

2015 First-Half Update

Dear shareholders, Board and colleagues,

I would like to bring you up-to-date on activities of the Company, achievements and milestones reached during the first six months of 2015.

In general, the period can be characterized as positive in terms of overall operating environment after two years of decline. Long awaited agreement on Oyu Tolgoi's second-phase development was, finally, concluded by the grand-coalition government, led by the PM Sayhanbileg, and Rio Tinto. It looks like Mongolia is finally "back to business" as described by Western media. Macroeconomic indicators remained stable, inflation was kept in single digits albeit with ever lower economic growth on the back of slowing demand in China and resultant low prices for Mongolia's major commodities.

Ard Holdings made good progress towards the planned listing on the Mongolian Stock Exchange before the end of this year. The Board met two times in plenary sessions and made several important decisions. The annual statutory shareholders meeting was held in May and BDO Audit worked on completing their audit of the books for 2014. I am happy to report that all companies in the group obtained unqualified auditor opinions. Management letters were delivered and follow-through actions are to be agreed upon by the respective management and Boards. This will be the first time the Group will produce its consolidated financial statements reviewed by international auditors.

The total balance sheet of the Company grew to MNT36 billion and the valuation of Ard Holdings stands at MNT35.5 billion with a MNT2,069.25 per share valuation. See the attachment for more details.

Ard Financial Group printed its second Annual Report, which is being distributed now. You can find the digital version of the report here: <http://bit.ly/1CSOOvD>. We intensified our public branding and promotional campaign as part of our general marketing strategy for Ard's imminent IPO. We sponsored the 5th Mongolia Economic Forum, supported Mongolia's participation in Venice Biennale, funded Jean-Jacques Annaud's Wolf Totem screening in Ulaanbaatar and took part in numerous business and economy related forum and conferences. Most recently we supported Husogton's first public show in Mongolia after their successful campaign at Asia's Got Talent. We supported the school number 29 with gifts to its students again this year. Ard and its subsidiaries became active members of various business associations and lobby groups such as AmCham, Business Council of Mongolia, National Chamber of Commerce and Industry, newly founded UB Chamber of Commerce, CEO Club, non-bank financial institutions' association and insurers association.

Ard Holdings is now widely acknowledged as a major champion for pro-business policy in Mongolia with our active participation in PM's Economic Council and UB Chamber of Commerce – both Ms. Oyungerel Janchiv, Chair and Mr. Ganhuyag Ch. Hutagt are on the Council and the Board of UBCC joined by Mr. Nemehbaatar of ZAG.

Public speeches and appearances, news media interviews and advertisements were all pointed in the direction of our ambition to become the first quoted full-fledged financial services conglomerate in Mongolia. We can now boldly state that Ard, within last 18 months, when we started our rebranding campaign, became a recognized name in the Mongolian business community.

Ard Holdings

We continued to work with a minimal staffing of 4 on direct payroll: CEO, executive assistant and two accountants. The driver continues to be paid by Ard Assets and one of the accountants works for TenGer Systems although is still on Ard Holdings' payroll. The position of the receptionist remains vacant and will be filled in the 3rd quarter. An Internal Auditor and another accountant are to be added as well.

The Company successfully settled into its new head office premises – Ungot Hevlel, where we hold 20 percent stake. Offices were renovated and refurbished and they will be ready to receive our new investors in one of the most professional settings.

Mr. Bruno Raschle of Adveq became a new shareholder in Ard Holdings in June and agreed to serve on news for the country.

In the second quarter of 2015 Ard Holdings turned from a net borrower to a net lender and in fact came out with zero bank debt by the end of the first half. Yes, we are debt free now for the first time since 2008, when we negotiated our first debt leverage from our international partners to acquire new assets. Ard Holdings made the last installment payment on the State Bank loan in May. At the same time we expanded our USD loan book by USD750 thousand in the first six months.

The holding company helped Ard Credit and Ard Insurance to clean their balance sheets of legacy receivables from some shareholders. The total amount was MNT500 million swapped with our own shares. More work to be done on this end with both companies. At the same time we were able to secure additional stakes in both companies: Ard now controls 55 percent of the insurance business and 58 percent of the lender.

Jinst Uvs, a joint stock shell company listed on the Mongolian Stock Exchange, was acquired with the professional support from Ard Securities. We now control 84 percent of this company and will use this vehicle for Ard's listing through a reverse merger.

After lengthy discussions we finally decided to sell our remaining stake of 4.26 percent in TenGer Financial Group to a group of existing shareholders of TFG led by Mongolia Opportunities Fund at USD8.77 per share. The total consideration of this sale will be around MNT13 billion at current exchange rates. About MNT5.3 billion is going to be allocated to Altay Holdings' UBIG and Apollo Ventures share buy-back at MNT1,500 per share according to the 2014 December agreement (see the pro-forma shareholders structure prior and after the proposed transaction). After payment of taxes we expect to hold on to approximately MNT6 billion of cash upon closing of this transaction, which is expected to happen prior to our listing on the MSE.

We continued negotiations on the potential disposal of our 50 percent stake in Institute of Engineering and Technology with ZAG, our partner in IET. We will be working to bring back a concrete proposal for Board's review in August. Management is actively looking out for takeover opportunities in the banking sector.

Operational highlights of subsidiaries

Institute of Engineering and Technology

- The Board of IET decided to pay out dividends in the amount of MNT100 million.
- The Institute accommodates a total of 1,977 students.
- The audit inspection on the state funding has been carried out by the National Audit Authority. IET is the first private school audited by an international auditing firm.
- Sakura Science program provided internship opportunity in Japan for Mongol Koosen pilot class students and staff. Cooperation agreements have been signed with Japanese Okinawa Koosen and Nagaoka Technology University.
- 3 students of IET were awarded from the local competitions with the right to participate in the 43th World Skills Olympiad to be held in August, 2015 in San Paolo, Brazil.
- The school won the “Ger Project” tender, educational program for secondary schools to learn to construct traditional Mongolian tents, which is financed by Oyu Tolgoi mining company and initiated by Ulaanbaatar Shapers’ Hub.
- A potential acquisition of the printing business is under negotiation and is expected to close in the third quarter.
- The school is discussing a potential collaboration with Sumitomo for building and developing technological center at the university premises.

Ard Credit

- The Board of Directors of Ard Credit decided to distribute 30 percent of its 2014 net income as dividends, turning a new chapter in the Company’s history.
- Ard Holdings made an offer to Ard Credit’s shareholders to swap their shares for the Group’s. In the end Ganzorig Chuluun, CEO, made a deal to swap his 8 percent at Ard Credit with the Group shares making Ard Holdings 58 percent shareholder in Ard Credit.
- MNT250 million credit line was signed with TDB.
- Intergroup loan worth MNT340 million was repaid with the help of Ard Holdings.
- Ard Credit published its first annual report in Mongolian and English.
- New web page with online loan application has been launched.
- Despite economic slowdown and deteriorating business environment Ard Credit managed to make MNT195 million net income in the first half. However, increasing number of loan arrears might influence the profitability of the Company.

Ard Insurance

- During the reporting period a major share swap transaction between Ard Holdings and VenturesOne was closed and Ard Holdings acquired the controlling majority of 55.3 percent of shares in the Company. Due to some shareholders issues, the final registration of this shareholding change has not been completed.
- The Board and Board committee meetings duly convened in the first quarter of 2015 and decided to distribute dividends of MNT214 million to the shareholders. The Company maintains its track-record of paying out dividends annually and at the same time managing to increase its paid-in capital by MNT750 million, in order to comply with regulatory requirements for minimum capital.

- An independent director was added to the Board - Mr. Gantulga Bulgan, CEO of Suu JSC, was appointed to the Board of Directors.
- Long overdue receivable of MNT208.6 million from Intergroup was finally resolved with the help of Ard Holdings and the agreement was signed in March 2015.
- The second phase of the software update has been successfully introduced and launched. Accounting software has also been subject to updates and modifications. Message delivery system for insurance payment has been launched. Internal network improved.
- Staff training requirements have been identified with ongoing implementation.
- A new office of 660 square meters was acquired and renovation works are on-going. 50 percent of total planned investment has been made and the Company will move into its new offices within 2015.
- Total premium income for the reporting period reached MNT4.4 billion despite slowing economy and deteriorating business activity.
- Ms. Chuluuntsetseg, CEO, was appointed as President of Mongolian Insurers' Association in May, 2015.

Ard Securities

- The Board of the Company duly convened twice during the reporting period and approved the budget and plans for 2015.
- The name change was finally endorsed by the Financial Regulatory Commission and registered at the State Registration with consequent notification to MSE, Central Depository and commercial banks.
- Share sale among the minority shareholders at Ard Holdings was facilitated and new investment worth USD500,000 was finalized at Ard Holdings.
- Listing of Ard Holdings as a closed joint stock at the Central Depository is on-going. Listing on the Mongolian Stock Exchange is expected to be completed in the fourth quarter of 2015.

Ard Assets

- Annual General Assembly convened in the second quarter followed by the sports events for all members.
- Facebook group account for members has been launched for better communication.
- The application for payment and settlement operations was submitted to FRC.
- Elections for the Board of Directors, Supervision Committee and Loan Approval Committees were held and the CVs of candidates submitted to FRC for approval.
- Policies and procedures for loan and savings products have been revised.
- Paid-in capital increased to MNT70.6 million.
- 2 new companies with total 45 people joined the pension program increasing the number of members to 381.

Ard Management

- The fund management company named Ard Management was set up and the request was filed for a license to FRC.
- Ad-hoc Board and management of the Company have been appointed and the final appointment is expected to be done by the Group's Board upon the license approval.
- The minimum capital requirement of MNT100 million to set up a management company has been resolved with the short-term financing from Ard Group.

I want to congratulate you all on the completion of the successful first six months of the year and wish everyone all the best in the future. Ard will see itself quoted on the board of the Mongolian Stock Exchange in next several months. Good luck with that!

Yours truly,

A handwritten signature in black ink, consisting of several loops and a long horizontal stroke extending to the right.

Ganhuyag Ch. Hutagt,
CEO

Valuation sheet, LOI with Mongolia Opportunity Fund, Shareholding structure (before and after exit of UBIG and Apollo Ventures), Financials including receivables and payables are attached to this report.

Valuation Sheet

	Valuation (MNT million)		Ownership Percentage	Valuation basis
	12/31/2014	6/30/2015		
Investment				
TenGer Financial Group	11,684.77	12,103.62	4.26	Trade value / 706,596*8.77\$/
Institute of Engineering and Technology	9,824.90	9,824.90	50.00	Fixed assets value
Ard Insurance	6,637.20	6,637.20	55.31	Last trade value
Ard Credit	1,600.00	1,852.90	58.00	Investment value
Ard Securities	983.00	983.00	100.00	Cash flow
Nomyn Hishig	1,382.40	1,382.40	20.00	Property value
Others	218.81	218.81		Investment value
Long term investments	32,331.09	33,002.83		
Short term investments	958.61	2,020.32		Investment value
Total investments	33,289.70	35,023.16		
Assets				
Fixed assets	897.32	1,073.73		
Cash and cash equivalents	408.47	211.23		
Account receivable/ (payable)	(595.95)	(728.76)		
Total	709.84	556.20		
TOTAL VALUATION	33,999.54	35,579.35		

Total shares outstanding	16,795,333	17,194,364
Price per share	2,024.34	2,069.25

Financial Statements as of 30th of June, 2015

in MNT thousands

BALANCE SHEET	2014.12.31	2015.06.30	Change	%
Cash and cash equivalents	408,470	211,232	-197,238	-48
Receivables, short term investments	1,546,292	2,132,074	585,782	38
Prepayments	79,376	144,106	64,730	82
Fixed assets	447,862	534,030	86,168	19
Long term investments	32,331,089	33,002,833	671,744	2
TOTAL ASSETS	34,813,089	36,024,275	1,211,186	3
Liabilities			0	
Account liabilities	985,727	845,914	-139,813	-14
Income tax payable	1,290	419,784	418,494	32441
Loan	0	812,103	812,103	100
Deferred tax payable*	5,212,734	967,355	-4,245,379	-81
Long term liabilities	136,179	129,703	-6,476	-5
Total liabilities	6,335,930	3,174,859	-3,161,071	-50
Equity				
Share capital	1,679,533	1,719,436	39,903	2
Share premium	9,298,761	9,929,061	630,300	7
Other capital accounts	13,799	13,799	0	0
Retained earnings	17,485,066	21,187,120	3,702,054	21
Total equity	28,477,159	32,849,416	4,372,257	15
LIABILITY AND EQUITY	34,813,089	36,024,275	1,211,186	3

* Deferred taxes are calculated on the revaluation income of investment assets and will be paid once they will be realized.

in MNT thousands

INCOME STATEMENT	2014.12.31	2015.06.30
Income from investments	107,759	4,153,029
Interest income	154,766	79,629
Income from dividends		179,029
Rental income		74,901
Gains on fair value	831,435	671,745
Administrative expenses	819,600	387,727
Profit / (loss) from currency rate changes	43,802	63,227
Interest expenses	151,050	40,626
Bad debt		449,927
Other expenses	224,963	99,019
Profit / (loss) before tax	(212,617)	4,244,261
Income tax	40,153	477,880
Deferred tax expense	83,144	67,174
PROFIT / (LOSS) FOR THE YEAR	(335,913)	3,699,207

Shareholding Structure as of 30th of June, 2015

No	SHAREHOLDING STRUCTURE		Before the exit / 2015.06.30		Scenario after the exit	
	Name of shareholders	Number of shares	Ownership percentage	Number of shares	Ownership percentage	
1	UBIG LLC	1,907,059	11.09	-	0.00	
2	Intergroup LLC	1,871,276	10.88	1,871,276	13.76	
3	Apollo Ventures LLC	1,690,000	9.83	-	0.00	
4	Luna & Luna LLC	1,373,801	7.99	1,373,801	10.10	
5	VenturesOne BV	1,304,043	7.58	1,304,043	9.59	
6	GANHUYAG Chuluun	1,290,000	7.50	1,290,000	9.49	
7	MAK LLC	873,000	5.08	873,000	6.42	
8	NEMEHBAATAR Bayartogtoh	507,834	2.95	507,834	3.73	
9	BRUNO Raschle	461,016	2.68	461,016	3.39	
10	BUREN-ERDENE Huldorj	457,300	2.66	457,300	3.36	
11	SORONZONBOLD Lhagvasuren	453,210	2.64	453,210	3.33	
12	GERELTUYA Sedbazar	452,000	2.63	452,000	3.32	
13	UYANGA Galnyam	431,589	2.51	431,589	3.17	
14	SERGELEN Munh-Ochir	350,794	2.04	350,794	2.58	
15	BAT-OCHIR Dugersuren	313,650	1.82	313,650	2.31	
Total		13,736,572	79.89	10,139,513	74.57	
Other shareholders		3,457,792	20.11	3,457,792	25.43	
TOTAL		17,194,364	100.00	13,597,305	100.00	