

*For a green development*

# MONGOLIAN ECONOMY



“We Have Even  
Further Dreams”

The Turning Point For  
Coal Prices

Mongolia's Economy and Business Magazine

July, 2013. №13 (047)

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For a green development

# MONGOLIAN ECONOMY

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## Bond Interest and Principal Payment

The USD 1.5 billion Chinggis bond has been issued in terms of repayment of USD 500 million with an annual interest of 4.125 percent for five years and USD 1 billion with annual interest of 5.125 percent for 10 years. The details of bond interest and principal payment are as follows:

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## MONGOLIA:

As of June this year, Mongolia's foreign trade turnover amounted to USD 4.578 billion, of which exports comprised USD 1.834 billion and imports were USD 2.744 billion. Compared to the previous year, exports dropped by 8.9 percent or USD 449.3 million, of which exports decreased by 8.8 percent or USD 176.3 million. Imports fell by 9 percent or USD 273 million.



As of the first six months this year, the foreign trade balance was subject to losses of USD 910.4 million, decreasing 9.6 percent or USD 96.7 million year-on-year.

**ProPak China 2013**, the 19th International Processing, Packaging & End-line Printing Exhibition is to be held in Shanghai, China from 17 to 19 July. The Mongolian National Chamber of Commerce and Industry (MNCCI) plans to send organisations to demonstrate their services at the exhibition.

According to the



latest study by the Bank of Mongolia, commercial banks received requests to refinance MNT 587.1 billion in mortgages. Some 7,002 citizens' requests have been processed for the refinancing of their mortgages, worth MNT 195.2 billion.

The refinancing gives mortgagees a new, reduced interest rate of 8 percent. Of the citizens who have requested mortgages, some 207 citizens were granted mortgages of MNT 8.8 billion.

As large mining operations begin the launch of operations, Mongolia's export volume is likely to increase faster than its imports.

For instance, exports are expected to rise by 43.4 percent this year and 18.4 percent next year. Meanwhile, imports are projected to rise 11.2 percent during the same period. According to a study about Mongolia's economic development and future trends, foreign trade is projected to increase profits from USD 1.7 billion to USD 2.4 billion.

Mongolia's total industrial production grew to MNT 872 billion from January to May this year, increasing by MNT 16.4 billion year-on-year. The main factor driving this growth was a 26.2 percent growth in mining, building materials and food production, and 1.4 to 6.5 percent growth in processing industries. The value of products sold grew to MNT 2.35 trillion, of which some 59.7 percent or MNT 1.4 trillion was sold to foreign markets.

A preliminary study is expected to carry out the establishment of a customs zone at the Tavan Tolgoi coal mine.

The study aims to reduce the potential for damage to communities and the environment while saving on costs incurred by state-owned

Erdenes Tavan Tolgoi. The customs zone would bring projected operating costs for unloading and loading coals to MNT 68.8 billion annually for the next three years compared to an initial projection of MNT 4.5 billion.

The Development Bank of Mongolia is prepared to allot USD 200 million to the planned Streets Project. Currently, some MNT 7.3 billion has been withdrawn for the first phase. Some 33 intersections will be renovated into four-way intersections, and highways will be built along the Tuul and Selbe Rivers.

Also, the Development Bank recently transferred USD 83.3 million to the Railway Project and USD 1.9 million for the first phase of the Tavan Tolgoi power plant.



## WORLD:

**Chinese** stock markets have fallen sharply as the country's central bank indicated its credit tightening policy would continue. The Shanghai Composite SSE index dropped more than 5 percent to 1,965 points, about 1,500 points below its 52-week high. Meanwhile, the CSI300 index tumbled more than 6 percent to 2,170 points during afternoon trading.

Traders reacted negatively to the People's Bank of China, saying liquidity in the country was still "reasonable."

**Rosneft**, a Russian state oil company, has agreed to double its oil supplies to China in a deal worth USD 270 billion. Under the terms of the deal, Rosneft will supply 300,000 barrels of oil per day to China starting in 2015. It is a sign that Russia—the world's biggest oil producer—is focusing on Asia, not Europe, as its main business partner for the future. Rosneft will receive USD 70 billion upfront.

**According** to the Congressional Budget Office, going over the fiscal cliff would strip USD 600 billion from the U.S. economy, sending America back into recession. But according to economic analysts and money managers, the fiscal cliff is the first in a series of challenges the

U.S. economy will face. As the fiscal cliff looms, there are encouraging signs that the economy is poised for continued slow growth next year.

**The IMF World Economic Outlook 2013 Report** reveals that the world economy has moved to a "three-speed recovery." The International Monetary Fund reported that there is strong recovery in emerging markets and developing countries, but weaker recovery in advanced economies.

In the first group, growth is predicted to reach 5.3 percent in 2013 and 5.7 percent

in 2014. In the latter group, the US forecast is to grow at 2 percent in 2013 whilst the Euro area is expected to contract and then grow 1.1 percent in 2014.

**Samsung** has unveiled a tablet that can switch between the Windows 8 and Android operating systems. The Ativ Q has a 13.3in (33.8cm) screen that sits over a keyboard that can be folded out for typing or set to act as a stand. In addition, it has a stylus. It comes just over a fortnight after Asus unveiled its own laptop-tablet hybrid which also runs both

Microsoft and Google systems.

**Government** leaders of eight of the world's largest economies pledged on June 18 to take a tougher stance on fighting tax evasion. The Group of 8 leaders, who met in Northern Ireland, developed a ten-point plan, the Lough Erne Declaration, which calls for more information sharing between tax authorities and improved transparency to prevent tax avoidance. It also includes elements that promote open trade between countries and cut wasteful bureaucracy. ■

## A. AMARSAIKHAN 'S COLUMN



## GREEN ENERGY

# SALKHIT WIND POWER PLANT



*Opening ceremony of Salkhit power Station*

BY E. ZORIGT

The fresh fragrance of grass and trees and the abundance of sunshine during the day tells us that mid-summer is already approaching. Salkhit Mountain, what was once a remote spot located at Sergelen, Tuv, on June 20 had a bustling crowd of people and a line of trucks parked for the opening ceremony of Clean Energy's Salkhit wind farm.

The ceremony was the first time a new power generation plant had opened in 30 years. The facility includes 31 enormous wind turbines on one of the slopes of the mountain and at its peak.

For some time there was a lack of wind to move the turbines during the opening ceremony, but a gush of wind arrived just as the ribbon was being cut. The launch of operations at Salkhit was a historic event that may be the beginnings of a tremendous

new industry for Mongolia.

The idea for a wind farm was that of Ts. Boldbaatar, chairman of Newcom Group, when he saw a 2004 map charting Mongolia's wind patterns. At that time, as Mongolians had very little understanding of the potential for wind energy, creating a wind turbine park was thought to be impossible.

"Mongolia is rich in coal resources, but people ask why can't we use all of it," said R. Arvintsogt, a member of Newcom's board of directors. "The similarity goes with the wind resource, which is a renewable energy. Because there is enough wind resources, we thought why can't we."

The preparatory work for this project began in 2011 while the main construction started last year. This project will prove if such an

endeavour can be profitable. And if successful it can kick start more of its kind. Newcom estimates that it can recover its investment within 15 years.

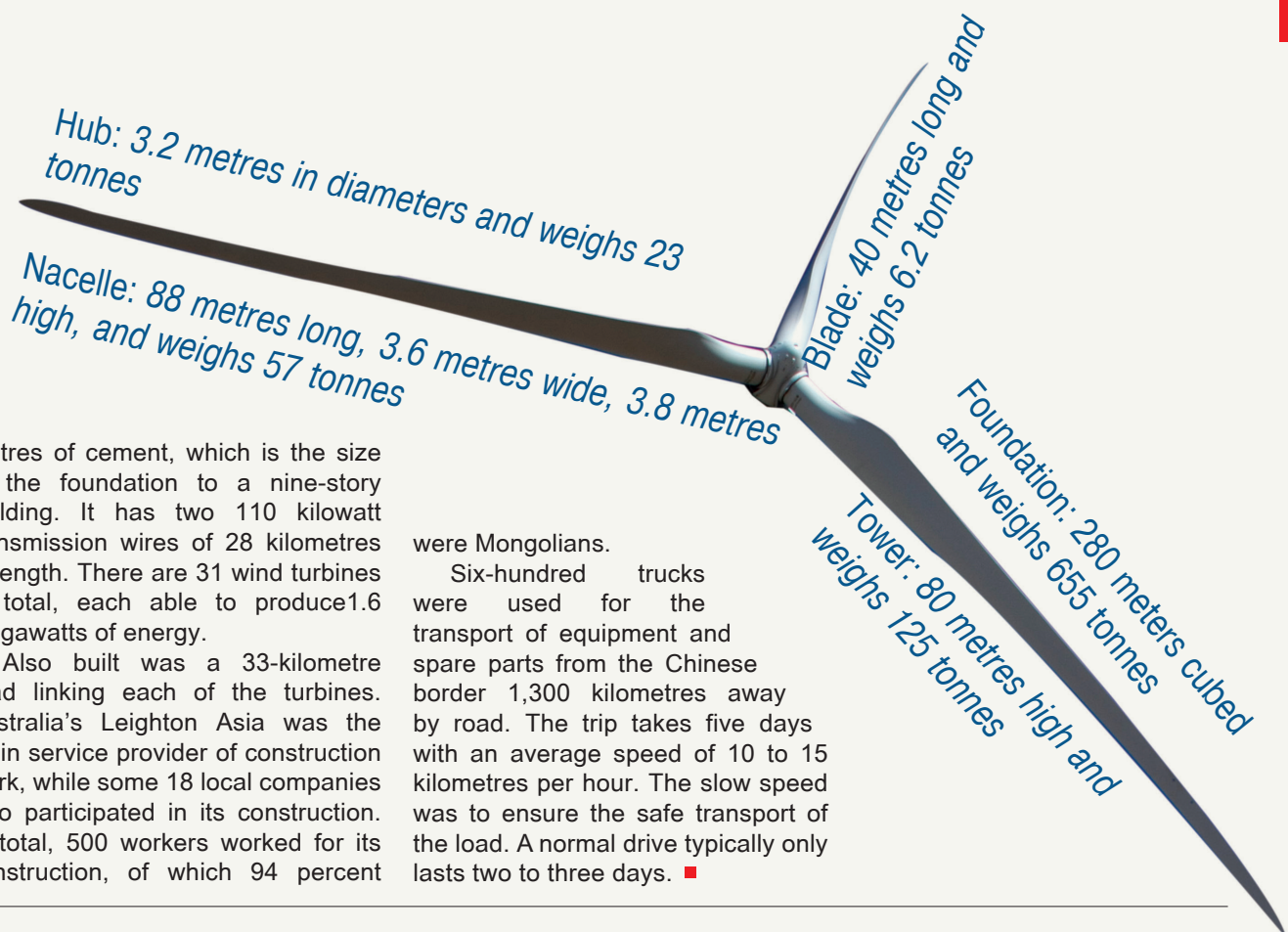
## In Figures

The Salkhit wind farm extends over 14,000 hectares to produce 50 megawatts and will supply 100,000 households with energy.

"Previously, our experience was in solar energy. But this time, we have carried out a study on wind energy of our own making and investment", said Energy Minister Mishigiin Sonompil.

These wind turbines stand 120 metres high and weigh about 125 tonnes each. Each blade is 40 metres long and 6.2 tonnes.

Installation of such enormous equipment required some 240 cubic ▶



► metres of cement, which is the size of the foundation to a nine-story building. It has two 110 kilowatt transmission wires of 28 kilometres in length. There are 31 wind turbines in total, each able to produce 1.6 megawatts of energy.

Also built was a 33-kilometre road linking each of the turbines. Australia's Leighton Asia was the main service provider of construction work, while some 18 local companies also participated in its construction. In total, 500 workers worked for its construction, of which 94 percent

were Mongolians.

Six-hundred trucks were used for the transport of equipment and spare parts from the Chinese border 1,300 kilometres away by road. The trip takes five days with an average speed of 10 to 15 kilometres per hour. The slow speed was to ensure the safe transport of the load. A normal drive typically only lasts two to three days. ■

## "MONGOLIAN ECONOMY" MAGAZINE QUESTIONS

**-The first wind farm has just started to operate in Mongolia. Could you please share your opinion on this?**

We have been working on this project for almost three years with many different partners such as EBRD, FMO and some construction companies. There has been great cooperation across all those teams.

We use this product in many countries. This is our 1.6 MW turbine which is very efficient and perfect for these types of wind speeds. For the Mongolian market, this is a great product.

The hardest part was just the logistics. Mongolia has a very harsh winter. These are large towers and blades and

they had to be moved, so you can imagine the logistical challenge of bringing the product, getting it installed, and connecting it to the grid. It was a big challenge for the team to work through, but they managed to do it which was great.

I think that servicing is an important part so we're going to continue to provide service to the wind farm so we can make sure that it is efficient so it can run the 5 percent of the energy it is expected to deliver.

We look at projects all over the place, to the extent that there are other projects in Mongolia. We will look at them.

*Shane Fitzsimons, Chief Financial Officer of Global Growth and Operations division, General Electrics*

Our biggest achievement is the development and the approval of standards to be followed at the Salkhit wind farm. By building this farm, it will produce energy without air pollution, burning coal or even water consumption. This green-energy farm has been established by Mongolians. This is a big infra-structural work that required investment of more than USD 120 million in total.

Mongolia's wind resources have also been determined. The largest wind resource is at the Gobi desert. And the next wind farm is planned to be built in Tsogttsetsii soum. Mongolia has the capacity to produce four trillion kilowatt hours per year by using its wind resources. But in reality, it could produce 2.8 trillion kilowatt hours per year by building wind farms. It means that we have enormous potential. Salkhit wind farm is just the beginning.

*Ts. Sukhbaatar, Chief Operating Officer at Clean Energy ►►*

► This is the first wind mill project in Mongolia with private money. It is a huge amount of private money for public infrastructure. That is something to be proud of for all of the parties involved.

I think it is very important that we look at the emissions and greenhouse gases being avoided. Mongolia is heavily dependent on fossil fuels and coal. If you have an alternative to wind power, it makes sense because you avoid the rising prices of fossil fuels, but it is also very good for the environment and the energy sector.

In 2007 the Law on Renewable Energy was approved. The law made a number of things clear for promoting renewable energy, including investment environment and price. At the same time, Newcom Group was entitled to build a wind farm.

But today I feel happy for the opening ceremony of this huge infrastructural work in the renewable energy sector. The Energy Regulatory Commission approved samples of the energy sales agreement and its price. As the Salkhit

It's just the first step. With wind turbines, we are producing clean energy and we all know that the pollution is very bad in Ulaanbaatar. With the wind turbines, we can help reduce this pollution

A real big problem was the transportation in order to get the main components here. We are talking about 20 to 50 tonnes. We brought them from China, through the border, to here. It was 400 kilometres of no railroad so we had to fight with a lot of damages and move slowly. The second problem was the conditions in the winter time. It was very cold and we had to stop for at least two months. But we had a very good direction team. We had a mix of teams: Mongolians, Irish guys, and guys from the UK and Australia. They grow up together and work as a team which is really important. We had to work during the night time. For three weeks we had to wake up at two in the morning to start working so you need to have a good team. We had that so I am very proud to be a part of that.

This is the first time that a private company has successfully attracted foreign direct investment into Mongolia's energy sector. There are plenty of things that we have learned from what we have done.

Most importantly, our company is very proud that we built

In the long-term, I think that this world is going into an unavoidable path towards more and more renewable energy because we can't afford our emissions worldwide at the current state. Renewable energy is the future.

We provide development funding in the early stages. Sometimes we can definitely take an initiative role, but we always need people with a technical spin. We are bankers. We really appreciate Mongolia as a country and we are always looking for new business, particularly in renewable energies.

*Aart Mulder, Manager of Energy, Entrepreneurial Development Bank*

wind farm was the first one, there have been a number of challenges in making its sales agreement. As we had a strong team, the team managed to deal with the difficulties. Currently, one kilowatt of energy produced by wind turbines is planned to be sold at the price of USD 0.095 and this is not that cheap price.

As its energy production is environmentally friendly and this is a large investment in environment, it cannot be said that this is a high price.

*N. Myagmarsuren, Coordinator at Energy Regulatory Commission*

We planned to have finished last year, but as I said, it is the first wind project. The first project takes the longest time. For example, for the first turbine we needed four or five erection days and for the last one we needed fourteen hours. Almost every tower had to be fixed. For the first four towers, we had to bring in factory workers because there was serious damage. We had measurements in place and quality control, so we had some minor damage, mostly loosened screws. You will also see that in upcoming projects. There are measurements that we have that we can follow for other projects.

Making them turn for the first time is okay, but we have to maintain it. We have maintenance twice a year so we have to stop them just two times each year. It's like a car where you have to change oil and check filters. We have to do some tests to guarantee that the turbines will last. We are all looking forward to the next winter to see how the turbines will perform in the very cold conditions. There we will have a lot to learn as well. It's going to be interesting.

*Joeran Buethe, Site Operation Manager, Clean Energy*

the Salkhit wind farm, meeting international standard. We should mention the active participation of a number of Mongolian companies. Mongolians learned many things during the construction of the Salkhit wind farm. The company considers that this farm has launched Mongolia's clean energy future.

*Ts. Gansukh, Shift Engineer, Salkhit Wind Power Station: ■*

# MONGOLIA AND AUSTRIA - A BRIGHT AND SUCCESSFUL FUTURE



2013 is a special year for Austria and Mongolia. Our countries look back on 50 years of diplomatic relations during which they achieved great mutual development. Not only did political friendship blossom since the historic signing of the diplomatic agreement on June 30th, 1963, but Austria and Mongolia also economically moved closer together. In 2012, our bilateral trade volume reached more than EUR 19 million—the highest in our bilateral trade history.

In the first three months of 2013, Austrian exports to Mongolia surged 145 percent and imports grew 186 percent. I am especially pleased to see a steady increase in trade diversification. Five years ago, our imports from Mongolia consisted only of cashmere products. Today the trade statistics include animal produce from the food industry, as well as a broader mix of textiles. In terms of exports, Austrian high-tech products show great momentum with cars, mining equipment and other high-tech machinery. In only ten years, our exports to Mongolia quadrupled. The rapid development of our bilateral trade is based on the perfect compatibility of our economies. Austrian companies

are among the market and technology leaders in industries that matter to Mongolia. Mining equipment, highly specialized machinery, infrastructure, health care and education are only some of the sectors in which our companies excel. They are renowned for producing high-quality products and state-of-the-art technologies, in addition to providing flexible and customised industry solutions.

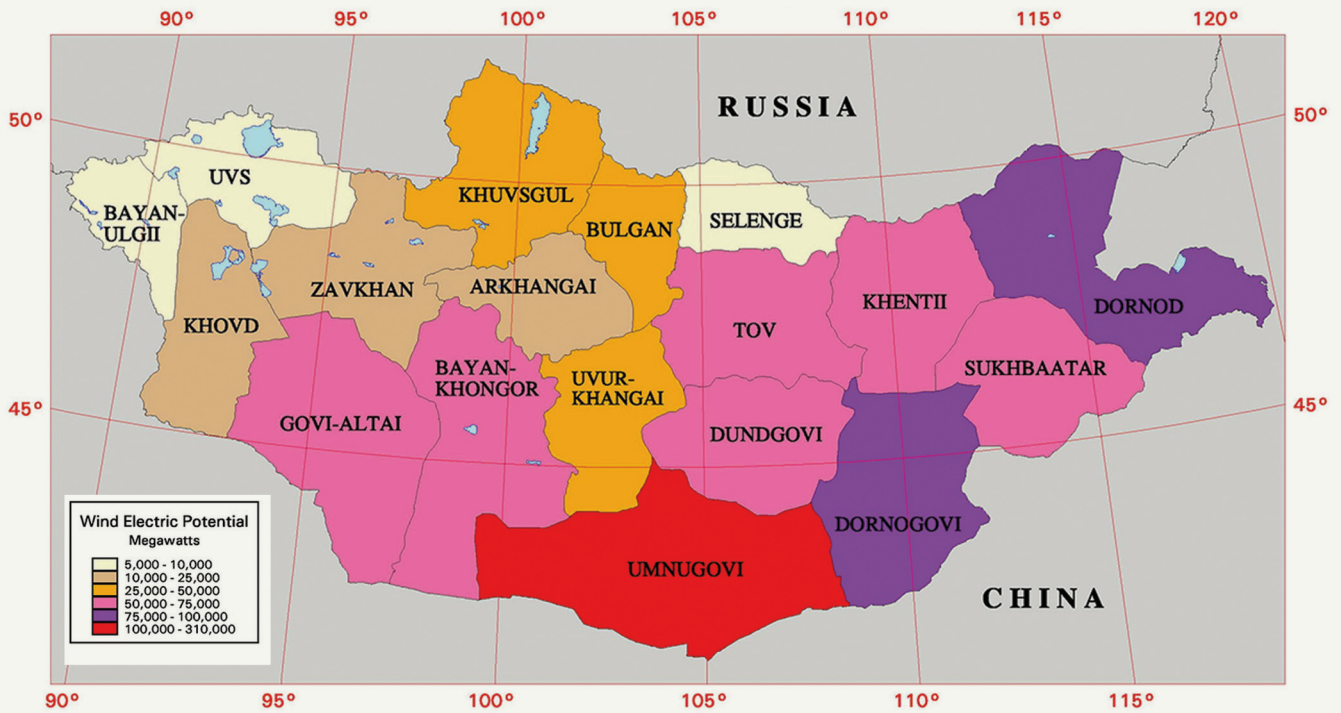
Another common ground for our nations is our love and devotion to our environment. Our urban centers are regularly ranked among the most livable cities in the world. Both our government and the Austrian industrial sector are committed to developing technologies and products that work in harmony with our environment. Mongolia, which is seeing remarkable growth and urbanisation, will find a reliable and innovative partner in Austria when it comes to achieving the right balance between economic growth and sustainability.

I am confident that our achievements during the last 50 years are just the beginning of a bright and successful future. Within the next few years, we will see further diversification of our trade structure, increasing mutual investment and deeper commercial cooperation between Austrian and Mongolian companies. The soft loan agreement, which we signed in 2011, has been an important step in this direction. We have already seen increasing interest from Austrian companies in the Mongolian market. A number of projects in the health care, agricultural and environmental sectors are under discussion and will drive our mutual development and friendship in the years to come.

A handwritten signature in black ink, appearing to read 'Oskar Andesner'.

Oskar Andesner  
Commercial Counselor

Chart-1. Mongolia-Wind Electric Potential



### Global wind power usage

Chart-2. Growth of wind power output worldwide in gigawatts (GW)

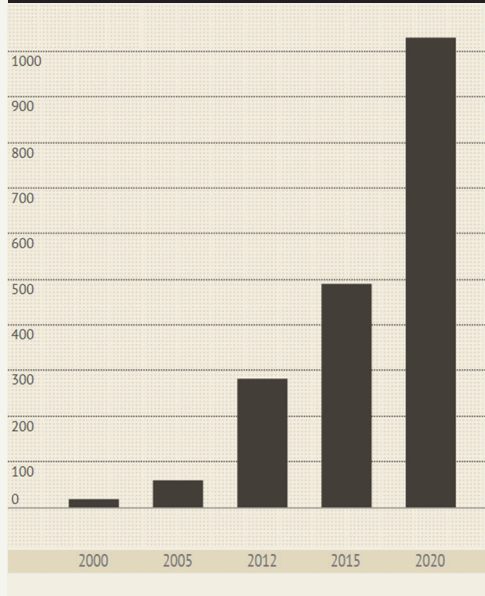


Chart-3. Installed wind power capacity by country in gigawatts (GW) in 2012

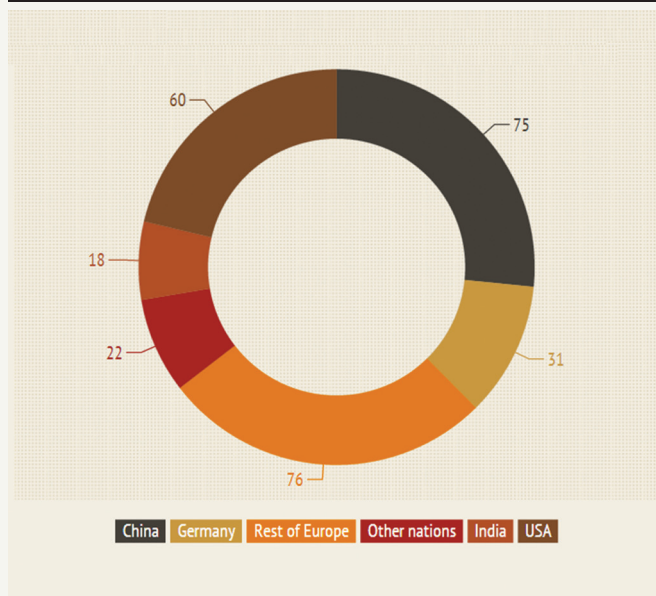


Chart-4. Comparison of wind power production with energy use by Oyu Tolgoi

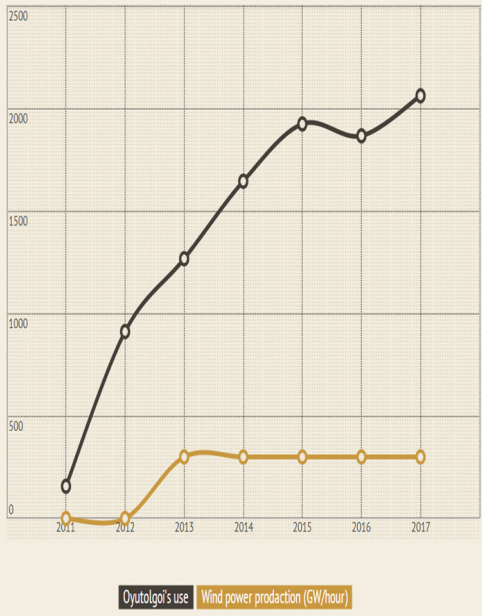


Chart-5. Global Annual and Cumulative Installed Wind Capacity 1996-2012

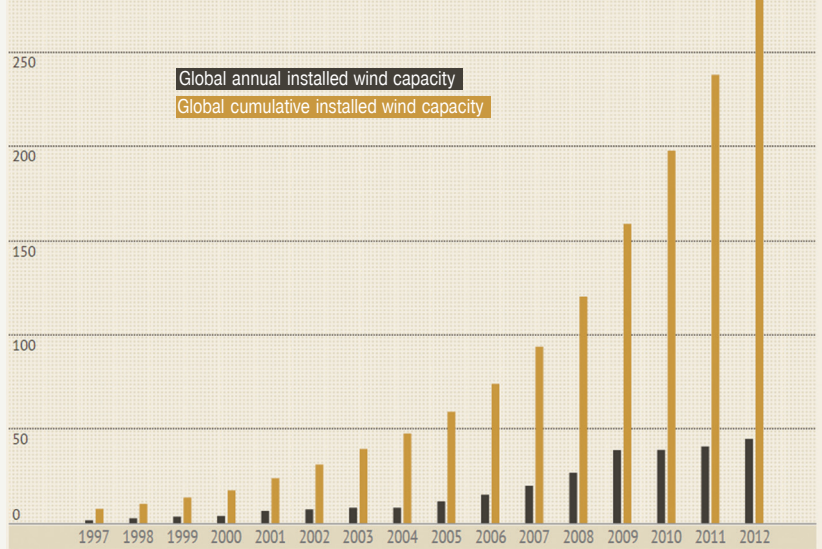


Chart-6. Renewable energy resource

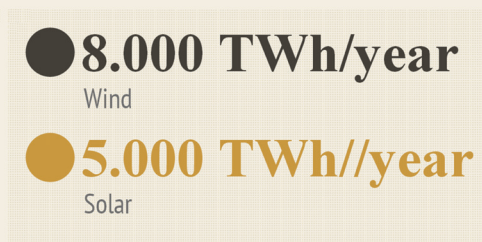


Table-1. Wind Resources in Mongolia

Tsetseg Soum	100kW PV
Bugat Soum	140kW PV
Tseel Soum	120kW wind and 30kW PV
Bayantooroi	100kW PV
Bayantsagaan, Bayanundur and Shinejinst Soums	120kW wind and 30kW PV
Sevrei, Bogd Soums	80kW wind
Manlai Soum	120kW wind and 30kW PV
Khatanbulag	150kW wind
Mandakh Soum	80kW wind
Matad Soum	90kW wind and 30kW PV
Urgamal and Durvuljin Soum	150kW PV

Table-2. Solar and wind powers

	Capacity	Condition	Date of operation
Salkhit wind power station	50	Contracted	2012
Choir wind power station	50	Contracted	2015-2017
Sainshand wind power station	50	Researching	2015-2017
Oyutolgoi wind power station	102	Contracted	2013-2014
Khurmen wind power station	-	Researching	2015-2017
Bayanteeg solar power station	7,8	Researching	2015-2017
Sainshand solar power station	50	Researching	2018-2020

Chart-7. Average wind velocity of world countries



## GREEN BUSINESS

# “WE HAVE EVEN FURTHER DREAMS”



BY D. BEKHBAYAR

B. Unenbat, chief executive of Newcom Group, started his career with Newcom working as an accountant some ten years ago. At that time, a study on the project to build the Salkhit wind farm was just about to begin.

Now, however, he is seeing the opening of that wind farm, Mongolia's first, as the company's chief executive. He served as chief executive of Newcom from 2008 to 2009 before travelling to New Zealand to study finance for two years. After his return he continued his career with Newcom.

Unenbat has served as chief executive since February 2013.

### **What is Newcom's next plan with the launch of the Salkhit wind farm after so many years of development?**

Before talking about the work we have planned, I would like to give you some clarification on what we have just done.

It needs to be mentioned that enormous time and effort have been committed to the launching of the Salkhit wind farm. The project has taken 12 years away from us. However, its construction work only began in 2011. Meanwhile, our extreme patience and hope were the most important.

In 2001, a study on renewable energy resources in Mongolia was carried out by USAID. Based on its map, the chairman of Newcom's board of directors, Ts. Boldbaatar, initiated the construction of a wind farm for the first time. And our first study was launched by sharing our ideas with two large Japanese investment companies in 2004.

As I remember, 70-metre long research instruments were transported from the US. »

► After that, we were permitted to carry out measurements on wind velocity in the territory of Sergelen soum of Tuv aimag. We were working really hard to install the equipment day and night. By the time when the Mongolian Law on Renewable Energy was approved first in 2007, all the studies related to determining wind velocity and building the wind farm were complete on our side. And now its construction has completed as a result of a number of stages and our hard work and hopes.

There have been a number of challenges and problems, although it seems very easy to talk about them. Newcom managed to overcome these huge challenges, demonstrating the many achievements which could be excellent examples for the future.

Therefore, I would like to express my gratitude for those who put their efforts on the project from the beginning until the end, including our employees, partners, and foreign and national organisations. Also we have great gratitude to the chairman and members of Newcom's board of directors and the former chief executives.

#### **What hope do you think the wind farm brings to entrepreneurs?**

The launch of the Salkhit wind farm is just the beginning. This achievement is not only Newcom's, but all Mongolians'. For instance, Mongolia used to be marked on the world renewable energy map in black colours. This launch is a historic event that could lead Mongolia to green marks on the map.

Mongolians do not necessarily need to burn coal all the time to produce energy. The country has enough renewable energy resources and it is stepping up into green development. And this newly built wind farm is an example of all this. Also it is important to send a message worldwide that Mongolia, the country of wild nature and nomadic traditions, has just started supplying renewable energy to the main grid via wind turbines.

Also it is very important that this event encourages entrepreneurs to compete in the renewable energy sector in the future. Because of this there is evidence of successful

cooperation between public and private partnerships in the energy sector. In this sense, Newcom is becoming a renowned business partner in Mongolia. The company has received business proposals from globally renowned companies.

Accordingly, I have good news to share with you. We have just kicked off another project to build a new solar and wind farm in Umnugobi aimag in collaboration with Japan's SoftBank. This time we are developing a feasibility study on building a 300-megawatt power station, which is six times bigger than currently seen at the Salkhit wind farm.

We have even further dreams beyond this. By using Mongolia's renewable energy resources we are planning to collaborate in plans for the Asian super grid, with the aim of supplying Asian countries with clean energy.

#### **How much energy has been produced at Salkhit since its launch?**

The farm has been supplying its energy to the main grid. The electricity metre is operating on a regular basis. The construction was commissioned to the State Commission.

According to the agreement, the project will be officially finished after receiving its electricity payment for 60 days. Until it is finished, Newcom will be responsible for all the risks. But when the 60 days finish, the project bears responsibility for the risks.

#### **What is the price scheme for energy generation at Salkhit?**

According to the energy law, one kilowatt of energy costs USD 0.095. Energy experts say that this issue has been tackled not to cause any pressures on consumers. It means that its relatively higher price will not be fully paid by consumers, but its margin will be subsidised from the Energy Fund.

In the future, the price for energy will increase. According to our estimate, Mongolia's energy price is expected to reach USD 0.095 by 2016. Then, the margin will disappear and no there will be need to pay for

the margin with the fund.

Actually, there was a chance to get support from the Millennium Development Account, but the Energy Regulatory Commission was not able to increase the energy price consistently with market demand. Thus, the Millennium Development Account refused to provide support for the project. The project's duration is about twenty years, but we have planned to make profits after 15 years. Within those 15 years, some issues including repayment of loan interest and principal payment will be raised for certain. If these payments are not repaid, it will close opportunities for follow-up projects. Thus, we should put our efforts into every stage.

#### **How many new jobs did the wind farm create?**

During periods of peak construction activity, there were 500 workers, of which 94 percent were Mongolian. But in the future, there will be 25 to 30 employees at the farm. The advantage of modern technologies really facilitate human labour, and there is no need of such large workforces. This is because of the construction of the non-stop sub-station.

#### **What progress has been made in the development of Power Plant No. 5?**

Currently, bidding selection has been completed. The project will be implemented just at this moment as Mongolia's energy sector is in trouble. We are looking forward to the soonest possible launch of the project activity.

#### **Does Newcom have any plans to go public?**

Newcom Group has some experience in going public. The idea of a public company is directly related to the stock exchange, I think. It is about issuing IPOs - when and where to issue an IPO - on the domestic or on international stock markets.

For Newcom Group, any of its subsidiaries could become public companies in the future. But the right time has not yet arrived. ■



Transportation of nacelle



Installation of blade



A 650 tonne mobile crane



Installation of tower



Express operating team to conduct operation of the wind farm



S. Enkh-Amgalan, chief executive of Clean Energy



Signatures by participants on blade during the opening ceremony



Blade of a wind turbine