

**Articles 201, 202 and 209 of the Tax Code of the Republic of Armenia on
Environmental Payments and Royalties**

(extract)



Article 201. Environmental Payment Base

1. Environmental payment base is the price value or the material value of the facility for which environmental payments is made or the characteristic on the basis of which the amount of the environmental payment is calculated in accordance with the rates and procedures set forth in this section.

In particular:

5) The environmental payment base for hauling solid non-metallic minerals (except for salt) is the depleted volume of mineral resources, the lump-sum of the volumes of the minerals mined and the minerals lost during the mining process, with the exception of inevitable technological losses. For the purposes of this paragraph, inevitable technological losses shall be considered losses caused by the use of technologies and systems selected during the mining of solid non-metallic minerals, which may not exceed the amount of technological losses set by the the geological-economic appraisal.

Article 202. Royalty Base

1. The royalty base is the commodity turnover of the concentrate and any end-product received during the reporting period.

2. The commodity turnover for royalty is determined through inventory method.

3. The commodity turnover of concentrate by the royalty payers is calculated as follows:

1) The physical volume of the concentrate shipped is the final grade of metals in the concentrate, expressed in weight (in grams or tonnes), determined in accordance with the shipping contract (according to the results of the final calculation under the contract) between the supplier and the buyer. In case pursuant to the shipping contract, the shipping and the final calculation of the concentrate is carried out at different reporting periods of royalty calculations, then during the reporting period of concentrate shipping the metal grades expressed in weight (grams or tons) under the terms of the contract at the time of shipping (according to supplier's certificate of pre-qualification and certificate of quality) shall be considered as physical volume for the calculation of the commodity turnover during the reporting period;

2) as the physical volume price of the concentrate shipped, the price of the contract concluded between the shipper and the buyer, determined in accordance with the concentrate shipment contract, according to the pricing period and quotations (based on the contract final calculations results) is considered as a base. In case, pursuant to concentrate shipment contract, the concentrate shipment and final calculations are carried out at different reporting periods of royalty calculations, then the calculation of commodity turnover during the concentrate shipment period, as a physical volume price, shall be based on the contract price specified under the terms of the contract at the time of shipment without value added tax:

3) Commodity turnover of concentrate shipped (irrespective of shipping terms) during the royalty reporting period for the physical volume is considered the product contract price determined by the contract between the shipper and the buyer (following the final calculations as per the contract), taking into account the following:

a. for royalty calculation, the maximum amount of negative deviation from the physical volume determined at the time of shipment by the results of the final calculation of the shipment contract shall be two percent of the volume determined at the time of shipment;

b. for royalty calculation, reductions in commodity turnover due to deviations from the contract at the time of or after the shipment of concentrate (including reductions of prices due to chemical elements (penalty elements) causing processing complexities; contract price reductions in case of breach of the permissible indicators for moisture stipulated by the contract) are not taken into account,

c. if the commodity turnover for each month for the reporting period of the royalty is 10 percent or more lower than the turnover of final grade of the metal contained in the concentrate shipped for the same month and from commodity turnover calculated on the basis of the international average prices for the given month, the commodity turnover for the given month shall be calculated by 90 percent interest yield of the final grade of the shipped concentrate and the international average prices of the given month.

d. Following the royalty calculations stipulated by the concentrate shipment contract, the adjustments are made and their results are reflected in the accounting period that include the final calculations (reflected in the royalty tax calculations for that reporting period).

7. For the purposes of this section, the international average price of metal is considered the price published for each month by the authorized body of the government of the Republic of Armenia based on the London Stock Exchange.

Article 209. Royalty Rate

1. For royalty a value (percentage) rate is set for the royalty base, the magnitude of which shall be determined by the following formula:

$R = 4 + [P (x8)] \times 100$, where:

R - is the royalty rate in percentage.

P- Profit before the tax liability, in AMD, which is calculated as a positive difference of the deductions of royalties and as stipulated by Section 6 of the Code (excluding financial activity expenses, royalties under this section and tax losses in the previous years);

H - is the base of royalties in AMD.

For the purposes of this Article:

1. before deduction of tax during the profit calculation loss from commodity turnover financial activity costs, royalties set forth in this section and tax losses for the preceding years are not deducted, irrespective of the costs and tax losses arising from the operation of the mines and / or the production of metal concentrate;

2. Profit before taxation, during the component calculation deductions for taxpayer administrative costs, sales and other non-productive costs are taken into account in the proportion of gross real estate turnover.



DECREE OF THE GOVERNMENT OF THE REPUBLIC OF ARMENIA

ON DEFINING MAXIMUM LIMITS OF CONCENTRATE TURNOVER BY ROYALTY PAYERS

According to sub point a2 of point 3 of part 3 of Article 202 of the Tax Code of the Republic of Armenia, the Government of the Republic of Armenia decides:

1. Define that in the Republic of Armenia, for the purpose of calculating royalties, when determining the concentrate turnover by the royalty payers of metals, the maximum non-payment threshold for the metals paid by the buyer, including any deductions applicable to the metals payable under the contract are:

1) for copper concentrate:

- a. 1 percentage point of copper contained in one dry metric ton of concentrate
- b. the actual amount of gold contained in one dry metric ton of concentrate, if less than 1 gram;
- c. 10 percent of the gold grade in one dry metric ton of concentrate, if the gold grade in the concentrate is not less than 1 gram;
- d. the actual grade of silver in one dry metric ton of concentrate, if it is less than 30 grams;
- e. 10% of the actual silver grade in one dry metric ton of concentrate, if the silver grade in the concentrate is not less than 30 grams.

2) For zinc concentrate:

- a. 8 percentage points of zinc contained in one dry metric ton of concentrate,
- b. 10 percent of gold contained in one dry metric ton of concentrate, if the gold grade in the concentrate is not less than 1 gram;
- c. 10% of the silver contained in one dry metric ton of concentrate, if the silver grade in the concentrate is not less than 30 grams;

3) in case of molybdenum concentrate in one dry metric ton, 0,5% of the molybdenum contained in the concentrate, provided that the value greatness of the processing costs is stipulated by the contract;

4) for gold concentrate

- a. 15% of the actual amount of gold contained in one dry metric ton of concentrate, if the amount of gold contained in the concentrate is not less than 1 gram;

b. 15% of the actual amount of silver contained in one dry metric ton of concentrate, if the silver grade in the concentrate is not less than 30 grams.

2. Based on the data published by Metal Bulletin, Metal Monitor, Wood Mackenzie and S&P Global Platts companies relating to the annual benchmark prices of metal concentrate processing and filtering costs, as a result of the contracts negotiated between the world's largest producers and foundries; to establish that in determining the concentrate turnover by the royalty payers for royalty calculation in the Republic of Armenia the maximum limits for processing, filtering or other similar expenses (including transportation) stipulated by the contract, including contract management, any reductions to be applied in terms of filter or other similar expenses, defined as:

1) for copper concentrate:

a. processing costs of one dry metric ton of concentrate not exceeding US \$ 90 equivalent;

b. one pound worth paid copper refining cost not exceeding US \$ 0.09 equivalent;

c. one gold ounces refining costs not exceeding US \$,

d. one ounces of silver refining costs not exceeding US \$ 0.3 equivalent;

2) Cost of processing and refining of one dry metric ton of zinc concentrate for zinc concentrate not exceeding USD 100 equivalent AMD;

3) For molybdenum concentrate, the cost of for the processing and refining one dry metric ton of molybdenum stipulated by the contract, but the the total sum of the costs for processing, refining and the metal not paid by the Buyer shall not exceed 15% of the molybdenum concentrate price .

4) For gold concentrate

a. processing costs of one dry metric ton of concentrate not exceeding US \$ 185 equivalent AMD and US \$ 6 equivalent AMD for refining one ounce;

b. costs of one ounce of silver refining, not exceeding US \$ 0.4 equivalent AMD.

3. Provide that in the Republic of Armenia for the purpose of royalty calculation, the maximum limits for the cost of transportation of concentrates, including transport, packaging, labeling and loading by the royalty payer are:

1) per thousand dry metric tons of recalculated concentrate not exceeding 12,000 AMD in case of selling the concentrate to resident of the Republic of Armenia;

2) per thousand dry metric tons of recalculated concentrate not exceeding 30,000 AMD in case of concentrate exported from the Republic of Armenia if the departure point of transportation is less than 150 km from the Bagratashen customs point;

3) per thousand dry metric tons of recalculated concentrate not exceeding 40,000 AMD in case of concentrate exported from the Republic of Armenia if the departure point of transportation is 150 km or more from Bagratashen customs point.

4. Provide that the amount equivalent to the transport costs referred to in paragraph 3 of this Decree may not be separated from the costs referred to in paragraph 2. In such cases, the sum of the maximum permissible limit for decreasing processing and transportation costs for 1 dry metric ton of concentrate shall be considered the total sum for maximum limits set in point 2 and 3 of the decree.

5. Define that for royalty calculation, if in determining the concentrate turnover supplied during the reporting period exceeds the maximum thresholds set forth in paragraphs 1, 2, 3 and 4 of this Decree, the deductions shall be calculated equal to the maximum threshold set by this Decree and if not exceeding the maximum threshold; in such case the amount equivalent to the contract shall be taken into account.