

## MONGOLIA EXTRACTIVE INDUSTRIES TRANSPARENCY INITIATIVE (MEITI)

# MONGOLIA TWELFTH EITI RECONCILIATION REPORT 2017



ULAANBAATAR CITY  
2018

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**The Report and all appendices relating to the report are intended for the use of the National Council of the Mongolia Extractive Industries Transparency Initiative and the Multi-Stakeholder Working Group**

*Some information to be disclosed in accordance with EITI Requirements and Terms of Reference are appended to this report. Due to its large volume, some appendices are publicly available by uploading on website of EITI Governance Support Project as MS Excel format in order to be easy to use.*

Appendix Numbers	Comment	Appendix Linkage
1, 4, 5, 6, 7, 8, 9, 10, 11a, 11b, 11c, 12, 13, 14, 15, 16c, 16d, 16e, 16f, 16h, 16i, 16j, 16k, 16l, 16m, 16n, 16o, 17, 18, 19, 20a, 20b, 21, 21a, 21b, 21c, 21d, 22, 23, 24, 25, 26, 27a, 27b, 30, 31, 32	These appendices will be printed out along with the report and will be uploaded on EIT Governance Support Project I website as well.	<a href="http://www.eitimongolia.mn/mn/reconciliation-report">http://www.eitimongolia.mn/mn/reconciliation-report</a>
2, 3, 16a, 16b, 16g, 28, 29, 33	These appendices will only be uploaded on EITI Governance Support Project website.	<a href="http://www.eitimongolia.mn/mn/reconciliation-report">http://www.eitimongolia.mn/mn/reconciliation-report</a>

## ABBREVIATIONS

<b>CIT</b>	Corporate Income Tax
<b>USD</b>	United States Dollars
<b>MNT</b>	Mongolian national tugrugs
<b>MRPAM</b>	Mineral Resources and Petroleum Authority
<b>USA</b>	The United States of America
<b>ISA</b>	International Standards on Auditing
<b>MNET</b>	Ministry of Nature, Environment and Tourism
<b>PSA</b>	Product Sharing Agreement
<b>CGA</b>	Customs General Administration
<b>PAM</b>	Petroleum Authority
<b>GDP</b>	Gross Domestic Product
<b>TPP</b>	Thermal Power Plant
<b>GoM</b>	Government of Mongolia
<b>MEITI</b>	Mongolia Extractive Industry Transparency Initiative
<b>MYYYA</b>	Mongolian National Mining Association
<b>Kt</b>	Thousand tonnes
<b>IAS</b>	International Accounting Standards
<b>VAT</b>	Value Added Tax
<b>MSWG</b>	Multi-Stakeholder Working Group
<b>EITI</b>	Extractive Industry Transparency Initiative
<b>IFRS</b>	International Standards on Financial Reporting
<b>MOF</b>	Ministry of Finance
<b>NGO</b>	Non-governmental Organization
<b>SOE</b>	State-Owned Entities
<b>SOJSC</b>	State-Owned Joint Stock Company
<b>BOD</b>	Board of Directors
<b>MMHI</b>	Ministry of mining and heavy industry
<b>MNAO</b>	Mongolian National Audit office
<b>NAP</b>	National action plan
<b>NSO</b>	National statistics of Mongolia
<b>JSC</b>	Joint Stock Company
<b>LLC</b>	Limited Liability Company
<b>MUST</b>	Mongolian University of Science and Technology

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December 19, 2018

Hart Nurse Ltd and Ulaanbaatar Audit Corporation LLC were appointed by the Mongolia Extractive Industries Transparency Initiative Secretariat to undertake the twelfth EITI Reconciliation for Mongolia, for 2017 and to prepare a Report on this Reconciliation ("Engagement") and conducted the contract.

The audit reconciliation engagement for material revenue flow received by Government and paid by Mongolian mining, oil industries and exploration entities in 2017 carried out between 19 July 2018 and 15 November 2018.

We performed the reconciliation works as required in the Terms of Reference in line with ISRS 4400 (International Standards on Related Services), "Engagement to perform agreed-upon procedures regarding financial information".

We report our findings in the accompanying report including its appendices. Because the procedures were not designed to constitute an audit or review made in accordance with International Standards on Auditing or International Standards on Review Engagements, we do not express any assurance on the transactions beyond the explicit statements set out in this report.

Our report is for the purpose of informing the Multi-Stakeholder Working Group and National Council on the matters set out in the terms of reference.

This report relates only to the subject matter specifically set out herein and does not extend to any financial statements of any entity taken as a whole

**Hart Nurse Ltd  
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## **1 INTRODUCTION**

The Extractive Industries Transparency Initiative (EITI) is a global coalition of governments, companies and civil society equally working together to strengthen governance and improve stakeholders' responsibilities in accountable use of revenues from natural resources (minerals, oil, natural gas) for the benefits of society by ensuring the transparent reporting.

In EITI Reporting, companies in extractive industry publish what they pay and governments publish what they receive from these companies where such information is reviewed and reconciled by an independent international audit firm; the reconciled reports then to be prepared and released transparently to the public. This process will be performed under coordination and oversight of multi-stakeholder group comprised of government, companies and civil society.

### **1.1 BACKGROUND**

The Extractive Industries Transparency Initiative ("EITI") is a global standard for improving transparency and accountability in the oil, gas and mining sectors. The Government of Mongolia announced the country's adoption of EITI in 2006. In follow-up actions, a National EITI Council and a multi-stakeholder working group (MSWG), comprised of representatives of the government, mining companies, and civil society, were established to implement EITI.

Since adopting EITI, Mongolia has produced eleven EITI reports, and has appointed the consortium of Hart Group and Ulaanbaatar Audit as the Independent Administrator for the current (twelfth) report.

The Principles and Requirements for EITI implementation were re-stated in the 2016 EITI Standard, which was formally launched at the EITI Global Conference in Lima 24-25 February 2016.

This 2016 EITI Standard encourages countries to make use of existing reporting systems for EITI data collection and make the results transparent at source. It requires that the identity of those that own and profit from extractive activities should now be disclosed: all countries must ensure that the companies that bid for, operate or invest in extractive projects declare who their beneficial owners are. The requirement will take effect as of 1 January 2020.

The EITI's quality assurance mechanism, Validation, which checks whether countries are adhering to the EITI Requirements, has also been refined in the 2016 EITI Standard. Although the bar for achieving compliance has not changed, the assessment will to a greater extent take into account the diversity in implementing country membership, recognise efforts to go beyond the minimum requirements and incentivise continuous improvements in implementation. On 13 February 2018, the EITI Board decided that following Validation, Mongolia had made satisfactory progress in implementing the EITI Standard.

Other features of the 2016 Standard are a greater focus on ensuring that recommendations from EITI Reports are considered and followed up by governments and multi-stakeholder groups so that necessary reforms in sector management take place, as well as other minor revisions aimed at clarifying ambiguities and addressing inconsistencies.

### **1.2 INDEPENDENT ADMINISTRATOR'S ROLE**

The Independent Administrator's role for the twelfth Mongolia EITI Report is set out in the Terms of Reference. The principal elements are to:-

- Examine and comment on the scope proposed by the MSG for the reconciliation and report
- Prepare data collection templates to gather the information for the report, and distribute to the government and private entities required to report, as decided by the MSG
- Collect information from reporting entities, using the E-reporting system, data collection templates and other appropriate means
- Compare the information received and reconcile it as far as possible
- Comment on the comprehensiveness of the financial data reported and, as necessary, make recommendations for strengthening the reporting process in future

- Prepare a report to be published by the MSG containing a reconciliation of the reported revenues and payments, and other information related to the extractive industries in Mongolia

Our report is for the purpose of informing the Multi-Stakeholder Working Group and the National Council on the matters set out in the terms of reference.

This report is prepared both in English and Mongolian languages. If there should be any discrepancies or contradictions between the English and the Mongolian version, the Mongolian version will prevail.

### **1.3 PARTICIPANTS**

Participants in the 2017 reconciliation comprised:

- government entities, both national and sub national, which receive material revenue flows from extractive industry companies
- government departments and agencies with responsibility for oversight, regulation and reporting for the extractive sector (see Section 5.6)
- state owned enterprises operating in the extractive sector (see Section 5.7.1)
- extractive industry companies making material payments to government, as defined by the relevant decision (see Section 3.2.7)

The participating government entities and companies are detailed in Section 3.2 and Appendices 1, 2 and 3.

### **1.4 ACKNOWLEDGEMENTS**

The consortium of Hart Nurse Ltd and Ulaanbaatar Audit Corporation LLC would like to express sincere thanks to Mr. Enkh-Amgalan B, Senior Advisor to the Prime Minister and Secretary of MEITI National Council, and to the team of the MEITI Secretariat, led by Mr. Tsolmon Sh, for supporting and assisting us with organisation of meetings with major officials from the government and its various organisations and agencies, as well as with extractive companies; and for sending and receiving official confirmation letters to/from these parties, and for assistance with other procedures.

## 2 EXECUTIVE SUMMARY

### 2.1 SECTOR OVERVIEW

The extractive sector is a major part of the economy of Mongolia, and in 2017 it represented **23.4%** of GDP and earned **USD4.9 billion** in exports, some **79.6%** of total exports for the year.

The government obtains a significant proportion of its income from extractive companies, and in 2017 received **MNT2,240.6 billion** from the sector. It also participates directly in extractive activities through shareholdings in mining companies, especially the wholly owned Erdenes Mongol LLC and its subsidiaries.

### 2.2 EITI PARTICIPATION

The Government of Mongolia committed to implement EITI in December 2005 and was admitted as EITI Candidate on 27 September 2007, and after successful Validation against the old EITI Standard of its implementation, the country achieved compliance on 19<sup>th</sup> October 2010.

Since being admitted to EITI, Mongolia has produced eleven reports; this current report is the twelfth EITI Report, and is the third to be produced under the 2016 EITI Standard.

In January 2017, the EITI Board found that Mongolia had made meaningful progress in implementing the 2016 EITI Standard for the first Validation. Later the assessment was made in January 2018 regarding if Mongolia had made progress in addressing eight corrective actions established by the EITI Board following Mongolia's first Validation. In February 2018 Mongolia became the second country to meet all the requirements of EITI standard among over 50 resource-rich countries joined the EITI, which was the remarkable achievement for the country.

### 2.3 SCOPE OF THE REPORT

The report contains information on a range of topics concerned with the mining, oil and gas sector, including:

- revenue stream of the extractive sector
- the economic contribution
- production and exports
- state participation in the extractive sector
- licensing and contract transparency
- an overview of mineral and oil resources
- social expenditures and rehabilitation activity
- company ownership

On this last topic, Mongolia EITI is already examining how it will comply with the EITI Requirement that beneficial ownership information to be disclosed by all extractive companies from 1<sup>st</sup> January 2020. For this report, the information disclosed by companies on their beneficial ownership has improved in comparison to previous years (see Section 6.1). Moreover, as specified in the Terms of Reference, new sections 6.10, 6.11 and 6.12 were included in this report on the requirements related to water consumption, solid waste and project based reporting.

230 companies (including 11 SOEs) were selected by the MEITI Working Group to report their payments to national and subnational government; and 50 government entities (including 21 sub national government entities) reported their receipts from these companies.

The receipts and payments were compared and reconciled, and the detailed results are set out in this report and its appendices 9 and 10.



## 2.4 TOTAL GOVERNMENT RECEIPTS

### 2.4.1 Government receipts in 2017 from the entire sector

As at 31 December 2017, government records disclose that 3,708 licences have been issued to 2,225 companies.

Government departments, national and sub national, report receipts from all extractive companies on the MEITI e-Reporting system. Government did not report any receipts from 170 of the licensed companies on the e-Reporting system, but did include data from 40 companies which do not hold licences, meaning that receipts were reported from 2,091 companies. This is discussed further in section 2.7.6 below.

We identified that 23 of these 2,091 companies were not engaged in extractive activities, leaving 2,068 extractive companies reported on the e-Reporting system.

Total receipts from these 2,068 companies amounted to MNT 2,240,581 million, as follows:-

Table 2.1

Government entity MNT millions	Government receipts total (MNT mln)
General Department of Taxation	1,367,064
Mineral Resources and Petroleum Authority of Mongolia	281,298
Customs General Administration	221,303
Social Insurance General Office	170,524
Ministry of Labour and Social Protection	11,177
Ministry of Nature Environment and Tourism	2,419
Subnational level	121,826
Penalty	1,815
Donations and supports received by government entities	18,811
Other	44,343
<b>Total</b>	<b>2,240,581</b>

Details of total revenues received from each benefit stream within the agreed scope of this EITI Report, including revenues that fall below agreed materiality thresholds<sup>1</sup> are shown in Appendix 6.

### 2.4.2 Reconciliation coverage

During the scoping phase, the MSG selected 230 companies for reconciliation of flows reported by government and by the companies. The selection process is described in section 3.2. Table 2.2 below shows the government receipts from these companies after reconciliation, with a comparison to the flows from the total sector and the resulting coverage.

<sup>1</sup> as required by the 2016 EITI Standard, Requirement 4.1.d

Table 2.2

Government entity	Government receipts		
	All extractive companies	Companies included in reconciliation	%age coverage in reconciliation
MNT million	After reconciliation	After reconciliation	
General Department of Taxation	1,367,064	1,362,973	99.7%
Mineral Resources and Petroleum Authority of Mongolia	281,298	265,746	94.5%
Customs General Administration	221,303	218,299	98.6%
Social Insurance General Office	170,524	162,942	95.6%
Ministry of Labour and Social Protection	11,177	11,104	99.3%
Ministry of Nature Environment and Tourism	2,419	969	40.1%
Subnational level	121,826	120,339	98.8%
<b>Sub total - reconciled flows</b>	<b>2,175,611</b>	<b>2,142,372</b>	<b>98.5%</b>
Penalty	1,815		
Donations and supports received by government entities	18,811		
Other	44,343		
<b>Total</b>	<b>2,240,581</b>		

### 2.4.3 Reconciliation of receipts reported by government

During the reconciliation, items were identified which led to re-statement of figures initially reported by government in respect of the companies included in the reconciliation. Table 2.3 shows a comparison of the initially reported government receipts and the government receipts after reconciliation for companies included in the reconciliation.

Table 2.3

Government entity	Government receipts	-		
	Companies included in reconciliation			
MNT million	Before reconciliation	After reconciliation	Adjustment	%age change
General Department of Taxation	1,389,880	1,362,973	-26,907	-1.9%
Mineral Resources and Petroleum Authority of Mongolia	265,543	265,746	203	0.1%
Customs General Administration	194,240	218,299	24,059	12.4%
Social Insurance General Office	165,049	162,942	-2,107	-1.3%
Ministry of Labour and Social Protection	11,084	11,104	20	0.2%
Ministry of Nature Environment and Tourism	7,509	969	-6,540	-87.1%
Donations and supports received by government entities	7,481	18,434	10,953	146.4%
Other	242	46,073	45,831	18938.4%
Subnational level	104,058	120,339	16,281	15.6%
Total	2,145,086	2,206,879	61,793	2.9%

The major adjustments made to the receipts as a result of the reconciliation work were:-

### **General Department of Taxation**

Southgobi Sands have paid CIT of MNT24.0 billion and VAT of MNT2.4 billion for tax recovery resulted by tax inspection. This was the recovery of tax undercharged of previous years rather than the current year tax due, so government figures were amended by reclassifying into 'Other taxes paid to the state budget'.

### **Customs General Administration (CGA)**

Customs duty and VAT for the period January to July 2017 amounting to MNT24.3 billion paid by Oyu Tolgoi LLC were not reported by the CGA. This amount was the ultimate responsibility of the Oyu Tolgoi LLC, but was paid to the CGA indirectly via "National Power Transmission Grid" SOJSC, which declared the amount at customs.

### **Donations and support received by government entities**

Two government entities did not report the full value of receipts for donations:-

- Oyu Tolgoi LLC financed the 'Gobi Oyu Development Support Fund' NGO with MNT12 billion in order to support sustainable development of Umnugobi aimag. However, the aimag government reported the amount as a receipt from NGO instead of from Oyu Tolgoi LLC.
- Tsairtmineral LLC within its social responsibility financed 'Dornogobi Ikh Khugjil Fund' NGO with MNT0.7 billion. However, the aimag government did not report the amount.

### **Other receipts**

Two major adjustments were made to other receipts:-

- MNT 26.4 billion of CIT and VAT recovery paid by SouthGobi Sands LLC to Mongolian Tax Administration (MTA) was transferred to an appropriate revenue stream section (see above).
- Customs duty and VAT for the period August to December 2017 amounting to MNT16.8 billion paid by Oyu Tolgoi LLC were not reported by the CGA because Oyu Tolgoi LLC paid this amount to CGA indirectly via National Power Transmission SOJSC, which declared the amount at customs (see above).

### **Sub national receipts**

A significant amount of discrepancies arose due to incomplete reporting of receipts by subnational governments.

Typically, companies reported fully but receipts reported by subnational governments were often incomplete. These reporting deficiencies were observed during previous reconciliations and require further attention.

There is fuller discussion in section 4.5.2 of the amendments made as a result of the reconciliation.

## 2.5 OVERVIEW OF RECONCILIATION RESULTS

### 2.5.1 Comparison of reconciled government and company flows

The results of the reconciliation are summarised in the table 2.4 below.

Table 2.4

Items	MNT millions	MNT millions
Government receipts after reconciliation		2,206,879
Company payments after reconciliation		2,207,116
<b>Net unresolved differences</b>		<b>-236</b>
<b>Companies not responding to reconciliation requests</b>		
<u>Bayarsgold LLC</u>		
- reported by government	50	
- reported by company	202	
- under reported by government		-152
<u>GPF LLC</u>		
- reported by government	3,176	
- reported by company	3,212	
- under reported by government		-36
<b>Other unresolved differences</b>		
Government reported higher receipts than companies		62
Government reported lower receipts than companies		-110
<b>Net unresolved differences</b>		<b>-236</b>

2 companies out of the 230 companies selected by the Working Group for reconciliation reported payments to government using templates issued by the Independent Administrator but did not respond to repeated requests for an explanation of the difference between the amounts they reported and the amounts reported by government.<sup>2</sup> Differences due to those 2 companies are MNT188 million.

In the reconciliation for 2017, the Independent Administrator resolved reported discrepancies, and reduced the difference between government and company figures from MNT122 billion to MNT48 million during 2 months of work since the inception of the engagement.

### 2.5.2 Overview of extractive company contributions

According to the payments reported by company, after reconciliation to reported government receipts, 75% of all payments made by extractive companies in 2017 were made by six companies; and payments from the top 20 extractive companies represented 91.5% of amounts received by government from extractive companies.

Table 2.5

	Company name	Company reported data	Company % of total	Cumulative % of total
	<b>MNT million</b>			
1	Erdenet Mining Corporation LLC	563,688.7	25.2%	25.2%
2	Oyu Tolgoi LLC	414,786.7	18.5%	43.7%
3	PetroChina Daqing Tamsag LLC	235,879.1	10.5%	54.2%

<sup>2</sup> See further section 4.4

	Company name	Company reported data	Company % of total	Cumulative % of total
		<b>MNT million</b>		
4	Erdenes Tavan Tolgoi JSC	229,532.4	10.2%	64.4%
5	Tavan Tolgoi JSC	146,494.5	6.5%	71.0%
6	Mongolyn Alt MAK LLC	108,945.5	4.9%	75.8%
7	Energy Resources LLC	78,176.3	3.5%	79.3%
8	Tsairt Mineral LLC	67,729.2	3.0%	82.4%
9	SouthGobi Sands LLC	47,749.8	2.1%	84.5%
10	C.O.A.L LLC	23,977.8	1.1%	85.6%
11	Shin Shin LLC	20,539.7	0.9%	86.5%
12	Boldtumur Eruu Gol LLC	15,546.9	0.7%	87.2%
13	Mongolroostvetmet LLC	14,357.2	0.6%	87.8%
14	Chinhua MAK Nariinsukhait LLC	13,250.1	0.6%	88.4%
15	Usukh Zoos LLC	13,176.1	0.6%	89.0%
16	Baganuur JSC	12,173.9	0.5%	89.5%
17	Erdenes Mongol LLC	11,703.3	0.5%	90.1%
18	Dong Sheng Petroleum Mongolia LLC	11,557.4	0.5%	90.6%
19	Centerra Gold Mongolia LLC	11,551.8	0.5%	91.1%
20	MonEnco LLC	10,182.6	0.5%	91.5%
	Other companies	189,582.0	8.5%	

All companies

**2,240,581.0**

Details of payments from all companies are given in Appendices 12 and 13.

## 2.6 COMPLETENESS AND ACCURACY OF DATA AND ASSURANCE

### 2.6.1 Government

#### 2.6.1.1 Use of MEITI E-reporting system

All government entities reported on the MEITI E-reporting system.

#### 2.6.1.2 Management assurance

It was a requirement of the Mongolia EITI Working Group that adequate assurance over the data reported for the EITI reconciliation would only be provided by confirmation of the government entities and companies by means of written representation from senior management of reporting entities in a prescribed format.

Accordingly, we requested the following 10 government entities to provide a management representation letter to assure the completeness and accuracy of their information provided; however 3 entities did not return a letter.

Table 2.6

#	Government entities	Information on initial reconciliation discrepancies	Explanation on initial reconciliation discrepancies	Management representation letter
1	Mineral Resources and Petroleum Authority of Mongolia	√	√	×
2	Ministry of Nature Environment and Tourism	○	○	√
3	Customs General Administration	√	√	√
4	Ministry of Finance	√	√	√
5	Ministry of Labour and Social Protection	√	√	√
6	State General Office for Social Insurance	√	○	×
7	State Property Policy Regulatory Authority	√	√	√
8	Ministry of Mining and Heavy Industry	√	√	√
9	Agency for Standardisation and Metrology	√	○	×
10	Mongolian Taxation Administration	○	√	√

- *Not applicable*

○ Received excel files, no signed document

√ Received signed document

× Not received

The government entities which did not respond are:-

- Mineral Resources and Petroleum Authority of Mongolia
- State General Office for Social Insurance
- Agency for Standardisation and Metrology

The MEITI Secretariat should follow up with these departments and report to the Working Group the reasons for the failure to comply with the requirement.

Four local governments did not provide a management representation letter. These were:-

- Gobi Altai
- Gobi Sumner
- Sukhbaatar
- Selenge

The MEITI Secretariat should follow up with these local governments and report to the Working Group the reasons for the failure to comply with the requirement.

### 2.6.1.3 Audit assurance

Government entities audited by the Mongolian National Audit Office (MNAO) did not provide any assurance from the MNAO on the figures reported for the EITI.

### 2.6.2 State owned enterprises

Provision of the information required by the MEITI Working Group and use of the MEITI E-reporting system is an important part of demonstrating the government's commitment to a comprehensive EITI reporting process.

### 2.6.2.1 Use of MEITI E-reporting system

At the date of determination of the scope (14<sup>th</sup> August 2018) all the SOEs had reported on the MEITI E-reporting system.

### 2.6.2.2 Management assurance

Two SOEs did not provide a letter of assurance authorised by management in accordance with the Working Group's instructions:

- Erdenet Mining Corporation LLC and
- Bayanteeg JSC

The MEITI Secretariat should follow up with these SOEs and report to the Working Group the reasons for the failure to comply with the requirement.

### 2.6.2.3 Audit assurance

After a meeting with the MNAO regarding the assurances of the SOEs, we apprehended the MNAO's position, related decision and further intention and came to the following conclusion:

- Guidance on financial statement audit approved by the MNAO, paragraph 15.4.2 specified that *"Payments made by extractive entities to national budget shall be reconciled with EITI Working group and government entities which received revenues"*;
- The Government reports revenues it received from companies within May and June. As per the Budget Law, the MNAO performs audit on reports submitted by Direct budget governors and provides opinion by 15<sup>th</sup> February of the next year. MNAO explained that reconciliation of reports, which are submitted in May and June, is unachievable due to time and personnel availability.
- The MNAO is able to perform audit on the EITI reports filed by the direct budget governors and government entities while it performs their financial statement audit.
- Extracts from the audited financial statements of the SOEs are published in the MNAO website, but the IFRS compliant financial statements (complete with notes) are not available, so users are unable to obtain all the information about the companies.

The following SOEs have not provided auditor's assurance:

- Erdenet Mining Corporation LLC
- Baganuur JSC
- Darkhan Metallurgical Plant JSC
- Ulaanbaatar Railways (Gravel Plant) JV
- Mongolrostsvetmet LLC
- Tavan Tolgoi JSC
- Bayanteeg JSC

### 2.6.2.4 Audited financial statements

Three SOEs did not comply with the Working Group's requirement to submit audited financial statements:-

- Tavantolgoi JSC
- Darkhanii Metallurgical Plant JSC
- Bayanteeg JSC

Upon reviewing the government's consolidated financial statements, we observed that the audit opinions provided by the MNAO were 'qualified' for 13 SOEs. Of these 13 companies, 3 are extractive companies:-

- Shivee Ovoo SOJSC
- Erdenes Tavan Tolgoi JSC
- Mon Atom LLC



The other 10 companies are not engaged in the extractive industries.

In the National Accounts, the MNAO provided 'qualified' opinion with regards to MNT15 billion of mis-presentations of the financial statements of Shivee Ovoo SOJSC and MNT11.2 trillion of mis-presentations in the financial statements of Erdenes Tavan Tolgoi JSC.

Upon reviewing the audited financial statements provided to the Independent Administrator, we observed that the audit opinion was qualified in several cases. Erdenes Tavan Tolgoi JSC for instance, issues raised by the independent auditor were about the absence of evidence for initial calculation of unit share price, account's balance for coal stockpile, accounting of rehabilitation and lack of calculation improvement. The disclosure of accounting differences resulting from the independent auditor suggests the need to strengthen the financial management of the SOEs.

The value of reported receipts for these companies was:-

**Table 2.7**

MNT million	Total receipts after reconciliation	
Company name	Government	Company
Shivee Ovoo SOJSC	4,995	4,995
Erdenes Tavan Tolgoi JSC	229,532	229,532
Mon Atom LLC	Not in scope - no material payments	

### 2.6.3 Private companies

#### 2.6.3.1 Use of MEITI E-reporting system

Of the 219 companies (excluding SOEs) covered in the reconciliation, 177 companies reported payments using the MEITI E-reporting system. 42 companies failed to use the MEITI E-reporting system, and data was collected through additional templates.

The receipts reported by these 42 companies totalled MNT 247,340 million, which is 11% of total receipts. One company which failed to use e-Reporting, PetroChina Daqing Tamsag LLC, reported MNT 235,873 million.

Details of the non-compliant companies are included at Section 4.2.

Further engagement is required with the extractive companies to emphasise the requirement to use the system and to establish whether there are practical difficulties (e.g. in meeting the input deadlines) and how these may be overcome.

#### 2.6.3.2 Management assurance

Of the 219 companies (excluding SOEs) included in the report, 24 were non-compliant with the procedure determined by the Working Group and did not return a signed management assurance. The value of receipts reported by companies which did not send a representation letter totalled MNT585,782 million, which represents 27% of total reported receipts.

Details of the non compliant companies are included at Appendix 7.

#### 2.6.3.3 Audit assurance

In addition, all companies (excluding SOEs) were asked to provide a confirmation from their auditor.

121 companies provided a letter from their auditor confirming that the information supplied for the EITI report was consistent with their financial statements, which had been audited under the International Standards on Auditing, and were true and correct. The value of receipts reported by companies which did not send assurance from their auditor totalled MNT1,753,235 million, which represents 79% of total reported receipts.

Details of the non compliant companies are included at Appendix 7.

This is a marked improvement compared to the previous reports.

#### 2.6.3.4 Audited financial statements

146 out of 219 companies provided a copy of their audited financial statements. Eight audit reports were qualified; the remainder were unqualified.

The value of receipts reported by companies which did not send a copy of their audited accounts totalled MNT443,945 million, which represents 20% of total reported receipts.

Details of the non-compliant companies are included at Appendix 7.

The objective of requesting audited financial statements is to be able to confirm the assurance environment in the reporting companies. There needs to be further engagement with companies to improve compliance with this requirement.

#### 2.6.4 Summary

In the absence of any management representation letters from numbers of government entities, there is limited assurance over the government figures reported. The Independent Administrator does not audit the figures presented and therefore, relies on assurance from reporting entities.

Management assurances were received from all SOEs except from 2 SOEs. The audit qualifications on SOE accounts received indicate that there may be a room for improvement in reporting from certain SOEs. We were not able to review the financial statements of 3 SOEs.

90% of the companies provided a management assurance letter, and 47% provided a letter from their auditors. Nearly 78% of the financial statements we reviewed had unqualified audit reports that was considerable help to the Independent Administrator for reconciliation of the amounts reported by the companies. However, for the current report, there are some gaps in the assurance information provided by the largest companies.

Table 2.8

Company Name	Audit Report	Audit letter	Management representation letter	Payments reported (MNT bn)	Rank	%age of total payments
Erdenet Mining Corporation	√	x	x	563.69	1	25.16%
Oyu Tolgoi LLC	√	x	√	414.79	2	18.51%
PetroChina Daqing Tamsag	√	x	√	235.88	3	10.53%
Erdenes Tavan Tolgoi JSC	√	√	√	229.53	4	10.24%
Tavan Tolgoi JSC	x	x	√	146.49	5	6.54%
Mongolyn Alt MAK LLC	x	x	√	108.95	6	4.86%
Energy Resources LLC	√	x	√	78.18	7	3.49%
Tsairtmineral LLC	√	√	√	67.73	8	3.02%
SouthGobi Sands LLC	√	√	√	47.75	9	2.13%
COAL LLC	√	√	√	23.98	10	1.07%

## **2.7 KEY FINDINGS**

### **2.7.1 Need for Minerals Transparency Law**

There are restrictions imposed in a number of laws on the information which government entities may provide, for example:

- Khan-Uul District Tax Office refused to provide any additional information, disclosure or explanation without permission from the relevant companies as per the General Taxation Law.
- CGA also explained it was not able to provide detailed information on companies due to restrictions in the General Customs Law.
- We requested information of mineral testing from the Agency for Standardisation and Metrology, but it was prohibited under the Law on State and Official Secrecy.
- Erdenes Mongol JSC informed us that it was unable to provide information related to the SOEs, but did not provide us any explanation why.
- Licence holder entities refused to provide information requested by additional forms especially the Beneficial Ownership information due to confidentiality of individuals.

### **2.7.2 Non reporting companies**

42 companies did not submit initial reports, which was largely responsible for the initial discrepancy between government and company numbers. The companies which did not initially report and had significant payments were

- PetroChina Daqing Tamsag LLC (MNT235,879 million),
- Moncement Building Materials LLC (MNT2,412 million) and
- Darkhan Metallurgical Plant JSC (MNT2,406 million)

2 companies – Bayarsgold and GPF LLC - did submit their initial reports and contacted the Independent Administrator during the reconciliation; however, these 2 companies did not submit additional forms to clarify discrepancies in the E-reporting system. The government reported receipts of MNT188 million from those companies, which is not material compared to the receipts of the entire sector.

Although, companies' reporting is positively changing year to year and numbers of reporting companies are increasing, there are still some companies who do not report their material amount of payments or delay voluntary filing of the additional forms. This indicates the necessity of law that requires mandatory submission of the report.

### **2.7.3 Improvement of reporting quality of government entities**

We carried out significant amount of adjustments on the amounts initially reported by some government entities and companies. This makes us believe that those entities and companies do not take sufficient care when initially reporting in the E-reporting system. Also it indicates the continuing need for the government and the companies to concentrate on accurate and responsible reporting of the receipts and payments.

### **2.7.4 Overview of assurances obtained**

The EITI Standard emphasises the importance of data quality, especially as a prerequisite for mainstreaming and reduction in the need for reconciliation of data.

The MSGWG required government entities, SOEs and companies to provide assurance on the payments and revenues information through auditor's assurance, management representation letter and audited financial statements.

The returns from reporting entities for key elements of these assurance requirements in 2017, with information from previous EITI reports shown for comparison, were as follows:-

Table 2.9

	EITI report		
	2015	2016	2017
<b>National government entities</b>			
# in scope	10	8	10
Management assurance not compliant	6	7	3
No audit assurance	10	8	10
<b>SOEs</b>			
# in scope	10	11	11
Management assurance not compliant	1	1	2
No audit report	4	2	3
<b>Companies</b>			
# in scope	192	202	219
Management assurance not compliant	45	39	24
No audit report	119	65	73

Government entities and SOEs have again failed to provide management assurance in every case, and not all SOEs provided a copy of their audited financial statements.

On the other hand, while company assurance and audited financial statements were not provided by every company, there has been an improving trend in the recent past.

Nevertheless, the Independent Administrator is still making significant amount of adjustment on the payments and revenues, and consideration should be given on how to improve the accountability of participating stakeholders for misreporting of data for EITI.

### 2.7.5 PetroChina Daqing Tamsag LLC

This company did not report its figures in the initial stages on the e-Reporting system. When a report was received, it disclosed payments to government in 2017 totalling MNT 235 billion, for

- Profit oil MNT 190 billion
- Royalties MNT 29 billion
- Other items MNT 16 billion

These amounts were confirmed by the company's management in its letter of representation to the Independent Administrator. However, the financial statements for the company for 2017 disclose revenue of only MNT 35 billion; these financial statements were audited and were also attested by the company's management.

This is a major and unexplained difference. It is possible that the financial statements are incorrect, even though they have been audited. We note that this would be in contravention of Mongolian law.

We also note that the company did not provide to the Independent Administrator a statement from its auditors that the figures submitted were consistent with the audited financial statements of the company.

We recommend that MRPAM should investigate this further; and the Ministry of Finance should review the accounts of the company to determine whether the financial statements of the company have been properly expressed.

### 2.7.6 Incomplete company listing

Following the Inception period, the Independent Administrator was able to compare the number of companies holding extractive licences (2,225) and the number of companies for which government reported receipts on the e-Reporting system (2,091). This comparison revealed a discrepancy, which has not been explained. Further investigation of the discrepancy revealed:-

Companies holding extractive licences	2,225
Not included in the e-Reporting system	<u>-174</u>
	2,051
Companies included in the e-Reporting system, which do not hold an extraction licence	<u>40</u>
<b>Number of companies on e-Reporting system</b>	<b><u>2,091</u></b>

The process followed by the MEITI secretariat is:-

1. MEITI produce a list of all companies holding extractive licences
2. MEITI issue the list to the Ministry of Finance, which coordinates the gathering of data from the various government departments
3. Government departments report receipts from the companies on the list
4. The Independent Administrator uses the results of this exercise to make a selection of companies for inclusion in the reconciliation.

Only companies which are on the e-Reporting system are requested to provide details of payments to government. If there were to be a company with an extractive licence for which government did not report a receipt, they would not be included in the reconciliation.

There appears to have been no check by either the Ministry of Finance or the MEITI secretariat that all companies holding extractive licences were included on the e-Reporting system – whether or not there were receipts reported by government.

If one (or more) of the 174 companies highlighted above had made payments to government which for some reason government failed to include on the e-Reporting system, such payments would not be captured in the reconciliation.

A list of the 174 companies holding extractive licences but for which government did not report any receipt on the e-Reporting system is included at Appendix 32 (a).

It has not been established why government reported receipts from companies which were not on the list of companies holding licences (a list of these 40 companies is included at Appendix 32 (b)).

We recommend that the e-Reporting system should include all companies holding extractive licences – including those for which government reported no receipts in the period – and that MEITI should check the system for completeness on this point before the selection of companies is made for the EITI reconciliation.

### **3 DETERMINATION OF SCOPE AND RECONCILIATION METHODOLOGY**

#### **3.1 INTRODUCTION**

The consortium of Hart Nurse Ltd, UK and Ulaanbaatar Audit Corporation LLC, Mongolia (“the Independent Administrator”) is required to undertake the work set out in the Terms of Reference for the Engagement. This includes undertaking a reconciliation of specified flows to government from companies in the extractive sector, as described further in this section.

The reconciliation has been carried out on a cash accounting basis.

If there are material payments or receipts omitted from the MEITI E-Reporting system or reporting templates by a government entity or a company, our work would not have been sufficient to detect them. If either the government entity or the company reported, then it would be sufficient for us to obtain the missing information and include in the report. Otherwise, any such receipts or payments which were omitted would not therefore be included in our report.

In conducting our work, we have relied upon the completed reporting templates, information and explanations obtained from reporting entities. No verification is made as to the accuracy or completeness of such information.

We expect the information and explanations received from the reporting entities during the engagement to be true and accurate.

Our report incorporates payments and revenues information received up to August 14, 2018 and additional information received up to November 7, 2018 on the MEITI E-reporting system. Any information received after this date might not, therefore, have been included in the report.

#### **3.2 DETERMINATION OF SCOPE**

##### **3.2.1 Introduction**

In assessing the scope for the 2017 EITI report for Mongolia, a number of areas were considered with the MSWG:-

- scope of contextual information concerning the extractive industries to be included in the report;
- scope of additional information to be provided by the companies covered in the report;
- determining the extractive companies making material payments to the government;
- determining the government entities receiving material amounts;
- determining financial flows of material payments to be covered in the report;
- mechanisms for reporting entities to provide assurance on the figures reported

##### **3.2.2 Scoping and Inception workshop**

During the inception phase, we reviewed the contents and information required in the 2017 MEITI report, and the documents in the TOR Appendix 2 and we organised several preliminary discussions with the stakeholders.

The objectives in the inception phase include appropriately identifying the scope of the EITI reporting process, data collection procedure and the schedule for the EITI reconciliation report publication.

We attended a workshop convened by the MEITI Secretariat on 6 July, 2018 that involved the members of MSWG and discussed contents of the EITI report, relevant definitions and thresholds for material amount of disclosures. Comments received during this workshop were included in this report.

##### **3.2.3 Materiality threshold**

In order to determine the materiality threshold for selection of companies, we considered the revenue streams received by the Government from mining and petroleum industry using the Government report provided by the EITI Secretariat on August 14, 2018.

In the calculation of materiality, we took into account taxes and charges levied at a national level and at a subnational level separately.

We discussed materiality level of payments and revenues to be included in EITI reconciliation report with the MSWG during the Inception Workshop and the MSWG agreed that:

Table 3.1

Methodology	Companies with national level payments and revenues	Companies with subnational level payments and revenues
<b>Mandatory coverage</b>	Companies with national level payments and revenues of more than MNT300.0 million	Companies with national level payments and revenues of more than MNT100.0 million
	Companies, which have mining licence and conducting extraction, with payments and revenues of more than MNT100.0 million but less than MNT300.0 million	Companies, which have mining licence and conducting extraction, with payments and revenues of more than MNT30.0 million but less than MNT100.0 million
<b>Sampling coverage</b>	Exploration companies with payments and revenues of more than MNT100.0 million but less than MNT300.0 million.	Companies with subnational level payments and revenues of more than MNT30.0 million but less than MNT100.0 million
<b>Reconciliation</b>	Elimination of company overlaps	Elimination of company overlaps

It was agreed during the Inception Workshop that immaterial differences would not be investigated during the EITI reconciliation. Where a difference between the amount reported by the government and a company differs (up or down) by more than the amount below, the difference will be investigated until it is reduced to below this level, within the timeframe permitted.

Differences which would be investigated are described below.

Table 3.2

Review threshold	Any individual flow	For an individual company
National government flows	Difference of more than MNT 500 million	Difference of more than MNT 1 billion (net)
Subnational government flows	Difference of more than MNT 25 million	Difference of more than MNT 50 million (net)

### 3.2.4 Selection of financial streams for inclusion

The financial streams captured by the MEITI E-reporting system are based on the experience of previous years; the timing of our appointment was such that nearly all government entities and many companies had already reported on the system before the Engagement began and there was therefore limited opportunity to review the information specification.

The MSWG decided that since not all entities had provided the required information on the MEITI E-reporting system, all flows on the system would be included, subject to the materiality threshold for differences, to ensure that all material flows are captured. Of total 32 national flows, 20 flows that we considered the most material represented 99.96% of total flows.

The MSWG decided to include the following streams paid to the national budget:-

Table 3.3

No.	National financial streams for inclusion	Amount	% in total	%
		MNT mln		cumulative
1	Fee and extra fee for exploitation and exploration of mineral resources	816,037.09	37.95%	37.95%
2	Corporate income tax	445,215.58	20.71%	58.66%



No.	National financial streams for inclusion	Amount	% in total	%
		MNT mln		cumulative
3	Government share of petroleum revenue under PSA	198,039.70	9.21%	67.87%
4	Social and health insurance contribution by companies	177,622.28	8.26%	76.13%
5	Value added tax (Customs Administration)	121,018.73	5.63%	81.76%
6	Value added tax (Tax Administration)	106,158.96	4.94%	86.69%
7	Customs service fee	61,213.52	2.85%	89.54%
8	Customs duty	56,535.98	2.63%	92.17%
9	Licence fee for exploitation and exploration of mineral resources	38,921.35	1.81%	93.98%
10	Fee for air pollution	34,785.82	1.62%	95.60%
11	Royalty	31,665.42	1.47%	97.07%
12	Excise tax on vehicle's gasoline and diesel fuel	18,809.06	0.87%	97.94%
13	Payment for recruiting foreign experts and workers	11,165.55	0.52%	98.46%
14	Deposit at rate of 50% to Environmental protection special account	9,130.08	0.42%	98.89%
15	Donations to government entities	7,868.89	0.37%	99.25%
16	Reimbursement for deposit exploration conducted with State funds	4,436.62	0.21%	99.46%
17	Training bonus paid under PSA (for the year)	3,549.76	0.17%	99.63%
18	Licence fee for exploration and exploitation of petroleum	3,218.83	0.15%	99.78%
19	Tax on vehicle's gasoline and diesel fuel	2,639.14	0.12%	99.90%
20	Operational support to Representative office under PSA	1,433.69	0.07%	99.96%
<b>Total</b>		<b>2,149,466</b>	<b>99.96%</b>	

### 3.2.5 Subnational streams (requirement 4.1.b)

There are 13 subnational revenue streams. After eliminating the 'other' streams, the remaining 12 flows represent 93.75% of total streams.

The following 12 revenue streams are included in the reconciliation.

Table 3.4

No	Subnational financial streams for inclusion	Amount	% in total	%
		MNT mln		cumulative
1	Real estate tax	42,424.80	39.96%	39.96%
2	Fee for water use	38,830.67	36.57%	76.53%
3	Land fee	12,148.98	11.44%	87.98%
4	Bonus received for local development under PSA	1,613.26	1.52%	89.50%
5	Fee for use of mineral resources of wide spread	1,378.67	1.30%	90.79%
6	Penalty	1,069.24	1.01%	91.80%
7	Tax on vehicle and self-moving mechanisms	890.02	0.84%	92.64%
8	Fee for water pollution	773.01	0.73%	93.37%
9	Deposit at rate of 50% to Environmental protection special account	131.17	0.12%	93.49%
10	Recovery	59.7	0.06%	93.55%

No	Subnational financial streams for inclusion	Amount	% in total	%
		MNT mln		cumulative
11	Dividends from locally-owned enterprises	21.16	0.02%	93.57%
12	Fee for recruiting foreign experts and workers	0.52	0.00%	93.57%
<b>Total</b>		<b>99,341</b>	<b>93.57%</b>	

### 3.2.6 Selection of government entities

The government entities to be included in the 2017 EITI reconciliation are those which receive the selected streams. The following national government entities were agreed by the MSWG members to be included in the EITI reconciliation:-

- Mongolian Tax Administration
- General Customs Administration
- Mineral Resources and Petroleum Authority
- Ministry of Finance
- Ministry of Labour and Social Protection
- Social Insurance General Office
- Ministry of Nature, Environment and Tourism
- Ministry of Mining and Heavy Industry
- State Agency for Policy and Coordination of State Property
- State Agency for Standardisation and Metrology

Subnational entities to be included in the report were agreed as:-

- Ulaanbaatar City Governor's Office
- Districts' Governor's Offices
- Aimags' Governor's Offices
- Soums' Governor's Offices

### 3.2.7 Selection of companies

During the Inception workshop, the Independent Administrator proposed a materiality threshold for payments to government of MNT300 million and the inclusion of 148 companies which have payments over the proposed threshold. However, the MSWG proposed that the reconciliation should include more than 200 companies, as had been done in previous years.

In view of the MSWG proposal, we recommended that the MSWG should include all companies making payments in excess of the agreed threshold, using direct selection of such companies; and that sampling techniques should be used to include some companies whose payments were below the agreed threshold. This methodology is similar to that used previously.

We analysed the receipts reported by government using the MEITI E-reporting system as of August 4, 2018 and categorised the companies based on material payments as follows:-

Table 3.5

Companies	No. of companies		Payments and revenue (MNT mln)			Coverage %
	National	Subnational	National	Subnational	Total	
Direct selection	222	56	2,039,380	104,053	2,143,434	95.0
Selection on sampling	59	9	8,833	426	9,258	0.4
Companies not covered	1,787	681	25,029	1,066	26,095	1.2
Non-extractive companies	23	7	76,981	625	77,606	3.4
<b>Total</b>	<b>2,091</b>	<b>753</b>	<b>2,150,223</b>	<b>106,169</b>	<b>2,256,392</b>	<b>100.0</b>

Companies who are over the materiality threshold of MNT300 million determined by the MSWG and directly selected for the reconciliation constitute 95% of total revenues of the sector; and collectively with companies selected by sampling method, companies covered in the reconciliation accounts for 95.4% of total revenues.

The rationale for selection of companies to be included in the reconciliation was to ensure that all companies making material payments to the government were included. In making this determination, the MSWG took into account the payments made at the subnational level as well as the national level, so that the companies making payments which were material to subnational budgets would be included.

We reviewed the information on the MEITI E-reporting system as of August 14, 2018 in order to select the companies making material payments out of total 2,091 companies based on the government data. National and subnational receipt streams were considered separately in setting the definition of materiality threshold.

Initial receipts from companies reported by the Government on the MEITI E-reporting system were:-

Table 3.6

Items	Number of companies	MNT million
National taxes, payments and fees	2091	2,142,354
Sub national taxes, payments and fees		114,038
<b>Total Mandatory streams</b>	<b>2091</b>	<b>2,256,392</b>
Voluntary declarations		101,320
<b>Total streams reported</b>	<b>2091</b>	<b>2,357,712</b>

Mandatory streams are the streams which all entities must report, typically representing payments required by law; while voluntary declarations are the streams which the MSWG requires companies to report on a voluntary basis.

We reviewed the companies which have streams of more than MNT100 million in the government data and identified 23 companies that made material payments, although main operations are not in the mining industry. These companies are not considered for inclusion in the reconciliation since they are not extractive companies. This leaves 2,068 companies from which the selection was made.

These companies, and the mandatory receipts reported by the government, are:-

Table 3.7

No.	Registration no.	Name of companies	Amount MNT mln	No.	Registration no.	Name of companies	Amount MNT mln
1	2082489	Magnai Trade LLC	60,687	13	2027194	Erel LLC	519
2	2659603	Ochir Undraa LLC	2,902	14	5191823	Remicon LLC	478
3	2054701	Gatsuurt LLC	2,260	15	2061899	Bayars Construction LLC	408
4	2070022	Narantuul Trade LLC	1,513	16	2068508	Reactive LLC	388
5	2577127	GBT Trading LLC	1,137	17	5000505	Tavan Tolgoi Trans LLC	378
6	5430682	Terra Energy LLC	1,092	18	2057573	Max Impex LLC	377
7	2580462	Casstown LLC	846	19	2579634	MEC LLC	335
8	2034719	Khuvsgul Zam LLC	761	20	2031256	Ochir Center LLC	273
9	5476992	National Engineering Group LLC	712	21	2630478	Geomaster LLC	243
10	2861224	Esto LLC	671	22	2660954	Agaiyn LLC	240

No.	Registration no.	Name of companies	Amount MNT mln	No.	Registration no.	Name of companies	Amount MNT mln
11	5385075	Dardangobi LLC	594	23	2096102	DHL LLC	221
12	2593009	Bridge Construction LLC	570	<b>Total</b>			<b>77,606</b>

When selecting companies making material payments, we analysed the adjusted revenue mentioned above as follows:

Table 3.8

Total streams	Companies				Streams reported			
	Individual		Cumulative		Individual		Cumulative	
	No of companies	%	No of companies	%	Amount	%	Amount	%
Over MNT300 bln	2	0.1%	2	0.1%	926,702	42.5%	926,702	42.5%
MNT100 bln to MNT300 bln	4	0.2%	6	0.3%	695,583	31.9%	1,622,285	74.5%
MNT10 bln to MNT100 bln	14	0.7%	20	1.0%	361,048	16.6%	1,983,333	91.0%
MNT1 bln to MNT10 bln	31	1.5%	51	2.5%	105,309	4.8%	2,088,642	95.9%
MNT300 mln to MNT1 bln	78	3.8%	129	6.2%	39,411	1.8%	2,128,053	97.7%
MNT100 mln to MNT300 mln	148	7.2%	277	13.4%	24,368	1.1%	2,152,420	98.8%
Up to MNT100 mln	1791	86.6%	2068	100.0%	26,366	1.2%	2,178,787	100.0%
<b>Total</b>	<b>2068</b>	<b>100%</b>			<b>2,178,787</b>	<b>100%</b>		

Payments and revenues are presented by national and subnational governments as follows:

Table 3.9

Total streams	Of which:			
	National		Subnational	
	Payments and revenues	%	Payments and revenues	%
Over MNT300 bln	859,868	41.5%	-	0.0%
MNT100 bln to MNT300 bln	691,208	33.3%	-	0.0%
MNT10 bln to MNT100 bln	338,061	16.3%	83,093	78.7%
MNT1 bln to MNT10 bln	98,103	4.7%	11,374	10.8%
MNT300 mln to MNT1 bln	36,016	1.7%	5,586	5.3%
MNT100 mln to MNT300 mln	24,025	1.2%	2,016	1.9%
Up to MNT100 mln	25,962	1.3%	3,477	3.3%
<b>Total</b>	<b>2,073,242</b>	<b>100.0%</b>	<b>105,545</b>	<b>100.0%</b>

We agreed to cover more than 200 companies in the reconciliation as suggested by the MSWG and selected 230 companies, including 11 SOEs. There were 65 companies, which were already covered in the national level, selected in subnational level and therefore we eliminated these overlaps. All payments and revenues are divided into national and sub-national level and materiality level was determined for each level.

The analysis shows that in 2017, 98.8% of total payments to national budget and 96.4% of total payments to subnational budgets paid by 277 companies who made payments of more than MNT100 million. Total payments made by those 277 companies to the Government (both national and subnational) amounted to MNT2.15 trillion which represent 98.8% of total revenue.

We considered the following criteria in order to select 230 companies out of the 277 companies:

1. include all companies whose receipts (national and sub national combined) reported by the government exceeded MNT300 million, in order to achieve coverage of all large companies to meet the EITI Standard on comprehensive reconciliation of payments and revenues – number of companies 129;
  2. include any company whose subnational receipts (taxes, payments and fees) exceeded MNT100 million, as reported by the government – number of companies 16; and
  3. include in addition on a sample basis from the 148 companies whose receipts reported by the government exceeded MNT100 million but less than MNT300 million – number of companies 85.
- Selection of these companies took into account factors such as:
- 1) increasing coverage of national payments and subnational payments; and
  - 2) examining any material differences in amounts reported by government and companies (e.g. where government reports receipts totalling MNT100 million and the company reports MNT1 billion; and vice versa);
  - 3) other aspects arising from a comparison of the government and the company reports, past payment profile; and
  - 4) whether the company conducted extractive activities and was in production and made sales in 2017.

Following this approach, the final selection of companies at national level payments and revenues was:-

Table 3.10

Selection methodology	Number	Amount (MNT mln)	%
<b>Mandatory coverage</b>			
Companies making payments more than MNT300.0 million	129	2,128,053	97.7%
Companies with exploitation licence and operating production (more than MNT100 million but less than MNT300 million)	85	14,472	0.7%
Sub total	<b>214</b>	<b>2,142,525</b>	<b>98.3%</b>
<b>Sampling coverage</b> (more than MNT100 million but less than MNT 300 million)	16	2,560	0.1%
<b>Total coverage</b>	<b>230</b>	<b>2,145,085</b>	<b>98.5%</b>

Selection of subnational level payments and revenues are as follows:-

Table 3.11

Selection methodology	Number	Amount (MNT mln)	%
<b>Mandatory coverage</b>			
Companies making payments more than MNT100.0 million	28	102,068	96.6%
Companies with exploitation licence and operating production (more than MNT30 million but less than MNT100 million)	28	1,526	1.4%
Sub total	<b>56</b>	<b>103,594</b>	<b>98.1%</b>
<b>Sampling coverage</b> (more than MNT30 million but less than MNT100 million)	9	362	0.3%
<b>Total coverage</b>	<b>65</b>	<b>103,956</b>	<b>98.4%</b>

We eliminated the companies which main operations are not mining from the Government report and selected the companies according to the methodology we agreed:

Table 3.12

Items	Number of companies	Payments and revenues (MNT mln)
National payments and revenues	2,091	2,150,223
Subnational payments and revenues (overlapped)	924	106,169
<b>Total payments and revenues</b>	<b>2,091</b>	<b>2,256,392</b>
Non-mining companies (paid taxes and fees of more than MNT 100 million)	-23	-77,606
<b>Net payments and revenues</b>	<b>2,068</b>	<b>2,178,787</b>
Companies selected for the reconciliation	230	2,145,085
Coverage percentage	11.1%	98.5%
Non-covered companies	1,838	33,701
Non-coverage percentage	88.9%	1.5%

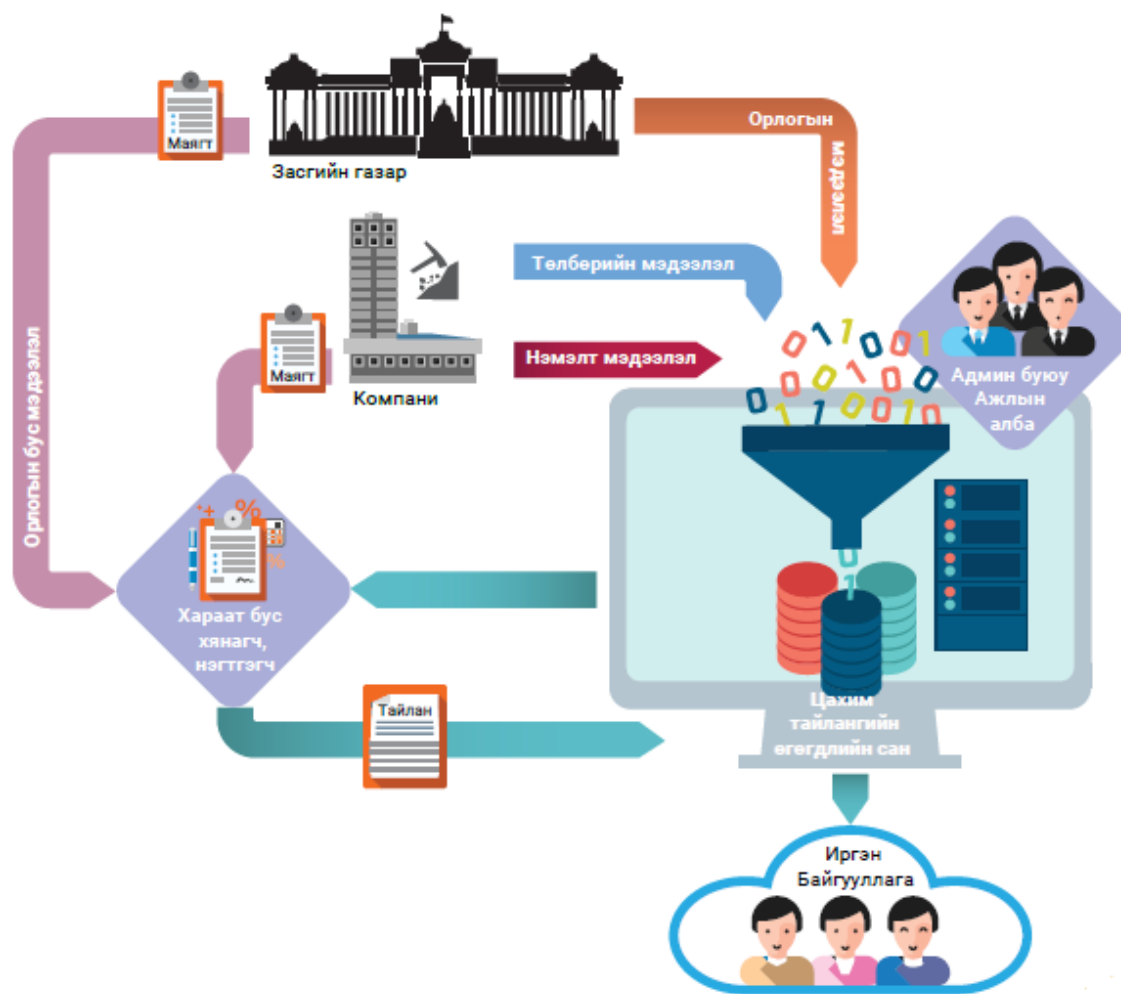
Refer to Appendix 1 for detailed information on the companies.

### 3.3 METHODOLOGY

#### 3.3.1 Data collection

The Independent Administrator used the MEITI E-reporting system to collect financial and non-financial information and to determine initial differences.

Information from companies regarding the reasons for initial discrepancies was gathered in hard copy, and management representation letters from the companies were also collected in hard copy to assure reliability of collected information. In addition, representation letters from government entities for confirming the reliability of their provided information regarding mining sector background information and statistical data were collected in hard copy.



### 3.3.2 Templates used in the 2017 reconciliation

Licence holders for minerals, radioactive mineral and minerals of common occurrence ( gravel, clay, granite and sandstones) and contractors under PSAs are required to report the taxes and fees paid to the state and the local budget, and also the quantity of products sold as per the approved templates and to make this information publicly available under the Article 48.1 of the Minerals Law of Mongolia; Article 36.1 of the Petroleum Law of Mongolia; Article 28.6.4 of the Nuclear Energy Law of Mongolia and Article 34.10 of the Law on Widespread Minerals.

The EITI templates are renewed by Order No.43 approved from Minister of Finance dated on 5 February 2016 as agreed by the Head of National Statistical Office which shall be reported by companies those hold licences and government entities.

When the Independent Administrator was appointed on 6 July 2018, the 2017 EITI report had already been received via MEITI E-reporting system until 15 April 2018. We were not, therefore, able to advise on the suitability of the reporting templates used in the 2017 reconciliation.

The Mongolia EITI Secretariat received payments and revenues information through templates in the MEITI E-reporting system. We compared the templates in the E-reporting system and 6 templates approved under Order No 43, and noted that although the format is not identical, the information requested by the E-reporting system contained all the required information by 6 approved templates and covered all the financial streams.

### 3.3.3 Level of disaggregation

The EITI Standard requires (Requirement 4.7) that “the multi-stakeholder group should agree the level of disaggregation for the publication of data...and that EITI data is presented by individual company, government entity and revenue stream”.



During the Inception Workshop with the EITI Working Group, it was agreed that the results of the reconciliation should be reported analysed by individual company, government entity and revenue stream in the 2017 Mongolia report.

As discussed further in Section 6.12, reporting at project level is to be introduced in the 2018 MEITI report.

### **3.4 ASSURANCE**

#### **3.4.1 Audit and assurance background in Mongolia**

The National Audit Office of Mongolia (MNAO) is the supreme audit institution of Mongolia. The MNAO is a member of INTOSAI and complies with standards issued by the organisation.

The MNAO carries out financial audit of Ministries, Government agencies and state owned entities and audit on Government consolidated financial statements and reports to State Great Hural. Subnational government entities (aimags and soums) should be audited by local MNAO audit offices every financial year.

While the MNAO is in charge of annual financial statement audit of the SOEs; it also allows private auditing firms, selected by competitive tender, to execute those audit engagements. In practice, this is the case in most occasion. The private auditing firms perform audit engagement in compliance with the International Standards on Auditing.

Companies, which are required to have an external audit are responsible for submission of their audited financial statements to the Accounting Department of Ministry of Finance (MOF) by June of each year. However, it is impossible for MOF to disclose those financial statements without direct permission of the company due to confidentiality provision in the General Law of Taxation.

The Accounting Department of the MOF may play certain role in compliance of audit related requirements for mining companies.

Private companies are required to prepare their financial statements in accordance with IFRS as defined in the Article 4.1 of the Accounting Law of Mongolia. If the total sales income or net assets exceeds certain threshold, it is required by law that all companies shall be audited by external auditing firms.

#### **3.4.2 Assurance Procedures for EITI reporting**

The government entities, SOEs and extractive companies are required to enter their information onto the MEITI E-reporting system. If necessary, any additional information is to be provided to Independent Administrator as requested.

The reporting entities are responsible for the completeness and reliability of their reported amounts.

Reporting entities must provide assurance on the reliability of their information provided to Independent Administrator.

##### **3.4.2.1 Government Ministries and Agencies**

It is agreed by the MSWG on “management representation letter will be provided in written by reporting government entities/agencies as an assurance for its reliability of reports and information” during the discussion of inception workshop in 2017.

We discussed with the MNAO their ability to provide assurance on the EITI figures from each national government department and note that internal MNAO guidance on financial statement audit specifies that “Payments made by extractive entities to national budget shall be reconciled with EITI Working group and government entities which received revenues”. The MNAO stated it is able to perform audit on the EITI reports filed by the direct budget governors and government entities while it performs their financial statement audit.

This exercise was not done in 2017. We recommend that the MNAO work programme for 2018 should be structured to avoid a recurrence.

### **3.4.2.2 State-owned enterprises**

The MSWG decided to require executive management of each reporting SOE to provide assurance for their information in written form by an individual authorised to represent Board of Directors, and to provide a copy of its audited financial statements.

Appendix 7 contains details of the response from the SOEs and Appendix 19 contains information on audited financial statements of the SOEs.

In addition, the MSWG decided to require SOEs to provide an assurance letter from their independent auditor to ensure that “EITI reports are agreed with audited financial statements, which are audited in accordance with ISA and expressed true and fair”.

Appendix 7 contains details of the responses from auditors of the SOEs.

### **3.4.2.3 Companies**

The MSWG decided to require executive management of companies to provide assurance for their information in written form by an individual authorised to represent their Board of Directors and to provide audited financial statements.

Our recommendation to request full audited financial statements, rather than solely the audit report, was to increase the assurance available. By way of example, the financial statements of PetroChina appear to reveal a material discrepancy between the figures reported for EITI and the figures reported in the company’s financial statements; the audit report alone would not have revealed this.

Appendix 19 contains the responses from companies; and for submission statistic of audited financial statements from the companies.

In addition, the MSWG decided to require companies to provide an assurance letter from their external auditor to ensure that “EITI reports are agreed with audited financial statements, which are audited in accordance with ISA and expressed true and fair”.

Appendix 7 contains the responses from auditors of the private companies.

## 4 RESULTS OF THE RECONCILIATION

The initial reconciliation of payments and receipts resulted in a net initial difference of MNT 122.5 billion. The Independent Administrator made adjustments of MNT61.8 billion to the receipts reported by Government and adjustments of MNT184.5 billion to payments reported by private companies.

Two companies did not respond to requests for information during the reconciliation process; the difference between figures reported by government and these two companies of MNT188 million remains unresolved (see further Section 4.3 )

Other differences remaining unresolved totalled MNT 48 million, which is 0.002% of reported government receipts.

### 4.1 SUMMARY OF INITIALLY REPORTED STREAMS

Initially reported payments and receipts, and reconciliations were as follows:

Table 4.1

Reporting entities:	Number of Companies	Selected key revenue streams (MNT millions)		
		National level	Subnational level	Total
Initial reporting				
Government entities	230	2,041,028	104,058	2,145,085
Private companies	177	877,758	95,716	973,474
State owned entities	11	938,287	110,807	1,049,095
Initial difference	42	224,982	-102,466	122,516
Reconciliation				
Adjustments to government receipts		45,513	16,281	61,794
Adjustments to companies payments		270,687	-86,141	184,547
Government total after adjustments		2,086,541	120,339	2,206,879
Companies total after adjustments		2,086,733	120,383	2,207,116
Unreconciled difference (including companies refused to report in reconciliation template)		-192	-44	-236
Less : companies not providing a reconciliation template		-188	-	-188
Final net unreconciled difference		-4	-44	-48

## 4.2 INITIAL UNRESOLVED DIFFERENCES AND NON-REPORTING COMPANIES

The principal reasons for the initial unreconciled differences include:

Table 4.2

MNT millions

Revenue streams (MNT mln)	Adjustments of initial reporting by Companies	Adjustments of initial reporting by Government	Reconciled total
Did not provide initial report, or some streams not reported entirely	252,336	50,376	302,712
Under reporting	55,520	41,589	97,109
Duplicated reporting	(57,556)	(4,932)	(62,488)
Over reporting	(27,454)	(15,205)	(42,660)
Reported in accrual basis	(34,982)	212	(34,770)
Reported in cumulative basis	(1,047)	(6,408)	(7,454)
Mixed with related party transactions	1,968	(6,060)	(4,092)
Amounts were reported in thousand tugriks	189	3,414	3,603
Reported prepayments to Government	(2,357)	-	(2,357)
Improper categorisation of revenue streams	(1,064)	(295)	(1,359)
Reported voluntary streams information	(1,006)	-	(1,006)
Ceased operation in extractive industry, but payments incurred due to other activities	-	(798)	(798)
Difference due to foreign exchange rate	-	(98)	(98)
Other	(0)	-	(0)
<b>Total</b>	<b>184,547</b>	<b>61,794</b>	<b>246,341</b>

The summary of adjustments shows that initial differences were mainly due to

- a) not providing initial report or some streams not reported;
- b) under-reporting,

Therefore adjustments were made to increase the figures by MNT399,850 million. Significant reconciliation amounts are specifically explained as follows:

Companies which did not disclose significant payments in the initial reporting are:

- PetroChina Daqing Tamsag LLC MNT 235,879 million;
- Moncement Building Materials LLC MNT 2,412 million;
- Darkhan Metallurgical Plant JSC MNT 2,406 million of VAT and customs fees paid to CGA.

Government entities which did not report revenues received by the Government are:

- Dividends per local government ownership, paid by Tavan Tolgoi JSC to Umnugobi aimag - MNT23,421 million;
- Customs and VAT for the imported electricity which consumed by Oyu Tolgoi LLC and paid indirectly via National Power Transmission Grid SOJSC to the Customs General Administration - MNT18,172 million;
- Social and Health Insurance Premium paid by Cement Shokhoi JSC to the Social Insurance General Office - MNT1,946 million.

Under-reported amounts by the Government in the initial reporting are:

- Customs General Administration (GCA) did not report VAT and customs duties amounting to MNT24,348 million paid by Oyu Tolgoi LLC indirectly via National Power Transmission Grid SOJSC
- Payment of MNT1,371 million with respect to the 'Agreement on Withholding and Payment of land fee' signed between the Governor of Orkhon aimag and General Director of Erdenet Mining Corporation was not reported.

According to these findings, some government entities and companies do not appear to have taken sufficient care in the initial reporting on the MEITI e-Reporting system. Therefore, it could be reflected that it is necessary to exercise higher accountability for Government to report its receipts and companies to report their payments on the MEITI e-Reporting system.

In 2017, the EITI reconciliation included 230 companies. The 3 companies listed below provided their initial report without any difference from the figures reported by government:

Table 4.3

*MNT millions*

#	Registration No.	Company name	Reported by Government	Reported by Company	Initial difference
1	2705133	Entrée LLC	2,312	2,312	0
2	5267552	Nalgar Khundii LLC	116	116	-
3	2730588	Mogol International LLC	115	115	0
<b>Total</b>			<b>2,543</b>	<b>2,543</b>	<b>0</b>

42 companies did not initially report to the MEITI E-reporting system, giving rise to an initial difference of MNT 248,122 million. The companies which have not reported are as follows:

Table 4.4

MNT millions

#	Company name	Payments	#	Company name	Payments
1	Petrochina Daqing Tamtsag LLC	235,628	22	South Gobi Coal Trans LLC	236
2	Moncement Building Materials LLC	1,971	23	Green Station LLC	234
3	Centuria Mongu LLC	708	24	Erdene Dorno LLC	193
4	Uuls-Noyon LLC	569	25	Shinelongda LLC	164
5	Empire Gas Mongolia LLC	547	26	Sonor Trade LLC	154
6	BUMAN-OLZ LLC	499	27	Beren Group LLC	149
7	Erdeniinolz LLC	495	28	Tanii Zam LLC	131
8	Mongolغاز LLC	437	29	Megatech Manufacturing Mongolia LLC	131
9	Ganbattulga LLC	423	30	New Simin Resources LLC	128
10	Gan-Ilch LLC	412	31	MKMN Mining LLC	121
11	Nutgiin Buyan Group LLC	400	32	Arig Gal LLC	121
12	Zuunnaiman Suvraga LLC	388	33	MDFE LLC	119
13	Taliin Khargui LLC	360	34	CFC Group LLC	114
14	UGANOGOLD LLC	344	35	Coldgold Mongolia LLC	112
15	Berkh Resources LLC	341	36	Bayantegsh Impex LLC	105
16	Bayan Uul LLC	327	37	Altanbarga LLC	104
17	TEGSHPLANT LLC	298	38	BYH LLC	104
18	Commonmax LLC	291	39	Jargalant Rashaant LLC	102
19	Erchim Bayan-Ulgii LLC	288	40	Taliin Bayalag Erdenes LLC	101
20	Galaxy Mining LLC	247	41	Orgilmount LLC	100
21	Universal Copper LLC	243	42	Ouyashiyu LLC	184
		<b>Total</b>			<b>248,122</b>

### 4.3 UNRESOLVED DIFFERENCES

An analysis of the unresolved differences at the end of the reconciliation is shown in the table below, with separate columns for differences where

- the total amounts reported by the government were higher than those reported by the companies (column A), on a net basis); and
- the total amounts reported by the government were lower than those reported by the companies (column B) on a net basis.

Table 4.5

MNT millions

Payments and revenue streams	Over/(under) reported by the government	
	A	B
Deposit at rate of 50% to Environmental protection special account of the State Administration Office in charge of Environment	-	(138)
Customs service fee	-	(66)
Payment for recruiting foreign experts and workers	42	-
Tax on vehicles and self-moving mechanisms	-	(24)
Others	-	(18)
Donation to Government organisations	-	(16)

MNT millions

Payments and revenue streams	Over/(under) reported by the government	
	A	B
Penalty	-	(14)
Value added tax (Customs)	14	-
Land fee	-	(8)
Penalty	-	(6)
Customs tax	5	-
Others	-	(4)
Contribution at rate of 50% to Environmental Protection Special Account	-	(1)
Compensations	-	(1)
Licence fee for exploitation and exploration of mineral resources	-	(1)
<b>Net unreconciled discrepancies</b>	<b>62</b>	<b>(298)</b>

The largest discrepancies which have not been reconciled are shown below by each company:-

Table 4.6

MNT millions

Companies	Revenue streams	By companies to the Government		Explanation
		Over-reported	Under-reported	
Bayarsgold LLC	Penalty	-	(12)	tried to contact, but no success
	Compensation	-	(2)	
	50% deposit to Environmental protection special account of the State Administration Office in charge of Environment	-	(138)	
GPF LLC	Other taxes paid to State Budget	-	(36)	tried to contact, but no success
Darkhan Metallurgical Plant JSC	Customs Tax	3	-	
	Value Added Tax	7	-	
	(paid to Customs office)			
Eco Altan Zaamar LLC	Customs service fee	-	(28)	
	Customs Tax	0	-	
	Value Added Tax	1	-	
	(paid to Customs office)			
	Customs service fee	-	(0)	
	Tax on vehicles and self-moving mechanisms	-	(0)	
And Survey LLC	Deposit at rate of 50% to Environmental protection special account	-	(1)	
	Donation to Government organisations	-	(11)	
PetroChina Daqing Tamtsag LLC	Land fee	-	(6)	
	Workplace fee payment for foreign experts and employees	44	-	
	Customs service fee	-	(32)	
	Tax on vehicles and self-moving mechanisms	-	(17)	
	Donation to Government organisations	-	(10)	



MNT millions

Companies	Revenue streams	By companies to the Government		Explanation
		Over-reported	Under-reported	
Mongolroostsvetmet LLC	Tax on vehicles and self-moving mechanisms	-	(3)	
	Other taxes paid to local budget	-	(1)	
Erdenet Mining Corporation	Value Added Tax (paid to Customs office)	4	-	
Other differences		4	(3)	
<b>Total</b>		<b>62</b>	<b>(298)</b>	

#### 4.4 NON REPORTING COMPANIES

Of the 230 companies selected for inclusion in the reconciliation from initial government receipts recorded on the E-reporting system, 2 companies were initially reported on the MEITI E-reporting system, but did not send subsequent report according to additional request during the reconciliation process. The net difference caused by these 2 companies totalled MNT188 million.

The companies have not reported due to the following reasons:

Table 4.7

MNT millions

#	Registration No.	Company name	Revenue under-reported by Government	Explanation
1	5099854	Bayarsgold LLC	152	Made attempts to contact, but no success. We have visited but the company does not exist at the address given
2	5421624	GPF LLC	36	Company responded that they are unable to provide any information or data, given the loss of land licence and legal proceeding is under process.
<b>Total</b>			<b>188</b>	

The differences caused by these companies are below the materiality threshold agreed by the MSWG and are not material.

## 4.5 RECONCILIATION RESULT

### 4.5.1 National-level reconciliation by revenue streams

Table 4.8

Revenue streams	Initially reported			Adjustments		After adjustments		
	Govt	Company	Diff	Govt	Company	Govt	Company	Diff
Corporate income tax	442,114	417,902	24,212	(24,120)	92	417,994	417,994	(0)
Customs tax	41,959	57,630	(15,671)	8,650	(7,026)	50,609	50,604	5
Value added tax (Tax Administration)	97,779	104,198	(6,419)	(2,589)	(9,009)	95,189	95,189	0
Value added tax (Customs Administration)	89,844	88,207	1,637	17,145	18,768	106,989	106,975	14
Excise tax on vehicle's gasoline and diesel fuel	1,750	586	1,164	(1,697)	(533)	53	53	-
Tax on vehicle's gasoline and diesel fuel	200	-	200	(197)	3	3	3	-
Fee and extra fee for use of mineral resources	815,035	818,736	(3,702)	(11)	(3,713)	815,024	815,024	0
Licence fee for exploitation and exploration of mineral resources	23,441	19,115	4,327	(77)	4,250	23,364	23,365	(1)
Compensation payment for deposit explored by the state budget	4,125	1,953	2,172	2	2,175	4,127	4,127	0
Bonus after signing the product sharing agreement/only year of signing agreement/	370	370	-	-	-	370	370	-
Licence fee for exploration and exploitation of petroleum	3,052	2,582	470	(98)	372	2,954	2,954	-
Payment for recruiting foreign experts and workers	11,084	6,087	4,997	20	4,975	11,104	11,062	42
Payment for air pollution	34,753	34,126	627	10	637	34,763	34,763	(0)
Employees' Social and health insurance charges paid by entities	165,049	156,096	8,953	(2,106)	6,846	162,942	162,942	0
Customs service fee	60,687	47,407	13,280	(40)	13,306	60,647	60,713	(66)
Training Bonus paid for the year relating to Product sharing agreement	3,501	3,039	462	184	646	3,685	3,685	-
Supporting payment for representative office according to product sharing agreement	1,349	1,300	49	193	242	1,541	1,541	-
Dividends on state property	-	1	(1)	-	(1)	-	-	-
Prepayments paid to Government	-	118	(118)	-	(118)	-	-	-
Petroleum income per Government according to product sharing agreement	198,040	7,991	190,048	-	190,048	198,040	198,040	-
Royalty	31,665	2,113	29,553	-	29,553	31,665	31,665	-

Penalty	81	5,185	(5,104)	1,660	(3,429)	1,742	1,756	(14)
Compensation	-	1,179	(1,179)	-	(1,178)	-	1	(1)
50% contribution to Environmental protection special account of the State Administration Office in charge of Environment	7,509	1,099	6,410	(6,540)	9	969	1,108	(138)
Others	161	18,844	(18,683)	44,171	25,505	44,331	44,349	(18)
Donation to Government organisations	7,481	20,181	(12,700)	10,953	(1,732)	18,434	18,449	(16)
<b>National-level reconciliation Total</b>	<b>2,041,028</b>	<b>1,816,046</b>	<b>224,982</b>	<b>45,513</b>	<b>270,687</b>	<b>2,086,541</b>	<b>2,086,733</b>	<b>(192)</b>

#### 4.5.2 Subnational level reconciliation results by revenue streams

Table 4.9

Revenue streams	Initially reported			Adjustments		After adjustments		
	Govt	Company	Diff	Govt	Company	Govt	Company	Diff
Real estate tax	41,959	29,472	12,487	(12,360)	128	29,600	29,600	0
Tax on vehicles and self-moving mechanisms	811	1,050	(238)	408	194	1,219	1,243	(24)
Land fee	11,865	14,423	(2,559)	2,636	85	14,500	14,509	(8)
Fee for water use	38,446	38,422	24	3,898	3,923	42,344	42,344	(0)
Fee for water pollution	719	3	717	(640)	76	79	79	-
Fee for use of wide spread mineral resources	1,294	31,141	(29,846)	302	(29,545)	1,596	1,596	0
Workplace fee payment for foreign experts and employees	1	1,626	(1,625)	391	(1,235)	391	391	-
Incentives for regional development received per Product sharing agreement	1,613	489	1,124	449	1,573	2,062	2,062	-
Dividends on local state property	21	23,458	(23,437)	23,437	(0)	23,458	23,458	-
Penalty	859	13,207	(12,349)	1,428	(10,915)	2,287	2,293	(6)
Compensation	13	252	(239)	(4)	(243)	9	9	0
Deposit at rate of 50% to Environmental protection special account	56	226	(170)	32	(137)	87	89	(1)
Others	6,401	52,755	(46,354)	(3,694)	(50,043)	2,707	2,711	(4)
<b>Subnational level reconciliation Total</b>	<b>104,058</b>	<b>206,524</b>	<b>(102,466)</b>	<b>16,281</b>	<b>(86,141)</b>	<b>120,339</b>	<b>120,383</b>	<b>(44)</b>
<b>Grand Total</b>	<b>2,145,085</b>	<b>2,022,569</b>	<b>122,516</b>	<b>61,794</b>	<b>184,547</b>	<b>2,206,879</b>	<b>2,207,116</b>	<b>(236)</b>

## 5 THE EXTRACTIVE INDUSTRIES IN MONGOLIA



According to Section 9.1.11 of the Minerals Law and the relevant Government decision, 69.58% of total Mongolian territory is considered eligible for granting the mineral licences. The current number of companies in extractive industries will potentially continue to increase in future given the fact that licences had been awarded over 8.0% of Mongolian land by the end of the first quarter 2018.

In 2017, the mining sector accounts for 23.4% of the Gross Domestic Products (GDP), 73% of gross products of the industrial sector, 79.6% of total exports and 72% of total foreign direct investment, respectively in Mongolian economy.

### 5.1 LEGAL FRAMEWORK AND FISCAL REGIME (REQUIREMENT 2.1)

#### 5.1.1 Legislation relating to the extractive industries

This section contains an overview of the main legislation relevant to the extractive industries in Mongolia. The laws and regulations described in the 2017 EITI report include

- regulations applicable until the end of 2017,
- regulations passed and modified in the first half of 2018, and
- regulations likely to be passed in the near future which are significant for the sector.

It also includes the implementation status of extractive industry objectives outlined in the action plan of the Mongolian government for 2016-2020.

##### 5.1.1.1 Current situation of the legislation system for mining, oil and nuclear energy sector

This section comments on the the difference between the legislation system governing the mining, oil and nuclear energy sectors and how these sectors operate in practice. Today there are around 30 laws, including Minerals Law, Law on Subsoil, Law on Nuclear energy, comprehensive package of Environmental laws, and 40 regulations, rules and guidelines that regulate the sector; however, in a number of instances there are inconsistencies between these laws and rules for implementation.

When global trends in mining are increasingly developing towards sustainable, mutually beneficial and green development movements, there is a greater need for more detailed regulations, particularly on

matters such as public services, the investment environment, sustainability and local community relations.

A study of the corruption risk in the mining sector in Mongolia has identified main underlying reason for corruption risks throughout phases, from licensing to exploitation:

- i. the legal regulations of the sector are too general and absence of detailed regulations;
- ii. the legal requirements are unclear in regulating specific relationships;
- iii. the accompanying rules and guidelines were not based on the professional methodologies.

Mongolia was assessed as “satisfactory in governance performance” in the 2017 Resource Governance Index Report issued by Natural Resource Governance Institute. However, there were component scores 54 of 100 in Revenue Management, 40 in “Governance of state-owned enterprises” and 42 in Sovereign Wealth Fund or Fiscal Stability Fund of Mongolia, respectively. In other words, the country scored lower than average in these key components and exhibit weak resource governance. Moreover, there were cases where some of the significant documentations required in the mining sector, including safety procedures, have fallen into deadlock situations due to the absence of a legal foundation to develop such procedures. This in turn creates risks related to health and safety of employees working in the sector.

In parallel to challenges in regulating the diverse relationships of the increasing number of extractive and minerals processing companies and their operations by and within the legal provisions of Minerals Law, the frequent procedural changes with respect to regulating extractive operations entered to laws governing “licence granting” and “fees for use of mineral resources” have led to risks in rebuilding investors’ confidence. So that separation of such extractive industry ‘process’ related legal provisions and removing them out from the Minerals Law could provide a strong boost to reforming actions towards sustainable and improved the investment environment.

The law on Subsoil and the Minerals Law of Mongolia do not provide a comprehensive legal framework for all relations across mine lifecycle, and some of the provisions are not in line with latest development trends. The Minerals Law primarily regulates the relations concerning “licensing”, whereas those relations concerning the investment in and construction in the mining sector, exploitation, processing, production, rehabilitation, and mine closure are out of fair inclusion in the law, so there are still room for advancing and reforming the applicable laws and regulations.

In accordance with Paragraph 5.2.3 of Action Plan of the Mongolian government for 2016-2020 “to improve the legal basis for economic, business, trade, property and financial relations, revise and amend the laws, regulations and decisions that undermine the guarantee to the ownership right” , Resolution #A/67 on “Forming a working group to eliminate overlaps, gaps and violations of the laws and regulations for the mining sector ” was approved by Minister of Justice and Internal Affairs in 2017. The working group has found total of 267 overlaps in the laws, 150 violations of the laws and 150 legal gaps based on their examination and analysis of 10 laws applicable to minerals sector, namely,

- Minerals Law,
- Petroleum Law,
- Law on Subsoil,
- Petroleum Products Law,
- Law on Prohibiting Mineral Exploration and Production Near Water Sources, Protected Areas and Forests,
- Law on Rule for the Compliance of the Law on Prohibiting Mineral Exploration and Production Near Water Sources, Protected Areas and Forests,

- Law on Nuclear Energy,
- Law on Rule for the Compliance of the Law on Nuclear Energy,
- Law on minerals with common occurrences and
- Law on controlling turnover of explosives and blasting tools.

#### 5.1.1.2 Main laws regulating the sector, recent amendments and new draft laws

Main laws of the sector and recent amendments made for the period covering 2017 and the first half 2018 are listed below:

- The Minerals Law, 2006 (amended twice in 2017, and revisions in 2018)
- The Law on Subsoil, 1988
- The Law on minerals with common occurrences, 2014
- The Law on Nuclear Energy, 2009
- The Petroleum Law, 2014 (amended in 2017)
- The Petroleum Products Law, 2005
- The Law on Prohibiting Mineral Exploration and Production Near Water Sources, Protected Areas and Forests, 2009
- The Law on Rule for the Compliance of the Law on Nuclear Energy, 2009
- The Law on Rule for the Compliance of the Law on Prohibiting Mineral Exploration and Production Near Water Sources, Protected Areas and Forests, 2015
- The Law on controlling turnover of explosives and blasting tools, 2013

#### 5.1.1.3 Draft laws and recent amendments to the laws for the period covering year of 2017 and the first half 2018

Table 5.1

Name and Date of Laws	Article #	Main articles and comments
<b>Minerals Law</b>		
2017	35.10	In old version, mining licence holder was required to terminate mine construction or operation of processing plant upon the decision of State inspector, now this has changed "to terminate according to provisions of Law on Investigating and Resolving Infringements."
2017	49.4.8	The price set according to methodology provided by Article 16.14 of the Law on Economic Entity Income Tax , together with explanations and introduction are added to the list of required application documents for the party who is transferring a licence .
	49.12	The amendment stipulates that the ultimate holder to notify to the tax authority of relevant jurisdiction within 10 days upon decision making in case of the ultimate holder indirectly transfers minerals licence.
	56.1.9, 56.1.10, 56.1.11	<p>These sub-provisions were added to the list of grounds on which a licence shall be revoked:</p> <p>-if the licence has been transferred in violation of provisions of Articles 49.1, 49.2 and 49.3;</p> <p>-the licence holder failed to report relevant taxes according to the methodologies provided by Article 49.4.8 of this law and Articles 16.11 and 16.14 of the Law on Economic Entity Income Tax, or deliberately concealing information required for setting the value or filed a false report;</p> <p>-failed to send fair and accurate information to relevant organisations as provided by Articles 11.1.12 and 15.2.10 of the Law on Registration of Legal Entity and Article 18.1.14 of the General Tax Law.</p>

	11.1.25	The function of the State administrative body in charge of geological and mining affairs was re-edited as "to determine and send selection area for approval by its coordinates which is available for granting minerals exploration or mining licence under this law"
	17	All provisions in Article 17 on allotment of a selection area for granting exploration licence, were re-edited.
	18	All provisions in Article 18 on rules regarding submission of request to participate in selection for granting exploration licence and registration of such submissions, were re-edited.
	20	Article 20 on organisation of the selection to grant exploration licence and issuance of licence, were re-edited.
	24.2	The article was re-edited as follows:  " the rules provided by Articles 18 and 20.1 of this law shall be equally applied when mining licence is to be issued "
2018	26.12, 27.1.14, 49.13	Mining licence holder shall register its land use right to the state registration as specified in Law on state registration of property rights. So that the land use right of the party who receives mining licence being transferred shall become effective when the state registration of such right is complete.  Under the section for rights and obligations of mineral licence holder, this requirement of registering its land use right to state registration was added.
<b>Petroleum Law</b>		
2017	43.1	When it is not possible for the state administration body and the contractor to amicably resolve any disputes arising during petroleum operations, new provisions set out different ways to resolve depending on whether there is an arbitration agreement.
<b>General Tax Law</b>		
	13.4.9	The tax authority shall open a file for each taxpayer and tax withholders and required to store specified documents and information in the file. According to this amendment, now ultimate holder information of legal entities holding rights to use and possess land and legal entities holding minerals licence, shall be also stored to taxpayer's file.
	71 <sup>1</sup> .10	In order to implement taxation laws and regulations, it is amended that the State administrative body in charge of geological and mining affairs shall deliver to the state administrative body in charge of tax issues, information of the registration of issuance and transfer of mineral licences on a monthly basis.
	71 <sup>1</sup> .11	In order to implement taxation laws and regulations, it is amended that the State administrative body in charge of legal entity state registration shall deliver to the state administrative body in charge of tax issues, information of changes to state registry of legal entities and registry of ultimate holders, on a monthly basis.
	18.1.14	One of the taxpayer obligations was restated as follows: to deliver information on ultimate holder of legal entity holding rights to use and possess land and legal entity holding minerals licence and any changes thereof to corresponding Tax office within 10 days of the decision.
<b>The Law on Water pollution fee</b>		
2017	7.3	Name of "Environment Conservation Fund" where water pollution fee to be paid has changed to Environment and Climate Fund.
<b>The Law on the Prevention of Conflict of Interest and the Regulation of Public and Private Interests in the Public Services</b>		
2017	101	Article 101 on restrictions to holding offshore account, possessing movable and immovable properties, and founding legal entity is amended to this Law.
2017	23.9, 23.10	These amendments require the candidate for a public office to issue acknowledgement promising to inform and explain any conflicts of interest and acknowledgement form will be approved by Anti-corruption Agency.
		This article was re-stated as follows:
2017	23.7	When it is identified that potential conflict of interest may arise for the candidate for a public office to act in that position, appointing organisation or official is obliged to reject such appointment.
<b>The Law on Economic Entity Income Tax</b>		



2017	19.14-19.17	It is amended that:  "A taxpayer with annual gross taxable income up to 1.5 billion MNT per a tax year shall be granted a 90 percent tax credit on income earned only from its operation in the given sector: 19.14.1. agriculture and livestock production and its related auxiliary activity; 19.14.2. food production; 19.14.3. textile and garment production; 19.14.4. construction materials production;"
2017	12.1.36	This provision is amended to expenses deductible from taxable income:  "donations and assets of up to MNT10 million tugrugs donated for that tax year with the purpose to support operations of sports association or clubs."
2017	4.1.8	This article is amendment by adding the term of "Ultimate holder" and the definition of the term.
2017	16.11, 16.14	The taxable income from sale of licence shall be determined from the value of the minerals licence pro-rata the transferred shares and shareholding ultimate holder in the licence holding entity. The amendment specifies that methodology to determine value of minerals licence and assess taxes on income from such transfer shall be approved by Cabinet Member in charge of finance and budget matters.
2017	16.12, 16.13	The taxable income from sale of land rights shall be determined from the value of the land title pro-rata the transferred shares and shareholding ultimate holder in the land holding entity. The amendment specifies that methodology to assess taxable income and impose taxes shall be approved by Cabinet Member in charge of finance and budget matters.
<b>The Law on Air pollution fee</b>		
2017	5.6	Air pollution fee is now payable to Anti-air pollution fund, previously the payment used to be transferred to state budget.
<b>The Law on Environmental Protection</b>		
2017	49.1, 54.9-54.11	Wording of "environmental protection" in these provisions was replaced with "Environment and Climate".
2017	27.1.7, 27.1.3	One of the state inspector's roles and responsibilities was re-stated as follows:  "to convict or impose enforceable sanctions on any individual or legal entity who have breached Infringement Law; to demand any individual or business entity who caused harm to environment by violating legal provisions, standards and permissible limits to take remedial actions against such violations or to terminate operation of an violator temporarily according to provisions set forth in Law on Investigating and Resolving Infringements."
<b>The Law on Environmental Impact Assessment</b>		
2017	3.1.3, 3.1.10	In the articles giving the determination of what is "Environmental strategic evaluation" and what is "risk assessment", wording of "with natural disasters" is re-stated as "with disasters, dangerous events/occurrences, accidents, or hazards".
<b>The Law on Natural Resource Use Fee</b>		
2/9/2017	20.1.2	In this article to exempt from water use fee, wording "other natural" is removed.
<b>The Law on Infringement</b>		
2/2/2017	5.1	Sub-provisions are added to the article on Anti-terrorism law infringements.
2/2/2017	11.29	Article on "Infringement of Law on Combating Money Laundering and Financing of Terrorism" was re-stated.
12/21/2017	15.28	Article on "Infringement of Law on local defence" was added.



#### 5.1.1.4 Other legislations regulating the sector is summarised in the following table.

Table 5.2

<b>Environmental</b>	<b>Budget and Taxation</b>
The Law on air pollution fee, 2010	The Law on Economic Entity Income Tax, 2006
The Law on environmental protection, 1995	The Law on Customs Tariff and Customs Duty, 2008
The Law on environmental impact assessment, 2012	The Law on Exemption Of Customs Duty, 2017
The Law on natural resource use fee, 2012	The Law on Exemption Of Customs Duty and Value Added Tax, 2012
The Land law, 2002	The Future Heritage Fund law, 2016
The Law on Land fee, 1997	The Law on Value Added Tax, 2006, 2015
The Law on Forest, 2012	The General Tax Law, 2008
The Law on water pollution fee, 2012	The Fiscal stability law, 2010
	The Immovable Property Taxation Law, 2000
	The Law on Stamp duty, 2010
<b>Liabilities</b>	<b>Business relations and business environment</b>
The Law on Audit, 1997, 2015	The Law on licensing of industrial activities , 2001
The Law on Infringement, 2017	The General Administrative Law, 2015
The Law on Investigating and Resolving Infringements, 2017	The Investment Law, 2013
The Accounting Law, 2015	The Law on development policy and planning, 2015
The Law on the Prevention of Conflict of Interest and the Regulation of Public and Private Interests in the Public Services, 2012	

#### 5.1.1.5 Draft laws

Within the scope of efforts to eliminate overlaps, gaps and violations of the laws and regulations for the minerals sector and to create a favourable investment climate, the draft law on Amendments to the Minerals Law and proposals of draft amendments or changes to other relevant laws were developed and approved by the Minister of Justice and Internal Affairs and the Minister of Mining and Heavy Industry, respectively.

According to the proposals, a number of laws were drafted, then reviewed and discussed by the Cabinet meeting on June 6, 2018. Following the meeting, the Cabinet submitted them to Parliament. The draft laws concerned are:-

- the draft law of amendments to the Minerals Law,
- the draft law of amendments to the Land Law,
- the draft law of amendments to the Law on licensing of industrial activities,
- the draft law of changes to Law on administrative and territorial units of Mongolia and their governance,
- the draft law of amendments to the Law on environmental impact assessment,
- the draft law on implementing the amendments and changes to the Minerals Law,
- the draft law of amendments to Law on Prohibition of Mineral Exploration and Mining Activities in areas in the Headwaters of Rivers, Protected Water Reservoir Zones and Forested Areas; and
- the draft law on revoking of Law on minerals with common occurrences.

In addition, a study has been carried out on tax legislations relevant to the extractive sector and meetings held with appropriate experts. Following these activities, a draft law on amendments to the General Tax Law has been proposed.

### 5.1.2 Current Laws and regulations in the extractive industries

The following sections give a short overview of the main legislative acts currently adhered in extractive industry of Mongolia.

#### 5.1.2.1 Minerals Law, 2006

The current Minerals Law was enacted by Mongolian Parliament in 2006. The law covers minerals except water, petroleum, natural gas, radio-active minerals and minerals with common occurrences

(sand, gravel, clay, granite and similar). The law serves as the foundation for various rules and guidelines such as Regulation and procedures to invest in deposits of minerals in Mongolia; and Regulation on protecting environment with respect to exploration, prospecting and mining of minerals. This law consists of 11 chapters and regulates all the relations associated with state governance in the minerals sector, including activities of minerals prospecting, exploration and mining, requirements to hold licence on minerals prospecting, exploration and mining, responsibilities of licence holder, and transferring, pledging and termination of licence. Please refer to the summary table above for amendments made to the Minerals Law for the period of 2017 and the first half of 2008.

#### **5.1.2.2 The Law on minerals with common occurrences, 2014**

The Law on minerals with common occurrences was passed by Parliament in 2014. The law covers minerals of common occurrence such as gravel, clay, granite and sandstones and it serves as the foundation for regulations on protecting environment and making investments related to exploration and mining of such minerals. This law consists of 10 chapters and regulates all the relations associated with state governance for the minerals of common occurrence, including activities of minerals prospecting, exploration and mining, requirements to hold licence on minerals prospecting, exploration and mining, responsibilities of licence holder, and transferring, pledging and termination of licence.

According to Article 11.2.5 of the Law on Minerals with common occurrences, governors of aimags and the capital city shall exercise authority to grant licences for minerals of common occurrence exploration and mining within their territory of jurisdiction.

#### **5.1.2.3 Petroleum Law, 2014**

In July, 2014 the Mongolian Parliament enacted the newly edited Petroleum Law. The purpose of this revision was to attract foreign investments to Mongolia. There were no changes made to previously signed agreements, though the revised law presented certain discounts to crude oil mines. The Petroleum Law distinguishes between two main categories of petroleum products, being:

- i. "oil" and
- ii. "unconventional oil".

Oil refers to crude oil and natural gas in addition to refined petroleum, whereas unconventional oil refers to oil sands and shale.

The revised law identifies main petroleum related activities, definitions of the terms, and exploration for and extraction of petroleum. Exploration and extraction activities for oil and unconventional oil are subject to licensing procedures under the Petroleum Law, whilst other activities, such as research and petroleum storage and transportation, are subject to a permission procedure from the respective state administrative body.

The term of a newly granted oil exploration licence may be no more than 8 years and may be extended twice for up to 2 years each time. The term of oil extraction can continue for up to 25 years and may be extended twice thereafter by the state administrative body for up to 5 years each time if the contractor requests the extension. Unconventional oil exploration licences are issued for a term of no more than 10 years which may be extended once for a maximum of a further five years.

According to the Petroleum Law, the legal entity wishing to conduct prospecting must submit a request to MRPAM. The legal entity finished prospecting must prepare a performance report and obtain an opinion from MRPAM on the report before entering into a PSA.

The Ministry of Mining and Heavy Industry shall grant exploration licence to the legal entity which has signed a PSA with MRPAM. Furthermore, an exploration licence may be issued to a company that has won a bid for a reserve where MRPAM and a company conducting research have not been able to conclude a production sharing agreement.

As specified in the Petroleum Law, the contractor shall be able to receive petroleum cost reimbursements only when the sale of oil has begun. The amount of cost oil shall be up to 40% of the oil remaining after deducting the oil for which the royalty shall be paid, from the total oil extracted in a given year. All expenses incurred during exploration, exploitation and processing phases, can be

reimbursed in full to the amount stated in PSA. According to Article 32 of the Petroleum Law, once the term of a PSA ends, the contractor shall not be granted the portion of cost recoverable expenses and they shall remain unrecovered. The Government shall not pay any interest on the contractor's accumulated expense for cost recovery.

The Amended Petroleum Law of 2014 adopted additional rules and some key provisions of the PSA template. The PSA template was approved by Government Resolution No.104 dated 2015 for petroleum exploration and production. Pertaining to this approval of new template, some changes were made to confidentiality conditions of agreement.

The working group appointed from MRPAM is now working on drafting a regulation on Payment, allocation and spending of royalty and licence payment, and a regulation on Petroleum accounting and settlements, in order to implement Article 7.1.4 of Petroleum Law.

#### ***5.1.2.4 The Petroleum Products Law, 2005***

The Petroleum Products Law was enacted in July 2005. This Law provides the sub-classifications of activities in relation to petroleum products (import; production; trade; transportation; and storage). The petroleum products were defined as "all types of fuel products, special liquids, combustible gas, lubricating materials, bitumen, black oil and other products that are produced through the refining of petroleum and other chemical compounds."

The import, production and trade of petroleum products requires a petroleum products licence, whereas transportation and storage activities must be carried out in compliance with the Petroleum Products Law and relevant rules and regulations issued by PAM, but without the need for a specific licence.

Furthermore, an amendment was made to the Petroleum Products Law in 2013 requiring an additional licence for the retail trade activity of petroleum products.

#### ***5.1.2.5 The Law to Prohibit Mineral Exploration and Mining Operations at River Headwaters, Protected Zones of Water Reservoirs and Forested Areas, 2009***

In 2009, Parliament approved the Law with "a long name" of the Prohibition of Exploration and Mining in Headwaters of Rivers, Protected Water Basins Zones and Forested Areas. The purpose of this law is to prohibit mineral exploration and mining operations at headwaters of rivers, protected zones of water reservoirs and forested areas, and to regulate environment rehabilitation activities carried out in the above-mentioned areas. The prohibitions set in the law excludes the mineral deposit of strategic importance.

The Government of Mongolia shall set the boundaries of the Headwaters of Rivers, Protected Water Basins Zones and Forested Areas and it is prohibited to conduct minerals exploration and mining activities within the affected area. Under the law, number of mining and exploration licences were cancelled out. The Implementation Law was enacted in 2009 regarding the implementation of "the Law with Long Name".

The approval of the Law with Long Name forbids the minerals exploration and mining in the Headwaters of Rivers, Protected Water Basins Zones and Forested Areas; and suspended 576 mining activities under minerals mining licences due to the overlapping of licensed area with those areas prohibited by the law.

The Government of Mongolia have issued five resolutions in respect to an implementation of this Law. The implementation of the Law experiences a number of difficulties, including determination of the physical borders of the regions where the prohibition law would apply, to take off special and ordinary protection zones, agreement to conduct extractive activities in ordinary protection zones and issue of the licence payments.

#### ***5.1.2.6 Amendments to the Implementation Law of the Law on Prohibition of Mineral Exploration and Mining Operations at River Headwaters, Protected Zones of Water Reservoirs and Forested Areas, 2015***

The following provisions were approved by the Law on the Implementation of "the Law with Long Name".

If a licence holder who obtained the licence before 2009 or before the law was adopted, wishes to continue its operations, it should submit a request to the MRAM within three months from the effective date of the Law on the Implementation of "the Law with Long Name".

The applicant-licence holder also shall enter into an agreement with the Ministry of EGDT (formerly), the MRAM and the governor of the relevant aimag where template for the agreement has to be approved by the Government of Mongolia. According to the law, Professional inspection agency shall monitor the performance of such agreement.

If a licence holder does not submit such request to continue its operation in area affected by the Law with Long Name and enter into the necessary agreement, the mining licence will be revoked and in this case, exploration or mining licence will not be granted to any party again in future for the subject area.

In the Article 3 of the law provides that the Government shall approve the procedures for the revocation of licences granted in the headwaters of rivers, and for the undertaking of certain measures, including the restoration of the environment in respect of licensed areas located in the "ordinary" protected zones of water basins (200 metres from the banks of such body of water) where mining operations have already commenced.

Such procedures and the agreement should include provisions concerning the deposit of funds equal to the cost of environmental protection and restoration for the project and the obligations and responsibilities of the government officials in charge of monitoring the same.

Further, the amendment provides that holders of mining licences in forested areas must comply with certain requirements under the Law on Forests. If the licensed area for exploration overlaps with the ordinary protection zones of water basins, the amendment provides that the matter shall be resolved in accordance with procedures specified in Law on Water or the Law on Forests if the licensed area overlaps with forested areas.

The amendment also provides that if a mining licence holder does not restore the mining area, the costs for restoring the area shall be payable by the licence holder taking into account the profits gained during the mining period.

#### **5.1.2.7 The General Administrative Law, 2015**

In the minerals industry, there are several types of agreements required to be concluded with state administrative bodies, namely Investment Agreement, Product Sharing Agreement, Agreement on Mine Exploitation, and Community Development Agreement. It is noted that the agreement making process, and contents and scope of such agreements usually remain undisclosed due to lack of clear legislative provisions. Encouraging transparency and community involvement in the mineral agreements is highly critical for monitoring revenue streams of the sector, ensuring social justice, and further protecting environment, human rights and freedoms, and public interests.

It is hoped that the General Administrative Law, became effective starting from July 1, 2016, will have profound effect on enhancing transparency of mineral agreements.

#### **5.1.2.8 The Law on controlling turnover of explosives and blasting tools, 2013**

Purpose of this law is to exercise control over turnover of industrial explosives and blasting tools, preventing from related hazards, ensure safety procedures and prohibit illegal consumption.

#### **5.1.2.9 The Nuclear Energy Law, 2009**

The purpose of the law on Nuclear Energy is to regulate the relations connected to use of radioactive minerals and nuclear energy on the territory of Mongolia for peaceful purposes, ensuring nuclear and radioactivity safety, protecting population, society and environment from negative impacts of ionised radioactivity.

#### **5.1.2.10 The Law on Licensing, 2001**

In February 2001, the Parliament of Mongolia passed the Licensing Law with particular focus on defining and regulating the procedures to be adhered in minerals exploration and mining licences.

Each exploration licence and mining licence must be approved by the governor of the aimag where the licensing area is located, in addition to receiving approval from MRAM. The law defines the roles and responsibilities of local governments and state inspection offices in geology and mining for monitoring the compliance by licence holders.

An exploration or mining licence can be granted only to a limited liability company or joint stock company established under the laws of Mongolia. No individual Mongolian or foreign citizen has right to register as a holder of mineral licence.

In 2014, the Licensing Law was amended so that both exploration and extraction activities of conventional and unconventional petroleum were added to the list of business activities which requires licensing.

#### **5.1.2.11 The Law on Water Pollution Fees, 2012**

To implement the "polluter pays" principle in terms of water resources, the Law on Water Pollution Fees introduces fees payable by entities and organisations that pollute water resources and sets out the maximum and minimum amount of water pollution fees corresponding to degrees of pollution.

Under the Law on Water Pollution Fees, The State Administrative Organisation in charge of water issues or basin administration should submit information regarding a water polluter to the relevant tax office within one month after the issuance of licence and the tax office should register the payer based on the information.

According to the law, the following waste water is subject to water pollution fees: (i) waste water that is directly released into the environment within the permissible limits in accordance with the waste water standard requirements; and (ii) waste water that is released into a sewerage system in accordance with the standard for the permissible maximum content of polluting substances.

Procedures and estimation methods to determine the content of polluting substances in waste water based on the volume of waste water and content of polluting substances should be approved by the State Administrative Central Organisation in charge of natural environment together with the State Administrative Central Organisation in charge of finance.

#### **5.1.2.12 The Audit Law, 2015**

The revised edition of the Audit Law was approved by the Parliament in 2015. The following legal entities should have their financial statements audited as stated in the law:

- Entities those do apply International Financial Reporting Standards ("IFRS")
- Entities those do prepare Consolidated financial statements,
- Foreign invested entities,
- Other entities which should have audited their financial statements according to an international treaty which Mongolia shall comply with.

#### **5.1.2.13 The Accounting Law of Mongolia, 2015**

The Article 4.2 of the Accounting Law listed the entities who must apply IFRS and are subject to external auditing of financial statements whereas the following entities and individuals should apply IFRS for Small and Medium Size Entities (SMEs), therefore they are not subject to external auditing. Please refer to the comparative summary below:

IFRS is mandatory for	IFRS for Small and Medium Entities (SMEs) is mandatory for
<ul style="list-style-type: none"> <li>Companies listed on domestic and foreign stock markets</li> <li>Companies requesting to be listed on domestic and foreign stock markets,</li> <li>Entities holding licences in banking, financial services and activities other than banking, mineral resources exploration and mining, and production of petroleum products,</li> <li>State or locally owned entities and other entities in which they have ownership participation</li> <li>Political parties and non-government organisations implementing government responsibilities as stated in Article 19 of the Law on the Government of Mongolia;</li> <li>Special purpose companies in affiliation with commercial banks and entities providing investment funding services</li> </ul>	<ul style="list-style-type: none"> <li>Entities and individuals conducting business in manufacturing and with less than 199 workers and annual sales of less than MNT 1.5 billion,</li> <li>Entities and individuals conducting wholesale business and with less than 149 workers and annual sales of less than MNT 1.5 billion,</li> <li>Entities and individuals conducting retail business and with less than 199 workers and annual sales of less than MNT 1.5 billion,</li> <li>Entities and individuals carrying out service and with less than 49 workers and annual sales of less than MNT 1 billion,</li> <li>Small and medium size manufacturing enterprises with less than 19 workers and annual sales of less than MNT 250 million, or small and medium size enterprises in commerce and service sectors with less than 9 workers and annual sales of less than MNT 250 million.</li> </ul>

#### 5.1.2.14 The Accounting Standard for Exploration and Mining operations (2016)

In accordance with the GoM Resolution #409, the Accounting Standard for Exploration and Mining operations was approved in 2016. Legal entities conducting exploration and mining activities are required to reflect their activities from all stages in their accounting report. The standard does not regulate the accounting of legal entities conducting natural gas and oil crude extraction activities.

#### 5.1.2.15 Resolution of the Government of Mongolia on Determining Employment Quota of Foreign Workers and Experts, 2016

Each year, the Government of Mongolia passes a Resolution which specifies the quota for foreign workers and experts working in Mongolia. This Resolution contains an appendix which lists the quota for foreign workers and experts allowed to work in Mongolia shown as percentages of the total number of employees in different sectors. If a sector is not covered in the appendix, the Resolution states that the quota shall be 5% of the total number of employees hired by the employer.

The Government Resolution No.137 of 2016 was passed to specify the quota for the foreign workers and experts allowed to work in Mongolia for the year 2017. According to this appendix, the quota of foreign workers and experts in the Extractive Industry shown as a percentage of total employees was remained as same as to figures of the previous year. The following table shows comparative information on years of 2016 and 2017.

Table 5.3

Quota (% of total employees)										
Activities in extractive industry	Capital stock (MNT million)									Changes (+/-)
	Up to 100						101 and over			
	15 to 30 employees		31 to 50 employees		51 to 100 employees		Any number of employees			
	2016	2017	2016	2017	2016	2017	2016	2017		
Oil and natural gas and exploration production	10%	10%	20%	20%	60%	60%	70%	70%	-	
Other EI activities	10%	10%	20%	20%	20%	20%	25%	25%	-	

Source: Government of Mongolia 2015 Resolution #432 and 2016 Resolution # 137.



### **5.1.3 State Policies on the extractive industry**

#### **5.1.3.1 State policy until 2025 for mining sector**

The State policy to adopt for the mining sector is directed to develop transparent and responsible mining relying on private sector, to create the balanced structure with numerous supporting pillars for economy within short term and middle terms for the genuine national interests.

The objectives of the State policy to adopt for the mining sector are to create the stable environment for its investments, support the advanced equipment, technology, innovations which are friendly to environment, subsequently improve quality of exploration, mining, processing of minerals, produce the value-added products and strengthen the capacity to compete for international market.

The documents of this State policy aiming to determine the principle to adopt by State for the mining sector and directions of growth, improve governing systems and these policies will be reflected to legislation of this sector, middle and long-term programs, sub-programs, projects and being implemented.

#### **5.1.3.2 State policy on the development of petroleum sector**

At meeting dated June 6, 2018, the Government approved Resolution #169 “the State policy on the development of petroleum sector” as a continuity of “the State policy to adopt for the petroleum sector for 2017” to increase investments for the sector, and to improve capacity and qualifications of human resources especially Mongolian employees.

The major objectives of the State policy on the development of petroleum sector are to intensify petroleum prospecting and exploration, increase petroleum reserves, increase extractions in the petroleum sector of Mongolia, construct a plant to refining petroleum and reliably supply the demands of petroleum products.

This revised policy will be realised through two phases for the period of 2018-2027: (1<sup>st</sup> Phase 2018-2021 ) socio-economic impacts and competitiveness will be improved as a result of measures taken to improve state policies and legislative framework for the petroleum sector, improve infrastructure, increase investments, and initiate establishment of fully or partially state-owned petroleum company; (2<sup>nd</sup> Phase 2012-2027 ) petroleum prospecting and exploration activities will be intensified in the areas with strategic importance; petroleum reserves and its extraction will be increased; oil refining plant will be put into operation; capacity of human resource in the sector will be strengthened; and foundation for the national industrialisation of the petroleum sector will be formed at the level to ensure stable supply to the demands of the petroleum products.

#### **5.1.3.3 State policy for radio-active minerals and nuclear energy**

The objectives of the State policy to adopt for the radio-active minerals and nuclear energy are to investigate the reserves of these minerals, to become one of the leading countries which mine, process and export such minerals for peaceful purposes, extensively use nuclear energy for economic and social demands, produce nuclear energy by non-toxic for human health, ecologically clean, environmentally-friendly technologies.

#### **5.1.3.4 Newly introduced or revised state programs, rules and guidelines**

Within the scope of implementing laws and regulations adopted in the extractive industry, the following state programs, rules and guidelines were newly introduced or revised in the period of 2017 and the first half of 2018.

1. Regulations on licensing procedures, requirements for mining the derivative deposit and rules to adopt for such activities /GoM Resolution No.61 of 2017/
  - Re-processing of dumps or tailing storage waste is critical to environmental rehabilitation and protect the surrounding area of the mines in addition to increase number of workplaces and contribution to state budget in form of payment for natural resource use due to increased consumption of the deposit and degree of processing minerals.
2. Gold-II national programme / GoM Resolution No.20 of 2017 /,

- Per objectives specified in this programme, it is expected to steadily increase annual gold production by 2-3 tonnes per year and reach gradually to 25 tons per annum by 2020; to stabilise MNT exchange rate as a result of increased gold purchase of BoM and Mongolia's foreign currency reserves; and to improve credit rating and solvency of Mongolia.
- 3. Regulation on certification of professional and consultant engineers working in heavy industry /Order No. A/01 of 2017 issued by the Minister of Mining and Heavy Industry/,
- 4. Rules of procedures for the Minerals Council / Order No. A/16 of 2017 issued by the Minister of Mining and Heavy Industry/,
- 5. Tendering procedures for issuance of licence / Order No. A/129 of 2017 issued by the Minister of Mining and Heavy Industry/,
- 6. Regulation on contracting non-governmental organisation for certification of qualified professionals and experts working in the geology and mining sector / Order No. A/206 of 2017 issued by the Minister of Mining and Heavy Industry/,
- 7. Radiation safety procedures for the usage of sealed radioactive sources in borehole surveying /Nuclear Energy Commission's Order No.12 of 2017/,
- 8. Radiation safety procedures for the extraction and processing of radioactive minerals / Nuclear Energy Commission's Order No.01 of 2018/,
- 9. Procedures on payment, allocation and management of natural resource use fee and licence fee / GoM Resolution No.05 of 2018/,
- 10. Procedures on taking over the outcomes of rehabilitation works performed for the area affected by oil and unconventional oil prospecting, exploration and extraction activities. / Joint Resolution No. A/50 and A/31 of 2018 approved by the Minister of Mining and Heavy Industry, and the Minister of Environment and Tourism /
- 11. Situation analysis conducted on "draft documentation of requirements for deposits mining operation plan" / Order No. A/07 of 2018 approved by the Minister of Mining and Heavy Industry /
- 12. Situation analysis conducted on "draft regulations on the handover and takeover of oil and unconventional oil prospecting, exploration or extraction area" / Order No. A/06 of 2018 approved by the Minister of Mining and Heavy Industry /
- 13. Detailed procedures on petroleum products licensing / Order No. A/08 of 2018 approved by the Minister of Mining and Heavy Industry /

#### **5.1.4 The legislations related to EITI implementation in Mongolia**

Within the scope of implementing EITI in Mongolia, additions and changes were made to the following six laws, namely the Minerals Law (2006), the law on Nuclear Energy (2009), the Petroleum Law (2014), the Law on minerals with common occurrences (2014). The Law on Infringement (2017), the Law on Investigating and Resolving Infringements (2017).

The EITI implementation has been reflected into state policy documentations as follows:

- State Minerals Policy, 2014 sets out to introduce and encourage international initiatives such as transparent and responsible mining and assessment of its social and economical impacts
- "The National Program on Combating Corruption" (2016) sets out to ensure transparency of extractive industry
- In the Implementation Plan for the National Program on Combating Corruption (2017) approved by the order of GoM, it has planned to take 6 different measures in two stages for the period of 2017-2023.

The GoM issued the order no.381 of 2013 and approved the 2nd stage National action plan for Open Governance Partnership (2016-2018) setting the goal of ensuring the transparency on information of beneficial ownership to use natural resources.

The Order no.01 of 2006 issued by the GoM encouraged the extractive industry transparency initiative and in the two other orders (the Order no. 222 of 2012 and the Order no. 263 of 2017) of the GoM it has resolved to implement some actions towards ensuring transparency in extractive industry. The Order no. 190 of 2010 by GoM assigned the governors of capital city, aimag, soum and districts to



annually report and inform public about taxes, fees, charges and penalties transferred by minerals exploration and mining licence holder to local budget, and cash or in-kind donations provided to the Governor's secretariat office of capital city, aimag, soum and districts or budget entities. The template for cooperation agreement between Minerals licence holder and local community administration was approved by Order no. 179 of 2016 by GoM; and the template for Product Sharing Agreement was approved by Order no. 104 of 2015 by GoM, respectively.

Over 15 regulations, procedures, memorandum and plans were approved by Decree of the Prime Minister, and orders and resolutions of the respective Ministers in order to regulate sector specific activities.

### **5.1.5 Action Programme of the Mongolian Government for 2016-2020**

By the order no.45 of 2016, the Parliament formulated "the Action Programme of Government to implement during 2016-2020". The Action Programme of Government determined 17 objectives within the scope of the main objectives as to create the favourable environment for investments of geological and mining sector, create the sustainable development of the mining sector and increase the competing capacity of Mongolia for international market of minerals.

Implementation plan for the Government Action Programme, approved by the GoM Order No.121 of 2016 assigns the Cabinet members and the capital city and aimag Governors i) to reflect actions stated in the implementation plan into the drafting of annual Main Guidelines of Socio-Economic Development ; and ii) to reflect the required funding for such actions into the drafting of annual state and local budget and into the policy on the foreign loans, grants and public-private partnership.

### **5.1.6 Fiscal policy and regulations (Requirement 2.1)**

#### **5.1.6.1 Budget revenue collection and its allocation**

**Budget** means the financial instrument to implement socio-economic objectives government functions and the balance of income and expenditure including the total revenue to be collected in treasury fund for the current year and its allocation activities.

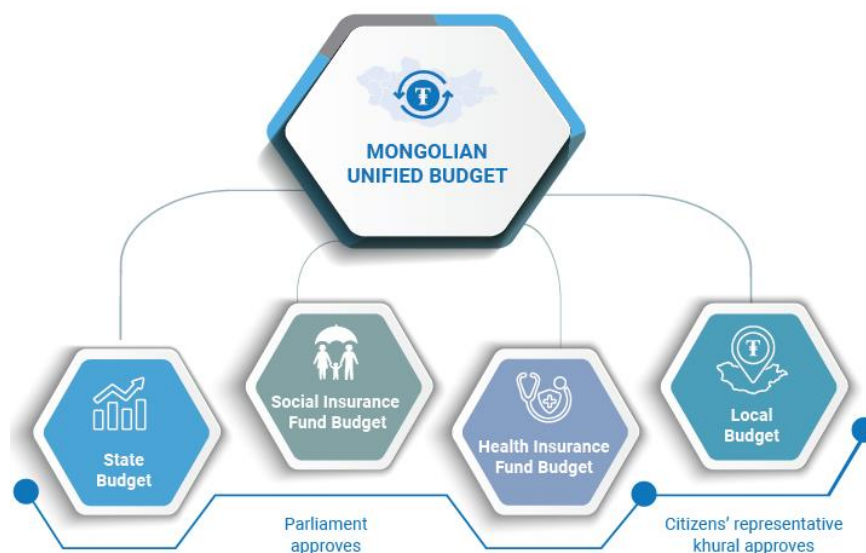
**Budget revenue** consists of tax and non-tax revenues and grants. Equilibrated revenue refers to total budget revenue net of Stabilisation Fund and Future Heritage Fund.

Tax revenues comprise taxes, fees and payments as articulated by the General Tax Law. Non tax revenues comprise

- i. dividends from fully and partially state and locally owned enterprises for the share of state and local property;
- ii. royalties for the use of state and local property;
- iii. proceeds from privatisation, sale and renting of state and local property;
- iv. fines and penalties;
- v. operational revenue from budget entity;
- vi. loans and grants to the Government; and
- vii. other types of revenues generated into the budget in accordance with respective laws.

**Budget expenditures** consist of recurrent and capital expenditures. Budget expenditures are consumed for implementing the state main functions such as education, health support services, national security, infrastructure and social welfare.

The **National budget** of Mongolia comprises the state budget, local budgets, the budget of the Social Insurance Fund and the budget of the Health Insurance Fund. The local budget is comprised of aimag, capital city, soum and district budgets. The national Parliament must discuss and approve the State budget, the budget of the Social Insurance Fund and the budget of the Health Insurance Fund; whereas local budget requires approval of the Citizens' Representative Khural of the relevant jurisdiction.



**State budget** means a budget generated, allocated and expended by the President, the Parliament, the Government of Mongolia, the Ministries and their agencies. State budget accounts for approximately 80% of the National budget.

Source: Citizens budget -2018, MOF

**Local budget** means a budget approved by Citizens' Representative Khurals and; Governors of aimags, capital city, soums and districts are responsible for collection of revenues and for expenditure relating to their jurisdiction. The Parliament approves the financial support/transfer to local budget or transfers from local budget to the state budget.

**The Social Insurance Fund budget.** Income for the social insurance fund shall come from social insurance premiums paid by employee and employer according to the Social Insurance Law and funding allocated from the state budget. The fund shall be spent to finance social benefits and pensions as specified in the Social Insurance Laws.

**The Health Insurance Fund budget.** The purpose of the Fund is to finance health support services with health insurance premiums paid by the state, citizens and organisations according to the Health Insurance Law.

#### 5.1.6.2 Budget laws

The main legislation applicable to the national budgeting consists of the Constitution of Mongolia, the Fiscal Stability Law, the Budget Law, and other legislative acts enacted in accordance with the Budget Law.

The budget policy of Mongolia is regulated by the following laws.

**Budget Law.** National budget is regulated by the Budget law. The purpose of this law is to establish the principles, systems, composition and classification of the budget; to implement specific provisions of the budget; to define the rights, duties and responsibilities of bodies that participate in the budget process; and to regulate the procedures applying to budget preparation, budget approval, spending, accounting for, reporting and monitoring.

**Fiscal Stability Law.** The purpose of the Law is to determine and implement budget requirements and management principles to ensure fiscal stability; determine the rights and responsibilities of government organisations in monitoring fiscal stability; create renewable wealth; make investments that support economic development; and generate financial savings from mineral revenues. The Law consists of two major principal sections:

- The percent of balanced loss in the future, permitted amount of debts, percentage of expenditure increase and estimation process of budget revenues were clarified by this law including:
  - the consolidated budget revenue shall be estimated by using a structural revenue policy.
  - the structural balance shall not exceed 2 % of GDP of the current fiscal year,

- the percent of increase in total expenditure of the National budget of particular year shall not exceed the greater of i) the percent of increase in non-mineral GDP of that year or ii) the average increase percentage of non-mining GDP of the previous consecutive 12 years,
- the present value of the Government debt shall not exceed 60 percent of GDP of that fiscal year (*this article is re-edited by the amendment law dated Sep 9, 2016*)
- The budget policy shall be defined by the midterm fiscal framework statement approved in accordance to the special requirements of budget. This framework statement shall involve the financial objectives of Government, the expected budget performance, macro-economic (employment level, Consumer Price Index etc) projections and budget projections (budget balance, budget investment) of three subsequent consecutive years.

**Law on Special Funds of Government.** The purpose of this law is to determine the type of Government special funds and to regulate relations with respect to generating, expending, reporting of performance and monitoring of such funds.

**The Law on Future Heritage Fund.** The Law on Future Heritage Fund was enacted in 2016 and became effective on January 1, 2017. The purpose of the law is:

- to establish a Future Heritage Fund
- to regulate relations may arise with respect to setting out the organisational system and structure which is responsible for revenue collection, wealth distribution and management, performance reporting and monitoring of the Fund
- to build up sustainable and effective system for macro-economic governance

in order to apply principle of fairly distributing the revenues of non-renewable minerals collected in the budget to current and future generations.

## 5.2 MINING SECTOR

### 5.2.1 Mongolia's Mineral Resources

As of December 31, 2017, 2,225 companies held licences to conduct mining and exploration operations for 50 types of minerals on 3,708 licensed areas.

The mining sector accounted for 18.7% of Mongolia's GDP on average of the last three years. The share of GDP from the sector arising in 2017 is 4.5% higher than in 2016.

The share of mining sector in total industrial production of Mongolia was 73% on average of the last 3 years. The share of industrial production from the sector arising in 2017 is 6.5% lower than in 2016..

The following table summarises the key statistics of mining sector for last 3 years.

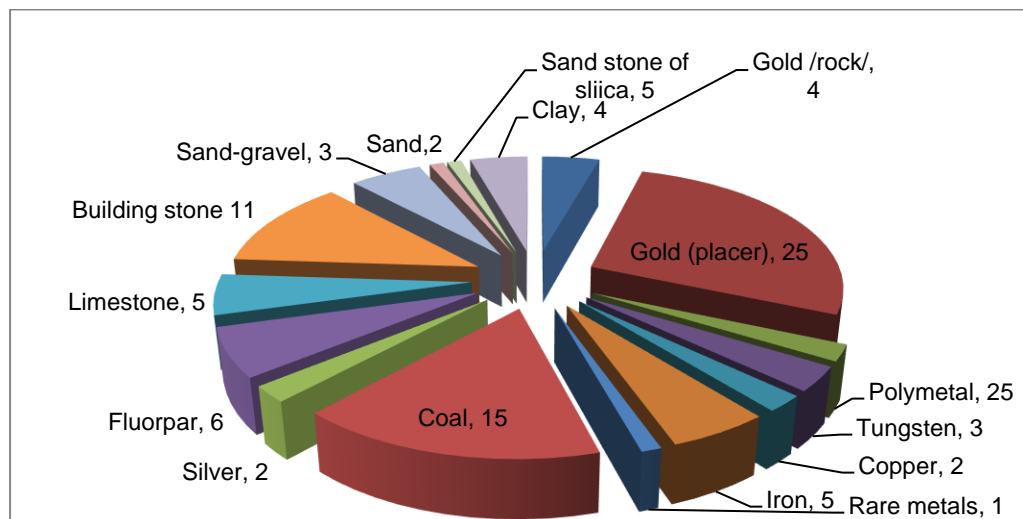
**Table 5.4**

No	Item	2015	2016	2017
1	Number of valid licences	3,329	3,580	3,369
	Number of mining licences	1,494	1,558	1,624
	Number of exploration licences	1,835	2,022	1,745
2	Valid licensed area	13.9 mln ha	13.5 mln ha	10.7 mln ha
	Licensed mining area	1.3 mln ha	1.4 mln ha	1.6 mln ha
	Licensed exploration area	12.6 mln ha	12.1 mln ha	9.1 mln ha
3	Share percentage of licensed area in total territory, of which:	8.9%	8.6%	6.8%
	Share percentage of licensed mining area	0.8%	0.9%	1.0%
	Share percentage of licensed exploration area	8.1%	7.7%	5.8%
4	Share percentage of mining sector in GDP	17.1%	17.2%	21.7%

No	Item	2015	2016	2017
5	Share percentage of mining sector in total industrial production	67.2%	79.1%	72.6%
6	<b>Production of main types of mineral products</b>			
	Copper concentrate (by metal recovery)	890.7Kt	1,445.1 Kt	1,317.1 Kt
	Molybdenum concentrate (by metal recovery)	5,441.0t	5,173.7 tn	5,616.7 tn
	Gold	14,556.2 kg	18,435.7 kg	19,846.0 kg
	Fluorite concentrate	230.8 Kt	34.1 Kt	55.2 Kt
	Iron ore concentrate	6,173.4 Kt	2,209.9 Kt	3,675.0 Kt
	Zinc concentrate	89.6 Kt	100.2 Kt	82.7 Kt
7	<b>Key exporting mineral products</b>			
	Iron ore concentrate	5,065.1 Kt	608.5 Kt	6,257.8 Kt
	Copper concentrate	1,477.8 Kt	156.2 Kt	1,472.2 Kt
	Zinc ore, concentrate	84.1 Kt	12.6 Kt	118.2 Kt
	Raw or semi-processed gold	11,300 kg	19,168.5 kg	14,554.5 kg
	Coal	14,426.4 Kt	3,612.7 Kt	33,400.1 Kt
8	Coal production	23,979 Kt	35,096.5 Kt	49,480.3 Kt
9	Coal beneficiation	22,125 Kt	33,831.7 Kt	41,904.6 Kt
10	Geological survey works conducted by state budget	MNT 9.3 bln	MNT 9.3 bln	MNT 13.4 bln
11	Actual budget income of MRPAM	118.9%	114.4%	103.4%

Source: Mineral Statistics Information 2015, 2016 & 2017, Mineral Resources and Petroleum Agency of Mongolia, MMHI; Foreign trade bulletin 2016&2017, Mongolian National Statistics Office

Deposits registered with the Mongolian Mineral Resources Reserve Fund in 2017:



Source: Mineral Statistics Information 2017, page 10, Mineral Resources and Petroleum Agency of Mongolia, MMHI

### 5.2.2 Uranium Overview

By the end of 2017, there were 10 uranium mining licences held by 5 entities and 19 uranium exploration licences held by 7 entities. In 2017, no new uranium resources were registered with the Mongolian Mineral Resources Reserve Fund.

Appendix 16(j) shows the detailed information about valid uranium licences in 2017.

### 5.2.3 Deposits of strategic importance

Article 9, Clause 1.5 of the Minerals Law states that `Government will deliver to Parliament its proposal to settle the percentage and amount of the strategically important deposits of minerals to be owned by the State`.

The definition of a strategically important mineral deposit is `any deposit which might have an impact upon national security, national economy and social growth of the country and region, or the deposits which are capable to account for more than 5% of GDP of that year.`

Minerals of strategic importance in 16 deposits are named in Appendix 01 of Parliament Resolution 27 dated 2007; and Resolution 11 dated January 23, 2015 as follows:

Table 5.5

№	Deposits	Types of minerals	Locations	Licence holders	Ownership percentage	
					State	Private entities
1	Asgat	Silver	Nogoonnuur, Bayan-Ulgii	Mongolroostsvetment LLC Erdenes Mongol LLC	51	49
2	Baganuur	Coal	Baganuur, Ulaanbaatar	Baganuur JSC	75	25
3	Boroo	Gold	Bayangol, Selenge	Boroo Gold	0	100
4	Burenkhaan	Phosphorite	Alag-Erdene, Khuvsgul	Sutaikhen tso LLC Topruonkhentso LLC Talst Margad LLC	0	100
5	Gatsuurt	Gold	Mandal, Selenge	Centerra Gold Mongolia LLC	Under discussion	
6	Gurvanbulag	Uranium	Dashbalbar, Dornod			
7	Dornot	Uranium	Dashbalbar, Dornod			
8	Mardai	Uranium	Dashbalbar, Dornod	Adamas Mining LLC		
9	Nariin Sukhait	Coal	Gurvantes, Umnugovi	Mongolyn Alt MAK LLC Chinhua MAK-NS LLC SouthGobi sands LLC Usukh Zoos LLC	0	100
10	Oyu Tolgoi	Copper, gold	Khanbogd, Umnugovi	Oyu Tolgoi LLC Entrée LLC	34	66
11	Tavan tolgoi	Coal	Tsogttsetsii, Umnugovi	Tavantolgoi JSC Energy resources LLC Erdenes TT JSC	51 0 100	49 100 0
12	Tumurtei	Iron	Khuder, Selenge	Darkhan Metallurgical Plant JSC	100	
13	Tumurtei	Zinc	Sukhbaatar, Sukhbaatar	Tsairt Mineral LLC		100
14	Shivee Ovoo	Coal	Sumber, Govisumber	Shivee Ovoo JSC Erdenes Mongol LLC Eikusora LLC	90	10
15	Tsagaan Suvarga	Copper, molybdenum	Mandakh, Dornogovi	Erdenes Tsagaan Suvarga LLC Mongolyn Alt MAK LLC	0	100
16	Erdenetiin Ovoo	Copper, molybdenum	Bayan-Undur, Orkhon	Erdenet Mining Corporation LLC	51	49

### 5.2.4 Mineral reserves of Mongolia

The MRPAM is responsible for registering and reporting the mineral reserves of Mongolia. Western and central reserves of Erdenet copper deposit are updated. The following table summarises the details of mineral reserves registered with the Mongolian State Mineral Reserve Fund for last 3 years.

Table 5.6

№	Types of deposits	Unit of measurement	2016		2017		Total
			Ore concentrate	Metal	Ore concentrate	Metal	Metal
1	Gold (rock)	Kt	62,864.00	33,820.00	8,413.00	3,212.00	591,244.00
2	Gold (placer)	Kg	6,581.00	5,955.00	3,375.00	3,015.00	43,940.00
3	Iron	Kt	54,463.00	18,030.00	45,656.00	11,871.00	350,431.00
4	Polymetal	Kt	15,091.00		-	-	-
	Copper	tn	-	57,547.00	-	-	1,775,167.00
	Zinc oxide	tn	-	41,043.00	-	78.00	1,126,034.00
	Zinc	tn	-	-	-	-	36,322.00
	Lead	tn	-	-	-	83.00	244,939.00
	Tungsten oxide	tn	-	-	-	1,636.00	1,553,766.00
	Ferric oxide	tn	-	-	-	-	715,897.00
5	Molybdenum	Kt	-	-	-	-	650.00
6	Tungsten	Kt	-	-	503.00	4.00	349,319.00
7	Rare elements of earth	Kt	-	-	-	-	642,405.00
8	Copper	Kt	2,042,008.00	7,789,024.00	29,183.00	135.00	53,577,456.00
9	Tin	Kt	-	90.00	-	1.00	10,961.00
10	Fluorspar	Kt	801.00	335.00	1,178.00	665.00	16,841.00
11	Uranium	Kt	5.00	-	-	-	95,159.00
12	Coal	Kt	1,295.00	-	3,869.00	3,580.00	27,868.00
13	Shale	Kt	-	-	-	-	1,840.00
14	Limestone	Kt	155.00	-		186.00	1,767.00

Source: Mineral Statistics Information 2017, page 9, Mineral Resources and Petroleum Agency of Mongolia, MMHI

### 5.2.5 Small-scale mining

#### Artisanal or small-scale mining

An artisanal or small-scale mining means an (usually illegal) activity of mining conducted by individuals (using manually-intensive methods), typically organised in a cooperative, on the territory of Mongolia. Given that small-scale mining is seasonal, unsustainable and in view of the lack of official statistical data, we considered small-scale mining separately from the mining sector overview of Mongolia in this report.

According to the results of a survey of artisanal miners in 2016, there were 11,962 individuals undertaking such activity of mining. However, 9,596 individuals participated in this survey. For geographically, 4,500 miners (37.6 percent of total artisanal miners) are working in the western part of Mongolia, 4,200 miners (35.2 percent) in the central part, 1,700 miners (14.9 percent) in the Khangai region, 1,300 miners (10.6 percent) in Ulaanbaatar city and 200 miners (1.7%) in the eastern part of Mongolia respectively.

The artisanal miners are operating in 18 aimags (except for Sukhbaatar, Darkhan-Uul, Orkhon) and 1 district of Ulaanbaatar. Of which, 1,674 miners (17.4%) are working in Umnugovi aimag, 1,216 miners (12.7%) in Ulaanbaatar city, 998 miners (10.4%) in Umnugobi aimag, 898 miners (9.4%) in Selenge aimag, 821 miners (8.6%) in Khovd aimag, 745 (7.8%) in Bayankhongor aimag and 657 miners (6.8%) in Tuv aimag, collectively accounting for 73% of total survey participants. The remaining 27 percent is working in other aimags.

Artisanal mining activities have been conducted in 332 spots of 113 deposits with mineral occurrences (which are considered as small-scale mines). Of which, 205 spots (61.7%) are located in 4 aimags and



1 district of Ulaanbaatar city (88 in Nalaikh district, 37 in Bayankhongor aimag, 29 in Tuv aimag, 29 in Umnugovi aimag and 22 in Govi-Altai).

Bayankhongor, Tuv, Uvs, Ulaanbaatar, Selenge and Khuvsgul aimags, which are rich in gold and coal deposits, have the highest number of artisanal miners. In contrast, the eastern aimags with deposits of fluorspar, tungsten and so on have the lowest number of artisanal miners. For this reason, it is clear that the number of artisanal miners is directly correlated with the types of minerals.

51.4% of total respondents in the survey have paid health and social insurance fee in 2016. It is reported that 22.1% of artisanal miners has made certain amount of contributions into local community and budget.

73.5% of 6948 artisanal miners involved in the survey extracted gold while 10.9% extracted fluorspar, 10.5% extracted coal, 2.5% extracted tungsten, 0.7% extracted gemstones, 0.2% extracted limestone, 0.1% extracted sand-gravel and the remaining percentage extracted other types of minerals respectively.

71.5% of 5,108 artisanal gold miners involved in the survey were extracting gold individually, 23.8% were a member or the head of a cooperative and the remaining 4.8% were helping with the family to extract gold. The artisanal miners participated in the survey extracted totally 212 kg gold, selling a gram of gold at the average price of 68,100 tugriks.

#### **5.2.5.1 Legal environment**

Artisanal mining activity is regulated by the Procedure on Small-Scale Mining amended by Resolution # 151 of the Government of 2017. This amended regulation has positive impact in the better officialisation of small-scale mining activities – mostly in the form of cooperative to engage in artisanal mining activities, but it also allowed to estimate accurately the contributions from small-scale mine into the nation's economy as the artisanal miners started paying their taxes under relevant taxation laws.

This resolution stipulates the capacity building and increased responsibilities of aimag governments. The aimag government is responsible for producing a consolidated report covering the activities of small-scale mines in soums and for delivering the consolidated report to the MRPAM. Also, Resolution 151 states compliance with safety rule for small-scale mines (integrated safety rule of small-scale mines approved by Order # 153 of the Head of MRPAM in 2011), approval and monitoring of rehabilitation methods for small-scale mines jointly with central state administration body in charge of environment protection.

Having a legal environment regulating the micro-scale mining activities, artisanal miners are allowed to receive public services and required to do rehabilitation. In addition, the use of mercury may be reduced as the gold is separated in an ore concentration plant.

Appendix 29 shows the detailed information provided to the MRPAM about artisanal miners and the minerals they extract.

#### **5.2.5.2 Contribution from small-scale mining to the economy**

IRIM Mongolia has conducted a baseline survey "Contributions from artisanal mining activities into the local development" covering the period 2017-2018. According to the results of this survey, the multiple factor that measures the contributions from artisanal miners into the local economy was 1,189 (see further information from the survey report).

#### **5.2.5.3 Distribution and source of artisanal mining data**

The information about artisanal mines is given to the local citizens through voluntary activities and donation campaign. Statistics relating to artisanal miners and mining activities can be obtained from the Ministry of Environment and Tourism, Sustainable Artisanal Mine Project and National Federation for Artisanal and Small-Scale Mining of Mongolia.

Currently, this federation has 79 member organisations located in 45 soums of 15 aimags, which incorporate 429 cooperatives covering more than 6,300 artisanal miners. See further information about the activities of the federation from the website, <http://bichiluurhai.mn/>.

Please see Appendix 28 for the information of local member NGOs.

The National Statistics Committee has completed the second baseline study “Integrated report of artisanal miners 2016” in cooperation with Swiss Development Agency. The results of this study have great positive impact on classifying artisanal miners of Mongolia and their activities geographically and determining their contributions into the country’s economic and social development. Please visit <http://sam.mn/бичил-уурхай-эрхлэгчдийн-судалгааны-нэгдсэн-тайлан-2016/> for more information about the report.

The Sustainable Artisanal Mining Project is developing the information about the location of small-scale mines. The Project informed that they are able to prepare a map showing in which aimags or soums the artisanal miners are working along with the relevant number of miners, but it is impossible to mark exact location by coordinates.

#### **5.2.5.4 Sustainable Artisanal Mining Project in Mongolia**

The Swiss Development Agency has been supporting a sustainable artisanal mining project over a period of 14 years. Phase 4 of the project has been implemented from 2015 to 2018.

The goal of phase 4 is to promote economically sustainable, nature-friendly, human rights-based micro-scale mining sector in Mongolia, to create legal environment for trade of mined gold, to officialise the supply chain and to support the learning of best practices of other countries and to share its own experience.

From 2021, the European Union declared it would require certification of origin for purchases of gold and three other types of minerals. In addition, the Bank of Mongolia is pursuing a policy to require a purchase agreement for domestic gold purchase process.

The minerals extracted by artisanal miners tend to be exported with a certificate of origin. For this reason, the goal of the Sustainable Artisanal Mining Project is focused on the transparency and improvement of origin and supply chain of minerals from artisanal mining activities. For this purpose, a mineral testing laboratory has opened in Darkhan and Bayankhongor aimags in 2018.

In addition, a mobile application designed to distribute information about micro-scale mining is under development.

#### **5.2.5.5 Rehabilitation statement**

In 2016, an area of 3,701.7 hectares has been used for micro-scale mining activities. The following table summarises the size of land being used for micro-mining activity, size of damaged area and the size of rehabilitated area, respectively.

**Table 5.7**

Region	Size of area being used for micro-mining activities, in hectare		Size of damaged area since mining activities, in hectare		Size of rehabilitated area, in hectare	
	2012	2016	2012	2016	2012	2016
TOTAL	8319.2	3701.7	8288.0	3228.4	594.3	382.8
Western	2871.3	499.5	4741.0	583.9	78.6	220.7
Khangai	1584.8	924.7	808.8	886.0	146.9	55.2
Central	2113.2	1276.3	1271.0	801.0	4.3	102.4
Eastern	558.9	110.4	521.2	66.7	356.5	4.2
Ulaanbaatar	1191.0	890.8	1000.0	890.8	8.0	0.3

In total, 3,228.4 hectares were damaged in 2016 due to the activities of artisanal miners involved in the survey. Of which, 583.9 hectare (18.1%) is in the western region, 886.0 hectare (27.4%) in the Khangai region, 801.0 hectare (24.8%) in the central region, 66.7 hectare (2.1%) is in the eastern region and 890.8 (27.6%) in Ulaanbaatar, respectively.

Geographically, the rehabilitated area was 102.4 hectare in the central region, increasing by 98.1 hectare than 2012. In the western region, the rehabilitated area was 220.7 hectare, increasing by 142.1



hectare than 2012. However, the rehabilitated area dropped to 0.3 hectare in Ulaanbaatar, decreasing by 7.7 hectare compared to 2012. This figure also declined in the Khangai region (55.2 hectare with the reduced size of 91.7 hectare) and in the eastern region (4.2 hectare with the reduced size of 352.4 hectare). In 2016, the size of the rehabilitated area accounted for 11.9% of total damaged area.

#### **5.2.6 Minerals Governance**

Governance is the set of traditions and institutions that transfer and exercise the rights and powers in a national level and includes:

- Selection and replacement process of officers
  - Voice and accountability;
  - Political stability and being separate from violence and terrorism;
- Capacity to develop and implement the government policies
  - Effectiveness of the government action;
  - Monitoring;
- Respect of coordinating institutions by individuals and the state
  - Legal governance
  - Monitoring corruption

According to the study issued by the Economic Research Institute of Mongolia, the majority of public expenditure is used for imports, which is almost absorbed in the mining and construction sector.

When the commodity price is increased in the international market, the investment stream into the countries with abundant mineral resources like Mongolia tends to increase as well. In contrast, the investment to these countries reduces when coal and copper prices drop. The researchers conclude that political stability is very important for natural resource-rich countries to attract and utilise investment effectively.

2017 was the year when economic burden was reduced, budget discipline was improved, and investor confidence was restored. As a result of this, the expected GDP growth rate reached 3.8 percent in 2017. The mining sector contributed 1.8 billion MNT into the national budget, and non-mining exports amounted to 671 million USD in 2017. In order to reduce the reliance on mining sector, the government set a goal to increase the share of non-mining sector in total export to 20 percent in 2018 and 30 percent in 2021.

Researchers and sector professionals emphasise the importance of export diversification to the economy. Other than mining, industries such as wool, cashmere and leather have advantages; however, percentages of those industries in export has been declining for the recent years.

In 2017, exports exceeded 6 billion USD for the first time and the foreign trade balance had a surplus of 1.9 billion USD. In addition, foreign direct investment reached 1.2 billion USD, the purchased gold was 20 tons and the balance of payments had a surplus of more than 1 billion USD thanks to the donating countries and international organisations. These gave a positive signal to the economy and the nation's foreign currency reserve reached 3 billion USD.

#### **5.2.7 Minerals Licensing**

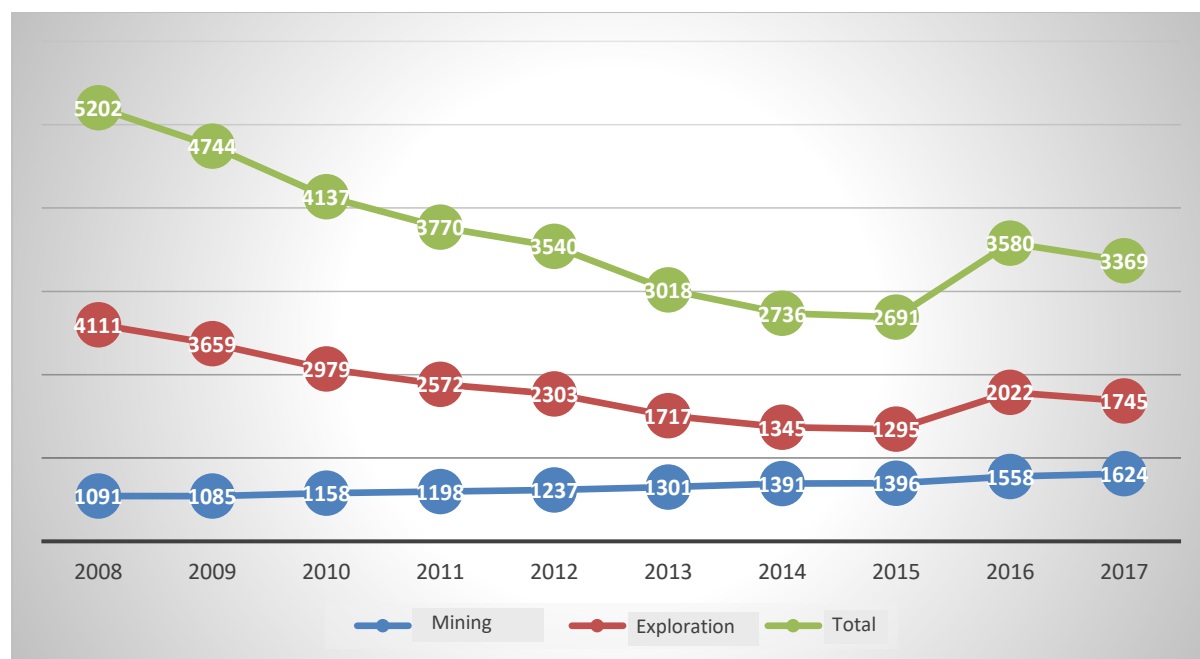
The table below sets out valid minerals licences for the reporting period together with size of area, analysed by aimags and the capital city:

Table 5.8

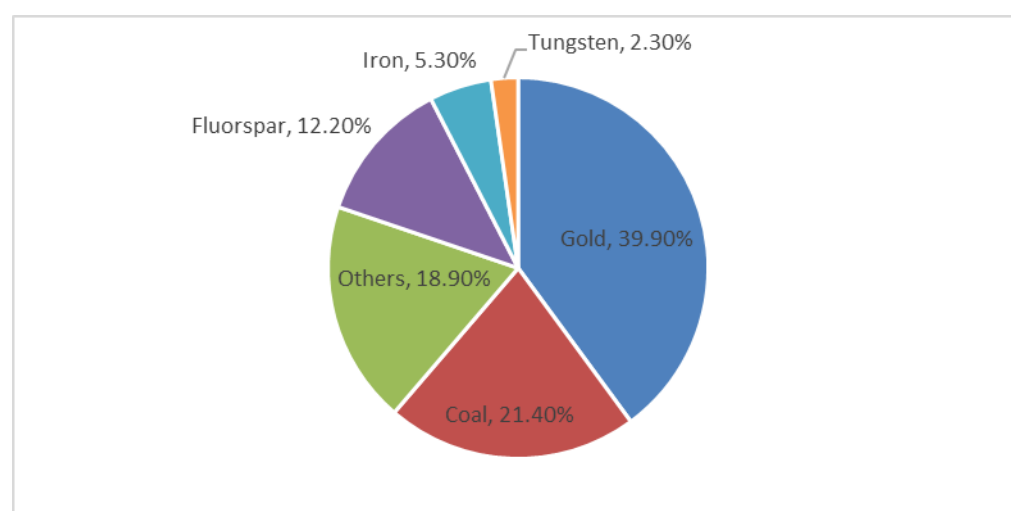
№	The capital city and aimags	In total			Out of which:					
					Mining			Exploration		
		No. of licence	Area /'000 ha/	% of licensed area to total territory	No. of licence	Area /'000 ha/	% of licensed area to total territory	No. of licence	Area /'000 ha/	% of licensed area to total territory
1	Arkhangai	37	31.9	0.6	26	12.6	0.23	11	19.4	0.35
2	Bayan-Ulgii	76	251.7	5.5	25	10.6	0.23	51	241.1	5.27
3	Bayan-khongor	178	485	4.2	84	58.5	0.51	94	426.5	3.69
4	Bulgan	123	243.3	5	67	34.3	0.7	56	209	4.29
5	Uvurkhangai	52	118.1	1.9	29	15.8	0.25	23	102.3	1.63
6	Gobi-Altai	184	970.1	6.8	47	67.5	0.48	137	902.6	6.36
7	Gobisumber	17	58.7	10.6	12	38.7	6.99	5	20	3.6
8	Darkhan-Uul	82	20.7	6.3	67	6.3	2.85	15	11.4	3.49
9	Dornogobi	419	1773.5	16.2	170	213.8	1.95	249	1,559.7	14.26
10	Dornod	184	596.4	4.8	69	57.2	0.46	115	539.2	4.37
11	Dundgobi	231	979.5	13.1	95	156.1	2.09	136	823.3	11.03
12	Zavkhan	90	566.9	6.9	8	13.8	0.17	82	553.1	6.7
13	Umnugobi	228	1656	10	98	532.7	3.22	130	1,123.3	6.8
14	Orkhon	9	11	13.1	9	11	13.12	0	0	0
15	Sukhbaatar	112	514.5	6.2	61	49.9	0.61	51	464.5	5.64
16	Selenge	199	126.9	3.1	141	37.4	0.9	58	89.4	2.16
17	Tuv	460	534	7.2	305	143.2	1.94	155	390.8	5.28
18	Uvs	181	685.6	9.9	42	17.3	0.25	139	668.3	9.6
19	Ulaanbaatar	185	14.1	3	169	12.5	2.64	16	1.6	0.34
20	Khuvsgul	31	94.3	0.9	20	10.8	0.11	11	83.5	0.83
21	Khovd	132	417	5.5	32	13.4	0.18	100	403.6	5.31
22	Khentii	262	549.2	6.8	107	40.7	0.5	155	508.5	6.3
Nationwide		3,369	10,698.3	6.8	1,624	1,557.2	0.99	1,745	9,141.13	5.82

Source: Mineral Statistics Information 2017, page 18, Mineral Resources and Petroleum Agency of Mongolia, MMHI

Note: Some licences cover more than one aimag's territory. So number of licence is added to each aimag.

**Valid exploration and exploitation licence for last 10 years**

Source: Mineral Statistics Information 2017, page 19, Mineral Resources and Petroleum Agency of Mongolia, MMHI

**Exploitation licences by types of minerals**

Source: Mineral Statistics Information 2017, page 20, Mineral Resources and Petroleum Agency of Mongolia, MMHI

**5.2.7.1 Regulation of rights and obligations related to exploration and exploitation licence awarding specified in the Minerals Law**

The following regulations are included:

Table 5.9

Clauses the Law	in	Stakeholders	Rights and obligations as specified in Minerals Law of Mongolia
8.1.5.		Parliament	Restrict or prohibit exploration and mining activities on or grants of exploration and mining licences for certain territories, upon proposal by the Government or by its own initiative.
9.1.11.		Government	In cases other than specified in Clause 24.1 of this law, as proposed by state administrative body in charge of geology and mining, to determine coordinates of eligible area for granting exploration and mining licence and notify the public

Clauses in the Law	Stakeholders	Rights and obligations as specified in Minerals Law of Mongolia
11.1.13.	Selection Committee appointed by the State Administrative body and the Cabinet member in charge of geology and mining	To organise selection process to grant licence, to grant areas for small scale mining or minerals with common occurrences, and draw opinion
11.1.16.	State administrative body	To receive and register licence applications to participate in selection process for granting minerals exploration licence and mining licence
11.1.19.	State administrative body	To grant exploration and mining licences for minerals other than the minerals with common occurrences.
11.1.25.	State administrative body	To determine and send selection area for approval by its coordinates which is available for granting minerals exploration or mining licence under this law
20.1.	State administrative body	The selection process for exploration licence shall be organised by the state administrative body according to the procedures stated in Clause 10.1.2 of the law
26.1	State administrative body, MRPAM	To accept, review and resolve the applications/ requests specified in 25.1 of the law

Source: revised Minerals Law of Mongolia dated June 21, 2018

### 5.2.7.2 Amendments made to Tendering procedure for licence awarding, 2018

Tendering procedure for licence awarding was revised by the Minister of MHI order A/28 dated February 13, 2018. Significant changes in the revised procedure are:

Table 5.10

Previous	Amendment
<b>if selection area is overlapped with local use area or area impacted by illegal mining, locally-owner or state-owned entities used to be given limited right to participate in the selection (2017 revised procedure article 1.6)</b>	The provision was revoked
<b>Tender selection was valid when 70% or more of the selection committee members with voting right</b>	This is changed to 80%.
<b>Technical proposal evaluation and conclusion are made within 10 (ten) days.</b>	Changed to 5 (five) days.
<b>Submission to the Head of state administrative body within 2 working days.</b>	Changed to 1 working day.  The Head of state administrative body shall make
<b>The Head of state administrative body shall make relevant order within 3 days after receipt of the Selection committee conclusion.</b>	Changed to 2 days.
<b>Publish detail information of licences awarded through tender selection on the website of the State administrative body.</b>	Publish on daily newspaper.

- Additional provision is included: In order to ensure consistent organising of selection and workload balance, up to 3 (three) selection committee may be appointed; and 2/3 of committee members may be changed semi-annually.
- Criteria for technical proposal is specified with more detail compared to previous procedure.

- Transparency of tender selection was improved by adding certain provision related to publishing information: “Publish on newspaper or other media about the information on technical and financial proposals submitted by applicants/bidders and how they are evaluated.”; “The State administrative body shall publish area coordinates set by the Government on national daily newspapers and other means of media to the public.”
- Starting from January 1, 2018, exploration licences are granted only through tendering procedure. (Source: Amendment to the Minerals Law (article 7.1) approved by the State Great Hural on November 10, 2017) Please refer to the following sections for licence awarding activities in 2017.

### ***Exploration and exploitation licence awarding process***

Process for awarding exploration and exploitation licence in 2017 was the same as in the previous year. The following table shows the process for exploration licence awarding:

### ***Exploration licence awarding process***

Table 5.11

Steps	State administrative body	Process description
1	MRPAM	Application number will be issued to the applicant upon receiving the application
2	Cadastral division of MRPAM	To determine whether the area applied for is eligible for minerals prospecting and exploration.
3	Local government	MRPAM will refer the application to the governor of the relevant aimag or the city for approval. The governor has 30 days to review of and respond for the application. Failure by the governor to respond to the application within the 30-day period is deemed to be acceptance.
4	MRPAM	Prior to the grant of an exploration licence by MRPAM, the applicant will be required to pay the first year's licence fee upfront within 10 days upon the notification .
5	Cadastral division of MRPAM	Upon grant, an exploration licence is valid for an initial term of three years with a right to renew for three subsequent three-year extensions.

Source: MRPAM

### ***Process of transfer from exploration licence to exploitation licence***

An applicant who requests exploitation licence on area where he/she holds exploration licence is prioritised over other applicants:

Table 5.12

Steps	State administrative body	Process description
1	MRPAM	Receipt of the request.
2	Legal unit of MRPAM	Determine if there is any prohibitions by the law, or any outstanding payments
3	Cadastral division of MRPAM	Check if the exploration licence is registered in Cadastral system.
4	Cadastral division of MRPAM	Check topography to make sure the area in interest does not overlap with other licenced area, water reserves, special purpose area and protected reserves.

Steps	State administrative body	Process description
5	Coal and mining unit of MRPAM	Check if the requestor is capable of undertaking rehabilitation work which may have caused by production.
6	Legal unit of MRPAM	Check whether the requestor complied with the plans of the head of Cadastre division and other laws and regulations.
7	Cadastre division of MRPAM	Approves the topography with coordinates. MRPAM must issue appropriate resolution and respond to the applicant within 20 business days upon the registering the application. If denied, cause and legal precedence must be included as part of the denied response in writing.
8	MRPAM	Pay annual fee for the mining licence within 10 days from receiving approval notice.
9	Cadastre division of MRPAM	Issues Mining licence for 30 years within 3 days from first annual fee payment. Mining licence can be extended twice for 20 years each.

Source: MRPAM

### **Minerals licence awarding through tender selection**

Exploration and exploitation licence shall be awarded through open tender if one of the following criteria is met:

- An entity, which carried out exploration, requested exploitation licence;
- No application is made;
- For area where exploration was carried out with state funding;
- Licence was revoked;
- Exploitation licence term was completed.

**Table 5.13**

Steps	State administrative body	Process description
1	MRPAM	Issue order to begin bidding process
2	MRPAM	Announce bid invitation to the public
3	MRPAM	Receive bid offers. Publish bid invitation on national daily newspaper or other media, in not less than 30 days before tender selection
4	Selection committee of MRPAM	Open technical bid offers
5	Selection committee of MRPAM	Evaluate bidders on the basis of documents received from them.
6	Selection committee of MRPAM	Open price bid offers
7	MRPAM	Announce the winner of the bid within 5 days after having the decision of selection committee.
8	MRPAM	Within 10 days, the notification will be sent to the winner about difference of price offer and threshold price, and about making payment for annual fee for the first year.  Other bidders will be notified about the reason of failure to be selected.
9	Cadastre division of MRPAM	Issue licence based on the decision of the head of MRPAM and the selection committee's decision.

Source: Procedure on minerals licence awarding through tender selection , MRPAM

### **Transfer process of minerals licence**

In the following cases, minerals licence may be fully or partially transferred between entities:

- If a licence holder is re-structured by merger or join, the licence may be transferred to the new entity.
- An associate or a subsidiary may transfer the licence to its parent company.
- The licence may be transferred if an entity purchased primary documents and reports related to exploration and paid relevant tax.
- The licence may be transferred if an entity purchased the mining along with equipment and documents and paid relevant tax.

Table 5.14

Steps	State administrative body	Process description
1	Cadastral division of MRPAM	Receive the required documents
2	Cadastral division and Legal Unit of MRPAM	Review documents received and other information.
3	Cadastral division of MRPAM	Make decision upon finishing review

Source: MRPAM

### **Technical and financial criteria for awarding licence (requirement 2.2.a.i)**

The following table shows the technical and financial criteria used for licence awarding in 2017:

Table 5.15

No	Criteria	Scoring	Max score
<b>Technical evaluation</b>			
1	Evaluation of the documents of the project to conduct the geological and exploration operations		30
	<b>Geological exploration activities</b>	1-10	
	If the methods of geological and exploration operations are optimal and the documents of the previous studies have been studied fully (10)		
	If the methods of geological and exploration operations are optimal and the documents of the previous studies have not been studied fully (5)		
	If the methods of geological and exploration operations are not optimal and the documents of the previous studies have not been studied fully (1)		
	Planning of environment protection and its Rehabilitation ,		
	considering the types, expenses and duration to conduct actions of environment protection and Rehabilitation:	0-5	
	Fully satisfactory (5)		
	Satisfactory (3)		
	Not satisfactory (0)		
	Considering personnel to work: Number of Mongolian employees to work for the Project, and their % in total number of employees	3-5	
	Mongolian employees over 90% (5)		
	Mongolian employees 90% or lower (3)		
	Considering collaboration with local government		
	(types of collaboration, the planned actions)	3-5	
	In the framework of Environment protection, workplace creation, minerals activities, construction of facilities and its related infrastructure ,		
	if the types of collaboration, the planned actions and their expenses are higher than the amount set forth by 42.1 of the Minerals Law (5)		

No	Criteria	Scoring	Max score
	In the framework of Environment protection, workplace creation, minerals activities, construction of facilities and its related infrastructure ,		
	if the types of collaboration, the planned actions and their expenses meets the amount set forth by 42.1 of the Minerals Law (3)		
	Consider if advanced technology and methodologies are used in exploration, production and rehabilitation activities:	0-5	
	Advanced technology and methodologies are used (5)		
2	Advanced technology and methodologies are not used (5)		
	Experience of geological and exploration operations		10
	If a company has experience of more than 5 years in the Mongolian geological, exploration and mining sectors	10	
	If a company has experience of less than 5 years in the Mongolian geological, exploration and mining sectors but has at least 10 years of experience in other sectors	7	
3	New company (established in the current year)	3	
	Readiness of the professional personnel, their experience and skills		10
	If a consultant or expert geologist of Mongolia will work for the company	10	
	If professional, full-time geologist is ready	7	
	Hired geologists on contractual basis	5	
4	Absence of full-time geologists or geologist on temporary contract basis	3	
	Supply of equipment		5
	If a company has own drilling and geophysical equipment to perform geological and exploration	5	
	If a company rents more than 50% of its drilling and geophysical equipment to perform geological and exploration.	3	
	If a company rents all drilling and geophysical equipment to perform geological and exploration	1	
<b>Total technical scores</b>			<b>55</b>
<b>Financial evaluation</b>			
5	Price offer		45
	If it is lower than threshold price, any difference in price offer written in numbers and in words	0	
	Highest price offer	45	
	Other price offers shall be scored using below formula, the resulting score shall be rounded to tenths decimals	Up to 45	
<b>Total financial scores</b>			<b>45</b>
<b>Total score</b>			<b>100</b>

The above criteria were revised on February 13, 2018. The table below shows the revised criteria:



Table 5.16

№	Criteria	Benchmark	Score limits	Max score	
		scores			
Evaluation of project documentations				25	
1	Geological and exploration operations		0-15		
	Optimal methods and planning, deployed advanced technology and methodologies, and the documents of the previous studies have been studied fully	13-15			
	Optimal methods and planning, deployed advanced technology and methodologies, but the documents of the previous studies have not been studied fully	10-12			
	Optimal methods and planning , and the documents of the previous studies have been studied fully	7-9			
	Methods and planning are not optimal, deployed advanced technology and methodologies, but the documents of the previous studies have not been studied fully	4-6			
	No methods and planning, no plan to use any advanced technology and methodologies, the documents of the previous studies have not been studied fully	1-3			
	Planning of environment protection and its rehabilitation , considering the types, expenses and duration to conduct actions of environment protection and rehabilitation		0-6		
	Fully satisfactory	6			
	Satisfactory	3			
	Not satisfactory	0			
	Community development and community relations plan		0-4		
	Complies to Clause 3.3.2.8 of this procedure	4			
	Not complies to Clause 3.3.2.8 of this procedure	0			
	2	Readiness of the professional personnel, their experience and skills			11
		If % of Mongolian employees of the project is 100%	3	1-3	
If % of Mongolian employees of the project is more than 90%		2			
If % of Mongolian employees of the project is less than 90%		1			
If consulting geologist of Mongolia will work for the project		3	0-3		
If expert geologist of Mongolia will work for the project		2			
If neither consulting geologist nor expert geologist will work for the project		1			
If project engineers and geologists are 100% full time		5	1-5		
If project engineers and geologists consists of both full time and temporary contractual employees		3-4			
If project engineers and geologists are 100% temporary contractual employees		2			
If the project does not specify any engineering workers and geologists		1			
3	Geological and exploration experience and, operational experience			10	
	If operated for more than 10 years in geological and exploration sector	4	1-4		
	If operated for 5-10 years in geological and exploration sector	2-3			
	If operated for the period of up to 5 years in geological and exploration sector	1			
	If operated in other sectors for more than 10 years	2	1-2		
	If operated in other sectors for the period of up to 5 years	1			
	Has qualified extensive experience of independently executing geological and exploration project	3-4	1-4		
	Has experience of executing geological and exploration project and operated as subcontractor	1-2			
4	Supply of equipment for the project			9	

№	Criteria	Benchmark	Score limits	Max score
		scores		
	If project implementing entity has fully prepared with own drilling, geophysical and other equipment to perform geological and exploration	7-9	1-9	
	If project implementing entity rents 50% or less of drilling, geophysical and other equipment to perform geological and exploration	4-6		
	If project implementing entity rents all of drilling, geophysical and other equipment to perform geological and exploration	1-3		
TOTAL SCORE				55

### 5.2.7.3 Awarding process for exploration and exploitation licence for radioactive minerals

This activity is regulated by the Nuclear Energy Law of Mongolia, and the following steps are required as per the article 18 "Licence awarding procedure":

Table 5.17

Steps	State administrative body	Process description
1	Nuclear Energy Commission	Proposal/ comments
2	General Intelligence Agency	Proposal/ comments
3	Professional Inspection Authority	Proposal/ comments
4	MRPAM	According to Law on Nuclear Energy, review the application and other related documents against the requirements for special licence applicant
5	MRPAM	Make a decision on issuance of a licence to conduct exploitation activities of this Law within 6-12 months and a licence to conduct exploration activities within 1-3 months considering the specific characteristics of activities.
6	MRPAM	Provided the state administrative authority refuses to issue a special licence, it shall give a written response specifying the justification of the decision.
7	MRPAM	If necessary, the state administrative authority shall have the right to have the documents of an applicant scrutinised and audited by a relevant organisation.

Source: Law on Nuclear Energy

### Requirements for applicant for radioactive minerals exploration licence

- fully meet technical and safe operation requirements;
- fully meet labour safety and sanitary requirements and standards;
- be motivated and involved in solving issues of regional development, health, education and other social matters;
- in compliance with universally accepted standards of company governance, social responsibility and ethics
- have qualified human resources specialised for intended activity;
- be experienced in resolving issues of employees' training and practicing;
- have the financial capacity to conduct exploration of radioactive minerals;
- have the financial capacity to make environmental and biological reclamation;
- maintain responsible mining and have accumulated experience in this field;
- conduct activities ensuring international standards and requirements of labor protection and safe operation of mining industry

**Requirements for applicant for radioactive minerals exploitation licence**

- ensure the conditions specified above;
- have the capacity to sell radioactive minerals for peaceful purposes by world market price and be wholly independent in financial terms;
- have sustainable and leading position on the world market of processing and sales of radioactive minerals
- have financial capacity to conduct extraction of radioactive minerals;
- have many years' experience in extracting and processing radioactive minerals;
- have leading technology to fully exploit reserves of radioactive mineral deposit;
- exploit more economically efficient and advanced technology in processing and using radioactive minerals
- be capable of introducing nuclear technology

**5.2.7.4 Awarding process for exploration and exploitation licence for minerals of common occurrences**

This activity is regulated by the Law of Mongolia on Minerals of common occurrences, and the following steps are required in awarding exploration licence:

Table 5.18

Steps	State administrative body	Process description
1	Governor of the capital city and aimags	Receive and register applications.
2	Governor of the capital city and aimags	Upon the registration, Governors shall undertake preliminary review of the application and attached documents to check if requirements for licence applicant stated in this law is met and the completeness of application materials. If requirements are not met, refuse to accept the application and respond to the applicant in writing, informing the reason and justification of the rejection and make entry to logbook of applications.
3	Governor of the capital city and aimags	Identify if an area mentioned in the application does not overlap with areas restricted and prohibited for minerals exploration and exploitation, special purpose area, protected reserves, other licenced area or area requested in applications comes before. Submit the application and related documents to state administrative body in electronic form.
4	State administrative body	Review area requested in the application together with related documents, and notify about decision to grant exploration licence or not.
5	Governor of the capital city and aimags	If state administrative body responded not to grant licence, notify the applicant in writing and make entry to logbook of applications.
6	Governor of the capital city and aimags	If state administrative body responded to grant licence, resolve whether to grant an exploration licence for minerals of common occurrence within 10 working days considering the comments from the Council of Citizen Representative Hural of soum, district, aimag or the capital city where the affected area is located.
7	Governor of the capital city and aimags	If decided to grant exploration licence, notify the applicant to pay annual fee for the licence within the period stated in this law.
8	Governor of the capital city and aimags	When the applicant fails to have its special licence within 1 month upon decision to issue licence or to pay annual fee for the first year within the period stated in this law, the Governor of aimags or the capital city shall remove the application from

		the registration and notify the applicant about it, then make entry to logbook of applications.
9	Governor of the capital city and aimags	When the applicant successfully paid the annual fee for the first year within the period specified in this law, the licence for minerals with common occurrences shall be issued for 3 years within 5 working days upon payment.
10	Governor of the capital city and aimags	Notify state central administrative body in charge of construction and urban development, State administrative body, authority in charge of nature and environment matters for the aimag or the capital city where the affected area is located; and professional inspection agency on the issue of exploration licence for minerals with common occurrences.
11	State administrative body	Add exploration licence and the subject area into databases of licences and topographies.

Source: Law on Minerals with common occurrences

Only the current licence holder is entitled to apply for exploitation licence for that area licensed for exploration of minerals with common occurrences. The following steps are required in awarding exploitation licence:

Table 5.19

Steps	State administrative body	Process description
1	Governor of the capital city and aimags	Receive and register applications.
2	Governor of the capital city and aimags	Stamp down the registered number, and date & time on each page of the application and its attached documents, then provide the confirmation to the applicant on this matter
3	Governor of the capital city and aimags	Upon the registration, undertake preliminary review of the application and attached documents to check if requirements for licence applicant stated in this law is met
4	Governor of the capital city and aimags	If requirements are not met, refuse to accept the application and respond to the applicant in writing, informing the reason and justification of the rejection and make entry to logbook of applications.
5	Governor of the capital city and aimags	Make sure if the area requested by the application fits into the boundaries of exploration area if an existing exploration licence holder applying for a mining licence in the same area
6	Governor of the capital city and aimags	Identify if an area requested in the application does not overlap with areas restricted and prohibited for minerals exploration and exploitation, special purpose area, protected reserves, other areas already covered by valid licences.
7	Governor of the capital city and aimags	Identify if mineral reserve estimated by the exploration activities and its valuation is sufficient enough to cover the cost of rehabilitation of any damages may cause to the nature and environment due to extraction activities
8	Governor of the capital city and aimags	Within 15 working days upon the application registered, make one of the decisions mentioned below and notify the applicant about the decision.
9	Governor of the capital city and aimags	If an existing exploration licence holder applying for a mining licence in the same area, the area will be granted for mining licence as to the exclusive rights of such applicant, and have the applicant make payment of annual fee for the first year of the mining licence within the period specified in the law.
10	Governor of the capital city and aimags	if an area requested in the application does overlap with areas restricted and prohibited for minerals exploration and exploitation, special purpose area, protected reserves, other areas already covered by valid licences; refuse to issue mining

Steps	State administrative body	Process description
		licence and respond to the applicant in writing, informing the reason and justification of the rejection and make entry to logbook of applications.

Source: Law on Minerals with common occurrences

#### **5.2.7.5 Review of laws and regulations and their enforcements**

We reviewed at the MRPAM Archives office the completeness of supporting documents for a total of 69 licences which comprise 4 licences as mentioned in the request of Open Society Forum and 65 exploration and exploitation licences included in our review sampling. The results of the review are explained in the following 3 sections.

##### **Compliance of laws and regulations in awarding of exploration licence**

As per the Government decree no.359 dated on September 7, 2015, Mongolrostsvetmet LLC's exploration licences XV-003595 and XV-004211 were revoked and an exploration licence XV-20580 was granted to the company for compensation as per the mentioned the GoM decree.

These licence revocations and the granting of a new licence in compensation are not considered unlawful. The revocation was based on the Minerals Law article 9.1.3 "The Government has full power to resolve matters concerning reconnaissance and exploration of minerals and mining on State special needs territory, exclusive of areas with State special protection".

The new licence was granted based on the following articles of the Minerals Law: article 9.1.13 "the Government has full power to grant a licence to a licence holder in respect of those areas set forth in Art. 26.9 through mutual agreement with the licence holder as a means of compensation where the Government has taken any area granted under a licence from that licence holder for the purpose of ensuring national security or to undertake major projects of economic or social development importance"; and article 56.1. "The Government agency shall revoke a licence on the following grounds: 56.1.3 an exploration or a mining area has been designated as special purpose territory and the licence holder has been fully compensated".

However, there is no documentation in the MRPAM archives to prove whether it was agreed with the company as per the Minerals Law article 9.1.13. It leads to uncertainty of whether the law has been fully complied with.

Furthermore, there was no documentation in the licence folder to show how the process to grant an exploration licence as per the GoM decree was consistent with the base procedure or how the legal requirements for granting a licence were met. On the other hand, it is unclear how those Minerals Law articles and procedures are consistent with one another.

For XV-019518, XV-018795, XV-017883, XV-019777, XV-019480 and XV-019524 exploration licences currently being granted, the Local governors refused the licence granting at the time.

Regardless of the Local governors' refusal, those licences were granted by breaching the Minerals Law article 19.6 "If the Governor of the aimag or capital city supports the decisions set forth in Articles 19.2.2 and 19.2.5 of this law the government agency shall make a decision to grant the area under an exploration licence and notify the applicant that the licence fee for the first year shall be paid within the period set forth in Article 34.1 of this law".

The Minerals Law article 17.2 states that "as soon as the receipt of the notice specified in article 17.1 of this law, the Governor of the aimag or the capital city shall respond to the Government agency within 45 days with prior consultation with the Citizens' Representatives' Hural of the soum or district where the area is located and the Presidium of Citizens' Representatives' Hural of the aimag or capital city. Failure to respond as set forth in this Article shall be deemed as approval. 19.5 The Governor of the

aimag or capital city may refuse the granting of an exploration licence on grounds provided in the laws of Mongolia”. However, the Governors of aimags or the capital city do not mention the legal grounds in their refusal.

It can be concluded that there is no procedure stipulated on how to determine whether the refusal is not in compliance with the law or requirement in the Law to address the issue in case when the Local governors provided refusal without explaining legal grounds. Also there is a ground to grant exploration licence since the law states that a proposal to grant exploration licence shall be deemed as approval if the local governors fail to respond within 45 days. Even though the local governors provided refusal, there is document, which explains the grounds used for the decision, attached to the relevant folder.

XV-019518, XV-018795, XV-017795 and XV-016010 licences were granted for the areas applied for where granting was rejected or adjustment was necessary as a result of the topographical screening by the MRPAM Cadastral Division.

This may be a basis of breach of the Minerals Law article 19.2.3 “notify the applicant in writing that the application is rejected, if the requested area overlaps completely or partially with an area with restrictions or prohibitions on mineral exploration or mining, special purpose territory, reserve area, or an area subject to an existing valid licence and record the decision in the application registration book”.

#### **Compliance of laws and regulations in awarding of exploitation licence**

We reviewed the completeness of archives documentation for 12 licences granted in 2017 which were selected in our sampling. 6 of those licences had incomplete documentation:

- Licence MV-021000-001-NM. No description of no confirmation of topographical screening;
- Licence MV-020885-001-NM. No confirmation of 2nd year's payment;
- Licences MV-021000-001-NM, MV-020806-001-NM, MV-020972-001-NM and MV-020984-001-NM. A Reports for boundary determination was not submitted.

Thereby, following articles of the Minerals Law were not complied with:

- Article 26.1.2 “immediately following the registration it shall be determined by preliminary screening whether the application and the attached documents meet the requirements set forth in Articles 24.3, 24.4 and 25.1 of this law”;
- Article 34.2 “Licence fees for subsequent years shall be payable annually in advance before the anniversary date of the issuance of the licence.”;
- Article 34.4 “The licence fee shall be deemed as paid upon receipt by the Government agency of a document certifying the payment of the fees and the payment date shall be the date of the bank transaction.”;
- Article 36.1 “Within three (3) months following the registration of the mining licence in the registry of licences in accordance with Article 26.5 of this law, the mining licence holder shall have the boundaries defined and mark the approved mining area by permanent markers as set forth in technical requirements specified by the professional inspection agency. A person duly authorised by the Government agency shall carry out measurements to define boundaries of the mining area and file a report with the agency upon completion.”

Licences MV-020806-001-NM, MV-020784-001-NM, MV-020814-001-NM, MV-020945-001-NM, MV-020969-001-NM, MV-020971-001-NM and MV-020885-001-NM were granted in 2017 with conclusion stating that “no refusal but query is needed” for the areas that are overlapped with the areas where licensing is prohibited by the MRPAM Cadastral Division's topographical screening. However, no documentation was attached to the archives materials on what kind of query has been carried out and legal grounds for decision of granting licences in the overlapping areas. This may be the basis for



breach of article 24.4.2 “shall not overlap with a reserve area, special purpose territory or an area under existing valid licence;”. In addition, potential disputes may arise in the future due to these exploitation licence.

Licences MV-020972-001-NM and MV-020885-001-NM were granted although the MNET provided a letter specifying that those areas were overlapped with the river headwaters, protected zones of water reservoirs and forested areas.

This is not compliant with “the Law to prohibit mineral exploration and mining operations at river headwaters, protected zones of water reservoirs and forested areas”, article 4.1 “Mineral exploration and mining operations are prohibited at headwaters of rivers, protected zones of water reservoirs and forested areas within the territory of Mongolia”. There is a risk of legal dispute due to this breach. For instance, the licence MV-020885-001-NM was terminated as per the decision of the Head of the MRPAM Cadastral Division (no.263 dated April 19, 2018) since the licensed area was determined to be overlapped with the boundary of forest zone, water reservoirs and special area.

The Licence MV-020781-001-NM was granted although it was determined by the MRPAM Cadastral Division’s topographical screening that some part of the licensed area was overlapped with the local special purpose territory. In accordance with the the decision of the Head of the MRPAM Cadastral Division (no.205 dated April 5, 2018), certain part of thate licensed area was returned.

The Head of the MRPAM Cadastral Division issued a decision to grant the licence MV-020969-001-NM in June 2017. However, the licence was granted in November 22, 2017. During this period, the applicant company claimed to the court about the delay of licence granting process due to a replacement of the Head of Cadastral Division. No documentation was attached for legal grounds for both the delay of licence granting and the latter decision for granting.

There is no document in the archives for the licence MV20783 of Mongolian National Rare Earth Corp LLC.

#### **Compliance of laws and regulations in transferring licence**

A confirmation by the Local environmental authority for environmental rehabilitation in the exploitation area was not attached to the documentation for transferring the exploitation licence MV-017111-008-TF.

MV-017117-009-TF, MV-013786-011-TF and MV-013787-011-TF exploitation licences were transferred although the Local governor provided a confirmation on an absence environmental rehabilitation.

These may violates the Minerals Law article 49 “The transferor of a licence shall submit an application on an approved form as set forth in the Articles 49.1-49.3 of this law: 49.4.4: reference by the environmental office on rehabilitation of the area affected by mining, if transferring a mining licence;”. This also may be a basis for breach of article 49.5 “Immediately following the receipt of an application set forth in Article 49.4 of this law, the Government agency shall record the application and verify the following: 49.5.1: the application complies with the requirements of this Article;”

There is no other document in the archives other than a decision issued by the Head of the MRPAM Cadastral Division (July 24, 2017) for transfer of MV-020868-001-TP licence from Altan Dornod Mongola LLC to Zaamar Gold LLC.

This may be a basis of non-compliance with the Minerals Law article 49 that specifies the requirements for documents to be attached to an application.

The process of licence transfer has fewer control steps and fewer stakeholders than the process of licence awarding; and only the MRPAM Cadastral Division and Legal Division carry out the relevant procedure. (Please refer to “Process of transferring minerals licence” section of this report for detail

information of transferring process) Because of this situation, a licence transferee may be lacking in control on whether the requirements for a licence transferor are fully satisfied.

According to the above breaches of law that we observed during the review, there is significant risk of legal disputes and damage to relevant parties due to not determining and regulating necessary rights and duties of the parties involved in the minerals licence awarding and transferring.

### Statistics of licence application

Statistics of licence application for last 8 years are presented as follows:

Table 5.20

Type of application	2010	2011	2012	2013	2014	2015	2016	2017
<b>TOTAL</b>	<b>1982</b>	<b>1760</b>	<b>1050</b>	<b>626</b>	<b>791</b>	<b>3002</b>	<b>613</b>	<b>813</b>
<b>New application</b>	<b>527</b>	<b>103</b>	<b>114</b>	<b>102</b>	<b>113</b>	<b>2522</b>	<b>131</b>	<b>288</b>
a.Exploitation	100	103	114	102	98	87	103	65
b.Exploration	427	0	0	0	0	2335	0	0
c.Tendering	-	-	-	-	15	100	28	223
<b>Extension</b>	<b>836</b>	<b>980</b>	<b>586</b>	<b>305</b>	<b>453</b>	<b>249</b>	<b>173</b>	<b>231</b>
<b>Transfer</b>	<b>454</b>	<b>462</b>	<b>187</b>	<b>10</b>	<b>53</b>	<b>92</b>	<b>139</b>	<b>153</b>
a.Exploitation	52	67	43	10	36	52	49	78
b.Exploration	402	395	144	0	17	40	90	75
<b>Pledge</b>	<b>59</b>	<b>94</b>	<b>50</b>	<b>67</b>	<b>44</b>	<b>22</b>	<b>33</b>	<b>37</b>
a.Exploitation	44	59	39	47	40	22	30	32
b.Exploration	15	35	11	20	4	0	3	5
<b>Area return</b>	<b>106</b>	<b>121</b>	<b>113</b>	<b>142</b>	<b>128</b>	<b>117</b>	<b>137</b>	<b>104</b>
a.Exploitation	6	6	7	18	12	24	26	14
b.Exploration	100	115	106	124	116	93	111	90

Source: Mineral Statistics Information 2017, page 24, Mineral Resources and Petroleum Agency of Mongolia, MMHI

Refer to Appendix 16(h) for a list of entities participating in tenders in 2017 and list of tender evaluation.

#### 5.2.7.6 Licences awarded or transferred in 2017 (requirement 2.2.a.iii)

It is a requirement of the EITI Standard to include detail of all changes of licence holders in the EITI report. Statistics of licences in the MRPAM Statistics report differs from the information we received from the MRPAM. We described this in detail in the EITI report 2015.

According to the information provided by the MRPAM, 77 exploitation licences and 30 exploration licence were awarded and 139 licences were transferred. Mining and geology statistics which the MRPAM published are as follows:

Table 5.21

Type of registration	2010	2011	2012	2013	2014	2015	2016	2017
<b>Newly awarded</b>	<b>235</b>	<b>79</b>	<b>95</b>	<b>72</b>	<b>113</b>	<b>827</b>	<b>750</b>	<b>151</b>
a.Exploitation	90	79	95	72	97	91	93	77
b.Exploration	145	0	0	0	2	697	629	41
c.Tendering	-	-	-	-	14	39	28	33
<b>Areas returned</b>	<b>105</b>	<b>89</b>	<b>141</b>	<b>146</b>	<b>119</b>	<b>150</b>	<b>166</b>	<b>97</b>
a.Exploitation	6	4	7	16	13	25	25	13
b.Exploration	99	85	134	130	106	125	141	84
<b>Revoked</b>	<b>458</b>	<b>275</b>	<b>270</b>	<b>347</b>	<b>123</b>	<b>173</b>	<b>241</b>	<b>237</b>
a.Exploitation	39	65	139	43	14	10	37	35
b.Exploration	419	210	131	304	109	163	204	202



Type of registration	2010	2011	2012	2013	2014	2015	2016	2017
<b>Completed</b>	<b>248</b>	<b>225</b>	<b>175</b>	<b>253</b>	<b>289</b>	<b>179</b>	<b>124</b>	<b>176</b>
<b>Transferred</b>	<b>448</b>	<b>441</b>	<b>200</b>	<b>8</b>	<b>51</b>	<b>88</b>	<b>146</b>	<b>136</b>
a.Exploitation	59	58	47	8	38	46	50	62
b.Exploration	389	383	153	0	13	42	96	74
<b>Extended</b>	<b>791</b>	<b>997</b>	<b>601</b>	<b>317</b>	<b>444</b>	<b>336</b>	<b>167</b>	<b>162</b>
<b>Pledged</b>	<b>50</b>	<b>62</b>	<b>38</b>	<b>61</b>	<b>40</b>	<b>22</b>	<b>29</b>	<b>39</b>
a.Exploitation	36	39	22	42	34	22	27	34
b.Exploration	14	23	16	19	6	0	2	5
<b>Pledge freed</b>		<b>28</b>	<b>42</b>	<b>31</b>	<b>29</b>	<b>24</b>	<b>16</b>	<b>39</b>
a.Exploitation		8	15	29	24	19	12	38
b.Exploration		20	27	2	5	5	4	1
<b>Re-awarded</b>		<b>94</b>	<b>56</b>	<b>15</b>	<b>11</b>	<b>19</b>	<b>35</b>	<b>26</b>
a.Exploitation		29	16	9	7	10	15	19
b.Exploration		65	40	6	4	9	20	7

Source: Mineral Statistics Information 2017, page 25, Mineral Resources and Petroleum Agency of Mongolia, MMHI

Companies with 10 or more licences as of the year end of 2017 are as follows:

Table 5.22

№	Name of company	Number of licence	Area size	Type of legal entity	Country of investor
1	Altan Dornod Mongol LLC	36	155,158.87	100% foreign investment	Virgin Islands
2	Mongolrostsvetmet LLC	30	16,136.38	Local entity	Mongolia
3	Mongolyn Alt MAK	24	62,365.29	Local entity	Mongolia
4	Gatsuurt LLC	17	9,565.92	Local entity	Mongolia
5	Tsaina Investment Mongolia LLC	16	223,973.65	100% foreign investment	Singapore
6	Olon Ovoot Gold LLC	14	90,111.63	Local entity	Mongolia
7	Gobicoal and Energy LLC	13	11,452.21	Local entity	Mongolia
8	Cogegobi LLC	12	237,919.38	Local entity	Mongolia
9	Hunnu Gobi Altai LLC	12	2,206.74	Local entity	Mongolia
10	MAK Cement LLC	11	7,973.18	Local entity	Mongolia
11	Rich Fluorite LLC	11	6,387.64	Local entity	Mongolia
12	Erel LLC	11	10,996.61	Local entity	Mongolia
13	Golden Grouse Ibex LLC	10	121,409.54	100% foreign investment	Canada
14	JASCO LLC	10	116,537.50	Local entity	Mongolia
15	MonEnco LLC	10	12,807.40	100% foreign investment	Singapore

Source: Mineral Statistics Information 2017, page 26, Mineral Resources and Petroleum Agency of Mongolia, MMHI

Companies which have 100,000 or more hectares of area with minerals licence as of the year end of 2017 are as follows:

Table 5.23

№	Name of company	Number of licence	Area size	Type of legal entity
1	Cogegobi LLC	12	237,919.38	Local entity
2	Tsaina Investment Mongolia LLC	16	223,973.65	100% foreign investment
3	Mongol Uranium Resources LLC	2	191,728.63	Local entity
4	Altan Dornod Mongol LLC	36	155,158.87	100% foreign investment

Nº	Name of company	Number of licence	Area size	Type of legal entity
5	Peabody Winsway Resources LLC	7	122,077.80	100% foreign investment
6	Golden Grouse Ibex LLC	10	121,409.54	100% foreign investment
7	JASCO LLC	10	116,537.50	Local entity
8	Mon Laa LLC	4	108,678.98	Local entity
9	FVSP LLC	4	104,232.36	100% foreign investment

Source: Mineral Statistics Information 2017, page 26, Mineral Resources and Petroleum Agency of Mongolia, MMHI

#### 5.2.7.7 Licence transparency (requirement 2.3)

The MRPAM's cadastre website (<http://cmcs.mram.gov.mn/cmcs#c=License>) published information of 3,435 valid licences. Licence information for uranium exploration and exploitation is not disclosed.

The MEITI Secretariat publishes minerals licence information on its website. As of November 2018, information of 3,708 licences are published; however, types of minerals are incorrectly posted for some licences.

In addition, 'Transparency' section in the website presented statistic overview of the licences as of December 31, 2014; however, the information is not updated since. Moreover, 'Product and sales' and 'Taxation' sections are not updated since 2012. Some sections of the website are not in operation.

### 5.3 EXPLORATION, PRODUCTION AND EXPORTS (REQUIREMENT 3.1)

#### 5.3.1 Minerals exploration

##### 2017 Geological explorations carried out with state funds

In 2017, 29 entities implemented 48 projects with state funds. This included 33 projects for 1:50,000 geological mapping and general prospecting; 3 projects for State geological mapping and 12 projects of thematic research.

MNT13,335,900 thousand were approved by the revised budget and performance reports for MNT11,375,536 thousand have been submitted and MNT9,782,138 thousand of funds have been granted.

Refer to the following table for information of execution of geological researches and financing that are being implemented with the state funds as of November 2017.

Statistics for last 5 years of geological researches carried out the state funds is presented as follows:

Table 5.24

Types of activities	2013		2014		2015	
	MNT mln	Execution	MNT mln	Execution	MNT mln	Execution
ALL	6,809.90	93.0%	9,209.20	92.0%	9,280.60	82.0%
1:200000 State geological mapping	763.80	95.6%	807.20	89.0%	330.50	63.0%
1:50000 Geological mapping and prospecting	5,809.40	96.5%	7,314.80	93.0%	5,556.70	78.0%
Thematic work	155.80	34.3%	1,003.50	88.0%	3,167.70	92.0%
Cooperation project	80.90	168.9%	83.60	70.0%	225.60	79.0%

Types of activities	2016		2017	
	MNT mln	Execution	MNT mln	Execution
ALL	9,341.10	100%	12,255.10	91.8%
1:200000 State geological mapping	642.70	100%	482.30	100.0%

Types of activities	2016		2017	
	MNT mln	Execution	MNT mln	Execution
1:50000 Geological mapping and prospecting	4,975.80	100%	5,355.87	100.0%
Thematic work	3,476.10	100%	6,274.57	80.8%
Cooperation project	246.60	100%	142.40	100.0%

### *Privately funded exploration activity*

Certain articles of the Minerals Law apply for plan, work report, review and approval of cost for privately funded exploration activities. For instance, annual exploration plan is submitted as per the article 48.1.1, annual reports of exploration activities are received and reviewed as per the article 48.1.2, the minimum cost is specified as per the article 33.2 and exploration cost is approved based on a legal person's financial report for the year as per the article 33.2 respectively.

In 2017, of total 1,867 exploration plans were submitted by exploration licence holders, 1,751 plans which account for 93.8% were approved and the remaining 115 plans or 6.2% were returned for revision.

1,538 exploration work reports were submitted by licence holders in 2017 and 1,278 of them were approved while 231 reports were returned for revision.

In the reporting year, licence holders executed geological and exploration works estimated at MNT124,922.9 million. The table below presents the works executed for the last 5 years:

**Table 5.25**

Type of activities	2013 (MNT mln)	2014 (MNT mln)	2015 (MNT mln)	2016 (MNT mln)	2017* (MNT mln)
Preparation	3,842.3	3,146.2	2,998.7	8,924.2	3,398.6
Mapping	2,328.8	3,006.8	2,314.2	5,815.3	1,831.2
Prospecting route	2,530.5	2,535.4	2,789.2	6,383.5	2,261.2
Sampling	2,659.3	2,259.7	2,047.1	32,645.9	76,793.7
Geophysical work	13,427.2	12,413.9	10,716.5	9,826.5	14,210.0
Excavating work	2,530.8	4,887.8	2,784.2	1,697.1	-
Drilling	82,575.7	86,233.0	49,794.5	68,917.0	5,783.0
Geochemical work	2,133.4	746.0	779.1	-	-
Laboratory	10,889.8	10,490.8	6,710.6	8,833.1	11,213.7
Topographic-geodesy work	1,880.4	1,357.9	1,638.3	2,248.6	4,457.7
Hydro-geological work	751.6	2,781.3	2,549.9	1,174.1	759.8
Transport	5,182.5	3,780.9	3,112.8	17,331.0	341.4
Stable processing	11,233.7	21,563.1	11,055.0	11,685.7	1,064.5
Environment rehabilitation	1,382.0	2,015.8	1,749.6	1,346.9	348.2
Area sampling	416.6	1,484.7	1,246.9	2,101.3	898.5
Geo-morphology	25.3	-	20.6	-	-
Archaeology	528.3	123.0	96.8	231.2	165.3
Palaeontology	448.9	88.3	43.3		-
Other	5,328.7	1,506.9	4,791.0	11,098.5	1,396.1
<b>Total</b>	<b>150,095.8</b>	<b>160,421.5</b>	<b>107,238.3</b>	<b>190,259.9</b>	<b>124,922.9</b>

\*Data for 2017 is in progress of review and thus the figures are preliminary. Source: MRPAM

Refer to Appendix 16 (i) for detail information of reports discussed at the Mineral Resources Professional Council's meeting for minerals explorations for the reporting year.

### **5.3.2 Production of mineral commodities**

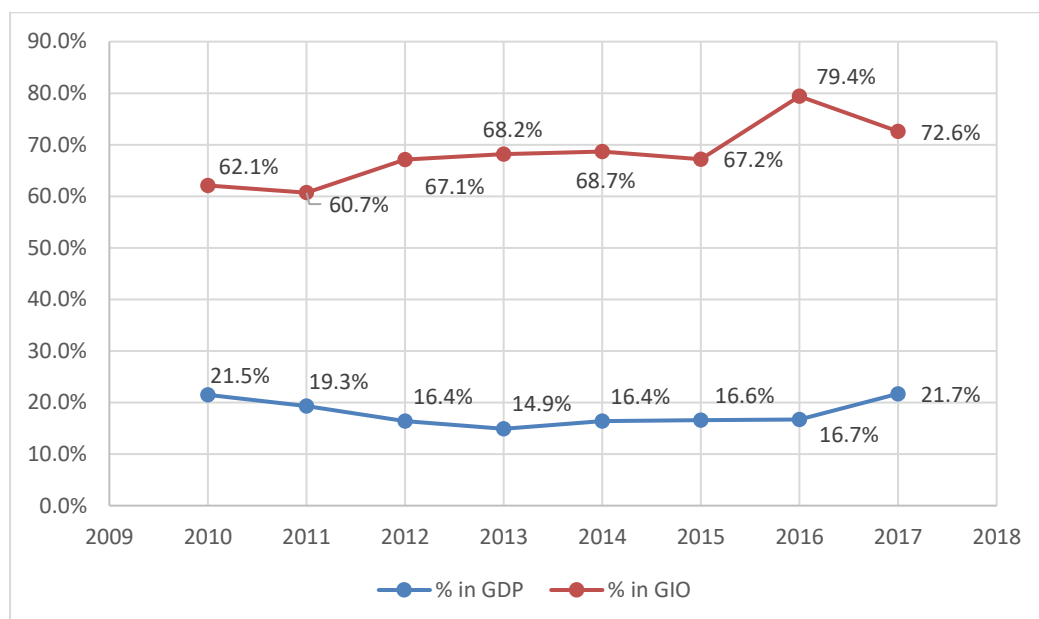
There were general increases in the price of main export commodities in 2017. Percentage of the mining sector in GDP reached 21.73%. Statistics from 2010 to 2017 are shown as follows in billion MNT:

Table 5.26

No.	Production	2010	2011	2012	2013	2014	2015	2016	2017
1	Gross Domestic Production	9,756.6	13,173.8	16,688.4	19,174.2	22,227.1	23,166.8	23,886.4	16,992.1
2	Mining production	2,102.2	2,536.2	2,742.8	2,849.4	3,661.0	3,867.7	3,984.8	3,692.8
3	Gross industrial output	4,987.0	6,185.6	5,723.6	7,651.7	9,299.6	8,714.4	9,927.1	12,932.7
4	Mining and quarrying	3,097.0	3,752.3	3,839.7	5,217.4	6,388.9	5,858.0	7,884.7	9,386.0

Source: Mineral Statistics Information 2017, page 11, Mineral Resources and Petroleum Agency of Mongolia, MMHI

The percentages of mining sector in GDP and GIO for the last 8 years are illustrated below:



Source: Mineral Statistics Information 2017, page 11, Mineral Resources and Petroleum Agency of Mongolia, MMHI

Production of main commodities of mining and quarrying is shown in the table below:

Table 5.27

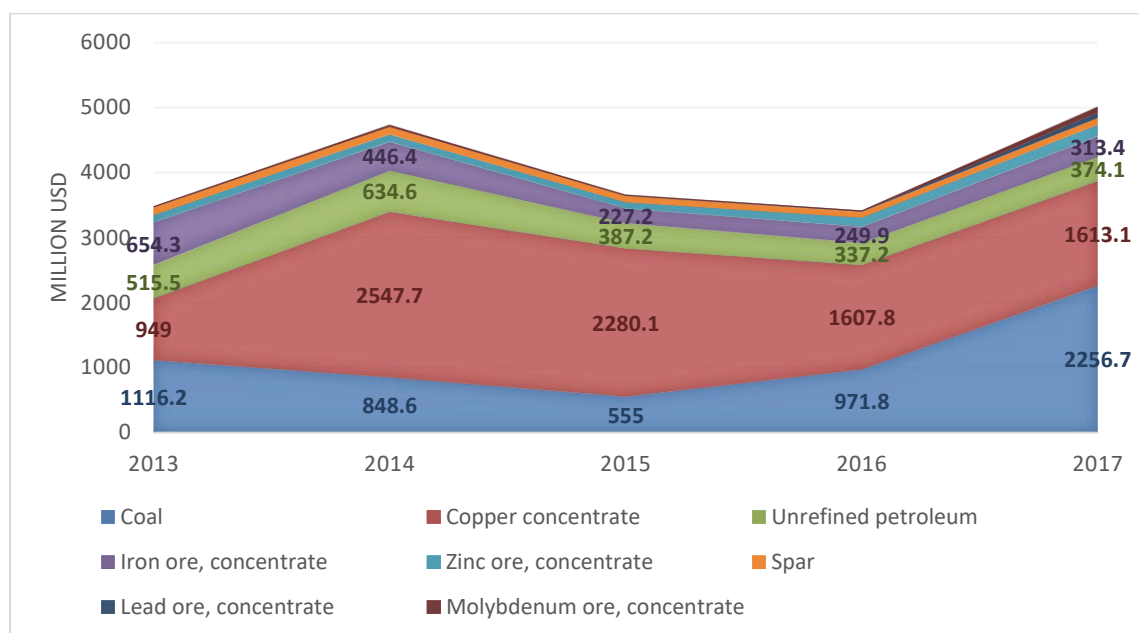
No.	Type of minerals	2010	2011	2012	2013	2014	2015	2016	2017
1	Copper metal concentrate Kt	357.1	347.4	347.6	533.3	712.0	890.7	1,445.1	1,317.1
2	Molybdenum metal concentrate, ton	4,677.1	4,163.1	4,050.2	3,869.2	4,254.0	5,441.0	5,173.7	5,616.7
3	Gold, kg	6,037.1	5,702.6	5,995.0	8,904.4	11,503.8	14,556.2	18,435.7	19,846.8
4	Fluorspar concentrate, Kt	140.7	116.4	157.2	76.4	374.9	230.8	34.1	55.2
5	Iron ore concentrate, Kt	3,203.2	5,678.3	7,561.4	6,011.2	10,260.5	6,173.4	2,209.9	3,675.0
6	Zincum concentrate, Kt	112.6	104.7	119.1	104.1	93.2	89.6	100.2	82.7
7	Tungsten concentrate, ton	19.9	12.6	66.0	-	-	-	-	-

Source: Mineral Statistics Information 2017, page 11, Mineral Resources and Petroleum Agency of Mongolia, MMHI

### 5.3.3 Exports of mining commodities

Total export for the reporting year increased by 26.1% from previous year and reached USD6.2 billion which was the highest in the history of Mongolia. This increase directly depended on export increases of minerals production. Total exports in 2017 was USD 4.9 billion which was 41.6% higher than the previous year. (Source: 2017 External trade Statistics Bulletin of Mongolian National Statistics Committee , page 13)

Minerals exports for the last 5 years are illustrated as follows:



(Source: 2017 External trade Statistics Bulletin of Mongolian National Statistics Committee , page 14)

The graph shows that the total increase was mainly due to export increase of coal. In addition, exports of copper concentrate and coal accounted for 77% of total minerals export and 72% of the last 5 years' exports in average.

## 5.4 OIL AND GAS

### 5.4.1 Petroleum overview

There are 32 licensed petroleum areas in Mongolia and as of now, 21 contractors are operating with the PSAs with the Government on 25 of these areas. Of these 25 licensed areas, 3 areas are in production, 22 are in exploration. The remaining 7 areas are in prospecting activities. 2 companies are operating in those 3 areas in production. PetroChina Daqing Tamsag LLC, a subsidiary of PetroChina Company Limited carries out the majority of the production and exports.

Mongolia exports crude oil as there is no oil refinery plant and equipment currently. Mongolia imports oil products for local demand mostly from Russia.

*Information of the companies in petroleum production:*

Table 5.28

No.	Production area	Contractor	Date of agreement
1	Toson-Uul XIX	Petrochina Daqing Tamsag LLC	1993/04/26
2	Tamsag-XXI		1995/12/11
3	PSA-97	Dongsheng Petroleum Mongolia LLC	1997/01/24

Petrochina Daqing Tamsag LLC operates production at Toson-Uul XIX and Tamsag XXI areas and Dongsheng Petroleum Mongolia LLC operates production at PSA-97 area.

**Petrochina Daqing Tamsag LLC:** In August 2008, SOCO International, USA transferred its rights and obligations of the PSA to operate in XIX, XXI, XXII contract areas in Tamsag basin to Daqing Oil Field Limited Company, a state-owned subsidiary of China National Petroleum Corporation. Daqing Oil Field Limited Company founded Petrochina Daqing Tamsag LLC in Mongolia with full investment of China and started petroleum operations in Toson-Uul XIX and Tamsag XXI areas located in Matad soum, Khalkh river, Dornod aimag.

**Dongsheng Petroleum Mongolia LLC:** Rock Oil (Gobi), Australia based company transferred its rights and obligations of the PSA which was approved on February 15, 2005 by the Mongolian Government order no.47 (February 19, 1997) to Dongsheng Jinggong Petroleum Development Group Stock, based

in China. The Company then established Dongsheng Petroleum Mongolia LLC in Mongolia with 100% Chinese investment and started petroleum operations in the PSA-97 area located in Dornogobi aimag, Petroleum operations include exploration and production related to petroleum. While unconventional petroleum operations are related to exploration and production of bitumen, oil shale, sand oil, gas sand, shale gas and coal methane.

#### 5.4.2 Gas overview

According to the definition specified in the Petroleum Law, “petroleum” includes crude oil, natural gas. The MRPAM has not implemented any contract related to natural gas and no prospecting or exploration have been carried out for natural gas.

Erdene Methane LLC was established in February 2016 as a subsidiary of Erdenes Mongol LLC under its 100% ownership with the objective of exploration of conventional and unconventional natural gas and oil, to raise investment, manage transportation and provide consultancy.

#### 5.4.3 Petroleum Resources

Petrarchina Daqing Tamsag LLC and Dongsheng Petroleum Mongolia LLC have drilled total of 1465 wells for exploration, evaluation and and production testing (869 wells at Toson-Uul XIX; 477 wells at Tamsag XXI; 119 wells at PSA-97 area) and carried out 2D seismic survey at 12.78 thousand kilometres of area (4.37 thous.km at Toson-Uul XIX; 3.27 thous.km at Tamsag XXI; 5.14 thous.km at PSA-97) and 3D seismic survey at 5.33 thousand sq.km area (2.32 thousand sq.km at Toson-Uul XIX; 2.67 thousand sq.km at Tamsag XXI; 339.6 sq.km at PSA-97).

The Mineral Resources Professional Council re-discussed an additional report for petroleum reserves estimation of Toson-Uul XIX area in 2011. In accordance with the Mining and Energy Minister's order no.148 dated on June 21, 2011 (which was based on the Council's conclusion no.6 issued on June 3, 2011), 'proved reserves' of petroleum was increased at 60.06 million tonnes, of this, 'proved recoverable reserves' were increased by 6.5 million tonnes and registered the increases to the the Mongolian Mineral Resources Reserve Fund. Total 'proved reserves' of petroleum at the area were registered as 179.08 million tonnes, of which 20.17 million tonnes were 'proved recoverable reserves'.

The Mineral Resources Professional Council discussed petroleum reserves estimation report for Tamsag XXI area and issued a conclusion no.01/12 on March 2, 2012. In accordance with the Mining and Energy Minister's order no.41 dated on May 16, 2012 and based on the conclusion, the 'proved reserves' of petroleum were registered in the Mongolian Mineral Resources Reserve Fund as 127.509 million tonnes, 'proved recoverable reserves' by natural energy at 14.01 million tonnes and proved recoverable reserve for by water drive at 21.018 million tonnes.

Petroleum reserves at the area PSA-97 were estimated at 26.05 million tonnes which equal to 186.3 million barrels, of this, 'proved reserves' were estimated at 2.07 million tonnes or 14,86 million barrels in a reserves estimation report. The report was discussed at the Mineral Resources Professional Council's meeting and the reserves were registered to the the Mongolian Mineral Resources Reserve Fund in accordance with the Mining and Energy Minister's order no.3 dated June 8, 2011 based on the Council's conclusion provided on April 18, 2010.

Petroleum reserves at the PSA areas as of 2017 are shown as follows:

Table 5.29

No.	PSA area	Proved reserves (mln tonnes)	Proved recoverable reserves (mln tonnes)
1	Toson-Uul XIX	179.08	20.17
2	Tamsag XXI	127.509	21.018
3	PSA-97	26.05	2.07
<b>Total</b>		<b>332.64</b>	<b>43.26</b>



As a result of petroleum prospecting and exploration, in 2017 total of 332.6 million tonnes of proved reserves and 43.2 million tonnes of proved recoverable reserves were identified and registered those resources to the Mongolian Mineral Resources Reserve Fund.

During 1996-2017 total of 49.2 million barrels (6.6 million tonnes) of oil was exported and MNT1.3 trillion were generated to the national budget.

#### 5.4.4 Petroleum exploration

Petroleum exploration activities carried out in 2017 with private funding are presented in the table below:

Table 5.30

No.	Operation area	Location	Feasibility Study	Proved reserves	Amount of reserves	Exploration duration (as of now)
1	Matad XX	Dornod, Sukhbaatar	None	None	0	2009.07.29 - 2020.07.04
2	Galba XI	Dornogobi, Umnugobi	None	None	0	2009.05.20– 2019.05.20
3	Bogd IV	Bayankhongor, Gobi-Altai, Uvurkhangai	None	None	0	2009.07.29 - 2019.07.28
4	Ongi V	Bayankhongor, Dundgobi, Uvurkhangai, Umnugobi	None	None	0	2009.07.29 - 2019.07.28
5	Tukhum (north) X	Dundgobi, Dornogobi	None	None	0	2012.07.29 – 2020.07.28
6	Khuhnuur XVIII	Dornod	None	None	0	2009.07.29 - 2018.07.28
7	Bayantumen XVII	Dornod	None	None	0	2010.12.08 – 2021.12.07
8	Dariganga XXIV	Sukhbaatar	None	None	0	2011.02.09 – 2021.02.08
9	Tukhum (south) X	Dundgobi, Dornogobi, Umnugobi	None	None	0	2012.07.29 – 2020.07.28
10	Sukhbaatar XXVII	Dornod, Sukhbaatar, Khentii	None	None	0	2013.01.05 – 2021.01.04
11	Kherlentochoi XXVIII	Dornod, Sukhbaatar	None	None	0	2015.11.19 - 2023.11.18
12	Ar Bulag XXIX	Dornod, Sukhbaatar	None	None	0	2017.08.29 - 2025.08.28
13	Ergel XII	Dornogobi	None	None	0	2017.06.12 – 2025.06.11

#### 5.4.5 Petroleum Licensing

Matters related to oil prospecting, exploration and production are regulated by the Petroleum Law of Mongolia (<http://www.legalinfo.mn/law/details/10484>).

Petroleum prospecting means geological, geochemical, and geophysical survey work to be performed for the purpose of determining the prospects of petroleum and unconventional petroleum in a certain region.

Petroleum exploration means geological, geochemical, geophysical, drilling, and extraction testing work to be performed for the purpose of finding an oilfield and establishing an amount of the reserves.

Petroleum exploitation includes development and extraction of petroleum and unconventional petroleum deposit.



In November 2015, the Government approved (GOM decree no.430) 'Model agreement in Issues of environmental protection and local development support' to be concluded between local governments and petroleum licence holders.

In March 2016, the Government approved (GOM decree no.179) 'Model Agreement on Issues of environmental protection, mine exploitation, and infrastructure development in relation to mine site development and jobs creation' as a model cooperation agreement between local governments and minerals exploration and exploitation licence holders.

The Petroleum Authority of Mongolia, the Government implementing agency for licensing, registration and monitoring merged with the Mineral Resources Authority of Mongolia in 2016 and became Mineral Resources and Petroleum Authority of Mongolia (MRPAM)<sup>3</sup>.

#### 5.4.6 Process of transferring or awarding Petroleum Licence (requirement 2.2.a.i)

##### Process of awarding petroleum exploration licence

Table 5.31

Steps	State central administrative body	Process description
I.	MMHI	Request to the MMHI: <ul style="list-style-type: none"> <li>- a copy of PSA;</li> <li>- environmental impact assessment;</li> <li>- a draft of the work project and plan to be performed during the respective year;</li> <li>- a proof of deposit of cash amount equal to 3% of investment to the exploration work of the relevant year, or to 1% of its profit-bearing oil during an exploitation phase for that year respectively into an escrow account annually in a bank operating in Mongolia within 60 days from the approval of its plan and budget as a guarantee of contractor's full performance of its obligation for environmental rehabilitation and demobilisation of exploration or exploitation buildings and facilities;</li> </ul>
II.		Awarding of exploration licence: <ul style="list-style-type: none"> <li>- a term for petroleum exploration shall be up to 8 years, and Petroleum Agency may extend twice this period by up to 2 years;</li> <li>- a term for unconventional petroleum exploration shall be up to 10 years, and this period maybe extended once by up to 5 years;</li> <li>- an exploration term shall be counted beginning from a day a production sharing agreement was made;</li> <li>- the MMHI shall notify the respective local administrative body that an exploration licence has been issued or extended.</li> </ul>

Source: The Petroleum Law

##### Process of awarding petroleum exploitation licence

In exploitation licence application, an applicant with exploration licence holder is given priority over other applicants as per the Petroleum Law.

<sup>3</sup> <https://mrpam.gov.mn>

Table 5.32

Steps	State administrative central body	Process description
I.	MMHI	Within 30 days of the MMHI issuing a decision accepting the reserves, a contractor shall apply for an exploitation licence.
II.		<p>The following documents should be submitted to the MMHI to apply for an exploitation licence:</p> <ul style="list-style-type: none"> <li>- a decision of Ministry of Mining registering the petroleum reserve;</li> <li>- a draft of the work plan and budget for the respective year;</li> <li>- a deposit mining operations plan;</li> <li>- the detailed environmental impact assessment current for the exploitation period;</li> <li>- an image on which the coordinates of the corner points of the exploitation area;</li> <li>- a proof of deposit of cash amount equal to 3% of investment to the exploration work of the relevant year, or to 1% of its profit-bearing oil during an exploitation phase for that year respectively into an escrow account annually in a bank operating in Mongolia within 60 days from the approval of its plan and budget as a guarantee of contractor's full performance of its obligation for environmental rehabilitation and demobilisation of exploration or exploitation buildings and facilities;</li> </ul>
III.	MMHI	The MMHI shall notify the respective local administrative body that an exploration licence has been issued or extended.

Source: *The Petroleum Law*

As per the Government decree no.41 dated on January 11, 2016 the PSA for Dariganga XXIV area was transferred from Apedscro Investment LLC to Mongol Shin Liu LLC in 2016. Since this transfer no other transfer of petroleum exploration or exploitation licence has been done to date.

The PSAs are awarded through bid selection.

A bid was announced for Arbulag XXIX area and although Tuvshin International LLC and CCF Petroleum LLC participated in the bid, neither of them were selected. Also a bid was announced for Ergel XII area. Quanan Yuansheng Industry Trade LLC participated but was not selected.

#### Technical and financial criteria for licensing

Table 5.33

Steps	State administrative central body	Process description
1.	MRPAM	The MRPAM shall announce notification that an exploration area has been declared for open tender on its webpage and through the daily press and mass media no fewer than three times.
2.		<p>The period for accepting bids to participate in an open shall be up to 60 days, and the MRPAM shall arrange and announce the end of the period to accept exploration area bids within five days of acceptance of a first bid for the exploration area. A bidder shall provide the following documents:</p> <ul style="list-style-type: none"> <li>- documents evidencing a bidder's legal status; (<i>registration certificate</i>)</li> <li>- a prospectus for the bidder and its investment;</li> <li>- the full name, position, address, phone number, fax number, and email address of a person representing the bidder, evidence proving that the right of representation has been granted to that person;</li> <li>- documents evidencing the bidder's technical, equipment, and professional capabilities;</li> </ul>

Steps	State central administrative body	Process description
		<ul style="list-style-type: none"> <li>- a guarantee of the funds to be spent on exploration work;</li> <li>- a work plan and budget to be performed during the exploration term;</li> <li>- proof that the service fee for the exploration area bid in tugriks equal to an amount of USD20 thousand has been paid</li> <li>- if a bidder is a consortium, the obligations of each party in exploration and exploitation operations and the percentage and amount of their participation.</li> </ul>
3.		The bidder shall be notified in writing within five business days as to whether or not its bid has been accepted.
4.	MMHI, MRPAM	The MMHI and the MRPAM shall not disclose information on the bidders to a third party until such time as a contract has been concluded.
5.	MRPAM	<p>The MRPAM shall define the bidder that submitted the most profitable proposal to the Government and the following terms shall be agreed</p> <ul style="list-style-type: none"> <li>- the percentage of profit oil allotted to the Government;</li> <li>- the percentage of royalties;</li> <li>- the limit of the percentage of cost oil;</li> <li>- the amount of exploration investment;</li> <li>- the amount of funds spent on environmental restoration;</li> <li>- the amount of the premium for instruction/training;</li> <li>- the amount of a bonus for signing the contract;</li> <li>- the amount of a bonus for beginning extraction;</li> <li>- the amount of a bonus for increasing the extraction;</li> <li>- the amount of a bonus for local development;</li> <li>- operational support of the representative office;</li> <li>- other profitable conditions proposed to the Government.</li> </ul>

#### 5.4.7 Production sharing agreement

In 2017, GOH LLC entered into a PSA which was approved by the Government approved on August 22, 2018 (decree no.265).

Two PSAs were concluded in 2016 for 2 areas and the special licences for those PSAs were awarded in 2017.

- The PSA for Arbulag XXIX area, which was conducted with Max Oil LLC, was approved on July 6, 2016 based on the GOM decree no.337 (June 20, 2016) and the licence was awarded on August 29, 2017.
- The PSA for Ergel XII area, which was concluded with Smart Oil Investment Limited Company, was approved on September 9, 2016 based on the GOM decree no.53 (August 24, 2016) and the licence was awarded on June 12, 2017.

The companies with PSAs as of 2017 are as follows:

Table 5.34

No	PSA areas	PSA approval date; GOM decree number	Contractor companies	Operator companies	Contractor's country of origin	Size of area, sq.km
1	Toson-Uul XIX	1993.04.26	Daqing Oil Field Ltd	Petrochina Daqing Tamsag	PRC	650
2	Tamsag XXI	1996.08.07- decree №183				209,2
3	PSA-1997	1997.02.19- decree №47	Dongsheng Jinggong Petroleum Development	Dongsheng Petroleum Mongolia LLC	PRC	239,5
4	Matad XX	2006.07.19- decree №170	Petromatad Invest Limited	Petromatad LLC	The British Isle of Man	10343,2

No	PSA areas	PSA approval date; GOM decree number	Contractor companies	Operator companies	Contractor's country of origin	Size of area, sq.km
5	Nyalga XVI	2007.06.20- decree №148	GOM Panasian Energy Ltd	Sheiman LLC	The Nevis of Island Canada	9239,4
6	Tsagaan-els XIII	2009.05.20- decree №148	GOM DWM Petroleum AG	Гоби энерги партнерс Гмбх XXK	Switzerland	1980
7	Zuunbayan XIV					1030,7
8	Galba XI	2009.05.20- decree №147	GOM Zong Heng You Tian Ltd	Zong Heng You Tian LLC	PRC	9769,2
9	Sulinkheer XXIII	2009.07.22- decree №224	GOM Shunkhlai Energy LLC	Shunkhlai Energy LLC	Mongolia	13576
10	Borzon VII	2009.07.29- decree №236	GOM MongoliaEmpire Gas Mongolia LLC	Empire Gas Mongolia LLCMongolia	The British Isle of Man	31432
11	Khukhnuur XVIII	2009.07.29- decree №238	GOM NPI LLC	NPI LLC	PRC	5276
12	Tukhum X (north)	2009.07.29- decree №237	GOM ExplorationSansar Geology Exploration LLC	Sansar Geology Exploration LLC	Mongolia	9813
13	Tsaidam XXVI			Exploration		11175,2
14	Bogd IV	2009.07.29- decree №235	GOM Central Asian Petroleum Corporation Limited	Capcorp Mongolia LLC	The British Cayman Islands	28998,6
15	Ongi V					21148,7
16	Bayantumen XVII	2010.12.08- decree №316	GOM Magnai Trade Group	Magnai Trade LLC	Mongolia	7832
17	Dariganga XXIV	2011.02.09- decree №39	GOM Apexpro Investment Limited	APEXPRO LLC	The British Virgin Islands	17178
18	Tukhum X (south)	2012.07.25- decree №253	GOM Mongolyn Alt (MAK) LLC	Mongolyn Alt (MAK) LLC	Mongolia	24706,2
19	Sukhbaatar XXVII	2013.01.05- decree №39	GOM Wolf Petroleum LLC	Wolf Petroleum LLC	Australia	23047,5
20	Nomgon IX	2014.02.09- decree №39	GOM South Mongolian Petroleum LLC			29866,8
21	Uvs I	2015.04.20, decree №162	GOM Mongolia Gladwill Uvs Petroleum LLC	Mongolia Gladwill Uvs Petroleum LLC	Hong Kong	19720
22	Kherlentokho i XXVIII	2015.04.20- decree №162	GOM Hong Kong Welpec Industrial Co.,Ltd	Hong Kong Welpec Industrial Co.,Ltd	Hong Kong	14280
23	Khar-us II	2015.06.15- decree №246	GOM Renova Ilch LLC	Renova Ilch LLC	PRC	27409,3
24	Ergel-XII	2016.06.20- decree №337,	GOM Max Oil LLC	Max Oil LLC	Mongolia	/875+894.41 6/ 1769.416
25	Arbulag- XXIX	2016.08.24- decree №53	GOM Smart Oil Investment Limited	Smart Oil Investment Limited	PRC	11035

No transfer of licence for exploration or exploitation in 2017.

#### 5.4.8 Transparency of PSA (requirement 2.4)

The government has raised no objection to disclosure of PSAs and on July 4, 2012 the Government passed a resolution (Number 222) requiring PSAs to be published.

Information on Petroleum Production Sharing Agreements was not updated in website of the MRPAM since October 1, 2014. Moreover, some important information on application date, licence issue date, licence duration, area coordinates, licence type and production type not published by the MRPAM.

#### 5.4.9 Revenue from petroleum products

Under the Petroleum Law, the petroleum mining companies share petroleum revenue with the Government according to the percentages specified in the PSAs. According to the MRPAM the companies pay the sales profit to the Government in USD as per the agreed terms.

The model PSA specifies that the government is entitled to a share of the profit oil, which it may take in kind (as oil) or may request the contractor to sell its share and remit the proceeds to the government. The licence holder is also liable to pay royalty to the government. Currently, the government does not take its profit oil in kind.

Requirement 2.4 of the EITI Standard states that “the government, including state-owned enterprises, are required to disclose the volumes sold and revenues received” for its share of production. We accordingly requested from MRPAM the volume and value of the government’s share of oil produced: MRPAM provided information on the amounts received for the sale of the government share but stated that it was unable to provide the volumes.

We have noted this departure from the requirements of the Standard in our recommendations.

The information reported by MRPAM is shown in the table below.

**Table 5.35**

Name of companies	Total Government's share of sales revenue		Royalty MNT million	Total
	MNT million	Oil (kg)		
Petrochina Daqing Tamsag LLC	190,048.35	Not divided in kind	29,552.51	219,600.86
Dongsheng Petroleum Mongolia LLC	7,991.36		2,112.92	10,104.28
<b>Total</b>	<b>198,039.71</b>		<b>31,665.43</b>	<b>229,705.14</b>

In 2017, the Government received MNT198,039.71 million as share of petroleum sales revenue and MNT31,665.43 million for royalty which totalled MNT229,705.14 million in accordance with the PSAs.

#### 5.4.10 Petroleum production and exports

In 2017, 7,624,055 barrels of petroleum was sold in 3 areas and 7,504,137 barrels were exported. Those areas are the PSA XIX, the PSA XXI are located in Matad and Khalkh Gol soums of Dornod aimag and the PSA-97 is located in Sainshand soum, Dornogobi aimag.

*Petroleum production and exports in 2017 are presented by companies:*

**Table 5.36**

No.	PSA areas	Production		Export	
		MMbbl	Kt	MMbbl	Kt
1	Toson-Uul XIX Petrochina Daqing Tamsag	3.39	448.97	3.35	445.55
2	Tamsag XXI Petrochina Daqing Tamsag	3.91	539.95	3.82	529.00
3	PSA-97 Dongsheng Petroleum Mongolia LLC	0.32	45.84	0.34	47.04
<b>Total</b>		<b>7.62</b>	<b>1,034.76</b>	<b>7.51</b>	<b>1,021.60</b>

*Petroleum product imports by countries:**(tonnes)***Table 5.37**

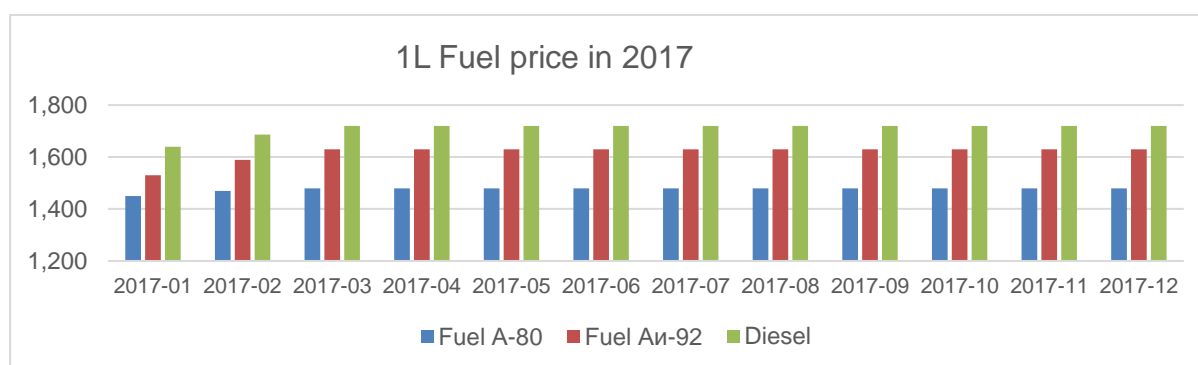
Countries	Russia	China	South Korea	Other countries	Total
Types of products					
Autogas, octane less than 90	61,623.6		-	-	61,623.5
Autogas, octane more than 90	349,345.0	15,860.6	-	-	365,205.6
Diesel	830,163.6	8,468.6	-	-	838,650.2
TS-1	36,236.4	-	-	-	36,236.4
Others (oil, mazut, bitumen)	178,839.2	1,469.0	9,321.6	7,747.9	187,377.8
<b>Total</b>	<b>1,456,207.7</b>	<b>25,816.3</b>	<b>9,321.6</b>	<b>7,747.9</b>	<b>1,499,093.5</b>

Source: MRPAM, Petroleum Exploitation Division, Petroleum Product Division.

**5.4.11 Price of oil products**

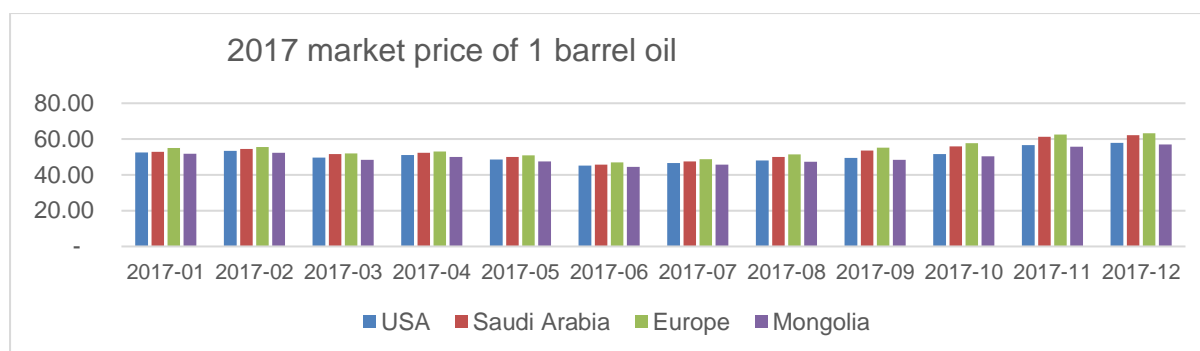
Mongolia fully relies on import for its oil product demands. In 2017, 1,498,000 tonnes of oil products were imported for local demand. Breaking down the oil products: gasoline with octane more than 90 accounted for 25%, gasoline with octane less than 90 accounted for 4%, diesel accounted for 55%, jet fuel for 2% and others (lubricants, mazut and bitumen) accounted for 14% of total oil product imports. 94.5% of total imports were from Russia, 3.4% from South Korea, 1.8% from China and the remaining 0.3% from other countries.

Mongolia has been in long term cooperation with Rosneft, Russia's oil company. In the long term trade agreement concluded between Rosneft and Mongolian companies, product prices are estimated monthly with formula based on gasoline prices at the Singapore Stock Exchange. In 2016, oil price dropped to its lowest in the last 10 years, down to 43.55 USD per barrel. The price has been continuously increasing and reached 69.18 USD per barrel as of January 1, 2018. It is 58% of increase compared to 2016. It can be seen that the gasoline price went up because of the increase in the world market. The following graph illustrates monthly price of gasoline for 2017.



According to a research "Gasoline and diesel prices in Mongolia and their structure" published on January 12, 2017 by S.Munkhchimeg, the economist of Bank of Mongolia, Research and Statistics Department, gasoline price comprised of import price 46%, taxes 33%, other operating costs 16% and profit is 5%. The Government (decree no.26 dated January 24, 2018) has made excise tax "zero" on gasoline octane 80 and 92 which directly influenced on maintaining taxes at 33% by helping to slow down the sharp increase of retail prices.

As mentioned at the beginning, Mongolia fully relies on imports for gasoline demand; however, crude oil extracted in the territory of Mongolia is directly exported. (Refer to 5.4 for more detail) In 2017, total of 7,514 thousand barrels of crude oil which amounted to USD 374,071.43 thousand was exported. The following graph shows the comparison of monthly average export price per barrel oil and world market rate (USD/barrel) for 2017.



Source: Bloomberg database

#### 5.4.12 State participation in petroleum sector

As of 2017, prospecting operations are being carried out in 18 areas under petroleum and unconventional petroleum prospecting agreements (petroleum 10, coal bed methane 5, oil shale 3) and exploration and exploitation operations are being carried out in 25 areas under PSA (exploration 22, exploitation 3).

Outflows of cash generated in the petroleum sector is increasing as the majority of the international and local investments (approximately 90%) in the sector is spent on fees and payments on works, services, consultancy, work force employed from external sources due to the reasons such as no presence of national companies in petroleum prospecting, exploration, and production, shortage of professional human resources and technical equipment, absence of refinery plant and lack of local supply, quality control and storage system of processed oil.

Therefore, the State policy on the petroleum sector until 2027 aims to strengthen national petroleum intensify petroleum prospecting and exploration, increase petroleum reserves, increase extractions in the petroleum sector of Mongolia, construct an oil refinery plant and reliably supply the demands of petroleum products.

In addition, the Government of Mongolia's Action Plan 2016-2020 included an objective to steadily increase petroleum exploration and build a refinery plant. Within this objective the Government issued a decree (no.92, 2017) to establish a state-owned entity to implement a refinery plant building project. As a result, Mongol Petroleum Refinery Plant SOE was founded in accordance with the Government Agency for Policy Coordination on State Property order no.108 (April 4, 2017) and developed a detail feasibility study to build the refinery plant with a capacity to refine 1.5 million tons of oil annually.

Total petroleum production of Mongolia in was 1.1 million tonnes in 2016 and 960 Kt in 2017. The production is likely to increase further. In order for steady supply of oil for the refinery plant, oil prospecting and exploration should be intensified to increase exploitation.

### 5.5 CONTRIBUTION OF THE EXTRACTIVE SECTOR TO THE ECONOMY

#### 5.5.1 General overview

Economic growth in Mongolia declined from approximately 12% in 2013 to 1.2% in 2016, but increased in 2017 to 5.1 %. The contribution of the extractive industry to the GDP increased steadily from 14.9% to 17.2% in 2013-2016, and to 21.2% in 2017 respectively. This performance indicates the major role of mining sector in the economic and social developments of the country.

Economic growth is forecasted to increase by 5.8 % at the end of 2017 comparing to the same period of the previous year, mainly due to growth in extractive industry.

2017 growth in extractive industry was resulted by increase in minerals extraction other than copper concentrate of Oyu Tolgoi. The production rate of copper concentrate from the open pit mine of Oyu Tolgoi, the significant contributor of the sector growth in 2013-2015, have become essentially flat, and copper grade is falling since 2016 Q2, so that overall impact to the mining sector was not prominent.



Table 5.38

Production outputs of the mining sector, by the key mineral commodities							
#	Mineral commodities, with specifications	Unit of Measure	2013	2014	2015	2016	2017 оны 1-12 сар
1	Copper concentrate (with calculated content of 35%)	Kt	533.3	712.0	890.7	1445.1	1317.1
2	Molybdenum concentrate (with calculated content of 47%)	tonnes	3869.2	4254.0	5441.0	5173.7	5616.7
3	Gold	kg	8904.4	11503.8	14556.2	18435.7	19846.8
4	Fluorspar concentrate	Kt	76.4	374.9	230.8	34.1	55.2
5	Iron ore concentrate	Kt	6011.2	10260.5	6173.4	2209.9	3675.0
7	Zinc concentrate	Kt	104.1	93.2	89.6	100.2	82.7
8	Tungsten concentrate	tonnes	-	-	-	-	-
9	Coal	Kt	30123.3	25287.8	24205.9	35522.3	49480.3

Source: National Statistics Office Bulletin, [www.1212.mn](http://www.1212.mn) Mineral Resources and Petroleum Authority "Minerals Statistics 2017 Jan-Dec"

Compared to the extractive industry performances of the previous year, the production of iron ore concentrate by 66.3%, fluorspar concentrate by 61.9%, coal production by 39.3%, molybdenum production by 8.6% and gold production increased by 7.7%, respectively, on the contrary the production of zinc concentrate decreased by 17.5%, the copper concentrate by 8.9%.

The following table shows that total production of the mining sector in 2017 was reached to MNT4,291.3 billion by the end of year, with year-on-year increase of MNT306.5 billion and 7.7 in percentages.

Table 5.39

Breakdown of Total industrial production, by subcategory (in percentages)					
Subcategory	2013	2014	2015	2016	2017 Dec
<b>Total</b>	100	100	100	100	100
<b>Mining, extraction</b>	<b>58.4</b>	<b>64.4</b>	<b>55.1</b>	<b>58.9</b>	<b>72.6</b>
Coal mining	14	7.5	6.4	10.1	19.03
Petroleum extraction	7.4	7.8	5.6	4.5	7.2
Metal ores mining	31.3	44.9	39.6	40.9	45.5
Other minerals mining	1.1	1.0	1.0	0.8	0.9

Source: NSO. Annual Bulletin 2017. [www.1212.mn](http://www.1212.mn)

## 5.5.2 Minerals: copper, gold, silver and iron ore

The contribution and significance of heavy industry to the socio-economic development of Mongolia have been growing for some time, and the number of factors in which the heavy industry affects other sectors as well. For our country where mining sector is intensively developing, there is a growth opportunity to produce value added, finished products using "raw minerals" in order to bring dramatic progress in developments of society and economy.

### Gold mining

In connection with the enactment and implementation of the Law on Prohibition of Mineral Exploration and Mining Activities in areas in the Headwaters of Rivers, Protected Water Reservoir Zones and Forested Areas in 2009, the production of gold was declined. Then the increase is observed from 2013 as a result of that the legal and tax environment of gold sector has been improved and gold production is encouraged by the Government. It was considered that further increase is needed for gold production, so that working group jointly formed in 2016 by the Ministry of Finance, the Ministry of Mining and Heavy industry and the Bank of Mongolia has developed Gold II programme and started implementing it from 2017 (Mineral Resources and Petroleum Authority).

In 2017, gold production amounted to 19.8 tonnes which means it has increased by 1.4 tonnes or by 7.7% comparing to last year. It represents the growth of 13.9 tonnes or 3.3 times more from 2012 performance; and of 5.4 tonnes or 36.9% more from 2008 performance, respectively.

14.6 tonnes or 76.3% of total gold mined were exported, so that the export of gold was decreased by 4.6 tonnes or 24.0% compared to the same time of last year, went down by 7.5 tonnes or 33.9 % from 2008 though it has showed the increase of 11.8 tonnes or 5.2 times more from 2012.

Average gold production per head in 2017 was around 6.4 grams, it has increased from the last year by 0.3 grams or 5.2%, by 4.2 grams or 2.9 times from 2012 and by 0.9 grams or 16.0% from 2008, respectively.

Moreover, the gold export volume per head reached to 4.7 grams in 2017, showing an increase of 1.6 grams or 25.7% from last year and of 3.7 grams or 4.6 times from 2012 whereas decreased comparing to 2008 by 3.7 grams or 44.0%.

### ***Mining of other minerals***

To highlight production of other minerals in extractive industry, molybdenum concentrate, iron ore and fluorspar concentrate, iron ore concentrate performs 11.3%-66.3% higher than the production of previous year, opposingly the production of copper concentrate, tungsten concentrate, zinc concentrate and fluorspar decreased by 8.8%-35.1% comparing to last year.

In 2017, Cu in copper concentrate was totalled 1,317.6 Kt and compared to previous year, decreased by 127.5 Kt or 8.8% and by 799.7 Kt or 2.5 times from 2012. It has increased comparatively from 2008 by 792.3 Kt or 2.5 times.

Copper concentrate per head was around to 425.4kg in 2017 with decrease of 52.1 kg or 10.9% from last year; the same indicator for zinc concentrate was around 26.7 kg decreased by 6.4 kg or 19.4% from last year and fluorspar to 35.1 kg decreased from last year by 20.3 kg or 36.6%, respectively.

On the other hand, molybdenum concentrate per head was around to 1.9 kg in 2017 with increase of 0.1 kg or 8.8% from last year; the same indicator for iron ore was around 2484.0 kg with increase of 853.3 kg or 52.3%, fluorspar concentrate amounts to 17.8 kg with increase of 6.6 kg or 58.2% and iron ore concentrate amounts to 1186.4 kg with increase of 456.3 kg or 62.5% comparing to last year, respectively.

### **5.5.3 Petroleum extraction**

Out of 32 prospective oilfields were identified within the territory of Mongolia, the country has currently 3 operational petroleum production sites, 25 licensed areas in which exploration activities are being undertaken by 21 contractor companies under PSA. Tamsag, Toson-Uul, and Zuunbayan oilfields together have proven reserves of 332.64 million tonnes, and proven extractable reserves of 43.2 million tonnes.

Between 1996 and 2017, total of 51.44 million barrels or 6.95 million tonnes of oil were produced from Tamsag, Toson-Uul, and Zuunbayan oilfields of which 49 million barrels or 6.62 million tonnes of oil have been exported, accruing MNT1.3 trillion tugrugs to the state budget.

In 2017, under the objective to increase oil production, 147 wells were drilled in Toson-Uul XIX, Tamsag XXI blocks, installed extraction equipment in 128 wells and put into operation, perforation is executed in 175 wells and hydraulic fracturing for 166 wells and other activities related to oil extraction were undertaken. Investments of US\$452 million has been made (US\$210 million to Toson-Uul XIX, US\$231 million to Tamsag XXI and US\$11 million to PSA-97), total of 7.62 million barrels (1.03 million tonnes) of oil were produced of which 7.50 million barrels (1.02 million tonnes) have been exported and generated MNT198.3 billion tugrugs to the state budget.

### **Graph chart 1: Oil extraction and export**



Source: MOF. 2018

In order to implement Order no.130 of 2016 by the GoM, there were 18 Product Sharing Agreements found operational in their exploration stage and needed to be revised. Of which, revised PSAs for 7 oilfields (Sulinkheer XXIII of Shunkhlai Energy LLC, Nomgon IX of South Mongolia crude oil LLC, Dariganga XXIV of Mongolia Shen E Energy LLC, Sukhbaatar XXVII of Wolf Petroleum LLC, Khukhnuur XVIII of N.P.I LLC, Tukhum X /south/ of Mongoliin Alt LLC, Borzon-VII of Empire Gas Mongolia) successfully signed, revision of PSAs for 4 oilfields (Nyalga XVI of Sheymon Resource LLC, Bayantumen XVII of Magnai Trade LLC, Bogd IV and Ongi V of Capcorp Mongolia LLC) were prepared and ready for signing and 2 of PSAs (Matad XX of PetroMatad LLC, Galba XI of Zon Khen Yu Tian LLC) are under discussion.

7.5 million barrels of oil or 98.6% of total oil production were exported, comparing to previous year it was decreased by 0.5 million barrels or 6.3% from last year, up by 3.9 million barrels or 2.1 times from 2012, and up by 6.5 million barrels or 7.1 times from 2008, respectively.

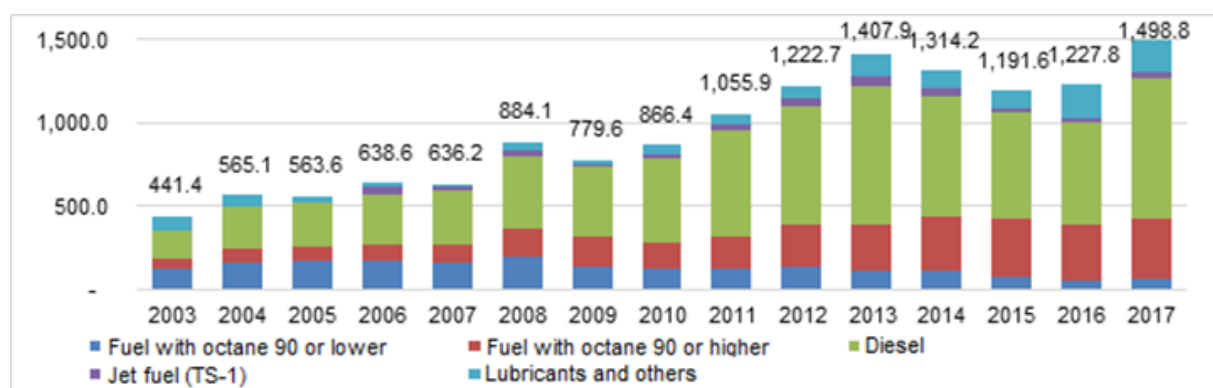
Oil production per head was 2.5 barrels in 2017, comparing to previous year it was decreased by 0.2 barrels or 9.7%, up by 1.1 barrels (or by 84.4%) from 2012 and up by 2.0 barrels or 5.5 times from 2008, respectively.

Whereas, oil export volume per head was 2.4 barrels in 2017 comparing to previous year it was decreased by 0.2 barrels or 8.4%, up by 1.1 barrels or 85.2% from 2012, and up by 2.0 barrels or 6 times from 2008, respectively.

In 2017, oil production accounts for 4.4% of total industrial production, and it was decreased by 0.3 points from the previous year and by 0.2 points from 2012, respectively but increased by 1.3 points from 2008. However, oil production makes up of 7.9% of the extractive industry and it was decreased by 0.5 points from the previous year and by 0.01 points from 2012 but increased by 2.6 points from 2008.

100% of Mongolia's domestic petroleum consumption is imported; and annual volume of petroleum product imports were as follows: 1,407 Kt in 2013, 1,314 Kt in 2014, 1,191 Kt in 2015, 1,227 Kt in 2016, and 1,498 Kt in 2017.

**Graph chart 2: Consumption of petroleum products**



Source: MOF. 2018

Gasoline and diesel fuel imports rose 10% per annum between 2006 to 2013. Imports have fallen in the past two years due to the economic situation. If we closely look at the types of fuel in relation with fuel imports, it can be concluded that imports of A-80 gasoline have fallen year on year, while imports of A-92 fuel have increased. Imports of diesel fuel have been unstable, having ups and downs; but the expected trend is for a long-term rise in consumption.

#### 5.5.4 Total government revenues from the extractive industry (req 6.3.B)

In 2017, National budget revenue of Mongolia comprised of 56.3% of the state budget, 23.4% of local budget and 20.3% the budget of Social Insurance Fund. Total equilibrated revenue and grants makes up 91.4% of the total revenue and grants of 2017 National budget; and Stabilisation Fund accounts for 4.1% and the remaining 4.5% is the Future Heritage Fund.

87% of the equilibrated revenue of the National budget was generated from tax revenue and the remaining 13% from non-tax revenue and grants.

According to the MNAO, Audit Report on 2017 National Budget Execution of Mongolia, tax revenue generated from the mining sector reached to MNT1,827.3 billion which makes up 23.0% of budget revenue, and is increased by 7.0 point compared to the previous year. This was mainly due to the increase in price and export volume of mineral commodities such as copper concentrate, coal, zinc concentrate, iron ore and spar etc.

Total revenue received from the entire mining sector in the EITI report 2017 was MNT2,240.6 million. There is a discrepancy since the MNAO did not include social insurance, customs, local revenue and donations generated from the mining sector in its audit report.

The actual royalty revenue collected from sale of key mineral commodities in 2017 totalled to 847.7 billion tugrugs, and was 11.2% higher or MNT 85.2 billion tugrugs greater than the planned contributions.

Table 5.40

Royalty from sale of key minerals commodities						
Product items	Volume		Price, (US\$/tonne)		Total revenue (MNT billion)	
	Planned	Actual	Planned	Actual	Planned	Actual
Gold /tonnes/	17.0	17.5	1,255.0	1,257.2	41.2	15.6
Coal /Kt/	32,038.8	33,400.5	59.1	68.4	256.1	269.1
Copper concentrate /Kt /	1,371.3	1,447.2	6,030.0	6,162.3	413.9	479.5
Zinc concentrate /Kt/	100.0	118.2	1,765.5	1,529.4	18.0	23.8
Fluorspar, spar concentrate /Kt /	298.5	319.3	276.7	263.7	7.0	7.6
Other					26.3	52.1
<b>GRAND TOTAL</b>					<b>762.5</b>	<b>847.7</b>

Source: MNAO, Audit Report on 2017 National Budget Execution of Mongolia, 2018

88.3% of total tax and royalties contributed in 2017 to the state budget from the mining sector was from copper and coal and 11.7% from other mineral products. Of which, 56.6% or 479.5 billion tugrugs were contributed from copper concentrate and 31.7% or 269.1 billion tugrugs from coal production.

The following factors affected the tax revenue collection for the reporting year:

- increased price and export volume were for the key mineral commodities: copper and coal;
- growth of sales income and profit levels of taxpayer entities;
- total trade turnover (export and import) increased by US\$2.3 billion or 27.3% comparing to the previous year; hence revenue from VAT on imported goods, custom taxes and excise taxes were increased accordingly.

Due to increased market price and export volume of mineral commodities in 2017, it succeeded to contribute MNT847.7 billion in total of which MNT297.4 billion to the Fiscal Stabilisation Fund, MNT357.7 billion to Future Heritage Fund and MNT192.6 billion to the state budget.

Throughout year of 2017 the market prices of copper and coal has remained higher than the equilibrated price, so that it has played important role in accruing total revenue of MNT683.4 billion to these two Funds which was higher by MNT107.6 billion than the planned contribution.

### 5.5.5 Export revenues from the extractive industry

In 2017, Mongolia traded with 163 countries from all over the world and total external trade turnover reached US\$ 10.5 billion, comprising US\$6.2 billion in exports and US\$4.3billion in imports.

Total foreign trade turnover increased by US\$2.3 billion (27.3%), with exports up by US\$1.3 billion (26.1%) and imports by US\$977.3 billion (29.1%).

In 2017, the foreign trade surplus reached US\$1.9 billion, which increased by US\$307 million (19.7%) from US\$1.6 billion in 2016.

The increase of exports rise by US\$1.3 billion was due to an increase of US\$1.4 billion in exports of mineral products, particularly an increase of US\$1.3 billion in coal exports.

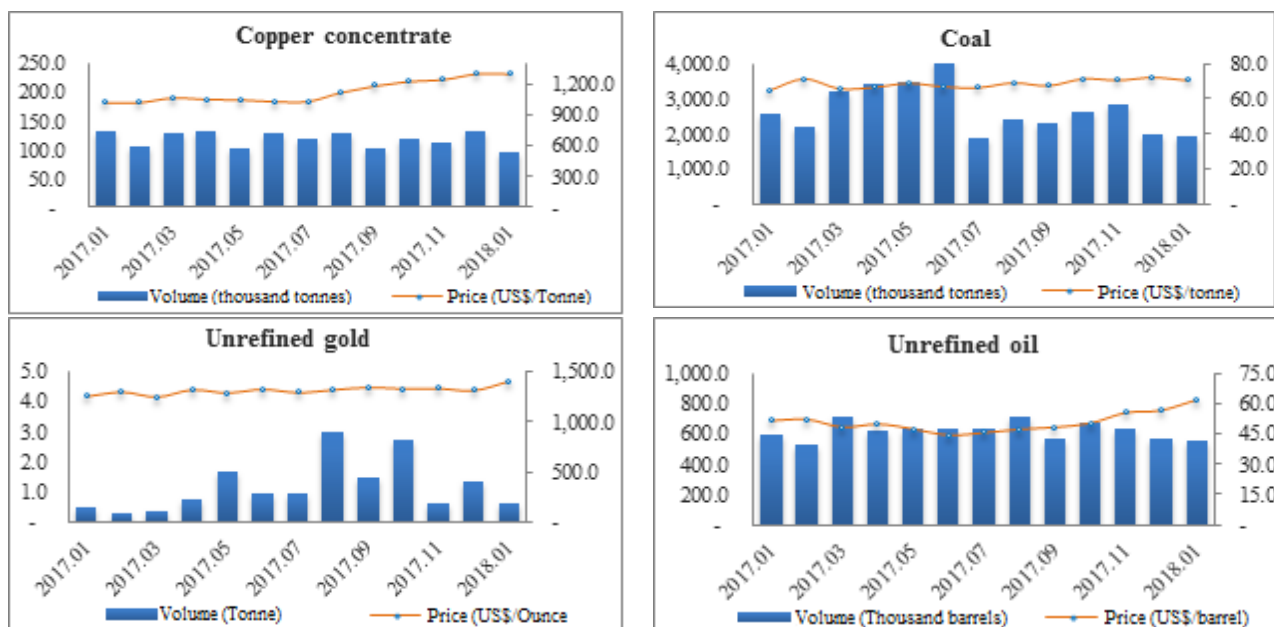
Table 5.41

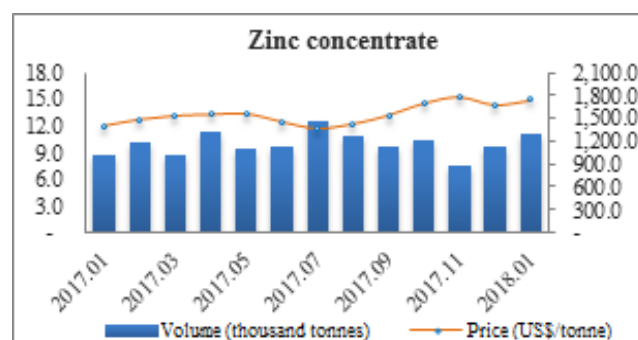
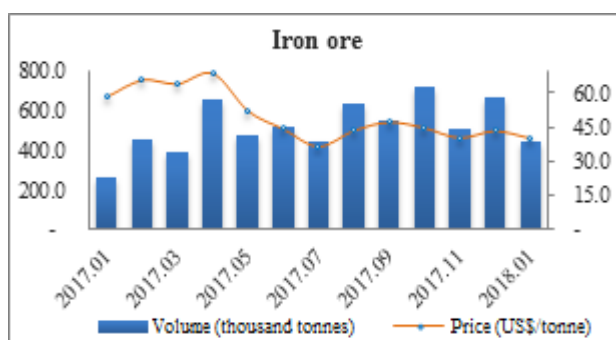
Exports and imports by some commodity groups, (in million US\$)				
Specification	Jan-Dec 2015	Jan-Dec 2016	Jan-Dec 2017*	Jan-Dec 2017*% Jan-Dec 2016
Exports	4 669.3	4 916.3	6 200.7	126.1
Mineral products	3 678.2	3 484.1	4 933.8	141.6
Coal	555.9	973.1	2267.7	2.31
Base metals and articles thereof	72.3	86.2	101.0	117.2
Raw & processed skins, hides	33.8	30.2	23.9	79.2
Textiles	302.7	300.2	335.5	111.7
Precious stones, metals and jewelry	421.4	761.5	596.9	78.4

Source: NSO, Social and economic situation of Mongolia, 2017/12. [www.nso.mn](http://www.nso.mn)

Exports of minerals products, textiles, precious or semiprecious stones and metals jewelleryes made up to 94.6% of total export.

Graphs below shows price and export volume of main raw materials traded to foreign countries.





Source: MOF. 2018

## 5.6 GOVERNMENT INSTITUTIONS

The names of government bodies with the most involvement in the extractive industries along with the general descriptions of their functions are provided below.

Table 5.42

The Ministries		Websites
1	Ministry of Mining and Heavy Industry	<a href="http://www.mmhi.gov.mn">www.mmhi.gov.mn</a>
2	Mineral Resources and Petroleum Authority of Mongolia	<a href="http://www.mrpam.gov.mn">www.mrpam.gov.mn</a>
4	Ministry of Nature, Environment and Tourism	<a href="http://www.mne.mn">www.mne.mn</a>
5	Ministry of Labour and Social Protection	<a href="http://www.mlsp.gov.mn">www.mlsp.gov.mn</a>
6	Mongolian Tax Administration	<a href="http://www.mta.mn">www.mta.mn</a>
7	Mongolian Customs Office	<a href="http://www.customs.gov.mn">www.customs.gov.mn</a>
8	National Audit Office	<a href="http://www.audit.mn">www.audit.mn</a>
9	Nuclear Energy Commission	<a href="http://www.nea.gov.mn">www.nea.gov.mn</a>
10	State Agency for Policy and Coordination on State Property	<a href="http://www.pcsp.gov.mn">www.pcsp.gov.mn</a>

### 5.6.1 Ministry of Mining and Heavy Industry

The main purpose of the Ministry of Mining and Heavy Industry is to establish a balanced economy with multi pillar structure and increase the mineral resource treasures by means of development of a transparent and responsible mining and heavy Industry.

The main duties of this ministry are to develop and formulate laws, regulations, policies, medium and long-term strategy, programs and project development concerning the mining sector, fuel and oil sector, heavy industry sector and geological sector; to make policy analysis and exercise internal control and monitoring on the implementation thereof; to do financial review of budget financing, programmes, projects and capital expenditures; to undertake internal audit and provide with risk management.

### 5.6.2 Mineral Resource and Petroleum Authority

Mission of Mineral Resources and Petroleum Authority is to support formulation of state developmental policy-making for the geology, mining and petroleum sector; to provide prompt and unbiased services to consumers and investors; and to strengthen role of minerals and petroleum sector in the development of national economy in a way of implementing the state policy towards the sector.

The Petroleum Extraction and the Petroleum Products divisions of MRPAM are organised to ensure, monitor and support the implementation of Product Sharing Agreements in accordance with the Petroleum Law of Mongolia and relevant government resolutions.

### 5.6.3 Ministry of Nature, Environment and Tourism

The primary functions of MNET are to organise the implementation of national policy and legislation on environmental protection and the proper use and rehabilitation of natural resources; and to preserve sustainable environment through developing environment friendly, sustainable tourism. In addition,



MNET is also responsible for making decisions and approving rules and policies to be followed by local administrative bodies and capital city administrations in regards to specific issues relating to environmental protection.

Licence holders are required to submit their environmental protection plan to MNET within 30 days of receiving their licence, the Ministry is responsible for receiving and reviewing such plan. Furthermore, the Ministry is responsible for holding the amount equal to 50% of companies' environmental protection budgets for each particular year. These funds may be used for its intended purpose by the MNET in case that a company did not fully execute their environmental protection plans.

#### **5.6.4 Ministry of Labour and Social Protection**

The main function of MLSP is to develop employment policies and implement the policies to promote employment, facilitate decent working conditions, and develop human resources through the improvement of professional skills.

MLSP is also responsible for labour engagement and poverty reduction, the improvement of working conditions and living cost issues, and to regulate issues of the employment of foreign nationals within the territory of Mongolia, and issues of Mongolian nationals working abroad. Its mission is to create equal opportunities in the labour market and favourable conditions of work.

#### **5.6.5 Mongolian Tax Administration**

As stipulated in the General Law of Taxation, the National Tax Administration comprises of state administrative body in charge of taxes (MTA) , tax offices of the aimags, the capital city, and the districts, and the state tax inspectors or tax units in soums. The MTA operates under the direct oversight of the Ministry of Finance which is the state administrative body in charge of financial matters of the Government of Mongolia.

Main functions of MTA are to organise the implementation of tax legislations; to provide taxpayers with information and advice, to conduct training and outreach, to oversee implementation of tax legislations and to collect revenue for state and local budgets.

#### **5.6.6 Mongolian Customs Office**

The Mongolian Customs is presided over by Mongolian Customs Office, which is the central administrative body in charge of customs and comprises of its affiliated customs offices in the capital city and aimags. Customs Office is a state administrative authority responsible for implementing customs legislation nationwide and it operates under the supervision of the Ministry of Finance.

The main functions of CO are to enforce the customs law and regulations at a national level and ensure its compliance; to determine customs control strategies; to regulate the activities of customs houses and customs branch offices; and to formulate and implement the Customs Development Programme.

#### **5.6.7 Mongolian National Audit Office**

The National Audit Office is the supreme audit institution of Mongolia that functions under the Mongolian legislation, other laws and resolutions of Mongolian Parliament.

It is not permitted to monitor the actions of National Audit Office and the General Auditor of Mongolia and assign any assignment to them except the officials and organisations as the Head of National Security Council and Mongolian Parliament.

National Audit Office has the full authority to conduct audit on the functions of the governmental organisations regardless of their funding sources except Mongolian Parliament.

The MNAO is comprised of five departments, namely performance audit office; financial audit office, compliance audit office; policy and planning department, and Legal department.

#### **5.6.8 Nuclear Energy Commission**

The Nuclear Energy Commission is responsible for utilisation of radioactive minerals and nuclear energy on the territory of Mongolia for peaceful purposes, developing research to deploy nuclear



technology, ensuring nuclear and radioactivity safety and security, and building up the foundations to prepare related human resource.

The primary functions of Nuclear Energy Commission are to organise the implementation of Government policy to coordinate exploitation of radioactive minerals and nuclear energy; granting and suspension of licences pertaining to nuclear facilities, materials and radioactive minerals; coordinating and monitoring the activities of scientific research on the nuclear energy sector of Mongolia; and to ensure nuclear and radiation safety.

The Commission functions with four Departments as Administration Department, Nuclear Technology Regulatory Department, Nuclear Safety Regulatory Department and Foreign relations department.

#### **5.6.9 State Agency for Policy and Coordination on State Property (SAPCSP)**

Mission of the State Agency for PCSP is to formulate, implement policy for and improve management of state property, to increase ownership returns by developing good governance in state-owned or with participation of state ownership, and to enable transparent and fair competition in procurement activities to the level which meets international standards .

The SAPCSP comprises of Administrative office, Procurement department, State property registration and monitoring department, Policy, planning and management department; and IT unit.

The Agency has duty to keep transparency of stated owned entities' operations and its privatisation.

### **5.7 STATE PARTICIPATION IN THE EXTRACTIVE SECTOR**

#### **5.7.1 State owned enterprises (SOEs) in mining sector**

The EITI Standard (2.6.a) defines a state owned enterprise, for purposes of EITI reporting, as “a wholly or majority government owned company that is engaged in extractive activities on behalf of the government.” The Standard requires the EITI report to contain wide range of information about SOEs, particularly “to include disclosures from the government and SOE(s) of their level of ownership in mining, oil and gas companies operating within the country. This requirement applies also to SOE subsidiaries and joint ventures, and any changes in their level of ownership during the reporting period”.

##### **5.7.1.1 SOEs and entities with state ownership participation**

Pursuant to Resolution No.12 of the Parliament of Mongolia in 2016 and Resolution No.4 of the Government in 2016, the Procurement Agency was dissolved and its function was transferred to State Property Policy and Management Department in accordance with Article 53 of *Law on Procurement of Goods, Works and Services with State and Local Funds*.

Article 55 of *Law on State and Local Properties* stipulated that a state owned enterprise may be privatised by reorganising into the company and selling its shares of the stock. The pertinent decision shall be issued by the central authority in charge of state property policy and management. /This part was revised on November 26, 2015 and July 21, 2016/

Due to the economic and social needs, the State may establish a legal entity with state ownership by not offering some of the shares to the public and holding into its ownership.

Furthermore, Article 56 of the above law promulgated that the state owned shares of the stock of the state owned enterprise re-organised as company or legal entities with the state ownership, shall be sold in a free or packaged form of the shares through or outside the stock exchange if state authority in charge of state property policy and coordination resolves to do so. /This part was revised on November 26, 2015 and July 21, 2016/

The table below illustrates the breakdown of SOEs and legal entities with state ownership participation, grouped by type of ownership:

Table 5.43

Classification	Number of entities
Companies with state and private ownership	87
State owned enterprises	2
State owned plants	38
Self-financing plants with state ownership	21
Self-financing plants with local government ownership	163
Locally owned plants (with local government ownership)	134
<b>Total</b>	<b>445</b>

Source: <https://www.shilendans.gov.mn/orglist/41>

### 5.7.1.2 State owned enterprises in the mining sector

There are 16 organisations with state-ownership which operate in extractive sector, according to the information provided by MRPAM. The table below summarises the information of the companies which were, and those which were not, included in the EITI reconciliation.

Table 5.44

No	Registration number	Companies	Whether included to reconciliation	Minerals	Ownership type	Number of licences
<b>Companies included in reconciliation</b>						
1.	5124913	Erdenes Mongol LLC	Yes	Various	100% state-owned	4
2.	2004879	Shivee-ovoo JSC	Yes	Coal	Erdenes LLC 90%, Mongol others 10%	1
3.	2008572	Baganuur JSC	Yes	Coal	Erdenes LLC 75%, Mongol others 25%	3
4.	5435528	Erdenes Tavan Tolgoi JSC	Yes	Coal	Erdenes LLC 81.5%, Mongol other 18.5%	8
5.	2074192	Erdenet mining corporation LLC	Yes	Copper, molybdenum	Under dispute	8
6.	2550466	Mongolrostsvetmet LLC	Yes	Gold, fluorspar, coal, silver	100% state-owned	30
7.	2051303	SOE `Darkhan Metallurgical Plant`	Yes	Iron ore	100% state-owned	3
8.	2076675	Gravel Plant of UB Railway	Yes	construction material-gravel	GoM 50%, Russian Government 50%	
<b>Companies not included in the reconciliation</b>						
9.	9011706	Correction Faculty No.439 in Bulgan province	No	Construction materials	State-owned enterprise	1
10.	9103619	Implementing Division of Court Verdicts General Implementing Department	No	Construction materials	State-owned enterprise	1

11.	9069798	Correction No. 443 General Implementing Department	Faculty under	No	Coal	State-owned enterprise	1
12.	9073523	Court enforcement under General Implementing Department	decision unit	No	Construction of materials	State-owned enterprise	3
13.	2683857	Avdrantkhaikhan LLC under General Implementing Department		No	Basalt	State-owned enterprise	1
14.	2053152	Limestone Group	Bricks	No	Construction materials	State-owned enterprise	1
15.	5976723	Mon-Czech Uranium LLC		No	Uranium	GOM Government of Czech 51%, 49%	1
16.	9102981	Mining Division	Rescue	No	Coal	State-owned enterprise	2

Source: Information from Mineral Resources and Petroleum Authority of Mongolia and companies

There are the following companies with local government ownership which held exploration and mining licences:

Table 5.45

No	Registration number	Companies	Whether included to reconciliation	Minerals	Ownership type	Number of licences
1.	2016656	Tavan tolgoi JSC	Yes	Coal	Local ownership 51%, private ownership 49%	1
2.	2034859	Mogoin gol JSC	Yes	Coal	Local ownership 51%, private ownership 49%	2
3.	2014491	Bayanteeg JSC	Yes	Coal	Local ownership 70%, private ownership 30%	1

Depend upon materiality amount of its payments, 8 national state-owned companies and 3 local state-owned covered in the reconciliation whereas 8 national state-owned entities and 1 locally-owned entity were not selected in the reconciliation.

### 5.7.1.3 Erdenes Mongol LLC

Erdenes Mongol is a special purpose company created in order to represent GoM's stake in developing and owning nationally strategic mineral deposits within the territory of Mongolia.

It holds equity shares in eight of Mongolia's largest mining assets:-

- Oyu Tolgoi LLC (indirectly via Erdenes Oyu Tolgoi LLC),
- Erdenes Tavan Tolgoi JSC,
- Baganuur JSC,
- Shivee Ovoo JSC,
- Mon-Atom LLC,

- Gashuun sukhait auto road LLC,
- Erdenes Methane LLC,
- Erdenes Shivee Energy LLC



**Source:** *Erdenes Mongol LLC*

#### **5.7.1.4 Establishment of Erdenes Mongol LLC**

Erdenes Mongol LLC, through its subsidiaries, invests in mining activities producing copper, gold, molybdenum, silver, coking coal, zinc concentrates, iron ore, mixed metals and phosphorus. The company was founded in accordance with Government Resolution No. 266 (15 November 2006) and the State Property Committee Resolution No. 52 (22 February 2007) and is based in Ulaanbaatar.

*Procedure to Implement Representation of State Ownership in State Owned Legal Entities* was approved through Resolution No.80 of the Government of Mongolia dated 2016.

Clause 2.6 of this procedure specified that “chairman and members of the Board of directors of SOEs such as Erdenes Oyu Tolgoi LLC, Baganuur JSC, Shivee Ovoo JSC and Mon-Atom LLC, the subsidiaries of Erdenes Mongol LLC, shall be appointed and dismissed with pursuant to Erdenes Mongol LLC’s Company Charter which was approved by GoM Resolution No. 104 in 2016. (This provision was revised and reinstated as per GoM Resolution No.245 in 2018.)

#### **5.7.1.5 Gashuun Sukhait Auto Road LLC**

In 2011, 239-kilometer heavy-load paved road was built and put into operation by privately owned company Energy Resources LLC. The ownership of the road was transferred to Erdenes Mongol LLC in 2013 according to GoM Resolution No. 299 on “Some measures to take in order to support coal exports”.

With the participation of main coal exporters namely, Energy Resources LLC, Erdenes Tavan Tolgoi JSC and Tavan Tolgoi JSC, Gashuun Sukhait Auto Road LLC was established in 2014 and now is operating as a entity in charge of the road.

#### **5.7.1.6 Erdenes Methane LLC**

Erdenes Methane LLC was established in February 2016 as a subsidiary of a state-owned Erdenes Mongol LLC. Mission of Erdenes Methane LLC is firstly to attract foreign direct investment and further to coal bed methane deposits estimation for Tavan tolgoi and other mines and to initiate methane

extraction in order to reduce air pollution in Ulaanbaatar and other cities, and later to become gas exporter country.

#### **5.7.1.7 Erdenes Shivee Energy LLC**

As a public private partnership, Erdenes Shivee Energy LLC was established by the agreement signed between Erdenes Mongol LLC and AqSora LLC on March 4, 2016. Pursuant to the minutes of GoM 64<sup>th</sup> meeting dated November 16, 2016, Erdenes Shivee Energy LLC has 1.2 billion tonnes of coal deposit and will provide coal supply of “the Shivee Energy Complex Project of Energy Export”, to be implemented based on Shivee-Ovoo strategic coal deposit.

50% of the company is owned by state-owned Erdenes Mongol LLC, and the remaining 50% is owned by private entity AqSora LLC, who also owns Shine Shivee LLC.

#### **5.7.1.8 Erdene Oyu Tolgoi LLC**

Investment agreement for exploitation of Oyu Tolgoi copper-molybdenum deposit located in Khanbogd soum, Umnugobi aimag was concluded in 2009 between the Government of Mongolia, Rio Tinto International Holdings Limited and Ivanhoe Mines Ltd. In 2010, shareholders agreement also were signed between owners of Oyu Tolgoi LLC.

According to these agreements, the GoM holds 34% of Oyu tolgoi LLC and now had Erdenes Mongol LLC to hold the said 34%.

State-owned Erdenes Oyu Tolgoi LLC was established as the subsidiary of Erdenes Mongol LLC pursuant to Resolution 348 of the Government of Mongolia and Resolution 28 of Board of Directors of Erdenes Mongol LLC dated 2011. Erdenes Oyu Tolgoi LLC officially transferred the right to hold 34% of Oyu Tolgoi LLC shares on behalf of the Government of Mongolia from Erdenes Mongol LLC.

The main purpose of Erdenes Oyu Tolgoi LLC is to own 34% stake held by the Mongolian side and to take part in the activities of Oyu Tolgoi LLC while exercising the state participation during the minerals exploitation.

Oyu Tolgoi is expected to be one of the top five global copper producer once both open pit and underground mines get commissioned, and will contribute 24 per cent to the total mine production from Asia.

#### **5.7.1.9 Oyu Tolgoi LLC**

Previously, Erdenes Mongol LLC controlled a 34% share of Oyu Tolgoi LLC on behalf of the government, in accordance with an agreement with Rio Tinto, the ultimate controlling shareholder of Turquoise Hill, signed on 6 October 2009. In 2011, Erdenes Mongol LLC transferred all its shares to its subsidiary, Erdenes Oyu Tolgoi LLC.

#### **5.7.1.10 Shivee Ovoo JSC**

The shareholders’ meeting dated September 12, 1995 re-organised the mine as Shivee Ovoo JSC with majority ownership of the state. The Government via Erdenes Mongol LLC holds a 90% share in Shivee Ovoo, and the remaining 10% held by individual shareholders.

In recent years, volume of mining activities (coal mining, sales, and stripping) was continuously increased so that the market position has been strengthening in the local coal market. This mine provides 30% of total Mongolian demands of thermal coal and 50% of the consumption of the Power Plant No.4 state-owned JSC.

Shivee Ovoo coal mine is located in Shiveegobi soum of Gobisumber aimag, in around 265km southeast of Ulaanbaatar and at 1,200 meters above sea-level.

The mine covers an area of 29,500 hectares and contains total of 2,708.7Mt coal reserve, consisting of three blocks as follows:

Total reserve 2,708.7 million tonnes

- Shine us - 564.1 million tonnes
- Uukhiin tsagaan - 1,147.9 million tonnes

- Nogoon toirom - 996.7 million tonnes

#### **5.7.1.11 Baganuur JSC**

Baganuur JSC was established in 1978 for purpose of supplying coal to Power plants within central power grid, and now operating in its 39<sup>th</sup> year. On Feb 9, 2015 its production has reached 100Mt of coal.

In 1995, it was re-organised into Baganuur JSC with majority ownership of the state. Currently 75% of its shares are owned by Erdenes Mongol LLC on behalf of the Government of Mongolia and the remaining 25% by individual shareholders

The mine has annual production capacity of 4.0Mt but depending on the domestic consumption, actual production mines coal of approximately 3.6-3.8Mt, overburden stripping of 16.0-18.0 square meters and the mining process uses the system with and without vehicle transportation. Baganuur JSC alone provides 60% of total coal production of Mongolia and 70% of coal consumption of central region.

Baganuur's Total Reserve: 812 060.6 Kt

- On balance sheet reserve - 584 458.4 Kt
- Off balance sheet reserve - 227 602.2 Kt

As result of previous explorations, Baganuur's reserve was determined at 599.7 Mt, and with recent explorations the reserve has increased by 212.4Mt reaching to 812.1Mt.

#### **5.7.1.12 Erdenes Tavan Tolgoi JSC**

Erdenes Tavan Tolgoi JSC was founded in 2010, in accordance with the Resolution No.39 of Mongolian Parliament and Resolution No.272 of the Government, to be responsible for the development of strategically important Tavan Tolgoi coking coal deposit.

The main operation of Erdenes Tavan Tolgoi JSC focuses on putting strategic mine deposits into economic activities, carrying out exploitation on the deposits and implementing infrastructure projects.

"Erdenes-Tavan Tolgoi" project will be implemented involving areas such as: coal mining, product processing, developing an infrastructure and plants as well as water supply system, additional exploration work and surveying at the deposit, delivering products into international markets, and stock exchange in domestic and international capital markets.

The company started mining in East Tsankhi coalfield in 2011 after approval of feasibility study whereas the feasibility study of West Tsankhi coalfield approved in 2012 and started mining operation in February 2013.

Total reserve: 6.008 billion tonnes

- Coking – 2.050 billion tonnes
- Thermal – 3.757 billion tonnes
- Brown coal – 0.201 billion tonnes

Accumulated coal production reached to 14.86Mt as of 2017 January for East Tsankhi since the start of mine operation in 2010.

Accumulated coal production reached to 10.65Mt as of 2017 January for West Tsankhi since the start of mine operation in 2013.

#### **5.7.1.13 Mon Atom LLC**

Law on Nuclear Energy of Mongolia requires to classify the radioactive minerals deposit as the strategically important mineral resource deposit, regardless of its size and the state shall participate in exploitation phase. To comply with these requirements, Mon Atom LLC was established in 2009 by GoM Resolution No.45 with main objectives of executing the state ownership as required by legislation and participating on behalf of Government, individually or jointly with other legal entities, in geological exploration and mining of uranium and other radioactive minerals.



The company in the beginning used to operate under Nuclear energy authority in terms of policy and planning within the framework of implementing the state policy of Mongolia on radioactive minerals and nuclear energy sector and under State Property Committee in terms of financial matters.

State Property Committee closed down in 2015 by Resolution No.100 of the Parliament. So that pursuant to GoM Resolution No.68 dated February 01, 2016, the company was restructured as a subsidiary of Erdenes Mongol LLC.

#### **5.7.1.14 Gravel plant of UB railway**

UB railway is a Mongolian-Russian joint venture where GoM owns 50% and the rest is owned by the Russian government. As one of UB railway branches, the gravel plant holds a production licence and it started extracting gravel in the area of Dalanjargalan soum in Dornogovi aimag since 1956.

#### **5.7.1.15 Erdenet Mining Corporation LLC**

Erdenet Mining Corporation LLC is one of the largest copper mines and processing plants in the world. Its operations started in 1978 when it was established through an intergovernmental agreement between Mongolia and Russia.

In 2016, the shares held by the Russian Federation were transferred to a Mongolian private company. Such negotiation falls into the center of public attention and under dispute however ownership percent of GoM was not subject to change for the period of our report drafting. As of 2017, the mine has excavated approximately 657.3Mt of ore in total and processed into copper concentrate.

#### **5.7.1.16 Mongolrostsvetmet LLC**

Mongolrostsvetmet is a fluor spar mining and production company with three underground and two open pit mines and a mineral processing facility. The company produces both acid and metallurgical grade fluor spar and gold concentrates.

#### **5.7.1.17 Darkhan metallurgical plant JSC**

The Darkhan metallurgical plant was established in 1990 on the basis of Darkhan–Selenge iron-ore deposits. The deposit is listed as a strategic deposit with estimated reserves of 230Mt iron ore. Within the framework of a plan to develop Darkhan metallurgical plant, the plant launched its iron ore wet magnetic processing facility in 2014. Privatization of Darkhan metallurgical plant has taken place in the method of management buy-out in 2015.

#### **5.7.1.18 Companies with local ownership**

##### **Tavan Tolgoi JSC**

Tavan Tolgoi JSC restructured as a state owned company on December 5, 1994, pursuant to Resolution 42 of the privatisation committee of the Government of Mongolia. From 1995, Tavan Tolgoi JSC started operating as a locally owned joint stock company. The Tavan Tolgoi coal mine is located in Umnugobi aimag, which is approximately 270 km north of the Mongolian-Chinese border.

##### **Mogoin Gol JSC**

Mogoin Gol JSC is a coal mining enterprise, established in 1970. The deposit is located in Khuvsgul aimag and the company has been listed on the Mongolian stock exchange since 1994.

##### **Bayan Teeg JSC**

Bayan Teeg JSC is a coal mining enterprise, established in 1961. Its deposit is located in Uvurkhangai aimag, in 560 km from Ulaanbaatar. The company was restructured as a joint-stock company in 1995 and 70% of its share is owned by the local government. The company has been listed on the Mongolian stock exchange since 1994.

##### **Other SOEs**

Based on the licence information provided by MRPAM, we noted some further SOEs were not involved in our reconciliation scope, because these companies did not make any material payments to the national budget in 2017. These SOEs include:

- Limestone Bricks Group,



- Avdrant Khaikhan, and
- Correctional Facility no.439 of Bulgan aimag,
- Mining Rescue Division,
- the Implementing Division of Court Verdicts of Khentii aimag, and
- Court decision execution unit.

#### 5.7.1.19 Board of Directors

Representation of State Ownership in SOE is regulated by the Procedure to Implement Representation of State Ownership in State Owned Legal Entities. The section 2 of this procedure describes the representation of state ownership in extractive sector's state-owned entities as follows:

- Chairman and members in the Erdenes Mongol Board of Directors shall be appointed and dismissed pursuant to Clauses 7.1 and 8.2 of the Company Charter of Erdenes Mongol LLC, which was approved by GoM Resolution No. 104 in 2016.
- Erdenes Oyu Tolgoi LLC shall participate in the OT Board of Directors; and shall appoint and dismiss the representation of state ownership to sit in OT Board of Directors as advised by the Cabinet Secretariat of the GoM;
- Chairman and members in the Board of directors of SOEs such as Erdenes Oyu Tolgoi LLC, Baganaur JSC, Shivee Ovoo JSC and Mon-Atom LLC, the subsidiaries of Erdenes Mongol LLC, shall be appointed and dismissed with pursuant to Clause 11.8 of Erdenes Mongol LLC's Company Charter which was approved by GoM Resolution No. 104 in 2016.
- Chairman and members in the Board of Directors of Erdenet Mining Corporation LLC and Mongolrostsvetmet LLC shall be appointed and dismissed by state administrative body in charge of state policy coordination on state property as per directions given by the Cabinet Secretariat of the GoM.
- In cases other than those specified in Clauses 2.4-2.9 of the Procedure to implement state ownership, state administrative body in charge of policy coordination on state property shall appoint state representation to sit in Shareholders' meeting and Board of Directors of SOEs.

Out of 11 SOEs, Darkhan Metallurgic Plant has not provided their BOD information. Please refer to Appendix 21 for detailed information regarding BOD of SOEs.

#### 5.7.2 Financial relationship between the government and SOEs

The financial relationship between the the Government and SOEs is regulated by the Law on State and Local Property and associated regulations for state properties. Unless specifically stated otherwise in those laws, relationship between the Government and the SOEs are regulated by the Corporate Law and a company charter of the relevant SOE.

According to the additional forms received from Bayanteeg JSC, Mogoin Gol JSC and Tavan Tolgoi JSC, locally-owned entities provided the following information on dividends:

Table 5.46

MNT million

#	Company Name	Retained earnings / losses for 2017	Net profit / loss of 2017	Declared dividends in the reporting year	Dividends paid
1	Baganaur JSC	10,569	462	-	-
2	Bayanteeg JSC	2,827	1,132	25	24
3	Darkhan Metallurgical Plant JSC	(15,694)	(1,633)	-	-
4	Mogoin Gol JSC	1,096	246	83	-
5	Mongolrestsvetment LLC	(18,161)	15,713	-	-
6	Tavan Tolgoi JSC	166,342	141,055	126,923	45,924
7	(Gravel Plant) UB railway JV	(0)	(0)	-	-
8	Shivee- Ovoo JSC	5,262	241	-	-
9	Erdenes Mongol LLC	(28,614)	20,049	-	-

#	Company Name	Retained earnings / losses for 2017	Net profit / loss of 2017	Declared dividends in the reporting year	Dividends paid
10	Erdenes Tavan Tolgoi JSC	36,821	461,069	-	-
11	Erdenet Mining Corporation LLC	936,212	323,452	-	-
<b>Total</b>		<b>1,096,658</b>	<b>961,784</b>	<b>127,031</b>	<b>45,948</b>

Source: Information from companies and audited financial statements.

Dividends paid in 2017 are presented by each company:

Table 5.47

					MNT million
Company	Shareholder	Number of shares held / pieces /	Ownership%	Dividends received in 2017 / MNT million/	Dividends declared in 2017 / MNT million/
Tavan Tolgoi JSC	Local government	26,859,252	51%	23,421	64,731
	Shandas Impex LLC	8,584,428	16%	7,486	20,688
	Ajnai corporation	10,375,044	20%	9,047	25,004
	Others	6,846,476	13%	5,970	16,500
<b>Total</b>		<b>52,665,200</b>	<b>100%</b>	<b>45,924</b>	<b>126,923</b>
Bayanteg JSC	Local government	176,876	70%	18	18
	Shunkhlai Group LLC	60,643	24%	6	6
	Others	15,161	6%	-	2
<b>Total</b>		<b>252,680</b>	<b>100%</b>	<b>24</b>	<b>25</b>

Source: Information from companies

### 5.7.2.1 Law on State and Local Property

In 1996, the Parliament of Mongolia passed the Law on State and Local Government Property with the objective to regulate matters in relation to the rights of legislative and executive organisations concerning ownership rights over state and local government property; the level of authority of a legal person with state property and its administration; and the principles and regulations governing the activity of an organisation implementing policy over state property.

Article 15 of the law specified that the cabinet member in charge of finance and budget shall provide oversight on the financial outcome of the SOEs, and the financial and monetary transactions of budget entities.

According to Article 16 of this law, entities owned by the national or local government shall not take loans from third parties or raise capital by issuing shares without prior approval from either the state central administrative body in charge of budget and finance, or the province or Citizen's Representative Khural (council). */This Section was amended by the Law of February 18, 2015/* However, this does not include short-term loans and securities maturing within the year. Additionally, loans financing the seasonal shortage of income are not included.

### 5.7.2.2 Transactions between SOEs

We requested information of inter-SOE transactions and coal productions from 11 SOEs. 6 SOEs informed us that there was no transaction with other SOEs.

Breakdown of payments transferred to SOEs:

Table 5.48

Table 3.4.3

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	Electricity bill	Ulaanbaatar Power Distribution Plant	13
	Heating bill	Ulaanbaatar Electricity Distribution Network SOJSC	14
	Water bill	Ulaanbaatar Water Supply Authority	2
	Document delivery	Mongol Post JSC	1
	Service fee	National Power Transmission Grid SOJSC	0
	Tuition fee	Mongolia-Kuwait Nature Conservation Center SOE	1
	Service fee / water assessment /	Mongol Water SOE	21
<b>Sub total</b>			<b>806</b>
Mongolrostssvetmet LLC	Electricity bill	Baganuur Southeast Region Power Distribution Network SOEJSC	8,801
	Railway transportation charge	Ulaanbaatar railway JVC	4,238
	Air ticket	MIAT JSC	1
	Coal payment	Shivee-Ovoo JSC	455
	Spare parts payment	Erdenet uildver LLC	10
<b>Sub total</b>			<b>13,505</b>
Erdenes Mongol LLC	settlement	Erdenes Oyu Tolgoi LLC	891
	as per contract	Mon- Atom LLC	1,181
	settlement	Erdenes Methane LLC	95
	settlement	Erdenes Shivee Energy LLC	326
<b>Sub total</b>			<b>2,492</b>
Shivee-Ovoo JSC	Postage fee	Mongol Post JSC	2
	Transportation fee	Ulaanbaatar railway	350
	Telephone and internet payment	Mongolian Telecom	5
	Propagation survey fee	Securities Central Depository	0
	Tuition fee	Mongolian University of Science and Technology	3
<b>Sub total</b>			<b>361</b>
Bayanteeg JSC	Electricity bill	Erdenet Bulgan Power distribution network SOJSC	79

Source: Information from Companies

Breakdown of payments received from SOEs:

Table 5.49

MNT million

MNT million			
Company Name	Payment received from state-owned enterprises		
	Transaction value	Receiver	Amount
Shivee-Ovoo JSC	Coal payment	Chandmani Badral LLC	454
		Thermal power plant -4 SOJSC	38,875
		Mongolrostvetmet LLC	555
		Nalaikh Thermal power plant SOJSC	465
		Ilchleg Shivee LOE	34
		Us-Du (Water, Heating) LOE	302
		Chandmani ilch LOE	832
		Selenge-Zuunkharaa LOE	198
Sub total			41,714
Mogoin Gol JSC	Coal payment	Khuvsgul Thermal Power Station SOJSC	633

Source: Information from companies

### 5.7.2.3 Loans and loan guarantees

We requested SOEs information of loans and loan guarantees received from the Government and SOEs and loan and loan guarantees provided to other SOEs. All SOEs except Baganuur JSC and Shivee Ovoo JSC reported that there was no loan or loan guarantee.

Table 5.50

MNT million

№	Borrowers	Contract term			Lenders	Purpose of Loan	Contract Amount
		Date granted	Maturity date	Interest rate			
1	Baganuur JSC	2017.03.15	2017.12.31	0%	Ministry of Energy	Winter preparation and maintenance	25,000.00
2	Shivee-Ovoo JSC	2017.07.06	2017.12.31	0%	Ministry of Finance	Ensure continuous industrial operation	4,100.00

Source: Information from companies

Loans and loan guarantees provided by the Development Bank of Mongolia to mining and oil SOEs are as follows:

Table 5.51

Borrowers	Loan / Loan Guarantee	Date granted	Maturity date	Currency	Amount granted (mln unit)	Outstanding balance (mln unit)	Interest rate
Baganuur JSC	Loan	2013	2018.04.24	MNT	18,634	3,886	9.60%
Erdenes Tavan Tolgoi JSC	Loan	2012	2019.04.30	USD	100	50	8.45%
Erdenes tavan Tolgoi JSC	Loan	2013	2019.04.30	USD	100	50	8.45%

Source: Development Bank of Mongolia

The Development Bank of Mongolia financed the following projects for mining sector development:

Table 5.52

№	Project name	Project commencement & completion	Contract amount	Funds granted (cumulative)	Lender	Repayable from project revenue. Project performance
1	Project on Advancing SMEs	2013.05.10 2017.12.31	50,000 million MNT	48,969 million MNT	SMEDF	98%
2	Project for Syngas from Coal	2014 year 2017 year	991.9 million MNT	585.5 million MNT	Ministry of Mining	60%

Source: Development Bank of Mongolia

Detailed introduction of above mentioned projects and programmes are as follows:

### **Project on Advancing SMEs**

By providing soft loans, for the purpose of enhancing factory capacity of the SMEs, to SMEs scope of the business will be expanded. And hence, increasing the places of employment and contribution from SMEs to its country's economic growth.

### **Project for Syngas from Coal**

Objective of the project is to introduce technology for Syngas from brown coal production and build a factory cluster including plants with annual average production capacity of 16 billion cubic meters of syngas and 1500 km long pipelines for water and gas transmission.

The project has potential to reduce the UB city air pollution within short amount of time through introduction of environment sector friendly gas production and development of infrastructure. In addition, the project will ensure energy security and independence by having new energy resources.

#### 5.7.2.4 Investments by SOEs

Information on the current period investments was requested from those SOEs selected for the EITI reconciliation. Gravel plant of UB Railway JV and Mogoin Gol JSC responded that no investment made in the reporting period.

Table 5.53

SOEs	Investments made in the current period			Total
	Self financed	Bank loan	Other sources	
Baganuur JSC	66,114	4,002	13,678	83,794
Bayanteeg JSC	781	-	-	781
Darkhan Metallurgical Plant JSC	7,757	16,719	-	24,475
Mongolrostsvetmet LLC	9,348	-	-	9,348
Tavan Tolgoi JSC	3,850	-	-	3,850
Shivee-Ovoo JSC	3,767	-	-	3,767
Erdenes Mongol LLC	1,446	-	-	1,446
Erdenes tavan Tolgoi JSC	3,554	-	-	3,554
Erdenet Mining Corporation LLC	162,492			162,492
<b>Total</b>	<b>259,109</b>	<b>20,721</b>	<b>13,678</b>	<b>293,508</b>

Source: Information from companies

#### Funding allocated by the Development Bank of Mongolia for the companies involved to this reconciliation, with non-mining objectives

The Development Bank of Mongolia issued the following loans to the licence holder companies that are part of this reconciliation but for sectors other than mining:

Table 5.54

Nº	Project Name	Project start and end date	Contract amount	Actual Funding /in cumulative basis/	Borrowers	Repayable from project income, and project performance
1	Moncement Project	2013.07 2015.11	US\$65 Million	US\$65 million	"Monpolymet" LLC	98%
2	Construction reinforcement bar manufacturing Project	2013 2015	US\$22,7 million	US\$17,7 million	"Beren Group" LLC	75%
3	Cement plant of Khukh Tsav	2014.10 2017.06	MNT20.0 billion, US\$45.6 million	MNT20.0 billion US\$45.6	"MAK Cement" LLC	91%

Source: Development Bank of Mongolia

#### Moncement Project

The purpose of the project is to build a factory along with its infrastructure that produces 1.0 million tons of cement per year. Huashin Cement Company of China jointly with Holcim Group of Switzerland is working to construct a cement factory on a turn-key condition in accordance with international

standards. The factory is part of the Moncement project implemented by Monpolimet LLC and its subsidiary Senjsant LLC. Huashin Cement LLC is carrying out blueprint works, equipment production and supply as well as installation of the facilities and other equipment. The overall construction is 94% complete with 100% completion at the cement lines, 90% completion at the gravel lines and 100% completion on the infrastructure. The cement line was completed and opened on August 13, 2015.

### **Reinforcement Bar Manufacturing Project**

As a result of the project, a plant with an annual capacity to produce 100 thousand tons of high-quality steel reinforcement bars using UHF Electric Arc Furnace technology will be created. This will enable the establishment of metallurgical complex that produces finished product of steel by processing the iron ore in Mongolia.

Beren Group LLC concluded an agreement with FABER company from Singapore to purchase equipment for production of construction reinforcement bars. Pursuant to the agreement, 80% of the payments for the ancillary equipment and 20% of the payments for main equipment will be made in instalments. After the conclusion of relevant agreements, USD 17.7 million, 80% of the ancillary equipment cost, was paid in two instalments.

### **Khukh Tsav Cement Plant**

Khukh Tsav Cement Plant has a capacity of producing 100 Kt of cement per year. It was built based on the Khukh Tsav lime deposit located in Dalanjargalan soum of Dornogovi aimag, and commissioned on June 9, 2017. Once operational the plant will supply 30-40% of domestic cement market, substituting cement imports of approximately US\$70-75 million and contribute MNT32.5 billion annually to the nation's budget. Project organisers say it will create over 700 jobs for Mongolians.

## 5.7.2.5 Subnational payments

Table 5.55

Company Name	Dividends on local govt ownership	Payments for water use	Land payment	Real estate tax	Tax on vehicles and self moving mechanisms	Royalty for minerals oc common occurrence	50% of the environmental protection expenditure transferred to the special account	Others	Penalty	Compensation
Baganuur JSC	-	711	274	102	20	-	-	5	-	-
Bayanteeg JSC	16	1	1	13	1	-	-	-	-	-
Darkhan Metallurgical Plant JSC	-	-	15	30	27	-	-	-	-	-
Mogoin Gol JSC	21	0	3	10	1	-	4	-	-	2
Mongolrostsvetment LLC	-	615	38	52	17	-	-	8	0	-
Tavantolgoi JSC	23,421	23	30	41	4	-	-	-	3	-
Gravel Plant of UB railway JV	-	-	0	-	1	89	-	-	-	-
Shivee-Ovoo JSC	-	578	3	75	2	-	14	-	-	-
Erdenes Mongol LLC	-	-	-	-	2	-	-	1	-	-
Erdenes Tavan Togloi JSC	-	295	240	26	24	0	-	-	8	-
Erdenet Mining Corporation LLC	-	14,068	9,974	6,187	51	47	-	-	-	-
<b>Total</b>	<b>23,458</b>	<b>16,290</b>	<b>10,578</b>	<b>6,536</b>	<b>149</b>	<b>136</b>	<b>18</b>	<b>14</b>	<b>11</b>	<b>2</b>

Source: Information from companies



### 5.7.2.6 Quasi-fiscal expenditures

Pursuant to the EITI standards, quasi-fiscal expenditures include arrangements whereby SOE(s) undertake public social expenditure such as payments for social services, public infrastructure, heating subsidies and national debt servicing, etc outside of the national budgetary process.

We requested quasi-fiscal information from 11 SOEs covered in the reconciliation. 5 SOEs reported their expenditure and Erdenes Mongol LLC, Erdenes Tavan Tolgoi JSC, Mongolroostsvetmet JSC, Ulaanbaatar (Chuluun Zavod) JVC, Tavan Tolgoi JSC and Mogoin Gol JSC reported that there was no such expenditure. Please refer to the following table:

Table 5.56

MNT Millions

SOE	Quasi-fiscal expenditure		Payment method	Amount
Darkhan Metallurgical Plant JSC	Infrastructure related payments			
	Renovation of the Naadam venue of Khuder soum , Selenge aimag	Cash	27	
	Installing fiber optic cable in Khuder soum of, Selenge aimag		21	
Sub-total			48	
Erdenet Mining Corporation LLC	Social service			
	Cultural event in miners' cultural palace	Cash	2,292	
	Promoting education for childrens in Russian kindergarten		1,505	
	For division of Hospital and recreation centre		2,640	
	Employee accommodation		419	
	"Selenge" resort		3,380	
	Promoting education, for children's camps		479	
	Supporting education, for children at the "Enerel" centre		832	
	Supporting education, for Russian school		2,877	
Sport events held in sports complex	4,361			
Sub-total			18,783	
Baganuur JSC	Heating subsidies /sold coal at discounted prices /			
	Thermal power plant No.4, state-owned JSC	Non-cash	1,832.38	
	Thermal power plant No.3, state-owned JSC		1,010.79	
	Thermal power plant No.2, state-owned JSC		561.35	
	Darkhan power plant, state-owned JSC		218.38	
	Thermal power station of Amgalan		98.86	
Thermal power station of Baganuur	1,167.00			
Sub- total			4,888.77	

Source: Information from companies

It can be noted from detailed information on Baganuur JSC's heating subsidies that the company sells coal to power plants at price 3 times lower than market price.

Table 5.57

					Average unit price per tonne of coal / MNT/	Average unit cost per tonne of coal / MNT/	Average unit price per tonne of coal /USD/	Average price per 1 ton of thermal coal at global market /USD/
№	Entities	% in total procurement	Supplied coal, tonne	Supplied coal, mln tonnes				
Baganuur JSC								
1	TPP-4 SOJSC	50%	1,732,775	52,780	30,460	31,518	12.92	42.15
2	TPP-3 SOJSC	100%	1,294,220	39,780	30,737			
3	TPP-2 SOJSC	100%	244,202	7,135	29,219			
4	Darkhan TPP SOJSC	30%	112,997	3,343	29,585			
5	Amgalan TPP	40%	61,461	1,838	29,909			
6	Baganuur TPP	100%	56,878	626	11,000			
7	UB railway		51,474	1,867	36,264			
8	Baganuur ilch LLC	100%	19,518	676	34,645			
9	Others		465,675	16,365	35,142			
Shivee-Ovoo JSC								
1	TPP-4 SOJSC	50%	1,729,658	42,230	24,415	26,320	10.79	42.15
2	Nalaikh Thermal Plant SOJSC	-	31,265	384	12,280			
3	Mongolrostsvetmet LLC	-	46,092	1,116	24,220			
4	Chandmani ilch, locally owned plant	-	29,546	716	24,220			
5	Chandmani badral LLC	-	12,677	307	24,220			
6	Us-Du locally owned plant	-	9,048	219	24,220			
7	Zuunkharaa, locally owned plant	-	4,388	106	24,220			
8	Ilchleg Shivee, locally owned plant	-	269	7	27,380			
9	Other entities	-	157,338	3,976	25,271			

Source: Information from companies, global market price from MRPAM Statistics

MNT selling price of coal was converted to USD using 2017 average BoM exchange rate.

## 5.8 BUDGET PROCESS AND REVENUE ALLOCATION

### 5.8.1 Income management

The Government of Mongolia has submitted the Law on State Budget of Mongolia for 2019 to the State Great Hural on 28 September 2018. In addition, the Law on State budget for 2019 the draft Law on Some measures to be taken in connection with the adoption of the Law on State Budget of Mongolia for 2019 has indication of following that are:

- To increase the participation of citizens in planning and spending the funds efficiently by sorting out new investment projects in aimags due to the allocation of 50 percent of the revenues from mineral exploration licences in aimags from the state budget to the Aimag Local Development Fund from 2019 onwards to;
- To oversee efficiency of air pollution reduction, environmental protection, rehabilitation and reforestation activities, monitor its implementation in aimags due to the allocation of 50 percent of the air pollution charges for raw coal and 30 percent of the oil revenues generated from the state budget for coal and oil extraction.

#### 5.8.1.1 *Extractive Industry Income Distribution and Local Transfers*

Draft legal documents that are accompanying Law on State Budget of Mongolia for 2019 are containing amendments in following manner. These include:

- Revenue from mineral royalty payments will be transferred to the local administration starting from 2019.
- As the mining industry develops, social responsibility of mining industry increases, environmental protection and rehabilitation are needed, as well as the need for revenue allocation from the mining sector to local communities increased.
- Royalties and licence fees stated in the Article 23.4.7 of Chapter 23 of the Law on State Budget is the part of the tax revenues of the State Budget. The draft law states that 50 per cent of this income source is provided by law shall be distributed to Aimag and Capital City Local Development Fund in accordance with Article 60.2.7 of the Law on State Budget, which will be effective from 2020.
- The law enforcement is brought over for one year with revision of 50% of the revenue from mineral exploration licence fees will be paid in 2019 and the remaining 50% or in full 100 % will be transferred to or 100% will be transferred to the local budget in 2020 where the exploration area is located. In contrast, 50 percent of the mining licence revenues will be transferred to the local budget in 2020. This regulation shall be made by amendment to the Article 60.2.7 of the Law on State Budget and in accordance with this law, it shall be deemed to invalidate the Article 71.6 of the Law.

#### 5.8.1.2 *Case where existing revenue from the extractive sector to the state budget is not accounted (Requirement 5)*

We requested the Ministry of Finance to provide us with information on income that is not accounted in the state budget, future receivables of taxes that might have been recorded as a "debt". However, we were informed that such information is not available.

### 5.8.1.3 Revenue stability and dependence on natural resources (Requirement 5.3.c)

**Mining Sector Development goals for 2019, 2020-2021 Development projection:** An independent reviewer-consolidator (Ulaanbaatar Audit Corporation LLC) had requested information from Ministry of Mining and Industry and the Ministry of Finance to provide with future assumptions about the fiscal cyclical changes and the projections of the extractive sector, forecast price of mineral market, preliminary estimation of revenues from the extractive sector, forecasts of predicted share of extractive sector revenues in the state budget.

These ministries have provided with Main directives for the development of the Mongolian economy and society in 2019, Mongolia's development concepts-2030, the Government's policy on mineral sector, the "Gold-2" national program, Development Goals of the extractive sector for 2019 to implement stated in the Government Action Plan for 2016-2020 and the development forecast for 2020-2021.

In 2019 in the mining sector, in addition to goals of minimising mineral waste, pollution, harm to the environment and human living environment, the export-oriented projects will be supported. Also Oyu Tolgoi underground development and Tavan Tolgoi project development will be intensified.

Gatsuurt deposit will be entered into economic circulation to income to local budgets and create new jobs.

The following activities will be implemented within framework of Creating a favourable environment for investment in the geology and mining sector, ensuring sustainable development of the mining sector and improving Mongolia's competitiveness in the international mineral market stated in the Government Action Plan for 2016-2020 that are:

- Create favourable investment environment for the mineral sector and implement mutually beneficial projects and programs;
- Increase market competitiveness of mineral products and implement one export window policy;
- Increase the size and diversity of value-added products by increasing the use of environmentally friendly technology and improving processing levels for mineral resources;
- Develop long-term development plans for mining infrastructure and ensure inter-sectoral coordination;
- Improve the legal regulation of citizens engaged artisanal mining via cooperation at legitimate structure as defined in Article 3.1.2 of the State Mineral Sector Policy;
- Create a legal environment for secondary mineral exploitation and achieve international standards of the mine rehabilitation and closure;
- Establish a complex of metallurgical, coal-chemical, construction materials manufacturing and production of value-added products.

the following table illustrates how the projection of key mining commodities' production in 2016-2020 increases with implementation of above measures.

Table 5.58

Gross industrial output of the sector					
№	Commodities, grades	Unit of measure	2017	Assumptions	
				2018	2019
1	Copper concentrate	Kt	1,251.9	1,220.2	1,138.4
2	Export coal	Kt	41,480.	28,360.0	32,075.5
3	Iron ore / content of 56%/	Kt	3,675.0	5,000.0	5,000.0
	Iron concentrate	Kt	-	-	1,000.0
4	Gold	Kt	19.8	19.0	19.0
5	Zinc concentrate /content of 50%/	Kt	82.7	110.0	110.0
6	Fluorspar ore, concentrate	Kt	164.1	200.0	200.0

Gross industrial output of the sector					
№	Commodities, grades	Unit of measure	2017	Assumptions	
				2018	2019
7	Molybdenum concentrate /content of 47%/	Kt	5.6	5.0	5.0
8	Oil	Kt	1,080.0	1,087.0	1,481.2

Source: Ministry of Mining and Heavy Industry, 2016

#### 5.8.1.4 Risks to the mining sector

**In regard of legislation.** There are over 30 legal acts such as the Law on Minerals, Law on Subsoil, Law on Common Minerals, Nuclear Energy Act, and Environmental Laws, as well as over 40 procedures regulate issues on mining sector, however their interrelation and enforcement mechanisms are insufficient.

The international research institutions such as Fraser institute of Canada, International Institute of Mineral Governance conducted survey on the implementation of the Mongolian mining legislation and concluded that law enforcement is ineffective, explanation and enforcement mechanisms inadequate resulting in ranking of 104th place from 109 countries due to absence of scores and ranked in 101th place in research and linkage between laws and regulations; these result in negative factor in attracting investments.

**In regard of product price, market.** Mongolia exports more than 90% of its mining output only to China. This implies the demand for the market for mining products that directly affected the economic situation and the construction, infrastructure development sector of the PRC.

Recent weakening of Chinese economic activity in recent years impacts negatively on the economy of Australia, Canada, Russia, Brazil and Mongolia, which export mining products. About 30 percent of Mongolia's currency inflows come from copper concentrate exports. In the 12 months of 2017, Mongolia exported 14.7 million tons of copper ore and concentrate by 1.61 billion US dollars, which is 9 percent lower than the same period of the previous year. The fluctuation of copper prices and the supply and demand conditions in the world market are one of the factors influencing our economy and subsequently there is a risk of long and short-term stagnation of the mining industry caused by the lowering the price of mining commodities due to global economic downturn and reduction in mining revenues

**In regard of transport logistics.** The mining products are delivered to consumers or markets through roads, railways, and sea transport, thus mining industry development is integrally related to the development of the transportation sector.

It's been observed that the road and transport infrastructure constraints dependence results in the delay of implementation of planned mining projects, increase in transportation cost, decrease in competitiveness of the product, inaccessibility of reaching target markets, and selling of products at very low prices on the world market.

**In regard of social impact.** Active use of mineral resource exploitation in the mining sector is a manufacturing sector that has a strong negative impact on the environment such as causing environmental damage, surface treatment, earthworks, river hydrological regimes, soil pollution, surface and ground water pollution, loss of ecosystem integrity, and environmental destruction of landscapes. is a manufacturing sector with strong adverse effects. Due to adverse environmental impacts, negative emotional is common about mining industry in the society.

#### **5.8.1.5 Fiscal revenue dependence of natural resources**

Mongolia exports 20 minerals, including copper concentrate, coal, zinc concentrate, iron ore and fluorspar. Depending on the exports of these products, revenues generated from the state budget accounted for approximately 23 percent of the total revenue in 2011-2015, of which it had reached 35 percent in 2011 that is considered the highest. This figure has been steadily declining in recent years, reaching the lowest of 14 percent in last 5 years in 2016, and reaching 23 percent in 2017.

The Government of Mongolia has submitted the Law on State Budget of Mongolia for 2019 to the State Great Hural on 28 September 2018. This draft law has estimated the expectation of generating of total revenue from extractive sector of 3.0 trillion MNT or equivalent to 27 percent. This number shows that there is a correlation between the fiscal revenue and its dependency from mining sector.

The 2019 Fiscal Framework Statement of the Unified Budget of Mongolia, the Law on Budget Implementation of 2020-2021 was approved by the Parliament of Mongolia on May 25, 2018. According to the law, the structural revenue for 2019 is estimated at 8,888.0 billion MNT, or equivalent to 25.6 percent of GDP, and the total expenditure is estimated at 10,993.8 billion MNT or equivalent to 31.7 percent of GDP. The structural balance of the consolidated budget is at loss of 2,105.8 billion MNT or equivalent to 6.1 percent of GDP.

The budget revenue is expected to increase budget due to the situation of foreign and domestic economy, the trend of mining products on the world market, and maximising the tax base within Customs and Taxation reforms to be implemented in 2019.

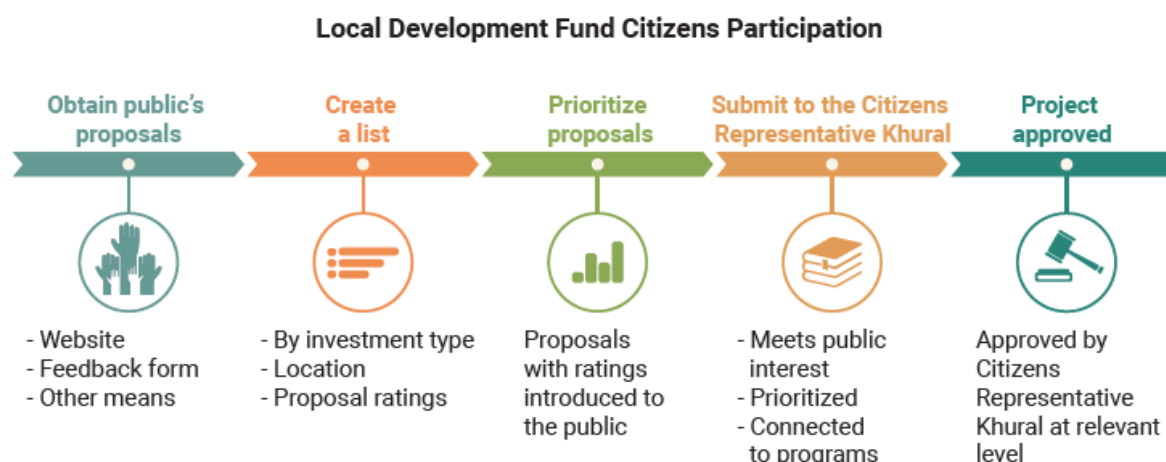
#### **5.8.1.6 Integrated Local Development Fund (Requirement 5.2)**

The Local Development Fund is a budget for citizens to be decided on. The fund has the advantage of providing administrative units with their own needs-based investment programs and financing their implementing duties.

In 2017, total of 53.0 billion MNT was allocated to the fund, which consist of 5% of domestic value-added tax, 5% royalty payment, 30% royalty payment and incentives and support from international organisations.

The Fund will be allocated by the formula, taking into account the population size, distances, territorial size, and local development index to aimags and capital. Aimag and the capital city should leave its share, and at least 30% shall be transferred to the same soum or district using the same formula.

Local community development funds should be spent on local community development funds, programs, and projects that are conducive to the community's real needs and will be supported and endorsed by the local community and Citizens representative hural's decisions.



Source: Citizen's budget-2018, MOF

The Ministry of Finance adopted the integrated rural development fund system in 2013. This system allows to view the allocation of consolidated local development fund from 2013 to aimags, capital city, soums and districts. Refer to link: [www.tusuv-oronnutag.mof.gov.mn](http://www.tusuv-oronnutag.mof.gov.mn).

In 2017 from planned revenue source of 53.0 billion MNT 39.1 percent or MNT 20.7 billion generated from domestic sources of VAT, 31.2 percent or 16.5 billion MNT from royalties for use of mineral resources, 16.2 percent or MNT 8.6 billion for petroleum royalty and 13.5 percent or MNT 7.2 billion from 3 Sustainable Livelihoods projects incentives.

The Ministry of Finance has reported that the National Audit Office has been auditing whether the 2017 Local development fund projections, the collection, allocation and disbursement are consistent with the legislation.

The Law on State Budget of Mongolia for 2019 submitted in September 2018 by the Government of Mongolia to the State Great Hural The Government of Mongolia plans to transfer 50% income of mineral exploration licences to the relevant aimag's local development fund starting from 2019.

#### 5.8.1.7 Future Heritage Fund

The Future Heritage Fund Law was enacted in 2016 aiming to establish long-term fund and optimal management of mining sector revenue. The Future Heritage Fund's operation started on January 1, 2017.

Income and Expenditure of Future Heritage Fund, 2017			
<b>Fund generated according to Article 7.1.2 of the Future Heritage Fund Law, in MNT billion</b>	357.7	Expenditure from the accumulated fund in accordance with the Regulation on Compliance of the Future Heritage Fund Law, in MNT billion	160.0

The Future Heritage Fund is a component of the National budget and no separate financial or operational report is prepared. Therefore, the MNAO does not specifically audit and provide opinion.

Revenue of the Future Heritage Fund is from the following sources:

- Dividends from State share of SOEs with mineral deposit exploitation licence;
- 65% of the remaining balances of mineral royalty payments collected in the budget after distribution to the Fiscal Stability Fund in accordance with the Fiscal Stability Law,
- Remaining balance of the fund's net investment income after transferring in accordance with Article 9.6 of the Future Heritage Law;
- 50% of additional revenues collected to the state budget from legal entities conducting production of mineral resources as specified in Article 4.1.7 of the Minerals Law, by means of amending or



revising laws and regulations of Mongolia, creating taxes through newly approved laws, or amendments made to the rate and level of taxes;

- Starting from 2018, 20% of the excess amount collected in the state budget over the base year's targeted minerals' revenues, excluding revenues mentioned in Article 7.1.1, 7.1.2, 7.1.3 and 7.1.4, is to be collected in the fund

Expenditure from the fund's sources and assets is prohibited until 2030, i.e. any form of spending except the fund's operations costs and external audit related costs. Also the law article 12.1.5 states that "Place the fund's assets only in financial instruments issued on the international markets and traded on the territory of foreign countries".

As provided in the legislation, the Future Heritage Fund Corporation shall implement the fund's asset management and the corporation shall be 100% state-owned legal entity. The corporation shall make an investment decision and independently and autonomously from the other entities and officials.

#### **5.8.1.8 Fiscal Stability Fund**

As regulated by articles 4.1 and 16.1 of the Fiscal Stability Law and article 91.2.1 of the Law on Government Special Fund, income from the main mineral resources and integrated budget revenue shall be distributed to the Fiscal Stability Fund.

According to article 11.1.3 of the Law on Fiscal Stability, the main mineral and coal prices for 2017 have been calculated by the IMF, reputable international banks and international organisations based on the average prices of the previous 12 years, the current fiscal period, and the subsequent 3 years' average prices.

Total equilibrated revenue and grants makes up 91.4% of the total revenue and grants of 2017 National budget; and Stabilisation Fund accounts for 4.1% and the remaining 4.5% is the Future Heritage Fund, please refer to the following table.

Table 5.59

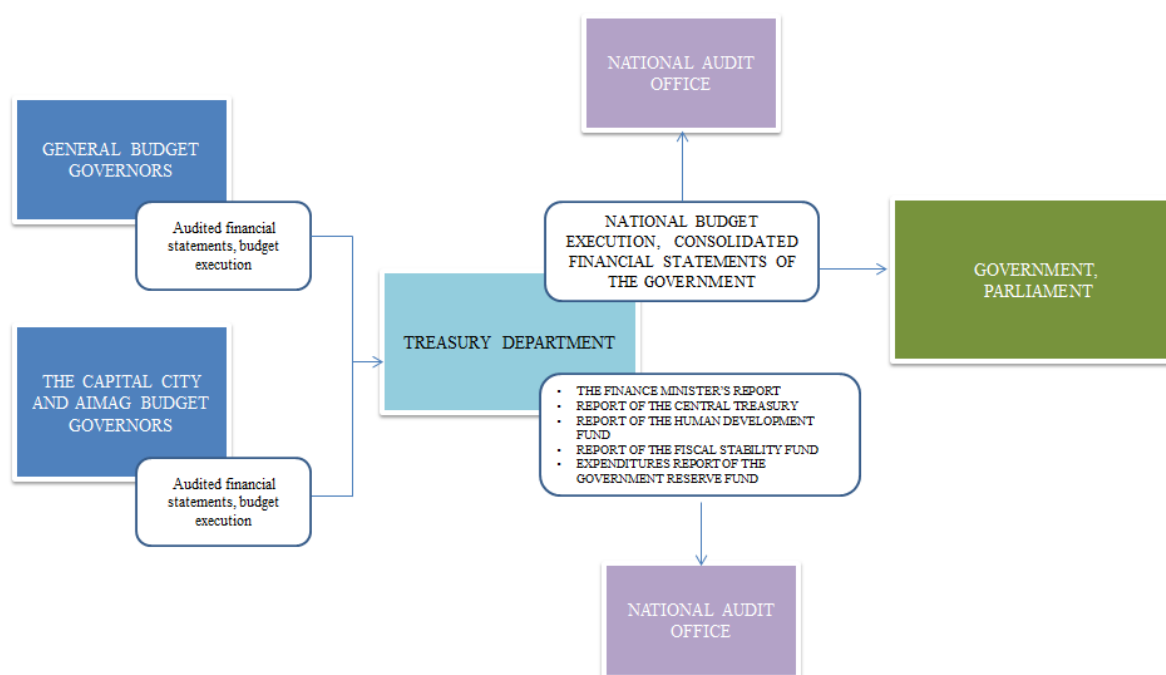
Total revenue and grant of the 2017 State Budget							
#	Budget classification and items	2016 Actual	Year of 2017				
			Initially approved	Revised	Actual	Percentage	Difference
	Total revenue and grant aid	5,835.0	6,390.2	7259.5	7958.3	109.6	698.8
	Fiscal Stability Fund	0.0	8.4	242.4	325.7	134.4	83.3
	Future Heritage Fund	0.0	221.7	333.3	357.7	107.3	24.4
	Total equilibrated revenue and grant	5,835.0	6160.1	6683.8	7274.9	108.8	591.1
I.	Tax Revenue	4,950.9	4983.7	5717.8	6315.1	110.4	597.4
II.	Non tax revenue	884.1	1176.4	966.0	959.8	99.3	-6.2

Source: MNAO, Audit report of 2017 National budget execution, 2018

### 5.8.2 Budget execution, reporting and audit calendar

The diagram shows the processes of obtaining audit opinion for the budget governors' reports, reporting to upper level budget governors, integration, unified budget execution, approval of the Government consolidated financial statements and audit timing.

#### NATIONAL BUDGET EXECUTION FOR THE YEAR, CONSOLIDATED FINANCIAL STATEMENTS OF THE GOVERNMENT



#### Budget execution

Budget spending is allowed from January 1 of a respective year and ends on December 31. Mongolian Tax Administration and the Customs General Administration and other government entities, which are responsible to generate revenue to the budget, generate budget revenue to the Treasury funds. Financing is then provided from the Treasury fund to budgetary entities as per an approved budget allocation.

#### Budget reporting

Budgetary entities prepare monthly budget execution report and submit to upper level budget governors. The unified budget governors consolidate the reports and submit to the Ministry of Finance. The MOF then consolidates those reports and provide them to the National Statistical Office by 8<sup>th</sup> of

every month. The NSO publish the report for public. The Budgetary entities prepare quarterly, semi-annual, and annual financial statements and submit them to the upper level budget governors. Annual financial statements must be audited. The MOF prepares consolidated financial statements and unified budget execution report and submit them to the MNAO. The MNAO carries out audit on the financial statements and report audit opinion to the Government and the Parliament. The National budget execution is approved upon discussion of the Unified budget execution report in the Parliament spring session.

### Budget accountability

The Government is accountable to the Parliament for the central budget execution. For local budget execution, heads of budgetary entities are held liable to the respective Citizens' Representative Hural.

## 6 OTHER MATTERS

### 6.1 BENEFICIAL OWNERSHIP (REQUIREMENT 2.5)

A beneficial owner is the natural person(s) who ultimately owns, controls or benefits from a company and is not the person(s) who is legal shareholder or the person(s) who work for or on behalf of the company. A beneficial owner is not necessarily a shareholder but is involved in and influences decision making, hides behind a complicated structure and directly or indirectly benefits from a company.

The EITI Standard requires that by January 1, 2020, all implementing countries have to ensure that all corporate entity(ies) that bid apply for, operate or invest in extractive assets or hold a participating interest in an exploration or production oil, gas or mining licence or contract should include the identity(ies) of their beneficial owner(s).

The EITI Board has undertaken a number of actions on beneficial ownership:

May 2013	Agreed that the EITI to require disclosure of BO.
October 2013	A pilot of BO took place with the participation of eleven implementing countries.
January 2016	29 EITI implementing countries are implementing to certain degree. 9 countries are including BO information in the EITI report.
February 2016	Under the EITI Standard, as of 1 January 2020, it is required that implementing countries request, and companies disclose, beneficial ownership information for inclusion in the EITI Report.

#### 6.1.1 Mongolia's approach

In 2016, the Working Group appointed a sub-working group to investigate how the beneficial ownership requirements of the EITI Standard can be met in Mongolia. The sub-working group drafted a roadmap, which was approved by the National Council meeting on 20 January 2016 and further amended in 21 December 2017.

The roadmap includes 7 objectives with 32 actions to be implemented by 2020. Please refer to the link for detail: <http://www.eitimongolia.mn/mn/beneficial-ownership-disclosure>.

With respect to objective of disclosing the beneficial ownership, definition of terms, scope, materiality threshold and data for collection were finally approved at the meeting of EITI Working Group dated November 15, 2017. Before such approval, over 260 participants representing government, companies and civil society have involved in the series of discussion and then the final version was developed taking into account those comments received. The following definitions were agreed:-

**“Ultimate beneficial owner”** means the individual person(s) who directly or indirectly holds, owns, benefits 5% or more of company shares or any identical securities, 20% or more of voting rights and

...% or more of dividends of legal entity who is licence holder, investor, bidder and the contractor in the extractive industry; and exercises management and controls of the company directly or indirectly, or exercise shareholder rights in other means.

**“Indirect holding and ownership”** means indirectly to hold shares, any identical securities, and exercise voting rights through related parties with common interest using contract, power of attorney or other types of representation; OR to establish 1 or more legal entities referred to as the custody chain.

**“Direct management and control right”** means right of making decisions to appoint governing persons of company according to Article 84 of Company law and the Company Charter; and, individually or collectively with the party who has a common interest, to decide whether to enter into significant transactions.

**“Indirect management and control”** refers to situation where the one exercises management and controls of the company through related parties with common interests using contract, power of attorney or other types of representation.

If the ultimate beneficial owner is a **politically exposed person**, then materiality threshold shall not be applied (0%) for the ownership percentages of the beneficial owner and his/her related parties with common interests; public disclosure is mandatory.

**Politically exposed person** means officials defined in Article 20.2 of the Law on the Prevention of Conflict of Interest and the Regulation of Public and Private Interests in the Public Services.

A national anti-corruption programme was approved by the GoM Resolution No. 114 dated April 12, 2017. Per 4.1.6.5 of the attachment to this Resolution, it was planned to disclose beneficial owners within the framework of EITI standards, to implement compliance with this requirement for the period between 2020-2022 and that the MEITI Working group shall be in charge of it.

National Council of OGP Mongolia have developed and presented “National Action Plan II 2016-2018 of Mongolia” at the Cabinet meeting. At the meeting, the NAP had positive support and reflected comments from the Ministers; and final draft of NAP making 13 commitments was discussed and approved at the meeting of National Council dated June 7, 2016.

Commitment number 12 of the plan is related to transparency of information on beneficial ownership in mining sector; and the responsible ministries and agencies are state administrative body in charge of budget and finance, and state administrative body in charge of mining related issues.

### **6.1.2 Transparency of beneficial ownership**

For the 2017 EITI report, a template was developed to identify beneficial ownership in a single inquiry and was uploaded onto the MEITI e-reporting system.

According to the EITI requirements, the following data will be collected using the template although not all the data will be disclosed to the public:

- First and Last name,
- Nationality,
- Registration no.,
- Date of Birth,
- Citizenship , dual citizenship if applicable
- Country of residence
- Whether politically exposed person ,
- Whether holding roles of executive management in the company
- Address of the current employer,
- Percentage of ownership,
- Whether acting as attorney-in-fact to exercise rights on behalf of others,

The Independent Administrator with the cooperation of the Mongolia EITI Secretariat organised 2 training sessions for the companies covered in the reconciliation on the definition of beneficial ownership and how to fill the beneficial ownership form.

Out of total 230 companies 184 companies provided beneficial ownership information which is considered to be a significant progress compared to statistics of beneficial ownership disclosure since 2014.

However, 38 companies did not disclose any beneficial ownership information, while we could not contact 4 companies and the other 4 companies saved the information in the E-reporting system and did not send it. We obtained explanations from those companies who did not provide information.

Information provided on beneficial ownership by all 230 companies covered in the reconciliation is summarised as follows:

<b>Total beneficial owners</b>	<b>291</b>	
of which:		
<b>Legal entities</b>	<b>82</b>	
Local	29	
Overseas	53	
<b>Individuals (by nationalities)</b>	<b>209</b>	
Mongolia	167	Whether those individuals are:
China	27	<b>Politically exposed person(s)</b>
USA	2	Yes 5
Inner Mongolia	3	No 204
Hong Kong	2	<b>In management position</b>
Japan	2	Yes 137
Malaysia	1	No 72
South Korea	1	
Kazakhstan	1	
Russia	1	
Taiwan	1	
New Zealand	1	

The structure and location of local and overseas legal entities disclosed as owners is summarised in the following table:

<b>LEGAL ENTITIES</b>	<b>82</b>		
<b>LOCAL</b>	<b>29</b>		
<b>State ownership</b>	<b>9</b>		
State-owned enterprises	6		
Locally-owned enterprises	3		
<b>Private ownership</b>	<b>20</b>		
Limited Liability Company	15		
Joint Stock Company	3		
Non-governmental Organization	2		
<b>OVERSEAS</b>	<b>53</b>		
<b>Structure</b>			
Public	23		
Closed	30		
<b>Public companies (listed stock exchange)</b>	<b>23</b>	<b>Closed companies (country):</b>	<b>30</b>
Toronto	7	China	8
Australia	6	British Virgin Islands	6
Hong Kong	4	Singapore	3
London	3	South Korea	2
Shanghai	1	Seychelles	2
Toronto & New York	1	Luxembourg	2
Toronto & Hong Kong	1	France	2
		Australia	1
		Belarus	1
		Marshal Island	1
		Samoa	1
		Hong Kong	1

In Mongolia, some beneficial ownership information has been disclosed since 2013. Refer to the below link for detail: [www.eitimongolia.mn/mn/beneficial-ownership-disclosure](http://www.eitimongolia.mn/mn/beneficial-ownership-disclosure)

Information provided by the companies are presented in Appendix 21 (b,c,d).

## 6.2 CONTRACT TRANSPARENCY

### 6.2.1 Initiative to improve contract transparency

On December 18, 2014 the EITI Secretariat, `Publish What You Pay` Coalition and National Mining Association of Mongolia jointly organised a Discussion of Multi-Stakeholders `Contract transparency in mining sector` under the Open Society Forum of Minerals in Ulaanbaatar city with support of the Standing Economic Committee of Mongolian Parliament and Ministry of Mining.

The discussion covered the current laws relating to contract transparency in mining sector, their implementation, the experiences and lessons of foreign countries, problems experienced by participants relating to contract transparency, the ways to resolve them. The participants agreed that:

- In order to create contract transparency in mining sector, access to information and arrangement, there needs to be a united data bank, containing genuine copies of each Stability Agreement, Investment Agreement, Product Sharing Agreement, Agreement for Geological Operations and Pre-Mining Agreements signed between the Government, the organisations related to Government and the Investors for minerals sector, petroleum sector, natural gas sector and holders of licences. These agreements should be placed on the web sites of the respective governmental organisations to make them entirely transparent for the public;
- Under Article 42 of the Minerals Law, there needs to be increased contract transparency between the local governing organisations and the licence holders. These agreements should be published on web sites and in information bulletins of local governing organisations; and the local governing

organisations and licence holders should collaborate and initiate activities to distribute the information in to local residents in a suitable manner

### 6.2.2 Legislative background

Important legislation governing contracts in the extractive industries includes:-

Agreement type	Regulating law	Article(s)
PSA	Petroleum Law	17.3
Deposit development agreement	Nuclear Energy Law	29
Investment agreement	Minerals Law	5.3-5.5
	Nuclear Energy Law	30
Concession agreement	Concession Law	20
Agreements made with local authority	Minerals Law	42.9
Joint contracts e.g. agreements on land and water use	Minerals Law	35.3.7

The website created as a result of the initiative described in Section 6.2.1 above contains further information on extractive industry regulation (see <http://www.iltodgeree.mn/legal/3/detail>).

There have been a number of actions taken by government with a view to improving disclosure of contracts with extractive companies:-

- The Mongolian Parliament amended and changed the Petroleum Law in 2014 making it legally possible to regulate the relations respective to unconventional petroleum. The clause related to the confidentiality in the Model Agreement for Product Sharing Agreements was terminated.
- The General Law of Administration, enacted on June 19, 2015 includes a Clause that 'all agreements signed by governmental organisations shall be transparent'.

During the recent years, the Government has signed Concession agreements to support the construction of motorway, railway, structures of power, heating, water supply and other logistics structures devoted to the extractive industry. Article 6 and Clauses 6.4 and 6.5.9 of the Law on Glass Accounts enacted in 2014 state 'Legal entities with state and local ownership shall disclose information on Concession Agreements and Partnership Concession Agreements'. Despite this clause, only limited information has been published but not entire agreements'.

### 6.2.3 Actual disclosure practice

Following a Cabinet meeting in January 2016 at which the Government decided to disclose all PSAs, the Petroleum Authority should have disclosed the PSAs. However, no PSAs have been made public since the amendment of the Petroleum Law.

A working group was set up in 2017 to review and overcome any obstacles to public disclosure of the PSAs, without any result.

It is understood that the transition from the old model PSA to a new model PSA was discontinued due to disagreement from certain companies on the basic terms of the new model PSA. Nevertheless, petroleum contractors were requested to publish their PSAs within a specified deadline on <http://www.iltodgeree.mn/> without disclosing the main terms. No contractor has yet responded.

In June 22, 2017, Open Society Forum, EITI, Ministry of Mining and Heavy Industry launched an online database for resource contracts in order to meet the EITI Standards requirement 2.4 on improvement of contract transparency. The database is designed to enable general public, civil society, journalists and academics to do various analysis, monitoring and research through accessing to the full text of resource contracts and relevant documents.

Currently there 309 contracts are posted in the resource database:



Table 6.1

No	Types of agreement	Quantity
1	Model PSA	1
2	PSA (DWM Petroleum AG)	1
3	Investment contract	1
4	Reimbursement agreement for mineral exploration funded with state budget	1
5	Contracts under the Law on Prohibiting minerals exploration and exploitation in water heads and protected zone of rivers and forested areas	23
6	Contracts on water use	48
7	Concession agreements	4
8	Cooperation agreements	38
9	Local cooperation agreements	68
10	Land lease agreements	125
11	Other contracts	
<b>Total contracts</b>		<b>310</b>

For further information, visit <http://www.iltodgereee.mn/>

We obtained information on contracts which the companies covered in the reconciliation concluded with the subnational governments through additional forms on the E-reporting system and information on 151 contracts of 72 companies were uploaded in the system. Refer to Appendix 22 for detail.

### 6.3 IN KIND REVENUES (REQUIREMENT 4.1.C)

The information reported by governmental organisations and companies was reconciled. In total, non-fiscal donations and supports amounting to MNT2,501.7 million were paid by the mining companies to the government entities.

83.4% or MNT2,087.1 million (reconciled amount) of in-kind donations and supports were provided by first 10 companies to the government entities. Specifications of those in-kind donations are shown as follows:

Table 6.2

No.	Name of companies	In-kind donation (MNT mln)	Description of in-kind donations
1	Usukh Zoos LLC	795.0	Hospital building expansion
2	Energy Resources LLC	508.2	Coal supply to soums
3	Boldtumur Eruu Gol LLC	200.0	Computed tomographic equipment to Selenge aimag hospital
4	Oyu Tolgoi LLC	166.4	Medicals and equipment to National Burns Center, Center for Children and Pregnant Women
5	Erdenes Tavan Tolgoi JSC	119.2	
6	SouthGobi Sands LLC	99.6	
7	Shar Narst LLC	57.0	80 <sup>th</sup> anniversary of Bulgan aimag
8	Monwolfram LLC	49.6	Repair of fences in soum center
9	Erdenes Mongol LLC	48.2	
10	BMNS LLC	43.9	Public shower and toilet expansion work, Tsenkher soum, Arkhangai aimag
<b>Total</b>		<b>2,087.1</b>	

## 6.4 INFRASTRUCTURE INVESTMENTS AND BARTER ARRANGEMENTS (REQUIREMENT 4.1.D)

In some cases, extractive companies enter into agreement with government entities to provide in-kind services and goods (infrastructure investment) in order to obtain licence for mineral resources of a country. Examples of investment may include road, railway, power station, school and hospital.

Benefits which those companies are uses of petroleum oil, gas, mineral resources, land, energy and water and other elements. This kind of agreement is called barter agreement or 'resource-for-infrastructure swap agreement'.

We requested the companies and the government entities covered in the reconciliation for information on infrastructure investment and barter arrangements carried out in 2017.

The following companies provided us information about their infrastructure investments:

Table 6.3

Name of companies	Investment	Investment date	Agreement term	Investment amount (MNT mln)	Stakeholders
Badmaarag Khash LLC	200 metres of road	8/21/2017	Road bulding for Soum development	100.0	'Chono Gol Khugjil' LOE, Erdenetsagaan soum, Sukhbaatar aimag
Usukh Zoos LLC	Hospital bulding expansion	10/9/2017	Local investment within social responsibility	795.0	Vercon Construction LLC, Gurvantes soum, Umnugobi aimag

Source: Information provided by the exractive companies

Brief description of the above infrastructure investments:

### Badmaarag Khash LLC

The company operates in Erdenetsagaan soum, Sukhbaatar aimag. For soum development, it funded MNT100 million for road building and contracted Chono Gol Khugjil, the Locally-owned Entity. The contractor built a road of 200 meters (7m width, 17cm thickness) in Erdenetsagaan soum. Sukhbaatar aimag.

### Usukh Zoos LLC

Whithin its social responsibility Usukh Zoos LLC funded MNT795 million for soum hospital expansion work in Gurvantes soum, Umnugobi aimag. It contracted Vercon Construction LLC for work execution. Gurvantes Health center recorded the expansion building funded by Usukh Zoos LLC in its fixed asset in December 31, 2017.

## 6.5 SOCIAL EXPENDITURES (REQUIREMENT 6.1)

The expenditures spent by the companies for well-being of a community are referred to as social expenditures. Most of these expenditures are devoted for the local residents residing near mining area.

Monetary and in-kind expenditure except mandated social expenditure is defined by the MSWG as voluntary social expenditure. Companies report their mandatory and voluntary social expenditure on the MEITI E-reporting system.

The following companies accounted for 97% of total mandatory and voluntary social expenditure.

Table 6.4

Name of companies	Monetary contribution (MNT mln)	In-kind contribution (MNT mln)	Total (MNT mln)
AUM Gold LLC	71.0	4.0	75.0
Badmaarag Khash LLC	140.0	-	140.0
Badrakh Energy LLC	72.7	31.0	103.7
Boldtumur Eruu Gol LLC	233.0	200.0	433.0
Dongsheng Petroleum (Mongolia) LLC	90.0	-	90.0
G&U Gold LLC	56.0	-	56.0
Monwolfram LLC	0.6	49.6	50.2
Mongolbulgargeo LLC	104.6	-	104.6
Mongolrostsvetmet LLC	47.4	35.0	82.4
MonEnco LLC	678.7	8.6	687.2
Oyu Tolgoi LLC	24,145.7	166.4	24,312.1
Uguujbayan Khangai LLC	76.5	-	76.5
Usukh Zoos LLC	-	795.0	795.0
Platinum Land LLC	78.4	3.8	82.3
SouthGobi Sands LLC	-	99.6	99.6
Special Mines LLC	100.0	-	100.0
Ten Xun LLC	102.5	-	102.5
Uulszaamar LLC	109.5	-	109.5
Fors Gold Mining LLC	64.0	9.0	73.0
Khos Khas LLC	63.0	-	63.0
Tsairt Mineral LLC	769.1	-	769.1
Shar Narst LLC	220.0	57.0	277.0
Shijir-Aranjin LLC	58.0	14.0	72.0
Energy Resources LLC	27.6	508.2	535.8
Erdenes Mongol LLC	184.0	48.2	232.2
Erdenes Tavan Tolgoi JSC	-	119.2	119.2
Erdenet Mining Corporation	218.2	-	218.2

## 6.6 TRANSPORTATION REVENUES (REQUIREMENT 4.1.F)

Where revenues from the transportation of oil, gas and minerals are material, the government and state-owned enterprises (SOEs) are expected to disclose the revenues received.

Revenue from transportation of petroleum, gas and minerals is one of the significant revenue sources in the extractive sector, and thus the government and SOEs are required to disclose.

The following SOEs reported breakdown of goods transported and information of the government entities received transportation revenue.

Table 6.5

(MNT million)

Name of company	Description	Recipient government entity and SOE	Total value
Shivee Ovoo JSC	Coal	Thermal Power Plant 4 SOJSC	38.9
	Coal	Mongolrostsvetmet LLC	0.6
	Coal	Nalaikh Thermal Power Plant SOJSC	0.5
	Coal	Ilchleg Shivee LOE	0.0
	Coal	US-DU LOE	0.3
	Coal	Chandmani Ilch LOE	0.8
	Coal	Selenge Zuun Kharaa LOE	0.2
	Postal fee	Mongol Post JSC	1.9
	Transportation fee	Ulaanbaatar Railway JV	350.0
Baganuur JSC	Coal	Ulaanbaatar Railway JV	522.0

Source: Information provided by extractive companies

## 6.7 DONATIONS

230 extractive companies covered in the EITI reconciliation reported fiscal and non-fiscal donations and support to national and subnational governments in 2017 but there were discrepancies between amounts reported by government entities and companies which required reconciliation. Only those donations and supports which the MSWG determined were mandatory reporting items were reconciled; amounts declared on a voluntary basis were not reconciled.

82 companies reported MNT 30,758 million as fiscal and non-fiscal donations. 89.5% of all donations

Purpose	Donations (MNT mln)	%
Education	551	1%
Health	2,136	7%
Culture and Sports	824	3%
Other	27,247	89%
<b>Total</b>	<b>30,758</b>	<b>100%</b>

and supports were granted by six companies: Oyu Tolgoi LLC, Usukh Zoos LLC, Tsairtmineral LLC, MonEnCo LLC, Energy Resources LLC and Boldtumur Eruu Gol LLC.

Total donations and supports classified by purposes as follows after reconciliation:

Total donations and supports classified by recipients were as follows after reconciliation:

Table 6.6

Recipients	Donation in cash (MNT mln)	Donation in-kind (MNT mln)	Total (MNT mln)	%
Ministry and agencies	33	66	99	0%
Aimags and the capital city	2,557	907	3,463	11%
Soum and Districts	25,322	1,401	26,723	87%
Other organizations	345	129	474	2%

Recipients	Donation in cash (MNT mln)	Donation in-kind (MNT mln)	Total (MNT mln)	%
<b>Reconciled total</b>	28,257	2,502	30,758	

Total donations and supports classified by recipient aimags were as follows after reconciliation:

Table 6.7

Recipients	Donation and support in cash (MNT mln)	Donation and support in-kind (MNT mln)	Total (MNT mln)	%
Arkhangai	22	44	66	0.2%
Bayan-Ulgii	21	-	21	0.1%
Bayankhongor	499	102	601	2.0%
Bulgan	369	60	429	1.4%
Gobi-Altai	35	1	36	0.1%
Govisumber	-	3	3	0.1%
Darkhan	29	-	29	0.1%
Dornogobi	830	62	892	2.9%
Dornod	57		57	0.2%
Dundgobi	126	-	126	0.4%
Zavkhan	66	9	75	0.2%
Orkhon	3	-	3	0.1%
Uvurkhangai	100	4	104	0.3%
Umnugobi	24,387	1,721	26,108	84.9%
Sukhbaatar	173	-	173	0.6%
Selenge	353	334	687	2.2%
Tuv	390	118	508	1.7%
Ulaanbaatar	76	-	76	0.2%
Khovd	679	9	687	2.2%
Khuvsgul	17	-	17	0.1%
Khentii	27	34	61	0.2%
<b>Total</b>	<b>28,259</b>	<b>2,499</b>	<b>30,758</b>	

## 6.8 REHABILITATION INFORMATION

Mining sector's nature environment and social issues in Mongolia are regulated by three main government organisations: Ministry of Mining and Heavy Industry (MMHI) and its agency Mineral Resources and Petroleum Authority (MRPAM), Ministry of Nature Environment and Tourism (MNET) and State Professional Inspection Agency (SPIM).

Mining sector has its biggest impact on nature environment and results in irrecoverable loss of natural resources. It also adversely affects traditional nomadic herding.

Therefore, the State Central Administrative Body in charge of Nature Environment (MNET) has been focusing on development, approval and implementation of laws, regulations and standards for environmental protection and rehabilitation.

### 6.8.1 State policy for protection and rehabilitation of environment

Foundation of legislations which regulate nature environment and mining rehabilitation were created from 1988 and the relevant laws have been approved and amended since.

The following laws are in effect for environmental protection and rehabilitation during mining exploitation:

- Subsoil Law (1988);
- Minerals Law (1997, 2006);
- Law to Prohibit Mineral Exploration and Mining Operations at River Headwaters, Protected Zones of Water Reservoirs and Forested Areas (2009);
- Environment Impact Assessment Law (2001, 2006, 2012); and
- Other environmental laws and legal acts.

In addition, there are over 30 regulations and methodologies which were approved for implementation of the aforementioned laws. For instance:

- Methodology for technical and biological rehabilitation in degraded land due to mining activities (2015);
- Regulation for monitoring of special account for environmental protection and rehabilitation (2014);
- Regulation for development, review, approval and reporting of environmental management plan (2014).

The following policies on environmental protection and rehabilitation were set out in the State Policy for the minerals sector during 2014-2025:

- Stages of an extractive and processing industries shall have the least negative impact upon human health and keep an ecological balance of environment;
- State-owned companies shall operate as a general contractor and implement a partnership between State and private sector;
- The standards and procedures of mine rehabilitation and mine closure shall be consistent with international best practice;
- Extractive and mineral processing industries will avoid the use of fresh underground water as much as possible, replacing it by surface water, recycling used water according to the respective laws, using grey water for household demand of the mining sector and employing modern and up to date technologies;

Summary of the procedures and resolutions related to environment protection and rehabilitation which were enacted in 2017:

№	Resolutions	Detail
1	Sustainable Development Goals 2030	<i>Sustainable Development Goals 2030</i> were set by The United Nations General Assembly on September 25, 2015. It determined goals and vision for the next 15 years that are globally essential.
2	Resolution no.19 of the State Great Hural (Parliament)	<i>Mongolia Sustainable Development Vision 2030</i> were approved and within this vision, Mongolia aspires to <i>Preserve ecological balance and to be placed among first 30 countries on the rankings of the countries by the Green economy index in the world.</i>

### 6.8.2 Special account for environmental protection

Licence holders for mining exploration and exploitation are required to comply with the Environmental Protection Law and Minerals Law, article 38 and 39 for environmental rehabilitation. The Minerals Law article 38 specified obligations of exploration licence holders for environmental protection while the article 39 specified obligations of mining licence holders.

Exploration licence holders and mining licence holders are required to deposit an amount equal to 50% of their environmental protection budget of the year in a special bank account established by the Governor of the relevant soum or district to ensure the discharge of their responsibilities with respect to environmental protection.

The deposit mentioned above shall be returned to the licence holder's account upon compliance of all obligations specified in an Environmental protection plan (EPP) in accordance with the Minerals Law. The deposit shall be returned to the mining licence holder if all the obligations set in an Environmental Impact Assessment (EPA) and the EPP are complied. In case if the obligations are not fully complied, the relevant soum or district governor shall assign a professional body to execute necessary rehabilitation with the deposit. In this case, the licence holder shall provide any additional funds required for rehabilitation without any dispute.

Refer to Appendix 26 for more information on the companies with licences for rehabilitation.

As per the MNET report, MNT1,326 million were deposited to the special account for environmental protection in 2017 and no refund has been made. An outstanding balance as of December 31, 2017 is MNT12,626 million. The special account information by year as follows:

Table 6.8

MNT million

Year	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
<b>Revenue</b>	22	612	566	385	942	1,216	2,014	1,545	2,273	1,027	1,317	1,102
<b>Expenses</b>	-	-	21	126	1	5	16	225	1	-	-	-
<b>Outstanding balance</b>	22	634	1,179	1,438	2,379	3,590	5,588	6,908	9,180	10,207	11,524	12,626

Source: Ministry of Nature Environment and Tourism

In 2017 Eco Altan Zaamar LLC transferred the highest amount of deposit to the special account and the companies listed below contributed 57.38% of deposits collected to the special account for environment protection:

Table 6.9

No.	Name of company	Deposit amount	
		MNT thousand	%
1	Usukh Zoos LLC	29,212.5	2.65%
2	Shin Shin LLC	91,426.0	8.30%
3	Altai Gold LLC	65,100.0	5.91%
4	Bayangol Eco Zaamar LLC	38,050.0	3.45%
5	Golden Hammer LLC	55,100.0	5.00%
6	Pentaterra LLC	50,000.0	4.54%
7	Petrochina Daqing Tamsag LLC	58,000.0	5.26%
8	Tod-Undarga LLC	28,680.0	2.60%
9	Sharyn Gol JSC	23,797.0	2.16%
10	Eco Altan Zaamar LLC	193,041.0	17.52%
Total for 10 companies		632,406.5	57.38%



<b>Grand Total</b>	<b>1,102,113.0</b>	<b>100.00%</b>
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Source: Information by the Ministry of Nature Environment and Tourism

Please see Appendix 23 for information of all 128 companies which transferred 50% of their rehabilitation expenses or amount of MNT1,102.1 million.

### 6.8.3 Mining operation and rehabilitation in 2017

The MRPAM 2017 Minerals Statistic Report records that 917.6 hectares were covered by mining operations and 61% or 556 hectare areas have been rehabilitated. The total expenses of rehabilitation in 2017 were MNT2,560 million.

As of now, total 28,657 hectares of area have been utilised for mining operations throughout Mongolia. Of which, technical rehabilitation for 12,891 hectares and biological rehabilitation for 8,322 hectares have been carried out and resulted in environmental rehabilitation cost of MNT 96,734 million and environmental protection cost of MNT67,062 million.

The following table presents actual mining development and rehabilitation activities by mining licence holders in 2017 and previous years:

Table 6.10

Year	Areas of mining operations (hectare)	Areas of rehabilitation (hectare)	Rehabilitation percentage (%)	Rehabilitation expenses (MNT mln)
Previous years	22,168.0	16,146.0	73%	57,458.0
2012	1,430.0	1,402.0	98%	14,808.0
2013	1,038.0	807.0	78%	7,382.0
2014	1,561.0	960.0	61%	9,212.0
2015	871.0	750.0	86%	4,019.0
2016	671.0	623.9	93%	6,369.0
2017	917.6	556.0	61%	2,560.0
<b>Total</b>	<b>28,656.6</b>	<b>21,244.9</b>	<b>75%</b>	<b>101,808.0</b>

Source: The MRPAM 2017 Minerals Statistic Report -2017

### Mining operation and rehabilitation plan and actual by the mining licence holders (except coal miners)

As reported by the MRPAM in 2017, total of 145 companies reported their implementation of mining operation and rehabilitation plans. Refer to Appendix 20(a) for more information.

Summary of mining operation and rehabilitation plan and actual is shown as follows:

Table 6.11

Types of minerals	Number of companies	Mining operations				Rehabilitation				
		Area (hectare)		Volume (m³)		Area (hectare)		Volume (m³)		Total cost (MNT mln)
		Plan	Actual	Plan	Actual	Plan	Actual	Plan	Actual	Plan
Copper	-	-	-	-	-	-	-	-	-	-
Gold	87	377	593	21,728,862	42,363,330	476	473	1,327,580	1,218,048	2,796
Manganese	1	88	49	240,000	150,000	1	0	1,500	600	3
Silver	-	-	-	-	-	-	-	-	-	-
Spar	22	23	14	722,538	318,633	15	9	27,775	5,099	72
Iron	11	57	55	16,614,499	9,382,671	58	50	73,968	35,500	276
Pewter	1	10	3	420	115,753	-	-	-	-	-
Gypsum	4	2	4	-	221,264	16	1	242,100	-	3
Zinc	1	1	1	-	-	1	1	-	-	-
Construction material	14	44	36	940,516	760,244	16	13	76,735	47,498	42
Zeolite	1	-	-	-	-	2	-	4,500	-	2
Tungsten	3	3	1	72,896	32,822	16	8	27,427	23,905	44
<b>Total</b>	<b>145</b>	<b>605</b>	<b>755</b>	<b>40,319,731</b>	<b>53,344,717</b>	<b>600</b>	<b>554</b>	<b>1,781,585</b>	<b>1,330,650</b>	<b>3,237</b>

Source: Mineral Statistics Information 2017, Mineral Resources and Petroleum Agency of Mongolia

#### 6.8.4 Coal miners' mining development and rehabilitation: plan and actual

Coal related matters are coordinated by a separate division with the MRPAM and therefore, the report of mining development and rehabilitation plan and actual is different than those for other minerals. Total 37 coal mining companies reported their mining development plan and actual. Refer to Appendix 20 (b) for more detail.

#### 6.8.5 Petroleum licence holders' mining development and rehabilitation: plan and actual

Production blocks	Plan	Actual	Actual in %
Toson-Uul XIX	1. Dilution and rehabilitation of drilling liquid waste tank	1. Eco Ineemsegel LLC carried out rehabilitation in drilling liquid waste tanks of 21 wells drilled in 2016	100
	2. Soil sampling and testing	2. Baigal Tandalt LLC carried out soil sampling and analysis from 30 wells.	100
	3. Environmental assessment	3. Undur Khaan Trade LLC carried out the assessment. The assessment report is not approved yet.	50
	4. Drilling ground water monitoring well	4. Drilling of 2 ground water monitoring wells was included in the plan for last 3 years, however, the work is not executed yet.	0
Tamsag XXI	1. Dilution and rehabilitation of drilling liquid waste tank	1. Sansar Suljee LLC carried out rehabilitation of 18 drilling liquid waste tanks of wells that were drilled in 2016.	100
	2. Soil sampling and testing	2. Oyun Shim Mandal LLC carried out 30 soil sampling and analysis.	100
	3. Dilution of industrial liquid waste	3. Eco Urgamal LLC carried out technical rehabilitation in 5 industrial liquid waste tanks.	83
	4. Biological rehabilitation	4. MODB LLC carried out biological rehabilitation of underground pipelines.	100
	5. Environmental assessment	5. Global Environ LLC was contracted, but the work is not executed yet.	20
	6. Drilling ground water monitoring well	6. No work has been performed due to an absence of a contract.	0
PSA-97	1. Environmental protection and rehabilitation of well area during rehabilitation of 22 old wells, water discharge and production.	1. Rehabilitation in 11 wells out of 22 have been carried out.	50
	2. Environmental protection and rehabilitation of old well area	2. Rehabilitation in 49 wells out of 86 have been carried out.	57
	3. Laboratory test for soil sample of production area	3. Not executed.	0
	4. Environmental monitoring and analysis programme	4. Executed.	100
<b>Total</b>	<b>14</b>	<b>10</b>	<b>61.4</b>

Source: Mineral Resources and Petroleum Authority of Mongolia

### 6.8.6 Petroleum licence holders' rehabilitation: plan and actual

Works	Unit price (USD)	Planned volume	Actual works	Actual in %
<b>Toson-Uul XIX</b>				
Dilution and rehabilitation of drilling liquid waste	3800	21	Eco Ineemsegel LLC carried out rehabilitation in drilling liquid waste tanks of 21 wells drilled in 2016.	100
Soil sampling and laboratory testing	600	30	Baigal Tandalt LLC carried out soil sampling and analysis from 30 wells.	100
Environmental assessment	20000	2	Undur Khaan Trade LLC carried out the assessment. The assessment report is not approved yet.	50
Biological rehabilitation and plantation	-	-	-	-
Water well drilling for ground water monitoring	35000	2	Drilling of 2 ground water monitoring wells was included in the plan for last 3 years, however, the work is not executed yet.	0
<b>Tamsag XXI</b>				
Dilution and rehabilitation of drilling liquid waste	3800	18	Sansar Suljee LLC carried out rehabilitation of 18 drilling liquid waste tanks of wells that were drilled in 2016.	100
Soil sampling and laboratory testing	600	30	Oyun Shim Mandal LLC carried out 30 soil sampling and analysis.	100
Dilution of industrial liquid waste	25000	6	Eco Urgamal LLC carried out technical rehabilitation in 5 industrial liquid waste tanks.	83
Environmental assessment	20000	2	Global Environ LLC was contracted, but the work is not executed yet.	20
Biological rehabilitation and plantation	1	40000M2	MODB LLC carried out biological rehabilitation of underground pipelines.	100
Water well drilling for ground water monitoring	60000	2	No work has been performed due to an absence of a contract.	0

Rehabilitation information at the area PSA-97 by Dongsheng Petroleum (Mongolia) LLC is shown as follows:

Activities planned	Contractors	Report submission status
Environmental monitoring analysis	ENCO LLC	Submitted
Soil sample test for the area		The activity was not executed
Rehabilitation	Uguuleshgui Unu Bat Orshikh LLC	Submitted

Source: Mineral Resources and Petroleum Authority of Mongolia

### 6.8.7 Rehabilitation licence holders and locations

Rehabilitation licence holder companies carry out rehabilitation works based on agreements with mining companies or the relevant district or aimag Governors.

As reported by the MNET, in 2016 there were 96 companies with rehabilitation licence and in 103 companies obtained licence in 2017. As of December 31, 2017 there were 199 companies with rehabilitation licence. (Refer to Appendix 26 for the list of rehabilitation licence holders.)

Locations of those rehabilitation licence holders are: 132 companies in Ulaanbaatar city, and the remaining 67 companies reside in 13 aimags (Dornod, Bulgan, Bayankhongor etc). The MNET reported that most of the rehabilitation licence holders contract with mining companies and the locations mentioned here do not represent the locations where they carry out rehabilitation.

Places of residence of the rehabilitation licence holders are shown in the below table:

**Table 6.12**

City/Aimag	District/Soum	Number of companies	City/Aimag	District/Soum	Number of companies
Bayankhongor	Bayankhongor	25	Selenge	Eruu	5
Bayankhongor	Bayan-Ovoo	2	Selenge	Mandal	2
Bayankhongor	Bumbugur	2	Tuv	Zuunmod	1
Bayankhongor	Nomgon	1	Uvs	Baruunturuun	1
Bayankhongor	Ulziit	1	Uvs	Tarialan	1
Bulgan	Khyalganat	1	Uvs	Ulaangom	1
Govisumber	Sumber	1	Khovd	Jargalant	4
Darkhan-Uul	Darkhan	1	Ulaanbaatar	Songinokhairkhan	18
Dornod	Kherlen	7	Ulaanbaatar	Bayangol	30
Dundgobi	Ulziit	1	Ulaanbaatar	Bagakhangai	1
Orkhon	Bayan-Undur	4	Ulaanbaatar	Bayanzurkh	32
Uvurkhangai	Arvaikheer	3	Ulaanbaatar	Sukhbaatar	21
Uvurkhangai	Taragt	1	Ulaanbaatar	Khan-Uul	13
Umnugobi	Dalanzadgad	2	Ulaanbaatar	Chingeltei	17
<b>Total</b>					<b>199</b>

Source: Ministry of Nature Environment and Tourism

## 6.9 E-REPORTING SYSTEM

### 6.9.1 Introduction of e-Reporting system

The purpose of the MEITI E-Reporting system is to provide accurate information to the public on how natural resources of petroleum, gas and minerals are managed and raise awareness of such information. As a result, enhancement of cooperation and trust between the government, the extractive companies and the public is expected. Therefore, the E-Reporting system has nationwide importance.

The E-Reporting system enabled to make key information of mining sector activities available and accessible to the public through the internet. Principles for development of the E-Reporting system was:

- Open and free data: Publishing the data on the internet so that it is freely shareable in the public domain
- Public accessibility: Data can be accessible using desktop or web-based tools – with the ability to manipulate the data in multiple ways according to stakeholders needs.
- Self-service: Users of the data can, as they wish, build applications and analytical tools themselves by taking the data directly from the MEITI database. (Source: *E-Reporting Case study 'The development and implementation of an online system for the Extractive Industries Transparency Initiative', 2016, page 11*)

Currently the MEITI website publishes MEITI reconciliation report appendices and statistical information of mining sector's main activities to the public free of charge (<http://eitimongolia.mn/>):

- Statistics of licences provided;
- Statistics of movements of licences;
- Statistics of exploration works;
- Statistics of sales of minerals;
- Statistics of tax payments;
- Statistics of donations;
- Statistics of environmental rehabilitation;
- Statistics of Contribution to the economy;
- Agreement between licence holders and local governments;
- Beneficial ownership;
- Transparent companies;
- Transparency of beneficiaries; and
- Production Sharing Agreements.

Refer to 6.9.2 for current situation of the above information.

### 6.9.2 Condition of e-Reporting system

During the inception phase of the reconciliation of quantitative data reported by the government entities and the companies, there were several difficulties in the MEITI E-Reporting system but upon timely measures taken by the Secretariat IT manager, the system was working properly.

The data users or the public are able to access to limited types of information from the E-Reporting system.

MEITI E-Reporting system made certain statistical data open, however data quality is insufficient. Relevant observations are summarised in the table below:

Types of statistics	Observation for data processing
Statistics of licences provided;	Data is shown as of December 31, 2014. No update has been made since then.
Statistics of movements of licences;	Link is shown for detail list but not accessible due to updates in the MRPAM website information.
Statistics of exploration works;	Data is shown as of December 31, 2014. No update has been made since then.

Types of statistics	Observation for data processing
Statistics of sales of minerals;	Data is shown as of December 31, 2014. No update has been made since then.
Statistics of tax payments;	Data is shown as of December 31, 2014. No update has been made since then.
Statistics of donations;	Data is shown as of December 31, 2014. No update has been made since then.
Statistics of environmental rehabilitation	Data is shown as of December 31, 2014. No update has been made since then.
Contribution to the economy	Data is shown as of December 31, 2014. No update has been made since then.
Beneficial ownership	Data is shown as of December 31, 2013. No update has been made since then.
Transparent companies	Data is shown as of December 31, 2013. No update has been made since then.
Transparency of beneficiaries	Data of 68 companies have been disclosed as of 2016.
Production Sharing Agreement	Data shown as of 2016.

Although the E-Reporting system website has English version, “Transparency”, “Press release” “Article interviews” and “Infographics” menus are in Mongolian and not translated in English.

## 6.10 INFORMATION ON WATER CONSUMPTION

As requested by members of the MSWG of Mongolian EITI, we have requested from mining companies selected for 2017 EITI reconciliation to disclose information on their water consumption. In order to collect data of water consumption from companies, new template has been added on e-Reporting system and 132 companies have disclosed information on water consumption.

To summarise the reported 132 companies information, they have contracted to use water of 73,695,603.35 cubic meter, however actual consumption was 68,183,323.33 cubic meter or 92.5% of contract volume.

Oyu Tolgoi, Erdenet Mining Corporation, Baganuur and Shivee-Ovoo have led in volume of water consumed. Dong Sheng Petroleum Mongolia LLC has signed contract for water consumption of 4,432,458.26 cubic meters whereas they reported the actual consumption of 165,106.50 cubic meter. It was because favorable weather condition where dusty and stormy days were comparatively fewer this year and less water used for dusting-off, the company explains.

Detailed information is given in Appendix 31.

Item	Water consumption per contract (cubic meter)	Surface water used (cubic meter)	Underground water used (cubic meter)	Total volume of water used (cubic meter)	Greywater re-used (cubic meter)
Volume	73,695,603.35	8,003,409.46	60,179,913.87	68,183,323.33	3,408,628.58

## 6.11 WASTE INFORMATION

As requested by members of the MSWG of Mongolian EITI, reconciliation report is included the waste information reported by 113 companies on the E-reporting system.

In 2017, these 113 companies made payments for waste amounting to 318,452,834 tugrugs in total, out of which 69% was paid by South Gobi Sands and Erdenet Mining Corporation.



Oyu Tolgoi LLC, one of the biggest companies in extractive industry, do not make any payments for waste. The company informed that waste of 3,885.60 cubic meter was re-processed and reused by itself. 17 companies have made fixed amount of payments regardless of their waste volume.

More detailed information is included in Appendix 32.

Item	Non-hazardous waste (cubic meter)	Hazardous waste (cubic meter)	Total waste (cubic meter)	Actual Payments (MNT)	Re-processed hazardous waste (cubic meter)	Burial of hazardous waste (cubic meter)	Exported hazardous waste (cubic meter)
<b>Volume</b>	39,880.14	3,232.68	43,112.82	318,452,834	1,780.40	802.92	484.00

## 6.12 LEVEL OF DISAGGREGATION (REQUIREMENT 4.7)

The Government and companies do not prepare breakdown of streams by each project and as mentioned above, project based reporting if applicable is recommended in 2016 EITI report.

During the inception workshop, the issue of reporting at project level was discussed with the MSWG. By this time, companies had already reported and the E-reporting system was closed before the Independent Administrator was engaged for the scoping phase and it was decided that project reporting would not be adopted for the 2017 report.

### 6.12.1 Requirements for MEITI 2017 report

EITI standards require countries as a minimum to report data by:

- Companies,
- Government entities,
- Revenue streams

Reporting at project level is required, provided that it is consistent with EITI standards (Requirement 4.7), the United States Securities and Exchange Commission rules and the forthcoming European Union requirements.

The Bogota Board meeting in March 2017 reaffirmed that project level reporting is required for all reports covering fiscal years ending on or after December 31, 2018.

Therefore, it is not necessary for 2017 EITI reconciliation report of Mongolia to adopt project level reporting. The MSWG requested the Independent Administrator to examine ways to meet the requirement of project level reporting in 2018 EITI reconciliation report and to consider:-

1. What definition of "Project" is suitable for Mongolia
2. Identification of payments levied at project level and at entity level
3. Review of any obstacles to disclosure of payments levied at project level
4. Identification of paying entities
5. Changes to e-reporting templates

### 6.12.2 Definition of terms used in the project

#### *Definitions in use outside Mongolia*

It is appropriate to consider the definitions used in other jurisdictions, to gain insight into the procedure to be applied in Mongolia.

Article 41(4) of the **European Union Accounting Directive** defines a project as:

*“the operational activities that are governed by a single contract, licence, lease, concession or similar legal agreements and form the basis for payment liabilities with a government. None the less, if multiple such agreements are substantially interconnected, this shall be considered a project.”*

**Canada’s Extractive Sector Transparency Measures Act** contains an equivalent definition of the term project, stating that

*“A “project” means the operational activities that are governed by a single contract, licence, lease, concession or similar legal agreement and form the basis for payment liabilities with a government. Nonetheless, if multiple such agreements are substantially interconnected, this shall be considered a project.” “Substantially interconnected” means forming a set of operationally and geographically integrated contracts, licences, leases or concessions or related agreements with substantially similar terms that are signed with a government and give rise to payment liabilities.*

*Such agreements can be governed by a single contract, joint venture, production sharing agreement, or other overarching legal agreement.”*

The **UK Payments to Governments Regulations 2014** define the term project as follows:

*“A ‘Project’ means the operational activities which are governed by a single contract, licence, lease, concession or similar legal agreement, and form the basis for payment liabilities with a government.*

*If agreements of the kind referred to in the definition of ‘project’ are substantially interconnected, those agreements are treated for the purposes of these Regulations as a single project. ‘Substantially interconnected’ means forming a set of operationally and geographically integrated contracts, licences, leases or concessions or related agreements with substantially similar terms that are signed with a government, giving rise to payment liabilities.*

*Such agreements can be governed by a single contract, joint venture, production sharing agreement, or other overarching legal agreement.”*

Under these definitions,

- in a tax/royalty regime, a project is typically the licence that gives rise to payments
- in a production-sharing regime, a project is typically the contract that gives rise to payment liabilities

In these definitions above, the possibility is considered of a single project being the combination of agreements which are “substantially interconnected”. The UK Regulations give further guidance on how aggregation or allocation of costs across activities might be appropriate and conclude that “*Projects may not be artificially split or aggregated to avoid the application of the UK Regulations.*”

### **6.12.3 “Project” environment in Mongolia**

As described in more detail in Sections 5.2 and 5.3, the development of extracted resources in Mongolia is governed as follows:-

- exploration for minerals is governed by an exploration licence
- exploitation of minerals is governed by an exploitation licence
- prospecting for oil and/or gas is governed by a search licence

Before exploration activities for oil and/or gas are commenced, the party/parties must sign a Production Sharing Agreement (PSA) and must then be granted

- an exploration licence, giving permission to explore for oil and/or gas

- an exploitation licence, giving permission to exploit oil and/or gas

In Mongolia, therefore, for purposes of EITI reporting, extractive activities are carried out under individual licences, supplemented in the case of oil/gas by a PSA.

#### 6.12.4 Definition of a “project” in Mongolia

In Mongolia, a project is defined as the operational activities that are governed by a single contract, agreement, licence; and that forms the basis for payment liabilities with a government.

#### 6.12.5 Payments levied at project level and entity level

In Mongolia, payments are made to government at a national level, at a regional level (aimags) and at an area level (soums). The MSWG has identified the payments made by extractive companies, whether they are paid at a national, regional or area level and has decided upon the payments to be included in the EITI report.

Table 1 below sets out payments reported under EITI, showing whether they are levied at a project level or at an entity level.

No.	National financial streams for inclusion	Levied based upon		Amendment required to e-Reporting template
		Company	Licence	
1	Fee and extra fee for exploitation and exploration of mineral resources		✓	✓
2	Corporate income tax	✓		
3	Government share of petroleum revenue under PSA		✓	✓
4	Social and health insurance contribution by companies		✓	✓
5	Value added tax (Customs Administration)	✓		
6	Value added tax (Tax Administration)	✓		
7	Customs service fee	✓		
8	Customs duty	✓		
9	Licence fee for exploitation and exploration of mineral resources		✓	✓
10	Fee for air pollution	✓		
11	Royalty		✓	✓
12	Excise tax on vehicle's gasoline and diesel fuel	✓		
13	Payment for recruiting foreign experts and workers	✓		
14	Deposit at rate of 50% to Environmental protection special account		✓	✓
15	Donations to government entities	✓		
16	Reimbursement for deposit exploration conducted with State funds		✓	✓
17	Training bonus paid under PSA (for the year)		✓	✓
18	Licence fee for exploration and exploitation of petroleum		✓	✓
19	Tax on vehicle's gasoline and diesel fuel	✓		
20	Operational support to Representative office under PSA		✓	✓
<b>No. Subnational financial streams for inclusion</b>				
1	Real estate tax		✓	✓
2	Fee for water use		✓	✓
3	Land fee		✓	✓
4	Bonus received for local development under PSA		✓	✓

5	Fee for use of mineral resources of wide spread		✓	✓
6	Penalty	✓		
7	Tax on vehicle and self-moving mechanisms		✓	✓
8	Fee for water pollution		✓	✓
9	Deposit at rate of 50% to Environmental protection special account		✓	✓
10	Recovery	✓		
11	Dividends from locally-owned enterprises	✓		
12	Fee for recruiting foreign experts and workers	✓		

#### 6.12.6 Review of any obstacles to disclosure of payments levied by project

Based on discussions with stakeholders and our knowledge of the EITI reporting, we have not identified any obstacles to adopting this approach.

#### 6.12.7 Identification of paying entities

In some countries, agreements may be entered into by several companies which act together in a consortium. They share risk, costs and financing and typically designate an operating company which may have more administrative and operational responsibilities than other participants. This operating company may make certain payments on behalf of all the consortium companies.

In Mongolia, there are no such consortium arrangements and the licence holder is responsible for paying to government all payments levied based on the licence (royalties, etc.).

## 7 RECOMMENDATIONS

### 7.1 IMPLEMENTATION OF PRIOR YEAR RECOMMENDATIONS

A summary of the implementation status of recommendations made in 2016 is set out in the table which follows:

Recommendations	Reference to 2016 EITI report	Implementation status in 2017 EITI report	
		Status	Comment
To cooperate with the MNAO to achieve a successful implementation of the proposed procedure to provide assurance over the EITI data reported by government entities.	6.2.1	<b>Requires further action</b>	MNAO should include assurance procedure in its 2019 workplan
To approve a plan aimed to increase awareness about the importance of the EITI and the importance of better cooperation between government agencies that provide the EITI data by the National Council.	6.2.2	<b>Implemented</b>	Relevant training and seminars on the EITI data was organized by Independent Administrator
To continue capacity building of SOEs, including, but not limited to, continual training and training materials to be provided to SOEs by the MSG and the MEITI Secretariat (or by external consultants) on the SOE specific requirements of the EITI Standard during the months before the Independent Administrator's process commences.	6.2.3	<b>In progress</b>	Included in the plan for 2018 EITI report. In progress of implementation.
To create two different fields for VAT revenue stream in the MEITI E-Reporting system: - one field for VAT payable to the Mongolian Tax Authority, - one field for VAT payable to the Customs Office.	6.2.4	<b>Implemented</b>	VAT paid to the Mongolian Tax Authority and the Customs Office is separately shown in the E-Reporting system. Implemented.
To formulate new system at the government level for reporting and distinguishing EI business and revenue streams, and non-EI revenue streams for companies which have multiple activities and to pay attention in the implementation of such system.	6.2.5	<b>Requires further action</b>	Recommend MEITI implement such system within the framework of issues to be reported by the project.
To make improvements by MPRAM to the cadastre data available for viewing publicly to allow visibility of information that complies with the minimum requirements of EITI Standard.	6.2.6	<b>Requires action</b>	Not implemented
To raise the disclosure of Product Sharing Agreements by the National Council or a MSG working group with the Ministry of Mining and Heavy Industry and to disclose the currently active PSAs in compliance with requirements of the EITI Standard.	6.2.7	<b>Requires further action</b>	PSAs not yet disclosed

## **7.2 RECOMMENDATIONS FOR EITI REPORTING AND IMPLEMENTATION**

Arising from our work in preparing the 2017 EITI report, we have a number of recommendations to improve the implementation of EITI in Mongolia.

### **7.2.1 Approval of the law on transparency in the extractive industries**

We experienced some difficulties in obtaining information for the 2017 EITI report, with reporting entities stating that there were legal restrictions on provision of the data and in some cases, entities did not provide information and offered no explanation. By way of example:-

- The General Customs Administration responded that there are restrictions on disclosure of information under the General Law on Customs.
- The Agency for Standardisation and Metrology said that it was not able to provide certain information on mineral testing due to provisions of the Law on Confidentiality of Civil Service.
- Licence holders also refused to provide with the information stated in main and additional information forms, especially those relating to the beneficiaries, due to the limitations of the Law on Personal Confidentiality.
- Khan-Uul district Taxation Office refused to provide any additional information, note or explanation without obtaining permission from the companies in accordance with the General Law of Taxation.
- The management of Erdenes Mongol LLC reviewed our letter "Request for information" (ref.02/2013) sent on October 4, 2018 and informed us verbally that the Company was unable to provide the information requested, but were unable to respond in a formal letter.

There are provisions in various legislation which may restrict disclosure of information required for transparent EITI reporting, for example:-

1. General Law of Taxation;
2. General Law of Customs;
3. Law on Central Bank;
4. Law on Personal Secrecy;
5. Law on Corporate Secrecy;
6. Law on Confidentiality of Civil Service
7. Law on State Registration.

#### **Recommendation**

We recommend that the Law on Transparency in the Extractive Industries should be adopted promptly, replacing and nullifying the provisions of above-mentioned national laws restricting the disclosure of mineral related information.

### **7.2.2 Disclosure of Production Sharing Agreements**

A working group has been created to put into effect the publication of the PSAs. We note that no PSAs have been published. The working group required the contractor companies to publish their PSAs by a specified deadline on <http://www.iltodgereee.mn/> without disclosing the main terms. There has not yet been a response from any of the contractors.

We understand that certain companies objected to various terms of the proposed new model PSA and that the transition from the old model PSA to the new model PSA has been suspended.

#### **Recommendation**

Previous EITI reports have recommended that PSAs should be published and there appear to be no legal or practical barriers preventing such disclosure, since the Government passed a resolution (Number 222) on July 4, 2015 requiring PSAs to be published.

Accordingly, we recommend the National Council should engage with the necessary authorities to ensure that PSAs are duly made public.

### **7.2.3 Disclosure of licence information**

We note that the licence information published by MRPAM now contains the minimum information required under the EITI Standard, with the exception of certain minerals, in particular

- Uranium exploration and exploitation
- Oil PSAs (see recommendation 7.2.2)

Also some resolutions are not available from the website, in particular appendices or full details.

We also observed that the published information is not on a timely basis as required by the EITI Standard, and is in several instances out of date.

#### **Recommendation**

We recommend that MRPAM should ensure that as a minimum, publicly available licence information complies in all respects with the minimum requirements of the EITI Standard for all minerals (and oil) on a timely basis and should ensure that the published information is up to date. (*recommendation made in previous years*)

### **7.2.4 Disclosure of government share of production**

Under the terms of the PSAs, the government is entitled to a share of the oil produced. By agreement between the government and the contractor, the government share is sold by the contractor and the proceeds are remitted to the government.

Under Requirement 4.2 of the EITI Standard, where the sale of the state's share of production or other revenues collected in kind is material, the government, including state-owned enterprises, are required to disclose the volumes sold and revenues received.

We requested information on the volumes of the government share of production from the PSAs, but MRPAM did not provide this information.

#### **Recommendation**

We recommend that the National Council and MEITI Secretariat should engage with MRPAM to ensure that this information is made available for reporting on 2018 extractive industry performance.

### **7.2.5 Improvements required to compliance with MEITI assurance requirements**

The MSWG determined that assurance should be obtained from reporting entities by requiring

- the use of the MEITI e-Reporting system for submission of data
- all reporting entities to provide to the Independent Administrator a letter of representation signed by a senior authorised official
- provision of a report from each entity's independent auditor

A number of entities did not provide some or all of these documents, which may affect the assurance status of the information reported, as detailed in the EITI report. Some companies did not use the e-Reporting system.

#### **Recommendation**

We recommend that the National Council should follow up any government department and SOE which did not provide a letter of representation signed in accordance with its requirements or which did not



provide the requested audit report, and ensure that all such missing assurance documentation is provided promptly to the MEITI secretariat, to be documented in the next EITI report.

We recommend that the MEITI Secretariat should engage further with companies which did not use the e-Reporting system, or which did not provide the required assurance documentation so that all companies recognise the importance of these areas, with a view to compliance being improved for the next EITI report.

#### 7.2.6 Reporting discrepancies in Customs General Administration

The CGA reports significant discrepancies annually. We identified issues which lead to such discrepancies, including the use of temporary accounts for companies, inadequate separation of customs duties and VAT in company reporting.:

The CGA is unable to consolidate the payments made by companies in each customs port that accepts the declaration. Even though the payment was consolidated, the results cannot be correct.

Reporter	Customs taxes	VAT	Excise tax on petroleum and diesel fuel	Customs service fee
Companies	50,604	106,975	53	60,713
CGA	8,650	17,145	(1,697)	(40)

According to the above table, the companies underreport their taxes given the adjustment made in the tax revenue received by the CGA. The information on tax imposition by the CGA plays a key role on determining the reason of such discrepancies because such information is released in each type of tax and each company. The cash payment is often matched, so that there is almost no or little chance of discrepancy.

However, the database on tax imposition by the CGA is highly confidential as per law. For this reason, it is difficult to provide initial reports and additional explanatory information from such database.

#### Recommendation

We recommend that the National Council and MSWG should provide support to resolve these issues and to increase the understanding of the CGA management on the legal grounds of the EITI in order to assist CGA with the submission of more accurate initial reports for EITI.

#### 7.2.7 Improvement of disclosure of non revenue information

The EITI Standard requires governments to disclose various non revenue information, either in the EITI report or, preferably, "mainstreamed" as a matter of routine as part of normal public reporting.

In Mongolia, where such information is not already published, it is provided by government entities in writing and is included in the EITI report (see the list of information requested by the Independent Administrator from Appendix 5).

The process for preparing and gathering this information does not appear to be embedded and requires improvement. Currently, regular intervention is required by the Independent Administrator and on occasion by senior government officials to ensure that the information is timely and reliable. Much of the information has been gathered for several EITI reports, so the data requirement is now well defined.

#### Recommendation

We recommend that the MSWG, advised by the MEITI secretariat, should specify the standard non revenue information which will be required each year to meet the requirements of the EITI Standard and request the relevant government entities to be prepared to provide the data for the next EITI report, if it is not already published.

### **7.2.8 Beneficial ownership information**

Information was requested from reporting companies on their beneficial ownership, using the revised form uploaded in the E-reporting system. 184 of the 230 companies in the reconciliation disclosed the beneficial owners.

The non-responding companies gave as reasons for non disclosure:-

- Their parent company is abroad, so it was impossible to know the beneficial owner;
- There was no legal requirement to disclose the information
- There was no need to complete the beneficial ownership form because there is no hidden ownership
- if necessary, the information can be obtained from the taxation office.

Some companies disclosed their local or international parent company (LLC) as beneficial owner.

#### **Recommendation**

We recommend that the requirement to disclose beneficial ownership is included in the Law on Transparency in the Extractive Industry, nullifying the limitations in other laws and improving consistency between the laws.

We further recommend that training sessions and multi stage discussions are arranged for the companies.

### **7.2.9 SOE audit reports**

A number of the audit reports on SOE 2017 financial statements (Erdenes Tavan Tolgoi JSC, Shivee-Ovoo JSC and Mon-atom LLC) were qualified, and the MNAO report on the National Accounts contained qualifications on certain of the SOEs operating in the extractive industries. In the case of Erdenes Tavan Tolgoi, the qualified opinion was given because the independent auditors were not able to find the calculation method of the nominal price and relevant supporting documents for the major share issue under Section 8.2 of Resolution # 154 of the Government dated on 30 May 2017.

Such qualifications from the independent auditors indicate that the SOE reporting requires improvement.

#### **Recommendation**

We recommend that a suitably qualified body, such as the MNAO, should follow up the matters raised in the SOE reports which were qualified, so that the relevant SOEs are required to make improvements on the areas identified, and should in particular consider the incorrect material representation relating to the stock valuation of Erdenes Tavantolgoi JSC and give its own opinion on the correctness of financial statements

### **7.2.10 Disclosure of SOE financial statements**

Information from audited financial statements of SOEs is published on the MNAO website, consisting of:-

- Balance sheet
- Income statement
- Cash flow statement
- Statement of equity
- Audit opinion

Without the full audited financial statements compliant with IFRS including notes, it is not possible to obtain a complete understanding of the activities of the SOEs.

## **Recommendation**

We recommend that the complete audited financial statements for all extractive SOEs should be published on the internet via, for example, the website of MNAO, the relevant SOE, MEITI or MRPAM.

### **7.2.11 E-Reporting amendments**

Reporting at project level is required for the next MEITI report (2018). In order to facilitate such reporting, certain amendments are required to templates on the e-Reporting system (see Section 6.12).

## **Recommendation**

We recommend that the MEITI Secretariat should amend the e-Reporting templates to facilitate the gathering of information by project.

### **7.2.12 Discrepancy between EITI reporting and company financial statements**

The annual financial statements of PetroChina Daqing Tamsag LLC, audited by Enur Audit LLC, disclose revenue of MNT 39 billion in 2017. The cash flow statement does not disclose any royalty payments to government in 2017.

The government reported to EITI that total receipts from PetroChina Daqing for 2017 amounted to MNT 235 billion, comprising MNT 190 billion for profit oil, MNT 25 billion for royalties and MNT 16 billion for other items.

There are clear discrepancies between the financial statements and the EITI reporting.

Article 36.2 of the Petroleum Law states that “A contractor shall fully include in its accounting books and report on all petroleum operations being performed on a licensed area pursuant to the Accounting Law” and the Accounting Law, Article 14.4 “All types of transactions, assets, capital expenditures, receivables, debt obligation and financing sources from operation, revenues, expenses and other items required by international accounting standards must be recorded in the accounting books”.

In the light of the information given in EITI reporting, it is not apparent how the financial statements meet the requirements of these laws.

## **Recommendation**

We recommend that the MSWG should request MRPAM to investigate this further and the Ministry of Finance should review the accounts of the company to determine whether the financial statements of the company have been properly expressed and are compliant with the requirements of Mongolian law; and given the materiality of PetroChina to EITI reporting, that the MSWG should be provided with the results of these investigations so that it may be satisfied that that EITI reporting is being properly carried out.

We recommend that the MSWG should develop and implement a policy on public participation to ensure the transparency of financial information of mining and petroleum companies.

Pursuant to the Resolution # 222 of the Government in 2012, the confidentiality provisions of relevant laws were nullified for the purpose of information to be used in the EITI. But the state officials are not fully aware of this, so that the financial reports of mining companies are still not fully transparent.

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