



**MONGOLIAN
STOCK
EXCHANGE**



**2017
ANNUAL
REPORT**



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GREETING FROM CHIEF EXECUTIVE OFFICER

The year of 2017 was a successful year for the Mongolian Stock Exchange and the Mongolian capital markets overall. Market turnover reached MNT859.2 billion, the highest in its 26 years of history and 57.2% higher than the previous record fixed in 2015. TOP-20 index was one of the best performing indexes in the world with 68.9% increase while market capitalization gained 67.4% to reach MNT2.4 trillion updating the record of last 5 years.

Stocks and bonds, the main products of the market, demonstrated increased activity with a successful IPO and SPO. Suu Bond issued by Suu JSC was offered successfully to attract MNT6.0 billion, the highest amount that was accumulated through a company debt instrument on the market to date. Initial public offering initiated by ITools JSC, the first ever technology company listed on MSE received oversubscription of 3 times that of originally offered or MNT 3.9 billion, marking the highest oversubscription rate of the market to date.

Another notable event of the year was the approval of 'Rules on securities issuance on domestic market by legal entity listed on foreign exchange, and securities issuance on foreign exchange by legal entity listed on Mongolian exchange' as a result of joint cooperation through working committee with Financial Regulatory Commission, thereby paving the way for companies to dual list on Mongolian market in the future.

In order to increase public knowledge on capital markets, Mongolian Stock Exchange initiated and organised 'Nogoon Sum' / Green Arrow/ reality show in cooperation with Mongolian National Radio and Television. The show that was broadcasted throughout the country, has had a positive impact on improving public knowledge.

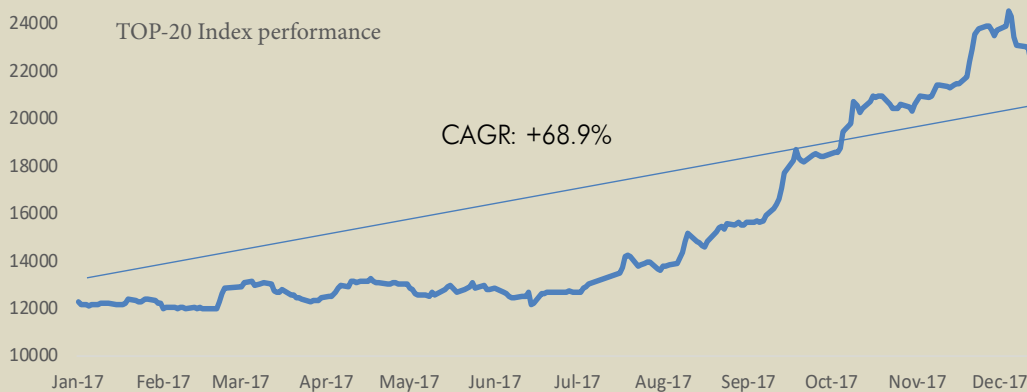
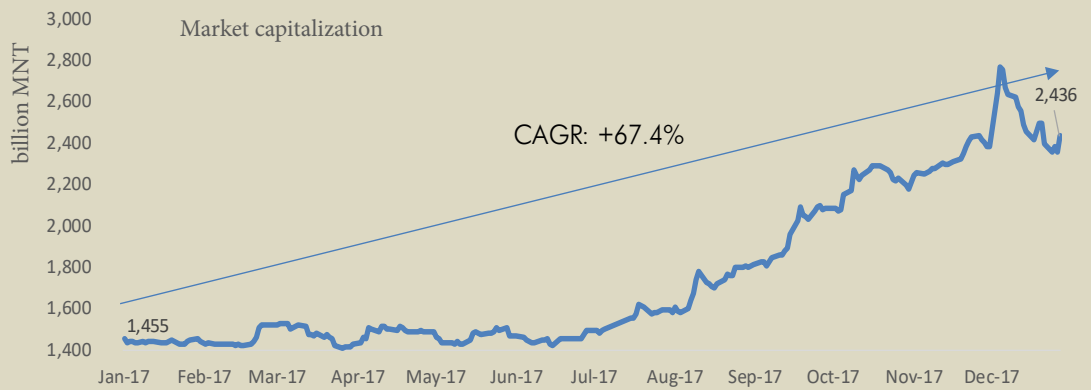
We are looking forward to building on our success in coming 2018 by listing the first foreign listed company, cooperating with other market participants to re-introduce T+2 securities settlement process and creating more transparent and efficient market.

Kh. ALTAI

CHEIF EXECUTIVE OFFICER

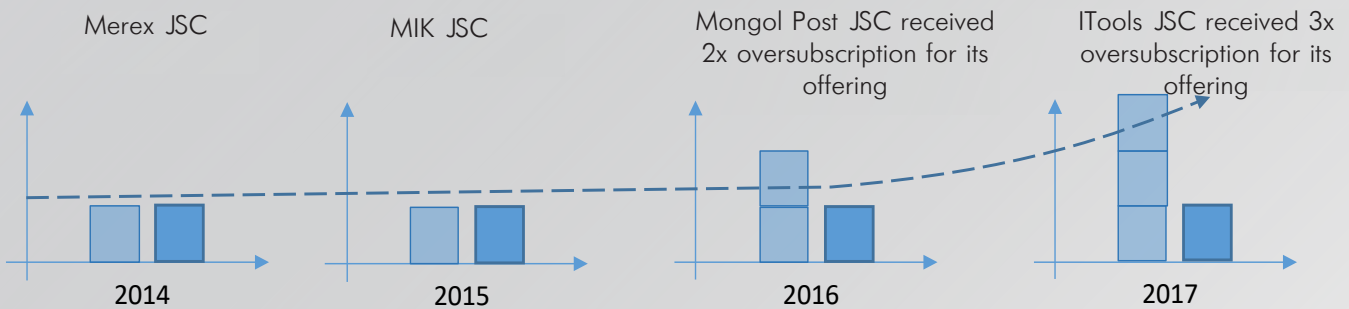
A handwritten signature in black ink, appearing to be 'Kh. Altai', enclosed in a simple rectangular box.

Market capitalization increased by 67.4%

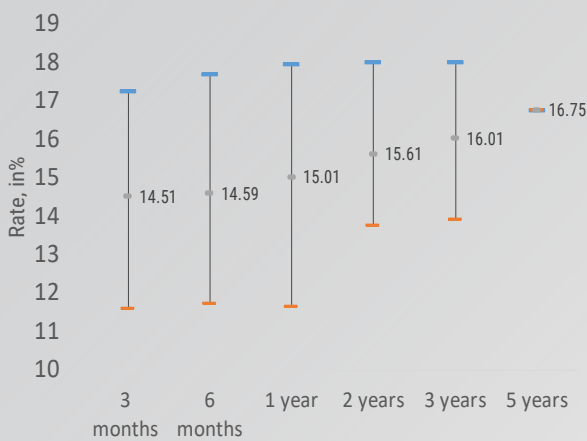


TOP-20 Index gained 68.9%

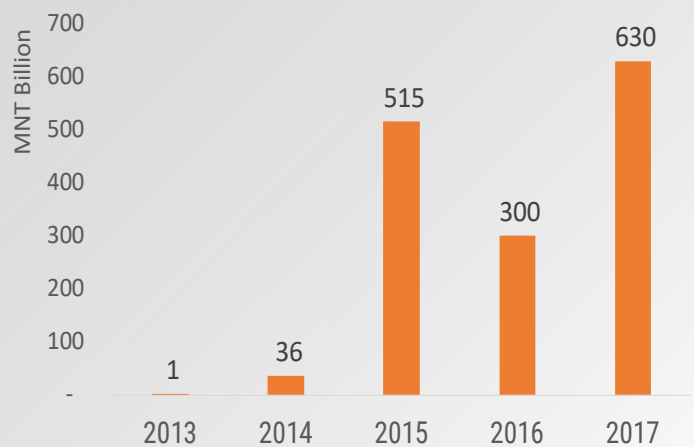
Company IPO&SPO:



2014-2017 Government bond coupon rate distribution, by TTM



Total value of Government bonds issued at MSE in recent years, MNT billion



BOARD OF DIRECTORS

In accordance with the Clause 75.2 of Company Law, the Mongolian Stock Exchange's Board of Directors consists of 9 members, from which 3 are independent directors.

Chairman

- | | | |
|---|------------|--|
| 1 | Manduul N. | Head of Financial Markets and Insurance Division of Financial Policy Department, Ministry of Finance |
|---|------------|--|

Members

- | | | |
|---|-----------------|---|
| 2 | Daajamba B. | Deputy Chief of Cabinet Secretariat of Government of Mongolia |
| 3 | Sukh-Ochir B. | Head of Debt Management Division of Financial Policy Department, Ministry of Finance |
| 4 | Batdavaa B. | Head of Market Department, Mongolbank |
| 5 | Gantsetseg D. | Senior specialist of Administration and Legal Department, Government Agency for Policy Coordination on State Property |
| 6 | Uujim-Ukhaan B. | Head of Financial Division of State Administration Management Department, Ministry of Mining and Heavy Industry |

Independent members

- | | | |
|---|-------------|---|
| 7 | Bayansan P. | Senior lecturer at Business School, National University of Mongolia |
| 8 | Sarangua D. | Advisor at Erdenes Mongol LLC |
| 9 | Bekhbat D. | Economist |

Audit committee

No	Name	Role
1	Bayansan P.	Head
2	Bekhbat D.	Member
3	Gantsetseg D.	Member

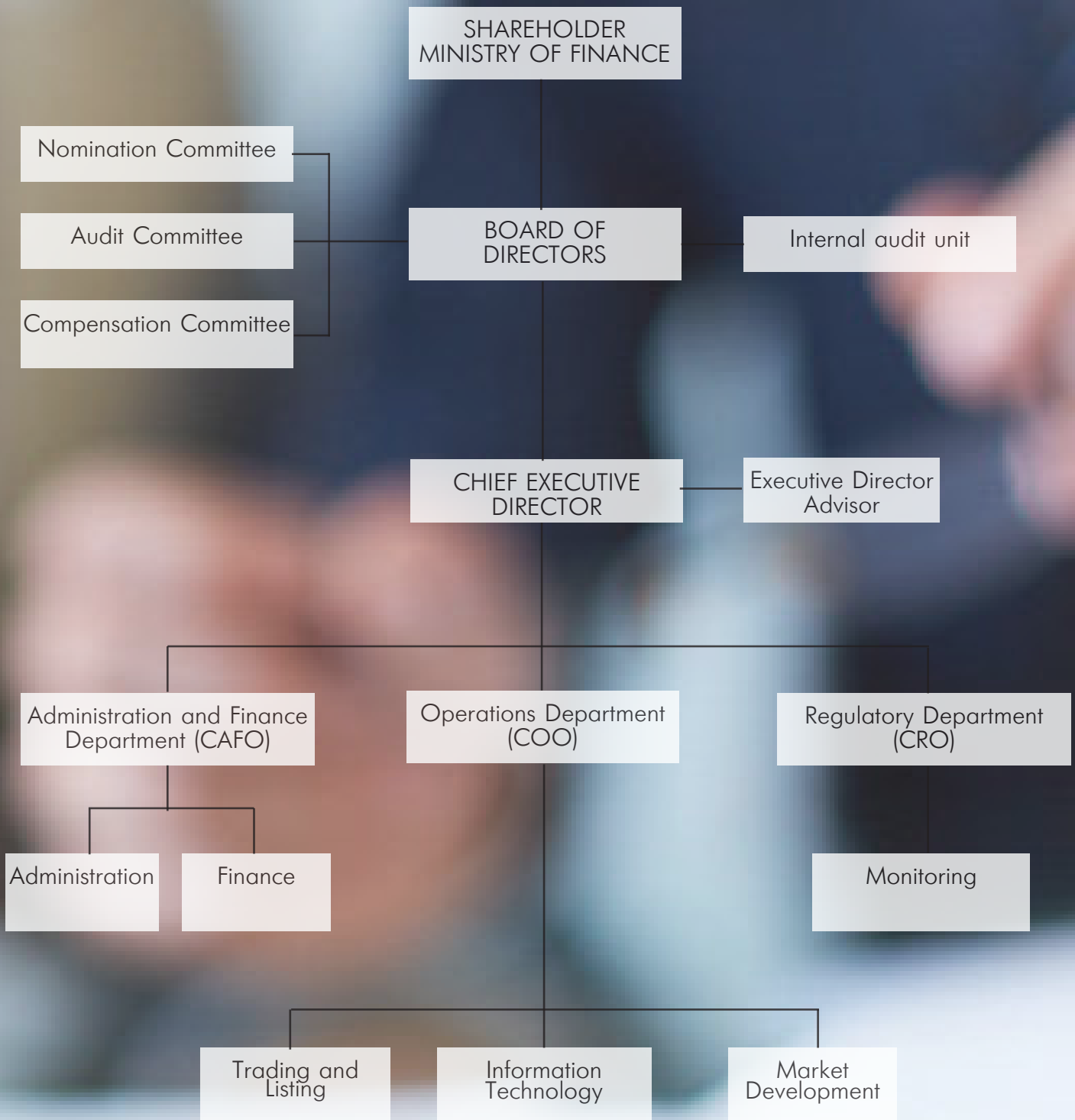
Compensation committee

No	Name	Role
1	Sukh-Ochir B.	Head
2	Bekhbat D.	Member
3	Sarangua D.	Member

Nomination committee

No	Name	Role
1	Uujim-Ukhaan B.	Head
2	Bekhbat D.	Member
3	Sarangua D.	Member

ORGANIZATIONAL STRUCTURE



NOTABLE EVENTS OF THE YEAR



'NOGOON SUM' (GREEN ARROW) CAPITAL MARKET REALITY SHOW ORGANISED

In order to increase public awareness of the stock market and to demonstrate how to participate in the market, Mongolian Stock Exchange jointly with Mongolian National Public Radio and Television organized the 'Nogoon Sum' (Green Arrow) reality show which began broadcasting nationwide on 11 December 2017.



Five representatives from the public with no trading experience were chosen to start trading on the Mongolian stock exchange upon consultation of assigned professional advisor firms. The show, consisting of seven episodes with each episode lasting for 40 minutes, was broadcasted throughout the country. The participant who managed to increase his portfolio value by 64.4 percent became the winner of the show.



The reality show provided comprehensive understanding to the viewers highlighting the importance of the capital markets, its benefits as well as its risks.

'SUU BOND' ISSUED

'Suu bond' backed by 'Suu' JSC shares that is listed on Board I of the Mongolian Stock Exchange was successfully issued on 29 June, 2017. 'Suu Bond' with a nominal price of MNT100,000, term-to-maturity of 1 year and annual coupon rate of 17.5, were issued to raise MNT 6.0 billion from the market.

The offer was underwritten by MSE's member firm 'Golomt Capital Securities Company' LLC as a lead underwriter in syndicate with 'Ard Capital Group Securities Company' LLC and 'Tenger Capital' LLC. The primary market for the security began on 29 June, 2017.

As a result, the Bond offering received total subscription of 67,547 units or MNT 6.8 billion, thereby receiving 13% more orders on the first day of offering.

'Suu bond' has active secondary market where, in 2017, 41.6 thousand bonds have been traded via 42 trading sessions.



MONGOLIAN STOCK EXCHANGE TO SUPPORT UNITED NATIONS SUSTAINABLE STOCK EXCHANGE INITIATIVE

On 21 September, 2017, the Mongolian Stock Exchange became a member of the Sustainable Stock Exchange Initiative joining the global efforts to support responsible investment and sustainable business activities. In relation to supporting sustainability, Mongolian Stock Exchange amended its Listing Rules to provide listing criteria exemptions and waivers to companies seeking listing on the exchange and reduce initial listing fees by up to 20 percent for companies with activities supporting the UN Sustainable Development Goals.



The Sustainable Stock Exchange Initiative has 66 member stock exchanges, and is committed to facilitating the exchange of best practices among the world stock exchanges to enhance the role of institutions in successful implementation of the UN Sustainable Development Goals.

ITOOLS SUCCESSFULLY ORGANIZED ITS IPO TO BECOME JOINT STOCK COMPANY

ITools JSC, the latest company to list at the Mongolian Stock Exchange, had raised MNT 1.3 billion in November 2017.



ITools JSC, founded in 2011, provides a variety of IT services such as internet technology based data centre service along with supporting services including domain name registration and server allocation. The company has received orders for its offering during 1-10 November 2017 for its 38.86% stake to raise MNT 1.3 billion to build TIER III standard Modular data centre in Darkhan province.

As a result of the initial public offering, the Company received subscription for shares with total value of MNT 3.9 billion or oversubscription of 3 times, making it the most oversubscribed offer on the Mongolian capital market to date.

'INVESTOR NATION' LLC MERGED WITH 'JINST UVS' JSC TO BECOME A JOINT STOCK COMPANY

'Investor Nation' LLC merged with 'Jinst Uvs' JSC, the company listed on the Mongolian Stock Exchange, in accordance with the Resolution #225 of the Financial Regulatory Commission dated 24 November 2017, hence becoming a publicly listed company.

The 'Investor Nation' JSC is a professional financial and investment company that was founded in January 2016 by using crowdfunding from 560 persons and is working with the vision to establish a commercial bank.



SECURITIES TRADING

Securities trading

In 2017, 106.1 million shares of 134 companies worth MNT 76.4 billion were traded on the Mongolian Stock Exchange through 249 securities trading sessions. At the same time, 6.7 million units of Government bonds worth MNT 630.2 billion and 1.4 million units of bonds worth MNT 142.3 billion were traded in primary and secondary markets, respectively. In corporate bond primary market, 60 thousand bonds worth MNT 6.0 billion issued by 'Suu' JSC were traded while the securities secondary market trading reached MNT 4.2 billion for 41.6 thousand bonds. In total, the market turnover reached the total of MNT 859.2 billion.

By securities type, equities market contributed 8.9% to total securities turnover, with Government and corporate bonds constituting 89.9% and 1.2%, respectively.

Securities trade /as of 31 December 2017/

Securities type		Traded volume /million/	Traded value /billion MNT/
Equity	Primary market	13.4	1.3
	Secondary market	92.7	75.1
Government bond	Primary market	6.7	630.2
	Secondary market	1.4	142.3
Corporate bond	Primary market	0.06	6.0
	Secondary market	0.04	4.2
TOTAL			859.2

During the reporting period, average daily turnover and volume reached MNT 3.4 billion and 459.5 thousand securities, respectively.

Securities turnover for the last 3 years

Securities type	2015	2016	2017
Stock /billion MNT/	30.5	49.0	76.4
Government bond /billion MNT/	515.5	299.6	772.5
Corporate bond /billion MNT/	0.5	-	10.2

Equities trading

During the reporting period, 106.1 million shares of 134 companies worth MNT 76.4 billion were traded through 249 securities trading sessions. Its 58.3% or MNT 44.6 billion was traded through block trading and the remaining 41.7% or MNT 31.8 billion was ordinary trading.

	Turnover /billion MNT/					
	2015		2016		2017	
	Ordinary	Block	Ordinary	Block	Ordinary	Block
Company stock	27.3	3.1	14.9	34.1	31.8	44.6

Primary market trading

ITool JSC issued the total of 13.4 million shares to successfully raise MNT 1.3 billion in November, 2017 on the primary market of the Mongolian Stock Exchange.

TOP-20 INDEX

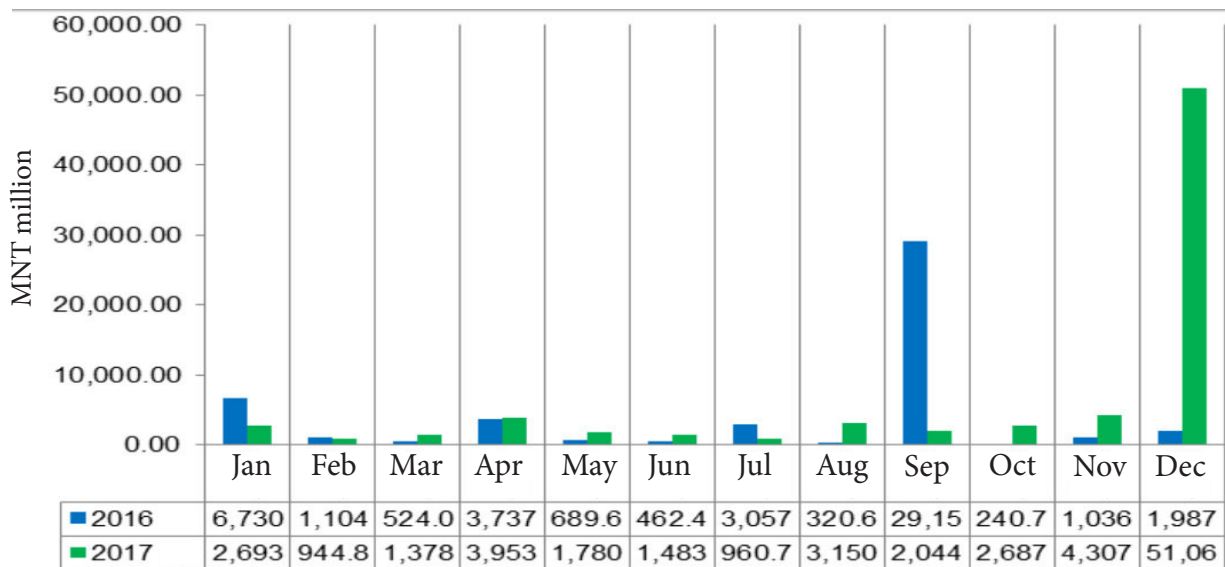
The highest, lowest points and average performance of the TOP-20 index in 2017 was 24 520.35, 11 972.11 and 15 511.89 points, respectively. Overall, the Index concluded the year with 68.9% gain.

68.9% 

ХӨРӨНГИЙН БИРЖ
STOCK EXCHANGE



Equity trade /by traded volume/



Block trade

During the reporting period, 14.3 million shares of 9 companies worth MNT 44.6 billion were traded through block trading. The 9 companies are Tavantolgoi, Darkhan Selenge TPS, Makh Impex, BDSec, Darkhan Hotel, Mongol Savkhi, APU, MIK Holding and Sharyn Gol.

Tender offer

During the reporting period, Mongol Daatgal LLC announced its intention to buy shares equal to or more than the controlling shares of Khorgo Khairkhan JSC on voluntary basis in accordance with clause #57.1 of Company law, #22.1.1 of Securities markets law and FRC 'Rules on procedures on offering and buying stock company shares'. As a result, 109.9 million shares of Khorgo Khairkhan JSC were traded with total value of MNT 30.0 million.

Government bond trading

Since the Government bond retail trading started in November 2014, 15.6 million bonds were issued on MSE for MNT 1.4 trillion.

Primary market

In 2017, 6.7 million Government bonds were issued on MSE for MNT 630.2 billion through 44 trading sessions. By term-to-maturity, bonds with 12 weeks maturity constituted 25% of the total trade, 28 weeks maturity 20.2%, 39 weeks maturity 24.6%, 52 weeks maturity 15.3%, and 2 and 3 years maturity 14.9% each, respectively.

Secondary market

The year of 2017 showed an increased activity for the secondary market of Government bond trading, since the start of the trading in January 2015. For the reporting period, 1.4 million bonds with total trading value of MNT 142.3 billion were traded. 'Novel Investment', 'Mirae Asset Securities Mongolia', 'Golomt Capital', 'BDSec JSC', 'Standart Investment', 'Ard Capital Group' and 'Gauli' were the most active participants in the government bond secondary market trading.

SECURITIES LISTING

As of 31 December 2017, there were 218 companies listed among which 19 companies /8.7%/ are fully owned by state, 12 companies /5.5%/ partially owned by the state, and remaining companies /187 companies or 85.7%/ held privately. By the number of shares listed, 3.97 billion shares /35.3%/ of total of 11.2 billion shares listed are held by the state and the remaining 7.25 billion shares /64.7%/ by private investors.

New listings of shares

34.5 million shares of ITools JSC with nominal price of MNT 100 each was listed on Board II of MSE in accordance with the Financial Regulatory Commission's Decree #173 dated 27 September 2017 and the 'Listing Rules' of MSE. Also, 'Khutul Cement shokhoi' JSC reinstated its listing as 100% privately held company with 119.5 million shares with nominal price of MNT 100.

Additional issues

No	Company name	Number of Shares
1	APU JSC	321,304,553
2	Jinst Uvs JSC	1,612,715
3	Khutul Cement Shokhoi JSC	2,751,388,203

Delisted companies

No	Company name	Number of Shares
1	Undarga Umnugovi JSC	94,775
2	Bayantolgoi JSC	127,094
3	Zavkhan Teever JSC	135,870
4	Zavkhan Teeg JSC	51,110
5	Gantumur JSC	162,514
6	Mongol Esgii, Esgii Gutal JSC	114,378
7	Orgil Govi-Altai JSC	78,489
8	Uliastai Tegsh JSC	1,323,486
9	Zoos Goyol JSC	13,038
10	Buyan JSC	77,116
11	Mashin mechanism JSC	58,008

Securities listing amendment

No	Company name	Amendment made
1	Nogoon Khugjil Undesnii Negdel JSC	Stock split
2	Selenge Dulaankhan JSC	Name changed to MND JSC
3	Govi Financial Group JSC	Name changed to Silk Net JSC

In comparison to the previous year, the total number of listed shares increased by 3.2 billion or 40.3% due to the listing of 2 new companies, additional issuance of shares by 3 companies and stock split by 1 company.

Company bond

In 2017, SUU Bond issued by Suu JSC was listed in accordance with Financial Regulation Commission's Decree #129 dated 22 June 2017 and MSE's Listing Rules, and raised the total of MNT 6 billion.

Information on listed securities

	2016.12.31	2017.12.31	Change
Total listed companies	227	218	-9
of which: state	34	31	-3
Private	193	187	-6
Number of securities listed	8,001,043,400	11,232,171,351	3,231,127,951
of which: State	3,975,554,635	3,975,394,457	(160,178.00)
Public	4,025,488,765	7,256,776,894	3,231,288,129
New companies listed	1	2	1
of which: State	-	-	-
Private	1	2	1
Total number of newly listed securities	4,324,263	153,904,814	149,580,551
Number of companies that issued additional securities	2	3	1
Number of shares listed due to additional issue	15,387,765	3,074,305,471	3,058,917,706
Companies with amendments in number of shares		1	
Number of additionally listed shares due to stock split		5,153,544	
Delisted companies	9	11	2
Number of shares delisted	128,799,600	2,235,878	(126,563,722)



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Independent Auditors' Report

To: The Shareholder of Mongolian Stock Exchange JSC

Opinion

We have audited the financial statements of Mongolian Stock Exchange JSC ("the Company"), which comprise the statement of financial position as of 31 December 2017, the statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Company as of 31 December 2017, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRS").

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing ("ISAs"). Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with International Ethics Standards Board for Accountants Code of Ethics for Professional Accountants ("IESBA Code") together with the ethical requirements that are relevant to our audit of the financial statements in Mongolia and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.



In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.



We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.



KPMG Audit LLC
Ulaanbaatar, Mongolia
23 February 2018

This report is effective as of 23 February 2018 the audit report date. Certain subsequent events or circumstances, which may occur between the audit report date and the time of reading this report, could have a material impact on the accompanying financial statements and notes thereto. Accordingly, the readers of the audit report should understand that the above audit report has not been updated to reflect the impact of such subsequent events or circumstances, if any. Furthermore, this report is intended solely for the use of the shareholders of the Company. To the fullest extent permitted by law, we do not assume responsibility towards or accept liability to any other party in relation to the contents of this report.

FINANCIAL STATEMENTS

Statement of Financial Position

/in thousands of MNT/

	2017	2016
ASSETS		
Non-current assets		
Property, plant and equipment	2,264,092	2,371,350
Intangible assets	1,271,899	1,763,683
Total non-current assets	3,535,992	4,135,033
Current assets		
Inventories	16,331	13,000
Financial instruments held to maturity	1,000	1,000
Prepayments	14,480	2,370
Trade receivables	82,852	148,493
Income tax receivable	-	8,988
Cash and cash equivalents	1,306,884	515,142
Other current assets	13,160	13,160
Total current assets	1,434,707	702,153
TOTAL ASSETS	4,970,699	4,837,186
EQUITY AND LIABILITIES		
Equity		
Share capital	21,884,000	21,884,000
Other reserves	1,705,278	458,684
Accumulated losses	(18,992,094)	-18,758,933
Total equity	4,597,184	3,583,751
Current liabilities		
Trade payables	324,999	1,177,047
Income tax payable	5,136	10,122
Other payables	41,324	66,266
Deferred income	2,055	-
Total current liabilities	373,515	1,253,435
TOTAL EQUITY AND LIABILITIES	4,970,699	4,837,186

Statement of Profit or Loss and Other Comprehensive Income

/in thousands of MNT/

	2017	2016
Revenue	1,836,408	1,176,149
Total revenue	1,836,408	1,176,149
General and administrative expenses	(1,237,826)	(1,918,224)
License, service and amortization expenses related to Millennium IT	(908,749)	(1,189,475)
Operating loss	(310,167)	(1,931,550)
Finance income	49,199	13,840
Foreign exchange gain / (loss), net	15,711	(137,540)
Other non-operating income	16,956	
Loss before income tax	(228,241)	(2,055,250)
Income tax expense	(4,920)	(1,384)
Loss for the year	(233,161)	(2,056,634)
Total comprehensive loss for the year	(233,161)	(2,056,634)

Statement of Changes in Equity

/in thousands of MNT/

	Share capital	Other re-serves	Accumulated loss	Total
Balance at 31 December 2015	1,867,709	20,475,388	(16,703,495)	5,639,602
Net loss of the year	-	-	(2,056,634)	(2,056,634)
Transactions with owners, recorded directly in equity				
Conversion to share capital	20,016,291	(20,016,291)	-	-
Other movements	-	(413)	1,196	783
Balance at 31 December 2016	21,884,000	458,684	(18,758,933)	3,583,751
Net loss for the year	-	-	(233,161)	(233,161)
Transactions with owners, recorded directly in equity				
Shareholder contribution to reserves	-	1,246,594	-	1,246,594
Balance at 31 December 2017	21,884,000	1,705,278	(18,992,094)	4,597,184

Statement of Cash Flow

/in thousands of MNT/

	2017	2016
Cash flow from operating activities		
Loss for the period	(233,161)	(2,056,634)
Adjustments for:		
Depreciation and amortization	620,930	665,281
Other non-current assets written off	-	61,864
Provision for doubtful receivable accounts	27,375	224,116
Provision for inventory obsolescence	-	29,828
Income tax expenses	4,920	1,384
Net unrealized foreign exchange (gain)/loss	(30,287)	137,540
Interest income	(49,199)	(13,840)
Operating profit / (loss) before working capital changes	340,578	(950,461)
Changes in:		
Trade receivables	38,266	18,372
Prepayments	(12,110)	-
Inventories	(3,331)	1,671
Trade and other payables	(847,376)	673,314
Deferred income	2,055	-
Interest received	49,199	13,840
Income tax paid	(918)	-
Net cash used in operating activities	(433,637)	(243,264)
Cash flows from investing activities		
Acquisition of property, plant and equipment	(21,889)	(27,299)
Investment in government securities	(194,396)	-
Redemption of government securities	(194,396)	196,257
Net cash from/(used) in investing activities	(21,889)	168,958
Cash flows from financing activities		
Contributions from shareholders	1,246,594	-
Net cash provided by financing activities	1,246,594	-
Effects of exchange rate changes on cash held	647	1,585
Net increase/(decrease) in cash and cash equivalents	791,742	(72,721)
Cash and cash equivalents at the beginning of the year	515,142	587,863
Cash and cash equivalents at the end of the year	1,306,884	515,142