MONGOLIAN STOCK EXCHANGE JSC

Financial Statements

For the year ended 31 December 2016

(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 Ganbat Bud, 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 2016 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 2016 were authorized for issuance by the Company management.

Altai Khangai	Dul-Erdene Ninj	Ganbat Bud
Chief Executive Officer	Chief Financial Officer	Chief Accountant

ХӨРӨНГИЙН МОНГОЛЫН БИРЖ ХК
MONGOLIAN STOCK EXCHANGE
ТТА2380 2071096
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Ulaanbaatar
Mongolia

Date: 5 May 2017

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Independent Auditors' Report

To: The Shareholder of Mongolian Stock Exchange JSC

Opinions

We have audited the financial statements of Mongolian Stock Exchange JSC ("the Company"), which comprise the statement of financial position as at 31 December 2016, 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.

Opinion on the Financial Position

In our opinion, the accompanying statement of financial position gives a true and fair view of the financial position of the Company as at 31 December 2016 in accordance with International Financial Reporting Standards ("IFRS").

Qualified Opinion on the Financial Performance and Cash Flows

In our opinion, except for the possible effects of the matters described in the Basis for Qualified Opinion section of our report, the accompanying statement of profit or loss and other comprehensive income and statement of cash flows give a true and fair view of the financial performance and cash flows of the Company for the year ended 31 December 2016 in accordance with IFRS.

Basis for Opinions, Including Basis for Qualified Opinion on the Financial Performance and Cash Flows

During our audit of the Company's financial statements for the year ended 31 December 2015, errors were identified in the accounts receivable due from customers. Audit procedures also indicated a likelihood that the Company's inventory balance included items which had not been measured at the lower of cost or net realisable value, as required by IAS 2 Inventories. We were unable to confirm or verify by alternative means accounts receivable included in the statement of financial position in a total amount of MNT 380,451 thousand and the value of inventory included in the statement of financial position in a total amount of MNT 44,499 thousand as at 31 December 2015.

As a result of these two matters, we were unable to determine whether any adjustments might have been found necessary in respect of accounts receivable or inventories as at 31 December 2015, and the related elements making up the statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year ended 31 December 2015. Our audit opinion on the financial statements for the year ended 31 December 2015 dated 15 June 2016 was modified accordingly in relation to the above matters. Since opening accounts receivable and inventories also enter into the determination of the financial performance and cash flows for the year ended 31 December 2016, we were unable to determine whether adjustments might have been necessary in respect of the profit for the year reported in the statement of profit or loss and other comprehensive income and the net indirect cash flows from operating activities reported in the statement of cash flows for the year ended 31 December 2016.

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.

Other Matter – Basis of Accounting

We draw attention to the fact that the financial statements as of and for the year end 31 December 2015 were prepared in accordance with the Guidelines for Preparation of Financial Statements and Notes of Economic Entities as approved by Resolution #77 issued in 2012 by the Mongolian Minister of Finance. These guidelines require that the financial statements be prepared in accordance with the recognition and measurement requirements of IFRS, but not its presentation and disclosure requirements.

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.

KPMG

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
KPMG Audit LLC
УЛААНБААТАР ХОТ

KPMG Audit LLC
Ulaanbaatar, Mongolia
5 May 2017

This report is effective as of 5 May 2017, 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 2016

(In thousands of MNT)	Notes	31 December 2016	31 December 2015
ASSETS			
Non-current assets			
Property, plant and equipment	*5*	2,371,350	2,517,360
Intangible assets	*6*	1,763,683	2,255,655
Other non-current assets		-	61,864
Total non-current assets		**4,135,033**	**4,834,879**
Current assets			
Inventories	*7*	13,000	44,499
Financial instruments held to maturity	*8*	1,000	197,257
Prepayments		2,370	2,572
Trade receivables	*9*	148,493	380,450
Income tax receivable	*18*	8,988	10,372
Other receivables		-	164
Cash and cash equivalents	*10*	515,142	587,863
Other current assets		13,160	13,160
Total current assets		**702,153**	**1,236,337**
TOTAL ASSETS		**4,837,186**	**6,071,216**
EQUITY AND LIABILITIES			
Equity			
Share capital	*11*	21,884,000	1,867,709
Other reserves		458,684	20,475,388
Accumulated losses		(18,758,933)	(16,703,495)
Total equity		**3,583,751**	**5,639,602**
Current liabilities			
Trade payables	*12*	1,177,047	419,540
Income tax payable	*18*	10,122	-
Other payables		66,266	12,074
Total current liabilities		**1,253,435**	**431,614**
TOTAL EQUITY AND LIABILITIES		**4,837,186**	**6,071,216**

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

Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2016

(In thousands of MNT)	Notes	2016	2015
Revenue	*13*	1,176,149	1,536,265
Total revenue		**1,176,149**	**1,536,265**
General and administrative expenses	*14*	(1,918,224)	(1,371,086)
License, service and amortisation expenses related to MillenniumIT	*15*	(1,189,475)	(1,842,486)
Operating loss		**(1,931,550)**	**(1,677,307)**
Finance income	*16*	13,840	58,860
Finance expense	*16*	-	(241,047)
Foreign exchange gain / (loss), net	*17*	(137,540)	(364,601)
Loss before income tax		**(2,055,250)**	**(2,224,095)**
Income tax expense	*18*	(1,384)	(12,008)
Loss for the year		**(2,056,634)**	**(2,236,103)**
Total comprehensive loss for the year		**(2,056,634)**	**(2,236,103)**

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 2016

(In thousands of MNT)	**Share capital**	**Other reserves**	**Accumulated losses**	**Total**
Balance at 31 December 2014	**1,867,709**	**478,064**	**(1,620,762)**	**725,011**
Adjustments for changes in accounting policies	-	7,444,815	(12,846,630)	(5,401,815)
Balance at 1 January 2015	**1,867,709**	**7,922,879**	**(14,467,392)**	**(4,676,804)**
Net loss for the year	-	-	(2,236,103)	(2,236,103)
Shareholder contributions to reserves	-	12,552,509	-	12,552,509
Balance at 31 December 2015	**1,867,709**	**20,475,388**	**(16,703,495)**	**5,639,602**
Net loss for the year	-	-	(2,056,634)	**(2,056,634)**
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**

The accompanying notes form an integral part of the financial statement

MONGOLIAN STOCK EXCHANGE JSC

Statement of Cash Flows

For the year ended 31 December 2016

(In thousands of MNT)	**Notes**	**2016**	**2015**
Cash flows from operating activities			
Loss for the period		(2,056,634)	(2,236,103)
Adjustments for:			
Depreciation and amortisation	*14,15*	665,281	739,088
Other non-current assets written off	*14*	61,864	-
Provision for doubtful receivable accounts	*14*	224,116	142,111
Provision for inventory obsolescence	*14*	29,828	11,256
Income tax expense	*18*	1,384	12,008
Net unrealized foreign exchange loss		137,540	364,190
Interest income		(13,840)	(58,860)
Interest expense	*16*	-	241,047
Operating loss before working capital changes		**(950,461)**	**(785,263)**
Change in:			
Trade and other receivables		18,372	(1,400,039)
Prepayments		-	109,963
Inventories		1,671	6,272
Trade and other payables		673,314	(3,353,001)
		(257,104)	(5,422,068)
Interest received		13,840	58,860
Interest paid		-	(133,195)
Income taxes paid		-	(26,258)
Net cash used in operating activities		**(243,264)**	**(5,522,661)**
Cash flows from investing activities			
Acquisition of property, plant and equipment	*5*	(27,299)	(30,942)
Acquisition of intangible assets	*6*	-	(3,750)
Investment in government securities		-	(1,396,068)
Redemption of government securities		196,257	1,198,811
Net cash used in investing activities		**168,958**	**(231,949)**
Cash flows from financing activities			
Contributions from shareholders		-	9,520,604
Repayment of long-term borrowings		-	(3,294,900)
Net cash provided by financing activities		**-**	**6,225,704**
Effects of exchange rate changes on cash held		1,585	1,738
Net increase/(decrease) in cash and cash equivalents		**(72,721)**	**472,832**
Cash and cash equivalents at the beginning of the year	*10*	587,863	115,031
Cash and cash equivalents at the end of the year	*10*	**515,142**	**587,863**

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 2,056,634 thousand during the year ended 31 December 2016. As of that date, the Company's current liabilities exceeded its current assets by MNT 551,282 thousand. 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 the twelve months from the date of the issuance of the audited financial statements.

2. Basis of preparation, continued

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

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 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

(i) Non-derivative financial assets

The Company initially recognises loans and receivables on the date that they are originated. All other financial assets (including assets designated at fair value through profit or loss) are 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 derecognises 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 are offset and the net amount presented in the statement of financial position when, and only when, the Company has a legal right to offset the amount and intends either to settle to a net basis or to realise the asset and settle the liability simultaneously.

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

3. Significant accounting policies, continued

(2) Financial instruments, continued

(ii) Receivables

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

(iii) Non–derivative financial liabilities

The Company initially recognises debt securities issued on the date that they are originated. All other financial liabilities (including liabilities designated at value through profit or loss) are 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 derecognises financial liabilities when their contractual obligations are discharged cancelled or expire.

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

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

(iv) 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.

(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.

3. Significant accounting policies, continued

(4) Property, plant and equipment, continued

(ii) Measurement after recognition

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.

(iii) 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.

(iv) 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.

3. Significant accounting policies, continued

(6) Impairment

(i) Non-derivative financial assets

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

The Company considers evidence of impairment for receivables and held-to-maturity debt securities at both a specific asset and collective level. All individually significant receivables and held-to-maturity debt securities are assessed for specific impairment. All individually significant receivables and held-to-maturity debt securities found not to be specifically impaired are then collectively assessed, by grouping the respective financial assets with similar risk characteristics, for any impairment that has been incurred but not yet identified.

In assessing collective impairment the Company uses historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgment as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognised in the statement of comprehensive income and reflected in an allowance account against receivables. Interest on the impaired asset continues to be recognised through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through the statement of comprehensive income.

(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 recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the cash-generating unit).

3. Significant accounting policies, continued

(6) Impairment, continued

(ii) Non-financial assets

An impairment loss is recognised if the carrying amount of an asset or its cash-generating units exceeds its estimated recoverable amount. Impairment losses are recognised in the statement of comprehensive income. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units, and then to reduce the carrying amounts of the other assets in the unit (group of units) on a pro rata basis. Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. 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.

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.

3. Significant accounting policies, continued

(9) Revenue recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be measured reliably. Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for services provided in the normal course of business.

The Company's main types of revenue are:

- Trading fees charged to brokers, based on value of equities or bonds traded
- Registration fees for initial listing, subsequent annual fees and fees for raising further capital, charged to companies whose instruments are being traded
- 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 training, package dealing and review of applications.

(i) Rendering of services

Revenue from a contract to provide services is recognized in the accounting periods in which the services are rendered. Revenue from a contract to provide services is recognized when all of the following conditions are satisfied:

- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the Company; and
- the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

(ii) Other income

Other income is income generated outside the normal course of business and is recognized when it is probable that the economic benefits will flow to the Company and it can be measured reliably.

(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.

3. Significant accounting policies, continued

(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.

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.

3. Significant accounting policies, continued

(12) 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. New and revised IFRSs not yet adopted

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning 1 January 2017, and have not yet been applied in preparing these financial statements. Those which may be relevant to the Company are set out below. The Company does not plan to adopt these standards early.

(1) IFRS 9 Financial Instruments

IFRS 9, published in July 2014, replaces the existing guidance in IAS 39 *Financial Instruments: Recognition and Measurement*. IFRS 9 includes revised guidance on the classification and measurement of financial instruments, including a new expected credit loss model for calculating impairment of financial assets, and the new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from IAS 39.

IFRS 9 is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted. Management is in the process of assessing the impact of this standard, and expects that provisions for trade and other receivables will increase upon application of the expected credit loss model.

(2) IFRS 15 Revenue from Contracts with Customers

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces existing revenue recognition guidance, including IAS 18 *Revenue*, IAS 11 *Construction Contracts* and IFRIC 13 *Customer Loyalty Programmes.*

The core principle of the new standard is that an entity recognises revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The new standard results in enhanced disclosures about revenue, provides guidance for transactions that were not previously addressed comprehensively and improves guidance for multiple-element arrangements.

IFRS 15 is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted. Management is in the process of assessing the impact of this standard on the Company's financial statements.

(3) IFRS 16 Leases

IFRS 16 introduces a single, on-balance lease 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 Revenue from Contracts with Customers at or before the date of initial application of IFRS 16. Management is in the process of assessing the impact of this standard on the Company's financial statements.

5. Property, plant and equipment

Changes in the property, plant and equipment for the year ended 31 December 2016 are as follows:

(In thousands of MNT)	**Buildings**	**Equipment**	**Vehicles**	**Furniture and Fixtures**	**Total**
Cost:					
At 1 January 2016	2,486,816	1,003,937	29,500	413,692	3,933,945
Additions	-	22,340	-	4,959	27,299
Disposals	-	(163)	-	(160)	(323)
Re-classifications	13,361	1,510	105,876	(120,747)	-
At 31 December 2016	2,500,177	1,027,624	135,376	297,744	3,960,921
Accumulated depreciation:					
At 1 January 2016	331,201	737,310	22,945	325,129	1,416,585
Depreciation for the year	42,040	101,318	10,935	19,016	173,309
Disposals	-	(163)	-	(160)	(323)
Re-classifications	-	23,034	92,121	(115,155)	-
At 31 December 2016	373,241	861,499	126,001	228,830	1,589,571
Carrying amount:					
Balance at 31 December 2015	2,155,615	266,627	6,555	88,563	2,517,360
Balance at 31 December 2016	2,126,936	166,125	9,375	68,914	2,371,350

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.

5. Property, plant and equipment, continued

Changes in the property, plant and equipment for the year ended 31 December 2015 are as follows:

(In thousands of MNT)	**Buildings**	**Equipment**	**Vehicles**	**Furniture and Fixtures**	**Total**
Cost:					
At 1 January 2015	2,548,680	983,006	29,500	411,808	3,972,994
Additions	-	24,601	-	12,057	36,658
Disposals	-	-	-	(264)	(264)
Write-offs	-	(57,574)	-	(16,648)	(74,222)
Re-classifications to PPE	-	53,904	-	6,739	60,643
Re-classifications from PPE	(61,864)	-	-	-	(61,864)
At 31 December 2015	2,486,816	1,003,937	29,500	413,692	3,933,945
Accumulated depreciation:					
At 1 January 2015	289,247	616,004	18,028	308,824	1,232,103
Depreciation for the year	42,040	153,918	4,917	26,478	227,353
Disposals	-	-	-	(264)	(264)
Write-offs	-	(57,574)	-	(16,648)	(74,222)
Re-classifications to PPE	-	24,962	-	6,739	31,701
Re-classifications from PPE	(86)	-	-	-	(86)
At 31 December 2015	331,201	737,310	22,945	325,129	1,416,585
Carrying amount:					
Balance at 31 December 2014	2,259,433	367,002	11,472	102,984	2,740,891
Balance at 31 December 2015	2,155,615	266,627	6,555	88,563	2,517,360

6. Intangible assets

Intangible assets is comprised of software licenses. Changes in the intangible assets for the year ended 31 December 2016 are as follows:

(In thousands of MNT)	2016	2015
Cost:		
At 1 January	7,970,685	7,967,836
Additions	-	5,334
Write-offs	-	(2,485)
At 31 December	7,970,685	7,970,685
Accumulated amortisation:		
At 1 January	5,715,030	5,205,779
Amortisation for the year	491,972	511,736
Write-offs	-	(2,485)
At 31 December	6,207,002	5,715,030
Net balance at 31 December	1,763,683	2,255,655

As at 31 December 2016, MNT 1,759,389 thousand (2015: MNT 2,249,601 thousand) of the intangible assets balance was attributable to the MillenniumIT system.

7. Inventories

Inventories are comprised of office supplies and low-value items of equipment and fittings. During 2016 management conducted an updated assessment of inventory values. As a result of this assessment, expenses of MNT 29,828 thousand (2015: MNT 11,256 thousand) were recognised in relation to impairment of obsolete inventories.

8. Financial instruments held to maturity

Financial instruments held to maturity as of 31 December 2016 are summarized as follows:

(In thousands of MNT)	2016	2015
Government bonds held to maturity	1,000	197,257
	1,000	197,257

9. Trade receivables

Trade receivables as of 31 December 2016 are summarized as follows:

(In thousands of MNT)	2016	2015
Trade receivables	514,720	522,561
Less: provision for impairment of receivables	(366,227)	(142,111)
	148,493	380,450

The average credit period on sales of services is 90 days from invoice issuance date. No interest is charged on trade receivables. The trade receivable balance as of 31 December 2016 mainly consists of receivables from brokers and registered entities.

In 2016 the process for recording accounts receivable was improved and management completed an updated assessment over the recoverability of aged accounts receivable. As a result of this assessment, the provision for trade receivables was increased by MNT 224,116 thousand (2015: MNT 142,111 thousand).

10. Cash and cash equivalents

Cash and cash equivalents as of 31 December 2016 are summarized as follows:

(In thousands of MNT)	2016	2015
Cash on hand	622	1,524
Cash at bank	514,520	586,339
	515,142	587,863

11. Share capital

(In thousands of MNT)	Number of shares (thousands)	In thousands of MNT
At 1 January and 31 December 2015	18,677	1,867,709
Issue of shares	200,163	20,016,291
At 31 December 2016	218,840	21,884,000

In September 2016, the Minister of Finance approved the issuance of 200,163 thousand shares at a par value per share of MNT 100, in order to convert previous shareholder contributions from other equity reserves to share capital.

Other reserves comprises other capital contributions by the shareholder which were contributions made between 2011 to 2015 mainly in relation to the acquisition and maintenance of the MillenniumIT system.

12. Trade payables

Trade payables as of 31 December 2016 are summarized as follows:

(In thousands of MNT)	**2016**	**2015**
Trade payables – international	1,156,387	397,545
Trade payables – domestic	20,660	21,995
	1,177,047	419,540

13. Revenue

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

(In thousands of MNT)	**2016**	**2015**
Revenue		
Trading fees – government bonds	362,709	643,583
Trading fees – company shares	331,584	258,747
Registration fees from registered entities	236,839	255,349
Brokers' membership fees	77,859	86,255
Other revenue	167,158	292,331
	1,176,149	1,536,265

14. General and administrative expenses

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

(In thousands of MNT)	**2016**	**2015**
Personnel expenses	971,475	741,010
Increase in doubtful debt provision	224,116	142,111
Depreciation and amortisation charges	175,070	248,877
Events, trainings and donations	112,090	32,401
Terminal fees	65,024	51,400
Other non-current assets written off	61,864	-
Utilities and communications	61,428	55,746
Business trip expenses	57,465	24,539
Professional services	37,844	6,000
Provision for inventory obsolescence	29,828	11,256
Repairs and maintenance	6,722	41,971
Other expenses	115,298	15,775
	1,918,224	1,371,086

15. License, service and amortisation 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:

(In thousands of MNT)	2016	2015
Maintenance expense	609,869	676,772
Amortisation charge	490,211	490,211
Value-added taxes	60,987	403,588
Server fees	28,408	30,010
Tax penalties	-	184,164
Other expenses	-	57,741
	1,189,475	1,842,486

16. Finance income / finance expense

Finance income consists of interest generated from cash at bank.

Finance expenses in 2015 comprised interest expense on borrowings from the Development Bank of Mongolia to fund costs related to MillenniumIT.

17. Foreign exchange gains / (losses), net

Details of net foreign exchange gains / losses for the year ended 31 December 2016 are as follows:

(In thousands of MNT)	2016	2015
Net foreign exchange loss on payables related to MillenniumIT	(139,370)	(365,928)
Other net foreign exchange gains	1,830	1,327
	(137,540)	(364,601)

18. Income tax expense

(1) The components of income tax expense for the year ended 31 December 2016 are as follows:

(In thousands of MNT)	2016	2015
Current tax expense	1,384	12,008
Total income tax expense	1,384	12,008

18. Income tax expense, continued

(2) Reconciliation of effective tax rate for the year ended 31 December 2016 is as follows:

(In thousands of MNT)	**2016**	**2015**
Loss before income tax	(2,055,250)	(2,224,095)
- Income tax using the Company's statutory tax rate(*)	(205,525)	(222,410)
- Adjustment for tax under the special tax rate	1,384	1,491
- Tax effect of non-deductible expenses	46,876	128,604
- Current-year losses for which no deferred tax asset is recognised	146,307	101,316
- Change in unrecognized deferred tax assets	13,754	7,392
- Tax effect of non-taxable income	(1,412)	(4,385)
Total income tax expense	1,384	12,008

(*) 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.

(3) Changes in unrecognized deferred tax assets for the year ended December 31, 2016 are as follows:

(In thousands of MNT)	**Beginning balance**	**Movement**	**Ending balance**
Foreign currency differences	7,392	13,754	21,146
Tax losses	101,316	146,307	247,623

(4) Changes in unrecognized deferred tax assets for the year ended December 31, 2015 are as follows:

(In thousands of MNT)	**Beginning balance**	**Movement**	**Ending balance**
Foreign currency differences	-	7,392	7,392
Tax losses	-	101,316	101,316

(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 2016, the status of the Company's related parties 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	Key management personnel
Executive management team	Key management personnel

(II) Related party transactions:

(In thousands of MNT)	Transaction value	
	2016	**2015**
Revenue from related entities		
Trading fees	87,761	378,323
Registration fees	3,669	455
Investment in short term government bonds		
Government Securities	-	1,396,068
Maturity of short term government bonds		
Government Securities	196,257	1,198,811
Expenses charged by related parties		
Interest expense re-charged by shareholder	-	211,644
Repayment of loans and interest		
Repayment of loans	-	5,985,083
Repayment of interest	-	211,644
Contribution from shareholder		
Contribution from shareholder	-	9,520,604
Key management remuneration		
Executive management team	25,673	26,494

(III) Related party balances outstanding

(In thousands of MNT)	Balance outstanding	
	2016	**2015**
Short term investment in government bonds		
Government Securities	1,000	197,257
Trade and other receivables		
Other related party	-	1,950

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)	2016	2015
Financial instruments held to maturity	1,000	197,257
Trade receivables	148,493	380,450
Other receivables	-	163
Cash and cash equivalents	514,520	586,339
	664,013	1,164,209

(*) The aging of trade and other receivables as of 31 December 2016 is summarized as follows:

(In thousands of MNT)	2016		2015	
	Trade and other receivables	Impairment provision	Trade and other receivables	Impairment provision
Neither past due nor impaired	54,126	-	87,855	-
Past due (0 - 30 days)	1,200	-	-	-
Past due (30 - 90 days)	-	-	-	-
Past due (91 - 150 days)	-	-	-	-
Past due (151 - 365 days)	28,840	-	-	-
Past due (over 365 days)	430,554	(366,227)	434,869	(142,111)
	514,720	(366,227)	522,724	(142,111)

20. Financial risk management, continued

(1) Credit risk, continued

The allowance account in respect to trade and other receivables is used to record impairment losses. If the Company considers that a balance is not recoverable, at that point the amounts are considered irrecoverable and are written off against the financial asset directly. For the year ended 31 December 2016 no bad debts were written off.

(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 2016

(In thousands of MNT)	**Carrying amount**	**Less than 6 months**	**6 months to 1 year**	**More than 1 year**
Trade payables	1,177,047	1,177,047	-	-
Other payables	66,266	66,266	-	-
	1,243,313	**1,243,313**	-	-

As of 31 December 2015

(In thousands of MNT)	**Carrying amount**	**Less than 6 months**	**6 months to 1 year**	**More than 1 year**
Trade payables	419,540	419,540	-	-
Other payables	12,075	12,075	-	-
	431,615	**431,615**	-	-

(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.

20. Financial risk management, continued

(3) Market risk, continued

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**	
	2016	**2015**
Cash and cash equivalents	12,186	5,526
Trade payables	(1,156,387)	(396,109)
Net exposure	**(1,144,201)**	**(390,583)**

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

(In MNT)	**Reporting date spot rate**	
	2016	**2015**
USD 1	2,489.53	1,995.98

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)	**2016**	**2015**
Effect on profit after tax	114,420	39,058

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 2016.

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)	2016		2015	
	Carrying amount	**Fair value**	**Carrying amount**	**Fair value**
Assets carried at amortised cost				
Financial instruments held to maturity	1,000	1,000	197,257	197,257
Trade receivables	148,493	148,493	380,450	380,450
Other receivables	-	-	163	163
Cash and cash equivalents	515,142	515,142	587,863	587,863
	664,635	**664,635**	**1,165,733**	**1,165,733**
Liabilities carried at amortised cost				
Trade payables	1,177,047	1,177,047	419,540	419,540
Other payables	66,266	66,266	12,075	12,075
	1,243,313	**1,243,313**	**431,615**	**431,615**

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. However, the Company still has interest rate risk arising from borrowings as re-pricing may occur.

21. Subsequent Events

On February 19, 2017, the International Monetary Fund (IMF) announced an initial agreement with the Government of Mongolia for a three-year bailout programme including external financing of USD 5.5 billion. The bailout programme is conditional on various measures which the Government should put in place to improve the economy and the financial sector in the long term. These measures are expected to include tax rate increases as well as steps to reduce non-performing loans. At the date of approval of these financial statements, final signing of the agreement by the Government and the IMF is pending, and the full implications of the programme and measures for the Mongolian financial sector and for the Company specifically are as yet unclear. This creates a significant uncertainty in market, regulatory, credit and other risks and the Company's future exposure to such risks, the implications of which will only be realised with time.

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 contingent liabilities and capital commitments 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.