Reference Price: ..... [●]
- (c) Any other formula/basis of determining amount payable:..... [●]
- (d) Day Count Fraction in relation to Early Redemption Amounts and late payment: ..... [30/360] [Actual/365] *specify other*
19. Index Linked Interest Note Provisions: [Applicable/Not Applicable]  
*(If not applicable, delete the remaining subparagraphs of this paragraph)*
- (a) Index/Formula: ..... [Give or annex details]
- (b) Calculation Agent ..... [give name]
- (c) Party responsible for calculating the Rate of Interest (if not the Calculation Agent) and Interest Amount (if not the Principal Paying Agent):..... [●]

- (d) Provisions for determining Coupon where calculation by reference to Index and/or Formula is impossible or impracticable: ..... *[Need to include a description of market disruption or settlement disruption events and adjustment provisions]*
- (e) Specified Period(s)/Specified Interest Payment Dates: ..... ☐
- (f) Business Day Convention: ..... *[Floating Rate Convention/Following Business Day Convention/Modified Following Business Day Convention/ Preceding Business Day Convention/(specify other)]*
- (g) Additional Business Center(s): ... ☐
- (h) Minimum Rate of Interest: ..... ☐ per cent. per annum
- (i) Maximum Rate of Interest: ..... ☐ per cent. per annum
- (j) Day Count Fraction: ..... *[Actual/Actual (ISDA) or Actual/Actual]*  
*[Actual/365 (Fixed)]*  
*[Actual/365 (Sterling)]*  
*[Actual/360 30/360 or 360/360 or Bond Basis]*  
*[30E/360 or Eurobond Basis]*  
*[30E/360 (ISDA)]*  
*(See Condition 5 for alternatives)*
20. Dual Currency Interest Note Provisions: ..... *[Applicable/Not Applicable] (If not applicable, delete the remaining subparagraphs of this paragraph)*
- (a) Rate of Exchange/method of calculating Rate of Exchange: .... *[Give or annex details]*
- (b) Party, if any, responsible for calculating the principal and/or interest due (if not the Principal Paying Agent): ..... ☐

- (c) Provisions applicable where calculation by reference to Rate of Exchange impossible or impracticable: ..... *[Need to include a description of market disruption or settlement disruption events and adjustment provisions]*
- (d) Person at whose option Specified Currency(ies) is/are payable: ..... [●]

## PROVISIONS RELATING TO REDEMPTION

21. Issuer Call:..... [Applicable/Not Applicable]

*(If not applicable, delete the remaining subparagraphs of this paragraph)*

- (a) Optional Redemption Date(s): .... [●]
- (b) Optional Redemption Amount of each Note and method, if any, of calculation of such amount(s):.... [[●] per Calculation Amount/specify other/see Appendix]
- (c) If redeemable in part:
- (i) Minimum Redemption Amount: ..... [●]
- (ii) Maximum Redemption Amount: ..... [●]
- (d) Notice period (if other than as set out in the Conditions): ..... [●]

*(N.B. If setting notice periods which are different to those provided in the Conditions, the Issuer is advised to consider the practicalities of distribution of information through intermediaries, for example, clearing systems and custodians, as well as any other notice requirements which may apply, for example, as between the Issuer and the Principal Paying Agent)*

22. Investor Put:..... [Applicable/Not Applicable]

*(If not applicable, delete the remaining subparagraphs of this paragraph)*

- (a) Optional Redemption Date(s): .... [●]



- (b) Optional Redemption Amount and method, if any, of calculation of such amount(s): ..... [[●] per Calculation Amount/specify other/see Appendix]
- (c) Notice period (if other than as set out in the Conditions): ..... [●]

*(N.B. If setting notice periods which are different to those provided in the Conditions, the Issuer is advised to consider the practicalities of distribution of information through intermediaries, for example, clearing systems and custodians, as well as any other notice requirements which may apply, for example, as between the Issuer and the Principal Paying Agent)*

23. Final Redemption Amount: ..... [[●] per Calculation Amount/(specify other)/see Appendix]
24. Early Redemption Amount payable on event of default and/or the method of calculating the same (if required or if different from that set out in Condition 7 [●]): ..... [[●] per Calculation Amount/(specify other)/see Appendix]

#### **GENERAL PROVISIONS APPLICABLE TO THE NOTES**

25. Form of Notes: ..... [Bearer Notes:

[Temporary Global Note exchangeable for a Permanent Global Note which is exchangeable for Definitive Notes on 60 days' notice given at any time/only upon an Exchange Event]]

[Temporary Global Note exchangeable for Definitive Notes on and after the Exchange Date]

[Permanent Global Note exchangeable for Definitive Notes on 60 days' notice given at any time/only upon an Exchange Event]

[Registered Notes:

[Regulation S Global Note (U.S.\$[●] nominal amount) registered in the name of a nominee for DTC/a common depositary for Euroclear and Clearstream, Luxembourg]]

[Rule 144A Global Note (U.S.\$[●] nominal amount) registered in the name of a nominee for DTC/a common depositary for Euroclear and Clearstream, Luxembourg]

[Definitive IAI Registered Notes (specify nominal amounts)]

*(Ensure that this is consistent with the language in the “Form of the Notes” section in the Information Memorandum and the Notes themselves. N.B. The exchange upon notice/at any time options should not be expressed to be applicable if the Specified Denomination of the Notes in paragraph 6 includes language substantially to the following effect: “€100,000 and integral multiples of €1,000 in excess thereof up to and including €199,000.” Furthermore, such Specified Denomination construction is not permitted in relation to any issue of Notes which is to be represented on issue by a Temporary Global Note exchangeable for Definitive Notes.)*

26. Additional Financial Center(s) or other special provisions relating to Payment Days:.....

[Not Applicable/give details]

*(Note that this item relates to the place of payment and not Interest Period and dates to which items 16(h), 17(c) and 19(f) relate; insert New York City for U.S. dollar denominated Notes to be held through DTC)*

27. Talons for future Coupons or Receipts to be attached to Definitive Notes in bearer form (and dates on which such Talons mature): .....

[Yes/No. If yes, give details]

28. Details relating to Partly Paid Notes:

amount of each payment comprising the Issue Price and date on which each payment is to be made and consequences of failure to pay, including any right of the Issuer to forfeit the Notes and interest due on late payment:.....

[Not Applicable/give details] (N.B. a new form of Temporary Global Note and/or Permanent Global Note may be required for issues of Partly Paid Notes)

29. Details relating to Installment Notes

(a) Installment Amount(s): .....

[Applicable [give details]/Not Applicable]

(b) Installment Date(s): .....

[Applicable [give details]/Not Applicable]

30. Other terms and conditions: ..... [Not Applicable/*give details*]

## **DISTRIBUTION**

31. (a) If syndicated, names of Dealers:.. [Not Applicable/*give details*]

(b) Stabilizing Manager (if any): ..... [Not Applicable/*give details*]

32. If non-syndicated, name of relevant Dealer: ..... [●]

33. Whether TEFRA D or TEFRA C rules applicable:..... [TEFRA D/TEFRA C/TEFRA not applicable]

34. U.S. Selling Restrictions:..... [Reg. S Category 1] [Rule 144A]

35. Additional selling restrictions: ..... [Not Applicable/*give details*]

## **OPERATIONAL INFORMATION**

36. ISIN: ..... [●]

37. Common Code: ..... [●]

38. CUSIP: ..... [●]

39. CINS: ..... [●]

40. Any clearing system(s) other than DTC, Euroclear and Clearstream, Luxembourg and the relevant identification number(s): ..... [Not Applicable/*give name(s) and number(s)*]

41. Delivery: ..... Delivery [against/free of] payment

42. In the case of Registered Notes only, the common nominee of DTC, Euroclear and/or Clearstream, Luxembourg, or such other clearing system(s) as may be applicable, in whose name the Registered Global Note is registered: ..... [Not Applicable/*give name(s) and number(s)*]

43. In the case of Registered Notes, specify the location of the office of the Registrar if other than New York:..... [Not Applicable/Luxembourg]

44. Any additional Paying Agents  
appointed in respect of the Notes: ..... [Not Applicable/[●]]

## GENERAL

45. Alternative use of proceeds:..... [Not Applicable/(specify other)]

*(If reasons for the offer differ from that specified in “Use of Proceeds” in the Information Memorandum, will need to include those reasons here)*

46. Rating: ..... [[●]/Not Applicable]

## LISTING AND ADMISSION TO TRADING APPLICATION

This Pricing Supplement comprises the final terms required to list and have admitted to trading the issue of Notes described herein pursuant to the U.S.\$5,000,000,000 Global Medium Term Note Program of the Government of Mongolia.

## STABILIZING

In connection with this issue of Notes, [insert name of Stabilizing Manager] (the “Stabilizing Manager”) (or any person acting on behalf of the Stabilizing Manager) 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. However, the Issuer cannot assure prospective purchasers that the Stabilizing Manager (or persons acting on behalf of the Stabilizing Manager) will undertake any stabilization action. Any stabilization action may begin on or after the date on which adequate public disclosure of the terms of the offer of the Notes is made and, if begun, may be ended at any time, but it must end no later than the earlier of 30 days after the issue date of the Notes and 60 days after the date of the allotment of the Notes. Any stabilization action or over-allotment shall be conducted by the Stabilizing Manager (or persons acting on behalf of the Stabilizing Manager) in accordance with all applicable laws and rules.

## RESPONSIBILITY

The Issuer accepts responsibility for the information contained in this Pricing Supplement which, when read together with the Information Memorandum [and the supplemental Information Memorandum] referred to above, contains all information that is material in the context of the issue of the Notes.

FOR AND ON BEHALF OF  
THE GOVERNMENT OF MONGOLIA:

By: \_\_\_\_\_

Name:

Title:

If the applicable Pricing Supplement specifies any modification to the Terms and Conditions of the Notes as described herein, it is envisaged that, to the extent that such modification relates only to Conditions 1 (*Form, Denomination and Title*), 5 (*Interest*), 6 (*Payments*), 7 (*Redemption and Purchase*), 11 (*Replacement of Notes, Receipts, Coupons and Talons*), 12 (*Agents*), 13 (*Exchange of Talons*), 14 (*Notices*) (insofar as such Notes are not listed or admitted to trade on any stock exchange) or 16 (*Further Issues*), they will not necessitate the preparation of a supplement to this Information Memorandum. If the Terms and Conditions of the Notes of any Series are to be modified in any other respect, a supplement to this Information Memorandum will be prepared, if appropriate.

## FORM OF THE NOTES

Certain capitalized terms used herein are defined in “*Terms and Conditions of the Notes*.” Any reference herein to Euroclear and/or Clearstream and/or DTC (each as defined below) shall, whenever the context so permits, be deemed to include a reference to any additional or alternative clearing system specified in the applicable Pricing Supplement.

The Notes of each Series will be in either bearer form, with or without interest coupons attached, or registered form, without interest coupons attached. Bearer Notes will be issued outside the United States in reliance on the exemption from registration provided by Regulation S and Registered Notes will be issued both outside the United States in reliance on Regulation S and within the United States in reliance on Rule 144A or another available exemption from the registration requirements of the Securities Act.

### **Bearer Notes**

Each Tranche of Bearer Notes will be initially issued in the form of either a temporary bearer global note (a “Temporary Global Note”) or a permanent bearer global note (a “Permanent Global Note” and, together with “Temporary Global Note,” the “Bearer Global Notes”) as indicated in the applicable Pricing Supplement, which, in either case, will be delivered on or prior to the original issue date of the Tranche to a common depositary for Euroclear and Clearstream. While any Bearer Note is represented by a Temporary Global Note, payments of principal, interest (if any) and any other amount payable in respect of the Notes due prior to the Exchange Date (as defined below) will be made against presentation of the Temporary Global Note only to the extent that certification to the effect that the beneficial owners of interests in such Bearer Note are not U.S. persons or persons who have purchased for resale to any U.S. person, as required by U.S. Treasury regulations, has been received by Euroclear and/or Clearstream and Euroclear and/or Clearstream, as applicable, has given a similar certification (based on the certifications it has received) to the Principal Paying Agent.

From the date (the “Exchange Date”) which is 40 days after a Temporary Global Note is issued, interests in such Temporary Global Note will be exchangeable (free of charge) by the Noteholder either for (a) interests in a Permanent Global Note of the same Series or (b) for definitive Bearer Notes of the same Series with, where applicable, receipts, interest coupons and talons attached (as indicated in the applicable Pricing Supplement and subject, in the case of definitive Bearer Notes, to such notice period as is specified in the applicable Pricing Supplement), in each case against certification of beneficial ownership as described above unless such certification has already been given. Definitive Bearer Notes will only be delivered outside the United States. The holder of a Temporary Global Note will not be entitled to collect any payment of interest, principal or other amount due on or after the Exchange Date unless, upon due certification, exchange of the Temporary Global Note for an interest in a Permanent Global Note or for definitive Bearer Notes is improperly withheld or refused.

Payments of principal, interest (if any) or any other amounts on a Permanent Global Note will be made through Euroclear and/or Clearstream against presentation or surrender (as the case may be) of the Permanent Global Note without any requirement for certification.

The applicable Pricing Supplement will specify that a Permanent Global Note will be exchangeable (free of charge), in whole but not in part, for definitive Bearer Notes with, where applicable, receipts, interest coupons and talons attached upon either (a) not less than 60 days’ written notice from Euroclear and/or Clearstream (acting on the instructions of any holder of an interest in such Permanent Global Note) to the Principal Paying Agent as described therein or (b) only upon the occurrence of an Exchange Event. For these purposes, “Exchange Event” means that (i) an Event of Default (as defined in Condition 10 (Events of Default)) has occurred and is continuing, (ii) the Issuer has been notified that both Euroclear and Clearstream have been closed for business for a continuous period of 14 days (other than by reason of

holiday, statutory or otherwise) or have announced an intention permanently to cease business or have in fact done so and no successor clearing system is available or (iii) the Issuer has or will suffer a disadvantage as a result of a change in laws or regulations (taxation or otherwise) other than Mongolian laws or regulations or as a result of a change in the practices of Euroclear and Clearstream which would not be suffered if the Notes had been represented by the Permanent Global Note in definitive form. 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 the Permanent Global Note is exchanged for definitive Bearer Notes. In addition, 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 Bearer Notes, including details of the Paying Agent in Singapore. In the event of the occurrence of an Exchange Event, Euroclear and/or Clearstream (acting on the instructions of any holder of an interest in such Permanent Global Note) may give notice to the Principal Paying Agent requesting exchange and, in the event of the occurrence of an Exchange Event as described in (iii) above, the Issuer may also give notice to the Principal Paying Agent requesting exchange. Any such exchange shall occur not later than 45 days after the date of receipt of the first relevant notice by the Principal Paying Agent.

The following legend will appear on all Permanent Global Notes and all definitive Bearer Notes which have a maturity of more than 365 days (including unilateral rollovers and extensions) and on all talons, receipts and interest coupons relating to such Notes:

“ANY UNITED STATES PERSON WHO HOLDS THIS OBLIGATION WILL BE SUBJECT TO LIMITATIONS UNDER THE UNITED STATES INCOME TAX LAWS, INCLUDING THE LIMITATIONS PROVIDED IN SECTIONS 165(j) AND 1287(a) OF THE INTERNAL REVENUE CODE.”

The sections referred to provide that United States persons, with certain exceptions, will not be entitled to deduct any loss on Bearer Notes, receipts or interest coupons and will not be entitled to capital gains treatment of any gain recognized on any sale, disposition, redemption or payment of principal in respect of such Notes, receipts or interest coupons.

Notes which are represented by a Bearer Global Note will only be transferable in accordance with the rules and procedures for the time being of Euroclear or Clearstream, as the case may be.

### **Registered Notes**

The Registered Notes of each Tranche offered and sold in reliance on Regulation S, which will be sold to non-U.S. persons outside the United States, will initially be represented by a global note in registered form (a “Regulation S Global Note”). Prior to expiry of the distribution compliance period (as defined in Regulation S) applicable to each Tranche of Notes, beneficial interests in a Regulation S Global Note may not be offered or sold to, or for the account or benefit of, a U.S. person except as otherwise provided in Condition 2 (Transfers of Registered Notes) and may not be held otherwise than through Euroclear or Clearstream and such Regulation S Global Note will bear a legend regarding such restrictions on transfer.

The Registered Notes of each Tranche may only be offered and sold in the United States or to U.S. persons in private transactions (a) to “qualified institutional buyers” within the meaning of Rule 144A under the Securities Act (“QIBs”) or (b) to “accredited investors” (as defined in Rule 501(a)(1), (2), (3) or (7) under the Securities Act) that are institutions (“Institutional Accredited Investors”) who agree to purchase the Notes for their own account and not with a view to the distribution thereof. The Registered Notes of each Tranche sold to QIBs will be represented by a global note in registered form (“Rule 144A Global Note” and, together with “Regulation S Global Note,” the “Registered Global Notes”).



Registered Global Notes will either (a) be deposited with a custodian for, and registered in the name of a nominee of, The Depository Trust Company (“DTC”) for the accounts of its participants, including Euroclear and Clearstream or (b) be deposited with a common depositary for, and registered in the name of a common nominee of, Euroclear and Clearstream, as specified in the applicable Pricing Supplement. Persons holding beneficial interests in Registered Global Notes will be entitled or required, as the case may be, under the circumstances described below, to receive physical delivery of definitive Notes in fully registered form. Unless otherwise stated in the applicable Pricing Supplement, the minimum denomination of each Global Note shall be €100,000 or its approximate equivalent in other Specified Currencies.

The Registered Notes of each Tranche sold to Institutional Accredited Investors will be in definitive form, registered in the name of the holder thereof (“Definitive IAI Registered Notes”). Unless otherwise set forth in the applicable Pricing Supplement, Definitive IAI Registered Notes will be issued only in minimum denominations of U.S.\$250,000 and integral multiples of U.S.\$1,000 in excess thereof (or the approximate equivalents in the applicable Specified Currency). Definitive IAI Registered Notes will be subject to the restrictions on transfer set forth therein and will bear the restrictive legend described under “*Subscription and Sale and Transfer and Selling Restrictions.*” Institutional Accredited Investors that hold Definitive IAI Registered Notes may elect to hold such Notes through DTC, but transferees acquiring the Notes in transactions exempt from Securities Act registration pursuant to Regulation S or Rule 144 under the Securities Act (if available) may do so upon satisfaction of the requirements applicable to such transfer as described under “*Subscription and Sale and Transfer and Selling Restrictions.*” The Rule 144A Global Note and the Definitive IAI Registered Notes will be subject to certain restrictions on transfer set forth therein and will bear a legend regarding such restrictions.

Payments of principal, interest and any other amount in respect of the Registered Global Notes will, in the absence of provisions to the contrary, be made to the person shown on the Register (as defined in Condition 1 (Form, Denomination and Title)) as the registered holder of the Registered Global Notes. None of the Issuer, any Paying Agent or the Registrar will have any responsibility or liability for any aspect of the records relating to or payments or deliveries made on account of beneficial ownership interests in the Registered Global Notes or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests.

Payments of principal, interest or any other amount in respect of the Registered Notes in definitive form will, in the absence of provisions to the contrary, be made to the persons shown on the Register on the relevant Record Date (as defined in Condition 6.4 (Payments in respect of Registered Notes)) immediately preceding the due date for payment in the manner provided in that Condition.

Interests in a Registered Global Note will be exchangeable (free of charge), in whole but not in part, for definitive Registered Notes without receipts, interest coupons or talons attached only upon the occurrence of an Exchange Event. For these purposes, Exchange Event means that (a) an Event of Default has occurred and is continuing, (b) in the case of Notes registered in the name of a nominee for DTC, either DTC has notified the Issuer that it is unwilling or unable to continue to act as depository for the Notes and no alternative clearing system is available or DTC has ceased to constitute a clearing agency registered under the Exchange Act, (c) in the case of Notes registered in the name of a nominee for a common depositary for Euroclear and Clearstream, the Issuer has been notified that both Euroclear and Clearstream have been closed for business for a continuous period of 14 days (other than by reason of holiday, statutory or otherwise) or have announced an intention permanently to cease business or have in fact done so and, in any such case, no successor clearing system is available or (d) the Issuer has or will suffer a disadvantage as a result of a change in laws or regulations (taxation or otherwise) other than Mongolian laws or regulations or as a result of a change in the practices of Euroclear and Clearstream which would not be suffered if the Notes had been represented by the Registered Global Note in definitive form. 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 the Permanent Registered Global Note is exchanged for definitive Registered Notes. In addition, 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 Registered Notes, including details of the Paying Agent in Singapore. In the event of the occurrence of an Exchange Event, DTC, Euroclear and/or Clearstream (acting on the instructions of any holder of an interest in such Registered Global Note) may give notice to the Registrar requesting exchange and, in the event of the occurrence of an Exchange Event as described in (d) above, the Issuer may also give notice to the Registrar requesting exchange. Any such exchange shall occur not later than 10 days after the date of receipt of the first relevant notice by the Registrar.

### **Transfer of Interests**

Interests in a Registered Global Note may, subject to compliance with all applicable restrictions, be transferred to a person who wishes to hold such interest in another Registered Global Note or in the form of a Definitive IAI Registered Note and Definitive IAI Registered Notes may, subject to compliance with all applicable restrictions, be transferred to a person who wishes to hold such Notes in the form of an interest in a Registered Global Note. No beneficial owner of an interest in a Registered Global Note will be able to transfer such interest, except in accordance with the applicable procedures of DTC, Euroclear and Clearstream, in each case to the extent applicable. Registered Notes are also subject to the restrictions on transfer set forth therein and will bear a legend regarding such restrictions. See “Subscription and Sale and Transfer and Selling Restrictions.”

### **General**

Pursuant to the Agency Agreement (as defined in “*Terms and Conditions of the Notes*”), the Principal Paying Agent or the Registrar, as the case may be, shall arrange that, where a further Tranche of Notes is issued which is intended to form a single Series with an existing Tranche of Notes, the Notes of such further Tranche shall be assigned a Common Code and ISIN and, where applicable, a CUSIP and CINS number which are different from the Common Code, ISIN, CUSIP and CINS assigned to Notes of any other Tranche of the same Series until at least the expiry of the distribution compliance period applicable to the Notes of such Tranche and, for Notes subject to the certification requirements under U.S. Treasury regulations, until at least the Notes represented by interests in a temporary Global Note are exchanged for Notes represented by an interest in a Permanent Global Note or for definitive Bearer Notes.

For so long as any of the Notes is represented by a Global Note held on behalf of Euroclear and/or Clearstream, each person (other than Euroclear or Clearstream) who is for the time being shown in the records of Euroclear or of Clearstream as the holder of a particular nominal amount of such Notes (in which regard any certificate or other document issued by Euroclear or Clearstream as to the nominal amount of such Notes standing to the account of any person shall be conclusive and binding for all purposes except in the case of manifest error) shall be treated by the Issuer and its agents as the holder of such nominal amount of such Notes for all purposes other than with respect to the payment of principal or interest on such nominal amount of such Notes, for which purpose the bearer of the relevant Bearer Global Note or the registered holder of the relevant Registered Global Note shall be treated by the Issuer and its agents as the holder of such nominal amount of such Notes in accordance with and subject to the terms of the relevant Global Note and the expressions “Noteholder” and “holder of Notes” and related expressions shall be construed accordingly.

So long as DTC or its nominee is the registered owner or holder of a Registered Global Note, DTC or such nominee, as the case may be, will be considered the sole owner or holder of the Notes represented by such Registered Global Note for all purposes under the Agency Agreement and such Notes except to the extent that in accordance with DTC’s published rules and procedures any ownership rights may be exercised by its participants or beneficial owners through participants.

Any reference herein to Euroclear and/or Clearstream and/or DTC shall, whenever the context so permits, be deemed to include a reference to any additional or alternative clearing system specified in the applicable Pricing Supplement.

A Note may be accelerated by the holders thereof in certain circumstances described in Condition 10 (Events of Default). In such circumstances, where any Note is still represented by a Global Note and the Global Note (or any part thereof) has become due and repayable in accordance with the Terms and Conditions of such Notes and payment in full of the amount due has not been made in accordance with the provisions of the Global Note then holders of interests in such Global Note credited to their accounts with DTC may require DTC to deliver Definitive Notes in registered form in exchange for their interest in such Global Note in accordance with DTC's standard operating procedures.

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 the Global Note is exchanged for definitive Notes. In addition, 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.

## BOOK ENTRY CLEARANCE SYSTEMS

The information set out below is subject to any change in or reinterpretation of the rules, regulations and procedures of DTC, Euroclear or Clearstream (together, the “Clearing Systems”) currently in effect. Investors wishing to use the facilities of any of the Clearing Systems are advised to confirm the continued applicability of the rules, regulations and procedures of the relevant Clearing System. None of the Issuer, the Arrangers, any Dealer nor any party to the Agency Agreement will have any responsibility or liability for any aspect of the records relating to, or payments made on account of, beneficial ownership interests in the Notes held through the facilities of any Clearing System or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests. The relevant Pricing Supplement will specify the Clearing System(s) applicable for each Series.

### **Book-entry Systems**

#### ***DTC***

DTC has advised the Issuer that it 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 “clearing corporation” within the meaning of the New York Uniform Commercial Code and a “clearing agency” registered pursuant to Section 17A of the Exchange Act. DTC holds securities that its participants (“Participants”) deposit with DTC. DTC also facilitates the settlement among Participants of securities transactions, such as transfers and pledges, in deposited securities through electronic computerized book-entry changes in 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., the American Stock Exchange, Inc. and the National Association of Securities Dealers, 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 (“Indirect Participants”).

Under the rules, regulations and procedures creating and affecting DTC and its operations (“Rules”), DTC makes book-entry transfers of Registered Notes among direct Participants on whose behalf it acts with respect to Notes accepted into DTC’s book-entry settlement system (“DTC Notes”) as described below and receives and transmits distributions of principal and interest on DTC Notes. The Rules are on file with the U.S. Securities and Exchange Commission. Direct Participants and Indirect Participants with which beneficial owners of DTC Notes (“Owners”) have accounts with respect to the DTC Notes similarly are required to make book-entry transfers and receive and transmit such payments on behalf of their respective Owners. Accordingly, although Owners who hold DTC Notes through direct Participants or Indirect Participants will not possess Registered Notes, the Rules, by virtue of the requirements described above, provide a mechanism by which direct Participants will receive payments and will be able to transfer their interest in respect of the DTC Notes.

Purchases of DTC Notes under the DTC system must be made by or through Direct Participants, which will receive a credit for the DTC Notes on DTC’s records. The ownership interest of each actual purchaser of each DTC Note (“Beneficial Owner”) is in turn to be recorded on the direct and Indirect Participant’s records. Beneficial Owners will not receive written confirmation from DTC of their purchase, 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 Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the DTC Notes are to be accomplished by entries made on the books of Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in DTC Notes, except in the event that use of the book-entry system for the DTC Notes is discontinued.

To facilitate subsequent transfers, all DTC Notes deposited by Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co. The deposit of DTC Notes with DTC and their registration in the name of Cede & Co. effect no change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the DTC Notes; DTC's records reflect only the identity of the direct Participants to whose accounts such DTC Notes are credited, which may or may not be the Beneficial Owners. The 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.

Redemption notices shall be sent to Cede & Co. If less than all of the DTC Notes within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

Neither DTC nor Cede & Co. will consent or vote with respect to DTC Notes. 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 DTC Notes are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal and interest payments on the DTC Notes will be made to DTC. DTC's practice is to credit direct Participants' accounts on the due date for payment in accordance with their respective holdings shown on DTC's records unless DTC has reason to believe that it will not receive payment on the due date. 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 or the Issuer, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest to DTC is the responsibility of the Issuer, disbursement of such payments to direct Participants is the responsibility of DTC, and disbursement of such payments to the Beneficial Owners is the responsibility of direct and Indirect Participants.

Under certain circumstances, including if there is an Event of Default under the Notes, DTC will exchange the DTC Notes for definitive Registered Notes, which it will distribute to its Participants in accordance with their proportionate entitlements and which, if representing interests in a Rule 144A Global Note, will be legended as set forth under "Subscription and Sale and Transfer and Selling Restrictions."

Since DTC may only act on behalf of direct Participants, who in turn act on behalf of Indirect Participants, any Owner desiring to pledge DTC Notes to persons or entities that do not participate in DTC, or otherwise take actions with respect to such DTC Notes, will be required to withdraw its Registered Notes from DTC as described below.

### ***Euroclear and Clearstream***

Euroclear and Clearstream each holds securities for its customers and facilitates the clearance and settlement of securities transactions by electronic book-entry transfer between their respective account holders. Euroclear and Clearstream provide various services including safekeeping, administration, clearance and settlement of internationally traded securities and securities lending and borrowing. Euroclear and Clearstream also deal with domestic securities markets in several countries through established depository and custodial relationships. Euroclear and Clearstream have established an electronic bridge between their two systems across which their respective participants may settle trades with each other.

Euroclear and Clearstream customers are world-wide financial institutions, including underwriters, securities brokers and dealers, banks, trust companies and clearing corporations. Indirect access to Euroclear and Clearstream is available to other institutions that clear through or maintain a custodial relationship with an account holder of either system.

***Book-entry Ownership of and Payments in respect of DTC Notes***

The Issuer may apply to DTC in order to have any Tranche of Notes represented by a Registered Global Note accepted in its book-entry settlement system. Upon the issue of any such Registered Global Note, DTC or its custodian will credit, on its internal book-entry system, the respective nominal amounts of the individual beneficial interests represented by such Registered Global Note to the accounts of persons who have accounts with DTC. Such accounts initially will be designated by or on behalf of the relevant Dealer. Ownership of beneficial interests in such a Registered Global Note will be limited to direct Participants or Indirect Participants, including, in the case of any Regulation S Global Note, the respective depositaries of Euroclear and Clearstream. Ownership of beneficial interests in a Registered Global Note accepted by DTC will be shown on, and the transfer of such ownership will be effected only through, records maintained by DTC or its nominee (with respect to the interests of direct Participants) and the records of direct Participants (with respect to interests of Indirect Participants).

Payments in U.S. dollars of principal and interest in respect of a Registered Global Note accepted by DTC will be made to the order of DTC or its nominee as the registered holder of such Note. In the case of any payment in a currency other than U.S. dollars, payment will be made to the Exchange Agent on behalf of DTC or its nominee and the Exchange Agent will (in accordance with instructions received by it) remit all or a portion of such payment for credit directly to the beneficial holders of interests in the Registered Global Note in the currency in which such payment was made and/or cause all or a portion of such payment to be converted into U.S. dollars and credited to the applicable Participants' account.

The Issuer expects DTC to credit accounts of direct Participants on the applicable payment date in accordance with their respective holdings as shown in the records of DTC unless DTC has reason to believe that it will not receive payment on such payment date. The Issuer also expects that payments by Participants to beneficial owners of Notes will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers, and will be the responsibility of such Participant and not the responsibility of DTC, the Principal Paying Agent, the Registrar or the Issuer. Payment of principal, premium, if any, and interest, if any, on Notes to DTC is the responsibility of the Issuer.

***Transfers of Notes Represented by Registered Global Notes***

Transfers of any interests in Notes represented by a Registered Global Note within DTC, Euroclear and Clearstream will be effected in accordance with the customary rules and operating procedures of the relevant clearing system. The laws in some States within the United States require that certain persons take physical delivery of securities in definitive form. Consequently, the ability to transfer Notes represented by a Registered Global Note to such persons may depend upon the ability to exchange such Notes for Notes in definitive form. Similarly, because DTC can only act on behalf of direct Participants in the DTC system who in turn act on behalf of Indirect Participants, the ability of a person having an interest in Notes represented by a Registered Global Note accepted by DTC to pledge such Notes to persons or entities that do not participate in the DTC system or otherwise to take action in respect of such Notes may depend upon the ability to exchange such Notes for Notes in definitive form. The ability of any holder of Notes represented by a Registered Global Note accepted by DTC to resell, pledge or otherwise transfer such Notes may be impaired if the proposed transferee of such Notes is not eligible to hold such Notes through a direct or indirect participant in the DTC system.



Subject to compliance with the transfer restrictions applicable to the Registered Notes described under “Subscription and Sale and Transfer and Selling Restrictions,” cross-market transfers between DTC, on the one hand, and directly or indirectly through Clearstream or Euroclear accountholders, on the other, will be effected by the relevant clearing system in accordance with its rules and through action taken by the Registrar, the Fiscal Agent and any custodian (“Custodian”) with whom the relevant Registered Global Notes have been deposited.

On or after the Issue Date for any Series, transfers of Notes of such Series between accountholders in Clearstream and Euroclear and transfers of Notes of such Series between participants in DTC will generally have a settlement date three business days after the trade date (T+3). The customary arrangements for delivery versus payment will apply to such transfers.

Cross-market transfers between accountholders in Clearstream or Euroclear and DTC participants will need to have an agreed settlement date between the parties to such transfer. Because there is no direct link between DTC, on the one hand, and Clearstream and Euroclear, on the other, transfers of interests in the relevant Registered Global Notes will be effected through the Registrar, the Fiscal Agent and the Custodian receiving instructions (and, where appropriate, certification) from the transferor and arranging for delivery of the interests being transferred to the credit of the designated account for the transferee. In the case of cross-market transfers, settlement between Euroclear or Clearstream accountholders and DTC participants cannot be made on a delivery versus payment basis. The securities will be delivered on a free delivery basis and arrangements for payment must be made separately.

DTC, Clearstream and Euroclear have each published rules and operating procedures designed to facilitate transfers of beneficial interests in Registered Global Notes among participants and accountholders of DTC, Clearstream and Euroclear. However, they are under no obligation to perform or continue to perform such procedures, and such procedures may be discontinued or changed at any time. None of the Issuer, the Agents or any Dealer will be responsible for any performance by DTC, Clearstream or Euroclear or their respective direct or indirect participants or accountholders of their respective obligations under the rules and procedures governing their operations and none of them will have any liability for any aspect of the records relating to or payments made on account of beneficial interests in the Notes represented by Registered Global Notes or for maintaining, supervising or reviewing any records relating to such beneficial interests.



## EXCHANGE RATES AND EXCHANGE CONTROLS

This Information Memorandum contains translations of Togrog 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 Togrogs into U.S. dollars in this Information Memorandum were made at the respective period end rate of relevant years or at the rate on June 30, 2012, as applicable, which translation represents the basic exchange rate published by the Bank of Mongolia.

The following table sets forth the mid-closing exchange rates from the Bank of Mongolia, in Togrogs per U.S.\$1.00, as at and for each of the periods indicated:

|  | Mid-Closing Exchange Rate |                        |          |            |
|--|---------------------------|------------------------|----------|------------|
|  | Low                       | Average <sup>(1)</sup> | High     | Period End |
| 2005 .....                               | 1,186.93                  | 1,205.08               | 1,226.68 | 1,221.00   |
| 2006 .....                               | 1,164.00                  | 1,177.33               | 1,223.00 | 1,165.00   |
| 2007 .....                               | 1,163.44                  | 1,170.38               | 1,190.09 | 1,169.97   |
| 2008 .....                               | 1,143.78                  | 1,169.26               | 1,267.51 | 1,267.51   |
| 2009 .....                               | 1,295.02                  | 1,440.65               | 1,590.70 | 1,442.84   |
| 2010 .....                               | 1,211.14                  | 1,347.49               | 1,470.64 | 1,257.18   |
| 2011 .....                               | 1,195.27                  | 1,273.13               | 1,396.37 | 1,396.37   |
| <b>2012:</b>                             |                           |                        |          |            |
| May .....                                | 1,315.01                  | 1,318.03               | 1,322.31 | 1,316.00   |
| June .....                               | 1,315.13                  | 1,328.01               | 1,342.61 | 1,342.23   |
| July .....                               | 1,337.78                  | 1,344.04               | 1,349.80 | 1,349.10   |
| August .....                             | 1,348.56                  | 1,364.22               | 1,381.99 | 1,381.99   |
| September .....                          | 1,381.87                  | 1,394.83               | 1,402.68 | 1,394.47   |
| October .....                            | 1,379.11                  | 1,396.98               | 1,397.28 | 1,397.28   |
| November (up to November 15, 2012) ..... | 1,393.43                  | 1,396.91               | 1,398.96 | 1,393.43   |

*Note:*

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

### Exchange Controls

There are no 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 Bank of Mongolia and the Financial Regulatory Commission (the “FRC”) and is subject to modification.

## 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 Information Memorandum and is subject to any change in law that may take effect after such date.*

### **Taxation in Mongolia**

Tax laws of Mongolia underwent substantial reforms in 2006 to provide a more favorable tax environment to business entities and individuals. Under the 2006 Business Entities Income Tax Law of Mongolia, both local and foreign entities are subject to a 10% income tax on interest (including, among others, interest on loans, savings account, warranties and notes). In accordance with the Personal Income Tax Law of Mongolia, interest income earned by local and foreign individuals is subject to tax at the flat rate of 10%. However, individuals are exempt from personal income tax on interest income until January 1, 2013.

Foreign entities or individuals not registered as taxpayers in Mongolia generally are subject to a 10% withholding tax on interest received from a Mongolian issuer. If the beneficial owner is a resident of a country with which Mongolia has a bilateral treaty for avoidance of double taxation and the prevention of fiscal evasion with respect to taxes on income and property, a lower tax rate is applied.

However, the Business Entities Income Tax Law and the Personal Income Tax Law of Mongolia provide that interest paid on Notes issued by the Issuer would 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 foreign corporation or individual, whether or not such foreign corporation or individual qualifies as a non-resident tax payer in Mongolia, is exempt from income or withholding tax.

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. There is no capital gains tax payable by a holder of Notes in connection with its interest in the Notes, except in connection with any redemption of a Note at a premium.

### **EU Directive on the Taxation of Savings Income**

Under Council Directive 2003/48/EC on the taxation of savings income in the form of interest payments, each Member State of the EU (each a "Member State") is required to provide to the tax or other relevant authorities of another Member State details of payments of interest or other similar income made by a person within its jurisdiction to an individual or certain other types of person resident in that other Member State; however, for a transitional period, Austria and Luxembourg have instead opted to apply a withholding system in relation to such payments, deducting tax at the rate of 35%, unless during that period they elect otherwise. The transitional period is to terminate following agreement by certain non-EU countries to the exchange of information relating to such payments. A number of non-EU countries, and certain dependent or associated territories of certain Member States, have agreed to adopt similar measures (either provision of information or transitional withholding).

The European Commission has published proposals for amendments to the Directive, which, if implemented, would amend and broaden the scope of the requirements above.

## **Certain Material U.S. Federal Income Tax Considerations**

**ANY DISCUSSION OF TAX ISSUES SET FORTH IN THIS INFORMATION MEMORANDUM WAS WRITTEN IN CONNECTION WITH THE PROMOTION AND MARKETING OF THE TRANSACTIONS DESCRIBED IN THE INFORMATION MEMORANDUM. SUCH DISCUSSION WAS NOT INTENDED OR WRITTEN TO BE USED, AND IT CANNOT BE USED, BY ANY PERSON FOR THE PURPOSE OF AVOIDING ANY TAX PENALTIES THAT MAY BE IMPOSED ON SUCH PERSON. EACH INVESTOR SHOULD SEEK ADVICE BASED ON ITS PARTICULAR CIRCUMSTANCES FROM AN INDEPENDENT TAX ADVISOR.**

The following discussion is a summary of certain material U.S. federal income tax consequences of the acquisition, ownership and disposition of Notes by a U.S. Holder (as defined below). This summary does not address the material U.S. federal income tax consequences of every type of Note which may be issued under the Program, including, but not limited to, Dual Currency Notes and Partly Paid Notes. The relevant Pricing Supplement may contain additional or modified disclosure concerning the material U.S. federal income tax consequences relevant to each such type of Note as appropriate and this summary should be read in conjunction with any discussion of U.S. federal income tax consequences in the applicable Pricing Supplement. This summary assumes the Notes are properly treated as debt for U.S. federal income tax purposes. This summary deals only with U.S. Holders of Notes that will hold the Notes as capital assets (generally, property held for investment). The discussion does not cover all aspects of U.S. federal income taxation that may be relevant to, or the actual tax effect that any of the matters described herein will have on, the acquisition, ownership or disposition of Notes by particular investors, and does not address state, local or non-U.S. tax laws, or any aspect of U.S. federal tax law other than income taxation. In particular, this summary does not discuss all of the tax considerations that may be relevant to certain types of investors subject to special treatment under the U.S. federal income tax laws (such as financial institutions, insurance companies, investors liable for the alternative minimum tax, individual retirement accounts and other tax-deferred accounts, tax-exempt organizations, dealers in securities or currencies, investors that will hold the Notes as part of straddles, hedging transactions, conversion transactions or other integrated transactions for U.S. federal income tax purposes or investors whose functional currency is not the U.S. dollar). Moreover, this summary does not discuss Bearer Notes. In general, U.S. federal income tax law imposes significant limitations on U.S. Holders of Bearer Notes (which can include taxation of gains recognized from the sale, retirement or other disposition of Bearer Notes at the rates applicable to ordinary income (rather than capital gain), and the disallowance of a deduction for losses recognized on such a disposition of Bearer Notes).

As used herein, the term “U.S. Holder” means a beneficial owner of Notes that is: (i) an individual who is a citizen or resident of the United States for U.S. federal income tax purposes, (ii) a corporation or other entity treated as a corporation for U.S. federal income tax purposes created or organized in the United States or under the laws of the United States, any state thereof or the District of Columbia, (iii) an estate the income of which is subject to U.S. federal income tax without regard to its source or (iv) a trust if a court within the United States is able to exercise primary supervision over the administration of the trust and one or more U.S. persons have the authority to control all substantial decisions of the trust, or if the trust has a valid election in place to be treated as a domestic trust for U.S. federal income tax purposes.

The U.S. federal income tax treatment of a partner in a partnership (including any entity treated as a partnership for U.S. federal income tax purposes) that holds Notes will depend on the status of the partner and the activities of the partnership. Partners or partnerships should consult their tax advisors concerning the U.S. federal income tax consequences of the acquisition, ownership and disposition of the Notes by the partnership.

This summary is based on the tax laws of the United States including the Code, its legislative history, existing and proposed U.S. Treasury regulations thereunder, published rulings of the U.S. Internal Revenue Service (“IRS”) and court decisions, all as currently in effect and all of which are subject to change at any time, possibly with retroactive effect.

**THE SUMMARY OF U.S. FEDERAL INCOME TAX CONSEQUENCES SET OUT BELOW IS FOR GENERAL INFORMATION ONLY. PROSPECTIVE PURCHASERS SHOULD CONSULT THEIR OWN INDEPENDENT TAX ADVISORS AS TO THE PARTICULAR TAX CONSEQUENCES TO THEM OF ACQUIRING, OWNING AND DISPOSING OF THE NOTES, INCLUDING THE APPLICABILITY AND EFFECT OF STATE, LOCAL, NON-U.S. AND OTHER TAX LAWS AND POSSIBLE CHANGES IN TAX LAW.**

### **Payments of Stated Interest**

Stated interest on a Note, whether payable in U.S. dollars or a currency other than U.S. dollars (a “foreign currency”), other than interest that is not “qualified stated interest” (as defined below under “Original Issue Discount”), generally will be taxable to a U.S. Holder as ordinary income at the time that such interest is received or accrued, depending on the U.S. Holder’s regular method of accounting for U.S. federal income tax purposes. Interest paid by the Issuer on the Notes and original issue discount (“OID”), if any, accrued with respect to the Notes (as described below under “Original Issue Discount”) generally will constitute income from sources outside the United States. The rules governing the foreign tax credit are complex, and prospective purchasers should consult their tax advisors regarding the availability of the credit under their particular circumstances.

### **Effect of Mongolian Withholding Taxes**

As discussed in “Taxation – Taxation in Mongolia,” payments of interest in respect of the Notes to any foreign corporation or individual, whether or not such foreign corporation or individual qualifies as a non-resident tax payer in Mongolia are currently exempt from Mongolian withholding taxes. In the event that payments of interest in respect of the Notes become subject to Mongolian withholding taxes, as discussed under “Terms and Conditions of the Notes – Taxation,” the Issuer may become liable for the payment of additional amounts to U.S. Holders so that U.S. Holders receive the same amounts they would have received had no Mongolian withholding taxes been imposed. For U.S. federal income tax purposes, U.S. Holders would be treated as having actually received the amount of Mongolian taxes withheld by the Issuer (as well as the additional amounts paid by the Issuer in respect thereof) with respect to a Note, and as then having actually paid over the withheld taxes to the Mongolian taxing authorities. As a result, the amount of interest income included in gross income for U.S. federal income tax purposes by a U.S. Holder with respect to a payment of interest would be greater than the amount of cash actually received (or receivable) by the U.S. Holder from the Issuer with respect to the payment.

Subject to certain limitations, a U.S. Holder generally will be entitled to a credit against its U.S. federal income tax liability for any Mongolian income taxes withheld by the Issuer. The limitation on foreign income taxes eligible for the U.S. foreign tax credit is calculated separately with respect to specific classes of income. For this purpose, payments of interest generally will constitute “passive category income” or, in the case of certain U.S. Holders, “general category income.” Alternatively, a U.S. Holder may elect to deduct such Mongolian income taxes when computing its U.S. federal taxable income, provided that such U.S. Holder elects to deduct (rather than credit) all foreign income taxes paid or accrued for the taxable year. In certain circumstances, a U.S. Holder may be unable to claim foreign tax credits (and may instead be allowed deductions) for foreign income taxes imposed on a payment of interest if the U.S. Holder has not held the Notes for at least 16 days during the 31 day period beginning on the date that is 15 days before the date on which the right to receive the payment arises. Since a U.S. Holder may be required to include OID on the Notes in its gross income in advance of any withholding of Mongolian income taxes from

payments attributable to the OID (which may not occur until the Note is repaid or redeemed), a U.S. Holder may not be entitled to a credit or deduction for such Mongolian income taxes in the year the OID is included in the U.S. Holder's gross income, and may be limited in its ability to credit or deduct in full the Mongolian income taxes in the year such taxes are actually withheld by the Issuer. Prospective purchasers should consult their tax advisors concerning the U.S. foreign tax credit implications of the payment of any Mongolian income taxes.

### **Original Issue Discount**

A Note, other than a Note with a term of one year or less (a "Short-Term Note"), will be treated as issued with OID (a "Discount Note") for U.S. federal income tax purposes if the excess of the Note's "stated redemption price at maturity" over its issue price is equal to or more than a de minimis amount, which generally is 0.25% of the Note's stated redemption price at maturity multiplied by the number of complete years to its maturity. An obligation that provides for the payment of amounts other than qualified stated interest before maturity (an "installment obligation") generally will be treated as a Discount Note if the excess of the Note's stated redemption price at maturity over its issue price is equal to or more than 0.25% of the Note's stated redemption price at maturity multiplied by the weighted average maturity of the Note. A Note's weighted average maturity is the sum of the following amounts determined for each payment on a Note (other than a payment of qualified stated interest): (i) the number of complete years from the issue date until the payment is made multiplied by (ii) a fraction, the numerator of which is the amount of the payment and the denominator of which is the Note's stated redemption price at maturity. Generally, the issue price of a Note will be the first price at which a substantial amount of Notes included in the issue of which the Note is a part is sold to persons other than bond houses, brokers, or similar persons or organizations acting in the capacity of underwriters, placement agents, or wholesalers. The stated redemption price at maturity of a Note is the total of all payments provided by the Note that are not payments of "qualified stated interest." For this purpose, a qualified stated interest payment is generally any one of a series of stated interest payments on a Note that is unconditionally payable in cash or property, other than additional debt instruments of the issuer, at least annually at a single fixed rate (with certain exceptions for lower rates paid during some periods), or a variable rate (in the circumstances described below under "– Variable Interest Rate Notes"). Solely for the purpose of determining whether a Note has OID, the Issuer will be deemed to exercise any call option that has the effect of decreasing the yield on the Note, and the U.S. Holder will be deemed to exercise any put option that has the effect of increasing the yield on the Note. If a Note has de minimis OID, a U.S. Holder must include the de minimis amount in income as stated principal payments are made on the Note, unless the holder makes the election described below under "– Election to Treat All Interest as Original Issue Discount." A U.S. Holder can determine the includible amount with respect to each such payment by multiplying the total amount of the Note's de minimis OID by a fraction equal to the amount of the principal payment made divided by the stated principal amount of the Note.

U.S. Holders of Discount Notes must include OID in gross income calculated on a constant-yield basis before the receipt of cash attributable to the OID, and generally will have to include in gross income increasingly greater amounts of OID over the life of the Discount Notes. The amount of OID includible in gross income by a U.S. Holder of a Discount Note is the sum of the daily portions of OID with respect to the Discount Note for each day during the taxable year or portion of the taxable year on which the U.S. Holder holds the Discount Note ("accrued OID"). The daily portion is determined by allocating to each day in any "accrual period" a pro rata portion of the OID allocable to that accrual period. Accrual periods with respect to a Note may be of any length selected by the U.S. Holder and may vary in length over the term of the Note as long as (i) no accrual period is longer than one year and (ii) each scheduled payment of interest or principal on the Note occurs on either the final or first day of an accrual period. The amount of OID allocable to an accrual period equals the excess, if any, of (a) the product of the Discount Note's adjusted issue price at the beginning of the accrual period and the Discount Note's yield to maturity (determined on the basis of compounding at the close of each accrual period and properly adjusted for the

length of the accrual period) over (b) the sum of the payments of qualified stated interest on the Note allocable to the accrual period. The “adjusted issue price” of a Discount Note at the beginning of any accrual period is the issue price of the Note increased by (x) the amount of accrued OID for each prior accrual period and decreased by (y) the amount of any payments previously made on the Note that were not qualified stated interest payments.

### **Acquisition Premium**

A U.S. Holder that purchases a Discount Note for an amount that is less than or equal to the sum of all amounts payable on the Note after the purchase date, other than payments of qualified stated interest, but that exceeds the adjusted issue price of the Discount Note (any such excess being “acquisition premium”), and does not make the election discussed below under “Election to Treat All Interest as Original Issue Discount,” is permitted to reduce the daily portions of OID by a fraction, the numerator of which is the excess of the U.S. Holder’s adjusted tax basis in the Discount Note immediately after its purchase over the Discount Note’s adjusted issue price, and the denominator of which is the excess of the sum of all amounts payable on the Discount Note after the purchase date, other than payments of qualified stated interest, over the Discount Note’s adjusted issue price.

### **Market Discount**

A Note, other than a Short-Term Note, generally will be treated as purchased at a market discount (a “Market Discount Note”) if the Note’s stated redemption price at maturity or, in the case of a Discount Note, the Note’s “revised issue price,” exceeds the amount for which the U.S. Holder purchased the Note by at least 0.25% of the Note’s stated redemption price at maturity or revised issue price, respectively, multiplied by the number of complete years to the Note’s maturity (or, in the case of a Note that is an installment obligation, the Note’s weighted average maturity). For this purpose, the “revised issue price” of a Note generally equals its issue price, increased by the amount of any OID that has previously accrued on the Note and decreased by the amount of any payments previously made on the Note that were not qualified stated interest payments.

In general, any gain recognized on the maturity or disposition of a Market Discount Note (including any payment on a Note that is not qualified stated interest), and possibly gain realized in certain non-recognition transactions, will be taxable as ordinary income to the extent that the gain does not exceed the accrued market discount on the Note. Alternatively, a U.S. Holder of a Market Discount Note may elect to accrue market discount into gross income currently over the life of the Note. This election shall apply to all debt instruments with market discount acquired by the electing U.S. Holder on or after the first day of the first taxable year to which the election applies, and may not be revoked without the consent of the IRS. A U.S. Holder of a Market Discount Note that does not elect to include market discount in gross income currently will generally be required to defer deductions for interest on borrowings incurred to purchase or carry a Market Discount Note that is in excess of the interest and OID on the Note includible in the U.S. Holder’s gross income, to the extent that this excess interest expense does not exceed the portion of the market discount allocable to the days on which the Market Discount Note was held by the U.S. Holder.

Market discount will accrue on a straight-line basis unless the U.S. Holder elects to accrue the market discount on a constant-yield method. This election applies only to the Market Discount Note with respect to which it is made and is irrevocable without the consent of the IRS.

### **Notes Purchased at a Premium**

A U.S. Holder that purchases a Note for an amount in excess of its stated principal amount, or for a Discount Note, its stated redemption price at maturity, may elect to treat the excess as “amortizable bond



premium,” in which case the amount required to be included in the U.S. Holder’s gross income each year with respect to interest on the Note will be reduced by the amount of amortizable bond premium allocable (based on the Note’s yield to maturity) to that year. Any election to amortize bond premium shall apply to all bonds (other than bonds the interest on which is excludable from gross income for U.S. federal income tax purposes) held by the U.S. Holder at the beginning of the first taxable year to which the election applies or thereafter acquired by the U.S. Holder, and is irrevocable without the consent of the IRS. Regardless of whether the election to amortize bond premium is made, a U.S. Holder generally will not be required to include OID in gross income for any Note acquired at a premium. A U.S. Holder that does not elect to take bond premium (other than acquisition premium) into account will recognize a capital loss when the Notes mature.

### **Election to Treat All Interest as Original Issue Discount**

A U.S. Holder may elect to include in gross income all interest that accrues on a Note using the constant-yield method described above under “Original Issue Discount – General,” with certain modifications. For purposes of this election, interest includes stated interest, OID, de minimis OID, market discount, de minimis market discount and unstated interest, as adjusted by any amortizable bond premium or acquisition premium. This election generally will apply only to the Note with respect to which the election is made and may not be revoked without the consent of the IRS. However, if the Note has amortizable bond premium, the U.S. Holder will be deemed to have made an election to apply amortizable bond premium against interest for all debt instruments with amortizable bond premium, other than debt instruments the interest on which is excludable from gross income, held as of the beginning of the taxable year to which the election applies or any taxable thereafter. If the election to apply the constant-yield method to all interest on a Note is made with respect to a Market Discount Note, the electing U.S. Holder will be treated as having made the election discussed above under “Market Discount” to accrue market discount into gross income currently for all debt instruments with market discount held or thereafter acquired. U.S. Holders should consult their tax advisors concerning the propriety and consequences of making this election.

### **Variable Interest Rate Notes**

Notes that provide for the payment of interest at certain variable rates (“Variable Interest Rate Notes”) may constitute “variable rate debt instruments” under the U.S. Treasury regulations governing accrual of OID. A Variable Interest Rate Note will qualify as a “variable rate debt instrument” if, among other requirements, (a) its issue price does not exceed the total non-contingent principal payments due under the Variable Interest Rate Note by more than a specified de minimis amount and (b) it provides for stated interest, paid or compounded at least annually, at (i) one or more qualified floating rates, (ii) a single fixed rate and one or more qualified floating rates, (iii) a single objective rate, or (iv) a single fixed rate and a single objective rate that is a qualified inverse floating rate. A Variable Interest Rate Note that does not meet the requirements for qualification as a “variable rate debt instrument” under the U.S. Treasury regulations may be treated as a “contingent payment debt instrument” for U.S. federal income tax purposes. See “Contingent Payment Debt Instruments” below.

A “qualified floating rate” is any variable rate where variations in the value of the rate can reasonably be expected to measure contemporaneous variations in the cost of newly borrowed funds in the currency in which the Variable Interest Rate Note is denominated. A fixed multiple of a qualified floating rate will constitute a qualified floating rate only if the multiple is greater than 0.65 but not more than 1.35. A variable rate equal to the product of a qualified floating rate and a fixed multiple that is greater than 0.65 but not more than 1.35, increased or decreased by a fixed rate, will also constitute a qualified floating rate. In addition, two or more qualified floating rates that can reasonably be expected to have approximately the same values throughout the term of the Variable Interest Rate Note (e.g. two or more qualified floating rates with values within 25 basis points of each other as determined on the Variable Interest Rate Note’s



issue date) will be treated as a single qualified floating rate. Notwithstanding the foregoing, a variable rate that would otherwise constitute a qualified floating rate but which is subject to one or more restrictions such as a maximum numerical limitation (i.e., a cap) or a minimum numerical limitation (i.e., a floor) may, under certain circumstances, fail to be treated as a qualified floating rate unless the cap or floor is fixed throughout the term of the Note or is not reasonably expected to affect the yield significantly.

An “objective rate” is a rate that is not itself a qualified floating rate but which is determined using a single fixed formula and which is based on objective financial or economic information (e.g. one or more qualified floating rates or the yield of actively traded personal property). A rate will not qualify as an objective rate if it is based on information that is within the control of the issuer of the debt instrument (or a related party) or that is unique to the circumstances of the issuer of the debt instrument (or a related party), such as dividends, profits or the value of the issuer’s stock (although a rate does not fail to be an objective rate merely because it is based on the credit quality of the issuer). Other variable interest rates may be treated as objective rates if so designated by the IRS in the future. Despite the foregoing, a variable rate of interest on a Variable Interest Rate Note will not constitute an objective rate if it is reasonably expected that the average value of the rate during the first half of the Variable Interest Rate Note’s term will be either significantly less than or significantly greater than the average value of the rate during the final half of the Variable Interest Rate Note’s term. A “qualified inverse floating rate” is any objective rate where the rate is equal to a fixed rate minus a qualified floating rate, as long as variations in the rate can reasonably be expected to inversely reflect contemporaneous variations in the qualified floating rate. If a Variable Interest Rate Note provides for stated interest at a fixed rate for an initial period of one year or less followed by a variable rate that is either a qualified floating rate or an objective rate for a subsequent period and if the variable rate on the Variable Interest Rate Note’s issue date is intended to approximate the fixed rate (e.g. the value of the variable rate on the issue date does not differ from the value of the fixed rate by more than 25 basis points), then the fixed rate and the variable rate together will constitute either a single qualified floating rate or objective rate, as the case may be.

A qualified floating rate or objective rate in effect at any time during the term of the instrument must be set at a “current value” of that rate. A “current value” of a rate is the value of the rate on any day that is no earlier than three months prior to the first day on which that value is in effect and no later than one year following that first day.

If a Variable Interest Rate Note that provides for stated interest at either a single qualified floating rate or a single objective rate throughout the term thereof qualifies as a “variable rate debt instrument,” then any stated interest on the Note which is unconditionally payable in cash or property (other than debt instruments of the Issuer) at least annually will constitute qualified stated interest and will be taxed accordingly. See “Payments of Stated Interest” above. Thus, a Variable Interest Rate Note that provides for stated interest at either a single qualified floating rate or a single objective rate throughout the term thereof and that qualifies as a “variable rate debt instrument” will generally not be treated as having been issued with OID unless the Variable Interest Rate Note is issued at a “true” discount (i.e., at a price below the Note’s stated principal amount) in excess of a specified de minimis amount. OID on such a Variable Interest Rate Note arising from “true” discount generally is allocated to an accrual period using the constant yield method described above by assuming that the variable rate is a fixed rate equal to (i) in the case of a qualified floating rate or qualified inverse floating rate, the value, as of the issue date, of the qualified floating rate or qualified inverse floating rate, or (ii) in the case of an objective rate (other than a qualified inverse floating rate), a fixed rate that reflects the yield that is reasonably expected for the Variable Interest Rate Note.

In general, any other Variable Interest Rate Note that qualifies as a “variable rate debt instrument” will be converted into an “equivalent fixed rate debt instrument” for purposes of determining the amount and accrual of OID and qualified stated interest on the Variable Interest Rate Note. Such a Variable Interest Rate Note must be converted into an equivalent fixed rate debt instrument by substituting any qualified

floating rate or qualified inverse floating rate provided under the terms of the Variable Interest Rate Note with a fixed rate equal to the value of the qualified floating rate or qualified inverse floating rate, as the case may be, as of the Variable Interest Rate Note's issue date. Any objective rate (other than a qualified inverse floating rate) provided under the terms of the Variable Interest Rate Note is converted into a fixed rate that reflects the yield that is reasonably expected for the Variable Interest Rate Note. In the case of a Variable Interest Rate Note that qualifies as a "variable rate debt instrument" and provides for stated interest at a fixed rate in addition to either one or more qualified floating rates or a qualified inverse floating rate, the fixed rate is initially converted into a qualified floating rate (or a qualified inverse floating rate, if the Variable Interest Rate Note provides for a qualified inverse floating rate). Under these circumstances, the qualified floating rate or qualified inverse floating rate that replaces the fixed rate must be such that the fair market value of the Variable Interest Rate Note as of the Variable Interest Rate Note's issue date is approximately the same as the fair market value of an otherwise identical debt instrument that provides for either the qualified floating rate or qualified inverse floating rate rather than the fixed rate. Subsequent to converting the fixed rate into either a qualified floating rate or a qualified inverse floating rate, the Variable Interest Rate Note is converted into an equivalent fixed rate debt instrument in the manner described above.

Once the Variable Interest Rate Note is converted into an equivalent fixed rate debt instrument pursuant to the foregoing rules, the amount of OID and qualified stated interest, if any, are determined for the equivalent fixed rate debt instrument by applying the general OID rules to the equivalent fixed rate debt instrument and a U.S. Holder of the Variable Interest Rate Note will account for the OID and qualified stated interest as if the U.S. Holder held the equivalent fixed rate debt instrument. In each accrual period, appropriate adjustments will be made to the amount of qualified stated interest or OID assumed to have been accrued or paid with respect to the equivalent fixed rate debt instrument in the event that these amounts differ from the actual amount of interest accrued or paid on the Variable Interest Rate Note during the accrual period.

### **Short-Term Notes**

In general, an individual or other cash basis U.S. Holder of a Short-Term Note is not required to accrue OID (as specially defined below for the purposes of this paragraph) for U.S. federal income tax purposes unless it elects to do so (but may be required to include any stated interest in gross income as such interest is received). Accrual basis U.S. Holders and certain other U.S. Holders are required to accrue OID on Short-Term Notes on a straight-line basis or, if the U.S. Holder so elects, using a constant-yield method (based on daily compounding). In the case of a U.S. Holder not required and not electing to include OID in gross income currently, any gain realized on the sale, exchange or retirement of the Short-Term Note will be ordinary income to the extent of the OID accrued on a straight-line basis (unless an election is made to accrue the OID under the constant-yield method) through the date of sale, exchange or retirement. U.S. Holders who are not required and do not elect to accrue OID on Short-Term Notes will be required to defer deductions for interest on borrowings allocable to Short-Term Notes in an amount not exceeding the deferred income until the deferred income is realized.

For purposes of determining the amount of OID subject to these rules, all interest payments on a Short-Term Note are included in the Short-Term Note's stated redemption price at maturity. A U.S. Holder may elect to determine OID on a Short-Term Note as if the Short-Term Note had been originally issued to the U.S. Holder at the U.S. Holder's purchase price for the Short-Term Note. This election shall apply to all obligations with a maturity of one year or less acquired by the U.S. Holder on or after the first day of the first taxable year to which the election applies, and may not be revoked without the consent of the IRS.

## **Contingent Payment Debt Instruments**

As discussed above, Notes that provide for the payment of interest at floating rates, but fail to qualify as variable rate debt instruments under applicable U.S. Treasury regulations, may be treated as “contingent payment debt instruments” for U.S. federal income tax purposes. Additionally, Notes that provide for different payment schedules based upon the occurrence or non-occurrence of certain contingencies may be characterized for U.S. federal income tax purposes as contingent payment debt instruments. Very generally, for a Note that is treated for U.S. federal income tax purposes as a contingent payment debt instrument, applicable U.S. Treasury regulations require a U.S. Holder, regardless of its regular method of tax accounting, (i) to accrue interest income (as OID) over the term of the Note based upon a “comparable yield” for a debt instrument without any contingent payments but otherwise with terms and conditions comparable to the Note, and (ii) to periodically adjust its interest income accruals on the Note for differences between the actual contingent payments received in respect of the Note and the contingent payments reflected on a “projected payment schedule” prepared by the Issuer for the Note as of its issue date. Additionally, any gain upon a sale or other taxable disposition of such a Note generally will be taxable to a U.S. Holder as ordinary interest income; any loss will be ordinary loss to the extent the interest previously included in gross income by the U.S. Holder with respect to the Note exceeds the total net negative adjustments that the U.S. Holder took into account as ordinary loss, and thereafter, capital loss. *The comparable yield and projected payment schedule are used to determine accruals of interest for tax purposes only, and are not to be regarded as predictions with respect to the actual yield or payments for a Note.* In the event that the Issuer issues Notes that constitute contingent payment debt instruments, the applicable Pricing Supplement will further describe the material U.S. federal income tax consequences of the acquisition, ownership and disposition of such Notes for U.S. Holders. A U.S. Holder will generally be bound by the comparable yield and the projected payment schedule determined by the Issuer unless the U.S. Holder determines its own comparable yield and projected payment schedule and explicitly and timely justifies and discloses such schedule to the IRS. The Issuer’s determination, however, is not binding on the IRS, and it is possible that the IRS could conclude that some other comparable yield or projected payment schedule should be used instead. Prospective U.S. Holders of Notes should consult their own tax advisors regarding the application of the U.S. Treasury regulations governing contingent debt instruments.

## **Sale, Retirement or Other Taxable Disposition of Notes**

A U.S. Holder generally will recognize gain or loss on the sale, retirement or other taxable disposition of a Note equal to the difference between the amount realized on the sale, retirement or other taxable disposition and the adjusted tax basis of the Note. A U.S. Holder’s adjusted tax basis in a Note generally will be its cost, (i) increased by the amount of any OID or market discount included in the U.S. Holder’s gross income with respect to the Note (including any amounts of de minimis OID and de minimis market discount included in the U.S. Holder’s income as a result of an election to create all interest as OID, as discussed above) and (ii) reduced by the amount of any payments received in respect to the Note that are not qualified stated interest payments and the amount of any amortizable bond premium applied to reduce interest on the Note. The amount realized does not include any amount attributable to accrued but unpaid qualified stated interest, which will be taxable as interest income to the extent not previously included in gross income by the U.S. holder. Except as described above under “Market Discount,” “Short-Term Notes” or “Contingent Payment Debt Instruments” and except to the extent attributable to changes in exchange rates (as discussed below under “Foreign Currency Notes”), gain or loss recognized on the sale, retirement or other taxable disposition of a Note will be capital gain or loss and will be long-term capital gain or loss if the U.S. Holder’s holding period in the Notes exceeds one year. For certain non-corporate U.S. Holders, including individuals, under current law, long-term capital gains are taxed at preferential rates. The deductibility of capital losses is subject to limitations under the Code.

Gain or loss realized by a U.S. Holder on the sale, retirement or other taxable disposition of a Note generally will be treated as derived from U.S. sources for purposes of the U.S. foreign tax credit. Accordingly, if any gain from the sale or exchange of a Note is subject to Mongolian or other foreign income tax, a U.S. Holder may not be able to credit such taxes against its U.S. federal income tax liability, because such gain generally would be U.S. source income, unless such tax can be credited (subject to applicable limitations) against tax due on other income treated as derived from foreign sources. Alternatively, a U.S. Holder may deduct any foreign income taxes, provided that the U.S. Holder does not credit any foreign income taxes paid or accrued in the same taxable year.

## **Foreign Currency Notes**

### ***Interest***

If a payment of qualified stated interest is denominated in, or determined by reference to, a single foreign currency, the amount of income recognized by a cash basis U.S. Holder will be the U.S. dollar value of the interest payment, based on the spot rate in effect on the date of receipt, regardless of whether the payment is in fact converted into U.S. dollars. Under applicable U.S. Treasury regulations, the “spot rate” generally means a rate that reflects a fair market rate of exchange available to the public for currency under a “spot contract” in a free market and involving representative amounts. A “spot contract” is a contract to buy or sell a currency on the nearest conventional settlement date, generally two business days following the date of the execution of the contract. If such a spot rate cannot be demonstrated, the IRS has the authority to determine the spot rate. If the amount of qualified stated interest payable in U.S. dollars under the Notes is determined by reference to the U.S. dollar value of a foreign currency at periodic intervals over the term of the Notes, cash basis U.S. Holders generally will not realize any U.S. source exchange gain or loss in respect of interest payments except to the extent that the exchange rate used to determine the amount of interest payable in U.S. dollars with respect to an interest payment differs from the spot rate in effect on the date such payment is received.

An accrual basis U.S. Holder may determine the amount of income recognized with respect to a qualified stated interest payment denominated in, or determined by reference to, a single foreign currency in accordance with either of two methods. Under the first method, the amount of income accrued will be based on the average exchange rate in effect during the interest accrual period (or, in the case of an accrual period that spans two taxable years of a U.S. Holder, the part of the period within the taxable year). Under the second method, the U.S. Holder may elect to determine the amount of income accrued on the basis of the spot rate in effect on the last day of the accrual period (or, in the case of an accrual period that spans two taxable years, the spot rate in effect on the last day of the part of the period within the taxable year). Additionally, if a payment of qualified stated interest is actually received within five business days of the last day of the accrual period, an electing accrual basis U.S. Holder may instead translate the accrued interest into U.S. dollars at the spot rate in effect on the day of actual receipt. Any such election will apply to all debt instruments held by the U.S. Holder at the beginning of the first taxable year to which the election applies or thereafter acquired by the U.S. Holder, and will be irrevocable without the consent of the IRS.

Upon receipt of a qualified stated interest payment (including a payment attributable to accrued but unpaid qualified stated interest upon the sale or retirement of a Note) denominated in, or determined by reference to, a single foreign currency, the accrual basis U.S. Holder may recognize U.S. source exchange gain or loss (taxable as ordinary income or loss) equal to the difference between the amount received (translated into U.S. dollars at the spot rate on the date of receipt) and the amount previously accrued, regardless of whether the payment is in fact converted into U.S. dollars. If the amount of a qualified stated interest payable in U.S. dollars under the Notes is determined by reference to the U.S. dollar value of a single foreign currency at periodic intervals over the term of the Notes, an accrual basis U.S. Holder may recognize U.S. source exchange gain or loss equal to the difference between the U.S. dollar value of the

foreign currency on the date the interest is received determined based on the spot rate in effect on the date the interest is received (which may be different than the exchange rate used to determine the amount of interest payable in U.S. dollars) and the amount previously accrued.

### ***OID***

OID for each accrual period on a Discount Note that is denominated in, or determined by reference to, a single foreign currency will be determined in the foreign currency and then translated into U.S. dollars in the same manner as qualified stated interest accrued by an accrual basis U.S. Holder, as described above. Upon receipt of an amount attributable to OID (whether in connection with a payment on the Note or a sale or retirement of the Note), a U.S. Holder may recognize U.S. source exchange gain or loss (taxable as ordinary income or loss) equal to the difference between the amount received (translated into U.S. dollars at the spot rate on the date of receipt) and the amount previously accrued, regardless of whether the payment is in fact converted into U.S. dollars.

### ***Market Discount***

Market discount on a Note that is denominated in, or determined by reference to, a single foreign currency, will be accrued in the foreign currency. If the U.S. Holder elects to accrue market discount into gross income currently, the accrued market discount will be translated into U.S. dollars at the average exchange rate for the accrual period (or portion thereof within the U.S. Holder's taxable year). Upon the receipt of an amount attributable to accrued market discount, the U.S. Holder may recognize U.S. source exchange gain or loss (which will be taxable as ordinary income or loss) determined in the same manner as for accrued qualified stated interest or OID. A U.S. Holder that does not elect to include market discount in gross income currently will recognize, upon the disposition or maturity of the Note, the U.S. dollar value of the amount accrued, calculated at the spot rate on that date, and no part of this accrued market discount will be treated as exchange gain or loss.

### ***Bond Premium***

Bond premium (including acquisition premium) on a Note that is denominated in, or determined by reference to, a single foreign currency will be computed in units of the foreign currency, and any such bond premium that is taken into account currently will reduce interest income in units of the foreign currency. On the date bond premium offsets interest income, a U.S. Holder may recognize U.S. source exchange gain or loss (taxable as ordinary income or loss) measured by the difference between the spot rate in effect on that date and on the date the Notes were acquired by the U.S. Holder.

### ***Sale, Retirement or Other Taxable Disposition of a Note***

As discussed above under “– Sale, Retirement or Other Taxable Disposition of a Note,” a U.S. Holder generally will recognize gain or loss on the sale, retirement or other taxable disposition of a Note equal to the difference between the amount realized on the sale, retirement or other taxable disposition and the adjusted tax basis of the Note. A U.S. Holder's initial tax basis in a Note that is denominated in a single foreign currency will be determined by reference to the U.S. dollar cost of the Note. The U.S. dollar cost of a Note purchased with foreign currency generally will be the U.S. dollar value of the purchase price based on the spot rate in effect the date of purchase or, in the case of Notes traded on an established securities market that are purchased by a cash basis U.S. Holder, or an accrual basis U.S. Holder that so elects, on the settlement date for the purchase.

The amount realized on a sale, retirement or other taxable disposition for an amount in foreign currency will be the U.S. dollar value of the amount of foreign currency received based on the spot rate in effect on the date of sale, retirement or other taxable disposition of a Note or, in the case of a Note traded on an established securities market sold by a cash basis U.S. Holder, or an accrual basis U.S. Holder that so elects, on the settlement date for the sale. Such an election by an accrual basis U.S. Holder must be applied consistently from year to year and cannot be revoked without the consent of the IRS.

A U.S. Holder will recognize U.S. source exchange gain or loss (taxable as ordinary income or loss) on the sale, retirement or other taxable disposition of a Note equal to the difference, if any, between the U.S. dollar values of the U.S. Holder's purchase price for the Note (or, if less, the principal amount of the Note) based on the spot rate in effect (i) on the date of sale or retirement and (ii) the date on which the U.S. Holder acquired the Note. A U.S. Holder that purchased a Note at a premium and has unamortized premium on the date of sale, retirement or other taxable disposition of the Note will also recognize U.S. source exchange gain or loss equal to the difference, if any, between the U.S. dollar values of the unamortized premium based on the spot rate in effect (i) on the date of sale or retirement and (ii) the date on which the U.S. Holder acquired the Note. In either case, any such exchange gain or loss will be realized only to the extent of total gain or loss realized on the sale, retirement or other taxable disposition.

### ***Disposition of Foreign Currency***

Foreign currency received as a payment of stated interest on a Note or on the sale, retirement or other taxable disposition of a Note will have a tax basis equal to its U.S. dollar value based on the spot rate in effect at the time the interest is received or at the time of the sale, retirement or other taxable disposition. Foreign currency that is purchased generally will have a tax basis equal to the U.S. dollar value of the foreign currency based on the spot rate in effect on the date of purchase. Any gain or loss recognized on a sale or other disposition of a foreign currency (including its use to purchase Notes or upon exchange for U.S. dollars) generally will be U.S. source ordinary income or loss.

### **Backup Withholding and Information Reporting**

In general, payments of stated interest and accrued OID on, and the proceeds of a sale, exchange, redemption or other disposition of, the Notes, payable to a U.S. Holder by a U.S. paying agent or other U.S. intermediary, will be reported to the IRS and to the U.S. Holder as may be required under applicable U.S. Treasury regulations. Backup withholding will apply to these payments if the U.S. Holder fails to provide an accurate taxpayer identification number or certification of exempt status or fails to report all interest and dividends required to be shown on its U.S. federal income tax returns. Certain U.S. Holders are not subject to backup withholding. Backup withholding is not additional tax. Amounts withheld may be credited against a U.S. Holder's U.S. federal income tax liability, and a U.S. Holder may obtain a refund of any excess amounts withheld by filing the appropriate claim for refund with the IRS in a timely manner. U.S. Holders should consult their tax advisors as to their qualification for exemption from backup withholding and the procedure for obtaining an exemption.

In addition, certain non-corporate U.S. Holders, including individuals, that hold certain foreign financial assets (which may include the Notes) are required to report information relating to such assets, subject to exceptions (including an exception for Notes held in accounts maintained by financial institutions). Investors who fail to report required information could be subject to substantial penalties. U.S. Holders are urged to consult their tax advisors regarding the effect, if any, of this reporting requirement on their ownership and disposition of the Notes.



## **Reportable Transactions**

U.S. Treasury regulations meant to apply to the reporting of certain tax-shelter transactions require U.S. Holders to report certain transactions that give rise to a loss in excess of certain thresholds. Under these regulations, a U.S. Holder that recognizes foreign currency loss with respect to the notes would be required to report the loss on IRS Form 8886 (Reportable Transaction Disclosure Statement) if the loss exceeds the thresholds set forth in the U.S. Treasury regulations. For individuals and trusts, this loss threshold is currently U.S.\$50,000 in any single year. For other types of taxpayers and other types of losses, the thresholds are higher. Prospective purchasers are urged to consult their tax advisors regarding the application of these rules to the acquisition, ownership or disposition of Notes.



## **SUBSCRIPTION AND SALE AND TRANSFER AND SELLING RESTRICTIONS**

### **Summary of Program Agreement**

The Dealers have, in a Program Agreement dated November 21, 2012 (as supplemented and amended from time to time, the Program Agreement), agreed with the Issuer a basis upon which they or any of them may from time to time agree to purchase or procure purchasers for Notes. Any such agreement will extend to those matters stated under “Form of the Notes” and “Terms and Conditions of the Notes.” The Notes may be resold at prevailing market prices or at prices related thereto, at the time of such resale, as determined by the relevant Dealer(s). The Issuer will pay the relevant Dealer a commission as agreed between them in respect of Notes subscribed by the relevant Dealer. In the Program Agreement, the Issuer has agreed to reimburse the Dealers for certain of their expenses in connection with the establishment of the Program and the issue of Notes under the Program and to indemnify the Dealers against certain liabilities incurred by them in connection therewith. The Program Agreement entitles the Dealers to terminate any agreement to subscribe for Notes in certain circumstances prior to payment for such Notes being made to the Issuer.

In order to facilitate the offering of any Tranche of the Notes, certain persons participating in the offering of the Tranche may to the extent permitted by applicable laws and regulations engage in transactions that stabilize, maintain or otherwise affect the market price of the relevant Notes during and after the offering of the Tranche. Specifically, such persons may over-allot or create a short position in the Notes for their own account by selling more Notes than have been sold to them by the Issuer. Such persons may also elect to cover any such short position by purchasing Notes in the open market. In addition, such persons may stabilize or maintain the price of the Notes by bidding for or purchasing Notes in the open market and may impose penalty bids, under which selling concessions allowed to syndicate members or other broker-dealers participating in the offering of the Notes are reclaimed if Notes previously distributed in the offering are repurchased in connection with stabilization transactions or otherwise. The effect of these transactions may be to stabilize or maintain the market price of the Notes at a level above that which might otherwise prevail in the open market. The imposition of a penalty bid may also affect the price of the Notes to the extent that it discourages resales thereof. No representation is made as to the magnitude or effect of any such stabilizing or other transactions. Such transactions, if commenced, may be discontinued at any time. Stabilization activities are subject to certain prescribed time limits in certain jurisdictions.

### **Transfer Restrictions**

As a result of the following restrictions, purchasers of Notes in the United States are advised to consult legal counsel prior to making any purchase, offer, sale, resale or other transfer of such Notes.

Each purchaser of Registered Notes or person wishing to transfer an interest from one Registered Global Note to another or from global to definitive form or vice versa, will be required to acknowledge, represent and agree as follows (terms used in this paragraph that are defined in Rule 144A or in Regulation S are used herein as defined therein):

- (a) that either: (i) it is a QIB, purchasing (or holding) the Notes for its own account or for the account of one or more QIBs and it is aware that any sale to it is being made in reliance on Rule 144A or (ii) it is an Institutional Accredited Investor, that, prior to its purchase of the Notes has delivered to the Registrar an IAI Investment Letter in the form as set forth below or (iii) it is the beneficial owner of such Notes and (A) it is outside the United States and is not a U.S. person and (B) it is not an affiliate of the Issuer or a person acting on behalf of such an affiliate;
- (b) that the Notes have not been and will not be registered under the Securities Act or any other applicable U.S. state securities laws and may not be offered, sold, pledged or otherwise transferred within the United States except as set forth below;

- (c) that, unless it holds an interest in a Regulation S Global Note and is a person located outside the United States, if in the future it decides to resell, pledge or otherwise transfer the Notes or any beneficial interests in the Notes, it will do so, prior to the date which is one year after the later of the last Issue Date for the Series and the last date on which the Issuer or an affiliate of the Issuer was the owner of such Notes, only (i) to the Issuer or any affiliate thereof, (ii) inside the United States to a person whom the seller reasonably believes is a QIB purchasing for its own account or for the account of a QIB in a transaction meeting the requirements of Rule 144A, (iii) outside the United States in compliance with Rule 903 or Rule 904 under the Securities Act, (iv) pursuant to the exemption from registration provided by Rule 144 under the Securities Act (if available) or (v) pursuant to an effective registration statement under the Securities Act, in each case in accordance with all applicable U.S. state securities laws;
- (d) that it will, and will require each subsequent holder to, notify any purchaser of the Notes from it of the resale restrictions referred to in paragraph (c) above, if then applicable;
- (e) that Notes initially offered in the United States to QIBs will be represented by one or more Rule 144A Global Notes, that Notes offered to Institutional Accredited Investors will be in the form of Definitive IAI Registered Notes and that Notes offered outside the United States in reliance on Regulation S will be represented by one or more Regulation S Global Notes; and
- (f) that the Notes, other than the Regulation S Global Notes, will bear a legend to the following effect unless otherwise agreed to by the Issuer:

“THIS NOTE HAS NOT BEEN REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE SECURITIES ACT), OR ANY OTHER APPLICABLE U.S. STATE SECURITIES LAWS AND, ACCORDINGLY, MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED WITHIN THE UNITED STATES EXCEPT AS SET FORTH IN THE FOLLOWING SENTENCE. BY ITS ACQUISITION HEREOF, THE HOLDER (A) REPRESENTS THAT (1) IT IS A QUALIFIED INSTITUTIONAL BUYER (AS DEFINED IN RULE 144A UNDER THE SECURITIES ACT) PURCHASING THIS NOTE FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF ONE OR MORE QUALIFIED INSTITUTIONAL BUYERS OR (2) IT IS AN INSTITUTIONAL ACCREDITED INVESTOR (AS DEFINED IN RULE 501(A)(1), (2), (3) OR (7) UNDER THE SECURITIES ACT) (AN “INSTITUTIONAL ACCREDITED INVESTOR”); (B) AGREES THAT IT WILL NOT RESELL OR OTHERWISE TRANSFER THIS NOTE EXCEPT IN ACCORDANCE WITH THE AGENCY AGREEMENT AND, PRIOR TO THE DATE WHICH IS ONE YEAR AFTER THE LATER OF THE LAST ISSUE DATE FOR THE SERIES AND THE LAST DATE ON WHICH THE ISSUER OR AN AFFILIATE OF THE ISSUER WAS THE OWNER OF SUCH NOTE OTHER THAN (1) TO THE ISSUER OR ANY AFFILIATE THEREOF, (2) INSIDE THE UNITED STATES 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 MEETING THE REQUIREMENTS OF RULE 144A, (3) OUTSIDE THE UNITED STATES IN COMPLIANCE WITH RULE 903 OR RULE 904 UNDER THE SECURITIES ACT, (4) PURSUANT TO THE EXEMPTION FROM REGISTRATION PROVIDED BY RULE 144 UNDER THE SECURITIES ACT (IF AVAILABLE) 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 AND ANY OTHER JURISDICTION; AND (C) IT AGREES THAT IT WILL DELIVER TO EACH PERSON TO WHOM THIS NOTE IS TRANSFERRED A NOTICE SUBSTANTIALLY TO THE EFFECT OF THIS LEGEND. NO REPRESENTATION CAN BE MADE AS TO THE AVAILABILITY OF THE EXEMPTION PROVIDED BY RULE 144 UNDER THE SECURITIES ACT FOR REALES OF THIS NOTE.

THIS NOTE AND RELATED DOCUMENTATION (INCLUDING, WITHOUT LIMITATION, THE AGENCY AGREEMENT REFERRED TO HEREIN) MAY BE AMENDED OR SUPPLEMENTED FROM TIME TO TIME, WITHOUT THE CONSENT OF, BUT UPON NOTICE TO, THE HOLDERS OF SUCH NOTE SENT TO THEIR REGISTERED ADDRESSES, TO MODIFY THE RESTRICTIONS ON AND PROCEDURES FOR RESALES AND OTHER TRANSFERS OF THIS NOTE TO REFLECT ANY CHANGE IN APPLICABLE LAW OR REGULATION (OR THE INTERPRETATION THEREOF) OR IN PRACTICES RELATING TO RESALES OR OTHER TRANSFERS OF RESTRICTED SECURITIES GENERALLY. THE HOLDER OF THIS NOTE SHALL BE DEEMED, BY ITS ACCEPTANCE OR PURCHASE HEREOF, TO HAVE AGREED TO ANY SUCH AMENDMENT OR SUPPLEMENT (EACH OF WHICH SHALL BE CONCLUSIVE AND BINDING ON THE HOLDER HEREOF AND ALL FUTURE HOLDERS OF THIS NOTE AND ANY SECURITIES ISSUED IN EXCHANGE OR SUBSTITUTION THEREFOR, WHETHER OR NOT ANY NOTATION THEREOF IS MADE HEREON).”;

- (g) that the Notes offered in reliance on Rule 144A will be represented by the Rule 144A Note. Before any interest in the Rule 144A Note may be offered, sold, pledged or otherwise transferred to a person who takes delivery in the form of an interest in the Regulation S Note, it will be required to provide a Transfer Agent with a written certification (in the form provided in the Agency Agreement) as to compliance with applicable securities laws;
- (h) that the Notes offered in reliance on Regulation S will be represented by the Regulation S Note; and
- (i) that the Issuer and others will rely upon the truth and accuracy of the foregoing acknowledgements, representations and agreements and agrees that if any of such acknowledgements, representations or agreements made by it are no longer accurate, it shall promptly notify the Issuer; and if it is acquiring any Notes as a fiduciary or agent for one or more accounts it represents that it has sole investment discretion with respect to each such account and that it has full power to make the foregoing acknowledgements, representations and agreements on behalf of each such account.

Institutional Accredited Investors who purchase Registered Notes in definitive form offered and sold in the United States in reliance upon the exemption from registration provided by Regulation D of the Securities Act are required to execute and deliver to the Registrar an IAI Investment Letter. Upon execution and delivery of an IAI Investment Letter by an Institutional Accredited Investor, Notes will be issued in definitive registered form, see “Form of the Notes.”

The IAI Investment Letter will state, among other things, the following:

- (i) that the Institutional Accredited Investor has received a copy of this and such other information as it deems necessary in order to make its investment decision;
- (ii) that the Institutional Accredited Investor understands that any subsequent transfer of the Notes is subject to certain restrictions and conditions set forth in this and the Notes (including those set out above) and that it agrees to be bound by, and not to resell, pledge or otherwise transfer the Notes except in compliance with, such restrictions and conditions and the Securities Act;
- (iii) that, in the normal course of its business, the Institutional Accredited Investor invests in or purchases securities similar to the Notes;
- (iv) that the Institutional Accredited Investor is an Institutional Accredited Investor within the meaning of Rule 501(a)(1), (2), (3) or (7) of Regulation D under the Securities Act and has such knowledge and experience in financial and business matters as to be capable of evaluating the merits and risks of its investment in the Notes, and it and any accounts for which it is acting are each able to bear the economic risk of its or any such accounts’ investment for an indefinite period of time;

- (v) that the Institutional Accredited Investor is acquiring the Notes purchased by it for its own account or for one or more accounts (each of which is an Institutional Accredited Investor) as to each of which it exercises sole investment discretion and not with a view to any distribution of the Notes, subject, nevertheless, to the understanding that the disposition of its property shall at all times be and remain within its control; and
- (vi) that, in the event that the Institutional Accredited Investor purchases Notes, it will acquire Notes having a minimum purchase price of at least U.S.\$250,000 (or the approximate equivalent in another Specified Currency).

No sale of Legended Notes in the United States to any one purchaser will be for less than U.S.\$100,000 (or its foreign currency equivalent) principal amount or, in the case of sales to Institutional Accredited Investors, U.S.\$250,000 (or its foreign currency equivalent) principal amount and no Legended Note will be issued in connection with such a sale in a smaller principal amount. If the purchaser is a non-bank fiduciary acting on behalf of others, each person for whom it is acting must purchase at least U.S.\$100,000 (or its foreign currency equivalent) or, in the case of sales to Institutional Accredited Investors, U.S.\$250,000 (or its foreign currency equivalent) principal amount of Registered Notes.

## **Selling Restrictions**

### ***United States of America***

The Notes have not been and will not be registered under the Securities Act and may not be offered or sold within the United States except (a) to QIBs in reliance on Rule 144A, (b) subject to the Dealers making any such offers in compliance with the Program Agreement, to Institutional Accredited Investors, that, prior to their purchase of the Notes have furnished an IAI Investment Letter and (c) in accordance with Regulation S under the Securities Act.

Bearer Notes will be issued in compliance with the D Rules (including substantially similar rules to be issued under Section 4701 of the Code) unless (i) the relevant Pricing Supplement states that Bearer Notes are issued in compliance with the C Rules (including substantially similar rules to be issued under Section 4701 of the Code) or (ii) Bearer Notes are issued other than in compliance with the D Rules or the C Rules but in circumstances in which the Notes will not constitute “registration required obligations” for U.S. federal income tax purposes, which circumstances will be referred to in the relevant Pricing Supplement as a transaction to which TEFRA is not applicable.

Until 40 days after the commencement of the offering of any Series of Notes, an offer or sale of such Notes within the United States by any dealer that is not participating in the offering may violate the registration requirements of the Securities Act if such offer and sale is made otherwise than in accordance with Rule 144A or another exemption from the requirements of the Securities Act.

Dealers may arrange for the resale of Notes to QIBs pursuant to Rule 144A and each such purchaser of Notes is hereby notified that the Dealers may be relying on the exemption from the registration requirements of the Securities Act provided by Rule 144A.

Each issuance of Index Linked Notes or Dual Currency Notes shall be subject to such additional U.S. selling restrictions as the Issuer and the relevant Dealer may agree as a term of the issuance and purchase of such Notes, which additional selling restrictions shall be set out in the applicable Pricing Supplement.

### ***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 Dealer has represented and agreed, and each further Dealer appointed under the Program will be required to represent and agree, that with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State (the “Relevant Implementation Date”) it has not made and will not make an offer of Notes which are the subject of the offering contemplated by the Information Memorandum as completed by the final terms in relation thereto to the public in that Relevant Member State except that it may, with effect from and including the Relevant Implementation Date, make an offer of such Notes to the public in that Relevant Member State:

- (a) if the final terms in relation to the Notes specify that an offer of those Notes may be made other than pursuant to Article 3(2) of the Prospectus Directive in that Relevant Member State (“Non-exempt Offer”), following the date of publication of a prospectus in relation to such Notes which has been approved by the competent authority in that Relevant Member State or, where appropriate, approved in another Relevant Member State and notified to the competent authority in that Relevant Member State, provided that any such prospectus has subsequently been completed by the final terms contemplating such Non-exempt Offer, in accordance with the Prospectus Directive, in the period beginning and ending on the dates specified in such prospectus or final terms, as applicable and the Issuer has consented in writing to its use for the purpose of that Non-exempt Offer;
- (b) at any time to legal entities which is a qualified investor as defined in the Prospectus Directive;
- (c) at any time to fewer than 100 or, if the Relevant Member State has implemented the relevant provision of the 2010 PD Amending Directive, 150, natural or legal persons (other than qualified investors as defined in the Prospectus Directive) subject to obtaining the prior consent of the relevant Dealer or Dealers nominated by the Issuer for any such offer; or
- (d) at any time in any other circumstances falling within Article 3(2) of the Prospectus Directive,

provided that no such offer of Notes referred to in (b) to (d) above shall require the Issuer or any Dealer to publish a prospectus pursuant to Article 3 of the Prospectus Directive or supplement a prospectus pursuant to Article 16 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 the Notes, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State, the expression Prospectus Directive means Directive 2003/71/EC and includes any relevant implementing measure in the Relevant Member State (and amendments thereto, including the 2010 PD Amending Directive, to the extent implemented in the Relevant Member State) and the expression 2010 PD Amending Directive means Directive 2010/73/EV.

### ***United Kingdom***

Each Dealer has represented and agreed, and each further Dealer appointed under the Program will be required to represent and agree, that:

- (a) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of 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 and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to any 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 (the “Financial Instruments and Exchange Act”). Accordingly, each Dealer has represented and agreed, and each further Dealer appointed under the Program will be required to represent and agree, that it has not, directly or indirectly, offered or sold and will not, directly or indirectly, offer or sell any Notes in Japan or to, or for the benefit of, 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) or to others for re-offering or re-sale, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the Financial Instruments and Exchange Act and other relevant laws and regulations of Japan.

### *Singapore*

Each Dealer has acknowledged that this Information Memorandum has not been registered as a prospectus with the Monetary Authority of Singapore. Accordingly, each Dealer has represented and agreed, and each further Dealer appointed under the Program will be required to represent and agree, that it has not offered or sold any Notes or caused such Notes to be made the subject of an invitation for subscription or purchase and will not offer or sell such Notes or cause such Notes to be made the subject of an invitation for subscription or purchase, and has not circulated or distributed, nor will it circulate or distribute, this Information Memorandum or any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of such Notes, whether directly or indirectly, to persons in Singapore other than (a) to an institutional investor under Section 274 of the Securities and Futures Act, Chapter 289 of Singapore (the “SFA”), (b) 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 (c) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

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#### *Notes:*

Where Notes are subscribed or purchased under Section 275 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 except:

- (i) to an institutional investor (for corporations, under Section 274 of the SFA) or to a relevant person defined in Section 275(2) of the SFA, or to any person pursuant to an offer that is made on terms that such securities of that corporation or such rights and interest in that trust are acquired at a consideration of not less than S\$200,000 (or its equivalent in a foreign currency) for each transaction, whether such amount is to be paid for in cash or by exchange of securities or other assets, and further for corporations, in accordance with the conditions specified in Section 275 of the SFA;
- (ii) where no consideration is or will be given for the transfer; or
- (iii) where the transfer is by operation of law.



### ***Korea***

The Notes have not been and will not be registered under the Financial Investment Services and Capital Markets Act. Each Dealer has represented and agreed, and each further Dealer appointed under the Program will be required to represent and agree, that it has not offered, sold or delivered and will not offer, sell or deliver, directly or indirectly, any Notes in Korea or to, or for the account or benefit of, any Korean resident (as such term is defined in the Foreign Exchange Transaction Law of Korea and the regulations thereunder), except as otherwise permitted under applicable Korean laws and regulations.

### ***Hong Kong***

In relation to each Tranche of Notes issued by the Issuer, each Dealer has represented and agreed, and each further Dealer appointed under the Program will be required to represent and agree, that:

- (a) it has not offered or sold and will not offer or sell in Hong Kong, by means of any document (except for Notes which are a “structured product” as defined in the Securities and Futures Ordinance), any Notes other than (i) to professional investors as defined in the Securities and Futures Ordinance (Cap. 571) of Hong Kong and any rules made under that Ordinance; or (ii) in other circumstances which do not result in the document being a prospectus as defined in the Companies Ordinance (Cap. 32) 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 of 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 as defined in the Securities and Futures Ordinance and any rules made under that Ordinance.

### ***Germany***

Each Dealer has represented and agreed, and each further Dealer appointed under the Program will be required to represent and agree, that the Notes have not been and will not be offered, sold or publicly promoted or advertised in the Federal Republic of Germany other than in compliance with the German Securities Sale Prospectus Act (*Wertpapier-Verkaufsprospektgesetz*) of September 9, 1998, as amended, or any other laws applicable in the Federal Republic of Germany.

### ***Mongolia***

Each Dealer has represented and agreed, and each further Dealer appointed under the Program will be required to represent and agree, 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.

### ***Switzerland***

The Information Memorandum is not intended to constitute an offer or solicitation to purchase or invest in the Notes described herein. The Notes may not be publicly offered, sold or advertised, directly or indirectly, in, into or from Switzerland and will not be listed on the SIX Swiss Exchange or on any other exchange or regulated trading facility in Switzerland. Neither this document nor any other offering or marketing material relating to the Notes constitutes a prospectus as such term is understood pursuant to article 652a or article 1156 of the Swiss Code of Obligations, and neither this document nor any other offering or marketing material relating to the Notes may be publicly distributed or otherwise made publicly available in Switzerland.



### ***Italy***

Unless it is specified within the relevant Pricing Supplement that a non-exempt offer may be made in Italy, the offering of the Notes has not been registered pursuant to Italian securities legislation and, accordingly, the Notes may not be offered, sold or delivered, nor may copies of the Information 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 Information Memorandum or any other document relating to the Notes in the Republic of Italy under (i) or (ii) above must be:

- (a) 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
- (b) in compliance with Article 129 of the Banking Act, as amended, and the implementing guidelines of the Bank of Italy, as amended from time to time, pursuant to which the Bank of Italy may request information on the issue or the offer of securities in the Republic of Italy; and
- (c) in compliance with any other applicable laws and regulations or requirement imposed by CONSOB or other Italian authority.

### ***Dubai (other than the Dubai International Financial Centre)***

Each Dealer has represented and agreed, and each further Dealer appointed under the Program will be required to represent and agree, that the Notes are not being offered, sold or publicly promoted or advertised by it in the United Arab Emirates other than in compliance with any laws applicable in the United Arab Emirates governing the issue, offering and sale of securities.

### ***People’s Republic of China***

Each Dealer has represented and agreed, and each further Dealer appointed under the Program will be required to represent and agree, that the Notes are not being offered or sold and may not be offered or sold, directly or indirectly, in the PRC (for such purposes, not including Hong Kong and Macau Special Administrative Regions or Taiwan), except as permitted by the securities laws of the PRC.

### ***Taiwan***

Each Dealer has represented and agreed, and each further Dealer appointed under the Program will be required to represent and agree, that it has not offered, sold or delivered, and will not offer, sell or deliver, at any time, directly or indirectly, any Notes acquired by it as part of the offering in Taiwan or to, or for the account or benefit of, any resident of Taiwan.

### ***Russian Federation***

Each Dealer has represented and agreed, and each further Dealer appointed under the Program will be required to represent and agree, that it has not offered or sold or otherwise transferred and will not offer or sell or otherwise transfer as part of their initial distribution or at any time thereafter any Note to or for the benefit of any persons (including legal entities) resident, incorporated, established or having their usual residence in the Russian Federation or to any person located within the territory of the Russian Federation unless and to the extent otherwise permitted under Russian law.

Information set forth in this Information Memorandum is not an offer, or an invitation to make offers, to sell, exchange or otherwise transfer, the Notes in the Russian Federation or to or for the benefit of any Russian person or entity.

The Notes may not be sold or offered to or for the benefit of any person (including legal entities) that are resident, incorporated, established or having their usual residence in the Russian Federation or to any person located within the territory of the Russian Federation unless and to the extent otherwise permitted under Russian law; it being understood and agreed that the Dealers may distribute the Prospectus to qualified investors (as defined under Russian law) in the Russian Federation in a manner that does not constitute an advertisement (as defined in Russian law) of Notes and may sell Notes to Russian qualified investors in a manner that does not constitute “placement” or “public circulation” of the Notes in the Russian Federation (as defined in Russian law).

Since neither the issuance of the Notes nor a Russian securities prospectus in respect of the Notes has been registered, or is intended to be registered, with the Federal Service for Financial Markets of the Russian Federation, the Notes are not eligible for initial offering or public circulation in the Russian Federation.

### **General**

Each Dealer has agreed, and each further Dealer appointed under the Program will be required to agree, that it will (to the best of its knowledge and belief) comply with all applicable securities laws and regulations in force in any jurisdiction in which it purchases, offers, sells or delivers Notes or possesses or distributes the Information Memorandum and will obtain any consent, approval or permission required by it for the purchase, offer, sale or delivery by it of Notes under the laws and regulations in force in any jurisdiction to which it is subject or in which it makes such purchases, offers, sales or deliveries and neither the Issuer nor any other Dealer shall have any responsibility therefor.

Neither the Issuer nor any of the Dealers represents that Notes may at any time lawfully be sold in compliance with any applicable registration or other requirements in any jurisdiction, or pursuant to any exemption available thereunder, or assumes any responsibility for facilitating such sale.

With regard to each Tranche, the Relevant Dealer will be required to comply with such other additional restrictions as the Issuer and the Relevant Dealer shall agree and as shall be set out in the applicable Pricing Supplement.

## **GENERAL INFORMATION**

### **Contact Information**

The Issuer can be contacted through the Ministry of Economic Development of Mongolia at Government Building-2, United Nations Street-5/1 Ulaanbaatar-15160, Ulaanbaatar Mongolia.

### **Authorization**

The establishment of the Program was duly authorized by the Parliament Resolutions No. 52 passed by the Parliament of Mongolia on October 25, 2012.

The issuance of notes, including the Notes, was duly authorized by Resolution No. 112 adopted by the Government of Mongolia on October 27, 2012 and Resolution No. 130 and Resolution No. 132 adopted by the Government of Mongolia on November 17, 2012.

### **Listing of Notes on the SGX-ST**

Approval in-principle has been granted for the listing and quotation of Notes that may be issued pursuant to the Program and which are agreed at or prior to the time of issue thereof to be so listed and quoted on the Official List of the SGX-ST. Permission to list such Notes will be granted when such Notes have been admitted to the Official List of the SGX-ST. The Notes may also be listed on such other or further stock exchange(s) as may be agreed between the Issuer and the relevant Dealer in relation to each Series. If the application to the SGX-ST to list a particular series of Notes is approved, such Notes listed on the SGX-ST will be traded on the SGX-ST in a minimum board lot size of S\$200,000 (or its equivalent in another currency).

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 and transfer agent in Singapore, where such Notes may be presented or surrendered for payment or redemption in the event that any of the Global Notes representing such Notes are exchanged for definitive Notes. In addition, in the event that any of the Global Notes are exchanged for definitive Notes, an announcement of such exchange will 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.

### **Documents Available**

For the period of 12 months following the date of this Information Memorandum and, for so long as any Note remains outstanding and listed on the SGX-ST, copies of the following documents will, when published, be available from the specified office of the Principal Paying Agent for the time being in Deutsche Bank AG, Hong Kong Branch of Level 52 International Commerce Centre, 1 Austin Road West, Kowloon, Hong Kong:

- (a) the Agency Agreement and the forms of the Global Notes, the Notes in definitive form, the Receipts, the Coupons and the Talons;
- (b) a copy of this Information Memorandum; and
- (c) any future information memoranda, Information Memoranda, prospectuses and supplements including Pricing Supplements (save that a Pricing Supplement relating to an unlisted Note will only be available for inspection by a holder of such Note and such holder must produce evidence satisfactory to the Issuer, the Fiscal and Paying Agent as to its holding of Notes and identity) to this Information Memorandum and any other documents incorporated herein or therein by reference.

## **Clearing Systems**

The Notes have been accepted for clearance through Euroclear and Clearstream, Luxembourg (which are the entities in charge of keeping the records). In addition, the Issuer will make an application for any Rule 144A Notes to be accepted for trading in book-entry form by DTC. The appropriate Common Code and/or ISIN and/or the CUSIP and/or CINS for each Tranche of Notes will be specified in the applicable Pricing Supplement. If the Notes are to clear through an additional or alternative clearing system, the appropriate information will be specified in the applicable Pricing Supplement.

## **Conditions for Determining Price**

The price and amount of Notes to be issued under the Program will be determined by the Issuer and the relevant Dealer at the time of issue in accordance with then prevailing market conditions.

## **Significant or Material Change**

Except as disclosed in this Information Memorandum, there has been no significant adverse change in the information set out in this Information Memorandum under “Mongolia” since the applicable dates of such information. There have been no recent events relevant to the evaluation of the Issuer’s solvency.

## **Litigation**

Except to the extent disclosed elsewhere in this Information Memorandum, the Issuer is not nor has been, involved in any governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Issuer is aware) in the 12 months preceding the date of this Information Memorandum which may have or have in such period had a significant effect on the Issuer’s economy.

## **Dealers Transacting with the Issuer**

The Dealers and their affiliates have engaged, and may in the future engage, in investment banking and/or commercial banking transactions with, and may provide services to the Issuer and other Governmental entities in the ordinary course of business. The Dealers and their affiliates may purchase Notes and be allocated Notes for asset management and/or proprietary purposes and not with a view to distribution.

**OFFICE OF THE ISSUER**

**The Government of Mongolia**  
c/o the Ministry of Economic Development  
Government Building-2  
United Nations Street-5/1  
Ulaanbaatar-15160  
Mongolia

**DEALERS**

**Deutsche Bank AG, Singapore Branch**  
One Raffles Quay  
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Singapore 048583

**The Hongkong and Shanghai Banking  
Corporation Limited**  
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1 Queen's Road Central  
Hong Kong

**J.P. Morgan Securities plc**  
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Canary Wharf  
London E14 5JP  
United Kingdom

**Merrill Lynch (Singapore) Pte. Ltd.**  
50 Collyer Quay  
#14-01 OUE Bayfront  
Singapore 049321

**TDB Capital LLC**  
Juulchin Street 7  
Baga Toiruu 12  
Ulaanbaatar  
Mongolia

**PRINCIPAL PAYING AGENT, TRANSFER AGENT AND EXCHANGE AGENT**

**Deutsche Bank AG, Hong Kong Branch**  
Level 52 International Commerce Centre  
1 Austin Road West  
Kowloon, Hong Kong

**PRINCIPAL REGISTRAR, TRANSFER AGENT AND U.S. PAYING AGENT**

**Deutsche Bank Trust Company Americas**  
60 Wall Street, MSNYC60-2710  
New York, New York 10005

**REGISTRAR**

**Deutsche Bank Luxembourg S.A.**  
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Luxembourg

## LEGAL ADVISORS

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*To the Dealers as to U.S. law*

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*To the Issuer as to Mongolian law*

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Sukhbaatar District, Khorool  
Ulaanbaatar 211213  
Mongolia

## SINGAPORE LISTING AGENT

**Allen & Overy**  
50 Collyer Quay  
#09-01 OUE Bayfront  
Singapore 049321



**U.S.\$5,000,000,000 GLOBAL MEDIUM TERM NOTE PROGRAM**

**THE GOVERNMENT OF MONGOLIA**

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INFORMATION MEMORANDUM

November 21, 2012

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*Arrangers*

**BofA Merrill Lynch      Deutsche Bank      HSBC      J.P. Morgan**

*Dealers*

**BofA Merrill Lynch      Deutsche Bank      HSBC      J.P. Morgan      TDB Capital**

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## IMPORTANT NOTICE

**IMPORTANT: You must read the following before continuing.** The following applies to the information memorandum (the "Information Memorandum") following this page, and you are therefore advised to read this carefully before reading, accessing or making any other use of the Information Memorandum. In accessing the Information Memorandum, you agree to be bound by the following terms and conditions, including any modifications to them, any time you receive any information from us as a result of such access.

NOTHING IN THIS ELECTRONIC TRANSMISSION CONSTITUTES AN OFFER OF SECURITIES FOR SALE OR SOLICITATION IN ANY JURISDICTION WHERE IT IS UNLAWFUL TO DO SO. THE SECURITIES HAVE NOT BEEN, AND WILL NOT BE, REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), OR THE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES OR OTHER JURISDICTION AND THE BEARER NOTES ARE SUBJECT TO U.S. TAX LAW REQUIREMENTS AND THE SECURITIES MAY NOT BE OFFERED OR SOLD WITHIN THE UNITED STATES OR TO U.S. PERSONS EXCEPT PURSUANT TO AN EXEMPTION FROM, OR IN A TRANSACTION NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT AND APPLICABLE STATE OR LOCAL SECURITIES LAWS.

THE FOLLOWING INFORMATION MEMORANDUM MAY NOT BE FORWARDED OR DISTRIBUTED TO ANY OTHER PERSON AND MAY NOT BE REPRODUCED IN ANY MANNER WHATSOEVER. ANY FORWARDING, DISTRIBUTION OR REPRODUCTION OF THIS DOCUMENT 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. ANY INVESTMENT DECISION SHOULD BE MADE ON THE BASIS OF THE FINAL TERMS AND CONDITIONS OF THE SECURITIES AND THE INFORMATION CONTAINED IN THIS INFORMATION MEMORANDUM. IF YOU HAVE GAINED ACCESS TO THIS TRANSMISSION CONTRARY TO ANY THE FOREGOING RESTRICTIONS, YOU ARE NOT AUTHORIZED AND WILL NOT BE ABLE TO PURCHASE ANY OF THE SECURITIES DESCRIBED THEREIN.

**Confirmation of your Representation:** In order to be eligible to view this Information Memorandum or make an investment decision with respect to the securities, investors must either (1) be Qualified Institutional Buyers ("QIBs") (within the meaning of Rule 144A under the Securities Act), or (2) be an Institutional Accredited Investor (as defined in Rule 501 (A)(1), (2), (3) or (7) under the Securities Act or (3) not be a resident in the United States or a U.S. person. This Information Memorandum is being sent at your request and by accepting the e-mail and accessing this Information Memorandum, you shall be deemed to have represented to us that (1) either (a) you are acting on behalf of, or you are, a QIB, (b) are acting on behalf of, or you are an institutional qualified investor, or (c) you are not acting on behalf of a U.S. person and, to the extent you purchase the securities described in the attached offering memorandum, you will be doing so pursuant to Regulation S under the Securities Act and (2) that you consent to delivery of such Information Memorandum by electronic transmission.

You are reminded that this Information Memorandum has been delivered to you on the basis that you are a person into whose possession this Information Memorandum may be lawfully delivered in accordance with the laws of jurisdiction in which you are located. If this is not the case, you must return the Information Memorandum to us immediately. You may not, nor are you authorized to, deliver or disclose the contents of this Information Memorandum to any other person.

The materials relating to the offering 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 be made by a licensed broker or dealer and the underwriters or any affiliate of the underwriters is a licensed broker or dealer in that jurisdiction, the offering shall be deemed to be made by the underwriters or such affiliate on behalf of the Government in such jurisdiction.

This Information Memorandum has been sent to you in an electronic form. You are reminded that documents transmitted via this medium may be altered or changed during the process of electronic transmission and consequently none of the Government of Mongolia, Deutsche Bank AG, Singapore Branch, The Hongkong and Shanghai Banking Corporation Limited, J.P. Morgan Securities plc, Merrill Lynch (Singapore) Pte. Ltd. and TDB Capital LLC, nor any person who controls any of them nor any director, officer, official, employee nor agent of any of them or affiliate of any such person accepts any liability or responsibility whatsoever in respect of any difference between the Information Memorandum distributed to you in electronic format and the hard copy version available to you on request from Deutsche Bank AG, Singapore Branch, The Hongkong and Shanghai Banking Corporation Limited, J.P. Morgan Securities plc, Merrill Lynch (Singapore) Pte. Ltd. and TDB Capital LLC.

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