MONGOLIAN STOCK EXCHANGE JSC

Financial Statements

For the year ended 31 December 2018

(With Independent Auditors' Report Thereon)

Contents

Mongolian Stock Exchange JSC

Company Information

Registered office and principal place of business	Sukhbaatar Square 3, Ulaanbaatar 15160, Mongolia
Shareholder	Mongolian Ministry of Finance (100%)
Executive Management	Altai Khangai, Chief Executive Officer Dul-Erdene Ninj, Chief Financial Officer Bolormaa Purevsambuu, Chief Accountant
Independent auditor	KPMG Audit LLC #602, Blue Sky Tower, Peace Avenue 17, 1st Khoroo, Sukhbaatar District, Ulaanbaatar 14240, Mongolia

Management's Responsibility Statement

The Company's management is responsible for the preparation of the financial statements.

The financial statements of Mongolian Stock Exchange JSC (the "Company") have been prepared to comply with International Financial Reporting Standards. The Company's management is responsible for ensuring that these financial statements present fairly the state of affairs of the Company as of 31 December 2018 and the financial performance and cash flows for the year then ended on that date.

The Company's management has responsibility for ensuring that the Company keeps proper accounting records which disclose with reasonable accuracy the financial position of the Company and which enable them to ensure that the financial statements comply with the requirements set out in note 2 and note 3 thereto.

The Company's management also has a general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

The Company's management considers that, in preparing the financial statements including explanatory notes, they have used appropriate policies, consistently applied and supported by reasonable and prudent judgment and estimates, and that all applicable accounting standards have been followed.

The financial statements of the Company for the year ended 31 December 2018 were authorized for issuance by the Company management.

Altai Khangai	Dul-Erdene Ninj	Bolormaa Purevsambuu
Chief Executive Officer	Chief Financial Officer	Chief Accountant

Ulaanbaatar
Mongolia

Date: 20 March 2019

KPMG Audit LLC
#602, Blue Sky Tower, Peace Avenue,
1st Khoroo, Sukhbaatar District,
Ulaanbaatar 14240, Mongolia

Tel : +976 7011 8101
Fax :+976 7011 8102
www.kpmg.com/mn

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 2018, 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 2018, 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.

KPMG

- 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.

КЭЙ ПИ ЭМ ЖИ АУДИТ ХХК
KPMG AUDIT LLC
УЛААНБААТАР ХОТ
ТТ 3977 ☎ 5543495

KPMG Audit LLC

KPMG Audit LLC
Ulaanbaatar, Mongolia
20 March 2019

This report is effective as of 20 March 2019 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.

MONGOLIAN STOCK EXCHANGE JSC

Statement of Financial Position

As of 31 December 2018

(In thousands of MNT)	Notes	31 December 2018	31 December 2017
ASSETS			
Non-current assets			
Property, plant and equipment	5	2,172,002	2,264,092
Intangible assets	6	1,192,669	1,271,900
Total non-current assets		**3,364,671**	**3,535,992**
Current assets			
Inventories	7	26,340	16,331
Other investments	8	1,000	1,000
Prepayments		16,945	14,480
Trade receivables	9	299,461	82,852
Cash and cash equivalents	10	830,386	1,306,884
Other current assets		13,160	13,160
Total current assets		**1,187,292**	**1,434,707**
TOTAL ASSETS		**4,551,963**	**4,970,699**
EQUITY AND LIABILITIES			
Equity			
Share capital	11	23,130,594	21,884,000
Other reserves	11	458,684	1,705,278
Accumulated losses		(20,251,939)	(18,992,094)
Total equity		**3,337,339**	**4,597,184**
Current liabilities			
Trade payables	12	1,052,005	325,000
Income tax payable	18	5,451	5,136
Other payables	12	156,032	41,324
Deferred income		1,136	2,055
Total current liabilities		**1,214,624**	**373,515**
TOTAL EQUITY AND LIABILITIES		**4,551,963**	**4,970,699**

The accompanying notes form an integral part of the financial statements.

MONGOLIAN STOCK EXCHANGE JSC

Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2018

(In thousands of MNT)	Notes	2018	2017
Revenue	*13*	1,656,960	1,830,553
Total revenue		**1,656,960**	**1,830,553**
General and administrative expenses	*14*	(1,290,434)	(1,210,451)
Expenses related to MillenniumIT, current year	*15*	(1,273,769)	(908,749)
Impairment loss on receivables	*20*	(18,171)	(27,375)
Finance income	*16*	94,606	55,054
Foreign exchange gain / (loss), net	*17*	(30,306)	15,771
Other income		37,888	16,956
Loss from current year operations		**(823,226)**	**(228,241)**
Expenses related to MillenniumIT, previous year*	*15*	(427,175)	-
Loss before income tax		**(1,250,401)**	**(228,241)**
Income tax expense	*18*	(9,444)	(4,920)
Loss for the year		**(1,259,845)**	**(233,161)**
Total comprehensive loss for the year		**(1,259,845)**	**(233,161)**

(*) Loss from current year operations before income tax amounts to MNT 823,226 thousand. Expenses for MillenniumIT of MNT 427,175 thousand related to financial year 2017 were recognized additionally in 2018 due to the fact that the OPS Extension Service Agreement was extended in October 2018. For details, refer to Note 15.

The accompanying notes form an integral part of the financial statements

MONGOLIAN STOCK EXCHANGE JSC

Statement of Changes in Equity

For the year ended 31 December 2018

(In thousands of MNT)	Share capital	Other reserves	Accumulated losses	Total
Balance at 31 December 2016	**21,884,000**	**458,684**	**(18,758,933)**	**3,583,751**
Total comprehensive loss for the year	-	-	(233,161)	(233,161)
Transactions with owners, recorded directly in equity				
Shareholder contributions to reserves	-	1,246,594	-	1,264,594
Balance at 31 December 2017	**21,884,000**	**1,705,278**	**(18,992,094)**	**4,597,184**
Total comprehensive loss for the year	-	-	(1,259,845)	(1,259,845)
Conversion to share capital	1,246,594	(1,246,594)	-	-
Balance at 31 December 2018	**23,130,594**	**458,684**	**(20,251,939)**	**3,337,339**

The accompanying notes form an integral part of the financial statements

MONGOLIAN STOCK EXCHANGE JSC
Statement of Cash Flows
For the year ended 31 December 2018

(In thousands of MNT)	Notes	2018	2017
Cash flows from operating activities			
Loss for the period		(1,259,845)	(233,161)
Adjustments for:			
Depreciation and amortisation	*14,15*	631,260	620,930
Allowance for receivables impairment	*14*	18,171	27,375
Income tax expense	*18*	9,444	4,920
Net unrealized foreign exchange (gain)/loss	*17*	34,149	(30,287)
Interest income	*16*	(94,606)	(55,054)
Operating profit / (loss) before working capital changes		**(661,427)**	**334,723**
Change in:			
Trade receivables		(234,780)	38,266
Prepayments		(2,465)	(12,110)
Inventories		(10,009)	(3,331)
Trade and other payables		807,205	(847,376)
Deferred income		(919)	2,055
		(102,395)	(487,773)
Interest received		94,606	55,054
Income taxes paid		(9,129)	(918)
Net cash used in operating activities		**(16,918)**	**(433,637)**
Cash flows from investing activities			
Acquisition of property, plant and equipment	*5*	(37,266)	(21,889)
Acquisition of Intangible assets	*6*	(422,673)	-
Investment in government securities		-	(194,396)
Redemption of government securities		-	194,396
Net cash from/(used) in investing activities		**(459,939)**	**(21,889)**
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		359	674
Net increase/(decrease) in cash and cash equivalents		**(476,498)**	**791,742**
Cash and cash equivalents at the beginning of the year	*10*	1,306,884	515,142
Cash and cash equivalents at the end of the year	*10*	**830,386**	**1,306,884**

The accompanying notes form an integral part of the financial statements.

1. Reporting entity

Mongolian Stock Exchange JSC, a state-owned company (hereinafter referred to as "the Company") was incorporated and registered on 18 January 1991 as a vehicle to implement the Government's plan for privatisation of large state-owned enterprises. The registered address of the Company is Mongolian Stock Exchange Building, Sukhbaatar Square 3, Ulaanbaatar, Mongolia.

The principal activity of the company is to provide a market for the trading of investments. The Company is 100% owned by the Government of Mongolia via the Mongolian Ministry of Finance.

2. Basis of preparation

(1) Statement of compliance

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"). A summary of the significant accounting policies adopted by the Company is set out below. Certain corresponding figures have been reclassified to conform to the current year's presentation.

(2) Basis of measurement

The financial statements have been prepared on the historical cost basis, except for the items described otherwise in the related notes.

(3) Functional and presentation currency

The financial statements are presented in Mongolian tugrik ("MNT") which is also the functional currency of the Company and the currency of the primary economic environment in which the Company operates. The financial statements have been presented in MNT rounded to the nearest thousand.

(4) Going concern assumption

These financial statements have been prepared on a going concern basis which assumes that the Company will continue to operate for the foreseeable future and will be able to realise its assets and discharge its liabilities in the normal course of operations as they come due.

The Company incurred a net loss of MNT 1,259,845 thousand during the year ended 31 December 2018 and, as of that date, the Company's current liabilities exceeded its current assets by MNT 27,332 thousand. This loss and current liabilities depend on the expenses related to MillenniumIT system - capital market infrastructure, which were fully covered by Mongolian Stock Exchange JSC itself. In December 2018, the shareholder of the Company, the Ministry of Finance recommended to share the expenses with other system users (CSD and Settlement organizations) and within this framework, a proposal for the Business plan and Budget of 2019 to pay the 58.6 percent of the expenses related to the MillenniumIT system was discussed and approved by Board of Directors of the Company. As a result, the Company expects to reduce by over 40% its expenses related to the MIllenniumIT system from 2019 onwards and is pursuing the recommendation from the Ministry of Finance.

2. Basis of preparation, continued

(4) Going concern assumption, continued

The Company plans to increase the efficiency of its performance, particularly the loss from operations in 2018 is expected to decrease by 40 percent in 2019 through achieving the strategic goals as set out in the 2019-2021 operational strategic plan of the Company:

1. To facilitate the diversification of capital market products and services;
2. To promote listed companies in enhancing their corporate value;
3. To support the development of capital market infrastructure;
4. To support and to ensure the capital market intermediaries through company policies;
5. To increase the efficiency of internal stable operations.

The Company has the continuing support of its shareholder, the Government of Mongolia, through the Ministry of Finance. The Company expects to have sufficient liquidity and capital resources to meet its ongoing obligations and future contractual commitments for twelve months from the date of the issuance of the audited financial statements.

(5) Use of estimates and judgments

The preparation of financial statements in conformity with IFRSs requires management to make judgments, estimates and assumptions that affect the application of the accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised and in any future periods affected.

Information about critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in the financial statements, and information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the next financial year, is included in the following notes:

- Note 3(4)(iii) – useful lives of property, plant and equipment;
- Note 3(5) – useful lives of intangible assets;
- Note 3(6)(i) and Note 8 – allowance for trade receivables.

3. Basis of preparation, continued

(6) Changes in significant accounting policies

A number of new standards are effective for the annual period beginning 1 January 2018. Management has assessed that these new standards do not have a material impact on these financial statements. Those which are most relevant to the Company are set out below.

A. IFRS 15 Revenue from Contracts with Customers

In 2018 the Company adopted IFRS 15, the financial reporting standard on the recognition of revenue from contracts with customers, applicable for reporting periods beginning on or after 1 January 2018. IFRS 15 establishes a single and comprehensive framework which sets out how much revenue is to be recognized, and when. The core principle of the standard is that an entity will recognize revenue at an amount that reflects the consideration to which the entity expects to be entitled in exchange of transferring promised services to a customer. The new standard applies a five-step approach:

Step 1: Identify the contract(s) with customers
Step 2: Identify the separate performance obligations in the contract
Step 3: Determine the transaction price
Step 4: Allocate the transaction price to separate performance obligations
Step 5: Recognize revenue when (or as) each performance obligation is satisfied

The management performed an assessment of the requirements of IFRS 15 and of the internal revenue recognition policy based on an analysis of the different types of contracts under which it operates. Based on the analysis performed, management considered that the timing of revenue recognition for each of the identified performance obligations is consistent with the Company's previous practice and accordingly, the application of IFRS 15 did not have a significant impact on the entity's 2018 financial position and results.

B. IFRS 9 Financial Instruments

In 2018 the Company applied IFRS 9 which replaces IAS 39, affecting both financial assets and financial liabilities, in three main phases: (i) Classification and measurement; (ii) impairment methodology; and (iii) hedge accounting, for annual periods beginning on or after 1 January 2018. The most significant conclusions drawn from the assessment made regarding the possible effects on the Company are as follows:

The new financial asset classification approach is based on the contractual cash flow characteristics of the assets and on the Company's business model. Based on these characteristics, all financial assets are classified into the following measurement categories: (i) amortised cost; (ii) fair value through other comprehensive income (equity); or fair value through profit or loss. The analysis conducted did not give rise to any significant changes in the classification and measurement of financial assets based on their characteristics and on the Company's current business model.

2. Basis of preparation, continued

(6) Changes in significant accounting policies, continued

B. IFRS 9 Financial Instruments, continued

The new standard replaces the former IAS 39 "incurred credit loss" models of impairment with a single "expected credit loss" model. This new model requires the recognition, at the date of initial recognition of a financial asset, of the expected credit loss that results from default events on a financial instrument that are possible within the 12 months after the reporting date or over the lifetime of the financial instrument, depending on the changes in the credit risk of the financial asset since initial recognition, or from applying the "simplified" approach permitted by the standard for certain financial assets.

The Company decided to apply the simplified approach to its trade receivables in order to determine the lifetime expected credit losses for those receivables (see Note 3 (2)). The application of IFRS 9 did not have a significant impact on the entity's financial position and results at 1 January 2018.

IFRS 9 was applied retrospectively, recognising the cumulative effect of initially applying this standard as an adjustment to the opening balances for 2018 in the statement of financial position. Therefore, the comparative information for 2017 was not restated and continues to be presented in accordance with IAS 39.

3. Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these financial statements.

(1) Foreign currency transactions

Transactions in foreign currencies are translated to the functional currency of the Company at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to the functional currency at the exchange rate ruling at that date.

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Non-monetary items in a foreign currency that are measured based on historical cost are translated using the exchange rate at the date of the transactions.

(2) Financial instruments

Policy applicable from 1 January 2018

The Company classifies non-derivative financial assets into the following categories: measured at amortised cost, fair value through other comprehensive income (FVOCI) or fair value through profit or loss (FVTPL). The Company classifies non-derivative financial liabilities into the following categories: measured at amortised cost or FVTPL.

(i) Non-derivative financial assets and financial liabilities – recognition and derecognition

The Company initially recognises trade receivables and debt securities issued on the date that they are originated. All other financial assets and financial liabilities are recognised initially on the trade date at which the Company becomes a party to the contractual provisions of the instrument.

3. Significant accounting policies, continued

(2) Financial instruments, continued

(i) Non-derivative financial assets and financial liabilities – recognition and derecognition, continued

The Company derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred or in which the Company neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

The Company derecognises a financial liability when its contractual obligations are discharged or cancelled or expire. The Company also derecognises a financial liability when its terms are modified and cash flows of the modified liability are substantially different, in which case a new financial liability based on the modified terms is recognised at fair value.

On derecognision of a financial liability, the difference between the carrying amount extinguished and the consideration paid (including any non-cash assets transferred or liabilities assumed) is recognised in profit or loss.

(ii) Non-derivative financial assets – measurement

(a) Measured at amortised cost

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL: (i) it is held within a business model whose objective is to hold assets to collect contractual cash flows; and (ii) its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.
These assets are subsequently measured at amortsed cost using the effective interest method. The amortised cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment are recognised in profit or loss.

(b) Fair value through other comprehensive income

A financial asset is measured at fair value through other comprehensive income if it meets both of the following conditions and is not designated as at FVTPL: (i) it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and (ii) its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

These assets are subsequently measured at fair value. Interest income on debt instrument calculated using effective interest method, foreign exchange gains or losses and impairment are recognised in profit or loss. Other net gains and losses are recognised in other comprehensive income.

(c) Fair value through profit or loss

All financial assets not classified as measured at amortised cost or FVOCI as described above are measured at FVTPL. These assets are subsequently measured at fair value. Net gains and losses, including any interest or dividend income, are recognised in profit or loss.

3. Significant accounting policies, continued

(2) Financial instruments, continued

(iii) Non-derivative financial liabilities

The Company classifies non-derivative financial liabilities into the following categories: measured at amortised cost or FVTPL. A financial liability is classified as at FVTPL if it is classified as held-for-trading, it is a derivative or it is designated as such on initial recognition. Financial liabilities at FVTPL are measured at fair value and net gains and losses, including any interest expense, are recognised in profit or loss.

Other financial liabilities are subsequently measured at amortised cost using the effective interest method. Interest expense and foreign exchange gains or losses are recognised in profit or loss. Any gain or loss on derecognition is also recognised in profit or loss.

(iv) Offsetting between financial assets and financial liabilities

Financial assets and financial liabilities are offset and the net amount is presented in the statement of financial position when and only when, the Company currently has a legally enforceable right to offset the recognised amounts, and there is the intention to settle on a net basis or to realise the asset and settle the liability simultaneously.

Policy applicable before 1 January 2018

(i) Non-derivative financial assets

The Company initially recognised loans and receivables on the date that they are originated. All other financial assets (including assets designated at fair value through profit or loss) were recognised initially on the trade date, which is the date that the Company becomes a party to the contractual provisions of the instrument.

The Company derecognised a financial asset when the contractual rights from the asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all the risks and rewards of ownership of financial asset are transferred.

Financial assets and liability were offset and the net amount presented in the statement of financial position when, and only when, the Company had a legal right to offset the amount and intended either to settle to a net basis or to realise the asset and settle the liability simultaneously.

The Company had receivables as its non-derivative financial assets.

(ii) Receivables

Receivable were financial assets with fixed or determinable payment that are not quoted in an active market. Such assets were recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, receivables were measured at amortised cost using the effective interest method, less any impairment losses.

3. Significant accounting policies, continued

(2) Financial instruments, continued

(iii) Non–derivative financial liabilities

The Company initially recognised debt securities issued on the date that they are originated. All other financial liabilities (including liabilities designated at value through profit or loss) were recognised initially on the trade date, which is the date that the Company becomes a party to the contractual provisions of the instrument.

The Company derecognised financial liabilities when their contractual obligations are discharged cancelled or expire.

The Company classified its non-derivative financial liabilities into the other financial liabilities category. Such financial liabilities were recognised initially at fair value less any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities were measured at amortised cost using the effective interest method.

The Company had the following non-derivative financial liabilities: trade and other payables.

(3) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and current accounts. Cash is recorded and classified based on its respective currency type. Foreign currency balances (being balances in currencies other than MNT) are converted using the rate published by the Bank of Mongolia at the period-end date.

(4) Property, plant and equipment

(i) Measurement at recognition

Items of property, plant and equipment that qualify for recognition as assets are measured at their cost. Cost includes expenditure that is directly attributable to the acquisition of the asset.

Subsequent to initial recognition, an item of property, plant and equipment is carried at its cost less any accumulated depreciation and any accumulated impairment losses.

The gain or loss on disposal of an item of property, plant and equipment is determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment.

(ii) Subsequent costs

Subsequent expenditure is capitalised only when it is probable that the future economic benefits associated with expenditure will flow to the Company. Ongoing repairs and maintenance are expensed as incurred.

3. Significant accounting policies, continued

(4) Property, plant and equipment, continued

(iii) Depreciation

Items of property, plant and equipment are depreciated on a straight-line basis in profit or loss over the estimated useful lives of each component. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Company will obtain ownership by the end of the lease term.

The estimated economic useful lives for the current and comparative years of significant items of property, plant and equipment are as follows:

• Buildings	60 years
• Vehicles	6 years
• Furniture and fixtures	5-10 years
• Equipment	3-10 years

Depreciation method, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

(5) Intangible assets

Intangible assets are measured initially at cost and, subsequently, are carried at cost less accumulated amortization and accumulated impairment losses.

Amortization of intangible assets is calculated on a straight-line basis over the estimated useful lives of intangible assets from the date that they are available for use. The residual value of intangible assets is zero. Amortization periods and the amortization methods for intangible assets with finite useful lives are reviewed at the end of each reporting period.

The estimated useful lives of software licenses are set according to the validity period of the licenses.

Subsequent expenditures are capitalized only when they increase the future economic benefits embodied in the specific asset to which they relate. All other expenditures are recognized in profit or loss as incurred.

(6) Impairment

(i) Non-derivative financial assets

The Company recognizes loss allowances for Expected Credit Losses (ECLs) on (i) financial assets measured at amortised cost; (ii) debt investments measured at FVOCI; (iii) contract assets. The Company measures loss allowances at an amount equal to lifetime ECLs, except for the following, which are measured at 12 month ECLs:

- debt securities that are determined to have low credit risk at the reporting date; and
- other debt securities and bank balances for which credit risk has not increased significantly since initial recognition.

When determining whether the credit risk of a financial asset has increased significantly since initial recognisation and when estimating ECLs, the Company considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Company's historical experience and informed credit assessment and including forward-looking information.

3. Significant accounting policies, continued

(6) Impairment, continued

Loss allowances for financial assets measured at amortised cost are deducted from the gross carrying amount of the assets. For debt securities at FVOCI, the loss allowance is recognised in other comprehensive income and does not reduce the carrying amount of the financial asset in the statement of financial position.

The gross carrying amount of a financial asset is written off when the Company has no reasonable expectations of recovering a financial asset in its entirety or a portion thereof and no significant recovery is expected from the amount written off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Company procedures for recovery of amounts due.

(ii) Non-financial assets

The carrying amounts of the Company's non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

The Company estimates the recoverable amount of an individual asset. If it is impossible to measure the individual recoverable amount of an asset, then the Company estimates the recoverable amount of the cash-generating unit ("CGU"). A CGU is the smallest identifiable Company of assets that generates cash inflows that are largely independent of the cash inflows from other assets or Companies of assets.

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. The value in use is estimated by applying a pre-tax discount rate that reflect current market assessments of the time value of money and the risks specific to the asset or CGU for which estimated future cash flows have not been adjusted, to the estimated future cash flows expected to be generated by the asset or CGU.

An impairment loss is recognised if the carrying amount of an asset or a CGU exceeds its recoverable amount. Impairment losses are recognised in profit or loss. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(7) Employee benefits

Defined contribution plans

Employee benefits include statutory social insurance payments to the State Social Insurance Scheme of Mongolia. Obligations for contributions to defined contribution plans are recognised as an employee benefit expense as incurred.

(8) Provisions and contingencies

A provision is recognised in the statement of financial position when the Company has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. Where the effect of the time value of money is material, provisions are determined by discounting expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. The unwinding of the discount is recognised as a financing charge.

3. Significant accounting policies, continued

(8) Provisions and contingencies, continued

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events, are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(9) Revenue recognition

The Company has initially applied IFRS 15 from 1 January 2018 (see Note 2 (6)). In general, the Company recognises revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the Company expects to be entitled in exchange for those goods or services.

The Company's main types of revenue are:

- Trading fees charged to brokers, based on the value of equities or bonds traded
- Registration fees for initial listings, subsequent annual fees and fees for raising further capital, charged to companies whose instruments are being traded on the exchange
- Initial membership and subsequent annual fees for brokers to use the Company's trading platform

Further revenues are generated from other services such as sales of trading data, the provision of trainings, package dealing and review of applications.

(10) Finance income and finance costs

Finance income comprises interest income on funds invested that are recognised in profit or loss. Interest income is recognised as it accrues in profit or loss, using the effective interest method. Finance costs comprise interest expense on borrowings and unwinding of the discount on provisions. Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognised in profit or loss using the effective interest method.

Foreign currency gains and losses are reported on a net basis as either finance income or finance cost depending on whether foreign currency movements are in net gain or net loss position.

(11) Income taxes

Income tax expense comprises current tax and deferred tax. Current tax and deferred tax is recognised in profit or loss except to the extent that it relates to items recognised directly in equity or in other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, using tax rates enacted or substantively enacted by the reporting date.

3. Significant accounting policies, continued

(11) Income taxes, continued

In determining the amount of current and deferred tax the Company takes into account the impact of uncertain tax positions and whether additional taxes and interest may be due. The Company believes that its accruals for tax liabilities are adequate for open tax years based on its assessment of many factors, including interpretations of tax law and prior experience. This assessment relies on estimates and assumptions and may involve a series of judgments about future events. New information may become available that causes the Company to change its judgment regarding the adequacy of existing tax liabilities; such changes to tax liabilities will impact tax expense in the period that such a determination is made.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity.

A deferred tax asset is recognised for unused tax losses, tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

(12) Share capital

Ordinary shares

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary share are recognised as a deduction from equity, net of any tax effects.

(13) Related parties

(i) A person, or a close member of that person's family, is related to the Company if that person:
- has control or joint control over the Company;
- has significant influence over the Company; or
- is a member of the key management personnel of the Company or the Company's parent.

(ii) An entity is related to the Company if any of the following conditions applies:
- the entity and the Company are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others);
- one entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member);
- both entities are joint ventures of the same third party;
- one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
- the entity is a post-employment benefit plan for the benefit of employees of either the Company or an entity related to the Company;
- the entity is controlled or jointly controlled by a person identified in (i);
- a person identified in (i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

4. Standards issued but not yet effective

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 January 2019, or later. Those which may be relevant to the Company are set out below. The Company plans to adopt these standards starting from 1 January 2019, or later, as required by the new standards.

IFRS 16 *Leases*

IFRS 16 introduces a single, on-balance sheet accounting model for lessees. A lessee recognises a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are optional exemptions for short-term leases and leases of low value items. Lessor accounting remains similar to the current standard – i.e. lessors continue to classify leases as finance or operating leases.

IFRS 16 replaces existing leases guidance including IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases - Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease.

The standard is effective for annual periods beginning on or after 1 January 2019. Early adoption is permitted for entities that apply IFRS 15 at or before the date of initial application of IFRS 16. The Company has not entered into operating leases as a lessee as at 31 December 2018 and, therefore has not performed impact assessment on the implementation of IFRS 16.

Other Standards

The following amended standards and interpretations are not expected to have a significant impact on the Company's financial statements.

- IFRIC 23 *Uncertainty over Tax Treatments*
- *Prepayment Features with Negative Compensation (Amendments to IFRS 9)*
- *Long-term Interests in Associates and Joint Ventures (Amendments to IAS 28)*
- *Plan Amendment, Curtailment or Settlement (Amendments to IAS 19)*
- *Annual Improvements to IFRS Standards 2015-2017 Cycle – various standards*
- IFRS 17 *Insurance Contracts.*

5. Property, plant and equipment

Changes in the property, plant and equipment for the year ended 31 December 2018 are as follows:

(In thousands of MNT)	Buildings	Equipment	Vehicles	Furniture and Fixtures	Total
Cost:					
At 1 January 2018	2,500,587	1,039,304	135,376	307,543	3,982,810
Additions	-	34,934	-	2,332	37,266
Transfers to intangible assets	(13,361)	-	-	-	(13,361)
Write-off	-	(139,027)	-	(20,777)	(159,804)
At 31 December 2018	2,487,226	935,211	135,376	289,098	3,846,911
Accumulated depreciation:					
At 1 January 2018	415,299	921,524	135,376	246,519	1,718,718
Depreciation for the year	42,091	55,203	-	18,701	115,995
Write-off	-	(139,027)	-	(20,777)	(159,804)
At 31 December 2018	457,390	837,700	135,376	244,443	1,674,909
Carrying amount:					
Balance at 31 December 2017	2,085,288	117,780	-	61,024	2,264,092
Balance at 31 December 2018	2,029,836	97,511	-	44,655	2,172,002

The Company's office building in central Ulaanbaatar was transferred to the Company along with the associated land rights in stages during the years 2007-2013. This transfer was documented in agreements between the Government of Mongolia (via the State Property Committee) and the Company, and treated as a contribution from the shareholder with a corresponding increase in equity, which was subsequently converted to share capital. However, the Company does not hold a property registration certificate for the building as the Government does not issue such documents to fully state owned entities.

In 2018, the Company obtained a valuation of its building and land under a Government of Mongolia decree for state owned entities, using a methodology approved by the Minister of Finance. As the Company applies cost model under IFRS in its measurement of property and equipment, the valuation result is not recognized in the financial statements. Refer to Note 3(4) for further information about the Company's accounting policy.

5. Property, plant and equipment, continued

Changes in the property, plant and equipment for the year ended 31 December 2017 are as follows:

(In thousands of MNT)	**Buildings**	**Equipment**	**Vehicles**	**Furniture and Fixtures**	**Total**
Cost:					
At 1 January 2017	2,500,177	1,027,624	135,376	297,744	3,960,921
Additions	410	11,680	-	9,799	21,889
Disposals	-	-	-	-	-
At 31 December 2017	2,500,587	1,039,304	135,376	307,543	3,982,810
Accumulated depreciation:					
At 1 January 2017	373,241	861,499	126,001	228,830	1,589,571
Depreciation for the year	42,058	60,025	9,375	17,689	129,147
Disposals	-	-	-	-	-
At 31 December 2017	415,299	921,524	135,376	246,519	1,718,718
Carrying amount:					
Balance at 31 December 2016	2,126,936	166,125	9,375	68,914	2,371,350
Balance at 31 December 2017	2,085,288	117,780	-	61,024	2,264,092

6. Intangible assets

Intangible assets comprises software licenses. Changes in the intangible assets for the year ended 31 December 2018 are as follows:

(In thousands of MNT)	**2018**	**2017**
Cost:		
At 1 January	7,970,685	7,970,685
Additions	422,673	-
Transfers from property, plant and equipment	13,361	-
Write-off	(54,367)	-
At 31 December	8,352,352	7,970,685
Accumulated amortisation:		
At 1 January	6,698,785	6,207,002
Amortisation for the year	515,265	491,783
Write-off	(54,367)	-
At 31 December	7,159,683	6,698,785
Net balance at 31 December	1,192,669	1,271,900

As at 31 December 2018, MNT 778,966 thousand (2017: MNT 1,269,177 thousand) of the intangible assets book value was attributable to the MillenniumIT system. As at 31 December 2018, MNT 399,192 thousand of the intangible assets book value was attributable to the Oracle software which was purchased in 2018.

7. Inventories

Inventories comprise office supplies and low-value items of equipment and fittings. During 2018 and 2017, no expenses were recognised in relation to impairment of obsolete inventories.

8. Other investments

Other investments as of 31 December 2018 are summarized as follows:

(In thousands of MNT)	**2018**	**2017**
Government bonds – at amortised cost	1,000	1,000
	1,000	1,000

9. Trade receivables

(1) Trade receivables as of 31 December 2018 are summarized as follows:

(In thousands of MNT)	**2018**	**2017**
Trade receivables	550,614	342,759
Less: impairment allowance	(251,153)	(259,907)
	299,461	82,852

The average credit period on sales of services is 90 days from invoice issuance date. No interest is charged on trade receivables.

MNT 228,995 thousand of the trade receivables balance as of 31 December 2018 was owed by one customer, the Mongolian Securities Clearing House (2017: one customer represented receivables of MNT 171,500 thousand). None of the amount due from the Mongolian Securities Clearing House was past due as of 31 December 2018.

The remaining trade receivables principally represent amounts due from brokers and entities registered with the stock exchange.

(2) The aging of trade receivables that are past due but not impaired:

(In thousands of MNT)	**2018**		**2017**	
	Trade receivables	Impairment provision	Trade receivables	Impairment provision
Neither past due nor impaired	236,194	-	-	-
Past due (0 - 30 days)	-	-	-	-
Past due (30 - 90 days)	-	-	-	-
Past due (91 - 150 days)	-	-	-	-
Past due (151 - 365 days)	21,307	(4,675)	31,305	-
Past due (over 365 days)	293,113	(246,478)	311,454	(259,907)
	550,614	(251,153)	342,759	(259,907)

The Company believes that the outstanding amounts that are past due by more than 30 days are collectible based on analysis of the customers.

(3) Changes in impairment allowance for trade receivables are summarized as follows:

(In thousands of MNT)	**2018**	**2017**
At 1 January	259,907	366,227
Additions	18,171	27,375
Utilized	(26,925)	(121,433)
Reversed	-	(12,262)
At 31 December	251,153	259,907

In 2018, the impairment allowance for trade receivables increased by MNT 18,171 thousand (2017: MNT 27,375 thousand) and MNT 26,925 thousand (2017: MNT 121,433 thousand) was utilized.

The Company's exposure to credit risk and currency risk are disclosed in Note 20.

10. Cash and cash equivalents

Cash and cash equivalents as of 31 December 2018 are summarized as follows:

(In thousands of MNT)	**2018**	**2017**
Cash on hand	2,347	1,125
Cash at bank	828,039	1,305,759
	830,386	1,306,884

11. Share capital

(In thousands of MNT)	**Number of shares (thousands)**	**In thousands of MNT**
At 31 December 2017	218,840	21,884,000
Issue of shares	12,466	1,246,594
At 31 December 2018	231,306	23,130,594

In accordance with Ministry of Finance decree #68 dated 5 April 2018, share capital was increased by 12,465,936 shares with par value of MNT 100 each through a conversion of other reserves to share capital in an equivalent amount.

Other reserves comprises other capital contributions by the shareholder which were contributions made between 2011 to 2017 mainly in relation to the acquisition and maintenance of the MillenniumIT system. In 2018, the Company did not receive a capital contribution (2017: MNT 1,246,594 thousand) from the shareholder.

12. Trade and other payables

1) Trade payables as of 31 December 2018 are summarized as follows:

(In thousands of MNT)	**2018**	**2017**
Trade payables – international	1,038,668	310,423
Trade payables – domestic	13,337	14,577
	1,052,005	325,000

2) Other payables as of 31 December 2018 are summarized as follows:

(In thousands of MNT)	**2018**	**2017**
Salary payables	35,975	788
Withholding tax payables	102,107	31,042
Other tax payables	17,950	9,494
	156,032	41,324

13. Revenue

An analysis of the Company's revenue is as follows:

(In thousands of MNT)	2018	2017
Revenue		
Trading fees	1,031,556	1,209,763
Registration and filing fees	228,415	262,727
Annual fee from registered entities	180,545	155,952
Brokers' membership fees	79,779	77,392
Data provision fees	47,749	41,887
Terminal usage access fees	44,141	32,795
Other revenue	44,775	50,037
	1,656,960	1,830,553

The Company has initially applied IFRS 15 from 1 January 2018. IFRS 15 did not have a significant impact on the Company's accounting policies in respect to its revenue streams and its performance obligations.

Revenue streams

The Company generates revenue primarily from the provision of services to its customers for registration with the stock exchange and trading of investments.

Performance obligations and revenue recognition policies

Revenue is measured based on the consideration specified in a contract with a customer. The Company recognises revenue when it transfers control over a good or service to a customer, or over time as a service is provided.

The following table provides information about the nature and timing of the satisfaction of performance obligations in contacts with customers and related revenue recognition policies.

Type of product/ service	Nature and timing satisfaction of performance obligations, including significant payment terms	Revenue recognition under IFRS 15 (applicable from 1 January 2018)	Revenue recognition under IAS 18 (applicable before 1 January 2018)
Trading	This represent fees charged on trading and clearing of shares and securities in stock exchange. Once trading has taken place, the performance obligation is satisfied. Invoices for trading are issued the following day to the Securities Clearing House.	Revenue is recognised when the service is provided, which is the trading day.	Revenue is recognised when the service is provided, which is the trading day.
Registration and filing	This includes services related to registration with the stock exchange, updating registrations and filing updated information at the stock exchange, filing for IPO and similar. The performance obligation is satisfied upon the point of completion of the service such as the registration or the filing.	Revenue is recognised when the service is completed, which is the registration and filing at the stock exchange and confirmed to customer.	Revenue is recognised when the service is completed, which is the registration and filing at the stock exchange and confirmed to customer.

13. Revenue, continued

Performance obligations and revenue recognition policies, continued

Type of product/ service	Nature and timing satisfaction of performance obligations, including significant payment terms	Revenue recognition under IFRS 15 (applicable from 1 January 2018)	Revenue recognition under IAS 18 (applicable before 1 January 2018)
Annual and membership fees	The membership fee invoice to brokers is issued on a quarterly basis. The annual fee invoice to registered entities is issued on a semi-annual basis.	Revenue is recognised over time as the service is provided.	Revenue is recognised over time as the service is provided.
Data service and terminal usage access	This includes: - Provision of pricing, trading and other data - Provision and feeds of market data that is created from trading and clearing system - Connection to exchange, clearing house and data centers. The nature and timing of each contract type for the services above are similar in nature. Data services revenues are primarily subscription-based, billed monthly, quarterly or annually in advance and recognized rateably over time as the performance obligations of data delivery are met consistently throughout the period.	Revenue is recognised over time as the service is provided.	Revenue is recognised over time as the service is provided.

14. General and administrative expenses

An analysis of the Company's general and administrative expenses is as follows:

(In thousands of MNT)	2018	2017
Personnel expenses	853,483	803,626
Depreciation and amortisation charges	141,049	130,719
Terminal fees	67,190	59,061
Utilities and communications	56,958	58,668
Business trip expenses	36,937	24,569
Events, trainings and donations	27,275	25,080
Professional services	20,833	21,709
Repairs and maintenance	17,583	28,782
Other expenses	69,126	58,237
	1,290,434	1,210,451

15. Expenses related to MillenniumIT

In 2012, the Company installed and launched the MillenniumIT trading system, a product of the London Stock Exchange Group. Costs relating directly to the on-going operation of this system are disclosed separately. An analysis of the Company's operating expenses related directly to MillenniumIT is as follows:

Expenses related to MillenniumIT, current year

(In thousands of MNT)	**2018**	**2017**
Maintenance expense	687,213	311,689
Amortisation charge	490,211	490,211
Value-added taxes withheld	68,721	79,225
Server fees	27,624	27,624
	1,273,769	908,749

The OPS Extension Service Agreement made between London Stock Exchange Limited (LSE) and Mongolian Stock Exchange JSC (MSE) dated 26 April 2016 which governs the LSE's support to the MIT system expired on 1 March 2017. Under this agreement, the Company was required to pay USD 16,000 per month to LSE as the fee for support to the MillenniumIT system.

On 18 October 2018, the OPS Extension Service Agreement was extended for another two years period. Under the new contract terms, the Company was required to pay also a service fee for the period 1 March 2017 to 31 December 2017 in an amount of USD 160,000. As the contractual obligation arose in October 2018, the service fee for the period 1 March 2017 to 31 December 2017 is recorded in 2018.

An analysis of the Company's expenses related to MillenniumIT from the previous year is as follows:

Expenses related to MillenniumIT, previous year

(In thousands of MNT)	
Maintenance expense	388,341
Value-added taxes withheld	38,834
	427,175

16. Finance income

Finance income consists of interest generated from cash at bank and bond interest income. As at 31 December 2018, MNT 94,606 thousand (2017: MNT 55,054 thousand) of finance income was accrued.

17. Foreign exchange gains / (losses), net

Details of net foreign exchange gains / losses for the year ended 31 December 2018 are as follows:

(In thousands of MNT)	2018	2017
Net foreign exchange gain/loss on payables related to MillenniumIT	(30,665)	28,229
Other net foreign exchange gain/loss	359	(12,458)
	(30,306)	15,771

18. Income tax expense

(1) The components of income tax expense for the year ended 31 December 2018 are as follows:

(In thousands of MNT)	2018	2017
Current tax expense	9,444	4,920
Total income tax expense	9,444	4,920

(2) Reconciliation of effective tax rate for the year ended 31 December 2018 is as follows:

(In thousands of MNT)	2018	2017
Loss before income tax	(1,250,401)	(228,241)
- Income tax using the Company's statutory tax rate(*)	(125,040)	(22,824)
- Tax on income under the special tax rate (10%)	9,444	4,920
- Tax effect of non-deductible expenses	5,588	2,895
- Tax effect of non-taxable income	(386)	(586)
- Current-year losses for which no deferred tax asset is recognised	116,423	18,882
- Change in unrecognized temporary differences	3,415	1,633
Total income tax expense	9,444	4,920

(*) According to Mongolian Tax Laws, the Company has an obligation to pay the Government Corporate Income Tax of 10% the portion of taxable profits up to MNT 3 billion and 25% of the portion of taxable profits above MNT 3 billion, if the Company starts earning revenue from operating activities.

18. Income tax expense, continued

(3) Changes in unrecognized deferred tax assets for the year ended December 31, 2018 are as follows:

(In thousands of MNT)	Beginning balance	Additions	Reversal	Ending balance
Foreign currency differences	22,779	5,588	22,779	5,588
Tax losses	165,189	116,423	146,307	135,305

(4) Changes in unrecognized deferred tax assets for the year ended December 31, 2017 are as follows:

(In thousands of MNT)	Beginning balance	Additions	Reversal	Ending balance
Foreign currency differences	21,146	1,633	-	22,779
Tax losses	247,623	18,882	101,316	165,189

(5) The Government of Mongolia continues to reform the business and commercial infrastructure in its transition to a market economy. As a result, the laws and regulations affecting businesses continue to change rapidly.

These changes are characterized by poor drafting, different interpretations and arbitrary application by the authorities. In particular, taxes are subject to review and investigation by a number of authorities who are enabled by law to impose fines and penalties. While the Company believes it has provided adequately for all tax liabilities based on its understanding of the tax legislation, the above facts may create tax risks for the Company which are not possible to quantify at this stage.

19. Related parties

(I) As of 31 December 2018, the status of the Company's related parties with which it transacted are as follows:

Name of party	Relationships
Government of Mongolia	Shareholder
Ministries, departments, agencies and other branches of the Government of Mongolia; other state-owned entities	Controlled by shareholder
Members of the Board of Directors and executive management	Key management personnel

19. Related parties, continued

(II) Related party transactions:

(In thousands of MNT)	Transaction value	
	2018	**2017**
Revenue from related entities		
Registration and filing fees	9,091	171,819
Annual membership fees	12,120	9,995
Government bond trading fees	110	734,736
Short-term government securities		
Investment in government securities	-	194,396
Redemption of government securities	-	194,396
Contribution from shareholder		
Contribution from shareholder	-	1,246,594
Key management remuneration		
Key management personnel	73,182	70,189
Taxation and social insurance		
Withholding value added tax	113,866	144,852
Withholding CIT	12,622	25,419
Income tax	9,444	4,920
Social insurance	93,039	81,527

(III) Related party balances outstanding

(In thousands of MNT)	Balance outstanding	
	2018	**2017**
Short term investment in government bonds		
Government Securities	1,000	1,000
Taxation		
Income tax payable	5,451	5,136
Value added tax payable	4,301	9,491
Withholding tax payable	100,414	31,042

20. Financial risk management

Overview

The Company has exposure to the following risks arising from financial instruments:

- Credit risk
- Liquidity risk
- Market risk

This note presents information about the Company's exposure to each of the above risks, the Company's objectives, policies and processes for measuring risk, and the Company's management of capital.

(1) Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations.

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was as follows:

(In thousands of MNT)	**2018**	**2017**
Other investments	1,000	1,000
Trade receivables	299,461	82,852
Cash and cash equivalents	828,039	1,305,759
	1,128,500	1,389,611

The Company's maximum credit risk at the reporting date was concentrated in Mongolia.

Impairment losses on financial assets recognised in profit or loss were as follows:

(In thousands of MNT)	**2018**	**2017**
Impairment loss on trade receivables	18,171	27,375
Reversal of impairment loss on trade receivables	-	(12,262)
	18,171	15,113

Trade receivables

The Company's exposure to credit risk is influenced mainly by the individual characteristics of each customer. However, management also considers the factors that may influence the credit risk of its customer base.

The Company limits its exposure to credit risk from trade receivables by establishing a maximum payment period of three months for all customers.

The Company does not require collateral in respect of trade and other receivables. The Company does not have trade receivables for which no loss allowance is recognised because of collateral.

20. Financial risk management, continued

(1) Credit risk, continued

Trade receivables, continued

At 31 December 2018, the exposure to credit risk for trade receivables by client classification was as follows.

(In thousands of MNT)	2018	2017
Mongolian Security Clearing House	228,995	-
Registered entities	117,059	114,551
Brokers and dealers	22,059	45,050
Others	182,501	183,158
	550,614	342,759

Cash and cash equivalents

The Company held cash in banks of MNT 828,039 at 31 December 2018 (2017: MNT 1,305,759). The Company limits its exposure to credit risk by depositing cash and cash equivalents in well-known financial institutions.

Impairment on cash and cash equivalents has been measured on a 12-month expected loss basis and reflects the short maturities of the exposures. The Company considers that its cash and cash equivalents have low credit risk based on the external credit ratings of the counterparties.

(2) Liquidity risk

The Company manages and controls liquidity risk through determination of volume of cash and cash equivalents and financial instruments for the purpose of funding the operating costs and to reduce the deviations in cash flows.

Set out below is the contractual maturity of financial liabilities:

As of 31 December 2018

(In thousands of MNT)	Carrying amount	Less than 6 months	6 months to 1 year	More than 1 year
Trade payables	1,052,005	1,052,005	-	-
Other payables	156,032	156,032	-	-
	1,208,037	**1,208,037**	-	-

As of 31 December 2017

(In thousands of MNT)	Carrying amount	Less than 6 months	6 months to 1 year	More than 1 year
Trade payables	325,000	325,000	-	-
Other payables	41,324	41,324	-	-
	366,324	**366,324**	-	-

20. Financial risk management, continued

(3) Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates and interest rates will affect the Company's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return.

Currency risk

The Company is exposed to currency risk on purchases and borrowings that are denominated in a currency other than the functional currency of the Company, MNT. The currency in which these transactions are primarily denominated is USD.

The carrying amounts of the Company's foreign currency denominated monetary assets and monetary liabilities at the end of each reporting period are as follows:

(In thousands of MNT)	**USD - denominated**	
	2018	**2017**
Cash and cash equivalents	257	2,602
Trade payables	(1,038,668)	(341,465)
Net exposure	**(1,038,411)**	**(338,863)**

The following significant exchange rates have been applied during the year:

(In MNT)	**Reporting date spot rate**	
	2018	**2017**
USD 1	2,642.92	2,427.13

Sensitivity analysis

A 10 percent strengthening of MNT against other currencies held by the Company as at the end of the respective reporting periods would increase profit after tax by the amount shown below. This analysis assumes all other risk variables remained constant.

(In thousands of MNT)	**2018**	**2017**
Effect on profit after tax	103,841	33,886

A 10 percent weakening of MNT against other currencies held by the Company as at the end of the respective reporting periods would have had an equal but opposite effect on the profit after tax, on the basis that all other risk variables remained constant.

Fair value

All financial instruments are carried at amounts not materially different from their fair value as of 31 December 2018.

20. Financial risk management, continued

(3) Market risk, continued

Fair values versus carrying amounts

The fair values of financial assets and liabilities, together with the carrying amounts shown in the statement of financial position, are as follows:

(In thousands of MNT)	2018		2017	
	Carrying amount	**Fair value**	**Carrying amount**	**Fair value**
Financial Assets				
Other investments	1,000	1,000	1,000	1,000
Trade receivables	299,461	299,461	82,852	82,852
Cash and cash equivalents	828,039	828,039	1,305,759	1,305,759
	1,128,500	**1,128,500**	**1,389,611**	**1,389,611**
Financial Liabilities				
Trade payables	1,052,005	1,052,005	325,000	325,000
Other payables	156,032	156,032	41,324	41,324
	1,208,037	**1,208,037**	**366,324**	**366,324**

Interest rate risk

Since the Company's interest bearing assets are mostly fixed-interest bearing assets, the Company's revenue and operating cash flow are not significantly influenced by changes in market interest rates.

21. Subsequent Events

There were no material subsequent events since the end of the period that would require disclosure or adjustment to the financial statements.

22. Financial Commitments and Contingencies

(1) Legal

In the ordinary course of business, the Company is subject to legal actions and complaints. Management believes that the ultimate liability, if any, arising from such actions or complaints will not have a material adverse effect on the financial condition or the results of future operations of the Company.

(2) Commitments

The Company has no capital commitments as of the balance sheet date that would require disclosure or adjustments to the financial statements presented.

(3) Contingent liability

The Company has no contingent liabilities as of the balance sheet date that would require disclosure or adjustments to the financial statements presented.

23. Translation into Mongolian language

These financial statements have been prepared in both English and Mongolian. In the case of misunderstanding between versions, the report in English will prevail.