



## BUSINESS COUNCIL of MONGOLIA

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To: BCM Members

From: E. Saruul, Project Manager

Re: Prime Minister Ch.Saikhanbileg's address to the nation delivered last night - Unofficial English Translation

My Mongolian brothers and sisters,

With each passing day we greet warmer weather and longer days as we successfully bid farewell to winter. The year of the sheep, that in Mongolian tradition symbolizes wealth and success that easily multiplies, had a favorable head start. Season's greetings to you all!

By the end of last year, and for the first time in history, all political parties that have seats in Parliament managed to establish a National Coalition Cabinet. Time flew by quickly as the Cabinet themed as the "Government of Resolution" celebrated its 3rd month and raced in its efforts against time and challenges.

When the Cabinet communicates on its work performance, it is said to be putting up a delusional show, when the Cabinet quietly pursues its work, withholding comments, it is criticized as non-performing and unaccountable. To resolve these extreme views and shed light on what we have achieved and what goals we are to pursue in the future, I greet you tonight on the Eve of the Spring Parliamentary Session.

As I stated, the primary goal of our new Cabinet is Economy, economy and economy, I have dedicated most of my time and effort to this sector.

Mongolia has cut its budget expenditures, it has developed and approved its work plan to overcome economic strains, it has signed its first ever Economic Partnership Agreement with Japan, it has agreed to implement a second program with the Millennium Challenge Corporation, it has reached a three party agreement on social and labor consensus, it has successfully taken measures to increase gold mining and extraction, it has identified new financing resources for fuel and oil products, it has put in place measures to decrease ministerial and agency expenditures, it has ended the moratorium on mining exploration, it has issued a decree to establish a new (central) complex hospital, it has found resources to rebuild the new building for secondary school N93, it has delivered a decision on the construction of the Erdenet-Ovoot railroad, it has increased pensions, it has restrained high level government officials from affecting state-owned enterprises' decision making and operations/management, it has hosted the world's biggest tourism exhibition in Berlin, and over 40 other major activities have been successfully carried out within the first 100 days of government. Much work has been carried out, many issues have been resolved. But there is still much work that has to be done and many issues that have to be settled.

What do we do now?

Do we continue to strike and protest, play politics, overthrow the Cabinet or dissolve Parliament?

We have abused politics beyond comprehension in the last three years. We thought the mining commodities price would always be high, we became too arrogant with the little success we had, we

believed that the rest of the world wouldn't affect us, as if we were aliens. As a result, our hands became tied by our political dispute, which doesn't bring food to our tables.

If we could have succeeded as much as we have offended each other, organized protest and strikes, overthrown Cabinets, we could have been highly developed. It is time to look at the reality surrounding us. Instead of complaining that this is not working, that this is failing, ask how many people said: let's make it happen, let's do it.

Those who are shouting to join the protests and strikes, maybe they could whisper instead about dedicating themselves to work to make things happen?

It is time to stop this nonsense. Not even 3 million, but even 76 people sitting in one hall, or even a man and his wife do not have 100 percent coherence and mutual understanding. We do not have time to sit around and wait for this miracle to happen.

It is of no interest to me to watch over my countrymen dispute among themselves, to watch how far beyond 2000 MNT the US dollar goes, how their salary and national currency depreciates. My tolerance has grown thin by watching people take advantage of the ones that are suffering and struggling, playing politics on negligible matters that lead to destructive outcomes for the country's reputation by frauds that call themselves patriots. Let's end this sham now. Let's not play big politics anymore. Let's build greatness and work towards it.

Time has come to deliver solutions to all of this. As Prime Minister of Mongolia I realize very clearly with each day that tough decisions that are in the best interest of the country have to be taken.

The Government of Resolution and National Coalition have worked days and nights during the first 100 days and have worked towards delivering real results. All Mongolians impatiently await what decisions will be delivered on the launch of Oyu Tolgoi project Phase 2 that has been stalled for 3 years, and on making Tavan Tolgoi a World renowned mine, which has been stalled for 6 years.

The Oyu Tolgoi underground pit project has been under negotiation for a very long time. The different parties have finally come to a mutual understanding and settlement on the two main issues that the parties had not agreed on.

Now the parties are finalizing their respective internal processes and will soon officially announce results to the world.

This historical resolution to launch the underground mining phase of Oyu Tolgoi shall open possibilities for the world's biggest 14 banks to invest 4.2 billion US dollars in Mongolia. It shall boost not only Oyu Tolgoi's operations but also several hundred domestic companies' operations that will participate in Mongolia's development and open new opportunities to generate income.

As of today, Tavan Tolgoi project negotiations are at the final stage and are about to be concluded. The parties have also managed to reach consensus. During the next Cabinet meeting proper decisions are to be made to formalize the outcome of negotiations and officially announce the launch of the Tavan Tolgoi project.

The implementation of the Tavan Tolgoi project shall go from dispute to actual work, unlocking the 6 year stagnation of the railroad construction and turning it into reality. The Government budget will be replenished with 200 million US dollars this year only. We will be able to regain 300 million US dollars that has been invested in the railroad project.

Also I want to particularly provide an explanation regarding the 1072 shares that have led to many inquiries from the public. If the Parliament holds discussions and delivers approval on these projects, there is a possibility of transferring 100 000 MNT to a special fund account for every 1.8 million shareholders as a dividend from advance payment this year only. In order to further increase the value of the shares we are studying the possibility of transferring Erdenes Tavan Tolgoi shares, Erdenet's 51 percent of shares, Oyu Tolgoi's 34 percent of shares to Erdenes Mongol.

I can assure you that only by unlocking these two major projects, foreign investment will come in and will then bring down the US dollar exchange rate and appreciate the Mongolian tugrug. It will open opportunities to overcome difficulties, and to improve the livelihood of Mongolians. Let's abandon political games. Let's take smart and bold decisions courageously and work towards real and tangible outcomes.

As Prime Minister, I am making far-reaching decisions towards the development and prosperity of this country in a timely manner. I carry responsibility and accountability before the Mongolian people and history for the decisions I have made. Prior to making such complex and important decisions I have received the honorable duty to advance mega projects from the public via sms. You have made it clear to me that we are on this path. I have fulfilled the task that the majority appointed me to do on this matter. Now it is time to do actual work.

Many projects have been stalled for a very long time. The cost of lost opportunities is high. Unpaid salaries, profits unrealized, unbuilt kindergartens, incomplete roads, lost time, unachieved development, unrealized dreams. I encourage you to stop wasting your time, effort and capital to obstruct the natural progression of projects, instead use these efforts to contribute to new projects and new opportunities. The Cabinet is always willing to support productive initiatives. We are lucky people to inherit 1.5 million sq.kilometers of vast and rich lands, where every hard working man can make a fortune.

The launch of these two mega projects will not easily resolve all of the difficulties we are facing today. But it is a big step towards an opportunity for prosperity. Stagnation has been halted and motion has started. Now we must not shift into reverse gear but only shift forward and with every newly launched project advance to full speed development. This is our next assignment.

We must leverage our achievements and launch many new projects. Two mega projects are about to advance. Time has come to advance "Mongol tolgoi".

My Mongolian brothers and sisters, For the first time in the history of the highest lawmaking institution, the Parliament of national unity and coherence, it is our duty to reconcile and make changes to the Constitution. We must decide whether to pursue classic Parliamentary governance, whether to elect soum and district municipal governors from the public, whether the Parliament has one or two chambers, whether Members of Parliament can also be members of Cabinet, whether we separate cities and capital, etc, many decisions must be made and we must discuss these all together. I encourage that we reach consensus on this matter by the end of the Parliament's Spring Session.

The Cabinet will actively collaborate with Parliament, parties and political coalitions to make parties and their operations healthy, improve their ethics, renew the political party law to increase political party's financial transparency and renew the election law.

Fraudulent populists only know how to bad-mouth and be skeptical towards reform and development. They either say the agreement is poorly developed, or the railroad is of the wrong type, and at last end up with words such as environmental protection, national heritage, etc.... Such impostors find any topics and themes as an excuse to stall development.

In recent days a survey for 130 local mining exploration licenses showed that only 30 proposals were supported by the local population and the remaining 100 were opposed.

The circumstances indicate that the flaw is in the system itself. Localities that have been offered the chance to conduct exploration for minerals had shown no interest whatsoever. Therefore the Government will propose a new law to restructure the local taxation system. The draft tax law will offer local municipalities the possibility of retaining up to 30 percent of mineral reserves payment of operating mines. The mine operating in soums and provinces will generate more income, hence they shall develop quicker than the others. Gatsuurt mine's fate will not be up to well off people in Ulaanbaatar but up to the residents of Mandal soum. Gatsuurt mine's mineral reserves payment of 30 percent, the special permit fee of 50 percent will be retained locally according to the new law. The operation of Gatsuurt mine is estimated to generate over 60 billion MNT for the local budget. The purpose and investment of such funds is to be determined and monitored by local residents, regardless of it being used to establish

a new soum or build new kindergartens and schools. Local discretion over such funds and local monitoring will allow at last stopping unproductive disputes.

Allow me to make one clear statement: Noyon Mountain will retain its natural state and historic heritage while the mining operation is carried out. There is no need to question this statement. I want to reiterate again that Noyon Mountain will be preserved while the mining operation is carried out.

Next topic that I will touch on is price liberalization. One of the favorable measures that Mr.Byambasuren's Cabinet took for the development of Mongolia 24 years ago was liberalization of prices and tariffs on products. Today we must finalize and conclude these measures by further promoting classic market economic conditions. Currently the prices of energy, flour and wheat, oil and oil products are being manipulated by the Government, which sets an unhealthy pattern.

By controlling prices on energy we are holding back economic growth and industrial development. Instead of exporting energy, we are barely making ends meet with energy imports. During the last 40 years we have only undertaken extension work on two power plants, but no new plants have been built.

The Government of Mongolia hereby announces its initiative to liberalize energy prices beginning July 1 of this year. Initial steps will be taken to reduce losses in industry, introduce new management schemes, and run pilot programs on energy-efficient consumption.

Households with normal consumption of energy will be charged with today's tariffs up to 150 kwt and additional consumption is to be paid according to market price.

Agricultural and flour producing companies have been operating as part state owned and part private companies in the past years. The Government policy of subsidies, tax discounts and exemption activities have helped to internally supply its market 100 percent.

Unfortunately government entities and the agriculture support fund have started to get too involved in private sector businesses, whereas the subsidy policy became obsolete, production of wheat exceeded demand by 2.5 times.

Market-based healthy competition would have taught them to perform their work on fields and not on Chinggis Square. Therefore, the Ministry of Food and Agriculture is to thoroughly study agricultural companies' proposals and begin pricing their products according to market principles, starting from this year. The subsidies program is to be targeted to specific social groups.

Fuel and petroleum products no longer require the price stabilization program and should be regulated by market forces, with healthy price fluctuations. We have stopped the price stabilization program. Unfortunately, actions by fraudulent populists in Mongolia have prevented the decrease in the price of fuel and petroleum products.

Thanks to such populists, Mongolian end-users are still buying expensive petroleum, even as the price worldwide has fallen significantly. Regardless of economic difficulties we have managed to increase pension benefits after Tsagaan Sar. Soon in consultation with Labor Unions we will determine salary increases for civil servants.

Now that we are unlocking the Oyu Tolgoi and Tavan Tolgoi projects, the stagnation of which has been suffocating Mongolian development, the Government of Mongolia will now concentrate on economic expansion, and the launch of new projects.

CHP5 project implementation that has also been stalling for many years will soon be resolved. As Prime Minister I have gathered both parties – the Government working group and investment consortium – and instructed them to finalize negotiations and paper work in April. If demands are not met, specifically, if the negotiations are not completed by the end of April, I will take measures of removing non-performing working group members from the Government. If negotiations are stalled from the investor's side, I have strongly emphasized that negotiations with new investors will be considered. Both parties have expressed continuous interest in the project and promised to begin implementation of the project in July. Any stalling projects will be resolved and forced to begin operations in a similar manner.

Besides the CHP5 project, I have given instructions to study and find financing resources for Baganuur, Booroljuut, Shivee Ovoo, Tavan Tolgoi power plants, Eg and Khovd river, and the Erdeneburen hydropower plant projects. Building the Egiin hydropower plant will complete the power system. Simultaneous implementation of these 6-7 projects will transform Mongolia from an energy importer into an energy exporter. In this case we will no longer beg for power from neighbors and will be making profit by selling excess energy.

We shall not limit ourselves only to hydropower plants and thermal plants.

We have identified investors for coal gasification and liquid fuel extraction projects. Domestic cement factories are pending to be commissioned this summer. Policy support from the Government to increase gold production will lead to production of over 20 tons, exceeding all previous years' records.

The construction of paved roads in Dornod aimag and five western aimags will be resumed this year. Investors and contractors for the 1602 km of road have been identified.

Not only paved road constructions but also railroad projects that have been delayed for several decades will take place this year. Pending for this year are the Tavan Tolgoi- Gashuun Sukhait 267 km, and the Erdenet- Shivee Ovoo 570 km railroad projects.

The Government announced that it will re-launch the "Shine Yarmag" project of 4000 apartment buildings, which has been delayed since 2011. In Ulaanbaatar, 7 residential district projects will resume this year. And land will be allocated to develop new residential areas.

The 8% residential mortgage program is to continue this year. But it will be implemented with a new design and handled differently. A new pension fund will be established with the goal of enriching its funds, opening individual accounts for every user and operating at its full capacity, efficiently increasing the fund's proceeds, and linking it to the 8% mortgage program. Mortgage loans will be applicable for apartments that are over 80 sq.meters this year. For the people and target groups that cannot afford mortgage loans, we will implement an apartment rental program.

We are raising financing for the next stage of the "New soum" building program, beyond the current 24.

Debates about Ulaanbaatar's air-pollution and smoke problems, particularly with regards to fuel efficiency and emissions, must now stop. To diminish air pollution in Ulaanbaatar we are determined to start building a gasification factory this year. Only gas can solve air pollution problems. The Government has decreed that it will build a gasification plant, its infrastructure and line work will be financed with a Chinese concessional loan.

Also two projects on waste processing plants will resolve most waste problems.

The Government has elaborated and presented to Parliament a set of over ten tax laws to create a clear and comprehensive tax environment, coherent with international standards, to reduce tax fees, to introduce certain tax credits, and to make tax disputes more civil rather than criminal law issues.

The Mongolian Stock Exchange management will be restructured and operated by the London Stock Exchange. MIAT will be restructured with domestic and international partners and management, we will also renew the civil aviation structure, and we will operate and develop stateowned enterprises under the model of Singapore's Temasek. These resolutions are being considered and a decision will be delivered by this Government.

One important assignment that this Cabinet pays particular attention to is a world renowned program for "Start-ups" which is designed to support private business, and exporting businesses, at their initial state. There is plenty of good news about good creative businesses out there. "Mongol Gutal" LLC, with Tuvdennyam as director, has signed a contract to supply Holland with 3000 pair of its own manufactures. In order to deliver on this order Tuvdennyam needs a loan to finance its operations, and the Government will support such business because it brings in US dollars and exports Mongolian products to another country. Such projects are to be supported by the Ministry of Industry under a specific program.

In April and May, the Prime Minister, in collaboration with private sector representatives, is planning to visit the world's financial and investment centers to attract foreign investment to Mongolia. Finding investment and bringing new know-how and new technologies will improve our situation.

Mongolia just recently co-hosted, as an official organizer, the international tourism fair in Berlin, successfully presenting our country. Three million Germans have expressed interest in visiting Mongolia. If the Government can dedicate 200 billion MNT to support the five big world hotel networks, such as Holiday Inn or Radisson, they will be willing to establish their hotels and start operations this year.

We need to learn to see foreign people from different perspectives. We should learn to see that they are here for our wellbeing, to spend their money here and leave their capital in Mongolia. A vivid example is Thailand, where even though they have internal conflict, dividing the country into the red and yellow camps, nonetheless they are very supportive of their tourism sector and always protect the safety of tourists. Some of us proudly boast that he or she is a patriot but rather than boast we should have policies that best serve the country. Mongolians have hospitality in them that has been inherited for many generations, equality of ethnicity and religion were deeply honored by our ancestors.

In order to attract tourists the Government will pay special attention to quickly adopting the Casino law, the horse race gambling law, building indoor stadiums, convention centers and movie studios. The entertainment business will help us to diversify our economy with new sectors and expand our potential.

Producers of the "Marco Polo" series recently visited Mongolia and we agreed to cooperate on season two. If we successfully establish a movie studio, "Marco Polo" seasons three and four could be produced here, which can be followed up with an even bigger project, a Chinggis Khaan series. Other news that are of interest to our younger generations is that in collaboration with Ulaanbaatar City Mayor and Governor Bat-Uul, we promise to organize a concert in Chinggis Square during Naadam in July and to invite celebrities from all over the world to perform during the National Holiday celebration. A new tradition of worldwide celebrities visiting Mongolia will be established beginning from this year.

The next issue I want to touch on is that we establish a harmonious and warm environment in our society and try to preserve mutual understanding and respect.

The Twitter society often posts tweets that play on populist sentiment and has no place in our society and won't have it in the future. This is healthy image. A closed society requires criticism like air and water, whereas in an open society people want to try to act and make things happen, rather than just resorting to unproductive complaining.

The unreasonable criticism that followed the introduction of daylight savings time has proved to us that fraudulent populism is no longer accepted. We are not shifting time for the first time. It is the third time since 1983 – in the last 32 years. There is a prominent show called "Are you smarter than a 5th grader" and any of them would tell you that countries farther away from the equator make adjustments according to daylight savings. The North American and European continents have 80 countries that make such adjustments. False accusations that time adjustments negatively affect health is an example of how extreme and desperate our populists have become.

Daylight is now longer, it is time to get some work done.

In conclusion I want to briefly summarize the key points I have made. In a short period of time the Government has achieved a great deal, with tough decisions made. After unlocking the implementation of two mega projects that were blocking foreign investment and economic development, what do we concentrate on now?

1. Redraft changes to the Constitution and ratify the election law and the political party law
2. After Oyu Tolgoi and Tavan Tolgoi, unlock the rest of the mega projects
3. Local taxation law for local development
4. Price liberalization as a key to market development
5. Diversify the economic portfolio by opening opportunities in other sectors and not be reliant only on the mining sector
6. Implement a program to open the foreign currency inflow and expand its circulation

7. Restructure the pension fund and mortgage policy to enhance efficiency
8. Social welfare programs will be directed to target groups
9. Preserve National unity

My Mongolian brothers and sisters, I encourage one of the recent initiatives of Artaaga, an active twitter user, to support positive PR by disseminating only good news and comments on social media. Taxi drivers, bus conductors, grocery salesmen, waiters, teachers, doctors, anybody should think positively, to see positively and speak accordingly. Being positive and supporting positivity will allow us to live positively in our homeland. Hardworking, energetic, productive positive people live and work beside one another.

As in the recent past when the first Olympic champion was born in Mongolia and we all united under one flag, let's unite our positivity again for an even better future and higher achievements and work together!

May the eternal blue sky bless Mongolia for always!