

NEW RAILROAD PROJECT

Investment highlights

- ✓ **Railroad is vital for transporting 10 percent of world coal resource.**
 - Mongolia has 10 percent (162 billion ton) of world coal resource and it is on the stage of processing.
 - In order to compete on world market, Mongolia must accomplish large scale transportation programs. One of the most important infrastructure projects is building new railroad.
- ✓ **It is impossible to transport coked coals by trucks from Mongolia to Japanese and Korean market besides**
- ✓ **China, Japan and Korea have strong interest on importing coked coal from Mongolia.**
- ✓ **Benefits:**
 - Open new transit transportation which connects Europe and Asia and further connection with Middle East.
 - Connects to the biggest market or industries of China which are located in Hebei, Liyaonan.
 - Builds up the new railroad connection to Chinese ports such as Tianjin, Huanhua, Chihuandao.
 - The project has full of opportunity and economic profit and opens possibilities to reach Japan and Korea.
 - It increases transportation efficiency. Project IRR=13%

Company overview

- “Mongolian Railway” State Owned Shareholding Company (MTZ) was established on 20th March 2008, under Resolution № 82 of the Mongolian Government and decision of the State Property Committee, to start a fair business competition, to set up national railway company in the railway sector and to own and use as a working capital property from the state budget or foreign loan and donation.
- MTZ operates under a Board of Directors and structurally comprise of four Departments: Administration Department, Financial Department, Engineering and Technical Department and Project Department.
- Since its establishment, MTZ SOSC has been using own rolling stock to transport mining, export and import goods. In accordance with bilateral agreement concluded between the Governments of PRC and Mongolia in 2011, the Project to Increase the Rolling Stock Fleet was conducted. Thus, 5 mainline locomotives, 1 shunting locomotive, 245 freight wagons and 2 container lifters were procured. Since, MTZ has conducted 12,400 locomotive-hours of work and hauled approximately 500 million gross ton-km of goods.
- MZT owns one Evolution series locomotives with capacity of 4,400 horse power produced in USA, two twin section 2TA116 series locomotives with capacity of 3000horse power manufactured in Russia, five CKD4v mainline locomotives with capacity of 3,300 horse power manufactured in PRC, 1 shunting locomotive, 245 freight wagons and 2 container lifters.
- In 1995, the trans-loading facility in Zamiin-Uud soum, Dornogobi aimag was delivered with the aid of Japanese Government. MTZ became the owner of this state owned facility and on 14th December 2009 joint lease agreement TG/09/006 was signed by the State Property Committee, MTZ and UBTZ JSC. Lease agreement contributes 456.0 million MNT to national budget.
- Mongolian railway State Owned Shareholding Company is working on the project to develop a Transport and Logistics Center in port Tianjin, China. In 2013, the Government of Mongolia issued a resolution /No.152/ to increase the Access to the Sea. Hence, the Governments of Mongolia and PRC conducted a dialogue to implement a joint project on setting up “Transport and Logistics Center” in Binhai district, Tianjin. For the implementation of this project, MTZ has released the public tender invitation to the Mongolian investors and project participation offers are received. Also, preliminary feasibility study for the implementation of Transport and Logistics Center at Tianjin Port is in progress
- The New Railway project aims to contribute to Mongolian Economy by building new accesses to

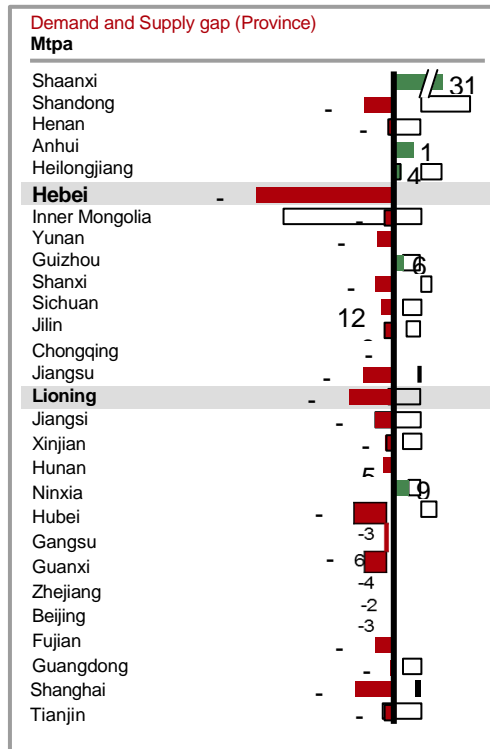
sea born markets through routes stretching South and East of Tavan Tolgoi and passing the territories of China and Russia.

MTZ has contributed to the below amount to the state budget:

- ✓ 2009 12,934.5 thousand mnt,
- ✓ 2010 975,454.90 thousand mnt,
- ✓ 2011 2,173,968.50 thousand mnt
- ✓ 2012 803,789.7 thousand mnt,

In 2011 became one of the best Tax Payer companies

Sector and industry overview



Mineral Resources in Mongolia:

- ✓ Mongolia’s huge minerals deposit is entering into the rapid development and production stage.
- ✓ An efficient infrastructure is necessary for implementation of Mongolia’s development potential. Railway is an atmost important factor to transport and supply the market with efficient and competitive mining commodity.

Current Railway Situation in Mongolia:

- ✓ As of today, Mongolia has in total 1905 km of railroad, out of which 1807 km ‘s is owned by Mongolian-Russian Governments Joint Stock Company,Ulaanbaatar Railway.

- ✓ Since its establishment, railway transportation was solely regulated by Ulaanbaatar Railway. Since the UBTZ owns vast majority of Mongolian railroad infrastructure it is refered as monopoly.

Mongolian Railway Policy:

- ✓ In June 2010, the Parliament of Mongolia has adopted the “State Policy on Railway Transportation”. This policy draw the decision to build 5600km of railroad in three stages to expand

integrated railroad network, to utilize big mines, to cater the export of mining commodities from those mines.

- ✓ The purpose of railway policy is to align the Mongolian mining industry with the development of the infrastructure and to support it in economically efficient and environmentally friendly manner.

MTZ’s network will create the gateway to the biggest Chinese coaking coal importer cities, Liaoning and Hebei. The consolidation policy to merge steel factories in China will increase the demand on coaking coal consumption in North Eastern part of China.

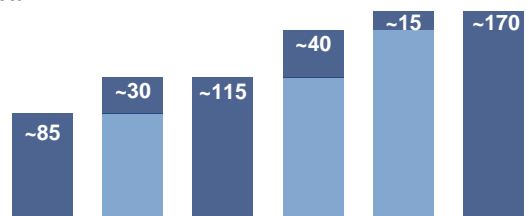
- ✓ The increasing production cost of coaking coal in China has affetcted its competitiveness.
- ✓ The demand for coaking coal in North East China, Japan and Korea will reach 170 Mtpa by 2020
- ✓ Above demand is 5 times greater than the planned production of coaking coal at Tavan Tolgoi mine siteby 2020.
- ✓ In the beginning of 2013, the Government of Mongolia has granted the concession right to build operate and transfer 1st, 2nd Phases of New Railway Project to Mongolian Railway State Owned Shareholding Company.
- ✓ Within the scope of the New Railway Project, the railroad infrastructure of 1800 km’s stated in the Phase 1 and Phase 2 of State Railway Policy is planned to be built, invested and

operated.

- ✓ The Government has obligated the MTZ to implement the project with foreign and domestic investors on Build-Operate-Transfer/BOT/ bases.
- ✓ New Railway project is feasible and economically profitable. Built south and eastwards of Tavan Tolgoi mine site, New Railway will enable access of mining commodities to the sea-born market through Chinese railway.

Brief introduction

	South line	East line
Main stations	Ukhaa Khudag – Gashuun Sukhait	Ukhaa Khudag – Tavan Tolgoi – Sainshand– Baruun Urt –Khuut – Choibalsan – Ereen Tsav, Khuut – Bichigt, Khuut-Numrug
Project progress	Excavation performance /approx 86%/	FEED /Finished/
Total construction batch amount	7 packages	6 packages
Main construction work amount and scales	2 Terminal stations 5 Passing sidings 16 bridges 132 Animal passings & culverts	5 Terminal stations /Tavatolgoi, Sainshand, Khuut, Ereentsav, Bichigt/ 38 Passing sidings 94 bridges 1540 Animal passings & culverts
Main connection points	Tavan Tolgoi group of mining sites Gashuun Sukhait station Gangquan Railway of Shenhua group	Tavan Tolgoi group of mining sites Sainshand industrial park
Throughput Capacity /by 2020 /	Tavan Tolgoi– Oyu Tolgoi: 20.5 Mtpa Oyu Tolgoi – Gashuunsukhait: 22.7 Mtpa	Tavan Tolgoi – Sainshand: 22.9 Mtpa Sainshand – Khuut: 22.9 Mtpa Khuut – Bichigt: 23.9 Mtpa Khuut – Ereentsav: 0.7 Mtpa

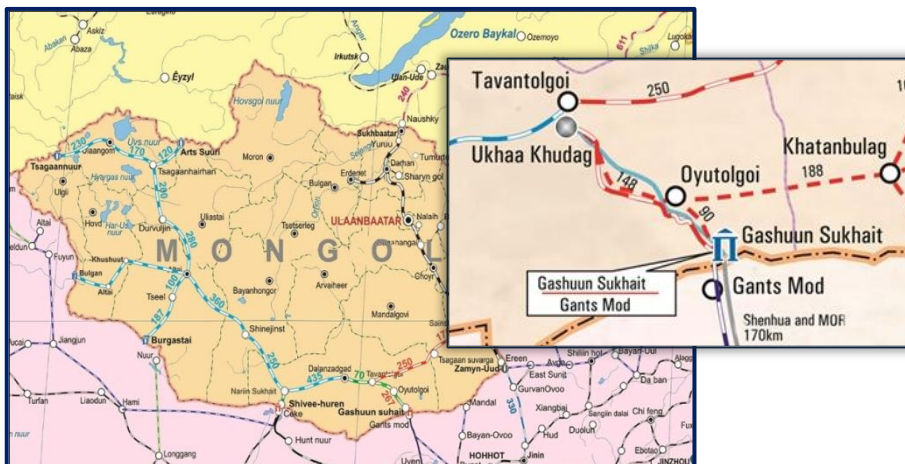
Access To The Large Demand From North East China And The Seaborne Markets, Especially Japan And Korea


- ✓ Demand for coking coal in NE China, Japan and Korea is expected to reach ~170 Mtpa by 2020
- ✓ This is ~5x Tavan Tolgoi’s expected production in 2020
- ✓ Hebei Liaoning Northeast Japan Korea Total
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- ✓ **South line:** Ukhaa Khudag - Gashuun Sukhait
- ✓ **East line:** Ukhaa Khudag – Tavan Tolgoi – Sainshand – Baruun Urt – Khuut – Choibalsan – Ereentsav, Khuut – Bichigt, Khuut – Numrug

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South line: Ukhaakhudag - Gashuunsukhaitroute construction work



The south line railroad will be implemented within 7 packages of construction work

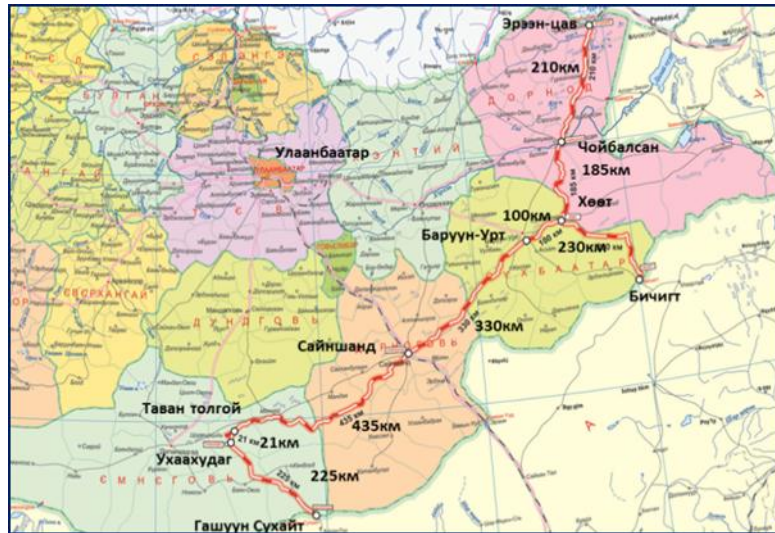
№	Batches	Contractor	Progress
1	Upper, lower structure construction work	Samsung C&T Corporation	2013.05.06 signed contract, 2013.05.16-contract implementation started.
2	Signalization, Communication	-	Tender documents processed
3	Station, Intersection buildings	Urkh LLC	2014.07.25-contract signed, as of 2014.08.18-the construction drawing work is in process.
4	Rolling stock (locomotive, carriage)	-	Tender documents processed
5	Rolling stock repair and maintenance equipment	-	Tender documents under processing.
6	Project management consultant	DBI International	2013.09.28 contract signed.
7	Power supplier	Montsakher LLC	2014.07.25 contract signed, 2014.09.22-construction drawings under process.

Construction work process

Initial plan was to perform 84.50% of total railroad base infrastructure construction work until end 2014. However, as of today, 53.17% of railroad base structure is built with delay of 31.33%.

№	Job component	Unit	Scale	Performance		
				Quantity	Percentage	Total
1	Earthwork	m3	11 634 560	10 075 665	86,6%	53,17%
2	Bridge	work	99 169	65 212	65,76%	
3	Pipe	pc	123	75	63,70%	
4	Upper structure work	km	-	-	-	





Financial Snapshot

Project performance projection in three years time in case of a successful implementation:

Total revenue/ million \$	1,485.9
EBITDA / million \$	1,179.3
Margin	79%
Net profit / million \$	279.8
Current asset / million \$	122.1

CAPEX / million \$	8,575.0
IRR	14%

Project Management Team

- **Legal Advisor** – MTZ has made a contract with “Sidley Austin” LLP and “MDS Associates” via contract ref: MT3-3Y-2013-01 on May 1st, 2013. Carries out the preparation of Memorandum of Understanding with investors, list of contract conditions of cooperation, draft concession agreements.
- **Technical Advisor** – Contract with “Nippon Koei” LLC was made in May 14th, 2013. 80 percent of the technical work is performed.
- **Financial Advisor** – Contract was made with “BNP Paribas” and “Guggenheim International” LLC on May 24th, 2013. Performs relevant works such as renewing of financing model, memorandum of understanding with investors, preparation of contract conditions of

cooperation has been done.

- **Monitoring Advisor**- on 22nd May 2013 public bid for monitoring advisory was released and 11 proposals were received. After studying the proposals “DBI”, “Mott MacDonald”, “Worley Parsons”, “Sunjin & Tonichi” partners were shortlisted based on their international experiences. Tender invitations were sent to the shortlisted companies on 9th July and “DBI” won the bid. The contract was signed on 28th September 2013.



Risk management

№	Risk	Risk Management
1	Political decisions	This kind of decisions creates modifications of technical indicators in course of project implementation, causes delays in procurement process and extra costs. Technical modifications cause extra costs which affects the project financing. Also, when procurement is organized by the state, it causes delays in delivering the captured project on-time for small contractors. Hence, it is necessary to decrease state interference in cause of the project implementation.
2	Financing restrictions	The cut of financing from state budget to Ministry of Road and Transportation urges the project either to postpone or terminate. Hence the implementing company becomes incapable to set off the bills to contractors. Hence, the implementing company shall take immediate actions to overcome the obstacles.

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