

MONGOLIA FIFTEENTH EITI RECONCILIATION REPORT 2020

MONGOLIA EXTRACTIVE
INDUSTRIES TRANSPARENCY
INITIATIVE (MONGOLIA EITI)

Ulaanbaatar city
2021



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The Report and all appendices relating to the report are intended for the use of the National Council of the Mongolia Extractive Industries Transparency Initiative, the Multi-Stakeholder Group and the public, under the request by the Mongolia EITI Secretariat.

The appendix provides some information that needs to be transparent in accordance with the EITI Requirements and Terms of Reference, and some appendices contain a large amount of information and are disclosed in Microsoft Excel format on the EITI Governance Support Project's website www.eitimongolia.mn, therefore, the report is to be read in conjunction with these appendices.

ABBREVIATIONS

BO	Beneficial owner
BOD	Board of Directors
CGA	Customs General Administration
CIT	Corporate Income Tax
EITI	Extractive Industries Transparency Initiative
EPP	Environmental protection plan
GAPCSP	Government Agency for Policy Coordination on State Property
GBG	General Budget Governor
GDP	Gross Domestic Product
GDT	General Department of Taxation
IAS	International Accounting Standards
IFRS	International Standards on Financial Reporting
ISA	International Standards on Auditing
JSC	Joint Stock Company
GLDF	General Local Development Fund
LDF	Local Development Fund
LLC	Limited Liability Company
MEITI	Mongolia Extractive Industries Transparency Initiative
MLSP	Ministry of Labour and Social Protection
MMC	Mongolian Mining Corporation
MMHI	Ministry of Mining and Heavy Industry
MNAO	Mongolian National Audit office
MET	Ministry of Environment, and Tourism
MOF	Ministry of Finance
MPC	Mineral Professional Council
MRPA	Mineral Resources and Petroleum Authority
MSG	Multi-Stakeholder Group
MUST	Mongolian University of Science and Technology
NGO	Non-Governmental Organization
NSO	National Statistics Office of Mongolia
PAM	Petroleum Authority
PoM	Parliament of Mongolia
PSA	Product Sharing Agreement
PWYP	Publish what you pay
SAM	Sustainable artisanal mining
SE	Stock Exchange
SIF	Social Insurance Fund
SOC	State-Owned Company
SOE	State-Owned Enterprise
SOJSC	State-Owned Joint Stock Company
SPIA GASI	General Agency for Specialized Inspection
TEFS	Technical and Economic Feasibility Study
USA	United States of America
VAT	Value Added Tax
USD	United States Dollars
T.ton, t	Thousand Tonnes
%	Percentage

Working Group of the Mongolia Extractive Industries Transparency Initiative

EITI Governance Support Project
Suite No.314, Tuushin Company Building
Amar's Street, Sukhbaatar District
Ulaanbaatar, Mongolia

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Grant Thornton Audit LLC was selected by the Mongolia Extractive Industries Transparency Initiative to undertake EITI Reconciliation for Mongolia for 2020 and concluded the contract to prepare a Fifteenth EITI Reconciliation Report for Mongolia.

According to the EITI Board decision, the EITI introduced flexible measures for EITI Report, where data collection and dissemination is feasible without posing health risks and subject to MSG endorsement. We have performed the engagement work in accordance with this EITI Board's recommendation, and the Terms of Reference, approved by the Mongolia EITI Multi-Stakeholder Group, which provides more flexible approach to EITI reporting for 2020 that is intended to ensure that disclosures are more timely, transparent and cost-effectiveness.

The flexible EITI reporting 2020's audit reconciliation engagement for material revenue flow received by Government and paid in 2020 by Mongolian extractive industry companies engaging in gold and copper production and for disclosing non-revenue information under EITI Standard 2020 was performed between 6 August 2021 and 25 November 2021.

We performed this engagement in line with ISRS 4400 (International Standards on Related Services), "Engagement to perform agreed-upon procedures regarding financial information".

We report our reconciliation works for extractive industries information as required in the Terms of Reference and EITI standard in the accompanying report including its appendices. Because the procedures were not designed to constitute an audit or review made in accordance with International Standards on Auditing or International Standards on Review Engagements, we do not express any assurance on the transactions beyond the explicit statements set out in this report.

This report is for the purpose of informing the Multi-Stakeholder Group and National Council on the matters set out in the terms of reference and does not extend to any financial statements of any entity taken as a whole.

Grant Thornton Audit LLC

1

INTRODUCTION



1 INTRODUCTION

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

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

1.1 BACKGROUND

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

Since adopting EITI, Mongolia has produced fourteen EITI Reports, and has appointed Grant Thornton Audit LLC as the Independent Administrator for the current (fifteenth) report.

The Principles and Requirements for EITI implementation were re-stated in 2016 and 2019, which was formally launched at the EITI Global Conference in Lima on 24-25 February 2016.

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

The EITI's quality assurance mechanism, Validation, which checks whether countries are adhering to the EITI Requirements, has also been refined in the 2016 EITI Standard. Although the bar for achieving compliance has not changed, the assessment will be a greater extent take into account the diversity in implementing country membership, recognize efforts to go beyond the minimum requirements and incentivize continuous improvements in implementation.

EITI Standard 2019 addresses implications of global issues such as environmental, social and gender equality issues, as well as encouraged all countries implementing EITI to make previously undisclosed mining sales, project reports and all contracts to be made in and after the year 2021 transparent.

1.2 INDEPENDENT ADMINISTRATIVE'S ROLE

In accordance with the EITI Board's decision on 25 May 2020, it issued a document that is a model Terms of Reference (TOR) for EITI reporting, to allow more flexibility in recognition of the challenges posed by the COVID-19 pandemic. Through this Board decision, the EITI introduced flexible measures for EITI Reports, where data collection and dissemination is feasible without posing health risks and subject to MSG endorsement. The TORs set out the work to be undertaken by the MSG and the national secretariat. In accordance with this document, the Independent Administrator's role for the fifteenth Mongolia EITI Report is set out in the Terms of Reference. The principal elements are to:

- Conduct a study to determine the scope of Mongolia's 2020 reconciliation report dedicated to the MSG's decision-making process,
- Prepare a Mongolia EITI Reconciliation Report for 2020 in accordance with EITI Standards and Terms of Reference,

- In accordance with Objective 7 of the Mongolia EITI Work Plan for 2021, prepare a reconciliation report of 2020 in comparison of the reports submitted by gold, copper concentrate producers and coal companies with the reports by the Government,
- Develop the creative conclusions and recommendations on improving sector's governance in respect of a leading sector of the Mongolian economy, and managing the sector on the level of international standards.

Our report is for the purpose of informing the Multi-Stakeholder Group, the National Council and the public on the matters set out in the Terms of Reference.

This report is prepared in Mongolian and English languages. In the event of discrepancies or contradictions between the English version and the Mongolian version, the Mongolian version shall prevail.

1.3 PARTICIPANTS

Participants in the reconciliation comprised:

- government entities, both national and sub-national, which receive material revenue flows from extractive industry companies.
- government departments and agencies with responsibility for oversight, regulation and reporting for the extractive sector (see Section 5.6).
- state-owned entities operating in the extractive sector (see Section 5.7.3), and
- extractive industry companies making material payments to government, as defined by the relevant regulation (see Section 3.2.6).

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

1.4 LIMITATIONS

Due to outbreak of COVID-19 pandemic in Mongolia, the Government of Mongolia declared and imposed a “strict lockdown”. As a result, all public and private entities closed or required to work from home, which created challenges for the participants to prepare and submit information related to the EITI reconciliation report. Regardless, the report was completed with information obtained with support of the ministers, public organizations relevant official, and executive directors and managers of private entities.

1.5 ACKNOWLEDGEMENTS

Grant Thornton Audit LLC would like to express sincere gratitude to Z.Bayarkhuu, Project Coordinator of EITI Governance Support, Sh.Tsolmon, Coordinator of the Mongolia EITI Secretariat, and V.Narmandakh, IT specialist, for supporting and assisting the engagement team in obtaining necessary permissions from the government and its various organizations and agencies, as well as with extractive companies; and for exchanging official confirmation letters to/from these parties, and other assistance extended to the consulting team.

2

EXECUTIVE SUMMARY



2 EXECUTIVE SUMMARY

2.1 SECTOR OVERVIEW

The extractive sector is a major part of the economy and main source of economic growth of Mongolia, and in 2020 it represented 21.6% of GDP and earned USD 6.6 billion in exports. In the same year, the mining sector accounted for 56.5 percent of total industrial output.

The government generates a significant proportion of its revenue from the extractive industry, and in 2020 received **MNT 3.2 trillion** from the sector. The government also participates directly in extractive activities through shareholdings in mining companies, especially from the Erdenes Mongol LLC and its subsidiaries with its full ownership.

Revenues centralized to the government budget from the mineral resources sector equaled to MNT 2.6 trillion, a decrease of MNT 247 billion or 8.4 percent from the same period of the previous year, according to the National Statistics Office (NSO). The extractive sector revenue that we have confirmed is about MNT 600 billion higher than the information of NSO due to multiple revenue streams outside the budget, which were covered in the reconciliation.

2.2 EITI ENGAGEMENT

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

Since the implementation of the EITI, Mongolia has produced fourteen reports. The current report is the fifteenth EITI report and it aimed at providing more flexible approach to EITI reporting for 2020 that is intended to ensure that disclosures are more timely, transparent and cost-effectiveness in hardship times of COVID-19 pandemic.

2.3 SCOPE OF THE REPORT

The report contains information on a range of topics concerned with the extractive sector, including:

- Revenue stream of the extractive sector
- Legal framework and budget policy
- Contribution from extractive sector to economy
- Mineral resource exploration, production and exports
- State participation in the extractive sector
- Licensing and contract transparency
- An overview of mineral and oil resources
- Social expenditures and rehabilitation activity
- Beneficial ownership.

Statistical data on the impact of the COVID-19 pandemic on the mining sector in Mongolia has been briefly summarized in each of the above topics.

Earlier experts who performed Validation concluded that EITI requirements were unclear for SOEs. In compliance with this conclusion, a significant number of new requirements were added to the new Standard. Under these new requirements, this report discloses more detailed information on the following subjects as compared to prior years reports.

According to the Standard where it stated that the multi-stakeholder group is encouraged to document how it has taken gender considerations and inclusiveness into account, it has included gender balance in information on the manpower in mineral sector demonstrating the extent of women's participation in the mineral sector.

Environmental issues are an important part of natural resource governance. Therefore, environmental impact of extractive sector, and how environmental impact monitoring and assessment are carried out in Mongolia are presented in this report as follows:

- Environmental law and regulations enforced by the government,
- Environmental policy, programs and measures implemented by the government,
- Environmental impact assessment phases, status of implementation,
- Environmental management plan and its phases,
- Environmental protection special account registration,
- Mining sector rehabilitation performance, and
- Rehabilitation licensed organizations, their location.

Beneficial ownership information is disclosed according to the Terms of Reference. Refer to Appendix 20.c for details.

A total of 60 companies engaging in gold, copper and coal production (including 5 SOEs) were selected by the Mongolia EITI Secretariat to report their payments to national and subnational government; and 43 government entities (including 28 local government entities) reported their receipts from these companies. The receipts and payments were compared and reconciled, and the detailed results are set out in the 4th section of this report and its appendix 12 and 13.

2.4 TOTAL GOVERNMENT RECEIPTS

2.4.1 Government receipts in 2020 from the entire sector

As of 31 December 2020, the government records disclose that 2,642 licenses were issued to 2,363 companies.

Total receipts from 2,363 companies amounted to MNT 3.2 trillion, and the receipts from the 60 largest companies engaging in production of gold, copper and coal equaled to MNT 2.7 trillion. Refer to Table 2.1 below for government entities that received the amount.

Details of total revenues received from each revenue stream within the scope of this EITI Report, including revenues that fall below agreed materiality thresholds¹ are shown in Appendix 6.

2.4.2 Reconciliation coverage

During the scoping phase, the MSG selected 60 companies engaging in production of gold, copper and coal for reconciliation of flows reported by the government and by the companies. The selection process is described in section 3.2. Table 2.1 below shows the government receipts from these companies after reconciliation, with a comparison to the flows from the total sector and the resulting coverage.

Table 2.1 Government receipts, by government institutions, in MNT million

Government institutions	Government receipts			Percentage coverage in reconciliation
	All extractive companies	Companies not included in reconciliation	Companies included in reconciliation	
General Department of Taxation	2,136,383	187,584	1,948,799	91%
Customs General Administration	268,344	102,264	166,080	62%
Mineral Resources and Petroleum Authority	139,068	129,525	9,543	7%
Ministry of Labour and Social Protection	9,936	5,840	4,096	41%
Social Insurance General Office	310,651	88,828	221,823	71%
Ministry of Finance	155,040	-	155,040	100%

¹ EITI Standard, Requirement 4.1.d

Government institutions	All extractive companies	Government receipts		Percentage coverage in reconciliation
		Companies not included in reconciliation	Companies included in reconciliation	
Other	56,774	657	56,117	99%
Local government	146,920	12,681	134,239	91%
Total	3,223,116	527,379	2,695,737	84%

Refer to Appendix 6 for more information.

2.4.3 Reconciliation of receipts reported by government

Table 2.2 demonstrates a comparison of the initially reported government receipts and the government receipts after reconciliation for companies included in the reconciliation.

Table 2.2 Revenue stream reported by Government, in MNT million

Government institutions	Government receipts from companies included in reconciliation			Deviation
	Before reconciliation	Adjustment	After reconciliation	Percentage change
General Department of Taxation	1,885,497	63,302	1,948,799	3%
Customs General Administration	158,105	7,975	166,080	5%
Mineral Resources and Petroleum Authority	8,178	1,365	9,543	17%
Ministry of Labour and Social Protection	4,123	(27)	4,096	-1%
Social Insurance General Office	246,587	(24,764)	221,823	-10%
Ministry of Finance	-	155,040	155,040	0%
Other	635	55,482	56,117	8737%
Local government	18,932	115,307	134,239	609%
Total	2,322,057	373,680	2,695,737	16%

The major adjustments made to the government receipts as a result of the reconciliation work include:

- The Erdenet Mining Corporation SOE has not reported the royalty of MNT 388,024 million in its initial report,
- The Governor's Office of Umnugovi Aimag has not reported the local state property dividends of MNT 10,500 million paid by the Tavan Tolgoi JSC,
- The government has not reported the state property dividends of MNT 155,040 million paid to the State Treasury by the Erdenet Mining Corporation SOE. This represents 5.8% of government receipts after adjustment.

Refer to Section 4.2 for the reconciliation details.

2.5 SUMMARY OF RECONCILIATION RESULTS

2.5.1 Comparison of flows of government and companies after reconciliation

The results of the reconciliation are summarized in Table 2.3 below.

Table 2.3 Result of the reconciliation of government and companies receipts flows, in MNT million

Indicator	Total
Government receipts after reconciliation	2,695,737
Company payment after reconciliation	2,696,264
Total differences	(527)

Companies not responding to reconciliation requests	(545)
Unresolved differences	18
Over reported by government institutions	(860)
Under reported by government institutions	878

The initial reconciliation of payments and receipts resulted in a net difference of MNT 27,929 million, and a total difference of MNT 465,110 million. The Independent Administrator made an adjustment of MNT 373,681 million as addition to the government report and MNT 346,279 million as addition to the companies' amounts, thus, reduced the net difference to MNT 527 million. Companies including the Itt Gold LLC, the Redvulkan LLC and the Erdenes Silver Resources LLC, which did not respond to the reconciliation clarification request during the reconciliation process, have been creating a difference of MNT 545 million or 0.02 percent of the government receipts after adjustment.

Table 2.4 Unresolved differences in the reconciliation for 2017-2020

Indicator	in million MNT			
	2017	2018	2019	2020
Year of reconciliation	2017	2018	2019	2020
Unresolved difference	48	279	24	18
Change %		481%	-91%	-25%

2.5.2 Summary of extractive company contributions

According to the payments reported by company, after reconciliation to reported government receipts, 78% (2019:85 %) of all payments made by extractive companies in 2020 were made by top 10 companies; and payments from the top 20 extractive companies represented 82% (2019:93%) of amounts received by government from extractive companies. The indication of top taxpayers has declined in comparison of the performance of the previous year, according to a flexible 2020 report which involved the gold, copper and coal mining companies. Cause of this is connected with the global economy slowed down and a sharp drop in raw material prices in the first half of 2020 due to the adverse effects of the COVID-19 pandemic.

Table 2.5 Payments from top 20 of the 60 companies involved in the reconciliation, in million MNT, by percentage

No	Registration number	Company name	Amount	Percentage in the extractive sector	Percentage in the extractive sector (cumulative)
1	2074192	Erdenet Mining Corporation SOE	984,198	30.5%	30.5%
2	2657457	Oyu Tolgoi LLC	532,245	16.5%	47.0%
3	5435528	Erdenes Tavan Tolgoi JSC	468,881	14.5%	61.6%
4	2887746	Energy Resources LLC	182,244	5.7%	67.3%
5	2095025	Mongolyn Alt MAK LLC	75,515	2.3%	69.6%
6	2016656	Tavan Tolgoi JSC	69,432	2.2%	71.7%
7	5199077	Usukh Zoos LLC	56,256	1.7%	73.5%
8	2550466	Mongolroostsvetmet SOE	47,585	1.5%	75.0%
9	5084555	Southgobi Sands LLC	45,709	1.4%	76.4%
10	2830213	Xin Xin LLC	45,267	1.4%	77.8%
11	2697947	Khuren Tolgoi Coal Mining LLC	44,374	1.4%	79.2%
12	5722942	Burdel Mining LLC	23,963	0.7%	79.9%
13	2008572	Baganuur JSC	16,576	0.5%	80.4%
14	5141583	MoEnCo LLC	16,400	0.5%	80.9%

No	Registration number	Company name	Amount	Percentage in the extractive sector	Percentage in the extractive sector (cumulative)
15	2887134	Khangad Exploration LLC	14,472	0.4%	81.4%
16	2708701	Bayan Airag Exploration LLC	10,853	0.3%	81.7%
17	2094533	Boroo Gold LLC	9,377	0.3%	82.0%
18	5261198	C.O.A.L LLC	7,243	0.2%	82.2%
19	5295858	Special Mines/Naran Mandal Enterprises LLC	4,220	0.1%	82.4%
20	2705133	Ontre LLC	2,700	0.1%	82.5%
21		Other 40 companies	38,227	1.2%	83.6%
Total			2,695,737	83.6%	

Details of payments from all companies are described in Appendix 10.

2.6 COMPLETENESS AND ACCURACY OF DATA

Evaluation was made with adequacy of assurance over financial statements of government entities, public and private companies, and whether they have been audited by independent auditors under international standards. Evaluation results are as follows.

2.6.1 Government

Government institutions, except some local bodies, have entered their reports into the EITI Electronic Reporting System.

According to the Mongolia EITI 4.9a, the EITI requires an assessment of whether the payments and revenues are subject to credible, independent audit, applying international auditing standards. The expectation is that government and company disclosures as per Requirement 4 are subject to credible, independent audit, applying international auditing standards.

Accordingly, we, as an Independent Administrator, have requested 10 government agencies to provide a management representation letter to assure the completeness and accuracy of their information provided, and 5 of them provided the responses.

The National Audit Office is required to validate reports for EITI submitted by the government organizations. It is specified in 15.4.2 of the “Procedures for auditing financial statements” adopted by the National Audit Office that “Receipts from extractive entities generated to the state budget shall be agreed with the government organization received them and the Mongolia EITI Secretariat and accompanied by the relevant conclusions.” However, this inspection task has not been carried out so far.

The Terms of Reference for the 2020 reconciliation report instructed to include information on impact of COVID-19 pandemic. We have requested the government organizations to submit such kind of information, however, they have not responded.

2.6.2 State-owned enterprises

Provision of the information required by the Mongolia EITI Secretariat is an important part of demonstrating the government’s commitment to a comprehensive EITI reporting process.

All 5 SOEs involved in the reconciliation submitted their reports on Mongolia’s EITI E-reporting system; however only 4 of them have provided the Management Representation Letter, whilst the remaining one have not delivered the Management Representation Letter

According to the results of auditing the SOEs conducted by the National Audit Office in 2020, the Erdenet Mining Corporation LLC was provided with the “qualified opinion”.

Erdenet Mining Corporation LLC’s audited financial statements were provided with the qualified opinion due to the following reasons.

- Current account settlements at the bank are delayed and subjected to a restriction,
- Balances of receivables and payables were not reconciled through a confirmation of account settlement,
- Due to untimely settlement of receivables, a large sum of doubtful receivables was appeared,
- Revaluation of assets do not correspond to actual conditions

Following breaches were identified in the audited financial statements of Baganuur JSC. It includes:

- The balance of receivables totaled MNT 1,745.5 million was not verified through a confirmation of account settlement
- There was a discrepancy of MNT 401.1 million in the amount of inventory counting records from the balance in the financial statements
- Relevant legislation has not been implemented in the procurement of goods and services

Following breaches were identified in the audited financial statements of the Mongolrostsvetmet SOE. It includes:

- A total of MNT 682 million was spent inefficiently and non-appropriation, and it was resolved to reimburse this amount
- The balance of receivables and payables of MNT 57.1 million was not verified through a confirmation of account settlement
- Incentives of MNT 163.3 million were provided from the Material Incentive Fund to all employees of the Accounting Department, Finance Department and Planning and Economic Analysis Department, and this amount was reported as non-operating expenses.

Following breaches were identified in the audited financial statements of the Erdenes Tavan Tolgoi JSC. It includes:

- A total of seven members of the Board of Directors were overpaid of MNT 52.7 million more than the threshold rate set out by the government
- Impairment was not accounted for the amount of investment in Gashuun Sukhait Railway LLC in accordance with IAS 28 *Investments in Associates and Joint Ventures*

SOE’s audited financial statements published on websites of the National Audit Office and SOEs are not complete, as they do not present supplementary attachments on comprehensive disclosures as required by IPSAS and IAS/ IFRS. This under-representation limits the public to obtain comprehensive information about SOE’s financial and operational matters.

2.6.3 Private companies

Due to outbreak of COVID-19 pandemic in Mongolia, all public and private entities closed or required to work from home, which created challenges to prepare formal letters and be confirmed. Out of 55 private companies involved in the reconciliation, 31 companies provided their Management Representation Letter and other 24 entities failed to provide. This accounted for 3 percent or MNT 67,573 million of total revenue from the extractive sector after adjustment to the government receipts.

Details of the companies failed to provide the management representation letter are included in Appendix 7.

In previous reconciliation works, audited financial statements were required from the companies. However, data in those financial statements were not applicable for the evaluation and presentation of the quality reports for EITI. This is due to facts that the financial statements are prepared on accrual basis, while EITI reports are developed on cash basis.

Top 10 tax paying companies are shown below, along with their status of financial statements and accompanied audit certification.

Table 2.6 Top 10 companies' audited financial statements

Company name	Provided the audit opinion	Provided Management Representation Letter	Payments reported (MNT million)	Percentage of total payments	Percentage of total payments (Cumulative)
Erdenet Mining Corporation SOE	√	√	984,198	37%	37%
Oyu Tolgoi LLC	√	√	532,245	20%	56%
Erdenes Tavan Tolgoi JSC	√	√	468,881	17%	74%
Energy Resources LLC	×	√	182,244	7%	80%
Mongolyn Alt MAK LLC	×	√	75,515	3%	83%
Tavan Tolgoi JSC	√	√	69,432	3%	86%
Usukh Zoos LLC	×	√	56,256	2%	88%
Mongolrostsvetmet SOE	√	√	47,585	2%	90%
Southgobi Sands LLC	√	√	45,709	2%	91%
Xin Xin LLC	√	√	45,267	2%	93%

2.7 KEY FINDINGS

2.7.1 Report submission and status of response letter

In EITI Report for 2020, some local organizations did not enter tax and payment information received on the electronic reporting system. Following organizations have not delivered a response letter among government institutions and companies involved in the report during the reconciliation process. For instance:

- Companies including the Ilt Gold LLC, the Redvulkan LLC and the Erdenes Silver Resources LLC, which did not respond to the reconciliation clarification request during the reconciliation process, have been creating a difference of MNT 545 million or 0.02 percent of the government receipts after adjustment.
- Letters were sent to 17 ministries and government agencies, and the Ministry of Mining and Heavy Industry and the Ministry of Environment and Tourism have not provided any official response. Information, and there have been no unresolved discrepancies related with these organizations.

Although the annual reconciliation report provides recommendations for the participating companies and government agencies to institutionalize the EITI reports and ensure their quality and accuracy, still there is no success as expected. This demonstrates the necessity to enact and enforce the country's Law on Transparency in the Mineral Resources Sector.

2.7.2 Data accuracy and reports validation

The EITI aims to introduce the international best practices by emphasizing the importance of data quality, especially as a prerequisite for systematic reporting by government entities and private companies, mainstreaming and minimizing the need for reconciliation of data by an Independent Administrator.

Although the government organizations, SOEs and private companies have provided validation of the payments, revenues and other additional information through auditor's assurance together with Management Representation Letter, there are still observed discrepancies among the parties. This can

be seen from the material adjustments of MNT 720 billion to the stakeholders' payments and revenues introduced by the Independent Administrator.

Therefore, more efforts needed to strengthen accountability of the EITI stakeholders, who provided erroneous reports, and engage independent auditing firms to assure the quality of the reports in accordance with the Requirement 4.9.

2.7.3 Completeness of e-reporting

Completeness of e-reporting for EITI report submission for 2020 was reviewed.

In the electronic reporting system, the government reported receipts from 2,543 companies, and an independent administrator has reviewed the list of these companies, in which, it found out that 180 companies were reported in duplication (Table 2.7).

Table 2.7 The on-line reporting companies, revenue share, MNT million

Description	Number of companies	Government's receipts (MNT million)
Number of companies registered at e-reporting system	2,543	2,849,435
Of which: Number of license-holder companies entered by MRPA	2,363	2,846,622
Discrepancies	180	2,813
Number of companies submitted reports under the same name, but with different registration numbers	123	2,699
Number of companies with other reasons	57	114

The clarifications regarding the report number discrepancies showed the following affecting factors:

- The local administration has granted an access to changing or adding the names of the reporting companies. However, some local government staff create new entries for a reporting company in the e-reporting system without thorough check of the company name and associated registration number, which result in double registry of the same entity.
- Local governments are authorised to issue license for common minerals; therefore, additional names of these companies could have been entered by the local governments.
- In 2019, a total of 8 companies were duplicated in the MRPAM cadastre system. As of 2020, the number of licensed companies was released using information from the electronic reporting system as it was downloaded from the MRPAM cadastre system on 25 February 2021.

2.7.4 Challenges with data quality collected through EITI new template and data for reconciliation adjustment

A total of 25 kinds of information should be submitted by companies in new templates through e-reporting system. Of these, 23 kinds of information with templates were submitted, while, template for information on product sharing agreements and template for information on vehicles of state-owned and locally-owned enterprises were not filled. Information submitted through templates have errors as follows:

- Information duplicated,
- Gaps in filling out the template by some companies.

This creates the risk of providing incomplete or incorrect information to the public and financial statements users.

Therefore, the above information will be evaluated, improved and made available to the public by an independent administrator.

2.7.5 Disclosing financial statements of SOEs

On webpages of National Audit Office, glass account and SOEs, the following information have been published with respect to audited financial statements of SOEs:

- Statement of financial position,
- Statement of comprehensive income,
- Statement of cash flow,
- Statement of changes in equity, and
- Auditor’s opinion

2.7.6 State participation and requirements disclosure

SOEs data on retained earnings, reinvestments, lending and financing by third party, and transactions between SOEs and government entities are disclosed inadequately to the public. Furthermore, there is a lack of transparency with matters about disclosure of audited financial statements of SOEs in accordance with EITI Standard, assets and current expenditure, procurement, hiring contractors, regulations on corporate governance, and practical operations.

If SOEs completely fill in information for the glass account, some of the above requirements can be disclosed:

- Retained earnings (financial statements information can be viewed on glass account webpage),
- Reinvestment (bond, loan, debenture, similar financial instruments, public-private entities’ partnership agreement, concession, budget, equity, assets, cash, debt, and any decisions to initiate receivables),
- Asset and current expenditures (glass account webpage discloses asset expenditure, investment project, action plan, performance, list of concession items (*annual and monthly*), general tender information of activities reflected in asset and current expenditures (*case based*),
- Procurement (glass account webpage discloses procurement plan (*annual*), procurement report (*annual*), audit reports of procurement, other monitoring, and inspection results).

However, SOE’s have filled out some of templates related to procurement of 2020 on glass account webpage, and have placed incomplete information on the glass accounts.

Within the scope of annual EITI reporting, MSG should focus on evaluating the gaps in execution of the regulations related to financial relations of SOEs with the government and their actual implementation. In order to make evaluation more sustainable, MSG needs to cooperate with the Cabinet Secretariat of the Government of Mongolia, Erdenes Mongol LLC and Government Agency for Policy Coordination on State Property (GAPCSP) to develop a system for disclosing financial information of SOEs operating in extractive industry.

A system needs to be established for SOEs to disclose their information in accordance with the Law on Glass Account, and dividends from SOEs shall be disclosed and published on GAPCSP’s or other relevant state entity’s webpages. Nevertheless, this recommendation has not been implemented so far.

3

RECONCILIATION METHODOLOGY & SCOPE



3 RECONCILIATION METHODOLOGY AND DETERMINATION OF SCOPE

3.1 INTRODUCTION

Grant Thornton Audit LLC (“the Independent Administrator”) is required to undertake the work set out in the Terms of Reference for the Engagement. This includes undertaking a reconciliation of specified flows to the government from the companies in the extractive sector, as described further in this section.

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

If there are material payments or receipts omitted from the Mongolia EITI E-Reporting system or reporting templates by a government institution or a company, our work would not have been sufficient to detect them, and it poses risks of exclusion from the analysis. If either the government institution or the company has reported the flows, then it would be sufficient for us to complete the missing information and include in the report. Otherwise, any such receipts or payments which were omitted would not therefore be included in our report.

In conducting our work, the team has applied the completed reporting templates, information and explanations obtained from reporting entities. No verification is made as to the accuracy or completeness of such information.

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

3.2 DETERMINATION OF SCOPE

3.2.1 Introduction

In assessing the scope for the flexible 2020 EITI Report for Mongolia, several areas were considered with the MSG: -

- 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 institutions receiving material amounts;
- Determining financial flows of material payments to be covered in the report; and
- Mechanisms for reporting entities to provide assurance on the figures reported.

3.2.2 Scoping and Inception workshop

During the inception phase, we reviewed the contents and information required in 2020 Mongolia EITI report including the documents in the ToR Appendix 5 and identified revenue streams of government institutions and companies covered by the reconciliation, inspected systematic disclosure by stakeholders, and made clarifications about relevant information.

The objectives in the inception phase include agreeing on identifying the scope of the EITI reporting process at adequate level, preparing the reporting templates, data collection procedures and the schedule for the EITI reconciliation report publication.

The team attended a workshop convened by the Mongolia EITI Secretariat on 9 September 2021 with participation of the members of Multi-Stakeholder Group (MSG) and discussed contents of the flexible EITI report, relevant definitions, and thresholds for material amount disclosures. Comments received during this workshop were reflected in this report, and the scope of EITI 2020 report was approved by the MSG members.

3.2.3 Materiality

In order to determine the materiality, the government report provided by the EITI Secretariat on 13 August 2021 with data on revenue streams received by the government from mining industry were applied in the analysis. The findings of the analysis of this report are as follows:

Table 3.1 Receipts reported by government and the number of companies, MNT million

No	Category	Number of companies	Government reporting (MNT million)	Percentage	Percentage (Cumulative)
1	More than 100 billion	5	1,952,221	68.51%	68.51%
2	1 -100 billion	60	799,467	28.06%	96.57%
3	500 million - 1 billion	37	25,832	0.91%	97.48%
4	300 million - 500 million	52	20,604	0.72%	98.20%
5	Up to 300 million	2,389	51,312	1.80%	100.00%
	Total	2,543	2,849,436	100%	

In the calculation of materiality, the criteria were applied that at least 98% of total receipts reflected in the government report must be covered.

When receipts paid by companies that do not operate in mining industry were subtracted from the amount reported by the government, then in accordance with the methodology above, the share of companies with national level payments and revenues of more than MNT 280 million accounted for 98.7% of total receipts and 51.9 percent of the total extractive sector.

Table 3.2 Calculation of materiality, MNT million (companies operating in gold and copper sectors)

For companies operating in gold and copper sectors	Number of companies	Government reporting	Initial discrepancy
Total population	2,543	2,849,436	809,973
Engaging in activities other than gold and copper	(2,089)	(1,385,981)	(410,934)
Sampling population	454	1,463,454	399,039
Top 50 taxpayers engaging in gold and copper operation	50	1,444,739	379,050
<i>Percentage of the selected collection in the total set of gold and copper mining companies</i>	<i>11.0%</i>	<i>98.7%</i>	<i>95.0%</i>
<i>Percentage of the selected sampling in the mining population</i>	<i>2.0%</i>	<i>51.9%</i>	<i>50.8%</i>

The materiality of payments and revenues to be included in the EITI report was discussed at the Inception Workshop and approved by the MSG. The MSG proposed to add 10 coal mining companies and selected 60 companies in total.

Table 3.3 Calculation of materiality, MNT million (companies operating in gold, copper and coal sectors)

For companies selected	Number of companies	Government reporting	Initial discrepancy
Total set	2,543	2,849,436	809,973
Companies selected to be involved in the reconciliation	60	2,322,056	465,111
Top 50 taxpayers engaging in gold and copper operation	50	1,444,739	379,050
Top 10 taxpayers engaging in coal operation	10	877,317	86,060
<i>Percentage of the selected sampling in the mining population</i>	<i>2.4%</i>	<i>81.5%</i>	<i>57.4%</i>

3.2.4 Selection of financial streams for inclusion

Out of total 31 national revenue flows, apart from 13 flows that did not generate revenue streams, 18 companies paid national taxes and fees and 14 companies generated subnational types of taxes and payments to the government. A decision was made to cover all types of revenue streams in the reconciliation report 2020 and introduce adjustments for any differences.

3.2.5 Selection of government organizations

EITI requirements related to revenue collection include: 4.1 - comprehensive disclosure of taxes and revenues, 4.5 - SOE transactions, and 4.6 - Subnational payments.

Based on the government reports, it is as demonstrated in Table 3.4 below.

Table 3.4 Payments and revenues received by government institutions, MNT million

No	Government institutions	Amount	Percentage	Percentage /cumulative/
1	General Department of Taxation	1,885,497	81%	81%
2	Social Insurance General Office	246,587	11%	99%
3	Customs General Administration	158,105	7%	88%
4	Mineral Resources and Petroleum Authority	8,178	0%	88%
5	Ministry of Labor and Social Protection	4,123	0%	89%
6	Ministry of Finance	-	0%	99%
7	Other	635	0%	99%
8	Ministry of Environment and Tourism	-	0%	99%
9	Local governments	18,932	1%	100%
	Total	2,322,056	100%	

According to the MSG decision, above government organizations and the following local government institutions were included in the reconciliation:

- Governor's Office of aimag and Capital city;
- Governor's Office of Soum and districts; and
- Local government agencies.

3.2.6 Selection of companies

Considering the payments and revenue materiality, a list of 50 companies was proposed and discussed at the Inception Workshop, and this list was approved by the MSG. Moreover, members of the MSG proposed to add the largest companies that operate in the field of processing industry and coal operation. Accordingly, additional 10 companies were added, and a total of 60 companies were selected for reconciliation.

Of the 60 companies involved in the reconciliation, there are 50 gold and copper companies, 5 state-owned enterprises and 13 coal companies. For example:

Table 3.5 Companies involved in the reconciliation, by payments level, in MNT million

Type	Number of companies (duplicated)	Reported by government	Reported by companies	Net difference
SOE	5	1,374,437	1,237,324	137,113
Entities engaging in gold and copper operation	50	603,149	770,803	(167,654)

Entities engaging in coal operation	13	344,471	341,857	2,613
Total	60	2,322,057	2,349,984	(27,928)

Refer to Appendix 1 for details regarding the companies.

3.3 METHODOLOGY

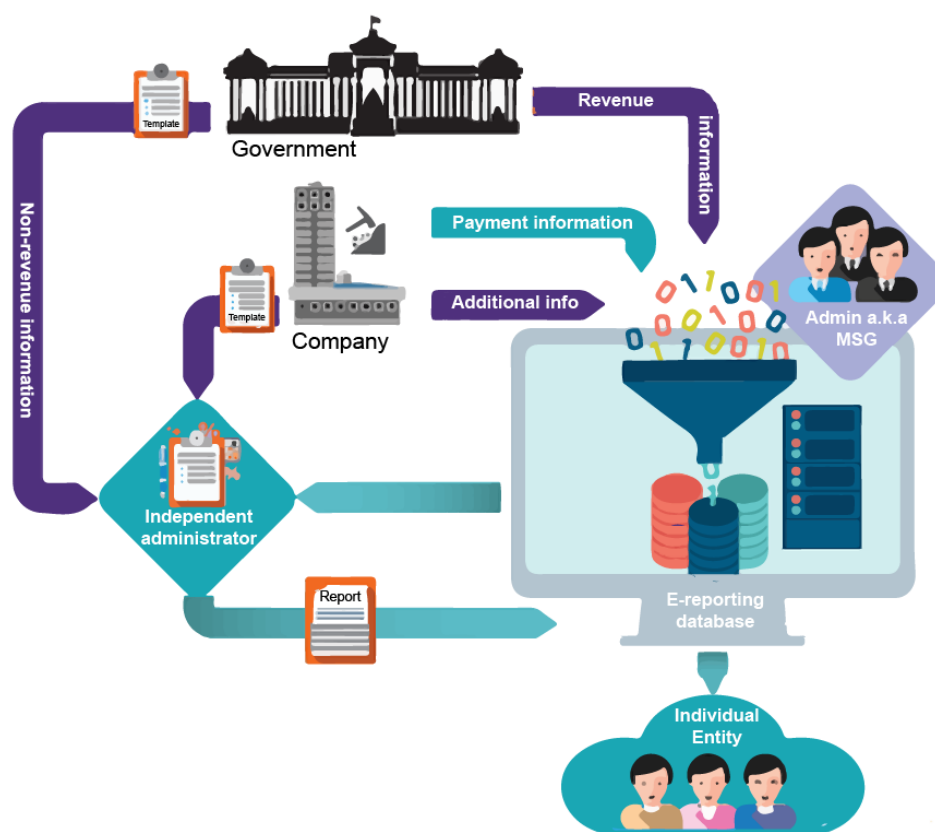
3.3.1 Data collection

The Independent Administrator has retrieved financial and non-revenue information from the Mongolia EITI E-reporting system and based on it identified the initial discrepancies.

The companies with the initial discrepancies were requested to provide additional clarifications validated with data in hard copy, which are supplemented by the management representation letters. In addition, representation letters from the government organizations confirming the reliability of provided information regarding extractive sector background and other statistical data were received in hard copy.

The following Figure describes engagement of the concerned stakeholders in the e-reporting system.

Figure 3.1 Stakeholders’ participation in the e-reporting system



3.3.2 Templates used in the reconciliation for 2020

Under the decision of Mongolia EITI National Council at the 18th meeting in December 2019, the MSG carried out a task to update the EITI Company reporting template. The relevant Technical Task Forces were established with the representatives from the National Statistics Office, the National Audit Office, the MRPA, the Erdenet Mining Corporation SOE, the Mongolian Coal Association, The Steps Without Border NGO, The Administration Reform NGO, and the Transparency International Mongolia NGO, and

they were assigned to update the Company reporting template and develop new templates based on the new EITI Standard and considering Mongolia specific features.

The new templates were agreed by the National Statistics Office and approved by the Minister of Mining and Heavy Industry Ordinance #A/37 dated 5 March 2020.

3.3.3 Level of disaggregation

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

During the Inception Workshop with the EITI Working Group, it was agreed that the results of the 2020 reconciliation for Mongolia will be analyzed and reported by an individual company, a government organization, and revenue stream.

3.4 ASSURANCE

3.4.1 Audit and assurance background in Mongolia

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

The MNAO carries out financial audit of Ministries, Government agencies and state-owned entities and audit on the government consolidated financial statements, which are endorsed by State Great Hural (the Parliament). Subnational government agencies (aimags and soums) shall prepare their annual financial reports and audited by the local branch offices of MNAO.

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. This practice prevails most cases. 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, MOF is restricted 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 Ministry of Finance may scrutinize the mining companies by imposing certain requirements with regards to their auditing.

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

3.4.2 Assurance Procedures for EITI reporting

The government organizations, SOEs and extractive companies are required to enter their information into the MEITI E-reporting system. If necessary, any additional information requested by the Independent Administrator, they are obliged to provide.

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

Also, the reporting entities must provide assurance on the reliability of their information provided to the Independent Administrator.

It was agreed by the MSG during the Inception Workshop that “senior management representation letter will be provided in written by reporting government entities/agencies as an assurance for its reliability of reports and information”.

According to the MNAO guidance on financial statement audit “Payments made by extractive entities to national budget shall be reconciled with EITI Secretariat and government institutions which received revenues” MSG is required to provide assurance on the EITI data; however, this verification has not been carried out in 2020. It is evident that MNAO is not capable of performing this assurance task.

Also, it was discussed with MSG and agreed that executive management of companies will provide assurance for their information in written form by an individual authorised to represent their Board of Directors and to enter audited financial statements on the e-reporting system.

In the previous reconciliations, the Independent Administrator required the private companies and SOEs to provide an assurance letter from their external auditor to ensure that *“EITI reports are prepared basis on the financial statements in accordance with ISA and are true and fair”*. The results were summarized and reported as well. However, in EITI 2020 report, due to time limitations this validation was impossible to be conducted.

4

RECONCILIATION



4 RESULTS OF THE RECONCILIATION

The initial reconciliation of payments and receipts resulted in a net difference of MNT 27,929 million, and in a breakdown there was a difference of MNT 465,110 million in total. The Independent Administrator made an adjustment of MNT 373,681 million as addition to the government report and an adjustment of MNT 346,279 million as addition to the companies' amounts.

Due to non-response from some companies including the Ilt Gold LLC, the Redvulkan LLC and the Erdenes Silver Resources LLC, a discrepancy of MNT 545 million was not resolved during this reconciliation process, and it accounted for 0.02% of government revenue after adjustment.

As a result of deduction of this discrepancy from the reconciliation amount, MNT 18 million or 0.001% of reported government receipts left as unresolved (not-explained).

4.1 SUMMARY OF INITIALLY REPORTED STREAMS

Initially reported payments and receipts, and reconciliations were as follows (Table 4.1):

Table 4.1 Initially reported streams and reconciliation, in MNT millions

Reporting companies	Number of companies	National level	Subnational level	Total
Initial reporting				
Government institutions /revenue/	60	2,303,124	18,932	2,322,056
Private companies /payments/	5	1,026,889	85,772	1,112,661
SOEs /payments/	55	1,159,459	77,865	1,237,324
Initial difference		116,776	(144,705)	(27,929)
Reconciliation				
Adjustments to government receipts		258,374	115,307	373,681
Adjustments to companies' payments		375,350	(29,071)	346,279
Government's amount after adjustments		2,561,498	134,239	2,695,737
Companies' amount after adjustments		2,561,698	134,566	2,696,264
Unresolved difference		(200)	(327)	(527)
Less: companies not responded to reconciliation template		(601)	56	(545)
Final net unreconciled difference		401	(383)	18

See Appendix 10 for unreconciled differences by companies.

4.2 INITIAL UNRESOLVED DIFFERENCES AND NON-REPORTING COMPANIES

The discrepancies in the initial reconciliation are caused due to the following principal reasons described in Table 4.2:

Table 4.2 Unreconciled differences, in MNT millions

No	Revenue streams	Adjustments to initial reporting by companies	Adjustments to initial reporting by government
1	Did not provide initial report, or some streams reported partially	-	335,597
2	Cash reporting, rounded to thousand	-	64
3	Under reporting	414,437	70,265
4	Over reporting	(68,158)	(6,125)
5	Social insurance premium is reported at a discounted amount	-	(26,120)
Total		346,279	373,681

The summary of adjustments to errors in the e-reporting system entries shows that initial differences were mainly due to

- a) The initial report was over-reported or under-reported,
- б) missing initial reports or partial reporting of some streams.

Therefore, adjustments were made to increase the figures by MNT 719,960 million. The significant reconciliation amounts are explained as follows, and these significant adjustments to the initial reports are demonstrated by the companies:

- The Erdenet Mining Corporation SOE has not reported a royalty of MNT 388,024 million in its initial report;
- The Mongolrostsvetmet SOE under-reported the VAT of MNT 3,116 million paid to the General Department of Taxation;

Government institutions, which did not report revenues received by the Government, are:

- It was not reported that the local state property dividends of MNT 10,500 million paid by the Tavan Tolgoi JSC to the Umnugovi Aimag
- It was not reported that the state property dividends of MNT 155,040 million paid to the State Treasury by the Erdenet Mining Corporation SOE;
- It was not reported that MNT 55,514 million in taxes, fees and donations generated by companies to the State Treasury of Umnugobi Aimag.

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

- The General Customs Office has not reported VAT and customs duties amounting to MNT 51,527 million paid by the Oyu Tolgoi LLC via the National Power Transmission Grid SOJSC;
- The Governor's Office of Orkhon Aimag has not reported taxes, fees and charges of MNT 27,777 million paid by the Erdenet Mining Corporation SOE;

The above findings indicate that some government institutions and companies enter their initial reports recklessly into the Mongolia EITI e-Reporting system. Therefore, more attention and focus should be drawn on entering the data for Government, its receipts and companies and their payments on the Mongolia EITI e-Reporting system.

In 2020, the EITI reconciliation included 60 companies and only two of them provided their initial report with slight difference (Table 4.3). There is no company that has not reported on the electronic reporting system.

Table 4.3 Companies provided their initial reports with slight difference at the e-reporting system, in MNT million.

No	Company registration number	Company name	Reported by government	Reported by company	Initial difference
1	2875578	Universal Copper LLC	322	323	(1)
2	2699869	Metal Opt	2284	2281	3
Total			2,606	2,604	2

4.3 UNRESOLVED DIFFERENCES

An analysis of the unresolved differences at the end of the reconciliation is shown in the Table 4.4.

Table 4.4 Unresolved differences, in MNT millions

No	Payments and revenue streams	Over reported by the government	Under reported by the government
1	Royalty and additional payment	-	(985)
2	Customs duty	526	-
3	Payment for employment of foreign specialists and workers	379	-
4	Customs service fee	304	-
5	Value added tax (Customs)	-	(153)
6	Payment in support of the representative office in accordance with the terms of the production sharing agreement	-	(147)
7	Water usage fee	-	(147)
8	Donations and support to the government entities	-	(135)
9	Employee social and health insurance premium paid by the employer	-	(88)
10	Other	71	-
11	Penalty	-	(58)
12	Auto and self-propelling vehicles tax	-	(56)
13	License fee for exploitation and exploration of mineral resources	35	-
14	Deposit at rate of 50% to Environmental protection special account of the State Administration Office in-charge of Environment	-	(32)
15	Land fee	-	(23)
16	Property tax	-	(21)
17	Corporate income tax	18	-
18	Contribution at rate of 50% to Environmental Protection Special Account	-	(12)
19	Air pollution charges	-	(8)
20	Value added tax (paid to the General Department of Taxation)	7	-
21	Compensation	-	(7)
22	Royalty fee for common minerals	5	-
23	Other	2	-
24	Penalty	-	(2)
	Net unreconciled discrepancies	1,347	(1,874)

4.4 NON-REPORTING COMPANIES

In the review of the initial records of the government receipts at the E-reporting system of 60 companies selected for inclusion in the reconciliation, all companies submitted their initial reports to the electronic reporting system. In the course of reconciliation process, the Ilt Gold LLC could not be contacted by additional requests, the Redvulkan LLC refused to respond, and the Erdenes Silver Resources LLC was contacted but did not respond. Due to these reasons, a discrepancy of MNT 545 million was appeared. This difference resulting from the non-response is equal to 0.02 percent of the government receipts after adjustment.

4.5 RECONCILIATION RESULTS

Table 4.5 National level reconciliation, by revenue streams, in MNT millions

National level revenue streams	Initially reported			Adjustment		After adjustments		
	Govt	Company	Difference	Govt	Company	Govt	Company	Difference
Corporate Income Tax	835,717	769,641	66,076	12,328	78,385	848,045	848,026	19
Customs duty	40,010	59,829	(19,819)	24	(20,321)	40,034	39,508	526
Value Added Tax (paid to General Taxation Department)	80,212	138,607	(58,395)	1,868	(56,534)	82,080	82,073	7
Value Added Tax (Customs)	85,276	-	85,276	(722)	84,706	84,554	84,706	(152)
Excise tax on gasoline and diesel fuel	9	2	7	-	7	9	9	-
Royalty and additional fee	935,724	483,751	451,973	49,103	502,061	984,827	985,812	(985)
License fee for exploration and exploitation of mineral resources	7,008	205,052	(198,044)	932	(197,147)	7,940	7,905	35
Compensation payment for deposit explored by the state budget	546	668	(122)	217	95	763	763	-
License fee for exploration and exploitation of petroleum	-	-	-	43	43	43	43	-
Fees for employment of foreign specialists and workers	4,123	3,501	622	(27)	216	4,096	3,717	379
Air pollution charge	33,844	34,796	(952)	3	(941)	33,847	33,855	(8)
Employee social and health insurance premium paid by the employer	246,587	225,544	21,043	(24,764)	(3,633)	221,823	221,911	(88)
Customs service fee	32,809	44,167	(11,358)	8,674	(2,988)	41,483	41,179	304
Annual training Bonus paid under Product sharing agreement	228	-	228	-	228	228	228	-
Payment in support of the representative office in accordance with the terms of the production sharing agreement	395	-	395	-	542	395	542	(147)
Dividends on state property	-	155,040	(155,040)	155,040	-	155,040	155,040	-
Prepayments paid to the government	-	80	(80)	-	(80)	-	-	-
Penalty	193	5,667	(5,474)	3,582	(1,834)	3,775	3,833	(58)
Compensation	-	7,400	(7,400)	174	(7,226)	174	174	-
50% contribution to Environmental protection special account of the State Administration Office in charge of Environment	-	-	-	-	32	-	32	(32)
Other	443	52,603	(52,160)	51,899	(261)	52,342	52,342	-
Total national-level reconciliation	2,303,124	2,186,348	116,776	258,374	375,350	2,561,498	2,561,698	(200)

Table 4.6 Subnational level reconciliation results, by revenue streams, in MNT million

Subnational level revenue streams	Initially reported			Adjustment		After adjustment		
	Govt	Company	Difference	Govt	Company	Govt	Company	Difference
Property tax	855	35,413	(34,558)	34,410	(127)	35,265	35,286	(21)
Auto and self-propelling vehicles tax	31	1,127	(1,096)	1,032	(8)	1,063	1,119	(56)
Land fee	1,899	28,449	(26,550)	27,803	1,276	29,702	29,725	(23)
Water usage fee	14,735	32,526	(17,791)	19,115	1,471	33,850	33,997	(147)
Water pollution charges	-	6	(6)	6	-	6	6	-
Royalty fee for common minerals	98	1,470	(1,372)	1,022	(355)	1,120	1,115	5
Fees for employment of foreign specialists and workers	842	765	77	70	147	912	912	-
Dividend per local government ownership	-	15,639	(15,639)	10,500	(5,139)	10,500	10,500	-
Penalty	6	392	(386)	402	17	408	409	(1)
Compensation	-	111	(111)	8	(96)	8	15	(7)
Deposit at rate of 50% to Environmental protection special account	5	-	5	4	20	9	20	(11)
Other	461	15,136	(14,675)	848	(13,896)	1,309	1,240	69
Donations and sponsorships to government entities	-	32,603	(32,603)	20,087	(12,381)	20,087	20,222	(135)
Total subnational level reconciliation	18,932	163,637	(144,705)	115,307	(29,071)	134,239	134,566	(327)
Total	2,322,056	2,349,985	(27,929)	373,681	346,279	2,695,737	2,696,264	(527)

MNT 155 million of the national level reimbursement was paid to the Capital City Tax Authority in connection with identified matters during the audit conducted in relation with the merger of the Shijir Alt LLC with the Mongolrostsvetmet SOE. Refer to Annex 13b for subnational level main streams after adjustment demonstrating by aimags and districts.

5

THE EXTRACTIVE INDUSTRIES IN MONGOLIA



5 THE EXTRACTIVE INDUSTRIES IN MONGOLIA

5.1 LEGAL FRAMEWORK AND FISCAL REGIME (REQUIREMENT 2.1)

5.1.1 Legislation relating to the extractive industries

This section contains an overview of the main legislation relevant to the extractive industries in Mongolia.

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

Geology, mining, petroleum and heavy industry sectors are governed by around 30 laws and and 40 other relevant regulations such as the Minerals Law of Mongolia; the Law on Subsoil; the Law on Petroleum; the Law of Mongolia on Petroleum Product; the Law on Prohibiting Mineral Exploration and Production near Water Sources, Protected Areas and Forests; the Law on Regulations for the Compliance of the Law on Prohibiting Mineral Exploration and Production Near Water Sources, Protected Areas and Forests; the Law on Legal Status of Industrial and Technological Parks; the Nuclear Energy Law; the Law on Common Minerals; and the Law on Business Licensing. However, there are a few instances of inconsistencies between the laws and regulations, and unclarity in implementation mechanisms.

When global trends in mining are increasingly developing towards sustainable, mutually beneficial, and green development movements, there is a greater need for more tailored regulations, particularly on matters such as public services, the sustainable investment environment, and local community engagement.

According to Corruption Risk Assessment in Mining Sector of Mongolia (2016), main reasons for potential corruption risks occurring between the phases of “license granting” and “exploitation” were identified by legal documents in mining sector as follows: 1 – Overly generalized and lack of specialized regulations, 2 – unclear requirements of any regulations, 3 – related rules and procedures are not adequately based on professional methodologies.

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

Law on Transparency in the Minerals Resources sector, and its concepts

In the Implementation plan of the Government Action Program for 2016-2020 there is a measure to “develop and approve the Law on transparency in the mineral resources sector”. Accordingly, a working group was set up to draft the law, and in accordance with the Law on Legislation “Preliminary survey of needs and requirements, a concept for the law, and the law draft have been completed in 2020.

The mineral sector alone provides about 20-30 percent of Mongolia's GDP and has been a major source of economic growth and has a significant impact on other sectors of the economy. Based on the operations of this sector, there is a potential to strengthen the national economy, and at the same time there is persistent need to maintain comprehensive and effective oversight, analysis and reporting to ensure the sector's openness, transparency and responsibility, adequate generation of taxes to the state budget and mitigation of the negative impact on the environment and communities.

The extractive sector operates under licensing. IMF, OECD, World Bank and other international organizations involved in anti-money laundering and financial sanctions consider the mining and quarrying sector of the mineral resource rich countries are to be at high risk of corruption, bribery, money laundering and other financial crimes. Moreover, reducing unfair competition and dominance of this sector will contribute to the reducing social inequality. The past cases of bribery among state-owned companies and enterprises through procurement at unrealistic prices and consequent significant

damage to the country have highlighted the need for Mongolia to take critical steps to ensure transparency and comprehensiveness of the sector’s information and reporting.

Regulations aimed at ensuring transparency in the global mineral sector are often code-based, which contain comprehensive information on natural resources such as minerals, deep processing, oil, gas, land and water. Moreover, the legislative acts create an environment where licenses of the legal entities operating in this sector, entities’ ownership, beneficial owners, the contracts, the income, the tax payment, the local relations, the socio-economic benefits and impacts are regulated in a very detailed and coordinated manner and assuring stakeholders engagement in decision-making in free, prior and informed manner.

Mongolia has taken systematic steps to improve transparency in this sector and, along with 52 countries, has commitment to the international community to ensure the transparency of contracts and beneficiaries in the extractive industries by joining the Extractive Industries Transparency Initiative (EITI) in 2007 and the Open Government Partnership in 2013 that are aimed to improve the governance of the extractive sector, increase economic efficiency, and hold the public and private sectors accountable. In 2006, the Government of Mongolia issued Resolution No. 1 to support the Extractive Industries Transparency Initiative, and with the establishment of the National Council responsible for organizing and overseeing the implementation of the initiative Mongolia has officially launched the International Extractive Industries Transparency Initiative in the country. The council consists of the representatives from the governmental and non-governmental organizations and companies’ representatives. Although many progressive efforts have been initiated and implemented to meet commitments under the EITI, the current legal environment with amendments to the relevant laws, introduction of new procedures and forms is still insufficient.

For this reason, there is a need to pass an independent law, create a database that provides comprehensive information on the sector, and define in detail the rights, duties and responsibilities of stakeholders. Furthermore, as the number of licenses increases and the mining industry expands, the issue of accountability is the communities, and the public are becoming more critical regarding the mining. Building mutual understanding between the government, businesses and local communities will reduce the risk of investment in the extractive sector and prevent the mining sector development stagnation, which will accelerate the overall economic growth.

In addition, the extractive industry transparency is one of main drivers for delivering the economic benefits of the extractive sector to the people by redistributing the taxes generated from the sector to the citizens through the National Wealth Fund, support people’s knowledge and obtain support from the public and increase the economic efficiency of mining.

The General Tax Law was revised in 2019 to eliminate the risk of tax evasion in the indirect transfer of mineral licenses as well as information of “beneficial owner” of the license-holder entities by registering these data by the relevant government entities.

The Chapter 5 of the Administrative Law, adopted in 2016, sets out the legal basis for administrative contracts and related relations. Now to adhere this law, there is a need to align the process of disclosure of certain types of contracts established under the Law on Minerals and other relevant laws with these provisions.

Draft Law on the National Wealth Fund

At the regular meeting of the Government held on 10 March 2021, a decision was made to draft a “Law on the National Wealth Fund” and its progress is currently being on an presentation level.

5.1.1.2 Main laws regulating the sector, and recent amendments

The below is chronology of the main laws’ enactment and recent amendments:

- The Minerals Law, 2006 (amended twice in 2017, and amended in 2018, 2019)
- Law on Controlling the Circulation of Explosives and Explosive Devices, 2013 (amended in 2015, 2017, 2020)

- The Law on Subsoil, 1988 (amended in 1994, 1995, 2015)
- The Law on Common Minerals, 2014 (amended in 2015, 2016, 2017)
- The Law on Nuclear Energy, 2009 (amended in 2012, 2013, and amended twice in 2015, and amended twice in 2016)
- The Law on Petroleum, 2014 (amended in 2017, 2020)
 - **Amendments in 2020:** Based on the primary documents, the State Administrative body in charge of petroleum issues shall review the contractor's approved plan, work performed in accordance with the budget, investment, amount of recoverable and recoverable expenses, oil export and sales revenue estimates, distribution and financial statements, and a report with a conclusion shall be delivered to the state auditing organization and audited and certified by the state auditing body.
- The Law on Petroleum products, 2005 (amended in 2013, 2015, 2016, 2017, 2019)
- The Law on Prohibiting Mineral Exploration and Production near Water Sources, Protected Areas and Forests, 2009 (amended in 2015)
- The Law on Regulations for the Compliance of the Law on Nuclear Energy, 2009
- The Law on Regulations for the Compliance of the Law on Prohibiting Mineral Exploration and Production Near Water Sources, Protected Areas and Forests, 2009 (amended in 2015)

5.1.1.3 Improving legal environment of extractive sector: key regulations

Table 5.1 Legal regulations of the extractive sector for 2020

Decree №	Date	Main content and interpretation
A/37	2020.03.05	Minister of MMHI order: "Approval of the form and instructions for completion" and form on "Report on the Performance of Business Entities and Organizations Engaged in Mineral Exploration, Mining and Production for 20 ... (3-EITI-1)" as Appendix 1, its completion instruction under Appendix 2, "Report of Petroleum Exploration and Production Entities for 20.. (3-EITI-2)" form under Appendix 3, its completion instructions under Appendix 4.
A/87	2020.04.27	Minister of MMHI "Procedure for sorting, collecting, transporting, recycling, reusing and disposing the mining waste".
A/155, A/132	2020.05.29	Ministers of MMHI and MLSP: "General Safety Procedures for Mineral Concentrating and Processing Plant".

5.1.1.4 Other legislations regulating the sector (summary)

Table 5.2 Other legislation of the sector

Environmental	Budget and Taxation
The Law on Air pollution charges, 2010 The Law on environmental protection, 1995 The Law on environmental impact assessment, 2012 The Law on Royalty, 2012 The Law on Land, 2002 The Law on land fee, 1997 The Law on Forest, 2012 The Law on Water pollution charge, 2012	The Law on Corporate Income Tax, 2006 The Law on Customs tariff and duty, 2008 The Law on Exemption of Customs duty, 2017 The Law on Exemption of Customs Duty and Value Added Tax, 2012 The Law on Future Heritage Fund, 2016 The Law on Value Added Tax, 2006, 2015 The General Tax Law, 2008 The Law on Fiscal Stability, 2010 The Law on Immovable Property Taxes, 2000 The Law on Stamp duty, 2010
Liabilities	Business relations and business environment
The Law on Auditing, 1997, 2015 The Law on Infringement, 2017 The Law on investigating and resolving	The Law on Licensing of Business activities, 2001 The Law on General Administration, 2015 The Law on Investment, 2013

infringements, 2017 The Law on Accounting, 2015	The Law on Development Policy and Planning, 2015
The Law on the Prevention of Conflict of Interest and the Regulation of Public and Private Interests in the Public Services, 2012	The Law on Licensing, 2001

5.1.2 State Policies on the Extractive Industry

5.1.2.1 State policy on Mining Sector Development until 2025

The state policy on the mineral resources sector is aimed at developing the private sector-based, transparent and accountable mining, creating a balanced multi-pillar structure in the short and medium term, and ensuring the core national interests.

The objective of the state policy on the mineral resources sector is to create a stable investment environment, improve the quality of mineral exploration, mining and processing by supporting environmentally friendly, advanced techniques, technologies and innovations, produce value-added products and strengthen the competitiveness on international markets.

This policy document intends to define the principles adhered in the mining sector and the sources of growth and improve governing systems. These principles and governing systems will be mainstreamed throughout the sector legislations, middle and long-term programs, sub-programs, and projects.

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

In order to increase investments for the sector, and to improve capacity and qualifications of human resources “The State policy to adopt for the petroleum sector until 2017” was approved by the Government resolution #169 dated 2018.

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

In order to ensure effective implementation of 6 main objectives reflected in this policy document, the “Action plan to implement the state policy on oil sector development until 2017” was adopted by MMHI minister’s order #A/163 dated 2019.

This revised policy will be realized in two phases, namely the 1st phase covering the period of 2018-2021: deepen the socio-economic impacts and enhance the sector’s competitiveness through the streamlining the state policies and legislative framework for the petroleum sector, improving infrastructure, increasing investments, and establishing a fully or partially state-owned petroleum company; the 2nd phase covering the period of 2022-2027: build solid foundations of the national petroleum sector to ensure stable supply of the petroleum products through the intensification of the prospecting and exploration activities in the areas with strategic importance; increasing the petroleum reserves and its extraction; operationalizing oil refinery plant; and strengthening the capacity of the sector’s human resources.

5.1.2.3 State policy for radioactive minerals and nuclear energy

The objectives of the State policy on the radio-active minerals and nuclear energy are to commence extensive use of nuclear energy for economic and social benefits and produce nuclear energy based on non-toxic for human health, ecologically clean, environmentally friendly technologies through the deepening investigation of the reserves of these minerals and to becoming one of the leading countries which mine, process and export such minerals for peace intentions.

5.1.3 The legislation related to EITI implementation in Mongolia

Within the scope of implementing the EITI in Mongolia, amendments were introduced to the following six laws, namely the Minerals Law (2006), the Law on Nuclear Energy (2009), the Petroleum Law (2014), the Law on Common Minerals (2014), the Law on Infringement (2017), and the Law on Investigating and Resolving Infringements (2017).

The following policy documents were adopted in line with the EITI implementation:

- State Minerals Policy, 2014 sets out foundations for introducing the international initiatives on promoting transparent and responsible mining and institutionalizing the economic and social impact assessments;
- “The National Program on Combating Corruption” (2016) sets out provisions to ensure transparency of extractive industry;
- The Action Plan for the National Program on Combating Corruption (2017) approved by the GOM order includes 6 different measures to be implemented in two stages during the period of 2017-2023.

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) aimed at ensuring the transparency on information of beneficial ownership to use the natural resources.

The Order no.01 of 2006 issued by the GoM states the government commitments to join the the Extractive Industry Transparency Initiative (EITI) and other two orders (the Order no. 222 of 2012 and the Order no. 263 of 2017) of the GoM assigns the relevant stakeholders to implement the specific actions towards ensuring transparency in extractive industry. The GOM Orders no. 190 of 2010 assigned the governors of capital city, aimag, soum and districts to report on annual basis 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 any budget organization. The template for cooperation agreement between Minerals license holder and local community administration was approved by Order no. 179 of 2016 by GoM; and the template for Product Sharing Agreement was approved by Order no. 104 of 2015 by GoM, respectively.

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

By the Order A/37 dated 2020 “Approval of the form and instructions for its completion” of MMHI minister, “Report on the activities of business entities and organizations engaged in mineral exploration, mining and production for 20 ... (3-EITI-1)” form was approved by Appendix 1, and “Report of Petroleum Exploration and Production Entities for 20. (3-EITI-2)” was approved by Appendix 3, instructions for their completion were approved by Appendix 4.

Within the framework of this regulation, business entities and organizations engaged in mineral exploration, mining and production shall prepare their activity reports accurately with these forms and submit to the Mongolia Extractive Industries Transparency Initiative (EITI) e-reporting system by April 15 of the following year. Mongolia EITI secretariat shall submit electronically the reconciliation report of entities to the National Statistics Office before May 15th.

In addition, entities engaged in oil exploration and production shall also prepare their operating reports accurately and submit electronically to the EITI e-reporting system before April 15th of the following year. Similarly, Mongolia EITI secretariat shall submit electronically the reconciliation report of entities to the National Statistics Office before May 15th.

5.1.4 Fiscal policy and regulations (Requirement 2.1)

5.1.4.1 Budget revenue collection and its allocation

Budget means the financial instrument to implement socio-economic objectives, which represents 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 Stabilization Fund and Future Heritage Fund.

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

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

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

Mongolia is a country with a **general budget**. The general 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 from City Council of the relevant jurisdiction.

Figure 5.1 Structure of the budget



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 aimag, 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.

Source: Citizens Budget-2018, MoF.

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

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

5.1.4.2 Budget laws

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

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

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

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

- The percent of balanced loss in the future, permitted number of debts, percentage of expenditure increase, and estimation process of budget revenues were clarified by this law including:
 - The consolidated budget revenue shall be estimated by using a structural revenue policy.
 - The structural balance shall not exceed 2% of GDP of the current fiscal year.
 - The percent of increase in total expenditure of the National budget of particular year shall not exceed the greater of i) the percent of increase in non-mineral GDP of that year or ii) the average increase percentage of non-mining GDP of the previous consecutive 12 years,
 - The present value of the Government debt shall not exceed 60% of GDP of that fiscal year (*this article is re-edited by the amendment law dated Sep 9, 2016*).
- The budget policy shall be defined by the mid-term fiscal framework statement approved in accordance with the special requirements of budget. This framework statement shall involve the financial objectives of Government, the expected budget performance, macro-economic (employment level, Consumer Price Index, etc.) projections and budget projections (budget balance, budget investment) of three subsequent consecutive years.

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

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

- Establish the Future Heritage Fund to implement the principle of balanced distribution of revenues from non-renewable minerals to the present and future generations.
- Regulate relations may arise with respect to setting out the organizational system and structure which is responsible for revenue collection, wealth distribution and management, performance reporting and monitoring of the Fund.
- Build up sustainable and effective system for macro-economic governance.

Future Heritage Fund assets has not been used in 2020 under extraordinary condition.

5.1.4.3 Systematic disclosure (Requirement 2.1.a)

Information on fiscal policy, the level of budget allocation, local transfers (via joint local development fund or directly to aimag), and the legal environment for mandatory local payments must be disclosed

on the Ministry of Finance's websites such as www.mof.gov.mn, www.iltod.gov.mn, <https://shilendans.gov.mn>.

For the purposes of regular provision of knowledge and information about the budget to citizens, increasing citizens' control and participation in the budget and improving transparency, the Ministry of Finance has been preparing the "Citizens' Budget" brochure since 2018 in the form of "infographics" or "pictorial information" as an example of Mongolia's draft budget and budget execution information. According to the information disclosed by the Ministry of Finance, equilibrated revenue in 2020 was MNT 11,797.8 billion, total expenditure was MNT 13,872.6 billion, and the equilibrated balance was MNT 2,074.7 billion or 5.1 percent of GDP. The brochure is available in print and online at www.mof.gov.mn, www.iltod.gov.mn and social media pages of the Ministry of Finance.

5.2 MINING SECTOR

5.2.1 Overview of Mongolian minerals

As of 31 December 2020, 2,363 companies held licenses to conduct mining and exploration operations for minerals on 2,642 licensed areas. The mining sector accounted for 21.6% of Mongolia's GDP on average in the last three years. In 2020, the share of GDP from the sector has decreased by 2.1 % compared to the previous year.

The share of mining sector in total industrial production of Mongolia was 72.5% on average in the last 3 years. In 2020, this indicator has increased by 1.9% compared to the previous year.

Table 5.3 summarizes the key statistics of mining sector for the last 3 years.

Table 5.3 Key indicators of mining industry

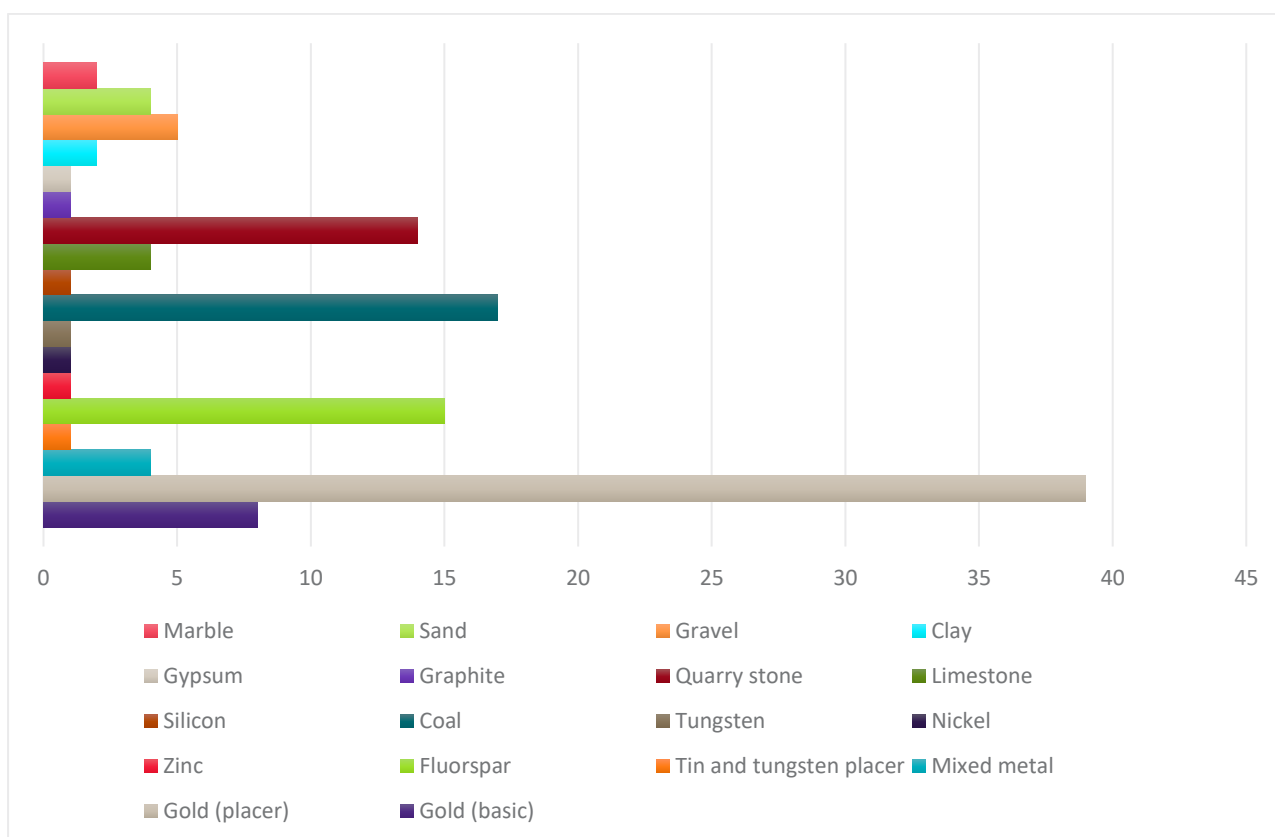
No	Indicator	2018	2019	2020
1	Number of valid licenses	3,078	2,796	2,642
	Number of mining (exploitation) licenses	1,673	1,670	1,696
	Number of exploration licenses	1,405	1,126	946
2	Valid licensed area	8.7 million.ha	7.3 million.ha	6.3 million.ha
	Licensed mining area	1.6 million.ha	1.6 million.ha	1.7 million.ha
	Licensed exploration area	7.1 million.ha	5.7 million.ha	4.6 million.ha
3	Percentage share of licensed area in total territory, of which:	5.50%	4.80%	4.00%
	Percentage share of licensed mining area	1.00%	1.00%	1.00%
	Percentage share of licensed exploration area	4.50%	3.80%	3.00%
4	Percentage share percentage of mining sector in GDP	23.8%	23.7%	21.6%
5	Percentage share of mining sector in total industrial production	71.9%	71.8%	73.7%
6	Production of major mineral products			
	Copper concentrate (by metal content)	1,310.8 thous.ton	1,262.4 thous.ton	1,276.7 thous.ton
	Molybdenum concentrate (by metal content)	5.5 thous.ton	5.3 thous.ton	6.1 thous.ton
	Gold	20,655.2 kg	16,251.3 kg	20,225.5 kg
	Fluorite concentrate	80.7 thous.ton	47.5 thous.ton	85.0 thous.ton
	Iron ore concentrate	3,405.5 thous.ton	3,386.4 thous.ton	9,224.4 thous.ton
	Zinc concentrate	87.9 thous.ton	83.1 thous.ton	76.3 thous.ton

No	Indicator	2018	2019	2020
Key exporting mineral products				
7	Iron ore concentrate	7,449.1 thous.ton	8,448.8 thous.ton	8,202.3 thous.ton
	Copper concentrate	1,436.7 thous.ton	1,403.6 thous.ton	1,395.0 thous.ton
	Zinc ore concentrate	123.9 thous.ton	134.8 thous.ton	134.0 thous.ton
	Raw or semi-processed gold	3,431.9 kg	9,069.5 kg	30,491 kg
	Coal	36,671.4 thous.ton	36,809.10 thous.ton	31,177.8 thous.ton
8	Coal production	54,572.3 thous.ton	57,128.80 thous.ton	43,079.30 thous.ton

Source: Mineral Statistics Information 2020, Mineral Resources and Petroleum Authority of Mongolia, MMHI; Mongolian National Statistics Office

Deposits registered with the Mongolian Mineral Resources Reserve Fund in 2020 (Chart 5.2)

Figure 5.2 Deposits registered with Mongolian Resources Reserve Fund



Source: Mineral Statistics Information 2020, Mineral Resources and Petroleum Authority of Mongolia, MMHI

5.2.2 Uranium overview

The Law on Nuclear Energy was approved in 2009 and at the time, there were 27 companies were holding 164 radioactive exploration and exploitation licenses which cover 2.6% of the Mongolian territory.

As of 2020, there are 8 companies with holding 9 radioactive minerals licenses and 7 exploration licenses registered at MRPAM. There were uranium mining licenses and 14 uranium exploration licenses in 8 companies. This covers 0.13% of the Mongolian territory, which is 20 times less than in 2009.

As of July 2020, MRPAM has registered 192,241.02 tonnes of geological resources at 13 mines (Dornod, Gurvanbulag, Ulaan, Nemer, Mardain gol, Kharaat, Khaikhan, Gurvansaikhan, Ulziit, Dulaan-Uul, Zoovch-Ovoo, Enger ar, Dalt), which were also registered at the meeting of the Minerals

Professional Council.

5.2.3 Deposits of strategic importance

Article 9.1.5 of the Minerals Law states that “the Government shall submit proposals to the State Great Khural for determining the State share percentage in a minerals deposit of strategic importance”.

Mineral deposit of strategic importance means a deposit that may have a potential impact on national security, economic and social development of the country at the national and regional levels or that is producing or has a potential of producing more than 5 percent of total Gross Domestic Product in a given year.

The following Table 5.4 shows a brief description of 16 strategically important mineral deposits approved by the 1st appendix of the Parliament Resolution No.27 of 2007 and the Parliament Resolution No.11 of 23 January 2015.

Table 5.4 Strategically Important Mineral Deposits

Deposits	Types of minerals	Location	License holders	Ownership percentage	
				State	Private
Asgat	Silver	Nogoonuur, Bayan-Ulgii	Erdenes Mongol LLC	100	0
Baganuur	Coal	Baganuur, UB	Baganuur JSC	75	25
Boroo	Gold	Bayangol, Selenge	Boroo Gold	0	100
Burenkhaan	Phosphorite	Alag-Erdene, Khuvsgul	Sutaikhen tso LLC	0	100
			Topruonkhentso LLC		
			Talst Margad LLC		
Gatsuurt	Gold	Mandal, Selenge	Centerra Gold Mongolia LLC	Under discussion	
Gurvanbulag	Uranium	Dashbalbar, Dornod			
Dornot	Uranium	Dashbalbar, Dornod			
Mardai	Uranium	Dashbalbar, Dornod	Adamas Mining LLC		
Nariin Sukhait	Coal	Gurvantes, Umnugovi	Mongolyn Alt MAK LLC	0	100
			Chinhua MAK-NS LLC		
			SouthGobi sands LLC		
			Usukh Zoos LLC		
Oyu Tolgoi	Copper, gold	Khanbogd, Umnugovi	Oyu Tolgoi LLC	34	66
			Entrée LLC		
Tavan tolgoi	Coal	Tsogttsetsii, Umnugovi	Tavantolgoi JSC	51	49
			Energy resources LLC	0	100
			Erdenes TT JSC	100	0
Tumurtei	Iron	Khuder, Selenge	Darkhan Metallurgical Plant	100	0
Tumurtei	Zinc	Sukhbaatar, SB	Tsairt Mineral LLC	0	100
Shivee Ovoo	Coal	Sumber, Govisumber	Shivee Ovoo JSC	90	10
			Erdenes Mongol LLC		
			Eikusora LLC		
Tsagaan Suvarga	Copper, molybdenum	Mandakh, Dornogovi	Erdenes Tsagaan Suvarga	0	100
			Mongolyn Alt MAK LLC		
Erdenetiin Ovoo	Copper, molybdenum	Bayan-Undur, Orkhon	Erdenet Mining Corporation SOE	51	49

Under the Government Resolution No 300 dated 2018 “Demarcation of some strategically important mineral deposits”, 7 mines (Nariin Sukhait, Tavantolgoi, Shivee-Ovoo, Baganuur coal mines, and Tsagaan suvarga’s copper and molybdenum, Burenkhaan’s phosphorite, Erdenet’s copper and molybdenum) were demarcated.

5.2.4 Mineral reserves of Mongolia

The MRPAM is responsible for registering and reporting the mineral reserves of Mongolia. The following table summarizes the details of mineral reserves registered with the Mongolian State Mineral Reserve Fund for the last 2 years.

Table 5.5. Mineral reserves, by years

№	Type of deposits	Unit of measurement	2019		2020	
			ore/concentrate	Metal	Ore/concentrate	Metal
1	Gold (rock)	thous.t /kg	48,058.5	63,903.9	96,104.4	80,870.2
	Silver	ton	-	265.3	-	284.0
	Lead	thous.t	-	119.5	-	40.7
	Zinc	thous.t	-	201.9	-	65.9
2	Gold(placer)	Kg	4,049.2	3,621.6	3,252.7	2,920.4
3	Iron	thous.t	15,545.9	-	20,925.6	-
	Iron	thous.t	-	4,992.3	-	10,053.0
4	Fluorspar	thous.t	3,538.3	1,572.3	5,581.3	2,357.1
5	Uranium	thous.t	-	-	398,941.5	93.3
6	Zinc	thous.t	3,273.9	-	-	-
	Zinc	thous.t	-	308.6	-	49.7
	Lead	thous.t	-	16.3	-	22.7
	Silver	Kg	-	87.8	-	61.2
7	Coal	mln.t	5,151.2	-	572.0	-
8	Limestone	mln.т	130.9	-	51.4	-
9	Building stone	thous.t	336,337.7	-	314,779.0	-
10	Graphite	thous.t	347.4	-	124,080.3	6,234.4
11	Gypsum	thous.t	683.3	-	2,719.5	-
12	Clay	thous.m3	3,796.4	-	3,449.3	-
13	Sand gravel	thous.m3	6,571.6	-	4,943.3	-
14	Sand	thous.m3	543.2	-	5,088.3	-

Source: Mineral Statistics Information 2020, Mineral Resources and Petroleum Authority of Mongolia, MMHI

The list of deposits approved in 2019 by Minerals Professional Council and the minerals movement report are deemed to be confidential and not disclosed under MRPAM Head's Order No A/72 dated 23 May 2018.

5.2.5 Small-scale mining

Artisanal or small-scale mining

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

5.2.5.1 Legal environment

In 2014, the Government's policy on mineral sector 2014-2025 was approved by the Parliament Resolution No.18. According to this policy, the Government of Mongolia is pursuing a policy of "support artisanal miners to pursue laws to operate in cooperative forms and to improve the legal environment".

The procedure on Small-Scale Mining was amended by Resolution No.151 of the Government in 2017. This amended regulation aims to contribute positively to the mining sector by transferring the small-scale mining activities into more formal sector via creating the cooperatives to engage in artisanal mining activities, and at the same time to allow more accurate estimates of 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 also stipulates to increase the capacity building and responsibilities of aimag governments. The aimag government are required to carry responsibility for producing a consolidated report covering the activities of small-scale mines in soums and for delivering the consolidated report to the MRPAM. Moreover, the Resolution No.151 requires the local authorities to ensure compliance with safety regulations for the small-scale mines (integrated safety procedures for small-scale mines approved by Order No.153 of the Head of MRPAM in 2011), joint approval of the oversight and monitoring of rehabilitation methods for small-scale mines with the 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. In addition, the following Procedures on Small-Scale Mining, the Government resolutions are applicable to this sector:

- the "Gold-2" National Programme, Safety Procedures for small-scale mines approved by Resolution No.20 of the Government in 2017;
- Artisanal mining security procedures adopted by the Orders No. A/115, A/123 approved by Minister of Labour and Social Protection jointly with the Minister of Mining and Heavy Industry in 2017;
- "The procedure of Methodology for rehabilitation in the area damaged due to artisanal mining" Order No. A/226, A/182 approved by Minister of Environment and Tourism jointly with Minister of Mining and Heavy Industry in 2017;
- The Government Resolution No. 355 on "some measures to be taken on artisanal mining" approved in 2019.

As a result of creating a legal environment regulating the micro-scale mining activities, the artisanal miners are able to receive public services and obliged to carry out needed rehabilitation. In addition, introduction of separation processes in ore concentrating units reduced the small miners to use of mercury in gold mining.

5.2.5.2 Contribution from small-scale mining to the economy

Artisanal and small-scale mining is an important way for many people to escape poverty, maintain living, and also contribute to both national and local economic development. Moreover, artisanal miners started to provide a significant contribution to increasing the Mongolia Bank's official foreign exchange reserves by selling their gold through the official channels, they help to create directly or indirectly jobs for the local communities, reduce rural-to-urban migration, and increase household income. Nevertheless, Mongolia still needs to provide more efforts to convert the entire gold supply chain into the formal systems. In Mongolia, gold formal chain is complete when gold is traded to Bank of Mongolia at the final stage of the chain.

Statistics of gold submitted by the individuals to the Bank of Mongolia is available at <https://www.mongolbank.mn/dblistgoldbom.aspx>. Artisanal miners account for an average of 48.5 percent of the total gold traded to the Bank of Mongolia over the past three years, and the details are shown in Table 5.6:

Table 5.6 Gold traded by the individuals to the Bank of Mongolia

Year	Number of individuals (duplicated)	Gold traded by individuals (kg)	Total gold traded (kg)	Percentage in total gold traded
2018	472	12,507.35	21,871.51	57.2%
2019	437	7,366.96	15,206.54	48.4%
2020	471	9,424.56	23,569.05	39.9%

Source: Mongol Bank

5.2.5.3 Dissemination and sources of information on artisanal mining

Artisanal and small-scale mining information is disseminated to the local community through community volunteer works and fundraising campaigns. Statistics on artisanal miners and mining are available from National Federation for Mongolian Artisanal Mining, the Sustainable Artisanal Mining Project, and the Ministry of Environment and Tourism.

The Federation has about 70 member associations located in 15 aimag and it unifies 429 cooperatives covering more than 6,500 artisanal miners. More information on activities of the Federation is available at <http://bichiluurhai.mn/>.

Please refer to the Appendix 26.a for information on member NGOs in local areas.

The National Statistics Office publishes a survey of artisanal miners every five years, and released the second survey, the “Artisanal and small-scale miners' survey-2016” in collaboration with the Swiss Agency for Development and Cooperation. The collected baseline data presents the current state and demonstrate a real situation of artisanal and small-scale miners and provides insights on development trend of mining sector that plays a critical role in the economy of the country. The survey is available at <https://asmhub.mn/uploads/files/survey-mn.pdf>.

As of 2020, according to the MRPAM, total areas of artisanal and small-scale mining cover 1,063.7 ha, and detailed information is disaggregated by aimag and shown in Table 5.7.

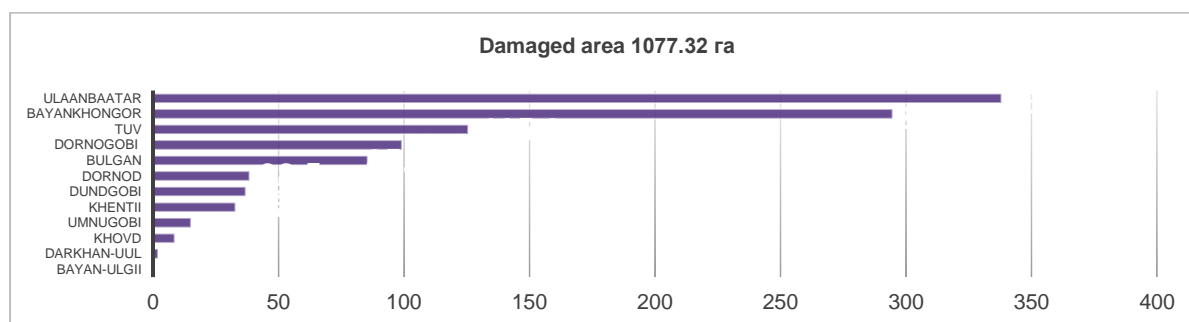
Table 5.7 Total area of artisanal and small-scale mining by hectares

No	Aimag	Number of area	Area (ha)
1	Arkhangai	1	4.8
2	Bayan-Ulgii	2	53.7
3	Bayankhongor	57	152.3
4	Bulgan	29	126.4
5	Govi-Altai	1	5.7
6	Darkhan-Uul	6	16.6
7	Dornogovi	2	9.6
8	Dornod	2	26.2
9	Dundgovi	13	104.4
10	Uvurkhangai	20	39.7
11	Umnugovi	20	86.2
12	Selenge	52	220.1
13	Tuv	12	78.3
14	Ulaanbaatar	5	19.0
15	Khovd	4	11.3
16	Khentii	36	109.4
	Total	262	1,063.7

Source: Mineral Statistics Information 2020, Mineral Resources and Petroleum Authority of Mongolia, MMHI

5.2.5.4 Rehabilitation status

According to the regulation on artisanal and small-scale mining, the artisanal miners are required to sign an agreement with the local authority which includes Rehabilitation Plan with schedules and financing sources. Also, artisanal miners are required to carry out the 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 resolution No. A/226, A/182 dated 17 August 2017, by the Minister of Environment and Tourism jointly with Minister of Mining and Heavy Industry. Then environmental inspector's conclusion shall be submitted to the Mining Commissioning Group appointed by soum and district governors. The following Figure 5.3 demonstrates the size of area damaged by artisanal and small-scale mining as of November 2020.

Figure 5.3 The size of damaged area

Source: MET, 2000-2024 Rehabilitation Report

As of December 2020, according to National Federation for Artisanal and Small-Scale Mining, a total of 494.9 hectares of area has been rehabilitated, including 99.3 hectares in Bayankhongor aimag and 5.9 hectares in Bulgan aimag, respectively. Table 5.8 presents the rehabilitation by aimags.

Table 5.8 Artisanal mining rehabilitation, by aimag, ha

No	Aimag	Areas rehabilitated with their own funding (ha)	Area rehabilitated with external funding and jointly (ha)	Size of rehabilitated area, (ha)
1	Bayankhongor	63.7	35.6	99.3
2	Bulgan	5.9	-	5.9
3	Govi-Altai	32.8	38.2	71.0
4	Darkhan-uul	19.0	-	19.0
5	Dornogovi	36.7	2.5	39.2
6	Dundgovi	38.7	8.0	46.7
7	Uvurkhangai	-	47.5	47.5
8	Umnugovi	26.0	2.2	28.2
9	Selenge	1.0	28.1	29.1
10	Uvs	-	10.0	10.0
11	Khovd	29.0	29.0	58.0
12	Khentii	30.9	10.0	40.9
	Total	283.7	211.1	494.9

Source: National Federation for Artisanal and Small-Scale Mining

Refer to Appendix 26(b) that contains the detailed information about rehabilitation on artisanal mining.

5.2.6 Mining Governance

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

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

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

When the commodity price is increased in the international market, the investment stream into the countries with abundant mineral resources like Mongolia tends to increase as well. In contrast, the investment to these countries reduces when coal and copper prices drop. The researchers conclude

that political stability is very important for natural resource-rich countries to attract and utilise investment effectively.

Within the scope of the MMHI's goal to establish an integrated development policy and planning system for the geology, mining, oil and heavy industry sectors, mapping of minerals sector development until 2050 was outlined. Matrix of this policy is, through the implementation of relevant strategic and policy measures at the mineral resources, macro, and micro levels, focused on improving sector-wide competitiveness, increasing the productivity of mineral resources, increasing labor productivity, and ensuring the efficiency and effectiveness of resource governance and the national savings scheme.

5.2.7 Mining Licensing

Table 5.9 sets out valid mineral licenses for the reporting period together with size of area, analyzed by aimags and the capital city:

Table 5.9 The number of valid mineral licenses with size of area, by aimag and city

№	Aimag, city	Total			Of which:					
		Number of licenses	Area (thou. ha)	Percentage of licensed area to total territory	Exploitation			Exploration		
					Number of licenses	Area (thou. ha)	Percentage of licensed area to total territory	Number of licenses	Area (thou. ha)	Percentage of licensed area to total territory
1	Arkhangai	20	16.8	0.3%	16	8.6	0.2%	4	8.2	0.1%
2	Bayan-Ulgii	55	151.7	3.3%	28	15.2	0.3%	27	136.6	3.0%
3	Bayankhongor	135	312.7	2.7%	88	119.9	1.0%	47	192.8	1.7%
4	Bulgan	101	89.8	1.8%	77	38.9	0.8%	24	50.9	1.0%
5	Gobi-Altai	138	596.9	4.2%	55	92.2	0.7%	83	504.6	3.6%
6	Govisumber	16	44.6	8.1%	13	38.9	7.0%	3	5.8	1.0%
7	Darkhan-Uul	66	8.7	2.7%	61	7.6	2.3%	5	1.1	0.3%
8	Dornogovi	333	1,101.2	10.1%	194	250.1	2.3%	139	851.1	7.8%
9	Dornod	149	488.2	4.0%	73	63.7	0.5%	76	424.6	3.4%
10	Dundgovi	197	636.7	8.5%	110	171.6	2.3%	87	465.2	6.2%
11	Zavkhan	49	230.3	2.8%	10	17.0	0.2%	39	213.3	2.6%
12	Orkhon	9	11.1	13.2%	9	11.1	13.2%	0	0.0	0.0%
13	Uvurkhangai	44	109.7	1.7%	28	16.1	0.3%	16	93.6	1.5%
14	Umnugobi	161	929.1	5.6%	97	420.0	2.5%	64	509.1	3.1%
15	Sukhbaatar	93	274.1	3.3%	71	66.1	0.8%	22	207.9	2.5%
16	Selenge	179	94.8	2.3%	144	45.1	1.1%	35	49.6	1.2%
17	Tuv	386	323.1	4.4%	307	157.4	2.1%	79	165.7	2.2%
18	Uvs	109	287.8	4.1%	42	19.9	0.3%	67	267.9	3.9%
19	Ulaanbaatar	159	14.1	3.0%	152	13.1	2.8%	7	1.0	0.2%
20	Khuvsgul	22	10.6	0.1%	21	10.3	0.1%	1	0.3	0.0%
21	Khovd	95	211.4	2.8%	37	17.2	0.2%	58	194.2	2.6%
22	Khentii	213	304.1	3.8%	122	54.0	0.7%	91	250.1	3.1%
	Nationwide	2,642	6,247.5	4.0%	1696	1,653.9	1.0%	946	4,593.6	3.0%

Source: Mineral Statistics Information 2020, Mineral Resources and Petroleum Authority of Mongolia, MMHI

Note: Some licensed areas cover beyond the borders of more than one aimag, therefore, the number of licenses added to each aimag.

Figure 5.4 Number of valid exploration and exploitation licenses, by years

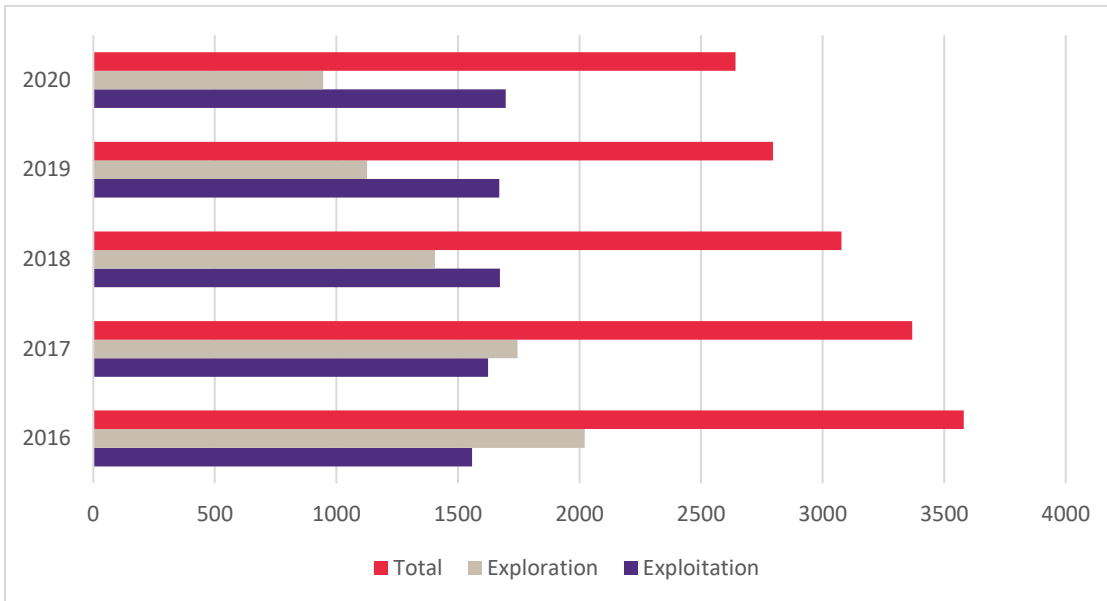
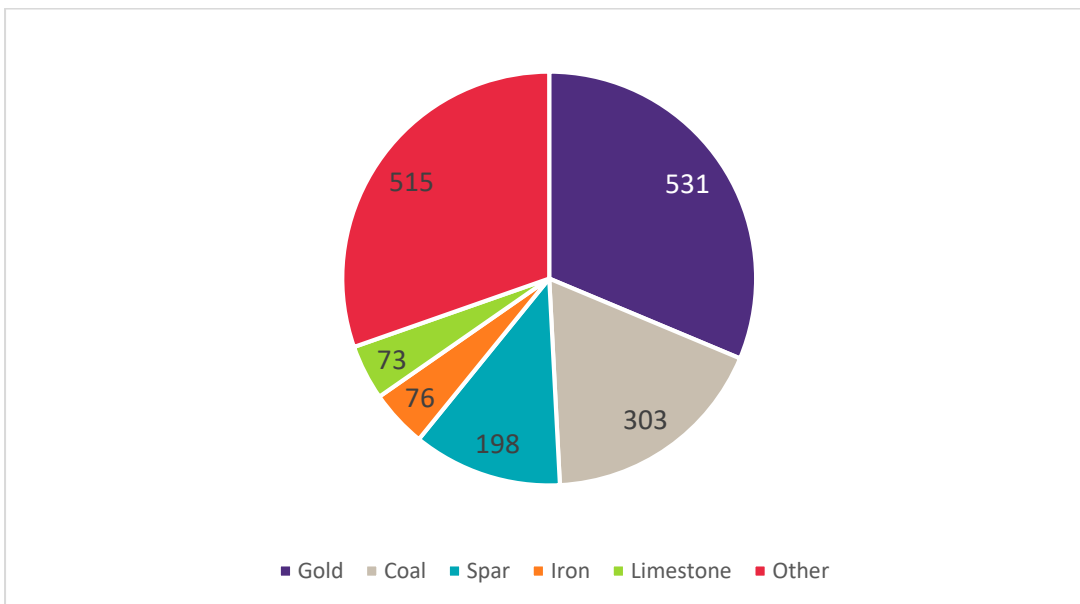


Figure 5.5 Structure of mineral licenses by type of minerals, by number of licenses



Source: Mineral Statistics Information 2020, Mineral Resources and Petroleum Authority of Mongolia, MMHI

5.2.7.1 Regulations of rights and obligations related to exploration and exploitation license issuance specified in the Minerals Law

The specific regulations related to licensing activities, as shown in Table 5.10, are set out in the Minerals Law. It includes:

Table 5.10 Legal regulations related to licensing activities

Clauses in the Law	Stakeholders	Rights and obligations as specified in Minerals Law of Mongolia
8.1.5.	Parliament	Restrict or prohibit exploration and mining activities on or grants of exploration and mining licenses for certain territories, upon proposal by the Government or by its own initiative.
9.1.11.	Government	In cases other than specified in Clause 24.1 of this law, as proposed by state administrative body in charge of geology and mining, to determine coordinates of eligible area for granting exploration and mining license 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 issue license, to grant areas for small scale mining or minerals with common occurrences, and present conclusions
11.1.16.	State administrative body	To receive and register license applications to participate in selection process for granting minerals exploration license and mining license
11.1.19.	State administrative body	To issue exploration and mining licenses for minerals other than the minerals with common occurrences.
11.1.25.	State administrative body	To determine the coordinates and area for license application and approve the area for mining and exploration license under this law
20.1.	State administrative body	The selection process for exploration license shall be organised by the state administrative body according to the procedures stated in Clause 10.1.2 of the law
26.1	State administrative body, MRPAM	To accept, review and process the applications/ requests specified in 25.1 of the law

Source: Minerals Law of Mongolia

5.2.7.2 Amendments introduced in license issuance process

Tendering procedure for license awarding was revised by the Minister of MHI order A/28 of 2018. The significant changes in the revised procedures are shown in Table 5.11:

Table 5.11 Tendering procedures for license granting

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

- Additional provision is included: In order to ensure continuous organization of selection and workload balance, up to 3 (three) selection committees may be appointed; and 2/3 of committee members may be changed semi-annually.

- Criteria for technical proposal are specified with more details compared to the previous procedures.
 - Changes are made as following: technical proposal evaluation and conclusion are made within 5 working days (it was 10 working days); submission to the Head of state administrative body shall be within 1 working day (it was 2 working days); and the Head of state administrative body shall make relevant order within 2 working days (it was 3 working days) after receipt of the Selection committee conclusion.
 - 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.”; and “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 process. (Source: Amendment to the Minerals Law (article 7.1) approved by the State Great Khural on 10 November 2017.

Moreover, the above tendering procedure has been amended additionally by the Minister of Mining and Heavy Industry Order No. A/16 of 2020, and the important changes are presented in Table 5.12.

Table 5.12 The changes to the tendering procedure

Previous	Amendment
4.3.8. When the tender committee evaluates the technical proposals submitted by the bidders, they may reject technical proposals if some documents are incomplete. Upon rejection, such tender documents will be returned according to 4.2.5 and 4.2.6 of the relevant procedure.	This provision was added by Order A/16 of 2020 of the Minister of Mining and Heavy Industry
5.1.6. In case of inability to carry out the activities specified in the tender proposal within the specified time, the deadline can be changed at the committee members’ meeting and notified to the participants.	This provision was added by Order A/16 of 2020 of the Minister of Mining and Heavy Industry
Article 4.2.6; 4.6.5; 4.7.1; and 4.7.3 of the tendering procedure for license awarding	The changes were made by Order A/16 of 2020 of the Minister of Mining and Heavy Industry

The composition of committee members for tendering was approved by the Minister of Mining and Heavy Industry's orders A/80 of 2018, A/38 of 2019, A/62 of 2019, A/204 of 2020 and A/215 of 2020, respectively.

5.2.7.3. Exploration and exploitation license awarding process

Process for awarding exploration and exploitation license in 2020 was the same as in the previous year. The following table 5.13 shows the process for exploration license awarding:

Table 5.13 Exploration license granting process

Steps	State administrative body	Process description
1	MRPAM	Application number will be issued to the applicant upon receiving the application
2	Cadaster division of MRPAM	To determine whether the area applied for is eligible for minerals prospecting and exploration.
3	Local government	MRPAM will refer the application to the governor of the relevant aimag or the city for approval. The governor has 30 days to review of and respond for the application. Failure by the governor to respond to the application within the 30-day period is deemed to be acceptance.

4	MRPAM	Prior to the grant of an exploration license by MRPAM, the applicant will be required to pay the first year's license fee upfront within 10 days upon the notification.
5	Cadaster division of MRPAM	Upon grant, an exploration license is valid for an initial term of three years with a right to renew for three subsequent three-year extensions.

Source: MRPAM

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

Table 5.14 Process of transferring from exploration license to exploitation license

Steps	State administrative body	Process description
1	MRPAM	Receipt of the application / request.
2	Legal unit of MRPAM	Verify compliance with laws regarding prohibitions or any outstanding payments
3	Cadaster division of MRPAM	Check if the exploration license is registered in Cadastral system.
4	Cadaster division of MRPAM	Check topography to make sure the area in interest does not overlap with other licensed 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 works for damages to ecology due to production.
6	Legal unit of MRPAM	Check whether the applicant compliant with the plans of the head of Cadaster division and other laws and regulations.
7	Cadaster division of MRPAM	Approves the topography with coordinates. MRPAM must issue appropriate resolution and respond to the applicant within 20 business days upon the registering the application. If denied, cause and legal precedence must be included as part of the denied response in writing.
8	MRPAM	Pay annual fee for the 1 st year for the mining license within 10 days from receiving approval notice.
9	Cadaster division of MRPAM	Issues Mining license for 30 years within 3 days from first annual fee payment. Mining license can be extended twice for 20 years each.

Source: MRPAM

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

- An entity, which carried out exploration, has not applied for exploitation license;
- For area where exploration was carried out with state funding;
- License was revoked due to breaches of relevant laws or court decisions;
- Exploitation license term was expired.

Table 5.15 Minerals license awarding through tendering

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

- 9 Cadaster division of MRPAM Issue license based on the decision of the head of MRPAM and the selection committee's decision.

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

Transfer process of minerals license

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

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

Table 5.16 Transfer process of mining licenses

Steps	State administrative body	Process description
1	Cadaster division of MRPAM	Receive the required documents
2	Cadaster division and Legal Unit of MRPAM	Review documents received and other information.
3	Cadaster division of MRPAM	Make decision upon finishing review within 5 days

Source: MRPAM

Technical and financial criteria for granting license (requirement 2.2.a.i)

According to the Clause 3.3.3.1 of the "Licensing Tendering Procedure" approved on 13 February 2018, threshold price of the area for tender is set to be 2240 MNT/ha for financial indicator and the area with risk accumulation is fixed to be MNT 4,500/ ha. The threshold price is the amount equivalent to the amount of the declared area. The selection criteria for licensing are demonstrated in Table 5.17 below.

Table 5.17 Technical and financial criteria for granting license

No	Criteria	Benchmark Scores	Score range	Max score
Evaluation of project documentations				25
1	Geological and exploration operations		0-15	
	Optimal methods and planning, deployed advanced technology and methodologies, and the documents of the previous studies have been studied fully	13-15		
	Optimal methods and planning, deployed advanced technology and methodologies, but the documents of the previous studies have not been studied fully	10-12		
	Optimal methods and planning, and the documents of the previous studies have been studied fully	7-9		
	Methods and planning are not optimal, deployed advanced technology and methodologies, but the documents of the previous studies have not been studied fully	4-6		
	No methods and planning, no plan to use any advanced technology and methodologies, the documents of the previous studies have not been studied fully	1-3		
	Planning of environment protection and its rehabilitation, considering the types, expenses and duration to conduct actions of environment protection and rehabilitation		0-6	
	Fully satisfactory	6		

	Satisfactory	3		
	Not satisfactory	0		
	Community development and community relations plan		0-4	
	Complies to Clause 3.3.2.8 of this procedure	4		
	Not complies to Clause 3.3.2.8 of this procedure	0		
2	Readiness of the professional personnel, their experience and skills			11
	If % of Mongolian employees of the project is 100%	3	1-3	
	If % of Mongolian employees of the project is more than 90%	2		
	If % of Mongolian employees of the project is less than 90%	1		
	If consulting geologist of Mongolia will work for the project	3	0-3	
	If expert geologist of Mongolia will work for the project	2		
	If neither consulting geologist nor expert geologist will work for the project	1		
	If project engineers and geologists are 100% full time	5	1-5	
	If project engineers and geologists consists of both full time and temporary contractual employees	3-4		
	If project engineers and geologists are 100% temporary contractual employees	2		
	If the project does not specify any engineering workers and geologists	1		
3	Geological and exploration experience and, operational experience			10
	If operated for more than 10 years in geological and exploration sector	4	1-4	
	If operated for 5-10 years in geological and exploration sector	2-3		
	If operated for the period of up to 5 years in geological and exploration sector	1		
	If operated in other sectors for more than 10 years	2	1-2	
	If operated in other sectors for the period of up to 5 years	1		
	Has qualified extensive experience of independently executing geological and exploration project	3-4	1-4	
	Has experience of executing geological and exploration project and operated as subcontractor	1-2		
4	Supply of equipment for the project			9
	If project implementing entity has fully owned drilling, geophysical and other equipment to perform geological and exploration	7-9	1-9	
	If project implementing entity rents 50% or less of drilling, geophysical and other equipment to perform geological and exploration	4-6		
	If project implementing entity rents all drilling, geophysical and other equipment to perform geological and exploration	1-3		
TOTAL SCORE				55

The above criteria were revised by the Minister of MHI order A/16 of 2020. The table 5.18 below shows the revised criteria:

Table 5.18 Evaluation for granting license

No	Criteria	Benchmark score	Score limits	Max score
3	Geological and exploration experience and, operational experience			10
3.1	If operated for more than 10 years in geological and exploration sector	4	1-4	
	If operated for 5-10 years in geological and exploration sector	2-3		

No	Criteria	Benchmark score	Score limits	Max score
	If operated for the period of up to 5 years in geological and exploration sector	1		
3.2	If operated in other sectors for more than 10 years	3	1-3	
	If operated in other sectors for 6-10 years	2		
	If operated in other sectors for the period of up to 5 years	1		
3.3	Has qualified extensive experience of independently executing geological and exploration project	3	1-3	
	Has experience of executing geological and exploration project and operated as subcontractor	1-2		

/Section 3 is amended by the Minister of MHI order A/16 dated 2020/

5.2.7.4 Radioactive minerals mining license granting process

This process is regulated by the Nuclear Energy Law of Mongolia, and the following steps are required as per the article 18 “License granting procedure”: (Table 5.19)

Table 5.19 License for radioactive minerals mining

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

Source: Law on Nuclear Energy

Requirements for an applicant for radioactive minerals exploration license

- fully meet technical and operational safety requirements;
- fully meet occupational safety and sanitary requirements and standards;
- be active and involved in contributing to regional development, health, education and other social matters;
- promote and comply with the globally accepted standards of corporate governance, code of conduct and social responsibility;
- have qualified human resources specialized for the mine operations;
- be experienced in building capacity of the personnel and practical skills of manpower;
- have the financial capacity to conduct exploration of radioactive minerals;
- have the financial capacity to carry out environmental and biological rehabilitation;
- maintain responsible mining and have accumulated experience in this field;
- align the company mining operations, safety and occupational health procedures and practices with the international standards and requirements.

Requirements for an applicant for radioactive minerals exploitation license

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

5.2.7.5 Exploration and exploitation license granting process for common minerals

This process is regulated by the Law of Mongolia on Common Minerals, and the following steps are required in awarding exploration license: (Table 5.20). The process is carried out under the following phases:

Table 5.20 Exploration license for common minerals

Steps	State administrative body	Process description
1	Governor of the capital city and aimag	Receive and register applications.
2	Governor of the capital city and aimag	Upon the registration, Governors shall undertake preliminary review of the application and attached documents to check if requirements for license applicant stated in this law is met and the completeness of application materials. If requirements are not met, refuse to accept the application and respond to the applicant in writing, informing the reason and justification of the rejection and enter notice in logbook of applications.
3	Governor of the capital city and aimag	Identify if an area mentioned in the application does not overlap with areas restricted and prohibited for minerals exploration and exploitation, special purpose area, protected reserves, other licensed area or area requested prior by other applicants. Submit the application and related documents to state administrative body in electronic form.
4	State administrative body	Review area requested in the application together with related documents and notify about decision to grant exploration license or not.
5	Governor of the capital city and aimag	If state administrative body responded not to grant license, notify the applicant in writing and make entry to logbook of applications.
6	Governor of the capital city and aimag	If state administrative body responded positively to grant license, resolve whether to grant an exploration license for common minerals within 10 working days considering the comments from the Council of soum, district, aimag or the capital city where the affected area is located.
7	Governor of the capital city and aimag	If decided to grant exploration license, notify the applicant to pay annual fee for the 1 st year for the license within the period stated in this law.
8	Governor of the capital city and aimag	When the applicant fails to have its special license within 1 month upon decision to issue license or to pay annual fee for the first year within the period stated in this law, the Governor of aimag or the capital city shall remove the application from the registration and notify the applicant about it, then make entry to logbook of applications.
9	Governor of the capital city and aimag	When the applicant successfully paid the annual fee for the first year within the period specified in this law, the license for common minerals shall be issued for 3 years within 5 working days upon payment.
10	Governor of the capital city and aimag	Notify state central administrative body in-charge of construction and urban development, State administrative body, authority in charge of nature and environment matters for the aimag or the capital city where the affected area is located; and professional inspection agency on the issue of exploration license for common minerals.

Steps	State administrative body	Process description
11	State administrative body	Add exploration license and the subject area into databases of licenses and topographies.

Source: Law of Minerals

Only the current license holder is entitled to apply for exploitation license for that area licensed for exploration of common minerals. The following steps in Table 5.21 are required in awarding exploitation license:

Table 5.21 Exploitation license for common minerals

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

Source: Law of Common Minerals

Statistics of license application

The comparative statistics of license application for the last 8 years are presented in the Table 5.22:

Table 5.22 The statistics of license application

Type of application	2013	2014	2015	2016	2017	2018	2019	2020
TOTAL	626	791	3,002	613	813	1,187	698	502
New application	102	113	2,522	131	288	226	218	253

Type of application	2013	2014	2015	2016	2017	2018	2019	2020
a. Exploitation	102	98	87	103	65	78	73	87
b. Exploration	-	-	2,335	-	-	-	-	-
c. Tendering	-	15	100	28	223	148	145	166
Extension	305	453	249	173	231	657	273	75
Transfer	10	53	92	139	153	157	72	80
a. Exploitation	10	36	52	49	78	25	24	32
b. Exploration	-	17	40	90	75	132	48	48
Pledge	67	44	22	33	37	61	25	28
a. Exploitation	47	40	22	30	32	58	24	28
b. Exploration	20	4	-	3	5	3	1	-
Area return	142	128	117	137	104	86	110	66
a. Exploitation	18	12	24	26	14	12	12	16
b. Exploration	124	116	93	111	90	74	98	50

Source: Mineral Statistics Information 2020, Mineral Resources and Petroleum Authority of Mongolia, MMHI

Refer to Appendix 15(o) for a list of 125 companies that are not selected in tenders of 2020.

5.2.7.6 Licenses granted or transferred in 2020 (requirement 2.2.a.iii)

It is a requirement of the EITI Standard to include the details of all changes of license holders in the EITI report. The statistics of licenses in the MRPAM Statistics report differ from the information received by the team from the MRPAM. The detailed description is shown in in the EITI report 2015.

According to MRPAM, in 2020, there were 55 new exploitation licenses and 35 exploration licenses. Mining and geological statistics released to the public by MRPAM are as follows (Table 5.23).

Table 5.23 Licenses awarded and transferred

Registration type	2013	2014	2015	2016	2017	2018	2019	2020
Newly issued	72	113	827	750	151	85	130	90
a. Exploitation	72	97	91	93	77	61	59	55
b. Exploration	-	2	697	629	41	5	-	8
c. Tendering	-	14	39	28	33	19	71	27
Areas returned	146	119	150	166	97	91	93	71
a. Exploitation	16	13	25	25	13	11	11	16
b. Exploration	130	106	125	141	84	80	82	55
Revoked	347	123	173	241	237	181	189	140
a. Exploitation	43	14	10	37	35	33	70	52
b. Exploration	304	109	163	204	202	148	119	88
Expired	253	289	179	124	176	209	199	133
Transferred	8	51	88	146	136	172	71	83
a. Exploitation	8	38	46	50	62	38	24	35
b. Exploration	-	13	42	96	74	134	47	48
Extended	317	444	336	167	162	566	300	68
Pledged	61	40	22	29	39	56	24	27
a. Exploitation	42	34	22	27	34	53	23	27
b. Exploration	19	6	-	2	5	3	-	-

Registration type	2013	2014	2015	2016	2017	2018	2019	2020
Pledge released	31	29	24	16	39	27	31	28
a. Exploitation	29	24	19	12	38	26	30	28
b. Exploration	2	5	5	4	1	1	1	-
Re-awarded	15	11	19	35	26	40	27	17
a. Exploitation	9	7	10	15	19	13	14	11
b. Exploration	6	4	9	20	7	27	13	6

Source: Mineral Statistics Information 2020, Mineral Resources and Petroleum Authority of Mongolia, MMHI

The Mineral Resources and Petroleum Authority of Mongolia (MRPAM) was requested information on the licenses granted in equal to compensation by the decision of the Director of MRPAM, but no information was provided.

Companies holding 10 or more mineral licenses as of the year end of 2020 are as follows (Table 5.24).

Table 5.24 Companies holding 10 or more licenses

No	Name of company	Number of licenses	Area size	Type of legal entity	Country of investor
1	Mongolrostsvetmet SOE	27	15,145.4	SOE	Mongolia
2	Mongolyn Alt MAK LLC	23	62,251.0	LLC	Mongolia
3	Gatsuurt LLC	16	8,933.2	LLC	Mongolia
4	Tsaina Investment Mongolia LLC	15	207,645.0	100% foreign investment	Singapore
5	Burdel Mining LLC	13	2,344.4	LLC	Mongolia
6	Gobicoal and Energy LLC	12	7,139.8	LLC	Mongolia
7	TMG Group	12	5,654.8	LLC	Mongolia
8	Hunnu Gobi Altai LLC	12	2,206.7	LLC	Mongolia
9	MAK Cement LLC	11	4,119.1	LLC	Mongolia
10	Platinumland LLC	11	3,621.3	LLC	Mongolia
11	MoEnKo LLC	10	12,807.4	100% foreign investment	Singapore

Source: Mineral Statistics Information 2020, Mineral Resources and Petroleum Authority of Mongolia, MMHI

Companies which possess 100,000 or more hectares of area with minerals license as of the year end of 2020 are as follows (Table 5.25):

Table 5.25 Mining license holders, by hectares

No	Name of company	Number of licenses	Area size	Type of legal entity	Country of origin
1	Tsaina Investment Mongolia LLC	15	207,645.0	100% foreign investment	Singapore
2	Mon Laa LLC	4	108,679.0	Domestic entity	Mongolia

Source: Mineral Statistics Information, Mineral Resources and Petroleum Authority of Mongolia, MMHI

As per report of the MRPAM, detailed information on licenses issued in 2020 through non-tendering selection (direct contracting, direct negotiations) are provided as follows:

- In accordance with the court decision and the Resolution No. 636 of 2018 and Resolution No.159 of 2019 of the Chairman of the Cadaster Division, a license for Altanshree area was issued to the Achlalt Khuu LLC.

- By the decision of the Government, 4 licenses were issued to the Erdenes Alt Resource LLC and 2 licenses were issued to the Erdenes Silver Resource LLC.
- In accordance with the decision No. 894 of December 4, 2017 of the Administrative Court of First Instance of the Nalaikh District, a license for the Tuvgur area was issued to the “As-Eternal LLC. Refer to Appendix 15.I for more information.

5.2.7.7 License transparency (Requirement 2.3)

The MRPAM’s cadaster website (<http://cmcs.mram.gov.mn/cmcs#c=License>) discloses information of 2,666 valid licenses as of 2021. However, information concerning license for uranium exploration and exploitation have not been disclosed.

The Mongolia EITI Secretariat publishes minerals license information on its website. As of 2020, information related to 2,642 licenses is placed at the website.

5.3 EXPLORATION, PRODUCTION AND EXPORTS (REQUIREMENT 3.1)

5.3.1 Minerals exploration

Geological explorations carried out with state funds

Basic geological surveys included in the State Policy on Mineral Resources and the Government Action Plan for 2016-2020 have been carried out in 2016, 2017 and 2019 with funding of MNT 9.3 billion, MNT 13.1 billion and MNT 23.8 billion, respectively. The Mineral Resources and Petroleum Authority (MRPAM) was requested information on the large-scale geological and exploration activities of MRPAM in 2020, which were funded by the state budget, but no information was provided. The exploration project funded by the state budget for 2019 is shown below.

- 40.5 percent of Mongolia's territory was covered by 1: 50000 scale geological mapping and general prospecting, and its geological structure of the area and the distribution patterns of minerals were determined, and a perspective assessment was carried out. This type of survey is being conducted for 5% of the areas.
- The National Geological Survey of 1: 200,000 scale was completed in 94% of the territory, and the results report was provided, and the related integrated database was created. The survey for the remaining 6% is currently in progress and results report is pending. Since 2016, the above surveys are being integrated into the K, L and M dimensions.
- Within the scope of the thematic research, a number of deposits, occurrences and mineralized points were inspected and evaluated by conducting a “Key Mineral Perspectives Study” nationwide.
- Within the scope of the Gold-2 national program, a study on gold mineralization and perspectives in the central, eastern, western, southwestern and Khangai regions of Mongolia was conducted and as a result, a large number of gold and placer deposits, occurrences and mineralized points were inspected and evaluated. Upon receipt of the report, the gold outlook in the two regions will be clarified.
- 5-channel survey of aerial geophysics at a scale of 1: 200,000 was carried out in the southwestern part of the country under the names Altai-1 and Altai-2, and the results report was provided. As a result of the study, criteria were identified for the detection of promising deposits of ferrous, non-ferrous, and precious metals in the region, and the directions for future works were identified.
- Survey task for geochemical 1: 1000000 scale mapping in 1,148,729 km² of the territory of Mongolia was commenced.
- The types of minerals identified in the territory of Mongolia were studied in combination with tectonic, metallogenic, and other geological factors and socio-economic factors such as infrastructure. The strategic importance minerals were investigated in line with the concept of regional development. As a result of this survey, GASAM project was launched for the purpose

of detailed study of high-tech and energy raw materials that are in high demand in the world commodity market and identify the export potentials for the country.

- Research is being carried out to determine the size of disturbed land and pollution level for air, soil, water, and distribution of polluting elements in the territory of Ulaanbaatar and Erdenet cities and provide scientific conclusions and recommendations for mitigation.

As the state-funded geological and research work has not been disclosed to the public since 2019, the five-year statistics till 2019 are summarized as follows (Table 5.26). It includes:

Table 5.26 Geological and research work funded by the state budget

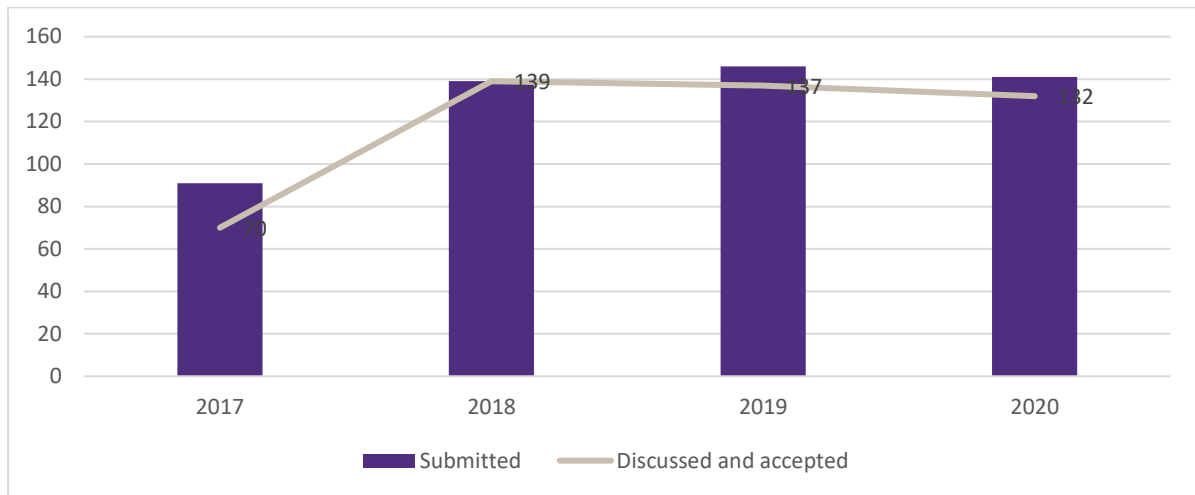
Type of activities	2015		2016		2017	
	MNT mln	Execution	MNT mln	Execution	MNT mln	Execution
TOTAL	9,280.6	82%	9,341.1	100%	12,255.1	92%
1:200000 State geological mapping	330.5	63%	642.7	100%	482.3	100%
1:50000 Geological mapping and prospecting	5,556.7	78%	4,975.8	100%	5,355.9	100%
Thematic work	3,167.7	92%	3,476.1	100%	6,274.6	81%
Cooperation project	225.6	79%	246.6	100%	142.4	100%
Type of activities	2018		2019			
	MNT mln	Execution	MNT mln	Execution		
TOTAL	13,335.0	100%	24,621.0	100%		
1:200000 State geological mapping	408.5	100%	753	100%		
1:50000 Geological mapping and prospecting	4,692.7	100%	8,115.1	100%		
Thematic work	8,144.1	100%	15,471.6	100%		
Cooperation project	90	100%	281.3	100%		

Source: Mineral Statistics Information, Mineral Resources and Petroleum Authority of Mongolia, MMHI

Privately funded exploration activity

Certain articles of the Minerals Law apply for plan, work report, review and approval of cost for privately funded exploration activities. For instance, annual exploration plan is submitted as per the article 48.1.1, annual reports of exploration activities are received and reviewed as per the article 48.1.2, the minimum cost is specified as per the article 33.1 and exploration cost is approved based on a legal person's financial report for the year as per the article 33.2, respectively.

In 2020, 141 reports on exploration results were submitted and 132 reports were discussed and accepted. Figure 5.6 shows the results of the last four years of exploration work.

Figure 5.6 Number of reports on exploration results

Source: Mineral Statistics Information 2021, Mineral Resources and Petroleum Authority of Mongolia, MMHI

In 2020, exploration license holders spent MNT 86,033.0 million on geological and exploration work, and the type of work performed in the last five years is as follows. It includes:.

Table 5.27 Expenses spent on geological, and exploration works, by work type

Type of works	2016	2017	2018	2019	2020
Preparatory	8,924.2	3,615.2	3,447.8	3,837.7	1,937.9
Mapping work	5,815.3	1,886.1	3,444.1	2,119.2	1,230.4
Exploration route	6,383.5	2,334.6	2,746.3	2,498.3	1,158.0
Sampling	32,645.9	80,896.6	11,786.9	1,296.4	866.0
Geophysical work	9,826.5	15,008.9	10,461.7	10,252.5	5,576.0
Mining work	1,697.1	-	15,257.0	7,600.0	6,630.0
Drilling	68,917.0	5,825.9	75,064.2	84,114.5	44,678.1
Laboratories	8,833.1	11,413.4	12,601.0	13,472.0	11,259.0
Topo-geodesic work	2,248.6	5,518.1	1,621.3	4,297.9	3,520.2
Hydrogeological work	1,174.1	943.7	1,442.8	1,329.7	865.0
Geo-ecological research	-	-	823.2	3,150.3	2,300.0
Transportation	17,331.0	341.4	3,761.3	7.0	4.2
Basic processing	11,685.7	1,120.4	1,118.2	494.8	590.0
Environmental rehabilitation	1,346.9	348.3	378.4	459.5	268.7
Field sampling	2,101.3	929.4	1,674.9	4,887.6	3,800.0
Archaeological and paleontological studies	231.2	162.2	6,638.4	522.0	303.0
Contingent costs	-	-	173.2	782.6	666.7
Other	11,098.5	242.4	852.3	420.1	380.0
Total	190,259.9	130,586.6	153,292.9	141,542.1	86,033.2

Source: Mineral Statistics Information 2021, Mineral Resources and Petroleum Authority of Mongolia, MMHI

5.3.2 Production of mineral commodities

Mongolia's main mining production was declined in 2020 with the sector's share of GDP at 21.6 percent and the industrial sector at 56.5 percent. More details are shown in Table 5.28 below.

Table 5.28 The mining production, by GDP, by percentage

	2017	2018	2019	2020
GDP	27,876.30	32,411.20	36,897.60	36,958.60
Mining production (extraction price)	6,543.40	7,721.00	8,779.20	7,994.00
Gross industrial output	12,938.60	15,619.90	17,371.40	16,700.00
Mining and extractive production	9,388.80	11,223.90	12,467.10	11,769.50
Percentage in Gross Industrial Output	72.6%	71.9%	71.8%	56.5%
Percentage in GDP	23.5%	23.8%	23.8%	21.6%

Source: National Statistics Office

Based on MRPAM statistics for the year 2020, the coal production, sales and export information for the last 6 years are described in Table below.

Table 5.29 Coal extraction, sales, export, by volume

Year	Striping (thous. m3)	Extraction (thous. tonnes)	Sales (thous. tonnes)	Export (thous. tonnes)
2015	92,975.0	23,979.0	22,125.0	14,468.0
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
2019	292,181.7	57,128.8	47,047.8	36,809.1
2020	209,363.8	43,079.3	40,984.5	31,177.8

Source: Minerals statistics 2020, MMHI, MRPAM

The total coal sales for 2020 by its types are shown in the Table 5.30 below.

Table 5.30 Total sales of coal, by coal types

Type of coal	Total sales (thous.t)	Export (thous.t)	Domestic sales (thous.t)
Enriched coking coal	4,957.6	4,957.6	-
Raw coking coal	14,409.3	14,409.3	-
Poor coking coal	9,184.4	9,184.4	-
Thermal coal	2,626.5	2,626.5	-
Brown coal	9,770.7	-	9,770.7
Total	40,948.5	31,177.8	9,770.7

Source: Mineral Statistics Information 2020, Ministry of Mining and Heavy Industry; Mineral Resources and Petroleum Authority

The following Table 5.31 shows the production of main commodities of mining and extractive sector for the last 5 years based on reports by Mongolian National Statistics Office.

Table 5.31 Main industrial commodities production, by volume

No	Type of minerals	Measuring unit	2016	2017	2018	2019	2020	Change
1	Coal	thous.ton	29,339.6	40,707.4	43,353.9	48,448.5	43,844.8	-10%
2	Copper concentrate (metal content)	thous.ton	1,445.1	1,317.1	1,310.8	1,262.4	1,276.7	1%
3	Iron ore	thous.ton	4,936.2	7,694.7	6,225.4	8,572.2	9,224.4	8%
4	Gold	kg	18,435.7	19,849.0	20,655.2	16,251.3	20,225.5	24%
5	Fluorite	thous.ton	167.7	108.9	101.2	156.1	127.3	-18%

No	Type of minerals	Measuring unit	2016	2017	2018	2019	2020	Change
6	Fluorspar and fluorspar concentrate	thous.ton	34.1	55.2	80.7	47.5	85.0	79%
7	Zinc concentrate	thous.ton	100.2	82.7	87.9	83.1	76.3	-8%
8	Molybdenum concentrate (metal content)	ton	5,174.4	5,759.6	5,486.1	5,302.8	6,147.7	16%

Source: Industrial Sector 2020, National Statistics Office

As per report of Mongolian National Statistics Office, the output of mining and extraction for the last 5 years is shown in the Table 5.32 in terms of value.

Table 5.32 Mining output, in MNT million

No	Type of minerals	2016	2017	2018	2019	2020	Change
1	Mining of metal ores	5,891,282.7	6,685,608.2	7,914,168.9	8,189,457.6	9,863,503.6	20%
2	Mining of coal	1,612,627.3	3,880,567.2	5,312,415.8	6,832,966.9	6,493,503.4	-5%
3	Extraction of crude oil	722,820.5	897,804.3	953,258.3	980,487.8	423,827.7	-57%
4	Mining support service activities	347,637.2	402,940.9	704,260.6	782,774.0	771,636.5	-1%
5	Other mining and extraction	137,046.8	231,878.8	464,514.8	516,300.5	459,249.2	-11%
Total mining and extraction		8,711,414.4	12,098,799.3	15,348,618.5	17,301,986.9	18,011,720.4	

Source: Mongolian Statistical Yearbook 2019, 2020, National Statistics Office

5.3.3 Export of mining commodities (Requirement 6.3.c)

Total exports in the reporting year decreased by 0.6 percent compared to the previous year, reaching USD 7.5 billion. This was directly related to the decline in mining exports. In 2020, 96.2 percent of mineral exports accounted for coal, copper concentrate, molybdenum concentrate, fluorspar, iron ore, zinc ore and crude oil.

The volumes and values of exports of mining commodities for the last 5 years are illustrated in Table 5.33 as follows

Table 5.33 Exports of mining commodities, by volume, by USD million

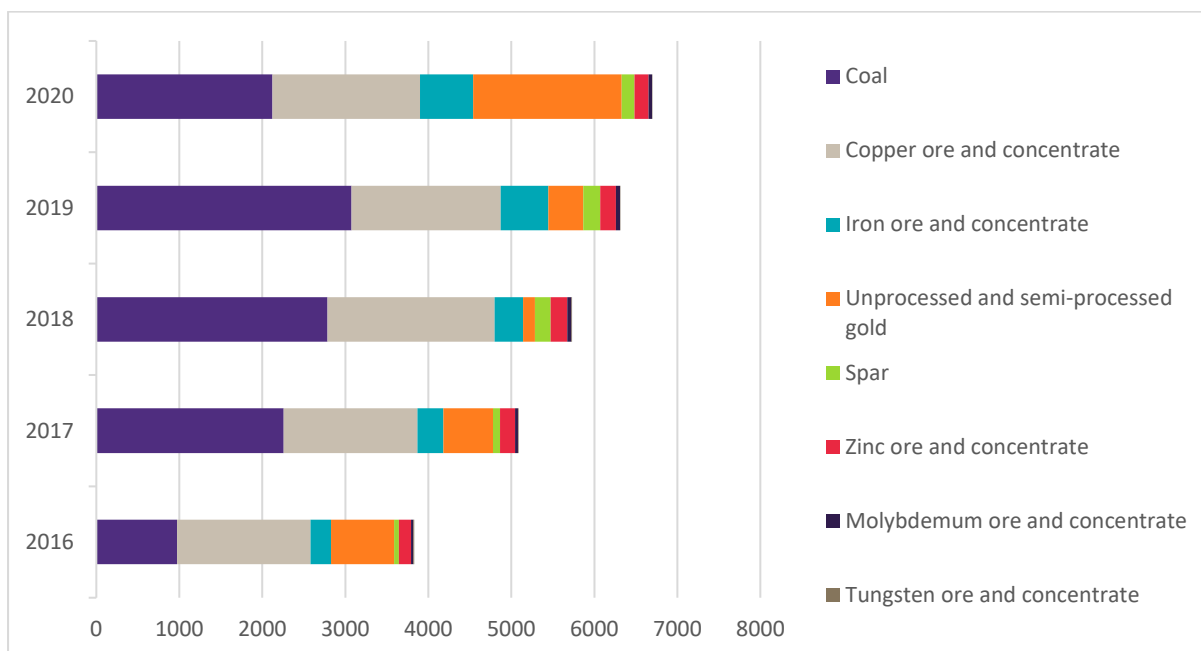
Type of minerals	Measuring units	2015	2016	2017	2018	2019	2020
Coal	Thous.t	14,426.3	25,713.9	32,990.9	35,758.2	36,466.8	28,586.9
	USD million	555.0	971.8	2,256.7	2,786.2	3,074.4	2,123.7
Copper, concentrate	Thous.t	1,477.8	1,562.0	1,447.2	1,436.7	1,403.6	1,395.1
	USD million	2,280.1	1,607.8	1,613.1	2,012.2	1,795.9	1,778.0
Iron ore, concentrate	Thous.t	5,065.1	6,084.8	6,258.0	7,449.1	8,448.8	8,205.7
	USD million	227.2	249.9	313.4	342.2	576.4	640.0
Raw or semi-processed gold	Kg	11,343.2	19,168.5	14,554.5	3,431.9	9,069.5	30,491.0
	USD million	420.6	758.4	595.4	144.5	418.4	1,787.7
Spar	Thous.t	280.1	248.8	319.3	555.2	700.1	678.9
	USD million	65.5	59.0	84.2	189.9	205.5	156.3
Zinc ore, concentrate	Thous.t	84.1	126.0	118.2	123.9	134.8	134.1

	USD million	101.7	145.4	180.8	197.8	189.0	167.7
Molybdenum ore, concentrate	Thous.t	5.0	5.8	6.5	6.0	5.7	6.4
	USD million	29.5	26.4	37.4	49.9	49.0	40.7
Tungsten ore, concentrate	Thous.t	1.7	1.5	1.0	0.8	0.7	0.1
	USD million	13.5	10.5	8.1	8.8	6.5	0.7

Source: General Customs Office https://www.customs.gov.mn/statistics/index.php?module=users&cmd=info_full&cid=753&st=1

The following Figure 5.7 summarizes the export sales values of key minerals for the last 5 years.

Figure 5.7 Mineral export sales, by type, in million USD



Source: Mongolian Customs Office

Comparing the export sales of these key mining products by country, majority of exports in 2020 or 71.9 percent, went to China, followed by Switzerland with 24.1 percent (unprocessed or semi-processed gold). Details are available at Table 5.34.

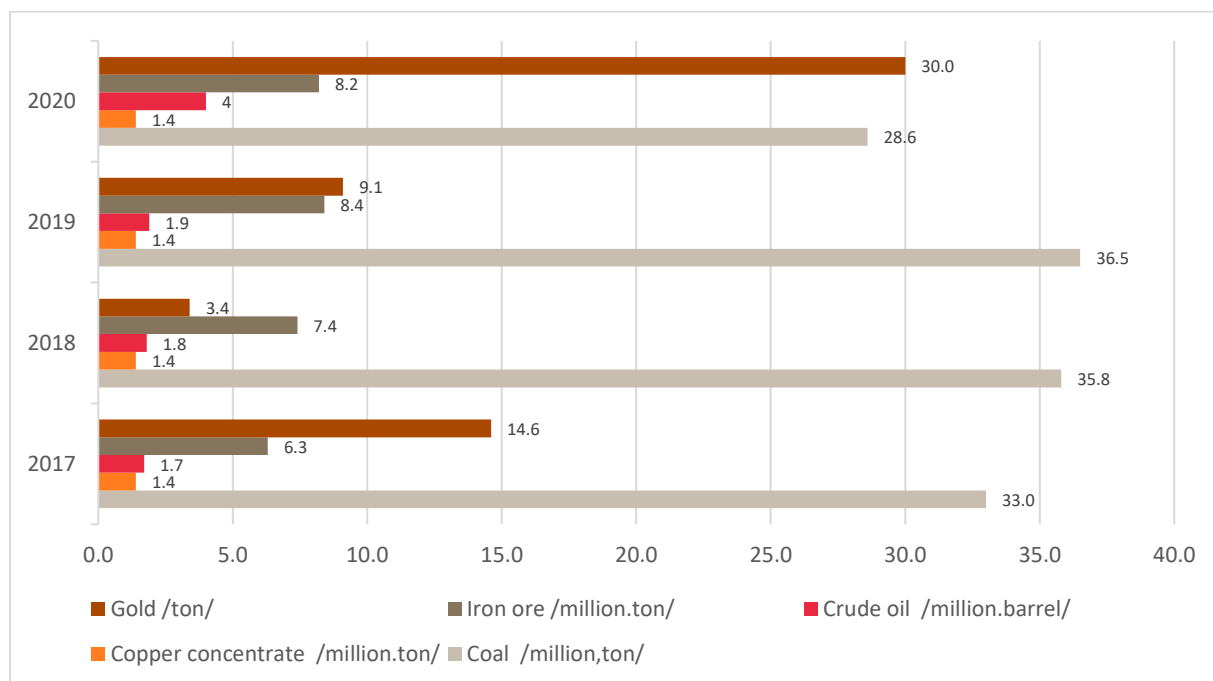
Table 5.34 The key mining commodities exports, by country

№	Country	Type of minerals	Measuring unit	2018		2019		2020	
				Unit	Amount (USD million)	Unit	Amount (USD million)	Unit	Amount (USD million)
1	China	Coal	thous.ton	35,361	2,755	35,798	3,014	27,210	2,009
		Copper Concentrate	thous.ton	1,429	2,001	1,404	1,796	1,395	1,778
		Iron ore, concentrate	thous.ton	7,449	342	8,449	576	8,206	640
		Other minerals	thous.ton	494	370	672	381	700	585
		Total				5,467,361		5,767,611	
		Percentage in total export		95.4%		91.3%		96.1%	

Source: General Customs Office

The following Figure 5.8 demonstrates the volume of mineral exports (in million tons) in the last 4 years.

Figure 5.8 Exports of mining commodities, by volume, million ton



Source: GDP 2020, National Statistics Office

5.4 PETROLEUM AND NATURAL GAS

5.4.1 Petroleum overview

There are currently a total of 33 licensed oil fields in Mongolia, where 21 contractors in 27 fields have entered into Product-Sharing Agreements, which were approved by the Government. Extraction of oil is being conducted in 3 fields out of total oil fields, the exploration activities are being carried out in 22 fields, meanwhile, prospecting is underway in the remaining fields. Presently, the PetroChina Daqing Tamsag LLC, a subsidiary of the PetroChina Company Limited, operates the oil extraction in the Toson-Uul-XIX and Tamsag-XXI fields, and the Dong Sheng Petroleum Mongolia LLC runs oil extraction in the PSA-97 field. The PetroChina Daqing Tamsag LLC is leading the production and export of crude oil in Mongolia.

Table 5.35 Information of companies in oil extraction

No	Name of fields	Size of field /ha/	Contractor	Date of agreement
1	Toson-Uul XIX	65,000	Petrochina Daqing Tamsag LLC	1993/04/26
2	Tamsag-XXI	20,920		1995/12/11
3	PSA-97	23,950	Dongsheng Petroleum Mongolia LLC	1997/01/24

Source: Mineral Resources and Petroleum Authority

PetroChina Daqing Tamsag Company Limited

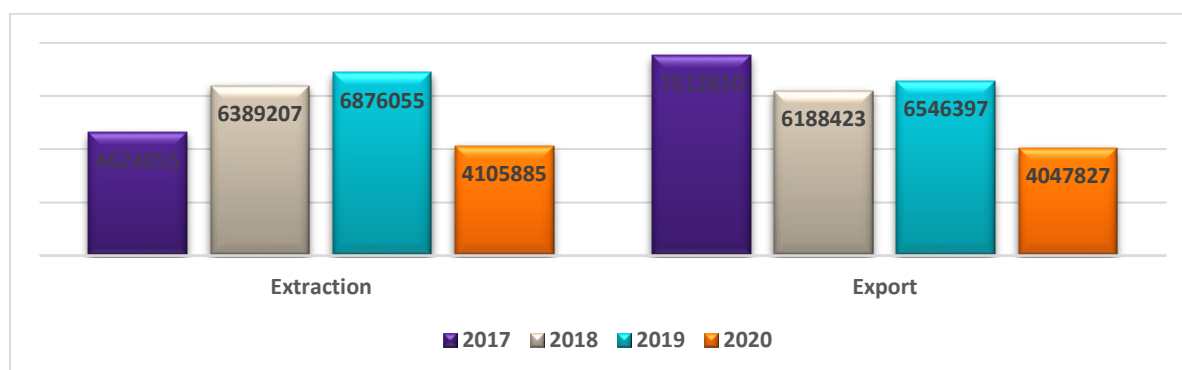
In August 2005, SOCO International, USA transferred its rights and obligations of the PSA to operate in XIX, XXI, XXII contract areas in Tamsag basin to the Daqing Oil Field Limited Company, a state-owned subsidiary of China National Petroleum Corporation. The Daqing Oil Field Limited Company founded a Petrochina Daqing Tamsag LLC in Mongolia with full investment from China and started petroleum operations in Toson-Uul XIX and Tamsag XXI areas located in Matad soum, Khalkh Gol, Dornod aimag.

Dongsheng Petroleum Mongolia LLC:

According to a proposal by Rock Oil (Gobi), an Australian Company, which was carrying out a oil prospecting in 1997 PSC area in Zuunbayan-Tsagaan Els deposit in Dornogobi province, Mongolia, the "Dongsheng Jingun Petroleum Development Group Stock" Company, a subsidiary of the Shenli Petroleum Bureau in Shandong Province, China, acquired 49 percent of the Rock Oil Company under a "Cooperation Agreement" signed on 16 June 2001. Two boreholes were drilled under the cooperation agreement. Taking into account the results of this work and previous works, the tripartite agreement on "Transfer of rights and obligations of the Production Sharing Agreement" was signed 13 February 2003 by the Mineral Resources and Petroleum Authority representing the Government of Mongolia, the Rock Oil (Gobi) and the "Dongsheng Jingun Petroleum Development Group Stock" Company based on Article 2.3 of the Petroleum Law, Article 6.4 of the Procedure to implement the Petroleum Law, Article 1.1 (a) of the PSA concluded between the Petroleum Authority of Mongolia and the Nescor Energy and the Article 8.1 of the Law on the Legal Status of Government Agencies. After acquiring the rights and obligations, a Dongsheng Petroleum (Mongolia) LLC, a 100 percent of Chinese investment, was incorporated in Mongolia to commence petroleum related operation.

According to statistics for the year of 2020, total volume of oil extraction was 4,105.89 thousand barrels and the volume of exports was 4,047.83 thousand barrels, which is a decline by 40 percent and by 38 percent, respectively, compared with the previous year.

Figure 5.9 Volumes of oil extraction and exports



Source: Mineral Resources and Petroleum Authority

There is no oil refinery plant and equipment in Mongolia, therefore, 98.6 percent of the total extracted oil was exported in the form of crude oil in 2020, meanwhile, the country supplied the domestic consumption and demand of petroleum products by 100 percent of import. The majority of total imports came from Russia, and a small percentage from the Republic of Korea, the People's Republic of China and other countries.

Petroleum activity is defined as all activities associated with prospecting, exploration, extraction, utilization, storage, transportation, trade and decommissioning of conventional and unconventional oil. The unconventional oil includes natural bitumen, oil shale, oil sands, gas sand, shale gas and coal bed methane.

5.4.2 Natural gas overview

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

The Erdene Methane LLC was established in February 2016 as a subsidiary of the 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.

A memorandum of understanding was signed in December 2019 between the Government of Mongolia and the Gazprom of the Russian Federation. According to the memorandum, a working group in-charge of matters related to pipeline through Mongolia was established. In March 2021, an aerial survey was conducted along the route of the future gas pipeline.

5.4.3 Oil reserve

There are five oil, seven coal seam methane and four shale exploration contracts currently being implemented in Mongolia. Under the PSA, 22 fields are being explored and three fields are being exploited. Gravity and three-dimensional vibration studies were conducted, and 1,534 wells are being drilled on 25 percent of the total area by foreign and domestic investors. As a result of oil exploration, Mongolia has been declared as an oil-producing country. Accordingly, Mongolia has registered in its Mineral Reserves of 332.64 million tons of oil reserves and 43.258 million tons of proven reserves.

Over the past period (1993-2020), the PetroChina Daqing Tamsag LLC and Dongsheng Oil Mongolia LLC have drilled a total of 1,702 exploration, assessment, experimental mining and exploitation boreholes (982 boreholes in Toson-Uul XIX field, 589 boreholes in Tamsag XXI field and 131 boreholes in PSC-97 area) conducted 11.84 thousand longitudinal km two-dimensional (Toson-Uul XIX area 3.43 thousand longitudinal km, Tamsag XXI area 3.27 thousand longitudinal km, PSC-97 area 5.14 thousand longitudinal km), 5.33 thousand km² three-dimensional seismic survey (2.32 thousand km² in Toson-Uul XIX area, 2.67 thousand km² in Tamsag XXI area, 0.34 thousand km² in PSC-97 area).

Oil reserves were estimated based on the results of exploration, evaluation and production testing conducted in of Toson-Uul XIX and Tamsag-XXI fields. According to the classification of oil reserves calculated by the most oil-producing countries in the world, the PetroChina Daqing Tamsag LLC made an estimation of the oil reserves under classification of “guaranteed”, “probable”, and “probable” to fields in T19-24 block in 2008; T19-69-5, T19-55, T19-28 blocks in 2009; and T21-35 and T21-54 blocks in 2010. Then, an assessment was carried out by DeGolyer and MacNaughton (D&M) Company.

Toson-Uul XIX field oil resource estimate report was discussed by the Minerals Professional Council (MRC) under the Ministry of Mineral Resources and Energy (former name) and based on the council's conclusion No. 06 of February 4, 2010. Order No. 41 of February 18, a total of “guaranteed” oil reserves of 119.02 million tons, of which 13.67 million tons of “exploitation guaranteed” oil reserves were registered in the General Mineral Reserve Fund of Mongolia.

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

The Mineral Resources Professional Council reviewed oil 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 as 127.509 million tonnes, ‘proved recoverable reserves’ by natural energy at 14.01 million tonnes and proved recoverable reserve by water drive at 21.018 million tonnes.

The Geological Research Institute of Shenli Petroleum Management Bureau, Shandong Province, China made an estimation of oil reserves to blocks in TE-14 (Tsagaantsav), TE-1 (Shinekhudag), TE-

27 (Shinekhudag), ZB (Tsagaantsav), SWZB (Tsagaantsav), EZB-1 (Tsagaantsav), EZB-4 (Tsagaantsav) and WTE-1 (Tsagaantsav). Oil 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 the reserves estimation report. The report was discussed at the Mineral Resources Professional Council's meeting and the reserves were registered at the Mongolian Mineral Resources Reserve Fund in accordance with the Mining and Energy Minister's order no.3 dated June 8, 2011 based on the Council's conclusion provided on April 18, 2010.

Oil reserves at the PSA areas in the last years are shown in Table 5.36.

Table 5.36 Oil reserve, by field

Company name	Have a Product Sharing Agreement			Proven reserve		Proven reserve for exploitation	
	Agreement number	Field	Size	2020	2019	2020	2019
PetroChina Daqing Tamsag	Toson-Uul XIX	Toson-Uul XIX	65,000 ha	174.11	173.90	15.23	15.02
PetroChina Daqing Tamsag	Tamsag XXI	Tamsag XXI	20,920 ha	124.67	124.38	18.17	17.88
Dongsheng Petroleum (Mongolia)	1997 PSA	1997 PSA	23,950 ha	24.68	24.63	0.70	0.65

Source: Mineral Resources and Petroleum Authority

Under the Petroleum Law and the Reserve Registration Order, MRPAM monitors and records annual oil resource flow reports. Annual oil production is deducted from calculations, and in addition to Reserve Registration Order, there are no other changes made, such as upgrading the reserve grade or increasing the resource by changing the mining method.

5.4.4 Petroleum exploration

Table 5.37 shows the companies conducted exploration at own cost and their Feasibility Study and reserves information.

Table 5.37 Reserves of exploration fields with private funding

No.	Field	Location	Funding /million USD/		Availability of FS	Proven reserves	Proven reserves for exploration	Reserves /million tonnes/	Exploration period
			2020	2019		/exist, does not exist/			
			Private	Private					
1	Toson-Uul XIX	Dornod, Matad soum	116.93	63.2	Yes	Exist	Exist	15.02	Completed
2	Tamsag XXI	Dornod, Khalkha gol soum	98.75	58.3	Yes	Exist	Exist	17.88	Completed
3	PSA in 1997	Dornogobi, Sainshand	16.6	8.1	Yes	Exist	Exist	0.65	Completed

Source: Mineral Resources and Petroleum Authority

5.4.5 Petroleum Licensing

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

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

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

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

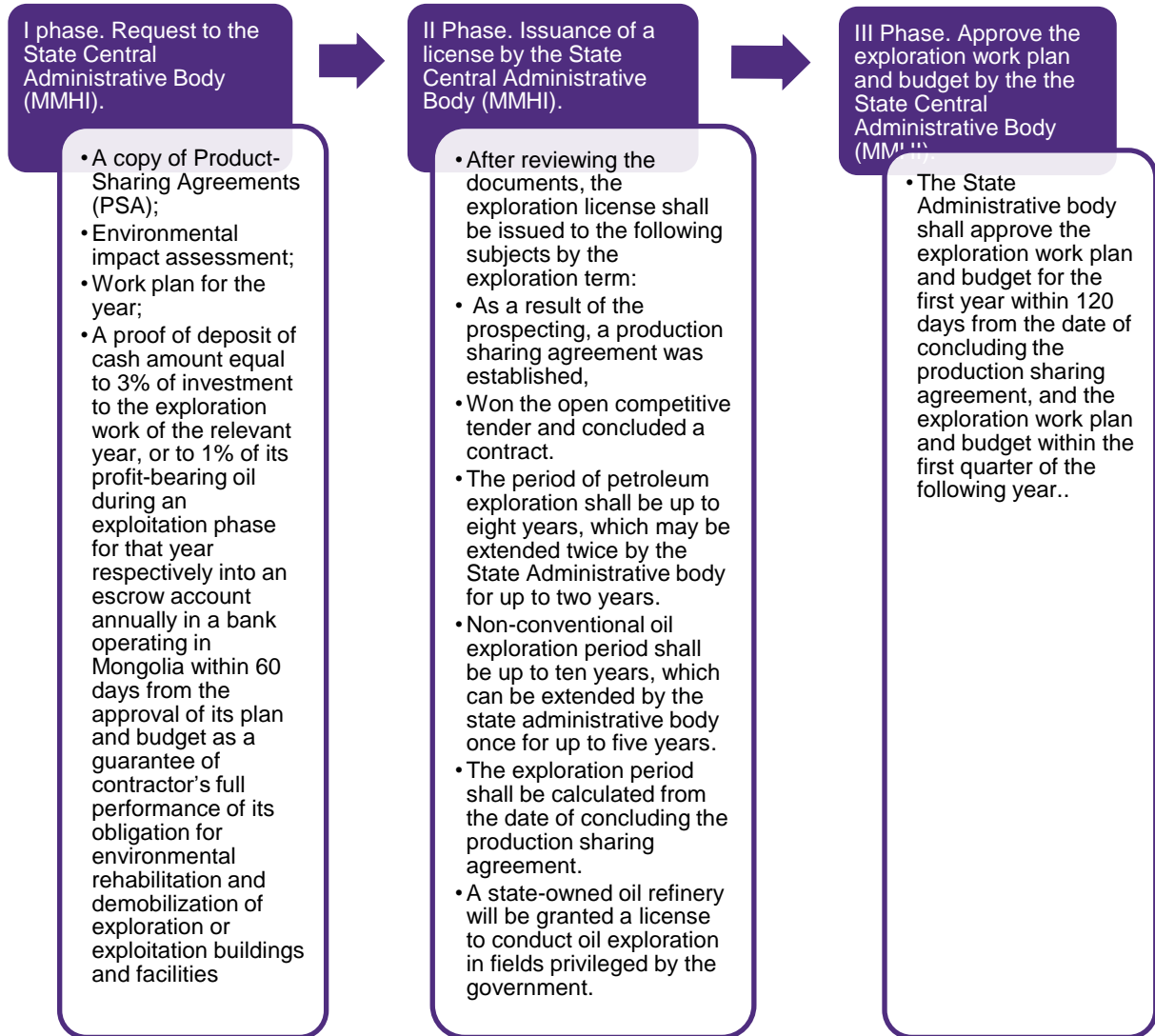
In November 2015, the Government approved (GOM decree no.430) 'Model agreement to support environmental protection and local development' to be concluded between local governments and petroleum license holders.

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

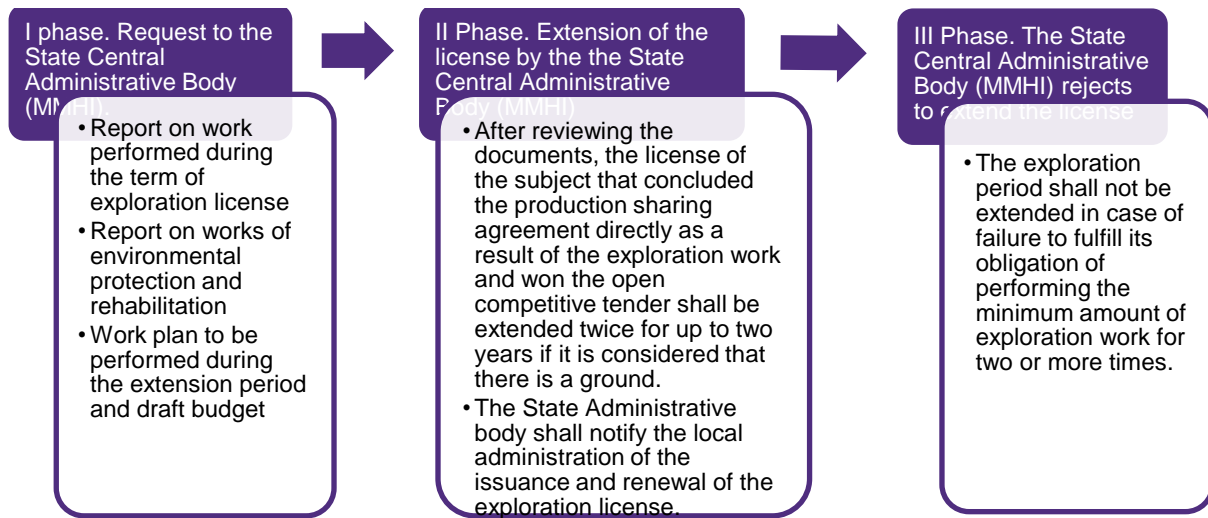
The Petroleum Authority of Mongolia, the Government implementing agency for licensing, registration and monitoring merged with the Mineral Resources Authority of Mongolia in 2016 and became Mineral Resources and Petroleum Authority of Mongolia (MRPAM) .

5.4.6 Process of transferring and issuing Petroleum License (requirement 2.2.a.i)

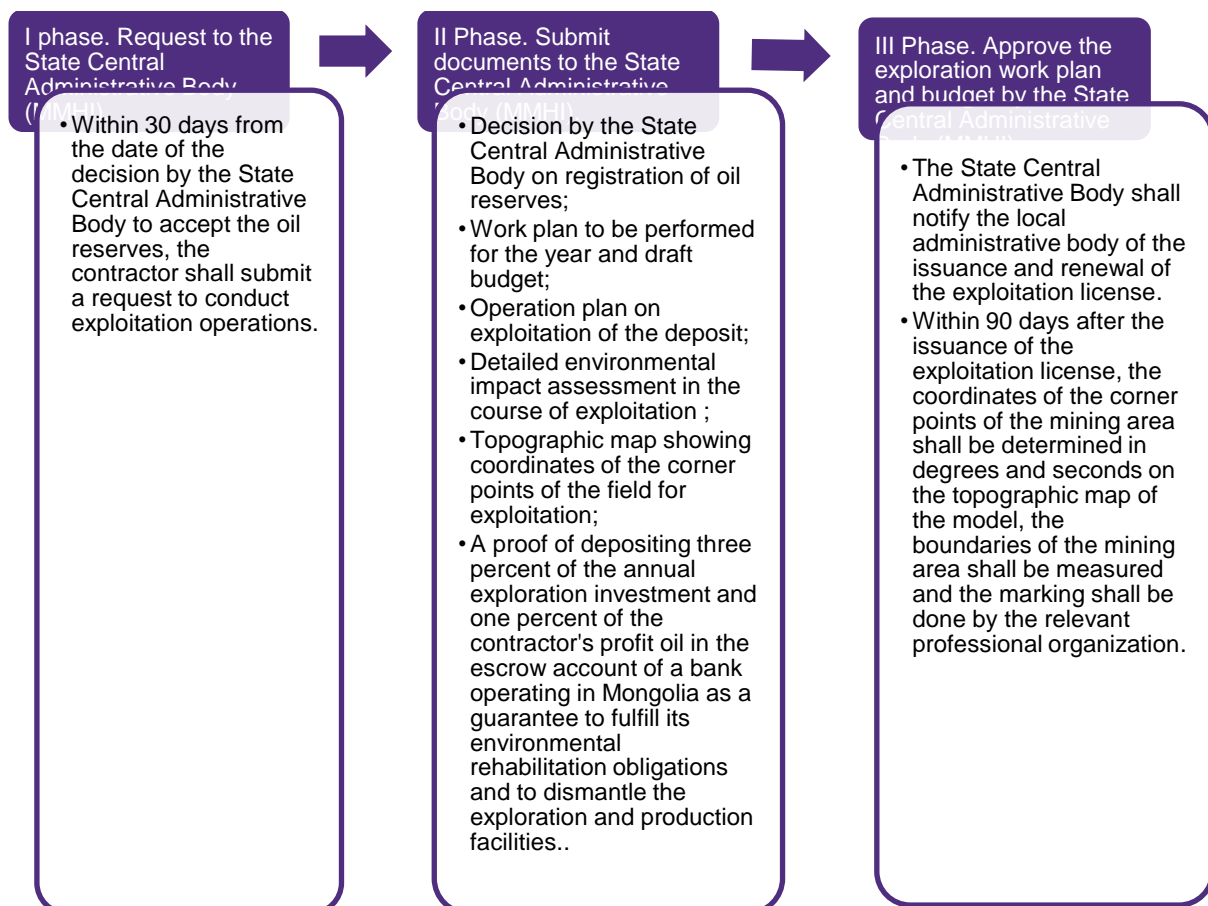
Process of awarding petroleum exploration license



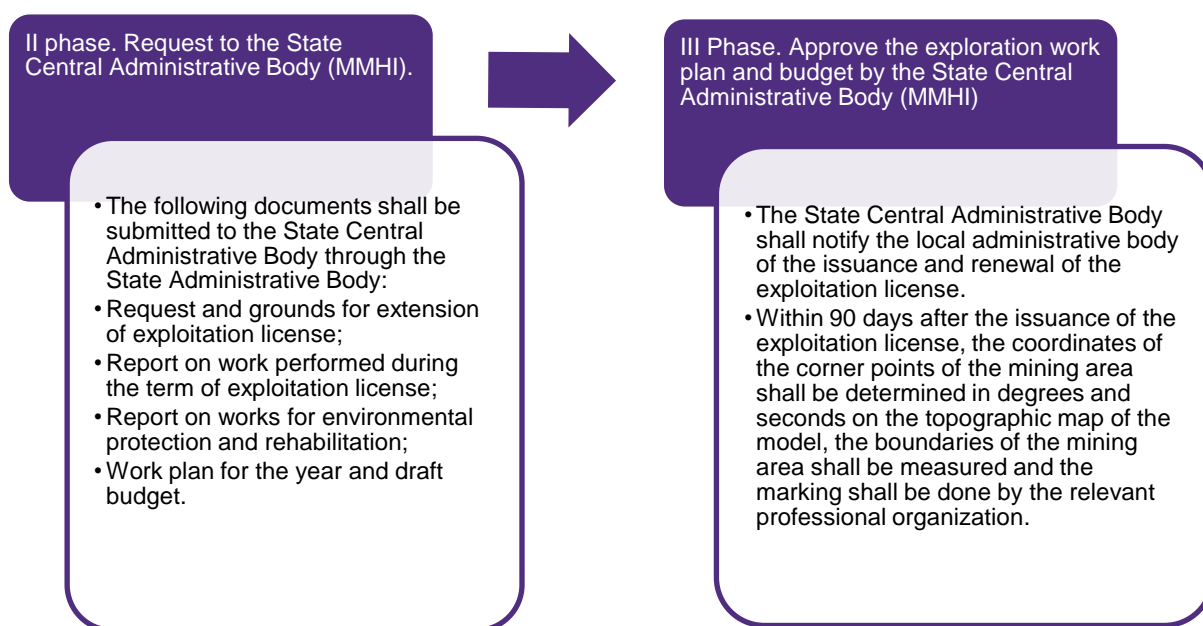
The process of extension of petroleum exploration license:



Process of issuance for exploitation license of petroleum:



The process of extension for exploitation license of petroleum:



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

The PSAs are awarded through bid selection.

Technical and financial criteria for licensing are shown in the Table.

Table 5. 38 Technical and financial criteria for licensing

No.	State central administrative body	Process description
1.		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 not less than three times.
2.	MRPAM	<p>The period for accepting bids to participate in an open shall be up to 60 days, and the MRPAM shall arrange and announce the end of the period to accept exploration area bids within five days of acceptance of a first bid for the exploration area. A bidder shall provide the following documents</p> <ul style="list-style-type: none"> - Documents evidencing a bidder’s legal status; (<i>registration certificate</i>) - 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; - Security 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.		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.	MMHI, MRPAM	Quotations shall be made in accordance with the form approved by the State Administration and shall not differ in numbers or letters and an original and a copy shall be put and sealed separately in envelopes -The threshold price of the tender area shall be 2240 MNT / ha, and if the area with mineral accumulation is 4500 MNT / ha, the monetary amount equivalent to the declared area shall be called the "threshold price"
6.	MRPAM	The members of the selection committee evaluate the technical proposal of the tender in consideration of the following: - Optimal methods, methodology and planning of geological and exploration work, status of study of previous research materials, - Environmental protection and rehabilitation planning, type of work, amount of expenses, implementation period, - Local development and cooperation plan, - Sufficiency of professional staff, and their experience and skills, - Experience in geology and exploration, - Supply and sufficiency of machinery and equipment to work on the project
7.	MRPAM	The MRPAM shall define the bidder that submitted the most profitable proposal to the Government and the following terms shall be agreed: - 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 bonus for commencing the 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;

5.4.7 Product-sharing agreement

The companies with PSAs as of 2020 are shown in Table below.

Table 5.39 Companies concluded with PSAs

No	PSA fields	PSA approval date; GoM decree number	Contractor company	Operator company	Contractor's country of origin	Size of area, sq.km
1	Toson-Uul XIX	1993.04.26	Daqing Oil Field Ltd	Petrochina Daqing Tamsag	PRC	650
2	Tamsag XXI	1996.08.07- Government resolution №183				209,2
3	1997-PSA	1997.02.19- Government resolution №47	Dongsheng Jingong Petroleum Development	Dongsheng Petroleum Mongolia LLC	PRC	239,5
4	Matad XX	2006.07.19- Government resolution №170	Petromatad Invest Limited	Petromatad LLC	The British Isle of Man	10343,2
5	Nyalga XVI	2007.06.20- Government resolution №148	Panasian Energy Ltd	Sheiman LLC	The Nevis island of Canada	9239,4
6	Tsagaan-els XIII	2009.05.20- Government resolution №148	DWM Petroleum AG	Gobi Energy Partners GmbH LLC	Switzerland	1980
7	ZuunbayanXIV					1030,7
8	Galba XI	2009.05.20- Government resolution №147	Zong Heng You Tian Ltd	Zong Heng You Tian LLC	PRC	9769,2
9	Sulinkheer XXIII	2009.07.22- Government resolution №224	Shunkhlai Energy LLC	Shunkhlai Energy LLC	Mongolia	13576

10	Borzon VII	2009.07.29- Government resolution №236	Mongolia Empire Gas Mongolia LLC	Mongolia Empire Gas Mongolia LLC	The British Isle of Man	31432
11	Khukhnuur XVIII	2009.07.29- Government resolution №238	NPI LLC	NPI LLC	PRC	5276
12	Tukhum (north)	2009.07.29- Government resolution №237	Exploration Sansar Geology Exploration LLC	Sansar Geology Exploration LLC	Mongolia	9813
13	Tsaidam XXVI					11175,2
14	Bogd IV	2009.07.29- Government resolution №235	Central Asian Petroleum Corporation Limited	Capcorp Mongolia LLC	The British Cayman Islands	28998,6
15	Ongi V					21148,7
16	Bayantumen XVII	2010.12.08- Government resolution №316	Magnai Trade Group LLC	Magnai Trade LLC	Mongolia	7832
17	Dariganga XXIV	2011.02.09- Government resolution №39	Apexpro investment Limited	ApexPro LLC	The British Virgin Islands	17178
18	Tukhum X (south)	2012.07.25- Government resolution №253	Mongolyn Alt (MAK) LLC	Mongolyn Alt (MAK) LLC	Mongolia	24706,2
19	Sukhbaatar XXVII	2013.01.05- Government resolution №39	Wolf petroleum LLC	Wolf Petroleum LLC	Australia	23047,5
20	Nomgon IX	2014.02.09- Government resolution №39	South Mongolian Petroleum LLC			29866,8
21	Uvs I	2015.04.20, Government resolution №162	Mongolia Gladwill Uvs Petroleum LLC	Mongolia Gladwill Uvs Petroleum LLC	Hong Kong	19720
22	Kherlentokhoi XXVIII	2015.04.20- Government resolution №162	Hong Kong Welpec Industrial Co.Ltd	Hong Kong Welpec Industrial Co.Ltd	Hong Kong	14280
23	Khar Us II	2015.06.15- Government resolution №246	Renova Ilch LLC	Renova Ilch LLC	PRC	27409,3
24	Ergel -XII	2016.06.20- Government resolution №337,	Max Oil LLC	Max Oil LLC	Mongolia	/875+894.416/ 1769.416
25	Ar Bulag -XXIX	2016.08.24- Government resolution №53	Smart Oil Investment Limited	Smart Oil Investment Limited	PRC	11035

5.4.8 Transparency of PSA (Requirement 2.4)

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

In order to create contract transparency in mining sector, <https://iltodgeree.mn/> was established by the Open Society Forum (OSF Mongolia) in cooperation with the MMHI and EITI Secretary of Mongolia. Disclosing 24 PSAs and 16 Oil prospecting agreement, which have been closed for many years, is a good practice in the extractive sector. The following PSAs are disclosed in Table below.

Table 5.40 Disclosed PSAs

No	Contracting Parties	Date of signing	Types of minerals
1	PSA between the Petroleum Authority and "Shunkhlai Energy" LLC on Sulinkheer XXIII oil exploration area	2009-07-22	Petroleum
2	PSA between the Petroleum Authority on behalf of the Government of Mongolia and Nescor Energy LLC	1997-02-24	Petroleum
3	PSA between Mongolian Petroleum company and Medallion Mongol Oil LLC on Toson Uul XIX area	1993-04-26	Petroleum

№	Contracting Parties	Date of signing	Types of minerals
4	PSA between the MPRAM and "Smart Oil Investment LLC" to conduct oil exploration and exploitation activities in "Ergel XII" area	2016-09-09	Petroleum
5	PSA between the Petroleum Authority and "Max Oil" LLC to conduct oil exploration and exploitation activities in "Ar Bulag-XXIX" area	2017-07-06	Petroleum
6	PSA between the Petroleum Authority and "Sansaryn Geology Exploration" LLC on Petroleum Exploration Nomgon - IX area	2014-01-26	Petroleum
7	PSA between the Petroleum Authority and "Sansaryn geology exploration" LLC on Tukhum North - X oil exploration area	2009-07-10	Petroleum
8	PSA between the Petroleum Authority of Mongolia and N P I LLC of China on Khukh Nuur - XVIII oil exploration area	2009-07-06	Petroleum
9	DWM Petroleum AG, Tsagaan Els XIII Area, PSA, 2009	2009-05-20	Petroleum
10	Renewed PSA between the Petroleum Authority of Mongolia and N P I LLC of China on Khukh Nuur - XVIII oil exploration area	2009	Petroleum
11	PSA between the Petroleum Authority and Zong Heng You Tian LLC on Galba-XI oil exploration area	2009-04-27	Petroleum
12	PSA between the Petroleum Authority and "Shunkhlai Energy" LLC on Sulinkheer XXIII oil exploration area	2009-07-22	Petroleum
13	PSA between the MPRAM and Petro Matad LLC on Matad-XX area	2006-05-16	Petroleum
14	BSA between the Petroleum Authority and "Sansaryn Geology Exploration" LLC on Tsaidam - XXVI oil exploration area	2009-07-10	Petroleum
15	Renewed PSA between the MPRAM and Wolf Petroleum LLC on conducting oil exploration and exploitation activities in Sukhbaatar-XXVII area	2017	Petroleum
16	Renewed PSA between the MPRAM and Empire Gas Mongolia LLC to conduct oil exploration and exploitation activities in Borzon VII area	2017-06-16	Petroleum
17	PSA between the Petroleum Authority and Magnai Trade LLC on Bayantumen-XVII oil exploration area	2009-12-23	Petroleum
18	PSA between the MPRAM and Shaman Resources Ltd. of Canada on the Nyalga-XVI contract area	2015-04-17	Petroleum
19	PSA between the Petroleum Authority of Mongolia and Hong Kong Welpack Industrial Company to conduct oil exploration and exploitation activities in Kherlen Tokhoi XXVIII area	2017-06-16	Petroleum

No	Contracting Parties	Date of signing	Types of minerals
20	PSA between the Petroleum Authority and Central Asian Petroleum Corporation Limited for Bogd-IV Oil Exploration Area	2009-07-08	Petroleum
21	PSA between Mongolian Petroleum Bureau and Command Petroleum Limited, Tsagaan Shonkhor Oil Corporation, Soko Tamsag Mongolia Inc (contractor)	1995-12-11	Petroleum
22	PSA between the Petroleum Authority and Apexpro Investment Limit for Dariganga-XXIV oil exploration area	2010-12-17	Petroleum
23	PSA between the Petroleum Authority and Central Asian Petroleum Corporation Limited for the Ongi-V area	2009-07-08	Petroleum
24	PSA between the Petroleum Authority of Mongolia and DWM Petroleum AG on Tsagaan Els XIII Area	2009-04-21	Petroleum

Source: <https://iltodgeree.mn/>

The list of oil prospecting agreements is published on the website as follows (Table 5.41):

Table 5.41 Disclosed oil prospecting agreements

No	Contracting Parties	Date of signing	Types of minerals
1	Oil prospecting agreement, National Gas Oil Energy LLC	2018-12-20	Oil
2	Oil prospecting agreement, Erdenes Methane LLC	2017-02-24	Coal Bed Methane
3	Oil prospecting agreement, Ze Chestnat Fund Mongolia LLC	2019-01-18	Coal Bed Methane
4	Oil prospecting agreement, UGS LLC	2018-08-16	Oil shale
5	Oil prospecting agreement, Ze Chestnat Fund Mongolia LLC, Matad	2019-01-18	Coal Bed Methane
6	Oil prospecting agreement, UGS LLC	2018-06-19	Coal Bed Methane
7	Oil prospecting agreement, Bigstone LLC	2019-01-25	Oil
8	Oil prospecting agreement, Sarny Suvdan Chuluu LLC	2018-09-13	Oil
9	Oil prospecting agreement, SB Petroleum LLC	2018-08-08	Oil Shale
10	Oil prospecting agreement, Commons Max LLC	2018-12-17	Oil Shale
11	Oil prospecting agreement, Aztec Mongolia Exploration LLC	2019-01-28	Coal Bed Methane
12	Oil prospecting agreement, SB Petroleum LLC	2018-08-18	Oil Shale
13	Oil prospecting agreement, Telmen Resource LLC	2019-01-21	Coal Bed Methane
14	Oil prospecting agreement, Frontier Petroleum LLC	2018-06-07	Oil
15	Oil prospecting agreement, Temuujin Metals LLC	2018-10-29	Coal Bed Methane
16	Oil prospecting agreement, Softrock LLC	2018-09-17	Oil

Source: <https://iltodgeree.mn/>

5.4.9 Legal framework and practical application of the petroleum sector

A working group was established by the Order A/57 dated 21 November 2016 of the Minister of Mining and Heavy Industry, to renew the PSCs of the 3 mining fields in conformity with the revised Petroleum

Law and in correspondence with the PSC template approved by the Government Resolution No.104 of 2015, and to negotiate with the contractors to implement the Government Resolution No. 130 dated of 29 February 2016. However, the contractors expressed their position that they will not renew the contract. Since the adoption of the new Petroleum Law in 2014, a total of four working groups have been established to discuss with the PetroChina Daqing Tamsag LLC for addressing issues related to the renewal of PSCs.

A working group set up according to the Decree A/57 by the Minister of Mining and Heavy Industry, has officially notified the Contractor to renew the PSC in correspondence with the requirements of the Petroleum Law, as public administrative bodies are responsible for enforcing the law and implementing government decrees and decisions. Contractors expressed their position as saying "We respect changes to the legislation of Mongolia, however, the relevant provisions of the revised Petroleum Law are to be the detriment of our company's interests. Therefore, our company has a position for not changing the PSA."

The working group was re-established by Order A / 12 of the Minister of Mining and Heavy Industry dated 17 January 2018. On 22 March 2018, the Working Group proposed to hold a meeting with contractors and delivered an official letter to the PetroChina Daqing Tamsag LLC. The official meeting was held on 30 April 2018. Both sides suggested to renegotiate the draft memorandum, however, the parties have not reached a definite decision due to differences of views.

The Contractor said "Article 22.7 of the Toson Uul-19 PSC stated that the agreement shall be implemented on the basis of a principle of trust in conformity with with the general legislation principles of Mongolia. "If any dispute between the parties in relation to the Agreement (its implementation, interpretation, application, expiration, termination or extension) is not resolved amicably, this will be settled in accordance with the arbitration of the United Nations Commission on International Trade Law pursuant to the Articles 22.1 and 22.3 of the Toson Uul-XIX PSC", the Contractors stated.

Since the adoption of the new Petroleum Law in 2014, a total of three working groups have been established to discuss and resolve PSC renewal issues with the Dongsheng Petroleum Mongolia LLC. The Working Group was re-established on 2 April 2018. The official meeting between the parties was held on 15 May 2018. As a result of the meeting, the Ministry of Mining and Heavy Industry and the Mineral Resources and Petroleum Authority agreed to deliver a draft renewed PSC. However, on 18 June 2018, the contractor sent an official letter No.148/18 where it expressed its position stating that "neither party has the right to change or terminate the contract in accordance with the PSC."

The main difficulties in renewing the contract are:

1. Royalty fee
2. Regarding the calculation of oil revenue allocation
3. Percentage of administrative expenses,
4. Tax issues

Let's take a look at each of these issues:

One. Article 45.1 of the Petroleum Law stipulates that royalties shall be determined by mutual agreement with the contractor. Daqing Oilfield, the contractor for Toson Uul XIX, said that we pay royalties. Clause 8.1 of the Agreement stipulates that any payment for the Product shall be included in the Mongolian dividend, which shall be paid by the Government to the Government. In other words, there is no reason to claim that the Contractor does not pay royalties because the agreement stipulates that 40 percent of Mongolia's share, or 24 percent of the total amount, is royalties..

Two. Regarding the calculation of oil revenue allocation, according to Article 45.1 of the Law on Petroleum, the royalty, the share of value-added oil and the share of profitable oil shall be the same as the percentage specified in the PSC (without change). 4.1.26, 4.1.31, 4.1.32, 4.1.33 of Article 4 of the Petroleum Law and Article 32.3 of the same Law changed the calculation of their allocation. According to this calculation method, the cost of oil is calculated from the remaining oil after deducting the revenue from royalties from the total oil sales revenue. This has reduced the share of oil in the cost to the

contractor, which has worsened the situation for the contractor and reduced the payback period of the investment, while increasing the share of the government. According to the PSC, royalties and revenue per unit of cost are calculated directly from total oil sales.

Three. Percentage of administrative expenses:

Article 11.1.6 of the Petroleum Law stipulates that the Contractor's administrative costs shall be up to 5 percent of the annual cost recovery costs. However, the administrative costs of Toson-Uul XIX and Tamsag-XXI on PSCs is 10 percent. The Contractor has repeatedly been asked to reduce this percentage in accordance with the law, but they have not accepted.

Four. In regarding of tax issues, Article 1.3 of the Civil Code stipulates that "Unless stipulated otherwise by law, this Law shall not be applied for regulating relationship with respect to material and non-material wealth, subject to regulation by Administrative Laws including Tax, Budget and Finance or based on administrative subordination". Article 3.1 of the General Law on Taxation states that only the State Great Khural shall have the right to create, change, reduce, exempt and cancel taxes by law. Moreover, Article 6.2 of the Law on Investment states that "The State shall provide an investor with a guarantee of ensuring stability of the tax rate by a way of granting a stabilization certificate to the investor or by a way of concluding an investment agreement with the investor as specified in this Law". Currently, PetroChina Daqing Tamsag LLC has not established an Investment Agreement..

Article 10 of the Toson Uul XIX PSC states that income tax and all other taxes are exempt from taxes. The Contract reflected that the Mongolian government shall make reimbursement upon the contractor provided the proof of tax paid.

5.4.10 Revenue from petroleum products

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

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

Table 5.42 shows the sales of state-owned shares in oil, gas and mineral resources reported by MRPAM.

Table 5.42 Disclosed PSAs, in million MNT

№	Name of companies	Types of minerals	Produced (extracted) mineral resources	Total government's share		Sale	
				Percentage	Amount	2020	2019
1	Dongsheng Petroleum Mongolia LLC	Oil	365,817 /barrel/	28.9	9,081	9,081	21,688
2	Petrochina Daqing Tamsag LLC	Oil	3,741,661 /barrel/	25.4	93,676	93,676	210,579

Source: MRPAM

5.4.11 Petroleum production and export

Under the Law on Amendments to the 2020 Budget Law of Mongolia passed by the State Great Khural (Parliament) on 28 August 2020 and according to the qualitative and quantitative indicators of the program to be implemented by the Minister of Mining and Heavy Industry in 2020 and the results to be achieved, crude oil exports are projected at 4,300,000 barrels with a 94.7 percent of performance rate. In 2020, a total of 4,105,885 barrels of crude oil were extracted in the three mining zones and 4,047,827 barrels of crude oil were exported.

Table 5.43 Petroleum production and exports, by companies:

By month	Company name	Extraction		Экспорт	
		2020		2020	
		Barrel	%	Barrel	%
1	Petrochina Daqing Tamsag LLC	339,322.84	5.63	262,697.84	4.36
2	Petrochina Daqing Tamsag LLC	11,103.24	5.83	-	4.36
3	Petrochina Daqing Tamsag LLC	4,099.55	5.90	1,053.30	4.37
4	Petrochina Daqing Tamsag LLC	65,027.96	7.06	116,056.88	6.30
5	Petrochina Daqing Tamsag LLC	184,056.75	10.36	167,426.57	9.07
6	Petrochina Daqing Tamsag LLC	232,301.69	14.52	253,697.69	13.28
7	Petrochina Daqing Tamsag LLC	325,509.56	20.35	306,391.49	18.36
8	Petrochina Daqing Tamsag LLC	486,691.46	29.07	497,811.00	26.61
9	Petrochina Daqing Tamsag LLC	522,022.55	38.42	515,341.91	35.16
10	Petrochina Daqing Tamsag LLC	541,776.80	48.12	536,787.66	44.06
11	Petrochina Daqing Tamsag LLC	514,501.35	57.34	579,905.37	53.68
12	Petrochina Daqing Tamsag LLC	515,247.53	66.57	468,169.30	61.44
Total		3,741,661.28		3,705,339.01	
1	Dongsheng Petroleum Mongolia LLC	36,524.60	6.41	25,009.87	4.39
2	Dongsheng Petroleum Mongolia LLC	34,408.00	12.45	-	4.39
3	Dongsheng Petroleum Mongolia LLC	36,134.76	18.80	33,530.47	10.28
4	Dongsheng Petroleum Mongolia LLC	32,651.00	24.53	49,690.15	19.00
5	Dongsheng Petroleum Mongolia LLC	26,492.50	29.18	8,330.21	20.47
6	Dongsheng Petroleum Mongolia LLC	25,954.00	33.74	33,615.62	26.37
7	Dongsheng Petroleum Mongolia LLC	27,141.54	38.51	24,894.95	30.74
8	Dongsheng Petroleum Mongolia LLC	28,185.63	43.45	50,571.62	39.62
9	Dongsheng Petroleum Mongolia LLC	28,654.82	48.49	33,508.36	45.50
10	Dongsheng Petroleum Mongolia LLC	30,287.40	53.80	33,506.61	51.38
11	Dongsheng Petroleum Mongolia LLC	30,534.77	59.16	33,099.48	57.20
12	Dongsheng Petroleum Mongolia LLC	27,953.00	64.07	33,033.17	63.00
Total		364,922.02		358,790.51	

Mongolia imports 100% of its oil needs and consumption. In 2020, Mongolia imported 1,991.17 thousand tons of petroleum products to meet domestic demand and consumption. Imports of petroleum products are shown in Table 5.44.

Table 5.44 Imports of petroleum products, by tons and by types

Type	2019	2020
Gasoline A-80	70,559	57,597
Gasoline AI-92	468,824	522,558

Type	2019	2020
Gasoline AI-95	23,357	29,861
Gasoline AI-98	1,191	1,068
Diesel fuel	1,118,417	1,049,894
Aircraft fuel TC-1	46,621	24,994
Liquefied petroleum gas	41,120	25,809
Others	234,082	234,082
Total	2,004,172	1,991,167

Source: MRPAM, Petroleum Products Department

Petroleum products account for 81.1 percent of the total value of mineral imports. According to the preliminary results of the end of 2020, 1,862.6 thousand tons of petroleum products worth USD 816.8 million were imported, increasing by 18.1 thousand tons or 1.0 percent in physical terms compared to the same period of the previous year, but decreasing by USD 348.9 million or 29.9 percent in monetary value. Imports of petroleum products accounted for 82.9 percent of total imports of gasoline and diesel fuel, of which 30.0 percent were gasoline and 52.9 percent were diesel fuel. Gasoline imports: According to the preliminary results of 2020, 586.1 thousand tons of gasoline worth USD 244.7 million was imported, which increased by 44.6 thousand tons or 8.2 percent in physical terms compared to the same period of the previous year but decreased by USD 82.7 million or 25.3 percent in monetary value. The average import price of 1 ton of gasoline was USD 417.5, decreased by 187.1 USD or 30.9 percent. Imports of diesel fuel: according to the preliminary results of the end of 2020, 1,026.8 thousand tons of diesel fuel worth USD 432.4 million were imported, a decrease of USD 237.0 million or 35.4 percent in monetary value and 53.5 thousand tons or 5.0 percent in volume compared to the same period of the previous year. The average import price of 1 ton of diesel fuel reached USD 421.1, decreasing by USD 198.5 or 32.0 percent. (Source: MRPAM)

5.4.12 Price of oil products

For information on the average price of oil products traded on the world's major stock markets, refer to the following sources. Source: www.wtrg.com, www.bloomberg.com, www.reuters.com, www.topoilnews.com, www.oil.in-en.com, www.nymex.com, www.finmarket.ru, www.ineng.org, www.quandl.com.

5.4.13 State participation in petroleum sector

As of 2020, prospecting operations are being carried out in 18 areas under petroleum and unconventional petroleum prospecting agreements (petroleum 10, coal bed methane 5, oil shale 3) and exploration and exploitation operations are being carried out in 27 areas under PSA (exploration 24, exploitation 3).

Outflows of cash generated in the petroleum sector have been increased as the majority of the international and local investments (approximately 90%) in the sector are spent on fees and payments on works, services, consultancy, fees for foreign specialist and workers due to non-existence of the national companies in petroleum prospecting, exploration, and production, lack of professional human resources and technical machinery and equipment, absence of refinery plant and lack of local supply, quality control and storage system of processed oil.

Therefore, the State policy on the petroleum sector until 2027 aims to build foundations for the oils sector by strengthening national petroleum security, intensifying petroleum prospecting and exploration, expanding oil reserves, increasing extractions in the national petroleum sector, supporting the regional development, constructing an oil refinery plant, ensuring sustainable supply of petroleum products and enhancing the human resource capacity in Mongolia.

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

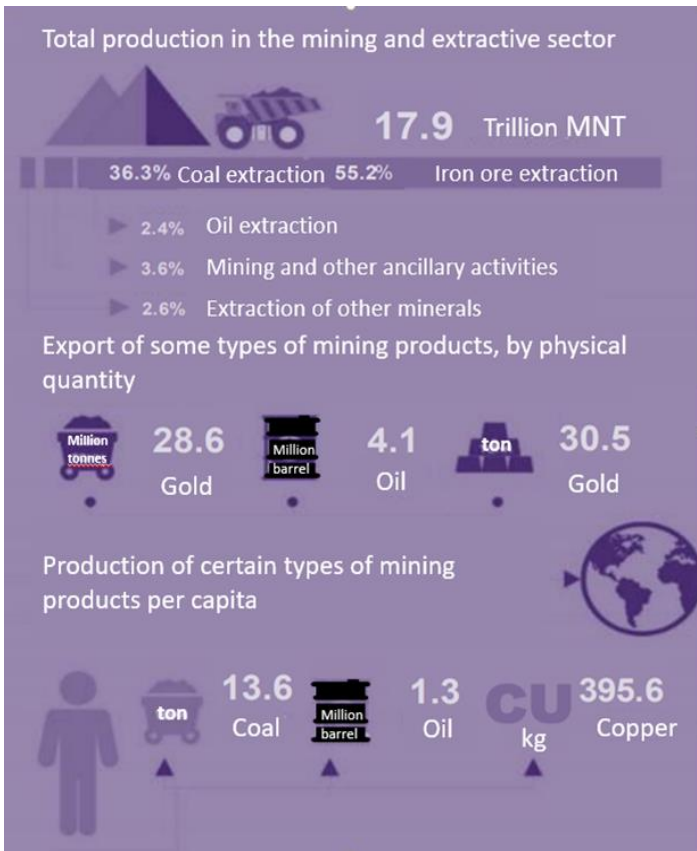
developed a Detailed Feasibility Study to build the refinery plant with a capacity to process 1.5 million tons of oil annually.

The state policy on petroleum sector until 2027 was approved by Resolution No 169 of 2019 of the GoM.

There are 97 warehouses, 1,252 gas stations, 10 liquefied gas filling stations (warehouses) and 78 Autogas filling stations in Mongolia performing wholesale and retail petroleum services. Within the framework of intensifying the prospecting, exploration and exploitation of petroleum and unconventional petroleum, there is objective to sign PSAs for new 3 areas by 2022 and PSAs for new 2 areas by 2027.

5.5 CONTRIBUTION OF THE EXTRACTIVE SECTOR TO THE ECONOMY

Economic growth (requirement 6.3a)

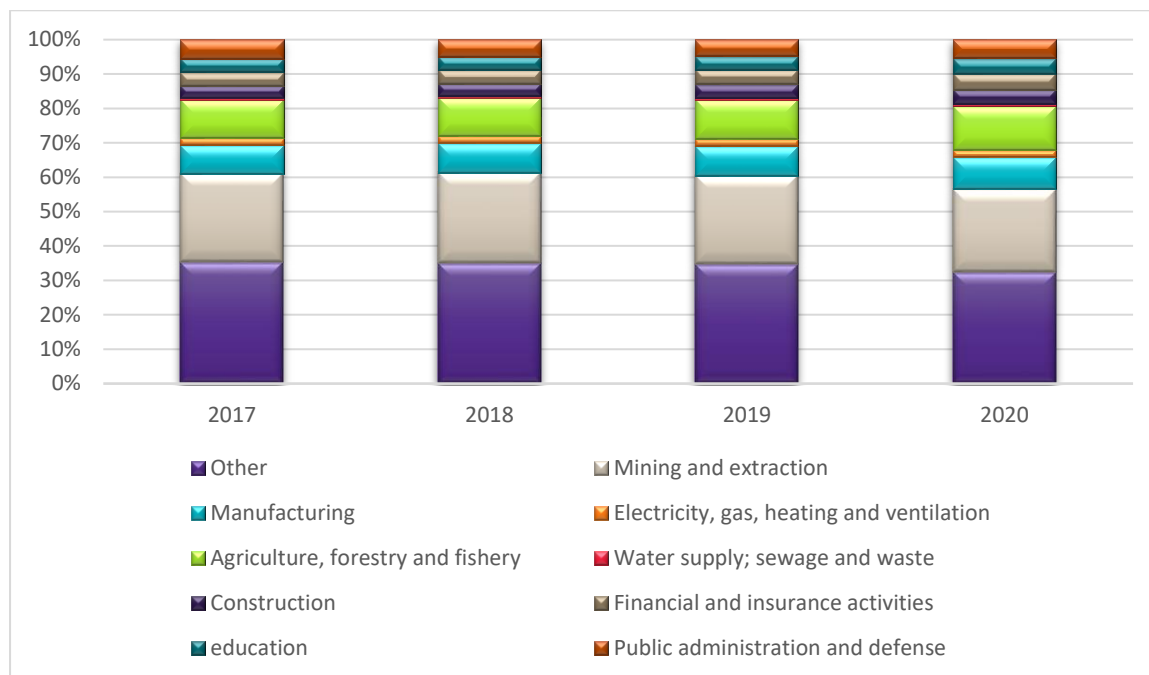


As of 2020, mining and extractive industry accounted for 56.5 percent of the total production sector.

Due to the global pandemic, domestic production totaled MNT 16.5 trillion in 2020, a decrease of 6.7 percent from the previous year. This was mainly due to a decrease of 8.4 percent in mining and extractive industry and 6.1 percent in manufacturing.

The total output of the mining and extractive industry reached MNT 11.7 trillion in 2020, a decrease of MNT 1.1 trillion MNT from the previous year due to a decline of 28.5 percent in coal production and 57 percent in oil extraction. By the end of 2020, the mining sector accounted for 24.1 percent of GDP

Source: National Statistics Office

Figure 5.10 Net GDP growth and decline for the year

Source: National Statistics Office

5.5.2 Production (Requirement 6.3a)

The mining and extractive sector accounts for a large share of the Industrial sector. As of the end of 2020, the total production of the mining sector has reached MNT 11,698.2 billion, decreasing by 8.4 % compared to the same period of the previous year.

The production of the main commodities of the mining and quarrying industry is divided into the following 4 sub-sectors according to the international classification of the economic sectors, namely:

- Metal ore mining;
- Coal mining;
- Oil extraction; and
- Mining of other minerals.

Gold mining

In connection with the enactment and implementation of the Law on Prohibition of Mineral Exploration and Mining Activities in areas in the Headwaters of Rivers, Protected Water Reservoir Zones and Forested Areas in 2009, the production of gold has declined. Then the increase is observed from 2013 as a result of that the legal and tax environment of gold sector has been improved and gold production is encouraged by the Government. It was considered that further increase is needed for gold production, so that working group jointly formed in 2016 by the Ministry of Finance, the Ministry of Mining and Heavy industry, and the Bank of Mongolia, which has developed “Gold 2” programme and started its implementation from 2017 (Mineral Resources and Petroleum Authority).

In 2020, a total of 20.2 tons of gold was mined, an increase of 4 tons or 24.6 percent from the previous year. At the end of the year, 30.5 tons of gold worth USD 1.8 billion were exported. Compared to the same period of the previous year, it has increased by USD 1,369.3 million or 4.3 times in value and by 21.4 tons or 3.4 times in volume. The average export price of 1 kg of gold reached USD 58,628.8, increasing by USD 12,496.8 or 27.1 percent. A total of 93.4 percent of unprocessed or half processed gold was exported to Switzerland, 3.6 percent to Singapore, and 3.1 percent to the United Kingdom of Great Britain and Northern Ireland. (Source: MMHI).

Furthermore, within the scope of the “Gold 2” national program, field research was carried out on an area of 521,200 km² or 33.3 percent. In addition, areas, districts, nodes with gold mineralization, identified deposits, occurrences, mineralized points, and scattering areas have been identified in detail.

Coal mining

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 may increase further. Currently, 7 state and locally owned entities in 8 the mines, 28 domestic and joint ventures and organisations in 33 mines, and 7 foreign investment companies in 8 mines operate in the mining sector (Source: the MRPAM).

In 2020, a total of 40.5 million tons of coal was mined, which is 10.3 million tons or 20.3 percent less than the previous year. Of this, 2.9 million tons is enriched coal and 553.4 thousand tons is coal briquettes. Exports of 28.6 million tons of coal worth USD 2.1 billion were a decrease by USD 950.7 million or 30.9 percent in value and 7.9 million tons or 21.6 percent in volume compared to the same period of the previous year. The average export price of 1 ton of coal was USD 74.3, decreasing by USD 10.0 or 11.9 percent compared to the same period of the previous year. A total of 95.2 percent of the coal was exported to China, 3.7 percent to Singapore, and 1.0 percent to the United Kingdom of Great Britain and Northern Ireland.

Total coal production per capita reached 13.6 tons in 2020, a decrease of 3.9 tons or 22.3 percent from the previous year.

In 2020, production worth MNT 3.7 trillion was produced from the coal mining, which was a decline by MNT 1.5 trillion or 28.5 % than previous year. (Source: MMHI)

Petroleum extraction

The oil and petroleum industry have been developing since Mongolia produced oil in 1996. Out of 32 prospective oilfields were identified within the territory of Mongolia, the country has currently 25 licensed areas in which exploration activities are being undertaken by 21 contractor companies under PSA. Currently, the PetroChina Daqing Tamsag LLC and the Dongsheng Oil Mongolia LLC are engaged in the oil extractive.

In 2020, a total of 4.1 million barrels of oil were extracted, it is a decrease of 2.8 million barrels or 40.6 percent from the previous year. Exports of 4 million barrels or 98.6 percent of the total extracted oil were a decrease by 2.5 million barrels or 38.2 percent from the previous year.

Per capita oil extraction was 1.3 barrels in 2020, down 0.9 barrels or 40.9 percent from the previous year.

In 2020, a total of MNT 441.5 billion worth of products were produced in the oil extraction sub-sector, which is a decrease by MNT 584.8 billion or 27.0 percent compared to the previous year. The share of oil production in the total industrial output equaled 0.6 percent in 2020, and the share of mining and extractive industry sector reached to 4.8 percent, which is a decrease. (Source: MMHI and MRPAM)

Mining of other minerals

In terms of production of mining and other extractive products, in 2020, production of fluorspar decreased by 28.9 thousand tons or 18.5 percent, and zinc concentrate declined by 6.8 thousand tons or 8.2 percent, respectively.

Production of copper concentrate increased by 14.3 thousand tons or 1.1 percent, molybdenum concentrates by 735.5 tons or 13.9 percent, iron ore by 652.2 thousand tons or 7.6 percent, iron ore concentrate by 1,330.1 thousand tons or 39.3 percent, and fluorspar concentrate rose by 37.5 thousand tons or 78.9 percent.

In terms of exports of copper concentrate, a total of 1.4 million tons of copper concentrate worth USD 1.8 billion were exported in 2020. Compared to the same period of the previous year, it has decreased by USD 17.9 million or 1.0 percent in value and declined by 8.6 thousand tons or 0.6 percent in physical terms. The average export price of 1 ton of copper concentrate was USD 1,274.5, decreasing by USD 4.9 or 0.4 percent compared to the same period of the previous year. A total of 100% of copper concentrate was exported to China.

In terms of exports of iron ore and concentrate, a total of 8.2 million tons of iron ore and concentrate worth USD 639.7 million were exported in 2020. Compared to the same period of the previous year, it has increased by USD 63.3 million or 11.0 percent in value, but decreased by 246.5 thousand tons or 2.9 percent in physical terms. The average export price of 1 ton of iron ore and concentrate reached USD 78.0, increasing by USD 9.8 or 14.3 percent compared to the same period of the previous year. A total of 100 % of iron ore and concentrate was exported to China

In respect of exports of fluor spar ores and concentrates, a total of 678.9 thousand tons of fluor spar ores and concentrates worth USD 156.3 million were exported in 2020. Compared to the same period of the previous year, it has decreased by 21.2 thousand tons or 3.0 percent in volume and by USD 49.2 million or 23.9 percent in value. The average export price of 1 ton of fluor spar was USD 230.3, decreasing by USD 63.3 or 21.6 percent. A total of 76.6 percent of fluor spar was exported to China, 23.2 percent to Russia and 0.2 percent to the Republic of Korea.

For exports of zinc concentrate, a total of 134.0 thousand tons of zinc concentrate worth USD 167.7 million were exported in 2020. Compared to the same period of the previous year, it has decreased by 0.7 thousand tons or 0.5 percent in volume and by USD 21.3 million or 11.3 percent in value. The average export price of 1 ton of zinc concentrate was USD 1,250.7, decreasing by USD 151.6 or 10.8 percent. A total of 100% of zinc concentrate was exported to China.

In terms of exports of molybdenum concentrate, a total of 6.3 thousand tons of molybdenum concentrate worth USD 40.7 million were exported in 2020. Compared to the same period of the previous year, it has decreased by USD 8.3 million or 17.0 percent in value, but increased by 675.5 tons or 11.9 percent in volume. The average export price of 1 ton of molybdenum concentrate was USD 6,394.9, decreasing by USD 2,219.6 or 25.8 percent. A total of 85.1 percent of molybdenum concentrate was exported to China and 14.9 percent went to the Republic of Korea. (Source: MMHI)

5.5.3 Total government revenues from the extractive industry (requirement 6.3.b)

By the end of 2020, Mongolia's general budget revenue reached MNT 10,402.0 billion, a decrease of MNT 1,638.4 billion or 13.6 percent from the previous year.

Of which, revenue from the mineral resources sector equaled to MNT 2,673.3 billion, a decrease of MNT 246.6 billion or 8.4 percent from the previous year. Information on budget revenues and their share by sector are shown below.

- MNT 2,522.9 billion or 24.3 percent from the mining sector,
- MNT 102.8 billion or 1.0 percent from the oil sector,
- MNT 32.7 billion or 0.3 percent from the license fee,
- MNT 14.9 billion or 0.1 percent from other revenues.

The mineral sector accounts for 25.7 percent of general budget revenue of Mongolia

Table 5.45 Revenues to the state budget, in billion MNT

№	Indicator	Plan		Performance		Performance change	
		2019	2020	2019	2020	Зөрүү	Хувь
Total		3,404.1	2,857.3	2,920.0	2,673.4	-246.6	-8.4%
Mining and extractive industry							
Total		3,000.0	2,698.1	2,621.6	2,522.9	-98.6	-3.8%
1	Gold	83.0	212.6	116.8	174.0	57.1	48.9%

№	Indicator	Plan		Performance		Performance change	
		2019	2020	2019	2020	Зөрүү	Хувь
2	Copper	1,304.0	1,127.7	1,090.1	1,122.5	32.4	3.0%
3	Coal	1,311.0	1,056.3	1,210.6	984.1	-226.5	-18.7%
4	Other	302.0	301.5	204.0	242.3	38.3	18.8%
Oil sector							
5	Oil	335.6	110.0	232.3	102.8	-129.5	-55.8%
Proceeding from license fee and others							
Total		68.5	49.2	66.2	47.7	-18.5	-28.0%
6	License fee	42.9	30.0	36.9	32.7	-4.2	-11.4%
7	compensation for deposits, in which exploration was found from the state	2.3	6.6	5.5	7.7	2.2	39.6%
8	Revenue gained by budgetary organizations	11.3	9.0	19.5	4.3	-15.2	-78.0%
9	Other revenue	12.0	3.6	4.3	2.9	-1.3	-31.4%

(Source: MMHI)

In the 2020 state budget, MNT 2,522.9 billion was centralized in the form of taxes and fees. Of which:

- Copper - MNT 1,122.5 billion,
- Coal - MNT 984.1 billion,
- Gold - MNT 174.0 billion,
- Iron - MNT 90.3 billion,
- Other minerals - MNT 74.5 billion,
- Fluorspar - MNT 43.3 billion,
- MNT Zinc 34.2 billion.

Revenues from mining and extractive industry centralized to the state budget has decreased by MNT 98.6 billion or 3.8 percent compared to the same period of the previous year. Revenues from the following minerals to the state budget has increased from the same period of the previous year. It includes:

- Iron - MNT 64.9 billion (3.6 times more),
- Gold - MNT 57.1 billion (48.9%) ,
- Copper MNT 32.4 billion (3.0%),
- Fluorspar - MNT 8.5 billion (24.3%).

Revenue of the following minerals centralized to the state budget has decreased from the same period of the previous year. It includes:

- Coal - MNT 226.5 billion (18.7%),
- Zinc - MNT 32.0 billion (48.3%),
- Other minerals - MNT 3.0 billion (3.8%).

In accordance with the Law on Amendments to the 2020 Budget Law of Mongolia, passed by the State Great Khural (Parliament) on 28 August 2020, the following table shows the qualitative and quantitative indicators on the program to be implemented by the Minister of Mining and Heavy Industry and the results to be achieved in 2020.

Table 5.46 Volume of mining products, equilibrium price, total revenue

No	Indicator	Unit of measurement	Plan	Performance	Difference	Performance percentage
1	Increasing the volume of coal exports	thous.tonnes	36,000.0	28,677.1	-7,322.9	79.5%
2	Increasing the volume of copper concentrate exports	thous.tonnes	1,352.0	1,395.1	42.5	103.1
3	Increasing the volume of exports of iron ore and concentrate	thous.tonnes	8,700.0	8,202.3	-497.7	94.3%
4	Increasing the volume of gold extraction	Tonnes	24.0	23.6	-0.4	98.2%
5	Increasing the volume of oil exports	thous.barrel	4,300.0	4,070.5	-229.5	94.7%
6	Increasing the volume of exports of zinc ore and concentrate	thous.tonnes	141.8	134.1	-7.7	94.5%
7	Increasing the volume of exports of fluorspar ore and concentrate	thous.tonnes	799.4	678.9	-120.5	84.9%

Source: MMHI

5.5.4 Export revenues from the extractive industry (Requirement 6.3.c)

Total foreign trade turnover reached USD 12.8 billion in 2020, a decrease of USD 876.9 million or 6.4 percent from the previous year. Exports outpaced imports by USD 2.3 billion.

Mineral exports totaled USD 7.1 billion, an increase of USD 237.8 million or 3.5 percent from the previous year.

Mining products such as coal, copper concentrate, iron ore, zinc concentrate, fluorspar, molybdenum concentrate, crude oil, unprocessed or semi-processed gold, refined copper and alloys accounted for 93.7 percent of total exports.

The global economic slowdown has reduced world prices for key commodities such as oil and copper, leading to a decline in exports by 2020. Like other resource-rich and developing countries, Mongolia's industrial exports are based on a small number of less-value-added mining raw materials. According to the performance of the industrial sector in 2020, a total of 56.5 percent of value added is occupied by mining and extractive industry and 33.4 percent by manufacturing. This demonstrates that the share of mining and extractive industry in the industrial sector remains high. (Source: National Statistics Office)

5.6 GOVERNMENT INSTITUTIONS

The names of government bodies with the most involvement in the extractive industries along with the general descriptions of their functions are demonstrated in Table 5.47 below.

Table 5.47 Government institutions

	Ministries and government agencies	Websites
1	Ministry of Mining and Heavy Industry	www.mmhi.gov.mn
2	Mineral Resources and Petroleum Authority of Mongolia	www.mrpam.gov.mn
4	Ministry of Environment and Tourism	www.mne.mn
5	Ministry of Labour and Social Protection	www.mlsp.gov.mn

6	Mongolian Tax Administration	www.mta.mn
7	Mongolian Customs Office	www.customs.gov.mn
8	National Audit Office	www.audit.mn
9	Nuclear Energy Commission	www.nea.gov.mn
10	State Agency for Policy and Coordination on State Property	www.pcsp.gov.mn

Ministry of Mining and Heavy Industry

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

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

Mineral Resource and Petroleum Authority

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

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

Ministry of Environment and Tourism

The primary functions of MET are to organise the implementation of national policy and legislation on environmental protection and the proper use and rehabilitation of natural resources; and to preserve sustainable environment through developing environment friendly, sustainable tourism. In addition, MET is also responsible for making decisions and approving regulations and policies to be followed by local administrative bodies and capital city administrations in regard to specific issues relating to environmental protection.

License holders are required to submit their environmental protection plan to MET within 30 days of receiving their license, and 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 MET in case that a company did not fully execute their environmental protection plans.

Ministry of Labour and Social Protection

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

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

Mongolian Tax Administration

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

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

Mongolian Customs Office

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

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

Mongolian National Audit Office

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

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

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

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

Nuclear Energy Commission

The Nuclear Energy Commission is responsible for utilization 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 organize 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 functions with four Departments as Administration Department, Nuclear Technology Regulatory Department, Nuclear Safety Regulatory Department and Foreign relations department.

State Agency for Policy and Coordination on State Property

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

“Regulations of the State Procurement Inspector” and “Regulation on keeping records of persons whose right to participate in tenders is restricted” were approved by Government resolution No. 274 dated July 3, 2019. Also, The Government Agency for Public Procurement, one of Government Implementing Agency, was established under the responsibility of the Prime Minister of Mongolia, resolution No. 438 dated on December 18, 2019.

5.7 STATE PARTICIPATION IN THE EXTRACTIVE SECTOR (REQUIREMENT 2.6)

5.7.1 Definition of State-owned enterprises (SOEs)

The EITI Standard (2.6.a.i) for purposes of EITI reporting defines a state-owned enterprise as “a wholly or majority government owned company that is engaged in extractive activities on behalf of the government”. Based on this, the multi-stakeholder group is encouraged to discuss and document its definition of SOEs, taking into account national laws and government structures. Definition of SOEs is not discussed and agreed by MSG.

As per law on State and Local property, state owned enterprises (SOEs) are classified as follows:

- State-owned,
- Partial state-ownership,
- State-owned enterprise,
- State-owned self-sustained enterprise,
- Local-owned enterprise,
- Local-owned self-sustained enterprise etc.

The Law on State and Local Property² article 13 states that “a state-owned legal entity is a legal entity established by the state solely with its own property with purpose of implementing state policy and to meet social needs”, and article 21.1 “A business entity with the state-owned shares or state investment is called a business entity with partial state-ownership”.

In accordance with the Law on State and Local Property article 15, enterprises solely state owned, invested and funded from the state budget are classified as state-owned enterprise and these enterprises are classified by its property rights as self-sustained enterprise and state-funded enterprise. A self-sustained enterprise is a self-financing legal entity that operates on the property provided and enters civil transactions independently. A state-funded enterprise is a legal entity that is funded from the state budget on the property allocated to it and carries out production, works and services exclusively for state needs.

Company Law of Mongolia³ clause 12.5 states that State and its agencies can be a founder and a shareholder in the following cases:

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

² <https://www.legalinfo.mn/law/details/492>

³ <https://www.legalinfo.mn/law/details/310>

5.7.2 Legal regulations on state participation in the extractive sector

In the current legal environment, state's participation and stake in strategically important deposits are executed through Erdenes Mongol LLC and its subsidiaries. There is no legal framework that comprehensively defines the function of Erdenes Mongolia LLC or role of the government in the mining sector in the broadest sense.

The Government policy on minerals resource sector⁴ (2014-2025) includes government regulation to ensure appropriate Government participation in mineral exploration and mining activities.

Representation of state ownership in SOE is regulated by the procedure⁵ of implementing representation of state ownership in state owned legal entities. Section 2.3 of this procedure detail the appointment of representation of state ownership in extractive sector's state-owned entities as following:

- Chairman and members in the Erdenes Mongol Board of Directors shall be appointed and dismissed as per Government decision 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.
- As per Cabined Secretariat of the GoM advisory the representative of Erdenes Oyu Tolgoi LLC to the Oyu Tolgoi LLC Board of Directors and Shareholders meeting will be recommended by Erdenes Oyu Tolgoi LLC and be appointed and dismissed as per Shareholders meeting.
- Chairman and members in the Board of directors of SOEs such as Erdenes Oyu Tolgoi LLC, Baganuur JSC, Shivee Ovoo JSC and Mon-Atom LLC, the subsidiaries of Erdenes Mongol LLC, shall be appointed and dismissed with pursuant to Clause 11.8 of Erdenes Mongol LLC's Company Charter which was approved by GoM Resolution No. 104 in 2016.
- Chairman and members in the Board of Directors of Erdenet Mining Corporation LLC and Mongolrostsvetmet LLC shall be appointed and dismissed by state administrative body in charge of state policy coordination on state property as per directions given by the Cabinet Secretariat of the GoM.
- In cases other than those specified in Clauses 2.4-2.91 State administrative body in charge of policy coordination on state property shall appoint the state representation to sit in Shareholders' meeting and Board of Directors of SOEs.

5.7.3 Conditions for the transfer of ownership and changes in ownership of the government and state-owned enterprises in the extractive industry

The EITI standard section 2.6.a.ii states that the government and SOE(s) must disclose their level of ownership in mining, oil and gas companies operating within the country's oil, gas, and mining sector. It also includes subsidiaries and joint ventures with level of ownership held by the SOEs. Any changes in the level of ownership during the reporting period must be disclosed.

In accordance with the Company Law, clause 2.6, the owners of SOEs are Parliament on behalf of the GoM, and the local Citizens Representatives are the owners for local property-based companies, also the person or legal entity to represent the shareholders can be appointed by the Government and local Citizens Representatives Meeting.

Ownerships of state-owned 20 companies that operates in mining sector are owned through 2 state-owned holding groups. Erdenes Mongol owns state properties of 6 strategically important deposits' and Department of State Property Policy and Regulation owns state properties of the other 14 entities (construction material manufacturing companies, Erdenet Mining Corporation and Mongolrostsvetmet etc).

⁴ <https://www.legalinfo.mn/law/details/9756>

⁵ <https://www.legalinfo.mn/law/details/12142>

Table 5.48 Information on shareholders of SOEs holding mineral licenses

No	Reg No.	SOEs	Webpage	Number of licenses	Minerals	Shareholders	% of share
Local ownership present							
1	2014491	Bayanteeg JSC		1	Coal	Shunkhlai Group LLC Local property Other small shareholders	23.54% 70% 6.46%
2	3753298	Bayan Khishig Kharaa LLC		1	No clear	Local property, Crystal Top Mine Group	No information found
3	2034859	Mogoin Gol JSC		2	Coal	JIGJIDSUREN BATBOLD Trans oil LLC Local property Other small shareholders	16.33% 15% 51% 17.67%
4	3753603	Selenge Baigaliin Nuuts LLC		2	Gold	Development Bridge Selenge Bayalag Ireedui Renewable Natural Resources	No information found
5	2016656	Tavan Tolgoi JSC	https://www.tavantolgoi.mn/	1	Coal	Shandas Impex LLC Ajnai Corporation LLC Local property Other small shareholders	16.31% 19.73% 51% 12.96%
State-owned							
6	9011706	Correction Faculty No. 439, subsidiary of General Executive Agency of Court Decision, State-funded Enterprise		1	Limestone	GoM	100%
7	2550466	Mongolrostsvetmet state owned LLC	http://www.mongolros.mn	26	coal, copper, gold, fluorspar, tungsten, iron and limestone	GoM	100%
8	9073523	Correction Faculty No. 419 under f General Executive Agency of Court Decision in Khentii aimag		2	clay, and widespread Minerals	GoM	100%
9	2053152	ShTN State owned enterprise		1	Limestone	GoM	100%
10	5124913	Erdenes Mongol LLC	http://www.erdenesmongol.mn/intro.php	9	Coal, silver	GoM	100%
11	6436226	Erdenes silver resouce LLC		1	Silver, Gold/	Erdenes Mongol LLC	100%
12	5435528	Erdenes Tavan Tolgoi LLC	https://ett.mn/mn	7	Coal	GoMI Entity Individuals	85.2 % 0.05% 14.7.%
13	2074192	Erdenet Mining Corporation SOE	https://www.erdenetmc.mn/	7	Copper, molybdenum, crushed stone and widespread minerals	GoM	100%
Partially state-owned							
14	2008572	Baganuur JSC	https://baganuurple.mn/	3	Coal, gravel and sand	GoM Mongolian Coal Corp Other small shareholders	75% 21.06% 3.94%

15	2074737	Gurvan Saikhan LLC		4	Uranium	GoM International Uranium LLC	15% 85%
16	2051303	Darkhan Metallurgical Plant JSC	http://dmp.mn/	3	Iron	GoM	100%
17	5976723	Mon Czech Uranium LLC		1	Not clear	Erdenes Mongol LLC Uranium Industry LLC	51% 49%
18	2004879	Shivee Ovoo JSC	http://shivee-ovoo.mn	1	Coal	Erdenes MGL LLC Other small shareholders	90% 10%
State joint venture							
19	2657457	Oyu Tolgoi LLC	https://www.ot.mn/	3	Gravel, Gold, Copper, Mixed metal, Clay, and Sand	GoM Turquoise Hill Resource Rio Tinto	34% 66%
20	2076675	Mongolian Soviet Joint Stock Company Ulaanbaatar Railway (Ulaanbaatar Railway / Chuluun Factory/ JSC)	https://ubtz.mn/	1	Crushed stone and common minerals	Ministry of Transport, Russia GoM	49%
							51%

Source: The EITI e-reporting, information from Mineral Resources and Petroleum Authority of Mongolia, information submitted by the Companies and e-data of General Authority for State Registration of Mongolia

Information on investment in shares (stock) was requested from the SOEs involved in reconciliation report, but no response was delivered so far.

5.7.4 Changes in state ownership

“Erdenet” was a joint venture (51:49) by an agreement signed in 1991 between two governments of Mongolia and Russian Federation, in 2003 as per agreement it became a limited liability company. In June 2016, the Mongolian Copper Corporation LLC has acquired 49% of “Erdenet Mining Corporation” LLC (“EMC”) from the Russian Federation’s “Rostec.” Thus, the Government of Mongolia owned 51% of the EMC and “Mongolian Copper Corporation” held 49%.

However, the State Great Khural (Parliament) passed a Resolution No.23 of 2017 to take back the state property, claiming that the Mongolian Copper Corporation had violated several laws when acquiring 49 percent of the EMC.

The Government of Mongolia issued a Resolution on 21 March 2019, transforming Erdenet Mining Corporation into a state-owned enterprise and approved its charter⁶.

The Mongolian Copper Corporation LLC considered that a decision to take over 49 percent of the Erdenet Mining Corporation into a state property has violated the law, and they filed a lawsuit

A lawsuit over the nationalization of the Erdenet Mining Corporation is ongoing and has not yet been resolved.

Other than the above, there has been no change in state ownership so far.

5.7.5 Role of State-owned enterprises (SOEs) in the extractive industry

Erdenes Mongol LLC

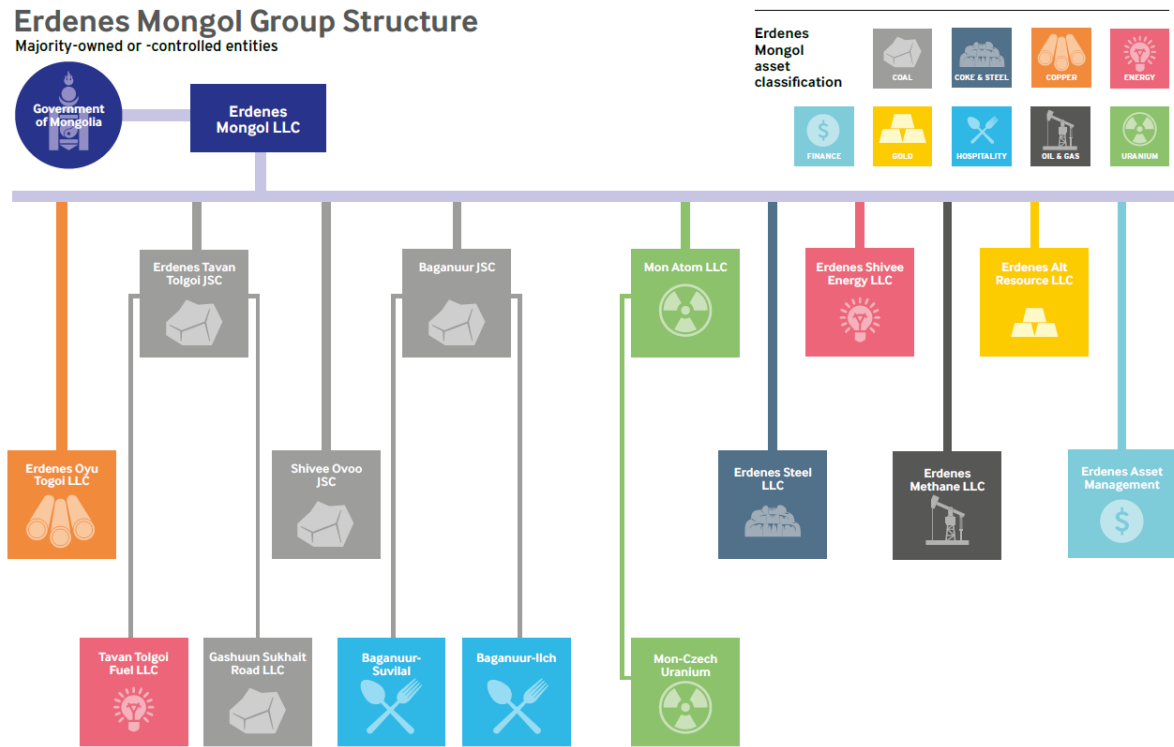
“Erdenes Mongol” LLC is a company explicitly created to represent GoM's stake in developing and owning national strategically important mineral deposits within the territory of Mongolia. The Erdenes Mongol LLC operate in mining and other activities through their following subsidiaries:

⁶ https://www.erdenetmc.mn/about_us/

Table 5.49 Structure of the Erdenes Mongol LLC

Company name	Role
1. Erdenes Oyutolgoi LLC	To represent the state ownership and implement shareholder's rights and duties in strategically important Oyu Tolgoi deposit that is operated by "Oyu Tolgoi" LLC.
2. Erdenes Tavan Tolgoi JSC	Utilize strategically important Tavan Tolgoi coking coal deposits into economic activity
3. Baganuur JSC	To supply coal to Power plants within central power grid system
4. Shivee Ovoo JSC	Local thermal coal demand and supply coal to Power Plant No.4 state-owned JSC
5. Mon-Atom LLC	On behalf of GoM represent state ownership and execution in geological exploration and mining of uranium and other radioactive minerals in accordance with relevant legislations individually or jointly with other legal entities.
6. Gashuun Sukhait Road LLC	To be responsible for the operation, maintenance, and utilization of the 239 km heavy load paved road from Tavan Tolgoi mine site to Gashuun Sukhait border crossing in Tsogttsetsii soum, Umnugovi aimag.
7. Erdenes Methane LLC	To execute methane gas exploration works in major coal deposits of Mongolia and dependent of the results estimate methane gas resource levels, prepare feasibility study, evaluate economic viability, raise funds, development works and production of coal bed methane.
8. Erdenes Shivee Energy LLC	To supply "Shivee Energy Complex Project for Energy Export" establishment with coal from the strategically important Shivee-Ovoo coal deposit
9. Erdenes Silver Resource LLC	Mining consulting service, mineral exploration, extraction and production of minerals and contract drilling service
10. Erdenes Alt Resource LLC	To execute Government of Mongolia's implementing "Alt 2" program by exploring, mining, refining, and selling precious metals in explored in the territory of Mongolia.
11. Erdenes Ashid LLC	To conduct assessments and detailed studies on previously assessed and new concentrate plants, manage and operate the facilities and mine the mineral deposits and execute production
12. Erdenes Steel LLC	To implement complex industrial projects for coke and steel
13. Erdenes Asset Management Securities LLC	Attract investment from professional investors for strategically important projects
14. Rare Earth Element Project unit	To conduct research on rare earth elements in Mongolia and set the deposits into economic circulation
15. Mongolian Minerals Exchange LLC	To regulate mineral exports through an integrated policy by establishing minerals exchange

Figure 5.11 Organizational Structure of Erdenes Mongol LLC's mining subsidiaries

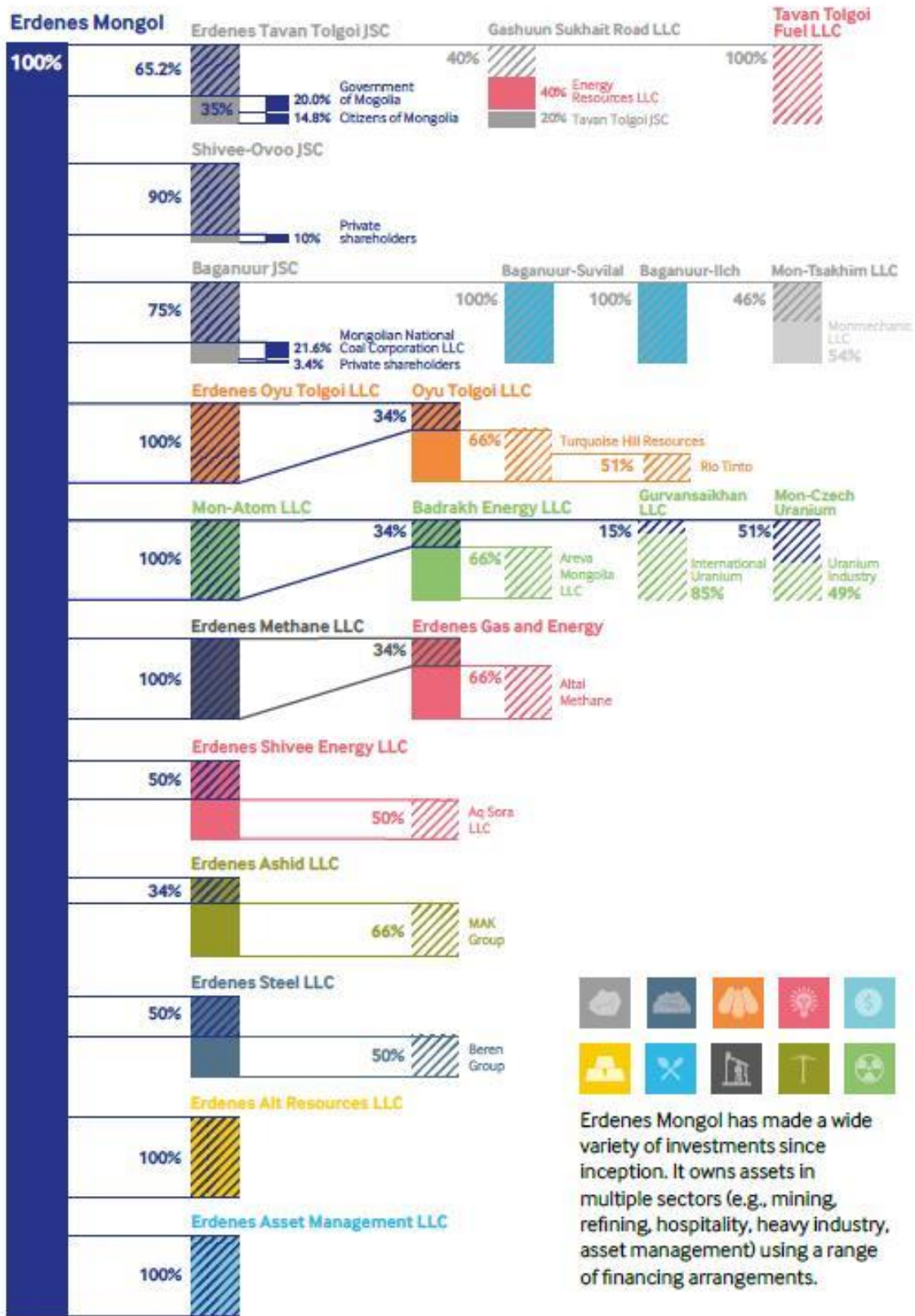


Source: "Erdenes Mongol" LLC <http://www.erdnesmongol.mn>

Source: International Natural Resource Institute of Governance

<https://resourcegovernance.org/sites/default/files/documents/erdnes-mongol-mongolian.pdf>

Figure 5.12 Shareholding structure of “Erdenes Mongol” LLC



Source: International Natural Resource Institute of Governance
<https://resourcegovernance.org/sites/default/files/documents/erdenes-mongol-mongolian.pdf>

Establishment of the “Erdenes Mongol” LLC

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

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

Clause 2.6 of this procedure specified that “chairman and members of the Board of directors of Erdenes Mongol LLC’s subsidiary SOEs such as Erdenes Oyu Tolgoi LLC, Baganuur JSC, Shivee Ovoo JSC and Mon-Atom LLC shall be appointed and dismissed accordance to Erdenes Mongol LLC’s company Charter⁷ which was approved by GoM Resolution No. 104 in 2016.

The Erdenes Oyu Tolgoi LLC

“Investment agreement” for exploitation of Oyu Tolgoi copper-gold deposit located in Khanbogd soum, Umnugobi aimag was signed in 2009 between the Government of Mongolia, Rio Tinto International Holdings Limited and Ivanhoe Mines Ltd. In 2010, “Shareholder’s agreement” was signed between shareholders of Oyu Tolgoi LLC.

According to the agreements, Erdenes Mongola LLC holds 34% of Oyu Tolgoi LLC on behalf of GoM.

State-owned Erdenes Oyu Tolgoi LLC was established as the subsidiary of Erdenes Mongol LLC pursuant to Resolution 348 of the Government of Mongolia and Resolution 28 of Board of Directors of Erdenes Mongol LLC dated 2011 and Erdenes Mongol LLC officially transferred the 34% shares of Oyu Tolgoi LLC held on behalf of Government of Mongolia to Erdenes Oyu Tolgoi⁸ LLC.

The main purpose of Erdenes Oyu Tolgoi LLC is to own 34 percent "Oyu Tolgoi" LLC as shareholder representing Mongolia, to participate in operations of "Oyu Tolgoi" LLC and execute state’s participation during the mine production. When both open pit and underground mine are operational, Oyu Tolgoi is expected to be one of top five global copper producers and will contribute 24 percent of the total copper production from Asia.

Erdenes Tavan Tolgoi JSC

Erdenes Tavan Tolgoi⁹ JSC was founded in 2010, in accordance with the Mongolian Parliament Resolution No.39 and Government Resolution No.272 to be responsible for the development and utilization of strategically important Tavan Tolgoi coking coal deposit.

Main responsibilities of Erdenes Tavan Tolgoi JSC are focused on utilizing the strategic coal deposits that are highlighted by “Minerals law of Mongolia” into economic activity, extract and produce the deposits. and implement infrastructure projects.

"Erdenes Tavan Tolgoi" project will implement coal mining, product processing, infrastructure development, construction and development of the assets, water supply plant and system, additional exploration work, and surveying works at the deposit, products delivery into international markets, and stock exchange in domestic and international capital markets.

Obtained feasibility study approval of East Tsankhi mine and commenced mining in 2011. Obtained feasibility study approval of West Tsankhi mine in 2012 and commenced mining in February 2013.

⁷ <https://www.legalinfo.mn/annex/details/7188?lawid=11796>

⁸ <http://eot.mn/>

⁹ <https://ett.mn/mon/>

Total reserve: 6.008 billion tonnes

- Coking – 2.050 billion tonnes
- Thermal – 3.757 billion tonnes
- Brown coal – 0.201 billion tonnes.

Baganuur JSC

Baganuur JSC was established in 1978 with goal of supplying coal to Power plants within central power grid, and now operational for the 39th year. On February 9, 2015 it has reached production milestone of 100 million tonne of coal.

In 1995 it was re-organised into Baganuur JSC with majority ownership by the state. Currently 75% of its shares is owned by Erdenes Mongol LLC on behalf of the Government of Mongolia and the remaining 25% by individual shareholders.

The mine has annual production capacity of 4.0 million tonnes and dependent on domestic consumption produces 3.6 to 3.8 million tonnes of coal annually, has stripped 16.0-18.0 million cubic meters of ground and utilizes both with and without auto transport mining process. Baganuur JSC alone provides 60% of total coal demand in Mongolia and 70% of coal demand for the central region.

Studies of physical and chemical properties of Baganuur coal have concluded that it can be used not only for energy purposes, but when recycled also as a gas, fuel, liquid, briquette fuel, and other chemical raw materials.

Baganuur's Total Reserve: 812 060.6 Kt

- On balance sheet reserve – 584 458.4 Kt
- Off balance sheet reserve – 227 602.2 Kt

Preceding exploration works have determined that Baganuur's reserve as 599.7 Mt, subsequent explorations have determined that the total reserves as 812.1 Mt, increase of 212.4Mt.

Shivee Ovoo JSC

As per shareholders' meeting resolution dated to September 12, 1995 the mine was re-organized the as Shivee Ovoo JSC with majority ownership by the state. Erdenes Mongol LLC on behalf of GoM holds 90% of the shares in Shivee Ovoo, and the remaining 10% held by individual shareholders.

In recent years, the mine's coal mining, sales, and stripping volumes have steadily risen, as well as strengthened position in the local coal market. The mine provides 30% of total Mongolian thermal coal demand and 50% of Power Plant No.4 SOJSC's coal consumption.

Shivee Ovoo coal mine is located in Shiveegobi soum of Gobisumber aimag, around 265km to southeast of Ulaanbaatar and at 1,200 meters above sea-level.

The mine covers 29,500 hectares of area and has total of 2,708.7 million tonnes coal reserves consisting of the following 3 sections:

Total reserve: 2,708.7 million tonnes

- Shine us - 564.1 million tonnes
- Uukhiin tsagaan - 1,147.9 million tonnes
- Nogoos toiron - 996.7 million tonnes

Mon Atom LLC

Law on Nuclear Energy of Mongolia states that regardless of its size radioactive minerals deposit are considered strategically important and state's involvement is a must in its mining activities if permitted. To comply with the requirement, Mon Atom LLC was established in 2009 by GoM Resolution No.45 with main objectives of engaging in geological exploration and mining of uranium and other radioactive minerals standalone and/or jointly with other legal entities, execute legislated state ownership and

involvement on behalf of Government.

Company operated under Nuclear energy authority in terms of policy and planning to implement Mongolia's state policy on radioactive minerals and nuclear energy, regarding financial matters to State Property Committee.

Gashuun Sukhait Auto Road LLC

In accordance with GoM Resolution No. 299 of 2013 “Measures to support coal exports”, ownership of 239-kilometer heavy-load paved road built and commissioned by privately owned Energy Resource LLC was transferred to Erdenes Mongol LLC in 2011.

In 2014 main coal exporters Energy Resources LLC, Erdenes Tavan Tolgoi JSC¹⁰, Tavan Tolgoi JSC and other exporters have partnered to establish Gashuun Sukhait Auto Road LLC, Erdenes Mongol LLC oversees the operation of the road.

Erdenes Methane LLC

Erdenes Methane LLC was established in February 2016 as a subsidiary of a state-owned Erdenes Mongol LLC. Leading mission of Erdenes Methane LLC is to attract foreign direct investment and carry out estimation works of methane levels in Tavan Tolgoi and other coal deposits, to initiate methane extraction works, to reduce air pollution in Ulaanbaatar and other cities, and latter aim to make Mongolia a gas exporting country.

Erdenes Shivee Energy LLC

Erdenes Shivee Energy LLC was established on March 4, 2016 as state and private entity partnership between Erdenes Mongol LLC and AqSora LLC Pursuant to the minutes of GoM 64th meeting dated November 16, 2016, Erdenes Shivee Energy LLC with 1.2 billion tonnes of strategically important Shivee-Ovoo coal deposit reserves will supply coal to the “Shivee Energy Complex Project of Energy Export” establishment.

50% of the company is owned by state-owned Erdenes Mongol LLC, and the remaining 50% is owned by Shine Shivee LLC that is owned by private entity AqSora LLC.

Erdenes Silver Resource LLC

“Erdenes Silver Resource”¹¹ LLC was established in May 2019 as per resolution No.133 of the Government of Mongolia (GoM) dated 2014 and. resolution No.15 of the Board of Directors of “Erdenes Mongol” LLC in 2019.

“Erdenes Silver Resource” LLC operates in the following areas:

- Mining consultancy
- Minerals prospecting and exploration
- Exploitation and mining of minerals
- Contract drilling

Within framework of state's policy on the mineral resources sector, GoM MoM No.26 dated June 12, 2019 and the Mineral Resources and Petroleum Authority's resolution No.341 dated July 5, 2019, a mineral exploration license (XV-2021416) was granted for a Salkhit area covering 2887.85 hectares, located in Gurvansaikhan soum, Dundgobi aimag.

¹⁰ <http://page.gsr.mn/>

Erdenes Alt Resources LLC

For the implementation of goals set in “Sustainable Development Concept of Mongolia 2030” and “Alt-2” national programs, “Erdenes Alt Resources” LLC was established in 2018 to execute exploration, extraction, refinery, and sales of precious metals. “Erdenes Alt Resources” LLC is wholly owned by “Erdenes Mongol” LLC.

Erdenes Ashid LLC

“Erdenes Ashid” LLC was established by “Erdenes Mongol” LLC in partnership with “Mongolyn Alt” LLC for the purpose of conducting exploration works in three areas located in the territory of Bayan-Ulgii aimag.

Erdenes Steel LLC

In cooperation with “Beren Group” LLC “Erdenes Steel” LLC was established on April 2017 to execute project to build coke and steel complex plant in anticipation of growing steel demand in Mongolia and to produce import-substituting products. Erdenes Mongol LLC holds 100% ownership.

Erdenes Asset Management LLC

The company’s main functions are to raise capital in the stock market, issue bonds, own shares, trade shares and consulting services. The company was licensed for investment management activities by the FRC Chairman’s Resolution No.296 dated November 25, 2019. Erdenes Mongol LLC holds 100% ownership.

Rare element unit project

In 2019, the Government of Mongolia (GoM) established a project unit to improve the legal environment for the exploration, extraction, and exploitation of rare earth elements, and to conduct research to assess the economic gains. Thus, the “Rare Earth Research Project Unit” was established by the GoM Resolution No.176 dated May 1, 2019 and Resolution No.16 of the Board of Directors of “Erdenes Mongol” LLC dated May 10, 2019.

Mongolian Minerals Exchange LLC

Mongolia’s Minerals Exchange was established per GoM Resolution No.211 dated June 28, 2014 by 100% private funding and in collaboration between domestic and foreign entities.

5.7.6 SOEs included in the EITI**Erdenet Mining Corporation LLC**

Erdenet Mining Corporation LLC is one of the largest copper mining and processing plants in the world. Established in 1978 by an intergovernmental agreement between Mongolia and Russia.

In 2016, the 49% of shares held by Russian government were transferred to a Mongolian private entity, the agreement is under dispute in court. As of 2017, the mine has excavated approximately 657.3Mt of ore and processed it into copper concentrate¹². Resolution of Mongolian Government dated March 21, 2019 has resolved that Erdenet Mining Corporation LLC to be re-organized to SOE and its charter approved.

¹⁸ https://www.erdenetmc.mn/about_us/

Mongolrostsvetmet LLC

Mongolrostsvetmet is a fluor spar mining and production company with three underground and two open pit mines and a mineral processing facility. The company produces both acid and metallurgical grade fluor spar and gold concentrates.

At the present, company's operations are administration office located in Ulaanbaatar, "Bor-Undur" concentrator in Bor-Undur soum, Khentii aimag, Shijir Alt LLC in Zaamar soum, Tuv aimag, and "Zeregtsee" gold mines. In 2016 company's 49 percent shares owned by Russian government was transferred to Mongolia Mongolian government now owns 100%.

Erdenes Tavan Tolgoi JSC

The Erdenes Tavan Tolgoi project was launched on 27 August 2010 and mining operations have officially commenced. Accordingly, Erdenes Tavan Tolgoi JSC, which is responsible for mining operations at the Tavan Tolgoi coal deposit, was established on 23 December 2010 in accordance with the decision by the Parliament and the Government.

The Erdenes Tavan Tolgoi JSC obtained the State Registration Certificate No.9010001097 on 23 December 2010 and was officially registered with the State Registration Authority under the Registration Number 5435528 in the field of mineral exploration and mining operations. The Erdenes Tavan Tolgoi JSC operates in accordance with the Minerals Law of Mongolia in the main areas of economic circulation of strategically important coal deposits, mining operations and implementation of infrastructure projects.

Tavantolgoi JSC

The mine was transformed into a state-property dominant Tavantolgoi JSC by Resolution No. 42 of the Government Privatization Commission meeting on December 5, 1994. Since 1995, Tavan Tolgoi JSC has been operating as a locally owned joint company. The Tavan Tolgoi coal deposit is located in Umnugovi Aimag, approximately 270 km from the China-Mongolian border.

Baganuur

Baganuur JSC was established in 1978 with goal of supplying coal to Power plants within central power grid, and now operational for the 39th year. On February 9, 2015 it has reached production milestone of 100 million tonne of coal. In 1995 it was re-organised into Baganuur JSC with majority ownership by the state. Currently 75% of its shares is owned by Erdenes Mongol LLC on behalf of the Government of Mongolia and the remaining 25% by individual shareholders.

5.7.7 Financial relationship between the government and SOEs

5.7.7.1. General Procedures governing financial relations between the government and SOEs

Relationship between the Government and SOEs are regulated by the Law on State and Local Property and associated regulations on state properties. If not specifically stated and covered by the law, the relationship between the Government and the SOEs are regulated by the Company Law and a company charter of the relevant SOE.

According to Article 21.15 of the Law on State and Local Property, the Parliament member in charge of finance and budget shall monitor the financial performance of all state-owned and partly state-owned legal entities, their financial impact and cash flow impact to budgetary entities, and their work performance.

According to Article 21.16 of the Law, state owned, or state-dominated legal entity shall obtain a loan and issue securities upon obtaining approval from the state's central administrative body in charge of finance and budget. /This part was added according to the Law dated February 18, 2015/ However, it does not apply to loans and securities with short repayment terms (within that financial year).

According to Article 21, paragraph 13 of the Law on State and Local Property, state's representative shall submit a written proposal on dividend rate and amount to be paid out by the state-owned or partially state-owned legal entity to the Board of Director for approval. regards the. If not otherwise stated, on Article 46.1 of the Company Law and Company charter, the Board of Directors (or the Shareholders' Meeting on behalf of the Board of Directors) shall determine whether to pay dividends, the amount of dividends per share, list of shareholders eligible to receive dividends with the date and the date of distribution of dividends.

The Government of Mongolia's Action Plan for 2016-2020 aims to improve the use of state and local properties increase profitability of state and local owned companies, improve governance, further implement privatization policies, and to bring public-private partnerships to a new level.

Special EITI standard template containing the requirements related to SOEs was sent to 5 SOEs that made material payments to the Government. The template includes standard requirements such as financial relations between the SOE and the Government, loans and credit guarantees, transfers, and budget expenditures.

5.7.7.2. Retained revenue, dividends

The dividend policy of the SOE is governed by different laws depending on its status

According to Article 11.3 of the Law on State and Local Property, PCSP with consultation with relevant authorities shall determine the plan and distribution of profits from the state-owned legal entities. If not stated otherwise Article 46.1 of the Company Law, Board of Directors /in absence the shareholders' meeting/ shall determine whether to pay dividends, specify the amount of dividend to be paid for each share, determine the date of issue of the list of shareholders eligible to receive dividends and the dividends payment date.

According to Company Law, company post dividend payments must be solvent, its capital amount must be greater than the sum of its share capital, unpaid dividends on preferred shares and its liquidation value, also all their required security payments paid in full. When these conditions are met, dividends shall be paid on common shares.

Erdenes Tavantolgoi JSC disclosed its dividend regulations approved by the Board of Directors' Resolution No.05 dated 25 February 2019 on its website (Table 5.50) ¹³.

¹³ <https://ett.mn/mon/143/single1>

Table 5.51 Procedures regarding financial relationship

	Does the SOE have the right to approve and follow its dividend policy?	Does the SOE have the right to retain earnings?	Does the SOE have the right to reinvest in its operations?	Does the SOE have the right to raise funds from third parties? / by borrowing debt or issuing shares /
Laws and rules	Yes. For SOEs, BoD is eligible to make decisions on distribution of dividends in accordance with Articles 46 and 47 of Company Law	Yes. For SOEs, According to Company Law, the BoD decides margin of the profit to distribute and how much of the profits to accumulate, depending on the company's financial position and solvency.	Yes. There are no specific legal provisions that apply, BoD has the power to make reinvestment decisions within its authority.	Yes. Company Law 41.1. A company may issue bonds secured by its equity subject to interest and to redeem the bond after agreed period and due date. 42.1. The decision to issue authorized shares or other securities and bonds specified in the company charter is mandated to the BoDs (in its absence, the shareholders meeting) and the decision shall specify the type and number of such securities and the terms and conditions of their issuance. It is required to disclose bonds, loans, promissory notes, guarantees and other similar financial instruments in accordance with the Article 6.4.8 and 6.8.1 of Law on Glass Account.

Resolution No. 228 of the State Property Policy and Regulation Authority dated 24 June 2021 sets the percentage of dividends to be centralized to the state budget from the net profit of the 2020 financial statements of state-owned and partly state-owned enterprises (Table 5.51)

Table 5.51 Dividend rate to be centralized to the state budget by SOEs, in million MNT

Name	Net profit for 2020	Dividends on state property
Erdenet Mining Corporation SOE	263,101	200,000
Mongolroostsvetmet SOE	48,212	4,821
Erdenes Mongol SOE	7,667	767
Ulaanbaatar Railway JVC	11,251	1,125
"Erdenes Tavan Tolgoi" JSC	-	No dividends have been distributed

Table 5.52 Practical experience, Million MNT

Name of SOEs	Dividends declared in 2020	2020 retained earnings (loss)	Reinvestment in 2020	Third party financing (loans, debt and equity)
Erdenet Mining Corporation SOE	155,040	1,812,971	-	-
Mongolroostsvetmet SOE	5,166	57,877	-	-
Erdenes Tavan Tolgoi SOE	1,080,000	898,266	-	-
Baganuur JSC	-	7,672	-	-
Tavantolgoi JSC	43,238	75,469	-	-

Source: Audited financial statements, information provided by companies

5.7.7.3. Loans and loan guarantees

There are no specific regulations governing the borrowing, disbursement or loan guarantee for state-owned enterprises. The SOE's lending activities are governed by internal rules and regulations.

Issued loan, loan repayment schedule and interest

According to the EITI Standard Requirement 2.6.a.ii, when government or SOE provides loans or guarantees to oil and gas companies operating in the country, the related details must be stated in the EITI report. This includes repayment schedules, interest, and so on.

In order to meet the requirements of the EITI Standard, the Ministry of Finance, the Development Bank of Mongolia (DBM) and the SOEs were requested to provide information on loans and loan guarantees.

The DBM was requested to provide information on loans issued to SOEs operating in the extractive sector, but DBM declined to provide the information with stating that “The project of state-owned companies in extractive sector was classified as a state secret by a relevant resolution of the Government of Mongolia”.

Article 7.2 of the Banking Law stipulates that Shareholders, Chairman and members of the Board of Directors, the Executive Director and officers of a bank shall not release and disclose to others or use any information which is considered by the bank, its customers, and/or third parties as confidential, except the cases specified in Article 7.2.1-7.2.11. In these cases, there is no regulation on disclosure for EITI reporting purposes.

Of the SOEs, only Baganuur JSC provided information related to loans and loan guarantees.

There are no loans or guarantees issued by SOEs to mining companies in 2020.

Loan guarantee provided to “Erdenes Mongol” LLC, by the Government

Pursuant to the loan agreement of USD 35 million, repayable within 12 years, LIBOR + 0.60% variable interest rate (3385-MON) signed between Erdenes Mongol LLC and the Asian Development Bank on April 1, 2016, the Government of Mongolia has become the guarantor for the project aimed at strengthening the institutional system and management capacity of Erdenes Mongol. The guarantor agreement¹⁴ was signed between the GoM and ADB on June 3, 2016. The project is scheduled to complete April 30, 2019.

See the terms of the loan agreement and repayment schedule on the ADB website.¹⁵

Loan

Information on SOEs outstanding loans at the end of 2020 from their audited financial statements is shown below and it is informed that there are no licenses or loans secured by minerals.

Table 5.53 Loan information of SOEs, in million MNT

Name of SOEs	Total balance	Long-term	Short-term
Erdenet Mining Corporation SOE	-	-	-
Mongolroostsvetmet SOE	7,400	-	7,400
Erdenes Tavan Tolgoi SOE	330,000	-	330,000
Baganuur JSC	70,891	23,847	47,044
Tavantolgoi JSC	-	-	-

Source: Audited financial statements, information provided by companies

¹⁴ <https://www.adb.org/sites/default/files/project-document/185252/49409-001-ga1.pdf>

¹⁵ <https://www.adb.org/sites/default/files/project-document/185253/49409-001-lbj.pdf>

Baganuur JSC was issued the following loans by GoM and SOEs, and its outstanding balance is as of 2020 follows:

Table 5.54 Baganuur JSC Loans, in million MNT

Lenders	Date granted	Maturity date	Currency	Interest rate	Contract Amount /Million MNT /	Outstanding balance as of 31 Dec 2020 /Million MNT /	Purpose of Loan
MoF (MON 2854)	3/13/1997	6/1/2031	MNT	1.8%	25,062	20,496	Technical and technological upgrades to the lignite mining, strengthen mine's organizational structure and to develop a strategic plan for the coal sector
MoF (MON-P4)	2/6/1998	2/22/2022	MNT	1.8%	19,580	11,007	
Erdenes Mongol LLC	12/30/2014		MNT		10,205	10,062	
Erdenes Tavan Tolgoi LLC	6/7/2018	6/7/2019	MNT	2.0%	13,900	13,900	Reduce cash shortages and pay short-term loans and liabilities
Erdenes Mongol LLC	9/3/2018	2/28/2019	MNT	8.4%	6,000	5,700	2018-2019 winter preparations, purchase sufficient fuel to ensure sustainable production, accumulate coal reserves, and perform major maintenance works
Erdenes Mongol LLC	9/2/2019	12/20/2019	MNT	11.0%	4,000	2,000	Reduce cash shortages

Source: Information from the Companies

5.7.7.4 Subsidies provided to state-owned entities

In 2020, a total of MNT 55.7 billion was subsidized by the Government of Mongolia to state-owned entities.

Table 5.55 Subsidies provided to state-owned entities, in billion MNT

No	Budget governor	Name of SOEs	Total
1	Darkhan Uul Aimag	Committee of Elders	0.18
2	Darkhan Uul Aimag	Darkhan's Water Authority	0.15
3	Darkhan Uul Aimag	Industrial technology park	0.05
4	Darkhan Uul Aimag	Emt Naran	0.11
5	Office of Cabinet Ministers	Radio and television network	4.43
6	Prime Minister of Mongolia	Ulaanbaatar sports management	9.60
7	Sukhbaatar Aimag	Bichigt Urguu	0.07
8	Sukhbaatar Aimag	Durvulj	0.11
9	Sukhbaatar Aimag	Committee of Elders	0.07
10	Selenge Aimag	Sukhbaatar development and landscaping	0.04
11	Selenge Aimag	Selenge service	0.02
12	Selenge Aimag	Ursgal Us	0.02
13	Ulaanbaatar	University of Health Sciences	0.12
14	Ulaanbaatar	Ilch Ord	0.65

No	Budget governor	Name of SOEs	Total
15	Ulaanbaatar	National University of Mongolia	0.11
16	Ulaanbaatar	University of Arts and Culture	0.13
17	Ulaanbaatar	Sawdust briquette factory	0.07
18	Ulaanbaatar	Partial Engineering Supply Authority	1.16
19	Ulaanbaatar	Chandmani nalaikh	0.54
20	Ulaanbaatar	University of Sciences and Technology	0.07
21	Khuvsgul Aimag	City landscaping and service department	0.77
22	Khuvsgul Aimag	Khuvsgul water authority	0.32
23	Khuvsgul Aimag	Khuvsgul energy authority	0.13
24	Minister of Energy	Altai-Uliastai power system	2.93
25	Minister of Energy	Baganuur southeastern regional power grid	0.22
26	Minister of Energy	Baganuur thermal power plant	1.01
27	Minister of Energy	Western region energy system	16.74
28	Minister of Energy	Bayankhongor power grid	0.07
29	Minister of Energy	Dalanzadgad Thermal Power Plant	1.45
30	Minister of Energy	Eastern region power system	0.04
31	Minister of Energy	Dulaan sharyn gol	0.48
32	Minister of Energy	Nalaikh thermal power plant	1.24
33	Minister of Energy	South regional power distribution network	0.09
34	Minister of Energy	Selenge-Energo	0.43
35	Minister of Energy	Ulaanbaatar electricity distribution network	11.64
36	Minister of Energy	Khuvsgul energy authority	0.05
37	Minister of Energy	Khentii-Us	0.25
38	Minister of Energy	Power system authority	0.03
39	Minister of Energy	Erdenet Bulgan electricity distribution network	0.10
40	Minister of Energy	Erdenet-Us	0.01
Total			55.68

Source: Ministry of Finance

5.7.8 Transactions between SOEs (Requirement 4.5)

As per the requirements of the EITI Standard 4.5, payments made by extractive companies to SOEs, material payments made from SOEs to government agencies and vice versa must be disclosed.

Pursuant to Article 6.4.5 of the Law on Glass Account, revenue receipts and expenditures exceeding MNT 5 million must be disclosed with except to salary payments.

Of 5 SOEs included in the reconciliation, 4 SOEs disclosed their information on glass accounts. The material payments made between the SOEs from their cash inflows and outflows are summarized as follows:

Table 5.56 Material transactions of Mongolroostsvetmet SOE made with SOEs, million MNT

Names of Client SOEs	Deposit	Withdrawal	Description of transaction
Baganuur electricity distribution network SOE	-	9,290	Payment for electricity
Ulaanbaatar Railway JVC	-	2,200	Railway transportation fee

Source: Information on transactions over MNT 5 million disclosed in the glass account

Table 5.57 Material transactions of Erdenet Mining Corporation SOE made with SOEs, million MNT

Names of Client SOEs	Deposit	Withdrawal	Description of transaction
Ulaanbaatar Railway JVC		30,200	Railway transportation fee
National Dispatch Center SOEC	11,259		Income

Erdenet Bulgan Electricity Distribution Network		207,295	Power supply and consumption agreement
Sharyn Gol JSC		6,229	Payment according to the contract

Table 5.58 Material transactions of Erdenes Tavan Tolgoi SOE made with SOEs, million MNT

Names of Client SOEs	Deposit	Withdrawal	Description of transaction
Tavan Tolgoi Tulsh SOE		138,725	Financing - in accordance with ETT 2020/135
Mongol US SOE		247	Contract payment
Erdenes-Tavan Tolgoi Mining SOE	16,964		Cash withdrawal - ETT Mining

Source: Information on transactions over MNT 5 million disclosed in the glass account

5.7.9 Disclosure of SOE financial statements (Requirement 2.6.b)

Table 5.59 SOEs that disclosed their financial statements

Questions stated in the EITI Standard guidelines	Does the SOE prepare financial statements?	Are the financial statements audited?	Prepared in accordance to international accounting standard (IAS/IFRS)?	Audited in accordance to international standard?	SOE's reports disclosed to the public? If not, what is the reason?	If comprehensive financial statements were not disclosed, can summarized financial statements be disclosed?	What additional steps can be taken for the disclosure of financial an audit reports?
Governing law and regulation	Yes. Financial statements shall be prepared in accordance with the Article 8, Accounting.	Yes. It shall be required to audit in accordance with the Article 10, the Law on Auditing.	Yes. International standards shall be followed in accordance with Article 4, the Law on Accounting.	Yes. Article 14.1, the Law on State Audit and Article 5.1, the Law on Auditing	Yes.	According to Article 9.7 of the Law on Accounting, entities may disclose their comprehensive financial statements, summarized financial statements and auditor's report only after completed audit. JSCs registered on MSE post their key financial results on the MSE's webpage.	No additional step is required.
Name of SOE							
Erdenet Mining Corporation SOE	Yes	Yes	Yes	Yes	Yes*		
Mongolroostsvetmet SOE	Yes	Yes	Yes	Yes	Yes*		
Erdenes Tavan Tolgoi JSC	Yes	Yes	Yes	Yes	Yes*		
Baganuur JSC	Yes	Yes	Yes	Yes	Yes*		
Tavantolgoi JSC	Yes	Yes	Yes	Yes	Yes*		
Erdenes Silver Resource LLC	Yes	Yes	Yes	Yes	No		

*Disclosed through class account.

5.7.10 Financial statements of SOEs

The EITI Standard has a requirement that mandates state-owned entities to disclose their audited financial statements, if comprehensive financial statements not available, then their key summary financial statements (such as balance sheet, profit/loss statement, cash flow) to the public.

Mining companies listed on the Mongolian Stock Exchange (MSE) disclose their unaudited key financial statements and comprehensive detailed financial reports submitted to Ministry of Finance on Mongolian Stock Exchange website¹⁶.

Of the 5 state-owned and partly state-owned companies included in the reconciliation, 3 are public joint stock companies, 2 are state-owned enterprises.

As per the Law on Glass Account, state-owned entities are required to disclose their financial and audit reports.

Refer to Appendix 31.a for disclosure status of information by 20 licensed state-owned entities through the glass accounts

Table 5.60 Transparency of SOE's financial statements

Reg No.	Company name	Code at MSE	Financial statements are disclosed on glass account	Disclosed on MSE's website	Disclosed on the company's website	Link to disclosure of financial statements
5435528	Erdenes Tavan Tolgoi JSC	-	Yes	not applicable	yes	https://ett.mn/mon/109/file1
2008572	Baganuur JSC	BAN	Yes	yes	yes	https://shilendans.gov.mn/org/5244?form=4760174&year=2020&month=12&group=0&task=725
2016656	Tavan Tolgoi JSC	TTL	No	yes	no	http://mse.mn/mn/company/458?type=5#idd=9975
2550466	Mongolroostsvetmet SOE	-	Yes	not applicable	no	https://shilendans.gov.mn/org/5240?form=4820657&year=2020&month=12&group=0&task=728
2074192	Erdenet Mining Corporation SOE	-	Yes	not applicable	yes *	https://shilendans.gov.mn/org/5239?form=4818477&year=2020&month=12&group=0&task=731

**Erdenet Mining Corporation has glass account section on their website which directly links to the government glass account.

5.7.11 Audit reports of SOEs

5.7.11.1. Law and regulation on disclosure of SOEs' audit reports

National Audit Office publishes audit reports on its webpage according to the Law on State Audit.

The revised Law on State Audit was passed on 1 May 2020, and Article 37.2 of this Law stipulated "The State Audit Office shall issue audit reports every quarter in accordance with the Law on Information Transparency and Right to Information, except for information related to state, service, organizational and personal confidential secrets, and disseminate it to the public through its website."

¹⁶ www.mse.mn

5.7.11.2. Implementation of law and regulation on disclosure of audit reports of SOEs

Audit reports of five SOEs involved in the reconciliation were not placed on the website of National Audit Office, but audit reports of SOEs were delivered to the submitted to the reconciliation report. Audited reports of four SOEs were disclosed on the glass account website.

Non-disclosed audit reports of SOEs may be confidential according to explanation from NAO.

Table 5.61 SOEs that have not disclosed their audit reports

Reg No.	Company name	Disclosed on the NAO website	Link to the disclosure
5435528	Erdenes Tavan Tolgoi JSC	No	https://shilendans.gov.mn/org/5232?form=4743169&year=2020&month=12&group=0&task=697
2008572	Baganuur JSC	No	https://shilendans.gov.mn/org/5244?form=4760006&year=2020&month=12&group=0&task=725
2016656	Tavantolgoi JSC	No	-
2550466	Mongolroostsvetmet SOE	No	https://shilendans.gov.mn/org/5240?form=4820662&year=2020&month=12&group=0&task=728
2074192	Erdenet Mining Corporation SOE	No	https://shilendans.gov.mn/org/5239?form=4818476&year=2020&month=12&group=0&task=731

5.7.12 SOEs' operation, capital expenditure, procurement, contractor, and regulations and practice on corporate governance (requirement 2.6.c)

5.7.12.1. Operations of state-owned entities

Company Charter is the underlying document regulating operation of the SOE.

Links to the disclosed SOE chapters are shown below.

Table 5.62 Charter of SOEs

Reg No.	Company name	Date, number of approved Charter	Link to the disclosure
5435528	Erdenes Tavan Tolgoi JSC	Resolution No.01 of 2018 of the Shareholders Meeting	https://ett.mn/mon/101/single1
2008572	Baganuur JSC	2016 Resolution of the shareholders meeting	-
2016656	Tavantolgoi JSC	Not disclosed	-
2550466	Mongolroostsvetmet SOE	Resolution No.06 of 2018 of the Chairman of the Agency for Policy Coordination on State Property	http://www.pcsp.gov.mn/togtool/6.pdf
2074192	Erdenet Mining Corporation SOE	Resolution No.07 of 2018 of the Chairman of the Agency for Policy Coordination on State Property	http://www.pcsp.gov.mn/togtool/7.pdf

5.7.12.2. Procedures and practices related to SOE (operational/ current/ investment) expenditure management

Procedures related to SOE expenditure management

Article 11.3 of the Law on State and Local Property states that "The Government Agency for Policy Coordination on State Property (PCSP) shall have the following rights: To determine the planning and allocation of revenue by the state-owned legal entity, in agreement with the relevant organization".

Proposed business plan and procurement plans from SOEs are approved by PCSP dependent on the main economic indicators, targets, and investment plans of the SOE, and its implementation is monitored by members of the board who represent the PCSP.

In addition, according to the Law on Glass Account, state-owned entities must report the following monthly on glass account website:

1. Target level, performance, reasons and explanation of excess or savings (under the Articles 6.1.1, 6.1.6, 6.2.1, 6.2.2, 6.2.3, 6.2.6, 6.3.1, 6.3.3).
2. Capital expenditures, investment projects, action plans and execution (under the Articles 6.2.4, 6.3.7).

Application to disclose above two information on the SOE's glass account are shown in the Table below:

5.7.12.3. Practicality of expenditure management by the SOE

Table 5.63 Glass account transparency

Reg No.	Company name	Whether disclosed on the glass account	
5435528	Erdenes Tavan Tolgoi JSC	Yes	Yes
2008572	Baganuur JSC	No	No
2016656	Tavantolgoi JSC	Yes	Yes
2550466	Mongolrostsivetmet SOE	Yes	Yes
2074192	Erdenet Mining Corporation SOE	Yes	Yes

5.7.12.4. Regulations and practices related to SOE's procurement

The SOE shall carry out procurement activities in accordance with the Law on Procurement of Goods and Services with the State or Local Budget

SOEs adopt rules for domestic procurement that is in line with the law. For example, Erdenes Tavantolgoi JSC has its rules for procurement of goods and services, posted on their website.¹⁷

As per the Law on Glass Account, the following activities should be:

1. Procurement plan (under the Article 6.1.1),
2. Procurement report (under the Article 6.1.1,6.1.2)
3. Procurement audit reports and other monitoring results /if available/
4. General tender information of activities reflected in capital or current expenditures (under the Articles 6.3.6, 6.4.3, 6.8.2).

Disclosure of the aforementioned 4 information is summarized and shown in the Table below:

Table 5.64 Procurement transparency

Reg No.	Company name	Disclosed on the glass account				Link to the disclosure
5435528	Erdenes Tavan Tolgoi JSC	Yes	Yes	N/A	Yes	https://shilendans.gov.mn/org/5232?group=1&year=2020
2008572	Baganuur JSC	Yes	Yes	N/A	Yes	https://shilendans.gov.mn/org/5244?group=1&year=2020
2016656	Tavantolgoi JSC	Yes	No	N/A	Yes	https://shilendans.gov.mn/org/7174?group=1&year=2020

¹⁷ <https://ett.mn/mon/112/item1/1341>

2550466	Mongolroostsvetmet SOE	Yes	Yes	N/A	Yes	https://shilendans.gov.mn/org/5240?group=1&year=2020
2074192	Erdenet Mining Corporation SOE	Yes	Yes	N/A	Yes	https://shilendans.gov.mn/org/5239?group=1&year=2020

5.7.12.5. Regulations and practices related to the agreement between SOEs and contractors

There is no specific regulation on agreements between SOEs and subcontractors. The Erdenes Tavan Tolgoi JSC and the Tavan Tolgoi JSC reported the information of the contract concluded with the subcontractors in the electronic reporting system. Information on subcontractors for all companies is provided in Appendix 31.b of this Report.

Table 5.65 Information on contracts concluded between Erdenes Tavan Tolgoi JSC and its subcontractors and operators

License №	Operator company name	Aimag/ Capital city	Soum/ District	Contract start date	Contract completion date	Contract amount /million MNT/	Services provided	Total number of employees	Male foreign workers	Female foreign workers	Male Mongolian workers	Female Mongolian workers
MV-00011943	TTGVCO LLC	Umnugobi	Tsogttsetsii	9/29/2015	2/28/2021	Indefinite	Mining	895	14	-	824	57
MV-00016882	Mongolian Mining and Exploration LLC	Umnugobi	Tsogttsetsii	8/28/2020	8/28/2023	Indefinite	Mining	1,069	6	-	985	78
MV-00016882	Multipack LLC	Umnugobi	Tsogttsetsii	10/31/2019	4/2/2021	Indefinite	Others	28	-	-	27	1
MV-00016882	Special Mining Service LLC	Umnugobi	Tsogttsetsii	1/14/2020	1/14/2023	Indefinite	Others	124	-	-	121	3
MV-00016882	Khishig Arvin Industrial LLC	Umnugobi	Tsogttsetsii	12/31/2019	12/31/2022	Indefinite	Mining	545	-	-	480	65
MV-00016882	MMEQ LLC	Umnugobi	Tsogttsetsii	12/31/2019	12/31/2022	Indefinite	Mining	548	-	-	504	44

Эх сурвалж: Компаниудаас ирүүлсэн мэдээлэл.

Table 5.66 Information on contracts concluded between Tavantolgoi JSC and its subcontractors and operators

License №	Operator company name	Aimag/ Capital city	Soum/ District	Contract start date	Contract completion date	Contract amount /million MNT/	Services provided	Total number of employees	Male foreign workers	Female foreign workers	Male Mongolian workers	Female Mongolian workers
MV-00000287	Asartain Gobi LLC	Umnugobi	Tsogttsetsii	5/2/2019	2/1/2020	637	stripping excavation	46	-	-	36	10
MV-00000287	Badrakh Od Uguuj LLC	Ulaanbaatar	Bayangol	5/1/2020	12/25/2020	3,772	stripping excavation	53	-	-	40	13
MV-00000287	Bolor Agramba LLC	Ulaanbaatar	Khan-Uul	5/11/2020	12/25/2020	3,044	stripping excavation	40	-	-	35	5
MV-00000287	Buyan Saash Trade LLC	Ulaanbaatar	Sukhbaatar	7/1/2020	12/25/2020	354	stripping excavation	20	-	-	16	4
MV-00000287	Gobi Turuu LLC	Umnugobi	Dalanzadgad	5/4/2020	12/25/2020	10,729	stripping excavation	71	-	-	60	11
MV-00000287	Gold Magnet LLC	Uvurkhangai	Uyanga	5/4/2020	12/25/2020	10,396	stripping excavation	66	-	-	54	12
MV-00000287	Yol Asia LLC	Umnugobi	Tsogttsetsii	5/11/2020	12/25/2020	14,198	stripping excavation	46	-	-	32	14
MV-00000287	Inguumel Enkh LLC	Ulaanbaatar	Sukhbaatar	6/20/2020	12/30/2020	17,745	stripping excavation	69	-	-	55	14
MV-00000287	Ikh Shijir Bayalag LLC	Ulaanbaatar	Chingeltei	5/2/2019	1/30/2020	177	stripping excavation	32	-	-	24	8
MV-00000287	Ulemj Gobi LLC	Umnugobi	Dalanzadgad	5/1/2020	12/25/2020	1,969	stripping excavation	30	-	-	24	6

License №	Operator company name	Aimag/ Capital city	Soum/ District	Contract start date	Contract completion date	Contract amount /million MNT/	Services provided	Total number of employees	Male foreign workers	Female foreign workers	Male Mongolian workers	Female Mongolian workers
MV-00000287	Mera XXK	Ulaanbaatar	Bayangol	7/21/2020	7/21/2021	Unclear	stripping excavation	20	-	-	20	-
MV-00000287	Monblack LLC	Ulaanbaatar	Bayangol	7/4/2019	12/30/2019	62	stripping excavation	20	-	-	20	-
MV-00000287	Morin Ulaach LLC	Ulaanbaatar	Bayangol	5/1/2020	12/25/2020	4,146	stripping excavation	42	-	-	35	7
MV-00000287	Most Mining LLC	Ulaanbaatar	Khan-Uul	3/24/2020	1/15/2021	3,110	stripping excavation	130	-	-	113	17
MV-00000287	Ovoot Tolgoi Resources	Ulaanbaatar	Songinokhairkhan	8/1/2019	4/30/2020	5,078	stripping excavation	19	-	-	19	-
MV-00000287	Pct LLC	Ulaanbaatar	Bayangol	5/4/2020	12/30/2020	1,809	stripping excavation	34	-	-	31	3
MV-00000287	Soft Coal UB Mining LLC	Ulaanbaatar	Bayanzurkh	5/2/2019	2/1/2020	1,730	Stripping excavation	39	-	-	33	6
MV-00000287	Special Mining LLC	Ulaanbaatar	Chingeltei	7/21/2020	7/21/2021	Unclear	Other	92	-	-	83	9
MV-00000287	Khavtsgait Ikh Khairkhan LLC	Ulaanbaatar	Khan-Uul	5/4/2020	12/25/2020	6,172	stripping excavation	60	-	-	46	14
MV-00000287	Khan Namnan Bolor LLC	Ulaanbaatar	Bayangol	5/4/2020	12/30/2020	953	stripping excavation	30	-	-	25	5
MV-00000287	Evseg Saikhan LLC	Bulgan	Bulgan	5/1/2020	12/15/2020	1,522	stripping excavation	65	-	-	53	12
MV-00000287	Ezora XXK	Ulaanbaatar	Bayangol	10/1/2019	4/30/2020	2,062	stripping excavation	15	-	-	12	3
MV-00000287	Engui Gobi LLC	Umnugobi	Khanbogd	5/4/2020	12/25/2020	864	stripping excavation	35	-	-	28	7
MV-00000287	Noble Gobi LLC	Umnugobi	Tsogttsetsii	5/4/2020	12/25/2020	13,285	stripping excavation	45	-	-	35	10

Source: Information provided by companies

5.7.13 Regulations and practices related to corporate governance

Regulations and practices related to Board members appointment

In regard of state and locally owned companies, procedures for the representation of state and local ownership is regulated by the Law on State and Local Property; the election of independent members to the Board, and committees under the Board and the Secretary of the Board are regulated by the Company Law.

The Government resolution No. 80 dated 2016 defines the relations on implementing state representation in a state-owned legal entity, and the requirements, rights, duties and responsibilities of the state property representative. An entity is considered state-affiliated when state own 100% or a certain percentage of the total issued common shares. The State exercises its rights and responsibilities in the legal entity through a person appointed as a member in Shareholders' Meeting and the Board of Directors. Members of the Board shall be elected and dismissed by the shareholders meeting in accordance with the procedures set forth in Article 77.1 of the Company Law and the company's charter. As per 11.6 of the Law on State and Local Property, state property representative to a state-owned legal entity shall be appointed and shall monitor its activities.

According to Article 75 of the Company Law, the number of board members is determined in the Company's Charter and Board of Directors of a joint stock company or a state-owned company shall have nine or more members, and at least one third shall be independent members.

Article 77 of the Company Law addresses matters related to the election of the board of directors and the expiration of its term. The Board members are elected at the Shareholders' meeting. The Chairman of the Board shall be one of the elected Board members and decided by a majority vote involving all members. Chairman of the Board shall propose Secretary of the Board and the Secretary shall be appointed by the Board.

In the case of LLCs, the Board of Directors may, if deemed necessary, establish permanent or temporary committees in charge of specific matters. The Board of Directors of a joint stock company shall have committees for audit, salary, bonuses, and nomination.

Board's operations are approved and followed in accordance with the law on SOEs. The composition of the board of directors of the SOEs are shown in Appendix 21 of this report.

Table 5.67 Remuneration and bonuses of the Board, in MNT million

Reg №	Company name	Amount of bonus for the Board	Discount, promotion	Expenses for business trip
5435528	Erdenes Tavan Tolgoi JSC	-	-	-
2008572	Baganuur JSC	139		
2550466	Mongolrostsvetmet SOE	-	-	-
2074192	Erdenet Mining Corporation SOE	-	-	-

Source: Information provided by companies

5.7.14 Quasi-fiscal expenditures

Pursuant to the EITI standards, quasi-fiscal expenditures are defined as arrangements whereby SOE(s) undertake public social expenditures that are outside of the national budget, such as payments for social services, public infrastructure, heating subsidies and national debt servicing.

We requested quasi-fiscal expenditures information from 5 SOEs covered in the reconciliation. The Erdenet Mining Corporation JSC and the Baganuur SOE provided their expenditure, and the Mongolrostsvetmet SOE and the Erdenes Tavan Tolgoi JSC reported that they have no such expenditure made in 2020 fiscal year. No response delivered from the Tavantolgoi JSC. Please refer

to the following table 5.67:

Table 5.68 Quasi-fiscal expenditures, MNT Millions

SOE	Quasi-fiscal expenditure	Payment method	Amount
Baganuur JSC	Fuel subsidies/sold coal at discounted prices/		
	Thermal power plant No.4, state-owned JSC	Cash	4,393
	Thermal power plant No.3, state-owned JSC		3,044
	Thermal power plant No.2, state-owned JSC		501
	Darkhan power plant, state-owned JSC		282
	Erdenet power plant, state-owned JSC		12
	Baganuur Thermal Plant		1,655
	Nalaikh Thermal Plant		23
	Amgalan Thermal Plant		287
	Tuv Chandmani Thermal Plant		17
Selenge Energo Thermal Plant	14		
Subtotal			10,229
Erdenet Mining Corporation	Payments related to infrastructure		
	Orkhon Aimag	Cash	18,800
	Social services		
	Bulgan Aimag	Cash	3,300
Subtotal			22,100

Source: Information provided from companies

In breakdown of Baganuur JSC's fuel subsidy, it sold coal to thermal power plants for MNT 2,307 less than its cost, and it sold coal to the Baganuur TPP for MNT 24,807 less than its cost. 5 SOE's involved in the reconciliation reported that there was no new construction or infrastructure upgrades due to the COVID-19 pandemic.

Table 5.69 Coal supply

SOEs	Supplied coal, tonne	Supplied amount in /MNT mln/	Average price of 1 ton of coal /MNT/	Average cost of 1 ton of coal / MNT /	The average price of 1 ton of coal /USD/	The average world market price of 1 ton of thermal coal /USD/
Baganuur JSC	4,050,500	140,180	34,608	35,808	12.14	45.60
Erdenes Tavan Tolgoi JSC	11,047,926	1,547,692	140,089	60,890	49.29	45.60

Source: Information from companies, global market price from MRPAM Statistics

5.8 BUDGET PROCESS AND REVENUE ALLOCATION

5.8.1 Extractive Industry Income Allocation

The changes to the state budget revenue distribution in the 2020 Budget Law of Mongolia are as follows. It includes:

- As the mining sector develops, the social responsibility of the sector increases, environmental protection and rehabilitation works required, as well as the higher allocation to the local community from revenue generated from mining sector is expected.
- Article 60.2.7 of the Budget Law states that “The source of livestock tax revenue shall be spent on improving pastureland management, increasing water supply for pastureland and crops, protecting animal health, preventing from infectious diseases, improving livestock quality, preventing from criminal attacks, disaster prevention actions, increasing the volume of precipitation, planting fodder plants, creating fodder reserves, protecting the environment, combating rodents, and training and advocacy for herders.”

- Mining license revenues in accordance with Article 23.4.7 the Law on State Budget is to be considered as tax revenues of the State Budget. 50 percent of the revenues shall be distributed to aimag and capital city local development fund in accordance with Article 60.2.7 of the Law on State Budget, to be effective from 2020.

5.8.2 Case where revenue from the extractive sector was not accounted in the state budget (Requirement: 5)

We requested the Ministry of Finance to provide us with information on income that is not accounted in the state budget, taxes received in advance that might have been recorded as "debt". The Ministry of Finance provided a response that there is no such information regarding the matter.

According to the Law on Amendments to the 2020 Budget Law of Mongolia adopted by the State Great Khural (Parliament) on 28 August 2020, it is estimated to centralize MNT 55.2 billion in the Fiscal Stabilization Fund. In performance of 2020, MNT 66.2 billion was centralized to the Fund, and this is over fulfillment by MNT 11.0 billion or 20.1 percent than expected. This was mainly due to changes in copper prices. In the first half of 2020, the global economy slowed down due to the negative impact of the COVID-19 pandemic, and world commodity prices fell sharply. In the last six months, the economic recovery in China, a major consumer of raw materials, has intensified, boosting economic demand. In the course of period from August to December, copper price on the London Metal Exchange rose to USD 6,946.1 per tonne, or 8.5 percent from the expectation, as a result it impacted to increase the Stabilization Fund's revenue. According to Article 16.3.1 of the Fiscal Stability Law, MNT 138.8 billion was transferred to the state budget in 2020.

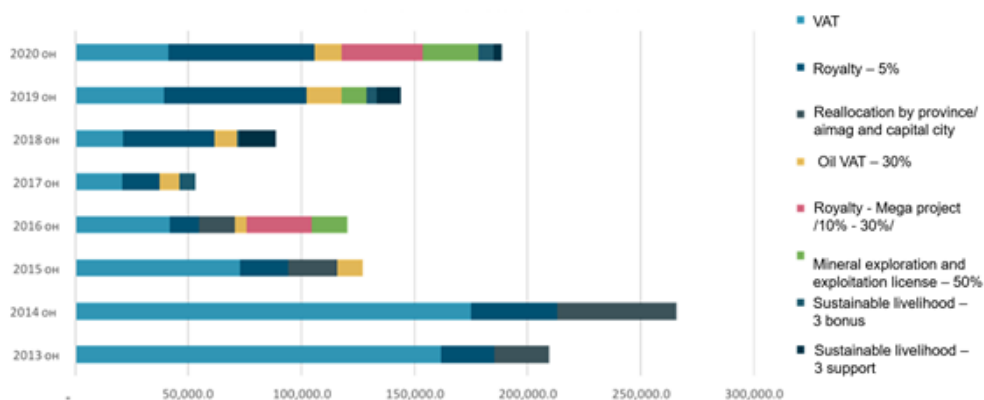
5.8.2.1. Local transfer

General Local Development Fund (Requirement 5.2)

The Local Development Fund is a budget that is governed by the citizens. The fund has the advantage of providing administrative units with their own investment options and programs and to finance their self-sustaining activities.

Funding sources of the General Local Development Fund is formed by centralizing the certain percentage of budget revenues such as domestic VAT, mineral royalty payments, mineral exploration and exploitation license fees. Figure 5.12 demonstrates the formation of funding sources.

Figure 5.12 Formation of funding sources of General Local Development Fund

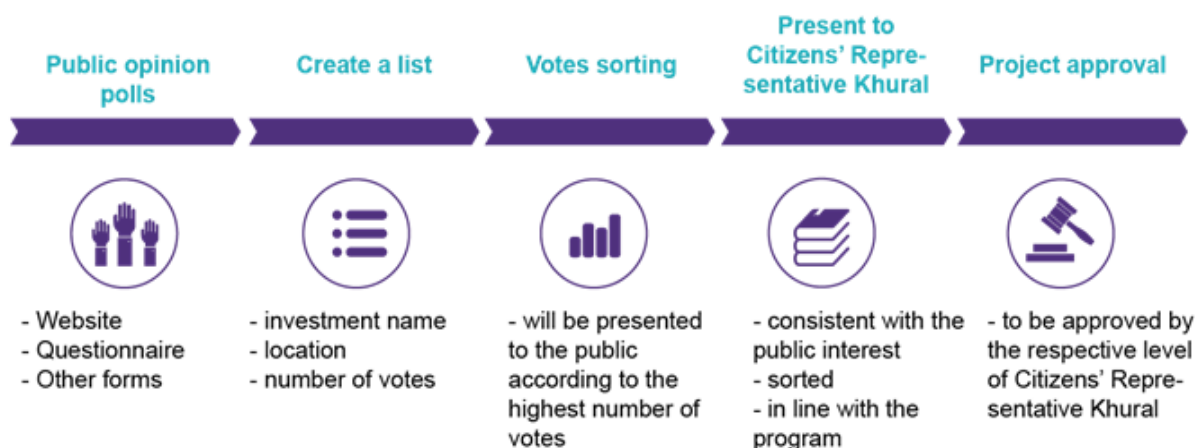


Source: Local Development Fund

The Fund when allocating each aimags and capital city share utilize a formula that takes into consideration population size, distance, territorial size, and local development index. Aimag and capital city after retaining their portion shall transfer minimum 30% of the fund allocated to their soum and district using the same formula.

Local community development funds should be expended on local community development, investments, programs, and projects that benefit community's actual needs and requirements and to be endorsed and approved at the local community meeting and Citizens' representatives.

Figure 5.13 Citizens' Participation in Local Development Fund



Source: Citizen's budget-2018, MOF

Transfers from General Local Development Fund and the state budget to aimag and capital city's LDFs were estimated to be MNT 172.6 billion in 2020, of which MNT 165.7 billion has been transferred to the LDFs. Refer to Appendix 44 for details on aimags and soums.

With the aim of ensuring budget management and solvency during the COVID-19 pandemic, it has switched to the economic saving mode from February 2020. Accordingly, priority funding will be made for recurrent expenses in key sectors such as health, as well as salaries, fixed costs, pensions and benefits for all levels of the budget organizations. Other expenses will be funded according to their importance and urgency, but the funding of foreign business trips, receptions, trainings and seminars, purchase of furniture, routine maintenance, and internships will be suspended temporarily. In line with the above-mentioned policy, some expenditures have been reduced in the 2020 budget clarification, taking into account the importance and priority in calculating local basic expenditures. Moreover, the local budget revenue was estimated to be reduced by MNT 72.9 billion due to revenue shortfalls and tax exemptions caused by the COVID -19 pandemic. These changes in basic local budget revenues and expenditures have resulted in a decrease in financial support to aimags by a total of MNT 7.6 billion from the approved amount for 2020.

The Ministry of Finance adopted the integrated rural development fund system in 2013. This system allows to review the allocation of consolidated local development funds to aimags, capital city, soums and districts starting 2013. Refer to link: www.tusuv-oronnutag.mof.gov.mn.

The fund allocation of Local Development Fund for 2020 is shown by aimags and districts

No	Aimags/District	Approved budget (million MNT)	Funding budget (million MNT)	Ongoing projects	Performance percentage
1	Arkhangai	4,778	4,040	192	90
2	Bayan-Ulgii	6,222	5,047	210	75
3	Bayankhongor	6,426	5,533	308	78
4	Bulgan	3,293	2,703	138	78
5	Gobi-Altai	7,570	5,619	229	76
6	Govisumber	1,140	902	75	84
7	Darkhan-Uul	6,424	4,826	109	90
8	Dornogovi	15,225	9,657	136	82
9	Dornod	6,928	5,583	282	85
10	Dundgovi	5,177	4,046	166	87
11	Zavkhan	4,508	4,063	277	83
12	Orkhon	4,296	3,768	96	84
13	Uvurkhangai	5,754	4,988	215	86
14	Umnugobi	14,188	9,628	160	91
15	Sukhbaatar	12,621	6,999	146	77
16	Selenge	7,740	5,794	98	92
17	Tuv	7,126	5,072	208	82
18	Uvs	5,571	4,951	211	89
19	Khovd	9,703	6,567	280	93
20	Khuvsgul	7,143	6,212	292	87
21	Khentii	7,274	4,959	171	84
22	Baganuur	14	38	-	-
23	Bagakhangai	1	8	-	-
24	Bayangol	-	690	1	-
25	Bayanzurkh	1	529	1	-
26	Nalaikh	10	41	-	-
27	Songinokhairkhan	3	321	-	-
28	Sukhbaatar	-	58	-	-
29	Khan-Uul	12	94	-	-
30	Chingeltei	-	283	-	-

5.8.3 Income management and expenditure (Requirement 5.3)

5.8.3.1. Participation of extractive sector in revenue generating

According to the Law on Amendments to the 2020 Budget Law of Mongolia, the revenue of the mining sector is estimated to be MNT 2.7 trillion in 2020, and some measures to be taken in connection with the adoption of the 2020 Budget Law of Mongolia are as follows. It includes:

- Effectively utilize Aimag and Local Development Fund's expenditure through prioritizing the new investments and projects and extend citizens participation in performance monitoring. From 2019 and onwards 50 percent of the revenues from mineral exploration licenses are transferred to the license locating aimag directly from state budget;
- 50 percent of the air pollution charges for raw coal and 30 percent of the oil license revenues generated are being transferred to that aimag from the state budget in order to effectively reduce

air pollution, improve environmental protection, rehabilitation and reforestation activities, monitor its implementation.

5.8.3.2. Revenue stability and dependence on natural resources (Requirement 5.3.b)

Due to the COVID -19 pandemic, declining of international commodity prices, and economic slowdown due to domestic lockdown, the budget revenue estimate was reduced by about MNT 2 trillion to MNT 10,729 billion to be passed by parliament.

Plan on revenue from the mining sector, in billion MNT

Indicator	Copper	Coal	Gold	Iron	Other	Total
Royalty	958.1	799.0	166.8	111.1	116.6	2,151.7
Corporate income tax	248.3	464.3	50.0	61.5	128.9	953.1
Dividends	237.8	138.1	-	-	42.6	419.5
Customs duties and taxes	177.8	73.3	-	20.7	42.6	314.4
Others	213.0	119.3	18.8	6.8	65.2	423.1
Total	1,836.2	1,594.0	235.7	200.1	395.9	4,261.8

Source: Ministry of Finance

5.8.3.3. Mining industry development trend

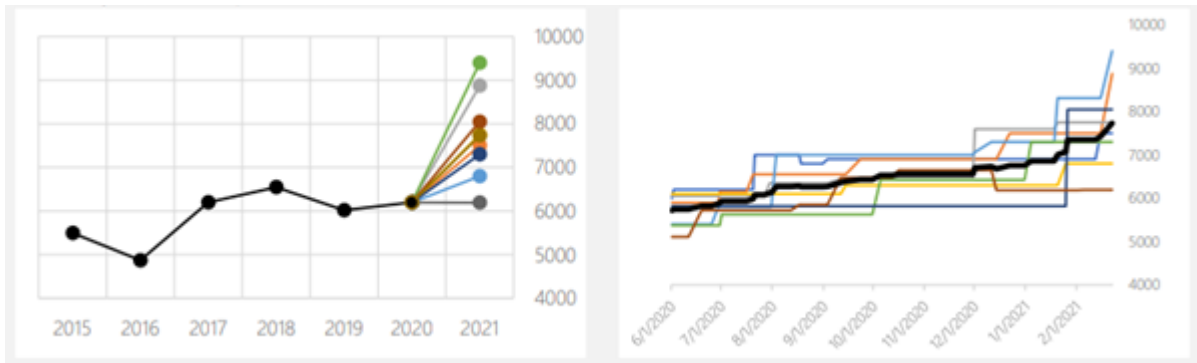
Tendency of the world economy. "At a time when the global economy is slowly recovering, policymakers are focusing on strengthening the economic recovery and laying the foundations for further strong and sustainable growth, however, challenges are still facing to areas such as public health, debt management, fiscal policy, central bank and economic reform etc" said World Bank President David Malpass said. He emphasized the need to focus on improving the business environment, improving labor and product market flexibility, and strengthening transparency and governance in order to overcome the negative effects of the pandemic and effectively address challenges to the investment..

The global economy shrank less than expected in 2020 due to the relatively less economic decline in developed countries. As well, this is mainly due to the fact that the Chinese economy is recovering faster than expected. However, economic activity in highly developed and developing countries has slowed more than imagination.

5.8.3.4. Market trends in key mineral products

Copper. The price of copper, one of Mongolia's main export products, has fallen sharply due to the COVID -19 pandemic. As of 23 March, the price had down to USD 4,609, the lowest level in the last four years. China, which alone accounts for half of the world's copper demand, has revived operations and copper prices have rebounded to USD 5,500 over the past two months as the country's copper imports soared. In the first six months of 2021, copper prices averaged USD 9,094.6 per tonne, and according to international banks and financial institutions, the average price for the year is expected to be USD 9,076 per tonne.

Chart 5.14. Copper price movement and forecast, USD/tonne

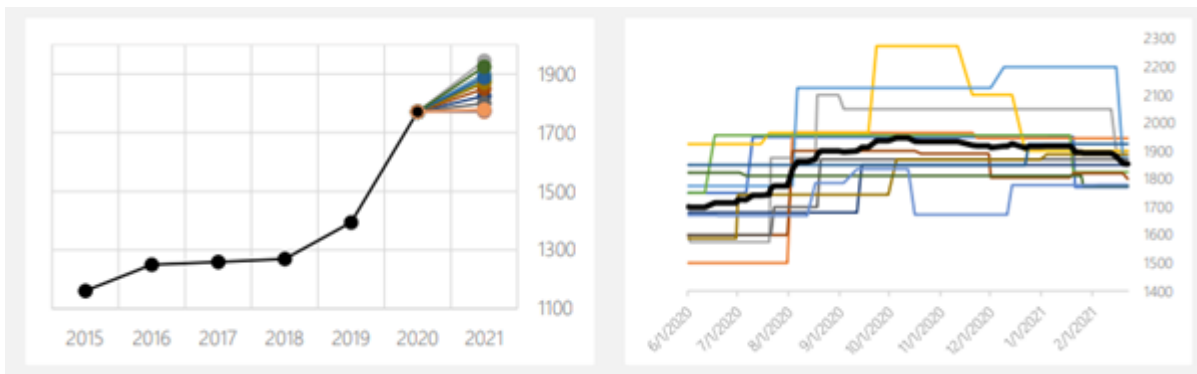


Source: Bloomberg terminal

Gold. Gold prices averaged USD 1,770 in 2020 and reached a record high of USD 2,069 in August 2020. Although global gold consumption did not increase in 2020, investment in gold has increased due to market uncertainty. Increase in net gold purchases by central banks and a three-fold cut in interest rates by the US Federal Reserve also pushed up gold prices.

International analysts predict that gold prices will continue to rise in 2021.

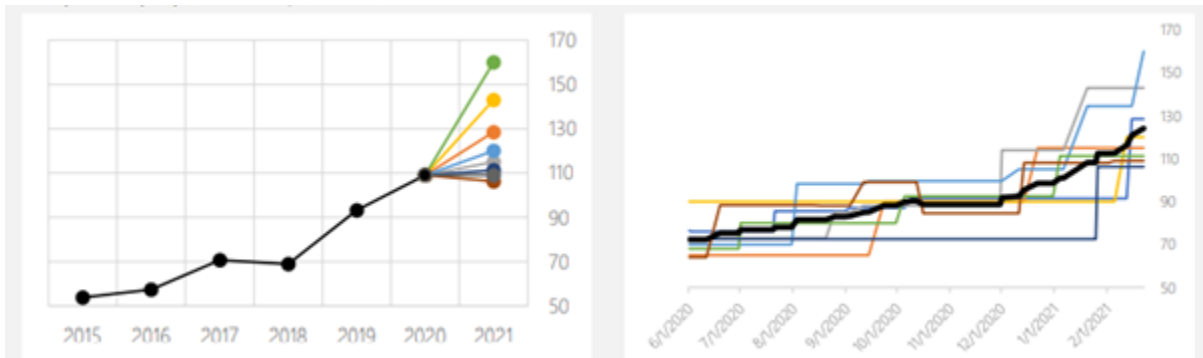
Chart.5.15. Gold price movements and forecasts, USD, troy ounce



Source: Bloomberg terminal

Iron ore. Price of iron ore have been rising steadily since November 2019, reaching USD 95 in the first month of 2020. China accounts for 70 percent of the world's iron ore imports. Demand of iron ore was decreased because of China where the Lunar New Year holiday lasted long days due to COVID - 19 pandemic where factories and plants cease their operation. As a result, iron ore prices fell by 15.3 percent to USD 78.3 in early February. Iron ore prices fluctuated between USD 80 and USD 84 in April, while new coronavirus infections spread rapidly in major suppliers like Brazil and India resulting to have uncertainty of iron ore supplies. In the last month of the year, iron ore prices rose by 22.5 percent reaching to USD 100.7.

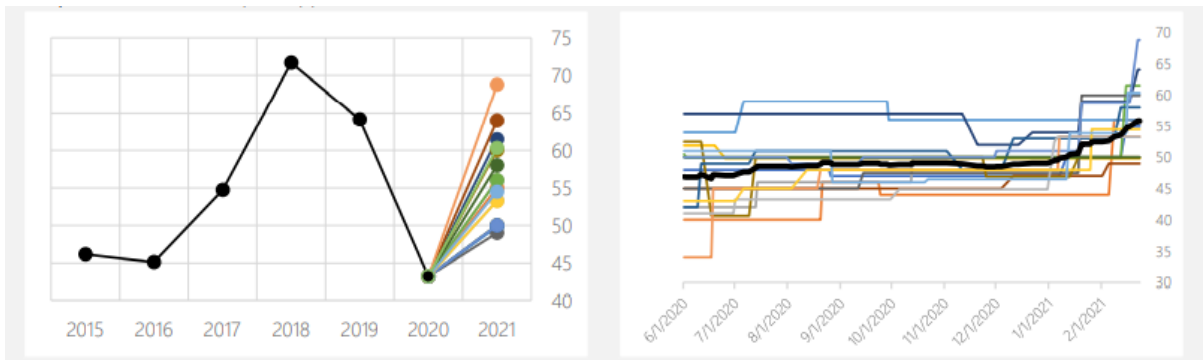
Chart 5.16. Iron ore price movements and forecasts, USD, ton



Source: Bloomberg terminal

Oil. The COVID -19 pandemic is spreading rapidly in worldwide, and as countries respond to border bans and lockdowns, the world's tourism and transportation sectors are shrinking, leading to a decline in demand for fuel and gasoline. On the other hand, major oil suppliers such as Russia and Saudi Arabia made a decision to increase its oil production, leading to a surplus of oil on world markets resulted falling oil prices.

Chart 5.17 Oil movement and forecasts, SD, barrel



Source: Bloomberg terminal

5.8.3.5. Systematic disclosure (mainstreaming)

Disclosure of information on revenues, expenditures, and operations of funds generated from extractive sector (Requirement 5.3.a).

The public can access information and explanation on the state budget and audit activities, as well as on audit reports on budget preparation, spending, projects performance, through the following channels (Requirement 5.3.a).

Table 5.70 Open information of the state budget and audit activities

Website	Description
www.mof.gov.mn	Ministry of Finance’s official website and provides information on the structure, policies, directions, and budget of the Ministry
www.iltod.gov.mn	Current budget information, annual budget information, budget-related laws, decrees and regulations
www.shilendans.gov.mn	Information on budgets and expenditures of all budgetary organizations and state-owned enterprises
www.tusuv-oronnutag.mof.gov.mn	Information on projects and programs funded by the Local Development Fund
https://publicinvestment.gov.mn “Budget investment” application	An online website for public investment financing activities and a mobile application “Budget Investment”
www.e-balance.mof.gov.mn	Integrated business reporting system, accounting instructions, decree, and advice
www.audit.mn	Audit plan, report, and recommendation
www.tender.gov.mn	State procurement online system
www.1212.mn	Integrated database of National Statistics Office
www.worldbank.org/mn/country/mongolia	Webpage of Mongolia, World Bank
www.imf.org/en/Countries/ResRep/MNG	Webpage of Mongolia, IMF
www.adb.org/countries/mongolia/main	Webpage of Mongolia, ADB
www.internationalbudget.org	Webpage of International Budget Partnership NGO

6

OTHER MATTERS



6 OTHER MATTERS

6.1 BENEFICIAL OWNERSHIP (REQUIREMENT 2.5)

A beneficial owner is the natural person(s) who ultimately owns, controls, or benefits from a company and is not the person(s) who is legal shareholder or the person(s) who work for or on behalf of the company. A beneficial owner is not necessarily a shareholder but is involved in and influences decision making, hides behind a complicated structure and directly or indirectly benefits from a company.

The EITI global Standard requires that by January 1, 2020, all implementing countries have to ensure that all corporate entity(ies) that apply for bid, operate or invest in extractive assets or hold a participating interest in an exploration or production oil, gas or mining license or contract should include the identity(ies) of their beneficial owner(s).

The EITI Board has undertaken several actions on beneficial ownership.

Table 6.1 Beneficial ownership

Year	Actions
May 2013	Agreed that the EITI to require disclosure of BO.
October 2013	A pilot of BO took place with the participation of eleven implementing countries.
January 2016	29 EITI implementing countries are implementing to certain degree. 9 countries are including BO information in the EITI report.
February 2016	Under the EITI Standard, as of 1 January 2020, it is required that implementing countries request, and companies disclose, beneficial ownership information for inclusion in the EITI Report.

6.1.1 Mongolia's approach and the Government policy

In 2016, the Working Group appointed a sub-working group to investigate how the beneficial ownership requirements of the EITI Standard can be met in Mongolia. The sub-working group drafted a roadmap, which was approved by the National Council meeting on 20 January 2016 and further amended on 21 December 2017.

With respect to objective of disclosing the beneficial ownership, definition of terms, scope, materiality threshold and data for collection were finally approved at the meeting of EITI Working Group dated November 15, 2017. Before such approval, over 260 participants representing government, companies and civil society have involved in the series of discussion and then the final version was developed considering those comments received. The following definitions were agreed: -

“Ultimate beneficial owner” means the individual person(s) who directly or indirectly holds, owns, benefits 5% or more of company shares or any identical securities, 20% or more of voting rights and ...% or more of dividends of legal entity who is license holder, investor, bidder and the contractor in the extractive industry, and exercises management and controls of the company directly or indirectly, or exercise shareholder rights in other means.

“Indirect holding and ownership” mean indirectly to hold shares, any identical securities, and exercise voting rights through related parties with common interest using contract, power of attorney or other types of representation; OR to establish 1 or more legal entities referred to as the custody chain.

“Direct management and control right” means right of making decisions to appoint governing persons of company according to Article 84 of Company law and the Company Charter; and, individually or collectively with the party who has a common interest, to decide whether to enter into significant transactions.

“Indirect management and control” refer to situation where the one exercises management and controls of the company through related parties with common interests using contract, power of attorney or other types of representation.

If the ultimate beneficial owner is a **politically exposed person**, then materiality threshold shall not be applied (0%) for the ownership percentages of the beneficial owner and his/her related parties with common interests; public disclosure is mandatory.

Politically exposed person means officials defined in Article 20.2 of the Law on the Prevention of Conflict of Interest and the Regulation of Public and Private Interests in the Public Services.

A national anti-corruption programme was approved by the GoM Resolution No. 114 dated April 12, 2017. Per 4.1.6.5 of the attachment to this Resolution, it was planned to disclose beneficial owners within the framework of EITI standards, to implement compliance with this requirement for the period between 2020-2022 and that the MEITI Working group shall oversee it.

National Council of OGP Mongolia have developed and presented “National Action Plan II 2016-2018 of Mongolia” at the Cabinet meeting. At the meeting, the NAP had positive support and reflected comments from the Ministers; and final draft of NAP making 13 commitments was discussed and approved at the meeting of National Council dated June 7, 2016.

Commitment number 12 of the plan is related to transparency of information on beneficial ownership in mining sector; and the responsible ministries and agencies are state administrative body in charge of budget and finance, and state administrative body in charge of mining related issues.

6.1.2 Transparency of beneficial ownership

For the 2020 EITI report, a template was developed to identify beneficial ownership in a single inquiry and was uploaded onto the MEITI e-reporting system.

According to the EITI requirements, the following data will be collected using the template, however, the collected information will partially be available for the public:

- First and Last name,
- Nationality,
- Registration No.,
- Date of Birth,
- Citizenship, dual citizenship if applicable,
- Country of residence,
- Whether politically exposed person,
- Whether holding roles of executive management in the company,
- Address of the current employer,
- Percentage of ownership,
- Whether acting as attorney-in-fact to exercise rights on behalf of others.

Out of total 2,263 companies holding mineral licenses, 426 companies provided beneficial ownership information.

A total of 893 companies submitted beneficial ownership information, but the independent administrator evaluated and improved some disclosure where information is duplicated or non-filling. They are summarized as follows.

Table 6.2 Beneficial owners of license holding companies

Country	whether is he/she a politically influential person	Individual		Open public company
		Whether he/she holds management position in this company	Other	
Mongolia	3	221	125	2
China	-	13	15	-
Japan	-	-	7	-
New Zealand	-	-	1	-
Russia	-	2	1	-
the USA	-	2	-	-
Switzerland	-	-	2	-
Australia	-	-	2	1
Spain	-	1	2	-
Singapore	-	1	-	-
Thailand	-	5	-	-
Hong Kong	-	2	-	1
Canada	-	-	1	8
Bermuda	-	-	-	1
German	-	-	-	1
United Kingdom of Great Britain and Northern Ireland	-	-	-	2
Cook Islands	-	-	-	2
Luxembourg	-	-	-	1
Maine Island	-	-	-	1
Total	3	247	156	20

For reports of some beneficial ownership information in Mongolia since 2013, please refer to: <http://www.eitimongolia.mn/p/23> For details of information submitted by companies, see Appendix 21(b, c).

6.2 CONTRACT TRANSPARENCY

6.2.1 Initiative to improve contract transparency

There have been several actions taken by government to improve the disclosure of contracts with extractive companies, including:

- Amendments to the Petroleum Law by the Parliament in 2014 enable to enforce regulations related to non-traditional oil. The clause related to the confidentiality in the Model Agreement for Product Sharing Agreements was revoked. The confidentiality clause in the Petroleum Product Sharing Model Agreement was repealed.
- The provision on transparency and mandatory disclosure of the government organisations' contracts was included in the Law on General Administration adopted in 2015.

During the recent years, the Government has signed a number of Concession agreements to support the construction of auto roads, railways, supply of power, heating, water and other logistics facilities associated with the extractive industry. Article 6 and Clauses 6.4 and 6.5.9 of the Law on Glass Accounts enacted in 2014 state the` legal entities with state and local ownership shall disclose

information on Concession Agreements and Partnership Concession Agreements`. This clause also enables the companies to disclosure partially the agreements' information.

On December 18, 2014, the EITI Secretariat, `Publish What You Pay` Coalition and National Mining Association of Mongolia jointly organised the Multi-Stakeholders Consultations on Agreements Transparency in Mining Sector` under the Open Society Forum of Minerals in Ulaanbaatar city with support of the Standing Economic Committee of the Mongolian Parliament and the Ministry of Mining and Heavy Industry.

The consultations focused on the current laws relating to contracts / agreements transparency in mining sector, their implementation, exchanging the experiences and lessons of foreign countries, identifying the challenges in executing the agreements, and defining the ways to resolve them. The participants agreed that:

- In order to create contract transparency in mining sector, access to information and arrangement, there is a need to create integrated database, containing copies of each Stability Agreement, Investment Agreement, Product Sharing Agreement, Agreement for Geological Operations and Pre-Mining Agreements signed between the Government, the organisations related to Government and the Investors for minerals sector, petroleum sector, natural gas sector and other license holders. The full disclosure of the agreements should be ensured by placing them on the web sites of the respective governmental organisations;
- Under Article 42 of the Minerals Law, there is a need to increase contract / agreements transparency between the local government organisations and the license holders by publishing them on websites, information stands, and by the means most suitable for the local communities. Also, the entire process of the agreements developing shall be disclosed through regular information sharing, public hearings, consultations, and engaging with the local communities. These consultations helped to initiate the consensus building among the government, civil society and private stakeholders on issues related to contract / agreement disclosure and legal background improvement,

This multi-stakeholder consultations launched the beginning of cooperation between stakeholders, including the government, extractive industries companies and civil society in ensuring transparency in contracts and creating a legal environment in the mineral sector.

Therefore, iltodgeree.mn web was established by the Open Society Forum (OSF Mongolia) in cooperation with the EITI Secretary of Mongolia and the Ministry of Mining and Heavy Industry (MMHI). Original documents such as Investment and Production Sharing Agreements and Concession Agreements related to the use of natural resources such as minerals, oil, natural gas, radioactive and common minerals; and Local Agreements made between license holders and the local authority are allocated on this website.

A list of key legal provisions related to contract transparency, including the extractive sector are shown in the table below¹⁸.

Table 6.3 Contract Transparency

No	Name of the legislation	Related articles to contracts and its transparency	Links
Law			
1	Constitution of Mongolia	Article 6.1 and 6.2; Article 16.17	http://legalinfo.mn/law/details/367?lawid=367
2	Minerals Law	Article 5.3-5.5; Article 42	http://legalinfo.mn/law/details/63?lawid=63
3	Law on Common Minerals	Article 40	http://legalinfo.mn/law/details/9750?lawid=9750
4	Petroleum Law	Article 12;13;14; 17	http://legalinfo.mn/law/details/10484?lawid=10484

¹⁸ <http://www.iltodgeree.mn/legal/3/detail>

5	Nuclear Energy Law	Article 29-31	http://legalinfo.mn/law/details/97?lawid=97
6	Law on Investment	Article 20	http://legalinfo.mn/law/details/9491?lawid=9491
7	Law on Concessions		http://legalinfo.mn/law/details/312?lawid=312
8	The Law to Prohibit Mineral Exploration and Mining Operations at River Headwaters, Protected Zones of Water Reservoirs and Forested Areas	Article 2.2; 3; 4	http://legalinfo.mn/law/details/224?lawid=224
9	General Administrative Law	Article 11; 26-28	http://legalinfo.mn/law/details/11259?lawid=11259
10	Law on the Information Transparency and Right to Information	Entirely	http://legalinfo.mn/law/details/374?lawid=374
11	Law on Privacy of Organizations'	Article 4; 6	http://legalinfo.mn/law/details/102?lawid=102
State policy			
12	State Policy on Mineral Sector	Article 3.1.7; 3.5.2	http://legalinfo.mn/law/details/9756?lawid=9756
13	Law on Glass Accounts	Article 6.4.8; 6.5.9-6.5.10; 7.1.1	http://legalinfo.mn/law/details/10497?lawid=10497
Rules and Procedures			
14	Procedural Rules for Investment Agreements	Entirely	http://legalinfo.mn/annex/details/6226?lawid=9803
Resolutions of the Parliament			
15	Parliament Resolution on the Investment Agreement of Oyu Tolgoi Deposit	Entirely	http://legalinfo.mn/law/details/6405?lawid=6405
16	Parliament Resolution on the Issues of Tavan Tolgoi Coal Deposit	Entirely	http://legalinfo.mn/law/details/6631?lawid=6631
17	Parliament Resolution on the amendments to the Resolution on the Issues of Tavan Tolgoi Coal Deposit	Entirely	http://legalinfo.mn/law/details/10318?lawid=10318
18	About the establishment of the state's share of the Gatsuurt deposit	Entirely	http://legalinfo.mn/law/details/11651?lawid=11651
Government resolution			
19	Measures on the implementation of Extractive Industries Transparency Initiative	Article 7; 8	http://legalinfo.mn/law/details/8791?lawid=8791
20	About some of the Tavan Tolgoi deposits	Entirely	http://legalinfo.mn/law/details/10568?lawid=10568

Source: Resource Contracts Database, Open Society Forum, <http://www.iltodgeree.mn/>

6.2.2 Actual disclosure practice

On June 22, 2017, Open Society Forum, EITI, Ministry of Mining and Heavy Industry launched an online database for resource contracts to meet the EITI Standards requirement 2.4 on improvement of contract transparency. The database is designed to enable the 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.

As of 20 October 2021, 827 contracts have been placed in this database. A total of 18 contracts were disclosed in the reporting year, and no new PSCs were established in 2020.

Table 6.4 Contracts in the resource database

№	Types of agreements	Quantity
1	Artisanal and small-scale mining agreement	242
2	Local cooperation agreement	204
3	Land use agreement	124
4	Reimbursement agreement for exploration work funded by the state budget	67
5	Water use agreement	55
6	Pre-mining agreement	45
7	Product sharing agreement	26
8	Contract under the Law on Prohibiting minerals exploration and exploitation in water heads and protected zone of rivers and forested areas	19
9	Oil prospecting agreement	16
10	Stability agreement	11
11	Concession agreement	4
12	Investment agreement	4
13	Contract under the Law on Prohibiting minerals exploration and exploitation in water heads and protected zone of rivers and forested areas	4
14	Others	3
15	Service agreement	1
16	Plan	1
17	Contract Annexes	1
Total		827

For further information, visit: <http://www.iltodgeree.mn/>

Refer to Appendix №43.a, 436 for a list of all contracts placed in the database

6.3. IN KIND REVENUES (REQUIREMENT 4.2)

In accordance with the requirement 4.2.a of the Extractive Industries Transparency Initiative (EITI) Standard of 2019, MRPAM provided the following information on “Sales of shares from production to the state”:

Table 6.5 Sales of shares from production to the state

№	Company name	Type of minerals	Mineral production (extraction)	Belongs to the state		Sales of 2020 /MNT million/
				%	Amount (MNT million)	
1	Dongsheng Petroleum Mongolia LLC	Petroleum	365,817.32	28.9	9,081.08	9,081.08
2	PetroChina Daqing Tamsag Mongol LLC	Petroleum	3,741,661.28	25.4	93,676.24	93,676.24

Source: MRPAM

6.4. INFRASTRUCTURE INVESTMENTS AND BARTER ARRANGEMENTS (REQUIREMENT 4.3)

In some cases, in order to obtain license for mineral resources of a country the extractive companies enter into agreement with government entities to provide in-kind services and goods (infrastructure investment). Examples of investment may include road, railway, power station, school, and hospital.

The benefits obtained by these companies represented by use of petroleum oil, gas, mineral resources, land, energy and water and other elements. This kind of agreement is called barter agreement or ‘resource-for-infrastructure swap agreement’.

Regarding infrastructure investments and barter arrangements in 2020, a total of 37 companies reported that they had made 54 infrastructure investments worth more than MNT 100 million. See Appendix 37 for details.

6.5. TRANSPORTATION REVENUES (REQUIREMENT 4.4)

Where revenues from the transportation of oil, gas and minerals are material, the government, and state-owned enterprises (SOEs) are expected to disclose the revenues received.

The following Table reports the transportation revenue information of enterprises, the type of product transported, the unit of measurement of the transported product, and the names of government agencies that received the transportation revenue.

Table 6.6 Transportation revenue of the entities

№	Companies	Types of minerals transported	Transportation revenue recipient entity name	Total value /in million MNT/
1	Companies received transportation service in 2018	Coal	Mongolian Railway SOJC	2,534.50
2	Companies received transportation service in 2019	Coal	Mongolian Railway SOJC	3,802.60
3	Companies received transportation service in 2020	Coal	Mongolian Railway SOJC	5,923.79

Source: Mongolian Railway SOJC

The published information shall have the same breakdown as of other revenue, payment streams (4.7). The multi-stakeholder group is responsible for developing and implementing procedures related to the quality of transportation revenue information and the verification of the above information in accordance with Requirement 4.9. EITI implementing countries shall disclose the following information:

- Information on the organization of transportation, including the products being transported, the transportation route, the company involved in the transportation and the government organization (including state-owned enterprises);
- Description of transportation taxes, tariffs and other charges, and methods of calculating them;

- Disclosure of tariff rate and quantity, size of transported products;
- Disclosure of revenues received by government agencies and state-owned enterprises from the transportation of oil, gas and minerals.

The following table shows the details of the 2020 Mineral Transportation by Rail, obtained from the Policy and Planning Department of the Ministry of Roads and Transportation, are shown in the Table below:

Table 6.7 Details of minerals transported by rail

№	Name of cargo /minerals/	Railroad car /qty/		Load /thous.t /	
		2019	2020	2019	2020
1	Iron ore	17,736	27,169	1,223.4	1,863.5

Source: Mongolian Railway SOSC

The National Road Transport Center SOE organizes and monitors the issuance of travel permits for vehicles carrying goods between the two countries in accordance with the Road Transport Agreement between the Governments of Mongolia and the People's Republic of China and the Protocol between the Implementing Ministries.

Based on Articles 2.3.2 and 3.3 of the Protocol on the Implementation of the Road Transport Agreement between the governments of the two countries, dangerous goods transportation are carried out from Tamsag oil deposit, Matad soum, Dornod aimag, Mongolia to the Bichigt Border Point in Erdenetsagaan soum, Sukhbaatar aimag and the Bayankhoshuu Border Point in Khalkh Gol soum, Dornod aimag by the “Most Asia” LLC, the “Dornin Khugjil Transport” LLC, the “TBNC Trans” LLC and the “Hunnu Petroleum Logistics” LLC. A total of 121 specially equipped trucks are operating along the route using the border crossing and special types of permits in accordance with related regulations and procedures..

Information on crude oil transportation between Mongolia and the People's Republic of China from 1 January 2021 to 31 August 2021 are shown in Table 6.8.

Table 6.8 Transportation on road

Bichigt border point		Bayankhoshuu border point	
Loaded			
Petroleum transportation vehicle	Weight ton	Petroleum transportation vehicle	Weight ton
4,542	147,830	8,436	315,497

Source: National Center for Road Transport SOE

6.6. SOCIAL EXPENDITURES (REQUIREMENT 6.1)

In 2020, 60 extractive companies covered by the EITI reconciliation have provided monetary and non-monetary donations and support to national and subnational governments. Due to under-reporting of receipts by the government there are discrepancies between amounts reported by government entities and companies, and this amount was reconciled during this process. Only those donations and supports which the MSG determined were mandatory reporting items were reconciled; amounts declared on a voluntary basis were not reconciled

Donations after reconciliation by their purpose are shown below:

Table 6.9 Total donation and support, by purposes, million MNT

Purpose	Donation amount /MNT million/	Percentage
Education	6.19	0.03%
Health	2.24	0.01%
Culture and sport	19,454.43	99.15%
Other	159.22	0.81%
Total	19,622.08	100%

Source: Information provided by companies

In 2020, 16 companies out of total companies involved in the reconciliation made a total of MNT 19,622.08 million in cash and non-cash donations. Oyu Tolgoi provided 75.8 percent of total donations and support, and 15 other companies provided 24.2 percent.

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

Table 6.10 Total donation and support, by government agencies

Recipient of donations	Monetary donation /mill.MNT/	Non-monetary donation /mill.MNT/	Amount /mill.MNT/	Percentage
Aimags, Capital city	16,273.61	67.71	16,341.32	83.28%
Soum, District	1,303.32	1,966.01	3,269.33	16.66%
Other organizations	-	11.43	11.43	0.06%
Reconciled donation amount	17,576.93	2,045.15	19,622.08	100%

Source: Information provided by companies

Following Table shows total received donation and support by aimags after reconciliation.

Table 6.11 Total donation and support, by aimags, million MNT

Recipient of donations	Monetary donation /mill.MNT/	Non-monetary donation /mill.MNT/	Amount /mill.MNT/	Percentage
Zavkhan	54.8	-	54.8	0.30%
Bayankhongor	171	207.56	378.56	1.90%
Selenge	200.16	85.17	285.33	1.50%
Tuv	50	-	50	0.30%
Bulgan	170	15.17	185.17	0.90%
Khovd	1,544.84	8.01	1,552.85	7.90%
Umnugobi	15,021.74	1,686.96	16,708.70	85.20%
Ulaanbaatar	330.39	16.28	346.67	1.80%
Orkhon	34	23	57	0.30%
Gobi-Altai	-	3	3	0.00%
Total	17,576.93	2,045.15	19,622.08	100.00%

The Ikh Undraga LLC provided a donation of MNT 50 million to the Zaamar Local Development Fund, the MoEnCo LLC donated MNT 1,544.84 million to the Khovd Khushuut Development Fund, and the Oyu Tolgoi LLC provided MNT 14,867.24 million to the Gobi Oyu Development Support Fund.

Non-monetary donations and support provided by the companies by type, after reconciliation, are as follows.

Table 6.12 Total non-cash donations, support, by type, million MNT

Type	Amount
Coal	2,079.43
Hay	67.13
Repair & maintenance	55.50
Construction of a landfill	35.00
Research and contract fees	23.02
Medical services and tools	20.75

Sleeping apparatus	20.00
Construction of drinking water facility	10.00
Organization of activities	8.50
Sewing machine and accessories	7.19
Tuition fees	6.19
Spare parts	5.20
Environmental protection expenses	3.00
Establish a radio station	3.00
Computers and accessories	2.75
Publishing fees	2.50
Service fee	2.25
Gher (traditional dwelling house)	1.33
Fabrics	1.25
Bowl made with copper	0.81
Camera	0.09

For more information on donations and support given to government institutions after reconciliation, refer to Appendix №11

6.7. REHABILITATION INFORMATION

In Mongolia, the mining sector's environment and social issues are regulated by three main government organizations: The Ministry of Mining and Heavy Industry (MMHI) and its agency Mineral Resources and Petroleum Authority (MRPAM), the Ministry of Environment and Tourism (MNET) and General Agency for Specialized Inspection (GASI).

The mining sector has its biggest negative impact on environment, utilizes nondepletable natural resources, and adversely effects on the traditional nomadic herding.

Therefore, the state central administrative body in-charge of environmental issues has been focusing on development, approval and implementation of laws, regulations and standards for environmental protection and rehabilitation.

Rehabilitation information was compiled into an electronic report form in accordance with EITI Standard Requirement 6.1, and a total of 352 companies submitted 359 rehabilitation report. According to the rehabilitation information provided by the companies, MNT 188,646.94 million was centralized to the cash fund at the special account and MNT 4,175.67 million was centralized to the non-cash fund at the special account.

In the reporting year, artisanal mining organizations made the rehabilitation works in 12 aimags, of which 283.74 ha were rehabilitated with their own funding and 211.11 ha were rehabilitated with external support. Refer to Appendix 26.b of the report for a list by aimag, soum and areas.

6.7.1 State policy for protection and rehabilitation of environment

Foundation of legislations which regulate environment and mining rehabilitation were created from 1988 and the relevant laws have been approved and amended since.

The following laws are in effect for environmental protection and rehabilitation during mining exploitation:

- Subsoil Law (1988);
- Minerals Law (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 (2012); and
- Other environmental laws and legal acts.

The Law on Minerals was amended with regards to issues related to a license revoke. Furthermore, Provision No 56.1.5 dated May 2, 2019 was re-edited as follows “The state central administrative body in charge of nature and environment shall make a conclusion taking into account the proposal of the local administrative body that the license holder has a harmful impact on the environment or has not fulfilled its obligations specified in the rehabilitation and environmental management plan”.

In addition, there are over 30 regulations and methodologies which were approved for implementation of the laws. For instance:

- Regulation for monitoring of special account for environmental protection and rehabilitation (2014),
- Regulation for development, review, approval and reporting of environmental management plan (2014),
- Methodology for technical and biological rehabilitation in degraded land due to mining activities (2015),
- Procedure “Obtaining the results of environmental rehabilitation activities affected by oil and unconventional oil exploration and production activities” by Joint Order No. A / 50 and A / 31 of 2018 of the Minister of Mining and Heavy Industry and the Minister of Environment and Tourism
- “Regulation on rehabilitation and closure of mines, quarries and concentrators” - Joint Order No. A / 181 and A / 458 of 2019 of the Minister of Mining and Heavy Industry and the Minister of Environment and Tourism,
- "Procedure for developing, reviewing and reporting on environmental management plan" - Order No. A / 618 of the Minister of Environment and Tourism dated October 29, 2019

According to MET, the following policies on environmental protection and rehabilitation were set out in the State Policy for the minerals sector¹⁹:

- The objective of Article 5.1.10 in the State policy for 2020-2024 states to prohibit extraction of the minerals of common occurrences in the Tuul river area, rehabilitate and increase the water level.
- As per Article 5.1.8 of the Action Plan of the Government of Mongolia for 2020-2024 on increasing of rehabilitated land, “8,000 hectares of land damaged and abandoned due to mining shall be rehabilitated”, the Ministry of Environment and Tourism has initiated the joint initiative on “Rehabilitation-2024” by the Ministry of Mining and Heavy Industry, the General Police Department and the GASI.

Under the scope of the UNDP “Environmental Governance” project, the model of Participatory Environmental Monitoring (COPM) requires the active participation and cooperation of government, business, civil society and local communities in the resolution and decision-making process of mining-related environmental conflicts. In May 2020, Joint Participatory Environmental Monitoring was conducted in Khentii and Sukhbaatar aimag for the first time, by representatives of the Ministry of Environment and Tourism, the Ministry of Mining and Heavy Industry, and General Agency for Specialized Inspection, the National Human Rights Commission, the Ecological Police, the aimag's Environmental Protection Department and soum governors. The programme was piloted within selected companies and specific lessons and recommendations were drawn. The project also conducted, for the first time, a Human Rights Impact Assessment for coal mining and transportation at the Tavan Tolgoi group of deposits. The recommendations were provided regarding issues related to the environment and human rights in the mining region, such as environmental degradation, air pollution, dust, coal transportation safety, working conditions for drivers, public health and security, and access to the health care services. In the future, the group aims to develop a manual and methodology for the introduction of COPM²⁰.

Within the framework of environmental rehabilitation, the Ministry of Environment and Tourism has carried out the following activities²¹:

¹⁹ Ministry of Environment and Tourism

²⁰ Ministry of Environment and Tourism

²¹ Ministry of Environment and Tourism

- As of 2020, in 66 soums of 21 aimags, 133 companies completed the rehabilitation works in areas of 653.57 ha. Details are available on https://eic.mn/box/box13.php?count=100&page=2&search_report_year=2020.
- A nationwide census of damaged land has been conducted, and results are available on the Environmental Database at www.eic.mn.

6.7.2 Environmental Impact Assessment and Management Plan

The purpose of an environmental impact assessment is to define any impacts which might arise in connection with determining the policies for use of natural resources, engaging in industrial and service activities and to avoid any threats to people's health and security, pollution in environment ecological misbalance.

Accordingly, the extractive sector is heavily dependent on the Law on Environmental Impact Assessment (2012). The law requires an environmental impact assessment (EIA) to be conducted before implementation of any mining project, and this process is illustrated as follows:

1. The Project Implementer shall engage and conduct the Environmental Impact Assessment (EIA) by an authorized professional organization prior to the commencement of the Project.
2. Based on the EIA, the Ministry of Environment and Tourism, including the Environmental Offices of aimag and capital city will issue a General EIA (GEIA) conclusion within 14 working days
3. In the event of conclusion that detailed EIA is required, a contract shall be signed with the competent professional body, which will develop a detailed EIA (DEIA) along with a 5-year Environmental Management Plan (EMP) and submit it to the Ministry of Environment and Tourism.
4. The expert who received the detailed EIA report shall conduct an evaluation analysis and issue a conclusion within 18 working days.
5. The EIA Professional Council of the Ministry of Environment and Tourism shall make a final decision on whether the project can be implemented based on the detailed EIA report, including expert and professional council's conclusions.

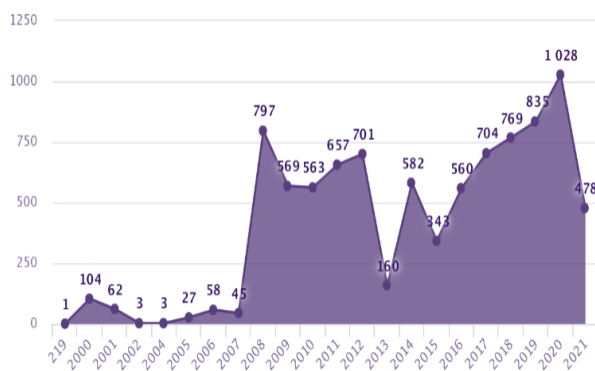
Environmental Management Plan and monitoring programs shall be developed from the detailed EIA, which are aimed at implementing the recommendations and conclusions stated in the EIA. In case of mining operations commencement, an EMP needs to be developed in the following steps. These include:

- 1 The Project Implementer shall update the EMP for each year in compliance with the environmental legislation, the results of the DEIA, and the approved EMP.
- 2 The EMP performance report must be submitted to the environmental departments of aimag and the capital city by November 1 of the same year, the implementation of the plan shall be inspected on site, and the working group's conclusion shall be issued by December 1.
- 3 The Project Implementer exploiting the mineral deposit shall submit the relevant information in accordance with the annual report on rehabilitation of the damaged land due to mining in accordance with Environmental Form-3 and submit it to the Governor's Office of the soum or district by November 25 of each year. The form must be attached to the Environmental Management Plan.
- 4 The Project Implementer shall prepare the next year's EMP and submit it to the Ministry of Environment and Tourism by December 20, together with the EMP implementation report and the relevant conclusion of the working group.
- 5 The Project Implementer shall submit to the Ministry of Environment and Tourism a DEIA report and an environmental audit report on the implementation of the EMP every two years in accordance with Article 10¹ of the Law on Environmental Protection, together with the annual environmental management plan.
- 6 The Ministry of Environment and Tourism shall receive a report on the implementation of the current year's environmental management plan, and review its implementation based on its findings, and review and approve the next year's environmental management plan.

According to the Ministry of Nature, Environment and Tourism, the environmental impact assessment report for the mining project is gathered in in the environmental database in the information section of the

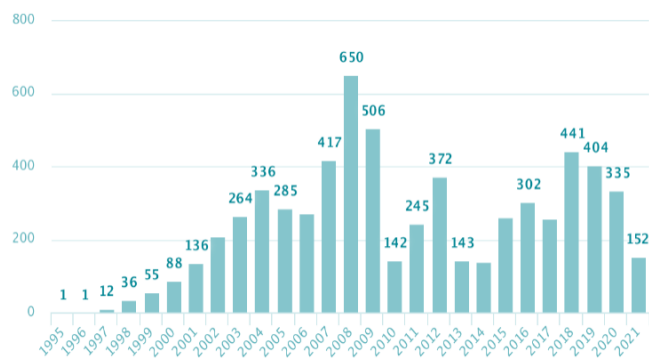
environmental impact assessment report according to Article 7 of the Law on Environmental Protection. The database contains 118 mining environmental assessment organizations and contains 6,462 detailed impact assessment reports for mining projects. There are also 9,049 general environmental impact assessment reports for the mining sector

Figure 6.1 Number of conclusions for impact assessments, by year



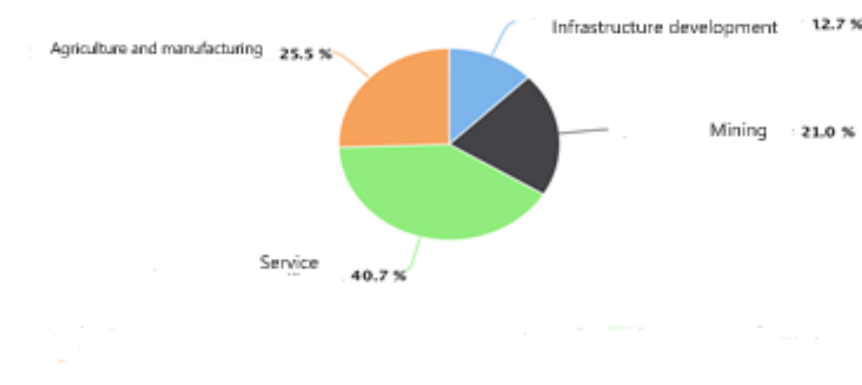
Эх сурвалж: <https://eic.mn/eia/#about>

Figure 6.2 Number of Impact Assessment Report, by year



Эх сурвалж: <https://eic.mn/eia/#about>

Figure 6.3 Impact assessment report by sectors



Эх сурвалж: <https://eic.mn/eia/#about>

6.7.3 Special account for environmental protection

The license holders for mining exploration and exploitation are required to comply with the Environmental Protection Law and Minerals Law, Article 38 and 39 for environmental rehabilitation. Particularly, the Minerals Law Article 38 specifies obligations for the exploration license holders for environmental protection, while the Article 39 specifies obligations for the mining license holders.

The exploration license holders and mining license holders are required to deposit an amount equal to 50% of their environmental protection budget of the year in a special bank account established by the Governor of the relevant soum or district to ensure the discharge of their responsibilities with respect to environmental protection.

The deposit mentioned above shall be returned to the license holder’s account upon compliance of all obligations specified in an Environmental protection plan (EPP) in accordance with the Minerals Law. The

deposit shall be returned to the mining license holder during the closure stage if all the obligations set in an Environmental Impact Assessment (EPA) and the EPP are complied. In case if the obligations are not fully complied, the relevant soum or district governor shall assign a professional body to execute necessary rehabilitation with the deposit. In this case, the license holder shall provide any additional funds required for rehabilitation without any dispute.

As per the MET report, MNT2,317 million were deposited to the special account for environmental protection in 2019 and no refund has been made. An outstanding balance as of December 31, 2019 is MNT16,354 million. The special account information by year as shown in Table 6.13.

Table 6.13 Special account for environmental protection, MNT million

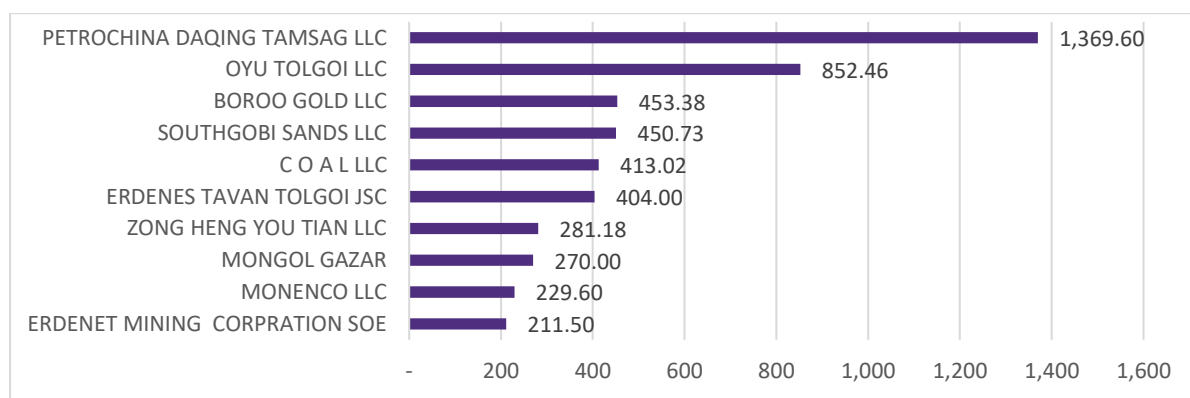
Year	2006	2007	2008	2009	2010	2011	2012
Revenue	22	612	566	385	942	1,216	2,014
Expenses	-	-	21	126	1	5	16
Outstanding balance	22	634	1,179	1,438	2,379	3,590	5,588

Year	2013	2014	2015	2016	2017	2018	2019
Revenue	1,545	2,273	1,027	1,317	1,102	1,411	2,317
Expenses	225	1	-	-	-	-	-
Outstanding balance	6,908	9,180	10,207	11,524	12,626	14,037	16,354

Source: Ministry of Environment and Tourism

According to MET, a company can own several licenses, and the deposit shall be paid to each license. Based on the deposits paid by company as a total amount, the top 10 companies with highest deposits were selected. Among these selected entities, Petrochina Daqing Tamsag Mongolia LLC is the highest deposit of MNT 1,369.60 million to the special account for environment protection, and this amount has increased due to company's additional deposit of MNT 760.0 million in 2019.

Figure 6.4 Special account for environment protection, by top 10 companies



Source: Ministry of Environment and Tourism

According to the Ministry of Nature, Environment and Tourism, no payments were received to the Special Environmental Protection Account in 2020. Please see Annex 38 for a breakdown of the amount of funds and securities deposited in the 2019 Rehabilitation Securities Account.

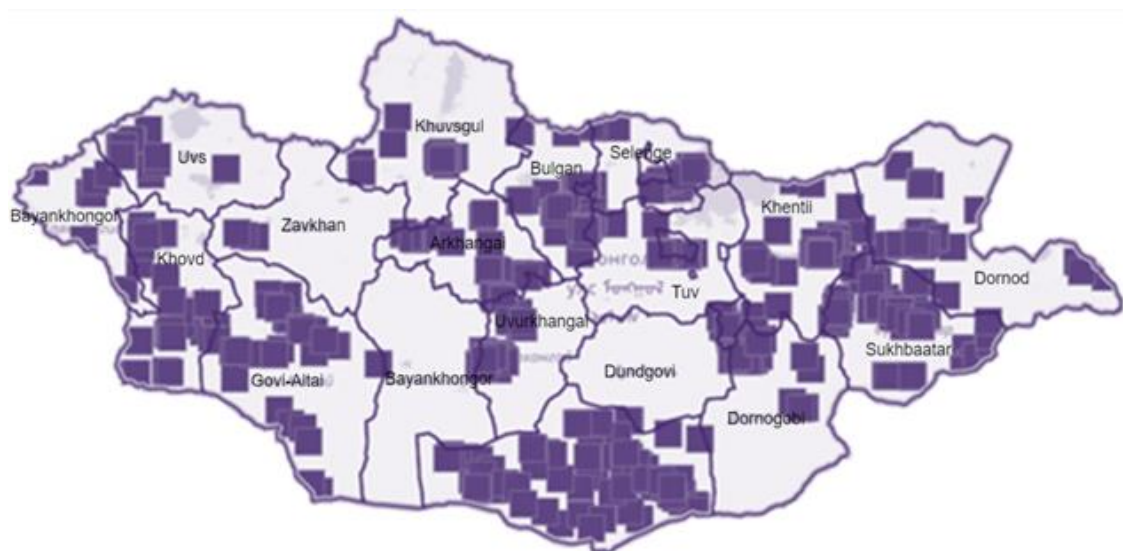
6.7.4 Mining operation and rehabilitation in 2020

The following table presents mining development and rehabilitation activities performance by mining license holders in 2020 and previous years:

Table 6.14 Mining operation and rehabilitation

Description	Measuring unit	2017	2018	2019	2020
Mining area	Ha	10,531.7	7,837.9	7,078.9	3,993.0
Technical rehabilitated area.	Ha	861.7	1,767.3	1,927.6	1,922.9
External dump	Ha	232.1	1,018.4	1,198.2	1,528.8
Internal dump	Ha	629.6	748.9	729.8	394.1
Biologically rehabilitated area	Ha	997.6	790.5	704.8	528.6
Rehabilitation area for protection	Ha	12,898.1	17,459.3	19,144.3	144.3
Landscaping and rehabilitation area around the mining camp	Ha	55.6	62.3	57.1	777.4
Expenses for rehabilitation	Billion MNT	9.9	22.2	28.7	14.9
Expenses for environmental protection	Billion MNT	8.7	10.8	15.8	3.9

Source: Minerals Statistic Report - 2020, MRPAM, MMHI

Figure 6.5 Rehabilitated areas as of 2020, by geographical location

Source: <https://eic.mn/dlid/>

The below report was provided from the MET, which indicate the results of the survey conducted between 2017 and 2020 on how much of land and subsoil was rehabilitated by the license holders with the support from the certified companies and individuals. These include:

- In 2017, 120 licensed companies, 17 professional rehabilitation companies, 3 Non-governmental organizations (NGOs), 6 partnerships and 1 association carried out technical rehabilitation on 734 hectares and biological rehabilitation on 325 hectares in 55 soums of 20 aimags and 2 districts. A total of 403 local people were contracted by the companies in rehabilitation activities as a part of their corporate social responsibility.
- In 2018, 108 licensed companies, 14 professional rehabilitation companies, 1 NGO, 8 partnerships and 1 association carried out technical rehabilitation on 912 hectares and biological rehabilitation on 335 hectares in 50 soums of 19 aimags and 4 districts. A total of 328 local people were contracted by the companies in rehabilitation activities as a part of their corporate social responsibility.

- In 2019, 97 licensed companies in 7 districts and 16 aimags carried out technical rehabilitation on 810 hectares and biological rehabilitation on 254 hectares, and the rehabilitation was reported to the local authorities via written notification.
- In 2020, 133 companies holding mineral licenses in 6 districts of the capital city and 20 aimags carried out rehabilitation works in 654 hectares of land

6.7.5 Mining operation and rehabilitation plan and actual by the mining license holders (except coal miners)

As reported by the MRPAM in 2020, a total of 100 companies reported their implementation of mining operation and rehabilitation plans. Summary of mining operation and rehabilitation plan and actual performance are shown as below.

Table 6.15 Mining and Rehabilitation Plans and Performance by mineral license holders

Type of minerals	Mining operation /ha/		Rehabilitation /ha/	
	Plan	Performance	Plan	Performance
Gold (Placer)	301.1	359.3	437.5	499.6
Iron	7.4	56.4	51.0	62.9
Building/material (Limestone)	12.5	12.5	5.2	6.6
Gypsum	3.5	5.0	8.4	4.3
Fluorite	1.4	2.6	21.4	18.4
Copper	11.6	12.4	3.9	0.8
Uranium	-	-	-	-
Gold (Basic)	5.4	6.2	1,480.7	759.4
Gold (Derivative)	4.3	8.3	55.5	28.1
Building/material (Cement)	3.5	16.1	3.7	3.8
Mixed metal	156.9	161.6	38.7	9.0
Coal	56.4	944.8	25,440.4	1,429.6
Total	507.5	640.3	2,105.9	1,393.0

Source: MRPAM

See Appendix 18.a for more information

6.7.6 Coal miners' mining development and rehabilitation: plan and actual performance

Coal related matters are coordinated by a separate division with the MRPAM and therefore, the report of mining development and rehabilitation plan and actual performance are different than those for other minerals. A total of 32 coal mining companies reported their mining development plan and actual performance. Refer to Appendix 18 (b) for more detail.

Table 6.16 Mining and Rehabilitation Plans and Performance by mineral license holders

Type of minerals	Mining operation /ha/		Rehabilitation /ha/	
	Plan	Performance	Plan	Performance
Coal	56.4	944.8	25,440.4	1,429.6
Total	563.9	1,585.1	27,546.3	2,822.6

Source: MRPAM

6.7.7 Petroleum license holders' rehabilitation: plan and actual performance

Petroleum license holders' rehabilitation in 2020: plan and actual performance is shown in Table 6.17.

Table 6.17 Petroleum license holders’ rehabilitation in 2020: plan and actual performance

Works	Unit price (USD)	Planned volume	Actual	Actual works
Toson-Uul XIX area of Petrochina Daqing Tamsag LLC				
Dilution and rehabilitation of drilling liquid waste	3,500.0	33	0	Not done
Soil sampling and laboratory testing	600.0	30	30	Performed by "Baikal Surveillance" LLC in accordance with MNS 3298-90 standard dated June 26-27, 2019. A total of 30 rehabilitated drilling fluid waste ponds were sampled and analyzed.
Environmental assessment	20,000.0	4	0	Not done
Biological rehabilitation and plantation	1.0	50000 sq.m		Biological rehabilitation has not been carried out on 5 hectares of areas to plant 1,000 trees
Environmental monitoring	20,000.0	1	0	Not done
Rehabilitation of closed roads	0.7	150000 sq.m	150000 sq.m	60 hectares of land were plowed. The closure of 14 km of roads is done under 50 percent completion. The work will continue when the spring comes and warm weather comes..
Environmental protection of the Eastern Mongolia Basin	50,000.0	1	0	Not done
Solid waste work	65,000.0	1	1	Not done in the last 2 months of 2020
Sterilization work	10,000.0	2	2	Done
Placement and installation of road signs	10,000.0	1	1	Done
Tamsag XXI area of Petrochina Daqing Tamsag LLC				
Dilution and rehabilitation of drilling liquid waste	3,500.0	32	0	Zorgolyn Gunj LLC carried out technical rehabilitation in drilling liquid waste tanks of 35 wells drilled in 2019.
Soil sampling and laboratory testing	600.0	30	30	Soil sampling from 30 borehole mud waste ponds was carried out by the Central Geological Laboratory, an accredited laboratory and the Central Laboratory of Meteorology and Environmental Research on July 3-4, 2019 in accordance with MNS 3298: 90. In the meantime, soil samples were taken and analyzed. The analysis identified that there is no occasion to the amount of pollutants exceeded the toxic and hazardous levels.
Environmental assessment	20,000.0	4	0	
Biological rehabilitation and plantation	1.0	24000 sq.m	24000 sq.m	400 trees have been planted, and no work has been done on 2.4 hectares of areas..

Works	Unit price (USD)	Planned volume	Actual	Actual works
Environmental monitoring	20,000.0	4	0	Not done
Rehabilitation of closed roads	0.7	150000 sq.m	150000 sq.m	Road closure work is done in 50% of completion. Currently, 15 hectares of land have been plowed.
Environmental protection of the Eastern Mongolia Basin	50,000.0	1	0	Not done
Solid waste work	65,000.0	1	1	This kind of work was not done in November and December 2020, but this work was done during other months.
Sterilization work	10,000.0	1	1	Done
Placement and installation of road signs	10,000.0	1	1	Done

Source: Mineral Resources and Petroleum Authority of Mongolia

6.7.8 Rehabilitation license holders and locations

The rehabilitation license holder companies carry out rehabilitation works based on agreements with mining companies or the relevant district or aimag Governors.

The licenses are granted and extended in accordance with the "Procedure for granting licenses to professional environmental organisation" approved by the Government Resolution No.137 of 2006. It is prohibited to issue new rights since August 2018 or license renewal from April 2019, and since then no new rights have been issued or extended yet. See further information about rehabilitation license holders on Environmental Database from the website, <https://eic.mn/dlid/orgname.php>.

In terms of location, 12 companies are located in Ulaanbaatar and 1 in Dornod aimag. According to MET most of the rehabilitation license holders sign the contract with mining companies, and the locations mentioned in data base do not represent the locations where they carry out rehabilitation activities. See Appendix 24.a for a detailed list of 13 licensed companies by 2020

As of 2021, the number of professional organizations whose rehabilitation licenses were revoked was 75, as shown in the following table by aimags and the capital city.

Table 6.18 Number of professional organizations whose rehabilitation licenses were revoked

No	Name of aimag/city	Number of professional organizations
1	Ulaanbaatar	43
2	Uvurkhangai	3
3	Selenge	4
4	Uvs	1
5	Bayankhongor	19
6	Orkhon	1
7	Darkhan-Uul	1
8	Tuv	1
9	Khovd	2
Total		75

Source: <https://eic.mn/dlid/orgname.php?count=100>

See Appendix 24. for a detailed list of 75 companies whose rehabilitation licenses have been revoked as of 2020.

6.8. E-REPORTING SYSTEM

6.8.1 Introduction of e-Reporting system

The purpose of the MEITI E-Reporting system is to provide accurate information to the public on governance of the natural resources of petroleum, gas and minerals and raise awareness and knowledge regarding these activities. As a result, of this awareness and cooperation the trust between the government, the extractive companies and the public will be strengthened. Therefore, the E-Reporting system has nationwide importance

Figure 6.6 Introduction of E-reporting system

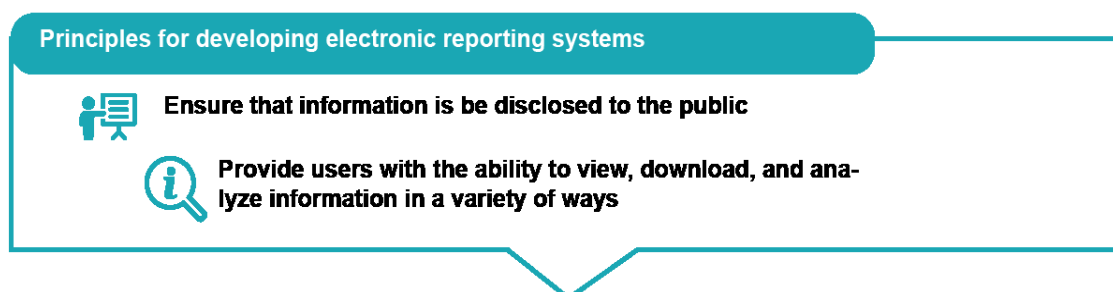


(<https://www.interactive.mn/projects/e-reporting-system-of-mining-and-oil-sector/>, 2020)

The e-Reporting system made possible to disclose key information of mining sector activities available and accessible to the public through the internet. Principles for development of the E-Reporting system are:

- Open and free information: Information is published online, so this information is available to the public free of charge;
- Public access: Information can be accessible using desktop or web-based tools, and stakeholders can view all types of information according to their needs.
- Self-service: Users can download information directly from Mongolia EITI database, and analyse or use them in various ways.

Figure. 6.7 Principles for developing electronic reporting system



Source: *E-Reporting Case study 'The development and implementation of an online system for the Extractive Industries Transparency Initiative'*, 2016, page 11)

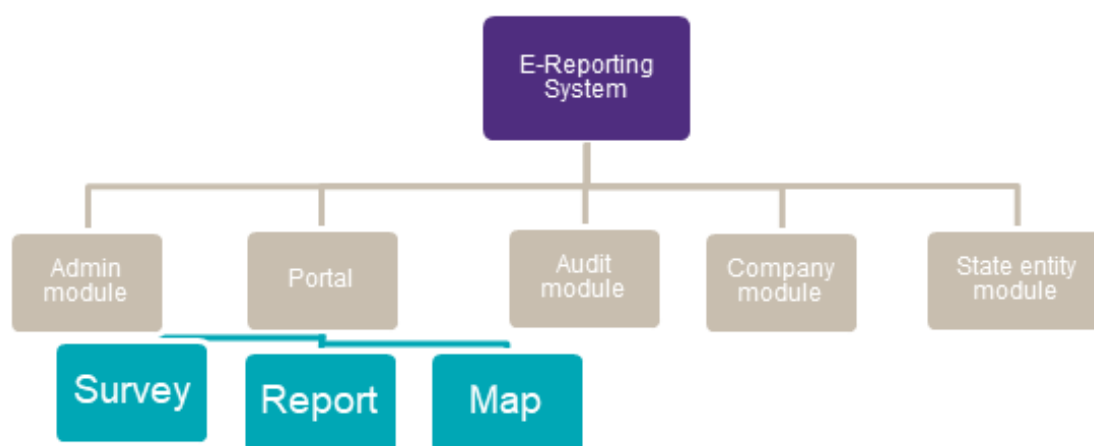
Currently the MEITI website publishes MEITI reconciliation report appendices and statistical information of mining sector's main activities to the public free of charge (<http://eitimongolia.mn/>):

Figure 6.8 Information on the web



Source: (www.eitimongolia.mn, 2020)

Figure 6.9 Composition of the system



(Source: The EITI e-reporting system handbook, page 3)

6.9. INFORMATION ON WATER CONSUMPTION

According to the suggestions by the members of the Mongolian EITI MSG, the extractive industry companies covered by reconciliation were requested to report and make public the data about their water use. A total of 85,903,859.28 cubic meters of water was contracted for for use, and 53,231,743.04 cubic meters or 61.97 percent of the contracted water was used.

Table 6.19 Water consumption contract

Water consumption per contract (cubic meter)	Surface water used (cubic meter)	Underground water used (cubic meter)	Total volume of water used (cubic meter)	Greywater re-used (cubic meter)
85,903,859.28	5,184,364.23	48,047,378.81	53,231,743.04	80,401,608.30

Source: Information provided by companies

In 2020, the government received MNT 32,874,132 thousand in water use fees from 60 companies selected for the reconciliation report, and the following 10 companies paid for MNT 31,840,859 thousand or 87 percent of total water use fees.

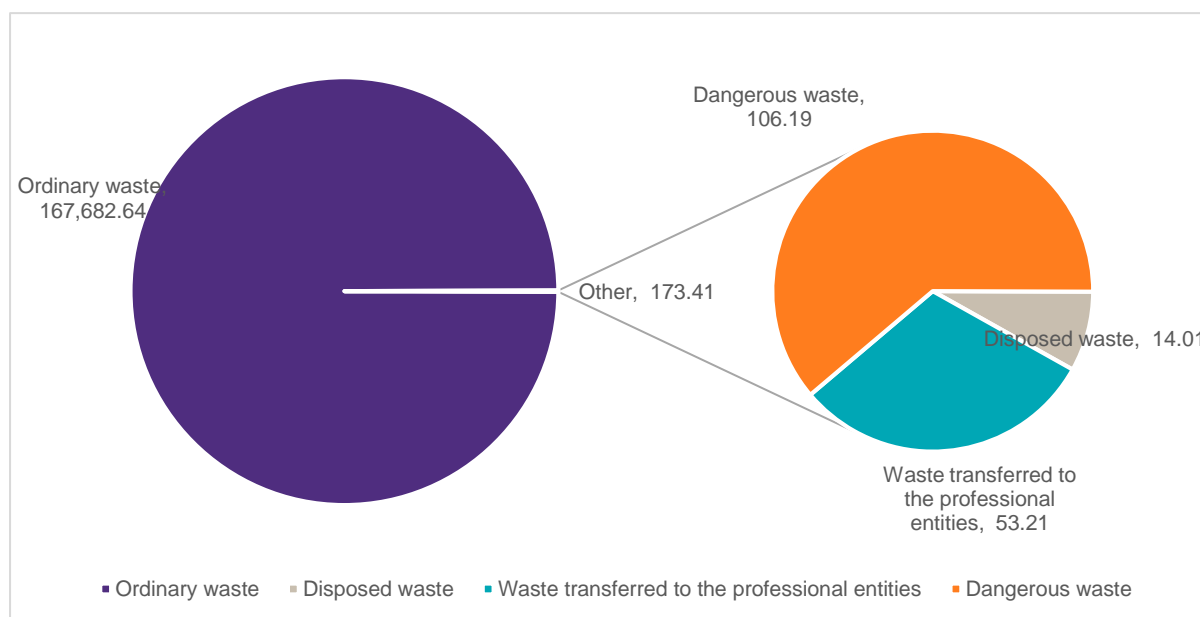
Table 6.20 Top 10 companies that paid water consumption fee

Company	Water use fee /million MNT/	Water consumption per contract (cubic meter)	Surface water used (cubic meter)	Underground water used (cubic meter)	Total volume of water used(cubic meter)	Water pollution fee million MNT/	Grey (re-used) water consumption (cubic meters)
Oyu Tolgoi LLC	13,802	21,947,117	-	14,901,667	14,901,667	-	663,783
Erdenet Mining Corporation SOE	12,309	19,202,332	-	15,489,669	15,489,669	-	77,584,864
Mongolrostsvetmet SOE	1,341	-	-	-	-	-	-
Energy Resource LLC	1,063	2,064,903	-	1,149,974	1,149,974	18	-
Baganuur JSC	894	5,854,271	-	5,678,170	5,678,170	-	-
Erdenes Tavan Tolgoi JSC	567	539,971	-	611,192	611,192	-	-
Tod- Undraga LLC	508	74,000	-	88,960	88,960	-	-
Enkhtunkh Orchlön LLC	476	882,022	-	596,952	596,952	-	-
Boroo Gold LLC	444	425,565	73,312	311,651	384,963	-	-
Shivee-Ovoo LLC	438	4,044,744	-	2,632,118	2,632,118	-	-

Source: Information provided by companies

6.10. WASTE INFORMATION

As requested by members of the MSG of Mongolia EITI, waste information of extractive companies selected for the reconciliation was disclosed. A total of 187 companies submitted their reports. In 2020, a total of 187 companies contributed a total of MNT 507,189 thousand to waste payments. This payment is centralized in Ulaanbaatar and 18 aimags. The amount of waste is shown in Figure 6.10.

Figure 6.10 Waste volume, m3


Source: Information provided by companies

The following table shows the top 10 highest paid companies

Table 6.21 Waste information

Company	Location	Payment made /million MNT/	Total amount of waste /cubic meters/	Amount of ordinary waste / cubic meter /	Amount of hazardous waste / cubic meter /	Amount of waste disposed / meter cubic /	Waste transferred to professional enterprise / cubic meter /
Energy Resource LLC	Umnugobi	311	11,797	10,273	1,524	8,544	5,984
Erdenet Mining Corporation	Orkhon	166	166,298,849	166,298,849	-	-	-
Step Gold LLC	Dornod	34	103	86	17	-	82
AUM ALT LLC	Uvurkhanga	29	-	-	-	-	-
MAK Cement LLC	Dornogovi	40	2	2	-	2	-
Baatarvan Trans LLC	Umnugobi	16	185	180	5	-	180
Bayan Airag Exploration LLC	Zavkhan	12	13,347	12,000	1,347	11,557	1,279
Special Mines /Naran Mandal Enterprises/ LLC	Bayankhongor	18	105	85	20	-	423
Xin Xin LLC	Dornod	10	-	-	-	5	14
Dongsheng Petroleum Mongolia LLC	Dornogovi	7	-	-	-	-	-

Source: Information provided by companies

6.11. Level of disaggregation and format of EITI report (Requirement 4.7)

The payments information in this report is disaggregated for each company, government agencies, revenue stream and project levels. Details for each project levels can be found in Appendix 24.

An amendment to the EITI Standard in 2019 approved by EITI Board in 2017, defines what a project is, and the reason for the change is to disclose how much revenue the government receives from each

project, as well the mandatory disclosure requirements for each project, with a breakdown of revenues for 2018 and beyond.

In accordance with the decision of the 18th meeting of the EITI National Council held in December 2019, MSG has updated the EITI Company Reporting Form, and implemented a new project-level reporting template with the participation of an Independent Administrator. However, by that time when the Independent Administrator commenced the reconciliation the companies had already reported, and the E-reporting system was closed. Therefore, the Independent Administrator had not chance to reflect the comments in the report format.

Definition of Project

Mongolia EITI MSG has defined the project as follows:

“A “project” means the operational activities that are governed by a single contract, license, lease, concession or similar legal agreement and form the basis for payment liabilities with a government.

‘Substantially interconnected’ means forming a set of operationally and geographically integrated contracts, licenses, leases or concessions or related agreements with substantially similar terms that are signed with a government, giving rise to payment liabilities. Such agreements can be governed by a single contract, joint venture, production sharing agreement, or other overarching legal agreement.”

Project-level information obtained through EITI template

The following basic information about the project is required when completing the EITI Electronic Report Form. These include:

- Project name,
- Project contract date,
- Date of Minerals Professional Council's conclusion related to review of Feasibility Study,
- Reference number of Minerals Professional Council's conclusion related to review of Feasibility Study,
- Exploitation duration,
- Total investment reflected in the feasibility study,
- Total investment performance since the start of the project,
- Planned investments for the current year,
- Investment performance for the current year,
- Annual capacity as stated in the feasibility study,
- Amount of output since the start of the project,
- Amount of output for the current year,
- Amount of output expected in the following year.

As per the template, the companies shall name their project according to the following types of taxes that can be broken down for the above licensed companies, and to mineral license number and name, as well as disclose their revenue by each project, namely:

- Royalty and additional payment,
- Licensing fee for mineral exploitation and exploration.

As for the project report template in the 2020 report, the issue of separation of payments and income by the project is lacking for the EITI template. However, in the future, companies should be able to systematically increase the types of payments and income that can be reported by the project by improving the availability and quality of information through utilization of the latest information technology and ERP systems to their accounting.

7

RECOMMENDATIONS



7. RECOMMENDATIONS

7.1. IMPLEMENTATION OF PREVIOUS YEAR RECOMMENDATIONS

A summary of the implementation status of the recommendations made in 2019 is set out below.

Table 7.1 Implementation status

Recommendations	Implementation status in 2020 EITI report	
	Status	Comments
<p>1. Challenges encountered in coverage of the processing companies in the reconciliation MSG should revise the EITI reporting process by reviewing major extractive companies and contractors, selecting the companies that make significant contributions to the state budget and notifying these companies, entering basic information into e-reporting system which enable them to provide required information, and only the after to cover them by reconciliation.</p>	Requires further action	Implementation has been postponed to 2022.
<p>2. Status of reporting and response letter Annual reconciliation reports provide recommendations for companies and government agencies on how to submit EITI reports and ensure the accuracy of the reports submitted, but no significant progress has been made so far. This shows the importance of adopting and enforcing the Law on Transparency in the Minerals Resources sector.</p>	Requires further action	Included in the draft Law on Transparency in the Mineral Resources Sector.
<p>3. Accuracy of reports submitted by government entities Although the law amendment has affected the procedure of GTD to impose royalty and payment from companies, it does not prevent reports submissions to EITI reporting and imposing royalty and its payment processes. Therefore, it is recommended GTD shall continue to improve their information system and EITI shall continue efforts to focus on improving accuracy of the EITI reports.</p>	Requires further action	Implementation has been postponed to 2022.
<p>4. Completeness of e-reporting The carry out actions to eliminate discrepancies in reports provided by the MRPAM cadastre system and the EITI electronic system and operationalize the electronic reporting system based on a single data source. Information on common mineral licenses issued in rural areas should be entered into the cadastral system without delays and make available to the public.</p>	Under implementation	Official letters were sent to aimags. Only 10 aimags responded. The answer is that there is no difference.
<p>5. Quality of information, data collected in new EITI template The discussions need regarding whether the stakeholders need to verify the information, which they receive electronically and disclose to the public, or information on selected companies should be reviewed an Independent Administrator and made publicly available.</p>	Requires further action	The possibility of including it in the 2021 reconciliation report will be studied.
<p>6. Disclosing SOEs financial statements Comprehensive audited financial statements of all extractive entities should be published electronically, including disclosing on webpages of those entities, the National Audit Office, EITI and MRPAM.</p>	Requires further action	An official letter was sent to the state-owned companies and the companies responded as expressing its support.
<p>7. Matters related to disclosure of state participation The system needs be to be institutionalized which requires the SOEs to publish their information according to the Law on Glass Account and received dividend payments shall be disclosed on webpages of the Government Agency for Policy Coordination on State Property, and other relevant authorities.</p>	Requires further action	An official letter was sent to the state-owned companies and the companies responded as expressing its support.

Recommendations	Implementation status in 2020 EITI report	
	Status	Comments
<p>8. Inconsistencies between Government revenue and payments by companies</p> <p>MSG should focus on disclosure of quality and accurate data and consider the following actions considering future lesser involvement the Independent Administrator:</p> <ul style="list-style-type: none"> - Provide training, advocacy and coaching to entities, which not reporting or breaching disclosure requirements or not taking responsibility towards reporting; - Deliver the EITI 2019 reconciliation report accompanied with the official letter on areas of further cooperation; - Maintain regular updates to the webpage of EITI secretariat. There is some outdated information, even related to the year 2013. 	Under implementation	The 2019 EITI Report has been placed on the website and the website information is being updated.
<p>9. Matters related to selection of an Independent Administrator</p> <p>It is recommended that MSG should maintain thorough oversight on the tendering of an Independent Administrator and adhering the national laws and regulations regarding the procurement, which enables to conduct selection on timely manner.</p>	Implemented	The 2020 selection tender was completed on timely manner

7.2. RECOMMENDATIONS FOR EITI REPORTING AND IMPLEMENTATION

Based on the work in preparing the 2020 EITI report, the team has proposed several recommendations to improve the implementation of EITI in Mongolia.

7.2.1. LAW ON TRANSPARENCY IN THE MINERAL RESOURCES SECTOR NEEDS TO BE PASSED

When we addressed the reporting organizations to obtain information on the EITI Report 2020, we encountered a number of difficulties, such as the fact that the law restricts to provide information or, in some cases, it does not provide information with no explanation. For example:

- Of the 60 selected companies, “Ilt Gold” LLC, “Redvulkan” LLC and “Erdenes Silver Resources” LLC did not respond at all, and the difference of MNT 545 million due to these companies remained unexplained.
- Out of 2363 companies holding licenses, 1,419 companies or 60 percent submitted their reports with additional information templates through the electronic reporting system, however, 2 of total templates were not filled.
- Official letters were sent to a total of 17 ministries, governmental and non-governmental organizations, however, no official response was received from the Ministry of Mining and Heavy Industries, Ministry of Nature, Environment and Tourism and the Artisanal Small-Scale Mining National Federation.

Restrictions on the following laws affect the disclosure of mineral sector information. For example:

- 1 General Law of Taxation
- 2 Customs Law
- 3 Law on the Central Bank
- 4 Law on Personal Privacy
- 5 Organizational Privacy Law
- 6 Law on State and Official Secrets
- 7 General Law on State Registration

Recommendation

The above laws need to repeal the restrictions on the disclosure of mineral sector information and the Law on Transparency in the Mineral Sectors needs to be passed immediately

7.2.2. COMPLETENESS OF E-REPORTING

In the electronic reporting system, the government reported receipts from 2,543 companies, and an independent administrator has reviewed the list of these companies, in which, it found out that 180 companies were reported in duplication.

Table 7.2 E-reporting system

Description	Number of companies	Government revenue (MNT million)
Number of companies registered on e-reporting system	2,543	2,849,435
Of which: number of licensed companies entered by MRPAM	2,363	2,846,622
Discrepancies	180	2,813
Number of companies submitted their reports under the same name, but with different registration IDs	123	2,699
Other companies	57	114

Upon inquiry, the following reasons for discrepancies were identified:

- The local government has the right to enter new names/ companies into the system. Therefore, during the data entry to the e-reporting system, the local government has not verified data for the name duplication, so the system created multiple names for the same taxpayer.
- The local governments are entitled to issue license for common minerals therefore, names of these companies could have been entered by local governments themselves.

Recommendation

The carry out actions to eliminate discrepancies in reports provided by the MRPAM cadastre system and the EITI electronic system and operationalize the electronic reporting system. Information on common mineral licenses issued in rural areas should be entered into the cadastral system without delays and make available to the public.

7.2.3. INCONSISTENCIES BETWEEN GOVERNMENT REVENUE AND PAYMENTS BY COMPANIES

EITI Requirement 4.9 Data quality and assurance states "The EITI requires an assessment of whether the payments and revenues are subject to credible, independent audit, applying international auditing standards. The expectation is that government and company disclosures as per Requirement 4 are subject to credible, independent audit, applying international auditing standards. The expectation is that disclosures as per Requirement 4 will include an explanation of the underlying audit and assurance procedures that the data has been subject to, with public access to the supporting documentation."

Within the framework of the Requirements 4.9, the Independent Administrator conducted an assessment and provided an explanation on actual condition in Section 2.6 of this Report.

Although the relevant government agencies and companies confirm the accuracy of their reports and information through the management letter, the initial reconciliation identified significant discrepancies. The cause for the discrepancy related to both the government and the companies that reported the information.

The Independent Administrator has clarified reasons for such inconsistencies, received explanations from related entities, made financial adjustments and reduced the discrepancies. However, these discrepancies can still re-occur in the following year.

Recommendation

MSG should focus on disclosure of quality and accurate data and consider the following actions considering future lesser involvement the Independent Administrator:

- Provide training, advocacy and coaching to entities, which not reporting or breaching disclosure requirements or not taking responsibility towards reporting;
- Deliver the EITI 2020 reconciliation report accompanied with the official letter on areas of further cooperation;
- There is a need to establish a system in which the transparency reports submitted by the government are certified by the National Audit Office and the reports of companies are audited by an external auditor.

7.2.4. IMPROVING THE ADDITIONAL INFORMATION TEMPLATE FOR PROJECT REPORTING

The MSG considered that it is possible for the companies holding mineral licenses to report in the form of disaggregation of taxes such as royalties and additional payments, exploitation and exploration license fees by project. Therefore, for each mineral license, it is considered a project and the performance data is provided by the companies in the form of additional information, however, it does not work, as it is not possible to enter the payment and income information for each project.

It does not meet the EITI Requirement 4.7 that stipulates "It is required that EITI data is disaggregated by each individual project, company, government entity and revenue stream".

Recommendation

The MSG should update the template for additional information for the project reporting and it should create the possibilities of reporting revenue with disaggregation by each individual project, company, government entity and revenue stream.

8

APPENDICES



8. APPENDICES

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