

**Brief overview of the mining sector of the Kyrgyz Republic  
 to the EITI reconciliation report for 2011**

The economic potential of mineral resources of Kyrgyzstan with respect to the country’s economy and relatively small population is very high. Exploitation of mineral resources is a prerequisite for successful economic development of the Kyrgyz Republic, and for remote mountainous areas is substantially the only possible way to increase social welfare.

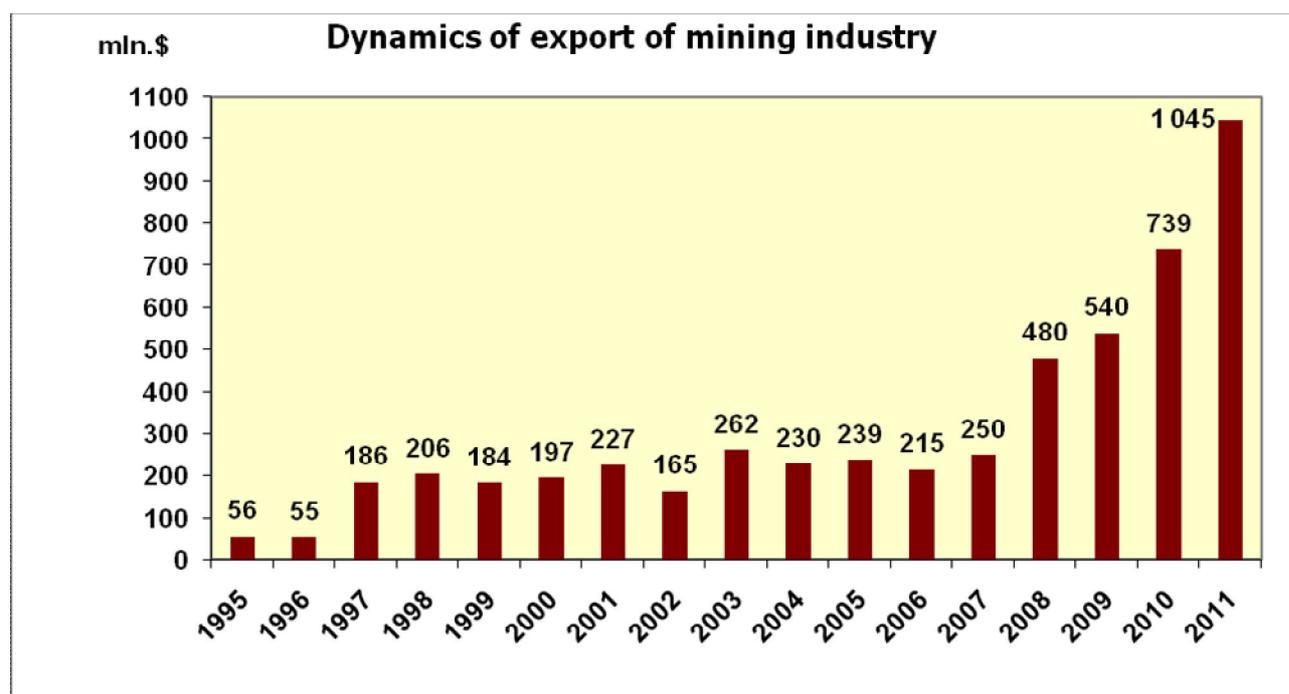
**Mining industry in the economy of Kyrgyzstan**

Macroeconomic indicators of the mining sector of the Kyrgyz Republic in recent years have increased significantly. More than half of industrial output is generated by the mining sector companies.

The mining industry in the economy of the Kyrgyz Republic in 2011

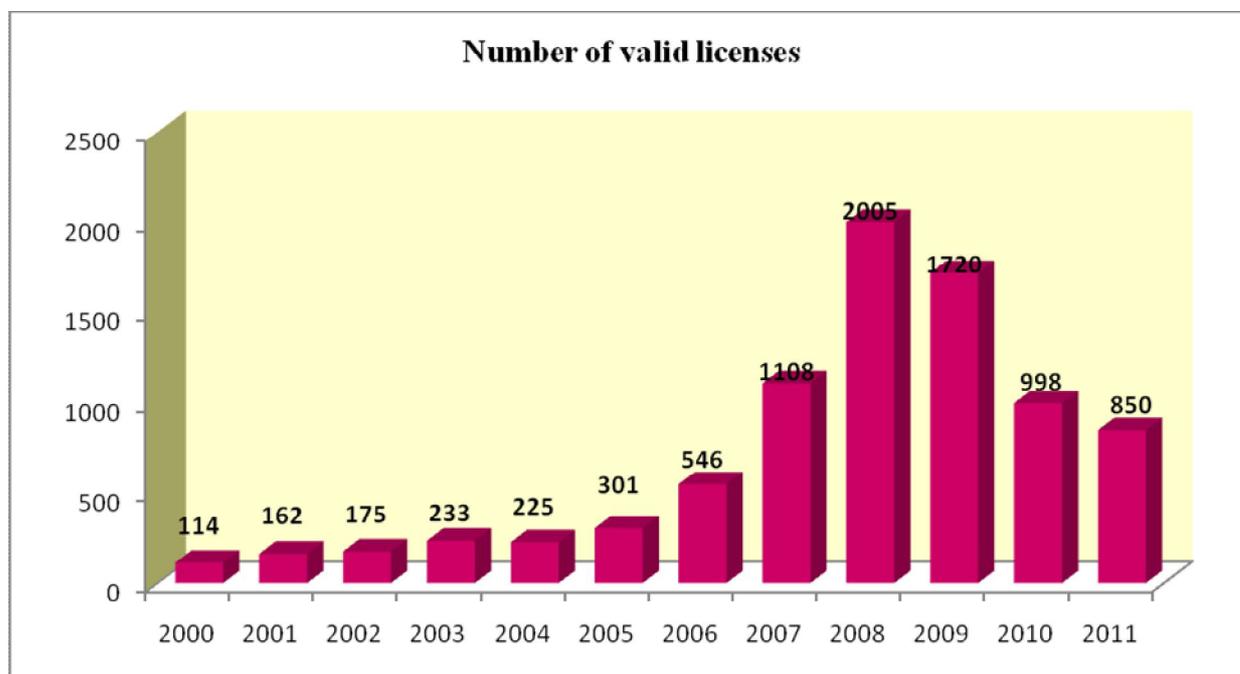
Share in GDP	14 %
Share in the volume of industrial output	58 %
Share in the total volume of export	53 %
Share in total tax and customs revenues	15 %

The mining industry provides 15 % of the tax and customs revenues of Kyrgyzstan. Production of mining and metallurgical industry (gold, mercury, antimony, cement (up to 0.3 million tons), asbestos-cement products, fluorspar, facing plates of granite and marble) forms more than 50 % of export revenues. As seen in the chart, the dynamics of export of mineral products increases significantly due to the rising prices of mineral resources.



## Licensing of subsoil use

During the period from 2000 to 2008 the number of valid licenses for subsoil use has increased from 114 to 2005 licenses or 17 times. In 2011 the number of valid licenses was reduced to 850 (see chart). Reducing the number of valid licenses is related to the financial and economic crisis in 2008, and some uncertainty in government policy for subsoil use.



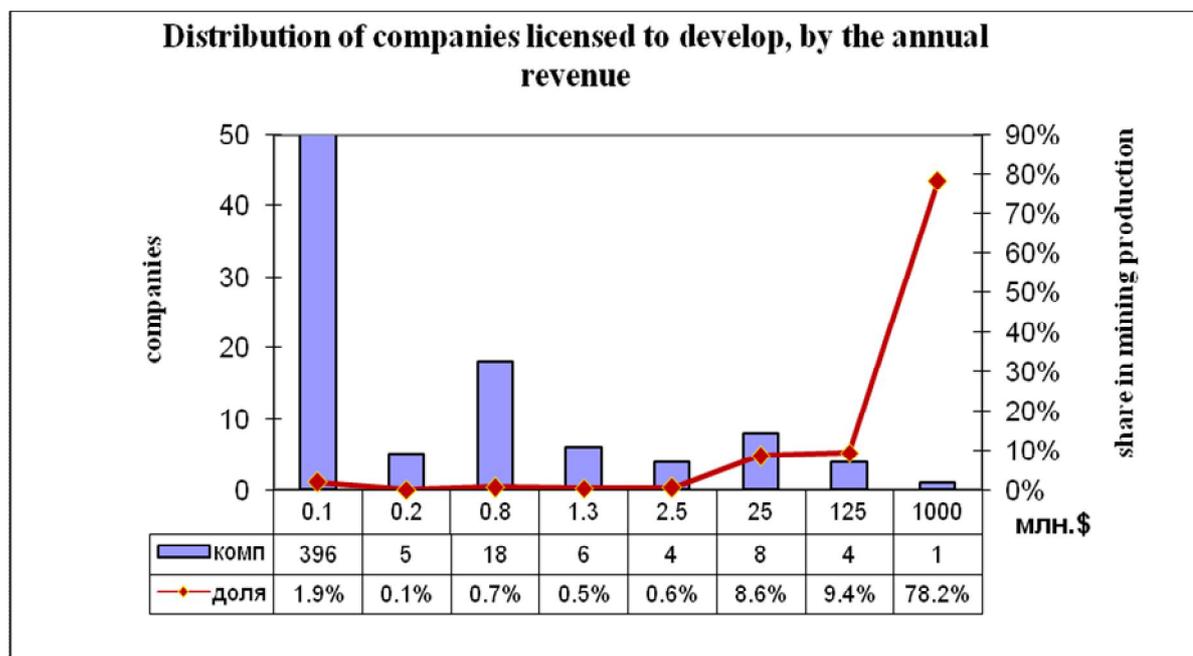
The structure of the licensed subsoil use facilities of the Kyrgyz Republic is presented in the following table.

Number of valid licenses for subsoil use as of 31 December 2011

Type of subsoil use	Gold	Ore	Coal	Oil	Non-metallic minerals	Underground waters	Overall
Development	33	14	98	6	295	79	525
Exploration	42	20	33	15	86		196
Prospecting	75	22		32			129
Total	150	56	131	53	381	79	850

Of all the valid licenses at the end of 2011, more than 60 % of licenses are issued for the development of mineral deposits. The largest number of mining licenses is for the development of non-metallic minerals (295), coal (98) and underground waters (78). In the area of development of non-metals mainly domestic companies work with a predominance of local investment. At the same time, most of the licenses for gold, ore minerals, oil and gas are for prospecting and exploration. In the area of prospecting for gold and metals mainly foreign investors work.

Analysis of the license agreements of subsoil users (see chart) licensed to develop mineral deposits showed that more than 90 % of the valid subsoil users are small enterprises (up to 50 people). Of the 442 companies licensed to develop, 396 companies have an annual income of less than 100 thousand USD. Their share in the volume of industrial output of the mining industry is less than 2 %.



Volumes of production in physical and monetary terms are presented in the following table.

Volumes of production of main kinds of mineral products in 2011

Minerals	Unit of measure	Volume	Revenue, mln. USD
<b>Fuel and energy resources</b>			
Oil	thous. tons	89,9	30.9
Gas	mln. cu. m	26,6	
Coal	thous. tons	830,7	
Mineral waters for bottling	mln. liter	22,3	6.7
<b>Metals</b>			
Gold indigenous	tons	18,6	1022.5
Mercury	tons	113	4.3
Antimony *	tons	892	12.1
Uranium *	tons	842	6.5
<b>Building and non-metal materials **</b>			
Clays	thous. tons	950	1.0
Sand-gravel compounds	thous. tons	996	1.4
Limestones	thous. tons	920	3.5

\* Antimony and uranium are produced by import of raw materials

\*\* Data on building materials are given evaluative

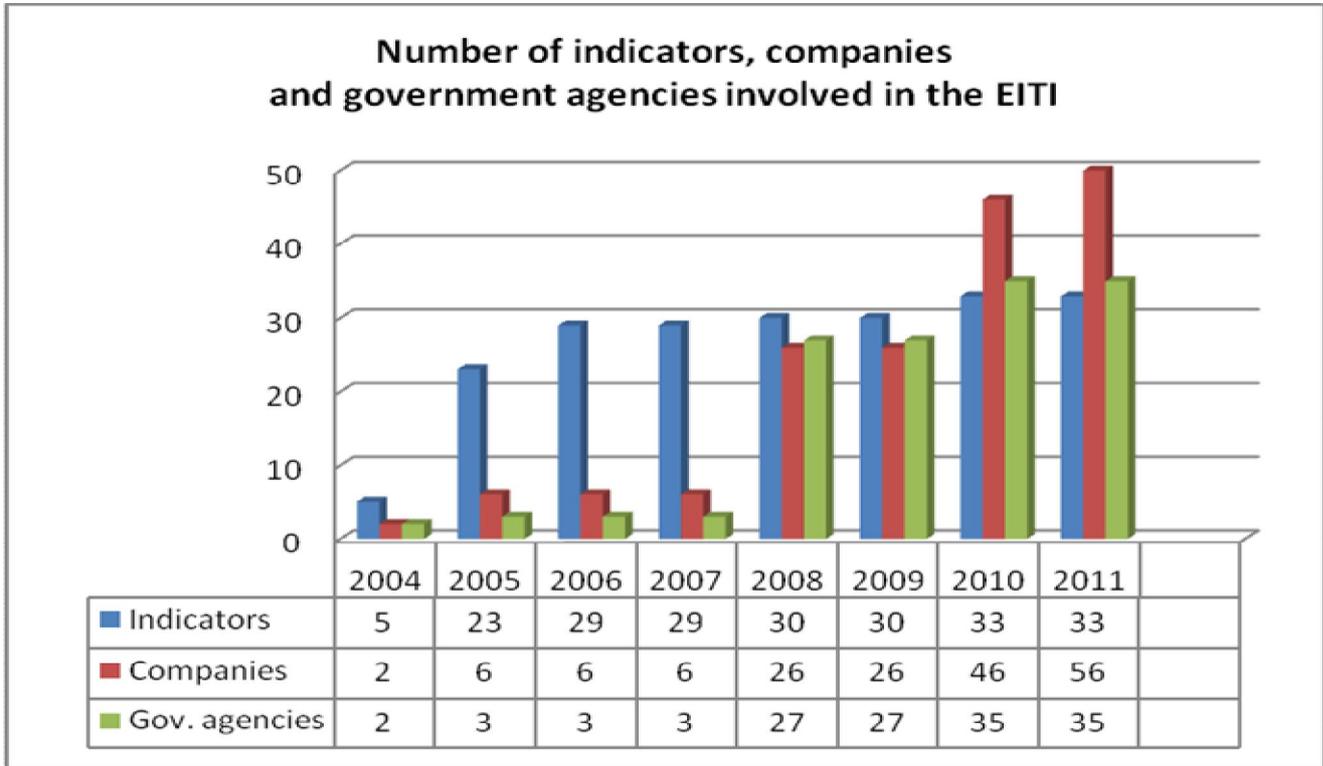
### Contribution to the state budget according to EITI reports

EITI is a global international standard that promotes revenue transparency in the extractive industries at the local level. Through a well designed, yet flexible methodology the monitoring and reconciling company payments and government revenues are implemented on the scale of an individual country. The process is carried out under the supervision of stakeholders from government agencies, extractive companies and civil society.

The Kyrgyz Republic supported and joined 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).

On 1 March 2011 during the 15th meeting of EITI Board held in the framework of the 5th EITI Global Conference in Paris (France) Kyrgyzstan has been awarded the status of EITI Compliant country.

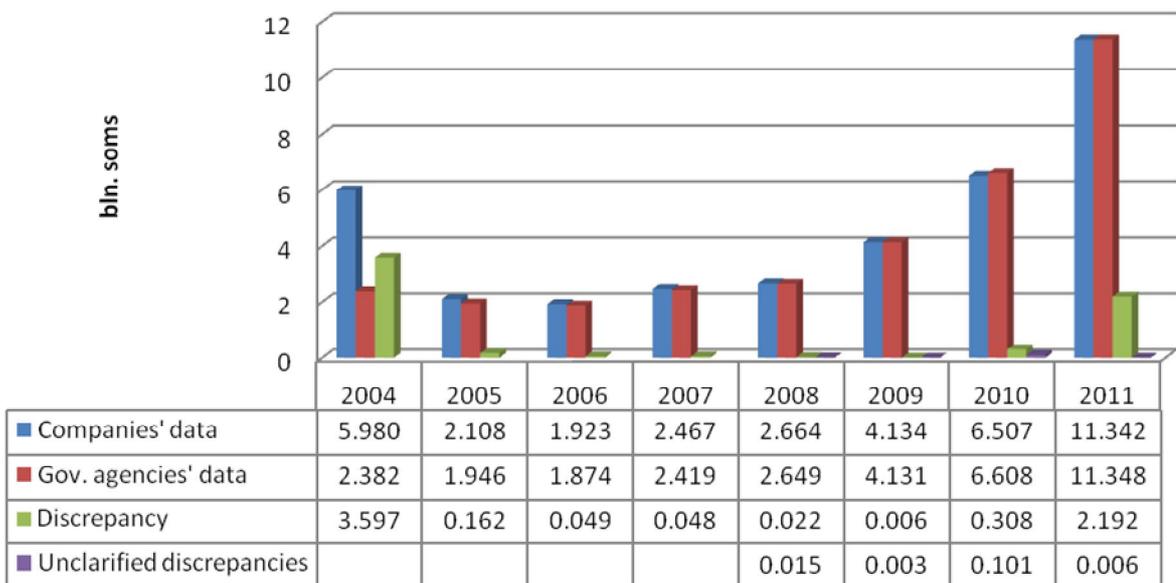
The EITI implementation is under constant development (see chart). If at the initial stage only 2 companies reported, then 6 companies with state share of ownership reported, the data reconciliation of 26 companies for 2008-2009 with different ownership was conducted, and in 2011 the list of large companies involved in the EITI was expanded to 56 companies. The list of government agencies involved in the EITI implementation was also increased from 2 to 35, and the number of indicators increased from 5 to 33 (taxes and fees) for which the companies and government agencies are reported.



Since the launch of the EITI implementation the 8 annual reports were published, including 4 reports with the procedure of data reconciliation. As seen on the chart below, during the period of 2004-2011 the largest budget revenues were in 2004 after selling a significant share package in the "Centerra Gold Inc." and in 2011 as a result of the successful work at Kumtor mine and increasing the number of companies participating in the EITI data reconciliation.

Cash receipts from companies involved in the EITI are increased from 1.87 billion soms in 2006 to 11.35 billion soms in 2011. The initial data discrepancy of government agencies and companies on payments and taxes in 2011 was 2.19 billion soms mainly due to failure by the State Property Fund under the Government of the Kyrgyz Republic on the data on incoming dividends from mining companies and the overstatement of tax payments amount according to the data of mining companies. As a result of data reconciliation, the amount of unclear discrepancies on the basis of the report for 2011 was 6 million soms, or 0.05 % of total cash receipts amount.

**Cash receipts from companies involved in the EITI after data reconciliation  
for 2004-2011**



The number of companies the EITI reports of which for 2011 are subject to independent reconciliation has increased significantly.

The list of large mining companies is annually determined by the State Agency for Geology and Mineral Resources under the Government of the Kyrgyz Republic and submitted for the approval of the Kyrgyzstan EITI Supervisory Board.

The main criterion for determining the materiality threshold is 1 million USD, the amount that the company points out in the program of project development to exploit the deposit in the process of obtaining a license to exploit the deposit.

For example, the planned volume of output of coal or gold is multiplied by the market price and expected income is determined. In addition for wider coverage of companies for data reconciliation the State Geology Agency has included a number of companies engaged in production of building materials with an income below 1 million USD.

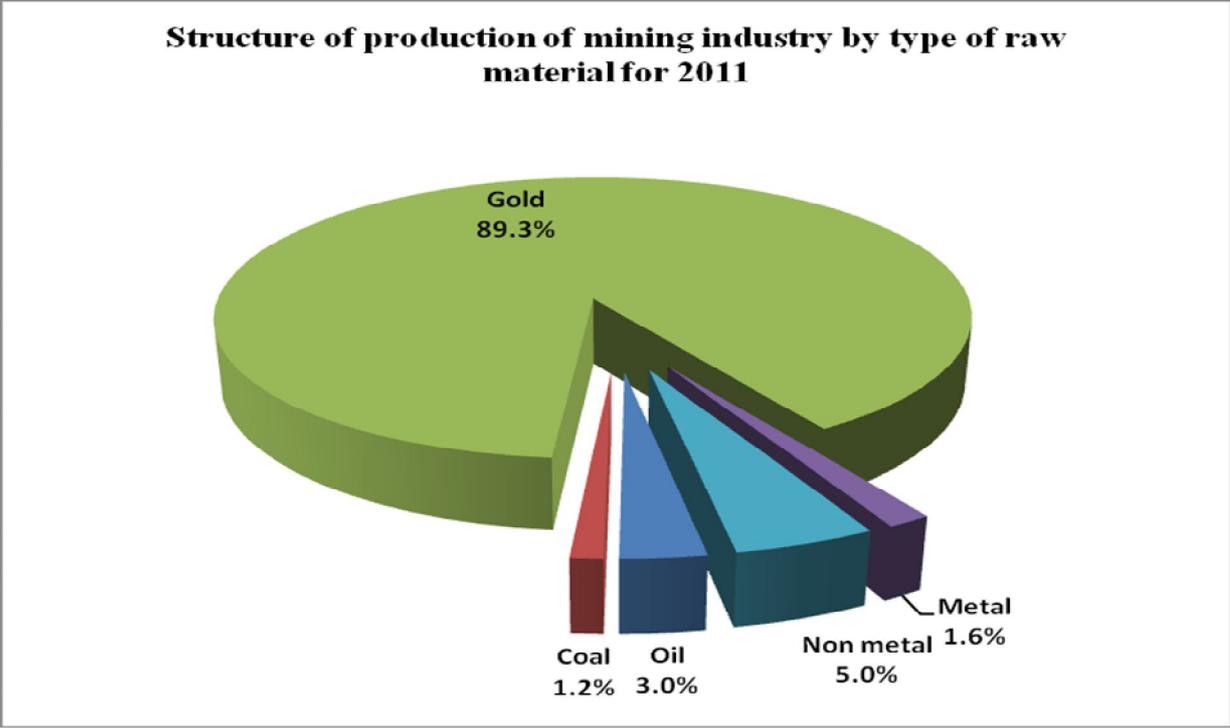
The list of mining companies for 2010 is increased significantly due to small companies to develop alluvial deposits, as in the extraction of 20 kg of gold the materiality threshold of 1 million USD is exceeded.

The list of mining companies for 2011 is increased mainly due to coal mining companies.

Not all companies included in the list of large companies subject to EITI data reconciliation overcame the materiality threshold on income of 1 million USD. Part of the companies (10) did not show income at all, as companies have not yet started production and is still engaged in the design or construction of mine. Another part of the companies failed to comply with the plan and did not also overcome the materiality threshold of 1 million USD. However, these companies approved by the EITI Supervisory Board held a data reconciliation. The EITI Supervisory Board does not recommend to reduce the list of mining companies involved in the EITI and only recommends its extension.

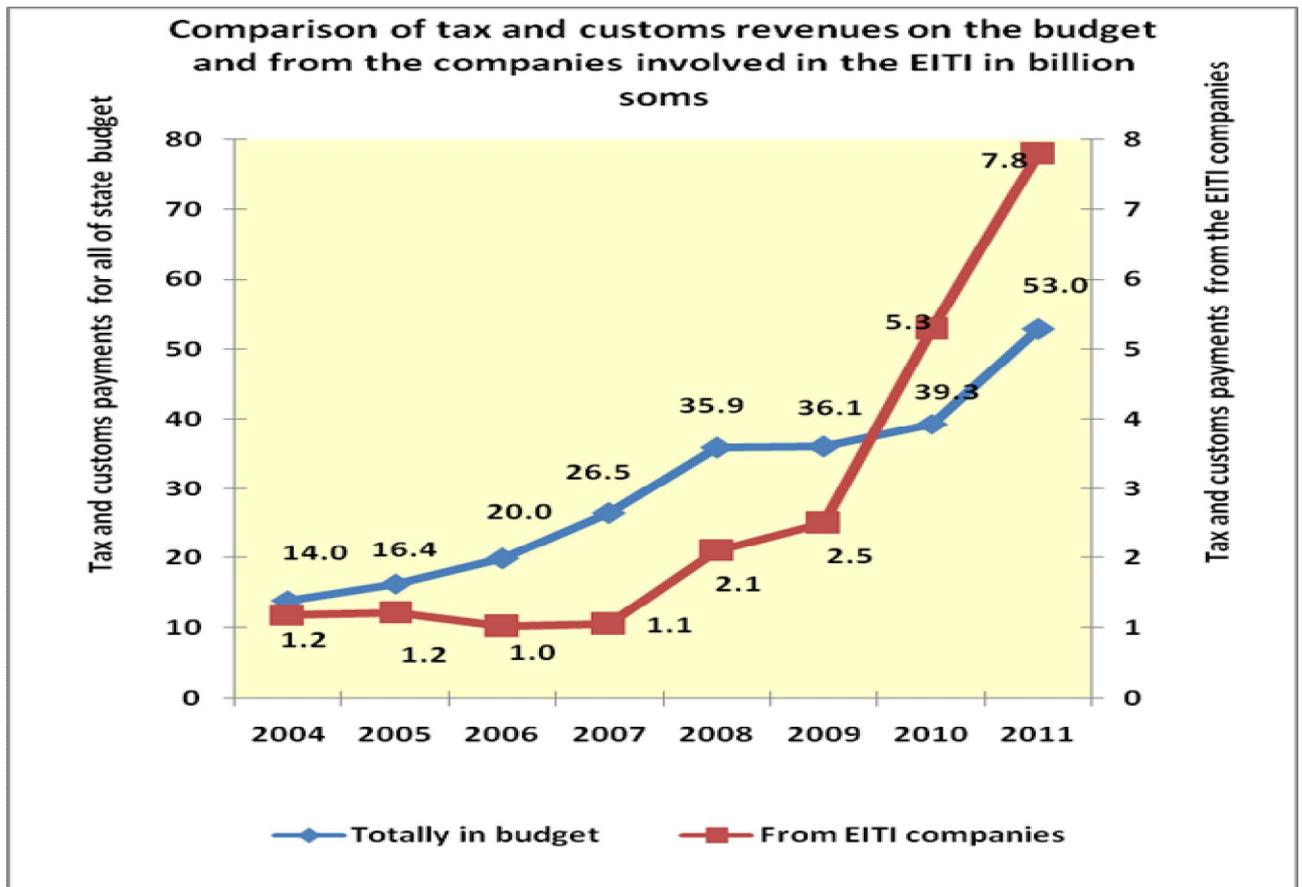
The volume of industrial output from the 56 companies included in the list of companies involved in the EITI is 96.5 % of all the country's mining sector. Estimation of the structure of industrial

output by enterprises included in the list of companies involved in the EITI depending on the type of extracted raw materials is shown in the diagram below.



As seen from the diagram, the main contribution – 89.3 % to the total volume of products of mining facility is made by gold mining industry. In recent years the production of the enterprises of the construction industry is increased whose share in the total volume of production of the companies involved in the EITI in 2011 was 5.0 %. A small increase of the share of oil and gas industry in the volume of industrial output is explained by the increased production volume by 8 % compared with 2010 and increased growth of prices for oil. In the coal industry a positive changes in the physical volume of coal produced is observed which increased from 575 thousand tons in 2010 to 830 tons in 2011.

The chart below shows the growth of tax and customs revenues from the companies involved in the EITI compared with tax revenues overall the budget of the country. If in 2006 the amount of tax and customs revenues from the companies involved in the EITI was only 1.0 billion soms, in 2011 the amount of tax and customs revenues of companies involved in the EITI was increased to 7.8 billion soms. These figures indicate the currently increasing revenue generating role of the mining industry. The mining companies which were included in the list of companies involved in the EITI in 2011, employing less than 1 % of the labor force in Kyrgyzstan, provide 14.7 % of all tax and customs revenues of Kyrgyzstan.



This report presents data on the 56 mining companies a list of which was approved by the Kyrgyzstan EITI Supervisory Board.

In 2011, the enterprises included in the EITI monitoring, the industrial production in the amount of 48 984,3 million soms was produced.

In 2011, the enterprises involved in the EITI made 11348 million soms into income of the Kyrgyz Republic in the form of tax, customs and non-tax payments and payments for social insurance (see table).

KINDS OF PAYMENTS	Revenues to the state budget of the Kyrgyz Republic for 2011, mln. soms	Including revenues from enterprises involved in EITI for 2011	
		mln. soms	share, %
<i>TOTAL TAX AND CUSTOMS DEDUCTIONS</i>	53017.4	7800.8	14.7%
<i>PART I. TAX PAYMENTS</i>	29342.6	7525.8	25.6%
Individual income tax	4851.4	382.5	7.9%
Income tax	2844.5	205.0	7.2%
Land tax	761.8	19.0	2.5%
Property tax	920.5	13.8	1.5%
Value added tax on internal products	5344.1	251.0	4.7%
Excise tax on internal products	667.8	0.3	0.0%
Sales tax	4128.4	168.7	4.1%

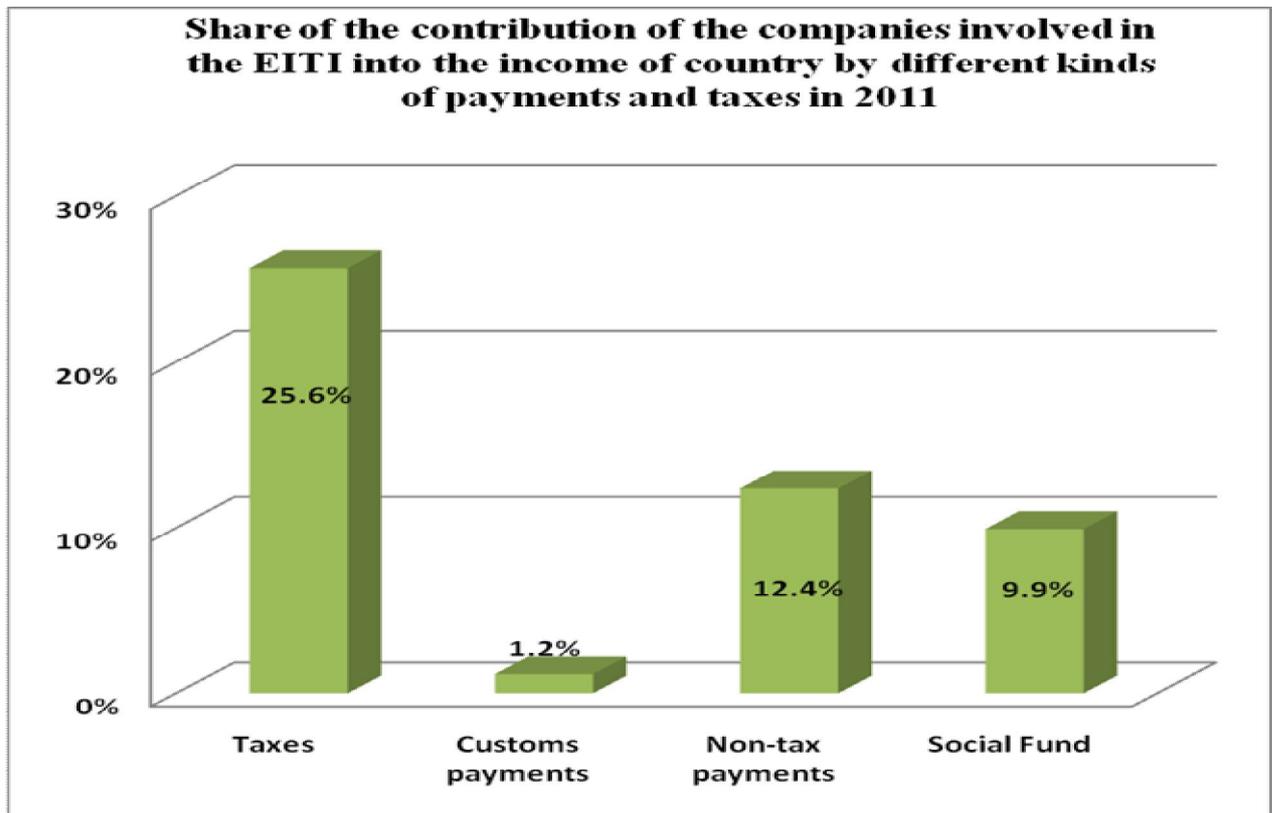
Tax on foreign organization income not related to the permanent institution in Kyrgyz Republic	706.7	112.5	15.9%
Bonuses	201.8	186.4	92.3%
Royalty	184.0	119.2	64.8%
Gross income tax	6066.4	6066.4	100.0%
Annual charges for development of mineral base	0.0	0.0	0.0%
Other tax and charges	2.7	1.0	37.8%
<i>PART 2. CUSTOMS PAYMENTS</i>	23674.8	275.1	1.2%
Customs duties	7146.8	23.5	0.3%
Customs fees	9.4	54.3	-
Excise tax on imported products	1519.2	0.1	0.0%
Value added tax on imported products	15008.9	197.1	1.3%
<i>PART 3. NON-TAX PAYMENTS</i>	15654.8	1937.2	12.4%
Environmental charges	3152.4	44.4	1.4%
Dividends according to the state block of shares	2923.2	1390.1	47.6%
Payment for license issue	148.4	0.0	0.0%
Payment for issue of certifications and other authorization documents	130.0	2.9	2.3%
Payments assigned by the agreements with the Government of Kyrgyz Republic	н.д.	499.8	-%
Payments to the state social insurance	16205.0	1610.6	9.9%

In 2011, the enterprises involved in the EITI made 7525.8 million soms of tax payments into the income of state budget of the Kyrgyz Republic. The share of their tax payments included in the EITI monitoring was 25.6 % of the total volume of revenues from all taxes (see chart). It should be noted that almost all of the revenues in the form of bonuses and gross income tax to the country's state budget was produced by mining companies involved in the EITI.

The amount of customs payments from the companies involved in the EITI, 275.1 million soms is insignificant and amounts to 1.2 % of all customs payments.

The share of non-tax revenues of the companies involved in the EITI was 12.4 % or 1937.2 million soms of non-tax payments. The high share of non-tax payments from the companies involved in the EITI is explained due payments on the "Kumtor" project in the amount of 1,709.2 million soms in the form of dividends, environmental charges and payments to the Development Fund of Issyk-Kul Region.

The enterprises involved in the EITI made 1610.6 million soms in the form of payments to the Social Fund of the Kyrgyz Republic which accounts to 9.9 % of the total volume of revenues of the Social fund for insurance fees (from 16205.0 million soms) in 2011.



Analysis of financial revenues for 2011 from the activities of the mining sector's companies of the Kyrgyz Republic included in the list of companies involved in the EITI showed that, in addition to tax and customs payments, the following payments are sent by mining companies to local governments and government agencies:

- payment for environmental pollution and compensation for loss of forest production in the amount of 21.8 million soms to the State Agency of Environment Protection and Forestry under the Government of the Kyrgyz Republic and its subdivisions;
- compensation for loss of agricultural production in the amount of 7.4 million soms to the State Registration Service under the Government of the Kyrgyz Republic;
- payment for rent of state and municipal property, loss of profits when providing land plots in the amount of 15.1 million soms (excluding "Kumtor" project) to local governments and district state administrations.

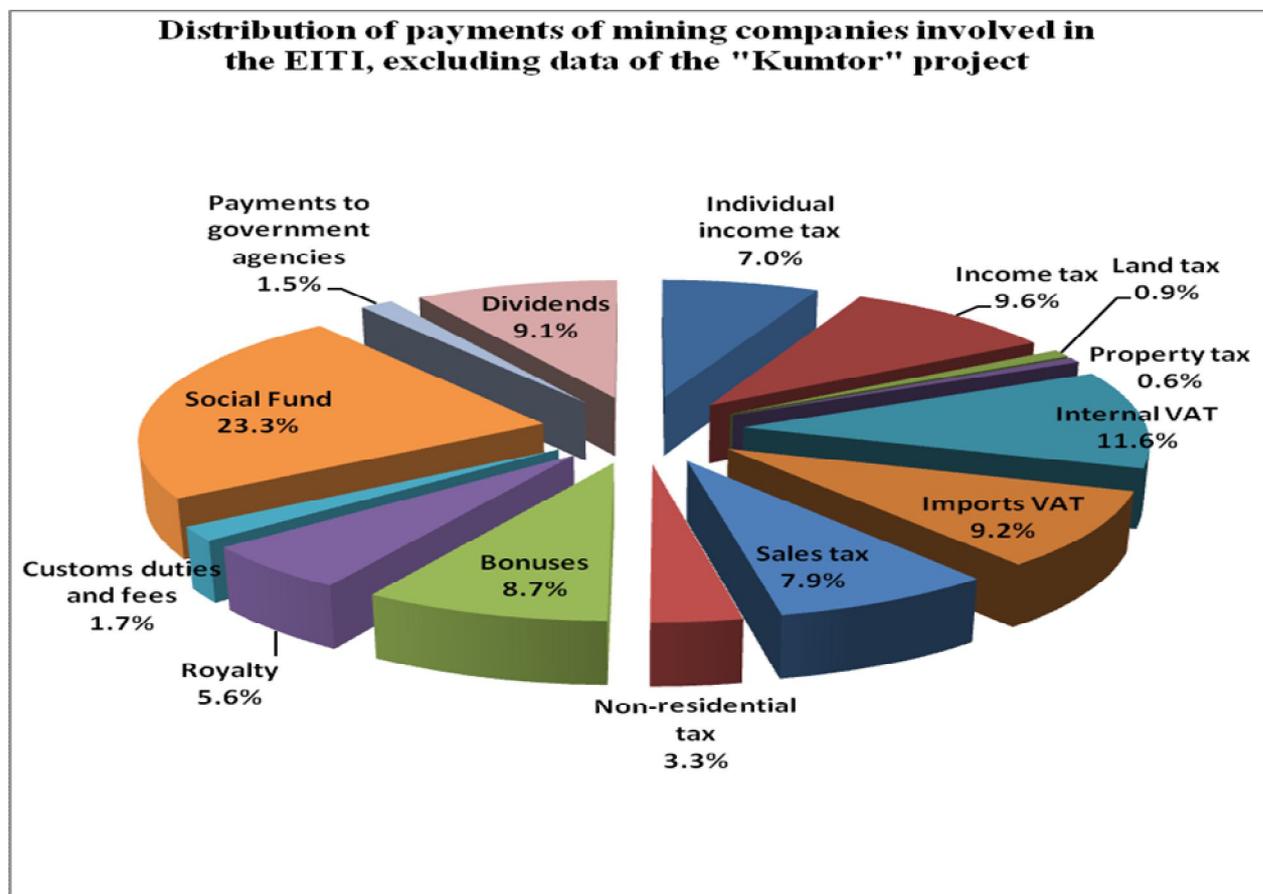
Official requirements that the companies involved in the extraction of natural resources would perform the expenditures for activities of social or environmental character are absent. However, in some cases, companies are taking such actions, often they do so under the influence of pressure from the local communities or the desire to develop good relations with the communities in which they operate. Local governments have received services from the mining companies in the amount of 131.3 million soms in the form of donations and contributions to support the social infrastructure.

Of profits remaining at the disposal of enterprises, only "Kumtor Gold Company" in 2011 made additional expenditures to support education in the amount of 458.6 million soms.

Only 7 of the 56 EITI reporting companies have made payments to the recultivation accumulation fund in the amount of 91.7 million soms.

## Distribution of taxes and payments

The distribution of payments of mining companies involved in the EITI, excluding data of the "Kumtor" project, shows (see chart) that the tax payments to the budget are 55.7 % of all payments of these companies, 23.3 % are paid to the Social Fund of the Kyrgyz Republic, customs fees and taxes – 1.7 %, payment of value added tax (VAT) on imports – 9.2 % dividends – 9.1 % and 1.5 % are payments to the ministries and agencies, and local governments for rendered services and getting authorization documents.



Mechanisms of destination or separation of revenues from extraction of natural resources between the central and sub-national levels of government are limited and clearly defined, but are not directly tied to the income from the extraction of natural resources. Enumerable share is determined annually during the budget debates. In accordance with the Law of the Kyrgyz Republic "On state budget of the Kyrgyz Republic for 2011 and forecast for 2012-2013" 5.6 % of all payments (or 10 % of tax payments) of mining companies should remain in the local budget (100 % of land tax, 100 % of the property tax, 25 % sales tax and 30 % of income tax) provided that these companies are registered at the place of deposit development.

## Fiscal regime for companies of mining industry

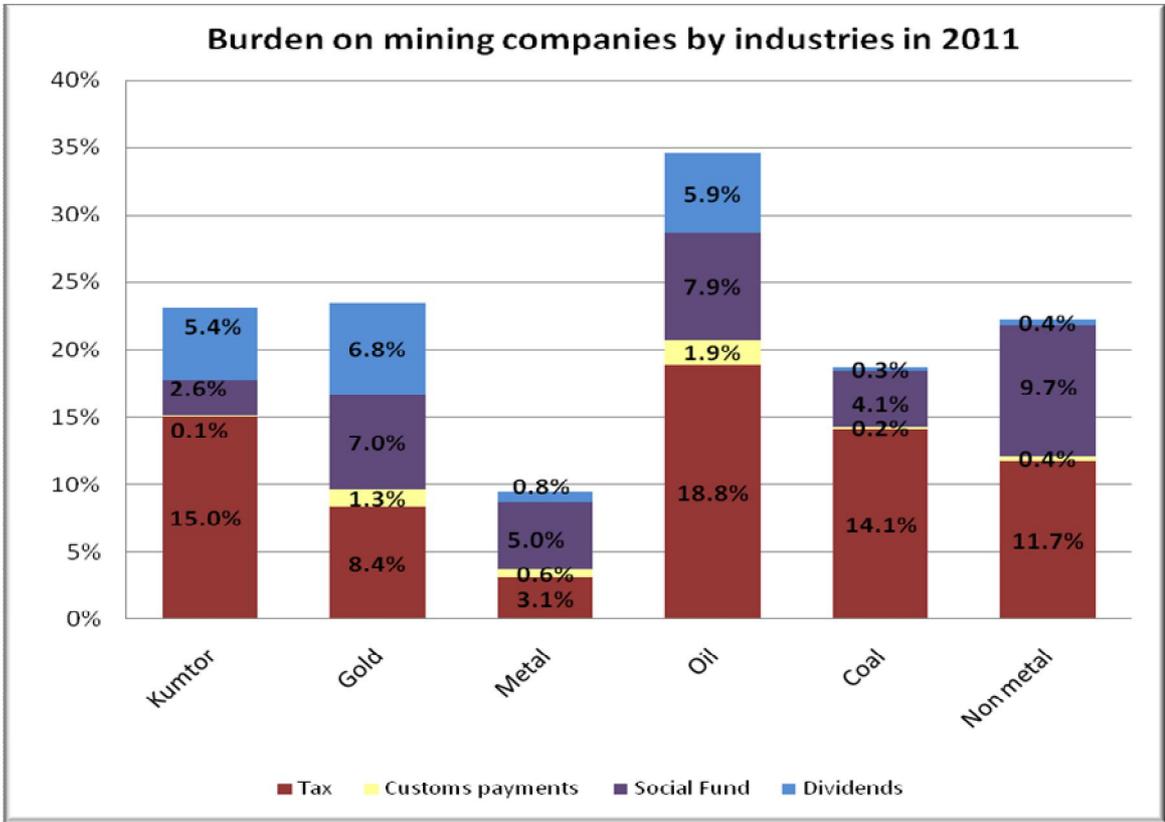
The fiscal regime governing the extraction of natural resources in 2011 largely defined by the Tax Code of the Kyrgyz Republic of 2009, the Customs Code of the Kyrgyz Republic and the Law of the Kyrgyz Republic "On Subsoil", the Law of the Kyrgyz Republic "On tariffs of insurance fees for state social insurance" and other regulatory legal acts of the Kyrgyz Republic. Special tax regime for extractive industries is missing, except "Kumtor" project. Mining companies, unlike companies in other industries, additionally pay specific taxes such as royalties and bonus. Royalty is the regular payments and the basis for calculating is the proceeds received from the sale of minerals. Royalty rates are ranging from 1 to 12 % depending on the type of the produced material.

Bonus is a one-off payment for the right of subsoil use and it is calculated depending on the number of geological reserves or resources accounted by the state.

The main tax incentives and regulations that are applicable to the extractive industries include: increased rate of depreciation at the rate of 50 %, the zero rate of VAT for export products, including mineral raw materials (except for exports of gold and silver, the export of which is supply exempted from VAT). Tax vacations are not part of the tax system, although the rules of accelerated depreciation allow to use in order to reduce payments for income tax. In addition in order to reduce the total annual income the subsoil users are eligible to 15 % reduction of the tax base to reserve this amount in the special fund of the enterprise for the reproduction of redeemed reserves within the bounds of mining and geological allotments.

Tax Code provides for mining companies the stabilization of taxes for the use of natural resources for a period of 20 years.

For companies that report under EITI for 2011, the level of overall tax burden calculated on a cash basis depending on the income is shown in the diagram below. These figures show the actual level of the tax burden on mining companies by industries which is set by current legislation.



As seen from the diagram, the level of pure tax burden for mining companies is averaging from 3.1 to 18.8 % depending on the type of extracted material. For gold mining companies (except "Kumtor" project) the share of taxes in the cost structure is 8.4 %, and with customs payments – 9.7 %.

Taxation of the Kumtor mine is based on the results of direct negotiations with the Government of the Kyrgyz Republic and approved by the Jogorku Kenesh (Parliament) of the Kyrgyz Republic and does not dependent on the general tax regulations. Taxation regime for the "Kumtor" project is cast to a simpler scheme consists of two kinds of payments – a tax on gross income at the rate of 13 %, and 1 % of the revenue to the Development Fund of Issyk-Kul Region. The "Kumtor" project is not exempt from the payments of deductions from fund of salaries, deductions to the Social Fund, payments for environmental pollution, etc.

The relatively low tax burden (3.1 %) in companies of non-ferrous metallurgy is associated with a zero rate of VAT, when exporting products the VAT refund is made.

A higher level of tax burden (12-18 %) for the oil, gas and coal industries, and in some companies for the extraction of building materials is explained by the high share of VAT paid by companies when selling the products within the country, and which is 40-70 % of the amount of all taxes.

The low share (0,2-1,9 %) from the income on tax payments means that there is no great activity for the import of raw materials from the mining companies (except "Kumtor" project) or main purchases of mining companies are made domestically. One of the important benefits for mining companies is exemption from VAT when importing the technological equipment, machinery and mechanisms into the country.

A large share of payments of the mining companies to the state social insurance (4,1-9,7 % of revenue) is explained by the high share of the fund of salaries in the cost structure of the company (which may be due to the low output per one worker), and deductions to the Social Fund is totally taxed at a rate of 27.25 % from fund of salaries.

### **Appointment of an independent reconciler**

At the Kyrgyzstan EITI Supervisory Board meetings a tender commission for the selection of independent auditing company is elected annually with proportional representation of all stakeholders.

Multilateral tender commission on a competitive basis has selected "KPMG Bishkek" independent auditing company to perform the EITI data reconciliation for 2011.

Reports of large mining companies the list of which was prepared by the State Agency for Geology and Mineral Resources under the Government of the Kyrgyz Republic, as well as the relevant data of government agencies, were subject to independent reconciliation. In order to provide a reconciliation of the companies' information with data of government agencies of the country a preparation of report was carried out on the basis of cash accounting (cash basis).

"KPMG Bishkek" auditing company conducted an independent data reconciliation obtained from government agencies on revenues to the state budget with the data obtained from the extractive companies on their payments to the state budget for 2011 fiscal year, and prepared a consolidated report in the framework of EITI for 2011.

"KPMG Bishkek" independent auditing company made the following:

- clarified the discrepancies between the data of government agencies and extractive companies;
- identified and as possible eliminated reasons of clarified discrepancies;
- developed recommendations to eliminate/reduce such discrepancies in the future.

Draft report on data reconciliation for 2011 was presented to the consideration of Kyrgyzstan EITI Supervisory Board on 6 December 2012.

Kyrgyzstan EITI Supervisory Board agreed with the recommendations of "KPMG Bishkek" independent auditing company, approved a report on data reconciliation in the framework of EITI for 2011 fiscal year and took the decision to publish the attached report to inform the general public in Kyrgyzstan.

## **Extractive Industry Transparency Initiative**

Independent Reconciliation Report  
for the year ended 31 December 2011

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## ABBREVIATIONS / DEFINITIONS

EITI	Extractive Industries Transparency Initiative
Engagement	Eighth Kyrgyzstan Extractive Industry Transparency Initiative Reconciliation and Report 2011
“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
SF	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 mining 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 2011 fiscal year.

KPMG Bishkek LLC (the “Consultant”) has been appointed by the Kyrgyz Republic Extractive Industries Transparency Initiative Secretariat (“KEITIS”) to reconcile the reporting from the Companies and the Kyrgyz Government agencies in order to identify any potential discrepancies in the reporting according to its 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 (the “KGS”) 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 mining companies which report on disclosure of financial revenues to be submitted on semi-annual 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.

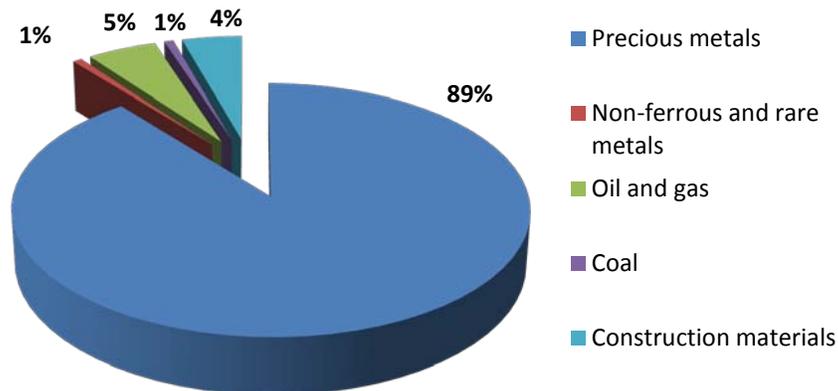
In 2011 the Kyrgyz Republic successfully implemented all EITI indicators, passed an EITI validation exercise and within the framework of the 5th EITI Global Conference held in Paris on 2 March 2011 Kyrgyzstan has been awarded the status of EITI Compliant country. Kyrgyzstan has also been given EITI Chair's 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 independent audit of the reconciliation. The Kyrgyzstan EITI Supervisory Board approved a list of 56 large companies, which are subject to audit of the reconciliation within EITI for 2011 (Please refer to Appendix B for a detailed list of companies).

The 56 Companies that have been selected for EITI reporting for 2011 fiscal year are engaged in the following mining sectors:

- Precious metals – 14 companies
- Non-ferrous and rare metals – 6 companies
- Oil and gas – 1 company
- Coal – 19 companies
- Construction materials – 16 companies.

The graph below presents cash flows from the mining companies by sectors according to the reconciled data reported by the government agencies for 2011:



**Reporting by government agencies**

### 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 extractive 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 2011 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 2011 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 takes 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 2011 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 2011 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 a 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 on 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 2011 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 our 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 not, therefore, 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 2011 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 EITI reporting process, guidelines and procedures.

For the purpose of the KEITIS reconciliation and report for the fiscal year 2011, 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 56 companies (2010: 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 2011 have been collected by the State Agency for Geology and Mineral Resources under the Government of Kyrgyz Republic.
- The data for the 2011 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 2011 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 2011, the following templates were used to report on the Government receipts and company payments made in the fiscal year 2011.

**EITI Template 1 (EITI Template - K):** Completed by the respective companies which summarizes the payments made to the Government bodies and related voluntary disclosures such as educational support, support of social infrastructure and recultivation 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 2011, 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 identified.

- Confirmation that the information provided by State agencies agreed with the amounts reported in the EITI Template K. Obtaining of explanations for any identified discrepancies. Further requests for supporting documentation regarding the amounts where discrepancies have been identified.

- No further actions were taken if there were no discrepancies.

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 discrepancies, 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 1a. 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
	Companies	Government agencies	Discrepancy	Companies	Government agencies	Explained discrepancy	Companies	Government agencies	Unexplained discrepancy	
Tax payments	7,996,942	7,485,400	(511,542)	(470,922)	40,353	(511,275)	7,526,020	7,525,753	(267)	39
Customs payments	286,523	285,286	(1,237)	(11,394)	(10,217)	(1,177)	275,129	275,069	(60)	31
Other material payments	3,581,275	1,908,549	(1,672,726)	(40,385)	1,639,207	(1,679,592)	3,540,890	3,547,756	6,866	54
<b>TOTAL</b>	<b>11,864,740</b>	<b>9,679, 235</b>	<b>(2,185,505)</b>	<b>(522,701)</b>	<b>1,669,343</b>	<b>(2,192,044)</b>	<b>11,342,039</b>	<b>11,348,578</b>	<b>6,539</b>	

Total payments to the budget in accordance with the original data from the companies comprised KGS 11,864,740 thousand, which is KGS 2,185,505 thousand more than amount of payments to budget initially reported by government agencies.

It has been found out that out of the total initial discrepancy of KGS 2,185,505 thousand, KGS 1,669,343 thousand represent the tax and other deductions understated by state agencies. Such discrepancies have been found and explained during the reconciliation process. The most significant discrepancy resulted from the fact that the State Property Management Fund of KR underreported payments of dividends on state shares from JSC "Kyrgyzaltyn" of KGS 1,195,980 thousand, also District State Administration offices did not include in the reports payments from JSC "Kumtor Gold Company" under Agreements with the Government of the Kyrgyz Republic (line No.30) amounting to KGS 410,073 thousand. In turn, the companies overstated their various mandatory payments to the amount of KGS 522,701 thousand.

**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	458,651	-	(458,651)	-	-	-	458,651	-	(458,651)	12
32. Support of social infrastructure	129,363	59,545	(69,818)	1,939	-	1,939	131,302	59,545	(71 757)	28
33. Recultivation fund charges	92,793	-	(92,793)	(1,044)	-	1,044	91,749	-	(91,749)	6
<b>TOTAL</b>	<b>680,807</b>	<b>59,545</b>	<b>(621,262)</b>	<b>895</b>	<b>-</b>	<b>2,983</b>	<b>681,702</b>	<b>59,545</b>	<b>(622,157)</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 458,651 thousand, KGS 131,302 thousand and KGS 91,749 thousand to educational support, to support of social infrastructure and as recultivation fund charges respectively.

We received relevant EITI templates from 56 out of 56 Companies.

During the reconciliation process we identified that the government agencies provided EITI Template-G for “Tash-Komur” LLC, however, the corresponding EITI Template-K from the Company was submitted to the State Agency on Geology and Mineral Resources under the Government of the Kyrgyz Republic by the company named “Tash Komur ShSU” LLC. These are two different companies engaged in the coal mining industry. We have contacted “Tash Komur” LLC and were provided with the EITI Template-K for 2011 fiscal year; however, no EITI Template-G from government agencies was received for “Tash-Komur ShSU” LLC. Thus, the number of the Companies increased from 56 to 57 for the reporting period.

**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	Company	Government agencies	Discrepancy
<b>Precious metals:</b>									
1	«Kumtor Gold Company» CJSC	8 014 695	7 605 310	(409 385)	925	410 310	8 015 620	8 015 620	-
2	"Kyrgyzaltyn" JSC	1 677 481	481 375	(1 196 106)	730	1 196 393	1 678 211	1 677 768	(443)
3	"Altynten" LLC	197 349	196 376	(973)	28	1 001	197 377	197 377	-
4	"Full Gold Mining" LLC	93 160	89 297	(3 863)	(1 026)	2 837	92 134	92 134	-
5	"Kazakhmys" LLC	88 560	91 020	2 460	-	(2 459)	88 560	88 561	1
6	"Eventys" LLC	34 105	36 917	2 812	1 858	(843)	35 963	36 074	111
7	LLC «Vertex Gold Company»	25 301	27 762	2 461	-	(3 046)	25 301	24 716	(585)
8	"Kaidi" Mining Investment Company" LLC	20 369	18 707	(1 662)	(50)	2 095	20 319	20 802	483
9	"Andash Mining Company" LLC	9 675	9 668	(7)	(19)	(12)	9 656	9 656	-
10	"Kichi-Chaarat" JSC	7 084	6 440	(644)	-	681	7 084	7 121	37
11	"Fonta" LLC	4 285	4 783	498	-	-	4 285	4 783	498
12	"Dolina Kasana" LLC	2 350	2 285	(65)	28	-	2 378	2 285	(93)
13	"Interbusiness" LLC	1 321	1 974	653	2	(44)	1 323	1 930	607
14	ELKO-service" LLC	34	21	(13)	-	-	34	21	(13)
<b>Ferrous and rare metals:</b>									
15	"Kadamzhay Antimony Enterprise" JSC	41 563	44,888	3 325	-	-	41 563	44 888	3 325
16	"Khaidarkan Mercury" JSC	25 567	37,757	12 190	9 675	2	35 242	37 759	2 517
17	"Central Asian Tin Company" LLC	1,525	1,401	(124)	(129)	(4)	1 396	1 397	1
18	"Kutesay Mining" LLC	2,516	2,519	3	3	-	2 519	2 519	-
19	"Saryjaz Mineral Mining Company" LLC	2 256	2 265	9	-	(9)	2 256	2 256	-
20	"Mineral Trade" LLC	90	111	21	27	-	117	111	(6)

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#	Company name	Original amount, '000 KGS			Adjustments, '000 KGS		Final amounts, '000 KGS		
		Company	Government agencies	Discrepancy	Company	Government agencies	Company	Government agencies	Discrepancy
<b>Oil and Gas:</b>									
21	"KyrgyzNefteGaz" JSC	496,724	481,198	(15 526)	-	15 551	496 724	496 749	25
<b>Coal:</b>									
22	"Tash Komur ShSU" LLC	393 121	-	(393 121)	(392 648)	473	473	473	-
23	"Bereket" JSC	40 946	717	(40 229)	(1 177)	39 079	39 769	39 796	27
24	"Parity Coal" LLC	49 420	29 016	(20 404)	(19 370)	1 050	30 050	30 066	16
25	"Sharbon" JSC	16 282	17 468	1 186	840	-	17 122	17 468	346
26	"Sulyukta Shakhtakurulush" LLC	14 301	15 770	1 469	2 054	336	16 355	16 106	(249)
27	"AGK-Too Invest" LLC	15 937	15 915	(22)	-	-	15 937	15 915	(22)
28	"Sulyukta Komur" JSC	12 077	11 526	(551)	-	-	12 077	11 526	(551)
29	"Pand-Sher" LLC	10 671	9 920	(751)	(62)	-	10 609	9 920	(689)
30	"Nur" LLC	11 579	7 093	(4 486)	(4 495)	-	7 084	7 093	9
31	"Ak-Jol Komur" LLC	5 671	5 693	22	22	-	5 693	5 693	-
32	"Ibraimov" LLC	5 612	5 520	(92)	(93)	-	5 519	5 520	1
33	"Maripov" LLC	5 334	5 189	(145)	10	-	5 344	5 189	(155)
34	"Kyzyl Bulak" LLC	5 147	5 123	(24)	-	25	5 147	5 148	1
35	"Kara-Keche" State Enterprise	6 087	4 748	(1 339)	(1 340)	-	4 747	4 748	1
36	"Ak Bulak Komur" LLC	4 333	4 326	(7)	-	-	4 333	4 326	(7)
37	"Jumgal Suu Kurulush" LLC	3 849	4 183	334	553	-	4 402	4 183	(219)
38	"Shakhta Jyrgalan" JSC	3 629	3 652	23	-	(23)	3 629	3 629	-
39	"Kyzyl-Kiya Komur" JSC	3 562	3 524	(38)	-	-	3 562	3 524	(38)
40	"Tegene" LLC	3 107	3 026	(81)	-	81	3 107	3 107	-
41	"A. Masaliev shakhta "Besh-Burkhan" LLC	2 883	2 871	(12)	7	-	2 890	2 871	(19)

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#	Company	Original amounts, '000 KGS			Adjustments, '000 KGS		Final amounts, '000 KGS		
		Company	Government agencies	Discrepancy	Company	Government agencies	Company	Government agencies	Discrepancy
42	"Suliukta-Karabulak" LLC	2 881	2 792	(89)	-	-	2 881	2 792	(89)
43	"Busurmankul T" LLC	2 027	2 040	13	-	-	2 027	2 040	13
44	"Tash Komur" LLC	3 656	1 318	(2 338)	(2 337)	-	1 319	1 318	(1)
<b>Construction materials:</b>									
45	"South Kyrgyz Cement" JSC	313 148	225 478	(87 670)	(89 927)	(2 259)	223 221	223 219	(2)
46	"South Plant of Construction Materials" LLC	91 467	65 315	(26 152)	(28 714)	(1 384)	62 753	63 931	1 178
47	"Kum-Shagyl" JSC	29 351	29 349	(2)	-	1	29 351	29 350	(1)
48	"Dannur Yug" LLC	5 711	15 450	9 739	9 010	-	14 721	15 450	729
49	"Nur KM" JSC	13 678	9 932	(3 746)	(1 695)	1 898	11 983	11 830	(153)
50	"ZhBI Plant" JSC	13 959	3 629	(10 330)	(3 309)	7 133	10 650	10 762	112
51	"Kyrgyz Too-Tash" JSC	7 495	7 329	(166)	(77)	111	7 418	7 440	22
52	"Iygilik" JSC	7 058	7 268	210	-	3	7 058	7 271	213
53	"Silikat" JSC	5 056	5 138	82	-	(82)	5 056	5 056	-
54	"Dary-Bulak-Abshir" LLC	7 059	4 085	(2 974)	(2 603)	-	4 456	4 085	(371)
55	"Bishkekstroyaterialy" JSC	1 892	2 500	608	700	92	2 592	2 592	-
56	"Kyrgyz Tash" JSC	548	163	(385)	-	356	548	519	(29)
57	"Orion" Mining Company" LLC	196	95	(101)	(102)	-	94	95	1
<b>TOTAL</b>		<b>11 864 740</b>	<b>9 679 235</b>	<b>(2 185 505)</b>	<b>(522 701)</b>	<b>1 669 343</b>	<b>11 342 039</b>	<b>11 348 578</b>	<b>6 539</b>

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

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

- "Tash-Komur" LLC
- "Kara-Keche" State Enterprise

- “Pand-Sher” LLC
- “Jumgalsuukurulush” LLC
- “Bereket” CJSC
- “Maripova” LLC
- “Kyrgyz Too-Tash” CJSC
- “Nur KM” JSC
- “Dary-Bulak-Abshir” LLC
- “Dannur Yug” LLC
- “Sulyukta Komur” LLC
- “Shakhta Besh-Burkhan named after A. Masaliev” LLC

The total unresolved discrepancies for the above mentioned companies constituted KGS 1,897 thousand compared with corresponding figures reported by the government agencies.

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

The District State Administrations did not provide the reports related to lines 22, 25 and 32 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  Name of company not reported by District State Administrations	22		25		32	
		Payments for lease of land owned by state or municipal agencies, land lease payments for forest resources		Opportunity cost of provided land plots		Social infrastructure support	
		According to the Company's data	EITI Template - G	According to the Company's data	EITI Template - G	According to the Company's data	EITI Template – G
Kara-Buurinskaya	“Vertex Gold Company” LLC	869	not received	-	not received	-	Received
Ala-Bukinskaya	“Kazakhmys” LLC	945	not received	267	not received	2 489	not received
Ala-Bukinskaya	“Full Gold Mining” LLC	143	not received	-	not received	12 067	not received
Chatkalskaya	“Kichi-Chaarat” LLC	-	not received	262	not received	649	not received
Chatkalskaya	“Fonta” LLC	-	received	-	not received	-	not received
Ala-Bukinskaya	“Eventys” LLC	-	received	119	not received	3 917	not received
Zhumgalskaya	“Ak-Jol” LLC	-	not received	-	not received	-	not received

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Name of District State Administration, which did not submit reports on respective indicators	Line code Name of company not reported by District State Administrations	22		25		32	
		Payments for lease of land owned by state or municipal agencies, land lease payments for forest resources		Opportunity cost of provided land plots		Social infrastructure support	
		According to the Company's data	EITI Template - G	According to the Company's data	EITI Template - G	According to the Company's data	EITI Template – G
Zhumgalskaya	"Sharbon" JSC	-	not received	-	not received	2 319	not received
Zhumgalskaya	"Busurmankul T" LLC	-	not received	-	not received	-	not received
Kadamjaiskaya	"Kyzyl-Kiya Komur" JSC	-	not received	5	not received	-	not received
Leilekskaya	"Sulyukta Komur" JSC	-	not received	-	not received	25	not received
Zhumgalskaya	"Kara-Keche" State Enterprise	-	not received	-	not received	-	not received
Aravanskaya	"Parity Coal" LLC	-	not received	-	not received	-	not received
Zhumgalskaya	"Pand-Sher" LLC	689	not received	-	not received	1 014	not received
Zhumgalskaya	"Jungal Suu Kurulush" LLC	-	not received	-	not received	-	not received
Zhumgalskaya	"Bereket" JSC	3 165	not received	-	not received	124	not received
Zhumgalskaya	"AGK-Too Invest" LLC	-	not received	-	not received	-	not received
Aksyiskaya	"Tegene" LLC	-	not received	-	not received	-	Received
Leilekskaya	"Ak-Bulak" LLC	-	received	-	not received	-	not received
Leilekskaya	"Maripov" LLC	35	not received	-	not received	-	not received
Leilekskaya	"Ibraimov" LLC	-	received	59	not received	-	not received
Leilekskaya	"Kyzyl Bulak" LLC	-	not received	-	not received	691	not received
Leilekskaya	"Sulyukta Shakhtakurulush" LLC	93	not received	5	not received	-	not received
Leilekskaya	"Nur" LLC	-	not received	-	not received	-	not received
Leilekskaya	"Suliukta-Karabulak" LLC	-	received	-	not received	-	not received
Kadamjaiskaya	"Nur KM" JSC	126	not received	-	not received	243	not received

Name of District State Administration, which did not submit reports on respective indicators	Line code  Name of company not reported by District State Administrations	22		25		32	
		Payments for lease of land owned by state or municipal agencies, land lease payments for forest resources		Opportunity cost of provided land plots		Social infrastructure support	
		According to the Company's data	EITI Template - G	According to the Company's data	EITI Template - G	According to the Company's data	EITI Template - G
Kochkorskaya	"Kyrgyz-Tash" JSC	30	not received	-	not received	-	not received
Nookatskaya	"Mine "Besh-Burkhan named after A.Masaliev" LLC	-	not received	-	not received	-	not received
Uzgenskaya	"Orion" Mining Company" LLC	-	not received	-	not received	-	not received

The State Agency for Environment Protection and Forestry under the Government of the Kyrgyz Republic did not provide the report on line 27 for the following companies:

**Table 3b. The List of Companies not reported by the State Agency for Environment Protection and Forestry under the Government of the Kyrgyz Republic**

Line code	27
Names of companies not reported by the State Agency for Environment Protection and Forestry	Payment for environmental pollution and damages to the environment
	Amount according to the Company's data
"Vertex Gold Company" LLC	-
"Kazakhmys" LLC	217
"Khaidarkan Mercury" JSC	-
"Full Gold Mining" LLC	-
"Kyzyl-Kiya Komur" JSC	-
"Sulyukta Komur" JSC	-
"Pand-Sher" LLC	100
"AGK-Too Invest" LLC	-
"Tegene" LLC	-

Line code	27
Names of companies not reported by the State Agency for Environment Protection and Forestry	Payment for environmental pollution and damages to the environment
	Amount according to the Company's data
"Ak-Bulak" LLC	-
"Maripov" LLC	13
"Ibraimov" LLC	24
"Kyzyl Bulak" LLC	12
"Sulyukta Shakhtakurulush" LLC	26
"Nur" LLC	-
"Suliukta-Karabulak" LLC	-
"Nur KM" JSC	23
"Mine "Besh-Burkhan" named after A.Masaliev" LLC	19
"Orion" Mining Company" LLC	-

The State Agency for Environmental Protection and Forestry under the Government of KR did not provide any reports on line #24 "Compensation of losses on forestry-based production" (except for "Fonta" LLC and "Eventys" LLC) and State Agency on Geology and Mineral Resources of KR line #29 "Fees for issuance of certificates and other permits" for 2011. Both of these payments relate to section "Other material payments" under EITI Template-G.

Failure by the government agencies to provide the reports for the types of payments listed above was partially explained by the fact that there were no amounts to report for some of the Companies mentioned.

### General comments on adjustments (EITI 3)

During the reconciliation process, the discrepancies between the amounts of the Company's and Government agencies' reports were identified. Some of these discrepancies were resolved, and the reasons of their occurrence were due to the errors of either Company or Government agencies.

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**

#	Type of deduction	Identified discrepancies, KGS'000			% of errors		Responsible state agency
		Company's error	State agency's error	TOTAL	Companies	State agencies	
1	Income tax on individuals	(42 132)	1 860	(40 272)	96%	4%	State tax authority
2	Income tax	(48 104)	5 727	(42 377)	89%	11%	State tax authority
3	Land tax	(23 519)	1 097	(22 422)	96%	4%	State tax authority
4	Property tax	(918)	2 999	2 081	23%	77%	State tax authority
5	VAT imposed on goods and services produced on territory of KR	(135 079)	22 357	(112 722)	86%	14%	State tax authority
6	Excise tax imposed on the goods, produced on the territory of KR	-	-	-	-	-	State tax authority
7	Sales tax	(212 446)	5 588	(206 858)	97%	3%	State tax authority
8	Tax on the income of foreign organizations not permanently registered in KR	(260)	(157)	(417)	62%	38%	State tax authority
9	Bonuses	-	648	648	0%	100%	State tax authority
10	Royalty	(9 782)	62	(9 720)	99%	1%	State tax authority
11	Gross income tax	1 359	-	1 359	100%	-	State tax authority
12	Annual charge for development of mineral base	(118)	-	(118)	100%	-	State tax authority
13	Other taxes and charges	77	172	249	31%	69%	State tax authority
14	Customs duties	(1,016)	2,422	1,406	30%	70%	State customs service
15	Customs fees	(261)	(3,313)	(3,574)	7%	93%	State customs service
16	Excise tax on imported goods	-	34	34	-	100%	State customs service
17	VAT on goods imported to KR	(10,117)	(9,360)	(19,477)	52%	48%	State customs service
18	Social insurance payments	(45,362)	8,771	(36,591)	84%	16%	Social Fund
19	Concession payments	-	-	-	-	-	State Agency for Geology and Mineral Resources

#	Type of deduction	Identified discrepancies, KGS'000			% of errors		Responsible state agency
		Company's error	State agency's error	TOTAL	Companies	State agencies	
20	Dividends paid on state-owned shares	9,675	1,212,228	1,221,903	1%	99%	State Property Management Fund
21	Payments for state shares redeemed by the company	-	-	-	-	-	State Property Management Fund
22	Payments for lease of land owned by state or municipal authorities and land in forest reserves	(4,076)	4,004	(72)	50.45%	49.55%	State Agency for Environmental Protection and Forestry
23	Agricultural production losses compensation	1,261	1,719	2,980	42%	58%	State Registration Service
24	Compensation of losses on forestry-based production	-	247	247	-	100%	State Agency for Environmental Protection and Forestry
25	Opportunity cost of provided land plots	(59)	(613)	(672)	9%	91%	State Agency for Environmental Protection and Forestry
26	Payment for subsoil use license retention	-	-	-	-	-	State Agency for Geology and Mineral Resources
27	Payments for environmental pollution and compensation of environmental damage	(298)	(149)	(447)	67%	33%	State Agency for Environmental Protection and Forestry
28	Fees for issuance of licenses	-	1	1	-	100%	State Agency for Geology and Mineral Resources
29	Fees for issuance of certificates and other permits	-	2,926	2,926	-	100%	State Agency for Geology and Mineral Resources
30	Payments established by agreements with the Government of KR	(1,526)	410,073	408,547	0.4%	99.6%	State administrations of districts and local self-governments

### 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 2011. 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 63.7% of all the deductions made by the Companies. The initial discrepancy on tax payments was KGS 511 542 thousand, being 6.8% of the final STA data. After the receipt of the explanatory information, the discrepancies decreased to KGS 267 thousand, less than 1% of the final STA data.

Below are the discrepancies, identified for each item included in the "Tax Payments" Section and the reasons of such discrepancies in 2011 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	Wrong amount included in initial reporting by the Companies	Wrong amount included in initial reporting by government agencies	Timing difference	Amount not included in initial reporting by the Companies	Amount not included in initial reporting by government agencies	Companies' reporting	Government agencies' reporting	
1	Individual income tax	424 536	380 634	43 902	(42 132)	1 860	(40 272)	(42 433)	(1 587)	(254)	555	3 447	382 404	382 494	(90)
2	Income tax	253 082	199 251	53 831	(48 104)	5 727	(42 377)	(60 994)	(591)	-	12 890	6 318	204 978	204 978	-
3	Land tax	42 508	17 905	24 603	(23 519)	1 097	(22 422)	(24 683)	(341)	-	686	1 915	18 989	19 002	(13)
4	Property tax	14 739	10 762	3 977	(918)	2 999	2 081	(1 176)	(6)	-	773	2 489	13 821	13 761	60
5	VAT on internal goods	386 119	228 686	157 433	(135 079)	22 357	(112 722)	(65 088)	2 682	(70 233)	242	19 675	251 040	251 043	(3)
6	Excise tax on internal goods	260	260	-	-	-	-	-	-	-	-	-	260	260	-
7	Sales tax	381 230	163 138	218 092	(212 446)	5 588	(206 858)	(218 809)	(536)	(8)	6 372	6 123	168 784	168 726	58
8	Withholding tax on income of non-residents	112 883	112 680	203	(260)	(157)	(417)	(260)	(199)	-	-	42	112 623	112 523	100
9	Bonus	186 360	185 712	648	-	648	648	-	-	-	-	648	186 360	186 360	-
10	Royalty	128 970	119 091	9 879	(9 782)	62	(9 720)	(9 768)	(979)	(50)	36	1 041	119 188	119 153	35
11	Gross income tax	6 065 068	6 066 427	(1 359)	1 359	-	1 359	-	-	-	1 359	-	6 066 427	6 066 427	-
12	Annual charge for development of mineral base	207	-	207	(118)	-	(118)	(118)	-	-	-	-	89	-	89
13	Other taxes and charges	980	854	126	77	172	249	(15)	(56)	-	92	228	1 057	1 026	31
	<b>TOTAL</b>	<b>7 996 942</b>	<b>7 485 400</b>	<b>511 542</b>	<b>(470 922)</b>	<b>40 353</b>	<b>(430 569)</b>	<b>(423 344)</b>	<b>(1 613)</b>	<b>(70 545)</b>	<b>23 005</b>	<b>41 926</b>	<b>7 526 020</b>	<b>7 525 753</b>	<b>267</b>

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

The most significant discrepancies have been caused by the improper data entered by the companies in the EITI K-form for 2011. Thus, for example, “Tash Kumyr ShSU” LLC initially reported payments in KGS, instead of required KGS ‘000, leading to the occurrence of the initial discrepancy on sales tax of KGS 217,715 thousand.

Some discrepancies were caused by different cut-off, i.e. the companies’ reported numbers based on accrual basis and not on the cash basis. Thus, “Yuzhno-Kyrgyzskii Cement” CJSC initially reported VAT on goods and services produced in Kyrgyzstan and accrued for 2011 (KGS 70,191 thousand), though no actual VAT payments were made during the stated period.

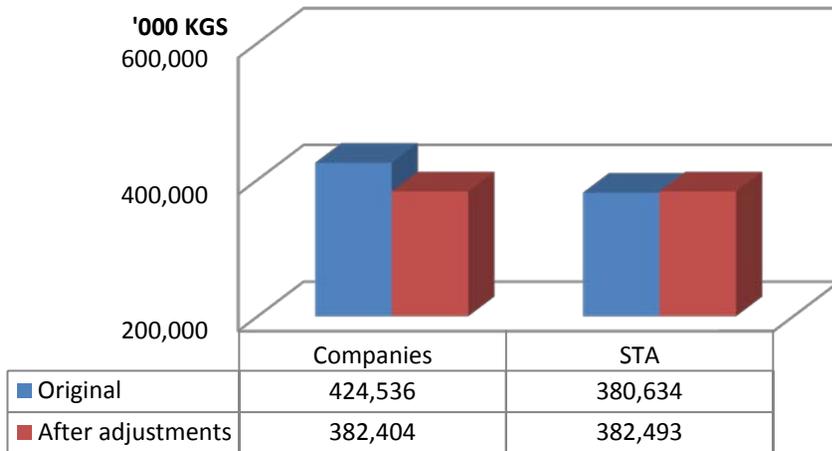
A part of the discrepancies was due to the fact that both the companies and government entities initially did not include certain payments/receipts in their reports. For example, “Yuzhnyi Kombinat Stroitelnyh Materialov” LLC failed to include the income tax payments of KGS 9,686 thousand in its initial EITI report, however, subsequently it provided all required documents supporting said payments. State Tax Authority, in their turn, initially did not include the VAT receipts on internally produced goods and services of KGS 17,069 thousand for “Bereket” CJSC, however, such a 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 of KGS 6,066,427 thousand as reported by State Tax Authority. The amount of the initial discrepancy was KGS 1,359 thousand. During the reconciliation exercise the discrepancy was fully resolved.

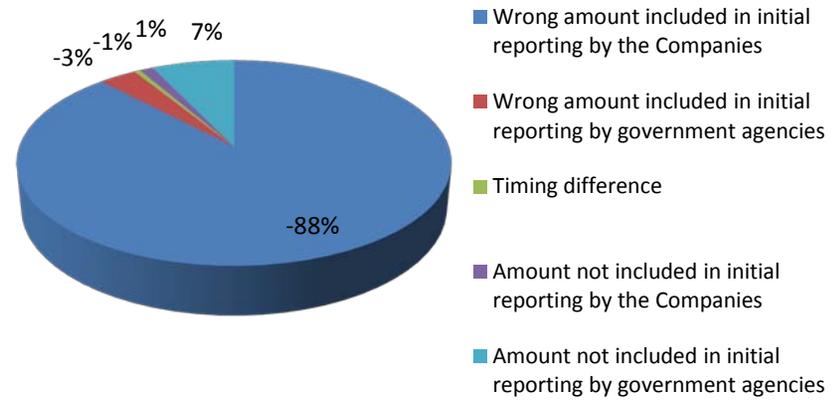
The following diagrams show payments per Government agencies’ reporting, initial and unresolved discrepancies for other significant tax payments.

Diagram 1. Tax payments

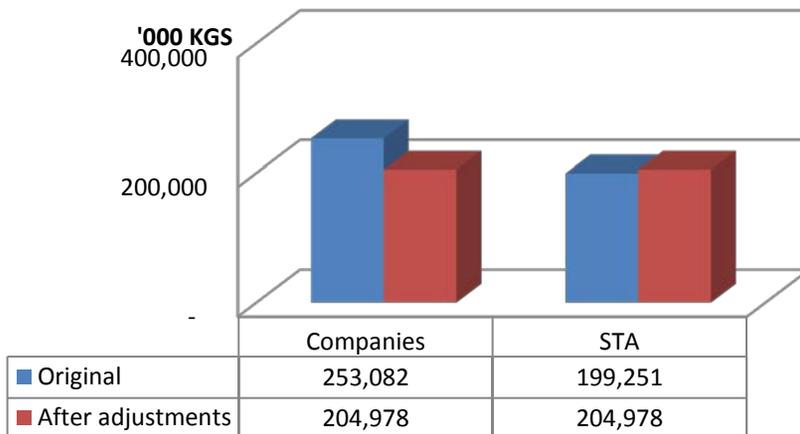
### Income tax on individuals



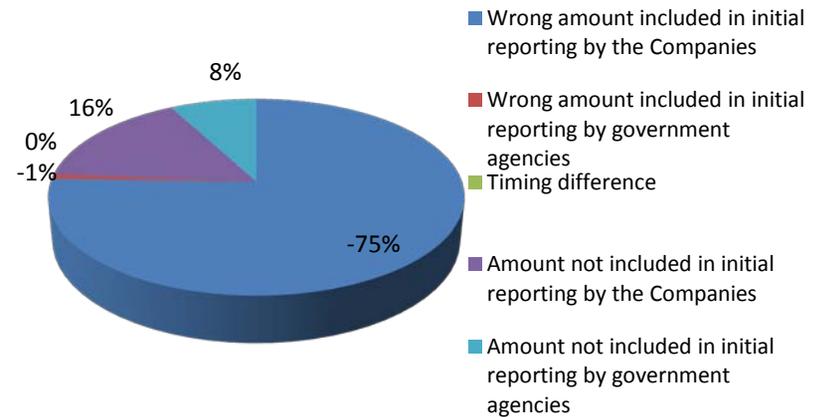
### Reasons for identified discrepancies



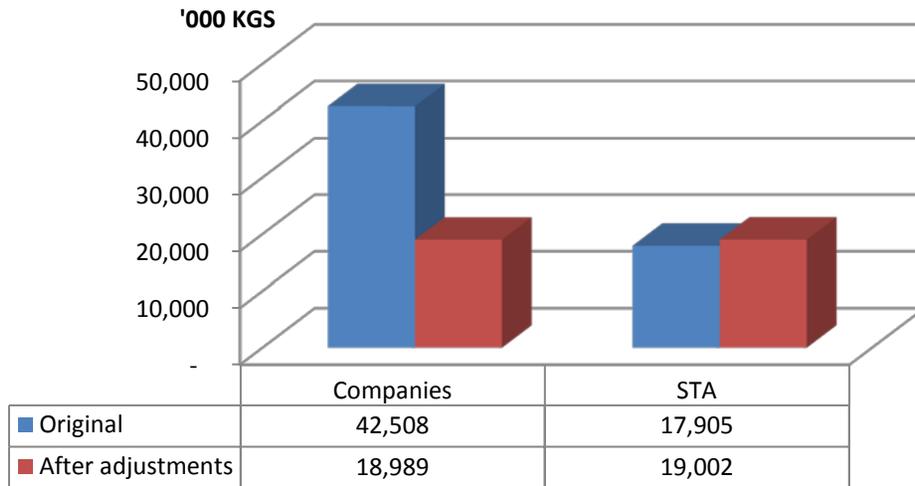
### Income tax



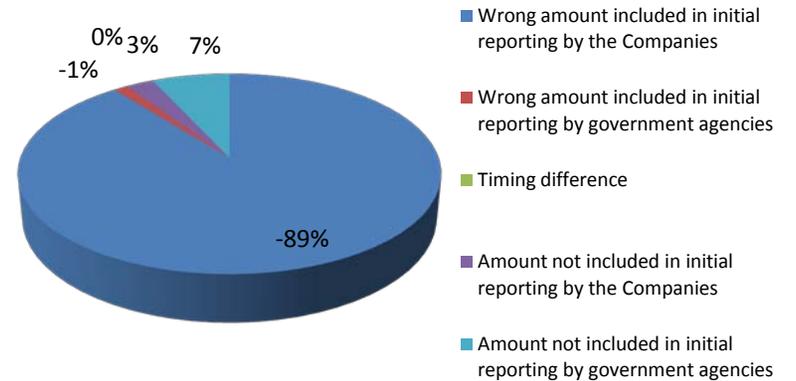
### Reasons for identified discrepancies



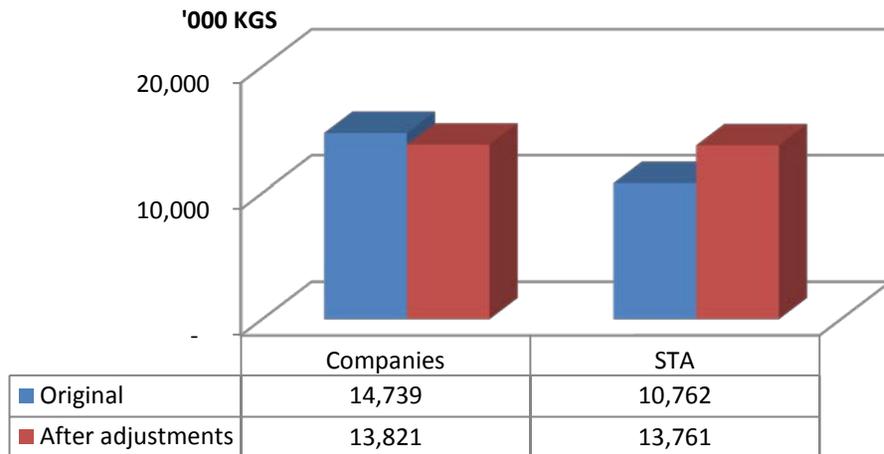
### Land tax



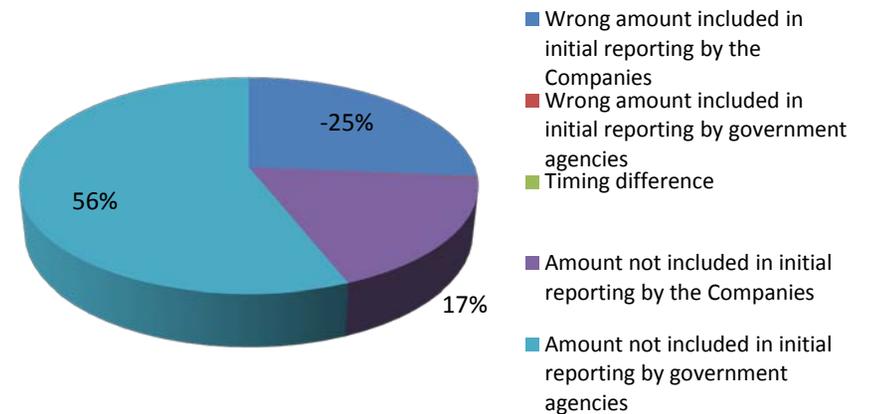
### Reasons for identified discrepancies



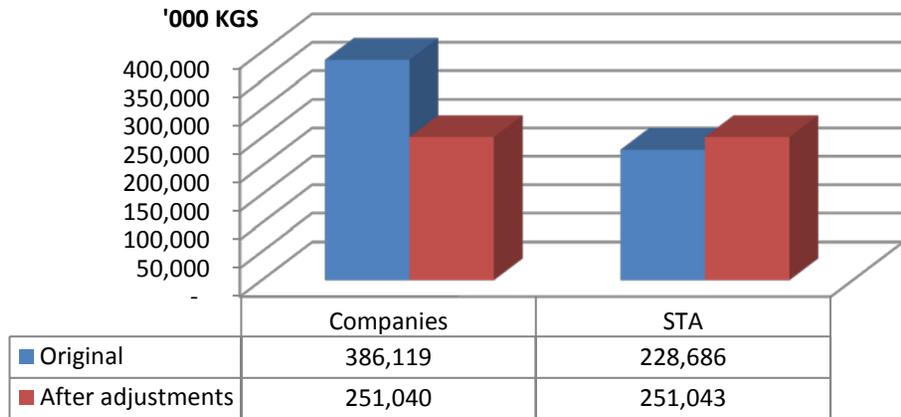
### Property tax



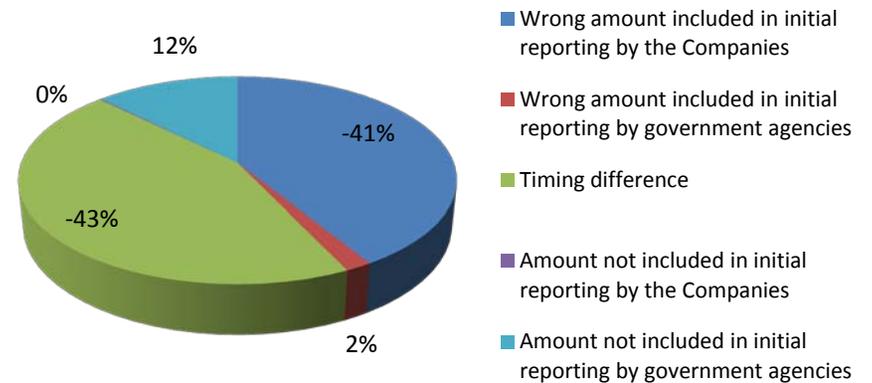
### Reasons for identified discrepancies



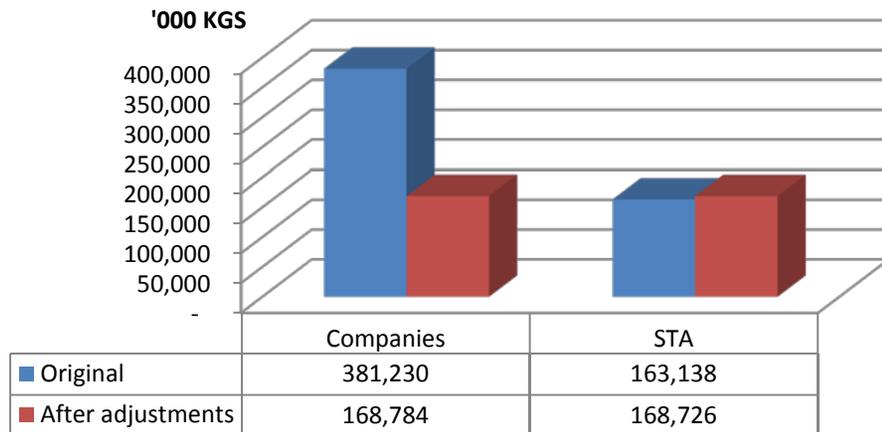
## VAT on the goods and services, manufactured on the territory of KR



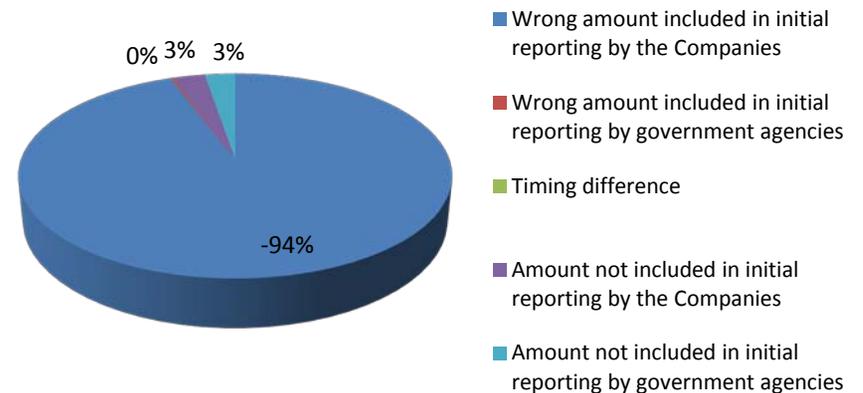
## Reasons for identified discrepancies



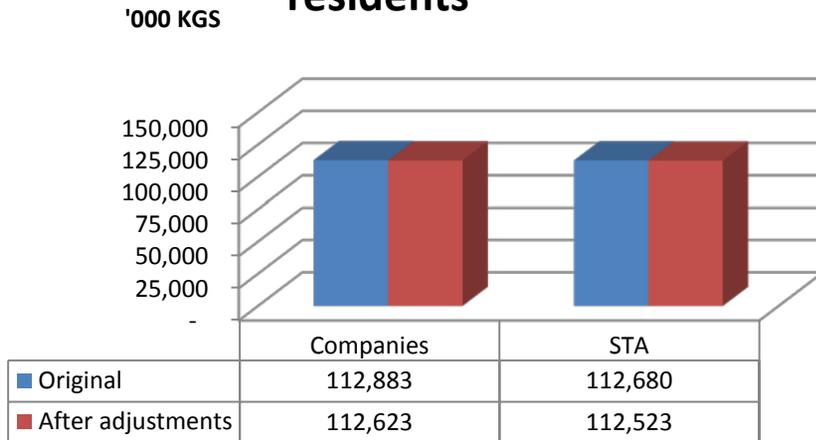
## Sales tax



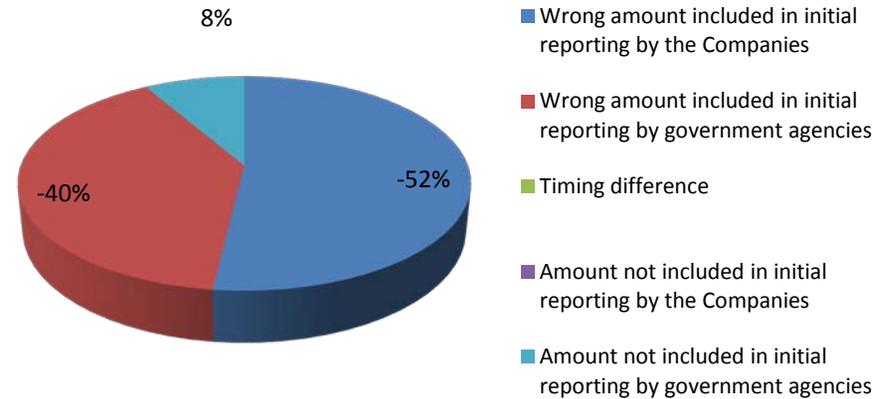
## Reasons for identified discrepancies



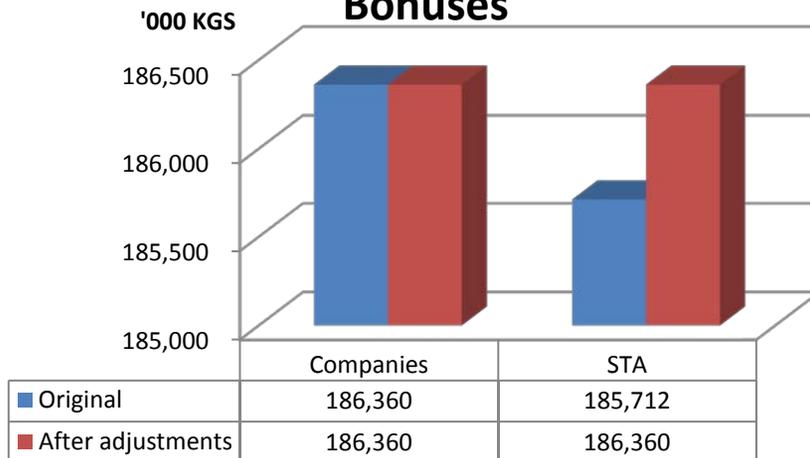
## Withholding tax on income of non-residents



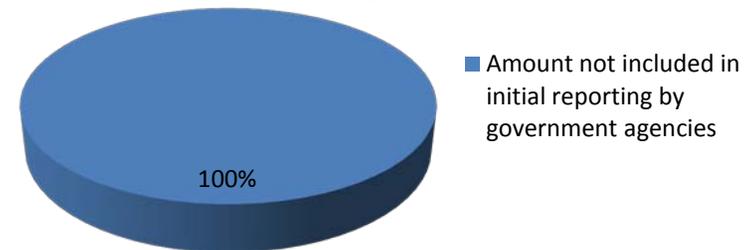
## Reasons for identified discrepancies

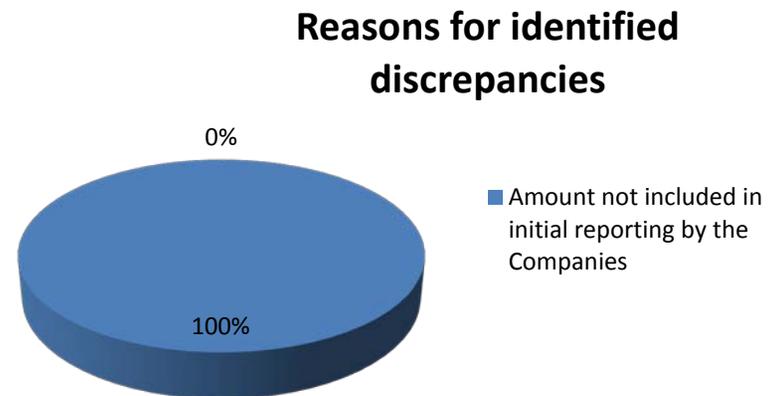
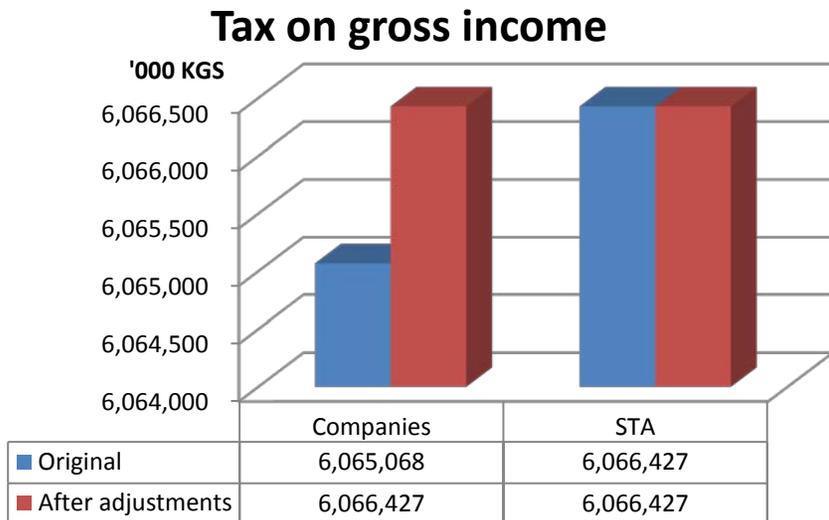
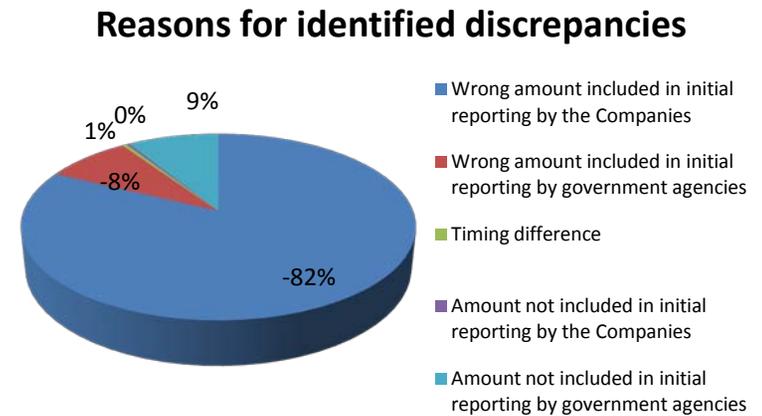
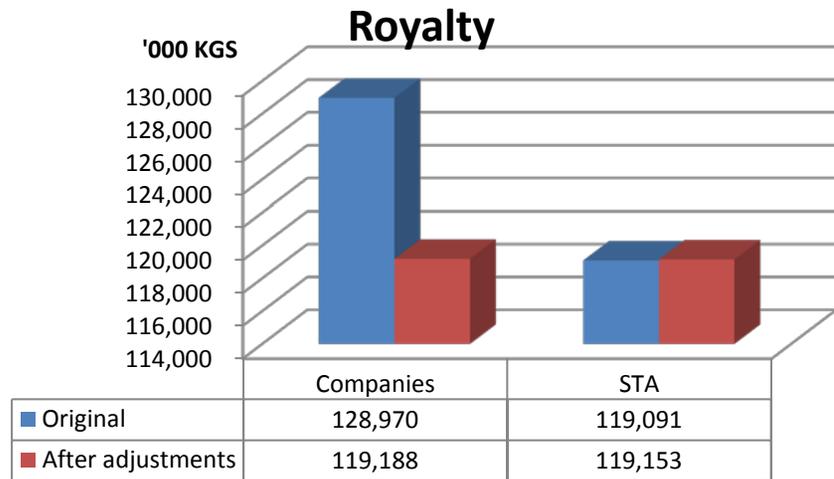


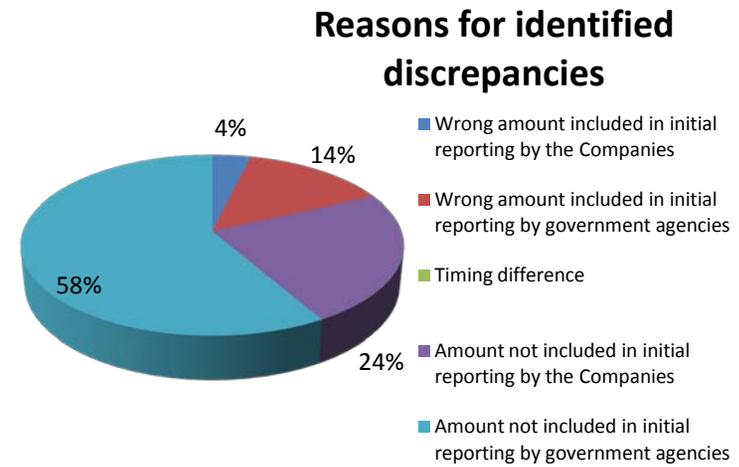
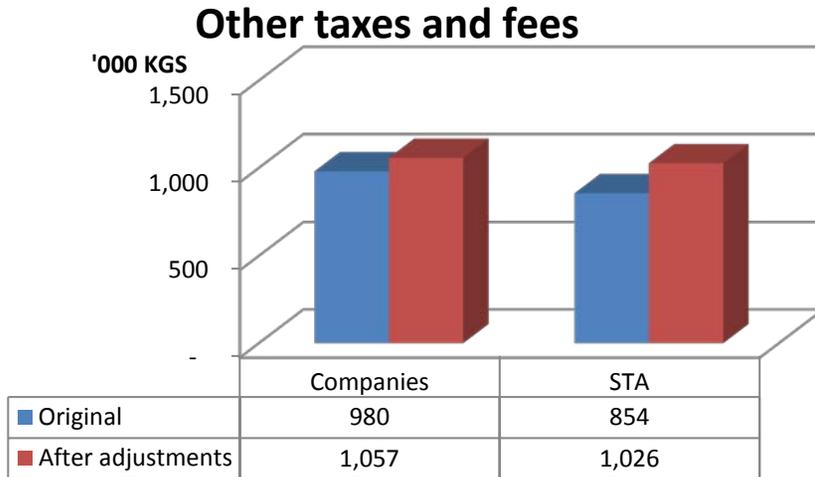
## Bonuses



## Reasons for identified discrepancies







**b) Section 2. Customs payments**

Custom payments are regulated by the State Customs Authority. Customs payments are around 2.3% of all the payments made by the companies. The initial discrepancy on customs payments was KGS 1,237 thousand being 0.45% of the final report of the customs service. After some explanatory procedures, the discrepancy decreased by 95% compared with the initial discrepancy and comprised KGS 60 thousand.

Below are the discrepancies noted for each of the items included under the Customs Section and reasons for such discrepancies in 2011 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	Wrong amount included in initial reporting by the Companies	Wrong amount included in initial reporting by government agencies	Timing difference	Amount excluded from initial reporting by the Companies	Amount excluded from initial reporting by government agencies	Companies' reporting	Government agencies' reporting	
14	Customs duties	24 770	21 073	3 697	(1 016)	2 422	1 406	(3 998)	(92)	(231)	3 213	2 514	23,754	23,495	259
15	Customs fees	54 756	57 651	(2 895)	(261)	(3 313)	(3 574)	-	(3 511)	(1 262)	1 001	198	54,495	54,338	157
16	Excise tax on imported goods	123	89	34	-	34	34	-	-	-	-	34	123	123	-
17	VAT on imported goods	206 874	206 473	401	(10 117)	(9 360)	(19 477)	(15 833)	(10 761)	-	5 716	1 401	196,757	197,113	(356)
	<b>TOTAL</b>	<b>286 523</b>	<b>285 286</b>	<b>1 237</b>	<b>(11 394)</b>	<b>(10 217)</b>	<b>(21 611)</b>	<b>(19 831)</b>	<b>(14 364)</b>	<b>(1 493)</b>	<b>9 930</b>	<b>4 147</b>	<b>275,129</b>	<b>275,069</b>	<b>60</b>

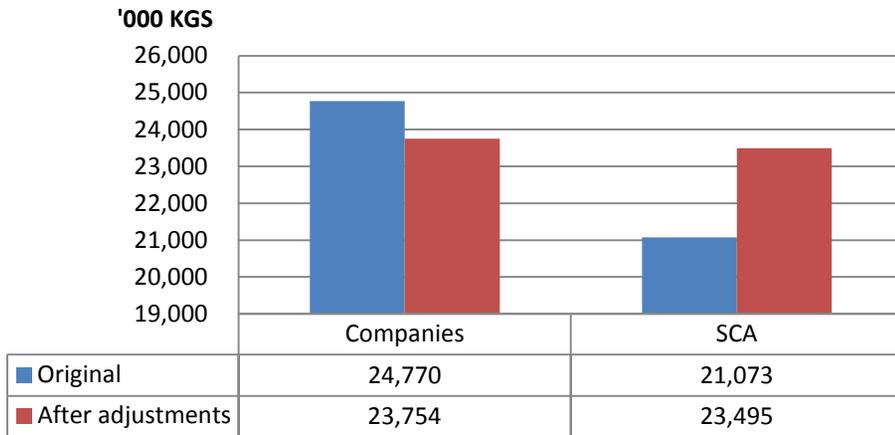
During the reconciliation exercise the actual amounts of customs payments were confirmed with supporting documentation.

The most significant discrepancies arose on VAT on goods imported to KR. Thus, government agencies had initially over-reported VAT payments for “Vertex Gold Company” LLC (KGS 4,693 thousand), “Kazakhmys” LLC (KGS 3,689 thousand), “KyrgyzNefteGaz” JSC (KGS 2,136 thousand) and “Kumtor Gold Company” CJSC (KGS 1,334 thousand). At the same time government agencies excluded from initial reporting payments on VAT on imported goods for “Yuzhno-Kyrgyzskii Cement” CJSC (KGS 15,833 thousand) and “Full Gold Mining” LLC (KGS 1,052 thousand). During the reconciliation exercise VAT payments from these companies were confirmed by the Companies with supporting documentation.

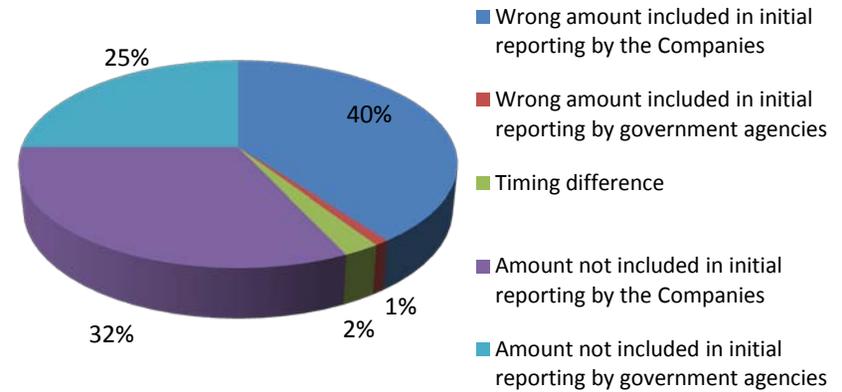
Diagram 2 shows us payments per Government agencies' reporting, initial and unresolved discrepancies for the most significant customs payments.

Diagram 2. Customs payments

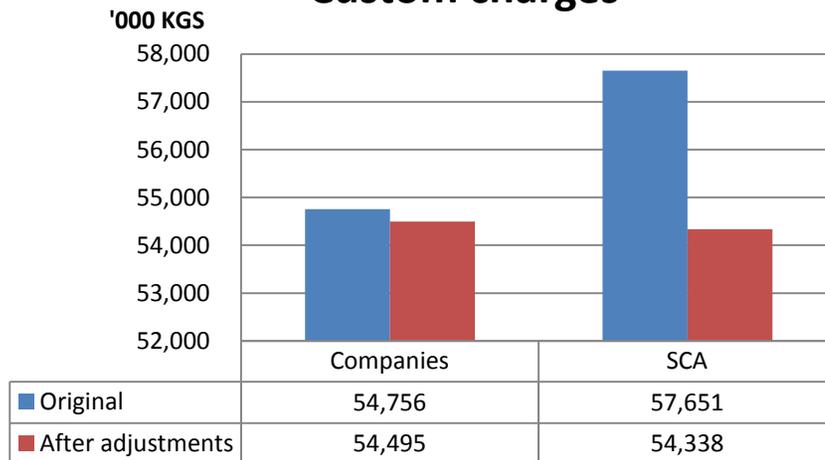
### Custom duties



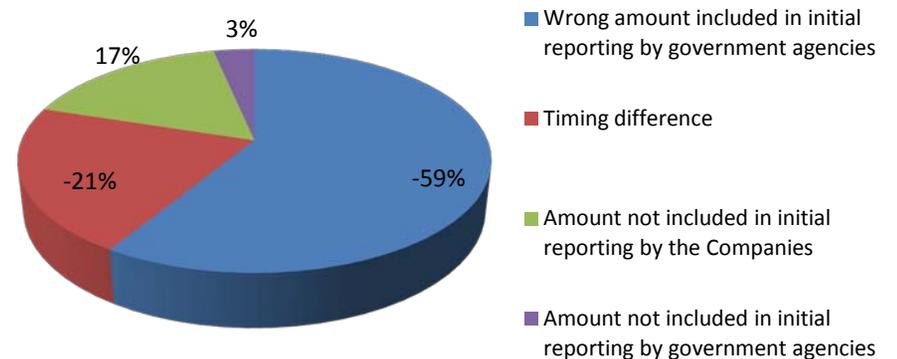
### Reasons for identified discrepancies



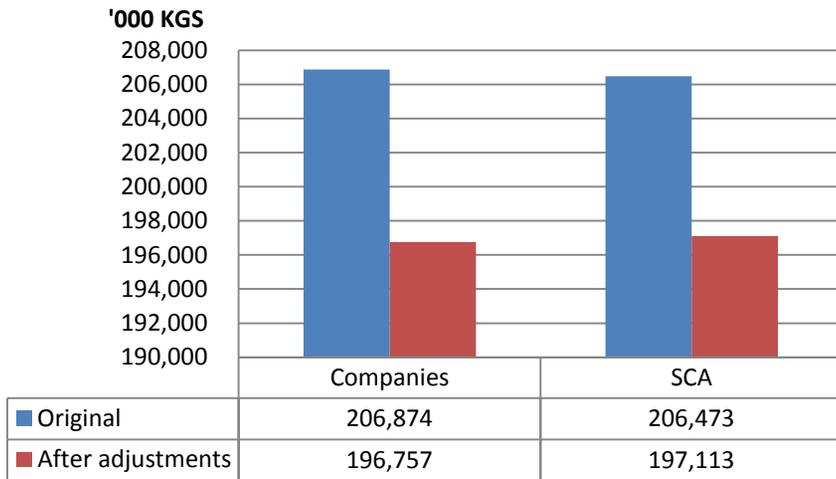
### Custom charges



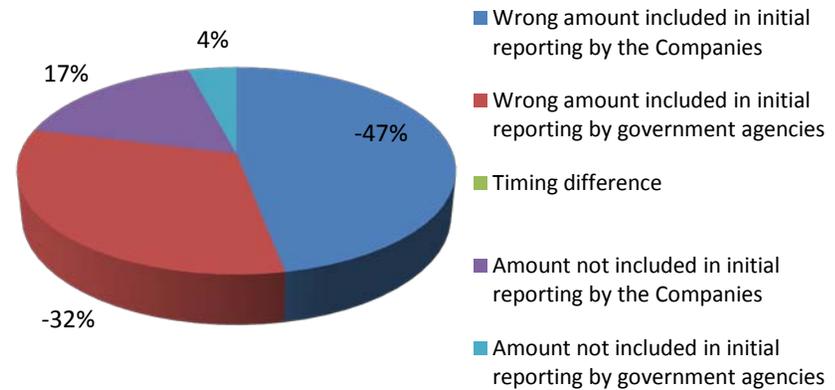
### Reasons for identified discrepancies



### VAT on goods imported to KR



### Reasons for identified discrepancies



#### 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 29.5 % of all the payments, made by the companies. The most significant items in this section are state social insurance payments (45.4% of the amount of all the payments under this section), dividend payments for state shares package (39.2%) and the payments, determined by the Treaty with the Government of KR (14.1%).

Below are the discrepancies noted for each of the items included in the Other Material Payments Section and reasons of such discrepancies as at the year 2011.

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

Code	Type of other material 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	Wrong amount included in initial reporting by the Companies	Wrong amount included in initial reporting by government agencies	Timing difference	Amount excluded from initial reporting by the Companies	Amount excluded from initial reporting by government agencies	Companies' reporting	Government agencies' reporting	
<b>KR Social Fund</b>															
18	State insurance payments	1 656 915	1 601 795	55 120	(45 362)	8 772	(36 590)	(48 126)	(1 941)	(38)	2 802	10 713	1,611,553	1,610,566	986
<b>State agency on geology and mineral resources under the Government of KR</b>															
19	Concession payments	-	-	-	-	-	-	-	-	-	-	-	-	-	-
26	Payment for subsoil use license retention	-	-	-	-	-	-	-	-	-	-	-	-	-	-
28	Fees for issuance of licenses	166	-	166	-	1	1	-	-	-	-	1	166	1	165
29	Fees for issuance of certificates and other permits	3 590	-	3 590	-	2 926	2 926	-	-	-	-	2 926	3,590	2,926	664
<b>State property management fund under the Government of KR</b>															
20	Dividends, accrued to the state package of shares	1 380 516	177 831	1 202 685	9 675	1 212 228	1 221 903	-	-	-	9 675	1 212 228	1,390,191	1,390,059	132

**Extractive Industry Transparency Initiative**  
Independent Reconciliation Report for the year ended 31 December 2011

Code	Type of other material payments	Original amounts, KGS '000		Initial Discrepancies, KGS '000	Adjustments, KGS '000		TOTAL	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 the Companies	Wrong amount included in initial reporting by government agencies	Timing difference	Amount excluded from initial reporting by the Companies	Amount excluded from initial reporting by government agencies	Companies' reporting	Government agencies' reporting	
21	Payments for state shares redeemed by the company	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>Regional state administrations</b>															
22	Payments for lease of land owned by state or municipal authorities and land in forest reserves	12 439	5 415	7 024	(4 076)	4 004	(72)	(4 251)	(536)	-	175	4 540	8,363	9,419	(1 056)
25	Opportunity cost of provided land plots	859	6 337	(5 478)	(59)	(613)	(672)	(59)	(1 261)	-	-	648	800	5,724	(4 924)
30	Payments established by agreements with the Government of KR	499 337	89 751	409 586	(1 526)	410 073	408 547	(1 526)	-	-	-	410 073	497,811	499,824	(2 013)

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		Companies' reporting	Government agencies' reporting		Companies' reporting	Government agencies' reporting		Wrong amount included in initial reporting by the Companies	Wrong amount included in initial reporting by government agencies	Timing difference	Amount excluded from initial reporting by the Companies	Amount excluded from initial reporting by government agencies	Companies' reporting	Government agencies' reporting	
<b>State registration service under the Government of KR</b>															
23	Agricultural production losses compensation	6 169	5 717	452	1 261	1 719	2 980	-	-	-	1,261	1,719	7,430	7,436	(6)
<b>State environment protection agency under the Government of KR</b>															
24	Compensation of losses on forestry-based production	587	529	58	-	247	247	-	-	-	-	247	587	776	(189)
27	Payments for environmental pollution and compensation of environmental damage	20 697	21 174	(477)	(298)	(149)	(447)	(331)	(818)	-	33	669	20,399	21,025	(626)
<b>Total</b>		<b>3 581 275</b>	<b>1 908 549</b>	<b>1 672 726</b>	<b>(40 385)</b>	<b>1 639 208</b>	<b>1 598 823</b>	<b>(54 293)</b>	<b>(4 556)</b>	<b>(38)</b>	<b>13 946</b>	<b>1 643 764</b>	<b>3,540,890</b>	<b>3,547,756</b>	<b>(6 867)</b>

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

The most significant discrepancies for social insurance payments arose from the fact that “Tash Kumyr ShSU” LLC reported payments not divided by thousand (i.e. in thousands of Kyrgyz som) as required by the reporting template; thus, overstating its payments by KGS 46,956 thousand. The Social Fund had initially excluded KGS 10,713 thousand (KGS 5,473 thousand for “Bereket” CJSC, KGS 1,591 thousand for “Full Gold Mining” LLC, KGS 1,000 for “Alтынken” LLC, etc.).

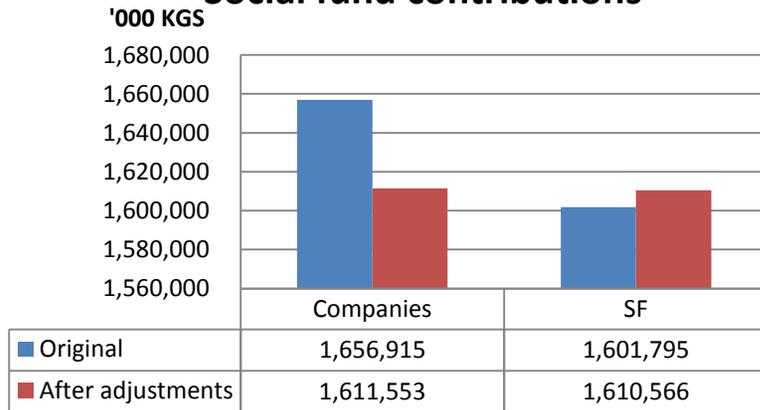
The State Property Management Fond of KR also initially underreported the amount of proceeds on the dividends for the state package of the shares from the JSC Company “Kyrgyzaltyn” (KGS 1,295,511 thousand) and JSC “Kyrgyzneftegaz” (KGS 16,246 thousand). In turn, the companies, Khaidarkan Mercury JSC initially excluded from the report the dividends in the amount KGS 9,675 thousand, paid during the reporting period, although provided all confirming documents later.

District State Administrations had also excluded from its initial reporting KGS 410,073 thousand received from “Kumtor Gold Company” CJSC under payments established by the agreements signed by the latter with the Government of the Kyrgyz Republic.

Diagram 3 shows payments, initial and adjusted, and reasons of resolved discrepancies for other material payments.

Diagram 3. Other significant payments

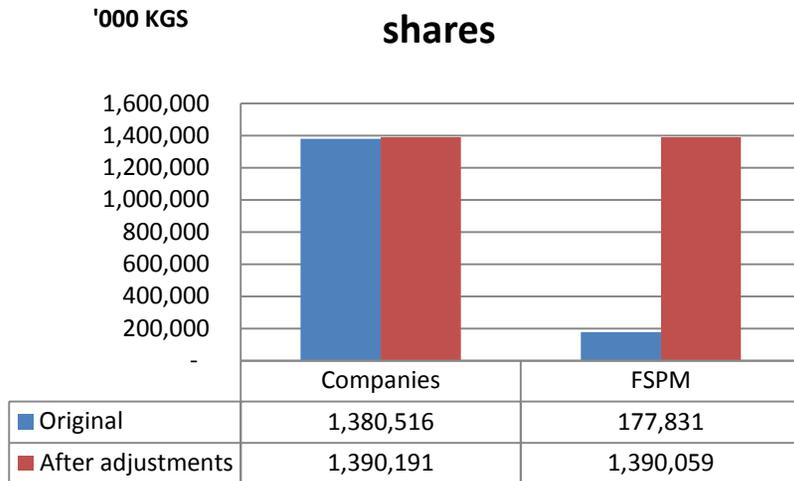
### Social fund contributions



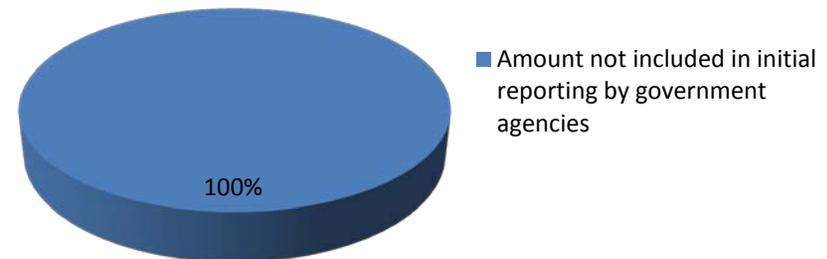
### Reasons for identified discrepancies



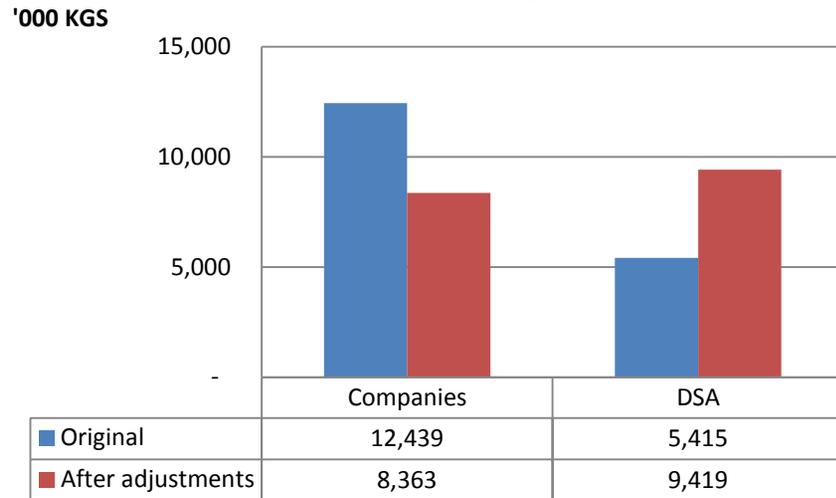
### Dividends accrued on state-owned shares



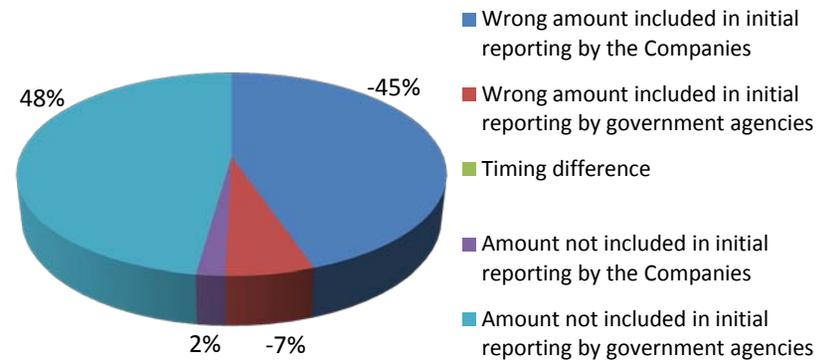
### Reasons for identified discrepancies



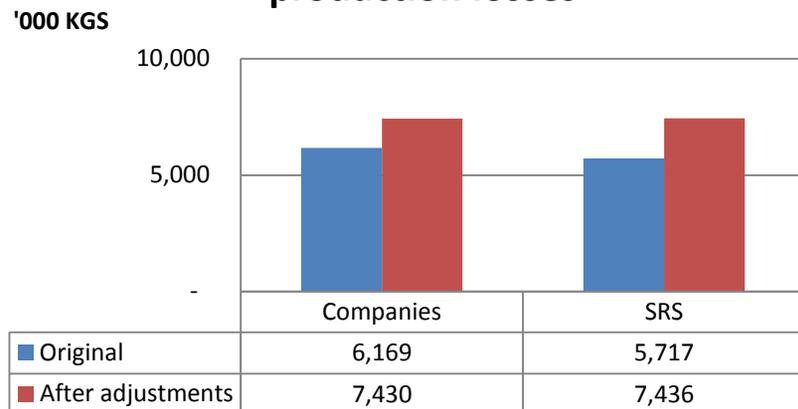
### Payments for lease of land owned by state or municipal agencies



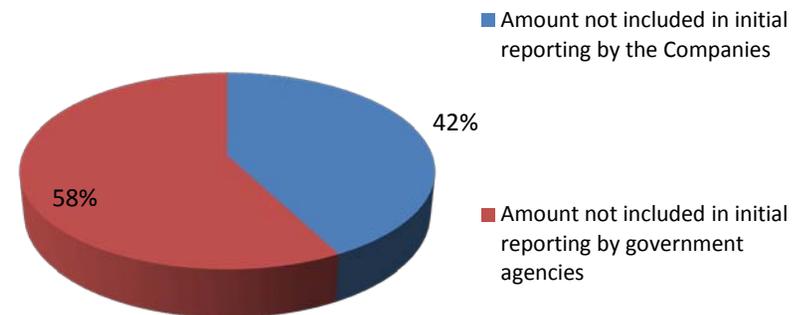
### Reasons for identified discrepancies



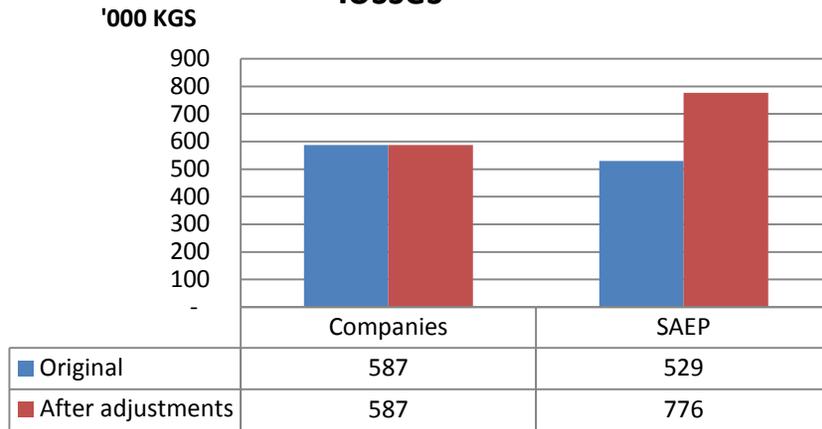
### Reimbursement of agricultural production losses



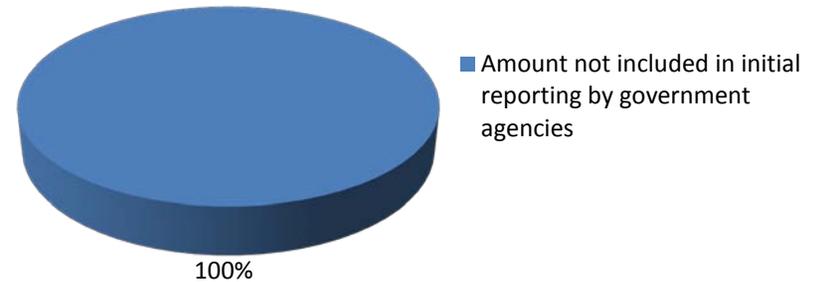
### Reasons for identified discrepancies



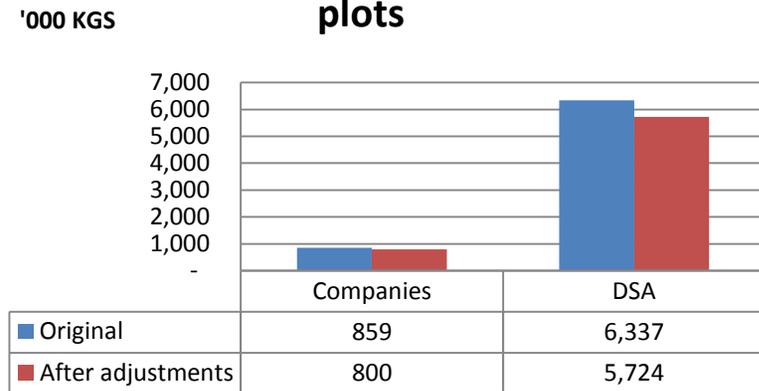
### Reimbursement of forest production losses



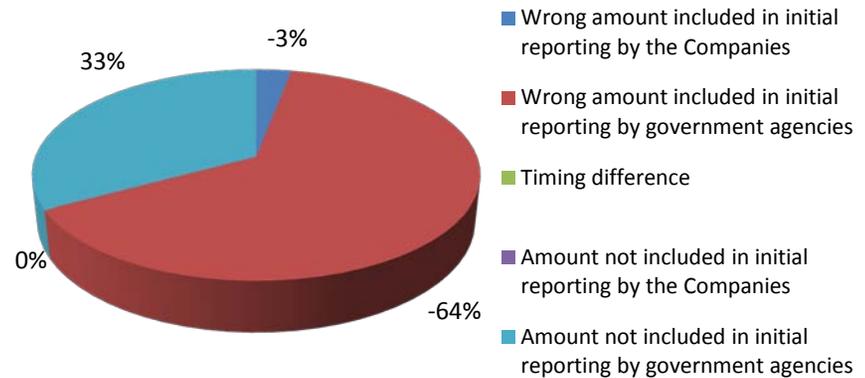
### Reasons for identified discrepancies



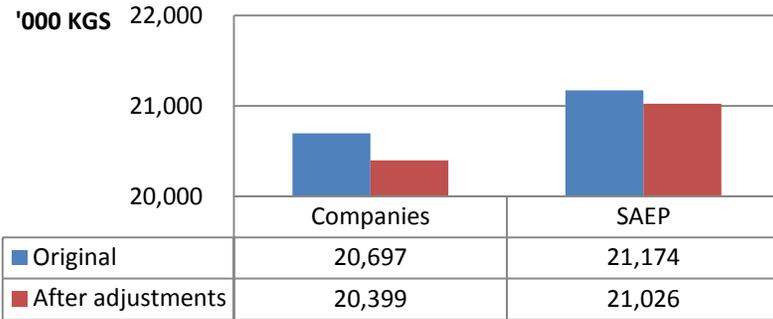
### Opportunity cost of provided land plots



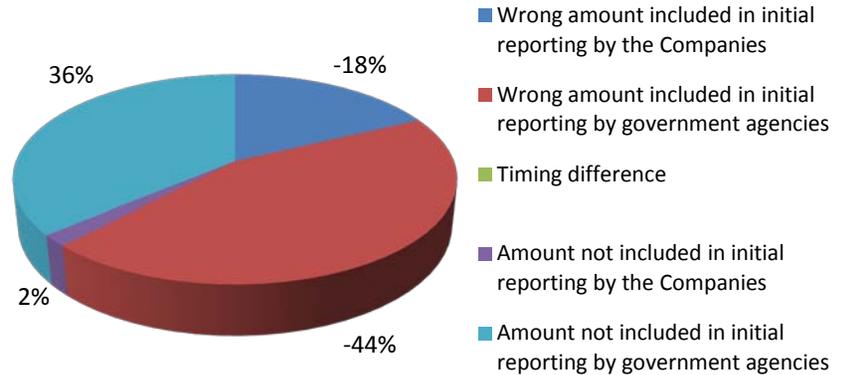
### Reasons for identified discrepancies



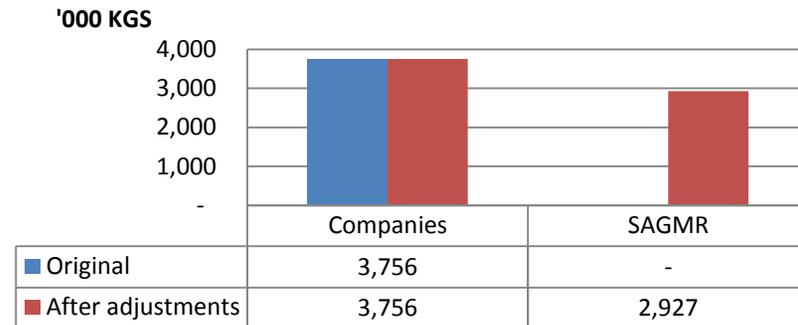
### Payment for environmental pollution and damages to the environment



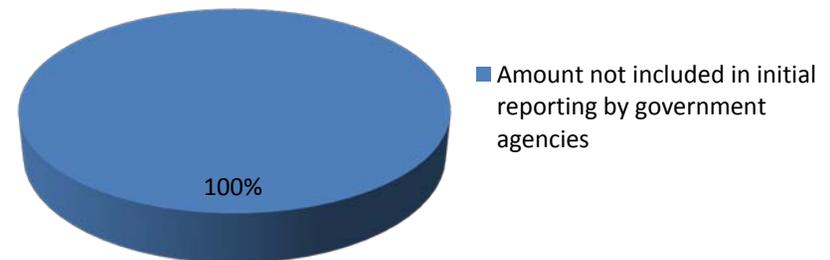
### Reasons for identified discrepancies



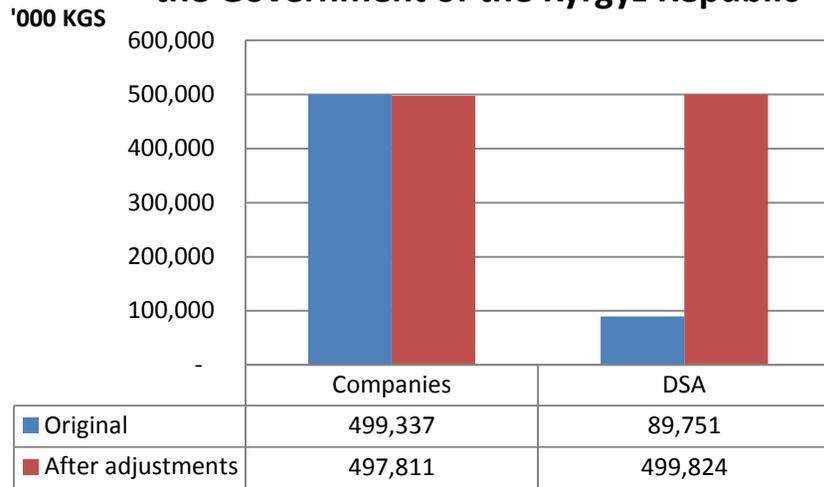
### The fee for the issuance licenses, certificates and other permits



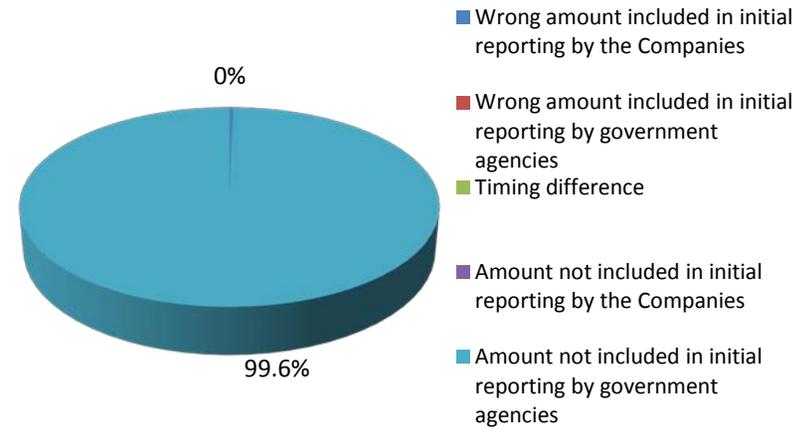
### Reasons for identified discrepancies



### Payments established by agreements with the Government of the Kyrgyz Republic



### Reasons for identified discrepancies



#### d) Section 4. Additional expenses of the Companies

The following are the discrepancies noted for each of the items included under the “Additional Expenses of the Companies” Section and reasons of such discrepancies in 2011 year.

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

Code	Type of additional expenses of the Companies	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	Wrong amount included in initial reporting by the Companies	Wrong amount included in initial reporting by government agencies	Timing difference	Amount excluded from initial reporting by the Companies	Amount excluded from initial reporting by government agencies	Companies' reporting	Government agencies' reporting	
31	Payments for educational support	458 651	-	(458 651)	-	-	-	-	-	-	-	-	458 651	-	(458 651)
32	Payments for support of social infrastructure	129 363	59 545	(69 818)	1 939	-	1 939	(442)	-	-	2 381	-	131,302	59 545	(71 757)
33	Payments to reclamation funds	92 793	-	(92 793)	(1 044)	-	(1,044)	(549)	-	(495)	-	-	91,749	-	(91,749)
	<b>TOTAL</b>	<b>680 807</b>	<b>59 545</b>	<b>(621 262)</b>	<b>895</b>	<b>-</b>	<b>895</b>	<b>(991)</b>	<b>-</b>	<b>(495)</b>	<b>2 381</b>	<b>-</b>	<b>681,702</b>	<b>59 545</b>	<b>(622 157)</b>

During the reconciliation exercise actual amounts of payments in section “Additional expenses of the company” were confirmed with supporting documentation, including KGS 458,651 thousand, KGS 131,302 thousand and KGS 91,749 thousand, social infrastructure and reclamation fund, accordingly.

The main payment under the line 31 Education Support refers to additional expenses of “Kumtor Gold Company” CJSC in the amount KGS 457,934 thousand. In accordance with the agreement between the Government of KR and Kumtor Gold Company CJSC as at 9 September 2011, the Company allocated the funds in the amount of USD 10 million (the equivalent of the specified amount) as a donation to finance the construction of comprehensive schools and hospitals, located in countryside and remote regions of KR. We have sent a request to the Ministry of Education and Science and the State Agency on Construction and Regional Development under the Government of KR to confirm these amounts, but we did not get a response.

The following companies incurred expenses related to social infrastructure in 2011: Kumtor Gold Company CJSC, in the amount of KGS 67,152 thousand, Vertex Gold Company LLC, in the amount KGS 15,306 thousand, Kyrgyzneftegaz JSC in the amount KGS 13,627 thousand, Full Gold Mining LLC in the amount KGS 12, 067 thousand, Kaidi LLC in the amount KGS 5,100 thousand, Eventys LLC in the amount KGS 3 917 thousand, Kazakhmys LLC in the amount KGS 2 489 thousand, etc.

Payments, under the line No 33, “Payments to reclamation fund” were made by the companies at their special accounts in the Banks, intended for this purpose. The most significant of them relate to the following companies: Kumtor Gold Company CJSC of KGS 80,596 thousand, Eventys LLC of KGS 6,084 thousand and Kyrgyzaltyn JSC of KGS 5,007 thousand.

## **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 56 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 2011 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 Timing and 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 from 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 2011, 5 companies were audited by international "Big 4" audit firms, 4 companies were audited by local Kyrgyz audit firms and 48 out of 57 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 1,897 thousand, however, are less clear. Further reconciliation of 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 absence or change of key personnel responsible for the preparation of the EITI reports for 2011, 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 district 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 0.016% 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

	Taxes and other payments	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	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 Service
15	Customs fees	State Customs Service
16	Exercise tax on imported products	State Customs Service
17	VAT on imported products	State Customs Service
<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>		

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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	"Khaidarkan Mercury" JSC ("Khaidarkan" deposit, Kadamzhay district)	Non-ferrous and rare metals
16	"Kadamzhay Antimony Enterprise" JSC (Kadamzhay district)	Non-ferrous and rare metals
17	"Saryjaz Mineral Mining Company" LLC ("Kensu" deposit, "Lesisty" and "Tashkoro" fields; "Trudovoe" deposit, Ak-Suu district)	Non-ferrous and rare metals
18	"Central Asian Tin Company" LLC ("Trudovoe" deposit, "Centralnyi" field, Ak-Suu district; "Uchkoshkon" deposit, Jeti-Oguz district)	Non-ferrous and rare metals
19	"Kutesay Mining" LLC ("Kutesay II" deposit, Kemin district)	Non-ferrous and rare metals
20	"Mineral Trade" LLC ("Ikkichat" deposit, Ak-Suu district)	Non-ferrous and rare metals
21	"KyrgyzNefteGaz" JSC (Suzak, Nooken and Batken regions)	Oil and natural gas
22	"Ak-Jol" ("Karakeche" field, Jumgal district)	Coal
23	"Tash Komur" LLC ("Kara-Tut" field, Aksy district)	Coal
24	"Sharbon" JSC ("Karakeche" field, Jumgal district)	Coal
25	"Busurmankul T" LLC ("Min-Kush" field, Jumgal district)	Coal
26	"Shakhta Jyrgalan" JSC ("Jyrgalan" field, Ak-Suu district)	Coal
27	"Kyzyl-Kiya Komur" JSC ("Abshir" field, Kadamzhai district)	Coal
28	"Sulyukta Komur" JSC ("Sulyukta" field, Leylek district)	Coal
29	"Kara-Keche" State Enterprise ("Karakeche" field, "Min-Kush" field, Jumgal district)	Coal
30	"Parity Coal" LLC ("Kyzyl Bulak" deposit, "South" field, Aravan district)	Coal
31	"Pand-Sher" LLC ("Kok-Moinok" deposit, Jumgal district)	Coal
32	"Jumgal Suu Kurulush" LLC ("Min Kush" deposit, Jumgal district)	Coal
33	"Bereket" JSC ("Min Kush" deposit, Jumgal district)	Coal
34	"AGK-Too Invest" LLC ("Kok-Moinok" deposit, Jumgal district)	Coal
35	"Tegene" LLC ("Tegenekskoe" deposit, Aksy district)	Coal
36	"Ak-Bulak" LLC ("Sulyuktinskoe" deposit, Leylek district)	Coal
37	"Maripov" LLC ("Sulyuktinskoe" deposit, Leylek district)	Coal
38	"Ibraimov" LLC ("Sulyuktinskoe" deposit, Leylek district)	Coal
39	"Kyzyl Bulak" LLC ("Sulyuktinskoe" deposit, Leylek district)	Coal
40	"Sulyukta Shakhtakurulush" LLC (Mine field #11 of "Sulyuktinskoe")	Coal

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	deposit, Leylek district)	
41	“Nur” LLC (“Sulyuktinskoe” deposit, Leylek district)	Coal
42	“Suliukta-Karabulak” LLC (“Sulyuktinskoe” deposit, Leylek district)	Coal
43	“A.Masaliev shakhta “Besh-Burkhan” LLC (“Besh-Burkhan” deposit, Nookat district)	Coal
44	“Bishkekstroyaterialy” JSC (“Orok” field, Alamudun district)	Construction materials
45	“Kum-Shagyl” JSC (“Nizhnee-Chuiskoe” field, Alamudun district)	Construction materials
46	“Silikat” JSC (“Ivanovskoe” field, Issyk-Ata district)	Construction materials
47	“Iygilik” JSC (“Shirokoe” field, Sokuluk district)	Construction materials
48	“South Plant of Construction Materials” LLC (“Kattasay” field, Aravan district)	Construction materials
49	“Kyrgyz Too-Tash” JSC (“Arym” field, Toktogul district; “Tokmokscoe” deposit, Chui region; “Sary-Tash” deposit, Uzgen district; “Ak-Tash” deposit, Kochkor district)	Construction materials
50	“ZhBI Plant” JSC (“Vasilevskoe” field, Alamudun district)	Construction materials
51	“Nur KM” JSC (“Kyzyl-Kiyskoe” field, Kadamzhai district)	Construction materials
52	“Dary-Bulak-Abshir” LLC (“Karaunkursay” deposit, “Kurtashskoe” deposit, “Kyrk-Kol” deposit, Nookat district)	Construction materials
53	“South Kyrgyz Cement” JSC (“Aksaiskoe” deposit, “Izvestnyakovyi” and “Suglinkovyi” fields, Nookat district)	Construction materials
54	“Dannur Yug” LLC (“Karaultau” field, Aravan district)	Construction materials
55	“Kyrgyz-Tash” JSC (“Ak-Tashskoe” field, Kochkor district)	Construction materials
56	“Orion” Mining Company” LLC (Shell limestone deposit, Uzgen district)	Construction materials