MONGOLIAN STOCK EXCHANGE JSC

Financial Statements

For the year ended 31 December 2017

(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 Ulziinaran Amgalan, 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 2017 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 2017 were authorized for issuance by the Company management.

Altai Khangai	Dul-Erdene Ninj	Ulziinaran Amgalan
Chief Executive Officer	Chief Financial Officer	Chief Accountant

Ulaanbaatar
Mongolia

Date: 23 February 2018

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Independent Auditors' Report

To: The Shareholder of Mongolian Stock Exchange JSC

Opinion

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

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

Basis for Opinion

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

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

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

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

КЭЙ ПИ ЭМ ЖИ АУДИТ ХХК
KPMG AUDIT LLC
УЛААНБААТАР ХОТ

KPMG Audit LLC

KPMG Audit LLC
Ulaanbaatar, Mongolia
23 February 2018

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

MONGOLIAN STOCK EXCHANGE JSC
Statement of Financial Position
As of 31 December 2017

(In thousands of MNT)	Notes	31 December 2017	31 December 2016
ASSETS			
Non-current assets			
Property, plant and equipment	*5*	2,264,092	2,371,350
Intangible assets	*6*	1,271,900	1,763,683
Total non-current assets		**3,535,992**	**4,135,033**
Current assets			
Inventories	*7*	16,331	13,000
Financial instruments held to maturity	*8*	1,000	1,000
Prepayments		14,480	2,370
Trade receivables	*9*	82,852	148,493
Income tax receivable	*18*	-	8,988
Cash and cash equivalents	*10*	1,306,884	515,142
Other current assets		13,160	13,160
Total current assets		**1,434,707**	**702,153**
TOTAL ASSETS		**4,970,699**	**4,837,186**
EQUITY AND LIABILITIES			
Equity			
Share capital	*11*	21,884,000	21,884,000
Other reserves	*11*	1,705,278	458,684
Accumulated losses		(18,992,094)	(18,758,933)
Total equity		**4,597,184**	**3,583,751**
Current liabilities			
Trade payables	*12*	325,000	1,177,047
Income tax payable	*18*	5,136	10,122
Other payables		41,324	66,266
Deferred income		2,055	-
Total current liabilities		**373,515**	**1,253,435**
TOTAL EQUITY AND LIABILITIES		**4,970,699**	**4,837,186**

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 2017

(In thousands of MNT)	**Notes**	**2017**	**2016**
Revenue	*13*	1,836,408	1,176,149
Total revenue		**1,836,408**	**1,176,149**
General and administrative expenses	*14*	(1,237,826)	(1,918,224)
License, service and amortisation expenses related to MillenniumIT	*15*	(908,749)	(1,189,475)
Operating loss		**(310,167)**	**(1,931,550)**
Finance income	*16*	49,199	13,840
Foreign exchange gain / (loss), net	*17*	15,711	(137,540)
Other non-operating income	*9*	16,956	-
Loss before income tax		**(228,241)**	**(2,055,250)**
Income tax expense	*18*	(4,920)	(1,384)
Loss for the year		**(233,161)**	**(2,056,634)**
Total comprehensive loss for the year		**(233,161)**	**(2,056,634)**

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 2017

(In thousands of MNT)	**Share capital**	**Other reserves**	**Accumulated losses**	**Total**
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)
Transactions with owners, recorded directly in equity				
Conversion to share capital	20,016,291	(20,016,291)	-	-
Other movements	-	(413)	1,196	783
Balance at 31 December 2016	**21,884,000**	**458,684**	**(18,758,933)**	**3,583,751**
Net loss for the year	-	-	(233,161)	(233,161)
Transactions with owners, recorded directly in equity				
Shareholder 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**

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 2017

(In thousands of MNT)	Notes	2017	2016
Cash flows from operating activities			
Loss for the period		(233,161)	(2,056,634)
Adjustments for:			
Depreciation and amortisation	*14,15*	620,930	665,281
Other non-current assets written off	*14*	-	61,864
Provision for doubtful receivable accounts	*14*	27,375	224,116
Provision for inventory obsolescence	*14*	-	29,828
Income tax expense	*18*	4,920	1,384
Net unrealized foreign exchange (gain)/loss		(30,287)	137,540
Interest income	*16*	(49,199)	(13,840)
Operating profit / (loss) before working capital changes		**340,578**	**(950,461)**
Change in:			
Trade receivables		38,266	18,372
Prepayments		(12,110)	-
Inventories		(3,331)	1,671
Trade and other payables		(847,376)	673,314
Deferred income		2,055	-
		(481,918)	(257,104)
Interest received		49,199	13,840
Income taxes paid		(918)	-
Net cash used in operating activities		**(433,637)**	**(243,264)**
Cash flows from investing activities			
Acquisition of property, plant and equipment	*5*	(21,889)	(27,299)
Investment in government securities		(194,396)	-
Redemption of government securities		194,396	196,257
Net cash from/(used) in investing activities		**(21,889)**	**168,958**
Cash flows from financing activities			
Contributions from shareholders		1,246,594	-
Net cash provided by financing activities		**1,246,594**	**-**
Effects of exchange rate changes on cash held		674	1,585
Net increase/(decrease) in cash and cash equivalents		**791,742**	**(72,721)**
Cash and cash equivalents at the beginning of the year	*10*	515,142	587,863
Cash and cash equivalents at the end of the year	*10*	**1,306,884**	**515,142**

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 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.

2. Basis of preparation, continued

(5) Use of estimates and judgments, continued

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 3(6)(i) and 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.

(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.

3. Significant accounting policies, continued

(2) Financial instruments, continued

(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, continued

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. Standards issued but not yet effective

A number of new standards are effective for annual periods beginning 1 January 2018, or later and earlier application is permitted; however, the Company has not early adopted the new or amended standards 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.

The following standards are not expected to have a material impact on the Company's financial statements in the period of initial application.

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 on 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. The Company has assessed that application of IFRS 9's impairment requirements at 1 January 2018 is unlikely to result in a material change in the impairment loss recognised under IAS 39.

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. The Company is assessing the potential impact of the adoption of IFRS 15 on the financial statements.

4. Standards issued but not yet effective, continued

IFRS 16 *Leases*

IFRS 16 introduces a single, on-balance sheet lease 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 recognition 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 is assessing the potential impact on its financial statements resulting from the application of IFRS 16.

5. Property, plant and equipment

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

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 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

6. Intangible assets

Intangible assets comprises software licenses. Changes in the intangible assets for the year ended 31 December 2017 are as follows:

(In thousands of MNT)	**2017**	**2016**
Cost:		
At 1 January	7,970,685	7,970,685
Additions	-	-
At 31 December	7,970,685	7,970,685
Accumulated amortisation:		
At 1 January	6,207,002	5,715,030
Amortisation for the year	491,783	491,972
At 31 December	6,698,785	6,207,002
Net balance at 31 December	1,271,900	1,763,683

As at 31 December 2017, MNT 1,269,177 thousand (2016: MNT 1,759,389 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 2017 no expenses (2016: MNT 29,828 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 2017 are summarized as follows:

(In thousands of MNT)	**2017**	**2016**
Government bonds held to maturity	1,000	1,000
	1,000	1,000

9. Trade receivables

(1) Trade receivables as of 31 December 2017 are summarized as follows:

(In thousands of MNT)	2017	2016
Trade receivables	342,759	514,720
Less: provision for impairment of receivables	(259,907)	(366,227)
	82,852	148,493

(2) Changes in provision for impairment of receivables are summarized as follows:

(In thousands of MNT)	2017	2016
At 1 January	366,227	142,111
Additions	27,375	224,116
Utilized	(121,433)	-
Reversed	(12,262)	-
At 31 December	259,907	366,227

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 2017 mainly consists of receivables from brokers and registered entities.

In 2017 the process for recording accounts receivable was improved and management completed an updated assessment over the recoverability of aged accounts receivable. As at 31 December 2017, the impairment provision for trade receivables was increased by MNT 27,375 thousand (2016: MNT 224,116 thousand) and MNT 121,433 thousand (2016: nil) was utilized.

10. Cash and cash equivalents

Cash and cash equivalents as of 31 December 2017 are summarized as follows:

(In thousands of MNT)	2017	2016
Cash on hand	1,125	622
Cash at bank	1,305,759	514,520
	1,306,884	515,142

11. Share capital

(In thousands of MNT)	**Number of shares (thousands)**	**In thousands of MNT**
At 31 December 2016	218,840	21,884,000
Issue of shares	-	-
At 31 December 2017	218,840	21,884,000

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 2017, the company received a capital contribution of MNT 1,246,594 thousand (2016: nil) from the shareholder.

12. Trade payables

Trade payables as of 31 December 2017 are summarized as follows:

(In thousands of MNT)	**2017**	**2016**
Trade payables – international	310,423	1,156,387
Trade payables – domestic	14,577	20,660
	325,000	1,177,047

13. Revenue

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

(In thousands of MNT)	**2017**	**2016**
Revenue		
Trading fees – government bonds	734,736	362,709
Trading fees – company shares	437,996	331,584
Registration fees from registered entities	262,727	236,839
Brokers' membership fees	77,392	77,859
Trading fees – company bonds	10,104	-
Other revenue	313,453	167,158
	1,836,408	1,176,149

14. General and administrative expenses

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

(In thousands of MNT)	2017	2016
Personnel expenses	803,626	971,475
Depreciation and amortisation charges	130,719	175,070
Terminal fees	59,061	65,024
Utilities and communications	58,668	61,428
Repairs and maintenance	28,782	6,722
Increase in doubtful debt provision	27,375	224,116
Events, trainings and donations	25,080	112,090
Business trip expenses	24,569	57,465
Professional services	21,709	37,844
Other non-current assets written off	-	61,864
Provision for inventory obsolescence	-	29,828
Other expenses	58,237	115,298
	1,237,826	1,918,224

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)	2017	2016
Maintenance expense	311,689	609,869
Amortisation charge	490,211	490,211
Value-added taxes withheld	79,225	60,987
Server fees	27,624	28,408
	908,749	1,189,475

16. Finance income

Finance income consists of interest generated from cash at bank. As at 31 December 2017, MNT 49,199 thousand (2016: MNT 13,840 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 2017 are as follows:

(In thousands of MNT)	**2017**	**2016**
Net foreign exchange gain/loss on payables related to MillenniumIT	28,229	(139,370)
Other net foreign exchange gain/loss	(12,458)	1,830
	15,771	(137,540)

18. Income tax expense

(1) The components of income tax expense for the year ended 31 December 2017 are as follows:

(In thousands of MNT)	**2017**	**2016**
Current tax expense	4,920	1,384
Total income tax expense	4,920	1,384

(2) Reconciliation of effective tax rate for the year ended 31 December 2017 is as follows:

(In thousands of MNT)	**2017**	**2016**
Loss before income tax	(228,241)	(2,055,250)
- Income tax using the Company's statutory tax rate(*)	(22,824)	(205,525)
- Tax on income under the special tax rate (10%)	4,920	1,384
- Tax effect of non-deductible expenses	2,895	46,876
- Current-year losses for which no deferred tax asset is recognised	18,882	146,307
- Change in unrecognized deferred tax assets	1,633	13,754
- Tax effect of non-taxable income	(586)	(1,412)
Total income tax expense	4,920	1,384

(*) 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, 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

(4) 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

(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 2017, 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

19. Related parties, continued

(II) Related party transactions:

(In thousands of MNT)	Transaction value	
	2017	**2016**
Revenue from related entities		
Registration fees	171,819	91,430
Government bond commission premiums	734,736	362,709
Short-term government securities		
Investment in government securities	194,396	-
Redemption of government securities	194,396	196,257
Contribution from shareholder		
Contribution from shareholder	1,246,594	-
Key management remuneration		
Key management personnel	45,650	25,673
Taxation and social insurance		
Withholding value added tax	86,874	65,153
Income tax	4,920	1,384
Social insurance	81,527	98,572

(III) Related party balances outstanding

(In thousands of MNT)	Balance outstanding	
	2017	**2016**
Short term investment in government bonds		
Government Securities	1,000	1,000
Taxation		
Income tax payable	5,136	1,134
Value added tax payable	9,491	1,102
Withholding tax payable	31,042	65,153

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)	**2017**	**2016**
Financial instruments held to maturity	1,000	1,000
Trade receivables	82,852	148,493
Cash and cash equivalents	1,305,759	514,520
	1,389,611	664,013

(*) The aging of trade receivables as of 31 December 2017 is summarized as follows:

(In thousands of MNT)	**2017**		**2016**	
	Trade receivables	Impairment provision	Trade receivables	Impairment provision
Neither past due nor impaired	-	-	54,126	-
Past due (0 - 30 days)	-	-	1,200	-
Past due (30 - 90 days)	-	-	-	-
Past due (91 - 150 days)	-	-	-	-
Past due (151 - 365 days)	31,305	-	28,840	-
Past due (over 365 days)	311,454	(259,907)	430,554	(366,227)
	342,759	(259,907)	514,720	(366,227)

An allowance account in respect to trade and other receivables is used to record impairment losses. If the Company considers that a balance is not finally recoverable, at that point the amounts are considered irrecoverable and are written off against the financial asset directly. For the year ended 31 December 2017, MNT 121,433 thousands (2016: nil) of bad debts were written off.

20. Financial risk management, continued

(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 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**	-	-

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**	-	-

(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.

20. Financial risk management, continued

(3) Market risk, continued

Currency risk, continued

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**	
	2017	**2016**
Cash and cash equivalents	2,602	12,186
Trade payables	(341,465)	(1,156,387)
Net exposure	**(338,863)**	**(1,144,201)**

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

(In MNT)	**Reporting date spot rate**	
	2017	**2016**
USD 1	2,427.13	2,489.53

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)	**2017**	**2016**
Effect on profit after tax	33,886	114,420

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 2017.

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)	2017		2016	
	Carrying amount	**Fair value**	**Carrying amount**	**Fair value**
Assets carried at amortised cost				
Financial instruments held to maturity	1,000	1,000	1,000	1,000
Trade receivables	82,852	82,852	148,493	148,493
Cash and cash equivalents	1,305,759	1,305,759	515,142	515,142
	1,389,611	**1,389,611**	**664,635**	**664,635**
Liabilities carried at amortised cost				
Trade payables	325,000	325,000	1,177,047	1,177,047
Other payables	41,324	41,324	66,266	66,266
	366,324	**366,324**	**1,243,313**	**1,243,313**

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 contingent liabilities and capital commitments as of the balance sheet date that would require disclosure or adjustments to the financial statements presented.

(3) Contingent liability

A supplier has requested payment of an invoice which was issued in 2017 after expiry of the related contract in an amount of MNT 70,387 thousand. The Company currently does not believe it received the related services as the contract had expired. Management considers that this claim is unlikely to lead to an outflow of economic resources.

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.