

**Extractive Industry Transparency Initiative**

**Independent Reconciliation Report  
for the year ended 31 December 2010**

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## ABBREVIATIONS / DEFINITIONS

EITI	Extractive Industries Transparency Initiative
Engagement	Seventh Kyrgyzstan Extractive Industry Transparency Initiative Reconciliation and Report 2010
“KPMG” or the “Consultant”	KPMG Bishkek LLC
Companies	Mining companies subject to EITI reporting
KR	The Kyrgyz Republic
STA	The State Tax Authority under the Government of Kyrgyz Republic
SAEP	State Agency for Environmental Protection and Forestry under the Government of KR
SAGMR	State Agency on Geology and Mineral Resources of KR
SCA	State Customs Authority under the Government of Kyrgyz Republic
SFKR	Social Fund of Kyrgyz Republic
SRS	State Registration Service under the Government of Kyrgyz Republic
VAT	Value Added Tax
FSPM	Fund for State Property Management of Kyrgyz Republic
DSA	District State Administrations

## 1. INTRODUCTION

This report summarizes the results of the reconciliation of cash flows from the extractive companies as part of the implementation of the Extractive Industries Transparency Initiative (EITI) in the Kyrgyz Republic. The reporting was completed in November 2012 and includes payments made by mining companies participating in EITI in the 2010.

KPMG Bishkek LLC (the "Consultant") has been appointed by the Kyrgyz Republic Extractive Industries Transparency Initiative Secretariat as an independent consultant to reconcile the reporting from the licensees and the Kyrgyz Government agencies in order to identify any potential discrepancies in the reporting according to its Consultancy Contract dated 28 September 2012.

This report details the work carried out for this engagement, results of the reconciliation and analysis as well as the findings arising from the reconciliation and analysis and recommendations for improvement of the reconciliation results. This report should be read in conjunction with the appendices of this report.

All amounts shown in this report are expressed in thousands of Kyrgyz soms unless otherwise stated. For the purposes of differentiation, where amounts reported by the companies have exceeded the amounts reported by Government Entities, these have been bracketed.

### 1.1 The Extractive Industries Transparency Initiative

The Extractive Industries Transparency Initiative (EITI) is the global standard for promoting greater transparency and accountability in countries rich in oil, gas, or mineral resources. It was first announced at the World Summit for Sustainable Development in Johannesburg in 2002 (the 'Earth Summit 2002'), and officially launched in London in 2003. The initiative is supported by an international coalition of developing countries, donors, extractive industry companies, civil society organizations, investors, and international organizations.

It aims for better transparency through reconciliation of payments published by the companies with the Government receipts. The EITI therefore promotes better governance in countries rich in oil, gas and minerals and seeks to reduce the risk of diversion or misappropriation of funds generated by the development of a country's extractive industry resources. It works through the joint cooperation of governments, private sector companies, civil society groups, investors and international organizations.

### 1.2 EITI in Kyrgyz Republic

The Kyrgyz Republic supported and joined the Extractive Industries Transparency Initiative in June 2004 during a conference held by the Government of Kyrgyz Republic, the World Bank and the UK Department for International Development (DFID).

Taking into account the importance of improving management and reporting in the extractive sector and implementing commitments of the Government of Kyrgyz Republic in the framework of the EITI, in 2009 the Initiative has been included into the Country Development Strategy.

Initially, the Resolution of the Government of the Kyrgyz Republic as of 23 September 2004 #710 "On approving reporting indicators for disclosure of information on financial flows from mining companies of Kyrgyz Republic in the framework of EITI principles implementation" approved a preliminary list of extractive companies which report on disclosure of financial revenues to be submitted on semiannual basis and defined reporting indicators.

In order to further improve the process of implementing the principles of the Extractive Industries Transparency Initiative in Kyrgyz Republic, as well as due to changes in the structure and composition of the government agencies of the Kyrgyz Republic and the need to update the regulatory framework involving all stakeholders, including representatives of mining companies, government agencies and civil society the Resolution of the Government of the Kyrgyz Republic as of 8 December 2010 #317 "On improving the process of implementation of Extractive Industries Transparency Initiative in Kyrgyz Republic" has been adopted. Based on the analysis of financial flows of revenues, and

in connection with the introduction on 1 January 2009 of a new edition of the Tax Code of the Kyrgyz Republic the forms of the indicators and the structure of the report templates on the types of payments were modified. According to the above resolution the following were approved:

- indicators for EITI reporting for mining companies;
- template of the annual report on financial flows from the activities of mining companies for government agencies;
- template of the annual administrative statistical reporting on financial flows from the activities of mining companies (template #4-EITI);
- Instruction for preparing and submitting a report on financial flows from the activities of mining companies in Kyrgyzstan.

In order to provide a comprehensive record of revenues from minerals mining, the requirements to present EITI reports have been disseminated to all mining companies operating in the country. Also, a threshold of 1 million USD has been established for companies whose data will be subject to an audit of the reconciliation. Due to the fact that threshold has been set at annual income of 1 million USD the data for only a small number of companies is collected. The government agency responsible for subsoil use provided an expanded list of mining companies, which takes into account a uniform coverage of the various types of minerals.

In this regard, the government agency responsible for subsoil use is charged to submit annually for approval by the Kyrgyzstan EITI Supervisory Board a new list of large mining companies, EITI reports of which are subject to independent reconciliation, and then to submit it to the government agencies involved in EITI implementation.

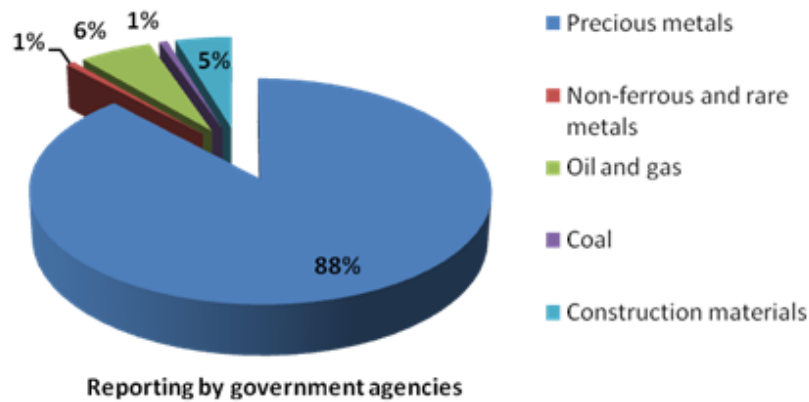
In 2011 the Kyrgyz Republic successfully implemented all EITI indicators, passed an EITI validation exercise and within the framework of the 5th EITI Global Conference held in Paris on 2 March 2011 Kyrgyzstan has been awarded the status of EITI Compliant country. Kyrgyzstan has also been given EITI Chair's Award "For achieving remarkable progress in implementing the EITI in difficult circumstances".

In accordance with the Resolution of the Government of the Kyrgyz Republic as of 8 December 2010 #317 "On improving the process of implementation of the Extractive Industries Transparency Initiative in the Kyrgyz Republic" the State Agency for Geology and Mineral Resources under the Government of Kyrgyz Republic prepared a list of large mining companies, reports of which and relevant data from government agencies will be subject to audit of the reconciliation. The Kyrgyzstan EITI Supervisory Board approved a list of 45 large companies, which are subject to audit of the reconciliation within EITI for 2010 (Please refer to Appendix B for a detailed list of companies).

The 45 Companies that have been selected for EITI reporting for 2010 fiscal year are engaged in the following mining sectors:

- Precious metals – 15 companies
- Non-ferrous and rare metals – 7 companies
- Oil and gas – 1 company
- Coal – 10 companies
- Construction materials – 12 companies.

The graph below presents cash flows by sectors as initially reported by the government agencies for 2010:



### 1.3 Objective and scope of the Engagement

The objective of the Engagement is to determine, in compliance with the procedures set out by the EITI International Secretariat, the transparency and credibility of mining sector payments and receipts in the Kyrgyz Republic. To this end, the Engagement entails an analysis and reconciliation of material payments and receipts made in the fiscal year 2010 in the extractive sector.

To achieve the objective of this engagement, KPMG is responsible for undertaking the following scope of work:

- Carry out a reconciliation of the data received from government agencies on the revenues to the state budget with the data received from mining companies on their payments to the state budget for the 2010 fiscal year.
- When discrepancies are identified between the amount which according to the mining company was paid and the amount which according to the government agency was received from the mining company, the Consultant addresses to both sides to provide it with additional information, explanation and documents (business accounts, bank statements, acts etc) in order to explain the discrepancies.
- Present for the consideration of the EITI Supervisory Board a draft report which should contain the following information:
  - a list and description of the flows of revenues and benefits that are included in the report; a list of all licensed and registered companies involved in exploration and extraction in the mining sector, with an indication of which companies take part in the EITI reporting process and which companies did not participate (with indication of their relative size, whether for extraction or income/payments, and the reasons of non-participation in EITI);
  - clearly identify the cases of non-participation of mining companies or government agencies in the reporting process and evaluate the likelihood that this has had a significant impact on the data presented;
  - describe the methodology adopted by the organization for the reconciliation of data to identify discrepancies, and any subsequent work undertaken by the organization to reconcile the data and, if necessary, eliminate any identified discrepancies;
  - consolidated amount of actual revenues from mining companies by each type of payment received by government agencies in the 2010 fiscal year without indication of the revenues received from each company separately;
  - consolidated amount of actual payments by each type of payments produced by mining companies in the 2010 fiscal year without indication of payments produced by each company separately;
  - total amounts of discrepancies by each type of taxes and payments determined separately for the mining companies and government agencies with an explanation of the methodology of identification of such discrepancies;

- explanation of identified reasons separately for each discrepancy between the amount of payments and revenues and a description of the measures undertaken to get explanations in case the reasons of some discrepancies were not identified;
  - recommendations on how to improve the EITI data collection and reconciliation process in the future and eliminate/reduce the data discrepancies;
  - findings should also be listed in the report, as well as all of the problems noted by stakeholders and recommendations for implementation in the future.
- If there are recommendations from members of EITI Supervisory Board, the Consultant should amend or make additions to the draft report or explains the reasons in the report why it is not possible to introduce the recommended amendments or additions, after which it presents as a final report to the EITI Supervisory Board.

The analysis will be carried out on a cash accounting basis, with both cash and in-kind payments taken into account. We have performed the procedures detailed in the following section of this report and will report to KEITIS the factual findings resulting from our work.

The procedures that we will perform are solely to assist KEITIS in the analysis and reconciliation of payments and receipts as included in the scope of work above, made in the fiscal year 2010 in the mining sector.

If there are payments by companies to the Government and material receipts by the Government from the companies omitted from both the completed reporting templates, our work would be insufficient to detect them and will therefore be excluded from this report.

In conducting our work, we have relied on the information and explanations obtained from the respective Government bodies and companies. No representation is made as to the accuracy or completeness of such information. Our procedures are not designed to identify fraud or misstatements made by the Companies and Government agencies.

This report is also prepared in the Russian language. In the event of discrepancies or contradictions between the English version and the English and Russian versions, the Russian version shall prevail.

Our report incorporated the information received before 20 December 2012. Any information received subsequently would therefore not be included in this report.

#### **1.4 Limitations in usage of Auditor's report**

As the procedures performed to accomplish the aims set out as a part of EITI do not constitute either an audit or a review made in accordance with International Standards on Auditing or International Standards on Review Engagements, we do not express any assurance on the Reports, prepared by Companies and Government agencies, upon which present report on 2010 was prepared.

By performing additional procedures, a limited or full audit in accordance with auditing standards, other issues may have been detected and reported.

The objective of this report is solely to render assistance in reconciliation of data provided by Companies and Government agencies, discover and disclose discrepancies between the data of Companies and Government agencies, determine reasons of identified discrepancies, if possible, eliminate the causes of identified discrepancies, and inform you; and therefore, this report should not be used for any other purpose, and EITI Consolidated report should not be presented to third parties as an audited information.

## 2. OUR APPROACH

Based on the objective highlighted in the previous section and our understanding of the scope of work, the approach adopted by us was to carry out the reconciliation in two phases:

- Phase 1: Analysis and Reconciliation
- Phase 2: Verification, Assessment and Conclusion.

### *Phase 1: Analysis and Reconciliation*

#### **a) Project Set-Up and Preparation**

Main Tasks:

- Established and agreed on Engagement and progress reporting timetable.
- Identified and appointed a Project Coordinator on the part of the Customer to assist in scheduling of interviews and collation of data.
- Obtained a preliminary understanding of the current reporting process, guidelines and procedures.

An initial meeting was arranged with the Project Coordinator on the part of the Customer, Head of KEITIS Mr. Karybek Ibraev, to confirm the project scope, approach and progress reporting timetable. The timeframe agreed was as follows.

- Commencement of Phase 1 on 1 October 2012;
- Completion of Phase 1 on 1 November 2012.

During this stage, information was also obtained to establish a preliminary understanding of the current reporting process, guidelines and procedures of the EITI reporting.

For the purpose of the KEITI reconciliation and report for the fiscal year 2010, the responsible state agencies have reported on the receipt of taxes, fees, charges and service charges, dividends on state and local property, other receipts on payments made to the government such as entitlements under the production sharing contracts and donations for 45 companies.

The EITI reporting process for both the companies and the various Government Entities were represented to us as follows:

- Reports of large mining companies for 2010 have been collected by the State Agency for Geology and Mineral Resources under the Government of Kyrgyz Republic.
- The data for the 2010 fiscal year from government agencies have been submitted to the Kyrgyzstan EITI Secretariat.

#### **b) Analysis and Reconciliation**

Main Tasks:

- Obtained and reviewed the completed reporting templates concerning tax fees and charges by respective ministries, government agencies, local government administration offices, and mining companies.
- Compared the government receipts and company payments for the fiscal year 2010 based on cash accounting basis, taking into account cash and in-kind payments.
- Where discrepancies were noted between government receipts and company payments, further information on these were requested from the various government bodies and companies.
- A status report detailing the list of discrepancies and the status of the inquiries to government bodies and companies as well as highlighting any issues noted based on preliminary findings was prepared.
- Submitted status report to the Kyrgyz Republic EITI Secretariat.



For the purpose of the EITI reconciliation and report for the year 2010, the following templates were used to report on the Government receipts and company payments made in the fiscal year 2010.

**EITI Template 1 (EITI template - K):** Completed by the respective mining companies which summarizes the payments made to the Government bodies and related voluntary disclosures such as educational support, support of social infrastructure and reclamation fund charges and submitted to the State Agency for Geology and Mineral Resources under the Government of Kyrgyz Republic.

**EITI Template 2 (EITI template - G):** State agencies, such as Ministries, Government agencies, local government administration offices, and taxation authorities are required to complete EITI Template G which captures the amount received from the companies during the tax year and submit to Kyrgyzstan EITI Secretariat for consolidation.

For each company included in Report 2010, amounts for each item reported in the EITI Templates K and G were compared.

For each discrepancy noted between EITI Templates K and G, requests were made for further information on the company payments made by the respective companies and on the Government receipts received by the various State agencies.

The requests for further information were sent to respective companies and State agencies on the 3-15 October 2012. The companies and State agencies were given two weeks from the date of the letter to provide the information requested.

### **Phase 2: Verification and Assessment**

#### **a) Verification and Assessment**

Main Tasks:

- Updated the status of inquiries to government agencies and companies.
- Obtained and reviewed the detailed listing of the breakdown provided for the reported amount from both government agencies and companies.
- Where possible, confirmed the explanations provided for discrepancies noted with additional verification procedures.
- Recorded all discrepancies noted on the relevant work papers supported by the necessary documentary evidences.
- Highlighted any issues noted and identified areas for improvements.

Phase 2 of the Engagement commenced on 1 November 2012, after most of the responses were received from the Government Entities and companies on the requested receipt/payment details.

The status of enquiries to State agencies and companies were updated to determine whether all the information requested has been provided.

The following tasks were performed for each discrepancy noted.

- Confirmation that the information provided by State agencies agreed with the amounts reported in the EITI Template K. The reasons for any differences were obtained. Further inquiries for documentary evidence regarding the noted discrepancies.
- No further actions were taken if there were no differences.

For items requiring further investigation, the following tasks were performed:

- Reviewing the details of the payments and receipts provided to identify the transactions which may have resulted in the discrepancy.

- Upon identification of differences, these were noted and explanations were sought from the respective companies and state agencies through meetings, emails or telephone calls.
- All material discrepancies were quantified and highlighted in **Section 3: Reconciliation of reported payments** of this report with explanations by the respective parties, where possible.

The preliminary results and findings arising from the Engagement were presented to the Kyrgyz Republic EITI Secretariat on 15 November 2012.

The deadline for the submission of the final report was 31 January 2013.

### 3. RECONCILIATION OF REPORTED PAYMENTS

This section presents the overall results of the reconciliation and summarizes the common issues or reasons for the discrepancies under each section of the EITI Template submitted by the Government agencies and the companies.

**Table 1. Aggregated cash flows by types of payments as reported by companies and government agencies (excluding “The Companies’ Additional Expenses”)**

Type of payments	Original amounts, '000 KGS			Adjustments, '000 KGS			Final amounts, '000 KGS			Number of companies with discrepancies
	Company	Government agencies	Discrepancy	Company	Government agencies	Explained discrepancy	Company	Government agencies	Unexplained discrepancy	
Tax payments	5,065,700	5,018,084	(47,616)	(55,046)	2,925	(52,121)	5,010,654	5,021,009	10,355	33
Customs payments	284,052	280,810	(3,242)	34,500	37,302	71,802	318,552	318,112	(440)	25
Other material payments	1,196,283	938,926	(257,357)	3,899	334,807	338,706	1,200,182	1,273,733	73,551	43
<b>TOTAL</b>	<b>6,546,035</b>	<b>6,237,820</b>	<b>(308,215)</b>	<b>(16,647)</b>	<b>375,034</b>	<b>358,387</b>	<b>6,529,388</b>	<b>6,612,854</b>	<b>83,466</b>	

Total payments to the budget in accordance with the original data from the companies comprised KGS 6,546,035 thousand, which is KGS 308,215 thousand more than amount of payments to budget initially reported by government agencies.

Out of the total difference of the initial KGS 308,215 thousand, KGS 375,034 thousand refers to the difference arising from the reports prepared by state agencies. Such differences have been found and explained during the reconciliation process. The most significant difference resulted from the fact that the government agencies did not report payments of dividends on state shares from "Kyrgyzaltyn" JSC of KGS 105,380 thousand, and also did not include in the reports payments to Government of KR (article #30 of EITI report) from “Kumtor Gold Company” CJSC of KGS 300,445 thousand. In addition the government agencies increased the amounts recorded in article #25 of the EITI report “Opportunity cost of provided land plots” of the Kichi-Charat LLC (KGS 47,612 thousand soms) and Vertex Gold Company LLC (KGS 27,089 thousand soms).

**Table 1b. Aggregated cash flows by additional expenses of the companies as reported by companies and government agencies**

Type of payments	Original amounts, '000 KGS			Adjustments, '000 KGS			Final amounts, '000 KGS			Number of companies with discrepancies
	Companies	Government agencies	Discrepancy	Companies	Government agencies	Explained discrepancy	Companies	Government agencies	Unexplained discrepancy	
31. Educational support	10,223	-	10,223	-	9,216	(9,216)	10,223	9,216	1,007	2
32. Support of social infrastructure	65,463	272,957	(207,494)	(3,603)	(30,829)	27,226	61,860	242,128	(180,268)	8
33. Recultivation fund charges	58,018	-	58,018	(6,495)	45,273	(51,768)	51,523	45,273	6,250	1
<b>TOTAL</b>	<b>133,704</b>	<b>272,957</b>	<b>(139,253)</b>	<b>(10,098)</b>	<b>23,660</b>	<b>(33,758)</b>	<b>123,606</b>	<b>296,617</b>	<b>(173,011)</b>	

Additional expenses of the companies include voluntary contributions/in-kind payments made by the companies to support social infrastructure and education as well as the recultivation fund charges.

It was this kind of payments where major discrepancies between the relevant reports of the companies and state agencies took place. Educational support payments and contributions to support social infrastructure often are made by the companies directly to schools, hospitals and other institutions in the form of financial aid and are not registered in the district state administrations.

Recultivation fund charges are the contributions of the mining companies to special bank accounts and often the state agencies do not have full information about them.

The mining companies have provided supporting documents for the above mentioned payments in the amount of KGS 10,223 thousand, KGS 65,463 thousand and KGS 58,018 thousand to educational support, to support of social infrastructure and as recultivation fund charges respectively.

We received relevant EITI templates from 42 out of 45 companies. "Tash-Komur" LLC, "Sulukta-Komur" JSC and "Polimetall Investstroj" LLC failed to provide EITI Form for 2010 fiscal year.

**Table 2. Aggregated cash flows by companies as reported by companies and government agencies (excluding “The Companies’ Additional Expenses”)**

#	Company name	Original amounts, '000 KGS			Adjustments, '000 KGS			Final amounts, '000 KGS		
		Company	Government agencies	Discrepancy	Company	Government agencies	Discrepancy	Company	Government agencies	Discrepancy
<b>Precious metals:</b>										
1	“Kumtor Gold Company” CJSC	5,208,011	4,907,253	(300,758)	7,226	307,984	300,758	5,215,237	5,215,237	-
2	“Kyrgyzaltyn” OJSC	428,993	272,915	(156,078)	1,459	157,698	156,239	430,452	430,613	161
3	“Vertex Gold Company” LLC	13,279	41,321	28,042	(2,051)	(29,747)	(27,696)	11,228	11,574	346
4	“Altynten” LLC	5,339	5,229	(110)	19	129	110	5,358	5,358	-
5	“Andash Mining Company” LLC	2,714	8,029	5,315	5,336	22	(5,314)	8,050	8,051	1
6	“Kazakhmys” LLC	110,399	100,934	(9,465)	13	9,523	9,510	110,412	110,457	45
7	“Full Gold Mining” LLC	64,729	64,755	26	318	232	(86)	65,047	64,987	(60)
8	“Kichi-Chaarat” CJSC	2,036	49,651	47,615	-	(47,612)	(47,612)	2,036	2,039	3
9	“Fonta” LLC	2,077	2,924	847	(637)	(907)	(270)	1,440	2,017	577
10	“Eventys” LLC	12,962	12,837	(125)	-	126	126	12,962	12,963	1
11	“Dolina Kasana” LLC	1,762	1,516	(246)	(209)	37	246	1,553	1,553	-
12	“ELKO-service” LLC	315	615	300	-	-	-	315	615	300
13	“Interbusiness” LLC	4,534	2,538	(1,996)	(589)	1,962	2,551	3,945	4,500	555
14	“Kaidi” Mining Investment Company” LLC	10,715	10,765	50	84	1,507	1,423	10,799	12,272	1,473
15	“Kumbel-Resource” LLC	757	712	(45)	-	45	45	757	757	-
<b>Ferrous and rare metals:</b>										
16	“Khaidarkan Mercury” JSC	4,601	4,600	(1)	-	-	-	4,601	4,600	(1)
17	“Kadamzhay Antimony Enterprise” JSC	15,616	15,238	(378)	81	-	(81)	15,697	15,238	(459)
18	“Saryjaz Mineral Mining Company” LLC	4,810	4,810	-	-	-	-	4,810	4,810	-
19	“Central Asian Tin Company” LLC	699	708	9	11	2	(9)	710	710	-
20	“Kutesay Mining” OJSC	19,633	19,816	183	183	-	(183)	19,816	19,816	-

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#	Company name	Original amounts, '000 KGS		Discrepancy	Adjustments, '000 KGS		Discrepancy	Final amounts, '000 KGS		Discrepancy
		Company	Government agencies		Company	Government agencies		Company	Government agencies	
21	"Mineral Trade" LLC	171	216	45	60	16	(44)	231	232	1
22	"Polimetal Investstroj" LLC	-	33	33	-	-	-	-	33	33
<b>Oil and Gas:</b>										
23	"KyrgyzNefteGaz" JSC	260,341	366,999	106,658	6,300	(31,686)	(37,986)	266,641	335,313	68,672
<b>Coal:</b>										
24	"Ak-Jol Komur" LLC	1,006	1,032	26	26	-	(26)	1,032	1,032	-
25	"Tash Komur" LLC	-	496	496	-	-	-	-	496	496
26	"Sharbon" CJSC	8,205	8,682	477	-	-	-	8,205	8,682	477
27	"Busurmankul T" LLC	782	808	26	-	-	-	782	808	26
28	"Shakhta Jyrgalan" OJSC	4,472	4,654	182	-	-	-	4,472	4,654	182
29	"Kok-Bel Komur" LLC	403	406	3	-	(3)	(3)	403	403	-
30	"Kyzyl-Kiya Komur" JSC	3,893	3,919	26	-	-	-	3,893	3,919	26
31	"Sulyukta Komur" JSC	-	8,531	8,531	-	-	-	-	8,531	8,531
32	"Kara-Keche" State Enterprise	274	274	-	-	-	-	274	274	-
33	"Parity Coal" LLC	15,674	15,481	(193)	796	992	196	16,470	16,473	3
<b>Construction materials:</b>										
34	"Bishkekstroyaterialy" JSC	1,461	2,030	569	569	-	(569)	2,030	2,030	-
35	"Kum-Shagyl" OJSC	31,996	31,725	(271)	6	368	362	32,002	32,093	91
36	"Tokmok plant KSM" JSC	1,575	969	(606)	-	-	-	1,575	969	(606)
37	"Silikat" JSC	3,286	3,804	518	96	(421)	(518)	3,382	3,383	1
38	"Iygilik" OJSC	8,448	8,430	(18)	19	37	18	8,467	8,467	-
39	"South Plant of Construction Materials" LLC	15,383	34,120	18,737	23,517	4,674	(18,843)	38,900	38,794	(106)
40	"Kyrgyz Too-Tash" OJSC	6,539	6,413	(126)	93	77	(16)	6,632	6,490	(142)
41	"ZhBI Plant" OJSC	13,134	10,742	(2,392)	(3,041)	-	3,041	10,093	10,742	649

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#	Company name	Original amounts, '000 KGS		Discrepancy	Adjustments, '000 KGS		Discrepancy	Final amounts, '000 KGS		Discrepancy
		Company	Government agencies		Company	Government agencies		Company	Government agencies	
42	"Nur KM" JSC	17,660	17,682	22	(2)	(14)	(12)	17,658	17,668	10
43	"Dary-Bulak-Abshir" LLC	6,380	6,396	16	-	-	-	6,380	6,396	16
44	"South Kyrgyz Cement" CJSC	225,798	169,476	(56,322)	(56,330)	(7)	56,323	169,468	169,469	1
45	"Dannur Yug" LLC	5,173	7,336	2,163	-	-	-	5,173	7,336	2,163
<b>TOTAL</b>		<b>6,546,035</b>	<b>6,237,820</b>	<b>(308,215)</b>	<b>(16,647)</b>	<b>375,034</b>	<b>391,680</b>	<b>6,529,388</b>	<b>6,612,854</b>	<b>83,466</b>

[General note on the reports provided by companies \(EITI Template - K\)](#)

The following licensees failed to provide sufficient supporting documentation for identified discrepancies:

- "Khaidarkan Mercury" OJSC
- "Kadamzhay Antimony Enterprise" OJSC
- "ELKO-service" LLC
- "Tash-Komur" LLC
- "Dannur Yug" LLC
- "Dary-Bulak-Abshir" LLC
- "ZhBI Plant" OJSC
- "South Plant of Construction Materials" LLC
- "Tokmok Plant KSM" OJSC
- "Sulyukta Komur" LLC
- "KyrgyzNefteGaz" JSC

The total unresolved discrepancies for the above mentioned companies constituted KGS 92,905 thousand compared with corresponding figures reported by the government agencies.

[General note on the reports provided by Government agencies \(EITI Template - G\)](#)

The government agencies did not provide the report on the article #32 (section "Additional expenses of the company") for the following Companies (relevant district is indicated in the first column):

**Table 2a. List of the Companies not reported by government agencies (District State Administrations)**

Name of District State Administration, which did not submit reports on respective indicators	Line code	32	
		Social infrastructure support	
		According to the Company's data	EITI Template - G
Leilekskaya	"Sulyukta Komur" LLC	-	not received
Alamedinskaya	"Bishkekstroyaterialy" OJSC	-	not received
Alamedinskaya	"Kum-Shagyl" OJSC	391	not received
Aravanskaya	"South Plant of Construction Materials" LLC	-	not received
Alamedinskaya	"ZhBI Plant" JSC	341	not received
Aravanskaya	"Dannur Yug" LLC	-	not received
Aravanskaya	"Parity Coal" LLC	-	not received

Failure by the government agencies to provide the report on the article #32 (section "Additional expenses of the company") was partially explained by the fact that there were no amounts to report for some of the mentioned companies.

**General comments on adjustments (EITI Template 3)**

During the reconciliation process of amounts per reports of Company and Government agencies differences were identified. Some of these differences were resolved, and the reasons of their occurrence were either due to error on Company or Government agencies reports.

Below are the resolved discrepancies on the lines 1 – 30 (excluding Additional Expenses of the Companies) and the percentage of the errors made by the Companies and state agencies. The percentage of the errors was calculated by taking 100% as the error amount of the Company and state bodies in absolute terms.



**Table 3. Adjustments on items 1-30**

#	Item (indicator)	Explained discrepancy , KGS'000			% of errors		Responsible Government Agency
		In Company reports	In Government reports	Total	In Company reports	In Government reports	
1	Income tax on individuals	(269)	587	318	31%	69%	State Tax Authority
2	Income tax	(252)	42	(210)	86%	14%	State Tax Authority
3	Land tax	(573)	10	(563)	98%	2%	State Tax Authority
4	Property tax	(44)	46	2	49%	51%	State Tax Authority
5	VAT imposed on goods and services produced on territory of KR	(55,278)	2,974	(52,304)	95%	5%	State Tax Authority
6	Excise tax imposed on goods, produced on the territory of KR	-	-	-	-	-	State Tax Authority
7	Sales tax	(61)	168	107	27%	73%	State Tax Authority
8	Tax on income of foreign organizations not permanently registered in KR	1,488	(96)	1,392	94%	6%	State Tax Authority
9	Bonuses	(37)	90	53	29%	71%	State Tax Authority
10	Royalty	(164)	(907)	(1,071)	15%	85%	State Tax Authority
11	Gross income tax	1,490	-	1,490	100%	-	State Tax Authority
12	Annual charge for development of mineral base	-	-	-	-	-	State Tax Authority
13	Other taxes and charges	(1,346)	11	(1,335)	99%	1%	State Tax Authority
14	Customs duties	3,498	(2,439)	1,059	59%	41%	State Customs Authority
15	Customs fees	1,538	6,424	7,962	19%	81%	State Customs Authority
16	Excise tax on imported goods	8	(2)	6	80%	20%	State Customs Authority
17	VAT on imported goods	29,456	33,319	62,775	47%	53%	State Customs Authority
18	Social insurance payments	1,885	(2,924)	(1,039)	39%	61%	Social Fund
19	Concession payments	-	-	-	-	-	State Agency for Geology and Mineral Resources
20	Dividends paid on state-owned shares	-	105,380	105,380	-	100%	State Property Management Fund
21	Payments for state shares redeemed by the company	-	-	-	-	-	State Property Management Fund

#	Item (indicator)	Explained discrepancy , KGS'000		Total	% of errors		Responsible Government Agency
		In Company reports	In Government reports		In Company reports	In Government reports	
22	Payments for lease of land owned by state or municipal authorities and land in forest reserves	(2,939)	565	(2,374)	84%	16%	District State Administrations
23	Agricultural production losses compensation	(48)	100	52	32%	68%	State Registration Service
24	Compensation of losses on forestry-based production	-	182	182	-	100%	State Agency for Environmental Protection and Forestry
25	Opportunity cost of provided land plots	48	(75,779)	(75,731)	-	100%	District State Administrations
26	Payment for subsoil use license retention	-	-	-	-	-	State Agency for Geology and Mineral Resources
27	Payments for environmental pollution and compensation of environmental damage	522	1,263	1,785	29%	71%	State Agency for Environmental Protection and Forestry
28	Fees for issuance of licenses	(63)	5	(58)	93%	7%	State Agency for Geology and Mineral Resources
29	Fees for issuance of certificates and other permits	65	5,570	5,635	1%	99%	State Agency for Geology and Mineral Resources
30	Payments established by agreements with the Government of KR	4,429	300,445	304,874	1%	99%	District State Administrations

### 3.1 Analysis by separate deduction items

This part of the report serves to highlight the reasons for adjustments made in relation to the initial discrepancies detected at for each item after the comparison of this forms with the EITI reports of the Company and state bodies for the year 2010. The detailed breakdown of all payments/receipts by types of payments is presented in Appendix C.

One of the main reasons for the adjustments made in relation to almost all the items - were the errors made in the information, initially provided, as it became clear after receiving further information from the respective companies and State agencies. Such errors were mainly due to accidental omissions and typographical errors made. From the reconciliation exercise carried out, it was noted that some of these errors were material.

The following analysis of aggregate discrepancies for each item, shown in the Table 1a and Table 1b has been further analyzed as follows.

#### a) Section 1. Tax payments

Tax deductions are regulated by the State Tax Authority. Tax payments make 73% of all the deductions made by the Companies. The initial discrepancy on tax payments was KGS 47,616 thousand, being 0.95% of the final STS data. After the receipt of the explanatory information, the discrepancies decreased to KGS 10,355 thousand, less than 0.01% of the final STS data.

Below are the discrepancies, identified for each item included in the “Tax Payments” Section and the reasons of such discrepancies in 2010 year.

**Table 5. Adjustments and reasons for adjustments of tax payments**

Code	Type of tax payments	Original amounts, '000 KGS		Initial Discrepancies, KGS '000	Adjustments, KGS '000			Reasons of identified discrepancies, KGS '000					Final information, KGS '000		Unresolved Discrepancies, KGS '000
		Companies' reporting	Government agencies' reporting		Companies' reporting	Government agencies' reporting	TOTAL, '000 KGS	Wrong amount included in initial reporting by Companies	Wrong amount included in initial reporting by government agencies	Timing difference	Amount not included in initial reporting by Companies	Amount not included in initial reporting by government agencies	Companies' reporting	Government agencies' reporting	
1	Individual income tax	276,492	277,735	1,243	(269)	587	318	(608)	(61)	308	31	648	276,223	278,322	2,099
2	Income tax	35,426	35,059	(367)	(252)	42	(210)	(252)	-	-	-	42	35,174	35,101	(73)
3	Land tax	14,605	14,201	(404)	(573)	10	(563)	(587)	(354)	-	14	364	14,032	14,211	179
4	Property tax	9,334	9,272	(62)	(44)	46	2	(68)	(11)	-	24	56	9,290	9,318	28
5	VAT on goods produced in KG	160,588	103,885	(56,703)	(55,278)	2,974	(52,304)	(13)	-	(55,893)	628	2,974	105,310	106,859	1,549
6	Excise tax on goods produced in KG	340	340	-	-	-	-	-	-	-	-	-	340	340	-
7	Sales tax	83,386	87,661	4,275	(61)	168	107	(749)	-	-	688	168	83,325	87,829	4,504
8	Withholding tax on income of non-residents in KG	29,540	31,214	1,674	1,488	(96)	1,392	-	(96)	-	1,488	-	31,028	31,118	90
9	Bonus	32,992	32,861	(131)	(37)	90	53	(40)	-	-	3	90	32,955	32,951	(4)
10	Royalty	58,127	59,205	1,078	(164)	(907)	(1,071)	(164)	(907)	-	-	-	57,963	58,298	335
11	Gross income tax	4,362,519	4,365,480	2,961	1,490	-	1,490	-	-	-	1,490	-	4,364,009	4,365,480	1,471

Code	Type of tax payments	Original amounts, '000 KGS		Initial Discrepancies, KGS '000	Adjustments, KGS '000		TOTAL, '000 KGS	Reasons of identified discrepancies, KGS '000					Final information, KGS '000		Unresolved Discrepancies, KGS '000	
		Companies' reporting	Government agencies' reporting		Companies' reporting	Government agencies' reporting		Wrong amount included in initial reporting by Companies	Wrong amount included in initial reporting by government agencies	Timing difference	Amount not included in initial reporting by Companies	Amount not included in initial reporting by government agencies	Companies' reporting	Government agencies' reporting		
12	Annual charge for development of mineral base	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
13	Other taxes and charges	2,351	1,171	(1,180)	(1,346)	11	(1,335)	(1,356)	-	(5)	15	11	1,005	1,182	177	
	<b>TOTAL</b>	<b>5,065,700</b>	<b>5,018,084</b>	<b>(47,616)</b>	<b>(55,046)</b>	<b>2,925</b>	<b>(52,121)</b>	<b>(3,837)</b>	<b>(1,429)</b>	<b>(55,590)</b>	<b>4,381</b>	<b>4,353</b>	<b>5,010,654</b>	<b>5,021,009</b>	<b>10,355</b>	

During the reconciliation, the actual amounts of tax payments were confirmed with supporting documentation.

The most significant discrepancies were caused by different cut-off, i.e. companies' reporting numbers were based on accrual principle rather than cash principle. Thus, "Yuzhno-Kyrgyzskii Cement" CJSC initially reported VAT amounts on goods produced in Kyrgyzstan accrued for 2010 fiscal year (KGS 55,893 thousand), however, had not made any VAT payments during the stated period.

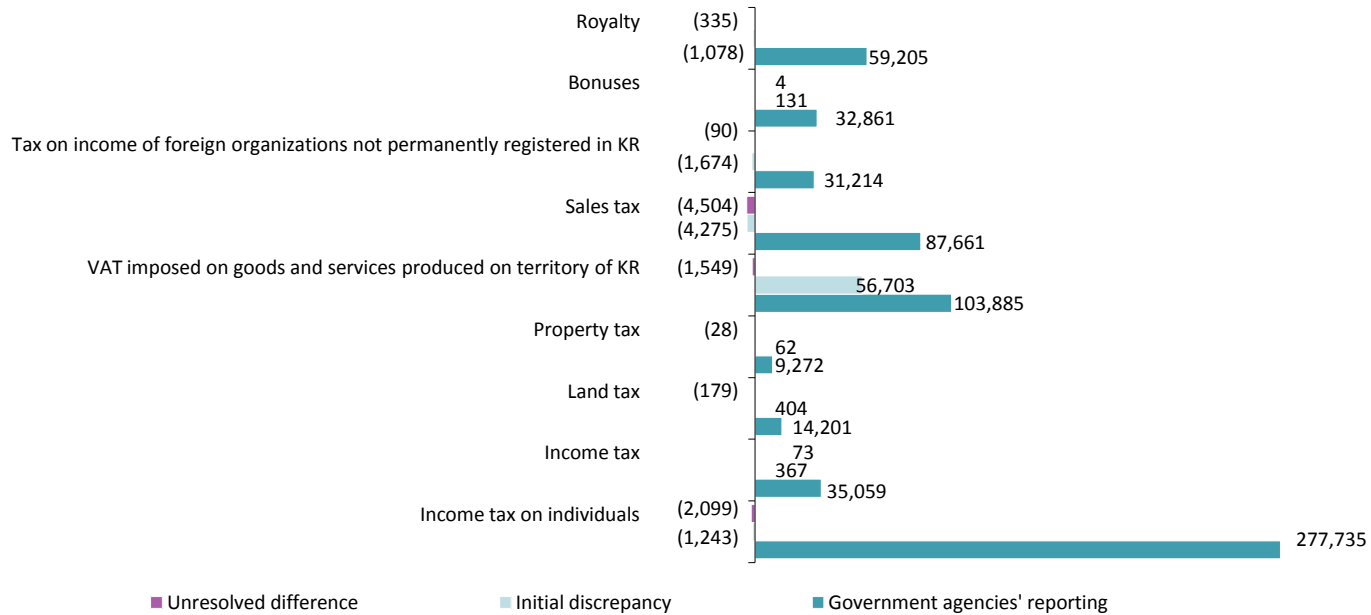
Some discrepancies were caused by different classification of tax payments by companies and government agencies. Thus, for example, "Nur KM" JSC reported the amount of KGS 1,092 thousand as other taxes, while the State Tax Authority reported this amount as tax on income of foreign organizations not permanently registered in KR (article #8 of EITI report).

Discrepancies were also caused by both companies and government agencies excluding some receipts / payments from their initial reporting. For example, "Kumtor Gold Company" CJSC excluded payments of tax on gross income in the amount of KGS 1,490 thousand from its initial EITI report, however, subsequently provided all required documents supporting the payment of the mentioned amount. Government agencies, in their turn, initially did not include the payment of VAT on internal goods of KGS 1,973 thousand for "Interbusiness" LLC, however, such payment had been confirmed by the company with appropriate supporting documentation.

The most significant amount of revenue to the state budget was received from tax on gross income in the amount of KGS 4,365,480 thousand as reported by Government agencies. The amount of initial discrepancy comprised KGS 2,961 thousand. After the reconciliation exercise the unresolved discrepancy comprised KGS 1,471 thousand.

Diagram 1 shows payments per Government agencies' reporting, initial and unresolved discrepancies for other significant tax payments.

**Diagram 1. Tax payments**



**b) Section 2. Customs payments**

Custom payments are regulated by the State Customs Authority. Tax payments are around 4.6% of all the payments, made by the companies. The initial discrepancy on tax payments was KGS 3,242 thousand being 1.02% of the final report of the Tax Authority. After some explanatory procedures, the discrepancy decreased by 86% compared with the initial discrepancy and comprised KGS 440 thousand.

Below are the discrepancies noted for each of the items included under the Customs Section and reasons for such discrepancies in 2010 year.

**Table 6. Adjustments and reasons for adjustments of customs payments**

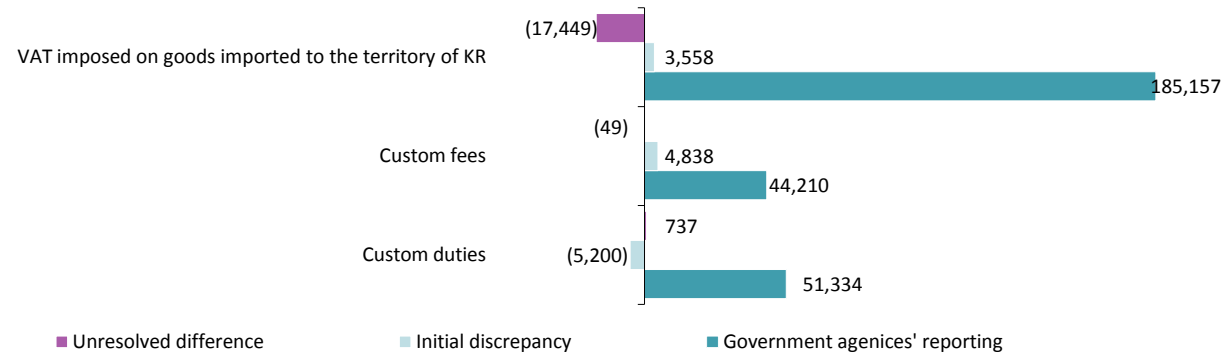
Code	Type of customs payments	Original amounts, '000 KGS		Initial Discrepancies, KGS '000	Adjustments, KGS '000			Reasons of identified discrepancies, KGS '000					Final reporting, KGS '000		Unresolved discrepancies, '000 KGS
		Companies' reporting	Government Agencies' reporting		Companies' reporting	Government Agencies' reporting	TOTAL, '000 KGS	Wrong amount included in initial reporting by Companies	Wrong amount included in initial reporting by Government Agencies	Timing difference	Amount excluded from initial reporting by Companies	Amount excluded from initial reporting by Government Agencies	Companies' reporting	Government agencies' reporting	
14	Custom duties	46,134	51,334	5,200	3,498	(2,439)	1,059	(1)	(3,172)	-	3,499	733	49,632	48,895	(737)
15	Custom fees	49,048	44,210	(4,838)	1,538	6,424	7,962	(185)	(54)	-	1,723	6,477	50,586	50,634	48
16	Excise tax on imported goods	155	109	(46)	8	(2)	6	-	(2)	-	8	-	163	107	(56)
17	VAT on imported goods	188,715	185,157	(3,558)	29,456	33,319	62,775	-	(825)	-	29,456	34,143	218,171	218,476	305
	<b>TOTAL</b>	<b>284,052</b>	<b>280,810</b>	<b>(3,242)</b>	<b>34,500</b>	<b>37,302</b>	<b>71,802</b>	<b>(186)</b>	<b>(4,053)</b>	<b>-</b>	<b>34,686</b>	<b>41,353</b>	<b>318,552</b>	<b>318,112</b>	<b>(440)</b>

During the reconciliation, the actual amounts of customs payments were confirmed with supporting documentation.

Significant discrepancies arose for Customs duties, Customs fees and VAT on imported goods. Thus, government agencies had initially over reported customs duties payments for "Vertex Gold Company" LLC (KGS 3,007 thousand). As for customs fees payments, the government agencies initially did not include payments for "Kumtor Gold Company" CJSC (KGS 5,131 thousand). Government agencies also did not include in their reports the VAT payments for companies "Kazakhmys" LLC (KGS 8,444 thousand), "KyrgyzNefteGaz" CJSC (KGS 20,875 thousand) and "Altynken" LLC (KGS 127 thousand).

Diagram 2 shows the receipts amounts and the initial and unresolved discrepancies amounts for the most significant customs payments.

**Diagram 2. Customs payments**



**c) Section 3. Other material payments**

The section Other Material Payments includes 13 payments, regulated by different state agencies. Payments under the section “Other material payments” are 18% of all the payments, made by the companies. The most significant items in this section are state social insurance payments (50% of the amount of all the payments under this section), dividend payments for state shares package (19%) and the payments, determined by the Treaty with the Government of KR (24%).

Below are the discrepancies noted for each of the items included in the Other Material Payments Section and reasons of such discrepancies for 2010 year.

**Table 7. Adjustments and reasons for adjustments of other material payments**

Code	Type of other material payments	Original amount, '000 KGS		Initial Discrepancies, KGS '000	Adjustments, KGS '000			Reasons of identified discrepancies, KGS '000					Final reporting, KGS '000		Unresolved discrepancies, '000 KGS
		Companies' reporting	Government Agencies' reporting		Companies' reporting	Government Agencies' reporting	TOTAL, '000 KGS	Wrong amount included in initial reporting by Companies	Wrong amount included in initial reporting by Government Agencies	Timing difference	Amount excluded from initial reporting by Companies	Amount excluded from initial reporting by Government Agencies	Companies' reporting	Government agencies' reporting	
<b>KR Social Fund</b>															
18	Social insurance payments	629,360	637,212	7,852	1,885	(2,924)	(1,039)	(2,351)	(5,792)	60	4,176	2,868	631,245	634,288	3,043
<b>State agency on geology and mineral resources under the Government of KR</b>															
19	Concession payments	-	-	-	-	-	-	-	-	-	-	-	-	-	-
26	Payment for subsoil use license retention	64	-	(64)	-	-	-	-	-	-	-	-	64	-	(64)
28	Fees for issuance of licenses	168	-	(168)	(63)	5	(58)	(62)	-	-	-	4	105	5	(100)
29	Fees for issuance of certificates and other permits	5,678	323	(5,355)	65	5,570	5,635	(3)	(11)	-	68	5,581	5,743	5,893	150
<b>State property management fund under the Government of KR</b>															
20	Dividends, accrued to the state package of shares	237,950	132,570	(105,380)	-	105,380	105,380	-	(50,658)	-	-	156,038	237,950	237,950	-
21	Payments for state shares redeemed by the company	-	68,528	68,528	-	-	-	-	-	-	-	-	-	68,528	68,528



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Code	Type of other material payments	Original amount, '000 KGS		Initial Discrepancies, KGS '000	Adjustments, KGS '000		TOTAL, '000 KGS	Reasons of identified discrepancies, KGS '000					Final reporting, KGS '000		Unresolved discrepancies, '000 KGS
		Companies' reporting	Government Agencies' reporting		Companies' reporting	Government Agencies' reporting		Wrong amount included in initial reporting by Companies	Wrong amount included in initial reporting by Government Agencies	Timing difference	Amount excluded from initial reporting by Companies	Amount excluded from initial reporting by Government Agencies	Companies' reporting	Government agencies' reporting	
<b>Regional state administrations</b>															
22	Payments for lease of land owned by state or municipal authorities and land in forest reserves	6,271	3,547	(2,724)	(2,939)	565	(2,374)	(3,141)	(644)	-	202	1,209	3,332	4,112	780
25	Opportunity cost of provided land plots	1,096	77,003	75,907	48	(75,779)	(75,731)	-	(75,962)	-	48	183	1,144	1,224	80
30	Payments established by agreements with the Government of KR	296,016	539	(295,477)	4,429	300,445	304,874	-	-	-	4,429	300,445	300,445	300,984	539
<b>State registration service under the Government of KR</b>															
23	Agricultural production losses compensation	1,536	2,025	489	(48)	100	52	(48)	-	-	-	100	1,488	2,125	637
<b>State environment protection agency under the Government of KR</b>															
24	Compensation of losses on forestry-based production	182	-	(182)	-	182	182	-	-	-	-	182	182	182	-
27	Payments for environmental pollution and damage	17,962	17,179	(783)	522	1,263	1,785	(111)	(20)	-	634	1,282	18,484	18,442	(42)
<b>TOTAL</b>		<b>1,196,283</b>	<b>938,926</b>	<b>(257,357)</b>	<b>3,899</b>	<b>334,807</b>	<b>338,706</b>	<b>(5,716)</b>	<b>(133,087)</b>	<b>60</b>	<b>9,557</b>	<b>467,892</b>	<b>1,200,182</b>	<b>1,273,733</b>	<b>73,551</b>

During the reconciliation exercise the actual amounts of other significant payments were confirmed with supporting documentation.

The most significant discrepancies for social insurance payments came from the company “Vertex Gold Company”, which overreported the amount of payments to Social Fund for KGS 2,049 thousand. The government agencies, in their turn, initially overreported the amount of social insurance payments from the company “Kyrgyzneftegaz” (KGS 4,959 thousand).

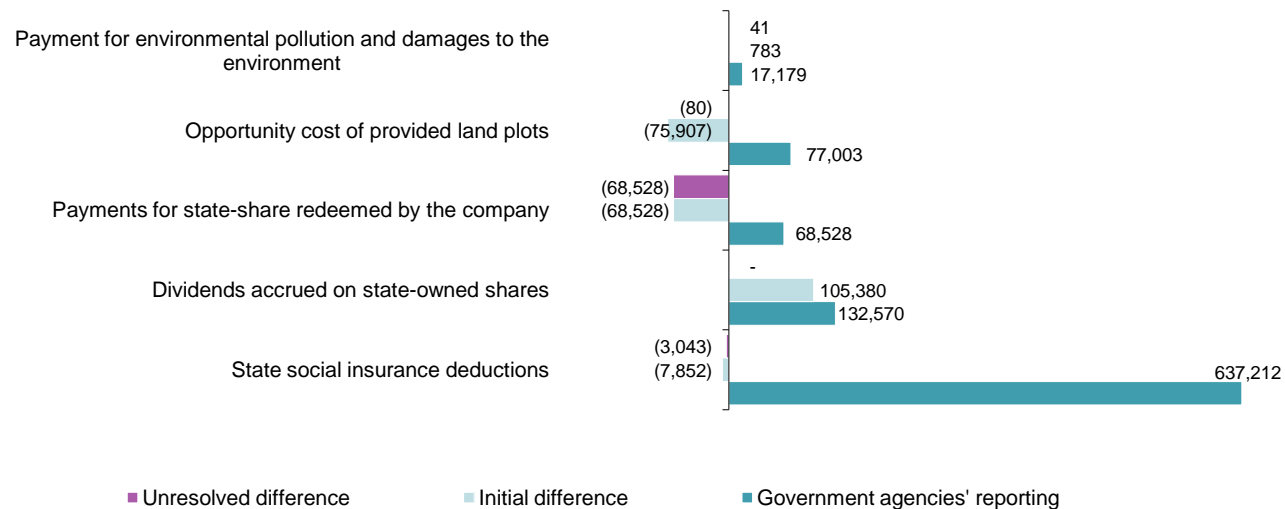
The government agencies had also initially underreported receipts of dividends from state owned shares of “Kyrgyzaltyn” JSC (KGS 156,038 thousand) and overreported the receipts from the “Kyrgyzneftegaz” JSC (KGS 50,658 thousand).

The government agencies had also overreported the amount of payments under article #25 “Opportunity cost of provided land plots” for the companies “Vertex Gold Company” (KGS 27,089 thousand), “Kichi-Chaarat” (KGS 47,612 thousand) and “South Kyrgyz Cement” (KGS 1,261 thousand).

The government agencies had also excluded from its initial reporting KGS 300,445 thousand received from “Kumtor Gold Company” CJSC under the payments established by the agreements signed by the latter with the Government of the Kyrgyz Republic.

The following diagram shows the payments as per the government agencies’ reports and the initial and unresolved discrepancies amounts for other material payments.

**Diagram 3. Other significant payments**



**d) Section 4. Additional expenses of the company**

The following are the discrepancies noted for each of the items included under the Additional Expenses Section and reasons of such discrepancies in 2010 year.

**Table 8. Adjustments and reasons for adjustments of payments in the section “Additional Expenses of the Company”**

Code	Type of additional expenses of Companies	Original amount, '000 KGS		Initial Discrepancies, KGS '000	Adjustments, KGS '000			Reasons of identified discrepancies, KGS '000					Final reporting, KGS '000		Unresolved discrepancies, '000 KGS
		Companies' reporting	Government Agencies' reporting		Companies' reporting	Government Agencies' reporting	TOTAL, '000 KGS	Wrong amount included in initial reporting by Companies	Wrong amount included in initial reporting by Government Agencies	Timing difference	Amount excluded from initial reporting by Companies	Amount excluded from initial reporting by Government Agencies	Companies' reporting	Government agencies' reporting	
31	Payments for education support	10,223	-	(10,223)	-	9,216	9,216	-	-	-	-	9,216	10,223	9,216	(1,007)
32	Payments for support of social infrastructure	65,463	272,957	207,494	(3,603)	(30,829)	(34,432)	(3,613)	(63,039)	-	10	32,210	61,860	242,128	180,268
33	Payments to reclamation fund	58,018	-	(58,018)	(6,495)	-	(6,495)	(5,953)	-	(542)	-	-	51,523	45,273	(6,250)
	<b>TOTAL</b>	<b>133,704</b>	<b>272,957</b>	<b>139,253</b>	<b>(10,098)</b>	<b>(21,613)</b>	<b>(31,711)</b>	<b>(9,566)</b>	<b>(63,039)</b>	<b>(542)</b>	<b>10</b>	<b>41,426</b>	<b>123,606</b>	<b>296,617</b>	<b>173,011</b>

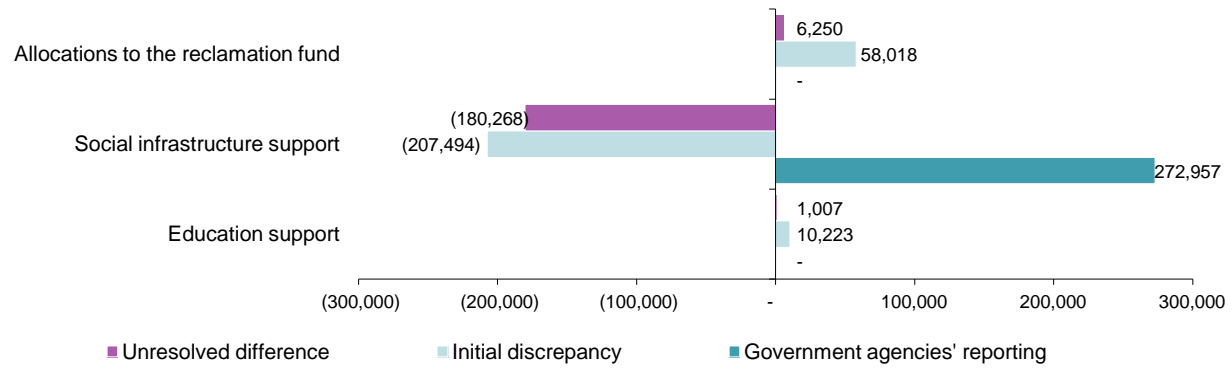
During the reconciliation exercise the actual amounts of payments in the section “Additional expenses of the company” were confirmed with supporting documentation.

The most significant discrepancies in the section “Additional expenses of the company” are due to the government agencies understating the Companies’ contributions to support the social infrastructure. Thus, the government agencies in their EITI reports overreported the amount of payments for the companies “Kichi-Chaarat” (KGS 54,865 thousand) and “Kyrgyzneftegaz” (KGS 6,647 thousand), and underreported the amount of payments for the company “Kumtor Gold Company” (KGS 21,744 thousand) and “Kaidi” (KGS 8,448 thousand). This was partially due to the fact that the Companies had made in-kind contributions, which, firstly, are hard to be measured and secondly, are not always being recorded by the local state district administration offices.

The government agencies had also excluded from their EITI reports the amount of payments to support education by the “Kumtor Gold Company” CJSC for KGS 8,747 thousand.

Diagram 4 shows the payments as per the government agencies’ reports and the initial and unresolved discrepancies amounts for additional expenses of the companies.

**Diagram 4. Additional expenses of the company**



## 4. ISSUES IDENTIFIED AND RECOMMENDATIONS

This section captures the issues encountered during the Engagement and provides recommendations where relevant for the issues identified. The recommendations identified below are not exhaustive and in some cases may require further consultation and considerable expertise as well as effort to implement successfully.

### 4.1 Database of the State Agency for Geology and Mineral Resources under the Government of Kyrgyz Republic

It appears that to date the State Agency for Geology and Mineral Resources under the Government of KR, responsible for the collection of EITI reports from the Companies in Kyrgyzstan does not have an updated comprehensive database of all mining companies operating in the mining sector. In some cases making contact with mining companies can be difficult as no contact details are available.

According to the Decree #317 of Government of the Kyrgyz Republic dated 8 December 2010 reports from companies with annual income exceeding the threshold of USD 1 million are subject to reconciliation performed by an independent audit firm. In the framework of the assignment Supervisory Board on EITI realization in Kyrgyzstan has approved the list of 45 mining companies, among which companies with annual income less than USD 1 million were included.

#### *Recommendation*

We recommend that the State Agency for Geology and Mineral Resources under the Government of KR updates its mining companies' database on timely basis. To this end, we believe it is vital that any new entrants to the mining sector are registered with the State Agency for Geology and Mineral Resources under the Government of KR as part of the process of obtaining their operating license. In turn, Secretariat should also liaise with the Governmental Bodies to ensure it obtains adequate information regularly and updates its database on a timely basis. A regular review with the Governmental Bodies of the list of mining companies licensed to operate in the sector is recommended.

We also recommend the State Agency for Geology and Mineral Resources under the Government of KR and Supervisory Committee for EITI implementation in Kyrgyzstan to have more accurate approach to form the list of the Companies to make the reconciliation, considering determining a ceiling level for the annual income of the Companies amounting to USD 1 million. However in KR, as there are no companies, whose annual income would exceed the determined level, probably, it is advisable to review the level of the annual income.

### 4.2 Missing reports

According to the Decree #317 of Government of the Kyrgyz Republic dated 8 December 2010, the deadline for submission of EITI reports for both selected mining companies and government agencies was set for 15 May of the following year. However, as at the start date of the engagement (1 October 2012) some reports for 2010 fiscal year were still missing, both for the companies and government agencies. The full list of missing reports is provided in the section 3.

#### *Recommendation*

Currently there are no effective legal enforcements obliging the parties to submit the EITI reports within the set time framework. Thus, a consideration should be given on development of legal enforcement instruments and mechanisms (such as incentives, fines, penalties, etc.) with corresponding updates in regulative framework, which would contribute to a timely submission of reports by both parties.

### 4.3 Timelines

The companies and State agencies were given two weeks to reply to KEITIS or directly to KPMG from the date the first letters requesting for further information to aid the reconciliation exercise were sent. Half of the companies provided some form of reply in the specified period.

To increase the efficiency of the reconciliation process, meetings were arranged with some companies and state agencies and most of the information was obtained only during such meetings. However, as it has been mentioned in the previous section, we failed to receive reports and supporting documents from some Companies and state agencies.

Although time was given to allow for the Companies and state agencies to revert on the discrepancies identified during Phase 1, there were still significant delays caused mainly by the absence of certain key personnel, unwillingness of accounting personnel to identify the reasons for the discrepancies or difficulties to reach the companies (especially those located in distant regions of the Kyrgyz Republic) due to limited opportunities for such companies to send the requested supporting documents (lack of fax machines, internet connection, etc.).

#### *Recommendation*

Further consideration on the timing of this exercise should be taken into account for future EITI Reconciliation and Report engagements, such as ensuring that the reconciliation exercise is carried out within a reasonable time frame after the fiscal year. This will mean that the data which has been compiled and submitted in the EITI Templates is still fresh in the minds of the responsible personnel at the companies and the Government agencies. This will no doubt improve the efficiency of retrieving any detailed information necessary to support the submissions during the reconciliation exercise. In the event that key personnel from both the Companies and government agencies are not available, alternative personnel should be identified.

### 4.4 Incomplete Data by the Government Agencies

The EITI Template-G reports were produced by government agencies and submitted to the Kyrgyz Republic EITI Secretariat. Despite efforts to collect the information on taxes, custom duties and other charges, there was still insufficient detail provided on the amounts donated to enable further reconciliation.

This was mainly due to the following reasons.

- Information was not sought from all Government bodies, where there were several Government bodies involved;
- There was inadequate follow up with the various Government entities on the information requested resulting in an extremely slow response rate for information due to lack of resources.
- There was also a lack of cooperation by the various Government entities in providing the information requested.

#### *Recommendation*

The Kyrgyzstan EITI Secretariat should be entrusted with the overall role of monitoring these Government agencies to facilitate timely submission as well as the completeness and accuracy of the information submitted. As the preparation of reports on payments received from the Companies involves different government agencies, in order to ensure completeness of the data it is necessary to develop and implement the structure and process of preparation and consolidation of the amounts of receipts obtained by the government agencies at all levels and determine the roles and responsibilities of each government body in this process. Where there are incomplete reports due to the lack of information, then the specific Government agencies (such as for example, Central Treasury of the Ministry of Finance of the Kyrgyz Republic) may be involved to reconcile and follow up incomplete data, and where necessary, highlight this to the Kyrgyz Republic EITI Secretariat for further action. All submissions presented for reconciliation must be complete. The reports should also include nil receipts for completeness of reporting.

As for companies' donations and contributions to support education and social infrastructure, they should be properly documented as they are susceptible to a higher risk of deliberate corruption. The Companies should consider the issue of development of a single form of donation note (e.g. a form of no charge invoice that records the cost of the goods

or services donated) to the recipient for each donation for future confirmation of the in-kind contributions, and determine the responsible state authorities to whom the Companies should submit such forms of reports with supporting documents attached.

Supervisory Board of KEITI should include the aforementioned recommendations in their future instructions to the companies and Government Entities when completing the EITI templates.

#### **4.5 Accuracy of template preparation**

During our reconciliation procedures, there were many revisions to the initial amounts reported by both the companies and Government agencies mainly due to errors in arriving at the amounts reported. This may suggest that there is a lack of care in the preparation of the EITI Templates or human factor.

##### *Recommendation*

Both the Companies and state agencies should have control over the EITI reports preparation in place to confirm that they are accurate and complete before submission. Supporting details should be attached to the EITI Template, where required, to facilitate the reconciliation process. Original documents shall be retained for records until the EITI Reconciliation and Report Engagement for each year is complete. This would save time and add more value to the reconciliation.

Should there be any ambiguities on the reporting requirements, the Companies and the government agencies should consult KEITIS as soon as possible and not wait for the issues to be uncovered during the reconciliation exercise.

#### **4.6 Audit of the submitted reports**

The EITI requirements (#12 and 13) state that it must be ensured that both the Company and Government reports are based on accounts audited to international standards. Since the Kyrgyz Republic is a member of International Organization of Supreme Audit Institutions (INTOSAI), the Accounts Chamber of the Kyrgyz Republic acting as a national auditor should review and give an opinion on the government-reported EITI data. However, in the course of the reconciliation, there was no indication, that EITI reports have been reviewed by the Accounts Chamber of the Kyrgyz Republic or by any other state agency.

As for mining companies, participating in EITI in 2010, 5 companies were audited by international “Big 4” audit firms, 4 companies were audited by local Kyrgyz audit firms and 36 out of 45 companies did not have audit at all during the reporting period. None of the companies had a separate auditor’s opinion on the financial information, reported on the EITI template-K.

##### *Recommendation*

For a more reliable EITI reporting, the mining companies should engage an independent auditor to issue a separate audit report according to EITI K template. State agencies’ reports shall also be audited by an independent auditor. The government of KR s should develop the process of such audit. As it has been mentioned in p.4.4, the Central Treasury of the Ministry of Finance of Kyrgyz Republic may be involved to this end.

Currently there are no effective requirements in the legislation of the Kyrgyz Republic for the extractive companies in regards of the audit of financial statements. However, it is a worldwide practice for extractive companies to publish its annual financial statements together with a report of an independent auditor. Since independent audit of financial statements would significantly increase the transparency of extractive industry in general, we recommend the Supervisory Board of EITI in Kyrgyzstan to initiate corresponding changes in the legislation of KR obliging extractive companies to conduct audit of their financial statements.

The above mentioned measures would contribute significantly to the improvement of the quality and accuracy of information contained within EITI templates submitted by both parties (the Companies and government agencies).

#### **4.7 Instructions on completing templates**

The instructions provided to guide the completion of the EITI Templates for the Kyrgyz Republic are lacking in terms of specific reporting requirements for each of the items reported. Some discrepancies between the amounts reported by the government agencies and the Companies were mainly due to a lack of understanding which amounts shall be included in the lines of the report by the employees responsible for the preparation of the report. In particular, despite the instruction specifies, that, all the data shall be provided based on cash basis, some lines of the report are not quite clear, for example, the line 20 is called “Dividends, accrued to the state package of shares”. Due to that, many companies completed the reports on the accrual basis.

##### *Recommendation*

Each line item which is required to be reported should be clearly defined and instructions on what needs to be reported should be provided.

In addition, we would recommend that EITI Secretariat conducts training for both reporting companies and Government agencies that would cover the reporting requirements. We would also recommend setting up a help desk to tackle any problems or questions that maybe faced by the companies and Government agencies in the completion of the EITI Templates.



## 5. Summary

The resolved discrepancies which have been highlighted in **Section 3** of this report have indicated that most of these could have been avoided if a more structured and disciplined approach was taken by both the companies and the government agencies in completing the EITI reports in the first place.

Other causes for the resolved discrepancies also included the lack of understanding of the guidelines and instructions for the completion of the EITI Templates by both parties which meant that amounts entered on some line items were inconsistent with each other. This would also address the discrepancies arising due to improper classification of certain tax payments and to the confusion caused by the timing differences of the tax and dividends paid by the companies and the recognition of these payments by the government agencies.

The causes of the unresolved discrepancies of KGS 273,931 thousand, however, are less clear. Further reconciliation on these unresolved discrepancies could not be carried out due to the lack of detailed information available from the companies as well as the Government agencies. Reasons provided have ranged from the absences of change of key personnel responsible for preparation of 2010 EITI reports, and lack of sufficient supporting accounting documents.

From the Government agencies' perspective, the main contributor to the unresolved discrepancies has been the incompleteness of information captured at the local state administration offices level, such as during the course of the engagement it was obvious that not all taxes collected at the local administrations' level were reflected in the corresponding EITI reports.

However, it should be noted, that even though the aggregate balance of the unresolved discrepancies is significant, it comprises only 3.97% of total payments after adjustments as reported by government agencies.

In conclusion, from the points mentioned above, it can be seen that the quality of the data from the companies could be further improved if the instructions for completing the EITI Templates are more comprehensive and specific in nature, coupled with the setting up of a help desk by EITI Secretariat to resolve any queries that may arise when completing the EITI Templates. More importantly, however, EITI Secretariat will need to work with the Ministry of Finance of the Kyrgyz Republic and the respective Government agencies in developing a formalized reporting process aimed at improving the quality of the relevant data that is to be captured in the EITI Templates by all levels concerned.

## Appendices

### Appendix A: List of tax and other payments

	Indicators	Government Entities
<b>Section 1. Tax payments</b>		
1	Individual income tax	State Tax Authority
2	Income tax	State Tax Authority
3	Land tax	State Tax Authority
4	Property tax	State Tax Authority
5	VAT on internal products	State Tax Authority
6	Excise tax on internal products	State Tax Authority
7	Sales tax	State Tax Authority
8	Withholding tax on foreign organizations not related to permanent establishment in KR	State Tax Authority
9	Bonus	State Tax Authority
10	Royalty	State Tax Authority
11	Gross income tax	State Tax Authority
12	Annual charge for development of mineral base	State Tax Authority
13	Other taxes and charges	State Tax Authority
<b>Section 2. Customs payments</b>		
14	Customs duties	State Customs Authority
15	Customs fees	State Customs Authority
16	Exercise tax on imported products	State Customs Authority
17	VAT on imported products	State Customs Authority
<b>Section 3. Other material payments</b>		
18	Social fund contributions	Social Fund of KR
19	Payment for concession	State Agency on Geology and Mineral Resources of KR
20	Dividends accrued on state-owned shares	State Property Management Fund of KR
21	Payments for state-shares redeemed by a company	State Property Management Fund of KR
22	Payments for lease of land owned by state or municipal agencies, land lease payments for forest resources	District State Administration
23	Reimbursement of agricultural production losses	State Registration Service of KR
24	Reimbursement of forest production losses	State Agency for Environmental Protection and Forestry under the Government of KR
25	Opportunity cost of provided land plots	District State Administration
26	Payment for retention of mining license	State Agency on Geology and Mineral Resources of KR
27	Payment for environmental pollution and damages to the environment	State Agency for Environmental Protection and Forestry under the Government of KR
28	The fee for the issuance of license	State Agency on Geology and Mineral Resources of KR
29	The fee for the issuance of certificates and other permits	State Agency on Geology and Mineral Resources of KR
30	Payments established by agreements with the Government of the Kyrgyz Republic	District State Administration
<b>Section 4. Additional expenses of companies</b>		
31	Educational support	District State Administration offices
32	Support of social infrastructure	District State Administration offices
33	Reclamation fund charges	District State Administration offices

## Appendix B: List of Mining Companies

No.	Company Name	Minerals Mined
1	"Kumtor Gold Company" CJSC ("Kumtor" deposit, Jeti-Oguz district)	Precious metals
2	"Kyrgyzaltyn" JSC ("Makmal" deposit, Toguz Torou area; "Tereksai" deposit, Chatkal district; "Solton-Sary" deposit, Naryn region)	Precious metals
3	"Vertex Gold Company" LLC ("Jamgyr" deposit, Kara-Buura area)	Precious metals
4	"Altynken" LLC ("Taldybulak Levoberezhnyi" deposit, Kemin district)	Precious metals
5	"Andash Mining Company" LLC ("Andash" deposit, Talas district)	Precious metals
6	"Kazakhmys" LLC ("Bozymchak" deposit, Ala-Buka area)	Precious metals
7	"Full Gold Mining" LLC ("Ishtamberdi" deposit, Ala-Buka area)	Precious metals
8	"Kichi-Chaarat" JSC ("Kuru-Tegerek" deposit, Chatkal district)	Precious metals
9	"Fonta" LLC ("Kuru-Tegerek" deposit, Chatkal district)	Precious metals
10	"Eventys" LLC ("Karatube Buzuk" deposit, Chatkal and Ala-Buka districts)	Precious metals
11	"Dolina Kasana" LLC ("Baimak" deposit, Ala-Buka area)	Precious metals
12	"ELKO-service" LLC ("Verkhniy Karabulak" deposit, Panfilov district)	Precious metals
13	"Interbusiness" LLC ("Levoberezhnyi Karakazyk" deposit, Chon-Alai district)	Precious metals
14	"Kaidi" Mining Investment Company" LLC ("Nosonovskoe" deposit, Panfilov district)	Precious metals
15	"Kumbel-Resource" LLC ("Kumbel" field, Naryn district)	Precious metals
16	"Khaidarkan Mercury" JSC ("Khaidarkan" deposit, Kadamzhay district)	Non-ferrous and rare metals
17	"Kadamzhay Antimony Enterprise" JSC (Kadamzhay district)	Non-ferrous and rare metals
18	"Saryjaz Mineral Mining Company" LLC ("Kensu" deposit, "Lesisty" and "Tashkoro" fields; "Trudovoe" deposit, Ak-Suu district)	Non-ferrous and rare metals
19	"Central Asian Tin Company" LLC ("Trudovoe" deposit, "Centralnyi" field, Ak-Suu district; "Uchkoshkon" deposit, Jeti-Oguz district)	Non-ferrous and rare metals
20	"Kutesay Mining" LLC ("Kutesay II" deposit, Kemin district)	Non-ferrous and rare metals
21	"Mineral Trade" LLC ("Ikkichat" deposit, Ak-Suu district)	Non-ferrous and rare metals
22	"Polimetal Investstroi" LLC ("Sarybulak" deposit, Jeti-Oguz district)	Non-ferrous and rare metals
23	"KyrgyzNefteGaz" JSC (Suzak, Nooken and Batken regions)	Oil and natural gas
24	"Ak-Jol Komur" LLC ("Karakeche" field, Jumgal district)	Coal
25	"Tash Komur" LLC ("Kara-Tut" field, Aksy district)	Coal
26	"Sharbon" JSC ("Karakeche" field, Jumgal district)	Coal
27	"Busurmankul T" LLC ("Min-Kush" field, Jumgal district)	Coal
28	"Shakhta Jyrgalan" JSC ("Jyrgalan" field, Ak-Suu district)	Coal
29	"Kok-Bel Komur" LLC ("Jyrgalan" field, Ak-Suu district)	Coal
30	"Kyzyl-Kiya Komur" JSC ("Abshir" field, Kadamzhai district)	Coal
31	"Sulyukta Komur" JSC ("Sulyukta" field, Leylek district)	Coal
32	"Kara-Keche" State Enterprise ("Karakeche" field, "Min-Kush" field, Jumgal district)	Coal
33	"Parity Coal" LLC ("Kyzyl Bulak" deposit, "South" field, Aravan district)	Coal
34	"Bishkekstroyaterialy" JSC ("Orok" field, Alamudun district)	Construction materials
35	"Kum-Shagyl" JSC ("Nizhnee-Chuiskoe" field, Alamudun district)	Construction materials
36	"Tokmok plant KSM" JSC ("Burana" field, Chui district)	Construction materials
37	"Silikat" JSC ("Ivanovskoe" field, Issyk-Ata district)	Construction materials

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38	"Iygilik" JSC ("Shirokoe" field, Sokuluk district)	Construction materials
39	"South Plant of Construction Materials" LLC ("Kattasay" field, Aravan district)	Construction materials
40	"Kyrgyz Too-Tash" JSC ("Arym" field, Toktogul district; "Tokmokskoe" deposit, Chui region; "Sary-Tash" deposit, Uzgen district; "Ak-Tash" deposit, Kochkor district)	Construction materials
41	"ZhBI Plant" JSC ("Vasilevskoe" field, Alamudun district)	Construction materials
42	"Nur KM" JSC ("Kyzyl-Kiyskoe" field, Kadamzhai district)	Construction materials
43	"Dary-Bulak-Abshir" LLC ("Karaunkursay" deposit, "Kurtashskoe" deposit, "Kyrk-Kol" deposit, Nookat district)	Construction materials
44	"South Kyrgyz Cement" JSC ("Aksaiskoe" deposit, "Izvestnyakovyi" and "Suglinkovyi" fields, Nookat district)	Construction materials
45	"Dannur Yug" LLC ("Karaultau" field, Aravan district)	Construction materials