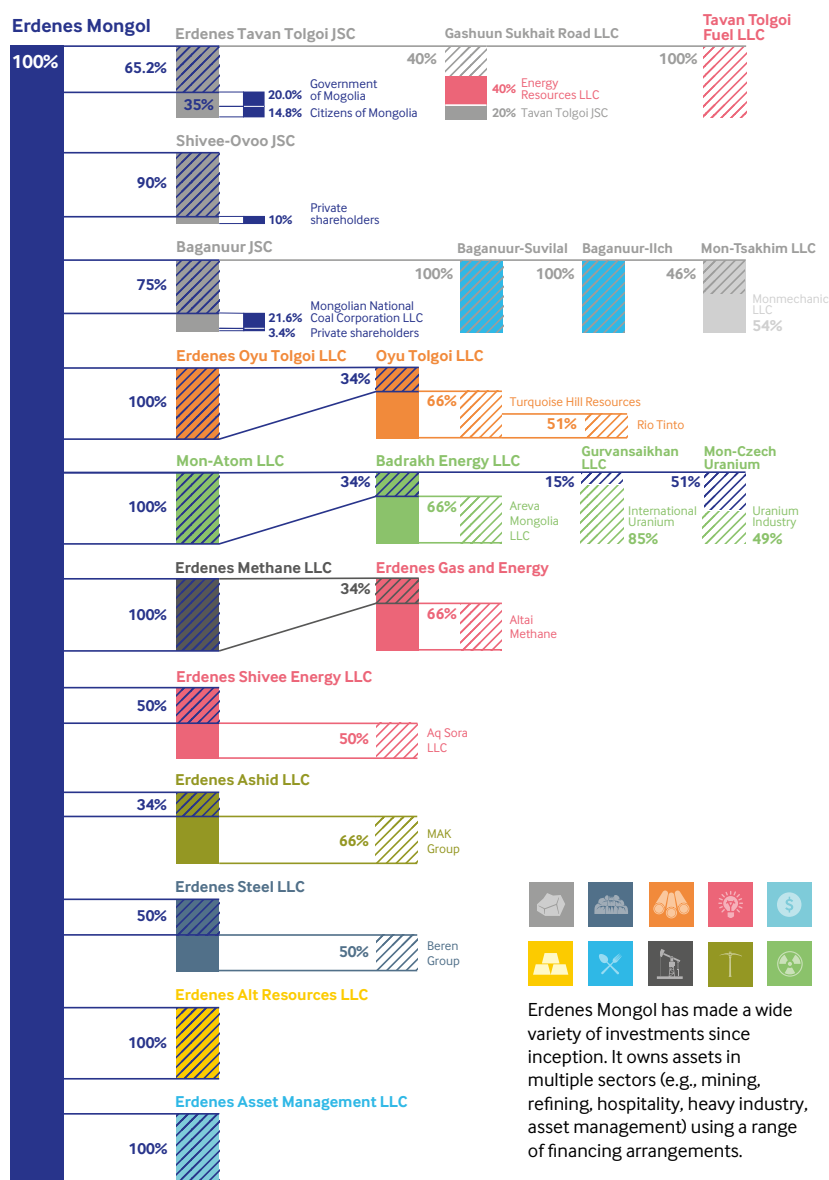


What Does Erdenes Mongol Do and Is It Profitable?

Andrew Bauer and Dorjdari Namkhajantsan

Mongolia's state-owned Erdenes Mongol has established numerous subsidiaries and has purchased stakes in many mining and non-mining projects. The figure below maps out these entities.



About this briefing

This briefing draws on the report *Wild Growth: An Assessment of Erdenes Mongol*, available at resourcegovernance.org/erdenes-mongol.



Figure. Erdenes Mongol ownership interests

Erdenes Mongol has made a wide variety of investments since inception. It owns assets in multiple sectors (e.g., mining, refining, hospitality, heavy industry, asset management) using a range of financing arrangements.

The first four entities fully or partially owned by Erdenes Mongol were all mining projects: Oyu Tolgoi (copper), Tavan Tolgoi (coal), Baganuur (coal) and Shivee Ovoo (coal). Tavan Tolgoi, Baganuur and Shivee Ovoo are each managed by a subsidiary. Oyu Tolgoi is managed by Oyu Tolgoi LLC, which is 34 percent owned by Erdenes Oyu Tolgoi, a subsidiary of Erdenes Mongol, and 66 percent owned by Turquoise Hill Resources, which is in turn majority-held by mining conglomerate Rio Tinto.



In 2017, Erdenes Mongol paid MNT 317 billion (USD 131 million) in taxes, royalties and fees to the Mongolia treasury for its share of operations in these four mines and as payment for parent company activities.

Over the past three years, Erdenes Mongol has expanded its portfolio, covering a wide variety of sectors, including mining, oil and gas, fuel production, metal refining, hospitality, road maintenance, steel production, power generation and finance. The company has established at least 15 subsidiaries and taken minority ownership stakes in at least five other entities. Among Erdenes Mongol's notable investments are:

- *MonAtom*. 100 percent owned by Erdenes Mongol, manages state involvement in the uranium sector and was transferred to Erdenes Mongol's portfolio in 2016.
- *Erdenes Alt Resources*. 100 percent owned by Erdenes Mongol, is a gold and silver exploration, production, refining and trading company. It plans to construct a gold and silver refinery soon.
- *Erdenes Steel*. 50 percent owned by Erdenes Mongol and 50 percent by Mongolia-based Beren Group, is building a steel and coke complex.
- *Erdenes Methane*. 100 percent owned by Erdenes Mongol, was established as a national oil company, mandated to explore for unconventional oil and gas. According to Erdenes Mongol, Erdenes Methane aims to become "a major ecology-oriented energy producer in the region" by engaging in developing coal-bed methane.

- *Erdenes Shivee Energy*. 50 percent owned by Erdenes Mongol and 50 percent by Hong Kong-based Aq Sora, will construct a 5280 MW power plant with State Grid Corporation, People's Republic of China.
- *Erdenes Ashid*. 34 percent ownership by Erdenes Mongol and 66 percent by Mongolia-based MAK Group, was set up to run mineral prospecting and exploration.
- *Erdenes Asset Management*. 100 percent owned by Erdenes Mongol, is intended to "make and conduct financial estimates and analysis; invest into projects which meet an appropriate rate of return." The subsidiary also "plans to obtain a license to operate an investment fund from the Financial Regulatory Commission, Mongolia."

Erdenes Mongol subsidiaries have, in turn, either established subsidiaries of their own or entered into different joint venture arrangements with other stakeholders. For instance, MonAtom has taken ownership stakes in at least three joint ventures to develop uranium projects: Mon-Czech Uranium (51 percent ownership), Badrakh Energy (34 percent) and Gurvansaikhan (15 percent).

Baganuur JSC has established at least three subsidiaries tasked with engine repair, supplying coal, restaurants, a hotel, billiards and karaoke. Similarly, Shivee Ovoo manages its non-core activities through a subsidiary. Most recently, Erdenes Tavan Tolgoi fully financed the Tavan Tolgoi Fuel company, which is planning to produce "low emission coal" to help resolve air pollution in Ulaanbaatar.

In addition to its subsidiaries, Erdenes Mongol has undertaken other commercial ventures, some of which also involve subsidiaries. For example, Erdenes Mongol is the sole owner of the 239km Gashuun Sukhait road which connects the Tavan Tolgoi coal deposit area with China. Meanwhile its subsidiary, Erdenes Tavan Tolgoi, owns 40 percent of Gashuun Sukhait Road LLC, a company that maintains the road. The Gashuun Sukhait Road Company collects toll fees from coal mining and export companies that use the road and transfer these fees to Erdenes Mongol. Erdenes Mongol pays all costs associated with the maintenance of the road.

Erdenes Mongol is also involved on an ad hoc basis in projects such as a research sub-center at the Ministry of Foreign Affairs, which aims to assist in implementing the Mongolia-Russia-China Economic Corridor Program and the Mongolia National Branding Council, which aims to promote the Mongolian economy globally. Erdenes Mongol provided MNT 1.6 billion (USD 680 million) to finance the Council in 2017.



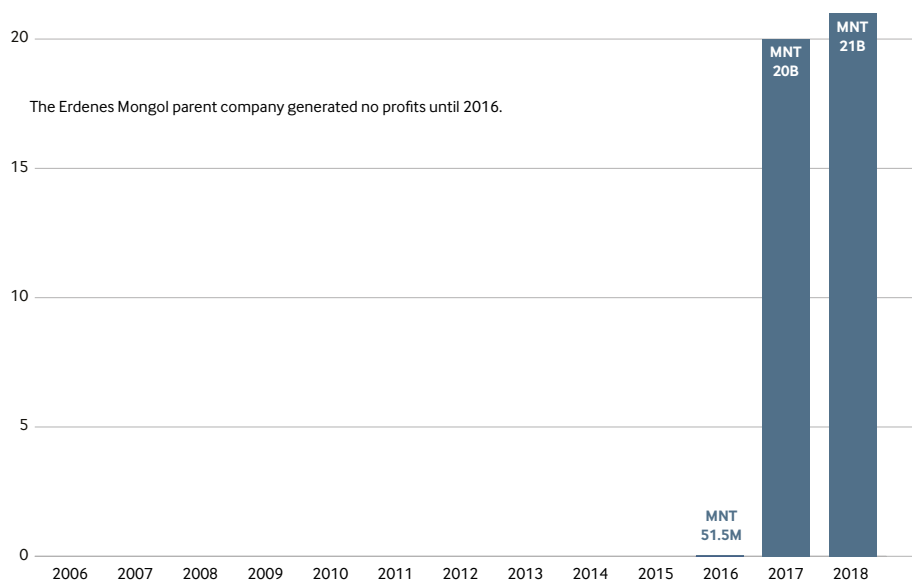


Figure. Erdenes Mongol parent company profits

Despite significant investments, Erdenes Mongol has generated only meagre profits since inception. The parent company did not report any profits from when it was established in 2006 to 2015. In 2016 to 2018, the company reported net income of MNT 51.5 million (USD 24 thousand), MNT 20 billion (USD 8.3 million) and MNT 21 billion (USD 8 million) respectively. Increases in coal prices and shipment of coal to China explain much of the improvement in profitability, as Erdenes Mongol's revenues are currently tied to toll fees from the Gashuun Sukhait road and management fees from coal-producing subsidiaries.

Erdenes Mongol's three controlled subsidiaries for which we have financial information— Erdenes Tavan Tolgoi, Baganuur and Shivee Ovoo—have not paid dividends to the parent company, despite MNT 302 billion (USD 125 million) in net income in 2017. We do not have enough financial information on other subsidiaries to determine their net income. However, none appear to have paid dividends either.

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