

Information on the implementation of Extractive Industries Transparency Initiative (EITI) in Kyrgyzstan

Kyrgyzstan EITI Supervisory Board is publishing a report for 2009 that includes data on financial flows received from the companies included in the monitoring carried out within the framework of the EITI implementation in Kyrgyzstan.

Introduction

EITI – a global standard which is developed at an international level that promotes revenue transparency at the local level. Through well-designed but flexible methodology the monitoring and reconciliation of companies' payments and government revenues on the scale of a country is implemented. The process is carried out under the supervision of government officials, mining companies and civil society.

Kyrgyz Republic has supported the Extractive Industries Transparency Initiative and declared its accession to the Initiative in June 2004 during the conference organized by the Kyrgyz Government, the World Bank and the UK Department for International Development (DFID).

In order to continue and improve implementation of the EITI principles, 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 Government resolution of the Kyrgyz Republic of 8 December 2010 #317 "On improving the process of implementation of Extractive Industries Transparency Initiative in the Kyrgyz Republic" was adopted.

EITI Supervisory Board was reorganized with equal representation of the parties (by 5 people) from government agencies, public associations and mining companies. Coordination functions for the EITI implementation are assigned to the Ministry of Natural Resources of the Kyrgyz Republic.

In accordance with the Regulations of the EITI Supervisory Board the Board meetings is held quarterly. The Supervisory Board meetings are held with participation of active representatives of public organizations, local communities and the media.

At the meetings of the Supervisory Board:

- information about the EITI implementation is always considered;
- work plans for the EITI implementation are considered. The Action Plan for further EITI implementation from the suggestions of the Board members drawn up and approved;
- forms of EITI annual departmental statistical reports are approved;
- new forms of EITI reporting indicators for government agencies are reviewed and approved;
- lists of large mining companies whose reports and the data of government agencies, subject to independent audit reconciliation are recommended and approved;
- annually since 2009 the terms of reference for the selection of independent auditing company to reconciliation are considered and approved;
- tender commission for the selection of an auditing company for reconciliation is approved.

For guidance of companies and government agencies of the Kyrgyz Republic, participating in the EITI, in order to comply with reporting requirements and according to the recommendations of the company on EITI data reconciliation the new #4-EITI reporting forms and draft Instruction for preparing and submitting a report on financial flows from the activities of mining companies have been developed. These documents were approved by the Government resolution of the Kyrgyz Republic of 8 December 2010 #317 "On improving the process of implementation of Extractive Industries Transparency Initiative in the Kyrgyz Republic" in accordance with the new Tax Code of the Kyrgyz Republic.

It should be noted that the draft Instruction for preparing and submitting a report was discussed in details on 23 December 2009 in Bishkek at the workshop "On improving the process of preparing a report on financial flows from the activities of mining companies in the framework of EITI" with the participation of competent persons of mining companies, government agencies and non-governmental organizations.

To assist the various stakeholders in determining the future prospects and the effective implementation of the EITI principles the Kyrgyzstan EITI Secretariat regularly participates in regional workshops.

Kyrgyzstan EITI in figures

Diagram 1

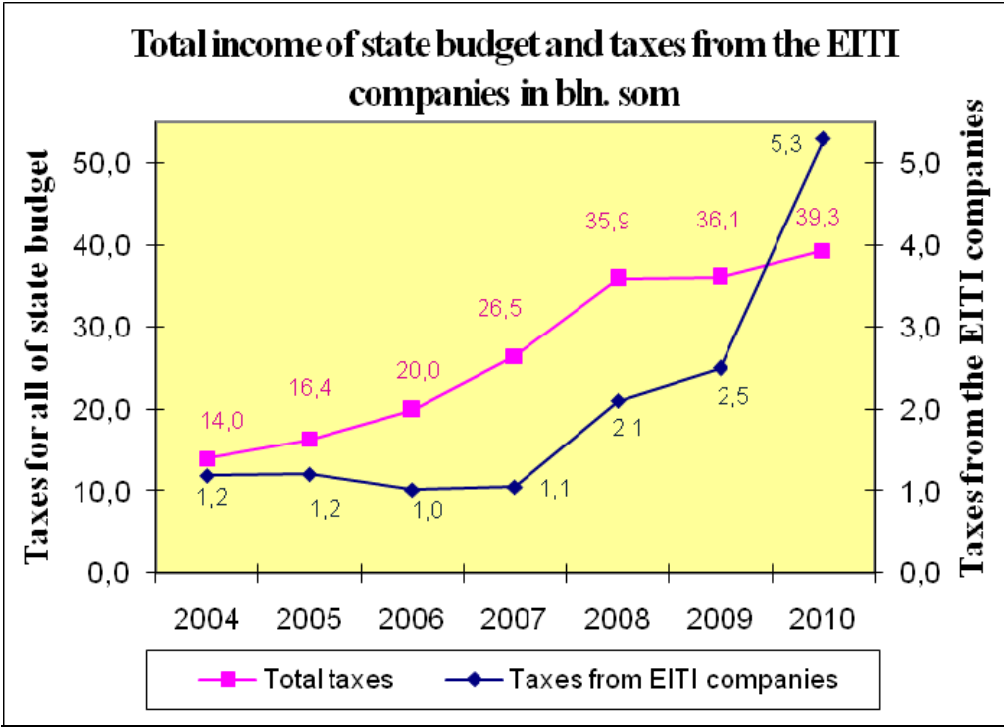
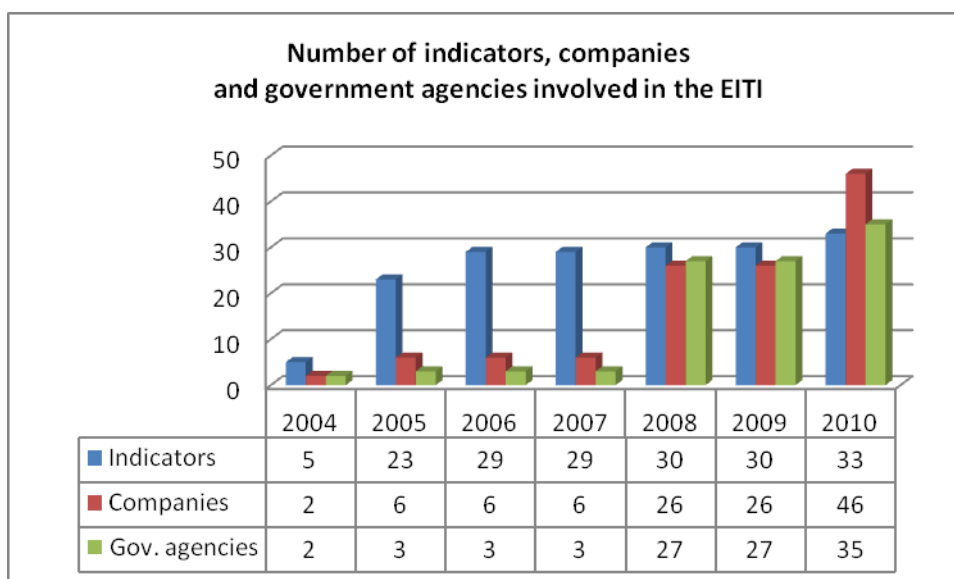


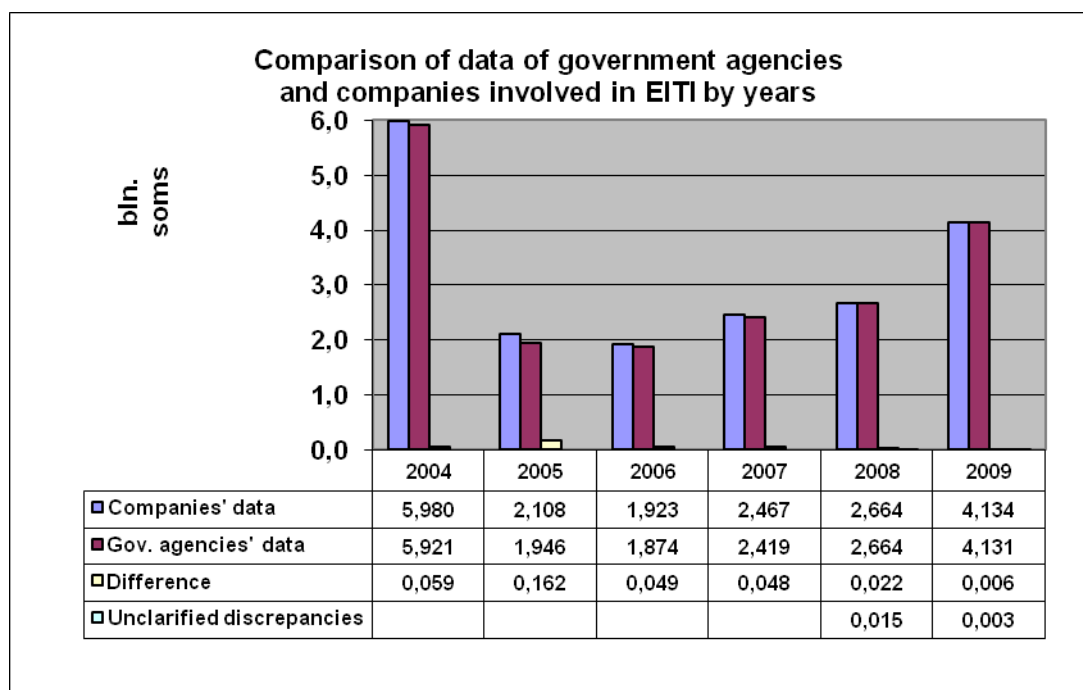
Diagram 1 shows the growth of tax revenue from companies that are included in the EITI, as compared with tax revenues for the whole country’s budget. If in 2007 the share of tax revenues amounted to only 4.0%, in 2010 the share of only tax revenue from companies included in the EITI, amounted to 13.5% of total tax revenues for the country which indicates the increasing budget-making role of the mining industry at present time.

Diagram 2



The EITI implementation is in the process of constant development (Diagram 2). If on the initial stage only 2 companies have been reported, then 6 companies with state share of participation, data reconciliation for 2008-2009 from 26 companies with different forms of ownership was held, and in 2010 a list of EITI large companies expanded to 46 companies. The list of government agencies involved in the EITI is also increased from 2 to 35, and the number of indicators increased from 5 to 33 (taxes and fees) on which the companies and government agencies are reported.

Diagram 3



Since the launch of the EITI implementation 6 (six) annual reports were published including 2 (two) reports with the procedure of data reconciliation. As the Diagram 3 shows, for the period from 2004 to 2009 the largest revenues to the budget were in 2004 after the selling of a significant block of shares in the "Centerra Gold Inc." company.

The difference of data of government agencies and companies has decreased from 162 million soms in 2005 to 6 million soms in 2009, and the amount of the unclarified discrepancies by the results of a report for 2009 amounted to 3 million soms.

Working for the application of EITI to other sectors of the economy

With the need to enhance lessons learned from the EITI to other sectors of the economy in July 2010 President of the Kyrgyz Republic Ms. Roza Otunbaeva with the Decree established the Fuel and Energy Sector Transparency Initiative of the Kyrgyz Republic (FESTI) which was met by the international community as a progressive step that extends the scope of the EITI.

It was relevant and timely decision reflecting the necessary actions to implement the principles of transparency and public participation in monitoring over the process of management and regulation in the energy sector, increased responsibility and accountability of enterprises of this sector.

During the 5th EITI Global Conference in Paris in March 2011 the efforts of Kyrgyzstan on the use of the EITI experience to other sectors had highlighted, resulting in the establishment in the country in 2010 the Fuel and Energy Sector Transparency Initiative (FESTI).

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 representation of all stakeholders.

Multilateral tender commission on a competitive basis selected an independent auditing company to perform the data reconciliation. "W.Jacobs-Audit" company so far is the only company in the country with experience in reconciliation within the framework of the EITI, so by the decision of the tender commission the "W.Jacobs-Audit" company contracted to reconcile the EITI reporting for the 2009 fiscal year.

Reports of the large mining companies the list of which has prepared by the Ministry of Natural Resources of the Kyrgyz Republic, as well as relevant data of government agencies on them, subject to independent reconciliation. To provide the comparison of companies' information to government agencies' data, the submission of reports was done on the basis of cash accounting (cash basis).

This report presents data from 26 industrial companies the list of which was approved by the Kyrgyzstan EITI Supervisory Board:

#	Name	Territory	Kind of activity
1	"Kumtor Gold Company" Closed Joint-Stock Company	Issyk-Kul Region	Production of precious metals
2	"Kyrgyzaltyn" Open Joint-Stock Company	Bishkek	Activity on management by holding-companies
3	"Jerooyaltyn" Closed Joint-Stock Company	Bishkek	Activity on conducting geological prospecting
4	"Alтынкен LLC"	Chuy Region	Activity on conducting geological prospecting
5	"Andash Mining Company LLC"	Bishkek	Activity on conducting geological prospecting

#	Name	Territory	Kind of activity
6	"Khaidarkan Mercury Joint-Stock Company" Open Joint-Stock Company	Batken Region	Production of other basic inorganic chemical substances
7	"Kadamjay Antimony Plant" Open Joint-Stock Company	Batken Region	Production of antimony and mercury
8	"Saryjaz Mineral Mining Company LLC"	Issyk-Kul Region	Mining of non-ferrous metals ores
9	"Bozymchak Mining Company LLC"	Jalal-Abad Region	Mining of non-ferrous metals ores
10	"Full Gold Mining LLC"	Bishkek	Activity on conducting geological prospecting
11	"Kichi-Chaarat" Closed Joint-Stock Company	Bishkek	Activity on conducting geological prospecting
12	"Kyrgyzneftegaz" Open Joint-Stock Company	Jalal-Abad Region	Mining of crude oil and passing gas
13	"Besh-Sary-K LLC"	Naryn Region	Mining of charcoal
14	"Ak-Jol-Komur LLC"	Naryn Region	Mining of charcoal
15	"Razrez Ak-Ulak" State Joint-Stock Company	Naryn Region	Mining of charcoal
16	"Sharbon" Closed Joint-Stock Company	Bishkek	Mining of charcoal
17	"Razrez Buzurmankul-T LLC"	Naryn Region	Mining of coal
18	"Shakhta Jyrgalan" Open Joint-Stock Company	Issyk-Kul Region	Mining of coal
19	"Kok-Bel-Komur LLC"	Issyk-Kul Region	Mining of coal
20	"Kyzyl-Kyia komur" Open Joint-Stock Company	Batken Region	Mining of charcoal
21	"Sulyukta-komur" Joint-Stock Company	Batken Region	Mining of charcoal
22	"Bishkekstroyaterialy" Open Joint-Stock Company	Bishkek	Production of brick, tiles and other construction wares from baked clay
23	"Kum-Shagyl" Open Joint-Stock Company	Bishkek	Production of ferroconcrete and concrete constructions and wares
24	"Tokmok Plant KSM" Open Joint-Stock Company	Chuy Region	Production of brick, tiles and other construction wares from baked clay
25	"Silikat" Open Joint-Stock Company	Chuy Region	Production of brick, tiles and other construction wares from baked clay
26	"Iygilik" Open Joint-Stock Company	Chuy Region	Production of brick, tiles and other construction wares from baked clay

In 2009 the enterprises included in the monitoring of the EITI, the industrial output of \$ 47 904.5 million soms is produced, which accounted for 48.4 per cent of total industrial output volume.

KINDS OF PAYMENTS (mln. soms)	Revenues to the state budget of the Kyrgyz Republic for 2009	from them: revenues from enterprises included to EITI for 2009
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		payments to budget	share, %
<i>TOTAL TAX AND CUSTOMS DEDUCTIONS</i>	36097,8	2462,5	6,82 %
<i>PART 1. TAX PAYMENTS</i>	21147,2	2372,0	11,22 %
Individual income tax	3468,8	212,8	6,13 %
Income tax	1735,6	37,1	2,14 %
Land tax	917,3	27,9	3,04 %
Property tax	468,2	4,6	0,98 %
Value added tax on internal products	4588,3	53,1	1,16 %
Excise tax on internal products	506,5	0,7	0,13 %
Sales tax	3932,6	53,3	1,36 %
Tax on foreign organization income not related to the permanent institution in Kyrgyz Republic	452,7	1,6	0,36 %
Bonuses	195,2	170,5	87,34 %
Royalty	487,6	48,2	9,89 %
Gross income tax	1757,6	1757,6	100,0 %
Annual charges for development of mineral base	0,0	0,0	
Other tax and charges	158,3	4,6	2,93 %
<i>PART 2. CUSTOMS PAYMENTS</i>	14180,1	90,5	0,64 %
Customs duties	4138,9	5,3	0,13 %
Customs fees	31,2	18,8	60,38 %
Excise tax on imported products	1162,0	0,0	0,00 %
Value added tax on imported products	8879,1	66,4	0,75 %
<i>PART 3. NON-TAX PAYMENTS</i>	9058,4	1150,0	12,70 %
Environmental charges	1800,9	27,5	1,53 %
Dividends according to the state block of shares	150,4	11,6	7,71 %
Payment for license issue	9,2	0,01	0,11 %
Payment for issue of certifications and other authorization documents	108,3	0,6	0,54 %
Payments assigned by the agreements with the Government of Kyrgyz Republic	1400,1	1110,3	79,30 %

In 2009 tax payments on amount of 2462.5 million soms into the state budget of the Kyrgyz Republic is made by the enterprises included in the EITI. Share of their payments on taxes included in the EITI monitoring was 6.8 percent of total revenues to the budget from all taxes. It should be noted that the mining enterprises joined the EITI accounted more than 11 percent of revenues into the state budget for the internal taxes included in the monitoring. Almost all of the revenues' volume in the form of bonuses and the tax on gross income in the state budget were made by mining enterprises joined the EITI.

The amount of customs fees from EITI companies is small and accounts less than 1% of taxes on foreign economic activities.

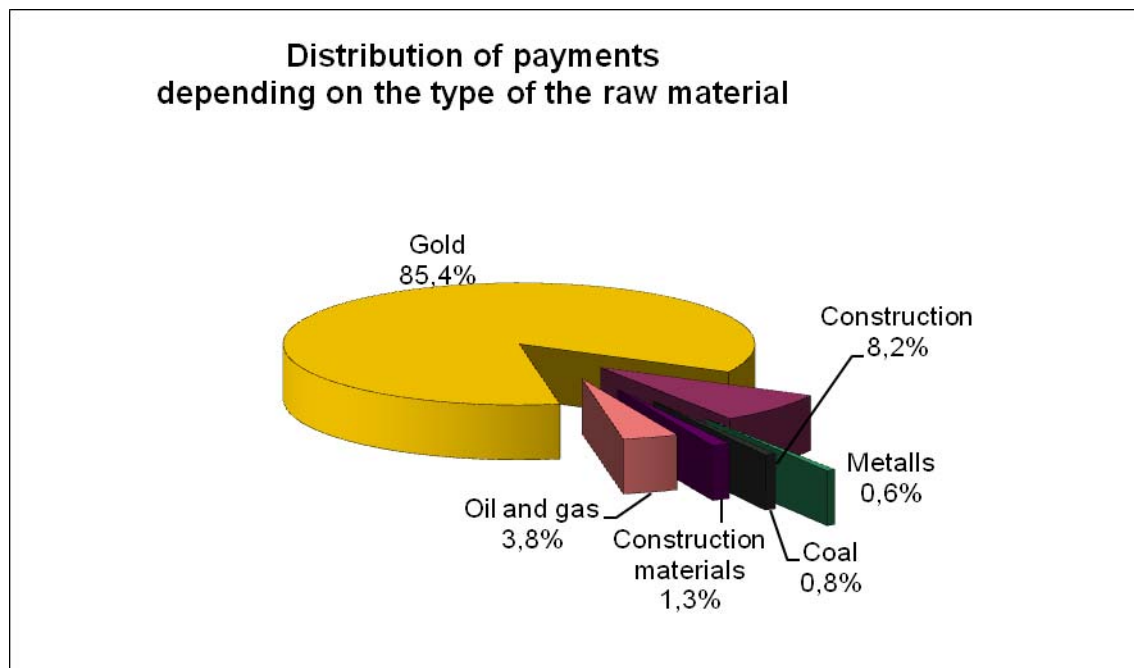
The share of non-tax revenues from enterprises that are included in the EITI was 12.7% or 1150 million soms of non-tax deductions. The high share of enterprises that are included in the EITI in non-tax payments is meant by payments on the "Kumtor" project in the amount of 1110.3 million soms.

In the form of payments to the Social Fund of the Kyrgyz Republic 558.7 million soms is made by the enterprises included in the EITI which accounted for 4.8 percent of the total income of the Social Fund on insurance fees (from 10835.5 million soms) in 2009.

Additionally, from profits remaining at the disposal of enterprises, in 2009 the mining companies joined the EITI made additional expenditures to support education, social and industrial infrastructure and deductions to the recultivation fund in the amount of 137.8 million soms.

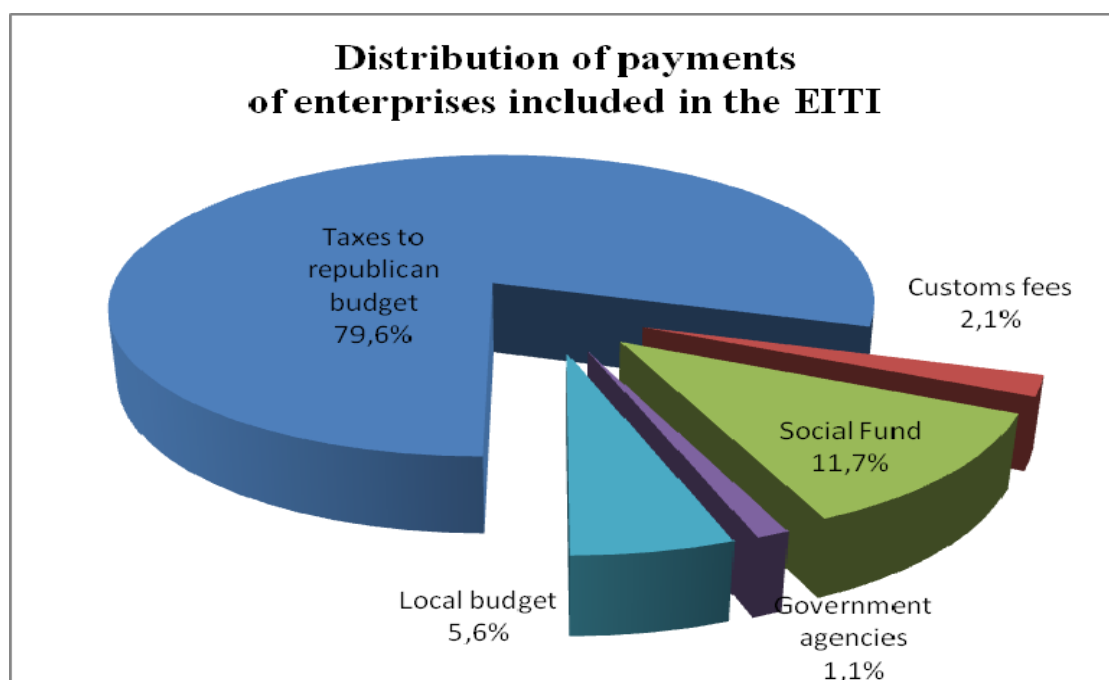
The distribution of payments depending on the type of the raw material is shown in the Diagram 4.

Diagram 4



More than 85% of taxes and payments account for existing companies to develop gold deposits. Enterprises that are under design or construction stage provided tax revenues amounting to 338.4 million soms or 8.2%. Share of tax revenues from oil and gas companies is high – 3.8%. The lowest share are payments from companies producing coal and nonferrous metals, and are 0.8% and 0.6% respectively.

Diagram 5



Distribution of payments of enterprises included in the EITI (Diagram 5) shows that taxes to the national budget account to 79.6% of all payments of these companies, 11.7% are payments to the Social Fund of the Kyrgyz Republic, the customs payments amounted to only 2.1%, and 1.1 % are payments to the ministries and agencies, and local governments for services and obtaining permits. In accordance with the Law of the Kyrgyz Republic "On the republican budget of the Kyrgyz Republic for 2009 and forecast for 2010-2011" 5.6% of all payments are remaining in the local budget (land tax, 25% of the sales tax and 30% of income tax) under provision that these companies registered at the place of deposit development.

By the volume of payments the companies that are included in the EITI can be divided into three groups: companies that pay from 0 to 10 million soms (16 companies), from 13 to 55 million soms (6 companies) and from 145 to 270 million soms (3 companies), and more than 3 billion soms (1 company).

"W.Jacobs-Audit" auditing company conducted an independent auditing of data reconciliation obtained from government agencies, on revenues to the state budget with the data obtained from the mining companies on their payments to the state budget for 2009 fiscal year, and prepared a summary report in the framework of EITI for 2009. "W.Jacobs-Audit" independent auditing company made the following:

- clarified the discrepancies between the data of government agencies and mining 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 2009 was presented to the consideration of Kyrgyzstan EITI Supervisory Board in May 2011.

Kyrgyzstan EITI Supervisory Board agreed with the recommendations of "W.Jacobs-Audit" independent auditing company, approved a report on data reconciliation and preparation of summary report in the framework of EITI for 2009 fiscal year and made a decision to publish the report to inform the general public of Kyrgyzstan.

**INDEPENDENT AUDITOR'S REPORT ON AGREED-UPON PROCEDURES ENGAGEMENT
RECONCILIATION OF DATA AND PREPARATION OF SUMMARY REPORT FOR 2009
IN THE FRAMEWORK OF EITI**

We, "W. Jacobs-Audit" CJSC, in accordance with the contract No. 81 dated 20 December 2010 have performed the procedures agreed with the client and those specified below on reconciliation of information on payments to the republican budget received from government agencies with the information received from mining companies and prepared in the framework of the Extractive Industries Transparency Initiative (EITI). The list of reporting companies included to the Terms of Reference to the contract includes 26 companies with different organizational and legal form.

Our work was performed in accordance with the International Standards on Related Services to be applied to engagement on agreed-upon procedures. The procedures were performed exclusively for the purpose to assist the client in assessment of the reason why the information provided by the company contradicts to the information provided by the government agencies.

In our report the following abbreviations are used:

- "EITI" – Extractive Industries Transparency Initiative ;
- "company/companies" – companies involved in the implementation of EITI;
- "The Report" – the report under the Form #4-EITI "Report on financial flows from the activity of mining companies" agreed by the National Statistics Committee of the Kyrgyz Republic dated 18.05.2010 and approved by the Order #84 of the Ministry of Natural Resources of the Kyrgyz Republic dated 21.05.2010;
- "Data discrepancy" – deviation between the information provided in the companies' reports and information provided by the government agencies;
- "Government agencies" – government agencies specified in the Terms of Reference to the contract as the government agencies involved in EITI.

Agreed-upon procedures are the following:

1. We received the copies of the reports prepared and submitted by the companies to Kyrgyzstan EITI Secretariat. The list of companies included to the Terms of Reference to the contract made up 26 companies with difference organizational and legal form.
2. We received the reports on financial flows from the activity of the mining companies submitted to the government agencies.
3. We compared the information presented in the companies' reports with the data of the government agencies.

We compared all financial items (indicators) included to the reports of the companies, except for items presented in the reports in the section 4 "Additional expenses of the company". The items included to the section 4 are the expenses of the company paid both to government agencies and different state institutes, public associations, individuals, etc. Therefore, the information from payees that is necessary for reconciliation is not available.

4. The reconciliation has showed that there is a significant discrepancy between the information presented in the reports of the companies and the data of the government agencies. We supposed that the discrepancy might occur due to both the errors made by the companies at preparation of the reports and errors in the reports of the government agencies. For checking the correctness of the reports of the companies, we inquired accounting documents supporting the transactions to the budget. Using these documents as well as the explanations provided by the company upon our request, we identified whether the company prepared the report correctly and found out the reasons of errors, if any.
5. Based on the information received by the result of the procedure 4, we recalculated the items of the companies' reports. If the adjustment of the company information did not eliminate the data discrepancy, we checked the reports prepared by the government agencies. We sent the list of payments with dates, purpose and amounts processed by the companies with the request to explain the reason of discrepancy. We analyzed the responses received and, if necessary, we turned to the companies for explanations.
6. By the results of the above stated procedures we prepared the EITI Summary Report presented in the Annex 1 to this report that demonstrates the summary of the companies' reports by items (indicators) that were reconciled by us, information presented by government agencies, the discrepancy amounts and breakdown of discrepancy by reasons: error made by the company at preparation of the report, error made by the government agencies at preparation of the information, amounts occurred as a result of uncertainty in items (indicators) of the reports and the amount of undisclosed discrepancy.

The reasons of why the discrepancy was remained undisclosed:

- Some companies as well as the government agencies provided incomplete information and did not respond to our inquiries in the scope sufficient for successful completion of the reconciliation;
- We were not able to complete the reconciliation of the information of some government agencies under separate items (indicators) by deadline determined for the agreed-upon procedures due to delays in provision of necessary information by the government agencies. Mainly these were government agencies that have regional subdivisions and reports were prepared through collection of information from regional subdivisions.

Below we describe the reasons of data discrepancy identified in the process of reconciliation.

Errors made by the companies at preparation of the reports

(i) *Inappropriate method of preparation of reports.*

The report shall be prepared under cash accounting method that is stated in the Instruction for preparing and submitting a report on the Form #4-EITI. The cash accounting method supposes inclusion of actual payments made by the company under the specific tax deductions: customs, contribution to the Social Fund of the Kyrgyz Republic, and other. At performance of the agreed-upon procedures, we identified that companies prepared the reports under cash accounting method, but at the same time some companies reported both amounts of actual payments for 2009 under tax liabilities and offset amounts under available overpayment of taxes to the budget that is contrary to the effective Instruction. Moreover, only some companies measured actual payments under financial penalties and fines incurred under some company's liabilities within the actual payments that is also contrary to the provisions of the effective Instruction.

Government agencies (not all) drew up their reports under cash accounting method, i.e. reflected actual receipts from the companies. Government agencies as some companies measured both the amounts of actual payments transferred to the budget in 2009 under tax liabilities and offset amounts under available overpayment of taxes to the budget, and did not account payments received under financial penalties and fines within the actual payments. Some government agencies reflected the information on other accrued material liabilities of company in 2009 in the reports.

As a result, material discrepancy in financial flows as tax deductions, customs payments, contribution to the Social Fund of the Kyrgyz Republic, and other accrued material liabilities occurred.

Big companies did not calculate and include small payments to government agencies (for example: license fee that is 300 Kyrgyz soms) to their reports. The government agencies included such payments to their reports. The cumulative effect of data discrepancy to the summary report is material.

(ii) *Errors made by personnel at preparation of the Report*

There were cases when the personnel of the companies responsible for preparation of the report made errors, particularly:

- Incorrectly classify certain types of payments under the report lines, for example, "Other taxes" reflects payments under the property tax which should be measured under the line "Property tax"; "Sales tax" involves tax on delivery of paid service to people which should be accounted under the line "Other taxes"; There is the same situation at classification of customs payment and other material payments.
- Within the line 28 "Payment for license" and the line 29 "Payment for issue of certification and other authorization documents" the companies measured payments both to those government agencies involved in EITI implementation (the list of government agencies is specified in the Instruction for preparing and submitting a report on the Form #4-EITI) and to other government agencies as well as entities and institutions which paid services were employed by the companies during the reporting year (payment to migration service, State Auto Inspection, etc.);
- There cases of omission of information on payments.

As a result, indexes of the reports are not comparable.

One of reasons of errors made by the personnel of companies (especially, those that are in the regions) drawing up the report is the lack of effective Instruction for preparing and submitting a report on the Form #4-EITI.

Errors made by the government agencies

- (i) In accordance with the legislation of the Kyrgyz Republic, the companies that have subdivisions (branch offices, departments, enterprises located away from the head office of the company) pay some taxes and social contributions related to these subdivisions to the regional agencies of the State Taxation Service under the Government of the Kyrgyz Republic (hereinafter called "STS") and to the Social Fund of the Kyrgyz Republic according to the location of the subdivision or the location of the taxable object, such as: a land. At preparation of the reports the government agencies mentioned above included the payments made to the regional agencies according to the registration of the companies but did not include the payments made by the same companies to other regional agencies. As a result, the information on such payments as local taxes, income tax, land tax, Social Fund of the Kyrgyz Republic contributions is incomparable.

Similar error was made by the government agencies at preparation of the information on payments under other material payments to their regional agencies.

- (ii) Some government agencies prepared their reports not under cash accounting method as it is required, but under accrual method. If company prepares the report under cash accounting method, accordingly, it will lead to discrepancy (for example, with regard to the item (indicator) under the line 20 "Dividends accrued to the state block of shares").

The absolute majority of the government regional governances incorrectly prepared their reports and did not submit us the information concerning the reasons of discrepancy between the adjusted data of the company and the data of the government agency. One of the reasons of data discrepancy is the preparation of the report by the government agency under accrual method of liabilities.

- (iii) Errors of the personnel at preparation of the reports, specifically:

- Incorrect classification of separate payments of company,
- There are omissions of information about payments;
- There are technical errors.

For example, the information prepared by government agencies is overstated: in the line "Tax on gross income" payments are reflected which are also reflected in the line "Fees established by agreements with the Government of the Kyrgyz Republic".

One of reasons of errors made by the personnel of government agency (especially, those that are in the regions) preparing the report is the lack of effective Instruction for preparing and submitting a report on the Form #4-EITI.

Other

The list of companies involved in implementation of EITI includes "Kumtor Gold Company" CJSC. According to the Agreement on new conditions under the "Kumtor" project between the Government of the Kyrgyz Republic and "Kumtor Gold Company" CJSC ratified by the Law of the Kyrgyz Republic #142 dated 30.04.2009 beginning from 1 January 2009, the new tax policy has been applied for the company. Certain taxes, customs and other material payments made by the company within the period from 1 January through 11 June 2009 has been accounted as payments under gross income tax by the Ministry of Finance of the Kyrgyz Republic. EITI Summary Report includes information of "Kumtor Gold Company" CJSC on payments to the budget for tax on gross income taking into account an offsetting procedure of separate taxes, customs payments and other material payments for the period from 1 January to 11 June 2009. Besides that, EITI Summary Report section "Other significant deductions" in the line "Fees established by agreements with the Government of the Kyrgyz Republic" contains information on three types of payments to the state budget from "Kumtor Gold Company" CJSC that were established in the mentioned above Agreement.

Recommendation on improvement of the process of collection and reconciliation of information

By the preparation deadline of EITI Summary Report for 2009 by the companies and government agencies, a new detailed Instruction for preparing and submitting a report on the Form #4-EITI has been drawn up and approved. This Instruction involves the explanation on uncertainties available before at the preparation of the report for 2008, as well as the educational training on application of a new Instruction was held. However, the problem of correct preparation of the report for 2009 was not completely solved.

To solve problem, it is necessary:

- To bring the Instruction for preparing and submitting a report on the Form #4-EITI to the regional subdivisions of the government agencies and all companies;
- People of the government agencies responsible for preparation of the report on EITI should request from the companies the list of separate regional subdivisions of companies after the completion of the reporting period in order to keep the information on payments made by the companies to the regional subdivisions of the government agencies;
- To increase the internal control level over rightness of preparation of the report by the company (government agency) in accordance with the provisions of effective Instruction for preparing and submitting a report on the Form #4-EITI.

The main report describing the results of our work performed in accordance with the assignment is the EITI Summary Report presented in the Annex 1.

The Annex 2 presents the items (indicators) of the EITI Summary Report, have the companies and government agencies made errors, presence of which we are sure of.

Limitation of the use of the auditor's report

As the above mentioned procedures are not the audit or review conducted in accordance with the International Standards on Auditing, we do not express any assurance with regard to the Reports prepared by the companies and government agencies based on which the EITI Summary Report for 2009 was prepared.

Had we performed additional procedures or had we audited or reviewed the reports in accordance with the International Standards on Auditing or International Standards on Review Engagements, we might have found other aspects the report on which would have been presented.

Our report was presented solely for the purpose stated in the second paragraph of this report and exclusively for your information. It shall not be used for any other purposes, and the EITI Summary Report accompanying this report shall not be provided to third parties as audited.

Elena Morozova,
Director of "W. Jacobs-Audit" CJSC

Report on agreed-upon procedures engagement on reconciliation of information and preparation of summary report in the framework of EITI

(in thousand Kyrgyz soms)

Annex 1

EITI Summary Report for 2009 based on the data of mining companies and of government agencies

Code of report line	Items (indicators)*	Information of the EITI reports No. 4 prepared by the companies	Information of the EITI reports No. 4 prepared by the state agencies	Difference between 3 and 4	Reason of discrepancy			
					Errors in the companies' report (overstatement - understatement +)	Errors in the reports of the state agencies (overstatement - understatement +)	Foreign exchange difference	Unclarified discrepancy
1	2	3	4	5	6	7	8	9
Section 1. Tax payments								
1.	Individual income tax	213,827.7	207,500.9	6,326.8	-1,227.0	-4,941.7	-	-158.1
2.	Income tax	41,628.5	37,132.9	4,495.6	-4,495.6	-	-	-
3.	Land tax	29,259.9	25,244.4	4,015.5	-1,485.6	-2,652.8	-	122.9
4.	Property tax	5,440.1	3,876.2	1,563.9	-665.2	-690.0	-	-208.7
5.	VAT on internal products	51,857.6	53,042.8	-1,185.2	1,237.0	-46.7	-	-5.1
6.	Excise tax on internal products	660.0	660.0	-	-	-	-	-
7.	Sales tax	53,833.0	53,277.3	555.7	-119.2	-35.6	-	-400.9
8.	Tax on foreign organization income not related to the permanent institution in Kyrgyz Republic	1,791.5	1,101.9	689.6	-154.6	-535.0	-	-
9, 10, 12	Severance tax (bonus, royalty, annual charges for development of mineral base)	213,796.6	218,609.0	-4,812.4	4,527.3	-92.9	-	378.0
11.	Gross income tax	1,760,707.6	1,942,367.3	-181,659.7	-	184,771.4	-3,111.7	-
13.	Other tax and charges	4,299.9	5,256.5	-956.6	479.9	618.0	-	-141.3
Total tax payments		2,377,102.4	2,548,069.2	-170,966.8	-1,903.0	176,394.7	-3,111.7	-413.2
Section 2. Customs payments								
14.	Customs duties	5,903.7	4,820.2	1,083.5	-770.6	-480.4	-	167.5
15.	Customs fees	19,903.6	18,668.1	1,235.5	-1,245.7	-171.4	-	181.6
16.	Exercise tax	1.3	12.0	-10.7	10.3	8.3	-	-7.9
17.	VAT on imported products	64,355.7	72,053.8	-7,698.1	1,677.5	5,702.9	-	317.7
Total customs payments		90,164.3	95,554.1	-5,389.8	-328.5	5,059.4	-	658.9
Section 3. Other material payments								

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(in thousand Kyrgyz soms)

Code of report line	Items (indicators)*	Information of the EITI reports No. 4 prepared by the companies	Information of the EITI reports No. 4 prepared by the state agencies	Difference between 3 and 4	Reason of discrepancy			
					Errors in the companies' report (overstatement - understatement +)	Errors in the reports of the state agencies (overstatement - understatement +)	Foreign exchange difference	Unclarified discrepancy
1	2	3	4	5	6	7	8	9
18.	Social Fund contributions	506,510.7	481,217.1	25,293.6	11,854.0	-37,129.8	-	-17.8
19.	Payment for concession	-	0.9	-0.9	-	0.9	-	-
20.	Dividends according to the state block of shares	11,587.7	30,629.3	-19,041.6	17.1	19,024.5	-	-
21.	Payment for the state share bought out by the company	-	-	-	-	-	-	-
22.	Payment for rent of the land owned by the state and the municipality, rent payment for the land of forest foundation	4,045.1	2,994.9	1,050.2	-290.3	-122.8	-	-637.1
23.	Reimbursement of agricultural production losses	4,606.7	8,384.6	-3,777.9	3,787.9	-10.0	-	-
24.	Reimbursement of forest production losses	-	321.8	-321.8	21.9	299.9	-	-
25.	Loss of profit at provision of land	-	545.8	-545.8	660.6	-9.4	-	-105.4
26.	Payment for retention of mining license	0.6	-	0.6	34.4	-	-	-35.0
27.	Payment for environmental pollution and reimbursement of loss caused environmental damages	14,903.1	16,211.0	-1,307.9	531.4	766.1	-22.1	32.5
28.	Payment for license issue	179.0	10.4	168.6	-177.1	-	-	8.5
29.	Payment for issue of certifications and other authorization documents	4,825.2	584.9	4,240.3	-4,362.4	-	-	122.1
30.	Payments assigned by the agreements with the Government of Kyrgyz Republic	1,110,198.4	1,110,298.4	-100.0	-	18.3	81.7	-
Total other material payments		1,656,856.5	1,651,199.1	5,657.4	12,077.5	-17,162.3	59.6	-632.2

* Items (indicators) mentioned in this report are stated as in the EITI Report No. 4.

Report on agreed-upon procedures engagement on reconciliation of information and preparation of summary report in the framework of EITI

(in thousand Kyrgyz soms)

Annex 2

EITI Summary Report for 2009 based on the adjusted data of mining companies and of government agencies

Code of report line	Items (indicators)*	Information of the EITI reports No. 4 prepared by the companies (considering adjusted information)	Information of the EITI reports No. 4 prepared by the state agencies (considering adjusted information)	Difference between 3 and 4	Reason of discrepancy	
					Uncertainties (foreign exchange difference)	Unclarified discrepancy***
1	2	3	4	5	6	7
Section 1. Tax payments						
1.	Individual income tax	212,600.7	212,442.6	158.1		158.1
2.	Income tax	37,132.9	37,132.9	-		-
3.	Land tax	27,774.3	27,897.2	-122.9		122.9
4.	Property tax	4,774.9	4,566.2	208.7		208.7
5.	VAT on internal products	53,094.6	53,089.5	5.1		5.1
6.	Excise tax on internal products	660.0	660.0	-		-
7.	Sales tax	53,713.8	53,312.9	400.9		400.9
8.	Tax on foreign organization income not related to the permanent institution in Kyrgyz Republic	1,636.9	1,636.9	-		-
9, 10, 12.	Severance tax (bonus, royalty, annual charges for development of mineral base)	218,323.9	218,701.9	-378.0		378.0
11.	Gross income tax	1,760,707.6	1,757,595.9	3,111.7	-3,111.7	-
13.	Other tax and charges	4,779.8	4,638.5	141.3		141.3
Total tax payments		2,375,199.4	2,371,674.5	3,524.9	-3,111.7	1,415.0
Section 2. Customs payments						
14.	Customs duties	5,133.1	5,300.6	-167.5		167.5
15.	Customs fees	18,657.9	18,839.5	-181.6		181.6
16.	Exercise tax	11.6	3.7	7.9		7.9
17.	VAT on imported products	66,033.2	66,350.9	-317.7		317.7
Total customs payments		89,835.8	90,494.7	-658.9		674.7
Section 3. Other material payments						
18.	Social Fund contributions	518,364.7	518,346.9	17.8		17.8
19.	Payment for concession	-	-	-		-

Report on agreed-upon procedures engagement on reconciliation of information and preparation of summary report in the framework of EITI

(in thousand Kyrgyz soms)

Code of report line	Items (indicators)*	Information of the EITI reports No. 4 prepared by the companies (considering adjusted information)	Information of the EITI reports No. 4 prepared by the state agencies (considering adjusted information)	Difference between 3 and 4	Reason of discrepancy	
					Uncertainties (foreign exchange difference)	Unclarified discrepancy***
1	2	3	4	5	6	7
20.	Dividends according to the state block of shares	11,604.8	11,604.8	-		-
21.	Payment for the state share bought out by the company	-	-	-		-
22.	Payment for rent of the land owned by the state and the municipality, rent payment for the land of forest foundation	3,754.8	3,117.7	637.1		637.1
23.	Reimbursement of agricultural production losses	8,394.6	8,394.6	-		-
24.	Reimbursement of forest production losses	21.9	21.9	-		-
25.	Loss of profit at provision of land	660.6	555.2	105.4		105.4
26.	Payment for retention of mining license	35.0	-	35.0		35.0
27.	Payment for environmental pollution and reimbursement of loss caused environmental damages	15,434.5	15,444.9	-10.4	-22.1	32.5
28.	Payment for license issue	1.9	10.4	-8.5		8.5
29.	Payment for issue of certifications and other authorization documents	462.8	584.9	-122.1		122.1
30.	Payments assigned by the agreements with the Government of Kyrgyz Republic	1,110,198.4	1,110,280.1	-81.7	81.7	-
Total other material payments		1,668,934.0	1,668,361.4	572.6	59.6	958.4
Section 4. Additional expenses of the company**						
31.	Education support	2,782.1				
32.	Support of social infrastructure	63,007.8				
33.	Reclamation fund charges	71,973.7				
Total		137,763.6				

* Items (indicators) mentioned in this report are stated as in the EITI Report No. 4.

** Reconciliation was not performed.

*** Absolute value of the unclarified discrepancies.