



MONGOLIA EXTRACTIVE INDUSTRIES TRANSPARENCY INITIATIVE

2018 EITI REPORT

December 2019



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ABBREVIATION

ASM-NF	Artisanal Small-Scale Mining National Federation
EIA	Environmental Impact Assessment
EITI	Extractive Industries Transparency Initiative
GoM	Government of Mongolia
ha	Hectare
IFRS	International Financial Reporting Standards
ISA	International Standards on Auditing
JSC	Joint-Stock Company
kg	Kilogramme
km	Kilometre
LLC	Limited Liability Company
MCO	Mongolian Customs Office
MET	Ministry of Environment and Tourism
MJIA	Ministry of Justice and Internal Affairs
mln	Million (1,000,000)
MLSP	Ministry of Labour and Social Protection
MMbbl	Million barrels
MMHI	Ministry of Mining and Heavy Industry
MNAO	Mongolian National Audit Office
MNET	Ministry of Nature, Environment and Tourism
MNT	Mongolian Tugrik
MoF	Ministry of Finance
MRPAM	Mineral Resources and Petroleum Authority of Mongolia
MSWG	Multi Stakeholder Working Group
MTA	Mongolian Tax Administration
NAP	National Action Plan II 2016-2018 of Mongolia
NEC	The Nuclear and Energy Commission
NGO	Non-Governmental Organisation
NSO	National Statistical Office
PSA	Production Sharing Agreement
REQ	EITI Standard Requirement
SAPCSP	State Agency for Policy and Coordination on State Property
SME	Small and Medium Size Entity
SOE	State-Owned Enterprise
sq	Square
th	Thousand (1,000)
ToR	Terms of Reference

1 EITI in Mongolia

1.1 Government commitment

In October 2005, a Joint Session of Standing Budget Committee and Standing Economic Committee of Mongolian Parliament supported a possible adherence of Mongolia to the Extractive Industries Transparency Initiative and instructed the Government to join this Initiative. The Government approved adherence to EITI at their Cabinet meeting on 4 January 2006 and issued the Resolution No. 1¹.

A Memorandum of Understanding sets out the commitment to EITI implementation by the government, extractive companies and civil society. Resolution No. 80 (April 2007) establishes the responsibility of government bodies in EITI. Resolution No.190 (July 2010) commits the government to finance the cost of EITI reports effective from fiscal year 2011 within the budget of the Prime Minister's Department and directs regional and local governments to disclose all revenues paid by the holders of exploration and exploitation licenses as part of the EITI process.

Resolution No. 222 (July 2012), sets up the composition of National Council in charge of organizing and supervising EITI in Mongolia. The resolution also orders different government entities to disclose and make publicly available information relating to the EITI process.¹

The National Council coordinates and monitors the implementation of EITI in Mongolia. The Council is chaired by the Prime Minister of Mongolia and has 34 members.

The EITI Secretariat in Mongolia, which has the mandate of day to day coordination of EITI process in Mongolia, was established under the Decree No. 62 of the Prime Minister of Mongolia on 20 June 2007.

In order to strengthen the EITI implementation in local areas, the National Council has approved in December 2013 a 'Charter of Sub-council to implement EITI in local areas'. This charter provides guidelines on how to establish an EITI Sub-council. It includes provisions on the organization and structure, the forms of activities, the management, reporting, funding and other aspects of sub-council². In total 22 sub-councils were created (21 in aimags and 1 in Ulaanbaatar).

Since 2006, Mongolia has produced 12 EITI reports (2006 to 2017). The number of government entities and extractive companies involved in the EITI reports has been increasing year by year. The table below shows the progress made in each report:

Period Covered	Publication Date	Sectors Covered	Total revenues (MNT)	Number of Companies Reporting
2006	December 2007	Mining	492 billion	35
2007	November 2009	Mining	745 billion	38
2008	June 2010	Oil, Mining	686 billion	46
2009	June 2011	Oil, Mining	737 billion	76
2010	January 2012	Oil, Mining	1,275 billion	150
2011	November 2012	Mining	2,150 billion	200
2012	December 2013	Oil, Mining	1,594 billion	200
2013	December 2014	Oil, Mining	1,576 billion	250
2014	December 2015	Oil, Mining	1,579 billion	236
2015	December 2016	Oil, Mining	1,383 billion	202
2016	January 2018	Oil, Mining	1,073 billion	213
2017	November 2018	Oil, Mining	2,358 billion	230
2018	December 2019	Oil, Mining	2,889 billion	202

The first Validation of Mongolia against the EITI Standard commenced on 1 July 2016. On 11 January 2017, the EITI Board found that Mongolia had made meaningful progress in implementing the 2016 EITI Standard. Eight corrective actions were identified by the EITI International Board.

¹ Source: <http://www.mmhi.gov.mn/public/file/id/27>

² Source: <http://www.mmhi.gov.mn/public/file/id/27>

Mongolia's second Validation commenced on 11 January 2018 and on 13 February 2018, Mongolia was assessed as meeting all the requirements of the EITI Standard. The decision was made by the EITI International Board, who praised the swift efforts in addressing gaps in EITI implementation identified in its first Validation.

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 infringements (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) introduces and encourages international initiatives such as transparent and responsible mining and assessment of its social and economic impacts.
- 'The National Programme on Combating Corruption' (2016) includes transparency in the extractive industry.
- The Implementation Plan for the National Programme on Combating Corruption (2017), approved by the order of GoM, has planned to take 6 different measures in two stages for the period of 2017-2023³.

The GoM issued the Order No. 381 of 2013 and approved the 2nd stage of the National Action Plan for Open Governance Partnership (2016-2018) setting the goal of ensuring the transparency on information of beneficial ownership for the use of natural resources.

The Order no. 222 of 2012 and the Order no. 263 of 2017 included some actions towards ensuring transparency in extractive industry.

The Order no. 190 of 2010 issued 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 license 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 license holder and local community administration was approved by Order no. 179 of 2016 by GoM. The template for Product Sharing Agreement was approved by Order no. 104 of 2015 by GoM.

1.2 Company engagement

The Law of Mongolia on Minerals (Art. 48.10) requires mining license holders to disclose product sales, and taxes and payments paid to the state and local budgets to the public within the first quarter of the next year.

The Law of Mongolia on Petroleum (Art. 36.1) requires all contractors to submit annually information on the amount of investment, incurred costs, paid royalties, the amount of extracted and sold petroleum, taxes paid into the State and local budgets, and the amount of the fees, bonuses, and service fees to the respective state agencies and the Petroleum Authority and report on mass media within the first quarter of the next year.

The Law of Mongolia on Widespread Minerals (Art. 34.10) requires all license holders to report the amount of its product sales for the year and the amount of taxes and payments paid to the State and local budget to the public within the first quarter of the next year.

The President of the Mongolian National Mining Association is responsible of appointing representation of companies, professional associations and companies having mining licenses and product sharing agreements in National Council and MSWG.

³ Source: <http://www.mmhi.gov.mn/public/file/id/27>

1.3 Civil society engagement

“Publish What You Pay” Civil Society Coalition’s board is responsible of appointing the representation of its civil coalition in the National Council and the MSWG. The Environmental NGO’s coalition is in charge of appointing its representation.

1.4 Multi-stakeholder group

Resolution No. 222 (July 2012), sets up the Multi Stakeholder Working Group (MSWG) in charge of the implementation of the EITI process. The resolution also details its composition. The MSWG has 34 members and is chaired by Senior Advisor to the Prime Minister.

The MSWG has approved and adopted on November 2017 its Terms of Reference. These Terms of Reference describes the main activities of the MSWG which are:

- ensuring the transparency of the payments and receipts between government and extractive companies by reconciling and disseminating those payments and receipts by outstanding auditing consortium in accordance with the international standards;
- organising national conferences, seminars, trainings, study tours, demonstrative exercises and other events related to implementation of EITI; and
- promoting and improving public knowledge of basic principles and criteria, benefits, implementation process and results of EITI.

The MSWG is composed of the 3 main stakeholder groups: private sector, civil society and government entities. Each constituency is equally represented. The members comprise the followings:

- 10 representatives from the Government;
- 1 representative from the State Great Khural (parliament)’s subdue body;
- 9 representatives from companies and professional associations operating in the mining sector;
- 2 representatives from companies having product sharing agreement in oil sector;
- 9 representatives from civil society coalition;
- 2 representatives from environment NGO coalition; and
- The Coordinator of EITI Secretariat.

The Terms of Reference of the MSG include detailed provisions on the internal governance rules and procedures. The MSWG applies consensus mechanism for decision making. For this purpose, principle of equal 3 party participation shall be guided for deliberation of any issue. If there is no consensus, there shall be opportunity to vote.

1.5 EITI work plan

Mongolia EITI mid-term strategy 2010-2014 was endorsed by the National Council on 24 June 2010 with the mission to create an EITI legal background, expand the EITI reporting scope, reveal and adjust discrepancies, follow up the reconciler’s recommendations, create reliable sources of financial support, increase the EITI political will and engagement of Civil Society Organisations, and expand EITI into fields of revenue disbursement, licensing, natural reclamation costs, contract transparency and Mongolia EITI capacity build-up. On the basis of this document, annual work plans and business plans have been developed.

The MSWG prepares annually a fully costed work plan setting up EITI implementation objectives for the next year and detailing activities to achieve the agreed objectives.

The 2018 work plan was approved by Mongolia EITI National Council on its 16th meeting held on 21 December 2017. This work plan had as main purposes the followings:

- to implement recommendations given by the EITI Validation and Mongolia 2016 EITI Report;
- to improve production process of Mongolia EITI 2017 report, discuss and approve Report;
- to introduce and promote benefits of EITI implementation at national and local level to all stakeholders and improve cooperation; and
- to create legislative background to disclose beneficial ownership and improve system for data and registration.

The work plan included 12 objectives to be achieved with detailed cost and the source of funding for each objective.

The MSWG publishes annually an Activity Report/Progress Report covering the activities carried out during the year. The 2018 Progress Report⁴ provided highlights of the progress EITI activities in Mongolia and a follow up of the implementation of the work plan and the status of achievement of objectives and results.

2 Legal and institutional framework of the extractive sector in Mongolia

2.1 Legal and institutional framework

2.1.1 Main laws and regulations governing the extractive sector

The main specific laws in force regulating the extractive sector are listed below:

	<p><u>Mining</u></p> <ul style="list-style-type: none"> • Minerals Law, 2006 (amended 2017 and revised 2018) • Law on minerals with common occurrences, 2014 • Law on Subsoil, 1988 • Law on prohibiting mineral exploration and production near water sources, protected areas and forested areas, 2009 • Law on rule for the compliance of the Law on prohibiting mineral exploration and production near water sources, protected areas and forested areas, 2015 • Law on controlling turnover of explosives and blasting tools, 2013
	<p><u>Oil & Gas</u></p> <ul style="list-style-type: none"> • Petroleum Law, 2014 (amended 2017) • Petroleum Products Law, 2005 • Law on hazardous and toxic chemicals, 2006
	<p><u>Nuclear energy</u></p> <ul style="list-style-type: none"> • Law on nuclear energy, 2009 • Law on rule for the compliance of the Law on nuclear energy, 2009
	<p><u>Environment</u></p> <ul style="list-style-type: none"> • Law on air pollution payment, 2010 • Law on natural resource use fee, 2012 • Law on water pollution fee, 2012

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

2.1.1.1 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 aspects associated with state governance in the minerals sector, including activities of minerals prospecting, exploration and mining, requirements to hold license on minerals prospecting, exploration and mining, responsibilities of license holder. It also covers transferring, pledging and termination of license.

Recent amendments made to the Minerals Law for the period of 2018 and the first half of 2019 are as follows:

<p>Art. 26.12, Art. 27.1.14, Art. 49.13 (2018)</p>	<ul style="list-style-type: none"> • Mining license 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 license being transferred shall become effective when the state registration of such right is complete. • Under the section for rights and obligations of mineral license holder, this requirement of registering its land use right to state registration was added.
<p>Art. 47.6, 47.7, 47.10, 47.11, 47.12, 47.13, 47.14, 47.15 and 49.12 (2019)</p>	<ul style="list-style-type: none"> • The Government shall approve the procedure for calculating, charging and reporting royalty payment in accordance with Art. 47.3.1, 47.3.2, 47.4 and 47.5 of the Mineral Law. • Royalty shall be levied on ore, concentrate and products without duplication. • All royalty payers specified in article 47.1 of the Mineral Law, except of gold miners, shall pay a monthly payment for all types of mineral resources sold and used within the 20th of the following month. Final payment shall be paid to the state budget by February 10 of the following year. • The Bank of Mongolia, and other commercial banks authorized by it deduct royalty from the gold sales according to article 47.3.2 of the Mineral Law and transfer it to the state budget. • The Bank of Mongolia and other commercial banks authorized by it shall submit a report on the payment of the mineral royalty transferred to the state budget in the form approved by the state administrative body in charge of taxes within the 20th of the following month as set forth in Article 47.12 of the Mineral Law. • The Government shall announce the name of the stock exchange that establishes the international benchmark price as a basis for the evaluation of sales of export products to the public, based on the type of the product concerned. • According to the Law on Investment, a taxpayer with a stabilization certificate shall pay royalty for use of mineral resources in proportion specified in the certificate. • According to the General Law of Taxation, if the mineral exploration and exploration license holder is changed, he shall submit the documents specified in 49.4.8 of the Mineral Law to the relevant tax authority in accordance with Articles 26.10, 26.11 and 26.12 of the General Law of Taxation.
<p>Art. 47.3.3 (2019)</p>	<ul style="list-style-type: none"> • Minerals royalty minimum rates have changed to 5.0 percent of the product sales amount.
<p>Art. 56.1.5 (2019)</p>	<ul style="list-style-type: none"> • Licenses shall be revoked if the state central administrative body in charge of nature and environmental affairs concludes the opinion that the license holder does not fulfill its obligations under the rehabilitation or environmental management plan, or its activities are harmful to the environment.

2.1.1.2 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 license on minerals prospecting, exploration and mining, responsibilities of license holder, and transferring, pledging and termination of license.

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 licenses for minerals of common occurrence exploration and mining within their territory of jurisdiction.

2.1.1.3 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 'oil' and '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 license 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 licenses 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 finishing 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 license to the legal entity which has signed a PSA with MRPAM. Furthermore, an exploration license 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 the 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 license payment, and a regulation on petroleum accounting and settlements, in order to implement Article 7.1.4 of Petroleum Law.

2.1.1.4 Petroleum Products Law (2005)

The Petroleum Products Law, enacted in July 2005, 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 license, whereas transportation and storage activities must be carried out in compliance with the Petroleum Products Law and relevant rules and regulations issued by MRPAM, but without the need for a specific license.

Furthermore, an amendment was made to the Petroleum Products Law in 2013 requiring an additional license for the retail trade activity of petroleum products. We present in the table below, changes to the Petroleum Products Law in 2019.

Art. 2.1, 9.2
(2019)

- "Consolidation of measurement integrity" was amended as "Metrology" in the Articles 2.1 and 9.2.1 of the Petroleum Products Law.

2.1.1.5 Law to prohibit mineral exploration and mining operations at river headwaters, protected zones of water reservoirs and forested areas (2009)

In 2009, the Parliament approved the Law to prohibit 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 in the specified areas and to regulate environment rehabilitation activities carried out in the above-mentioned areas. The prohibitions, set in the law, exclude 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 specified areas. As a consequence of the law, number of mining and exploration licenses were cancelled. The Implementation Law was enacted in 2009. 576 mining activities were suspended due to the overlapping of licensed area with the areas prohibited by the law.

The Government of Mongolia have issued five resolutions in respect to the implementation of this Law. The implementation of the Law faced a number of challenges 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 license payments.

During 2015, amendments were made to the implementation of the Law on prohibition of mineral exploration and mining operations at river headwaters, protected zones of water reservoirs and forested areas. The following provisions were approved:

- For licenses issued before 2009 or before the law was adopted, the license holder, who wishes to continue its operations, should submit a request to the MRPAM within three months from the effective date of the Law on the Implementation. The license holder also shall enter into an agreement with the Ministry of Environment, Green Development and Tourism, the MRPAM 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 license holder does not submit such request to continue its operation in area affected by the Law and enter into the necessary agreement, the mining license will be revoked and, in this case, exploration or mining license will not be granted to any party again in future for the subject area.
- The Government shall approve the procedures for the revocation of licenses 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 meters 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.
- Mining license holders 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.
- If a mining license holder does not restore the mining area, the costs for restoring the area shall be payable by the license holder taking into account the profits gained during the mining period.

2.1.1.6 Nuclear Energy Law (2009)

The purpose of the Law on Nuclear Energy is to regulate the 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 ionized radioactivity.

2.1.1.7 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.

2.1.1.8 Law on Water Pollution Fee (2012)

To implement the 'polluter pays' principle in terms of water resources, the Law on Water Pollution Fees introduces fees payable by entities and organizations 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 Fee, the State Administrative Organization 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 license 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 wastewater based on the volume of wastewater and content of polluting substances should be approved by the State Administrative Central Organization in charge of natural environment together with the State Administrative Central Organization in charge of finance.

Recent amendments made to the Law on Water Pollution Fees for 2019 are as follows:

Art. 4.3,
Art. 4.4
Art. 8.1.3
Art. 4.2
Art. 7.1
Art. 7.3
Art. 9.3
Art. 4
(2019)

- "The basin administration or soum and district governors shall provide information on water pollutants other than those referred to in Article 4.2 of this Law within one month after the date of authorization on waste disposal to its tax authority, and the tax authority shall register the payee based on that information" was added.
- The information on water pollutant includes taxpayer's name, address and the water pollutant's state registration number, operating activities information, volume of waste water, the amount of pollutants, and the other parameters required for tax control.
- If waste water is being cleaned up to the standard level using the waste water treatment plant, the pollutant will be exempt from the payment for three years from the date of installation of the wastewater treatment plant.
- A legal entity that cleanse domestic and industrial wastewater from urban settlements who have contracted for water pollution payments with the basin administration or soum and district governors shall provide information on water pollutant within one month after the date of authorization on disposal of waste water to the relevant tax authority, and tax authority shall register the payee based on the information.
- The amount of payment shall be determined by the Government based on the amount of pollutants in waste water within the limits.
- Payment revenues will be collected to the Environment and Climate fund, spent on protection of water resources, reducing and monitoring water pollution, and restoration and at least 50% of the revenue will be spent on renovation and maintenance of the treatment plant.
- "relevant" in the Article 6.2 of the Law on Water Pollution Fees was changed to "in charge of urban water supply and sewerage" and "State and provincial cities" in the Article 8.3 was changed to "City" and mean "to the state administrative body in charge of water matters" in the Article 9.2.3 was changed to "to the state administrative body in charge of nature and environment" and Article numbers were changed from 4.3 to 4.4, 4.4 to 4.5 and 4.5 to 4.6.

2.1.1.9 Law on Air Pollution Fee (2010)

The Law on Air Pollution Fee regulates air pollution payments and charges for air pollution. Payment of air pollution (hereinafter referred to as "payment") shall be imposed on raw coal, manufactured and imported organic solvents, vehicles and self-moving mechanisms, air emissions from large settled sources of air pollution. The list of organic solvents will be approved by the state administrative body in charge of nature and environment.

If the air polluting substances from major air pollutant sources exceed the amount specified in the emissions standard, based on the conclusion of a professional organization, the environmental inspector, relevant soum and district governor shall work to eliminate the damages and impose air pollution recovery payment equal to three times the amount control over payments.

Art. 5.6
(2018)

•"to the state budget" in Article 5.6 of the Law on Air Pollution Fee was changed to "to Anti-pollution fund". This amendment came into effect on 1 January 2019.

2.1.1.10 Law on Natural Resource Use Fee (2012)

Law on Natural Resources Use Fee was adopted on 17 May 2012. The law regulates relations between levying on natural resources use fee to citizens and entities, collecting and reporting of natural resources use fee, and the determination of the amount to be spent on environmental protection and restoration of natural resources.

According to the law, water used for mining purposes is subject to fee for water use, and fee for water use is calculated using cubic meters.

2.1.1.11 Other general laws and regulations

We present in the table below, other general laws regulating aspects linked to the extractive sector:

Liabilities	Business relations and business environment
<ul style="list-style-type: none"> • Law on audit, 1997, 2015 • Law on infringement, 2017 • Law on investigating and resolving infringements, 2017 • Accounting Law, 2015 • Law on the prevention of conflict of interest and the regulation of public and private interests in the public services, 2012 	<ul style="list-style-type: none"> • Law on licensing of industrial activities, 2001 • General Administrative Law, 2015 • Investment Law, 2013 • Law on development policy and planning, 2015
Environmental	Budget & Taxation
<ul style="list-style-type: none"> • Law on environmental protection, 1995 • Law on environmental impact assessment, 2012 • Land Law, 2002 • Law on land fee, 1997 	<ul style="list-style-type: none"> • Corporate Income Tax Law, 2006, 2019 • Law on customs tariff and customs duty, 2008 • Law on exemption of customs duty, 2017 • Law on exemption of customs duty and value added tax Law, 2012 • Future heritage fund Law, 2016 • Law on value added tax, 2006, 2015 • General tax Law, 2008 • Fiscal stability Law, 2010 • Immovable property taxation Law, 2000 • Law on stamp duty, 2010

We summarized the main laws in relation to the extractive sector in the sub-sections below.

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.

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 to for minerals exploration and mining licensing.

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

An exploration or mining license 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 license.

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.

2.1.2 Regulation reforms

2.1.2.1 Amendments to the current legal framework

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 by the Minister of Justice and Internal Affairs and approved by the Minister of Mining and Heavy Industry.

- Amendments to the Minerals Law,
- Amendments to the Land Law,
- Amendments to the Law on licensing of industrial activities,
- Amendments to the Law on administrative and territorial units of Mongolia and their governance,
- Law on implementing the amendments and changes to the Minerals Law,
- Amendments to the Petroleum Products Law,
- Amendments to the Law on Air pollution fee.

In 2018, several laws were drafted and discussed at a Cabinet meeting. After the discussion, the draft laws were submitted to the Mongolian Parliament. The draft laws included the followings:

- Amendments to the Law on Environmental Impact Assessment,
- Amendments to the Petroleum Law,
- Revocation of Law on minerals with common occurrences,
- Amendments to the Law on Prohibition of Exploration and Mining in Headwaters of Rivers, Protected Water Basins Zones and Forested Areas,
- Amendments to the Law on Liquidation of Explosives and Explosives.

2.1.2.2 State policy until 2025 for mining sector⁵

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

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

The documents of this State policy aiming to determine the principle to be adopted by the State for the mining sector and directions of growth, improve governing systems. These policies will be reflected in legislations for the sector, middle and long-term programmes, sub-programmes and projects.

2.1.2.3 State policy on development of the petroleum sector (2018-2027)⁶

At meeting dated 6 June 2018, the Government approved Resolution No. 169 "State policy on the development of petroleum sector" as a continuity of 'the State policy for the petroleum sector for 2017'⁷ 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 oil extractions, construct a refining plant and reliably supply the demands of petroleum products.

⁵ Source: <http://www.mmhi.gov.mn/public/file/id/28>

⁶ Source: <http://www.mmhi.gov.mn/public/file/id/374>, <http://www.mmhi.gov.mn/public/file/id/387> and <http://www.mmhi.gov.mn/public/file/id/480>

⁷ Source: <http://www.mmhi.gov.mn/public/file/id/27>

This revised policy will be realized through two phases for the period of 2018-2027:

- 1st 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;
- 2nd Phase 2022-2027: 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 industrialization of the petroleum sector will be formed to ensure stable supply to the demands of the petroleum products.

In addition, Resolution No. A/163 of Minister of Mining and Heavy Industry approved the "Action Plan for 2018-2027 on Implementing the State policy on the development of the petroleum sector" on 8 August 2019. According to the plan, the following activities will be implemented:

- Enhancement of oil and unconventional oil prospecting, exploration or extraction;
- Establishment of oil refinery plant and development of petroleum products;
- Stable supply of petroleum and improvement on quality of control systems;
- Enhancement of sector's human resources, labour force and increase workplaces;
- Promoting environmental protection, rehabilitation, green development and local development during oil sector operations;
- Establish and develop a state-owned or partly state-owned oil company.

2.1.2.4 'Gold-2' National programme⁸

- "Gold-2" National programme was approved by GoM Resolution No.20 on 18 January 2017. The main purpose of this programme is to ensure sustainable development of short and medium-term gold production in Mongolia, to introduce advanced technology and management to gold mining and processing activities, to improve environmental protection, effectiveness of rehabilitation, and to increase economic capacity and contribution of gold production to the economy. Phase I (2017-2018) Enhance legislation in gold production, intensify geological surveys and exploration activities, and increase gold production by providing financial support to entities, extract trained deposits into economic circulation, and take steps to stop illegal gold mining activities,
- Phase II (2019-2020) Intensify gold production steadily by introducing advanced technologies to gold exploration and production, intensify rehabilitation work, and improve monitoring and accountability system.

2.1.2.5 State policy on radio-active minerals and nuclear energy⁹

The objectives of the State policy for the radio-active minerals and nuclear energy are to investigate the reserves of these minerals, to become one of the leading countries in mining, processing and exporting such minerals for peaceful purposes, extensively use nuclear energy for economic and social demands and produce nuclear energy non-toxic for human health, ecologically clean and with environmentally-friendly technologies.

2.1.2.6 Newly introduced or revised state programmes, rules and guidelines

Within the scope of implementing laws and regulations adopted in the extractive industry, the following state programmes, rules and guidelines were newly introduced or revised in the period of 2018 and the first half of 2019.

- Radiation safety procedures for the extraction and processing of radioactive minerals - Nuclear Energy Commission's Order No.01 of 2018.
- Procedures on payment, allocation and management of natural resource use fee and license fee - GoM Resolution No. 05 of 2018.
- 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.
- 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.

⁸ Source: <http://portal.sesmim.mn/dataset/c04a61ed-2186-4b54-8543-1a508bf4bb75/resource/65e1d902-dec8-47b3-aea3-339f2f84f9f5/download/2.pdf>

⁹ Source: <http://www.mmhi.gov.mn/public/file/id/25>

- 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.
- Detailed procedures on petroleum products licensing - Order No. A/08 of 2018 approved by the Minister of Mining and Heavy Industry.
- National Programme of Heavy Industry Development - Government Resolution No. 214 of 2019.
- Guidelines for mining exploration and usage - Minister of Mining and Heavy Industry Resolution No. 20 of 2018.
- Guidelines for conducting geological, mining and mineral resources database - Minister of Mining and Heavy Industry Resolution No. A/19 of 2018.
- Resolution on some actions to intensify Tavan Tolgoi coal deposit - State Great Hural Resolution No. 73 of 2018.

2.1.2.7 Gender policy in geology, mining, oil and heavy industry sector (2019-2026)¹⁰

According to MMHI Resolution, an ‘Assessment of gender impact on mineral sector’ was undertaken by relevant research institutions and the survey found that the methodology for gender issues in policy planning, implementation, monitoring and evaluation was considered unsatisfactory and the results confirm the above conclusions and recommendations.

The above study identifies the situation and defines gender policy in geology, mining, oil and heavy industry sector in the future and draft the medium term policy documents to support the implementation of the Sustainable Development Goals of Mongolia-2030, the Gender Equality Law, the National Gender Equality Programme, implementation and recommendation of the commitments to the International Conventions to which Mongolia is party and to support other revisions and implementation of the policy in the sector.

The purpose of the policy is to change the stereotype and attitude of gender, ensure gender equality and to implement gender legislation by renewing the policy and legal environment of geology, mining, oil and heavy industries into gender perspective. The policy also aims to reducing the negative impacts on environment, human rights, social and economic impacts, encourage equitable distribution of benefits to women and men, creating a conducive environment for family-friendly employment and developing partnerships in all areas.

2.1.3 Government agencies involved in the extractive sector

The relevant government agencies involved in regulating, supervising and managing the mining, oil, gas and nuclear energy sectors are as follows:

Governmental institution	Website
Ministry of Mining and Heavy Industry (MMHI)	www.mmhi.gov.mn
Mineral Resource and Petroleum Authority (MRPAM)	www.mrpam.gov.mn
Nuclear Energy Commission (NEC)	www.nea.gov.mn
Ministry of Finance (MOF)	www.mof.gov.mn
Ministry of Nature, Environment and Tourism (MNET)	www.mne.mn
Ministry of Labour and Social Protection (MLSP)	www.mlsp.gov.mn
State Agency for Policy and Coordination on State Property (SAPCSP)	www.pcsp.gov.mn

2.1.3.1 Ministry of Mining and Heavy Industry (MMHI)

MMHI is in charge of implementing mining-related government policies and laws and can approve regulations on mineral resources exploration and mining. The priorities of the organization are to improve the economic capacity of the country through the mining sector policy and legal environment for all types of activities relating to mining, processing, selling and export.

MMHI also aims to improve the economic efficiency, the legal environment and the financial capacity for development geology, mining, oil, fuel and heavy industrial sectors. Furthermore, MMHI works towards introducing advanced technology and innovation, localization, update and through the development of production technology.

¹⁰ Source: <http://www.mmhi.gov.mn/public/file/id/469>

2.1.3.2 Mineral Resources and Petroleum Authority of Mongolia (MRPAM)

MRPAM aim is to improve policies and plans for preservation, conservation, rehabilitation of geological resources and administration of geological resources and activities. This is done through providing recommendations for improvement, amendment or issuance of laws, regulations and measures concerning administration of geological resources and activities, as well as monitoring and enforcing the relevant laws, regulations and measures.

In addition, MRPAM conducts geological and mineral surveys, inspections, studies, researches and knowledge developing activities. It also cooperates in geology and mineral resources with other countries and international organizations. MRPAM serves the country as a geological fact-finding agency that predominantly studies and researches in minerals, fundamental and applied geology in order to provide geological understanding about natural resources condition.

2.1.3.3 Nuclear and Energy Commission (NEC)

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 licenses 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 operates with four Departments as Administration Department, Nuclear Technology Regulatory Department, Nuclear Safety Regulatory Department and Foreign Relations Department.

2.1.3.4 Ministry of Nature, Environment and Tourism (MNET)

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. MNET also work toward preserving sustainable environment through developing environment friendly and sustainable tourism. In addition, MNET is responsible for making decisions and approving rules and policies to be followed by local administrative bodies and capital city administrations in regard to specific issues relating to environmental protection.

Minerals license holders are required to submit their environmental protection plan to MNET within 30 days of receiving their license. 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 a company does not fully execute their environmental protection plans.

2.1.3.5 Ministry of Labour and Social Protection (MLSP)

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. Its mission is to create equal opportunities in the labour market and favourable conditions of work.

2.1.3.6 State Agency for Policy and Coordination on State Property (SAPCSP)

The mission of SAPCSP 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.

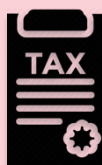
The SAPCSP comprises of Administrative office, Procurement department, State property registration and monitoring department, Policy, planning and management department; and IT unit.

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

2.2 Fiscal regime

2.2.1 Taxation laws and regulations relating to the extractive industries

The following tax laws play important role in regulating Mongolia's extractive sector operations.



Tax laws

- The Corporate Income Tax Law, 2006 (revised in 2019)
- The Law on Value-added Tax, 2015 (revised in 2019)
- The Law on Natural Resource Use Fee, 2012
- The Law on Real Estate Tax, 2000
- The Law on Land Fee, 1997 (amended twice in 2019)
- The Law on Water Pollution Fee, 2012 (amended in 2019)
- The Law on Air Pollution Fee, 2010 (amended in 2018)

2.2.1.1 Royalty

According to the Minerals Law, royalties are paid to the state and local budgets. A mining license holder shall pay royalty based on the total sale price of the minerals extracted. The sale price can be determined differently depending on each product, as below.

- Export products: The sale price is the monthly average price of the product or a similar product, it is based on a fixed price on international market or recognized international trade principles.
- Products sold or used in the domestic market: The sales amount is the domestic market price of the product or a similar product.
- Products traded on international and domestic market: The sale price is based on revenues from the sale of the product by the license holder.

The royalty rate for coal and other widespread mineral resources sold in Mongolia is 2.5%. In case of sale, shipment or use of all the other minerals, 5% royalty is levied. Royalties are deducted for tax purposes. The following table shows the rules for imposing royalty¹¹.

Type of minerals	Rate	Additional rate
Coal	- 2.5% of sales value, if sold to domestic market - 5% if exported	- Raw coal: if exceeds the 25 USD basis market price, 1% per increase of every 25 USD, with a maximum of 5%. - Concentrated Coal: if the basis price exceeds 100 USD per tonne, 0.5% per increase of 30 USD.
Gold sold to the Bank of Mongolia and other commercial banks authorized by it	- 2.5% market price: Market price: The price of gold announced by the Bank of Mongolia	Only if sold as a final product, with a market price exceeding 900 USD/ounce, 0.5% added depending on price increase per ounce.
Copper	- 5% of the sales value of the market price	- If the market price exceeds 5,000 USD, 22-30% added per tonne of copper ore (an additional 2% per increase of 1,000 USD). - 11-15% added per tonne of copper concentrate. -Additional, 1-5% per tonne of final product of copper.
Other minerals	- 5% of sales value	- 0.5%-5% added if the market price exceeds the specified level depending on the market price per tonne of the commodity.

¹¹ Source: https://www.mongolbank.mn/documents/press_conference/20190312_08.pdf

2.2.1.2 Type of taxes

In Mongolia, the state, local taxes, fees and fees associated with the extractive sector and recipient governments are as follows.

Tax	Government agencies receiving the tax
Corporate Income tax	General Department of Taxation
Customs duty	Customs General Administration
Value Added Tax	Customs General Administration, General Department of Taxation
Excise tax on vehicle's gasoline and diesel fuel	Customs General Administration
Tax on vehicle's gasoline and diesel fuel	Customs General Administration
Fee and extra fee for exploitation and exploration of mineral resources	General Department of Taxation
License fee for exploitation and exploration of mineral resources	Mineral Resources and Petroleum Authority
Reimbursement for deposit exploration conducted with State funds	Mineral Resources and Petroleum Authority
Payment for recruiting foreign experts and workers	General Agency for Labour Welfare Services
Bonus for increasing extraction by product sharing agreement	Mineral Resources and Petroleum Authority
Bonus for beginning extraction by product sharing agreement	Mineral Resources and Petroleum Authority
Training bonus paid under product sharing agreement (for the year)	Mineral Resources and Petroleum Authority
Supporting payment for representative office according to product sharing agreement	Mineral Resources and Petroleum Authority
Fee for transferring production sharing contract rights	Mineral Resources and Petroleum Authority
Payment for air pollution	General Department of Taxation
Employees' Social and health insurance charges paid by entities	Social Insurance General Office
Customs service fee	Customs General Administration
Dividends on state property	Government agency for policy coordination on state property
Prepayments paid to Government	Ministry of Finance
Income per Government according to Law on Nuclear Energy	Nuclear Energy Commission
Petroleum income per Government according to production sharing agreement	Mineral Resources and Petroleum Authority
Penalty	General Department of Taxation, State Professional Inspection Agency
Compensation	General Department of Taxation, State Professional Inspection Agency
50% contribution to Environmental protection special account of the State Administration Office in charge of Environment	Ministry of Environment and Tourism
Real estate tax	Local Governor's Office
Tax on vehicles and self-moving mechanisms	Local Governor's Office
Land fee	Local Governor's Office
Fee for water use	Local Governor's Office
Fee for water pollution	Local Governor's Office
Fee for use of widespread mineral resources	Local Governor's Office
Cash and non-cash donations to Government organisations	Ministries and agencies

Changes in tax rates in the mining sector are directly related to production of the mining industry and foreign and domestic investment. Mining operations allow the government to redistribute mining-led economic leases through a tax system and other arrangements. In 2018, The Government of Mongolia submitted revised General Tax Law, the Corporate Income Tax, the law on Personal Income Tax, the revised Law on Value Added Tax to the Parliament. The Parliament of Mongolia approved the laws on its special session on 22 March 2019. These tax laws will be effective from 1 January 2020. Taxpayers need to take the necessary measures to comply with the new law because the new tax package encompasses a number of key changes that are fundamentally different from current legislation that will affect taxpayers.

2.2.1.3 General Tax Law

The purpose of the law is to define the tax system in Mongolia, general principles of taxes, fees, payment, rights, obligations and responsibilities of taxpayers, legislative grounds of State Tax Administration and tax inspectors, and to regulate relations arising from their implementation.

The Government of Mongolia has submitted a revised draft of General Taxation Law to the Parliament on 29 May 2018. It was approved by the Parliament on 22 March 2019 along with the Draft Law on Amendments to the General Taxation Law submitted on 15 May 2018.

With the introduction of the tax law package, innovative tax rules and tax evasion will be closed, the tax base will be strengthened, and the business will be competitive and favourable. The major amendments to the General Tax Law include:

Art. 15.1,
(2019)

- Tax inspections, repayment act, fines and penalties limitation period changed to 4 years.

Art. 38,
(2019)

- In accordance with the Organisation for Economic Co-operation and Development's general requirements, price transition adjustment is described in detail.

Art. 53.2
Art. 53.3
(2019)

- By the taxpayer's request, the period to extinguish tax liabilities can be extended up to 2 years. The taxpayer must provide some financial guarantees in order to request period extension.

2.2.1.4 Corporate Income Tax Law

In Mongolia, taxpayers are classified separately as residents and non-resident taxpayers, each of which affects different income streams. For non-resident entities, taxes are levied on income earned in Mongolia and income sourced from Mongolia (dividends, interest, royalties and other services).

In Mongolia, the Corporate Income Tax rate is 10% of the portion of taxable profits up to MNT 3 billion and 25% of the portion of taxable profits above MNT 3 billion. This rate is relatively low comparing to most countries.

The revised Corporate Income Tax law in March 2019 includes the following major changes:

Art. 20.1,
(2019)

- 10 percent for taxable income of MNT 6 billion, 25 percent for taxable income exceeded MNT 6 billion plus MNT 600 million.

Art. 19.2,
(2019)

- The tax loss carry forward shall be deductible for 4 years regardless of sector.

Art. 26.9
(2019)

- An entity that conduct minerals, radioactive minerals, oil exploration and exploitation operations shall submit a tax report for each specific license in the respective tax year in accordance with this law.

Art. 26.1,
Art. 26.2,
(2019)

- The small and medium size entities with annual taxable income less than MNT 6 billion per year shall submit CIT report 2 times a year, entities with more than MNT 6 billion per year shall submit CIT reports 4 times.

2.2.1.5 The Law on Value Added Tax

Mongolia introduced a value-added tax in January 1998 and the law became effective in July 1998. According to this law, the basic rate of value-added tax rate of 15%, value-added tax is 0% on goods, works and services exported.

This law shall apply to imposing tax on imported goods or exported goods from Mongolia.

Following amendments were made to the Law on Value Added Tax in March 2019:

Art. 14.1.5,
(2019)

- Depreciation of VAT paid to purchases of property, plant and equipment is allowed as follows:
 - Plant and building: Equal amounts for 10 years,
 - Equipment and exploration activities: Equal amounts for 5 years,
 - Other fixed assets: Fully for the year of purchase.

2.2.1.6 The Law on Customs Tariff and Customs Duty

The purpose of this law is to regulate the imposition, collection and payment of customs duties and determination of customs tariffs, product price, classification and origin.

In Mongolia, customs tariffs for export and import goods are used. In order to specify customs tariffs, product code and name shall be specified in accordance with the Harmonized system. Customs tariffs for imported goods are classified as normal, highly favourable and discounted tariffs. Normal tariffs are twice as high as the highly favourable tariffs. Discounted tariffs shall be determined by international treaties.

2.2.2 Reforms of laws and regulations

2.2.2.1 Amendments to existing laws and regulations

The Minister of Mining and Heavy Industry submitted the following draft laws to the Speaker of the Parliament on 13 August 2019.

Within the framework of the objectives set forth in paragraph 2.70 of the Government of Mongolia's 2016-2020 Action Plan, the "Mongolian Petroleum Development Company", State-Owned LLC, is responsible for the plant project to exploit 1.5 million tons of oil in Altanshiree soum of Dornogovi aimag.

The construction of the oil factory workers camp will be financed by money saved from the total cost of the plant project with a capacity of 1.5 million tonnes of oil refineries financed by the Development Bank of Mongolia. The Government of Mongolia approved its resolution No.129 "About some measures to be taken on the refinery plant project" on 3 April 2019. This resolution solved financial problems of the plant and the law was drafted to exempt the required materials and equipment from tax:

- Discount on Customs Duties and Returns, and
- Exemption from value-added tax.

2.2.3 Government agencies involved in the tax collection of the extractive sector

The relevant government agencies involved in tax collection for the extractive sector are as follows:

Governmental institution	Website
Mongolian Tax Administration (MTA)	www.mta.mn
Mongolian Customs Office (MCO)	www.customs.gov.mn

2.2.3.1 Mongolian Tax Administration (MTA)

As stipulated in the General Law of Taxation, the National Tax Administration comprises of state administrative body in charge of taxes, tax offices of the aimags, the capital city, 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 the State and local budgets.

2.2.3.2 Mongolian Customs Office (MCO)

Mongolian customs are presided by the Mongolian Customs Office (MCO), which is the central administrative body in charge of customs including its affiliated customs offices in the capital city and aimags. MCO 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 MCO 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.

2.3 Contract and license allocations

2.3.1 Minerals licensing process

2.3.1.1 Different types of minerals' licenses

According to the revised Minerals Law of Mongolia dated 21 June 2018, the following governmental institutions are involved in the license award process¹²:

Art.	Shakeholders	Rights and obligations as specified Minerals Law of Mongolia
8.1.5	Parliament	Restrict or prohibit exploration and mining activities or grants of exploration and mining licences for 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 the Minerals Law of Mongolia, 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.
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, areas for small scale mining or minerals with common occurrences, and draw opinion.
11.1.16	State administrative body, MRPAM	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, MRPAM	To grant exploration and mining licences for minerals other than the minerals with common occurrences.
11.1.25	State administrative body, MRPAM	To determine and send selection area for approval by its coordinates which is available for granting minerals exploration or mining licence.
20.1	State administrative body, MRPAM	The selection process for exploration licence shall be organised by the procedures stated in 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.

2.3.1.2 Exploration and exploitation license awarding process

The process for awarding exploration and exploitation license in 2018 was the same as in previous year. The following table shows the steps for exploration license awarding¹³:

Step	Entity	Process
1	MRPAM	Application number will be issued to the applicant upon receiving the application.
2	Cadastre division of MRPAM	Determine whether mineral exploration can be done in the requested area.
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 and respond on 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 receipt of the acceptance notification.
5	Cadastre division of MRPAM	Upon grant, an exploration licence is valid for an initial term of three (3) years with a right to renew 3 times for subsequent three-year extensions.

¹² Source: revised Minerals Law of Mongolia dated 21 June 2018

¹³ Source: Mineral Resources and Petroleum Agency of Mongolia (MRPAM)

2.3.1.3 Technical and financial criteria for licensing

The table below sets out the different technical and financial criteria required during the licensing process¹⁴:

Steps	State central administrative 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	MRPAM	The period for accepting bids to participate in an open tender 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: <ul style="list-style-type: none"> - documents evidencing a bidder's legal status (registration certificate); - a prospectus for the bidder and its investment; - 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; - documents evidencing the bidder's technical, equipment, and professional capabilities; - a guarantee of the funds to be spent on exploration work; - a work plan and budget to be performed during the exploration term; - proof that the service fee for the exploration area bid in tugriks equal to an amount of USD20 thousand has been paid; - if a bidder is a consortium, the obligations of each party in exploration and exploitation operations and the percentage and amount of their participation.
3	MRPAM	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	The MRPAM shall define the bidder that submitted the most profitable proposal to the Government and the following terms shall be agreed: <ul style="list-style-type: none"> - the percentage of profit oil allotted to the Government; - the percentage of royalties; - the limit of the percentage of cost oil; - the amount of exploration investment; - the amount of funds spent on environmental restoration; - the amount of the premium for instruction/training; - the amount of a bonus for signing the contract; - the amount of a bonus for beginning extraction; - the amount of a bonus for increasing the extraction; - the amount of a bonus for local development; - operational support of the representative office; - other profitable conditions proposed to the Government.

¹⁴ Source: The Petroleum Law, <http://www.legalinfo.mn/law/details/10484>

2.3.1.4 Process of transfer from exploration license to exploitation license

The following table shows the steps for the transfer of exploration license to an exploitation license. An applicant who requests exploitation license on area where he/she holds exploration license is prioritised over other applicants.

Steps	Entity	Process
1	MRPAM	Receipt of the request.
2	Legal unit of MRPAM	Determine if there is any prohibitions by the law or any outstanding payment.
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 that the area in interest does not overlap with other licenced area, water reserves, special purpose area and protected reserves.
5	Coal and mining unit of MRPAM	Check if the applicant is capable of undertaking rehabilitation work following the exploitation period.
6	Legal unit of MRPAM	Check whether the applicant complied with the plan of the head of Cadastral division and other laws and regulations.
7	Cadastral division of MRPAM	Approves the topography with coordinates. MRPAM must issue appropriate resolution and respond to the applicant. If denied, cause and legal precedence must be included as part of the denied response in writing.
8	MRPAM	Payment of annual fee for the mining licence within 10 days from receiving the approval notice.
9	Cadastral 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.

2.3.1.5 Licenses compliance with laws and regulations

The Independent Administrator randomly sampled from the license and assessed their compliance with laws and regulations. 3 licenses issued during the reporting period (MV-021120-001-NM, MV-021188-001-NM, XV-46000011-003-NM), 1 license cancelled (XB-013419-017-RN) 1 license transferred (XV-020952-003-TF) and 1 license revoked (MV-020885-002-IN) were randomly selected.

The Independent Administrator have found that the holder of MV-021120-001-NM license, issued in 2018, have not paid the license fee since 2014. License transferring has less process and stakeholders. Cadastral and legal departments of the MRPAM perform the procedure. Consequently, requirements for transferring license from former holder and the requirements for requesting license can be different.

The Independent Administrator have not found any other violations on the other licenses.

2.3.1.6 Amendments made to tendering procedure for license award process in 2018

Tendering procedure for Mineral license award was revised by MMHI Order No. A/28 dated 13 February 2018. Major changes in the revised procedure are:

Previous provision	Amendment
If the area of tender coincides with the area affected by illegal mining or the area with local special needs land, the right to participate to the tender for license will be granted to local and state-owned enterprises. (Article 1.6 of the revised 2017 Procedure)	The provision was revoked
Tender selection will take effect with attendance of 70% or more of the members with right to vote.	Percentage changed to 80%
Technical proposal evaluation and conclusion are made within 10 (ten) days.	Changed to 5 (five) days
Submit the Commission's opinion to the Head of state administrative body within 2 working days.	Changed to 1 working day
The Head of State Administrative body shall issue an order within 3 working days after receiving the Commission's opinion.	Changed to 2 days
Publication of detail information of licences awarded through tender selection on the website of the State administrative body.	Publish on daily newspaper

The following provisions were newly introduced with regard to license award process:

- In order to ensure consistent organisation of selection committee and workload balance, up to three (3) selection committees 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 1 January 2018, exploration licenses are granted only through tendering procedure.

2.3.1.7 Statistics on license applications

Statistics on licence applications for last 5 years are set out in the table below¹⁵:

Type of application	2014	2015	2016	2017	2018
New application	113	2,522	113	288	226
<i>Exploitation</i>	98	87	103	65	78
<i>Exploration</i>	0	2,335	0	0	0
<i>Tendering</i>	15	100	28	223	148
Extension	453	249	173	231	657
Transfer	53	92	139	153	157
<i>Exploitation</i>	36	52	49	78	25
<i>Exploration</i>	17	40	90	75	132
Pledge	44	22	33	37	61
<i>Exploitation</i>	40	22	30	32	58
<i>Exploration</i>	4	0	3	5	3
Area return	128	117	137	104	86
<i>Exploitation</i>	12	24	26	14	12
<i>Exploration</i>	116	93	111	90	74
Total	791	3,002	613	813	1,187

2.3.1.8 Licenses awarded or transferred in 2018

Statistics on mining license awards published by the MRPAM are as follows¹⁶:

Type of registration	2014	2015	2016	2017	2018
Newly awarded	113	827	750	151	85
<i>Exploitation</i>	97	91	93	77	61
<i>Exploration</i>	2	697	629	41	5
<i>Tendering</i>	14	39	28	33	19
Areas return	119	150	166	97	91
<i>Exploitation</i>	13	25	25	13	11
<i>Exploration</i>	106	125	141	84	80
Revoked	123	173	241	237	181
<i>Exploitation</i>	14	10	37	35	33
<i>Exploration</i>	109	163	204	202	148
Completed	289	179	124	176	209
Transferred	51	88	146	136	172
<i>Exploitation</i>	38	46	50	62	38
<i>Exploration</i>	13	42	96	74	134
Extended	444	336	167	162	566
Pledged	40	22	29	39	56
<i>Exploitation</i>	34	22	27	34	53
<i>Exploration</i>	6	0	2	5	3
Pledge freed	29	24	16	39	27
<i>Exploitation</i>	24	19	12	38	26
<i>Exploration</i>	5	5	4	1	1
Re-awarded	11	19	35	26	40
<i>Exploitation</i>	7	10	15	19	13
<i>Exploration</i>	4	9	20	7	27

¹⁵ Source: Mineral Statistics Information 2018, Mineral Resources and Petroleum Agency of Mongolia (MRPAM)

¹⁶ Source: Mineral Statistics Information 2018, Mineral Resources and Petroleum Agency of Mongolia (MRPAM)

2.3.2 Petroleum licensing process

The procedures relating to the award and transfer of petroleum licenses is governed by the Petroleum Law of Mongolia¹⁷.

2.3.2.1 Process of awarding or transferring petroleum exploration licenses

We present in the table below the main steps for the award or transfer of a petroleum exploration license¹⁸:

Steps	State central administrative body	Process description
1	MMHI	The request to MMHI should include: <ul style="list-style-type: none"> - a copy of PSA; - an environmental impact assessment; - a draft of the work project and plan to be performed during the respective year; - a proof of deposit of cash amount equal to 3% of the investment of the exploration work for the relevant year into an escrow account 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 buildings and facilities.
2	MMHI	Awarding of exploration license: <ul style="list-style-type: none"> - a term for petroleum exploration shall be up to 8 years, which can be extended twice for 2 years; - a term for unconventional petroleum exploration shall be up to 10 years, and this period may be extended once for 5 years; - an exploration term shall be counted beginning from a day a production sharing agreement was made; - the MMHI shall notify the respective local administrative body that an exploration license has been issued or extended.

2.3.2.2 Process of awarding petroleum exploitation license

The table below sets out the main steps of the award process for a petroleum exploitation license:

Steps	State central administrative body	Process description
1	MMHI	Within 30 days of the MMHI issuing a decision accepting the reserves, a contractor shall apply for an exploitation license.
2	MMHI	The following documents should be submitted to the MMHI to apply for an exploitation license: <ul style="list-style-type: none"> - a decision of Ministry of Mining registering the petroleum reserve; - a draft of the work plan and budget for the respective year; - a deposit mining operations plan; - the detailed environmental impact assessment covering the exploitation period; - an image on which the coordinates of the corner points of the exploitation area; - a proof of deposit of cash amount equal to 1% of its profit-bearing oil during an exploitation phase for that year into an escrow account 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 demobilization of exploitation buildings and facilities.
3	MMHI	The MMHI shall notify the respective local administrative body that an exploitation license has been issued or extended.

¹⁷ Source: <http://www.legalinfo.mn/law/details/10484>

¹⁸ Source: <http://www.legalinfo.mn/law/details/10484>

2.4 Register of licenses

2.4.1 Mining cadastral register

The MRPAM's cadastre website published information of 3,078 valid licenses¹⁹. License information for uranium exploration and exploitation is not disclosed.

The MEITI Secretariat publishes minerals license information on its website. As of November 2019, information of 3,447 licenses are published.

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

The following table summarises the key statistics mining licenses for last 3 years:

Item	2016	2017	2018
Total number of valid licenses	3,580	3,369	3,078
Number of mining licenses	1,558	1,624	1,673
Number of exploration licenses	2,022	1,745	1,405
Total licensed area	13.5 million ha	10.7 million ha	8.7 million ha
Area of mining licenses	1.4 million ha	1.6 million ha	1.6 million ha
Area of exploration licenses	12.1 million ha	9.1 million ha	7.1 million ha
Share percentage of licensed area in total territory	8.6%	6.8%	5.5%
Share percentage of mining licensed area	0.9%	1.0%	1.0%
Share percentage of exploration licensed area	7.7%	5.8%	4.5%

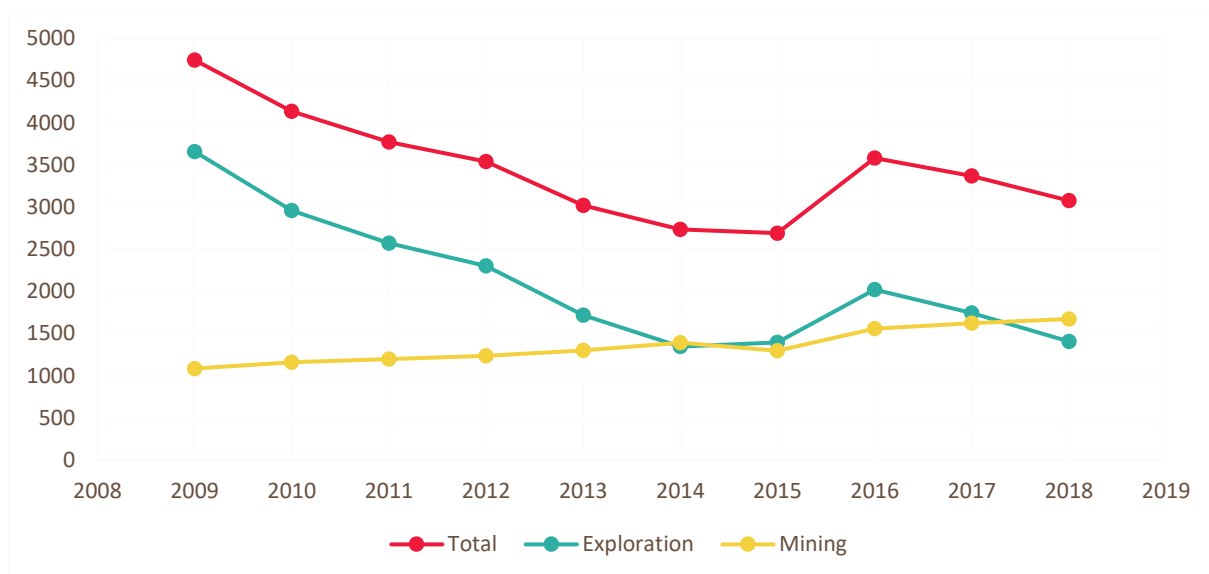
The table below sets out valid minerals' license for 2018 together with size of area, analysed by aimags and the capital city²⁰:

Location	Mining			Exploration			Total		
	No. of licensee	Area (th ha)	% of Licensed area to total territory	No. of licence	Area (th ha)	% of Licensed area to total territory	No. of licence	Area (th ha)	% of licensed area to total territory
1 Arkhangai	27	13.1	0.2%	10	60.5	1.1%	37	73.6	1.3%
2 Bayan-Ulgii	27	12.9	0.3%	38	155.9	3.4%	65	168.8	3.7%
3 Bayankhongor	86	83.3	0.7%	77	340.7	2.9%	163	424.0	3.7%
4 Bulgan	70	35.6	0.7%	48	139.9	2.9%	118	175.5	3.6%
5 Uvurkhangai	29	15.7	0.2%	21	96.4	1.5%	50	112.0	1.8%
6 Gobi-Altai	50	89.1	0.6%	114	749.2	5.3%	164	838.3	5.9%
7 Gobisumber	13	38.9	7.0%	4	19.8	3.6%	17	58.7	10.6%
8 Darkhan-Uul	67	7.9	2.4%	12	6.1	1.9%	79	13.9	4.3%
9 Dornogobi	180	218.0	2.0%	206	1,330.2	12.2%	386	1,548.3	14.2%
10 Dornod	75	62.7	0.5%	93	476.4	3.9%	168	539.1	4.4%
11 Dundgobi	98	156.3	2.1%	114	624.7	8.4%	212	781.0	10.5%
12 Zavkhan	9	14.1	0.2%	60	395.7	4.8%	69	409.8	5.0%
13 Umnugobi	100	515.2	3.1%	110	814.6	4.9%	210	1,329.7	8.1%
14 Orkhon	9	11.1	13.2%	0	0.0	0.0%	9	11.1	13.2%
15 Sukhbaatar	62	48.9	0.6%	38	311.6	3.8%	100	360.5	4.4%
16 Selenge	142	38.9	0.9%	48	67.8	1.6%	190	106.6	2.6%
17 Tuv	302	149.7	2.0%	136	298.1	4.0%	438	447.8	6.1%
18 Uvs	47	21.1	0.3%	93	429.9	6.2%	140	451.0	6.5%
19 Ulaanbaatar	168	12.4	2.6%	12	1.4	0.3%	180	13.8	2.9%
20 Khuvsgul	21	11.5	0.1%	7	7.7	0.1%	28	19.1	0.2%
21 Khovd	33	13.4	0.2%	80	306.2	4.0%	113	319.6	4.2%
22 Khentii	117	49.0	132	132	435.0	5.4%	249	484.0	6.0%
Total	1,673	1,618.5	1.0%	1,405	7,067.8	4.5%	3,078	8,686.4	5.5%

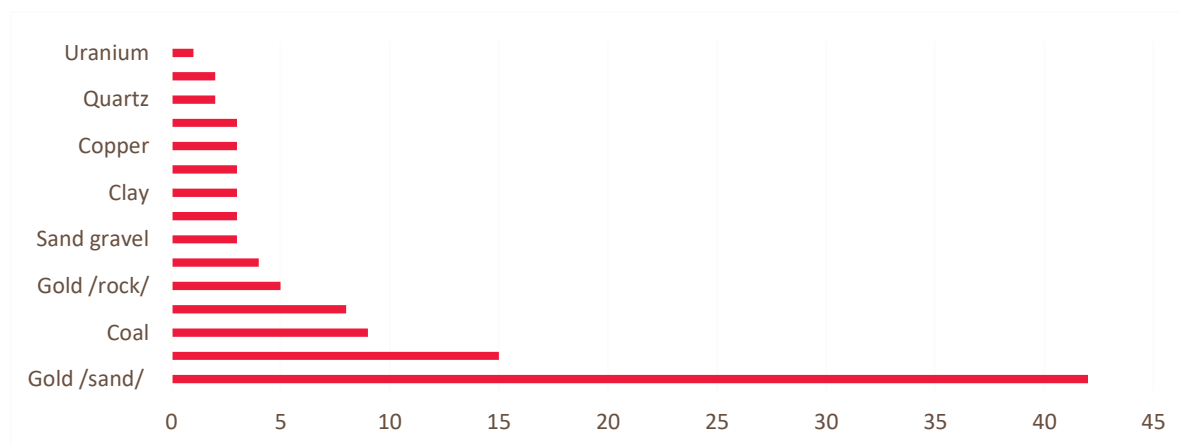
¹⁹ Source: <https://cmcs.mrpam.gov.mn/cmcs>

²⁰ Source: Mineral Statistics information 2018, Mineral Resources and Petroleum Agency of Mongolia (MRPAM)

Valid exploration and exploitation license for last 10 years²¹:



Exploitation licenses by types of minerals²²:



Companies with 10 or more licenses at the year-end 2018 are as follows²³:

No	Name of company	Number of licenses	Area size (ha)	Type of legal entity	Country of investor
1	Chinggis world mining	49	155,335.7	Join investment	Mongolia, Japan
2	Mongolrostsvetmet LLC	30	16,136.4	LLC	Mongolia
3	Mongolyn Alt MAK	23	60,249.8	LLC	Mongolia
4	Altan Dornod Mongol LC	19	69,331.6	100% foreign investment	Virgin Island
5	Gatsuurt LLC	17	9,557.3	LLC	Mongolia
6	Caina Investment Mongolia LLC	15	207,645.0	100% foreign investment	Singapore
7	Olon Ovoot Gold LLC	14	90,111.6	LLC	Mongolia
8	Gobicoal and Energy LLC	12	11,301.0	LLC	Mongolia
9	Hunnu Gobi Altai LLC	12	2,206.7	LLC	Mongolia
10	Erel	11	10,996.6	LLC	Mongolia
11	MonEnCo LLC	10	12,807.4	100% foreign investment	Singapore
12	MAK Cement LLC	10	3,854.8	LLC	Mongolia

²¹ Source: Mineral Statistics Information 2018, Mineral Resources and Petroleum Agency of Mongolia (MRPAM)

²² Source: Mineral Statistics Information 2018, Mineral Resources and Petroleum Agency of Mongolia, (MRPAM)

²³ Source: Mineral Statistics Information 2018, Mineral Resources and Petroleum Agency of Mongolia, (MRPAM)

Companies which have 100,000 ha or more of area with minerals license at the year-end of 2018 are as follows²⁴:

No	Name of company	Number of licenses	Area size (ha)	Type of legal entity	Country of investor
1	Caina Investment Mongolia LLC	15	207,645.0	100% foreign investment	Singapore
2	Uranium Resources LLC	2	191,728.6	LLC	Mongolia
3	Chinggis World Mining LLC	49	155,335.7	Join investment	Mongolia, Japan
4	Cogegobi LLC	4	121,796.0	LLC	Mongolia
5	Monlaa LLC	4	108,679.0	LLC	Mongolia

2.4.2 Production sharing agreements

In 2017, GOH LLC entered into a PSA which was approved by the Government Resolution No. 265 approved on 22 August 2018.

The companies with PSAs as of 2018 are as follows:

No.	PSA areas	PSA approval date; GoM decree number	Contractor companies	Contractor's country of origin
1	Toson-Uul XIX	1993.04.26	Daqing oil field Ltd	China
	Buir XXII	1993.03.29	Daqing oil field Ltd	China
	Tamsag XXI	1996.08.07	Daqing oil field Ltd	China
2	PSA-1997	1997.02.19	Dongsheng Jinggong Petroleum Development	China
3	Mataad XX	2006.07.19	Petromataad LLC	Mongolia
4	Nyalga XVI	2007.06.20	Shaman Resources Limited	Canada
5	Tsagaan-els XIII	2009.05.20	DWM Petroleum AG	Switzerland
	Zuunbayan XIV	2009.05.20	DWM Petroleum AG	Switzerland
6	Galba XI	2009.05.20	Zon Hen Yu Tian Limited	China
7	Sulinkheer XXIII	2009.07.22	Shunkhlai Energy LLC	Mongolia
8	Borzon VII	2014.08.20	Empire Gas Mongolia LLC	China
9	Khukhnuur XVIII	2009.07.29	NPI LLC	China
10	Tukhum X (north)	2009.07.29	Sansaryn geologi exploration LLC	China
	Tsaidam XXVI	2009.07.29	Sansaryn geologi exploration LLC	China
11	Bogd IV	2009.07.29	Cupcorp Mongolia LLC	British Cayman Islands
	Ongi V	2009.07.29	Cupcorp Mongolia LLC	British Cayman Islands
12	Bayantumen XVII	2010.12.08	Magnai Trade LLC	Mongolia
13	Dariganga XXIV	2011.02.09	Mongolia Shin II Energy (Apexpro Investment Ltd)	China
14	Tukhum X (south)	2012.07.25	Mongolyn Alt MAK LLC	Mongolia
15	Sukhbaatar XXVII	2013.01.05	Wolf Petroleum LLC	Australia
16	Nomgon IX	2014.02.07	Sansaryn Geologi Exploration LLC	China
17	Uvs I	2015.04.20	Mongolia Gladwill Uvs Petroleum LLC	China
18	Kherlentokhoi XXVIII	2015.04.20	Hongkong Wellpak Industrial LLC	China
19	Khar-us II	2015.06.15	Renova Ilch LLC	China
20	Arbulag XXIX	2016.06.20	Max Oil LLC	Mongolia
21	Ergel XII	2016.08.24	Smart Oil Investment LLC	China

Refer to Appendix 16(h) for a list of valid oil licenses.

²⁴ Source: Mineral Statistics Information 2018, Mineral Resources and Petroleum Agency of Mongolia, (MRPAM)

2.4.3 Uranium

According to the information provided by MRPAM, there were 9 uranium mining licenses held by 4 companies and 14 uranium exploration licenses held by 8 companies by the end of 2018. In 2018, no new uranium resources were registered with the Mongolian Mineral Resources Reserve Fund.

The table below details uranium exploration licenses for companies included in the reconciliation.

№	License	Aimag	Field name	Owner	Registration number of the owner	
					Mongolian	Foreign
1	XV-014429	Sukhbaatar	Ukhaa ovoo	Cogegobi LLC	Areva Mongol LLC	
2	XV-014017	Sukhbaatar	Dund nart	Cogegobi LLC	Areva Mongol LLC	
3	XV-012251	Dornogobi	Bogd uul	Cogegobi LLC	Areva Mongol LLC	
4	XV-011921	Dornogobi	Dulaan	Cogegobi LLC	Areva Mongol LLC	
5	XV-005359	Arkhangai	Daltyn vovoo	Nuclear Energy Mongolia LLC	Live Energy Group LLC	
6	XV-005355	Arkhangai	Asar uul	Nuclear Energy Mongolia LLC	Live Energy Group LLC	
7	XV-003367	Dornod	Erkht ovoot Tolgoi	Adamas mining LLC	Citizen of Mongolia Nomundari	Mongolia Resources Investment Limited, Yujiro
8	XV-007856	Dornogobi	Gargantolgoi	Zaraiya Holdings LLC		The British Virgin Islands Zaraiya Holdings LLC
9	XV-009688	Tuv	Enger ar	Lucree LLC		Singapore Sreekumar Pillai
10	XV-013082	Bayankhongor	Sevsuuliin bulag	Lucree LLC		Singapore Sreekumar Pillai
11	XV-012685	Dundgobi	Khukh del	Alkali Metal Mongolia LLC	Alkali Metal Mongolia LLC	
12	XV-018243	Dornogobi	Shuvuun uul	Mongol Uranium resource LLC	Citizen of Mongolia Buren-Erdene	
13	XV-018247	Sukhbaatar	Khermiin Tsagaan undur	Mongol Uranium resource LLC	Citizen of Mongolia Buren-Erdene	
14	XV-018953	Khentii	Kholboo	Mon-Czech Uranium LLC	Mon-Atom LLC	Uranium Industry LLC

See the table below for details on uranium exploitation licenses of companies included in the reconciliation.

№	License	Aimag	Field name	Owner	Registration number of the owner	
					Mongolian	Foreign
1	MV-020634	Sukhbaatar	Ulziit	Gurvansaikhan LLC	Mon-Atom LLC	Denison Mines Mongolia
2	MV-020633	Dundgobi	Choir	Gurvansaikhan LLC	Mon-Atom LLC	Denison Mines Mongolia
3	MV-020631	Dundgobi	Gurvansaikhan	Gurvansaikhan LLC	Mon-Atom LLC	Denison Mines Mongolia
4	MV-020629	Dundgobi	Khairkhan	Gurvansaikhan LLC	Mon-Atom LLC	Denison Mines Mongolia
5	MV-018916	Dornogobi	Dulaan uul	Badrakh Energy LLC	Areva Mongol LLC, Mon-Atom LLC	
6	MV-018915	Dornogobi	Zuuvch ovoo	Badrakh Energy LLC	Areva Mongol LLC, Mon-Atom LLC	
7	MV-018914	Dornogobi	Umnut	Badrakh Energy LLC	Areva Mongol LLC, Mon-Atom LLC	
8	MV-000247	Dornod	Ulaan	Xin Xin LLC		Great Promise Enterprise
9	MV-020634	Dornod	Mukhar-1	Khunboo LLC	Xin Xin LLC	China

Refer to Appendix 16(?) for a list of valid uranium licenses.

2.5 Contract disclosure

There have been several actions taken in Mongolia toward contract transparency in its extractive industry sector that embedded transparency and accountability principles in the key policy documents in the sector and eliminating confidentiality clauses in the Production Sharing Agreement.

Contract transparency in Mongolia is covered by several laws and regulations. The table below foresees the main legal provisions relating to contract disclosure in general and more specifically in the extractive sector²⁵:

Law and regulation	Detailed provision
Legal	
Constitution of Mongolia	<p><i>Art. 6.1:</i> The land, its subsoil, forests, water, fauna, and flora and other natural resources are subject to national sovereignty and state protection.</p> <p><i>Art. 6.2:</i> The land except that in citizen's private ownership, as well as the subsoil with its mineral wealth, forests, water <i>resources</i>, and game is the property of the State.</p> <p><i>Art. 16.17:</i> The right to seek and receive information except that which the state and its bodies are legally bound to protect as secret. In order to protect the human rights, dignity and reputation of persons and to ensure national defence, security and public order, the information which is not subject to disclosure must be classified and protected by law.</p>
Minerals Law	<p><i>Art. 5.3:</i> The percentage of the State share in a minerals deposit shall be established by an agreement on the exploitation of the deposit where State funded exploration was used to determine reserves. The percentage of the State share established by an agreement may be replaced by mineral royalty of a mineral deposit of strategic importance.</p> <p><i>Art. 5.4:</i> The State may participate up to 50% jointly with a private legal person in the exploitation of a minerals deposit of strategic importance where State funded exploration was used to determine proven reserves. The percentage of the State share shall be determined by an agreement on exploitation of the deposit considering the amount of investment made by the State. The percentage of the State share established by an agreement may be replaced by mineral royalty of a mineral deposit of strategic importance.</p> <p><i>Art. 5.5:</i> The State may own up to 34% of the shares of an investment to be made by a license holder in a mineral deposit of strategic importance where proven reserves were determined through funding sources other than the State budget. The percentage of the State share shall be determined by an agreement on exploitation of the deposit considering the amount of investment made by the State. The percentage of the State share established by an agreement may be replaced by mineral royalty of a mineral deposit of strategic importance.</p> <p><i>Art. 42.1:</i> A license holder shall work in cooperation with the local administrative bodies and conclude agreements on issues of environmental protection, mine exploitation, infrastructure development in relation to the mine site development and jobs creation.</p>
Law on Common Minerals	<p><i>Article 40:</i> A license holder conducting extraction in a deposit, registered in the State General Mineral registry, where State funded exploration was used to determine reserves, is obliged to reimburse exploration expenditures to the state budget on the basis of contract starting from the date of extraction in accordance with Article 60 of the Minerals Law.</p>
Petroleum Law	<p><i>Article 12. Termination of the contract</i></p> <p>12.1. A production sharing contract may be terminated by a Cabinet decision on following grounds:</p> <p>12.2. Contractor may propose to the Petroleum Authority to terminate the agreement in case the contractor considers its petroleum or unconventional petroleum exploitation to be economically not profitable, or if the event of emergency or force majeure circumstance that the contractor incurred continue for one or more years.</p> <p>12.3. The Petroleum Authority shall review the request specified in clause 12.2 of this law within 30 days of receipt, make an assessment and submit its opinion to the state central administrative body.</p> <p>12.4. The state central administrative body shall review the assessment specified in clause 12.3 of this law within 30 days of receipt and submit a respective proposal to the Cabinet.</p> <p>12.5. In the event an exploration or exploitation license has been terminated on grounds provided in clause 12.1 of this law, the exploration or exploitation operation costs incurred shall not be reimbursed and the money deposited in the escrow account as specified in clause 11.2.9 of this law shall be used for complete environmental rehabilitation and, if required, for demobilization of buildings and facilities used for exploration and exploitation operations, and a remaining balance of the cash shall be returned to the contractor.</p>

²⁵ Source: <http://www.iltodgeree.mn/legal/3/detail>

Law and regulation	Detailed provision
Petroleum Law (continued)	<p><i>Article 13. Evaluating the performance of the contract</i></p> <p>13.1. Upon expiry of a contract, or else in the event an exploration or exploitation license has been terminated on the grounds specified in Article 12 of this law, the state administrative body shall evaluate the performance of the contract on the following criteria:</p> <p>13.2. The state administrative body shall include representatives from respective state bodies when evaluating the fulfilment of the contract.</p> <p>13.3. The rights specified in clause 11.1.4 shall be established upon evaluation that the fulfilment of the contract was satisfactory.</p> <p><i>Article 14. Transfer of a contractor's rights and obligations to others</i></p> <p>14.1. A contractor shall have no right to transfer whole or one third or more percentage of its rights and obligations under a production sharing agreement to others without permission from the Cabinet.</p> <p>14.2. A contractor shall submit its request to transfer one third or more percentage of its rights and obligations to the state administrative body.</p> <p>14.3. The state administrative body shall review the request specified in clause 14.2 of this law within 30 days of receipt and prepare its proposal and submit to the state central administrative body.</p> <p>14.4. The state central administrative body shall review the proposal specified in clause 14.3 of this law within 30 days of receipt and submit its proposal to the Cabinet for its decision.</p> <p>14.5. In the event the Cabinet approves the transfer of rights and obligations under a production sharing agreement, the contractor, the Petroleum Authority, and the third party to whom the contractual rights and obligations are being transferred, shall make a trilateral agreement.</p> <p>14.6. The contractor shall pay the fees specified in clause 34.7 and 34.8 of this law within 30 days of the issuance of a Cabinet decision approving the transfer of a third or more percentage of the rights and obligations.</p> <p>14.7. The contractor and the third party receiving the contractual rights and obligations shall honestly report the amount of payments paid for transferring those rights and obligations.</p> <p>14.8. When issuing the proposal specified in clause 14.3 of this law, the Petroleum Authority shall take into account a reference of the Ministry of the Environment and the respective local administrative body as to whether or not it the contractor fully met its obligation to protect and restore the environment during the period that exploration was carried out.</p>
Law on Information Transparency and Right to Information	Entirely
State policy	
State Policy on the Mineral Sector	<p>3.1.7. To promote international initiatives, such as transparency and responsible mining, social and economic impact assessment;</p> <p>3.5.2. To conclude a local development agreement between an investor company and local body with transparency and participatory principles in order to support social development during the mining period.</p>
Law on Glass Accounts	<p><i>Article 6: Glass account information</i></p> <p>6.4.8. Any decision to make bonds, loans, bonds, guarantees and other equivalent financial instruments, public-private partnership agreements, concessions, budgets, property, funds and money;</p> <p>6.5.9. The concession agreement and amendments within one week after the agreement is signed.</p> <p>6.5.10. Information about concession owner, his/her information other than the secret of his organization, concession item, services to be provided within one week;</p>
Rules	
Procedure for Investment Agreement	Entirely
Parliament resolution	
Investment Agreement for Oyu Tolgoi Deposit	Entirely
About some of the Tavan Tolgoi coal deposits	Entirely
Amendment to the Resolution on "Some Issues to Use Tavan Tolgoi Coal"	Entirely
About the establishment of the state's share of the Gatsuurt deposit	Entirely
Government Regulations	
Some measures to ensure transparency in the extractive industries	<p>7. Improve implementation of policies and activities in Mongolia under the EITI, add the following to the initiative: Investment agreements and their implementation on issuance, ownership and transfer of new exploration and mining licenses, use of minerals deposit of strategic importance, previous agreement, environmental impact assessment, process of environmental protection, and costs incurred.</p> <p>8. Starting from 2012, start making agreements transparent. Working Group and the National Council shall discuss the result and disclose publicly every year.</p>
About some of the Tavan Tolgoi deposits	Entirely

On 18 December 2014 the EITI Secretariat, 'Publish What You Pay' Coalition and the National Mining Association of Mongolia jointly organised a discussion on '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 MMHI. As a result, the participants to the discussion, including government officials, industry and civil society representatives agreed on the establishment of publicly accessible online database for resource contracts and delivered recommendations for further actions for contract transparency²⁶. Moreover, the sub working group on contract transparency which composed of representation of government, civil society and companies was formed within the National Council of EITI.

This electronic database has made mineral contracts and other related documents fully open to the public.

On June 2017, Open Society Forum, EITI Secretariat and the Ministry of Mining and Heavy Industry launched an online database²⁷ for contract disclosure to enhance transparency for contracts in Mongolia's extractive sector. The database includes production sharing agreements in oil and gas sector, investment agreements, concession and local development agreements in mining, as well as former stability agreements established prior to the 2006 Minerals Law.

The database is expected 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. The searching system of the database permit the browsing in different ways, through resource and contract types, parties to the contract and date of signature, as well as key provisions of contracts.

Currently there are 439 contracts posted in the resource database²⁸:

No	Contract type	Number of contracts
1	Land use agreement	124
2	Community Cooperation Agreement	86
3	Concession Agreement	4
4	Water use agreement	48
5	Treaty of River Basin, Protection of Watershed Areas, Mineral Exploration and Use Laws	23
6	Production Sharing Agreement	26
7	Investment Agreement	4
8	Stability Agreement	11
9	Pre-Operating Agreement	45
10	Exploration expense reimbursement made by state budget funds	67
11	Others	1
	Total	439

In 2017, 309 contracts were registered, and 130 contracts were added in 2018.

54 companies out of the total companies included in the reconciliation submitted contract information. 31 of them have submitted contract information on www.iltodgeree.mn website while the remaining 23 companies did not submit their information.

The government has raised no objection to disclosure PSAs and on 4 July 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 1 October 1 2014. Moreover, some important information on application date, license issue date, license duration, area coordinates, license type and production type not published by the MRPAM.

²⁶ Source: http://forum.mn/index.php?sel=project&menu_id=29&obj_id=5007

²⁷ Source: <http://www.iltodgeree.mn>

²⁸ Source: <http://www.iltodgeree.mn>

2.6 Beneficial ownership

2.6.1 Beneficial ownership roadmap

In 2016, the MSWG 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 included 7 objectives with 32 actions to be implemented by 2020²⁹:

Objectives	Status of implementation
2017	
Objective 1: Harmonize beneficial ownership transparency with national policies. In particular organize meetings of the National Open Government Partnership Council, present their planned activities to the relevant Parliamentary Committee and hold hearings	Incomplete
Objective 2: Define the institutional framework for transparency of beneficial owners. In particular, organising a workshop for government agencies, forming a legal working group and amend relevant laws, government resolutions No. 222 and the EITI Law.	Incomplete
Objective 3: Define terms, definitions, material thresholds, reporting dates and periodicity. In particular, conducting research and series of discussions at the MSWG and present results to the National Council meeting.	Complete
Objective 4: Fully disclose information on beneficial ownership of of any influential politician. In particular, updating the personal interest application form.	Pending
Objective 5: Conduct influencer discussions among companies, civil society organizations, training for journalists, incentive schemes, and discussions.	Pending
2018	
Objective 6: Experimental procedures for collecting and sharing information on the beneficial owners with the relevant government agencies for the purpose of collecting information and ensuring accuracy of data.	Pending
2019	
Objective 7: Make the beneficial owner information transparent by disclosing it in the 2018 EITI Report to the public.	Pending

A national anti-corruption programme was approved by the GoM Resolution No. 114 dated 12 April 2017³⁰. Per Point 4.1.6.5 of the attachment to this Resolution, it was planned to disclose beneficial owners within the framework of EITI Standard, to implement compliance with this requirement for the period between 2020-2022 and that the EITI MSWG shall be in charge of it.

National Council of Open Government Partnership in Mongolia have developed and presented “National Action Plan II 2016-2018 of Mongolia” (NAP) at the Cabinet meeting. 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 on June 2016.

Commitment number 12 of NAP is related to transparency of information on beneficial ownership in mining sector. Responsible ministries and agencies for the implementation of the commitment are state administrative body in charge of budget and finance and state administrative body in charge of mining related issues.

²⁹ Source: <http://www.eitimongolia.mn/mn/beneficial-ownership-disclosure>

³⁰ Source: <https://www.legalinfo.mn/annex/details/7496?lawid=12293>

2.6.2 Beneficial ownership definitions

With the objective of disclosing the beneficial ownership, definition of terms, scope, materiality threshold and data for collection were approved at the meeting of MSWG on November 2017. Before such approval, over 260 participants representing government, companies and civil society have been involved in series of discussions and the following definition were agreed taking into account all comments received:

“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 a legal entity which is a license holder, an investor, a bidder and a contractor in the extractive industry; or exercises management and controls of the company directly or indirectly, or exercise shareholder rights in any other means.

“Indirect holding and ownership” mean indirectly hold shares or any identical securities, and exercise voting rights through related parties with common interest using contract, power of attorney or other types of representation; or establish one or more legal entities referred to as custody chain.

“Direct management and control right” mean 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” refer to situation where management and controls of the company is done through related parties with common interests using contract, power of attorney or other types of representation.

“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. 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.

2.6.3 Beneficial ownership disclosure

For the 2018 EITI report, a template was developed to identify beneficial ownership and submitted to the companies involved in the reconciliation exercise. As per EITI requirements, the following data was collected using a specific template:

- 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.

Out of total 202 companies only 60 companies provided beneficial ownership information.

In order to present as much information as possible on beneficial ownership for the companies operating in the extractive sector in Mongolia, the Independent Administrator gathered information from all previous reports (2013 to 2017) and added to the beneficial ownership data collected during the 2018 reconciliation exercise. Annexe 20 of the present report details beneficial ownership information of the companies operating in Mongolia.

Since May 2019, The Government of Mongolia is working on draft law on mineral sector transparency including articles on mineral sector’s reporting, its assurance disclosure of beneficial owners. The draft law is planned to be completed in the 3rd quarter of 2019 and submitted to the Parliament before 2020.

In addition, the General Authority for State Registration began to provide some information on beneficial owners at <http://opendata.burtgel.gov.mn> since March 2019. The website contains information on name, registration number, date of registration, type of company (legal status, profit, non-profit), founder, shareholder, number of members, first and last name of the management, address, shareholders of 193,840 legal entities.

Article 10 of the revised Law on Registration of Legal Entity and Article states that the ultimate owner of the legal entity holding mining license, his/her percentage of ownership, voting rights and certified copy of the mineral license shall be filed in the state registration database in paper and electronic form³¹. It is hoped that transparency of beneficial owners will be improved as the revised law becomes effective from 1 January 2020.

2.7 State participation

2.7.1 Applicable regulations for state participation in the extractive sector

Article 12.5 of the Company Law of Mongolia states that the State and its agencies may be a founder and a shareholder of the following company:

- a company that is created through privatization of a state or local government-owned enterprise;
- a state-owned company that is established by the reorganization of a state-owned enterprise;
- a company that is deemed to be bankrupt in accordance with applicable laws and for which the State has acquired its shares in exchange for debts owed to the State. In such case the State must sell such shares within a period of three (3) years;
- a company that is created jointly with a foreign legal person; or
- other companies as permitted under the laws of Mongolia.

Article 13 of the Law on State and Local Properties states that "A state-owned entity is established by the State with the sole purpose of fulfilling the state's obligations and the social needs" and Article 21.1 states "A state-owned entity is invested by the state".

In accordance with Article 15 of the Law on State and Local Properties, state-owned plants include state-owned or state-funded plants only. State-owned plants shall be classified self-sustained plant and state budget plant based on their property right. A self-sustained plant is a legal body that operates on a self-financing basis on the basis of the assets granted to him. A state budget plant is a legal body that is financed by state budget and only engaged in production, employment, and services for state needs.

Representation of State Ownership in SOE is regulated by the Procedure to Implement Representation of State Ownership in State Owned Legal Entities. 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 Oyu Tolgoi Board of Directors; and shall appoint and dismiss the representation of state ownership to sit in Oyu Tolgoi 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, Baganuur JSC, Shivee Owoo 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 Mongolroostsvetmet 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.

The state-owned legal entity shall submit detailed and subliminal records based on the supporting documents of the primary accounting and prepare the balance sheet quarterly and submit to the Ministry of Finance.

³¹ Source: <https://www.legalinfo.mn/law/details/13591>

The table below illustrates the breakdown of SOEs and legal entities with state participation in the mining sector:

No.	Reg. no.	Company name	% of State participation		Nbr of licenses
			2017	2018	
1	5124913	Erdenes Mongol LLC	100%	100%	4
	5435528	Erdenes Tavantolgoi JSC	81,5%	85,2%	8
	2008572	Baganuur JSC	75%	75%	3
	2004879	Shivee-Ovoo JSC	90%	90%	1
2	2074192	Erdenet SOE	51%	51%	7
3	2657457	Oyu Tolgoi LLC	34%	34%	3
4	2550466	Mongolrostsvetmet SOE	100%	100%	30
5	2076675	Ulaanbaatar railway JV	50%	50%	1

The table below illustrates the breakdown of entities with local government participation in the mining sector:

No.	Reg. no.	Company name	% of State participation		Nbr of licenses
			2017	2018	
1	2016656	Tavan Tolgoi JSC	51%	51%	1
2	2034859	Mogoin gol JSC	51%	51%	2
3	2014491	Bayanteeg JSC	70%	70%	1

2.7.2 State-owned enterprises

2.7.2.1 State-owned enterprises in the mining sector

Erdenes Mongol LLC

Erdenes Mongol LLC was established on 22 February 2007 with 100% State participation for the purpose of implementing state representation on strategic mineral deposits of Mongolia. It is the State legal entity for the development of strategic mineral deposits and their related infrastructures, projects and programmes.

Main activities of Erdenes Mongol LLC are:

- hold shares in mining companies and increase their value, operations and profitability,
- attract foreign and domestic investment, raise capital and create value-added industrial projects,
- increase production capacity, coordinate government policy on companies' operations.

As of today, the company holds participations in several companies operating in mining and related activities. We set out in the table below detail of the company's participations³²:

No.	Company name	Activity	Share capital
1	Erdenes-Tavantolgoi JSC	Coal	85,2% Erdenes Mongol LLC 14,8% Others
2	Baganuur JSC	Coal	75% Erdenes Mongol LLC 25% Others
3	Shivee-Ovoo JSC	Coal	90% Erdenes Mongol LLC 10% Others
4	Erdenes Oyu Tolgoi LLC	Copper, Gold	100% Erdenes Mongol LLC
5	Mon-Atom JSC	Uranium	100% Erdenes Mongol LLC
6	Erdenes Shivee Energy LLC	Coal	50% Erdenes Mongol LLC 50% Eikusora LLC
7	Erdenes Alt Resource LLC	Gold	100% Erdenes Mongol LLC
8	Erdenes Methane LLC	Метан	100% Erdenes Mongol LLC
9	Erdenes Asset Management LLC	Asset Consulting Services	100% Erdenes Mongol LLC
10	Erdenes Ashid LLC	Exploration	34% Erdenes Mongol LLC 66% Mongolyn Alt (MAK) LLC
11	Erdenes Steel LLC	Steel Plant	50% Erdenes Mongol LLC 50% Beren Group LLC
12	Gashuun sukhait auto road LLC	Auto road	100% Erdenes Mongol LLC

Names and positions of Board members of Erdenes Mongol LLC and its subsidiaries:

No	Name	Current position
1	Bayasgalan G.	Chairman Deputy Chief of the Cabinet Secretariat of the GoM
2	Tsengel Ts.	Board member State Secretary of Ministry of Nature Environment and Tourism
3	Bat-Ider E.	Board member Head of Monitoring, Analysis, Evaluation and Internal Audit Department of the Cabinet Secretariat of the GoM
4	Telmuun B.	Board member Head of the Budget Revenue Department of the Ministry of Finance
5	Gankhuu P.	Board member Executive director of Erdenes Mongol LLC
6	Anun Ch.	Board member Head of Foreign Affairs Department of MMHI
7	Enkhjargal D.	Board member Independent member
8	Munkhgerel D.	Board member Independent member, Director of the Law Department of Petrovis Oil LLC
9	Purverenchin Ts.	Board member Independent member, Deputy director of Sod Mongol Group

Erdenes Tavan Tolgoi JSC

Erdenes Tavan Tolgoi JSC was established in 2010 with the Resolution No.39 of 2010 and the Resolution No.272 of the Government of Mongolia in order to put in place economic development of Tavan Tolgoi coking coal deposit.

Main activities of Erdenes Tavan Tolgoi JSC is to operate mineral deposits of strategic importance and to put them into economic circulation and to implement infrastructure projects.

The highest governing body of Erdenes Tavan Tolgoi JSC is a shareholders meeting pursuant to the Company Law. The management of the company shall be chaired by Board of Directors, elected by the shareholders meeting. The Board of Directors consists of 7 state representatives and 4 independent members.

The Erdenes Tavan Tolgoi project is responsible for the development of coal mining, production, infrastructure, construction of factories, establishment of water supply systems, additional exploration and development of deposits, researching, delivering products to international markets, domestic and international in the framework of the stock market.

The Feasibility Study of Zuun Tsankh mine was approved in 2011 and started mining operations. The Western Feasibility Study for Baruun Tsankh was approved in 2012 and the mining operation started in February 2013³³.

A company, whose controlling package or more of shares are owned by the state, local government or their affiliated persons, as stated in article 3.1.3 of the Law on Glass Accounts publish 4 types of general information and 6 types of information as stated in the regulation for setting common standard on content of the glass accounts website and 2 types of information voluntarily to their own website and glass accounts website. Also, the list of 11 types of information related to budget, finance, investment, tender and procurement to publish on their own website and the glass accounts website was approved by order No. A/446 of the Executive Director 4 September 2019. For more information, visit www.erdenestt.mn and www.shilendans.gov.mn.

³² Source: <http://www.erdenesmongol.mn>

³³ Source: <http://www.erdenesmongol.mn>

Names, address and percentage of ownership of the shareholders of Erdenes Tavan Tolgoi JSC:

Parliament Resolution No. 39 dated 2010 stated that not less than 51% of the total issued shares of the company will be owned by the state, up to 20% of the remaining shares will be owned by Mongolian citizens free of charge, up to 10% will be sold to qualified national companies at a nominal value, and up to 20% is stipulated to attract investment by way of stocks in foreign and domestic markets.

- Government of Mongolia 12,780,711,099 shares or 85.20%
- 486 entities 7,065,038 shares or 0.05%
- 2,511,332 Mongolian citizens 2,212,223,865 shares or 14.75%

Names and positions of Board members of Erdenes Tavan Tolgoi JSC and its subsidiaries:

No	Name		Date appointed	Current position
1	Bayarsaikhan B.	Chairman	13 August 2019	Head of the National Development Office
2	Byambasuren U.	Board member	19 October 2018	Deputy Chief of the Cabinet Secretariat of the GoM
3	Narantsogt S.	Board member	19 October 2018	State secretary of the Ministry of Finance
4	Bayaraa M.	Board member	19 October 2018	Head of the Office of Public Administration of MMHI
5	Mergen R.	Board member	19 October 2018	Head of the Ministry of Road and Transport Development
6	Gankhuyag B.	Board member	19 October 2018	Executive director of Erdenes Tavan Tolgoi JSC
7	Bayar-Erdene Ts.	Board member	19 October 2018	Head of the Policy Planning and Management Department of State Agency for Policy and Coordination on State Property
8	Burmaa R.	Board member	19 October 2018	Head of Women for Social Progress
9	Ganbold Ts.	Board member	19 October 2018	Head of the Mongolian Bar Association
10	Ulziinaran P.	Board member	19 October 2018	Project Engineer at MoEnCo LLC
11	Bolor-Erdene Kh.	Board member	19 October 2018	Executive Director of Dornod Gazar LLC

Baganuur JSC

Baganuur JSC was established in 1978 to provide coal to Thermal Power Plants of the Central Energy System. The company was partially privatized in 1995. By the Government's Resolution No.100 of 2013, 75% of the shares are owned by the SOE Erdenes Mongol LLC and 25% are owned by individuals.

The Baganuur coal deposit is located in the south-western part of the Khentii mountainous region, 130 km from Ulaanbaatar, along the western shore of the Kherlen river, and the total reserves of the deposit is 812 million tons.

The annual production capacity is 4.0 million tonnes and it extracts 3.6-3.8 million tonnes dependent on domestic customers demand and mines 16.0 to 18.0 million cubic meters of soil. About 60% of Mongolia's coal demand and 70% of the central area's coal demand have been provided by Baganuur JSC.

Baganuur Coal has been proven to be fully utilized for its own physical and chemical properties, and it can be used as a raw material for recycling and combustion of gas, fuel, liquids and briquettes and other chemicals³⁴.

Shivee-Ovoo JSC

Shivee Ovoo JSC was established on 12 September 1995. 90% of the capital share is owned by Erdenes Mongol LLC and 10% are owned by individuals.

The company operates in the Shivee Ovoo coal mine which is located 265 km southeast of Ulaanbaatar in the territory of Shiveegobi soum of Govisumber aimag. The Shivee-Ovoo coal mine covers 29,500 ha, totalling 2,708.7 million tonnes of coal (New Water area - 564.1 million tonnes, Uuhiin Tsagaan area - 1,147.9 million tonnes and Nagoon toirom area - 996.7 million tonnes).

³⁴ Source: <http://www.baganuurmine.mn>

The company provides 30% of Mongolia's coal demand and 50% of the thermal power station No. 4.

2018 Purchase report and glass accounts report of Shivee Ovoo JSC:

The 2018 purchase plan is made in accordance with Section 5 of the Resolution of the State Property Policy Regulatory Authority. To eliminate violations, investment plans are made based on economic studies and estimates and primary documents are prepared under control. In the future, the procurement of goods, works and services with state and locally owned assets is being performed fully in the form, in accordance with the procurement planning and reporting procedure, approved by Order No. 281 of the Ministry of Finance of 2018. Activities comply with Law on Procurement of Goods, Works and Services with State and Local Funds and the Regulation for Purchase Planning and Reporting approved by Order No. 281 of the Ministry of Finance dated 2018.

Erdenes Oyu Tolgoi LLC

For the development of the Oyu Tolgoi copper-gold mine, an Investment Agreement and a Shareholder's Agreement were signed between the GoM, Rio Tinto International Holdings Ltd, Ivanhoe Mines LLC in 2009 and 2010 respectively. On behalf of the Government of Mongolia, 34% of Oyu Tolgoi LLC was owned by Erdenes Mongol LLC. Followed by Government Resolution No. 348 of 2011 and Resolution No. 28 from Erdenes Mongol LLC Board of 2011, Erdenes Oyu Tolgoi LLC was founded as subsidiary of Erdenes Mongol LLC³⁵.

Erdenes Oyu Tolgoi LLC entered in business after officially obtaining the 34% ownership of Oyu Tolgoi LLC transferred from Erdenes Mongol LLC. The main goal of Erdenes Oyu Tolgoi LLC, as defined in the company charter, is to be the 34% shareholder of Oyu Tolgoi LLC, to participate in operations of Oyu Tolgoi LLC and to utilise state participation during the mine production.

"Erdenes Oyu Tolgoi" LLC is 100% owned by Erdenes Mongol LLC.

Erdenes Asset Management LLC

Main activities of the company are investing in the stock market, issuing bond, owning and selling shares and consulting.

Erdenes Shivee Energy LLC

Erdenes Shivee Energy LLC, a public-private joint venture, was established on 4 March 2016 by the agreement between Erdenes Mongol LLC (50%) and Eikusora LLC (50%). Erdenes Shivee Energy LLC has been operating in the territory of Shiveegobi soum of Gobisumber aimag with a coal reserves of 1.2 billion tonnes, but has suspended its operations since October 2017. The company will provide coal to Shivee Energy complex project based on Shivee Ovoo mineral deposit of strategic importance³⁶. In September 2018, the feasibility study of the Shive Energy complex was completed.

Mon-Atom LLC

According to Nuclear Energy Law, radioactive minerals deposit is considered as a mineral deposit of strategic importance regardless of size, when using the deposit, a state representative is required. In order to be responsible for this function, Mon Atom LLC was founded by Resolution No.45 of Government of Mongolia in 2009 to participate in the exploration and mining operations of uranium and other types of radioactive minerals alone or with other legal entities³⁷.

Mon-Atom LLC owns 34% of France Mongolian joint venture Badrakh Energy LLC and 15% of joint venture of Mongolian Czech company Gursaikhan LLC in accordance with 5.3 of the Law on Nuclear Energy.

By Resolution No.9 of the GoM dated 4 January 2019, all the state-owned shares of Mon-Atom LLC are transferred to Erdenes Mongol LLC.

³⁵ Source: <http://eot.mn>

³⁶ Source: <http://www.erdenesmongol.mn>

³⁷ Source: <http://www.erdenesmongol.mn>

Joint projects with Mon-Atom LLC

Mongolia-France joint project-1

Within the framework of the Mongolia-France joint project, the Zuuvch-Ovoo and Dulan mountain deposits in the Ulaanbadrakh soum of Dornogobi province are being prepared for use.

The feasibility study for these deposits was approved by the Mineral Resources Council on 4 April 2015. According to the feasibility study, for a total of 22 years, the total investment for the underground mining project will be USD 1,077 million, sales revenue will be USD 5,977 million, and the project will contribute USD 1,190 million to the state and local budget, employing 1,454 people.

The exploitation licenses of the deposits Zuuvch-Ovoo and Dulaan uul were issued by the Minerals Department on 12 June 2015, and the Deposit Using Agreement was made on 15 September 2016.

Mon-Atom LLC has put great effort to launch this project. As a result, licenses were issued, and the project is basically ready to start by the end of the year.

A working group on acceptance of a test plant on Zuuvch-Ovoo was working under the joint Order No. A/18/16 of the Minister of Mining and Heavy Industry and Minister of Construction and Urban Development on 25 January 2019.

Mongolian-Czech joint project-2

Within the framework of the Mongolian-Czech joint project, Kharaat and Khairkhan deposits, located in Khairkhan and Choir exploration areas in Bayanjargalan and Ulziit soums of Dundgobi province, and Gurvansaikhan and Ulziit deposits, located in Gurvansaikhan soum of Dundgobi province and Tuvshinshiree soum of Sukhbaatar province, have been opened and reserves have been registered in the state reserve.

The feasibility study for these fields was approved by the Mineral Resources Council in 2015. The deposits will be mined by underground use, with total project investment of USD 204 million and sales revenue of USD 1,692 million, and the project will contribute USD 286 million to the state and local budget, employing 396 people.

Mongolian-Chinese joint project-3

Within the framework of the Mongolian-Chinese joint project, Mon Atom LLC owns the Gurbanbulag deposit in the Dornod province, and has updated its reserve report on the ore and submitted it to the Mineral Resources Council on 29 September 2011 and reserves have been registered in the state reserve.

The feasibility study for the deposit was approved in 2015 by a Mineral Resources Council.

The deposit will be used underground, with a total investment of USD 259 million, sales revenue of USD 1,019 million, and the project will contribute USD 324.7 million to the state and local budget, employing 640 people.

Mon-Atom LLC is 100% owned by Erdenes Mongol LLC.



Erdenes Methan LLC

Erdenes Methane LLC was established on 2 February 2016 as 100% subsidiary of Erdenes Mongol LLC. The company focuses on developing coal bed methane of major coal deposit of Mongolia by carrying out prospecting and exploration, estimating methane gas resources, preparing feasibility studies, evaluating economic viability, raising funds and further development and production of coal bed methane.

Erdenes Ashid LLC

Erdenes Ashid LLC was established by Erdenes Mongol LLC and Mongolyn Alt MAK LLC to conduct exploration activities in three fields located in Bayan-Ulgii aimag.

Erdenes Steel LLC

Erdenes Steel LLC, a state-owned state-owned company, was established in April 2017 to meet the growing demands of steel industry in Mongolia and to produce import substitute products.

Erdenes Alt Resource LLC

Erdenes Alt Resources LLC was established in 2018 with the purpose of implementing the measures described in the Sustainable Development Concepts of Mongolia 2030 and Gold-2 programme. Erdenes Alt Resources LLC is 100% owned by Erdenes Mongol LLC.

Erdenet Mining Corporation

Erdenet Mining Corporation is located in Orkhon province, which is considered as one of the largest coppers and molybdenum mines in Asia. It was founded in 1978 in Erdenet Ovoo coal mine by the agreement signed between the governments of USSR (formerly) and the People's Republic of Mongolia. In 2016, 49% of the Russian Government's share was transferred to private ownership of Mongolia and the Mongolian government owns 51%.

The deposit is located 340 km northwest of Ulaanbaatar, 180 km to the west of Darkhan city, 60 km to the north of Bulgan province and 140 km to the Russian border.

In April 2010, Strategic Plan for Developing Erdenet Mining Corporation in 2010-2015 was approved by the 43rd session of Erdenet Mining Corporation LLC.

In 2018, its revenue was MNT 2 trillion and net profit of 400 billion MNT, it has contributed about MNT 650 billion to the state and local budget³⁸.

Mongolrostsvetmet

Mongolrostsvetmet was established in 1973 under the agreement between the People's Republic of Mongolia and the USSR (formerly) to extract fluorspar, precious metals and other minerals in the territory of Mongolia and to raise the mineral resources and to increase the export potential of the country.

The company operates in the following areas:

- Extraction and enrichment of fluoride ores;
- Mining and processing of iron ore;
- Gold mining and processing;
- Manufacture of gravel, sand and gravel

As of today, the company's administration is located in Ulaanbaatar, manages Bor-Undur milling plant, located in Bor-Undur soum, Khentii aimag, Shijir gold LLC and Zeregtsee gold mining factory located in Zaamar soum, Tuv province.

The 49% owned by the Russian Government has been transferred in 2016 and the Mongolian government is holding the remaining 100%³⁹.

³⁸ Source: <https://www.erdenetmc.mn>

³⁹ Source: <http://www.mongolros.mn>

2.7.2.2 Local government-owned mining enterprises

Tavantolgoi JSC

Tavantolgoi JSC was established in 1994 under the Resolution No.42 of the State Property Privatization Commission. Since 1995, Tavan Tolgoi JSC has been operating as a local-owned company. The Tavan Tolgoi coal deposit is located in the territory of Tsogttsetsii soum of Umnugobi aimag, 18 km to the south-west of the soum center.

Tavantolgoi coking coal is one of the world's 10 largest reserves. The Tavan Tolgoi deposit is far from the infrastructure, but it has over 6.5 billion reserves. Since 1996, the deposit has been used by open quarries to supply coal demand in Umnugovi, Dundgovi, Dornogovi aimags and other nearby soums.

Mogoin Gol JSC

The Mogoin Gol coal deposit is located in Tsetserleg soum of Khovsgol aimag, 880 km from Ulaanbaatar, 209 km from Murun city, 226 km from Uliastai city of Zavkhan province. The Mogoin Gol coal mine was founded in 1971. Mogoin Gol JSC supplies coal to central and eastern soums of Zavkhan aimag in addition to Khuvsgul province.

Bayanteeg JSC

Bayanteeg JSC was founded in 1961 and the coal mine is located in Uvurkhangai aimag, 560 km from Ulaanbaatar. In 1995, it was reorganized into a stock company, with 70% of shares owned by the state. It was registered in the Mongolian Stock Exchange in 1994.

2.7.3 Prevailing rules regarding financial relationship between the government and SOEs

The financial relationship between 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.

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. This Section was amended by the Law of 26 November 2015.

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 18 February 2015.

Article 21.13 of the Law on State and Local Government Property states that a state-owned shareholder shall submit a proposal to the Board to set the rate of dividend to be paid by a state-owned or partly state-owned legal body. However, article 46.1 of the Company Law states that unless otherwise provided in a company's charter, the Board of Directors shall decide on the distribution of the dividend and the decision shall determine the amount of dividend per share, the date of the issue of the list of shareholders eligible to receive the dividend and the date of dividend issue.

2.7.4 Practice regarding financial relationship between government and SOEs

The Government of Mongolia's Action Plan for 2016-2020 is aimed at improving the profitability, governance, privatization policies of state and local companies, and promoting public-private partnerships at a new level.

Based on their contributions to total revenue to the extractive industry in 2018, 7 SOEs were considered material. The independent administrator and MSWG agreed to include in the reconciliation the 7 SOEs.

We have sent specific form, including requirements of EITI standard, to 7 SOEs which made material payments to the Government. This form includes standard requirements such as financial relationship between the SOE and the Government, loan and loan guarantees, transfers and budgetary expenditures. We also requested audited financial statements from the SOEs. We have received audited financial statements by the National Audit Office from Erdenes Tavan Tolgoi JSC and Shivee Ovoo JSC. Baganuur JSC has only provided its audit opinion.

The table below shows some SOEs' retained earnings and net profit/loss in audited financial statements for the year ended 2018:

No	Registration number	Company name	Retained earnings in 2018 (MNT million)	Net profit /loss (MNT million)	Dividends
1	5435528	Erdenes Tavan tolgoi JSC	807,826.92	807,562.2	-
2	2004879	Shivee-Ovoo JSC	3,474.97	(2,631.67)	-

2.7.4.1 Loan and loan guarantee

We requested SOEs information on loans and loan guarantees received from the Government and SOEs. Only Mogoin Gol JSC and Baganuur JSC provided the information, stating that they have not received any loan from the Government and other SOEs.

Loans and loan guarantees provided by the Development Bank of Mongolia to mining and oil SOEs for the year ended 2018 is MNT 53,155,796,719.38.

The Development Bank of Mongolia financed the following projects for mining sector development:

No	Project name	Project commencement & completion	Contract amount	Funds granted	Lender
1	Expanding capacity of Baganuur coal mine	2013 / Apr 2018	MNT 18,6 billion	MNT 18,6 billion	-
2	Erdenes Oyu Tolgoi	Nov 2014 / ongoing	USD 10 million	USD 2,5 million	Ministry of Finance

Detailed introduction of the projects mentioned above, and programmes are as follows:

Expanding capacity of Baganuur coal mine

The project was implemented to expand the coal cranes facility of Baganuur JSC and to buy 4 charcoal transport vehicles, 4 soil transport vehicles, 1 bulldozer and the coal crushing plant. As a result, coal production has increased by 10% and soil stripping increased by 11%. The expansion of the coal crushing facility has increased the coal crushing capacity by 4.5 million tons a year. The project was fully completed in April 2018.

Erdenes Oyu Tolgoi

The purpose of this projects is to put Oyu Tolgoi underground mining into operation economic circulation. Putting mineral deposits of strategic importance into economic circulation will increase Mongolia's GDP, export volume, and currency inflows, and will have positive changes in the balance of payments and foreign trade.

2.7.4.2 Transactions between SOEs

We requested information of inter-SOE transactions and coal productions from SOEs included in the reconciliation. However, we haven't received information on transaction with other SOEs.

2.7.4.3 Investments in the SOEs

Information on the current period investments was requested from the SOEs selected for the EITI reconciliation. Erdenes Tavan Tolgoi JSC reported that there were no investments.

3 Overview of the extractive sector in Mongolia

3.1 Mining sector

Historically, Mongolia's economy relied on herding and agriculture, but in recent times, it has become increasingly reliant on the mining sector. In 2015, Mongolia accounted for 3% of the world's fluorspar production. In addition, the country has extensive deposits of coal, copper, gold, petroleum and uranium.

The mining industry plays an important role in Mongolia's economy. A big part of the nation's area has experienced geological exploration work whereby extensive mineral reserves have been discovered. The mining sector accounted for 23.03% of Mongolia's GDP on average for the last three years. The share of GDP from the sector in 2018 is 0.2% higher than in 2017. The share of mining sector in total industrial production of Mongolia was 57,63% on average for the last 3 years.

Mongolia has large mineral potential, over 6,000 mineral deposits and occurrences of 80 types of minerals have been discovered. Exploration has expanded year-on-year leading to a number of new discoveries of copper, gold, coal, uranium and other types of minerals.

3.1.1 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 the specific year.

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

No	Deposits	Commodity	Locations	Licence holders	Ownership	
					State	Private
1	Asgat	Silver	Nogoonuur, Bayan-Ulgii	Mongolrostsevent LLC, Erdenes Mongol LLC	100	0
2	Baganuur	Coal	Baganuur, Ulaanbaatar	Baganuur JSC	75	25
3	Boroo	Gold	Bayangol, Selenge	Boroo Gold	0	100
4	Burenkhaan	Phosphorite	Alag-Erdene, Khvsgul	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	Dornod	Uranium	Dashbalbar, Dornod			
8	Mardai	Uranium	Dashbalbar, Dornod	Adamas Mining LLC		
9	Nariin Sukhait	Coal	Gurvantes, Umnugobi	Mongolyn Alt MAK LLC Chinhua MAK-NS LLC SouthGobi sands LLC Usukh Zoos LLC	0	100
10	Oyu Tolgoi	Copper, gold	Khanbogd, Umnugobi	Oyutolgoi LLC Entrée LLC	34	66
11	Tavan tolgoi	Coal	Tsogttsetsii, Umnugobi	Tavantolgoi LLC	51	49
				Energy Resource LLC	0	100
				Erdenes TT JSC	100	0
12	Tumurtei	Iron	Khuder, Selenge	Darkhan Metallurgical Plant JSC	100	
13	Tumurtein ovoo	Zinc	Sukhbaatar soum, Sukhbaatar aimag	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

3.1.2 Mineral reserves of Mongolia

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 the last 2 years⁴⁰.

Types of deposits	Unit of measurement	2017		2018	
		Ore concentrate	Metal	Ore concentrate	Metal
Gold (rock)	th tonnes/kg	8,413	3,212	6,537.9	18,697.9
Gold (placer)	kg	3,375	3,015	5,140.2	4,600.6
Iron	th tonnes	45,656	11,871	44,969.8	18,287.9
Polymetal	th tonnes	-	-	167,692.3	-
Cu	tonnes	-	-	-	51,909
Zinc oxide	tonnes	-	77.7	-	-
eqZn	tonnes	-	-	-	1,174,190
Pb	tonnes	-	83	-	606,274
Tungsten oxide	tonnes	-	1,636	-	-
Gold	kg	-	-	-	512,904
Tungsten	th tonnes	503	4.4	36.6	1.4
Rare elements of earth	th tonnes	-	-	356.8	125.16
Mixed copper molybdenum	th tonnes	-	-	55,871.2	-
Copper	tonnes	29,183	135	-	149.1
Molybdenum	tonnes	-	-	-	2.2
Tin	th tonnes	-	1	-	-
Fluorspar	th tonnes	1,178	665	6,932	1,239.1
Uranium	th tonnes	-	-	51,583.2	15.5
Coal	mln tonnes	3,579.7	-	9,662.7	-
Silver	tonnes	-	-	-	132,224.9
Limestone	mln tonnes	186	-	52.7	-

3.1.3 Mining exploration activities

The exploration work plan and the annual report on exploration and expenditures performed by private funds to the license area shall be carried out according to annual exploration plan from licensees as stipulated in Article 48.1.1 of the Minerals Law. According to Article 48.1.2 of the Minerals Law, the annual report of the exploration work is reviewed, and the amount of exploration expenditure is estimated according to Article 33.1 and Article 33.2 based on the financial statements⁴¹.

	2016	2017	2018
Plan			
Must submit	2,051	1,748	1,695
Submitted	1,750	1,724	1,674
Attendance	85.3%	98.6%	98.8%
Report			
Must submit	1,974	1,745	1,408
Submitted	1,666	1,546	1,300
Attendance	83.0%	88.5%	92.3%
Percentage of control on minimum expenditure for exploration report	99.7%	98.0%	10.0%
Percentage certified by financial statements	94.9%	90.8%	8.0%

⁴⁰ Source: Mineral Statistics information 2018, page 16, Mineral Resources and Petroleum Agency of Mongolia, MMHI

⁴¹ Source: Mineral Statistics information 2018, page 16, Mineral Resources and Petroleum Agency of Mongolia, MMHI

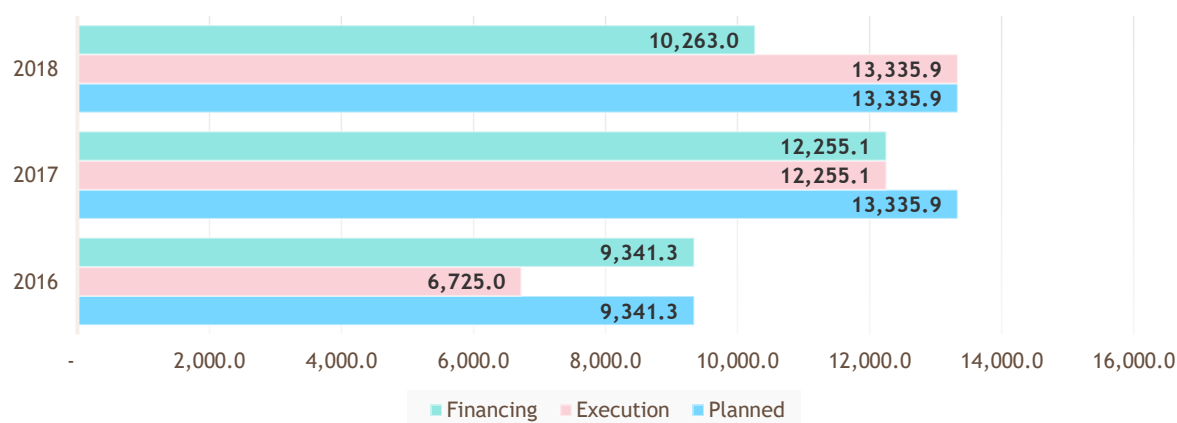
In 2018, 48 geological survey works were conducted and funded by the State budget. These activities are presented as follows:

- 27 projects for 1:50,000 geological mapping and general prospecting,
- 3 projects for 1:50,000 grouped geological mapping and general prospecting,
- 3 projects for 1:200,000 State geological mapping,
- 1 project for metallogeny and occurrence of the mineral deposits in Mongolia AMC-17,
- 1 project for Nalaikh vibration, UB geocology-hydrogeology.

We present in the table below statistics for last 3 years of geological researches carried out by the state funds⁴²:

Types of activities	2016		2017		2018	
	MNT million	execution	MNT million	execution	MNT million	execution
1:200000 State geological mapping	642.7	100%	482.3	100%	408.5	100%
1:50000 Geological mapping and prospecting	4,975.8	100%	5,355.9	100%	4,692.7	100%
Thematic work	3,476.1	100%	6,274.6	80,8%	8,144.1	100%
Cooperation project	246.6	100%	142.4	100%	90.0	100%
Total	9,341.1	100%	12,255.1	91,8%	13,335.0	100%

The diagram below illustrates the expenditure plans and performance for the geological and research work of the state budget in MNT million.



⁴² Source: Mineral Statistics information, Mineral Resources and Petroleum Agency of Mongolia (MRPAM)

3.1.4 Minerals production

3.1.4.1 Coal

Mongolia is among the top 10 countries in the world with coal reserves. There are currently over 300 deposits from 15 basins, and Mongolia's coal reserves are estimated at 173.3 billion tonnes and can grow further.

In 2018, coal production reached 54.6 million tonnes, increased by 3.3 million tonnes or by 6.8% from the previous year. It represents a growth of 37.0 million tonnes or 3.6 times more than 2009 performance (10 years ago).

In 2018, 32 million tonnes of coal or 62.3% of the total coal production were exported. Comparing to previous year, it has increased by 3.1 million tonnes or 10.7%. 2018 coal exports represent a growth of 24.9 million tonnes or 4.5 times more than 2009 performance.

Main statistics relating to coal mining for the last 3 years are shown in the table below⁴³.

Years	Stripping (th m3)	Mining (th tonnes)	Sales (th tonnes)	Export (th tonnes)
2016	102,374.3	35,096.5	33,831.7	25,809.3
2017	197,240.8	49,480.3	41,904.6	33,400.1
2018	244,861.2	54,572.3	45,741.9	36,671.4

Statistics on coal sales are shown in the table below⁴⁴.

Coal type	Export (th tonnes)	Local (th tonnes)	Total (th tonnes)
Washed coking coal	5,479.5	-	5,479.5
Raw coking coal	14,404.2	-	14,404.2
Weak coking coal	11,680.5	-	11,680.5
Thermal coal	5,107.2	-	5,107.2
Brown coal	-	9,069.6	9,069.6
Total	36,671.4	9,069.6	45,741.0

35.8 million tonnes of hard coking coal amounting to USD 2,786.2 million exported in 2018, increased by USD 529.6 million and 2,767.3 thousand tonnes comparing to the previous period. 98.9% of hard coking coal has been exported to China.

3.1.4.2 Gold

Following 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 has declined. However, an increase was observed from 2013 as a result of the improvement of the legal and tax environment of gold sector. It was considered that further encouragement to the sector and gold production is needed. Consequently, a 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 2017⁴⁵.

In 2018, gold production amounted to 20.7 tonnes which means it has increased by 0.9 tonnes or 4.1% comparing to 2017. 3.4 tonnes or 16.6% of total gold mined were exported, so the export of gold has decreased by 11.2 tonnes or 76.5% compared to previous year.

The below diagram shows statistics for the last 3 years on gold mining and exports in tonnes⁴⁶.



⁴³ Source: Mineral Statistics information 2016, 2017 and 2018, Mineral Resources and Petroleum Agency of Mongolia (MRPAM)

⁴⁴ Source: Geology and Exploration Division, Mineral Resources and Petroleum Agency of Mongolia (MRPAM)

⁴⁵ Source: Mineral Resources and Petroleum Agency of Mongolia (MRPAM)

⁴⁶ Source: Industrial sector's information 2018, Mongolian National Statistics Committee

3.1.4.3 Other minerals

In 2018, production of fluorspar concentrate has increased by 25.5 th tonnes or 46.2% and production of zinc concentrate increased by 5.2 th tonnes or 6.2%. However, production of molybdenum concentrate has decreased by 0.3 th tonnes or 4.7%, production of fluorspar decreased by 7.7 th tonnes or 7.1 %, production of iron ore decreased by 1.5 million tonnes or 19.1%, production of iron ore concentrate decreased by 269.5 th tonnes or 7.3%, and production of tungsten concentrate decreased by 0.2 th tonnes or 30.2%.

Production of other minerals is shown in the table below in thousand tonnes⁴⁷:

Type of minerals	2014	2015	2016	2017	2018
Copper metal concentrate	1,080.4	1,334.7	1,445.1	1,317.6	1,310.8
Molybdenum metal concentrate	4.1	5.2	5.2	5.8	5.5
Fluorspar	303.0	183.5	167.7	108.9	101.2
Fluorspar concentrate	71.9	47.3	34.1	55.2	80.7
Iron ore	6,293.1	4,273.6	4,936.2	7,694.7	6,225.4
Iron ore concentrate	3,967.4	1899.8	2,209.9	3,675.0	3,405.5
Zincum concentrate	93.2	89.6	100.2	82.7	87.9
Tungsten concentrate	1.0	1.0	0.7	0.6	0.4

3.1.5 Mineral exports

In 2018 copper concentrate export reached 1,436.7 tonnes and average annual prices reached 6,524.8 USD per tonne. Coal exports reached 36.7 tonnes, an increase of 30% from the expected rate and an average coal price of 44%.

The table below shows the export volume in 2018 of the extractive industry and the share of total exports⁴⁸.

	2018
Exports of mineral products (USD million)	6,070.3
Total export valuz (USD million)	7,011.8
Percentage	86.6%

⁴⁷ Source: Industrial sector's information 2018, Mongolian National Statistics Committee

⁴⁸ Source: National statistics of Mongolia

The table below shows detail of exports of mineral commodities in volume and value for 2017 and 2018⁴⁹.

Commodity	2017			2018			Difference	
	Quantity th tonne	Amount th USD	Average price USD	Quantity th tonne	Amount th USD	Average price USD	Quantity th tonne	Amount th USD
Copper concentrate	1,447.2	1,613,117.3	1,114.6	1,436.7	2,012,194.4	1,400.5	-10.5	399,077.1
Iron ore	6,257.8	313,363.1	50.1	7,449.0	342,186.1	45.9	1,191.1	28,823.0
Zinc concentrate	118.2	180,809.2	1,529.4	123.9	197,806.4	1,596.3	5.7	16,997.2
Fluorspar	319.3	84,218.4	263.7	555.2	189,857.6	341.9	235.9	105,639.2
Molybdenum concentrate	6.5	37,358.7	5,744.6	6.0	49,939.4	8,332.6	-0.5	12,580.8

In 2018 35.8 million tonnes of coal were exported for USD 2,786.2 million. It has increased by 2,767.3 thousand tonnes and USD 529.6 million comparing to the same period of the previous year. In 2017, the average price for a tonne of coal was USD 68.4, it has increased to USD 77.9 this year. 98.9% of coal is exported to China.

In 2018, 1,436.7 thousand tonnes of copper concentrate were exported, which is 10.5 tonnes less than in the same period of the previous year, and the average custom price has increased from USD 1,114.6 to USD 1,400.5. Export of copper in 2017 was USD 1,613.1 million, USD 2,012.2 million in 2018.

Crude oil exports reached 6,189.8 thousand barrels or USD 392.0 million, which is 1,324.4 thousand barrels less than last year and higher by USD 17.9 million. The average custom price for barrel of oil has increased from USD 49.8 to USD 63.3.

Iron ore export reached 7.4 million tonnes, or USD 342.2 million. Comparing to the previous year, it has increased by 1,191.0 thousand tonnes and USD 28.8 million, respectively. The average export price of tonne of iron ore was USD 45.9, which has decreased by USD 4.1.

Zinc concentrate: In 2018, 123.9 thousand tonnes of zinc concentrate was exported, on average price of USD 1,596.3 per tonne. The average custom price has increased by USD 66.9 compared to the same period of last year. Export of zinc concentrate was USD 197.8 million, which has increased by USD 17.0 million from last year.

In 2018, 555.2 thousand tonnes of fluorspar were exported for USD 189.9 million, which has increased by 235.9 thousand tonnes and USD 105.6 million comparing to 2017. The average export price of fluorspar was USD 341.9, which is USD 78.2 higher from the last year. The fluorspar was exported to China, Russia, Ukraine, Uzbekistan and Belarus, 34.2% to Russia and 65.7% to China.

USD 49.9 million of molybdenum concentrate was exported, which has increased by USD 12.6 million from the same period last year. The average export price for a tonne of molybdenum concentrate increased from USD 5,744.6 to USD 8,332.6. In 2018, 5,993.2 tonnes were exported, which is 510.0 tonnes less than last year. 88.9% of molybdenum concentrate was exported to China.

In 2018, 3,431.9 kg of gold was exported, which is 11,122.6 kg less than the last year. The average export price for gold was USD 40,905.1 in 2017. It has increased by USD 1,199.8 in 2018. Gold exports reached USD 144.5 million, which has decreased by USD 450.8 million comparing to the last year.

86.6% of total exports were mineral products; 2.1% was gold exports, 5.8% was textile materials and textiles exports.

⁴⁹ Source: Customs General Administration

3.1.6 Artisanal and small-scale mining

3.1.6.1 Legal environment for artisanal mining

An artisanal or small-scale mining means an activity (usually illegal) of mining conducted by individuals (using manually intensive methods), typically organised in a cooperative. There are no official statistics on small-scale mining due mainly to the fact that it is seasonal and unsustainable.

According to data provided by the MRPAM in 2019, the area used for artisanal mining is 375.54 hectares, and the area used for mining is 126.75 hectares. The number of artisanal miners is 1,508, which includes 1,091 men and 417 women. Of these, 364 miners are in Khentii aimag, 362 in Selenge aimag, 234 in Bulgan aimag, 226 in Bayankhongor aimag, 153 in Dornogobi aimag.

3.1.6.2 Legal environment

In 2010, the Procedure on Small-Scale Mining was approved by Government Resolution No.308 as amendments to the Minerals Law and other relevant laws were made. In January 2014, the Government's policy on mineral sector 2014-2025 was approved by Parliament Resolution No.18. According to this policy, the GoM is pursuing a policy of "support artisanal miners to cooperate legally and to improve the legal environment".

In past years amendments were needed to the Procedure on Small-Scale Mining. As a result, Procedure on Small-Scale Mining was amended by Resolution No.151 of the Government on 24 May 2017. This amended regulation aims to have positive impact in the better officialization 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.

As of today, the Minerals Law, the Land Law, the Law on Infringement, the Law on Cooperatives and the Law on Partnership apply to artisanal mining activities. Also the Procedure on Small-Scale Mining, Government resolutions, such as the "Gold-2" National Programme, Artisanal mining security rules or orders No. A/115, A/123 dated 23 June 2017 approved by Minister of Labour and Social Welfare jointly with Minister of Mining and Heavy Industry, order No. A/269, A/182 dated 17 August 2017 approved by Minister of Nature, Environment and Tourism jointly with Minister of Mining and Heavy Industry apply. In addition, the Resolution No. 355 on measures to be taken on artisanal mining has been approved in 2019.

3.1.6.3 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 Mineral Resources and Petroleum Agency of Mongolia (MRPAM).

3.1.6.4 Sustainable Artisanal Mining Project in Mongolia

The Sustainable Artisanal Mining Project is developing the information about the location of small-scale mines. 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.

3.1.6.5 Rehabilitation statement

Artisanal miners shall make plan, budget and guarantee for costs for rehabilitation work in the area of extraction and include in the contract with the soum and district governors according to the Procedure on Small-Scale Mining. Artisanal miners are required to do technical and biological rehabilitation in the area before returning the mining area according to the "Methodology for rehabilitation in the area damaged due to artisanal mining" approved by Order No. A/226, A/182, Minister of Nature, Environment and Tourism and Minister of Mining and Heavy Industry. Then environmental inspector's judgment shall be submitted to the Commission appointed by soum and district governor. Joint rehabilitation fund of artisanal miner and local administrative body will only be spent on artisanal mining area for technical and biological rehabilitation.

Gold is mined on 215.39 hectares, tungsten on 9 hectares and spar is mined on 151.15 hectares for artisanal mining.

The following table shows the amount of area being used, damaged and recovered as provided by MRPAM:

Aimags	Area being used /ha/	Area damaged /ha/	Area rehabilitated /ha/
Arkhangai	0	0	0
Bulgan	45.15	13.1	5.9
Bayan-Ulgii	4	9	1
Darkhan-Uul	44.14	15.14	10.24
Dornod	9	10	8.5
Bayankhongor	20.81	7.97	5.39
Zavkhan	0	0	0
Orkhon	0	0	0
Khovd	5	2	1
Uvs	0	0	0
Gobi-Altai	5.71	3	0
Dornogobi	81.39	3.4	0
Selenge	90.58	30.84	31.7
Khentii	69.76	32.3	4

3.2 Oil & Gas sector

3.2.1 Oil & Gas activity overview

Around the 1940's the Zuunbayan oil field was identified in the East Gobi Desert of Mongolia by Soviet geologists. The reserve was estimated at 6.2 million tons and the country's first refinery "Mongol oil" was built with a processing capacity of 400,000 tons. The field eventually yielded about 4 million tons of crude oil, and with the combination of Russian crude oil, the refinery supplied up to 20% of the country's demand for fuel and lubricants. In 1969, the company ceased its refining activities due to pressure decrease at the well, a fire at the refinery and other economic factors.

In 1993, a Production Sharing Contract was signed with SOCO from the USA and the first exploration well of 3,000 meters deep was drilled a year later. In 1997, well 19-3 on Block XIX was first recorded as a free-flowing oil well. Soon after, oil was exported from Mongolia by trucks to China.

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

Currently, there are 32 licensed petroleum areas in Mongolia and 21 contractors are operating with PSAs with the Government on 25 of these areas. Out of these licensed areas, 3 areas are in production, 22 are in exploration and the remaining 7 areas are in prospecting activities.

Two companies are in production in 3 areas: "Petrochina Dachin Tamsag", a subsidiary Petrochina Company Limited and Dongsheng Petroleum LLC operate majority of oil extraction and exports.

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

Petrochina Daqing Tamsag LLC

In August 2008, SOCO International (USA) transferred its rights and obligations of the PSA covering 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 and 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.

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

Erdenes 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.

3.2.2 Petroleum reserves

Petrorchina Daqing Tamsag LLC and Dongsheng Petroleum Mongolia LLC have drilled total of 1,465 wells for exploration, evaluation 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 th sq km of area (4.37 th sq km at Toson-Uul XIX; 3.27 th sq km at Tamsag XXI; 5.14 th sq km at PSA-97) and 3D seismic survey at 5.33 th sq km area (2.32 thousand sq km at Toson-Uul XIX; 2.67 th 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 21 June 2011 (based on the Council's conclusion no. 6 issued on 3 June 2011), 'proved reserves' of petroleum was increased at 60.06 million tonnes, out of this, 'proved recoverable reserves' were increased by 6.5 million tonnes and registered the increases to 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'.

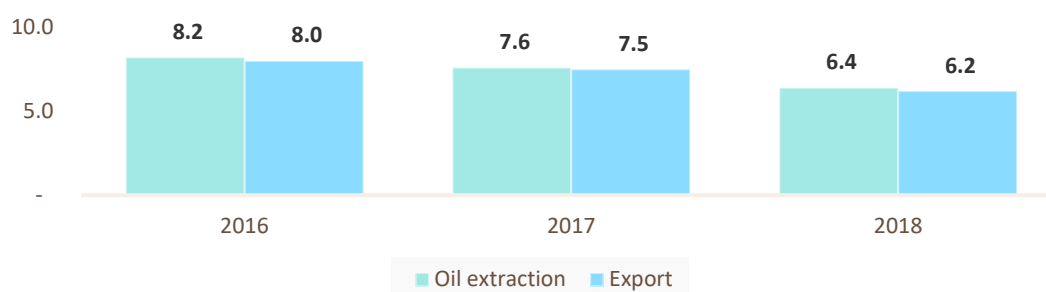
The Mineral Resources Professional Council discussed petroleum reserves estimation report for Tamsag XXI area and issued a conclusion No. 01/12 on 2 March 2012. In accordance with the Mining and Energy Minister's order No. 41 dated on 16 May 2012 and based on the conclusion, the 'proved reserves' of petroleum were registered in the Mongolian Mineral Resources Reserve Fund at 127.509 million tonnes, 'proved recoverable reserves' by natural energy at 14.01 million tonnes and proved recoverable reserve for 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 Mongolian Mineral Resources Reserve Fund in accordance with the Mining and Energy Minister's order No. 3 dated 8 June 2011 based on the Council's conclusion provided on 18 April 2010.

3.2.3 Petroleum production and exports

In 2018, oil production amounted to 6.4 million barrels which means it has decreased by 1.2 million barrels or 16.2% comparing to 2017. It represents a growth of 64.5 million barrels or 3.4 times more than 2009 performance (10 years ago). 6.2 million barrels or 96.9% of 2018 total oil production were exported. Comparing to previous year, exports have decreased by 1.3 million barrels or 17.6%.

The diagram below shows statistics for the last 3 years for petroleum extraction and exports⁵⁰.



Petroleum production and exports during 2018 are presented by months in the table below⁵¹:

	Production		Export	
	MMbbl	%	MMbbl	%
January 2018	620,842	9.7	558,232	9.0
February 2018	556,544	8.7	451,701	7.3
March 2018	568,740	8.9	621,219	10.0
April 2018	535,029	8.4	579,017	9.4
May 2018	556,865	8.7	555,443	9.0
June 2018	539,680	8.4	541,818	8.8
July 2018	563,763	8.8	543,629	8.8
August 2018	553,224	8.7	537,238	8.7
September 2018	515,475	8.1	423,496	6.8
October 2018	198,319	3.1	156,157	2.5
November 2018	569,745	8.9	698,891	11.3
December 2018	610,983	9.6	521,584	8.4
Total 2018	6,389,209	100	6,188,425	100
Total 2017	7,624,055	-	7,512,810	-
Variation	-16.20%	-	-17.60%	-

⁵⁰ Source: Industrial sector's information 2018, Mongolian National Statistics Committee

⁵¹ Source: Mineral Resources and Petroleum Authority

3.2.4 Revenue from petroleum products

According to the statistics provided by the Mineral Resources and Petroleum Authority of 2018, oil revenues are as follows in MNT million:

Revenue stream	2018 planned	Actual 2018	Achievement 2018
Compensation payment for deposit explored by the state budget	2,100.0	3,023.4	144.0%
Oil export revenues	223,448.3	222,514.7	99.6%
Oil service revenues	2,392.5	2,551.5	106.6%

3.3 Concentration and refinery plant

The table below shows the 2018 MRPA release data:

Type of minerals	Unit of measure	Amount	Type of minerals	Unit of measure	Amount
Polymetal	-	-	Gold in lead concentrate	kg	74
Polymetal	-	-	Gold in zinc concentrate	kg	26
Gold (Rock)	-	-	Gold in silver bullion bar	kg	6
Copper (open pit)	-	-	Gold in copper concentrate	kg	9,003
Gold (Rock)	th tonnes	9,540.47	Gold (Bullion bar)	kg	6,522
Gold (Rock)	th tonnes	175.23	Preparation done	-	-
Gold (Placer)	-	-	Only soil stripping was done	-	-
Building materials (Cement)	-	1,512.74	Cement	th tonnes	1,078
	-	79.36	Lime	th tonnes	93
	-	540.56	Limestone	th tonnes	996
	-	-	Clinker	th tonnes	-
Building materials (Limestone)	-	-	Didn't work due to lack of investment and not being able to adjust burner mode	-	-
Marble	m3	3.20	Marble	m3	3
Gypsum	th tonnes	56.90	Gypsum	tonnes	42
Tungsten (Rock)	th tonnes	46.25	Tungsten concentrate	tonnes	320
Copper (open pit)	th tonnes	68,574.78	Copper concentrate	th tonnes	1,321
Copper (underground pit)	-	11.67	Excavated as a preparation	-	-
Copper	th tonnes	11,402.82	Pure copper cathode	th tonnes	12
Polymetal	th tonnes	29,836.56	Molybdenum concentrate	th tonnes	5
Gold (Rock)	-	-	Silver (Bullion bar)	kg	2,736
Polymetal	-	-	Silver in lead concentrate	kg	31,703
Polymetal	-	-	Silver in zinc concentrate	kg	5,084
Gold (Rock)	-	-	Silver in gold bullion bar	kg	566
Copper (open pit)	-	-	Silver in copper concentrate	kg	28,882
Jade	th tonnes	16.78	Red stone (exported)	tonnes	16
Jade	-	-	Conglomerate contains flagstone jade	tonnes	5,070
	-	7,975.02	Whole iron concentrate	th tonnes	5,981
	-	5,693.48	Powder iron concentrate	th tonnes	7,849
	-	372.84	Whole iron ore	th tonnes	2,370
	-	-	Powder iron ore	th tonnes	69
Iron	-	-	Sold concentrated products in 2017	-	-
	-	150.35	Fluorspar concentrate FF-97	th tonnes	28
	-	136.46	Fluorspar concentrate FF-95	th tonnes	113
	-	39.39	Metallurgical spar FK-92	th tonnes	16
	-	73.24	Metallurgical spar FK-85	th tonnes	11
	-	-	Metallurgical spar FK-80	th tonnes	0
	-	295.69	Metallurgical spar FK-75	th tonnes	86
	-	2.78	Metallurgical spar FK-65	th tonnes	19
	-	262.57	Fluorspar ore FR	th tonnes	699
Fluorspar	-	-	Preparation and excavation done	-	-
Polymetal	th tonnes	679.90	Lead concentrate	th tonnes	23
Zinc	th tonnes	1,091.54	Zinc concentrate	th tonnes	118

4 Reconciliation results

The consortium of BDO Tunisia and BDO Mongolia LLC (“the Independent Administrator”) was mandated to undertake 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.

The Independent Administrator relied on the completed reporting templates, information and explanations obtained from reporting entities. No verification was made as to the accuracy or completeness of such information. In order to ensure accuracy and reliability of the information received from the reporting entities, the Independent Administrator received the management representation letter, audit statements, audit reports and opinion thereof from 202 companies. However, 113 companies did submit neither of these assertions.

The EITI report incorporates the information of payments and revenues and additional information received up to 25 November 2019. Any information received after this date were not, therefore, included in the report.

4.1 Determination of the reconciliation scope

In determining the scope for the 2018 EITI report of Mongolia, the following points were considered in conjunction 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.

During the inception phase, the Independent Administrator reviewed the contents and information required in the 2018 MEITI report, and engagement ToR Appendix and we organized 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 3 October 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.

4.1.1 Materiality threshold

The materiality threshold for the selection of companies, was based on the revenues received by the Government from mining and petroleum industry using the Government report provided by the EITI Secretariat on 26 September 2019. Materiality of payments and revenues to be included in EITI reconciliation report was discussed with the MSWG during the Inception Workshop and the MSWG agreed the followings.

The Materiality threshold¹ for 2018 EITI Report is set at MNT 200 million. The following analysis illustrates the interval and percentage used to establish a threshold for all reporting companies:

Company total payment to the Government (in MNT)	Number of companies	Amount of payment (MNT)	Percentage	Percentage (cumulative)	Number of companies (cumulative)
Amount >= 500 billion	1	600,438,611,856	21.00%	21.00%	1
500 billion > Amount >= 100 billion	6	1,599,633,597,387	55.96%	76.96%	7
100 billion > Amount >= 1 billion	59	552,715,430,470	19.33%	96.30%	66
1 billion > Amount >= 500 million	46	31,439,227,293	1.10%	97.40%	112
Amount >= 200 million	92	29,398,164,223	1.03%	98.43%	204
200 million > Amount >= 100 million	120	16,817,597,331	0.59%	99.01%	324
100 million > Amount	1,730	28,196,070,483	0.99%	100.00%	2,054
	2,054	2,858,638,699,043	100%		

As shown above, a total of 204 companies should be selected covering 98.43% of total revenues reported.

However, after analysing the list of 204 companies, the Independent Administrator identified that the main activities for 12 companies are not related to the extractive industries. These 12 entities have also made no payments associated with mining licenses.

These companies have been eliminated from the reconciliation scope.

List of companies eliminated:

Registration number	Company name	Amount of payment (MNT)	Description
2016192	Bayan Uul LLC	330,236,590	The main activity is sewing plant and construction
2057573	Max Impex LLC	720,546,795	Eliminated in the 2017 EITI report
2571889	Molor Trade LLC	989,717,518	Concrete manufacturing
2593009	Bridge Construction LLC	249,784,299	Eliminated in the 2017 EITI report
2643987	Khentii us LLC	442,251,132	Public utility company
2697807	Uujim od LLC	572,016,819	Did not submit any report, no tax payment related to extractive industry
2808676	BUTI LLC	407,708,507	Construction company
3306437	Dornogobi AZZA SOE	192,266,707	Road construction company
3615243	Uguumur Gaviluud LLC	252,850,052	Warehouse rentals and human resource advice etc
5272378	Zuunnaiman oil LLC	1,890,606,523	Conducts international trade
5385075	Dardangobi LLC	294,916,947	Eliminated in the 2017 EITI report
5961149	Tsirkon geology LLC	193,060,520	Geological service company
Total		6,535,962,409	

The following changes have been made on the analysis after eliminating 12 non-extractive companies:

In MNT	Number of companies	Amount of payment (MNT)	Percentage	Percentage (cumulative)	Number of companies (cumulative)
Amount >= 500 billion	1	600,438,611,856	21.05%	21.05%	1
500 billion > Amount >= 100 billion	6	1,599,633,597,387	56.09%	77.14%	7
100 billion > Amount >= 1 billion	58	550,824,823,947	19.31%	96.45%	65
1 billion > Amount >= 500 million	43	29,156,946,161	1.02%	97.47%	108
500 million > Amount >= 200 million	86	27,420,416,696	0.96%	98.44%	194
200 million > Amount >= 100 million	118	16,432,270,104	0.58%	99.01%	312
100 million > Amount	1,730	28,196,070,483	0.99%	100.00%	2,042
	2,042	2,852,102,736,634	100%		

As a result, a total of 194 companies were selected covering 98.44% of total revenues reported. Additionally, the MSWG has decided to add the following companies to the reconciliation scope.

No.	Registration number	Company name	Type of mineral	Criteria from MSWG
1	2621169	S J Group LLC	Gold	Less tax paid, large area
2	5459362	O E L LLC	fluorspar	Less tax paid, large area
3	5255791	Oldman LLC		Did not submit report, tax not paid, large area
4	5287227	K M Mining LLC		Did not submit report, tax not paid, large area
5	2687968	EAI LLC	Coal	Large area; significant amount of tax paid
6	5161312	Altantevsh LLC	Coal	Large area; significant amount of tax paid
7	2672146	Adamas Mining LLC		The strategic deposit and large area and significant amount of tax paid, uranium-licensed entity
8	2023202	Mandal Altai group LLC	bbl/m	Area of widespread and significant amount of tax paid

4.1.2 List of companies

According to the above materiality analysis, 202 extractive companies were selected in the reconciliation scope. Details of these companies are shown below:

Activity	Number of companies	Amount received by Government (MNT mln)	Percentage
Mining – Exploration	22	12,453,835	0.44%
Mining - Exploitation	120	2,112,948,956	75.03%
Mining– Exploration and exploitation	51	226,400,097	8.04%
Gas & oil – Exploration and exploitation	8	279,930,755	9.94%
Mining, Gas & oil - Exploration and exploitation	1	184,449,980	6.55%
Total	202	2,816,183,623	100.00%

4.1.3 List of revenue streams

All revenue streams reported by Government entities and companies in the EITI E-reporting system were included in the reconciliation without any materiality threshold. The revenue streams included in the reconciliation exercise are as follows:

Revenue streams	Total amount of 2052 company (MNT mln)	%	Amount of 202 companies selected (MNT mln)	%	% cumulative
A. Taxation, payment, fee and dividend paid to State Budget					
Fee and extra charges for exploitation of mineral resources	1,013,979,196	35.04%	1,012,170	34.81%	34.81%
Corporate income tax	654,295,384	22.61%	650,991	22.39%	57.19%
Social and health insurance charges paid from entity	230,166,436	7.95%	217,630	7.48%	64.68%
Petroleum income per Government according to PSA	222,514,737	7.69%	222,515	7.65%	72.33%
Value Added tax (Customs)	147,201,239	5.09%	144,614	4.97%	77.30%
Value Added tax (MTA)	116,927,086	4.04%	112,852	3.88%	81.19%
Customs service fee	77,063,878	2.66%	76,131	2.62%	83.80%
Customs tax	70,112,710	2.42%	68,787	2.37%	86.17%
Fee for air pollution	40,103,188	1.39%	40,051	1.38%	87.55%
License fee for exploitation and exploration of mineral resources	38,066,364	1.32%	19,322	0.66%	88.21%
Royalty	33,486,815	1.16%	33,487	1.15%	89.36%
Advance payments paid to GoM	32,189,359	1.11%	32,128	1.10%	90.47%
Excise tax on vehicle fuel and oil materials	13,211,037	0.46%	12,606	0.43%	90.90%
Other	11,158,545	0.39%	11,095	0.38%	91.28%
Workplace payment of foreign specialist and labour force	6,900,222	0.24%	6,763	0.23%	91.51%

Revenue streams	Total amount of 2012 company (MNT mln)	%	Amount of 202 companies selected (MNT mln)	%	% cumulative
Dividend on State Property	3,200,000	0.11%	3,200	0.11%	91.62%
Tax on petrol and diesel fuel	1,963,381	0.07%	1,946	0.07%	91.69%
License fee for exploitation and exploration of mineral resources	1,809,181	0.06%	1,592	0.05%	91.75%
Bonus for training in according to Product sharing agreement	1,544,736	0.05%	1,545	0.05%	91.80%
Operational support to Representative office under PSA	1,311,520	0.05%	1,312	0.05%	91.84%
Reimbursement for deposit exploration conducted with State funds	541,824	0.02%	226	0.01%	91.85%
Penalty	450,754	0.02%	248	0.01%	91.86%
Fee paid for transferring production sharing agreement rights	96,710	0.00%	48	0.00%	91.86%
Reimbursement	10,000	0.00%	986	0.03%	91.90%
Contribution at rate of 50% to Environment protection expense to the Special Account	3,700	0.00%	63,736	2.19%	94.09%
B. Taxation, payment, fee and dividend paid to Local budget					
Dividend on Local State Property	64,732,700	2.24%	64,733	2.23%	96.31%
Fee for water use	38,266,581	1.32%	37,983	1.31%	97.62%
Real estate tax	25,719,201	0.89%	25,423	0.87%	98.49%
Other	16,118,613	0.56%	15,032	0.52%	99.01%
Land fee	12,143,623	0.42%	11,533	0.40%	99.41%
Fee for use of mineral resources of widespread	7,654,514	0.26%	7,442	0.26%	99.66%
Donation and support paid to state-owned entities	6,310,953	0.22%	5,310	0.18%	99.85%
Penalty	2,813,154	0.10%	2,664	0.09%	99.94%
Tax on vehicles and self-moving mechanisms	950,111	0.03%	880	0.03%	99.97%
Reimbursement	361,507	0.01%	291	0.01%	99.98%
Bonus received for local development under PSA	293,240	0.01%	293	0.01%	99.99%
Contribution at rate of 50% to Environment protection expense to the Special Account	214,164	0.01%	89	0.00%	99.99%
Fee for water pollution	208,006	0.01%	208	0.01%	100.00%
Workplace payment of foreign specialist and labour force	30,400	0.00%	30	0.00%	100.00%
Total	2,894,124,769	100.00%	2,907,892	100.00%	

4.1.4 Selection of Government entities

The government entities to be included in the 2018 EITI reconciliation are those which receive the selected streams. The following government entities were agreed by the MSWG members to be included in the EITI reconciliation exercise:

- 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 as agreed by MSWG:

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

4.1.5 Selection of companies

МОУИТЭС-ын Ажлын Албаны нэгтгэсэн ЗГ-ын тайланд 1,986 компани, компанийн тайланд 1,490 компани тус тус хамрагдсан. ЗГ-ын тайлагнасан мэдээлэл нь компанийн тайлагнасан мэдээллээс илүү иж бүрэн байсан тул компаниудыг сонгохдоо ЗГ-ын тайлагнасан мэдээлэл дээр үндэслэсэн болно.

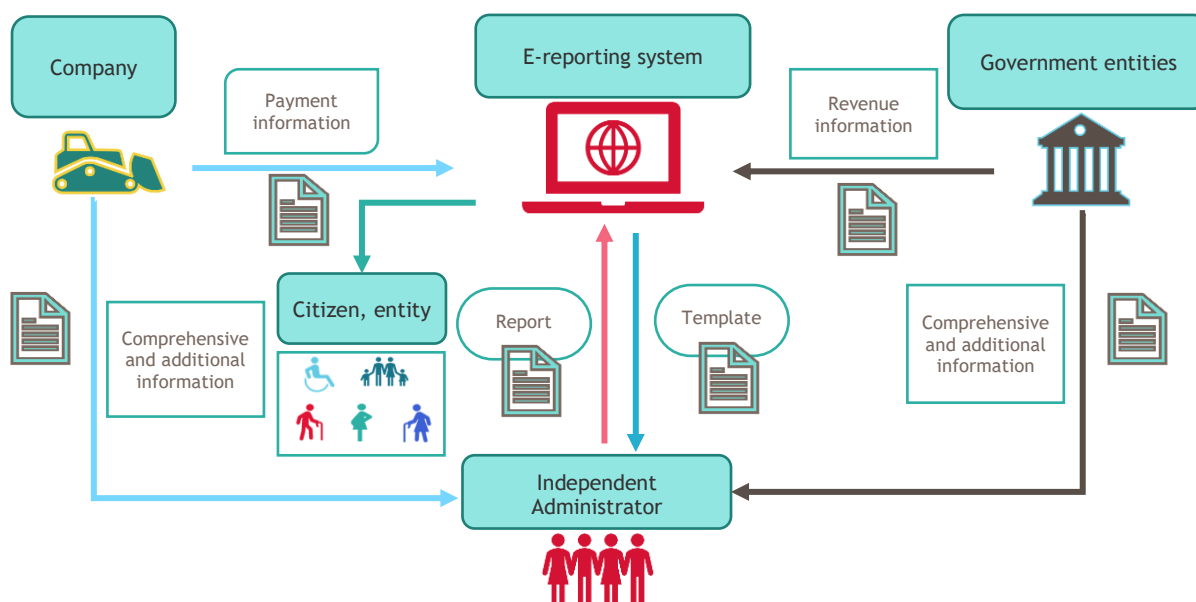
1,986 companies reported by the Government and 1,490 companies reported by the companies which were consolidated by the EITI Secretariat included in the reconciliation scope. The data reported by the Government was more complete than the information reported by the companies and thus the companies were selected on the basis of the information reported by the Government.

The 'Material threshold' in the EITI report is set to be at USD 200 million.

Additional 8 companies were added to the 194 companies selected for the preliminary selection as requested by the MSWG and a total of 202 companies were selected for the reconciliation.

4.2 Data collection process

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, and management representation letters from the companies were also collected to ensure reliability of collected information. In addition, representation letters from government entities for confirming the reliability of their information regarding mining sector background information and statistical data were collected. The participation of the parties in the e-reporting system is illustrated below:



4.2.1 Reporting templates used in the 2018 reconciliation

License holders for minerals, radioactive minerals, minerals with common occurrences and contractors under PSAs are required to report 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 48.10 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 reporting templates were amended by Resolution No.43 approved by the Minister of Finance dated 5 February 2016. The Independent Administrator was appointed on 31 August 2019 and introduced changes to the reporting templates in relation to the EITI 2019 standard. The templates were approved by the MSWG at the inception workshop.

4.2.2 Level of disaggregation

The EITI Standard Requirement 4.7 stipulates 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 MSWG, it was agreed that the results of the reconciliation should be reported by individual company, government entity and revenue stream in the 2018 Mongolia report.

Section 4 of this report disaggregated the revenues generated by the extractive sector by company, government entity and revenue stream.

As described in more detail in Section 2.3, extractive activities in Mongolia are undertaken according to the following:

- exploration for minerals is authorised by an exploration license,
- exploitation of minerals is authorised by an exploitation license, or
- prospecting for Oil & Gas is authorised by a prospecting license.

Before initiating exploration and/or production activities for Oil & Gas, the operator should sign a Production Sharing Agreement (PSA) and be granted:

- an exploration license, giving permission to explore for Oil & Gas, or
- an exploitation license, giving permission to produce Oil & Gas.

As a result, extractive activities in Mongolia are carried out under individual license, supplemented in the case of Oil & Gas by a PSA. A project is defined as the operational activities that are governed by a single contract, agreement, license; and that forms the basis for payment liabilities with a government.

The e-reporting system does not foresee the disaggregation of the reported data by license. In addition, Government agencies and companies did not prepare breakdown of streams by license. As a result, the disaggregation of payments/revenues by project could not be presented in the current report.

The table below sets out payments reported, showing whether they are levied at a project level (license) or at an entity level.

№	Type of taxes	Levied based upon		Amendment required to e-reporting template
		Company	License	
1	Fee and extra fee for exploration and exploitation 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)	✓		
6	Value added tax (Tax administration)	✓		
7	Customs service fee	✓		
8	Customs duty	✓		
9	License fee for exploration and exploitation 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		✓	✓
15	Donations to government entities	✓		
16	Reimbursement for deposit exploration conducted with State funds		✓	✓
17	Traning bonus paid under PSA (for the year)		✓	✓
18	License fee for exploration and exploitation of petroleum		✓	✓
19	Tax on vehicle's gasoline and diesel fuel	✓		
20	Operational support to Representative office under PSA		✓	✓
21	Subnational financial streams for inclusion			
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		✓	✓
10	Reimbursement	✓		
11	Dividend on local state property	✓		
12	Fee for recruiting foreign experts and workers	✓		

4.2.3 Data quality and assurance

4.2.3.1 Audit and assurance background in Mongolia

The main specific laws in force regulating the accounting and auditing in Mongolia are listed below:

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 applying International Financial Reporting Standards (“IFRS”),
- Entities preparing consolidated financial statements,
- Foreign invested entities,
- Other entities having their financial statements audited according to an international treaty which Mongolia shall comply with.

Accounting Law of Mongolia (2015)

The Article 4.2 of the Accounting Law listed the entities that should apply IFRS and are subject to external auditing of financial statements. These entities are listed below:

IFRS is mandatory for	IFRS for SMEs is mandatory for
<ul style="list-style-type: none"> • Companies listed on domestic and foreign stock markets, • Companies requesting to be listed on domestic and foreign stock markets, • Entities holding licenses in banking, financial services and activities other than banking, mineral resources exploration and mining, and production of petroleum products, • State or local government owned entities and other entities in which they have participation, • Political parties and non-governmental organizations implementing government responsibilities as stated in Article 19 of the Law on the Government of Mongolia, • Special purpose companies in affiliation with commercial banks and entities providing investment funding services. 	<ul style="list-style-type: none"> • Entities and individuals conducting business in manufacturing and with less than 199 workers and annual sales of less than MNT 1.5 billion, • Entities and individuals conducting wholesale business and with less than 149 workers and annual sales of less than MNT 1.5 billion, • Entities and individuals conducting retail business and with less than 199 workers and annual sales of less than MNT 1.5 billion, • Entities and individuals carrying out service and with less than 49 workers and annual sales of less than MNT 1 billion, • 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.

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.

4.2.3.1 Audit practice in Mongolia

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

4.2.3.2 Assurance procedures for EITI reporting

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

Government Ministries and agencies

It was agreed by the MSWG that “management representation letter will be provided in written by reporting government entities/agencies as an assurance of the reliability of reports and information”. 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”.

MNAO explained that the information of the inspection report on the mining companies is available on the website.

State-owned enterprises

The MSWG decided to require from executive management of SOEs to provide assurance for the report and information in written form by an authorized individual who would represent Board of Directors and provide a copy of its audited financial statements. The details of the response from the SOEs and the information on audited financial statements of the SOEs are included in the Appendix 19.

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

Private companies

The MSWG decided to require executive management of companies to provide assurance for their information in written form by an authorized individual who would represent Board of Directors and to provide audited financial statements. The Independent Administrator recommendation was to provide complete audited financial statements, besides the audit conclusion, in order to increase the assurance.

The responses from companies’ submission of audited financial statements are included in the Appendix 1 and Appendix 19. 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 audited in accordance with ISA and expressed true and fair”. The responses from auditors of the private companies are included in the Appendix 7.

4.3 Reconciliation results

4.3.1 Key conclusions

The results of the reconciliation are summarized below:

(in th. MNT)

Initial report	Number of comp.	Company	Selected revenue streams Number Of comp.	Government	Number of comp.	Difference
Number of companies		179		202		
State owned enterprises	7	1,175,723,631	7	1,080,186,545	0	95,537,086
LLC	172	1,742,897,979	195	1,727,604,899	23	15,293,080
Result of the initial reconciliation		2,918,621,610		2,807,791,444		110,830,166
Reconciliation result						
Adjustment		(101,323,239)		9,227,914		(110,551,153)
Amount after reconciliation		2,817,298,371		2,817,019,358		279,013
Percentage in Government revenue						0.01%
Less: Amount of companies that did not send the reconciliation template	7	2,448,707	7	2,296,731	7	151,976
Unreconciled difference:						127,037
Percentage in Government revenue:						0.00%

4.3.2 Key conclusions

1. A total of 202 companies were selected for the EITI report 2018. The Independent Administrator tried to contact each company involved in the reconciliation.

A total of 39 payment streams were included in the category "main payment" were subject to a reconciliation work. 20 revenue streams were classified as "voluntary" and were included in this report through a unilateral disclosure from Government data.

Due to the lack of contact details for 7 companies, the Independent Administrator was unable to communicate with them and request detailed information. These companies are as follows:

No	Company registration number	Company name	Whether the company submit the report in e-reporting system
1	5752728	Shtainkole	Reported
2	5584469	Galaxy Mining	No report
3	5459362	OEL	Reported
4	5267994	Altairgold	Reported
5	5089263	Afro Asia Minerals	Reported
6	5294088	Bilegt Baylag	Reported
7	5767865	Caina Investment Mongolia	Reported

2. The following companies, included in the reconciliation and holding mining licenses, have not been involved in extractive activities. Adjustments were made to their payments in order to deduct revenues not linked to the extractive sector.

No.	Company registration number	Company name
1	2061899	Bayars construction
2	2054701	Gatsuurt
3	2096102	DHL
4	5112494	Mongol Basalt
5	2082489	Magnai Trade
6	2068508	Reactive
7	2076675	Ulaanbaatar Railway /Stone plant
8	2630478	Geomaster
9	2816377	Oros Gerel
10	5191823	Remicon
11	5542162	Golden Gobi Resource
12	2579634	MEC
13	2095092	Gangar Invest
14	2070022	Narantuul Trade
15	2875578	Universal Copper
16	2659603	Ochir Undraa

3. From the companies involved in the reconciliation, 84 companies have provided external auditor statements.

4. The initial reconciliation of payments and receipts resulted in a net initial difference amounting to MNT 110,830,166 thousand between total payments reported by the extractive companies and total revenue received by the government entities which represents 4% of the reported government receipts.

Item	Company (MNT th.)	Government (MNT th.)	Discrepancy (MNT th.)	Percentage
Total main payments reported	2,918,621,610	2,807,791,444	110,830,166	4%

5. The total unreconciled discrepancies at the end of the reconciliation work decreased to MNT 279,013 thousand which represent 0.01% of the reported by government receipts.

Item	Company (MNT th.)	Government (MNT th.)	Discrepancy (MNT th.)	Percentage
Total main payments reported	2,817,298,371	2,817,019,358	279,013	0.01%

After adjustment, the net difference of MNT 279,013 thousand represents the aggregate of the the positive differences amounting to MNT 426,900 thousand and the negative differences of MNT (150,747) thousand which are detailed in the following sub-sections.

The table below shows a summary of the unreconciled discrepancies of the significant payment amount reported by the companies.

No.	Company	Company (MNT th.)	Government (MNT th.)	Difference (MNT th.)	Percentage in Government amount	Percentage
22	Erdenet Mining Corporation SOE	651,938,903	651,970,680	(31,777)	23.14%	-11.39%
54	Oyu Tolgoi LLC	466,940,445	466,940,447	(2)	16.58%	0.00%
151	Erdenes Tavan Tolgoi JSC	416,331,977	416,328,509	3,468	14.78%	1.24%
24	PetroChina Dachin Tamsag LLC	266,090,305	266,090,306	(1)	9.45%	0.00%
31	Mongolyn Alt MAK LLC	184,421,552	184,449,980	(28,428)	6.55%	-10.19%
7	Tavantolgoi JSC	177,141,726	177,143,513	(1,787)	6.29%	-0.64%
87	Energy Resource LLC	124,254,958	124,258,384	(3,426)	4.41%	-1.23%
40	Cairt Mineral LLC	81,035,550	81,035,549	1	2.88%	0.00%
74	Shin shin LLC	41,373,631	41,373,631	-	1.47%	0.00%
126	Usukh zoos LLC	31,967,745	31,967,373	372	1.13%	0.13%
	Other	375,801,579	375,460,986	340,593	13.33%	122.07%
	Total payment	2,817,298,371	2,817,019,358	279,013	100.00%	100.00%

Of which, the companies with major differences are:

- Total unreconciled discrepancy amounting to MNT (31,777) thousands of Erdenet Mining Corporation SOE is related to payment for recruiting foreign experts and workers and the company did not provide a detailed and relevant explanation of the discrepancies after reconciliation.
- Total unreconciled discrepancy amounting to MNT (28,428) thousands of Mongolyn Alt Mak LLC is related to payment for recruiting foreign experts and workers, Customs fee, land fee and the company did not provide a detailed and relevant explanation of the discrepancies after reconciliation.

6. The companies with significant amount of unreconciled discrepancies are as follows:

No.	Company	Company (MNT th.)	Government (MNT th.)	Difference (MNT th.)	Percentage in Gov. revenue	Percentage
135	Bilegt bayalag LLC	624,431	572,202	52,229	0.02%	18.72%
170	Shtainkole LLC	578,487	535,192	43,295	0.02%	15.52%
152	ML Tsakhiurt Ovoo LLC	663,591	623,989	39,602	0.02%	14.19%
106	Capcorp Mongolia LLC	3,142,558	3,111,153	31,405	0.11%	11.26%
200	O E L LLC	32,663	5,935	26,728	0.00%	9.58%
133	Altairgold LLC	319,209	292,686	26,523	0.01%	9.51%
132	C O A L LLC	27,334,319	27,315,410	18,909	0.97%	6.78%
164	Enkhtunkh Orchlön LLC	157,685	167,067	(9,382)	0.01%	-3.36%
14	Sharyn gol JSC	6,046,186	6,061,724	(15,538)	0.22%	-5.57%
31	Mngolyn Alt Mak LLC	184,421,552	184,449,980	(28,428)	6.55%	-10.19%
22	Erdenet Mining Corporation SOE	651,938,903	651,970,680	(31,777)	23.14%	-11.39%
15	Darkhan Metallurgical plant JSC	7,328,402	7,364,224	(35,822)	0.26%	-12.84%
	Other	1,934,710,385	1,934,549,116	161,269	68.67%	57.80%
	Total payment	2,817,298,371	2,817,019,358	279,013	100%	100%

Of which, the companies with major differences are:

- Total unreconciled discrepancy amounting to MNT (52,229) thousands of Bilegt Bayalag LLC is related to payment for customs fee and the company did not provide a detailed and relevant explanation of the discrepancies after reconciliation.
- Total unreconciled discrepancy amounting to MNT (43,295) thousands of Shtainkole LLC is related to payment for customs fee, donations to government entities and the company did not provide a detailed and relevant explanation of the discrepancies after reconciliation.

Please refer to Appendix 9 for a chart presents the total unreconciled differences reported by all companies.

IX. We present in the table below a summary of the unreconciled differences by payment stream after the reconciliation work.

Ref.	Description of the payment	Company (MNT th.)	Government (MNT th.)	Difference (MNT th.)
A. Taxation, payment, fee and dividend paid to State budget				
1.1. Taxation		933,077,008	933,137,173	(60,165)
1.1.1	Corporate income tax	648,743,214	648,743,890	(676)
1.1.2	Customs tax	61,422,302	61,432,774	(10,472)
1.1.3	Value Added Tax (paid to MTA)	106,227,770	106,235,537	(7,767)
1.1.4	Value Added Tax (Customs)	116,561,247	116,610,087	(48,840)
1.1.5	Excise tax on vehicle fuel and oil materials	122,475	114,885	7,590
1.1.6	Tax on petrol and diesel fuel	-	-	-
1.2. Payment		1,295,488,343	1,295,794,339	(305,996)
1.2.1	Fee and extra charges for exploitation of mineral resources	1,012,486,413	1,012,490,759	(4,346)
1.2.2	License fee for exploitation and exploration of mineral resources	20,111,785	20,082,375	29,410
1.2.3	Reimbursement for deposit exploration conducted with State funds	2,028,373	2,028,373	-
1.2.7	License fee for exploitation and exploration of petroleum	1,651,726	1,651,726	-
1.2.9	Fee paid for transferring production sharing agreement rights	167,909	167,909	-
1.2.10	Workplace payment of foreign specialist and labour force	13,052,028	13,375,455	(323,427)
1.2.11	Fee for air pollution	40,081,227	40,080,143	1,084
1.2.12	Social and health insurance charges paid from entity	205,908,882	205,917,599	(8,717)
1.3. Service fees paid to Ministries, government agencies		72,560,845	72,204,189	356,656
1.3.1	Customs service fee	69,704,430	69,347,798	356,632
1.3.3	Bonus for training in according to Product sharing agreement	1,544,872	1,544,871	1
1.3.4	Fee for supporting field office in according to Product sharing agreement	1,311,543	1,311,520	23
1.4. Dividend on State Property		35,287,247	35,287,247	-
1.4.1	Dividend on State Property	35,287,247	35,287,247	-
1.5. Advance payments paid to GoM and other payments		256,001,551	256,001,552	(1)
1.5.1	Advance payments paid to GoM	-	-	-
1.5.3	Petroleum income per Government according to Product sharing agreement	222,514,737	222,514,737	-
1.5.4	Royalty	33,486,814	33,486,815	(1)
1.6. Other		44,326,399	44,286,444	39,955
1.6.1	Penalty	372,611	345,710	26,901
1.6.2	Reimbursement	72,153	72,153	-
1.6.3	Contribution of 50% to Environment protection expense to the Special Account	537,649	531,930	5,719
1.6.4	Other	43,343,986	43,336,651	7,335
B. Taxation, payment, fee and dividend paid to Local budget				
2.1. Taxation paid to local budget		28,511,262	28,499,630	11,632
2.1.1	Real estate tax	27,256,401	27,259,278	(2,877)
2.1.2	Tax on vehicles and self-moving mechanisms	1,254,861	1,240,352	14,509
2.2. Payment		58,640,387	58,602,478	58,486,765
2.2.1	Land fee	14,869,656	14,764,096	105,560
2.2.2	Fee for water use	41,214,036	41,200,259	13,777
2.2.3	Fee for water pollution	-	60	(60)
2.2.4	Fee for use of mineral resources of wide spread	1,665,306	1,668,870	(3,564)
2.2.5	Workplace payment of foreign specialist and labour force	386,400	386,400	-
2.2.6	Bonus received for local development under PSA	467,080	467,080	-
2.3. Dividend on Local State Property		64,789,138	64,789,138	64,790,925
2.3.1	Dividend on Local State Property	64,789,138	64,790,925	(1,787)
2.4. Other		5,607,867	5,631,395	5,585,784
2.4.1	Penalty	3,527,062	3,490,714	36,348
2.4.2	Reimbursement	244,746	295,084	(50,338)
2.4.3	Contribution of 50% to Environment protection expense to the Special Account	326,911	308,734	18,177
2.4.4	Other	1,532,676	1,491,252	38,522
3. Donation and assistance paid to state entities				
3.1	Monetary donation and assistance received by Government entities	19,175,394	19,068,080	120,621
3.2	Non-monetary donation and assistance received by Government entities	3,847,311	4,820,188	56,774
	Total payment	2,817,298,371	2,817,019,358	279,013

4.3.3 Reconciliation work

4.3.3.1 Reconciliation of mining companies

The differences between major payments paid by companies and major payments received by government agencies are shown in the below table. This table illustrates only the main payment flows.

(in th. MNT)

No.	Company name	Initial amount			Adjustment			Final amount			
		Company	Government	Difference	Company	Government	Difference	Company	Government	Difference	
1	135	Bilegt Bayalag LLC	2,043,876	568,231	1,475,645	(1,419,445)	3,971	(1,423,416)	624,431	572,202	52,229
2	22	Erdenet Mining Corporation SOE	688,657,846	600,438,612	88,219,234	(36,718,943)	51,532,068	(88,251,011)	651,938,903	651,970,680	(31,777)
3	15	Darkhan metallurgical plant JSC	19,685,956	7,200,553	12,485,403	(12,357,554)	163,671	(12,521,225)	7,328,402	7,364,224	(35,822)
4	170	Shtainkole LLC	578,487	534,119	44,368	-	1,073	(1,073)	578,487	535,192	43,295
5	54	Oyu Tolgoi LLC	466,940,445	416,066,649	50,873,796	-	50,873,798	(50,873,798)	466,940,445	466,940,447	(2)
6	14	Sharyn gol JSC	6,461,012	5,191,479	1,269,533	(414,826)	870,245	(1,285,071)	6,046,186	6,061,724	(15,538)
7	152	ML Tsakhiurt Ovoo LLC	660,937	611,139	49,798	2,654	12,850	(10,196)	663,591	623,989	39,602
8	151	Erdenes Tavan Tolgoi JSC	415,180,072	423,113,648	(7,933,576)	1,151,905	(6,785,139)	7,937,044	416,331,977	416,328,509	3,468
9	164	Enkhtunkh Orchlun LLC	86,367	252,704	(166,337)	71,318	(85,637)	156,955	157,685	167,067	(9,382)
10	106	Capcorp Mongolia LLC	3,129,245	3,001,708	127,537	13,313	109,445	(96,132)	3,142,558	3,111,153	31,405
11	24	Petrochina Dachin Tamsag LLC	283,319,184	269,722,909	13,596,275	(17,228,879)	(3,632,603)	(13,596,276)	266,090,305	266,090,306	(1)
12	179	Zaamar gold LLC	874,094	1,328,409	(454,315)	195,150	(252,407)	447,557	1,069,244	1,076,002	(6,758)
13	200	O E L LLC	32,663	3,436	29,227	-	2,499	(2,499)	32,663	5,935	26,728
14	31	Mongolyn Alt Mak LLC	165,334,157	186,308,728	(20,974,571)	19,087,395	(1,858,748)	20,946,143	184,421,552	184,449,980	(28,428)
15	133	Altair Gold LLC	318,084	231,714	86,370	1,125	60,972	(59,847)	319,209	292,686	26,523
16		Other	865,319,185	893,217,406	(27,898,221)	(53,706,452)	(81,788,144)	28,081,692	811,612,733	811,429,262	183,471
		Total	2,918,621,610	2,807,791,444	110,830,166	(101,323,239)	9,227,914	(110,551,153)	2,817,298,371	2,817,019,358	279,013

4.3.3.2 Reconciliation of tax revenue streams

The reconciliation of payments made by mining companies and payments received by government agencies is summarized below:

(in th. MNT)

No.	Main payments	Initial amount			Adjustment			Final amount		
		Company	Government	Difference	Company	Government	Difference	Company	Government	Difference
A. Taxation, payment, fee and dividend paid to State Budget										
1.1. Taxation		930,650,712	991,795,231	(61,144,519)	2,426,296	(58,658,058)	61,084,354	933,077,008	933,137,173	(60,165)
1.1.1	Corporate income tax	646,789,883	650,990,586	(4,200,703)	1,953,331	(2,246,696)	4,200,027	648,743,214	648,743,890	(676)
1.1.2	Customs tax	82,605,008	68,787,069	13,817,939	(21,182,706)	(7,354,295)	(13,828,411)	61,422,302	61,432,774	(10,472)
1.1.3	Value Added Tax (paid to MTA)	109,960,036	112,851,561	(2,891,525)	(3,732,266)	(6,616,024)	2,883,758	106,227,770	106,235,537	(7,767)
1.1.4	Value Added Tax (Customs)	91,288,195	144,614,020	(53,325,825)	25,273,052	(28,003,933)	53,276,985	116,561,247	116,610,087	(48,840)
1.1.5	Excise tax on vehicle fuel and oil materials	7,590	12,605,611	(12,598,021)	114,885	(12,490,726)	12,605,611	122,475	114,885	7,590
1.1.6	Tax on petrol and diesel fuel	-	1,946,384	(1,946,384)	-	(1,946,384)	1,946,384	-	-	-
1.2. Payment		1,295,521,096	1,297,753,288	(2,232,192)	(32,753)	(1,958,949)	1,926,196	1,295,488,343	1,295,794,339	(305,996)
1.2.1	Fee and extra charges for exploitation of mineral resources	1,017,581,222	1,012,170,185	5,411,037	(5,094,809)	320,574	(5,415,383)	1,012,486,413	1,012,490,759	(4,346)
1.2.2	License fee for exploitation and exploration of mineral resources	21,594,798	19,321,558	2,273,240	(1,483,013)	760,817	(2,243,830)	20,111,785	20,082,375	29,410
1.2.3	Reimbursement for deposit exploration conducted with State funds	1,939,112	225,626	1,713,486	89,261	1,802,747	(1,713,486)	2,028,373	2,028,373	-
1.2.7	License fee for exploitation and exploration of petroleum	1,743,933	1,591,840	152,093	(92,207)	59,886	(152,093)	1,651,726	1,651,726	-
1.2.9	Fee paid for transferring production sharing agreement rights	48,216	-	48,216	119,693	167,909	(48,216)	167,909	167,909	-
1.2.10	Workplace payment of foreign specialist and labour force	12,270,052	6,763,005	5,507,047	781,976	6,612,450	(5,830,474)	13,052,028	13,375,455	(323,427)
1.2.11	Fee for air pollution	39,854,124	40,050,968	(196,844)	227,103	29,175	197,928	40,081,227	40,080,143	1,084
1.2.12	Social and health insurance charges paid from entity	200,489,639	217,630,106	(17,140,467)	5,419,243	(11,712,507)	17,131,750	205,908,882	205,917,599	(8,717)
1.3. Service fees paid to Ministries and State administration body		65,273,924	78,987,641	(13,713,717)	7,286,921	(6,783,452)	14,070,373	72,560,845	72,204,189	356,656
1.3.1	Customs service fee	62,570,138	76,131,386	(13,561,248)	7,134,292	(6,783,588)	13,917,880	69,704,430	69,347,798	356,632
1.3.3	Bonus for training in according to Product sharing agreement	1,540,661	1,544,735	(4,074)	4,211	136	4,075	1,544,872	1,544,871	1
1.3.4	Operational support to Representative office under PSA	1,163,125	1,311,520	(148,395)	148,418	-	148,418	1,311,543	1,311,520	23
1.4. Dividend on State Property		3,200,000	-	3,200,000	32,087,247	35,287,247	(3,200,000)	35,287,247	35,287,247	-
1.4.1	Dividend on State Property	3,200,000	-	3,200,000	32,087,247	35,287,247	(3,200,000)	35,287,247	35,287,247	-
1.5. Advance payment to GoM and other payments		295,470,518	256,001,552	39,468,966	(39,468,967)	-	(39,468,967)	256,001,551	256,001,552	(1)
1.5.1	Advance payment to GoM	32,128,185	-	32,128,185	(32,128,185)	-	(32,128,185)	-	-	-

No.	Main payments	Initial amount			Adjustment			Final amount		
		Company	Government	Difference	Company	Government	Difference	Company	Government	Difference
1.5.3	Petroleum income per Government according to Product sharing agreement	229,668,903	222,514,737	7,154,166	(7,154,166)	-	(7,154,166)	222,514,737	222,514,737	-
1.5.4	Royalty	33,673,430	33,486,815	186,615	(186,616)	-	(186,616)	33,486,814	33,486,815	(1)
1.6. Other		112,243,289	11,342,992	100,900,297	(67,916,890)	32,943,452	(100,860,342)	44,326,399	44,286,444	39,955
1.6.1	Penalty	4,196,909	248,215	3,948,694	(3,824,298)	97,495	(3,921,793)	372,611	345,710	26,901
1.6.2	Reimbursement	985,849	-	985,849	(913,696)	72,153	(985,849)	72,153	72,153	-
1.6.3	Contribution of 50% to Environment protection expense to the Special Account	63,736,177	-	63,736,177	(63,198,528)	531,930	(63,730,458)	537,649	531,930	5,719
1.6.4	Other	43,324,354	11,094,777	32,229,577	19,632	32,241,874	(32,222,242)	43,343,986	43,336,651	7,335
B. Taxation, payment, fee and dividend paid to local budget										
2.1.	Taxation paid to local budget	28,224,038	26,302,390	1,921,648	287,224	2,197,240	(1,910,016)	28,511,262	28,499,630	11,632
2.1.1	Real estate tax	27,090,309	25,422,532	1,667,777	166,092	1,836,746	(1,670,654)	27,256,401	27,259,278	(2,877)
2.1.2	Tax on vehicles and self-moving mechanisms	1,133,729	879,858	253,871	121,132	360,494	(239,362)	1,254,861	1,240,352	14,509
2.2. Payment		59,658,326	57,489,284	2,169,042	(1,055,848)	997,481	(2,053,329)	58,602,478	58,486,765	115,713
2.2.1	Land fee	14,554,376	11,533,194	3,021,182	315,280	3,230,902	(2,915,622)	14,869,656	14,764,096	105,560
2.2.2	Fee for water use	39,594,178	37,982,537	1,611,641	1,619,858	3,217,722	(1,597,864)	41,214,036	41,200,259	13,777
2.2.3	Fee for water pollution	560	208,006	(207,446)	(560)	(207,946)	207,386	-	60	(60)
2.2.4	Fee for use of mineral resources of widespread	2,758,955	7,441,907	(4,682,952)	(1,093,649)	(5,773,037)	4,679,388	1,665,306	1,668,870	(3,564)
2.2.5	Workplace payment of foreign specialist and labour force	2,114,075	30,400	2,083,675	(1,727,675)	356,000	(2,083,675)	386,400	386,400	-
2.2.6	Bonus received for local development under PSA	636,182	293,240	342,942	(169,102)	173,840	(342,942)	467,080	467,080	-
2.3. Dividend on Local State Property		99,876,385	64,732,700	35,143,685	(35,087,247)	58,225	(35,145,472)	64,789,138	64,790,925	(1,787)
2.3.1	Dividend on Local State Property	99,876,385	64,732,700	35,143,685	(35,087,247)	58,225	(35,145,472)	64,789,138	64,790,925	(1,787)
2.4. Other		5,983,636	18,076,472	(12,092,836)	(352,241)	(12,490,688)	12,138,447	5,631,395	5,585,784	45,611
2.4.1	Penalty	3,740,117	2,663,786	1,076,331	(213,055)	826,928	(1,039,983)	3,527,062	3,490,714	36,348
2.4.2	Reimbursement	156,736	291,209	(134,473)	88,010	3,875	84,135	244,746	295,084	(50,338)
2.4.3	Contribution of 50% to Environment protection expense to the Special Account	335,716	89,153	246,563	(8,805)	219,581	(228,386)	326,911	308,734	18,177
2.4.4	Other	1,751,067	15,032,324	(13,281,257)	(218,391)	(13,541,072)	13,322,681	1,532,676	1,491,252	41,424
3. Donation and assistance paid to state entities		22,519,686	5,309,894	17,209,792	503,019	17,635,416	(17,132,397)	23,022,705	22,945,310	77,395
3.1	Monetary donation and assistance paid to state entities	18,352,103	3,568,255	14,783,848	823,291	15,586,518	(14,763,227)	19,175,394	19,154,773	20,621
3.2	Non-monetary donation and assistance paid to state entities	4,167,583	1,741,639	2,425,944	(320,272)	2,048,898	(2,369,170)	3,847,311	3,790,537	56,774
Total payment		2,918,621,610	2,807,791,444	110,830,166	(101,323,239)	9,227,914	(110,551,153)	2,817,298,371	2,817,019,358	279,013

4.3.3.3 Adjustment of companies reported data

The adjustments were carried out on the basis of confirmations from extractive companies and government entities or supported by adequate evidence wherever deemed appropriate. Summary of the adjustments are shown below:

No.	Type of adjustments made to the amount reported by company	Additional information	Total amount (MNT th.)
1	Tax paid not reported	(a)	43,662,180
2	Tax paid reported but outside the period covered	(b)	(2,233,233)
3	Tax paid reported but outside the reconciliation scope	(c)	(7,529,816)
4	Tax amount incorrectly reported (d)	(d)	(22,787,310)
5	Tax reported but not paid	(e)	(111,902,616)
6	Tax paid on other identification number	(f)	(802,977)
7	Exchange rate difference	(g)	270,533
8	Tax incorrectly classified	(h)	-
Total adjustment amount			(101,323,239)

(a) Tax paid not reported

Taxes paid by companies but not reported and adjustments made are summarized below:

No.	Company name	Total tax paid not reported	Corporate income tax	Social and health insurance contribution by companies	Customs fee	Government share of petroleum revenue under PSA	Other taxation	Total percentage	Percentage (cumulative)
69	Dongshen Petroleum Mongolia LLC	13,502,890	5,369	462,068	6,919	7,447,989	5,580,545	30.91%	30.91%
120	MonEnco LLC	5,667,106	5,667,106	-	-	-	-	12.97%	43.89%
109	Altain Khuder LLC	3,284,746	-	-	2,496,275	-	788,471	7.52%	51.41%
15	Darkhan metallurgical plant JSC	1,826,832	-	-	1,688,601	-	138,231	4.18%	55.59%
132	C O A L LLC	1,662,593	-	-	-	-	1,662,593	3.81%	59.40%
128	Badmaarag Khash LLC	1,583,600	-	32,162	292,013	-	1,259,425	3.63%	63.02%
151	Erdenes Tavan Tolgoi JSC	1,164,342	-	-	-	-	1,164,342	2.67%	65.69%
175	Draper Capital Mongolia LLC	945,731	-	784,320	-	-	161,411	2.17%	67.85%
78	Esto LLC	879,335	7,182	769,301	-	-	102,852	2.01%	69.87%
193	Olon Ikht Bayan LLC	646,759	646,759	-	-	-	-	1.48%	71.35%
	Other	12,515,281	1,161,763	3,431,061	447,271	-	7,475,186	28.65%	100.00%
Total adjustment		43,679,215	7,488,179	5,478,912	4,931,079	7,447,989	18,333,056		

The above adjustment has been made based on the supporting documents received from the companies. Several taxes were not reported such as corporate income tax, VAT paid to Customs, Customs service fee and Petroleum income per Government according to Product sharing agreement, donations and assistance received by local budget.

(b) Tax paid reported but outside the period covered

These are tax payments reported, but which fall outside the reconciliation period, i.e. before 1 January or after 31 December 2018 and relevant adjustments were made to the amounts reported by the company. The company's adjusted amount of tax and the type of tax adjustment are illustrated below:

(in th. MNT)

No.	Company name	Total adjustment amount	Corporate income tax	Value added tax (paid to MTA)	Fee and extra charges for exploitation of mineral resources	Donation and assistance received by Government entities	Other taxation	Total percentage	Percentage (cumulative)
126	Usukh zoos LLC	(1,000,000)	(1,000,000)	-	-	-	-	44.78%	44.78%
82	Tod Undarga LLC	(581,758)	-	-	-	(581,758)	-	26.05%	70.83%
14	Sharyn gol JSC	(400,000)	(100,000)	(100,000)	(200,000)	-	-	17.91%	88.74%
6	Bayanteeg LLC	(170,000)	-	(170,000)	-	-	-	7.61%	96.35%
177	Bayangol Eco Zaamar LLC	(46,276)	-	-	-	-	(46,276)	2.07%	98.42%
164	Enkhtunkh Orchlön LLC	(18,300)	-	-	-	-	(18,300)	0.82%	99.24%
47	Khukh Burdnii Ekh LLC	(10,000)	-	(10,000)	-	-	-	0.45%	99.69%
109	Altain Khuder LLC	(5,674)	-	-	-	-	(5,674)	0.25%	99.95%
	Other	(1,225)	-	-	-	-	(1,225)	0.05%	100.00%
	Total adjustment	(2,233,233)	(1,100,000)	(280,000)	(200,000)	(581,758)	(71,475)		

(c) Tax paid reported but outside the reconciliation scope

These are adjustments made to amounts reported by extractive companies for the following reasons:

- Companies not operating in the extractive sector;
- other payments not foreseen in the reporting templates or not relating to the extractive activities such as PIT, tax on vehicles and self-moving mechanisms, import duties on imported goods, traffic police fines, and others.

The adjustments of tax payments reported by mining companies but outside the reconciliation scope are shown below by type of taxes and companies.

(in th. MNT)

No.	Company name	Total	Customs tax	Value added tax (paid to MTA)	Value added tax (Customs)	Non-monetary donation and assistance received by Government entities	Other taxation	Total percentage	Percentage (cumulative)
55	Ochir Undraa LLC	(3,735,877)	(915,394)	(582,420)	(1,922,326)	-	(315,737)	49.61%	49.61%
87	Energy Resource LLC	(1,066,671)	-	-	-	(1,066,671)	-	14.17%	63.78%
22	Erdenet Mining Corporation SOE	(973,397)	-	-	-	-	(973,397)	12.93%	76.71%
69	Dongsheng Petroleum Mongolia LLC	(848,686)	(273,315)	-	(573,961)	-	(1,410)	11.27%	87.98%
51	Geomaster LLC	(298,776)	-	(127,000)	-	-	(171,776)	3.97%	91.95%
195	Mandal Altai Group LLC	(245,592)	-	(204,402)	-	-	(41,190)	3.26%	95.21%
14	Sharyn gol JSC	(153,505)	-	-	-	-	(153,505)	2.04%	97.25%
124	Remicon JSC	(122,435)	(5,500)	(57,400)	(11,445)	-	(48,090)	1.63%	98.87%
	Other	(84,877)	-	(1,874)	-	(3,938)	(79,065)	1.13%	100.00%
	Total adjustment	(7,529,816)	(1,194,209)	(973,096)	(2,507,732)	(1,070,609)	(1,784,170)		

(d) Tax amount incorrectly reported

These are the amounts incorrectly included in the reporting templates. Key adjustments were made based on the detailed information received from the mining companies. In most cases, initial reported amounts were not consistent with the detailed information.

(in th. MNT)

No.	Company name	Total	Corporate income tax	Customs tax	Value added tax (Customs)	Government share of petroleum revenue under PSA	Value added tax (paid to MTA)	Other taxation	Total percentage	Percentage (cumulative)
135	Bilegt Bayalag LLC	(1,067,388)	-	-	-	-	-	(1,067,388)	4.68%	4.68%
176	Friendship Resources LLC	(1,535,410)	(1,236,210)	(187,184)	2,275	-	-	(114,291)	6.74%	11.42%
116	Erdenes Mongol LLC	(1,722,964)	(981,409)	-	-	-	(755,797)	14,242	7.56%	18.98%
193	Olon Ikht Bayan LLC	(2,776,333)	-	-	-	-	-	(2,776,333)	12.18%	31.17%
15	Darkhan metallurgical plant JSC	(4,802,437)	-	(863,809)	-	-	(2,861,008)	(1,077,620)	21.08%	52.24%
174	Mac Cement LLC	(13,565,683)	-	(13,608,593)	100,144	-	(50,000)	(7,234)	59.53%	111.77%
24	Petrochina Dachin Tamsag LLC	(17,534,985)	-	-	-	(14,873,761)	-	(2,661,224)	76.95%	188.72%
31	Mongolyn Alt Mak LLC	19,038,871	-	4,273,684	14,754,501	-	-	10,686	-83.55%	105.17%
87	Energy Resource LLC	2,063,406	-	-	1,057,250	-	-	1,006,156	-9.06%	96.12%
22	Erdenet Mining Corporation SOE	814,517	-	-	-	-	-	814,517	-3.57%	92.54%
114	Moncement Building materials LLC	480,168	-	(58,629)	64,049	-	-	474,748	-2.11%	90.44%
110	Endeniin San Mining LLC	390,873	-	-	-	-	-	390,873	-1.72%	88.72%
	Other	(2,569,945)	(1,824,479)	(843,585)	(387,274)	-	(931,397)	1,416,790	11.28%	100.00%
	Total adjustment	(22,787,310)	(4,042,098)	(11,288,116)	15,590,945	(14,873,761)	(4,598,202)			

(e) Tax reported but not paid

These are payment flows not actually paid by extractive companies, but were included in their reporting templates. This was mainly due to the fact that Altain Khuder LLC mistakenly reported the amount of deposit of 50% to environmental protection special account and the amount reported by Erdenet Mining Corporation paid to state budget duplicated in the local budget in the E-reporting system. The key adjustments made to the amounts are summarised below:

(in th. MNT)

No.	Company name	Total	Fee and extra charges for exploitation of mineral resources	Penalty	Deposit of 50% to Environmental protection special account	Dividend on Local State Property	Other taxation	Total percentage	Percentage (cumulative)
109	Altain Khuder LLC	(62,205,000)	-	-	(62,205,000)	-	-	55.59%	55.59%
22	Erdenet Mining Corporation SOE	(36,560,063)	-	-	-	(35,087,247)	(1,472,816)	32.67%	88.26%
15	Darkhan Metallurgical plant JSC	(9,381,949)	3	(6,661,962)	(2,174,155)	-	(545,832)	8.38%	96.64%
100	Mongoljuanli LLC	(892,958)	4	-	(153,469)	-	(739,489)	0.80%	97.44%
107	Southgobi Sands LLC	(675,878)	5	-	-	(500,350)	(175,528)	0.60%	98.05%
135	Bilegt Bayalag LLC	(352,875)	6	-	-	-	(352,875)	0.32%	98.36%
18	Bayars Construction LLC	(228,642)	7	-	(41,708)	-	(186,934)	0.20%	98.57%
68	Monwolfram LLC	(204,012)	8	-	-	-	(204,012)	0.18%	98.75%
122	AGM Mining LLC	(182,718)	-	(16,786)	(3,030)	-	(162,902)	0.16%	98.91%
173	Erdenes Tsagaan Suvarga LLC	(127,734)	-	-	-	-	(127,734)	0.11%	99.03%
66	SPEC LLC	(101,138)	-	-	-	-	(101,138)	0.09%	99.12%
	Other	(989,649)	(1)	(64,416)	(239,402)	-	(685,830)	0.88%	100.00%
	Total adjustment	(111,902,616)	(6,661,963)	(2,450,534)	(62,947,782)	(35,087,247)	(4,755,090)		

(f) Tax paid on other identification number

Taxes paid on other identification number are not the amounts paid on the company holds a mining license. The key adjustments on the company's amount are summarized in the table below.

(in th. MNT)

No.	Company name	Total amount	Customs tax	Fee and extra charges for exploitation of mineral resources	License fee for exploitation and exploration of mineral resources	Customs service fee	Total percentage	Percentage (cumulative)
7	Tavantolgoi JSC	(655,789)	(1,641,358)	-	-	985,569	81.67%	81.67%
105	Platinum Land LLC	(135,404)	-	(135,404)	-	-	16.86%	98.53%
191	Unen Bekh LLC	(11,784)	-	-	(11,784)	-	1.47%	100.00%
	Total adjustment	(802,977)	(1,641,358)	(135,404)	(11,784)	985,569		

(g) Exchange rate difference

The exchange rate difference is due to the amount paid by Petrochina Dachin Tamsag LLC to MRPA under PSA with foreign currency or US dollar. The key adjustments made by the company are summarized in the table below. *(in th. MNT)*

No.	Company name	Total amount	Petroleum income per Government under PSA	Other taxation	Total percentage	Percentage (cumulative)
24	Petrochina Dachin Tamsag LLC	271,606	271,606	-	100.40%	100.40%
	Other companies	(1,073)	-	(1,073)	-0.40%	100.00%
	Total adjustment	270,533	271,606	(1,073)		

(h) Tax incorrectly classified

Taxes incorrectly classified are amounts declared under the incorrect payment flows. Adjustments were made in order to record the payments under the correct payment flow. The key adjustments made to the companies' reporting are summarised in the table below:

(in th. MNT)

No.	Revenue streams	Tax incorrectly classified
A. Taxation, payment, fee and dividend paid to State Budget		
1.1.1	Corporate income tax	457,457
1.1.2	Customs tax	(8,095,362)
1.1.3	Value Added Tax (paid to MTA)	569,207
1.1.4	Value Added Tax (Customs)	7,515,009
1.2.1	Fee and extra charges for exploitation of mineral resources	(33,500)
1.2.2	License fee for exploitation and exploration of mineral resources	(3,173)
1.2.3	Reimbursement for deposit exploration conducted with State funds	(2,984)
1.2.7	Licence fee for exploration and exploitation of petroleum	(119,769)
1.2.9	Fee paid for transferring production sharing agreement rights	119,769
1.3.1	Customs service fee	307,269
1.4.1	Divident on State property	32,087,247
1.5.1	Advance payments paid to GoM	(32,087,247)
1.6.1	Penalty	(152,338)
1.6.2	Reimbursement	(165,501)
1.6.3	Deposit of 50% to Environmental protection special account	(19,635)
1.6.4	Other	106,499
B. Taxation, payment, fee and dividend paid to Local budget		
2.1.1	Real estate tax	(228)
2.1.2	Tax on vehicles and self-moving mechanisms	228
2.2.2	Fee for water use	50,000
2.4.1	Penalty	102,115
2.4.2	Reimbursement	216,447
2.4.3	Deposit of 50% to Environmental protection special account	19,235
2.4.4	Other	(982,780)
3.1	Monetary donation and assistance paid to state entities	94,365
3.2	Non-monetary donation and assistance paid to state entities	17,670
	Total adjustment	-

4.3.3.4 Adjustments of Government reported data

The following adjustments were made based on the supporting documents received from the government and companies. Details are shown below:
(in th. MNT)

No.	Type of adjustments made to the amounts reported by Government	Additional information	Total amount
1	Tax received not reported	(a)	104,081,906
2	Tax received reported but outside the reconciliation scope	(b)	(83,174,287)
3	Tax amount incorrectly reported	(c)	4,311,307
4	Tax reported but not received	(d)	(15,991,012)
5	Tax incorrectly classified	(e)	-
Total adjustment amount			9,227,914

(a) Tax received not reported

Taxes received not reported are receipts collected by government entities, but were not included in their reporting templates. Key adjustments made to the amounts reported by government are summarized in the table below:

No.	Company name	Total amount	Workplace payment of foreign specialist and labour force	Dividend on State property	Land fee	Monetary donation and assistance received by Government entities	Other taxation	Total percentage	Percentage (cumulative)
22	Erdenet Mining Corporation SOE	52,189,776	-	39,180,393	-	12,296,100	713,283	50.14%	50.14%
54	Oyu Tolgoi LLC	38,930,613	35,087,247	-	2,226,448	47,880	1,569,038	37.40%	87.55%
120	MonEnco LLC	1,775,724	-	-	24,157	1,587,918	163,649	1.71%	89.25%
41	Mongolroostsvetmet SOE	735,050	200,000	-	-	-	535,050	0.71%	89.96%
59	Oyut Ulaan LLC	706,940	-	-	-	-	706,940	0.68%	90.64%
14	Sharyn gol JSC	646,555	-	-	22,233	297,782	326,540	0.62%	91.26%
158	Badrakh Energy LLC	583,790	-	-	-	47,000	536,790	0.56%	91.82%
3	Baganuur JSC	552,611	-	-	430,420	-	122,191	0.53%	92.35%
69	Dongsheng Petroleum Mongolia LLC	476,280	-	-	-	476,280	-	0.46%	92.81%
136	Special Mines/Naran Mandal Enterprises LLC	393,540	-	-	-	312,992	80,548	0.38%	93.19%
	Other	7,091,027	-	4,447	389,095	735,459	5,962,026	6.81%	
Total adjustment									

The major adjustment in the table above is due to the fact the "National Power Transmission Network" SOE did not report the amount of payment made by Oyu Tolgoi LLC for customs duties and VAT charged on electricity imported from China. The adjustment of the amount paid by Erdenet Mining Corporation SOE was due to the fact that Ministry of Finance did not report the dividend received from the company.

After receiving and examining details of payments sent by companies and government entities, the Independent Administrator noted that amounts were not reported the following payments by the Government. Such payments are donation and assistance received by the State Ministries, agencies, payment to the Employment promotion fund, Social insurance fee, Dividend on State property, Corporate income tax, Royalty, Penalty and Customs Service fees. The Independent Administrator therefore made adjustments to declared payments based on confirmations from the government entities and a review of the supporting documents.

(b) Tax received reported but outside the reconciliation scope

These are adjustments made to amounts reported by government entities mainly for the following reasons:

- Government receipts from companies not operating in the extractive sector; or
- Taxes not foreseen in the reporting template, taxes not related to mining activities (such as PIT, tax on vehicles and self-moving mechanisms, etc.).

The key adjustments made to the payments reported by government agencies is summarized below:

(in th. MNT)

No.	Company name	Total amount	Customs tax	Value added tax (Customs)	Excise tax on vehicle's gasoline and diesel fuel	Social and health insurance charges paid from entity	Other taxation	Total percentage	Percentage (cumulative)
27	Magnai Trade LLC	(50,477,189)	(9,569,571)	(22,140,531)	(12,490,726)	(748,994)	(5,527,367)	60.69%	60.69%
25	Ulaanbaatar Railway /stone plant/ JV	(8,346,887)	(37,144)	(74,015)	-	(8,003,898)	(231,830)	10.04%	70.72%
28	Metal Impex LLC	(4,266,485)	-	-	-	-	(4,266,485)	5.13%	75.85%
55	Ochir Undraa LLC	(3,874,064)	(704,666)	(1,922,128)	-	(107,366)	(1,139,904)	4.66%	80.51%
155	Premium Group LLC	(2,488,327)	-	-	-	(154,423)	(2,333,904)	2.99%	83.50%
54	Oyu Tolgoi LLC	(2,370,076)	(7,211)	(38,964)	-	-	(2,323,901)	2.85%	86.35%
16	Gatsuurt LLC	(1,894,454)	(644,590)	(515,602)	-	(624,234)	(110,028)	2.28%	88.63%
21	Narantuul Trade LLC	(1,774,228)	(103,686)	(189,729)	-	(317,629)	(1,163,184)	2.13%	90.76%
72	Oros Gerel LLC	(1,560,482)	(847,789)	(681,946)	-	(27,740)	(3,007)	1.88%	92.64%
	Other	(6,122,095)	(129,441)	(262,495)	-	(1,388,596)	(4,341,563)	7.36%	100.00%
	Total adjustment	(83,174,287)	(12,044,098)	(25,825,410)	(12,490,726)	(11,372,880)	(21,441,173)		

(c) Tax amount incorrectly reported

These are amounts received by the Government and incorrectly reported in the reporting templates. The material adjustments are as follows:

(in th. MNT)

No.	Company name	Total amount	Customs tax	Workplace payment of foreign specialist and labour force	Real estate tax	Fee for water use	Other taxation	Total percentage	Percentage (cumulative)
74	Shin shin LLC	12,601,455	7,866,598	-	-	-	4,734,857	292.29%	292.29%
70	Шан лун ХХК	1,243,357	-	39,528	366,565	442,614	394,650	28.84%	321.13%
35	Centerra Gold Mongolia LLC	1,054,098	209,462	764,875	-	-	79,761	24.45%	345.58%
188	Batbrothers Mining LLC	831,904	258,486	-	17,532	-	555,886	19.30%	364.87%
40	Cairt Mineral LLC	794,000	-	-	-	794,000	-	18.42%	383.29%
79	Petro Matad LLC	(3,708,203)	(2,423,933)	5,226,318	-	-	(6,510,588)	-86.01%	297.28%
154	Nutgiin Buyan Group LLC	(3,508,838)	-	-	-	6,661	(3,515,499)	-81.39%	215.89%
12	Monlaa LLC	(2,270,009)	(769,157)	110,981	-	-	(1,611,833)	-52.65%	163.24%
76	Ten Khun LLC	(1,720,060)	(503,544)	-	310,815	52,991	(1,580,322)	-39.90%	123.34%
53	Berkh Uul JSC	(1,500,031)	-	-	-	-	(1,500,031)	-34.79%	88.55%
	Other	493,634	18,204	721,164	85,929	45,538	(377,201)	11.45%	100.00%
	Other adjustment	4,311,307	4,656,116	6,862,866	780,841	1,341,804	(9,330,320)		

(d) Tax reported but not received

These are payment flows not actually received by government entities, but were included in their reporting templates. Key adjustments to the amount of government entities are summarized below:
(in th. MNT)

No.	Company name	Total amount	Other	Fee for use of mineral resources of widespread	Other	Other taxation	Total percentage	Percentage (cumulative)
73	Uuls zaamar LLC	(5,713,818)	-	(1,748,110)	(3,965,348)	(360)	35.73%	35.73%
151	Erdenes Tavan Tolgoi JSC	(2,985,011)	(2,985,011)	-	-	-	18.67%	54.40%
169	Eco Altan Zaamar LLC	(1,927,883)	-	(1,556,586)	(371,297)	-	12.06%	66.45%
131	Mongol Mining and exploration LLC	(706,082)	-	(706,082)	-	-	4.42%	70.87%
38	Ulz gol LLC	(648,119)	-	(648,119)	-	-	4.05%	74.92%
34	Khos Khas LLC	(519,172)	-	-	(519,172)	-	3.25%	78.17%
64	Bayan Airag exploration LLC	(396,167)	-	-	(396,167)	-	2.48%	80.65%
179	Zaamar gold LLC	(373,725)	-	(373,725)	-	-	2.34%	82.98%
48	GBNB LLC	(332,985)	-	-	(332,985)	-	2.08%	85.07%
104	Ilt gold LLC	(295,758)	-	(295,758)	-	-	1.85%	86.92%
	Other	(2,092,292)	(894,226)	(378,843)	(575,392)	(243,831)	13.08%	100.00%
	Total adjustment	(15,991,012)	(3,879,237)	(5,707,223)	(6,160,361)	(244,191)		

The above major adjustments of Uuls Zaamar LLC, Erdenes Tavan Tolgoi JSC and Eco Altan Zaamar were made due to the fact that customs and local authorities did not report the taxes received from the companies.

4.3.4 Unreconciled differences

Following the reconciliation work and the adjustments operated, the total residual unreconciled differences on payments amounted to MNT 279,013 thousand representing 0.15% of total payments, fees and taxes received by the Government. This is the sum of positive differences of MNT 426,900 thousand and negative differences of MNT (147,887) thousand. The residual difference is detailed as follows:

No	Description of unreconciled discrepancies	Additional information	Amount (MNT th.)	Percentage
1	Missing Govt Body detail by payment	(a)	403,019	144.44%
2	Missing extractive company detail by payment	(b)	(448,997)	-160.92%
3	Reporting template not submitted by the extractive company	(c)	151,283	54.22%
4	Tax not reported by the Govt Body	(d)	141,217	50.61%
5	Tax not reported by the extractive company	(e)	(6,036)	-2.16%
6	Supporting documents do not match Govt Body report	(f)	22,900	8.21%
7	Supporting documents do not match extractive company report	(g)	13,944	5.00%
8	Not material difference<MNT 100K		1,309	0.47%
9	Detail of payments could not be used		371	0.13%
10	Exchange rate difference		3	0.00%
	Total		279,013	100.00%

4.3.3.1 Unreconciled differences of extractive companies

(a) Missing Govt Body detail by payment

This major difference originates the fact that the Customs office did not provide relevant details of payments and the amounts were unable to be verified. These differences are summarized below:

No.	Company name	Total amount	Customs tax	Land fee	Penalty	Non-monetary donation and assistance received by Government entities	Contribution of 50% to Environment protection expense to the Special account	Other taxation	Total percentage	Percentage (cumulative)
31	Mongolyn Alt Mak LLC	280,574	146,033	90,323	14,086	-	-	30,132	69.62%	69.62%
152	ML Tsakhiurt Ovoo LLC	39,602	952	-	-	21,750	-	16,900	9.83%	79.44%
192	Chinggis World Mining LLC	20,898	-	-	-	-	10,776	10,122	5.19%	84.63%
46	Sonor Trade LLC	12,163	-	-	12,163	-	-	-	3.02%	87.65%
30	Boroo Gold LLC	10,440	-	-	10,000	-	-	440	2.59%	90.24%
145	Big Mogul Coal and Energy LLC	10,000	-	-	-	10,000	-	-	2.48%	92.72%
	Other	29,342	701	7,081	872	2,453	(3,430)	21,665	7.28%	100.00%
	Total adjustment	403,019	147,686	97,404	37,121	34,203	7,346	79,259		

(b) Missing extractive company detail by payment

No information was included in the supporting documents received by the Government. However, we have tried to obtain information from relevant government officials, but no information has been provided from the officials. The unreconciled differences are detailed below:

(in th. MNT)

No.	Company name	Total amount	Value added tax (paid to MTA)	Workplace payment of foreign specialist and labour force	Reimbursement	Customs service fee	Other taxation	Total percentage	Percentage (cumulative)
31	Mongolyn Alt Mak LLC	(309,005)	-	(306,077)	-	-	(2,928)	68.82%	68.82%
15	Darkhan Metallurgical plant JSC	(49,862)	-	-	(51,000)	-	1,138	11.11%	79.93%
22	Erdenet Mining Corporation SOE	(39,382)	-	(36,688)	-	(819)	(1,875)	8.77%	88.70%
14	Sharyn gol JSC	(11,676)	(11,676)	-	-	-	-	2.60%	91.30%
164	Enkhtunkh Orchlun LLC	(9,500)	-	-	-	(9,500)	-	2.12%	93.41%
	Other	(29,572)	-	382	-	739	(30,693)	6.59%	100.00%
	Total adjustment	(448,997)	(11,676)	(342,383)	(51,000)	(9,580)	(34,358)		

(c) Reporting template not submitted by the extractive company

Independent Administrator contacted the following companies with unreconciled differences, but the companies declined to provide the information.

(in th. MNT)

No.	Company name	Total amount	Value added tax (Customs)	License fee for exploitation and exploration of mineral resources	Customs service fee	Monetary donation and assistance received by Government entities	Non-monetary donation and assistance received by Government entities	Other taxation	Total percentage	Percentage (cumulative)
135	Bilegt Bayalag LLC	52,229	(1,717)	-	57,473	-	-	(3,527)	34.52%	34.52%
170	Shtainkole LLC	43,295	(12,457)	1	112,332	(30,000)	-	(26,581)	28.62%	63.14%
200	O E L LLC	26,728	-	22,768	-	3,000	-	960	17.67%	80.81%
133	Altairgold LLC	26,523	-	-	-	1,000	24,922	601	17.53%	98.34%
	Other	2,508	-	(704)	-	-	-	3,212	1.66%	100.00%
	Total adjustment	151,283	(14,174)	22,065	169,805	(26,000)	24,922	(25,335)		

(d) Tax not reported by the Govt Body

The company provided the details, but no detailed information received from the government for the following companies. It is therefore difficult to make the necessary adjustments to the discrepancies. These unresolved discrepancies are summarized below:

(in th. MNT)

No.	Company name	Total amount	Other	Monetary donation and assistance received by Government entities	Penalty	Other taxation	Total percentage	Percentage (cumulative)
106	Capcorp Mongolia LLC	32,321	-	26,600	5,000	721	22.89%	22.89%
93	Aurum Metals LLC	18,351	15,064	-	-	3,287	12.99%	35.88%
42	Mondulaan Trade LLC	16,806	-	-	15,256	1,550	11.90%	47.78%
50	Shar narst LLC	8,542	1,649	-	-	6,893	6.05%	53.83%
132	C O A L LLC	7,590	-	-	-	7,590	5.37%	59.21%
52	Cement and Lime JSC	6,648	-	-	-	6,648	4.71%	63.91%
87	Energy Resource LLC	6,408	6,408	-	-	-	4.54%	68.45%
59	Oyut Ulaan LLC	6,191	691	-	-	5,500	4.38%	72.84%
143	Tsagaan uvuljuu LLC	5,653	2,902	-	2,751	-	4.00%	76.84%
	Other	32,707	3,080	5,270	1,318	23,039	23.16%	100.00%
	Total adjustment	141,217	29,794	31,870	24,325	55,228		

(e) Tax not reported by the extractive company

The Government entities provided the details, but no detailed information received from the extractive companies for the following companies. It is therefore difficult to make the necessary adjustments to the discrepancies. These unresolved discrepancies are summarized below:

(in th. MNT)

No.	Company name	Total amount	Customs service fee	Contribution of 50% to Environment protection expense to the Special account	Non-monetary donation and assistance received by Government entities	Other taxation	Total percentage	Percentage (cumulative)
192	Chinggis World Mining LLC	(2,305)	(34)	-	(2,000)	(271)	38.19%	38.19%
52	Cement and Lime JSC	(1,322)	(1,322)	-	-	-	21.90%	60.09%
62	Metal Opt LLC	(875)	(584)	-	-	(291)	14.50%	74.59%
187	Ulz Group LLC	(500)	-	(500)	-	-	8.28%	82.87%
	Other	(1,034)	(17)	(360)	-	(657)	17.13%	100.00%
	Total adjustment	(6,036)	(1,957)	(860)	(2,000)	(1,219)		

(f) Supporting documents do not match Govt Body report

The details of the company and the government do not match to each other and the Government entities did not provide detailed information. It is therefore difficult to make the necessary adjustments to the discrepancies. These unresolved discrepancies are summarized below:

(in th. MNT)

No.	Company name	Total amount	Customs tax	Value added tax (Customs)	Customs service fee	Tax on vehicles and self-moving mechanisms	Other taxation	Total percentage	Percentage (cumulative)
15	Darkhan Metallurgical plant JSC	12,460	-	(25,521)	37,981	-	-	54.41%	54.41%
132	C O A L LLC	11,319	-	-	11,319	-	-	49.43%	103.84%
151	Erdenes Tavan Tolgoi JSC	3,751	-	-	-	3,751	-	16.38%	120.22%
117	A L J T LLC	3,562	-	-	3,562	-	-	15.55%	135.77%
87	Energy Resource LLC	(12,779)	(5,091)	(7,649)	-	(39)	-	-55.80%	79.97%
	Other	4,587	(18)	(39)	(24)	(1,686)	6,354	20.03%	100.00%
	Total adjustment	22,900	(5,109)	(33,209)	52,838	2,026	6,354		

(g) Supporting documents do not match extractive company report

The details of the company and the government do not match to each other and the extractive companies did not provide detailed information. It is therefore difficult to make the necessary adjustments to the discrepancies. These unresolved discrepancies are summarized below:

(in th. MNT)

No.	Company name	Total amount	Corporate income tax	Customs tax	Workplace payment of foreign specialist and labour force	Fee for water use	Other taxation	Total percentage	Percentage (cumulative)
97	Chingisiin Khar Alt LLC	8,659	-	-	10,283	-	(1,624)	62.10%	62.10%
169	Eco Altan Zaamar LLC	5,205	-	-	5,205	-	-	37.33%	99.43%
87	Energy Resource LLC	3,445	-	-	-	3,851	(406)	24.71%	124.13%
14	Sharyn gol JSC	(4,800)	(4,800)	-	-	-	-	-34.42%	89.71%
	Other	1,435	920	2,272	-	-	(1,757)	10.29%	100.00%
	Total adjustment	13,944	(3,880)	2,272	15,488	3,851	(3,787)		

4.3.3.2 Unreconciled differences by payment streams

Analysis of unreconciled differences by payment streams is as follows:

(in th. MNT)

No.	Payment stream	Unreconciled difference	Reporting template not submitted by the extractive company	Supporting documents do not match extractive company report	Supporting documents do not match Govt Body report	Missing extractive company detail by payment	Missing Govt Body detail by payment	Tax not reported by the Govt Body	Other reason	Total %	% (cumulative)
A. Taxation, payment, fee and dividend paid to State Budget											
1.1.1	Corporate income tax	(676)	9	(3,880)	2,993	(12)	-	221	(7)	-0.24%	-0.24%
1.1.2	Customs tax	(10,472)	(5,932)	2,272	(5,109)	(2,632)	1,016	-	(87)	-3.75%	-4.00%
1.1.3	Value added tax (paid to MTA)	(7,767)	-	-	-	(11,676)	3,957	-	(48)	-2.78%	-6.78%
1.1.4	Value added tax (Customs)	(48,840)	(14,174)	(34)	(33,209)	(1,635)	468	-	(256)	-17.50%	-24.28%
1.1.5	Excise tax on vehicle's gasoline and diesel fuel	7,590	-	-	-	-	-	7,590	-	2.72%	-21.56%
1.2.1	Fee and extra charges for exploitation of mineral resources	(4,346)	-	-	-	(6,849)	2,499	-	4	-1.56%	-23.12%
1.2.2	License fee for exploitation and exploration of mineral resources	29,410	22,065	-	-	-	7,751	-	(406)	10.54%	-12.58%
1.2.10	Workplace payment of foreign specialist and labour force	(323,427)	12	15,488	3,255	(342,383)	199	-	2	115.92%	-128.50%
1.2.12	Social and health insurance charges paid from entity	(8,717)	(11,101)	(118)	(1,718)	(378)	4,947	-	(349)	-3.12%	-131.62%
1.3.1	Customs service fee	356,632	169,805	(2,030)	52,838	(9,580)	147,686	-	(2,087)	127.82%	-3.80%
1.6.1	Penalty	26,901	-	-	-	(2,500)	4,873	24,325	203	9.64%	5.84%
	Other taxation, payment, fee paid to State Budget	14,161	-	-	-	(1,330)	(221)	16,171	(459)	5.08%	10.91%
	Amount (State budget)	30,449	160,684	11,698	19,050	(378,975)	173,175	48,307	(3,490)	10.91%	
B. Taxation, payment, fee and dividend paid to Local budget											
2.1.2	Tax on vehicles and self moving mechanisms	14,509	601	(955)	2,026	(2,460)	12,886	965	1,446	5.20%	5.20%
2.2.1	Land fee	105,560	(2,864)	(378)	-	(3,557)	97,404	14,948	7	37.83%	43.03%
2.2.2	Fee for water use	13,777	(7,028)	3,851	-	(566)	13,472	4,043	5	4.94%	47.97%
2.4.1	Penalty	36,348	-	(772)	-	-	37,121	(1)	-	13.03%	61.00%
2.4.2	Reimbursement	(50,338)	-	-	-	(51,000)	462	200	-	-18.04%	42.96%
2.4.3	Contribution of 50% to Environment protection expense to the Special account	18,177	3,800	-	(199)	(410)	7,346	8,500	(860)	6.51%	49.47%
2.4.4	Other	41,424	(2,832)	-	44	1,210	12,608	29,794	600	14.85%	64.32%
3.1	Monetary donation and assistance received by Government entities	20,621	(26,000)	1,500	-	-	13,250	31,870	1	7.39%	71.71%
3.2	Non-monetary donation and assistance received by Government entities	56,774	24,922	(1,000)	-	(1,254)	34,203	1,903	(2,000)	20.35%	92.06%
	Other taxation, payment, fee paid to local Budget	(8,288)	-	-	1,979	(11,985)	1,092	688	(62)	-2.97%	89.09%
	Amount (local budget)	248,564	(9,401)	2,246	3,850	(70,022)	229,844	92,910	(863)	89.09%	
	Total unreconciled difference	279,013	151,283	13,944	22,900	(448,997)	403,019	141,217	(4,353)		
	Percentage		54.22%	5.00%	8.21%	-160.92%	144.44%	50.61%	-1.56%		

4.3.5 Uranium

The following companies hold uranium exploration and mining licenses from the 202 selected companies included in the reconciliation. The taxes paid to the state and local budget for the following companies:

(in th. MNT)

No.	Company name	Total amount	Taxation, payment, fee and dividend paid to State Budget			Taxation, payment, fee and dividend paid to Local budget			Other taxation, fees	Total percentage	Percentage (cumulative)
			Corporate income tax	Fee and extra charges for exploitation of mineral resources	Social and health insurance charges paid from entity	Fee for water use	Non-monetary donation and assistance received by Government entities				
74	Shin shin LLC	41,373,631	15,587,503	19,025,377	2,620,218	558,054	-	3,582,479	84.82%	84.82%	
158	Badrakh Energy LLC	3,311,582	8,794	-	795,216	4,890	140,695	2,361,987	6.79%	91.61%	
26	Kojegobi LLC	3,082,813	52,895	-	449,714	5,688	80,550	2,493,966	6.32%	97.93%	
23	Gurvan Saikhan LLC	640,364	-	-	20,696	-	-	619,668	1.31%	99.24%	
141	Nuclear Energy Mongolia LLC	314,203	-	-	-	-	-	314,203	0.64%	99.88%	
197	Adamas Mining LLC	57,588	-	-	6,570	-	-	51,018	0.12%	100.00%	
	Total amount	48,780,181	15,649,192	19,025,377	3,892,414	568,632	221,245	9,423,321			

From the above companies, Shin Shin LLC holds uranium and zinc licenses, and thus so we were unable to classify the taxes paid by the type of licenses.

4.3.6 Unilateral disclosure

The payment flows declared unilaterally by the mining companies in this report include:

- Service fees paid to local budgets and local government, fees, stamp duty, license fees, fees for forest harvesting,
- Tax rebates and exemptions according to agreements with Government and resolution of Government,
- Investment in mining companies, employee training, seminars and environmental protection costs, and
- Monetary and non-monetary donations and assistants provided to NGOs, other organizations and individuals.

Tax payments reported by companies

Voluntary payments made by company are set out in the table below:

(in th. MNT)

No.	Company	Amount	No.	Company	Amount
64	Bayan Airag exploration LLC	229,005	73	Uuls Zaamar LLC	33,189
128	Badmaarag khash LLC	130,011	152	ML Tsakhiurt Ovoo LLC	31,300
106	Capcorp Mongolia LLC	125,981	109	Altain Khuder LLC	29,144
104	Ilt gold LLC	114,527	9	Monpolymet LLC	26,802
182	Step gold LLC	106,704	100	Mongoljuanli LLC	25,739
40	Cairt mineral LLC	102,155	26	Kojegobi LLC	25,380
169	Eco altan zaamar LLC	100,620	38	Ulz gol LLC	21,185
179	Zaamar gold LLC	100,089	76	Ten Khun LLC	21,047
177	Bayangol eco zaamar LLC	99,037	42	Mondulaan Trade LLC	19,190
29	Gurvan Tamga LLC	82,311	22	Erdenet Mining Corporation SOE	18,196
54	Oyu Tolgoi LLC	71,441	77	Bold Tumur Eruu Gol LLC	17,255
103	Endeniin olz LLC	67,493	48	GBNB LLC	16,841
79	Petro Matad LLC	59,898	127	Erdeniin bosgo LLC	15,014
24	Petrochina Dachin Tamsag LLC	59,819	31	Mongolyn Alt Mak LLC	14,827
184	Smart Oil Mongolia LLC	48,140	8	Talyn Gal LLC	10,049
82	Tod Undarga LLC	42,221		Other	153,931
	Amount	1,539,452		Amount	479,089
	Total amount				2,018,541

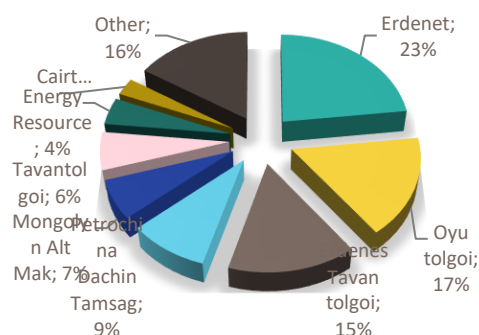
4.4 Analysis of the key numbers of the EITI Report

The payments included in the government report, mining companies and operating cash flows are illustrated below:

Payment of mining companies included in the 2018 EITI Report

The payments made by large mining companies is presented in the table below:

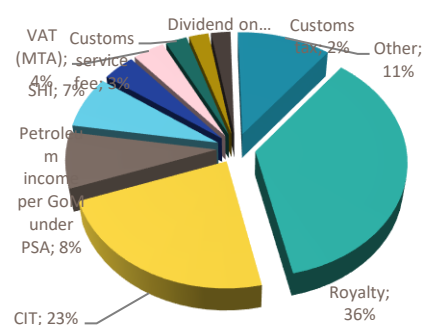
Company	Government revenue (MNT th.)	%
Erdenet Mining Corporation SOE	651,929,749	23.15%
Oyu Tolgoi LLC	466,940,447	16.58%
Erdenes Tavan Tolgoi JSC	416,328,509	14.78%
Petrochina Dachin Tamsag LLC	261,497,782	9.29%
Mongolyn Alt Mak LLC	184,449,980	6.55%
Tavantolgoi JSC	177,143,513	6.29%
Energy Resource LLC	126,845,001	4.50%
Cairt Mineral LLC	81,035,549	2.88%
Other	450,013,093	15.98%
Total amount	2,816,183,623	100.00%



Type of taxation presented in the 2018 EITI report

The payments included in the reconciliation is presented by type of taxes in the table below:

Payment stream	Government revenue (MNT th.)	%
Royalty	1,012,490,758	35.95%
CIT	649,743,890	23.07%
Petroleum income per Government under PSA	222,514,737	7.90%
Social and health insurance charges paid from entity	206,131,693	7.32%
VAT (Customs)	108,847,435	3.87%
VAT (paid to MTA)	106,235,537	3.77%
Customs service fee	70,873,423	2.52%
Dividend on local state property	64,790,925	2.30%
Customs taxation	64,595,363	2.29%
Other	309,959,862	11.01%
Total	2,816,183,623	100.00%



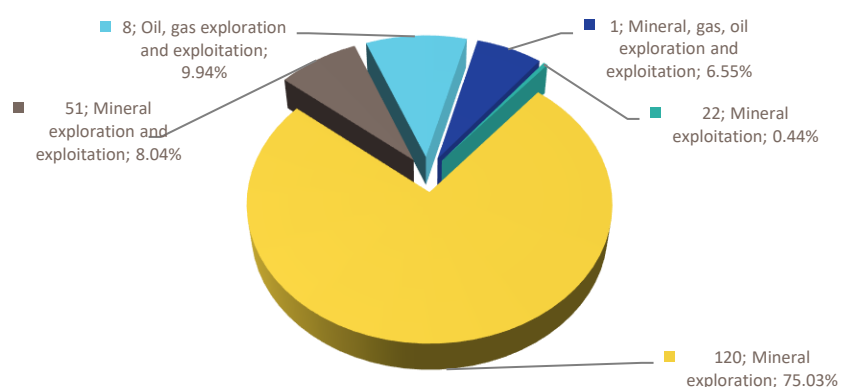
The type of minerals of the mining companies included in the 2018 EITI report are presented below:

No.	Type of mineral	Number of comp.	Government revenue (MNT th.)
1	Coal	50	925,812,445
2	Molybdenum, Copper & bbl./m & bbl./m, Widespread & Copper & Widespread, Clay	1	651,970,680
3	Polymetallic	1	466,940,447
4	Gold & bbl./m, Widespread & Copper & Coal & Clay	1	184,449,980
5	bbl./m & zinc	1	81,035,549
6	Gold	52	60,625,953
7	Lead & Zinc	1	41,373,631
8	Iron	8	37,247,691
9	Gold & Tungsten oxide & Fluorspar & Copper & Silver & Iron & Polymetallic	1	20,685,181
10	Fluorspar	15	7,801,908
11	bbl./m	4	7,189,424
12	Copper	3	6,523,967
13	bbl./m & bbl./m, Widespread & Gypsum & Pearlite	1	5,961,675
14	Gold & bbl./m	2	5,142,456
15	Uranium	2	3,951,946
16	Gold & bbl./m, Widespread	3	2,770,155
17	Gold, Copper	2	2,728,170
18	bbl./m, Widespread	8	2,262,112
19	Tungsten oxide	2	1,440,729
20	Gold & Copper, Zinc	1	1,001,659
21	Manganese	1	732,693
22	Gold & Copper	1	420,074
23	Gold, Silver	1	409,441
24	Zinc	1	401,439
25	Chromium	1	343,775
26	Gold, Copper & Gold, Silver	1	326,845
27	Gold & bbl./m & Copper	1	317,531
28	Gold & Coal	1	257,648
29	Fluorspar & Coal	1	214,512
30	Gold & Meta-anthracite & Fluorspar	1	211,609
31	Coal & Polymetallic	1	57,588
32	Aluminium	1	55,126
33	bbl./m & bbl./m, Widespread & Pearlite & Limestone & Clay	1	3,825
34	Basalt	1	705
	Total amount	173	2,520,668,569

Type of mining activities presented in the 2018 EITI Report

The amounts included in the reconciliation are shown in the following table by type of activities:

Type of activity	Number of companies	Government revenue (MNT th.)	%
Mineral Exploration	22	12,453,835	0.44%
Mineral Production	120	2,112,948,956	75.03%
Mineral E&P	51	226,400,097	8.04%
Oil & E&P	8	279,930,755	9.94%
Mineral, Oil & Gas E&P	1	184,449,980	6.55%
Total	202	2,816,183,623	100%



Analysis of payments to local budget

Taxes, payments and fees of MNT 154,745,081 thousand were paid by the mining companies to the local budget. These payments are presented table below by region.

Recipient	Payment (MNT th.)	Percentage
Umnugobi	68,631,437	44.35%
Orkhon	53,085,128	34.30%
Bayangol	17,058,597	11.02%
Dornod	3,666,634	2.37%
Sukhbaatar	2,405,105	1.55%
Tuv	1,972,754	1.27%
Baganuur	1,523,222	0.98%
Other	6,402,204	4.14%
Total	154,745,081	100.00%

4.5 Sale of the state's share of production and in-kind revenues

In Mongolia, there is no direct revenue from the sale of the state's share of Oil & Gas production. SOEs are directly participating in the extraction activities and the State is collecting revenues through dividends.

4.6 Infrastructure investments and barter arrangements

The Independent Administrator requested the government entities and the extractive companies covered in the reconciliation exercise to provide information on infrastructure investments and barter arrangements carried out in 2018. Only Moncement Building Materials LLC provided information about its infrastructure investments as follows:

Investment	Agreement term	Investment amount (MNT th.)	Stakeholders
Construction of concrete road and field construction in Moncement Plant, at Urgun soum, Dornogobi aimag	Repair the concrete road constructed in Moncement Plant, at Urgun soum, Dornogobi aimag	1,056,598	Taikhariin zam LLC, Ikh Kharguun Zam LLC
1.2 km long concrete road located in 20th khoroo, Songinokhairkhan district.	Road work	581,363	Uilsiin Zam LLC, Taivan Khairkhan LLC

4.7 Transportation revenue

The following table shows the name of the transport revenue of the enterprises, the type of the transported product, the unit of measurement of the transported goods and the revenue received from the companies.

№	Company name	Type of mineral transported	Recipients	Transportation revenue	
				Quantity (tn)	Amount (MNT th.)
1	Baganuur LLC	Energy coal	UB Railway JVC	2,608,710	565,161
2	Shivee ovoo LLC	Brown coal	UB Railway JVC	1,944,997	1,611,112

4.8 Transactions between State-owned entities

The Independent Administrator requested information of inter-SOE transactions and coal productions of 2018. SOEs informed that there was no transaction with other SOEs.

5 Revenue allocations

5.1 Revenue collection and allocations

5.1.1 Revenues from the extractive sector to the state budget

According to the report published by the Ministry of Finance, the tax revenue generated from the mining sector reached to MNT 2.394 billion into state budget at the end of 2018.

Item	2018 (MNT bln)
Total general government revenue	10,172.8
Mining and quarrying	2,393.6
Percentage	23.5%

Of which, the revenue is show below by type of mineral:

No.	Type of mineral	Revenue							
		Royalty, Incremental royalties		CIT		Other		Total	
		2017	2018	2017	2018	2017	2018	2017	2018
1	Copper concentrate	479.5	487.3	142.0	190.4	179.3	321.4	800.8	999.0
2	Coal	269.1	443.4	243.6	371.1	91.1	183.5	603.7	998.0
3	Gold	15.6	46.6	15.3	18.0	18.1	15.4	49.0	80.0
4	Iron ore		7.6	0.7	4.7	5.9	19.2	6.6	31.5
5	Zinc Concentrate	23.8	28.0	37.3	46.7	2.2	3.3	63.6	78.0
6	Fluorspar	7.6	8.3	1.1	4.3	3.6	5.6	12.4	18.2
7	Other	52.1	25.5	3.8	17.8	31.3	145.6	87.2	188.9
	Total	847.8	1,046.6	443.7	653.1	331.5	693.9	1,622.9	2,393.6

The revenue collected to the state budget increased by MNT 456.3 billion or 28.6% compared to the same period of the previous year.

The final performance of the 2018 indicates that the total output of the industrial sector increased by MNT 2.7 (21.0%) trillion from the same period of previous year, reaching MNT 15.7 trillion. The total production of mining and quarrying increased by MNT 1.8 (19.6%) trillion compared to the same period of the previous year, reaching MNT 11.2 trillion, of which coal extraction increased by MNT 1.6 (63.1%) trillion and extraction of metal ore increased by MNT 198.3 (3.4%) billion.

5.2 Revenue management and expenditures

5.2.1 Budget system in Mongolia

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:

- dividends from fully and partially state and locally owned enterprises for the share of state and local property;
- royalties for the use of state and local property;
- proceeds from privatisation, sale and renting of state and local property;
- fines and penalties;
- operational revenue from budget entity;
- loans and grants to the Government; and
- 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.

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.

5.2.2 Budget law

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: 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 organizations in monitoring fiscal stability; create renewable wealth; make investments that support economic development; and generate financial savings from mineral revenues.

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 on performance and monitoring of such funds.

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

- to establish a Future Heritage Fund,
- to regulate the organizational 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.

5.2.3 General local development fund

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 need-based investment programmes and financing their implementing duties.

In 2018, total of 88.6 billion MNT was allocated to the fund, which consist of 5% of domestic value-added tax, 5% of royalty payment, 30% of fee and extra charges of petroleum resources and incentives and support from international organisations and the amount is increased by 67.1 percent from the previous year.

Certain amounts from the fund will be allocated by a formula taking into account the population size, distances, territorial size, and local development index of aimags and the capital city.

Local community development funds should be spent on local community programmes 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.

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.

The execution of the source of the local development fund is as follows:

Source	2018 (MNT mln)	Percentage
Domestic VAT*5%	21,116.0	23.85%
Royalty*5%	9,950.7	11.24%
Fee and extra charges of petroleum resources *30%	40,321.7	45.53%
Sustainable livelihood - 3 projects bonus and support	17,166.7	19.39%
Total	88,555.0	100.00%

Revenue transfer information from the general local development fund to the development fund of aimag, the capital city is as follows:

№	Aimag, city	Amount (MNT mln)
1	Arkhangai	3,597.67
2	Bayan-Ulgii	4,940.66
3	Bayankhongor	3,795.71
4	Bulgan	2,312.24
5	Gobi-Altai	3,399.30
6	Dornogobi	3,275.61
7	Dornod	3,650.42
8	Dundgobi	2,075.24
9	Zavkhan	3,471.24
10	Unurkhangai	4,374.28
11	Umnugobi	3,387.67
12	Sukhbaatar	2,666.14
13	Selenge	3,838.70
14	Tuv	3,211.89
15	Uvs	4,227.75
16	Khovd	4,423.17
17	Khuvsgul	5,455.40
18	Khentii	3,110.67
19	Darkhan	2,933.19
20	Ulaanbaatar	16,258.54
21	Orkhon	3,504.92
22	Gobi-Sumber	644.64
	Total	88,555.05

According to revision of the 2019 Budget Law of Mongolia approved by the Parliament of Mongolia on November 2, 2018, 50 % of revenue generated from mineral exploration licenses will be transferred from the state budget to the aimag's local development fund located in the area where the exploration area is conducted.¹

¹ Source: Ministry of Finance

5.2.4 Future Heritage 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.

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 1 January 2017.¹

Revenue and expenditure of Future Heritage fund, 2018	
Fund generated according to Article 620.7 7.1.2 of the Future Heritage Fund Law, in MNT billion	100.0
Expenditure from the accumulated fund in accordance with the regulation on Compliance of the Future Heritage Fund Law, in MNT billion	

According to the Law on Future Heritage Fund and Law procedures to comply with the Law on Future Heritage fund, 2019-2021, MNT 50 billion will be transferred to the state budget from the fund and MNT 465.4 billion will be used to settle the debt from the human development fund.²

Item	2019 (MNT mln)	2020 (MNT mln)	2021 (MNT mln)
Total revenue of future heritage fund	669,770.2	698,656.8	720,734.3
Total expenditure, financing	515,424.3	10,000.00	10,000.00
Transfer to state budget	50,000.0	-	-
To the debt payment from the human development fund	465,424.3	-	-
Operating costs of future heritage fund corporation	-	10,000.00	10,000.00

¹ Source: Ministry of Finance

² Source: 2019 Fiscal Framework Statement of the Unified Budget of Mongolia, Law on Budget Implementation of 2020-2021

5.2.5 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.¹

Source	Amount (MNT bln)
Fiscal Stability fund	207.0

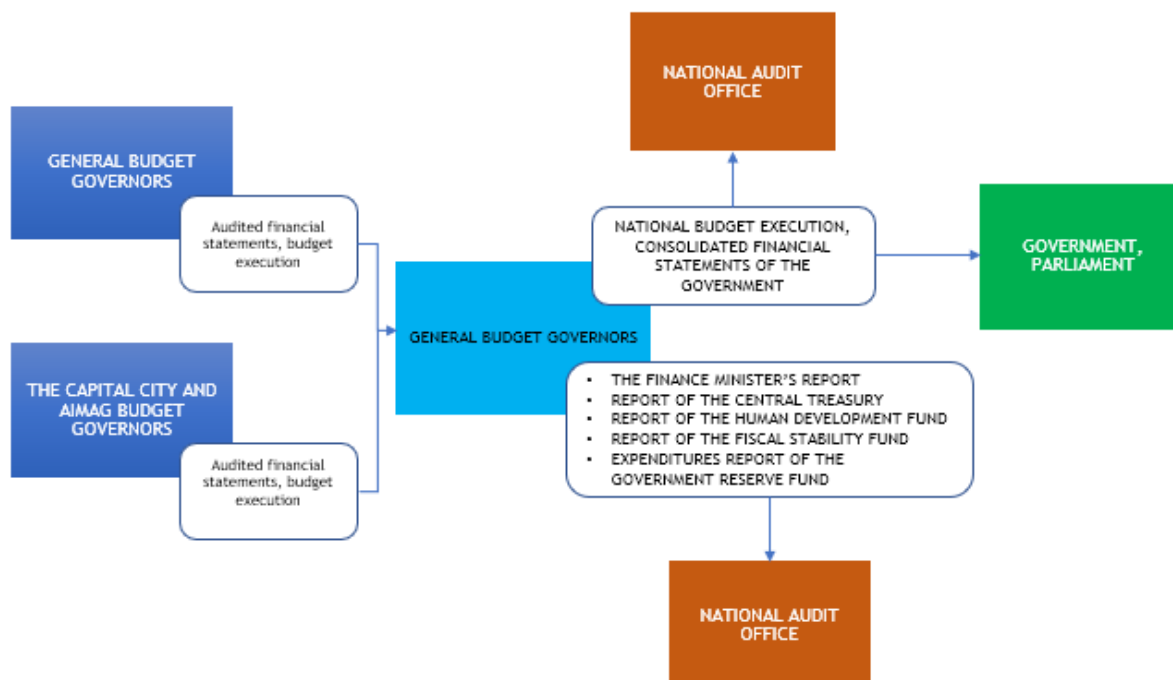
Total equilibrated revenue and grants makes up 90.77% of the total revenue and grants of 2018 National budget, Stabilisation Fund accounts for 2.39% and the remaining 6.84% is the Future Heritage Fund as per below.²

Total revenue and grant of the State General Budget, 2018				
Classification of state budget	2017		2018	
	Amount (MNT mln)	Percentage %	Amount (MNT mln)	Percentage %
Future heritage fund	357,722.8	4.52%	620,693.6	6.17%
Stabilization fund	325,680.2	4.11%	206,986.6	2.06%
Total equilibrated revenue and support	7,239,085.8	91.37%	9,234,862.6	91.77%

5.3 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



¹ Source: www.1212.mn

² Source: National Statistics Office

5.3.1.1 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 are responsible for generating revenue to the budget and the Treasury funds. Financing is then provided from the Treasury fund to budgetary entities as per an approved budget allocation.

5.3.1.2 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. MoF then consolidates these reports and provide them to the National Statistical Office by 8th of every month. The NSO publishes 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 the 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.

5.3.1.3 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 Hural¹

5.3.1.4 Preliminary execution of budget revenues in 2018

We present in the table below and overview of the budget execution for 2017 and 2018².

Item	2017 (MNT bln)	2018 (MNT bln)	Change (%)
Total revenue	7,922	10,063	127%
Future heritage fund	358	621	174%
Stabilization fund	326	207	64%
Equilibrated revenue	7,239	9,235	128%
Tax revenue	6,303	8,207	130%
<i>Taxes related to imports</i>	<i>1,860</i>	<i>2,628</i>	<i>141%</i>
<i>VAT on imported goods and services</i>	<i>1,032</i>	<i>1,412</i>	<i>137%</i>
<i>Customs duty</i>	<i>512</i>	<i>682</i>	<i>133%</i>
<i>Excise tax</i>	<i>316</i>	<i>534</i>	<i>169%</i>
<i>Income tax revenue</i>	<i>1,610</i>	<i>2,086</i>	<i>130%</i>
<i>Social security contributions</i>	<i>1,314</i>	<i>1,621</i>	<i>123%</i>
<i>Domestic goods and services tax</i>	<i>986</i>	<i>1,056</i>	<i>107%</i>
<i>Refund of sales tax</i>	<i>(147)</i>	<i>(114)</i>	<i>78%</i>
<i>Other tax revenue</i>	<i>679</i>	<i>929</i>	<i>137%</i>
Non-tax revenue	936	1028	110%

5.3.2 Budget expenditure and borrowing

Item	2017 (MNT bln)	2018 (MNT bln)	Change
Total expenditure and net borrowing	8,981	9,223	(242)
Initial expenditure	7,825	8,176	(351)
Other expenses other than interest payment	5,850	6,301	(451)
Capital spending	1,646	1,608	38
Borrowing	329	267	62
Interest payment	1,156	1,047	109
Equilibrated balance	(1,742)	12	(1,754)
Percentage of GDP	(0)	-	(0)
Initial equilibration	(586)	1,059	(1,645)
Percentage of GDP	(0)	0	(0)

¹ Source: Ministry of Finance

6 Social and economic spending

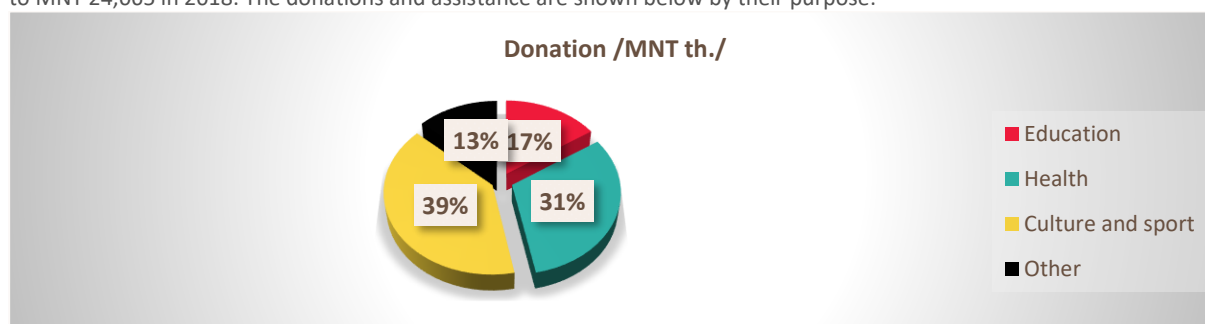
6.1 Social expenditures by extractive companies

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 mandatory social expenditure is defined by the MSWG as voluntary social expenditure. Companies report their mandatory and voluntary social expenditure on the E-reporting system.

Monetary and non-monetary donations and support of 202 companies included in the reconciliation of Extractive Industries Transparency Initiative donated to state and local organizations are shown below. The data from government and companies were inconsistent and the relevant adjustments had been made to the discrepancies. As noted above, donations required to be reported are included in the reconciliation and adjusted, voluntary donations were not reconciled.

99 companies out of total companies selected in the reconciliation have made monetary and non-monetary donation amounting to MNT 24,065 in 2018. The donations and assistance are shown below by their purpose:



The donations and support received by Government entities are as follows:

Recipient	Monetary donation /MNT th./	Non-monetary donation /MNT th./	Total amount	Percentage
Ministry and agencies	66,000	52,767	118,767	0.49%
Aimags, and the capital city	2,797,963	1,815,635	4,613,598	20.42%
Soums, districts	1,877,942	2,564,658	4,442,600	18.45%
Non-government organization, funds	14,428,488	437,912	14,866,400	59.95%
Other organizations	5,000	43,011	48,011	0.68%
Total	19,175,393	4,913,983	24,089,376	100.00%

77.5% of all donations and supports were granted by six companies: Oyu Tolgoi LLC, Cairt Mineral LLC, MonEnCo LLC, Erdenet Mining Corporation SOE, Energy Resource LLC and Friendship Resources LLC. 95.7% of all donations and supports granted to Local Development fund were provided to “Gobi Oyu fund” in Umnugobi aimag and “Monument development fund” in Khovd aimag.

Total donations and supports classified by recipient aimags were as follows after reconciliation:

Recipient	Monetary donation (MNT th.)	Non-monetary donation (MNT th.)	Total amount	Percentage
Arkhangai	98,300	71,453	169,753	0.70%
Bayan-Ulgii	-	24,905	24,905	0.10%
Bayankhongor	435,043	209,742	644,785	2.68%
Bulgan	406,470	1,016,269	1,422,739	5.91%
Gobi-Altai	117,075	105,313	222,388	0.92%
Darkhan	358,641	66,335	424,976	1.76%
Dornogobi	853,381	902,753	1,756,134	7.29%
Dornod	30,000	187,000	217,000	0.90%
Dundgobi	11,840	104,881	116,721	0.48%
Uvurkhangai	5,000	99,350	104,350	0.43%
Umnugobi	12,589,852	1,533,814	14,123,666	58.63%
Sukhbaatar	2,089,082	120,300	2,209,382	9.17%
Selenge	49,100	86,668	135,768	0.56%
Tuv	376,020	202,757	578,777	2.40%
Uvs	64,405	148,398	212,803	0.88%
Ulaanbaatar	79,880	26,236	106,116	0.44%
Khovd	1,587,918	5,309	1,593,227	6.61%
Khuvsgul	10,606	2,500	13,106	0.05%
Khentii	9,480	-	9,480	0.04%
Gobisumber	3,300	-	3,300	0.01%
Total	19,175,393	4,913,983	24,089,376	100%

6.2 Quasi-fiscal expenditures

The information on quasi-fiscal expenditures incurred during the reporting period was requested from the SOEs included in the reconciliation and no information related to quasi-fiscal expenditures was provided reported.

6.3 Contribution of the extractive sector to the economy

6.3.1 General overview

As a result of the positive impacts of Mongolia's favourable economic conditions and Government policy on accelerating economic growth, the growth of mining companies' sales, the level of profitability, the increase in taxes, payments and fees paid to state and local budgets, Mongolia's economy grew by 6.9% in 2018 which is the highest from the last four years, 2.7% more than the planned figure. Share of the mining sector in total country revenues increased by 7% from the last year.

The table below provide an overview of the economic growth by sectors:¹

Sector	2017	2018*	Growth / Decrease
Overall Economic Growth	5.3	6.9	1.6
<i>Agriculture</i>	1.8	4.5	2.7
<i>Manufacturing</i>	0.4	6.2	5.8
<i>Mining</i>	5.5	5.1	10.6
Manufacturing industry	20.1	15.7	-4.4
<i>Electric heating</i>	5.5	8.2	2.7
<i>Building</i>	7.3	-5.0	-12.3
<i>Service</i>	7.9	5.3	-2.6
<i>Wholesale and retail trade</i>	7.1	3.4	-3.7
<i>Transportation and storage activities</i>	14.2	6.7	-7.5
<i>Information and communication</i>	15.8	4.0	-11.8
<i>Other service activities</i>	5.4	6.1	0.7
Net taxes	18.5	20.1	1.6

Revenue from extractive industry is planned to reach MNT 1,720.0 billion, but the actual execution of revenue reached to MNT 2,394.0 billion, which is 23.5% of non-refundable grants.

Volume, equilibrated price, total revenue of mineral products are as follows:²

№.	Product	Volume (MNT th.)		Price (USD/tn)		Total revenue (MNT mln)	
		2017	2018	2017	2018	2017	2018
1	Gold	17.5	18.1	1,257.2	1,266.5	49.1	80.0
2	Coal	33,400.5	36,265.1	68.4	77.3	692.9	998.0
3	Copper concentrate	1,447.2	1,436.7	6,162.3	6,524.8	903.1	999.0
4	Zinc	118.2	123.9	1,529.4	1,596.3	64.2	78.0
5	Iron ore	6,257.8	7,449.0		45.9	23.4	30.6
6	Other					178.7	208.4
	Total					1,911.4	2,394.0

¹ Source: Ministry of Finance

² Source: Ministry of Finance

The table shows that 83.4% of the revenues contributed in 2018 to the state budget from the mining sector originated from copper and coal sales and 16.6% from other mineral products.

Product		2017	2018
1	Coal	269.1	443.4
2	Copper concentrate	479.5	487.3
3	Other	99.1	116.3
Total		847.7	1047.0
Fiscal stability fund		297.4	137.7
Future heritage fund		357.7	588.6
Equilibrated fund		192.6	320.7

In the mining sector, fee for exploitation and exploration of mineral resources and fee for exploitation and exploration of incremental resources reached MNT 1,047 billion in 2018 and exceeded the budget by 29.8% or MNT 240.6 billion. Copper concentrate contributed for 46.5%, coal contributed for 42.4% and the remaining 11.1% originated from other mining products.

Revenue from fee for exploitation and exploration of mineral resources from coal and copper increased by MNT 199.3 billion from the previous year. Contribution to the Fiscal Stability Fund from exploitation and exploration of mineral resources decreased by MNT 159.7 billion. This is due to the fall of market price and the equilibrated price of copper comparing to the previous year.

Contribution to the Future Heritage Fund from exploitation and exploration of mineral resources exceeded the budget by MNT 127.7 billion and increased by MNT 230.9 billion comparing to the previous year.

Copper concentrate exports reached 1,436.7 thousand tons in 2018, exceeded the budget by 70.7 thousand tons, decreased by 10.5 thousand tons from the previous year, while coal exports reached 36,265.1 thousand tons, exceeded the budget by 8,265.1 thousand tons, and increased by 2,864.6 thousand tons from the previous year.

The mining sector accounted for 23.03% of Mongolia's GDP on average of the last three years. The share of GDP from the sector arising in 2018 is 0.2% higher than in 2017.

6.3.2 Total government revenues from the extractive industry

6.3.2.1 Revenue from petroleum

In 2018, total oil exports were planned to reach 8,100 thousand barrels and price per barrel was estimated at USD 50 leading to MNT 223.4 billion as prospective revenue for the national budget for the fiscal year. At the end of the year, 6,189.8 thousand barrels of oil was exported making MNT 222.5 billion revenues to the national budget (99.6% of the estimated target).

6.3.2.2 License fee for exploitation and exploration of mineral resources

In 2017 1,405 exploration licenses covering 7.1 million hectares and 1,673 mining licenses covering 1.6 million hectares, totalling 3,078 licenses were registered in Minerals and Petroleum. The license fee included in the national budget amounted to MNT 38.9 billion (exceeding by MNT 1.9 the estimation at the Budget Law calculated at MNT 37.0 billion).

6.3.2.3 Fee for use of mineral resources widespread mineral resources

According to Article 23.8 of the Law on Budget, soum and district budget tax revenues include fees for use of widespread mineral resources.

The approved 2018 budget included the basic income royalty at 1.6 billion MNT and approved the Local Citizens' Representative Khural's budget for 2.1 billion MNT.

6.3.3 Contribution to the economy

The sub-sector of the mining and quarrying industry is an important sector in the industrial sector. The production of key products of the mining and quarrying industry is classified into following 5 sub-sectors.

- i. Coal mining,
- ii. Oil extraction,
- iii. Metal ore mining,
- iv. Other minerals extraction,
- v. Other supporting activities for mining and quarrying.

In recent years mining and minerals sector has been developing rapidly and has become one of Mongolia's leading economic sectors. With strategically important deposits being opened, the mining industry continues to grow.

6.3.3.1 Contribution of the extractive sector to the GDP

Extractive industry contribution in the Gross Domestic Product (GDP) in 2018 is as follows¹:

Item	2016 (MNT bln)	2017 (MNT bln)	2018 (MNT bln)
GDP	23,942.8	27,876.3	32,307.3
Mining and quarrying	4,817.3	6,543.4	7,604.3
Percentage	20.1%	23.4%	23.5%

The percentage of mining revenues in the GDP increased by 0.06 percent compared to the same period of the previous year.

6.3.3.2 Contribution from small-scale mining to the economy

Artisanal mining is helping many people to escape poverty and contributes to national and local economic development. Artisanal miners make significant contributions to the Bank of Mongolia's foreign exchange reserves by selling gold through official network. Artisanal mining directly or indirectly creates jobs, neutralize rural-to-urban migration and increase household income. However, Mongolia's gold supply network remains in full swing. This network is officially authorized when the gold is issued to Mongolbank. In 2018, the Sustainable Artisanal Mining Project, the Bank of Mongolia jointly with the Precious Metal Sample Inspection Agency of the Agency for Standardisation and Metrology established a one stop service center for gold standard test and purchase in Darkhan-Uul and Bayankhongor aimags. It is decentralizing works such as gold origin and movement registration, gold standard test, gold purchase and is reducing stages of selling gold.

As of today, more than 60 thousand self-employed people are working in the mining sector such as gold, fluorspar and tungsten, about 15 percent of them are artisanal miners.

6.3.3.3 Industrial production

In 2018, coal mining sub-sector contributed up to MNT 5.3 trillion in the industrial production. This is MNT 1.4 trillion or 35.9% more than the previous year, MNT 3.8 trillion or 3.6 times more than 2013 and MNT 4.8 trillion or 10.9 times more than 2009.

For 2018, coal mining accounts for 20.8% of the total industrial production, and it has increased by 2.3% from the previous year. Coal mining accounts for 36.3% of the extractive industry. It has recorded a growth of 4.2% comparing to the previous year.

In 2018, oil production accounted for MNT 1.0 trillion. It has increased by MNT 0.1 trillion or 7.6% from the previous year, by MNT 0.2 trillion or 25.3% from 2013 and by MNT 0.9 trillion or 6.6 times from 2009.

Oil production accounts for 3.8% of total industrial production. This implies a decrease of 0.5% comparing to the previous year. However, oil production makes up to 6.7% of the extractive industry with an increase of 0.8% from the previous year.

¹ Source: National Statistics office

6.3.3.4 Exports

At the end of 2018, total foreign trade turnover reached USD 12.9 billion, and it has increase by USD 2.4 (22.3%) from the same period of the previous year. Export dominated over import and the differences of export and import were USD 1 billion 136.7 million.

Exports reached USD 7 billion 11.8 million, and it has increased by USD 811.1 (1.1 times) from the same period of the previous year.

Extractive industry exports of 2017 and 2018 are as follows¹:

The table below sets out the performance of foreign trade by type of exported product in 2017 and 2018².

Exported product	Export (th \$)		Variance		Contribution
	2017	2018	Amount (th \$)	%	
01 Livestock, animal or animal products	67,416.8	102,121.2	34,704.4	51.5	1.5
02 Herbal products	67,654.8	22,010.5	-45,644.3	-67.5	0.3
03 Animal and vegetable oils and fats	388.2	536.0	147.7	38.1	0.0
04 Foodstuffs	23,007.9	91,423.3	68,415.3	297.4	1.3
05 Mineral products	4,933,672.1	6,070,339.2	1,136,667.1	23.0	86.6
06 Chemical and related products	1,470.9	1,247.7	-223.2	-15.2	0.0
07 Plastic and its articles; the rubber and its doings	2,983.5	1,591.3	-1,392.2	-46.7	0.0
08 Leather hides and skins, hides, skins and articles thereof	23,920.7	16,960.3	-6,960.5	-29.1	0.2
09 Wood and wooden articles	633.5	356.7	-276.9	-43.7	0.0
10 Paper and cardboard, made of them	77.7	36.3	-41.4	-53.3	0.0
11 Textiles and textiles	335,466.0	409,800.7	74,334.6	22.2	5.8
12 Shoes, hats, and more	2,492.4	2,317.4	-175.0	-7.0	0.0
13 Products made of stone, gypsum, asbestos, mica and similar materials	100.6	59.8	-40.9	-40.6	0.0
14 Pearl, precious and semi-precious stones, precious metal, ornaments, and coin	596,939.2	145,480.7	-451,458.5	-75.6	2.1
15 Basic metals and their products	101,000.6	91,754.7	-9,245.9	-9.2	1.3
16 Machinery, mechanical equipment and parts, appliances and spare parts	22,770.1	24,854.4	2,084.3	9.2	0.4
17 Auto, air and water transport vehicles and their spare parts	17,030.8	24,749.2	7,718.4	45.3	0.4
18 Parts, such as rectangles, photographs, measurements, controls, medical devices, watches, and musical instruments	1,238.0	3,952.7	2,714.7	219.3	0.1
20 Miscellaneous goods	2,228.7	2,037.8	-191.0	-8.6	0.0
21 Artworks, collections, specials and ancient treasures	98.8	128.0	29.1	29.5	0.0
Total	6,200,593.0	7,011,757.8	811,164.8	13.1	100.0

Increase of prices for the main export products has introduced in 2018. The mining sector accounts in GDP reached 22.1%.

Statistics are shown in MNT trillion as follows:

No	Production	2014	2015	2016	2017	2018
1	Gross Domestic products	22.2	23.2	23.9	17.0	18.1
2	Mining exploitation	3.7	3.9	4.0	3.7	4.0
3	Total industrial production	9.3	8.7	9.9	12.9	15.7
4	Mining, extractive industry	6.4	5.9	7.9	9.4	11.2

¹ Source: Ministry of Finance

² Source: Customs General Administration, Statistical Department, Performance of Foreign Trade 2018

6.3.3.5 Employment

Resolution of the GoM on determining employment quota of foreign workers and experts (2016)

Each year, the Government of Mongolia passes a resolution which specifies the quota of 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 company.

The Government Resolution No.317 of 2017 was passed to specify the quota for the foreign workers and experts allowed to work in Mongolia for the year 2018. According to this appendix, the quota of foreign workers and experts in the extractive industry shown as a percentage of total employees remained the same as to figures of the previous year. The following table shows comparative information on years of 2017 and 2018¹.

Entity	Mining		Oil & Gas	
	2017	2018	2017	2018
Share capital up to MNT 100 million				
15 to 30 employees	10%	10%	10%	10%
31 to 50 employees	20%	20%	20%	20%
51 to 100 employees	20%	25%	60%	30%
Share capital MNT 101 million and above				
Any number of employees	25%	35%	70%	50%

Foreign employees working in Mongolia under employment contracts

According to a survey conducted by the National Statistics Office showed that 4.5 thousand foreign nationals from 95 countries worked with labour contract as of 31 December 2018, which is the threefold increase in the number of employed persons.

In Mongolia, 1.7 thousand (36.7%) of foreign nationals employed in 2018 were engaged in mining and extractives, 918 (20.4%) in education, 782 (17.4%) in wholesale and retail trade, machinery and motorcycle maintenance, 295 (6.6%) in the processing industry, 182 (4.0%) in administrative and support activities, 121 (2.7%) in construction, and 550 (12.2%) in other sectors. (<https://www.nso.mn/contents/4>)

6.4 Environmental impact of extractive activities

6.4.1 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 in the recent years.

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:

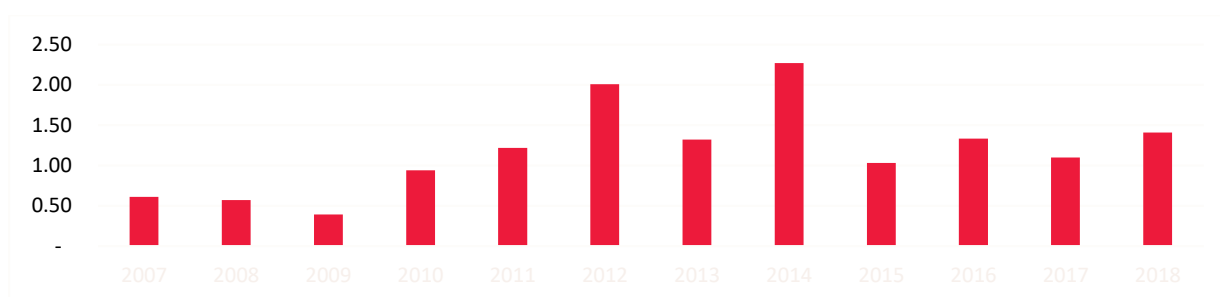
¹ Source: Government of Mongolia 2016 Resolution #137 and 2017 Resolution # 317

- 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.

6.4.2 Special account for environmental protection

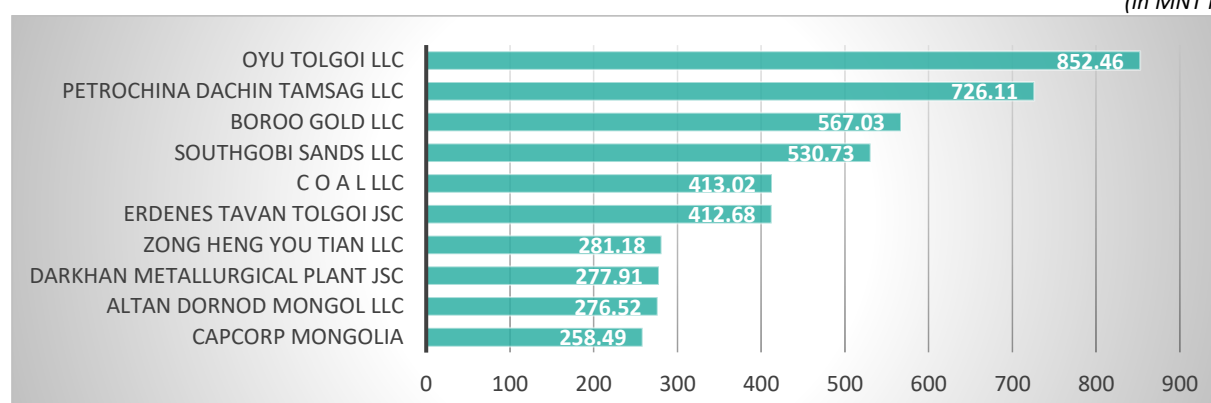
As per the MNET report, MNT 1,411 million were deposited to the special account for environmental protection in 2018 and no refund has been made. An outstanding balance as of December 31, 2018 is MNT 14,037 million.¹

Year	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Revenue	22	612	565	385	942	1,216	2,014	1,545	2,273	1,027	1,317	1,102	1,411
Expenditure	-	-	21	126	1	5	16	225	1	-	-	-	-
Closing balance	22	634	1,179	1,438	2,379	3,590	5,588	6,908	9,180	10,207	11,524	12,626	14,037



¹ Source: Ministry of Nature Environment and Tourism

The top 10 companies transferred the pledge to the rehabilitation special account for environmental protection (2007-2018):¹
(in MNT mln)



6.4.3 Mining operation and rehabilitation in 2018

The MRPAM 2018 Minerals Statistic Report records that 584 ha were covered by mining operations and 604 ha have been rehabilitated. The total expenses of rehabilitation in 2018 were MNT 2,772.5 million. The table below presents the rehabilitation operations carried out in the extractive sector.

Years	Areas of mining operations (ha)	Areas of rehabilitation (ha)	Rehabilitation percentage (%)	Rehabilitation expenses (MNT mln)
Previous years	23,598.0	17,548	74%	72,266.0
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
2018	584.0	608.0	104%	2,772.5
Total	29,240.6	21,852.9	75%	104,580.5

Surveys on insufficient or none rehabilitation work has been carried out by license holders:²

Aimag	Company name	Area of rehabilitation is needed /hectare/
Arkhangai	6.4.3.1 Batdulguun murun LLC, Mongol Gazar LLC, Senshibiemongol LLC, MGH LLC	483.000
Bayan-Ulgii	Burkit Corporation LLC, Sagsai mineral resource LLC	31.500
Bulgan	Azargiin gol chonot LLC, Altandornod Mongol LLC, Bayangol Eco Zaamar LLC, Batbrothers Mining LLC, Berkhiin nuram LLC, Мон хуа энерги ХХК, Mongolrosvetmet SOE, Monpolymet LLC Orient Mining Investment LLC, Urmun Uul LLC, Soft Trade LLC, Tusulch LLC, Khos Khas LLC	1,110.430
Gobi-Altai	Anir delkhii LLC, Mandal Altai Group LLC, Marco Polo LLC, Tengri Terra LLC	111.494
Darkhan	Altan Khundii LLC, Bichigt Khad Mining LLC, Darkhan altan uul LLC, JMA LLC, Monzol LLC, Ochir Undraa LLC, Khaani khargui LLC, Khuusgul LLC, ChChTB LLC, Shingchang LLC	43.000
Dornogobi	Dunfanlunma LLC, Duulgant Eco LLC, JEMi International LLC, Ikh gobi energy LLC, Kazmon contact LLC, Commod LLC, Mongolrosvetmet SOE, Monlaa LLC, Munkhbolor khurkhre LLC, Naigman ord LLC, REMAR LLC, Spot construction LLC, Talst dul LLC, T and B LLC, Teeliin shonkhor LLC, Khukh tur LLC, Khurd auto LLC, Khudrent LLC, Khuree del LLC, Shidet od LLC, Ejumen LLC, Ekilesia LLC, Yalguun International LLC	434.400
Dornod	Petrochina Dachin Tamsag LLC, Khuusgul LLC	30.000
Dundgobi	Altan Takhi LLC, Bigmogul Coal and Energy LLC, Bolorjonsh LLC, Bural stone LLC, Geokhugjil Mining LLC, Duenli LLC, Jun Yuan LLC, Ming Hong Da LLC, Mongolrosvetmet SOE, Munkhbolor khuree LLC, Nun LLC, New Fluorite LLC, Taikhar ord LLC, Tarag gultunu LLC, Khankhas Trade LLC, Chinkhash LLC, MCCM LLC, Erd Geo LLC, Erdengips LLC, Endeniin san mining LLC	68.000
Zavkhan	Fors gold mining LLC	5.600
Orkhon	Otgontenger orgil LLC	15.000

¹ Source: Ministry of Nature Environment and Tourism

² Source: Ministry of Nature Environment and Tourism

Umnugobi	AGM Mining LLC, Bold Fo Ar Da LLC, Dong Yuan LLC, Olon Ovoot gold LLC, Treiga mountain international mining LLC, Tsagaan uvuljuu LLC, Erdenes Tavan Tolgoi JSC	-
Sukhbaatar	Cairt mineral LLC, ABA LLC, Termenjonsh LLC, Biluut mining LLC, Bayan-Erch LLC, Erdeniin olz LLC, Andiin Ilch LLC, Badmaarag Khash LLC, Tsegeen Uuden LLC, Engui tal LLC, Talyn gal LLC, Olondavna LLC, Soronzon Tolgoi LLC, Garrison Asia LLC, Mongoljuyanili LLC, FJPM LLC, Sukhun gold LLC, Moly Metal LLC, Baga ulgii LLC, Nanjid LLC, BKHL LLC, Olgoibulag LLC	624.437
Selenge	Alliance gold LLC, Bayan talyn uv LLC, Basic metal mining LLC, Montenger LLC, Darkhan Metallurgical plant LLC, Dunar od LLC, Zolotaya korona LLC, Zubgol LLC, Capital auto service LLC, Mongol Anar Trade LLC, Monlid Trade LLC, Pentaterra LLC, New golden crown LLC, Richmunkh LLC, Taikharjin mining LLC, Urtkhoshuu LLC, Flink Mongolia LLC, Khishig orgiluun LLC, Khrizopraza LLC	-
Tuv	Anratsit LLC, Battripel LLC, Bayan khurai LLC, GBTSB LLC, Nariin gol gold LLC, New happy LLC, Underbuyant holding LLC, Redvulcan LLC, CFC LLC, Soft Trade LLC, Suldtogtokh LLC, Takarajin LLC, TGV LLC, Tumen tal LLC, Uur gold LLC, Khar zanar LLC, Tsantiin jim LLC, Shijir alt LLC, Erdeniin tsakhirmaa tal LLC	252.030
Uvs	Monsib LLC, Ulaannachin LLC, Khorikava metal LLC, Tserenbadam	43.000
Ulaanbaatar	Double munkh LLC, Ord trade LLC, OANDCH LLC, Top toosgo LLC	22.700
Khovd	Ideal system LLC, LUVR LLC	25.500
Total		3,300.091

6.4.4 Water use

Reporting template has been sent to companies to provide details of water used by the companies in relation to the Mongolia EITI 2018 Report. According to the data received from 68 companies, they have contracted to use water of 45,286,588 cubic meters of water, however the actual consumption was 33,989,987 cubic meters or 75.1% of contract volume.

Item	Water consumption per contract (cubic meter)	Surface water used (cubic meter)	Underground water used (cubic meter)	Total volume of water used (cubic meter)	Gray water re-used (cubic meter)
Volume	45,286,588	3,193,861	30,796,125	33,989,987	810,461

List of top 10 paid companies made highest payment for water in 2018 is as follows:

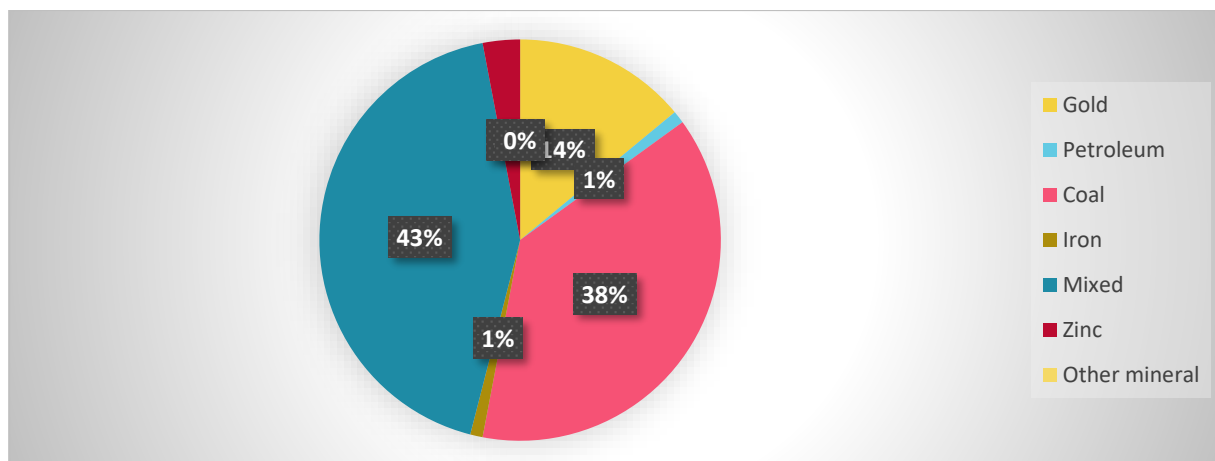
Company name	Fee for water use	Volume of water used (cubic meter)			Gray water re-used (cubic meter)
		Surface	Underground	Total	
Erdenes Mining Corporation SOE	16,016,244		Did not provide the details of water used		
Oyu Tolgoi LLC	13,439,635	-	14,695,061	14,695,061	711,351
Petrochina Dachin Tamsag LLC	2,827,343		Did not provide the details of water used		
Energy Resource LLC	1,755,473	-	1,725,784	1,725,784	-
Baganuur JSC	810,200	-	5,435,000	5,435,000	
Mongolrostsvetmet SOE	651,627		Did not provide the details of water used		
Shin shin LLC	558,054		635,735	635,735	-
Tsairt mineral LLC	443,057		358,722	358,722	8,471
Mongolyn Alt Mak LLC	400,393		Did not provide the details of water used		
Sharyn gol JSC	263,766		657,000	657,000	

In 2018, Government received revenue amounting to MNT 41,214,036 thousand for water consumption, and above 10 companies constitute 90.2% of total revenue received.

We received explanation on the volume of water used under contract and highest differences of the water used in 2018 from the following two companies:

- Oyu Tolgoi LLC entered into an agreement to use 20,363,973 cubic meters of water, but reported that the company used 5,668,912 cubic meters of water in 2018. The amount indicated in the agreement was a preliminary estimate, and the actual consumption in 2018 was 5,668,912 cubic meters.
- Shivee Ovoo JSC entered into an agreement to use 5,734,827 cubic meters of water, but reported that the company used 4,082,441 cubic meters of water. This is due to the fact the company planned to launch 45 wells, but 35 wells were launched in 2018.

The water consumption by type of mineral is shown below based on the data provided by the companies included in the EITI Report 2018.



6.4.5 Waste information

As requested by members of MSWG of EITI Mongolia, the waste information is collected using e-reporting template and 44 companies provided the details of the information. In 2018, a total of MNT 344,852 thousand were collected for waste fee.

79.05 percent or 657,006.23m³ of total waste is classified as non-hazardous waste and 10.18 percent or 84,570.65m³ of hazardous waste and 10.77 percent or 89,528.85 m³ recycled hazardous wastes. This fee is collected to Ulaanbaatar and other 15 aimags. Of which, MNT 289,105,235 is collected to Omnogobi aimag.

The following table shows the information of the highest fee paid by 10 companies.

Company name	Aimag / City	Hazardous waste (cubic meter)	Non-hazardous (cubic meter)	Total waste (cubic meter)	Actual payment (MNT)	Re-processed hazardous waste (cubic meter)	Burial of hazardous waste (cubic meter)
Energy Resource	Umnugobi	1,902.00	9,606.00	11,508.00	274,095,234.67	829.19	1,092.00
Capcorp Mongolia	Uvurkhangai	0.20	8.30	8.50	16,200,000.00	200.00	-
Javkhlant Ord	Umnugobi	-	358.00	358.00	7,160,000.00	-	-
Kojegobi	Sukhbaatar	-	-	-	6,769,000.00	-	-
Badrakh Energy	Dornogobi	-	415.00	415.00	6,225,000.00	-	-
Bud Undram	Uvurkhangai	-	-	-	5,842,520.00	-	-
Aum Gold	Uvurkhangai	0.30	0.10	0.40	5,000,000.00	-	-
Bayan Airag exploration	Zavkhan	160.00	1,306.00	1,466.00	2,400,000.00	72.00	-
Southgobi Sands	Umnugobi	80,554.95	8,457.29	89,012.24	2,400,000.00	70,000.00	-
Tsagaan Uvuljuu	Umnugobi	62.76	3,633.68	3,696.44	2,400,000.00	71.48	12.00

6.4.6 Payment for Air Pollution

Article 7 of the Law on Air Pollution states the followings:

- The percentage of payment for raw coal will be determined by coal price per kilogram.
- The amount of the payment for the manufacture and import of organic solvents shall be determined by the Government within MNT 10-30 per kilogramme of organic solvents.
- Carbon dioxide emission from carbon dioxide and self-propelled vehicles shall be determined in proportion to their classification rates.
- The amount of payment for air pollutant emissions from major urban air pollution sources shall be determined by the Government within the limits of 1-10 MNT per kilogramme.

According to the Government Resolution No. 273 of 2010, air pollution payments to raw coal were set at 1kg-MNT 1.

MNT 30 billion was estimated for air pollution payments in 2018 Budget Law. The total revenue collected amounted to MNT 42.1 billion (140.4% execution rate).

7 Recommendations from EITI implementation

No.	Recommendation	Description
1	Gender parity	<p>According to the requirement 1.4 a) ii of EITI standard 2019 The multi-stakeholder group and each constituency should consider gender balance in their representation to progress towards gender parity.</p> <p>Currently, EITI's multi-stakeholder group consists of 34 members, of which 11 are women and 23 are men.</p> <p><i>It is recommended that multi-stakeholder group should discuss with all the representatives in order to provide gender parity.</i></p>
2	Involvement of Sub-council	<p>The EITI National Council approved the "Sub-Council's Rules on implementing EITI in local areas" in December 2013. These rules include guidance on establishing EITI sub-sub-councils. It includes provisions on the organizational structure, type of operations, management, reporting, financing and other matters. A total of 22 sub-councils were established. (21 provinces and Ulaanbaatar)</p> <p>However, sub-councils have not organized any meetings or activities before the EITI Report was published. And no conference was held to discuss the EITI process. This is due to two factors.</p> <p>First, lack of human resource and financial support. However, the Ministry issued an order to allocate funding to the sub-council.</p> <p>Second, members familiar with EITI has left the sub-council. Members with previous experience participating EITI activities and conferences have left the sub-council.</p> <p><i>It is recommended that members should gain practical experience to improve the implementation of the rules. The multi-stakeholder group should take steps to work on raising funds by implementing Government resolutions.</i></p>
3	Contract and data transparency	<p>Most company's Production Sharing Agreements are transparent; however, some company's contracts are missing. Therefore, the PSA and some clauses have not yet been publicly disclosed.</p> <p>It is recommended that name, title and work addresses of board members of state and locally owned entities should be included in the report classified as Erdenes MGL and other companies.</p> <p><i>It is recommended that information on salary, bonus and trip costs of board members of state and locally owned entities should be included in the report classified by subsidiaries.</i></p>
4	Beneficial ownership information	<p>Beneficial owners of the companies included in the reconciliation is made transparent each year. However, it should include all companies operating in the extractive industry.</p> <p>According to the requirement 2.5 of EITI standard, implementing countries must maintain a publicly available register of the beneficial owners of the corporate entity(ies) that apply for or hold a participating interest in an exploration or production oil, gas or mining license or contract.</p> <p>The National Council approved roadmap for the purpose of implementing EITI standards in January 2016 (updated in December 2017). However, most goals are not implemented or partially implemented.</p> <p><i>It is recommended that the multi-stakeholder group should speed up implementation of the roadmap, require profit declaration by law and make necessary steps to consolidate profit declarations into national policy.</i></p>
5	Information between Government agencies differs from each other	<p>When collecting contextual information to be included in the EITI Report, statistical data published on website of several government agencies were not consistent to each other. Statistical data related to mining sector licenses, production and export revenue and other revenues differ from the information reported by the Ministry of Mining and Heavy Industry, the National Statistical Office and the Ministry of Finance.</p> <p><i>It is recommended that the statistics on extractive industries should first be collected to the Ministry of Mining and Heavy Industry. After reviewing this statistical information, they should be distributed to other governmental organizations.</i></p>
6	Government agencies and companies report on the MEITI E-reporting system complete and accurate information	<p>The information of majority of the companies selected in the reconciliation were reported incorrectly in the E-reporting system by the Customs General Administration. Several aimags did not submit the report, some aimags underreported the most of the tax revenue streams collected from companies. Include the complete and accurate information of donation collected to local government agencies in the E-reporting system.</p> <p>The information related to the initial discrepancies from some aimags and districts provided to us after the deadline.</p> <p>Additional information to be included in the reconciliation had not been provided to us from the relevant government agency.</p>

No.	Recommendation	Description
7	Improve the reporting template	<p>Report the revenue streams by each project (license).</p> <p>Included detailed information of employee (additional information on the age of employees).</p> <p>Include detailed information of concentrator, processing plant in the reporting template</p> <p>Include details of operator, subcontractor and supplier companies who cooperate with license holders under agreements</p>
8	E-reporting system	<p>Incorporate templates for contextual and additional information to collect information from government and companies to E-reporting system. This will require less time for gathering and reconciliation of data. Several issues can arise due to the information is not available in the E-reporting system or their official website and is required to send the entities official letters to collect information.</p> <p>Information on the EITI electronic system should be in the same way as the information submitted by relevant government agencies.</p>

8 Follow up of previous years recommendations

No	Recommendation	Implementation status
1	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.	The relevant laws have not been amended. However, it is possible to provide information in accordance with Government Resolution No.263 of 2017.
2	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.	PSAs are all posted to www.iltodgeree.mn in April 2019.
3	It is recommended 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)	MRPA is making the license transparent. On-time updates are slow.
4	It is recommended 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.	MRPA monthly performance information is still available, but it is not clear enough.
5	It is recommended 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. It is recommended 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.	Working Group on the Law on Transparency in the Extractive Industries is working at the Ministry of Mining and Heavy Industry. It is hoped that the issues will be solved by the law.
6	It is recommended 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.	The attitude of the Customs General Administration has changed in a positive way.
7	It is recommended 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.	Working Group on the Law on Transparency in the Extractive Industries is working at the Ministry of Mining and Heavy Industry. It is hoped that the issues will be solved by the law.
8	It is recommended 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.	Working Group on the Law on Transparency in the Extractive Industries is working at the Ministry of Mining and Heavy Industry. It is hoped that the issues will be solved by the law.
9	It is recommended 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.	Audited financial statements of the SOEs can be found on the Audit Reports section of the www.audit.mn website.
10	It is recommended that the complete audited financial statements for all extractive SOEs should be published on the	Audited financial statements of the SOEs can be found on the Audit Reports section of the www.audit.mn website.

No	Recommendation	Implementation status
	internet via, for example, the website of MNAO, the relevant SOE, MEITI or MRPAM.	
11	It is recommended that the MEITI Secretariat should amend the e-Reporting templates to facilitate the gathering of information by project.	The templates are being developed and will be approved by the Working Group and National Statistics of Mongolia for the 2020 work plan.
12	<p>It is recommended 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.</p> <p>It is recommended that the MSWG should develop and implement a policy on public participation to ensure the transparency of financial information of mining and petroleum companies.</p> <p>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.</p>	<p>MEITI was not able to implement some works due to lack of fund. It is possible to solve these issues by the Law on Transparency in the Extractive Industries.</p> <p>It is hoped that some issues will be solved by raising fund as part of the 2020 Work Plan.</p>