



2018



**REPUBLIC OF ARMENIA
EXTRACTIVE INDUSTRIES
TRANSPARENCY INITIATIVE
(EITI) REPORT**

2016-2017



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EXTRACTIVE INDUSTRIES
TRANSPARENCY INITIATIVE (EITI)
REPORT
2016-2017**

PUBLISHED IN DECEMBER, 2018



Dear readers,

As the Chairman of Extractive Industries Transparency Initiative in Armenia, I am pleased to present to the public at large the first EITI National Report covering the fiscal years 2016 and 2017. The Report is the outcome of the multilateral co-operation between the Government, the civil society, the business sector and international partners, without precedent in Armenia. It is valuable especially in terms of processing and publication of a large amount of information on the metal mining sector which is traditionally considered to be a closed sector. The participatory nature of the process and the consensus

decision making impart greater importance to the Report.

The natural resources of Armenia are the exclusive property of the state. Therefore, the Government, among other areas, has prioritized the issue of improving the sector governance. In particular, the Government has already established the need to develop a new strategy and has undertaken sectoral studies. However, effective reform can only be achieved by ensuring a high level of accountability and transparency, which will help increase public control, reduce corruption risks and build a stable environment of mutual trust through good governance. The consistent implementation of the EITI Standard in Armenia aims at accomplishing all of these tasks.

It was by the joint development of this Report that the Government, together with the civil society and business people, broke the stereotype existing perhaps two years ago that there are no overlapping concerns between the three parties on controversial issues. By publishing through this Report data of completely new quality and volume, we anticipate a substantial expansion of public participation through conducting studies, raising problematic issues and establishing an informed dialogue.

The Government, remaining loyal to the open, transparent and effective work style, will carry out the activities of continuous implementation of the EITI Standard.

A handwritten signature in blue ink, appearing to read 'A. Mirzoyan'.

Ararat Mirzoyan
First Deputy Prime Minister
Chairman, EITI MSG Armenia

On behalf of the mining companies' constituency of the EITI MSG, I would like to congratulate on the publication of the first Armenian National Report. It is a significant step toward more transparent, accountable and responsible mining. Previously it was not always possible to find full information included in this report from open sources, and there were numerous entities possessing this information.

With the publication of the Report, data became more available, and structurally systematic and accessible. Online availability of data in accordance with the Open Data principle is a great opportunity for interested people, including representatives from the government, civil society, academy and or, local self-governments, officials, to download data in a more convenient format and re-use it.

In order to make the implementation process of the EITI Standard sustainable and based on the institutional grounds, necessary mandatory regulations have been adopted, and systems have been developed and introduced during this period. Nevertheless, we attach more importance to the fact that EITI helps to gradually develop a new culture among the extracting companies in Armenia. More companies now acknowledge the benefits of open and responsible work style also from the very business viewpoint.

It is worth mentioning also the EITI Multi-Stakeholder Group, that is a unique platform for the interested parties of the government, civil society and business. It does not only grant an opportunity to hold meetings and discussions, but also work together and achieve the aspired results. Due to such cooperation and opportunity to listen to each other's grounded viewpoints, a certain atmosphere of mutual trust and confidence has been achieved, which can also be considered unprecedented.

We are profoundly grateful to all the parties involved in a process of the preparation of this Report, especially to the Armenian EITI Secretariat team for the efficient and dedicated work. This success would not be impossible without their genuine efforts.

EITI Multi-Stakeholder Group has committed to continuously improve the Report over the coming years both in terms of data quality and diversity. We hope this Report will become a stimulus for other sectors as well to increase transparency and accountability.



A handwritten signature in blue ink, appearing to read 'Vahe Vardanyan'.

Vahe Vardanyan

Member of mining companies' constituency, EITI MSG Armenia
General Manager of Geomining LLC



Armenia is rich in various mineral resources, and we must be able to use those natural resources for the benefit of the country and every citizen. The set goal can be achieved through the rational, complex and civilized extraction of resources and highly effective management of the activities, along with maintaining the principle of causing minimum harm to the environment and promoting the socio-economic development of the country. In terms of the latter, the good governance system of the mining sector, deep processing of mineral raw materials and the targeted and equitable distribution of the revenues from mining are especially important.

The implementation of EITI in Armenia and compliance with requirements of the Standard would lead to the accountability and transparency of the extraction of public wealth, as well as to raising the awareness on the sector. The EITI global standard, in addition to the established requirements, also enables a country to set its national priorities and perform the activities arising from these through its Work Plan. The tripartite EITI Multi-Stakeholder Group comprised of representatives of the Government, mining sector and civil society is an exclusive forum for establishing a dialogue on sector governance issues and implementation of measures aimed at their effective solution.

The first Report of RA EITI is very important and should be thoroughly reviewed by all of the interested parties. In this sense, the role of the RA EITI MSG and especially that of the Civil Society constituency is very important for making the report available to various groups of the society, discussing it, collecting feedback and recommendations from them on potential shortcomings and including them in the agenda of the RA EITI MSG. It is necessary to consistently continue the implementation activities of the EITI Standard in Armenia, extending, in the near future, the requirements of the Standard to all types of mineral resources use, as well as stating, beyond the main requirements of the Standard, the importance of transparency of enterprise productivity, level of extraction and other technical and economic indicators, in order to enable to more accurately assess the effectiveness of mining and its role in the development of the country.

A handwritten signature in blue ink, appearing to read "Harutyun Movsisyan".

Harutyun Movsisyan

Member of the Civil Society Constituency, EITI MSG Armenia
Associate Professor of the Chair of Prospecting and Exploration of Mineral Deposits, Yerevan State
University

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¹ No part hereof may be changed from the moment of publication.

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LIST OF ABBREVIATIONS

AR	Artsakh Republic
CCD	Constitutional Court decision
CJSC	Closed Joint Stock Company
CMC	Copper-Molybdenum Combine
Dmt	Dry metric ton
EEC	European Economic Community
EEU	Eurasian Economic Union
EIA	Environmental impact assessment
EITI	Extractive Industries Transparency Initiative
EMCC SNCO	“Environmental Monitoring and Communication Center” State Non-Commercial Organization
FASB	Financial Accounting Standards Board
SRC RA	State Revenue Committee of the Republic of Armenia
GDP	Gross domestic product
HF	Humanitarian Fund
IFRS	International Financial Reporting Standards
IMF	International Monetary Fund
LLC	Limited Liability Company
LSGB	Local Self-Governance Body
MEINR	Ministry of Energy Infrastructures and Natural Resources
MLTF	Money Laundering and Terrorist Financing
MPC	Maximal permitted concentration
MSG	Multi-stakeholder group
MTAD	Ministry of Territorial Administration and Development
OJSC	Open Joint Stock Company
PIU	Program Implementation Unit

RA SC	The Republic of Armenia Statistical Committee
SCP	Security Certified program
SFS	State Financial Statistics
SNCO	State Non-Commercial Organization
TIN	Taxpayer Identification Number
VAT	Value added tax
Wmt	wet metric ton

SOME DEFINITIONS USED IN THE 3RD CHAPTER

The Law on Nature Protection Payments	The Law on Nature Protection and Nature Use Payments
Agency	The Subsoil Agency
Register	The State Register Agency of Legal Entities of the Ministry of Justice of the Republic of Armenia
The Code	The Code on Subsoil



INTRODUCTION

INTRODUCTION

EITI process globally and in Armenia

The Extractive Industries Transparency Initiative (EITI) is a global Standard to promote the open and accountable management of natural resources. It includes all the key issues related to the extractive industry value chain from the point of extraction, to its overall impact on the population, in particular how the permits and contracts for subsoil use and other activities of the sector are issued and registered, who are the beneficiaries of these processes, which are the financial and legal regulations, how much is the production volume, what is the amount of income transferred to the State budget from the sector, how these incomes are distributed, what investments into the economy are realized, including the increased level of employment. The EITI seeks to ensure creation of more transparent and accountable government and business systems and promote public dialogue thus creating grounds for mutual understanding between the parties.

One of the key components of EITI Standard implementation is the establishment of Multi-Stakeholder Group (MSG), which is the main decision-making body in the framework of the Initiative, comprised of the representatives from the government, companies and civil society. The MSG is formed with the purpose of managing EITI processes, overseeing the EITI report preparation process and reporting the results, as well as promoting the integration of EITI Standard in transparency activities realized in the country. Members of each of the MSG constituencies are elected according to the procedures established by the given constituency, thus ensuring the independence of the MSG members. The MSG should ensure openness and transparency of invitation for participation and the representation of the interested parties including independent civil society groups, media, unions and relevant state institutions.

After becoming an EITI candidate, every EITI implementing country should undergo a validation process during a period of two and a half years and once every three years. Validation allows assessing the progress of the country in terms of meeting each of EITI requirements. Validation is realized by EITI International Board and persons realizing independent validation assigned by the latter.

The idea to join the EITI came within the framework of the Open Government Partnership, to which the Republic of Armenia had joined in 2011 aiming at the implementation of certain government commitments to promote transparency in public administration, use of new technologies, civil society participation and fight against corruption. In Armenia, the process of becoming an EITI member was initiated since July 2015. The Republic of Armenia multi-stakeholder group is comprised of fifteen members, including six representatives from the Government of the Republic of Armenia, four representatives from mining companies and five representatives from the civil society (including one from academia) and was established in November 2016 by the Prime Minister's Decree No. 1104-A². According to MSG operational procedure, each MSG constituency should have at least one alternate member from the same sector, however not more, than the number of constituency members. MSG members and alternates are

² <https://www.arlis.am/DocumentView.aspx?DocID=123961>

appointed for a three-year period.

The EITI candidacy application of Armenia was developed by MSG and was approved by the latter during its meeting held on December 26, 2016³. The membership of the Republic of Armenia was approved in compliance with the EITI candidacy application on March 9, 2017 at the EITI board meeting held in Bogota⁴. The decision stipulated that in 18 months after becoming EITI candidate the Republic of Armenia shall publish the first EITI report, until July 1, 2018 shall publish the annual operational report of 2017 and until January 1, 2018 shall publish the map of beneficial owners.

During the MSG meeting held on March 27, 2018 it was decided to apply to EITI International Board with the request to extend the Report publication deadline for two and a half months taken the insufficient time envisaged for preparation of high quality EITI report, while deadline extension would allow preparing the very first report after introduction and application of innovative tool for report preparation, which was the report submission online platform. During the EITI Board Meeting held in Berlin on June 27-30, 2018 a decision was made to comply with the request of Armenia and extend the deadline for publication of 2018 EITI National Report by Armenia until March 9, 2019. According to EITI Board Decision of March 9, 2017, the first validation of the Republic of Armenia will start within two-and-a-half-year period after becoming a candidate (which is until September 9, 2019).

The mining industry and the scope of EITI in Armenia

In the scope of implementing the EITI Standard, the state authorities and mining companies generate reports providing information on the incomes of the companies, the payments made by the companies to the government, the incomes received by the government and management of these income flows. It is also required that the companies and government agencies disclose information on geological studies, natural resources exploration, extraction, export and financial flows, as well as the information on granting or transfer of licenses to companies. The results are reconciled by an independent administrator and published annually together with other information on mineral resource industry, in compliance with the requirements of EITI Standard. Besides the annual EITI report, the countries realizing EITI also publish annual progress reports. According to the MSG, decision dated December 26, 2016⁵ the first EITI report of Armenia should cover the RA metal mining sector.

The metal mining sector is the important contributor to the national economy of Armenia. The Republic of Armenia subsoil is rich in copper, molybdenum, gold and multimetals (lead and zinc), as well as in scarce and scattered metals contained therein. According to the information published by the Ministry of Energy Infrastructures and Natural Resources, more than 850 mines with confirmed resources, including 42 metal mines, are registered in the Mineral Resources State Registry. Out of them 400 mines,

³ https://www.eiti.am/file_manager/EITI%20Documents/Minutes/MSG_meeting_minute_26_12_2016.pdf

⁴ <https://eiti.org/BD/2017-22>

⁵ https://www.eiti.am/file_manager/EITI%20Documents/Minutes/MSG_meeting_minute_26_12_2016.pdf

including 28 metal mines⁶ are currently being exploited. 27 metal extraction companies are registered in Armenia. 28 permits are issued in the area of operations realized by these companies.

In RA, the subsoil is the property of the State and is considered to be under the exclusive ownership of the latter. The mentioned right of the State is stipulated on the level of the Constitution: it has been included in part 2⁷ of Article 10 of the last revision of RA Constitution (in force since December 22, 2015). This provision is also reflected in the principal document regulating the mining industry - The Code on Subsoil⁸.

The subsoil is provided to mining companies only with the right of use with the purpose of realizing geological study activities, extraction of minerals or processing of mining wastes.

According to the RA Law "On Making Amendments and Changes to the Code on Subsoil" No HO-191-N dated March 21, Article 9⁹, thereto, stipulating "the publicity of mining activities" has been reformulated, thereby expanding the scope of obligations of subsoil users on the account of reporting. For the purpose of comprehensive reconciliation of payments made by the companies and the incomes received by the Government the sample forms of public reports for provision of income and payment related information were defined by the RA Government Decree N 666-N¹⁰ dated June 8, 2018 (hereinafter referred to as RA Government Decree No. 666). The relevant information on financial flows was provided by the RA State Revenue Committee, RA Ministry of Nature Protection and communities (the data was submitted by MTAD), as well as metal mining companies as indicated by the MSG¹¹.

The Independent Administrator carries out the reconciliation of information on incomes and payments received from State authorities and companies regarding the companies and income flows to be reconciled under the EITI report reconciliation activities. The reconciliation results and the observed discrepancies are reflected in EITI report.

Upon the order of the RA Prime Minister's staff and with UNDP support, "Helix Consulting" LLC has developed an online reporting platform available at reports.eiti.am/hy for the purpose of collecting information from companies and State authorities.

26 out of 27 extractive reporting companies participating in EITI reporting have submitted reports for 2017, though the one non-reported company is not material and is not subject to reconciliation, hence had no impact on the reconciliation process.

Since submission of EITI reports for 2016 to the Extractive Industries Transparency Initiative by extractive companies was of voluntary basis, only 22 out of 27 extractive companies had submitted reports.

⁶ www.minenergy.am/page/472

⁷ <https://www.arlis.am/DocumentView.aspx?docID=102510>

⁸ <https://www.arlis.am/DocumentView.aspx?DocID=126310>

⁹ <https://www.arlis.am/DocumentView.aspx?docid=120753>

¹⁰ <https://www.arlis.am/DocumentView.aspx?docID=123259>

¹¹ https://www.eiti.am/file_manager/EITI%20Documents/Minutes/MSG_meeting_minute_27_03_%202018.pdf

According to the data received from the State authorities, in 2016, the total revenues of the RA State and Municipal budgets received from reconciled 9 reporting companies amounted to AMD 50,037,989 thousand, while according to the information provided by the companies; this figure amounted to AMD 49,905,350 thousand. Based on findings of reconciliation and further adjustments of data, the net discrepancies amounted to 0.27% or AMD 132,639 thousand.

According to the data received from the State authorities, in 2017 the total revenues of the RA State and Municipal budgets received from reconciled 11 reporting companies amounted to AMD 85,708,763 thousand, while according to the information provided by the companies, this amount equaled to AMD 84,909,826 thousand. Based on findings of reconciliation and further adjustments of data, the net discrepancies amounted to 0.94% or AMD 798,937 thousand.

The Independent Administrator has registered and processed the details of all discrepancies and reasons for adjustments for each extractive company.

The most common causes of discrepancies and reasons for adjustments were necessity for additional commentaries on report completion guidelines, as well as incomplete presentation of data on certain types of taxes.

Chapter 1 presents the methodology and the framework for preparation of the EITI Report. The 2nd Chapter refers to the detailed description of the metal mining industry, including information on production volumes, export, employment in metal mining industry and cash flows transferred by companies to State and community budgets, as well as on contributions from the State budget to the affected communities. Chapter 3 presents the RA legislative and institutional framework, procedures for granting mining permits and concluding contracts, as well as information on state budget, leveling and auditing procedures. The methodology and results of the reconciliation, as well as detailed information on the detected discrepancies and the reasons for adjustments are presented in Chapter 4. In Chapter 5 of the Report, the Independent Administrator presents recommendations on elimination of observed shortcomings of the implemented activities and improvement of EITI reporting process. The information on the findings that have been identified during the preparation of the EITI report is summarized in Chapter 6.



1

THE METHODOLOGY AND THE SCOPE OF THE EITI REPORT

1. THE METHODOLOGY AND THE SCOPE OF THE EITI REPORT

Aimed at preparing the 2018 EITI Report a scoping study¹² was realized in the scopes of the "Support to Enhance Armenia's Capacity to Implement Extractive Industries Transparency Initiative (EITI) and to Increase Transparency and Accountability in Mining Licenses and Contracts" Project funded by the British Embassy in Yerevan. The Responsible Mining Center of the American University of Armenia was the implementation partner for the Project. The study highlighted a number of issues faced by the mining industry of Armenia and defined the scope for 2018 EITI report. During the working meeting¹³ of EITI MSG held on March 27, 2018 the terms of reference of the Independent Administrator, the list of companies and State bodies to be included in the report were approved and the materiality thresholds for companies and revenue streams were defined. During the same meeting it was confirmed that the EITI 2018 Report will include information regarding years 2016 and 2017.

1.1 Companies and State agencies presented in the EITI report

According to the aforesaid meeting protocol, all companies having permits for extraction of metal minerals should submit reports for inclusion in the EITI report. The exception is granted to the companies that were declared bankrupt, which are not required to report as stipulated by RA Government Decree N 666-N. The list of reporting companies has been provided in the framework of EITI report Scoping Study, according to which there are 27 reporting metal mining companies (**Annex 1**). During the same meeting it was approved that the companies with taxes and payments (excluding fees paid to the Ministry of Nature Protection, customs duties and fees) equivalent to or exceeding 150 million AMD made to the RA State Budget during the reporting fiscal year are considered as companies to be reconciled.

The reporting templates were developed by the RA EITI Secretariat and were discussed with the enlarged group of representatives of the mining companies and State agencies and further approved by the MSG. The reporting templates were also presented to the EITI International Secretariat. The reporting templates to be submitted by the mining companies and State agencies, their submission time schedule and publication procedures were approved by the RA Government Decree N 666-N dated June 8, 2018.

Based on the EITI revenue streams and other accountability requirements, the EITI scoping study has defined and MSG has approved the State agencies to mandatorily provide EITI reports, which are the RA State Revenue Committee, RA Ministry of Nature Protection, as well as respective local self-governance bodies the information on which will be entered by the Ministry of Territorial Administration and Development.

¹²[http://www.gov.am/u_files/file/ardyunaberakan-cragir/ARM_ArmeniaEITI_ScopingStudy_Mar%2015%20%202018%20\(Secretariat\).pdf](http://www.gov.am/u_files/file/ardyunaberakan-cragir/ARM_ArmeniaEITI_ScopingStudy_Mar%2015%20%202018%20(Secretariat).pdf)

¹³ https://www.eiti.am/file_manager/EITI%20Documents/Minutes/MSG_meeting_minute_27_03_%202018.doc

1.2 Taxes and payments Included in the EITI report

Prior to initiating the reporting process, the materiality threshold was clarified to insure that each revenue stream is described in accordance with the relevant materiality definitions and thresholds. According to MSG, the revenue streams from the extractive sector the share of which in the total extractive sector revenue stream is 1% or higher are deemed to be material and should be reconciled in the EITI Report.

The following revenue streams for the reporting periods have been reconciled in the framework of the Report:

- ▶ Profit tax
- ▶ Income tax
- ▶ Value added tax
- ▶ Royalty
- ▶ Customs duty, customs fee, road tax (fee) charged by customs bodies
- ▶ Penalties
- ▶ Fines
- ▶ Rent payments

The mentioned revenue streams for the reporting periods composed over 97% of the total payments made by extractive companies to State bodies. The detailed description of the reconciliation process methodology is provided in the section 4 of the Report.

1.3 Process of audit certification in State agencies and mining companies

The procedures of verification of data provided for the EITI report is based on the corresponding International Standard on Auditing, such as ISRS 4400 (International Standard on Related Services) and ISA 505 (External Confirmations). Nevertheless, procedures for such verification of data do not assume implementation of an audit or provision of an audit opinion to be implemented in compliance with international standards on auditing. Consequently, no assurance can be given on reliability of the data provided by companies and State bodies, as well as no attempt will be made to identify any fraud and errors that could be committed by companies and/or state bodies. The information to be provided in the EITI Report and/or information to be provided by extractive companies and State bodies is not subject for control or verification procedures, unless otherwise specified by the EITI standards.

The reliability of the data provided by companies and State bodies is confirmed by the signatures of the senior management of these companies and state bodies¹⁴. The procedure, timeframe and forms of publication of information on activities related to entrails use, mineral extraction and geological studies of subsoil for mineral extraction purposes, procedures, timeframe and forms for submitting public reports on the activities of entrails users who have permits for metal mineral extraction, as well as the list of State bodies are approved by the RA Government Decree No. 666-N.

More detailed information regarding auditing process is presented in the Section 3.5.

¹⁴ https://www.eiti.am/file_manager/EITI%20Documents/Minutes/MSG_meeting_minutes_06_12_2017_eng.pdf



2 BACKGROUND INFORMATION ON THE MINING INDUSTRY

2. BACKGROUND INFORMATION ON THE MINING INDUSTRY

Since independence, Armenia's economy has undergone profound structural transformations as a result of which it has changed from being an industrial economy to mainly an agricultural and trade-oriented economy. In this context, mining has been one of the few industrial sectors, which has shown positive growth. Over the years, the sector has managed to bring tangible foreign investments and create a large number of jobs mainly outside the country's capital. According to a report published by the World Bank in 2016, the inflow of capital generated from the exports of the sector during the 5 previous years totalled to 500 mln USD annually, making the sector the leader in Armenia in terms of export and inflow of foreign currency¹⁵. According to the model developed by "AVAG Solutions" LLC the GDP multiplier for the Armenian mining industry is 1.8, and the employment multiplier is 5.3. The employment multiplier takes into consideration the additional employment which is ensured as a result of procurements realized by the mining industry, however not the consumption of additional incomes generated in the economy. The overall input of the mining industry in the GDP made up over 4% and the number of created work places was over 42,000, including the employment opportunities created as a result of indirect impact.

2.1 The share of the mining industry in the economy of Armenia (requirement 6.3)

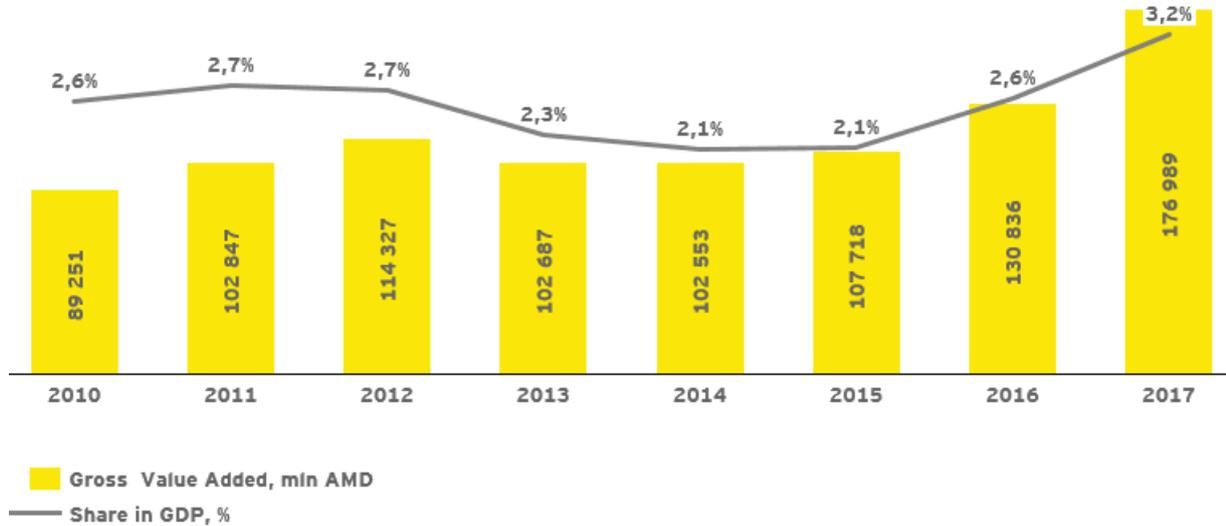
Mining sector is an important contributor to the national economy of Armenia. The Republic of Armenia subsoil is rich in copper, molybdenum, lead, zinc, gold and silver.

According to the information provided by the Statistical Committee of the Republic of Armenia, the mining and quarrying sector¹⁶ contributed 2.6% of the GDP in 2016, which was higher than average since 2010. During the period from 2010 to 2016, the gross value added by the sector rose from 2.6% (2010) to 2.7% (2012), while after a 2.1% decline in 2015, it rapidly rose to 3.2% in 2017. With this share, the mining and quarrying sector held the 12th position in the total GDP among the 20 presented sectors.

¹⁵<http://documents.worldbank.org/curated/en/289051468186845846/Armenia-Strategic-mineral-sector-sustainability-assessment>

¹⁶ Terminology of SC RA has been used, which is based on the international NACE statistical classification of economic activities. For more information refer to <https://ec.europa.eu/eurostat/documents/3859598/5902521/KS-RA-07-015-EN.PDF> page 106

Figure 2.1.1 The gross added value of the mining and quarrying sector and its share in GDP



Source: *armstat.am*

In 2015, the GDP grew by 215 bln AMD in which the contribution of the mining and quarrying sector was only 5 bln AMD. For comparison, the sector’s share in absolute value was the main contributor to the growth of the GDP in 2016. During that year, the GDP grew by 33 bln AMD whereas the gross added value of the mining and quarrying sector grew by 25 bln AMD. In 2017, the GDP grew by 493 bln AMD of which 46 bln AMD was the contribution of the mining and quarrying sector.

In absolute value, the nominal GDP grew significantly between 2010 and 2017 while the gross added value of the mining and quarrying sector kept fluctuating and grew from 89 bln AMD in 2010 to 177 bln AMD in 2017. The share of the mining and quarrying sector in the GDP of RA during the period from 2010 to 2017 is presented below in comparison with the five leading sectors.

Table 2.1.1 The total GDP and the share of the mining and quarrying industry in GDP during the period of 2010-2017

Type of economic activity, million AMD	2010	2011	2012	2013	2014	2015	2016	2017
GDP, million AMD	3,460,200	3,777,900	4,266,500	4,555,638	4,828,626	5,043,633	5,067,293	5,568,901
Agriculture, hunting, forestry and fishing	588,205	767,880	763,941	839,821	872,631	868,671	830,553	831,881
<i>Proportion in GDP</i>	17.0%	20.3%	17.9%	18.4%	18.1%	17.2%	16.4%	14.9%
Construction	599,495	491,082	497,985	476,564	448,772	474,107	393,176	409,830
<i>Proportion in GDP</i>	17.3%	13.0%	11.7%	10.5%	9.3%	9.4%	7.7%	7.4%
Wholesale and retail trade; repair of motor vehicles, motorcycles	444,712	476,695	508,630	548,613	570,369	551,485	499,043	601,348
<i>Proportion in GDP</i>	12.9%	12.6%	11.9%	12.0%	11.8%	10.9%	9.8%	10.8%
Taxes on products (less subsidies)	389,126	412,324	458,234	506,428	546,335	535,801	508,804	574,238
<i>Proportion in GDP</i>	11.2%	10.9%	10.7%	11.1%	11.3%	10.6%	10.0%	10.3%
Manufacturing	335,108	399,271	397,549	441,103	466,755	464,326	521,153	569,836
<i>Proportion in GDP</i>	9.7%	10.6%	9.3%	9.7%	9.7%	9.2%	10.2%	10.2%
Mining and quarrying	89,251	102,846	114,327	102,687	102,553	107,718	130,835	176,987
<i>Proportion in GDP</i>	2.6%	2.7%	2.7%	2.3%	2.1%	2.1%	2.6%	3.2%

Source: armstat.am (the information is extracted from relevant yearbooks of the Statistical Committee)

Artisanal and small-scale mining is expected to be excluded from the metal mining sector in Armenia. Since there are no reliable and publicly accessible estimates regarding the informal activities in the mining and quarrying sector of Armenia, the accessible judicial acts and decisions of administrative bodies pertaining to informal activity were studied for analyzing the informal activities of the sector. As a result of the study, no judicial acts pertaining to informal activity in the sector were found. Given the specific characteristics of the sector, including its scale, legislative regulations, monitoring and accountability requirements, it is assumed that no informal activities are carried out in the sector.

2.2 Employment in the metal mining industry (requirement 6.3)

According to the data provided by the RA Statistical Committee, the industry sector has traditionally been the third sector of the economy of Armenia by its contribution to total employment following the service and agriculture sectors. In 2016 about 121.4 thousand people were employed in the industry sector accounting for the 12% of total employment. In 2017 there were 132.9 thousand people employed in the sector accounting for the 13.1% of total employment.

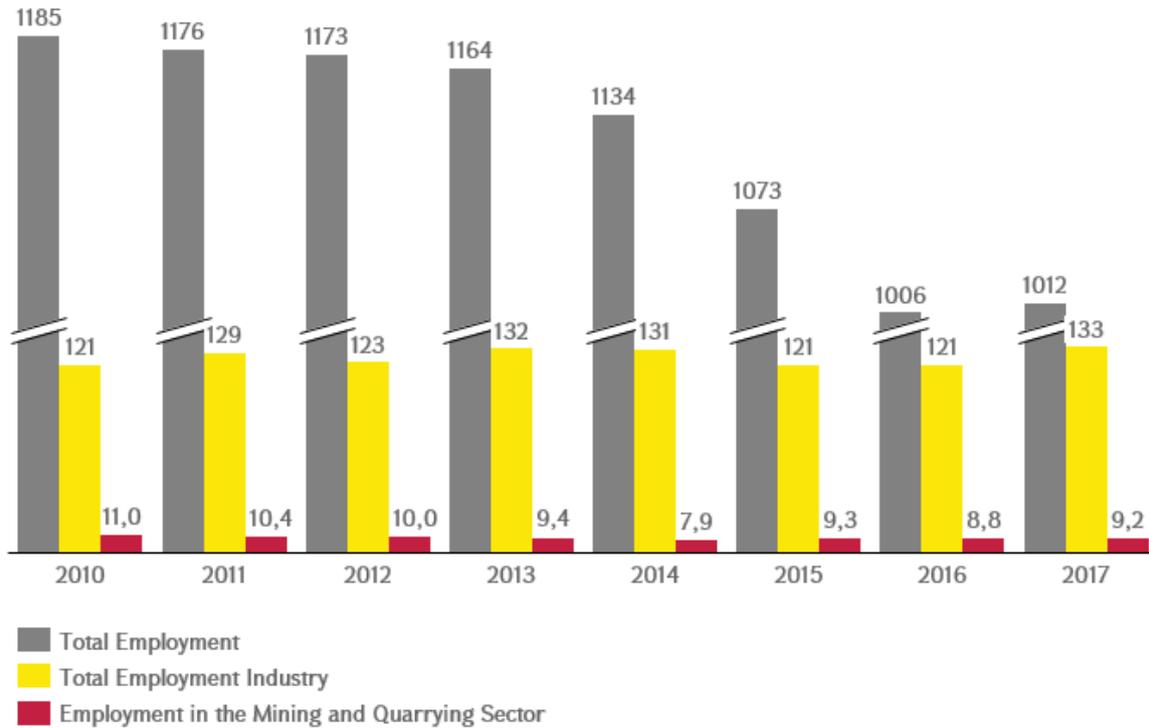
According to the relevant yearbook of the RA Statistical Committee, the share of mining and quarrying sector in total industry employment for 2016 and 2017 was respectively 7.2 and 6.9% with the total number of 8.8 and 9.2 thousand employees. The majority of people – 7.5 and 7.8 thousand employees in 2016 and 2017 respectively – was involved in activities relating to the mining of metal ores. Estimations based on the same data show that the share of metal ores extraction sector in total employment fluctuated with increasing tendency between 0.5 – 0.8% during the period of 2010-2017, amounting to 0.8% in 2016 and 0.7% in 2017.

Table 2.1.2 Total employment, employment in the industry and the mining and quarrying sector

	2010	2011	2012	2013	2014	2015	2016	2017
Total employment, 1000 people	1,185.2	1,175.1	1,172.8	1,163.8	1,133.5	1,072.6	1,006.2	1,011.7
Total employment in industry, 1000 people	120.6	128.7	138.3	131.9	131.0	120.8	121.4	132.9
Employment in mining and quarrying sector, 1000 people	11.0	10.4	10.0	9.4	7.9	9.3	8.8	9.2
<i>Employment in the mining of metal ores, 1000 people</i>	5.8	6.3	6.8	7.0	7.0	8.3	7.6	7.5
Employment in mining and quarrying as % of total employment in industry	5.6%	5.7%	5.7%	6.1%	6.0%	7.5%	7.2%	6.9%
Employment in mining and quarrying as % of total employment	0.6%	0.6%	0.7%	0.7%	0.7%	0.8%	0.9%	0.9%
Total employment in mining of metal ores as % of total employment	0.5%	0.5%	0.6%	0.6%	0.6%	0.8%	0.8%	0.7%

Source: armstat.am

Figure 2.1.2 The share of the mining and quarrying sector in employment, 1000 people



Source: the relevant yearbooks of the RA SC and the main indicator of industrial companies

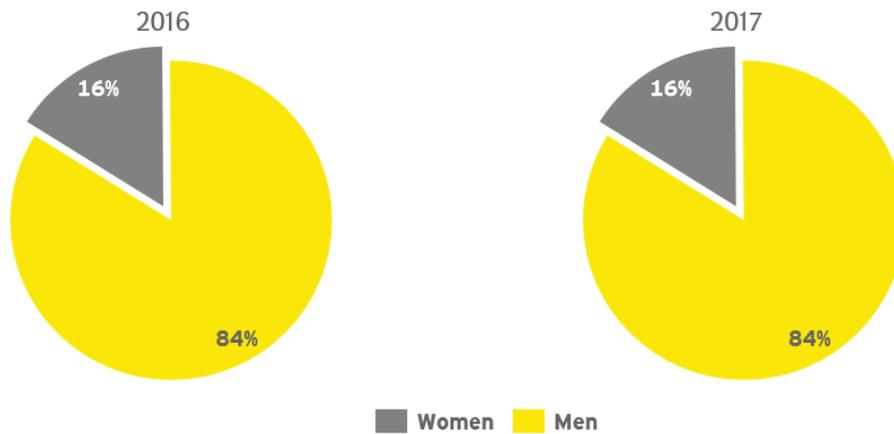
It must be noted that the information provided by the RA SC on the employment in metal mining sector is different from the information provided by the metal mining companies. According to the latter, there were 9.2 and 9.3 thousand people employed in metal mining companies in 2016 and 2017 respectively. This difference is conditioned by differences in data collection methodologies. In particular, the employment statistics of RA SC is based on selective workforce surveys conducted in households, while the employment figures of the companies represent the average number of employees per given year (the average of the sum of the average numbers of employees during each of the 12 months of the given reporting year). The breakdown of employees by gender, nationality and contract duration of employees as provided by the companies is presented below.

Table 2.1.3 The total number of employees and their distribution by gender, nationality and contract duration in 2016 and 2017

	Total	Male	Female	RA Resident	Foreign National	Temporary	Permanent
The number of employees, 2016	9,288	7,828	1,460	9,179	109	640	8,648
The number employees, 2017	9,388	7,906	1,482	9,230	158	768	8,620

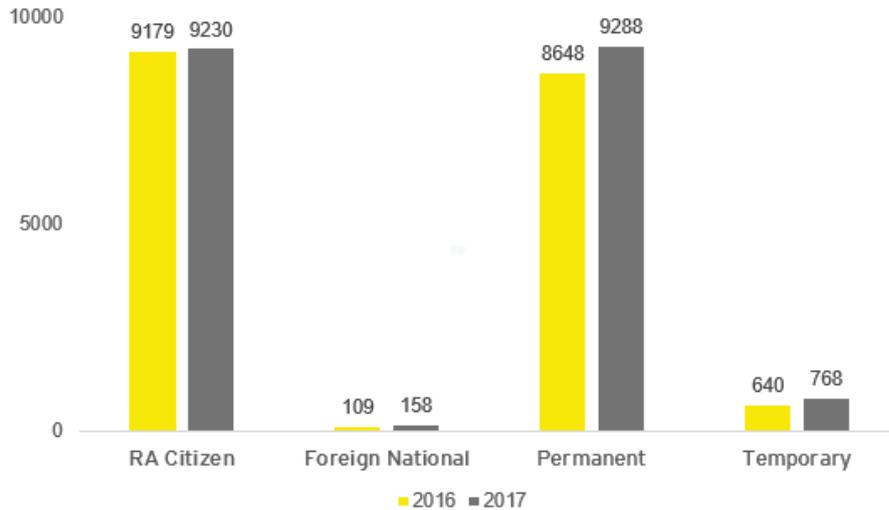
Source: The information was provided by metal mining companies for the EITI report

Figure 2.1.3 The distribution of the employees of metal ore extractive companies by gender in 2016 and 2017



Source: The information was provided by metal mining companies for the EITI report

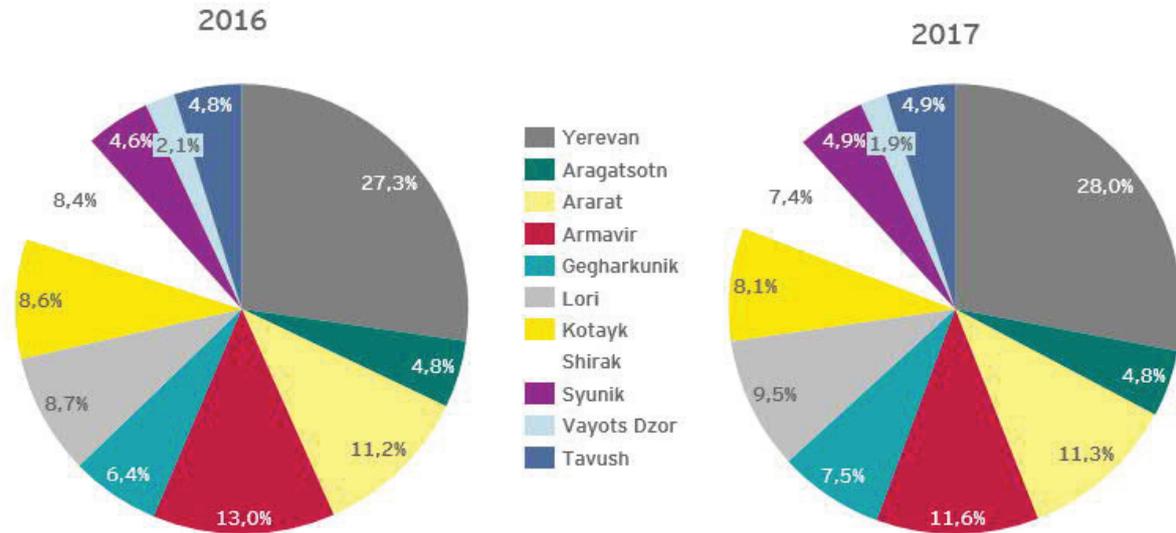
Figure 2.1.4 The distribution of the employees of metal ore extractive companies by citizenship and contract duration in 2016 and 2017



Source: The information was provided by metal mining companies for the EITI report

The regional distribution of people employed in the metal ore extractive companies is visibly different from the general distribution of employed people in Armenia. At national level, in 2016 and 2017 about 28% of all employed people was concentrated in Yerevan during both years. The region of Armavir was in the second place with 12% share while 11% of the employed worked in the region of Ararat. The regional distribution of the employed in percentages by marzes and the capital is presented below.

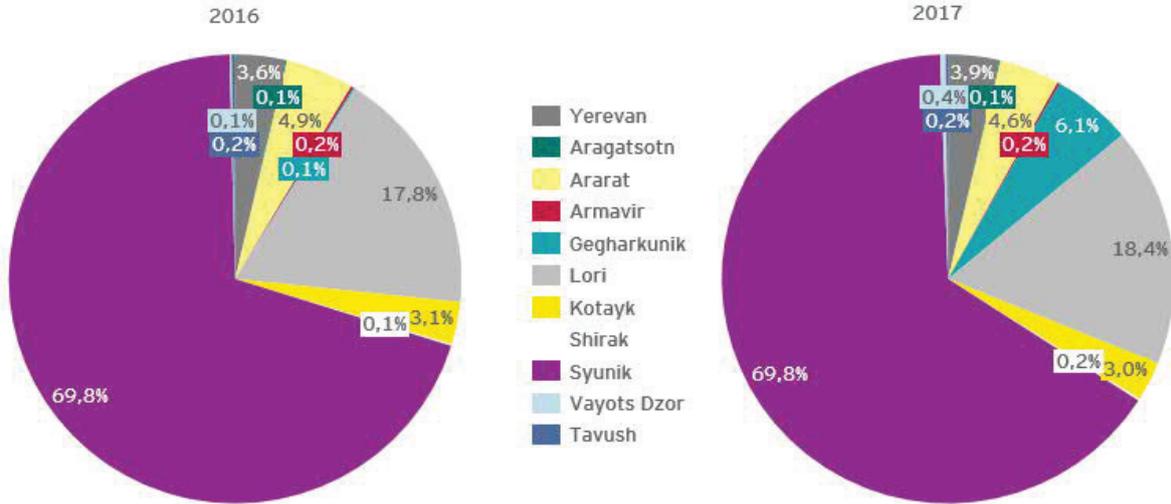
Figure 2.1.5 The percentage distribution of the employed population in the capital and regions in 2016 and 2017



Source: RA SC 2018 publication “The regions of the Republic of Armenia and the city of Yerevan by numbers”

The picture is different in the metal mining sector, which accounted for 6.2 and 5.6% of total employment of the industry sector in 2016 and 2017 respectively. As indicated in the figure below, only 3.6 and 3.9% of people employed in this sector during 2016 and 2017 were located in Yerevan, while the overwhelming majority of workers, almost 90%, were in the regions of Syunik and Lori, with respective shares of 70 and 18%. During the period of 2016-2017, the sector ensured respectively 19 and 17% of all formal jobs in the Syunik region, hosting about 5600 workers during both years.

Figure 2.1.6 The regional distribution of people employed in the metal mining sector in 2016 and 2017



Source: The chart is based on data provided by metal mining companies for the EITI report

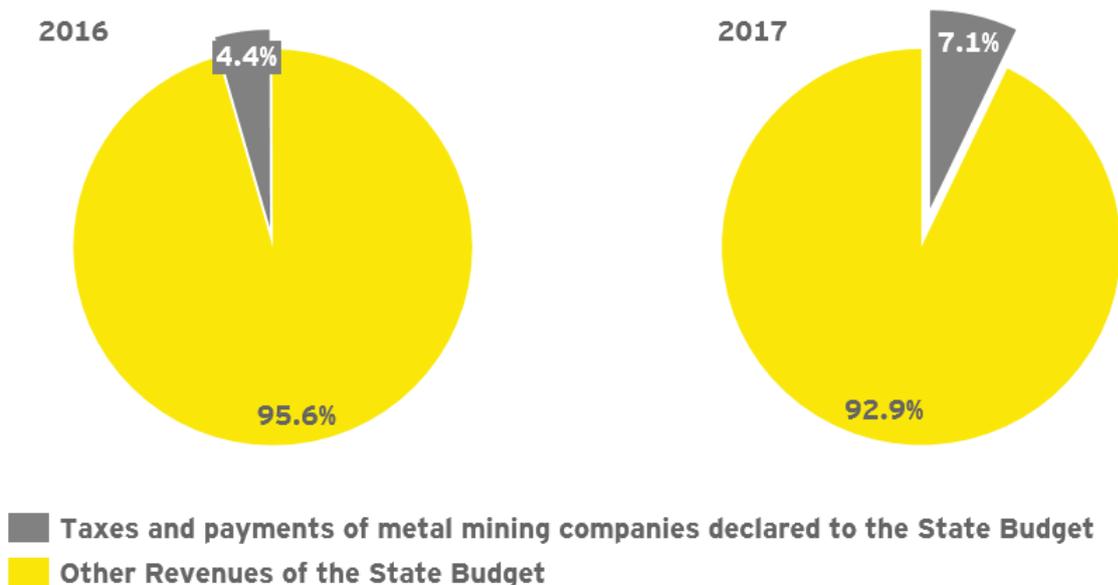
There is no publicly available reliable information on informal employment in extractive industries of Armenia. However, a number of peculiarities of the metal mining sector, such as being in the centre of public attention, legislative regulations, monitoring and accountability requirements render the level of informal employment in the sector non-risky as compared to the general industry sector.

2.3 State revenues from the metal mining sector and their distribution (requirement 6.3)

2.3.1 The contributions of metal ore extractive companies to the state budget

The metal mining companies pay value added tax, excise and environmental taxes, royalties, customs duties and fees, nature use payments and a number of other taxes and payments to the State budget. According to data provided by the State Revenue Committee, in 2016 the taxes and payments paid by metal mining companies to the State budget totalled 51.1 bln AMD or 4.4% of total incomes. In 2017 the taxes and payments paid by the metal mining companies to the State budget increased, reaching 87.1 bln AMD or 7.1% of total incomes.

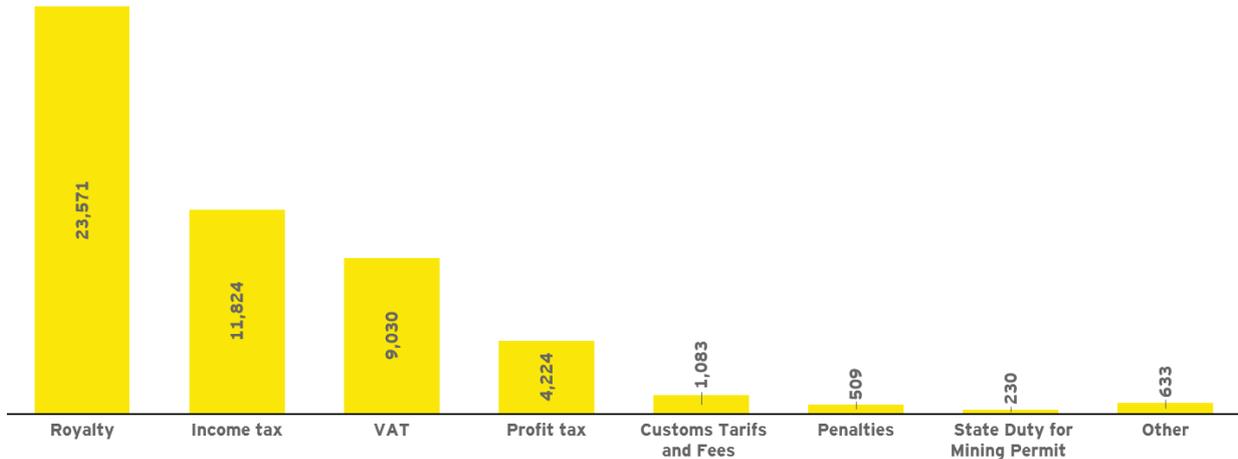
Figure 2.3.1 The share of the taxes and payments paid by metal mining companies to the State budget in 2016 and 2017



Source: The information was provided by the RA SRC for the EITI report

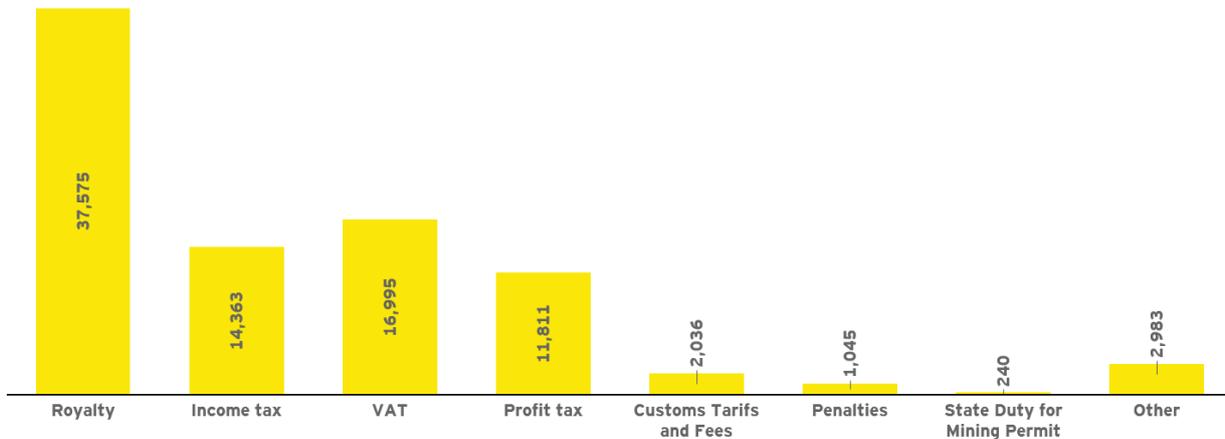
The increase in the payments of metal ore extractive companies made to the State budget is also proportionally reflected in the structure of those payments. The structure of payments made in 2016 and 2017 is presented below.

Figure 2.3.2 The taxes and payments declared by metal ore extractive companies to the State budget in 2016, mln AMD¹⁷



Source: The information was provided by the RA SRC for the EITI report

Figure 2.3.3 The taxes and payments declared by metal ore extractive companies to the State budget in 2017, mln AMD



Source: The information was provided by the RA SRC for the EITI report

The structure of the taxes and payments calculated by metal ore extractive companies to be paid to the State budget was generally the same in 2016 and 2017. In 2017, the payments increased from both absolute value and relative share viewpoints. The revenues from royalty, income tax, VAT and profit tax demonstrated significant growth. It should be noted that although the revenue streams from the first four tax types remained the same, the VAT payments exceeded the income tax in 2017 and totalled to

¹⁷ This report presents the total sums of obligations calculated based on the tax report and tax (inspection) act(s) (by study protocol) (excluding fines and penalties) for the reporting year.

1.4% of the total State budget incomes. Only revenues generated from excise tax have decreased which, however, did not have a significant influence on the total volume of revenues.

Table 2.3.1 Taxes and payments declared by metal ore extractive companies to the State budget during 2016-2017, mln AMD

	2016		2017	
State budget revenues, mln AMD	1,171,107	100%	1,237,781	100%
Total tax payments calculated by metal ore extractive companies, mln AMD, including	51,100	4.36%	87,048	7.1%
Royalty	23,571	2.01%	37,575	3.04%
VAT	9,030	0.77%	16,995	1.37%
Income tax	11,824	1.01%	14,363	1.16%
Profit tax	4,224	0.36%	11,811	0.95%
Penalties	362	0.03%	1,310	0.11%
Fines	509	0.04%	1,045	0.08%
Environmental payments (taxes)	71	0.01%	794	0.06%
State duty for mining permit	-	0.00%	240	0.02%
Excise tax	117	0.01%	65	0.01%
Environmental payments (taxes) charged for goods imported from EAEU member countries according to the declared customs declarations for import	3	0.00%	5	0.00%
Environmental payments (taxes) charged for goods imported from non-member countries of the EAEU, according to the declared customs declarations	10	0.00%	15	0.00%
Customs duties and fees	1,083	0.09%	2,036	0.16%
Other	298	0.03%	794	0.06%

Source: The information was provided by RA SRC for the EITI report

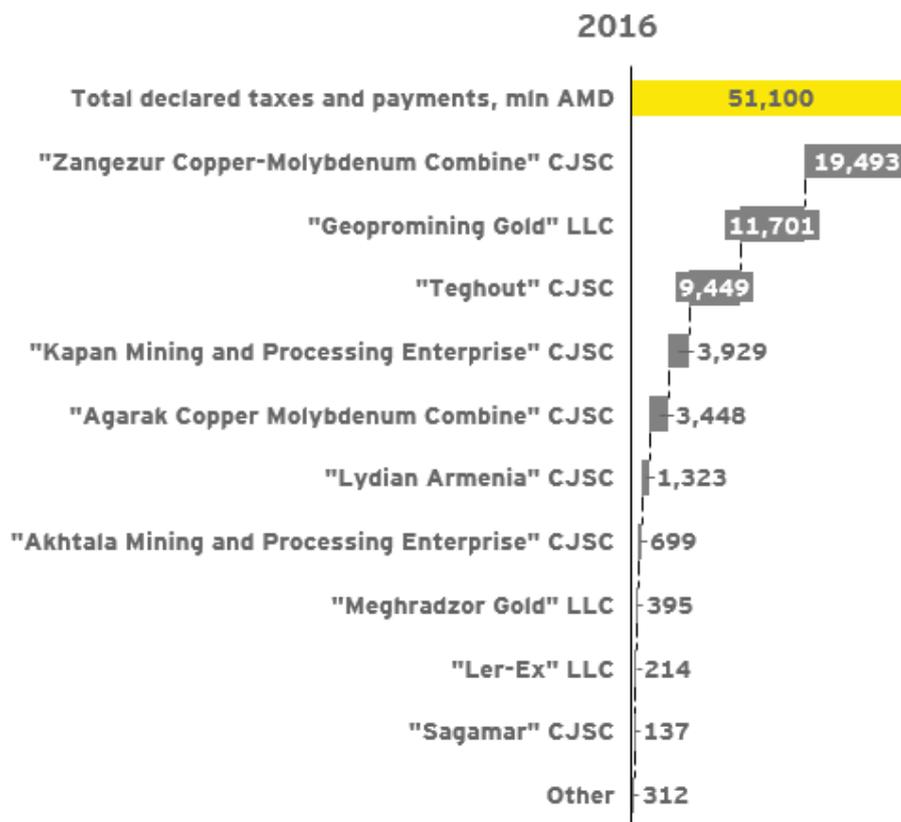
The leading company by the amount of payments made to the State budget was “Zangezur Copper-Molybdenum Combine” CJSC that accounted for the 37.7% of all payments declared by metal ore extractive companies in both 2016 and 2017. The share of payments calculated by “Zangezur Copper-Molybdenum Combine” CJSC in total State budget revenues amounted to only 1.7 % or 19.4 bln AMD in 2016 and 2.7% or 32.6 bln AMD in 2017.

The second by the total amount of payments made to the State budget is “Geopromining Gold” LLC, whose share in total payments of mining companies is 22.9% and 16.4% for 2016 and 2017 respectively. The payments calculated by “Geopromining Gold” LLC totalled to 9.4 bln AMD in 2016 and 13.5 bln AMD 2017.

The third by the total amount of payments to the State budget in 2017 is “Teghout” CJSC, whose share in total payments of mining companies is 18.5% and 16.4% in 2016 and 2017 respectively – in absolute value, 0.9 bln AMD in 2016 and 14.3 bln AMD in 2017.

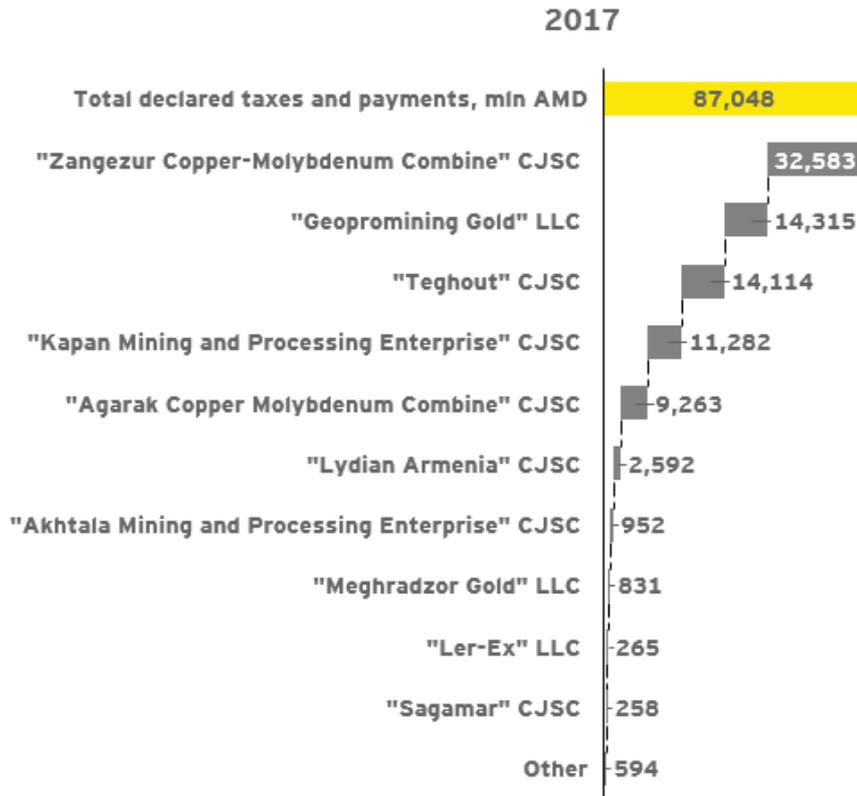
The figures below present the structure of payments realized by metal ore extractive companies to the State Budget in 2016 and 2017 by the volume of money separating and classifying the payments realized by the 10 leading companies. The information is based on the data provided by the RA SRC.

Figure 2.3.4 Taxes and payments declared by metal mining companies to the State budget in 2016, mln AMD



Source: The information was provided by RA SRC for the EITI report

Figure 2.3.5 Taxes and payments declared by metal mining companies to the State budget in 2017, mln AMD

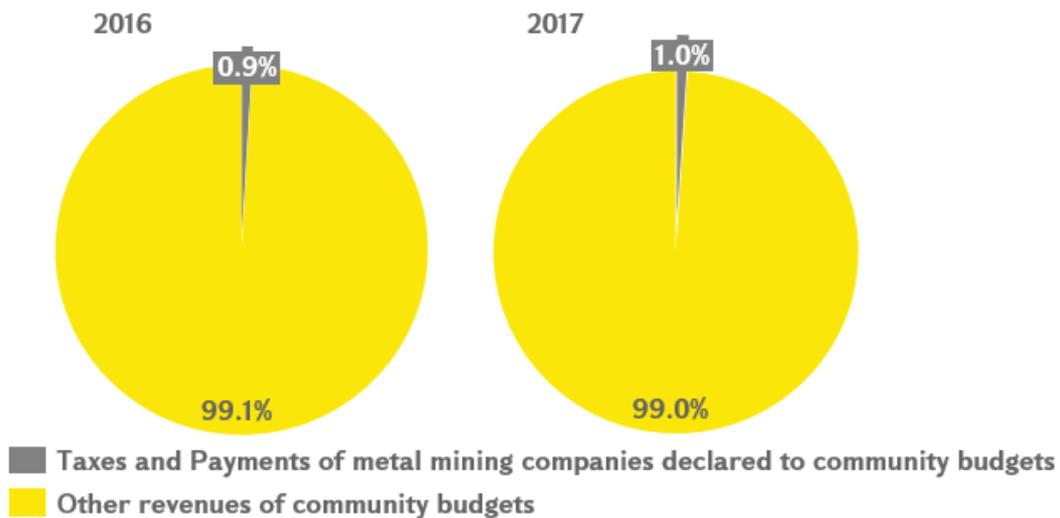


Source: The information was provided by RA SRC for the EITI report

2.3.2 The contributions of metal ore extractive companies to community budgets¹⁸

According to information provided by the RA Ministry of Territorial Administration and Development for the EITI report, the amount of taxes and payments paid by metal mining companies to the community budgets totalled to 1.2 bln AMD or 0.9% of total revenues in 2016. In 2017, the revenues of community budgets from the payments made by metal mining companies slightly increased reaching 1.0% or 1.3 bln AMD.

Figure 2.3.6 Taxes and payments paid by the metal ore extractive companies to the community budgets in 2016-2017

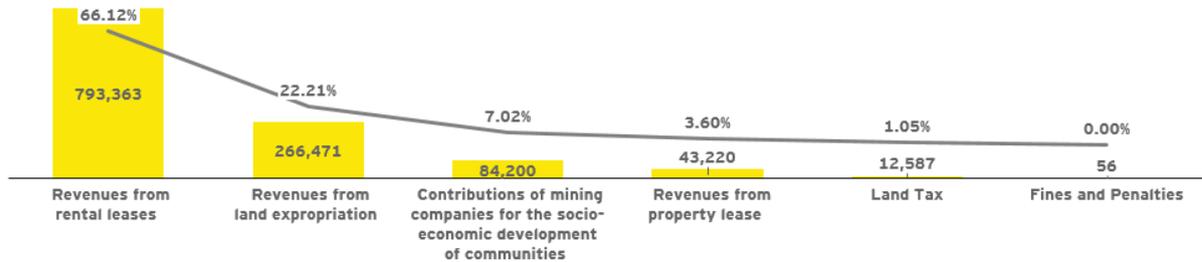


Source: The information was provided by RA MTAD for the EITI report

The main part of the taxes and payments paid to community budgets by metal ore extractive companies came from property leases forming 66.1 and 65.6% of total taxes calculated by these companies in 2016 and 2017 respectively. The structure of taxes and payments calculated for payment to community budgets by metal mining companies in 2016-2017 classified by to the type of payments is presented below.

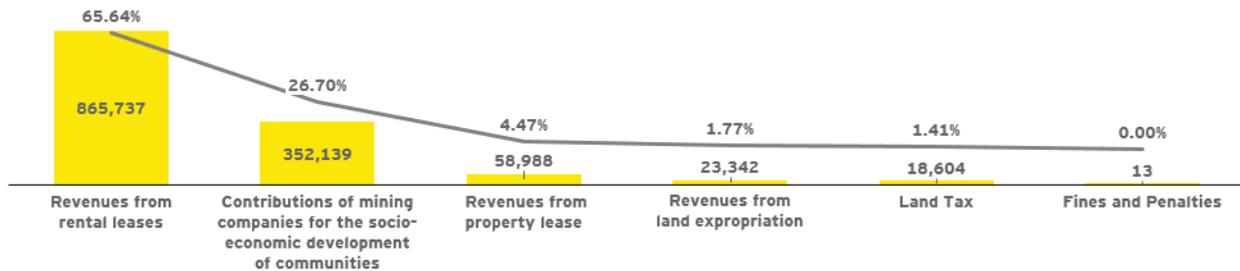
¹⁸ For the EITI report, the communities presented in the EITI reports of the companies and State institutions were considered

Figure 2.3.7 The revenues of communities in 2016 from taxes and payments of metal ore extractive companies by the structure of streams, thousand AMD



Source: The information was provided by the RA MTAD for the EITI report

Figure 2.3.8 The revenues of communities in 2017 from taxes and payments of metal ore extractive companies by the structure of streams, thousand AMD

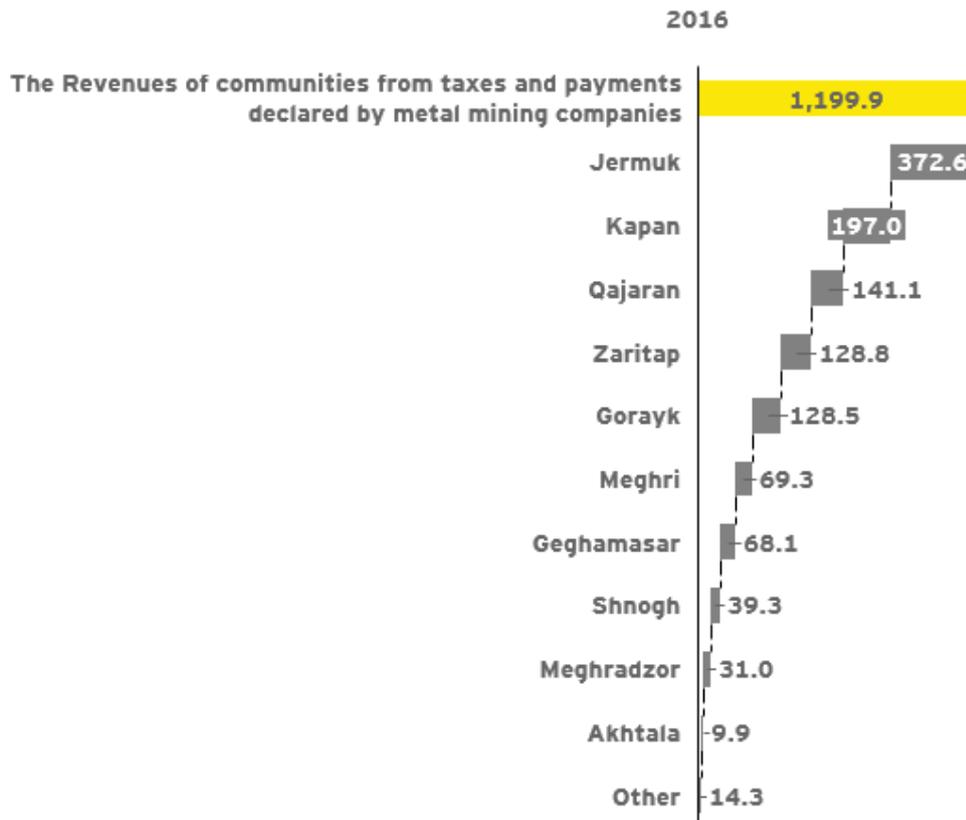


Source: The information was provided by the RA MTAD for the EITI report

Compared to 2016, the absolute value of taxes and payments to community budgets by metal ore extractive companies increased significantly in 2017. During both years, revenues from leases constituted the main part of community revenues, amounting to 66.1 and 65.6% of total revenues respectively. The large part of these revenues comes from land leases. In contrast to 2017, revenue from land expropriation was the second largest revenue stream by volume in 2016. It must however be noted that this large revenue was based solely on the payment of one company, “Lydian Armenia” CJSC to one community, Jermuk. This payment coincided with the commencement of operations of “Lydian Armenia” CJSC in that community. For the same reason, revenues from land expropriation significantly decreased in 2017. In contrast to that, the share of revenues from payments for the socio-economic development of communities made by mining companies has significantly increased rising from 7% to 26.7%. Other streams generally preserved their share in the structure of revenues.

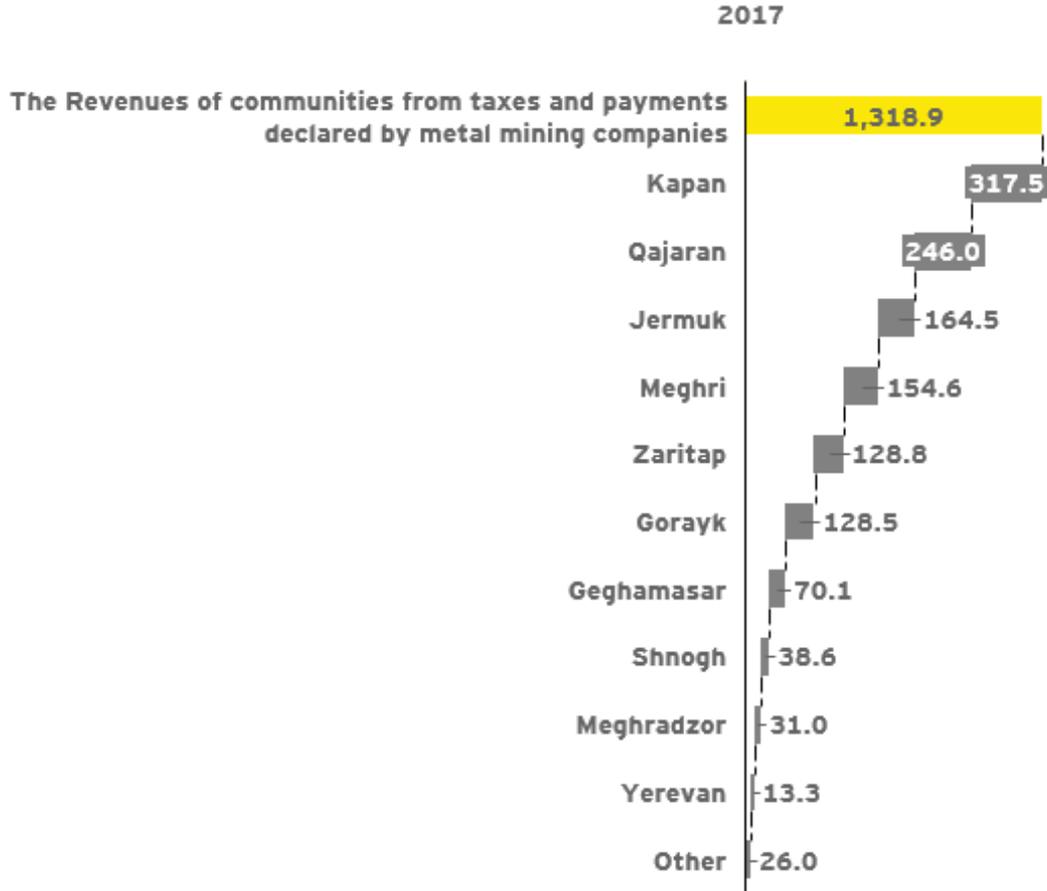
The large payments associated with the initiation of operations of “Lydian Armenia” CJSC are also visible in the 2016 classification of revenues by community. Thus, Jermuk community was the leading community for revenue sizes in 2016, receiving around 31% of total revenues or 372.6 mln AMD which is higher than the revenue of the second community in the list, Kapan, by 175.5 mln AMD. However, the traditional distribution of revenues was re-established in 2017 and Jermuk community withdrew to the third position. Kapan and Kajaran communities held the first and the second places, receiving 24.1% and 18.6% of total revenues respectively. The classification of revenues from the metal mining companies by community in 2016 and 2017 is presented below.

Figure 2.3.9 The revenues of community budgets from the taxes and payments of metal mining companies in 2016, classified according to leading communities, mln AMD



Source: The information was provided by the RA MTAD for the EITI report

Figure 2.3.10 The revenues of community budgets from the taxes and payments of metal mining companies in 2017, classified according to leading communities, mln AMD



Source: The information was provided by the RA MTAD for the EITI report

Table 2.3.2 Payment contributions to community budgets by mining companies for 2016-2017 by communities, thousand AMD

	2016	2017
Total payments calculated by the companies	1,199,898	1,318,823
Akhtala	9,871	10,992
Arjut	1,147	1,147
Lori Berd	-	48
Geghamasar	68,116	70,059
Gorayq	128,480	128,480
Yerevan	2,762	13,328
Zaritap	128,782	128,781
Kapan	197,058	17,527
Meliq	3,635	35
Meghradzor	30,976	31,000
Meghri	69,318	154,483
Shogh	39,289	38,647
Jermuk	372,607	164,543
Sisian	4	4
Stepanavan	4,947	11,255
Vayq	1,155	-
Kajaran	141,092	245,984
Odzun	-	2,509

Source: The information was provided by RA MTAD for the EITI report

the

Table 2.3.3 The share of payments made by metal ore extractive companies to the community budgets in 2016-2017

Community	2016			2017		
	Actual annual revenues of the community	Payments declared by metal ore extractive companies	% of budget	Actual annual revenues of the community	Payments declared by metal ore extractive companies	% of budget
Akhtala	474,597 ¹⁹	9,871	2.1%	167,669	10,992	6.4%
Arjut	29,850	1,147	3.8%	29,786	1,147	3.9%
Geghamasar	122,990	68,116	55.4%	307,737	70,059	21.7%
Gorayk	166,353,5	128,480	7.7%	170,300	128,480	7.5%
Yerevan	80,512,096	2,762	0.0%	72,479,070	13,328	0.0%
Zaritap	244,308	128,782	52.7%	241,387	128,781	53.1%
Lori Berd	13,751	Information not available	-	140,742	48	0.0%

¹⁹a) For 2016, some of the reports of the MTAD pertaining to some community budgets were not yet updated to reflect the consolidation of a number of communities in 2016. In these cases, the revenues of all the residential areas forming a part of consolidated communities were added.

b) According to the current RA budgeting procedures, revenues received from the expropriation of fixed assets and land are recorded not as revenues but as negative expenses. Given that metal mining companies have made large payments for land expropriation, the revenues presented in this table were calculated by adding total revenues and negative expenses, which reflected the real budget revenues of communities.

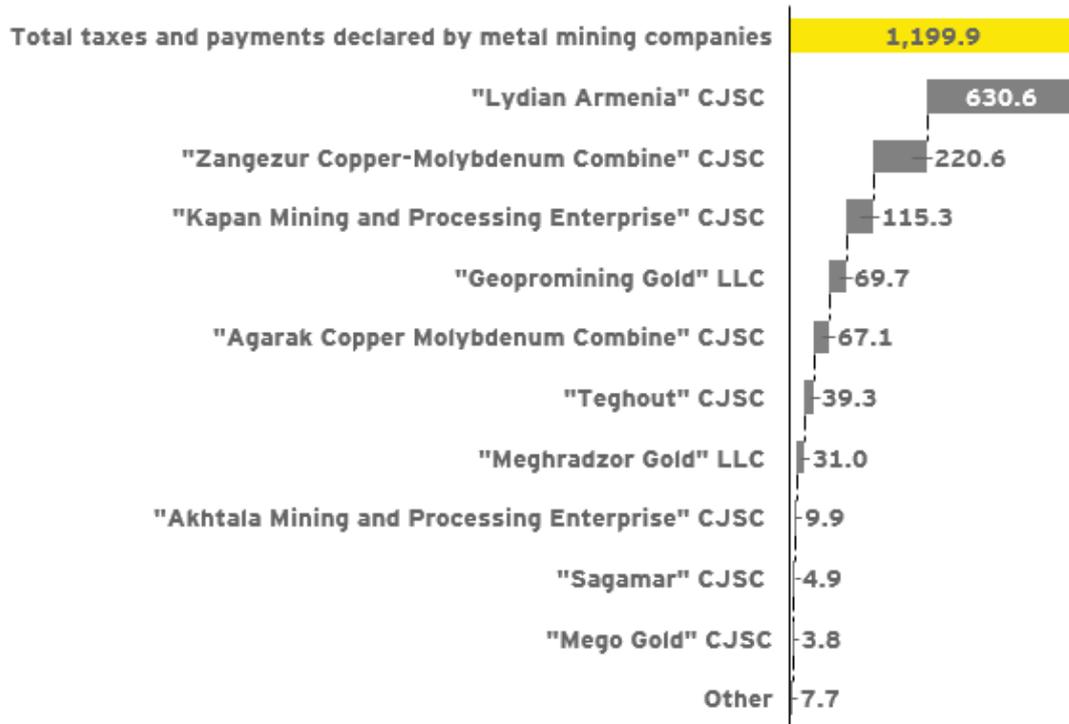
Community	2016			2017		
	Actual annual revenues of the community	Payments declared by metal ore extractive companies	% of budget	Actual annual revenues of the community	Payments declared by metal ore extractive companies	% of budget
Melik	33,044	3,635	11.0%	26,805	35	0.1%
Meghradzor	87,151	30,976	35.5%	160,936	31,000	0.0%
Shnogh	133,308	39,289	29.5%	156,504	38,647	23.2%
Jermuk	614,194	372,607	60.7%	436,402	164,543	36.9%
Stepanavan	3524,054	4,947	1.4%	426,941	11,255	2.5%
Vayk	182,829	1,155	0.6%	218,473	0	0.0%
Kapan City	1,359,181	197,058	14.5%	1,541,268	317,527	19.6%
Meghri City	566331	69,318	12.2%	638,743	154,483	23.1%
Sisian City	407,163	4	0,0%	826,560	4	0.0%
Kajaran City	419,944	141,092	33.6%	466,002	245,984	51.0%
Odzun	162,456	Information not available	-	232,822	2,509	1.1%

The leading company by the volume of payments to community budgets is “Lydian Armenia” CJSC, which was accountable for 52.5% and 32.1% of all payments made by the metal ore extractive companies in 2016 and 2017 respectively.

The share of payments declared by “Zangezur Copper Molybdenum Combine” CJSC in total volume of payments to community budgets declared by metal ore extractive companies was 18.4% in 2016 and 23.8% in 2017.

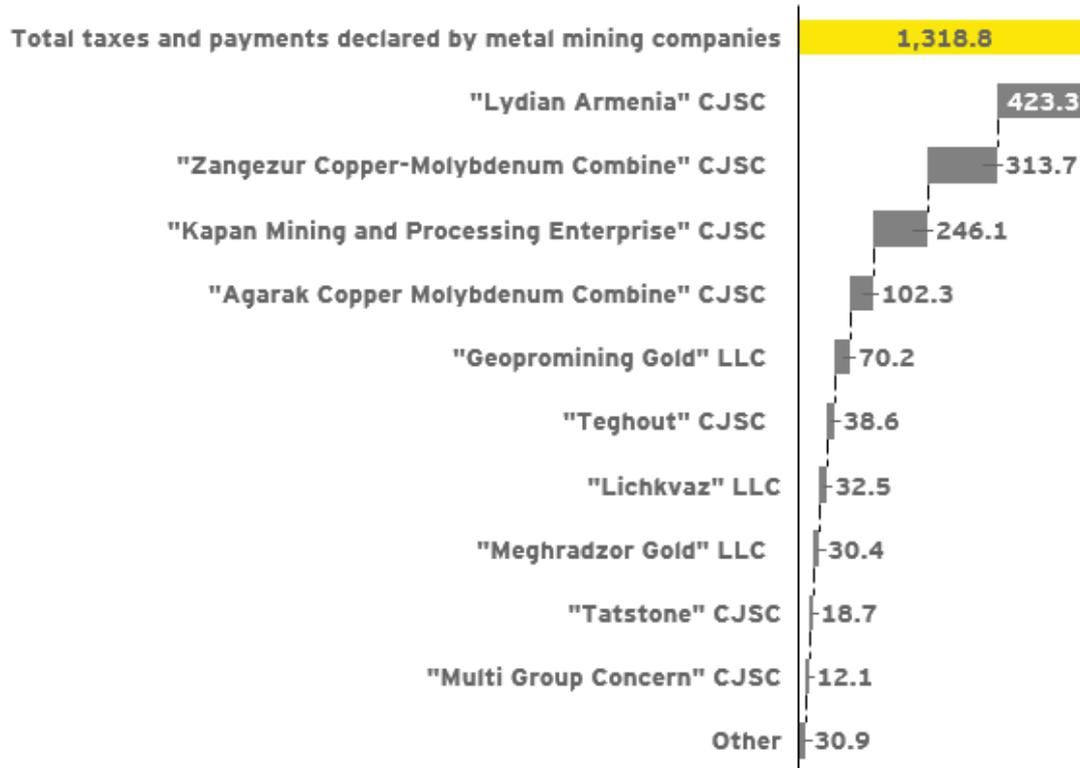
The share of “Kapan Mining and Processing Company” CJSC’s payments to community budgets in the revenues generated from metal ore extractive companies during 2016-2017 was 9.6% and 18.7% respectively.

Figure 2.3.11 Taxes and payments of metal ore extractive companies to community budgets declared in 2016, mln AMD



Source: The information was provided by the RA MTAD for the EITI report

Figure 2.3.12 Taxes and payments of metal ore extractive companies to community budgets declared in 2017, mln AMD



Source: The information was provided by the RA MTAD for the EITI report

2.3.3 Revenues designated for special projects or geographical areas (*requirement 5.1, 5.2, 5.3*)

According to the RA Law “On Targeted Use of Environmental Payments Made by Companies”²⁰, contributions to administrative and fund budgets of the communities deriving from environmental payments are considered as special-purpose resources and shall be used solely for implementation of environmental projects within the territory of given communities.

According to Article 3 of the same law, the draft of the project shall be developed by the head of the community in compliance with the procedure defined by the law and based on the approved documents on development (social-economic development) plans of the given community or region (marz) or local action-plans for environmental protection or other project- or strategy-level documents.

According to the RA Government Decree "On approving the procedure for developing (drafting) environmental projects"²¹, the project is elaborated on the basis of a previously approved terms of reference which includes the structural points stated below:

1. The purpose of the project,
2. The legal basis of the project,
3. Authorities of the State body during the implementation of the program,
4. Project beneficiaries and services provided,
5. Project issues and their link with the project purpose,
6. Structure (activities) of the project,
7. Methods of project implementation (measures and the scopes of implementing organizations),
8. Project performance indicators (implementation volume indicators in natural volumes by separate activities or sub-projects):
 - a) Final results,
 - b) Direct results,
9. Description of project implementation,
 - a) Description of the current status of the project,
 - b) Planning/prediction of project final results according to implementation phases (periods).

According to the same Decree, the cost of the project is estimated by means of calculating the estimate price of the project. Cost estimates are calculated on the basis of the standards set by the Government of the Republic of Armenia and, in cases of absence of the abovementioned normatives the project estimate prices are calculated in compliance with methodological instructions for drafting and submitting sectoral applications in the scopes of the State budget development activities approved by the Republic of Armenia Ministry of Finance for calculation of budget expenditures for the given year.

For thematic environmental projects, the expenditures are calculated by using the corresponding formula, which takes into account and estimates the salary rate of relevant specialists, the labour-

²⁰ <https://www.arlis.am/DocumentView.aspx?DocID=55110>

²¹ <https://www.arlis.am/DocumentView.aspx?docID=88963>

intensiveness of their labour and applies certain coefficients for material costs, costs of services, overhead costs and profitability, as well as takes into consideration the taxes stipulated by RA law and calculated in compliance with the order stipulated by the same law.

According to the Law of the Republic of Armenia “On Targeted Use of Environmental Payments Made by Companies”²², the project is published by the head of the community (each community publishes the relevant project on its website, which is publicly available).

According to the RA Government Decree “On approving the procedure for developing (drafting) environmental projects”²³, within 15 days prior to approving the project documentation, the State body implementing environmental project²⁴ informs the public via mass media (including electronic) (local and republican radio, television, printed media), projects presentation events, publications, website publications and also through public discussions. State bodies implementing environmental projects inform the public about the projects and their implementation process by providing corresponding project-related documentation to relevant heads of communities.

In any case, prior to commencement of project implementation, as well as during its implementation process, the project implementing body should come to an agreement with subjects bearing losses as a result of project implementation on the compensation of damages resulting from the implementation of the project.

The estimate documents of the project are approved:

- 1) For RA State budget-funded projects by the RA Ministry of Health and/or by the RA Ministry of Nature Protection,
- 2) For municipal budget-funded projects by the head of community, responsible for the implementation of the project.

According to the Law of the Republic of Armenia “On Targeted Use of Environmental Payments Made by Companies”²⁵, the companies, as well as other legal entities and individuals can present written suggestions to the head of community concerning the draft of the project within a 15-day period from its publication.

The project includes: actions aimed at the protection of the environment and at addressing environmental issues in the land, water and air conditioned by the activities of companies operating within administrative boundaries of the community; actions aimed at preserving the health of the population of the community conditioned by the activities of companies and priorities of implementation of programmatic activities and proportions of their financing.

²² See reference 12

²³ See reference 13

²⁴ <https://www.arlis.am/DocumentView.aspx?docID=91223>

²⁵ See reference 12

The submitted project should comply with the methodical guidelines for development of RA draft State budget for the given year and also include the issues of the activities to be implemented, their objectives and necessity of implementation, compliance with the requirements of the legislation, the implementation stages (timetable), costs necessary for implementation and expected results. The project is discussed by authorized bodies within ten-day period after submission. The community board is authorized to return the project to the community head with the purpose of its revision within the terms defined by the board.

The authorized bodies discuss the updated part of the submitted project within three-day period from the day of submission and in case all the comments and recommendations made by the authorized bodies and serving as grounds for rejecting the project are fully incorporated in project annex, the consent is being granted. In case all the comments and recommendations are not fully incorporated, the updated project annex is being returned.

The Consent is not granted if,

- a. If the environmental activities to be carried out in compliance with the project contradict with the RA legislation, the international environmental and health conventions taken over by the Republic of Armenia and other legal acts,
- b. The project package does not contain all the necessary documents (statements, calculations) or the information (calculations) contained therein does not correspond to reality.

Breaching the terms for provision of consent, as well as refusing from granting a consent may be appealed by higher order or juridically.

Prior to project approval the priorities of the envisaged activities and their financing proportions are approved with the State bodies authorized in the fields of nature protection and healthcare in compliance with the order defined by the Government of the Republic of Armenia²⁶.

As per the procedure set fort under the budgeting legislation of the Republic of Armenia, the authorized State body of the Government of the Republic of Armenia in the field of the management of State finances, based on the received projects, develops the draft list of the communities to receive proportional contributions from the state budget for financing of projects during the upcoming budgetary year, taking into consideration the total amount of contributions designated for financing of such projects under the State budget during the upcoming year.

²⁶ See reference 12

Figure 2.3.13 The process of approval and distribution of environmental projects

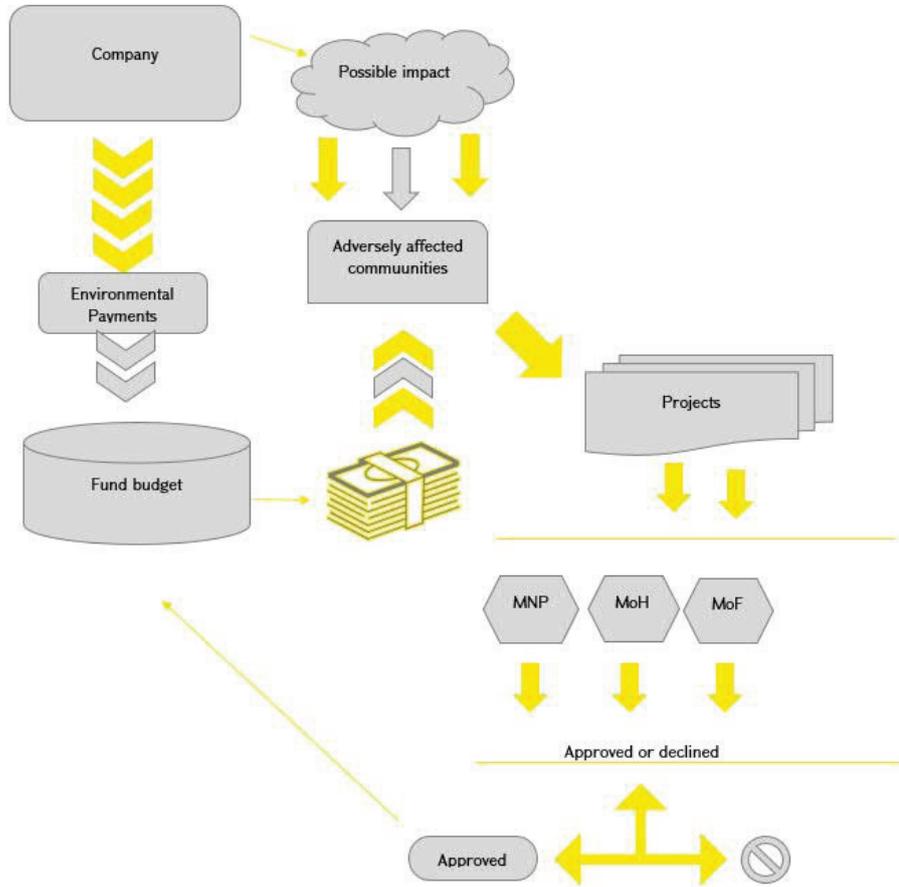


Table 2.3.4 The list of communities adversely affected as a result of operations of companies listed in the Article 1 of the Republic of Armenia Law “On Targeted Use of Environmental Payments Made by Companies” for 2016-2017

Name of the company	2016		2017	
	The proportion of the distribution of environmental payments between communities (% of total)	Names of communities adversely affected by the activities of companies	The proportion of the distribution of environmental payments between communities (% of total)	Names of communities adversely affected by the activities of companies
From environmental payments charged for discharge of hazardous wastes and compounds into environment (water basin).				
“Zangezur Copper-Molybdenum Combine” CJSC	50%	Kajaran	50%	Kajaran
	30%	Kapan	30%	Kapan
	10%	Syunik	10%	Syunik
	10%-	Lernadzor	10%-	Lernadzor
“Geopromining Gold” LLC	100%	Sotq	100%	Sotq
From environmental payments charged for discharge of hazardous wastes into environment (air).				
“Zangezur Copper-Molybdenum Combine” CJSC	70%	Kajaran	70%	Kajaran
	10%	Lernadzor	10%	Lernadzor
	20%	Kajaran	20%	Kajaran
“Geopromining Gold” LLC	15%	Ararat	15%	Ararat
	85%	Sotq	85%	Sotq
From charges for disposal of environmentally hazardous production and consumption wastes in compliance with the defined order				
“Zangezur Copper-Molybdenum Combine” CJSC	40%	Kajaran	30%	Kajaran
	10%	Achana	10%	Achana
	20%	Syunik	20%	Syunik
	20%	Artsvanik	20%	Artsvanik
	10%	Sevaqar	10%/10%	Sevaqar/ Chapni

Source: The information was provided by the RA MTAD in the scopes of EITI report preparation

Table 2.3.5 Subventions and environmental programs allocated to adversely affected communities in compliance with the Republic of Armenia Law “On Targeted Use of Environmental Payments Made by Companies” for 2016

Activities realized under 2016 environmental projects²⁷	
Name	Amount (Thousand AMD)
Total	89,748
Total Kapan	6,276.10
Tree planting, green areas restoration, improvement and renovation works on Kapan Community Manoogian street sidewalks	6,276.1
Total Kajaran	15,618.8
Environmental activities, including:	12,368.8
Acquisition of sweeping-cleaning "vacuum cleaner" machine	11,000.0
Ecological education development and information provision	1,368.8
Healthcare activities:	3,250
Total Agarak	3,340.0
Healthcare activities:	3,340.0

Source: The information was provided by the RA MTAD for EITI report preparation

Table 2.3.6 Subsidies and environmental programs allocated to adversely affected communities in compliance with the Republic of Armenia Law “On Targeted Use of Environmental Payments Made by Companies” for 2017

Activities realized under 2017 environmental projects²⁸	
Name	Amount (Thousand AMD)
Total	137,644
Total Kapan	8,875.0
Tree planting, green areas restoration, improvement and renovation works on Kapan Community Manoogian street sidewalks	8,875.0
Total Kajaran	8,400.0
Environmental activities, including:	7,820.0
Energy efficiency modernization of urban illumination system	3,300.0
Ecological education development and information provision	1,430.0
Atmospheric air protection	2,016.0
Improvement of household waste management	1,074.0
Healthcare activities:	580.0
Total Agarak	1,036.0
Healthcare activities:	1,036.0

Source: The information was provided by the RA MTAD in the scopes of EITI report preparation

According to the RA Law “On Targeted Use of Environmental Payments Made by the Companies”, corresponding environmental projects have been carried out during the time period of 2016-2017 in the cities of Alaverdi, Akhtala, Agarak and Ararat, as well as in Aqori, Haghpat, Odzun, Hagvi and other villages. Overall, under the stated Law in 2016 an amount totaling 89,748,000 AMD was disbursed to

²⁷ http://www.minfin.am/hy/page/petakan_byujei_hashvetvutyun_2016_t_tarekan

²⁸ http://www.minfin.am/hy/page/petakan_byujei_hashvetvutyun_2017_t_tarekan

communities, while in 2017 an amount of 137,644,000 AMD was disbursed. More detailed information is provided in Annex 4.

According to point 20-th of clause 4 of the RA Law “On Environmental Impact Assessment and Expertise”, the term “affected community” is defined as the population – physical and/or legal persons of the community (communities) subject to possible impact of the principal document or environmental impact resulted from envisaged activities. In the same Article and the same Law, the concept of "principal document" is defined as the draft of the environmental impact document (policy, strategy, concept, outline, natural resource utilization scheme, program, layout/plan, project document) draft.

According to EITI legislative and institutional analysis conducted by AUA’s Center for Responsible Mining, the Armenian legislation does not allow for differentiation between affected and non-affected communities. In essence, the decisive factor is the fact that the community is referred to as "affected" in the principal document of Environmental Impact Assessment and Expertise.

Based on the current regulations of program presentation and implementation processes, there is a need to maximize the publicity of the stepwise developments (program presentation, approval or rejection and approved program implementation processes) of the current process.

According to the Law “On Targeted Use of Environmental Payments Made by the Companies”²⁹, deductions from environmental tax payments of only 4 out of the 27 metal ore extractive companies are realized and reflected as a separate budget line in the budgets of those communities the territories of which are adversely affected as a result of the operations carried out by stated companies.

There are certain shortcomings in the legislative framework, which are related to the following facts:

- ▶ There are no clear legal regulations on the rules and guidelines for determining the "affected community";
- ▶ There is no clear regulation on the assessment of the damage caused to the community as a result of the activities realized in the mining industry and the mandatory nature of implementation of relevant programs and the necessity of submitting corresponding programmatic reports;
- ▶ there is no legal regulation on the effectiveness of defining upper and lower thresholds for the amounts allocated for environmental projects from the environmental payments stipulated by the Law;
- ▶ The Law “On Targeted Use of Environmental Payments Made by the Companies” only lists 4 metal ore extractive companies;
- ▶ there is no publicly available criteria for defining the size of the subsidy provided to each community;
- ▶ There is no obligation for publication of program implementation reports.

²⁹ <https://www.arlis.am/DocumentView.aspx?DocID=118700>

2.4 Production, reserves, export and local sales in the metal mining industry

The main metal minerals extracted in Armenia are copper, molybdenum and gold. According to the information provided by the MEINR, over 850 mines with confirmed reserves of mineral resources are registered in the state cadaster of mineral resources, including 42 metal mines. Out of these mines, around 400 are currently exploited, including 28 metal mines³⁰. Information concerning the mines exploited by each metal mining company during the period of 2016-2017 is summarized in the table below.

Table 2.4.1 Mines exploited by metal mining companies during the period of 2016-2017

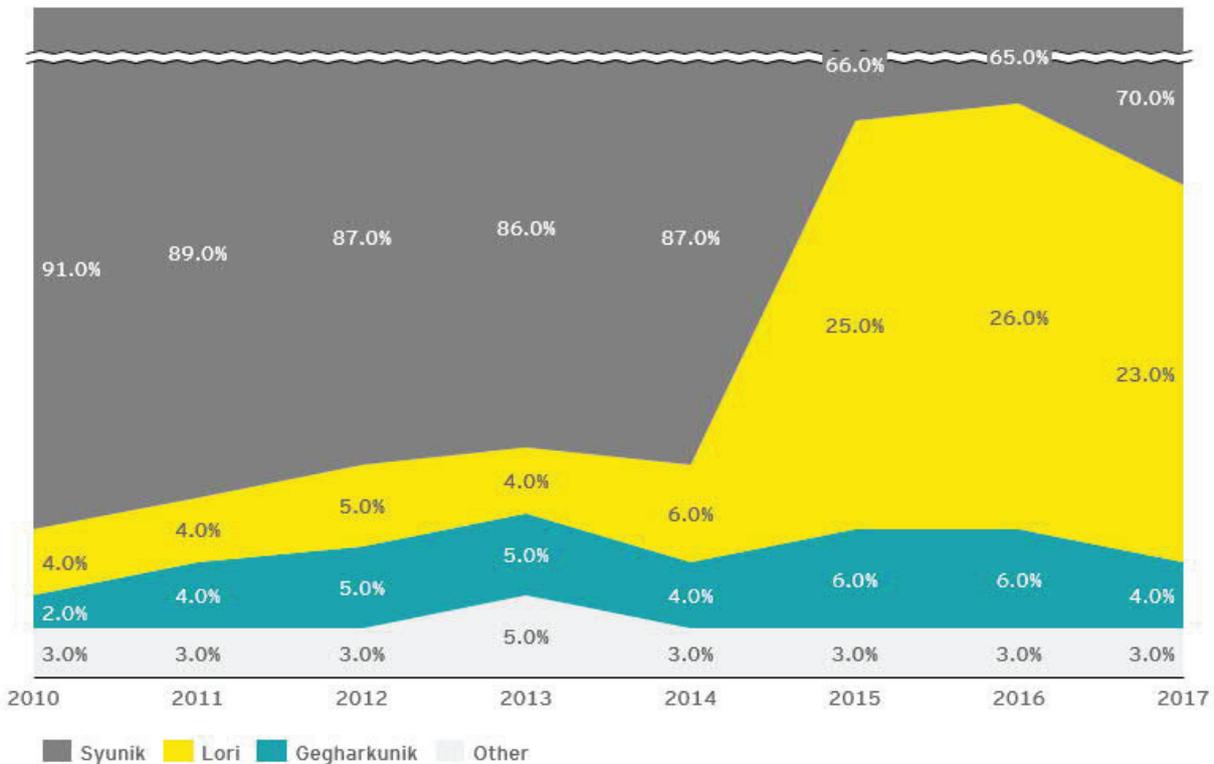
N	Company Name	Mine Exploited	Minerals
1.	"Agarak Copper Molybdenum Combine" CJSC	Agarak copper-molybdenum mine, Syunik	copper, molybdenum
2.	"Akhtala Mining And Processing Enterprise" CJSC	Shamlukh copper mine, Lori	copper
3.	"Active Lernagorts" LLC	Aygedzor copper-molybdenum mine, Syunik	copper, molybdenum
4.	"Assat" LLC	Qaraberd gold mine, Lori	gold, silver
5.	"At-Metals" LLC	Meghrasar gold mine, Syunik	gold
6.	"Backtech Eco" LLC	Arjut gold mine, Lori	gold, silver, copper
7.	"Geghi Gold" LLC	Voskedzor gold-multimetal mine, Syunik	gold-multimetal
8.	"Geopromining Gold" LLC	Sotk gold mine, Gegharkunik	gold
9.	"Zangezur Copper-Molybdenum Combine" CJSC	Kajaran copper-molybdenum mine, Syunik	copper, molybdenum
10.	"Tatstone" LLC	Lichk copper mine, Syunik	copper
11.	"Tatstone" LCC	Tghkut site of the Ayghedzor copper-molybdenum mine, Syunik	copper, molybdenum
12.	"Teghout" LLC	Teghout copper-molybdenum mine, Lori	copper, molybdenum
13.	"Ler-Ex" LLC	Hankasar copper-molybdenum mine, Syunik	copper, molybdenum
14.	"Lydian Armenia" LLC	Amulsar gold quartzite mine, Vayots Dzor	gold quartzite
15.	"Lichkvaz" LLC	Lichkvaz-Tey gold mine, Syunik	gold, silver, copper
16.	"Kapan Mining And Processing Company" CJSC	Shahumyan gold-multimetal mine, Syunik	gold-multimetal
17.	"Hrashk Metagh" LLC	Bardzradir (Mazra) gold mine, Syunik	gold
18.	"Gharagyulyanner" CJSC	The central site of Upper Vardanidzor gold-multimetal mine, Syunik	gold-multimetal
19.	"Marjan Mining Company" LLC	Marjan gold-multimetal mine, Syunik	gold-multimetal
20.	"Mego Gold" LLC	Tukhmanuk gold mine, Aragatsotn	gold
21.	"Meghradzor Gold" LLC	Meghradzor gold mine, Kotayk	gold
22.	"Molibdeni Ashkharh" LLC	Dastakert copper-molybdenum mine, Syunik	copper, molybdenum
23.	"MULTI GROUP" CONCERN" LLC	Mghart gold mine, Lori	gold

³⁰ The information was provided by MEINR for the EITI report. However, the information posted in the "Natural resources – general information" section of the website of MEINR is not updated as of December 3, 2018 (ref: www.minenergy.am/page/472). Full information pertaining to the licenses and contracts issues is presented at this site: <http://www.minenergy.am/page/569>.

N	Company Name	Mine Exploited	Minerals
24.	“Paramount Gold Mining” LLC	Meghradzor gold mine, Kotayk	gold, silver, tellurium, bismuth
25.	“Sagamar” CJSC	Armanis gold-multimetal mine, Lori	gold-multimetal
26.	“Vayk Gold” LLC	Azatek gold-multimetal mine, Vayots Dzor	gold-multimetal
27.	“Vardani Zartonk” LLC	Sofi Binay gold-multimetal mine, Vayots Dzor	gold-multimetal
28.	“Fortune Resources” LLC	Hrazdan iron mine, Kotayk	iron ore

According to the data published by RA SC, the volume of mining and quarrying production reached 256,481 and 339,973 mln AMD in 2016 and 2017 respectively, accounting for 17.9% and 20.4% of total production in the industrial sector. The major share of mining and quarrying output was generated in the region of Syunik which is traditionally the leader of the mining sector with a 70% share achieved in 2017. Next is the region of Lori, which had a 23.3% share in the total production of the mining and quarrying sector in 2017. The contribution of this region to the mining sector has significantly increased since 2015 as a result of expansion of production operations at Teghout mine during the same year.

Figure 2.4.1 Regional contribution to the production of the mining and quarrying sector



Source: armstat.am

Table 2.4.2 The volume of mining and quarrying industry production by regions (marzes), mln AMD

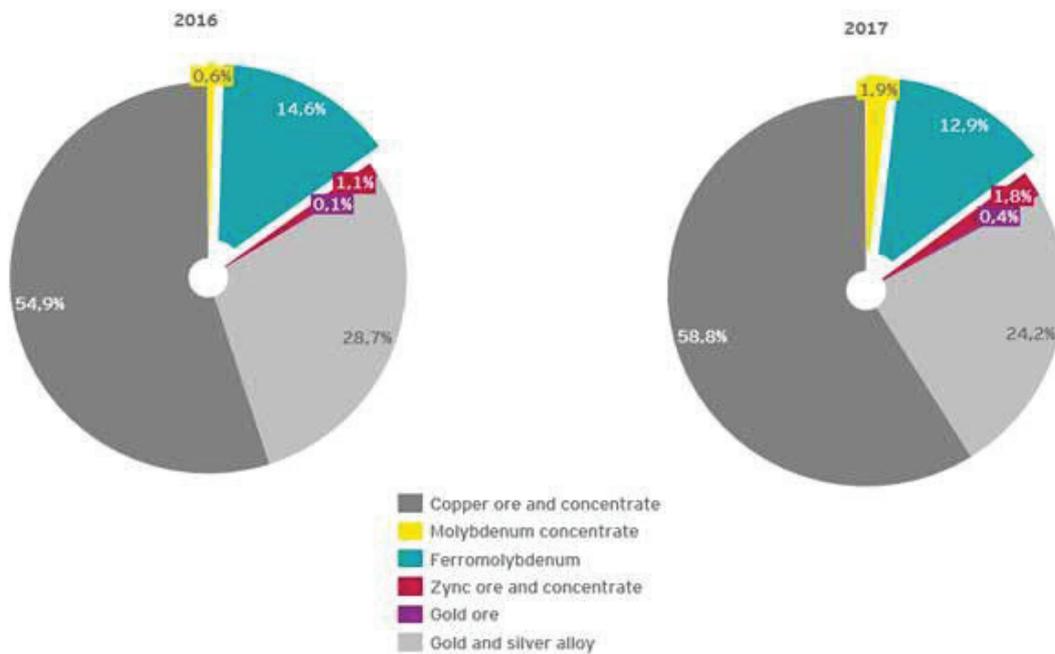
Region	2010	2011	2012	2013	2014	2015	2016	2017
Yerevan city	1,481	1,190	2,154	1,636	1,907	1,987	2,551	2,501
Aragatsotn	531	744	615	256	172	177	113	155
Ararat	1,043	1,076	1,002	870	809	862	714	920
Armavir	-	240	187	410	358	178	269	417
Gegharkunik	2,639	6,575	8,930	9,170	8,307	12,877	14,877	15,098
Lori	5,705	7,141	9,780	8,761	10,820	55,013	66,672	72,220
Kotayk	673	443	1,117	4,514	1,938	2,657	2,787	2,801
Shirak	107	124	112	101	72	54	54	109
Syunik	132,583	152,147	168,853	169,935	168,344	146,387	167,275	236,940
Vayots Dzor	208	174	123	151	97	96	207	398
Tavush	569	314	454	975	320	378	960	1,414
Total	145,537	170,169	193,326	196,779	193,143	220,667	256,481	339,973

Source: armstat.am

2.4.1 Production in metal ore extraction industry (requirement 3.2 and 3.3)

The main product of the mining and quarrying sector in Armenia is copper ore and concentrate³¹. Besides copper, the sector also produces significant volumes of molybdenum concentrate, ferromolybdenum, zinc ore and concentrate. From among precious metals, Armenia produces gold ore, as well as gold and silver alloy. The figure and table presented below summarize the volume and sale prices of main metal mining industry products in 2016 and 2017.

Figure 2.4.2 The share of main metal ore extraction industry products during 2016-2017 by monetary value



Source: the information was provided by metal mining companies for the EITI report

³¹ SC RA terminology has been used, which is based on CPA 2008 statistical indicators: For more information refer to <https://ec.europa.eu/eurostat/documents/1995700/1995914/CPA2008structureexplanatorynotesEN.pdf/79e7f2e5-4e8c-493b-8684-bafaf75801d3> p. 19

Table 2.4.3 The main metal ore extraction industry products during 2016-2017, their volumes and sale prices

	Unit of Measurement	Volume		Sale price, mln AMD	
		2016	2017	2016	2017
Copper ore and concentrate	wmt	428,743	459,273	123,656	134,788
Molybdenum concentrate	wmt	638	2,303	1,388	4,378
Ferromolybdenum	ton	6,519	6,577	32,798	29,585
Zinc ore and concentrate	ton	8,901	10,869	2,534	4,104
Gold ore	ton	14,257	1,446	279	913
Gold and silver alloy	gram	195,864	60,010	1,722	153
	ounce	127,054	139,839	62,857	55,152
Precious metal concentrate containing gold	ton	-	1,446	-	968

Source: the information was provided by mining companies for the EITI report

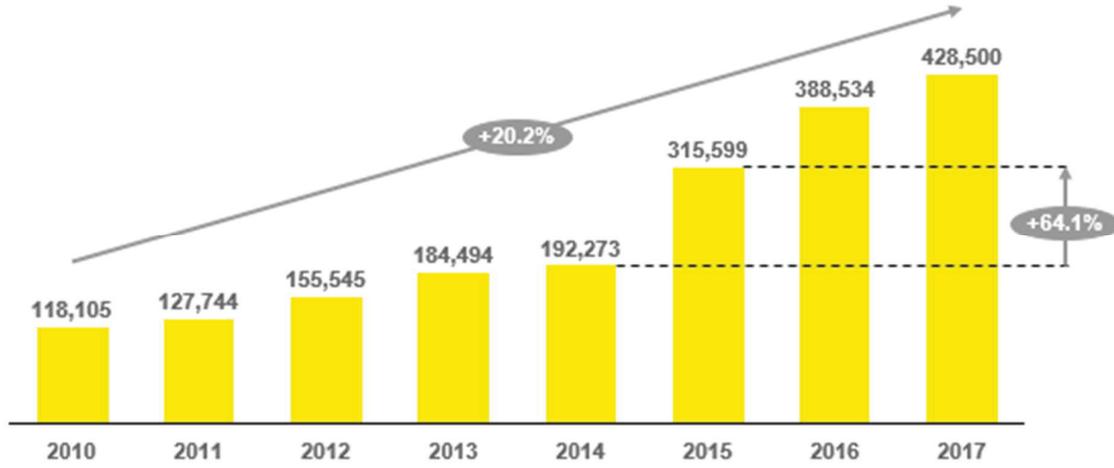
Copper ore and concentrate³²

Copper is the main mineral for Armenia's mining sector. Currently in Armenia companies exploit 7 copper-molybdenum mines and 1 copper mine. According to the information published by the RA SC, during 2010-2017 copper concentrate production increased significantly, reaching 428,500 tons in 2017. The average annual growth rate between 2010 and 2017 was 20.2%, the growth was particularly significant in 2015 (+64.1%).

The significant portion of the increase in the volume of copper produced befell to the Lori region in 2015 and was associated with the operation of Teghout mine: the monetary value of copper concentrate sales by Teghout in 2015 was 51,425,617 thousand AMD, which comprised 93.5% of total mining and quarrying production in Lori region.

³² The information provided by the SC and companies regarding the production of copper and molybdenum ores and concentrates in Armenia in 2016 and 2017 reflected differing volumes. Inquires made from the SC and companies allowed to clarify that the difference of volumes was caused by differing methodical and expert approaches to the employment of various volume measurement tools.

Figure 2.4.3 Copper ore and concentrate production, 2010–2017, ton



Source: armstat.am

Table 2.4.4 Copper ore and concentrate production by companies, 2016-2017

Company	Community of the company operations	Volume, wmt		The percentage increase or decrease of volume	Value, mln AMD		The percentage increase or decrease of value
		2016	2017		2016	2017	
"Teghout" CJSC	RA, Lori region, Teghout	146,718	122,320	-17%	38,046	36,397	-4%
"Akhtala Mining and Processing Enterprise" CJSC	RA, Lori region, Akhtala	8,262	13,306	+61%	3,031	3,935	+30%
"Zangezur Copper Molybdenum Combine" CJSC	RA, Syunik region, Kajaran	237,578	286,674	+21%	62,802	68,958	+10%
"Kapan Mining and Processing Company" CJSC	RA, Syunik region, Kapan	5,649	7,994	+42%	8,621	12,797	+48%
"Agarak Copper Molybdenum Combine" CJSC	RA, Syunik region, Agarak	30,536	28,979	-5%	12,040	12,701	+5%
Total		428,743	459,273	+7%	124,540	134,788	+8%

Source: the information was provided by metal mining companies for the EITI report

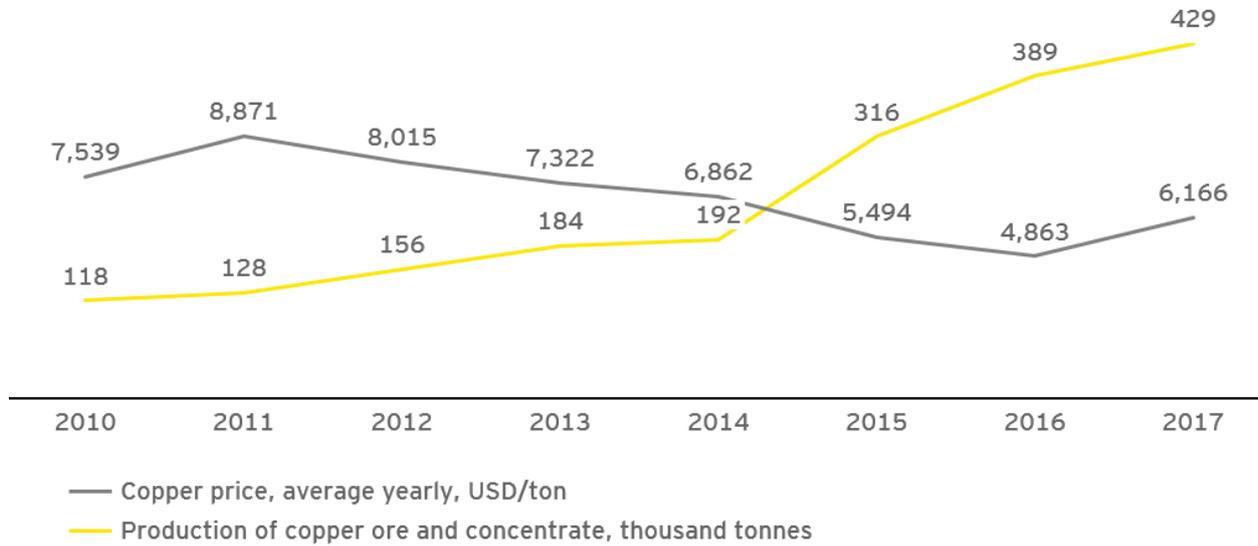
The leader in copper extraction is “Zangezur Copper Molybdenum Combine” CJSC. During 2016-2017, the company produced about 55-62% of copper concentrate in Armenia. Other big market players are Teghout CJSC (approximately 27-34% of copper concentrate production) and “Agarak Copper Molybdenum Combine” CJSC (6-7% of copper concentrate production). It should be noted that the production volumes of these two companies decreased in 2017 as compared with 2016.

According to the information provided by RA SC and Statista statistical company, the international price of copper had a downward trend from 2011 (8 871 USD/t) to 2016 (4 863 USD/t) and started recovering after 2016 with a considerable increase up to 6,166 USD/t in 2017. Despite this fact, copper ore and concentrate remained a strategic commodity for Armenia’s economy without rendering their positions. Extraction of this metal has been continuously increasing between 2010 and 2017 with average annual growth rate of 20.2%. In the context of a decrease in international prices of copper, the increase in production volume is usually carried out for covering costs.

According to the RA SC, the export of copper ore and concentrate has also grown continuously, recording a 24.5% average annual growth between 2010 and 2016. Although the fact of decreasing international copper price does not seriously affect the extraction and export volumes of the latter, it however affects the total value of export. The total value of copper exports fluctuated between 2010 and 2017, experiencing slight decreases in 2012 and 2014. The export value of this metal grew continuously after 2014 though at a rate slower than the growth of volume. The increase of international price of copper in 2017 stimulated a faster growth of exports as a result of which the share of copper in total exports of Armenia rose to 25.6%.

As is shown in the figure below, the international price of copper stopped falling in 2016 and grew rapidly in 2017. This fact had its impact on the volumes of copper concentrate production by the companies, in particular copper concentrate production demonstrates increases of both volumes and values at “Zangezur Copper Molybdenum Combine” CJSC, “Akhtala Mining and Processing Enterprise” CJSC and “Kapan Mining and Processing Company” CJSC, while “Teghout” CJSC and “Agarak Copper Molybdenum Combine” CJSC reduced the volume of copper concentrate production. It is worth considering the fact that price decreases generally result in an increased volume of production aimed at reducing the production cost prices. The analysis of data provided by the companies indicates that as a result of the increase of international prices during 2017 companies were able to reduce productions volume with lower decrease in monetary terms, while in case of “Agarak Copper Molybdenum Combine” CJSC the reduced production volume of copper concentrate did not hinder from registering increased revenues from copper concentrate extraction, and in case of increased production volumes a greater increase in monetary value was observed.

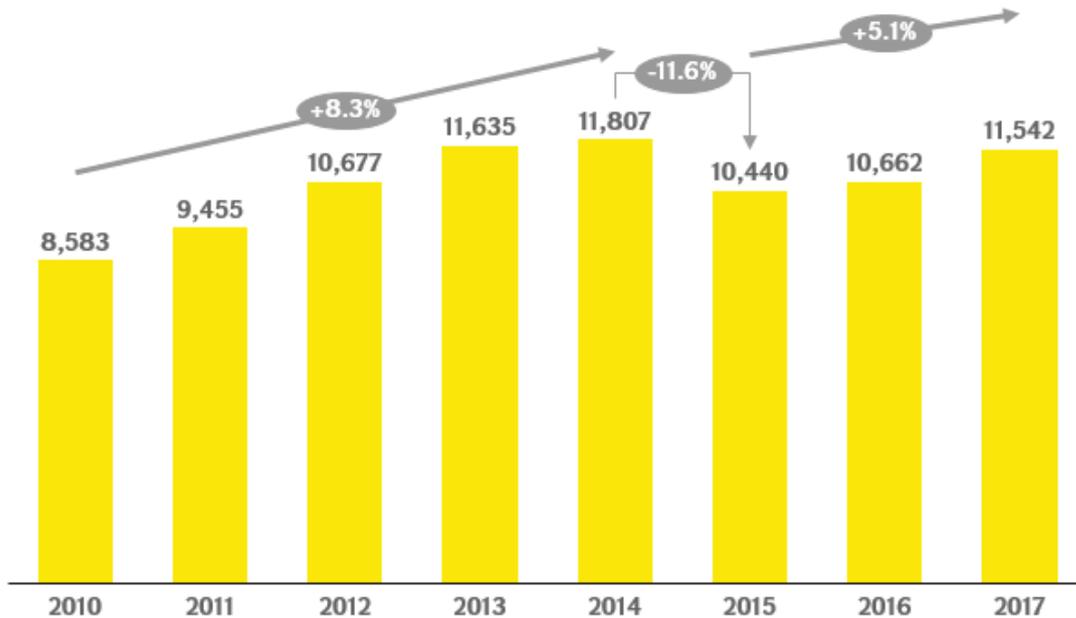
Figure 2.4.4 Average annual international price of copper in 2010-2017



Source: armstat.am, <https://www.statista.com/statistics/533292/average-price-of-copper/>

Molybdenum concentrate

In Armenia molybdenum is mainly extracted as a byproduct of copper. During the last 8 years two periods of molybdenum production with different dynamics were registered. Before 2014 average annual growth rate was 8.3%. However, in 2015 (the year when the volume of copper production reached its all-time high level) the production of molybdenum decreased by 11.6%. In 2016-2017 molybdenum production level increased, but at a considerably lower rate.

Figure 2.4.5 Molybdenum concentrate production, 2010-2017, tons


Source: armstat.am

Table 2.4.5 Molybdenum concentrate and ferromolybdenum production by companies, 2016-2017

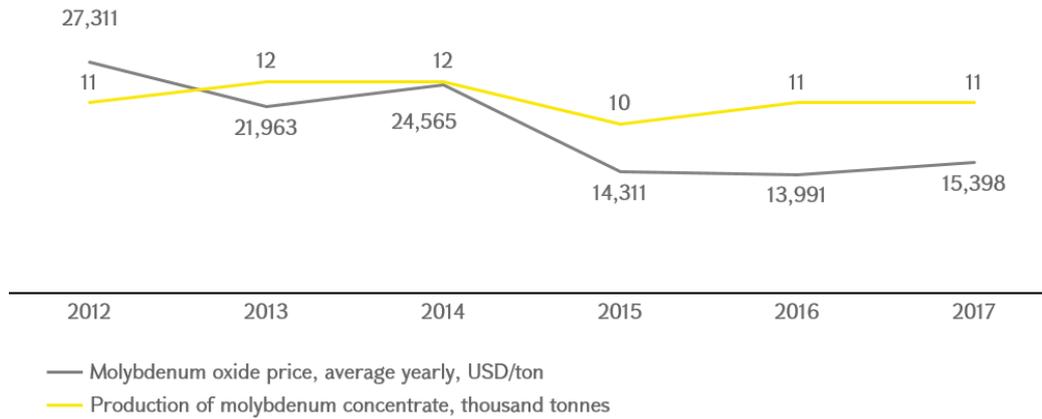
Company	Community of company operations	Volume		The percentage increase or decrease of volume	Value, mln AMD		The percentage increase or decrease of value
		2016	2017		2016	2017	
Molybdenum concentrate, wmt							
“Agarak Copper Molybdenum Combine” CJSC	RA, Syunik region, Agarak	452	449	-0.7%	1,097	1,063	-3%
“Teghout” CJSC	RA, Lori region, Teghout	186	1,854	+897%	291	3,314	+1039%
Ferromolybdenum, ton							
“Zangezur Copper Molybdenum Combine” CJSC	RA, Syunik region, Kajaran	6,519	6,557	+0.6%	32,798	29,585	-9.8%
Total	-	-	-	-	34,186	33,962	-

Source: The information was provided by the metal mining companies for preparation of EITI Report

The general trend of international price of molybdenum was downward between 2012 and 2017. In 2013, the international price of molybdenum fell by 20%. Though this was followed by a 12% increase in 2014, the price fell again at the end of 2015. In 2017 international price of molybdenum slightly recovered, but still remained very low as compared with the historical average level. Molybdenum export volumes

changed similarly to its international price with slight increase in 2014 and a consequent drop in 2015-2016. In 2017, the value of molybdenum exports rose rapidly from 0.9 mln USD to 8.6 mln USD, which was partly conditioned by the increase in international price.

Figure 2.4.6 Average annual international price of molybdenum oxide in 2012-2017

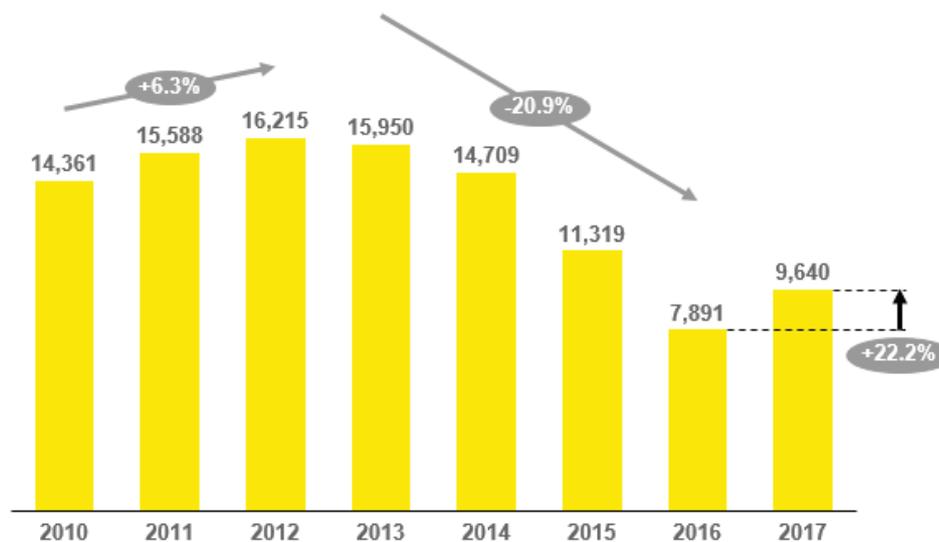


Source: armstat.am, https://www.quandl.com/data/LME/PR_MO-Molybdenum-Prices

Zinc ore and concentrate

"Kapan Mining and Processing Company" CJSC is the only producer of zinc in Armenia. Almost 100% of zinc concentrate production is exported to other countries. Zinc production grew until 2012, but started showing negative trends since 2013 which was particularly noticeable during the period of 2015-2016 when the industry reached its historically low levels (8,901 tons) with further growth (+22.3% in 2017).

Figure 2.4.7 Zinc ore and concentrate production, 2010–2017, tons



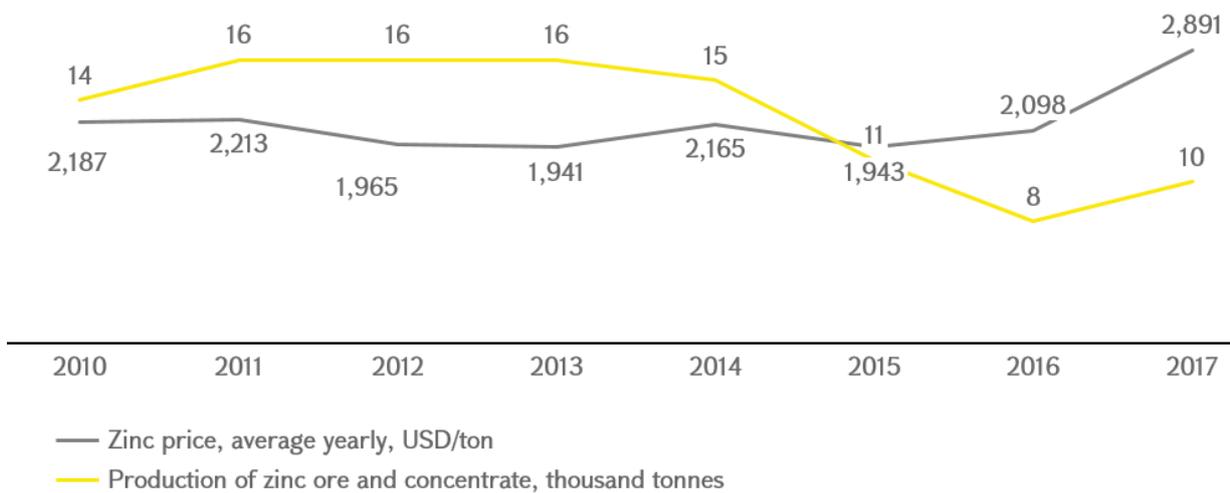
Source: armstat.am

Table 2.4.6 Zinc ore and concentrate production by companies, 2016-2017

Company	Community of the company operations	Volume, ton		The percentage increase or decrease of volume	Value, mln AMD		The percentage increase or decrease of value
		2016	2017		2016	2017	
"Kapan mining and processing company" CJSC	RA, Syunik region, Kapan	8,901	10,869	22.3%	2,534	4,104	62.0%

Source: The information was provided by the metal mining companies for preparation of EITI Report

Figure 2.4.8 Average annual international price of zinc during 2010-2017



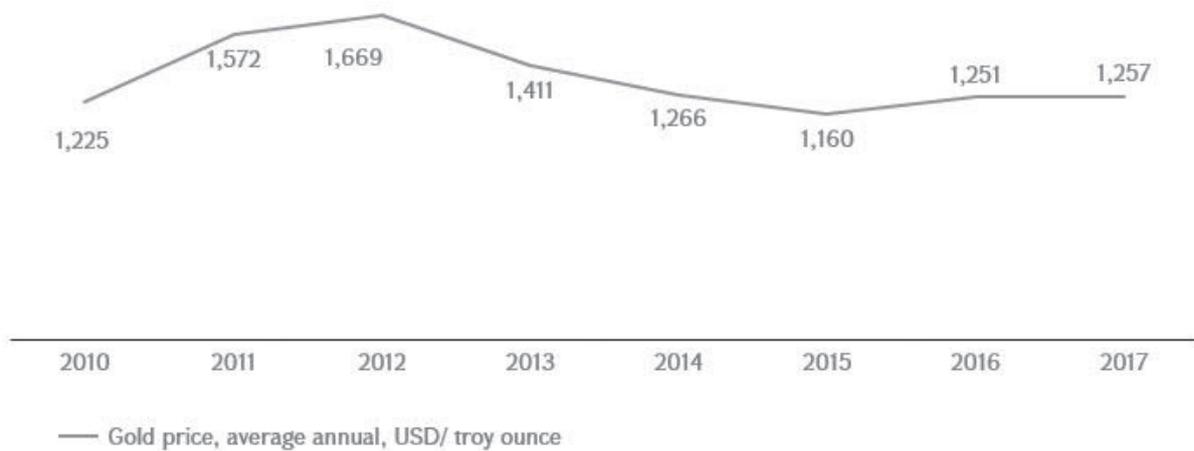
Source: armstat.am

Gold

Increase of international price of gold during the period of 2010-2012 and its reaching up to 1 669 USD/toz was followed by continuous decline until USD 1 160 in 2015. In 2016 gold prices started to recover slowly and in 2017 grew up to 1 257 USD/toz. Irrespective of the trends observed in gold market, the export volume of precious metal ores and concentrates in Armenia rose significantly in 2014-2016. This trend is justified and based upon the corresponding decrease of international prices in case of which the production volumes are increased for cost covering purposes.

RA SC does not publish information pertaining to lower level of disaggregation of precious metals (e.g. gold, silver etc.) since according to the sub-point f) of the 2nd point of the article 9 of RA law “On State and Official Secrecy”, the stated information is classified into state and official secrets. For this reason, the only accessible information was that concerning gold production between 2016 and 2017 publicly revealed by metal mining companies for the EITI report. This information is presented below together with the 2010-2017 dynamic of internal gold price.

Figure 2.4.9 Average annual international price of gold in 2010-2017



Source: *armstat.am*

Table 2.4.7 2016-2017 gold production in Armenia, by volume and monetary value

Company	Community of the company operations	Production type	Unite of Measurement	Volume		The percentage increase or decrease of volume	Value, mln AMD		The percentage increase or decrease of value
				2016	2017		2016	2017	
"At-Metals" LLC	RA, Syunik region, Meghrasar	Gold ore	ton	-	14,257	-	-	279	-
"Geopromining Gold" LLC	RA, Gegharkunik region, Sotk	Gold and silver alloy	ounce	122,322	139,839	+14.3%	52,327	55,152	+5.4%
"Meghradzor Gold" LLC	RA, Syunik region, Meghradzor	Gold and silver alloy	gram	195,864	26,010	-86.7%	1,722	153	-91.1%
"Meghradzor Gold" LLC	RA, Syunik region, Meghradzor	Precious metal concentrate containing gold	ton	-	1,419	-	-	961	-
"Vayk Gold" LLC	RA, Vayots Dzor, Azatek	Precious metal concentrate containing gold	ton	-	26.7	-	-	7	-
Total	-	-	-	-	-	-	54,049	56,552	-

Source: The information was provided by the metal mining companies for preparation of EITI Report

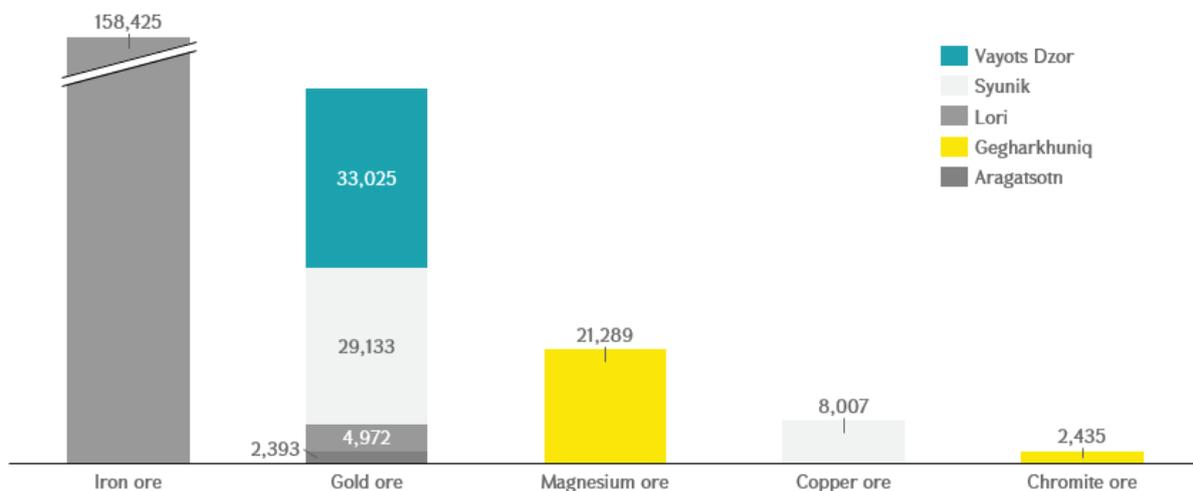
2.4.2 Reserves of metal mineral resources in mining industry (requirement 3.1)

Significant reserves of metal minerals were registered in Armenia between 2010 and 2017. Iron accounts for the largest volume of reserves, followed by gold, magnesium, copper and chromite. There are also reserves of zinc, leads and molybdenum. Reserves of composite components (such as tellurium, bismuth, rhenium, platinum, palladium, sulphur, selenium) were also registered on the territory of Armenia in 2010-2017.

Compared to other regions, Lori region contains the largest volume of mineral reserves represented mainly by iron ore (100% of iron ore balance reserves) and relatively small amount of gold (7% of gold ore balance reserves). Syunik is the second largest region for metal minerals reserves, which contains 42% of gold balance reserves and 100% of copper reserves. 99% of zinc balance reserve, as well as the entirety of molybdenum reserves is also located in Syunik. Vayots Dzor region, the third by the volume of reserves, hosts 11% of gold reserves while all the reserves of magnesium and chromite are located in the Gegharkunik region. The smallest share of gold reserves, 3% of total, is located in the Aragatsotn region.

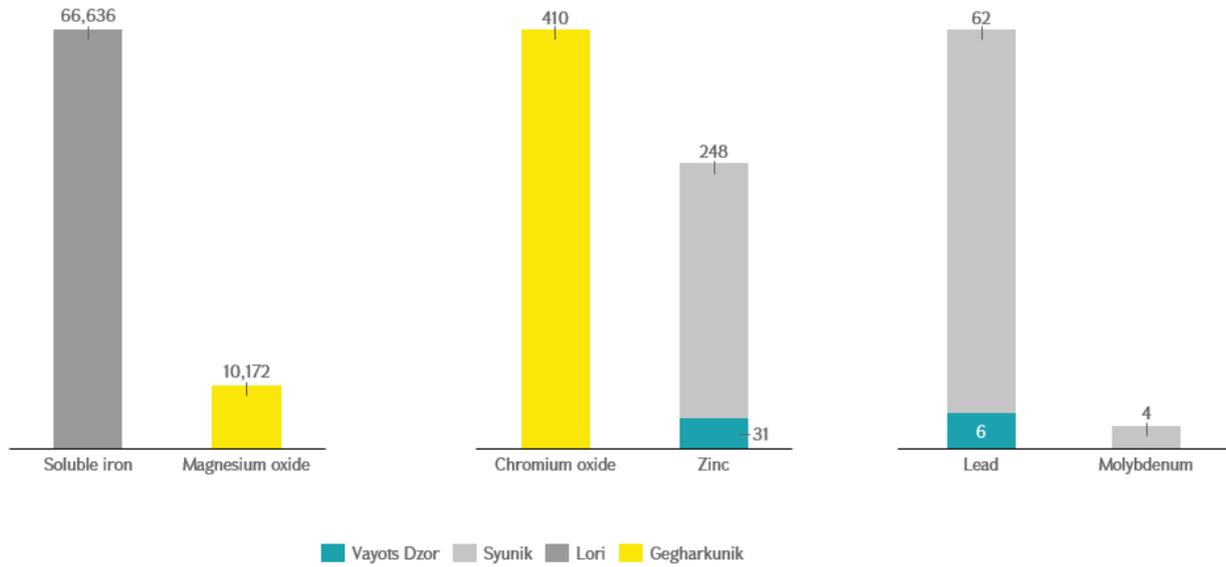
The regional distribution of confirmed metal ore reserves between 2010 and 2017 is presented below.

Figure 2.4.10 The regional distributions of the confirmed reserves of metal ore in 2010–2017, thousand tons³³



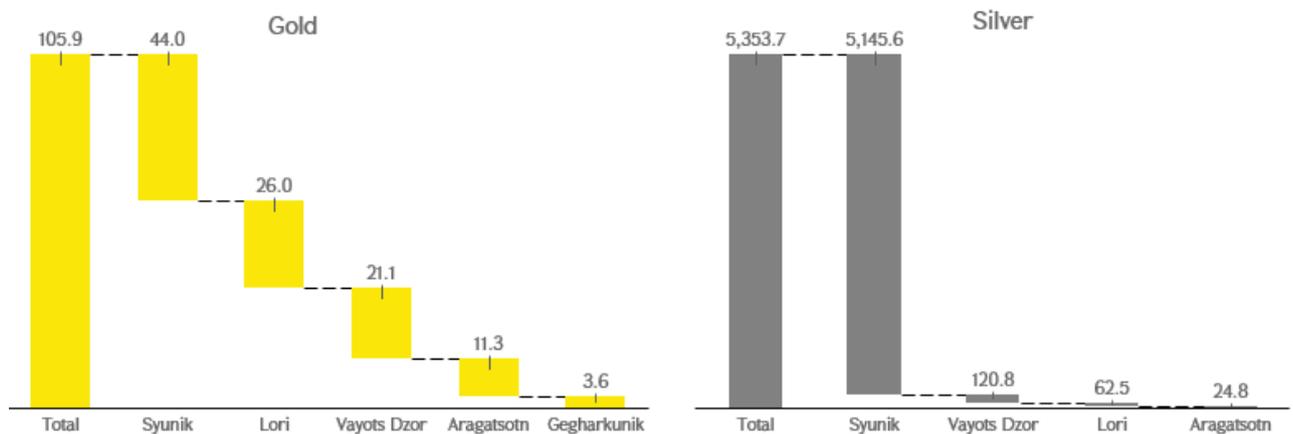
³³ In this chapter, the term “reserves” is used to mean the total stock of reserves the different components of which were confirmed in different years during the time period between 2010 and 2017.

Figure 2.4.11 The regional distribution of confirmed reserves of metal mineral resources during 2010–2017 by regions, thousand tons



Source: The information was provided by the MEINR for preparation of EITI report

Figure 2.4.12 The regional distribution of confirmed reserves of gold and silver during 2010–2017, tons



Source: The information was provided by the MEINR for preparation of EITI report

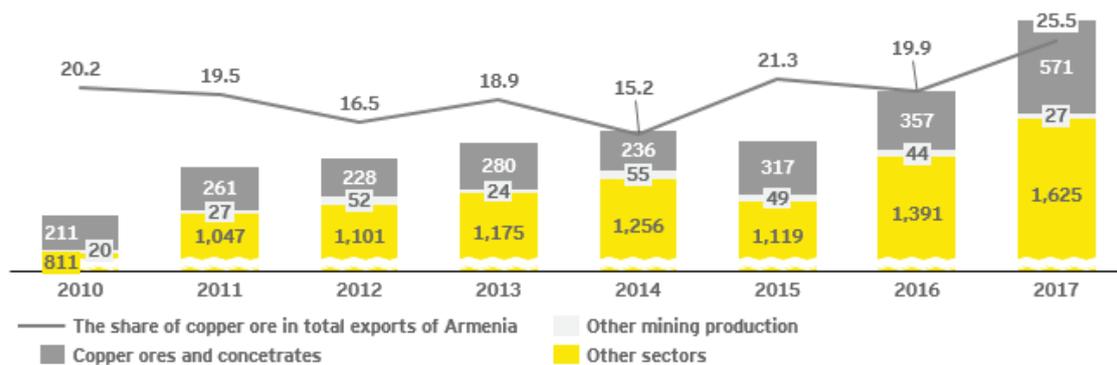
2.4.3 Exports in metal mining industry (requirement 3.2 and 3.3)

In 2016-2017, the share of the metal mining sector in the total export of the Republic of Armenia was 23% and 28% respectively with 5% of increase. The volumes of ore exports have demonstrated an unwavering growth trend since 2010, reaching 488 thousand tons in 2017 from 133.4 thousand tons in 2010. The total value of exported ores has grown significantly, reaching 598.7 mln USD in 2017 from 230.2 mln USD in 2010. Regardless of the general growth trend, exports declined in 2012 and 2014 because of the decrease in the export value of exported copper.

The significant proportion of copper ores and concentrates in the total volumes of production and export demonstrated its significance for the economy of Armenia. Copper exports contributed to 26.6% to total exports from Armenia in 2017. Through the whole period of 2010-2016 copper ore and concentrate export volumes in the total volume of exported commodities did not demonstrate noticeable increasing or decreasing trends but fluctuated registering the lowest values in 2012 (16.5%) and in 2014 (15.2%).

The increase of the volume (as expressed in tons) of copper concentrate exports has generally been faster than the increase of the USD value of these exports, which can be explained by fluctuating international prices of exported metals, which declined between 2011 and 2016. The phenomenon was even more notable in the case of copper ores and concentrates the export value of which was notably affected by international price decreases in 2012 and 2014, even though the export volume of copper had a growing tendency between 2010-2017.

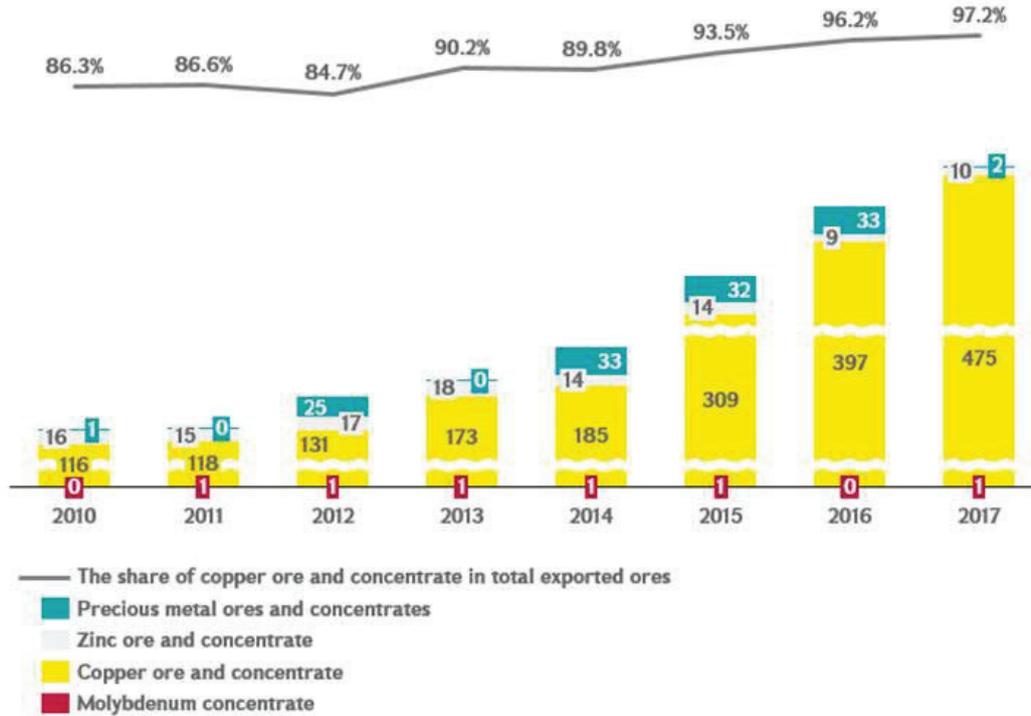
Figure 2.4.13 Share of copper ores and concentrates in total export, mln USD



Source: armstat.am

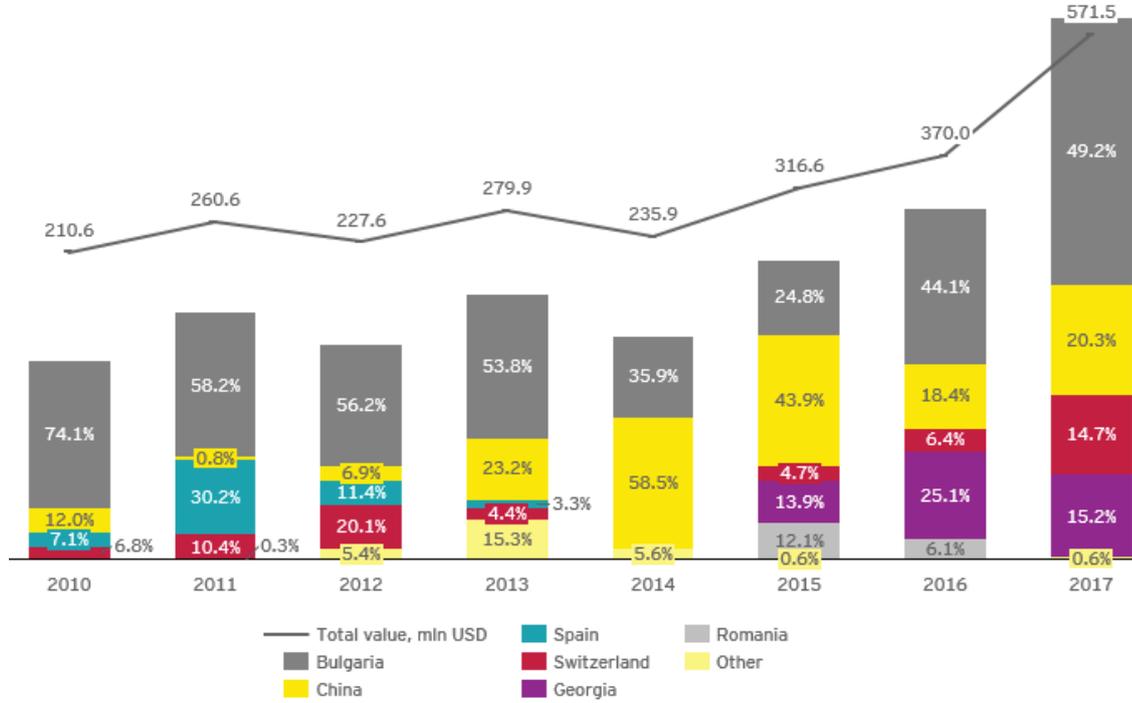
Copper ores and concentrates account for the major share in total ore exports with a 97.2% share in 2017. Zinc ores and concentrates contributed to 2% of ores exports in 2017, while molybdenum concentrate comprised 1.4%. The exports of precious metal ores and concentrates were not stable between 2010 and 2017, fluctuating significantly and reaching the all-time high levels in 2012 (8.9%), 2014 (11.2%), 2015 (8.6%) and 2016 (8.3%).

Figure 2.4.14 Export of ores (thousand tons)



Source: armstat.am

Figure 2.4.15 The proportional distribution of copper ore and concentrate exports by countries in 2010-2017



Source: ITC calculations, based on the statistics of UN Comtrade

Table 2.4.8 The distribution of copper ore and concentrate exports by company, exporting country, volume and value during 2016-2017

Company	Export Destination		Volume, wmt		Value, mln AMD		Value, mln USD ³⁴	
	2016	2017	2016	2017	2016	2017	2016	2017
"Agarak Copper Molybdenum Combine" CJSC	China	China	31,118	28,237	105,156	13,537	218.9	28.2
"Akhtala Mining and Processing Enterprise" CJSC	Bulgaria	Bulgaria	8,176	18,050	2,960	8,741	6.2	18.2
"Zangezur Copper Molybdenum Combine" CJSC	China, Romania, Bulgaria	China, Romania, Bulgaria	235,725	281,299	93,842	143,766	195.4	299.1
"Teghout" CJSC	Georgia	Georgia	103,293	80,408	47,024	45,964	97.9	95.6
"Kapan Mining and Processing Company" CJSC	China	Bulgaria, Switzerland	5,962	7,448	15,649	21,709	32.6	45.2
Total			384,274	415,442	264,631	233,717	550.9	484.3

Source: The information was provided by the metal mining companies for preparation of EITI Report

³⁴ For the purposes of the Report the exchange rate was calculated by averaging all the exchange rates for a given year published by the Central Bank of RA. In 2016, the average annual exchange rate for 1 USD was 480.324 AMD, while in 2017 it comprised 480.629 AMD.

Despite the fact that Bulgaria is the main destination for copper ore and concentrate exports, its share in total copper exports declined by 8.3% in 2017 as compared to 2016. Copper export is quite diversified and trade is conducted with five countries. The second destination country is China, whose share in copper exports increased by 9.1% from 2016 to 2017. The third partner country, Georgia, had a 19% share in copper exports in 2017: Georgia became a copper importing partner in 2015, taking a large share in Armenia's copper exports.

Molybdenum concentrate, though second by the volume of export, greatly falls behind copper ore export in both volume and monetary terms. As with copper, "Zangezur Copper Molybdenum Combine" CJSC was the leading company in the market, which had a share of 97% of export in 2016. The export volumes of molybdenum concentrate and ore decreased significantly in 2017. This was caused by dramatic structural changes of molybdenum concentrate and ferromolybdenum sales realized by "Zangezur Copper Molybdenum Combine" CJSC. In 2017, the company almost entirely replaced exports with domestic sales.

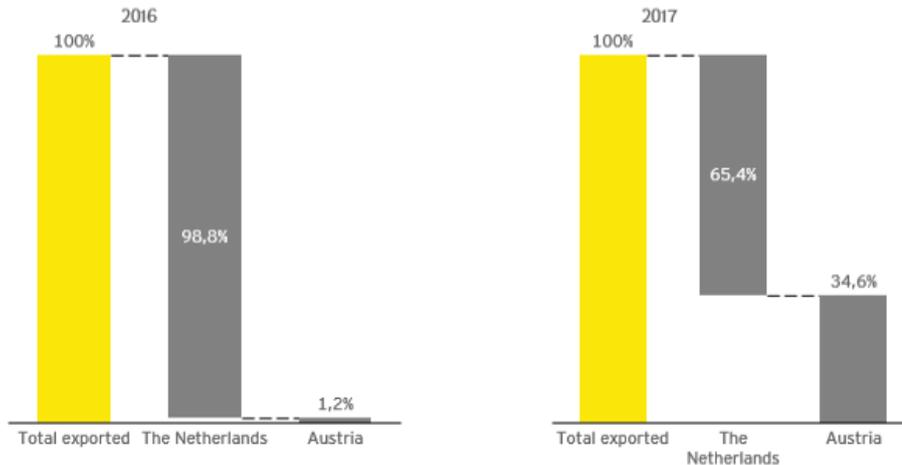
Molybdenum concentrates were exported mainly to the Netherlands in 2011-2017. Other trading partners were also Belgium, Russian Federation, Austria and Singapore.

Table 2.4.9 The distribution of molybdenum and ferromolybdenum exports by company, volume, value and export country during 2016-2017

Company	Export Destination	Volume		Value, mln AMD		Value, mln USD	
		2017	2016	2017	2017	2016	2017
"Agarak Copper Molybdenum Combine" CJSC (molybdenum, wmt)	Austria	166	448	339	1,510	0.7	3.1
"Teghout" CJSC (molybdenum, wmt)	The Netherlands	0	877	0	2,851	0	5.9
"Zangezur Copper Molybdenum Combine" CJSC (welded molybdenum, tons)	The Netherlands	399	0	3,002	0	6.2	0
"Zangezur Copper Molybdenum Combine" CJSC (ferromolybdenum, tons)	The Netherlands	5,280	0	24,284	0	50.6	0
Total	-	-	-	27,625	4,361	57.5	9.0

Source: The information was provided by the metal mining companies for preparation of EITI Report

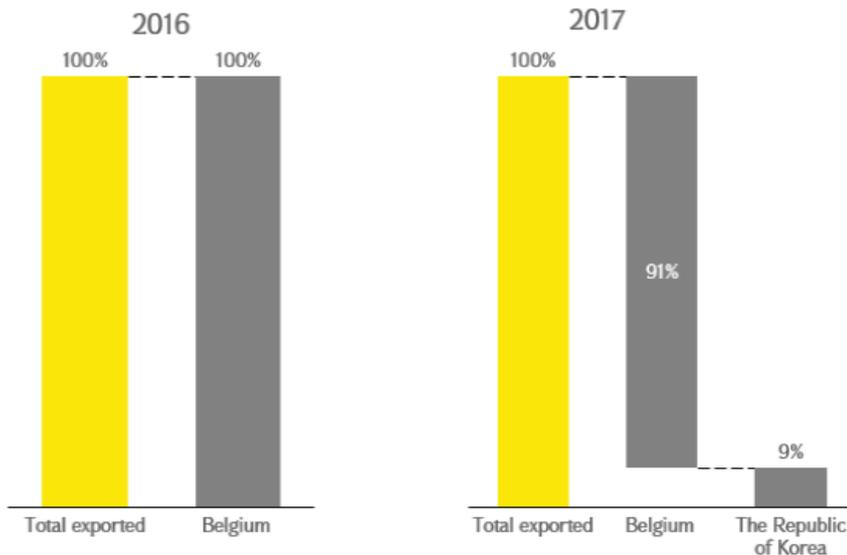
Figure 2.4.16 The distribution of molybdenum and ferromolybdenum exports realized directly by extractive companies, by countries, during 2016-2017, AMD



Source: ITC calculations, as based on the statistics of UN Comtrade

Zinc exports are less diversified as compared with copper, in 2017, the export destination countries were Belgium and the Republic of Korea, while in 2016 export was realized to only one destination country - Belgium. In contrast to other partner countries Belgium has been a stable trading partner for the entire period from 2010 to 2017. In addition to aforementioned countries, zinc has also been exported to China, Kazakhstan, Netherlands and Switzerland.

Figure 2.4.17 Export of zinc ores and concentrate by countries in 2016 and 2017



Source: ITC calculations, as based on the statistics of UN Comtrade

Table 2.4.10 The volumes and values of exported zinc ore and concentrate in 2016 and 2017

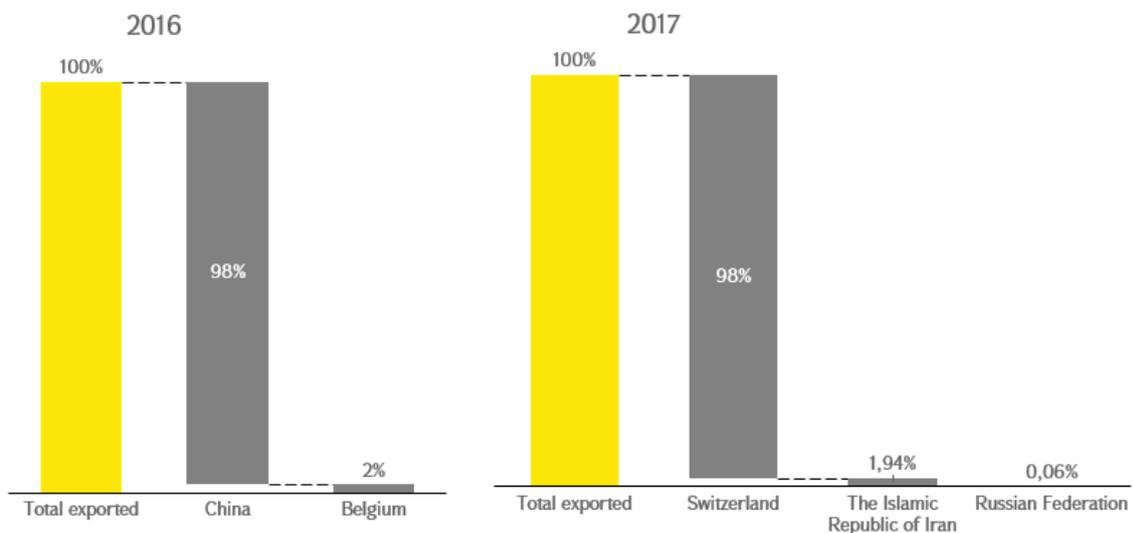
Company	Export Destination	Volume, wmt		Value			
		2016	2017	2016		2017	
				mln AMD	mln USD	mln AMD	mln USD
“Kapan Mining And Processing Company” CJSC	Belgium	9,256	10,193	4,613	9,6	8,000	16,6

Source: The information was provided by the metal mining companies for preparation of EITI Report

In 2017 Switzerland was the main export partner for precious metals. The Islamic Republic of Iran and the Russian Federation received a small share of precious metals. During 2012-2016, precious metals were also traded with China, which was the primary destination country during that period.

Titanium ores and concentrates were exported to Netherlands, Russian Federation, Ukraine and United Kingdom in 2010-2012. In 2012 the export of lead ores and concentrates was directed toward only two partners-Iran and Singapore.

Figure 2.4.18 The export of precious metal ores and concentrates by countries in 2016-2017



Source: ITC calculations, as based on the statistics of UN Comtrade

Table 2.4.11 The volume and value of exported precious metals concentrate containing gold, 2016-2017

Company	Export Destination	Volume, ton		Value			
		2016	2017	2016		2017	
				mln AMD	mln USD	mln AMD	mln USD
“Kapan Mining And Processing Company” CJSC	Belgium	100	-	272	0.57	-	-
“Meghradzor Gold” LLC	Switzerland	-	1,419	-	-	794	1.7
“MULTI GROUP CONCERN” LLC	Switzerland	-	80	-	-	125	0.26
“Geopromining Gold“ LLC (gold and silver alloy)	Switzerland	127,054 (ounces)	142,533 (ounces)	62,857	131	70,775	147
Total	-	-	-	63,129	131.57	71,694	148.96

Source: The information was provided by the metal mining companies for preparation of EITI Report

Comparison of information provided by the metal mining companies and the Statistical Committee of Armenia

The export-related data received from the companies visibly differs from the corresponding data provided by the SC or ITC Comtrade (while the information provided by these two services fully matches). The table presented below summarizes the information pertaining to the monetary value of the export volumes of copper, zinc and molybdenum ores and concentrates from Armenia in 2017 as obtained from the metal mining companies and the SC.

Table 2.4.12 Comparison of information provided by the metal mining companies and the Statistical Committee of Armenia

Commodity	The total value of exports in 2017 according to the RA SC, mln USD	The total value of exports in 2017 according to the metal mining companies, mln USD
Copper ore and concentrate	571.5	484.3
Zinc ore and concentrate	16.6	16.6
Molybdenum concentrate	8.6	9.0

The comparison of information from both stated sources shows that there is a noticeable difference in the values of total exports of copper ore and concentrate expressed in monetary value. This difference makes up 15.2%. The explanations received from the companies and the SC allow to conclude, that the difference is caused by the different methodological solutions applied by both parties. The difference is partly caused by the fact that part of the production, which the companies sell in the domestic market, are also exported by third parties, directly or after some processing. As a result, a certain portion of exported metals is recorded as domestic sales in the reports of metal mining companies regardless of the fact that the large part of the domestically realized product is also eventually exported. In addition to the aforesaid, it needs to be taken into account that given the lack of information from reselling

companies with regards to the volumes of their exports and under the conditions of inconsistencies of the domestic sales prices of the latter it becomes impossible to ensure the comparability of the data.

A second cause could come from the fact, that some of the companies record the export sales transaction at the moment when the product leaves their warehouse. However, depending on a number of factors affecting exports, the product may stay in other warehouses in Armenia before being actually exported. This means that export data recorded for a given year might contain a part, which has been recorded by companies for the previous year or will be in the following.

2.4.4 Domestic sales

The following two tables provide comprehensive and summarize information on the companies realizing sales in the domestic market and the types of metals sold during 2016 and 2017.

Table 2.4.13 Companies realizing sales in the domestic market in 2016, types of metals sold, their volumes and values

Domestic Sales, 2016									
Product	Metal mining company	Unit Volume	Volume	Total realization value, AMD	Buying company	EITI reporting	TIN	Classification of Economic Activity	Activity type
Copper ore and concentrate	"Teghout" CJSC	wmt	40,840	20,003,339,597	"Armenian Copper Program" CJSC	No	06605968	C24.44.0	Copper production
Copper ore and concentrate	"Zangezur Copper Molybdenum Combine" CJSC	wmt	245	97,514,230	"Akhtala Mining And Processing Enterprise" CJSC	Yes	06602309	B07.29.1	Copper ore extraction
Ferro-molybdenum	"Zangezur Copper Molybdenum Combine" CJSC	ton	1,140	5,243,040,709	"GREPCO" CJSC	No	01254965	G46.72.3	Wholesale trade of non-ferrous metals and their castings
Molybdenum concentrate	"Agarak Copper Molybdenum Combine" CJSC	wmt	251	707,673,860	"Alapmet" CJSC Plant of Pure Iron	No	02801437 0404207	C24.10.0 C24.45.0	Cast iron production Production of other non-ferrous metals
Gold and silver alloy	"Meghradzor Gold" LLC	g	195,864	1,966,853,392	"Geopromining Gold" LLC	Yes	10530525	C24.41.1	Production of precious metals

Table 2.4.14 Companies realizing sales in the domestic market in 2017, types of metals sold, their volumes and values

Product	Domestic Sales, 2017								
	Metal mining company	Unit Volume	Volume	Total realization value, AMD	Buying company	EITI reporting	TIN	Classification of Economic Activity	Activity type
Copper ore and concentrate	"Teghout" CJSC	wmt	43,203	23,108,704,617	"Armenian Copper Program" CJSC	No	06605968	C24.44.0	Copper production
Molybdenum concentrate	"Teghout" CJSC	wmt	622	2,026,289,512	"Alapmet" CJSC	No	02801437	C24.10.0	Cast iron production
Copper ore and concentrate	"Zangezur Copper Molybdenum Combine" CJSC	wmt	6,177	3,279,435,955	"Akhtala Mining And Processing Enterprise" CJSC	No	06602309	B07.29.1	Copper ore extraction
Ferro-molybdenum	"Zangezur Copper Molybdenum Combine" CJSC	wmt	6,520	40,251,723,876	"Armenian Copper Program" CJSC	No	06605968	C24.44.0	Copper production
Gold and silver alloy	"Meghradzor Gold" LLC	g	26,010	478,074,534	"Geopromining Gold" LLC	Yes	10530525	C24.41.1	Production of precious metals
Precious metal concentrate containing gold	"Vayq Gold" LLC	kg	26,700	6,675,000	"ASSAT" LLC	Yes	03807664	C24.41.1	Production of precious metals
Gold ore	"At-Metals" LLC	ton	10,855	493,428,248	"Tom & Mir" LLC	No	03313431	G46.77.1	Wholesale trade of ferrous and non-ferrous metal scrap

Source: The information was provided by the metal mining companies for preparation of EITI Report

Figure 2.4.19 The distribution of the main ores traded in the domestic market between 2016 and 2017 by monetary value

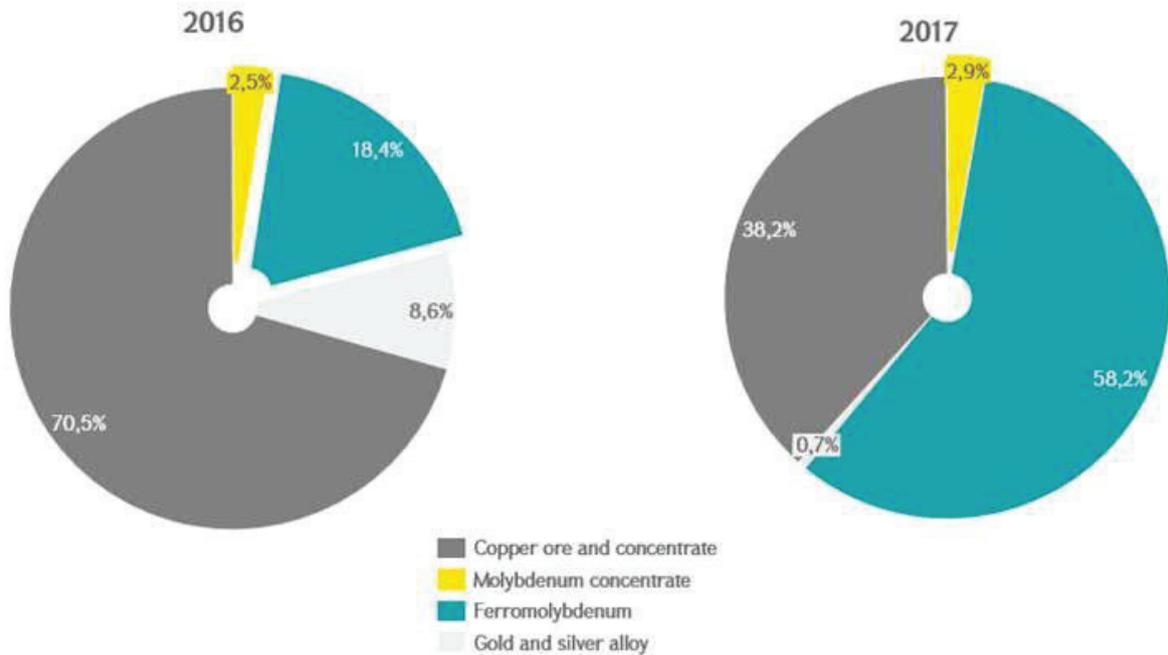


Table 2.4.15 The volume and value of copper ore and concentrate realized in the domestic market in 2016 and 2017

Company	Volume, wmt		Value, million AMD	
	2016	2017	2016	2017
“Teghout” CJSC	40,840	43,203	20,003	23,109
“Zangezur Copper Molybdenum Combine” CJSC	245	6,177	98	3,279
Total	41,085	49,380	20,101	26,388

Source: The information on domestic sales was provided by the metal mining companies for preparation of EITI Report

The domestic sale of copper ore and concentrate equalled to 20.1 and 26.3 bln AMD or 41.9 and 54.7 mln USD in 2016 and 2017 respectively. The domestic market is dwarfed as compared with the volumes of the export market equalling to respectively 352 and 484 mln USD in 2016 and 2017. Of 5 exporting companies, only two are engaged in domestic sales.

The leading company in the domestic copper market is “Teghout” CJSC, which took up 99.5% and 87.5% share of the market in 2016 and 2017 respectively. Its only competitor of “Teghout” CJSC in the domestic market is “Zangezur Copper Molybdenum Combine” CJSC which, however, has a smaller relative weight.

Copper has traditionally been accountable for the greater share in both exports and domestic sales. However, there was a sharp rise in the sales volumes of ferromolybdenum in 2017, which was caused by dramatic increase of ferromolybdenum sales volumes by “Zangezur Copper Molybdenum Combine” CJSC from 524 mln AMD to 40.2 bln AMD. As a result, the monetary value of ferromolybdenum sales in the local market exceeded the monetary value generated from copper sales. As mentioned earlier, the leap in the domestic sales of ferromolybdenum was caused by the structural shift in the sales of “Zangezur Copper Molybdenum Combine” CJSC during 2017 whereby exports were almost nullified and replaced with domestic sales during that year. The relative shares of the main ores sold in the domestic market in 2016 and 2017 are summarized in the table below.

Table 2.4.16 The volume and value of molybdenum concentrate and ferromolybdenum realized in the domestic market in 2016 and 2017

Company	Volume		Value, mln AMD	
	2016	2017	2016	2017
“Agarak Copper Molybdenum Combine” CJSC (molybdenum, wmt)	251	-	708	-
“Teghout” CJSC (molybdenum, wmt)	-	622	-	2,026
“Zangezur Copper Molybdenum Combine” CJSC (ferromolybdenum, ton)	1140	6,520	5,243	40,252
Total	-	-	5,951	42,278

Source: The information on domestic sales was provided by the metal mining companies for preparation of EITI Report

Table 2.4.17 The volume and value of gold ore and alloys sales in the domestic market in 2016 and 2017

Company	Unit of measurement	Volume		Value, mln AMD	
		2016	2017	2016	2017
"At-Metals" LLC	Ton	10,855	-	493	-
"Meghradzor Gold" LLC (gold and silver alloy)	gram	195,864	26,010	1,967	478
"Vayq Gold" LLC	kg	-	26,700	-	6.7
Total	-	-	-	493	545

Source: The information on domestic sales was provided by the metal mining companies for preparation of EITI Report

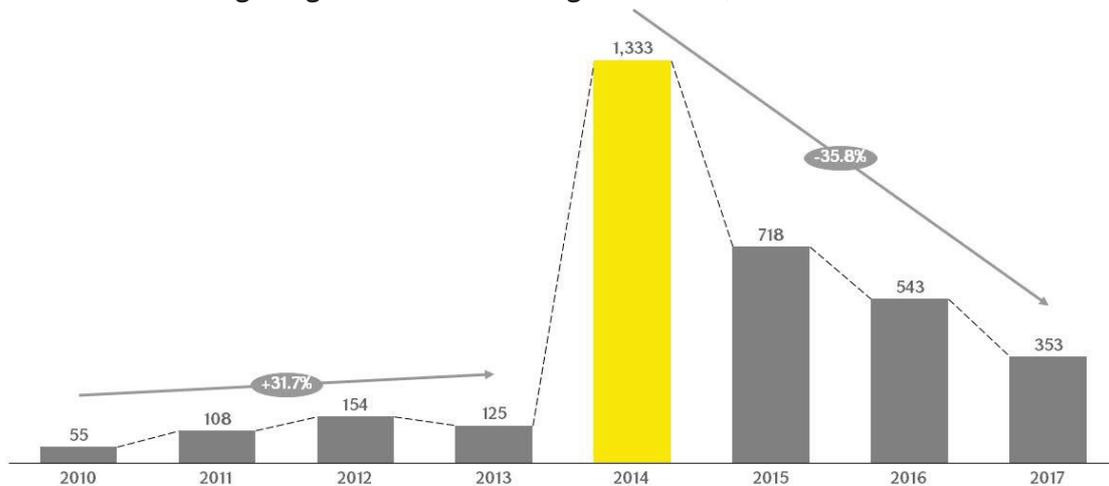
2.5 Subsoil exploration activities (requirement 3.1)

The RA Code on Subsoil (hereinafter referred to as “the Code”) provides the following definition for geological study:

"Geological Studies - a package of geological activities of the subsoil aimed at exploring the structure of the earth's crust, the conditions for rock formations, exogenous geological processes, volcanic activity, as well as to identify and assess the reserves of mineral resources."

As a result of geological studies, after assessing the credibility of the information on estimated mineral resources and other subsoil related data, the authorized body has no right to disclose, according to the second part of the article 42 of the Code on Subsoil, if the subsoil user has applied for the extension of the permit for realization of geological studies for 1 year with the purpose of preparing mineral extraction project and receiving mining permit in compliance with the order prescribed by the Law. Investments realized for implementation of geological studies are an important precondition for the development of mining sector.

Figure 2.5.1 Volume of geological activities during 2010–2017, mln AMD



Source: armstat.am

The amount of investments realized for implementation of geological activities has dramatically increased in 2014, which, in particular, is related to the number of studies, the number of mine drills planned and already realized under the study projects, as well as the end of the projects’ detailed investigation phase. In 2017, the volume of the geological studies decreased by 35% as compared to the corresponding data for 2016.

According to brief information provided by RA Ministry of Energy Infrastructure and Natural Resources in 2017 the adjusted total volume of geological studies amounted to 353.4 mln AMD and 543.4 mln AMD in 2016. These works have been realized at the expenses of mining companies. More detailed information provided by the fields of the studies and implementation phases is presented below.

Table 2.5.1 Geological studies by spheres and implementation phases in 2016, mln AMD³⁵

Sphere	2016					
	Total	Prospecting	Investigative - evaluative	Preliminary investigation	Detailed investigation	Other
Non-ferrous metals	21.3	21.3	-	-	-	-
Precious metals	472.8	225.9	-	247.0	-	-
Non-metals	4.2	-	-	-	1.9	2.3
Regional geological, geophysical, hydrogeological works	4.5	4.5	-	-	-	-
Hydrogeological and geological engineering works	0.3	-	-	-	0.3	-
Other works	40.2	20.8	-	-	0.7	18.8
Total volume of works	543.4	272.5	-	247.0	2.9	21.0

Table 2.5.2 Geological studies by spheres and implementation phases in 2017, mln AMD

Sphere	Total	2017		
		Prospecting	Preliminary investigation	Detailed investigation
Precious metals	242.7	242.7	-	-
Non-metals	48.6	48.6	-	-
Regional geological, geophysical, hydrogeological works	56.4	56.4	-	-
Other works	5.7	5.7	-	-
Total volume of geological works	353.4	353.4	-	-

Source: armstat.am

³⁵ **Prospecting works** – the goal of this stage is to create a fundamental geological basis for minerals forecasting. As a result of this stage, large structures, formation and areas promising for discovery of minerals are determined, sets of geological maps of 1: 1 500 000 - 1: 50 000 scales are created, resources of minerals of P2, P3 categories are evaluated.

Investigative-evaluative – at this stage geological study of the territory is carried out, manifestations of minerals are identified. The result of this stage are a comprehensive assessment of the geological structure and prospects of areas and the assessment of resources of P1, P2 categories.

Preliminary investigation – at this stage the estimation of the industrial value of the deposit is carried out. The result is a feasibility study of the industrial value of the deposit and the estimation of reserves and mineral resources by C1, C2, P1 categories.

Detailed investigation – at this stage the study of the geological structure of the deposit, quality and technological characteristics of the minerals, hydrogeological and engineering-geological conditions of deposit site is carried out. The results are the conditions and technical-economical studies for the development of the deposits and evaluation of reserves by categories A, B, C1, C2.

The description of important projects on geological studies of the subsoil implemented during 2010-2017

From the projects on geological studies realized in the sites provided under the subsoil use right during 2010-2017 the projects realized during the final stage of investigation activities are attached a significant importance since the probability of ensuring positive results of implemented works (assessment and validation of mineral resource reserves) is very high. These activities have been conducted in the below mines:

- ▶ Verin Vardanidzor gold-polymetallic mine in Syunik region: reserve assessment was realized in 2015,
- ▶ Reserves of the Tsitsar gold mine in Aragatsotn region: reserve assessment was realized in 2016,
- ▶ Arjut gold mine in Lori region: reserve assessment was realized in 2014.

Importance of involvement and representation in RA of the following organizations applying international best practices in the field of subsoil use are also highlighted:

- ▶ "Lydian International" OJSC (Canada), Amulsar gold-bearing quartzite mine,
- ▶ "Geominning" LLC (the participant of which is "Dandy Precious Metals Inc." Company, Canada), Vardenis polymetal mine in Vayots Dzor region.

The works implemented in the scope of geological studies which have been extended three times in compliance with the procedure prescribed by the law (each time for a two-year period) are considered to be in the last phase of geological activities. Consequently, these activities are of utmost importance since there is a high probability that corresponding reserves will be estimated as final results.

The table presented in Annex 13 reflects detailed information on subsoil geological study activities realized for mineral extraction purposes. This information has been provided by the relevant division of the Ministry of Energy Infrastructures and Natural Resources within the framework of the EITI report preparation and is available at <http://minenergy.am/page/569>. According to this information, geological studies implemented by "Georade" CJSC, "TATSTONE" LLC, "Geominning" LLC and "G METALS INVESTMENT LIMITED" LLC are in the phase of investigation.

2.6 Donations to foundations (requirement 5.1)

Donations made by subsoil users (extracting companies) to foundations in 2016-2017

Inclusion of foundations established by the mining companies (or related thereto) in the EITI report and presentation of reports by the latter was discussed during the meeting held on October 20, 2017.³⁶ It was stated that in case the foundations are included, legislative changes should be made and clear criteria for selection of foundations shall be defined. It was proposed, that the disclosure of payments made by the companies to the foundations is sufficient. A decision was made that the companies will provide information on their voluntarily made payments as per foundations, non-governmental organizations and individuals (in case of the latter in an aggregated format without individualization) (Annex 5). The contractual obligations of companies are presented in more details in section 3.3.

According to EITI reports received from the Companies in total the donations or other contributions realized without the need for compensation to non-commercial legal entities or physical persons equaled to 2,420,935,190 AMD in 2016 and to 3,433,107,421 AMD in 2017, from which donations to individuals equaled to 87,941,278 AMD in 2016 and 63,698,998 AMD in 2017, while the donations provided to foundations equaled to 1,626,277,500 AMD in 2016 and to 2,336,848,968 AMD in 2017.

Based on the data derived from the reports received from mining companies³⁷ reporting within the scope of EITI all the mining companies which made charity donations to foundations have been separated. Given that the number of companies who have made donations to the foundations is small (6 companies in 2016, and 5 companies in 2017), the Independent administrator has decided that the analysis shall be conducted regarding all the foundations mentioned in the EITI report, except from those companies which had made donations in the amount not exceeding the material threshold of 1 million AMD (1 company in 2016, and 0 in 2017) established for consolidation purposes. For the purposes of determining the accuracy of information provided by the companies an analysis of public reports published by the foundations which have received donations from an EITI accountable companies was carried out.

According to Article 39 of the RA Law “On Foundations” each year a foundation shall publish a report on its activities, as well as the audit report of its financial statements on the official website of Republic of Armenia on public notifications (<http://www.azdarar.am/>) not later, than March 25 of the year following the reporting year. The publication of audit report is mandatory if the value of assets of foundation exceeds 10 million AMD. The report on foundation’s activities shall contain information regarding the implemented projects, sources of financing, overall amount of means used during the financial year and percentage of expenses thereof made for the purposes of implementation of charter goals, names and last names of founder, members of the Board of Trustees, director and other members involved in staff of the foundation, if during the financial year they have used or benefited from the resources and services

³⁶ https://www.eiti.am/file_manager/EITI%20Documents/Minutes/MSG_meeting_minute_10_10_%202017.pdf

³⁷ 22 companies presented reports for 2016, and 26 for 2017. For more details, please see tables 4.1.1 and 4.1.2. The reports provided by the companies are published on RA EITI official website: www.eiti.am

of the foundation. Foundation shall notify in writing the Ministry of Justice of the Republic of Armenia on publication of the report provided under the Article 39 of the RA Law “On Foundations” within 30-days period from such publication. In case the report is not published in due time or the Ministry of Justice of the Republic of Armenia is not notified on such publication or the published report is incomplete, the Ministry of Justice of the Republic of Armenia applies sanctions provided under the Code of the Republic of Armenia “On Administrative Offences”. If within one-month period after application of the most stringent sanction as provided under the Republic of Armenia Code “On Administrative Offences” the requirement of publication and notification is not properly satisfied, the Ministry of Justice of the Republic of Armenia applies to a court with a request to liquidate the foundation.

The Independent Administrator has conducted a search of the reports published by foundations in 2016 and 2017 on the <http://www.azdarar.am> website and checked the availability of donating mining companies and donations made by them in all the reports found as a result of the search. The links of all reports found are presented in the below table. The information provided by the companies in EITI reports was reconciled with the information derived from reports published by the foundations. In cases where it was impossible to determine the name of the company or the amount of donations in the reports of foundations because of a non-detailed list of donors (after mentioning couple of major donors, the rest were referred to as “other donors”), the table below includes the note that “Information is not detailed”. Provision of the list of donors is not regulated under the law in any manner (questions rise whether it is it obligatory to publish all donors without exceptions or only the substantial ones by mentioning the others under the category “other donors”, what is the definition of substantiality) which has imposed certain limitations from the perspective of the conducted analysis. The discrepancies between the information presented by the company and the foundation have been clarified additionally based on the principle of relevance.

Summarized results of the described works are presented in the table below.

Table 2.6.1 Donations to foundations made by metal mining companies in 2016

Donors	Foundations	Socio-economic investment according to the mining company report, 2016, AMD	Socio-economic investment according to the reports published by the Foundation, 2016, AMD	Discrepancies 2016, AMD	Link to the report published by the Foundation 2016	Comments on audit procedures	Other comments
«Agarak Copper-Molybdenum Combine» CJSC	"Donate Life" Charitable Foundation	1,000,000	Not available	N/A	https://www.azdara.r.am/announcement/s/org/45/00254601/	audit opinion on IFRS statements	Information is not detailed
«Akhtala Mining And Processing Enterprise» CJSC	Armenia All-Armenian Fund	1,000,000	The data is not detailed	N/A	https://www.azdara.r.am/announcement/s/org/45/00288142/	audit opinion on IFRS statements	Information is not detailed
«Zangezur Copper-Molybdenum Combine» CJSC	Luyis Endowment Fund	600,000,000	600,000,000	-	https://www.azdara.r.am/announcement/s/org/131/00257041/	audit opinion on IFRS statements	-
«Zangezur Copper-Molybdenum Combine» CJSC	Information is not detailed	168,000,000	The data is not detailed	N/A	https://www.azdara.r.am/announcement/s/org/45/00288142/	audit opinion on IFRS statements	Information is not detailed
«Zangezur Copper-Molybdenum Combine» CJSC	Border Villages Development Foundation	150,000,000	Not available	N/A	N/A		The foundation is registered in AR, Financial statements are not available
«Zangezur Copper-Molybdenum Combine» CJSC	"Surik Khachatryan Charity Foundation" Fund	5,000,000	5,000,000	-	https://www.azdara.r.am/announcement/s/cat/131/00258434/	Audit opinion is missing	-
«Zangezur Copper-Molybdenum Combine» CJSC	Kapan Charitable Foundation	2,119,000	2,119,000	-	https://www.azdara.r.am/announcement/s/org/131/00256015/	audit opinion on IFRS statements	-
«Zangezur Copper-Molybdenum Combine» CJSC	Syunik Region Development and Investment Foundation	659,800,000	679,045,000	19,245,000	https://www.azdara.r.am/announcement/s/org/131/00300517/	audit opinion on IFRS statements	Non-material; According to the comment provided by «Zangezur Copper-Molybdenum

Donors	Foundations	Socio-economic investment according to the mining company report, 2016, AMD	Socio-economic investment according to the reports published by the Foundation, 2016, AMD	Discrepancies 2016, AMD	Link to the report published by the Foundation 2016	Comments on audit procedures	Other comments
«Ler-Ex» LTD	Republic Of Armenia Reforestation And Woodland Development Foundation	10,000,000	10,000,000	-	https://www.azdara.r.am/announcement/s/org/131/00258284/	audit opinion on IFRS statements	Combine» CJSC, the transfer has not been a donation from the company, but a sum collected and donated from the salaries of the employees. Therefore, the company cannot be considered a donor.
«Lydian Armenia» CJSC	Development Foundation of Armenia	11,858,500	11,858,500	-	https://www.azdara.r.am/announcement/s/org/131/00304480/	audit opinion on IFRS statements	
«Lydian Armenia» CJSC	Healthy Communities Foundation	4,000,000	4,000,000	-	https://www.azdara.r.am/announcement/s/cat/45/00255728/	Audit opinion is missing	Non-material
«Lydian Armenia» CJSC	RA Chess Academy Foundation	1,500,000	1,500,000	-	https://www.azdara.r.am/announcement/s/org/131/00259122/	audit opinion on IFRS statements	The foundation has mentioned GEOTEAM CJSC in the Financial statements
«Kapan Mining And Processing Company» CJSC	RA Chess Academy Foundation	12,000,000	12,000,000	-	https://www.azdara.r.am/announcement/s/org/131/00259122/	audit opinion on IFRS statements	

Table 2.6.2 Donations to foundations made by metal mining companies in 2017

Donors	Foundations	Socio-economic investment according to the mining company report, 2017, AMD	Socio-economic investment according to the reports published by the Foundation, 2017, AMD.	Discrepancies 2017, AMD	Link to the reports published by the Foundation 2017	Comments on audit procedures	Other comments
«Geopromining Gold» LLC	Gary Kesayan Cultural Foundation	3,500,000	3,500,000	-	https://www.azdarar.am/announcements/orig/131/00364344/	Audit opinion is missing	-
«Geopromining Gold» LLC	"Aragil" reproductive medicine support foundation	2,000,000	2,000,000	-	https://www.azdarar.am/announcements/orig/131/00360146/	audit opinion on IFRS statements	-
«Zangezur Copper-Molybdenum Combine» CJSC	Luyts Endowment Fund	650,000,000	650,000,000	-	https://www.azdarar.am/announcements/orig/131/00361579/	audit opinion on IFRS statements	-
«Zangezur Copper-Molybdenum Combine» CJSC	Armenia All-Armenian Fund	168,071,750	The data is not detailed	N/A	https://www.azdarar.am/announcements/ca/133/00383980/	audit opinion on IFRS statements	Information is not detailed
«Zangezur Copper-Molybdenum Combine» CJSC	Initiatives For Development Of Armenia	24,329,500	The data is not detailed	N/A	https://www.azdarar.am/announcements/ca/115/00361728/	audit opinion on IFRS statements	Information is not detailed
«Zangezur Copper-Molybdenum Combine» CJSC	Syunik Region Development and Investment Foundation	335,000,000	349,369,944	14,369,944	https://www.azdarar.am/announcements/orig/131/00362438/	audit opinion on IFRS statements	Non-material; According to the comment received from «Zangezur Copper-Molybdenum Combine» CJSC, the amount of 14,369,944 has been donated in the form of intangible assets, thus has not been reflected in the foundation's report.
«Zangezur Copper-Molybdenum Combine» CJSC	Cronimet Charity Foundation	145,000,000	145,000,000	-	https://www.azdarar.am/announcements/orig/131/00360718/	audit opinion on IFRS statements	-
«Zangezur Copper-Molybdenum Combine» CJSC	«Zangezur Copper-Molybdenum	945,000,000	945,000,000	-	https://www.azdarar.am/announcements/orig/131/00389008/	audit opinion on IFRS statements	Non-material

Donors	Foundations	Socio-economic investment according to the mining company report, 2017, AMD	Socio-economic investment according to the reports published by the Foundation, 2017, AMD.	Discrepancies 2017, AMD	Link to the reports published by the Foundation 2017	Comments on audit procedures	Other comments
	Combine" Charitable Organization						
«Lydian Armenia» CJSC	Healthy Communities Foundation	16,941,990	13,000,000	(3,941,990)	https://www.azdarar.am/announcements/or g/131/00361150/	Audit opinion is missing	Non-material
«Lydian Armenia» CJSC	RA Chess Academy Foundation	1,500,000	1,500,000	-	https://www.azdarar.am/announcements/or g/131/00361953/	audit opinion on IFRS statements	The foundation has mentioned GEOTEAM CJSC in the Financial statements
«Kapan Mining And Processing Company» CJSC	"Donate Life" Charitable Organization	1,000,000	Not available	N/A	https://www.azdarar.am/announcements/or g/131/00359230/	audit opinion on IFRS statements	Information is not detailed
"MULTI GROUP" CONCERN LLC	Gagik Tsarukyan Charity Foundation	42,505,728	133,000	42,372,728	https://www.azdarar.am/announcements/or g/131/00360305/	audit opinion on IFRS statements	The Foundation has classified the donation as received from individuals.

According to Article 24 of the Law of the Republic of Armenia "On Non-Governmental Organizations" if the source of property acquisition of the Organization is public funds (funds of state or local self-governing bodies and of other bodies managing public assets or legal entities), the Organization shall be obliged to publish the report on the website for the reports published by the Organization on annual basis, before May 30 of the following year. According to Article 26 of the same Law, if the Organization has been financed from public funds in the amount equal or exceeding five million AMD during the reporting year, its annual financial statements submitted to state bodies, as prescribed by law, shall be subject to mandatory financial audit for the part of financing received from public funds no later than May 15 of the following year by the Independent Administrator selected by the Board of the organization. This law entered into force on June 1, 2017, therefore, the reports submitted by non-governmental organizations for 2016 and 2017 are not available for the analysis and reconciliation with the data presented in the reports submitted by the mining companies. The Independent Administrator have restricted the analysis by reviewing the donations to foundations.

The table below provides brief information on the donations or other contributions to non-commercial legal entities without the need of compensation by subsoil users presented by the level of aggregation by the companies.

Table 2.6.3 Donations or other contributions provided to non-commercial legal entities without the need of compensation by subsoil users presented by companies (according to EITI reports of the companies), AMD

	2016		2017	
	Physical	Non-physical	Physical	Non-physical
"Agarak CMC" CJSC	5,512,682	-	6,135,000	1,530,664
"Aktala Mining and Processing Enterprise" CJSC	100,000	-	367,000	-
"Geoproming Gold" LLC	450,000	-	241,429,000	-
"Kapan Mining and Processing Company" CJSC	10,614,345	968,833	23,451,143	1,859,300
"Lydian Armenia" CJSC	9,774,802	-	31,007,615	-
"Ler-Ex" LLC	5,000,000	-	-	-
"Meghradzor Gold" LLC	1,680,000	-	400,000	-
"Teghout" CJSC	30,000	-	16,493,500	-
"Zangezur Copper-Molybdenum Combine" CJSC	669,920,000	2,665,750	693,194,302	16,626,921
"Sagamar" CJSC	-	-	-	65,010
Total	703,081,829	3,634,583	1,012,477,560	20,081,895

3

LEGISLATIVE AND INSTITUTIONAL FRAMEWORK OF RA, PROCEDURES FOR GRANTING MINING PERMITS AND CONTRACTING

3. LEGISLATIVE AND INSTITUTIONAL FRAMEWORK OF RA IN THE MINING INDUSTRY, PROCEDURES FOR GRANTING MINING PERMITS AND CONTRACTING

3.1 Statutory and fiscal regulation for extractive industries (requirement 2.1)

A. Legal framework and description of legal acts

In RA the subsoil is the property of the State and is considered to be under the exclusive ownership of the latter. The mentioned right of the State is stipulated on the level of the Constitution: it has been included in part 2³⁸ of Article 10 of the last revision of RA Constitution (in force since December 22, 2015). This provision is also reflected in the principal document regulating the mining industry - The Code on Subsoil³⁹ (hereinafter referred to as “The Code”).

The subsoil is provided to mining companies only with the right of use with the purpose of realizing geological study activities (including geological studies for mineral extraction purposes) or extraction of minerals or processing of mining wastes.

Since January 1, 2012 (after the Code entered into force) Armenia has been transitioning from mining and concession contracts regime to the regime of only subsoil use contracts. Nevertheless, a number of legal acts still mention concession contracts. In particular, according to the RA Law “On Foreign Investments” “granting the right for the extraction of renewable and non-renewable mineral resources to foreign investors is realized on the basis of concession contracts signed with foreign investors by the Government of the Republic of Armenia or other authorized State body in the manner prescribed by the legislation of the Republic of Armenia on concession contracts”⁴⁰.

Rights for realization of geological studies for mineral extraction purposes and mineral extraction and/or processing of mining wastes are provided to mining companies correspondingly through (i) granting permits for realization of geological studies of the subsoil for mineral extraction purposes, subsoil use contracts and (ii) permits for extraction of minerals and (or) processing of mining wastes, mining contracts and land use act (the legislation also defines the regime for geological studies of the subsoil, the studies carried out in the scopes of which are not connected with mineral extraction purposes: the relevant right is granted by the agreement of MEINR on subsoil use and relevant contract). A royalty is paid by mining companies for extraction of minerals, which is recognized as a nature use payment.

³⁸ The RA Constitution with amendments (passed on December 6, 2015), available from <https://www.arlis.am/DocumentView.aspx?docID=102510>

³⁹ The RA Code on Subsoil, No. HO-280-N (passed on November 28, 2011), Article 11(2), available from <https://www.arlis.am/DocumentView.aspx?DocID=126310>

⁴⁰ The RA Law «On Foreign Investments», No. HO-115 (July 31, 1994), Article 21, available from <https://www.arlis.am/DocumentView.aspx?DocID=34872>

In their essence the mentioned legal relations are private legal relations (*jure gestionis*) which is also confirmed by RA Constitutional Court⁴¹. Despite the aforesaid the practice applied for royalty calculation and enforcement is yet primarily public-legal.

Nature protection tax (before the Tax Code – nature protection payment), (recultivation) payment for replenishment of environmental protection fund, State fee and monitoring implementation payment are also paid by mining companies for the right of subsoil use, which together with royalty payments are recognized as payments for subsoil use.

The permits for subsoil use are granted by the RA Ministry of Energy Infrastructures and Natural Resources (hereinafter referred to as “the MEINR”) on the basis of relevant applications. The MEINR, based on expert conclusions of RA Ministry of Emergency Situations and the RA Ministry of Nature Protection grants the right for subsoil use by signing corresponding contracts with private entities on behalf of the Republic of Armenia.

Transfer (alienation) of the right for subsoil use to third persons is possible upon receiving the agreement of the MEINR, while granting the right to third persons is prohibited. Despite the aforesaid the MEINR does not control alienation of the shares by companies having the right for subsoil use to third persons, as a result of which transfer of the actual right for subsoil use is possible through changes of the participants/shareholders of legal entities.

Granting the right for subsoil use does not per se guarantee the accessibility of mineral-containing land areas for the entity obtaining the right. It also does not guarantee receiving of the right for water use. Access to the surface of subsoil areas containing mineral resources is obtained personally by the subsoil user independently through negotiations held with the owners of corresponding lands by buying, renting the latter or having servitude right. Similarly, the subsoil user separately applies for receiving a right for use of water resources. During report preparation subsoil users have expressed concerns regarding the fact that separated regulation of these issues having a vital importance for mining activities and their dependence on the activities of third persons creates actual problems for companies that received the permits for effective application of their rights.

Subsoil users are reporting to a number of State bodies and institutions on their activities.

In particular, starting from 2018 the subsoil users granted the right for extraction of metal minerals submit annual public reports to the MEINR and RA Government Staff on their activities, which include information on annual extraction and export volumes, paid state and local taxes and payments, payments made to community extra-budgetary accounts, land rent payments, allocations for charity, donations or other alienations realized to the community without compensation, donations made to non-commercial

⁴¹ The decision of RA Constitutional Court no. SDO-816 (July 18, 2009) on defining the conformity of Articles 7 and 19 of the RA Law “On Nature Protection and Nature Use Payments” and Point 2 of Article 22 of the RA Law “On Taxes” with the Constitution based on the applications received from of “Bjni” Mineral Water Plant” CJSC and “Kommunnakhagits” CJSC, available from <https://www.arlis.am/DocumentView.aspx?docid=52844>

legal entities and individuals, gifts or other alienations realized without compensation, payment made for replenishment of environmental protection fund and implementation of monitoring activities, financial proposals for mineral extractions, as well as liabilities in the sphere of social-economic development of the community⁴².

All entities granted the right for mineral extraction shall submit quarterly and annual reports to the MEINR on the changes in the inventory of mineral resources⁴³. Based on the aforesaid reports (as well as confirmed reserves) the state balance of mineral resources is developed⁴⁴. The reports and state balance of mineral resource reserves are not public.

Starting from January 1, 2018⁴⁵ in case of metal minerals the entities granted the extraction right provide quarterly updates to the Ministry of Nature Protection with regard to subsoil use, providing information on the results of mitigations of nature protection losses occurring as a result of subsoil use, monitoring activities planned for the purpose of preventing irreversible consequences and the results of assessment of accredited laboratories having corresponding certificates, as well as summary annual report submitted upon completion of every year until February 20 of the following year⁴⁶. In case of website availability the summary annual report should also be made available on the website⁴⁷. The reports are also made available on the website of the Ministry of Nature Protection⁴⁸.

Information on payment made by subsoil users for replenishment of environmental protection fund and the amounts returned to subsoil users shall be published on annual basis on the official website of the Ministry of Nature Protection as prescribed by the Code, until the 30th of the month following the completion of the reporting year⁴⁹.

Nevertheless, despite legal regulations of reporting procedures the latter do not apply to all the companies of the sector. In particular, concentrate producers (foundries) are also involved in the sector and are royalty payers despite the fact of being a subsoil user. However, the regulations of the Code do not apply to legal entities realizing such activities (these companies are not a subject for regulation by the Code)⁵⁰. Considering the lack of separate laws regulating operations of the foundries it is expedient

⁴² The Code, reference 38, Article 9(3): The Procedure “On provision of public reports by subsoil user granted the right for metal mineral extraction and the State body”, RA Government Decree N 666-N (June 8, 2018) available from <https://www.arlis.am/DocumentView.aspx?DocID=123259>

⁴³ *Ibid.*, Article 15(2)(7)

⁴⁴ *Ibid.*, Article 63(9)

⁴⁵ The RA Law “On Making Changes in RA Code on Subsoil”, HO-214-N (dated November 17, 2017)

⁴⁶ *Ibid.*, Article 59(3)(19): According to the sample subsoil use contacts approved by the RA Government Decree No. 437-N dated March 22, 2012 the obligation (contractual) for submission of annual report is applied to all the companies engaged in mineral extraction activities (article 3.4.27 and 5.4) which is not directly stipulated in the text of the Code.

⁴⁷ *Ibid.*:

⁴⁸ Available from <http://www.mnp.am/am/pages/233>

⁴⁹ *Ibid.*, Article 69(6)

⁵⁰ The Code, reference 20, Article 1(1), the latter stipulates:

“This Code stipulates the principles and procedures of subsoil use on the territory of the Republic of Armenia, regulates the relations related to mining waste management and processing, protection of nature and environment from harmful

to regulate the issues related to reporting by the entities involved in the sector through a separate law by defining the scope of the accountable entities, the volumes of reporting and procedures (or define the entities developing the procedures), as well as the level of authorities of the authorized bodies. For this purpose, the following definition of the foundries is recommended:

“Organizations producing metal concentrate or casting from the raw materials extracted from metal mineral mines of the Republic of Armenia.”

The relevant legal framework includes a number of legislative and regulatory acts that are detailed in the next section. A brief overview of the principal documents is provided below.

The current edition of the RA Constitution, as mentioned above, states the exclusive right of the State towards the subsoil⁵¹.

RA Code on Subsoil is the primary regulatory normative legal act regulating the sector. The latter regulates the baseline issues related to obtaining permits for subsoil use, conclusion of contracts, industry oversight and defines the scopes of competencies of the relevant authorities. The Code also regulates the key issues related to calculation of payments for receiving subsoil use rights (subsoil use payments), their application and legal relations arising from their application.

The RA Tax Code⁵² that entered into effect from January 1, 2018 is a comprehensive legal act regulating tax-related legal relations, which regulates the types of taxes, rates, taxation bases, tax concessions and other issues. The Code also regulates the legal relations arising with regard to nature protection taxes and nature use payments (royalties).

Prior to enforcement of the new Tax Code the tax-related legal relations were governed by sectoral laws (RA Law “On Income Tax”⁵³, RA Law “On Profit Tax”⁵⁴, RA Law “On Value Added Tax”⁵⁵ and others), while legal relations connected with nature protection and nature use payments were also regulated by RA Law “On Nature Protection and Nature Use Payments”⁵⁶ and the RA Law “On the Rates of Environmental Payments”⁵⁷ (in part).

impact of subsoil use, ensuring work safety, as well as protection of rights and legal benefits of the State and individuals during subsoil use”.

⁵¹ RA Constitution, with amendments, reference 38, Article 10(2).

⁵² RA Tax Code, N. HO-165-N (passed on October 4, 2016), available from <https://www.arlis.am/DocumentView.aspx?DocID=126329>

⁵³ The RA Law “On Income Tax”, HO-246-N (passed on December 22, 2010), available from <https://www.arlis.am/DocumentView.aspx?DocID=118444>

⁵⁴ The RA Law “On Profit Tax”, HO-155 (passed on September 30, 1997), available from <https://www.arlis.am/DocumentView.aspx?DocID=118416>

⁵⁵ The RA Law “On Value Added Tax”, HO-118 (passed on May 14, 1997), available from <https://www.arlis.am/DocumentView.aspx?DocID=118406>

⁵⁶ The RA Law “On Nature Protection and Nature Use Payments”, HO-270 (passed on December 28, 1998), available from <https://www.arlis.am/DocumentView.aspx?DocID=87833>

⁵⁷ The RA Law “On the Rates of Environmental Payments”, HO-245-N (passed on December 20, 2006), available from <https://www.arlis.am/DocumentView.aspx?DocID=118446>

Ecological issues associated with mining activities are regulated by the RA Law “On Wastes”⁵⁸, the RA Law “On Environmental Impact Assessment and Expertise”⁵⁹, the RA Law “On Environmental Control”⁶⁰ and others.

The rates of State dues paid for granting mining permits are stipulated by the RA Law “On State Dues”⁶¹.

The RA Water Code⁶² regulates the legal relations arising with regards to water use, in particular the procedure for submitting applications for obtaining water use permits, legal relations related to granting water use permits, their validity, the procedures of receiving, the grounds for refusal, the peculiarities of using underground sweet water and others.

The RA Land Code⁶³ regulates legal relations arising from land use, as well as land regimes of industrial, mining and other manufacturing sites, which also include the land areas provided for subsoil use. The Land Code also stipulates a general prohibition, according to which *“new land areas cannot be provided to subsoil users in case the lands previously disturbed as a result of their operations have not been recovered in compliance with the recovery plans”*⁶⁴.

The Civil Code of the Republic of Armenia⁶⁵ defines the general legal context within which the subsoil use contracts (as mentioned, the legal relationships arising under these contracts are privately owned) are applicable.

The scope of the relevant legislation also includes the RA Law “On Limited Liability Companies”⁶⁶ and the RA Law “On Joint Stock Companies”⁶⁷, since the organizational-legal forms of the mining companies registered in RA are exclusively LLCs and CJSCs.

The existing regulations related to the final beneficial owners originate from the RA Law “On State registration of legal persons, state registration of separate divisions of legal persons, enterprise and

⁵⁸ The RA Law “On Wastes”, HO-159-N (passed on November 24, 2004), available from <https://www.arlis.am/DocumentView.aspx?DocID=122729>

⁵⁹ The RA Law “On Environmental Impact Assessment and Expertise”, HO-110-N (passed on June 21, 2014), available from <https://www.arlis.am/DocumentView.aspx?DocID=93148>

⁶⁰ The RA Law “On Environmental Control”, HO-82-N (passed on April 11, 2005), available from <https://www.arlis.am/DocumentView.aspx?DocID=120771>

⁶¹ The RA Law “On State Dues”, HO-186 (passed on December 27, 1997), available from <https://www.arlis.am/DocumentView.aspx?DocID=123571>

⁶² The RA Water Code, HO-373-N (passed on June 4, 2002), available from <https://www.arlis.am/DocumentView.aspx?DocID=121550>

⁶³ The RA Land Code, N HO-185 (passed on May 2, 2001), available from <https://www.arlis.am/DocumentView.aspx?DocID=126320>

⁶⁴ *Ibid.*, Article 13(6).

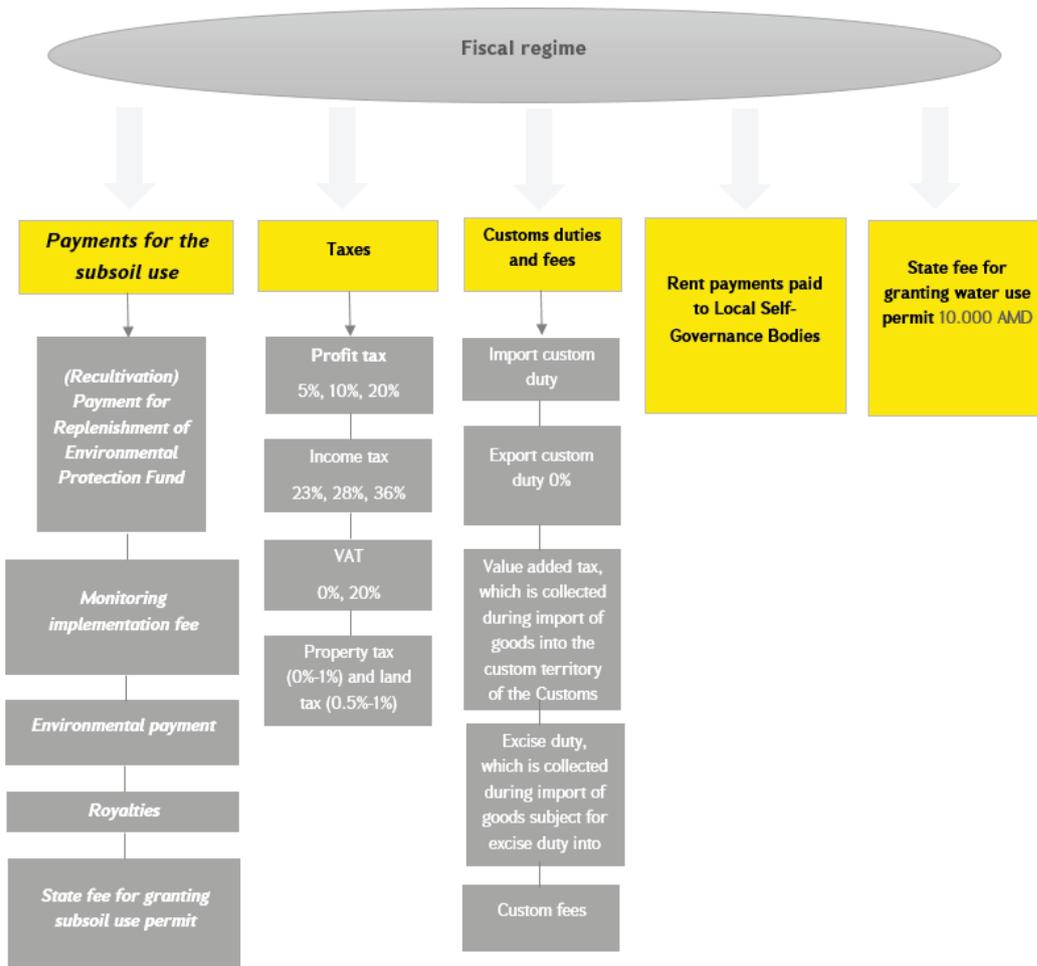
⁶⁵ The RA Civil Code, HO-239 (passed on May 5, 1998), available from <https://www.arlis.am/DocumentView.aspx?DocID=126332>

⁶⁶ The RA Law “On Limited Liability Companies”, HO-252 (passed on October 24, 2001), available from <https://www.arlis.am/DocumentView.aspx?DocID=100223>

⁶⁷ The RA Law “On Joint Stock Companies”, HO-232 (passed on September 25, 2001), available from <https://www.arlis.am/DocumentView.aspx?DocID=122471>

private entrepreneurs”⁶⁸, the RA Law “On fighting money laundering and terrorist financing”⁶⁹ and the RA Law “On Civil Services”⁷⁰.

B. Fiscal regime, tax and non-tax revenue streams, tax rates



(i) Payments for the subsoil use

According to Article 61 of the RA Code on Subsoil (hereinafter referred to as “The Code”) the payments for the subsoil use are (i) environmental tax (prior to Tax Code changes of 2018 - environmental payment), (ii) (recultivation) payment for replenishment of environmental protection fund, (iii) monitoring

⁶⁸ The RA Law “On State registration of legal persons, state registration of separate divisions of legal persons, enterprise and private entrepreneurs” HO-169 (passed on April 3, 2001), available from <https://www.arlis.am/DocumentView.aspx?DocID=121691>

⁶⁹ The RA Law “On fighting money laundering and terrorist financing”, HO-80-N (passed on May 26, 2008), available from <https://www.arlis.am/DocumentView.aspx?DocID=126311>

⁷⁰ The RA Law “On Civil Services, HO-172-N (passed on May 26, 2011), available from <https://www.arlis.am/DocumentView.aspx?DocID=121573>

implementation fee and (iv) nature use payments, including royalty and (v) state duties for granting subsoil use permits.

(a) (Recultivation) Payment for Replenishment of Environmental Protection Fund

Recultivation payment is included in the list of payments for subsoil use made by mining companies, which is used to replenish the environmental protection fund (hereinafter referred to as “The Fund”) kept in extra-budgetary account of the Ministry of Nature Protection in the Central Treasury. In this sense the recultivation payments are literally not an integral part of fiscal regime since they are not budget payments. The Fund amounts are used for the following purposes:

- ▶ Implementation of nature protection (including recultivation) activities by mining companies as stipulated by the project
- ▶ Implementation of nature protection (including recultivation) activities by mining companies stipulated by the project but not realized by the latter
- ▶ Recovery of damages caused to the nature or environment as a result of operations realized by the mining company and not reimbursed by the latter⁷¹.

Mining company receives financial resources from the Fund in the size of the contributions made (however not exceeding the amount of these contributions)⁷² with the purpose of implementing nature protection (including recultivation) works within the terms and in compliance with the procedure stipulated by the project⁷³. According to the reports received in the scopes of EITI no contributions to the companies were made by the Ministry of Nature Protection from the Environmental protection fund during the reporting period. After implementation of nature protection activities undertaken by the mining company in accordance with the project, implementation of undertaken however not implemented activities, as well as implementation of activities aimed at recovering the damages caused to the nature and environment as a result of the operations carried out by the mining company and not reimbursed by the latter, the amounts remaining from the contributions made to the Fund are returned to the mining company⁷⁴.

It is noteworthy that the Code does not stipulate any criteria for defining the volumes of nature protection activities, as well as criteria for defining whether these activities have been realized by mining companies, criteria for evaluating the damages caused to the environment, and does not define, which body should carry out the assessment of nature protection activity implementation or the damage caused to the environment (with respect to the evaluation body it is logical to assume that this body is the Ministry,

⁷¹ The Code, reference 20, Article 69(3)

⁷² *Ibid.*, Article 69(4)

⁷³ *Ibid.*, Article 70(1)

⁷⁴ *Ibid.*, Article 69(5)

since in case of not implementing recultivation activities the Ministry is the body notifying the mining company and requiring implementation of activities within the defined time frames⁷⁵).

Despite the availability of a number of Government Decrees stipulating the procedures for assessment of the environmental impact⁷⁶, the latter are passed in under other laws and their enforcement under the Code in the context of the arising legal relations is arguable from legal viewpoint.

According to point 4 of Article 61 of the Code the recultivation payment is realized in the cases and in compliance with the procedures defined by Article 69 of the Code. However, Article 69 does not define “cases” (the formulation is deficient from legal drafting methodology viewpoint), but instead it states the following:

“An environmental protection fund is formulated from the contributions of the set amounts realized by mineral extractive companies”.

It may be concluded that the “case” stipulated by Article 69 is practically referred to the fact of being “a mineral extractive company”, similarly to having the right for mining and using this right (as opposed to having and using another mining right – the right for implementation of geological studies).

The legislator has delegated the authority of defining the size of the Fund replenishment payments and providing clarifications regarding other legal relations connected with the Fund to the Government. The second paragraph of Point 1 of Article 69 of the Code stipulates the following:

“The procedure of using the fund and calculating the sizes of contributions is defined by the Government”.

The relevant decree of the Government No. 1079-N dated August 23, 2012 approving “*The Procedure of Using the Fund for Nature and Environmental Protection and Calculating the Sizes of Contributions*” (hereinafter referred to as “the Recultivation Contribution Calculation Procedure”) states that the basic rate for calculation of contributions made to the Fund is defined by “*the plan and (or) the project and (or) mining contract*”⁷⁷. According to Recultivation Contribution Calculation Procedure the basic rate is the “*estimate price of recultivation works*”⁷⁸. It turns out that there are no legal regulations (bylaws) for defining the basic rates and that in any particular case the basic rate is defined on the basis of certain circumstances taking into consideration the estimate presented by the project or the plan.

⁷⁵ *Ibid.*, Article 70(3)

⁷⁶ Refer to the RA Government Decree No. 764-N “On the Procedure of Assessing the Possible Economic Impact on the Environment and its Compensation” (dated May 27, 2015), Annex 1, available from <https://www.arlis.am/DocumentView.aspx?DocID=99202>, the RA Government Decree No. 91-N “On the Procedure of Assessing the Impact on the Atmosphere Resulted From Economic Activities” (dated February 14, 2005), Annex 1, available from <https://www.arlis.am/DocumentView.aspx?DocID=13400>, the RA Government Decree No. 1110 “On the Procedure of Assessing the Impact on Water Resources Resulted From Economic Activities” (dated August 14, 2003), available from <https://www.arlis.am/DocumentView.aspx?DocID=84631>, the RA Government Decree No. 1643-N “On the Requirements Set Forth for Soil Recultivation and Classification of Disrupted Soils by Recultivation Areas” (dated December 14, 2017), available from <https://www.arlis.am/DocumentView.aspx?DocID=118387>.

⁷⁷ RA Government Decree No. 1079-N (August 23, 2012), Annex 1, Point 2(3).

⁷⁸ *Ibid.*

The Recultivation Contribution Calculation Procedure also stipulates the obligation of “initial contribution” which is made “*within one month following the day of signing corresponding contract*”⁷⁹ and the size of which “*is defined by relevant subsoil use contract*”, however “*should not be less than 15 percent of the basic rate for calculation of contributions made to the Fund*”⁸⁰.

The Recultivation Contribution Calculation Procedure provides also the formula for calculating the minimal amount of contributions and states that the current contributions cannot be less than this minimal amount⁸¹. The minimal amount (MA) is calculated by dividing the difference of the basic rate (BR) and the initial contribution (IC) by recultivation works implementation period (T): $MA=(BR-IC)/T$.

Thus, calculation of recultivation contributions fully depends on the size of initial contribution stated in subsoil use (mining) contract, as well as the basic rate defined by the project, plan or mining contract.

Only 6 out of all the existing mining contracts provide numerical data on recultivation payments. The basic rates, the sizes of initial payments and annual contributions stated in them are provided below⁸²:

Table 3.1.1 The basic rate of recultivation payments defined by mining contracts, initial and annual contributions

Mining Company	Mining contract number, date	Basic rate (thousand AMD)	Initial payment (thousand AMD)	Annual contributions (thousand AMD)
“Meghradzor Gold” LLC	No. PV-057, August 22, 2012	X	X	307.74
“Fortune Resources” LLC	No. PV-169, October 20, 2012	X	4174.35	1028.46
“Vardani Zartonk” LLC	No. PV-239, September 27, 2012	X	392.5	171.1
“Lydian Armenia” CJSC	No. PV-245, September 26, 2012, according to revision of May 23, 2016	1 864 926	279 740	121 940
“Teghout” CJSC	No. PV-376, February 20, 2013	X	3126.2	2952.54
“Multi Group” Concern LLC	No. PV-213, October 20, 2012	X	947.25	233.381

As indicated in the table above, despite the requirements of the Code and the Recultivation Contribution Calculation Procedure the vast majority of the existing mining contracts does not stipulate basic rates for recultivation payments (they are available in only 6 out of the 28 contracts).

⁷⁹ *Ibid.*, Point 5.

⁸⁰ *Ibid.*, Point 12.

⁸¹ *Ibid.*, Point 13.

⁸² The information is taken from the texts of contracts available on MEINR website at <http://www.minenergy.am/page/571>. The basic rates of recultivation contributions, the sizes of initial payments and annual contributions defined by mining contracts, according to the reports completed by mining companies, have been included in Annex 3.

As a rule, the following formulation is used in point 3.1 of Annex 1 of these contracts (financial offers and payments for mining):

3. Payments for nature and environmental protection fund and implementation of monitoring for ensuring the safety and health of population of the communities located on mineral extraction areas, the areas of collection of extraction waste dumps and their adjoining territories.

3.1 Payments made by mining companies for nature and environmental protection fund for implementation of mining activities in the size and in compliance with the payment procedure defined by the Republic of Armenia legislation.

The formulation precisely repeats the sample form of mining contract approved by RA Government Decree No. 437-N dated March 22, 2012 (hereinafter referred to as “the Sample Contract”). It is however obvious that in the Sample Contract the points 3, 3.1 (as well as 3.2) are defined as titles (sections) and it is assumed that point 3.1 should be followed by precise calculations, which also comes from the requirements of the Recultivation Contribution Calculation Procedure, according to which the basic rate for recultivation payments is defined by the mining contract.

However, in practice the majority of mining contracts just precisely repeats the titles of the Sample Contract without defining the basic rates, which is also problematic from language and logical viewpoints since the formulations provided as titles are used as provisions actually stipulating obligations without expressing complete thought.

As a result, legal uncertainty comes up: the legislations makes references to the contracts (as well as the projects/plans), while the contracts do not define any particular obligation, but only refer to “the size stipulated by the law” and “the payment procedure”.

We believe that from the legal viewpoint the issue should be viewed from the context of the following questions:

- Whether not defining the basic rates for calculation of the contributions made to the Fund in the contracts (as well as in the projects/plans) eliminates the obligation of making such contributions.
- If no, whether not defining the basic rates for calculation of the contributions made to the Fund in the contracts (as well as in the projects/plans) postpones/defers the obligation of making such contributions.

The answer to the first question is unambiguously negative. The analysis of the Code text clearly indicates the mandatory nature of the payment. The Code does not envisage any exceptions (the grounds from being exempt from payment for implementation of extraction activities defined by Article 62 of the Code are not applicable).

The answer to the second question is also negative since the Code does not define any possibilities for postponing/deferring the payments.

According to the report of the Ministry of Nature Protection submitted under EITI in 2016, 22 out of 27 metal extraction companies have presented a calculated amount of payments for replenishment of environmental protection fund, however 15 out of these companies did not realized actual payments. Out of 25 metal extraction companies which presented calculated amounts of payments in 2017 the actual payments were not realized by 20 companies. The general revision of the data provided in the reports of the Ministry of Nature Protection showed that in 2016 the total payments calculated for replenishment of environmental protection fund amounted to 261,335,348 AMD, out of which actual payment of only 194,196,907 AMD was realized, while in 2017 a total amount of 368,484,242 AMD was calculated and 288,185,535 AMD was actually paid. Considering the total calculated and actually paid amounts payments were not realized by some of the companies, and the unpaid amounts equal to 67,138,441 AMD in 2016 and 80,298,707 AMD for 2017. As of December 31, 2015, the calculated amount for the reporting year was 697 million AMD and actually paid amount comprised 474 million AMD. Therefore, the unpaid sum totalled 223 million AMD. The table summarizing the data provided by extractive companies and the Ministry of Nature Protection is presented in Annex 3.

According to Annex 30 of the RA Code on Subsoil the MEINR may give a written notice to the legal entity having the right for subsoil use in case the latter has failed to make the payments stipulated by the law, within one month from the payment due date. In case the company having the right for subsoil use does not eliminate the basis for the notice no later than within 90 days after receiving the notice, the Ministry may file an administrative case.

According to the information received from the MEINR administrative cases have already been filed against some of the extractive companies.

The table 3.1.2 below provides the sizes of actual contributions made to the Fund during 2016-2017 by mining companies and the approaches applied for defining the base rates according to the reports provided by the Ministry of Nature Protection and based on the information obtained through additional inquiries. The approaches for defining the base rates are included in mining contracts, which have been published on the MEINR website⁸³ after legislative changes initiated as a result of EITI.

⁸³ <http://minenergy.am/page/571>

Table 3.1.2 The sizes of actual contributions made to the Fund during 2016-2017 by mining companies and the approaches applied for defining the base rates

Mining Company	The approach of the mining company for defining the base rates	Actual annual reclamation contribution, 2016 ⁸⁴ , AMD, according to the EITI report of the Ministry of Nature Protection	Actual annual reclamation contribution, 2017 AMD, according to the EITI report of the Ministry of Nature Protection
“Agarak CMCC” CJSC	Table 9.7 on page 27 of nature protection section of the project	-	-
“Akhtala Mining and Processing Enterprise” CJSC	NBP-128 expert conclusion dated 13.12.2010	-	-
“Aktiv Lernagorts” LLC	Environmental protection of the project	-	-
“Assat” LLC	Pages 66-67 of the Environmental Impact Assessment Report of the Project	-	-
“AT Metals” LLC	Table 9.1 on page 94 of the project presents the areas of damaged land (in hectares), and technical reclamation is stated on page 112	-	-
“Baktek Eco” LLC	Environmental protection of the project, page 30	-	-
“Geghi Gold” LLC	Point 1 in the Table of Annex 2 to the Contract – costs required for mine-technical reclamation of the processed area of the open mine	-	-
“GeoPro Mining Gold” LLC	Point 1 in the Table of Annex 2 to the Contract – Recovery of damaged land areas	58 957 300	58 957 300
“Zangezur Copper Molybdenum Combine” CJSC	Project and time table	5 489 400	101 747 623
“Tatstone” LLC	Page 47 of Lichq project environmental protection section Page 21 of Aygedzor project environmental protection section	1 839 595	-
“Tatstone” LLC	Page 47 of Lichq project environmental protection section Page 21 of Aygedzor project environmental protection section	2 953 000	2 953 000
“Teghout” CJSC	Points 3.1.1 and 3.1.2 of Section 3 of the Annex 1 to the Contract	-	-

⁸⁴ Provision of information for the year 2016 was voluntary, according to RA Government Decree No 666-N

Mining Company	The approach of the mining company for defining the base rates	Actual annual recultivation contribution, 2016 ⁸⁴ , AMD, according to the EITI report of the Ministry of Nature Protection	Actual annual recultivation contribution, 2017 AMD, according to the EITI report of the Ministry of Nature Protection
“Ler-Ex” LLC	Point 16 of the table of Annex 1 to the contract – vertical smoothing and improvement of mine territory	121 938 000	121 938 000
“Lydian Armenia” CJSC	Points 2 and 3 of Annex 2 to the Contract amendment of 2016, time table	-	-
“Lichqvaz” CJSC	NBP-60 expert conclusion dated 29.06.2017	-	-
“Kapan Mining and Processing Company” CJSC	-	-	-
“Hrashk Metagh” LLC	Point 1 in the Table of Annex 2 to the Contract – mine-mechanical recovery of damaged soil	-	-
“Gharagulyanner” CJSC	Page 102 of the Environmental Impact Assessment Report of the Project	-	-
“Marjan Mining Company” LLC	NBP-86 expert conclusion dated 19.08.2008	-	-
“Mego Gold” LLC	Envisaged by the project	430 000	-
“Meghradzor Gold” LLC	According to page 22 of mine-closure plan	1 561 152	1 561 152
“Molibdeni Ashkharh” LLC	-	-	-
“Multi Group” Concern LLC	Sub-point f) of point 3 of the table in Annex 1 to the Contract – hummus soil collection, recultivation	-	-
“Paramount Gold Mining” CJSC	NBP-137 expert conclusion dated 23.12.2010	-	-
“Sagamar” CJSC ⁸⁵	Page 80 of the Project – damaged soil recovery costs	-	-
“Vayk Gold” LLC	Environmental protection of the project	-	-
“Vardani Zartonk” LLC	Points 3.1.2 and 3.1.3 of Section 3 of the Annex 1 to the Contract	1 028 460	1 028 460
“Fortune Resources” LLC	Points 3.1.2 and 3.1.3 of Section 3 of the Annex 1 to the Contract	-	-

⁸⁵ The current edition of the contract No. PV-093 dated October 20, 2012 signed with “Sagamar” CJSC (revision of June 8, 2015) does not stipulate recultivation contributions. The initial version envisaged 1,619,463 AMD annual obligation before contract revision (for the period of 2008-2011).

Thus, the Code envisaged not only the necessity of stipulating the obligation of mining company to make contributions to the Fund in the mining contract, but also in some cases an opportunity of realizing their recalculation and making changes in the contract. Thus point 2 of Article 69 of the Code states:

“the obligation of the mining company of making contributions to the Environmental Protection Fund is included in the mining contract”.

And point 2 of Article 70 of the Code states:

“In case of changes in the project, expanding the subsoil area, refusing the right of realizing mining activities in the site of in one part of the latter the provisions of the mining contract referring to the sizes of contributions made to Environmental Protection Fund shall be correspondingly revised”.

It should be noted that point 2 of Article 69 of the Code states about “including” the obligation of the mining company of making contributions to the Fund in the mining contract. The Code does not mention that this inclusion should and can be made only at the moment of signing the mining contract.

Being guided by rules for literal interpretation of legal acts and prevention of changes of their meaning the anticipated statement on inclusion at the moment of signing should be excluded. In other words, theoretically the obligations may also be included after signing the contract in parallel with legal developments taking place at a later stage.

Moreover, taking into consideration that part 2 of Article 70 states about the possibilities of making changes in provisions on the sizes of contributions to the Fund, it is obvious that making changes in mining contracts has been assumed by the Code.

(b) Monitoring implementation fee

According to the Code the Monitoring implementation fee is also included in the list of payments for mining, which is paid *“for ensuring the safety and health of population of the communities located on mineral extraction areas, the areas of collection of extraction waste dumps and their adjoining territories [implementation of monitoring]”*⁸⁶. While according to point 17 of part 3 of Article 59 of the Code *“the person granted the right for mineral extraction is obliged to ... ensure the payment for implementation of monitoring for ensuring the safety and health of population of the communities located on mineral extraction areas, the areas of collection of extraction waste dumps and their adjoining territories”*.

The legislator has also delegated determination of *“size calculation and payment procedure”* for monitoring implementation fees, as well as *“monitoring implementation procedure”* to RA Government⁸⁷. With its Decree No. 22-N⁸⁸ dated January 10, 2013 the RA Government approved “The procedure of

⁸⁶ The Code, reference 20, point (3) of Part 2 of Article 61 and point (10) of Part 2 of Article 15.

⁸⁷ *Ibid.*, Article 61, Part 5.

⁸⁸ The RA Government Decree No. 22-N (dated January 10, 2013), available from <https://www.arlis.am/DocumentView.aspx?DocID=80784>.

implementation of monitoring for ensuring the safety and health of population of the communities located on mineral extraction areas, the areas of collection of extraction waste dumps and their adjoining territories” (hereinafter referred to as “Monitoring implementation procedure”) and “The procedure for calculation and payment of fees for implementation of monitoring for ensuring the safety and health of population of the communities located on mineral extraction areas, the areas of collection of extraction waste dumps and their adjoining territories” (hereinafter referred to as “Monitoring fee calculation and payment procedure”).

According to Monitoring implementation procedure the monitorings are realized for “*developing measures for prevention and elimination of future disasters*”, as well as with the purpose of receiving information on “*closed mine, the geological environment of production waste dump area which were formed as a result of mining activities, changes of hydro-geological and engineering-geological conditions*”⁸⁹.

Monitoring fee calculation and payment procedure defines:

*“the basic rate for calculation of monitoring implementation is the estimate price of monitoring implemented for ensuring the safety and health of population of the communities located on the area of mineral extraction, the areas of collection of extraction waste dumps resulted from mining activities and their adjoining territories envisaged by the monitoring plan which is an inseparable part of the mine-closure plan”*⁹⁰.

Monitoring fee calculation and payment procedure defines the responsibilities of making initial contribution and regular contributions⁹¹. The initial contribution is realized within one month⁹² after signing the mining contract and should not be less than 15 percent of the basic rate for calculation. The regular payments are realized on annual basis and their minimal amount (MA) is calculated by dividing the difference of the basic rate (BR) and the initial contribution (IC) by the time period (T) for making the payments for implementation of monitoring activities: $MA = (BR-IC)/T$ ⁹³.

Thus the basic rate for implementation of monitoring is directly dependent on the estimate price of monitoring activities envisaged by mine-closure plan.

According to the Code mine-closure plan is submitted together with the application for receiving the right for mineral extraction⁹⁴. In this context, however, the mining contracts which were signed not on the basis of mining permissions granted as a result of such applications, but as a result of reformulating the licenses issued previously in mining industry, are problematic. Taking into consideration the fact that the

⁸⁹ *Ibid.*, Annex N 1, points 4 and 5

⁹⁰ *Ibid.*, Annex N 2, point 2

⁹¹ *Ibid.*, Annex N 2, point 4

⁹² *Ibid.*, Annex N 2, point 5.

⁹³ *Ibid.*, point 10.

⁹⁴ The Code, reference 20, Article 49(2).

previous Code on Subsoil⁹⁵ for the years 2002-2012 did not envisage legal requirement for submitting mine-closure plan, in case of the majority of reformulated permits the mine-closure plans are missing. Therefore, the estimate price of monitoring is also missing.

The summary of obligations taken over by the existing mine-closure plans of the current mining contracts is provided below (in compliance with Annex 2 “Obligations stipulated by mine-closure plan”⁹⁶). Separate study of mine-closure plans was not realized since they are not publicly available.

Table 3.1.3 Obligations taken over by the mine-closure plans developed under mining contracts

Mining company	Date and the number of mining contract	Annual payment for monitoring envisaged by mine-closure plan
“Meghradzor Gold” LLC	No. PV-057, August 22, 2012	Obligations stipulated by mine-closure plan are missing from the contract
“Paramount Gold Mining” CJSC	No. 089, June 12, 2012	Obligations stipulated by mine-closure plan are missing from the contract
“Sagamar” CJSC	No. PV-093, October 20, 2012	11 780 000 AMD
“Ler-Ex” LLC	No. PV-094, August 16, 2012	Obligations stipulated by mine-closure plan are missing from the contract
“Akhtala Mining and Processing Enterprise” CJSC	No. PV-103, October 20, 2012	Obligations stipulated by mine-closure plan are missing from the contract
“Fortune Resources” LLC	No. PV-169, October 20, 2012	Obligations stipulated by mine-closure plan are missing from the contract
“Molibdeni Ashkharh” LLC	No. PV-174, November 7, 2012	Only social mitigation activities for workers are envisaged by the contract. The company responsibility of “to prepare final mine-closure plan and submit it to the authorized body 2 years prior to completion of mine exploitation works” is also defined (point 1.3, Annex 2)
“Kapan Mining and Processing Company” CJSC	No. PV-183, November 27, 2012	Obligations stipulated by mine-closure plan are missing from the contract
“Mego Gold” LLC	No. PV-184, December 28, 2012	Obligations stipulated by mine-closure plan are missing from the contract
“GeoPro Mining Gold” LLC	No. PV-189, October 20, 2012, according to the change of October 22, 2014	6 000 000 AMD
“Vardani Zartonk” LLC	No. PV-239, September 27, 2012	Obligations stipulated by mine-closure plan are missing from the contract
“Lydian Armenia” CJSC	No. PV-245, September 26, 2012, according to the change of May 23, 2016	16 610 000 AMD

⁹⁵ The Code on Subsoil, HO-456-N (passed on November 6, 2002, out of force since January 1, 2012), available from <https://www.arlis.am/DocumentView.aspx?DocID=72894>

⁹⁶ The information was taken from the texts of contracts published on MEINR website. Available from <http://www.minenergy.am/page/571>

Mining company	Date and the number of mining contract	Annual payment for monitoring envisaged by mine-closure plan
“Lichqvaz” CJSC	No. PV-293, November 22, 2012	Obligations stipulated by mine-closure plan are missing from the contract
“Agarak PMK” CJSC	No. PV-311, April 5, 2013, according to the change of June 1, 2013	25 000 000 AMD
“Assat” LLC	No. PV-366, June 6, 2013	Monitoring activities are not envisaged in the scopes of the obligations of the mine-closure plan stipulated by the contract
“Vayk Gold” LLC	No. P-371, November 30, 2012	Monitoring activities are not envisaged in the scopes of the obligations of the mine-closure plan stipulated by the contract
“Teghout” CJSC	No. PV-376, February 20, 2013	Obligations stipulated by mine-closure plan are missing from the contract
“Marjan Mining Company” LLC	No. PV-398, March 7, 2013	Obligations stipulated by mine-closure plan are missing from the contract
“Tatstone” LLC (“Tghkut” site of Aygedzor copper –molybdenum mine)	No. P-458, February 11, 2013	2 500 000 AMD
“Tatstone” LLC (Litchk copper mine)	No. P-459, February 11, 2013, according to the changes of February 10, 2016	375 000 AMD
“AT Metals” LLC	No. P-514, January 16, 2015	5 000 000 AMD
“Baktek Eco” LLC	No. P-515, August 22, 2014	150 000 AMD
“Hrashk Metagh” LLC	No. P-542, June 15, 2016	400 000 AMD
“Geghi Gold” LLC	No. P-544, July 22, 2016	2 200 000 AMD
“Multi Group” Concern LLC	No. PV-213, October 20, 2012	Obligations stipulated by mine-closure plan are missing from the contract
“Zangezur Copper Molybdenum Combine” CJSC	No. PV-232, November 27, 2012	Obligations stipulated by mine-closure plan are missing from the contract
“Aktiv Lernagorts” LLC	No. PV-425, December 28, 2012	Obligations stipulated by mine-closure plan are missing from the contract
“Gharagulyanner” CJSC	No. P-547, October 25, 2016	4 895 000 AMD

Thus out of the 28 contracts under consideration 14 did not have the Annex titled “Obligations stipulated by mine-closure plan”. From these 14 contracts which stipulated such obligations, in case of one mining company (contract No. PV-174 signed on November 7, 2012 with “Molibdeni Ashkharh” LLC) the Annex 2 titled “Mine-Closure Plan” defines only the responsibility of social mitigation for the workers and implementation of social-economic activities in the communities located in the impact area of the mine (without clarifying their nature). The company responsibility “to prepare final mine-closure plan and submit it to the authorized body 2 years prior to completion of mine exploitation works” is also defined. In case of two other contracts (contract No. PV-366 signed on June 6, 2013 with “Assat” LLC and contract No. P-371 signed on November 30, 2012 with “Vayk Gold” LLC) the Annex titled “Obligations stipulated by mine-closure plan” is available, however it does not include calculations related to monitoring.

From the remaining 11 contracts out of the 14 having an Annex titled “Obligations stipulated by mine-closure plan” only the contract signed with “Lydian Armenia” CJSC includes terminology related to the Code and Monitoring fee calculation and payment procedures.

In case of the other 10 contracts in Annex 2 titled “Mine-closure plan” containing social mitigation measures, at the end of the Annex an action plan is also included in form of a table which in essence is not of social, but rather ecological nature (including activities such as recovery of damaged land areas, disassembly of the working space, moving equipment, implementation of monitoring, installation of warning signs, maintenance of water removal gutters, construction of drainage systems and others) and is an estimate per se, which determines “the size of investments” envisaged for the activities.

The tables in the contracts with described formulations are however not connected with the text from contextual viewpoint and do not use the formulations provided in the Code and Monitoring fee calculation and payment procedure, which may create certain legal uncertainties.

The companies’ contracts which do not envisage “Obligations stipulated by mine-closure plan” (in form of a separate Annex) and/or do not include corresponding calculations in mine-closure plans, are problematic. Are the latter exempt from the liability of making relevant payments only due to the reason that the Monitoring fee calculation and payment procedure approved by the Government relates the calculation of the payments with estimate prices of monitoring envisaged by the closure plan?

The Code stipulates a comprehensive list of grounds for exemption from payments for mining activities⁹⁷:

“Mining payments are not paid by companies which:

- 1) carry out extraction of non-metal minerals [...] in the area allocated to them for personal use (despite the form of ownership)
- 2) carry out regional geological studies (monitoring of volcanic, seismological and external geological phenomena, including engineering-geological, hydro-geological studies, etc.)
- 3) create mineralogical, paleontological and other collections
- 4) carry out study, description and maintenance of exceptional geological formations, natural monuments.”

None of these bases is applicable for the companies under consideration. Besides, the Legislator has delegated to the Government only determination of monitoring implementation procedure and the size of fees for monitoring and their payment procedure: the Government does not have an authority to decide which entities are liable for making such payments, and which are not.

Moreover, according to point 3 of Monitoring fee calculation and payment procedure “*the payers of the payments for implementation of monitoring are the companies implementing mining activities with the purpose of extracting minerals defined by the Republic of Armenia Code on Subsoil*” (no differentiations are provided between companies applied for being granted the right for extraction of minerals during the period of Code validity and the ones which reformulated the existing right for mining).

⁹⁷ The Code, reference 20, Article 62(1)

Henceforth, the actual Monitoring fee calculation and payment procedure under no condition can be interpreted as a base for granting exemption from making payments for implementation of monitoring activities to any companies.

Therefore, a legal uncertainty is again observed in case when a mining company has an actual payment liability, however this liability is not a subject for calculation.

(c) *Environmental payment*

During the period under consideration environmental payments were realized by mining companies, which from January 1, 2018 were replaced by environmental taxes. The environmental payments were regulated by the RA Law “On Nature Protection and Nature Use Payments”⁹⁸ (hereinafter referred to as “the Law on Nature Protection Payments”). Starting from 2018 the nature protection taxes are regulated by the Tax Code.

The Law on Nature Protection Payments defined the notion of environmental payments, the purposes of their payment and calculation and payment regime. According to the mentioned Law nature protection payment is a payment made to the State Budget (in separate cases stipulated by the Law – to community budget) which serves for the purpose of “*creation of financial resources necessary for implementation of environmental activities*”⁹⁹. The legislation separated three types of nature protection payments classifying them by payment purposes:

- ▶ Payment made for emission of pollutants into environment (air or water basin)
- ▶ Payment made for placing the production and consumption wastes in the environment in compliance with the defined procedure
- ▶ Payment made for goods damaging the environment¹⁰⁰.

The rates of payments for emission of pollutants into environment, as well as for placing the production and consumption wastes in the environments in compliance with the defined procedure are defined by the Legislator within the scopes of the RA Law “On Environmental Payment Rates”¹⁰¹.

This law stipulates fixed rates for every ton of dust, carbon monoxide, nitric oxides, sulphuric anhydride, chlorine and chloroprene emitted into the air from fixed sources¹⁰².

For all other substances with regard to which the actual volumes of emissions exceed the volumes of emissions stipulated by the permissions on emission of pollutants into the air in compliance with the

⁹⁸ RA Law “On Nature Protection and Nature Use Payments” No. HO-270 (passed on December 28, 1998), available from <https://www.arlis.am/DocumentView.aspx?DocID=87833>

⁹⁹ *Ibid.*, Article 2

¹⁰⁰ *Ibid.*, Article 4

¹⁰¹ the RA Law “On Environmental Payment Rates”, No. HO-245-N (passed December 20, 2006), available from <https://www.arlis.am/DocumentView.aspx?DocID=118446>

¹⁰² *Ibid.*, Article 2(1)(a). See rates in Annex 12

procedure defined by the law, or with regard to which the permissions on emission of pollutants into the air in compliance with the procedure defined by the law are missing for the companies having objects subject to registration, the rate applied for one ton is calculated using the following formula:

$$R_{air} = 900 \text{ AMD} / \text{MAC}$$

Where “R_{air}” is the rate, “MAC” is the average allowed marginal daily concentration of the given substance in the air¹⁰³.

For legal and physical persons having fixed sources of emission of pollutants into the air basin on the territory of Yerevan and national parks the rates are increased by 1.5 times¹⁰⁴.

The RA Law “On Environmental Payment Rates” also stipulates fixed rates for emission of one ton of suspended substances, ammonium nitrogen, petrochemical products, copper, zinc, sulphates, chlorides, nitrites, nitrates, phosphorus, detergents, heavy metal salts, as well as cyanogen and cyanogen compounds into water basin.¹⁰⁵

For all the other hazardous substances and compounds for which the actual volumes of emissions exceed the volumes of allowed marginal emissions of hazardous substances in waste waters stipulated by water use permissions, or water use permissions regarding emissions are not available, or water use permissions do not define the allowed marginal volumes of emissions, the rates applied per one ton are calculated using the following formula:

$$R_{water} = 10\,000 \text{ AMD} / \text{MACF}$$

where: “R_{water}” is the rate, “MACF” is the marginal allowed concentration of the certain substance in the water used for fish industry¹⁰⁶.

For legal and physical persons realizing emissions of hazardous substances and compounds into Sevan lake water collection basin, Hrazdan and Getar rivers on the territory of Hrazdan gorge the rates are doubled¹⁰⁷.

The RA Law “On Environmental Payment Rates” also stipulates the rates¹⁰⁸ of environmental payments for placing (storing) each ton of manufacturing and consumption wastes in the specially allocated areas (with the exception of manufacturing areas) in compliance with the defined order, as well as the rates of payments for placing (storage) each ton of manufacturing and consumption wastes in manufacturing areas¹⁰⁹.

¹⁰³ *Ibid.*, Article 2(1)(b)

¹⁰⁴ *Ibid.*, Article 2(1)(c)

¹⁰⁵ *Ibid.*, Article 2(2)(a). See the rates in Annex 12

¹⁰⁶ *Ibid.*, Article 2(2)(b)

¹⁰⁷ *Ibid.*, Article 2(2)(c)

¹⁰⁸ *Ibid.*, Article 3(a). See the rates in Annex 12

¹⁰⁹ *Ibid.*, Article 3(b). See the rates in Annex 12

(d) Royalties

Regulation until January 1, 2018. During the reporting period, until January 1, 2018 the issues related to the concept of royalty, the groups of payers, calculation base, rates and other issues were regulated by RA Law “On Nature Protection and Nature Use Payments” (No. HO-270, passed on December 28, 1998) (hereinafter referred to as “the Law on Nature Protection Payments”).

The Law on Nature Protection Payments provides the following definition of royalty:

Royalty is a fee paid to the State Budget of the Republic of Armenia for compensating for the use of metal minerals and for high profitability generated from the sale of metal minerals and the output from their processing in compliance with this Law.

According to RA Constitutional Court the relations arising with regard to environmental payments are in their essence private legal relations. In particular, in its resolution No. DCC-816 dated July 18, 2009 the RA Constitutional Court decreed the following:

“Environmental payment, being a fee collected for use of assets, is an element of civil relationships, and corresponding civil-legal contract signed between the owner of the subsoil, i.e. the State, which in this relationships acts through authorized body, and the person using the subsoil, serves as a base for collecting such payment”¹¹⁰.

The payers of royalty are correspondingly the companies or physical persons of the Republic of Armenia or foreign countries managing the Republic of Armenia mines of metal minerals and (or) manufacturers of metal concentrates¹¹¹. That is, royalty is also paid by manufacturers of concentrate (foundries) despite the fact of being subsoil users (miners).

The reporting on royalty payments is realized on annual basis¹¹².

Rate and base for calculation. Royalty is calculated for each reporting period based on the royalty calculation base and the rate stipulated by the law¹¹³. Price (percentage) rate applied for royalty calculation base (provided below in more details), the size of which is defined using the following formula:

Royalty Rate
$R = 4 + [P/(I \times 8)] \times 100$

In the formula above R is the royalty rate, P is the profit before tax in AMD¹¹⁴, it is the income from sales of outputs without VAT, in AMD.

Article 13.3 of the Law on Nature Protection Payments defines the calculation base for royalty, which is different in case of sales of metal concentrate and in case of sales of casting or concentrate, and any final product received from cast processing. The regulation is provided in the figure below:

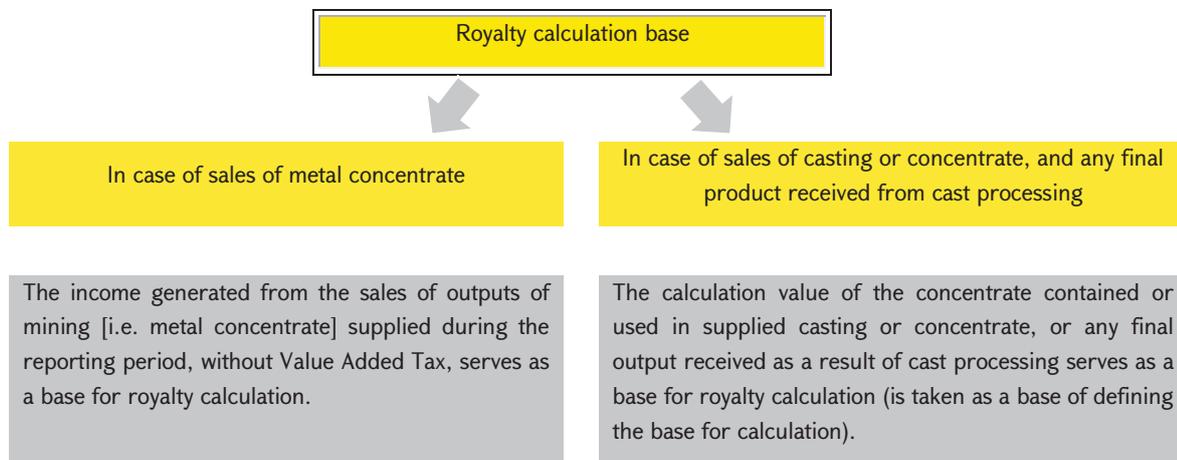
¹¹⁰ The decision of RA Constitutional Court no. SDO-816 (July 18, 2009) on defining the conformity of Articles 7 and 19 of the RA Law “On Nature Protection and Nature Use Payments” and Point 2 of Article 22 of the RA Law “On Taxes” with the Constitution based on the applications received from of “Bjni” Mineral Water Plant” CJSC and “Kommunnakhagits” CJSC.

¹¹¹ The RA Law “On Nature Protection and Nature Use Payments”, reference 56, Article 13.2

¹¹² *Ibid.*, Article 13.6

¹¹³ *Ibid.*, Article 13.5

¹¹⁴ Positive difference of Royalty calculation base and the cutbacks stipulated by the Republic of Armenia Law “On Profit Tax” (with the exception of costs for financial activities and tax losses of previous years)



According to the same article the procedure for calculating the revenue received from sales is defined by the Government of the Republic of Armenia. The procedure “of calculating the income from sales for royalty calculation” was approved by RA Government Decree No. 1901-N dated December 29, 2011 (hereinafter referred to as “the Royalty calculation procedure”).

It is necessary to mention that the legality of approving the Royalty calculation procedure is quite disputable. Thus, Article 13.3 (which delegated the authority of defining the procedure for calculating the income received from sales for royalty calculation to the Government), as well as chapter 2.1 regulating royalties were incorporated by the RA Law “On making additions and changes in the RA Law “On Nature Protection and Nature Use Payments”” No. HO-284-N dated November 28, 2011, which however entered into force from January 1, 2012, while the RA Government Decree No. 1901-N was passed on December 29, 2011, when the norm delegating such an authority to the Government had not yet entered into force.

According to Royalty calculation procedure the income from sales is determined using inclusion method, in other words the supplied goods are considered to be sold and the right for receiving income is considered as received, in case the corresponding amount is subject to be mandatorily paid (reimbursed) to the royalty payer, or the royalty payer has carried out all conventional or transaction liabilities, even in case the period for exercising this right has been delayed or the payments have been realized in parts (point 3).

Royalty calculation procedure defines four different cases for royalty base calculation:

- (i) Sales of concentrate,
- (ii) Sales of casting,
- (iii) Sales of any final product received as a result of concentrate and cast processing,
- (iv) Sales of any output received after processing of minerals without receiving concentrate.

Concentrate: Income generated from the sales of supplied concentrate is considered to be the contract price stated in the contract (as a result of final calculation) for physical volume supplied during the reporting period.

		Supply and final calculation are realized during different reporting periods
Physical volume of the concentrate	The final content of metals in the supplied concentrate expressed in weight (grams or tons) determined in accordance to the contract (as a result of final calculation)	The content of metals expressed in weight (grams or tons) taken the conditions stipulated by the contract at the time of supply (according the initial quality assurance and calculation documents provided by the supplier) are taken as a base
Price of the physical volume of the concentrate	Contract price determined in compliance with the contract, taken the pricing period and quotations (based on final calculations)	The contract price without Value Added Tax determined in compliance with the conditions of the contract at the time of supply is taken as a base

At the same time, the maximal level of negative discrepancy from the physical volume defined as a result of final calculations observed at the time of supply is two percent of the volume determined at the time of supply. Besides, decreases of incomes from sales resulted from discrepancies exceeding the sizes stipulated by the contract and registered at the time of concentrate supply or later are not taken into consideration. This also refers to decreases of prices exceeding the sizes stipulated by the contract for chemical components (penal components) creating technological difficulties in the supplied concentrate and the contract price decreases in cases of violating the allowed humidity indicators stipulated by the contract.

Casting: For casting the income from sales is calculated based on the physical volume of concentrate used for supplied casting [physical volume of casting] applying the average international casting prices based on the price announced by the Ministry of Finance for the month of supply taken the data of London Metal Exchange.

Physical volume of casting	The weight of casting supplied during the reporting period in compliance with the contract, expressed in tons
Physical volume of concentrate ¹¹⁵	Technologically grounded physical volume of concentrate actually used for production of one ton of casting

Any final output received as a result of processing of concentrate and casting (hereinafter referred to as final product). The income generated from sales of final product is calculated based on the physical volume of concentrate used correspondingly for the supplied final product, using the average international prices for concentrates based on the price announced by the Ministry of Finance for the month of supply taken the data of London Metal Exchange.

Physical volume of final product	The weight of all the metals used for manufacturing product supplied in compliance with the contract, expressed in grams or tons
Physical volume of each metal concentrate in the final product	Technologically grounded estimated value of the physical volume of given metal concentrate used for producing the given volume of metal contained in the product supplied during the reporting period

¹¹⁵ Estimated volume of concentrate used for casting

Any product produced as a result of ore processing without receiving concentrate (hereinafter referred to as “Any product”): The income generated as a result of sales of any other product is calculated based on the physical volume of supplied product or metal contained in it, using the average international prices for concentrates based on the price announced by the Ministry of Finance for the month of supply, taken the data of London Metal Exchange.

Physical volume of any product	Actual volume of this product or metal contained in it expressed in grams or tons
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Therefore, it is obvious that the income generated from sales of supplied concentrate (consequently also the calculation of royalty) greatly depends on the terms of the contract signed between the buyer and the supplier.

However, the third paragraph of part 2 of Article 18 of the Law on Nature Protection Payments defines:

“In case during the inspections realized by tax authorities it turns out that the income generated by sales of production during each month of the reporting year by royalty payers is lower for 10% or more from the size of income calculated based on average international prices of concentrates for the same month, the tax authorities realize recalculation of the size of the income from the sales applying 90 percent of the average international prices for concentrates for the given month, taking as a base the prices announced by the body authorized by the Government of the Republic of Armenia in the area of finances for the given month based on the data of London Metal Exchange.”¹¹⁶

This formulation became the reason for administrative and/or legal controversies related to a number of assumed violations registered during inspections realized by State Revenue Committee under the Government of RA. Thus, average international prices are not mentioned in Articles 13.1-13.9 of the Law on Nature Protection Payments, but are mentioned only in Article 18, which mentions about the income generated from the sales of concentrate products being less than the amount of income calculated on the basis of average international prices for concentrates.

In its turn royalty calculation procedure mentions about average international prices only when describing (i) the procedure for calculating the income generated from the sales of casting, (ii) the procedure of calculating the income generated from the sales of any final product received from processing of concentrate and casting and (iii) the procedure for calculating the income generated from the sales of any product produced after ore processing without receiving concentrate, however does not mention these prices when defining the procedure for calculating the income generated from the sales of

¹¹⁶ This provision was reformulated by the RA Law “On making changes and amendments in RA Law “On Nature Protection and Nature Use Payments”” No. HO-78-N (dated March 1, 2017) and was formulated as follows:

“In case the results obtained during each month of the royalty reporting period show that the sales turnover of royalty is lower for 20 percent or more from the final content of metals and the sales turnover of the same metals calculated based on international prices for the given months in the concentrate supplied during the same months, the sales turnover for the given month is considered the product of the final content of metals in the supplied concentrate and 80 percent of the average international prices of the given month for the same metals.

For enforcement of this Law the average international price for the metal is considered the price announced by the body authorized by the Government of the Republic of Armenia in the area of finances for each month based on the data of London Metal Exchange, and in case no data is published with regard to a certain metal by the stated source – the price announced based on the data of any similar reliable international source for each month (also stating the information regarding the source)”.

concentrate. This fact served as grounds for a number of mining companies to claim that part 2 of Article 18 does not refer to the sales of concentrate.

Moreover, third paragraph of part 2 of Article 18 mentions about “*average international prices*” when evaluation of the income generated from product sales is referred to, however mentions about “*the price announced by the body authorized by the Government of the Republic of Armenia in the area of finances for the given month taken the data of London Metal Exchange*” when recalculation is referred to. Similarly, the royalty calculation procedure, talking about average international prices of concentrate, states that international concentrate prices are considered the prices of metals contained in the concentrate announced by the Ministry of Finance for the given month taken the data of London Metal Exchange.

The issue under consideration has been discussed by the Appeals Commission of the RA SRC in the scopes of the decision No. 53/1 of December 8, 2015 (based on the appeal of “Sagamar” CJSC), the decision No. 17/2 of March 28, 2017 (based on the appeal of “Teghout” CJSC), as well as in the decision No. VD/0653/05/16 of “Sagamar” CJSC vs. RA SRC case dated July 8, 2016 of RA Administrative Court, in the decision No. D/5550/05/14 of “Dandy Precious Metals Kapan” CJSC vs. SRC of RA Government case dated June 20, 2016 and in the decision No. D/5550/05/14 of “Dandy Precious Metals Kapan” CJSC vs. SRC of RA Government case dated June 20, 2016 and in the decision No. VD/3089/05/15 of “Agarak Copper-Molybdenum Combine” CJSC vs. Tax Inspection of Large Taxpayers of the RA Ministry of Finance case dated February 29, 2016.

The following issues were mainly raised by mining companies:

- (i) Royalty calculation procedure for the sales of concentrate does not stipulate the necessity of determining average international price, as a result a discrepancy is observed between Article 13.3 of the Law on Nature Protection Payments (which delegated the authority of defining the procedure for calculation of the income from the sales for royalty calculation purposes to the Government) and the third paragraph of part 2 of Article 18 (which envisages the possibility of realizing recalculation of the income from sales by tax authorities).
- (ii) Third paragraph of part 2 of Article 18 of the Law on Nature Protection Payments envisages liabilities without obligations: neither the Law on Nature Protection payments, nor the Royalty calculation procedure envisage the definition of royalty calculation base considering average international price of the concentrate.
- (iii) In practice the RA SRC incorrectly uses the notion of “revenue from product sales”, equating it with “international concentrate price” concept.
- (iv) During implementation of production processes in multi-metal mines the penetration of foreign metals into the concentrate is inevitable and since the foundry will bear expenses for their removal corresponding adjustments (reductions) are made in concentrate sales price in compliance with international practice. Therefore, according to Article 18 the recalculation of the income from sales based on average international prices is impermissible,
- (v) The recalculation procedure applied on the basis of Article 18 is not regulated,
- (vi) Average international prices of concentrate have never been published by RA Ministry of Finance.

In administrative and judicial practice, the requirements of mining companies have not been satisfied. It is remarkable that none of the issues related to royalty calculations of any of the companies have been appealed. Thus, a precedent practice of RA Court of Appeal with regard to the issue is also unavailable.

Regulation after January 1, 2018. The new Tax Code that entered into effect on January 1, 2018 in its essence incorporates the regulations of the Law on Nature Protection Payments regarding royalty and the provisions of Royalty calculation procedure with a number of additions and adjustments, which actually solve the issues raised during the above mentioned court cases and administrative procedures.

Thus, the product sales turnover (but not the revenue) is stated as a base for royalty (part 1, Article 202). The calculation of concentrate sales turnover is identical with previously applied calculation of the income generated from the sales of concentrate (the same is true for the turnover from the sales of casting, as well as the turnover of the sales of any final product received from processing of concentrate and casting). The Code, however, separates the list of paid metals for different types of concentrates, which are considered when defining the concentrate sales turnover:

Concentrate	Metal
Copper concentrate	Copper, gold, silver, other metals paid for in compliance with concentrate sales contract
Molybdenum concentrate	Molybdenum, other metals paid for in compliance with concentrate sales contract
Zinc concentrate	Zinc, gold, silver, as well as other metals paid for in compliance with concentrate sales contract
Other concentrates	Metals paid for in compliance with concentrate sales contract

The Code also delegates to the Government the authority of defining the maximal rates of the amounts not paid (subject to reductions) by the buyer for the metals to be paid for, as well as the maximal rates of processing, purification or other similar costs (including transportation) defined by the supply contract¹⁷. The marginal amounts of processing, purification or other similar expenses should however be publicized based on the data on the costs for processing and purification of metal concentrates published in specialized international journals, including Wood Mackenzie, Metal Bulletin or other similar international journals, by making references to relevant sources.

The same Article 202 also incorporates the requirement of realizing comparison with international prices, allowing up to 20% threshold for possible fluctuations and solving previously existing legislative uncertainties (the actual formulation received the form of complete behavioural rule, i.e. the rule for recalculation of sales turnover, but not only the form of a sanction):

“If the results of each month included in royalty reporting period show that sales turnover of royalty is less for 20 percent or more from the final content of metals contained in the concentrate supplied during the same month and considered to be paid for by this Code or supply contract, and the sales turnover of the same metals calculated on the basis of international

¹⁷ In case of not being defined by the Government the maximal unpaid (subject to reductions) amounts and the maximal amounts of processing, purification or other related costs (including transportation) are considered the amounts stipulated by the contract.

prices for the given month, than the sales turnover for that month is considered the product of the final content of metals considered to be paid for by the Code or supply contract in the supplied concentrate and 80 percent of average international prices of the given month.”

The Tax Code also clarified the royalty paying entities, including three groups of persons:

- ▶ Companies managing RA metal mineral mines and companies manufacturing metal concentrate or casting or any other product resulting from processing of ore, concentrate and casting.
- ▶ Companies managing RA metal mineral mines and those manufacturing any products from metal minerals extracted from these mines without receiving concentrate.
- ▶ Organizations manufacturing metal concentrate and (or) casting from mining wastes and (or) ore, or any products as a result of processing mining wastes, ore, concentrate or casting, despite the fact of managing a metal mineral mine¹¹⁸.

(e) State fee for granting subsoil use permit

A state fee is paid for granting subsoil use permits, the rate of which is defined by RA Law “On State Dues”¹¹⁹. The latter defines the following annual rates for the fees paid for granting subsoil use permits for geological studies realized for mineral extraction purposes, as well as for granting permits for using each mine of precious, non-ferrous and rare metals, which are presented in Table 3.1.4:

Table 3.1.4: Annual rates of state fee for granting subsoil use permit

Permit type	Annual State fee in AMD
For granting subsoil use permits for geological studies realized for mineral extraction purposes	50 000
For granting permits for using each mine of precious, non-ferrous and rare metals ¹²⁰	10 000 000
For granting permits for using (exploitation) of each mine containing construction materials, annual	500 000

The mining company shall pay the state fee not later than within 5 working days after being properly informed about the positive decision regarding the application for granting the permit.

(ii) Taxes

During 2016-2017 the relationships related to taxes and mandatory payments were regulated by RA Law on Taxes, other laws on separate types of taxes, the RA Law “On Nature Protection and Nature Use Payments”, the RA Law on “Property Tax”, the RA Law “On Land Tax”.

¹¹⁸ RA Tax Code, reference 52, Article 198(2)

¹¹⁹ RA Law “On State Dues”, Reference 60, Article 19.4

¹²⁰ The Law does not stipulate state fee for granting a permit for using every ferrous metals’ mine

Starting from January 1, 2018 the new Tax Code entered into force, which incorporates regulations on all the taxes in one document.

Below the main peculiarities for taxation with different taxes and application of mandatory payments are provided.

Profit tax: The profit of all the companies operating in RA mining industry is subject for taxation by Profit tax. The Profit tax amount is calculated at the rate of 20 percent of the taxable profit.

Besides the aforesaid, when paying revenues received from Armenian sources to non-resident legal persons, the companies, as tax agents, should collect non-resident's profit tax in compliance with the rates provided in Table 3.15:

Table 3.1.5: Profit tax rates for non-residents

Type of income	Rate
Insurance payments, re-insurance payments and incomes received from transportation (freight)	5%
Dividends, interests, royalties, income generated from property rent, additions to property price and other passive income	10%
Other services	20%

Income tax: All companies operating in the mining industry of the RA, as tax agents, when paying incomes to physical persons, included salary payments stipulated by employment contracts, calculate and withhold the income tax. The income tax is calculated and paid to RA State Budget on monthly basis. During the period of 2016-2017 the companies calculated and paid the income tax in compliance with the below rates:

Table 3.1.6: Income tax rates calculated and paid by the companies during 2016-2017

Size of taxable income	Tax rate	Tax amount	Total amount of tax
AMD	%	AMD	AMD
Up to 120,000	24,4	29,280	29,280
Following 1,880,000	26	488,800	518,080
2,000,000 and higher	36	-	-

According to the Tax Code entered into effect from January 1, 2018 the lower threshold of the taxable income changed to 150,000 AMD, as well as the tax rates applied for taxable income of lower and middle thresholds were changed correspondingly to 23% and 28%.

Value Added Tax: The following transactions are taxed with Value Added Tax:

- ▶ Supply of products on the territory of the RA
- ▶ Implementation of works and provision of services
- ▶ Consumption without reimbursement

- ▶ Import of goods with “Discharge for internal consumption” customs procedure
- ▶ Import of goods from Eurasian Economic Union countries, with the exception of cases stipulated by the Law.

VAT rates are 0% and 20%.

20% rate is used for taxable turnover of goods and services. For companies operating in mining industry 0% rate is used for export of products from the territory of RA, as well as for those services, provision of which is not within RA territory.

Property tax and Land tax (starting from 2018 – together Real Estate Tax): Property tax is calculated for the property under full or partial ownership of the company. TA Local Self-Governance Bodies are considered the bodies registering Property tax payers, and property registration is realized in the RA State Committee of Real Estate Cadastre.

Land tax is calculated for permanent use of land, which is owned by the company under proprietary right and is the property of the State.

The cadastral price of buildings and constructions serves as the base for Property tax and Land tax calculations. The Property tax rates for buildings and constructions are from 0% to 1%, and the Land tax rates are from 0.5% to 1%.

Property tax calculation for transportation means is based on engine power (horse power or kilowatt).

In the scopes of the questions raised by the community representatives the approach used with regard to the Property tax is described below.

According to the discussion held with Shnogh community administration and Teghout CJSC representatives the large part of the property under the management of Teghout CJSC the construction works of which were completed during 2014-2015 and which were used by the company during the last years, is not registered in the RA State Committee of Real Estate Cadastre. The parties state that due to various technical issues the property registration process was continuously postponed and has not been realized, however the company makes certain payments to the community budget which are aimed at compensating the property tax which will be applied after cadastral registration of the mentioned property and as a result of the ownership right. In this case, according to the report completed by the company, the stated payment was classified as a charity payment under the “assistance in the area of property tax” category, while in the report completed by the community the payment is registered as a property tax.

It is welcomed that even in case of no registration the company was willingly making payments to community budget, however from the viewpoints of both the payment size definitions and adherence to the established procedures the issue should be given an institutional solution. From EITI viewpoint this is particularly important since in this case a deviation from the defined procedure for financial flows in the area of property tax is registered.

In this context the Independent Administrator recommends making corresponding inquiries or realizing studies to determine whether the stated issues, as well as the applied relevant approaches, are also present in other companies operating in the metal mining industry and how the heads of corresponding communities and the representatives of the RA State Committee of Real Estate Cadastre respond to these issues.

(iii) Customs duties and fees

The Custom duties and fees applied in RA are as follows¹²¹:

- ▶ Import custom duty
- ▶ Export custom duty
- ▶ Value added tax, which is collected during import of goods into the custom territory of the Customs Union
- ▶ Excise duty, which is collected during import of goods subject for excise duty into the custom territory of the Customs Union
- ▶ Custom fees

During the export of production of the companies operating in mining industry from the mentioned fees and duties primarily export custom duty and custom fees are paid, and the rate for product export custom duty is defined at 0 percent¹²².

Custom duty is a mandatory payment¹²³ collected in compliance with the procedure and at the rate stipulated by the Customs Code and paid to the State Budget, which is calculated and collected at the following rates¹²⁴:

- ▶ A custom fee of 3,500 AMD is collected for custom clearance (with the exception of examination and accounting of goods) of goods and transportation means (including local and foreign currencies transferred by the banks) transported through the customs territory of RA.
- ▶ For examination and accounting of goods, with the exception of goods transported by pipelines and electric wires, custom fees are collected:
 - For customs control of goods with the total weight of up to one ton declared in the same custom declaration – 1000 AMD
 - For each additional (or not full) ton of goods, declared in the same customs declaration, the weight of which exceeds one ton – 300 AMD.

¹²¹ The RA Law “On Custom Regulations”, HO-241-N (passed on December 17, 2014), article 89(1), available from <https://www.arlis.am/DocumentView.aspx?DocID=121889>

¹²² *Ibid*, Article 89(3)

¹²³ *Ibid*, Article 95

¹²⁴ *Ibid*, Article 97

(iv) Rent payments paid to Local Self-Governance Bodies

A constituent part of financial flows directed to community budgets are rent payments paid to Local Self-Governance Bodies (LSGB)¹²⁵ which are transferred to LSGB budgets for renting land, constructions and vehicles which are the property of the latter under the proprietary right.

In their essence these relations are civil legal relations regulated by RA Civil Code¹²⁶, and in case of land rent also by RA Land Code.

The land areas which are State and community property and are located on the administrative territory of the communities are provided by the right for rent (or construction) by the community head¹²⁷ through tender procedures¹²⁸ (by means of public negotiations)¹²⁹. The type of tender (through tender commission)¹³⁰ and its implementation procedure¹³¹ are regulated by the law (the legislation also envisages online tenders for granting the right for constructions on land areas located within the areas of land use)¹³².

The Land Code envisages certain limitations for the periods and other significant terms for renting state and community owned lands. Thus, renting of such lands cannot exceed 99 years¹³³, and the size of annual rent payment (or payment for construction right) cannot be less than the annual rate of land tax¹³⁴. The RA Government has also defined the sample forms of rent contracts for state and community owned lands¹³⁵.

¹²⁵ The RA Law “On Local Self-Governance Bodies” No. HO-337 (passed on May 7, 2002), Article 86(1)(3)(a)-(b). The latter states:

“The community budget is formed from the proceeds stipulated by the Law on community budgets and other legal acts, including:

3) Other incomes, including

a. payments collected from renting of lands considered the property of the community, as well as state owned lands on the administrative territory of the community or for the right for construction,

b. incomes generated from renting assets accounted in the balances of entities considered community property”.

Available from <https://www.arlis.am/DocumentView.aspx?DocID=125341>.

¹²⁶ RA Civil Code, reference 64, Articles 606-628, 645-659

¹²⁷ The Land Code, reference 62, Article 48(4) and 76(3)

¹²⁸ *Ibid.*, Article 76(2)

¹²⁹ *Ibid.*, Article 48(4)

¹³⁰ *Ibid.*, Article 77

¹³¹ *Ibid.*, Article 78

¹³² RA Government Decree No. 286 (dated April 12, 2001), Annex, Article 46.2(i), available from <https://www.arlis.am/DocumentView.aspx?DocID=72502>

¹³³ *Ibid.*, Article 48(3)

¹³⁴ *Ibid.*, Article 81(3)

¹³⁵ RA Government Decree No. 286 (dated April 12, 2001), Annex, available from <https://www.arlis.am/DocumentView.aspx?DocID=72502>

Entering of rent payments for State owned lands and community owned assets into the community budget is independently ensured by relevant divisions of the communities¹³⁶ under the management and supervision of the community head¹³⁷. On higher level the process is supervised by the Governors¹³⁸.

(v) State fee for granting water use permit

A state fee of 10,000 AMD¹³⁹ is set for granting water use permit, extending the validity period of the permit and permit reformulation, which should be paid not later than within 5 working days¹⁴⁰ from the moment of being properly informed about positive response of the RA Ministry of Nature Protection to the application for granting a permit, extending the validity period of the permit and permit reformulation.

¹³⁶ The RA Law “On Local Self-Governance” , Reference 125, article 93(1)

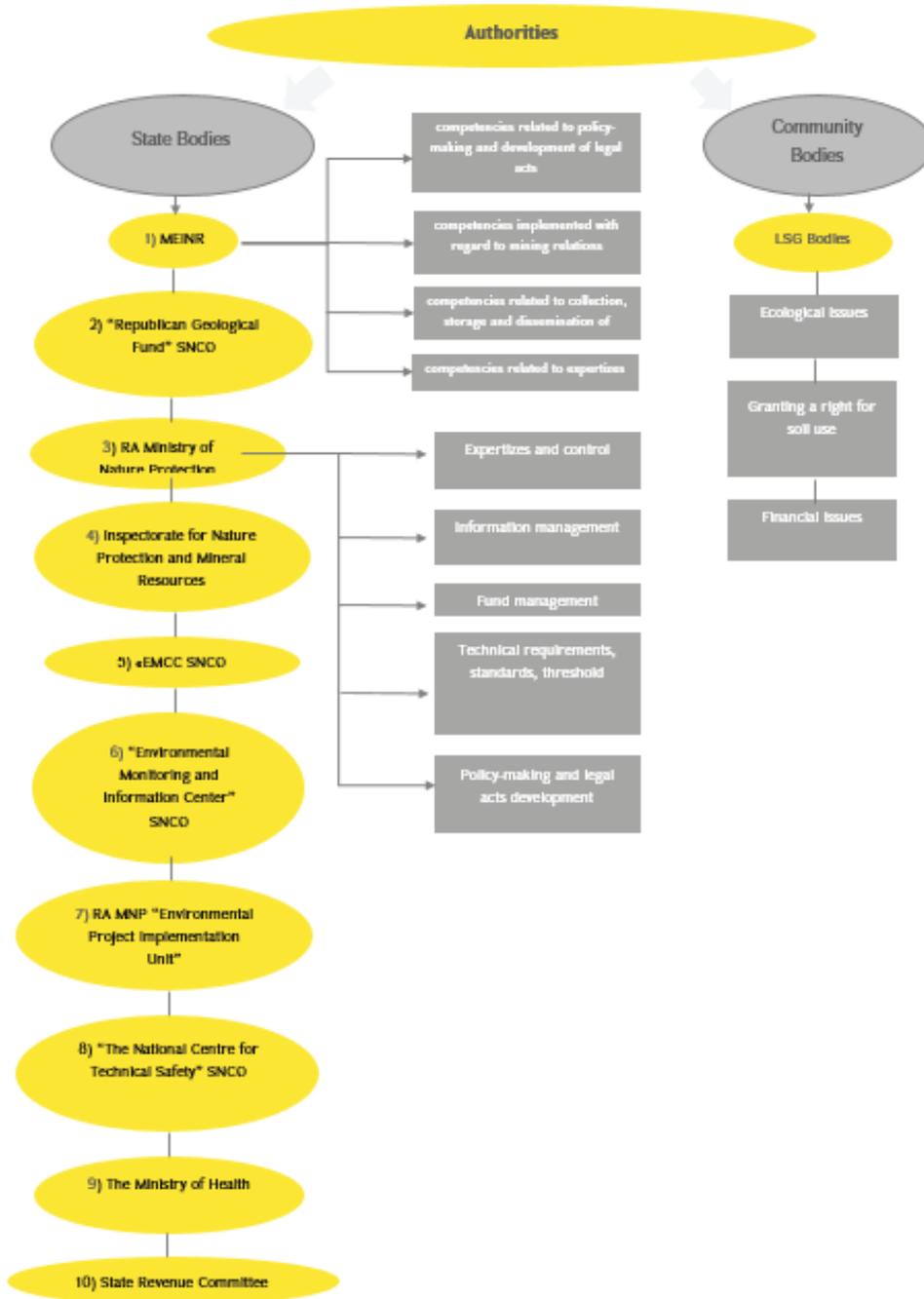
¹³⁷ *Ibid.*, Article 38(1)(3)

¹³⁸ The Lad Code, reference 62, Article 42(1)(3)

¹³⁹ RA Law “On State Dues”, reference 61, Article 19.4(7)

¹⁴⁰ The Water Code, reference 611, Article 78

C. State and community bodies having competencies in the sector and their authorities

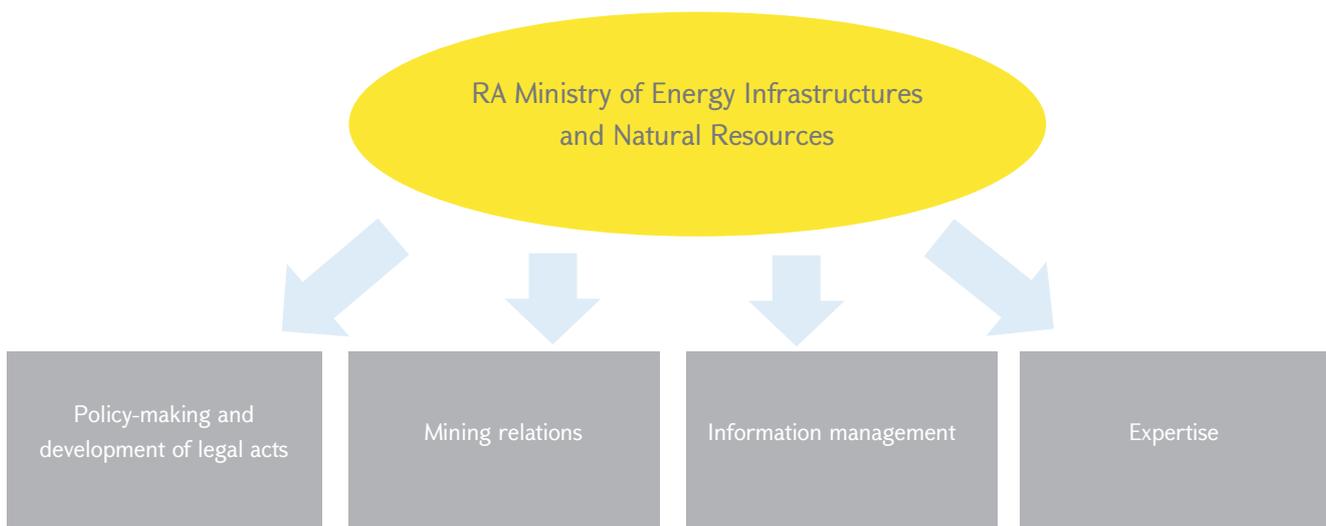


(i) MEINR

In terms of the Code being a body authorized by RA Government in the sphere of subsoil use the RA Ministry of Energy Infrastructures and Natural Resources (hereinafter referred to as the “MEINR”) plays a central role in regulation of mining industry and represents the Republic of Armenia during the relations concerning the use of subsoil with private entities. At different times during the reporting period

it was called the RA Ministry of Energy and Natural Resources (until September 30, 2016) and the Ministry of Energy Infrastructures and Natural Resources.

The competencies of the MEINR in the mining industry may be tentatively divided into the following groups: (i) competencies related to policy-making and development of legal acts, (ii) competencies implemented with regard to mining relations, (iii) competencies related to collection, storage and dissemination of information, (iv) competencies related to expertizes.



Policy-making and development of legal acts. The MEINR develops State policies for mining sector, as well as State programs on reasonable and comprehensive use and protection of subsoil, and ensures their implementation¹⁴¹. The MEINR develops legal acts for the sector¹⁴² and within its authorities develops and passes normative legal acts, which regulate the subsoil use process, and ensures State management of subsoil, as well as develops and passes norms and rules necessary for subsoil use¹⁴³. The MEINR also defines the sample form of mine provision¹⁴⁴.

Legal relations on subsoil use. As a body operating on behalf of and representing the RA the MEINR prepares a tender package for granting the right for subsoil use¹⁴⁵, provides agreement for implementation of geological studies for mineral extraction purposes¹⁴⁶, grants subsoil use permits to private persons¹⁴⁷, ensures the requirements set forth for granting subsoil use permits, facilitates to reasonable and comprehensive use of subsoil, and during provision of the right for subsoil use indicates

¹⁴¹ The Code, reference 38, Article 17(1)(1)-(3)

¹⁴² *Ibid.*, Article 17(1)(4)

¹⁴³ *Ibid.*, Article 17(1)(10)

¹⁴⁴ *Ibid.*, Article 17(1)(6)

¹⁴⁵ *Ibid.*, Article 17(1)(20)

¹⁴⁶ *Ibid.*, Article 17(1)(18)

¹⁴⁷ *Ibid.*, Article 17(1)(5)

the separate areas prohibited for implementation of mining activities¹⁴⁸ and signs mining contracts¹⁴⁹. Within the scope of its authorities the MEINR also grants necessary permits and agreements for the use of subsoil¹⁵⁰ and applies the limitations envisaged by the law for mining industry¹⁵¹.

The MEINR grants agreement for realizing geological study activities for mineral extraction purposes¹⁵² on subsoil areas already under the right of subsoil use and is authorized to independently enter any subsoil area for implementation of geological study activities¹⁵³. In both cases the MEINR shall inform the bearer of the subsoil use right about it in written form at least 14 days in advance.

Information Management. The MEINR keeps the State inventory of mineral resources, carries out State registration of subsoil areas provided for mineral extraction purposes, manages the State Cadastre of mines and minerals¹⁵⁴, creates, maintains and manages the unified system of geological information¹⁵⁵, as well as in compliance with the procedure defined by RA Legislation provides geological information¹⁵⁶. In particular, publishes “information on operations related to mining activities” and accepts public reports.

Expertise. In the scopes of its authorities the MEINR also realizes state expertises in mining sector¹⁵⁷. In particular, according to its Charter the MEINR ensures “State mining expertise of geological and other information on the subsoil”.

During the reporting period which is until March 21, 2018, realization of supervision over implementation of accepted standards, norms and rules for use and protection of subsoil¹⁵⁸, coordination of activities of State Subsoil Use and Protection Supervision Agency¹⁵⁹, as well as approval of the work plans of the Subsoil Supervision State Agency and acceptance of reports on implemented works¹⁶⁰ were also added to the authorities of the MEINR.

The separate subdivisions of the MEINR include Subsoil Agency (hereinafter referred to as “The Agency”), the Charter and structure of which were approved by the RA Government Decree No. 1108-N dated September 7, 2017¹⁶¹.

¹⁴⁸ *Ibid.*, Article 17(1)(12)

¹⁴⁹ *Ibid.*, Article 17(1)(11)

¹⁵⁰ *Ibid.*, Article 17(1)(9)

¹⁵¹ *Ibid.*, Article 17(1)(14)

¹⁵² *Ibid.*, Article 17(1)(18)

¹⁵³ *Ibid.*, Article 17(1)(19)

¹⁵⁴ *Ibid.*, Article 17(1)(8)

¹⁵⁵ *Ibid.*, Article 17(1)(13)

¹⁵⁶ *Ibid.*, Article 17(1)(15)

¹⁵⁷ *Ibid.*, Article 17(1)(7)

¹⁵⁸ *Ibid.*, Article 17(1)(2). The provision went out of force by the force of the RA Law “On making changes and amendments in RA Code on Subsoil” No. HO-186-N (passed on March 21, 2018. Available from <https://www.arlis.am/DocumentView.aspx?docid=120746>).

¹⁵⁹ *Ibid.*, Article 17(1)(16)

¹⁶⁰ *Ibid.*, Article 17(1)(17)

¹⁶¹ The RA Government Decree No. 1108-N (dated September 7, 2017) available from <https://www.arlis.am/DocumentView.aspx?DocID=115896>

According to the Decree the Subsoil Agency provides services in the areas of granting rights for subsoil use and entrails expertise, acting on behalf of the Republic of Armenia.

The goals and objectives of the Agency are:

- 1) Ensuring the requirements stipulated by the legislation on granting rights for subsoil use
- 2) Facilitating reasonable and comprehensive use of natural resources
- 3) Assisting in implementation of State programs on subsoil use and protection
- 4) In the scopes of its authorities ensuring implementation of State standardizations in the spheres of subsoil use and protection.

The Decree also provides detailed description of the functions of the Agency for implementation of its goals and objectives.

The Agency is managed by the Minister. The direct management of the Agency is realized by the Head of the Agency, who is assigned and released from the position by the Minister, upon the agreement of the Prime Minister of the Republic of Armenia.

The Agency has the following departments:

- Subsoil use right formulation department,
- Subsoil use planning, project discussion and contracting department,
- Subsoil expertise and mineral approval department,
- Geological, normative-methodological and analytical department.

(ii) *“Republican Geological Fund” SNCO*

According to the RA Government Decree No. 1758-N dated October 31, 2002 “Republican Geological Fund” State Non-Commercial Organization was established. The same Decree stipulates the following goals and objectives for the SNCO:

- ▶ Implementation of state registration of subsoil areas on RA territory provided for geological studies of the subsoil and implementation of mineral extraction activities, as well as acceptance and management of annual reports on subsoil use documents and movement of mineral reserves,
- ▶ Management of registration journal of subsoil areas provided for implementation of geological studies, State inventory of mineral reserves and the State register of mines and minerals, as well as acceptance and archiving of information received as a result of geological studies,
- ▶ Creation of unified system for geological information, its maintenance, management and archiving, and provision of geological information in compliance with the procedure defined by the Republic of Armenia legislation and other legal acts,

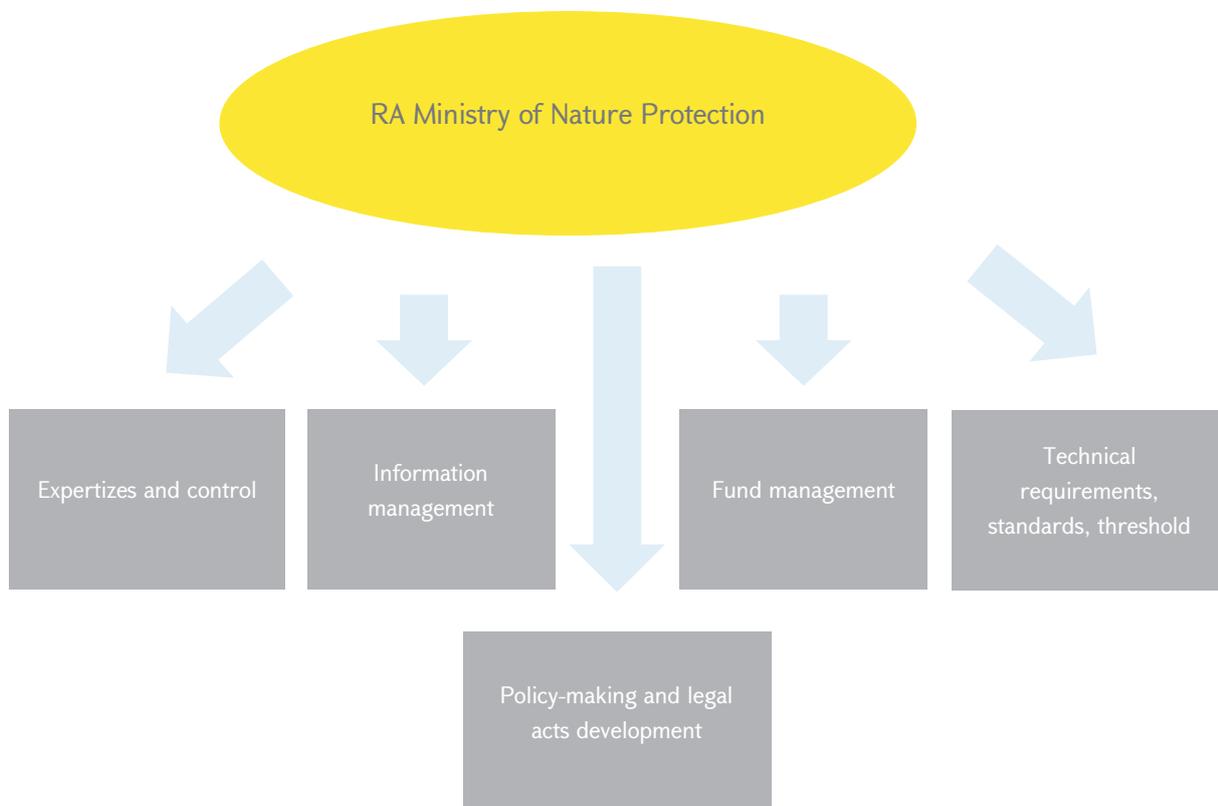
- ▶ Comparing the outline points of subsoil areas provided by unified system of coordinates with fund materials, making changes in fund materials, and provision of relevant recommendations to the Republic of Armenia Ministry of Energy and Natural Resources,
- ▶ Creation and management of subsoil use fund based on State registration data on mineral reserves, mines, mappings and geological studies.

Starting from the second half of 2016 digitization and publicizing of fund materials (about 12,000 reports and other materials) were realized during the period of 2016-2017 under the “Extractive Industry Transparency Improvement” Project supported by the US Agency for International Development and realized by the decision of RA Government.

In the developed www.geo-fund.am website the entire collection of digitized data is kept and is accessible free of charge. It contains interactive map of RA natural resources with attached reports and corresponding mapping materials for each mine or manifestation, the register of provided mining rights, the register of passports of mines and mine-maps, and other information and the library, which includes additional materials provided by the Institute of Geological Studies of the RA National Academy of Sciences and digitalized under the Project.

(iii) RA Ministry of Nature Protection

The RA Ministry of Nature Protection also plays a key role in mining industry. The authorities of the Ministry of Nature Protection may be tentatively classified into the following groups: (i) policy-making and legal acts development, (ii) definition of technical requirements, standards, thresholds, (iii) expertise and supervision, (iv) information management and (v) authorities related to fund management.



Policy-making and legal acts development. RA Ministry of Nature Protection takes part in development of State policy on environmental protection in the mining industry¹⁶², develops the procedure for realization of monitoring activities for ensuring safety and health of population of the communities located on mineral extraction areas, the areas of collection of extraction waste dumps and their adjoining territories¹⁶³, a procedure for realizing stock-taking of the closed mining waste sites¹⁶⁴, the procedure of classifying mining waste and mining waste sites by the level of hazardousness¹⁶⁵, the procedure for defining the requirements for monitoring activities planned for mitigation of environmental losses resulting from mining activities and prevention of irreversible impacts, as well as the procedure for submission of reports on results¹⁶⁶, approves the procedure for calculation of estimate prices of recultivation activities and indexation¹⁶⁷.

Definition of technical requirements, standards, thresholds. According to the Code the RA Ministry of Nature Protection develops technical requirements and criteria for managing mining waste sites,

¹⁶² The Code, reference 38, Article 17(2)(1)

¹⁶³ *Ibid.*, Article 17(2)(5)

¹⁶⁴ *Ibid.*, Article 17(2)(7)

¹⁶⁵ *Ibid.*, Article 17(2)(8)

¹⁶⁶ *Ibid.*, Article 17(2)(12)

¹⁶⁷ *Ibid.*, Article 17(2)(14)

mining wastes management and their reprocessing¹⁶⁸, criteria defined for the best possible technologies¹⁶⁹, approves the procedure for defining the maximal levels of use of hazardous substances necessary for processing of minerals¹⁷⁰.

Expertise and supervision. RA Ministry of Nature Protection carries out the expert examination of the impact of mining projects, programs, site disassembly of extractive sites, mine conservation, closing and refusal projects on environment¹⁷¹, during the environmental impact assessment stage approves environmental monitoring plan or program¹⁷², applies limitations related to subsoil use activities defined by RA legislation on environmental protection¹⁷³.

Information. RA Ministry of Nature Protection accepts reports on the results of monitoring activities realized for mitigation of environmental losses occurring as a result of mining activities and planned for prevention of irreversible impacts, creates, manages and controls a unified system of these reports, as well as publishes the latter¹⁷⁴.

Fund management. RA Ministry of Nature Protection is the body making decisions on the use of environmental protection fund, calculation of allocation amounts and implementation of recultivation works¹⁷⁵.

Coordination of nature protection projects realized on the territories of the communities. The RA Law “On Targeted Use of Nature Protection Payments Made by the Companies” defines a procedure for realizing deductions from the nature protection payments made by a number of companies (including companies involved in use of subsoil) and reflecting them in the administrative parts of the budgets of affected communities¹⁷⁶, according to which the deductions from nature protection payments allocated to administrative budgets of the communities are recognized as targeted funds are used exceptionally for implementation of nature protection projects on the territories of the communities¹⁷⁷. Such projects developed by the heads of communities are agreed with the RA Ministry of Nature Protection (as well as RA Ministry of Health)¹⁷⁸.

The goals and objectives of the Ministry are defined by Article 7 of the Ministry charter approved by RA Government Decree No. 1237-N dated August 8, 2002¹⁷⁹:

¹⁶⁸ *Ibid.*, Article 17(2)(9)

¹⁶⁹ *Ibid.*, Article 17(2)(10)

¹⁷⁰ *Ibid.*, Article 17(2)(11)

¹⁷¹ *Ibid.*, Article 17(2)(3)

¹⁷² *Ibid.*, Article 17(2)(6)

¹⁷³ *Ibid.*, Article 17(2)(2)

¹⁷⁴ *Ibid.*, Article 17(2)(13)

¹⁷⁵ *Ibid.*, Article 17(2)(4)

¹⁷⁶ The RA Law “On Targeted Use of Nature Protection Payments Made by the Companies”, HO-188 (passed on May 15, 2001), available from <https://www.arlis.am/DocumentView.aspx?docid=25676>.

¹⁷⁷ *Ibid.*, Article 2

¹⁷⁸ *Ibid.*, Article 3

¹⁷⁹ <https://www.arlis.am/DocumentView.aspx?docID=95812>

- a) Development and management of state policy on prevention or mitigation of hazardous effects on the environment of the Republic of Armenia: atmosphere, water resources, soil, subsoil, flora and fauna, natural areas under special protection, as well as on reasonable use and recovery of natural resources.
- b) Ensuring State supervision over prevention or mitigation of hazardous effects on the environment: subsoil, soil, water resources, atmosphere, flora and fauna, including natural areas under special protection, as well as protection of natural areas under special protection, reasonable use and recovery of natural resources (with the exception of minerals).

And according to Article 8 of the mentioned Charter the Ministry realizes:

- a) In the scopes of its authorities stipulated by the Legislation of the Republic of Armenia development of State policy programs and strategies in the areas of protection of the environment of the Republic of Armenia: subsoil, soil, water resources, atmosphere, flora and fauna, as well as natural areas under special protection, and in the area of reasonable use and recovery of natural resources (with the exception of mineral reserves), and monitoring of their implementation,
- b) expert examination of the impact of mining projects, programs, mineral extraction site disassembly, mine conservation, closing and refusal projects on environment,
- c) application of limitations defined by RA legislation related to subsoil use activities for nature and environmental protection.

RA Prime-Minister's Decree No. 745-L dated June 11, 2018¹⁸⁰ approved the new Charter of the RA Ministry of Nature Protection.

(iv) Inspectorate for Nature Protection and Mineral Resources

The Inspectorate for Nature Protection and Mineral Resources of the RA Ministry of Nature Protection was established by RA Government Decree No. 445-N dated April 27, 2017¹⁸¹, which also defined the Charter of the Inspectorate (it replaced the State Agency of Nature Protection of the Staff of the RA Nature Protection Ministry and Subsoil State Agency of MEINR Staff). The goal of the Inspectorate is ensuring adherence to safety and legislative requirements set forth with regard to nature protection and subsoil in cases and in compliance with the procedure defined by the law.

According to Article 9 of the Charter of the Inspectorate the purpose of the Inspectorate is environmental protection and ensuring efficient use of natural resources. The objectives of the Inspectorate bodies are defined by Article 10, and include:

¹⁸⁰ <https://www.e-gov.am/decrees/item/18843/>

¹⁸¹ RA Government Decree No. 445-N (dated April 27, 2017), available from <https://www.e-gov.am/gov-decrees/item/28550/>.

- 1) Risk management in the spheres of nature protection and subsoil use and implementation of supervision over adherence to the requirements of the Republic of Armenia legislation related to these sectors.
- 2) Implementation of activities aimed at prevention or mitigation of negative impacts on environment and irrational use of natural resources.
- 3) Based on in-depth and comprehensive geological studies ensuring provision of reliable information on subsoil structure, volumes, quality and other features of minerals contained in it.

Article 11 of the Charter defines the functions of the Inspectorate, including the ones in the areas of subsoil use and protection.

RA Prime Minister's Decree No. 733-L dated June 11, 2018¹⁸² approved the new Charter of the Inspectorate for Nature Protection and Mineral Resources. The Inspectorate is now operating under RA Government. It is managed by Prime Minister and a Board with ten members. According to the new Charter the objectives of the Inspectorate are risk management in the areas of nature protection and subsoil and implementation of supervision over adherence to the requirements set forth by RA legislation, as well as organization of preventive measures in the scopes of realized supervisions, and implementation of activities aimed at prevention or mitigation of negative impacts on environment and irrational use of natural resources.

(v) *“Environmental Monitoring and Information Center” State Non-Commercial Organization*

The purpose and objectives of the “Environmental Monitoring and Information Center” State Non-Commercial Organization operating under the management of the RA Ministry of Nature Protection (hereinafter “EMIC SNCO”)¹⁸³ are as follows:

- ▶ Contributing to ensuring high level protection of environmental and natural resource (with the exception of mineral reserves) through implementation of observations of the environment and natural resources, generation of sufficient data for assessing the condition, registration, analysis, provision and archiving of these data.
- ▶ Uploading of information on the condition of environment and natural resources into unified nature protection information database and management of the latter.
- ▶ Realization of a study on waste generation, processing and waste use sites, preparation of classifier for waste removal sites and wastes, as well as collection and analysis of information on waste use and neutralization and wasteless technologies.
- ▶ Creation and management of corresponding computer database based on collection and analysis of information on separate components of environment and natural resources, provision of

¹⁸² <https://www.arlis.am/DocumentView.aspx?DocID=124383>

¹⁸³ EMIC SNCO website is available at <http://armmonitoring.am/#home>

information contained in this database to State bodies, non-governmental organizations and the society and receiving information from the latter in compliance with the procedure stipulated by RA legislation.

EMIC SNCO was established by RA Government Decree No. 1277-N dated December 15, 2016¹⁸⁴ as a result of merging “Waste Study Center”, “Hydrogeological Monitoring Center”, “Environmental Impact Monitoring Center” and “Information-Analytical Center” State Non-Commercial Organizations and is their successor in concordance with the transfer acts.

According to RA Government Decree No. 1277-N the objectives of EMIC SNCO are as follows:

- ▶ Implementation of observations using planned and unified indicators,
- ▶ Identification and projection of changes in environment and natural resources as a result of natural and man-caused impacts,
- ▶ Receiving, analysis, summarization and provision of descriptive and comparative information on environment and condition, quality and quantity of natural resources,
- ▶ Observation of atmospheric air pollutions, physical influences on atmospheric air, natural occurrences happening in the atmosphere, as well as climate changes, substances damaging ozone layer and other man-caused influences and occurrences,
- ▶ Observations of and realization of studies on surface and underground water resources, water ecosystems, consumption of water resources, their qualitative and quantitative features, content, pollution with chemical and radioactive substances and pollutants, as well as other influences and occurrences worsening the condition of water resources,
- ▶ Observations of and realization of studies on the conditions of soil pollution and its quality changes, as well as other negative impacts and occurrences on soil,
- ▶ Observations of wastes and their removal sites and implementation of relevant studies, presentation of negative impacts,
- ▶ Observations of and realization of studies on flora and fauna object types and their populations, cohabitation varieties, as well as their prevalence, areas of growth and population and ecosystems playing a special role for existence of their types.

(vi) *“Environmental Impact Assessment Expertise Center” SNCO*

“Environmental Impact Assessment Expertise Center” SNCO was established by RA Government Decree No. 1846-N dated November 21, 2002, the purpose of which is ensuring the operations of the authorized body in the area of evaluation of the environmental impact and expertise in compliance with the Republic of Armenia Law “On Assessment and Expertise of Environmental Impact” and implementation of the authorities of the expertise center. Point 3 of Article 2 of the Decree defines the authorities of the SNCO, which are:

¹⁸⁴ <https://www.arlis.am/DocumentView.aspx?docid=110145>

- a. participation in policy making on expertise processes
- b. participation in the development of legal acts regulating the expertise process
- c. in the scopes of its authorities implementation of expertise, preparation and provision of expertise conclusions
- d. involvement of experts in the expertise process on contractual basis
- e. if necessary, approval of the conceptual document and planned activities with stakeholders
- f. ensuring participation of its representative in public hearings
- g. preparation of the terms of reference and its provision to the initiator.

The Charter of the SNCO was approved by the Decision of the RA Minister of Nature Protection No. 14-A of 2015.

(vii) RA MNP “Environmental Project Implementation Unit”

RA MNP “Environmental Project Implementation Unit” State Enterprise was established in 2010 by RA Government Decree No. 1191-N¹⁸⁵ on the base of previously operating “Environmental Project Center” SNCO which was the successor of “Natural Resource Management and Poverty Reduction” PIU State enterprise and carried out the functions of the latter. Its Charter was approved by RA Government Decree No. 9-N dated January 13, 2011¹⁸⁶.

The main purpose of the organization’s operations is ensuring efficient implementation of nature protection projects in the Republic of Armenia. The main areas of the enterprise’s operations are projects and operations approved by the Government of the Republic of Armenia and developed at the expenses of the Republic of Armenia State Budget funds allocated for the Republic of Armenia Ministry of Nature Protection and local governance bodies in the area of environmental protection, as well as using the funds provided to the Republic of Armenia by international credit and grant provision donor organizations, including:

- 1) ensuring implementation of State programs in the areas of the Republic of Armenia environment protection – subsoil, soils, water resources, atmosphere, flora and fauna, as well as natural areas under special protection and reasonable use and recovery of natural resources,
- 2) Implementation of State programs and the State order in the areas of natural resource management and protection of natural environment,

¹⁸⁵ <https://www.arlis.am/DocumentView.aspx?docid=93665>

¹⁸⁶ <https://www.arlis.am/DocumentView.aspx?DocID=67015>

- 3) Implementation of preparatory and international investment programs in the area of environmental protection.

The objectives of the enterprise are:

- 1) preparation of the timetable for implementation of ongoing operations realized in the scopes of the project and program estimates, in case implementation of the projects of any of its components is not transferred to a third person in compliance with the Republic of Armenia legislation,
- 2) Organization of tenders, bid evaluation and analyses for project implementation purposes,
- 3) Supervision over the quality, terms and implementation of activities envisaged by the project,
- 4) Procurement of goods, works, services (including consulting) envisaged by the program, if according to project implementation plan, implementation of any of the project components is not transferred to the third person,
- 5) Ordering of design development works and expertise assessments necessary for implementation of activities,
- 6) Management of program related payments,
- 7) On behalf of the Republic of Armenia Government implementation of functions of the client for the mentioned works in corresponding project (projects),
- 8) Preparation of the terms of references for procurement of products and services in the scopes of the program, organization of tenders, bid evaluation and analysis, in case these activities are not an exclusive right or REB (Republican Executive Body), or no other provisions are stipulated by the Republic of Armenia international contract, or implementation of any of the program components is not transferred to a third person,
- 9) Preparation and signing of draft contracts related to program implementation in the cases defined by international contracts of the Republic of Armenia, in compliance with the creditor guidelines,
- 10) Program implementation monitoring, including by corresponding international or foreign creditor organization, as well as preparation and submission of reports in compliance with the procedure defined by the Republic of Armenia legislation,
- 11) Preparation and submission of applications necessary for allocations envisaged by loan or grant programs. Other additional objectives and functions may be assigned by the contract signed between the loan debtor (sub-debtor) or grant recipient and the organization.

- 12) In case of joint implementation of the program or any of its components with the third person – joint implementation of the functions defined by sub-point 11 of this point with the third person or assigning a representative for implementation of these functions.

(viii) RA Ministry of Emergency Situations and “The National Center for Technical Safety” SNCO

RA Ministry of Emergency Situations (hereinafter referred to as “MES”) is the State governance authorized body in the area of emergency situations. According the Code it is granted a number of authorities related to expertise of the technical safety of natural resource extraction projects, as well as the process of developing action plan for so called emergency situations.

Thus, the mineral extraction project submitted together with the application for requesting the right for mineral extraction in compliance with the Code is subject for technical safety expertise, which is organized by MES within a 60-day period after receiving the project by the Ministry. MES provides expertise conclusion about the project¹⁸⁷.

The expertise is carried out by “The National Center for Technical Safety” SNCO or legal bodies or private entrepreneurs licensed in compliance with the procedure defined by RA Government and registered by the MES¹⁸⁸, in compliance with “The procedure of implementation of technical safety expertise” approved by the RA Government¹⁸⁹. According to the information provided by the MES their list is as follows:

1. “Dami” Technical Safety Service LLC
2. “Technical Expertise Center” LLC
3. “Promexpert Group” LLC
4. RA CTI “Armexpertise” LLC
5. “Arias Expert Group” LLC, which has terminated its activities based on own application.

“The National Center for Technical Safety” SNCO operates under MES, which is the authorized managing body of the SNCO. The main goals and objectives of SNCO operations are organization and implementation of technical safety assurance functions in dangerous manufacturing sites. The functions of the latter and the procedure of implementing technical safety expertise are regulated by RA Law “On State Regulation for Technical Safety Assurance” and relevant sub-legislative acts.

¹⁸⁷ The Code, reference 38, Article 51(2)(1)

¹⁸⁸ Refer to RA Law “On State Regulation for Technical Safety Assurance” No. HO-204-N (dated October 24, 2005), Article 11(1).

¹⁸⁹ The RA Government Decree No. 1359-N (dated September 22, 2011).

Besides, according to the Code all mining companies, prior to starting the mining process, are obliged to develop an action plan for emergency situations, stating all the activities, which will be directed at accident prevention, consequence mitigation and protection of their employees and residents of the possible hazardous impact zones¹⁹⁰. The objectives of the Plan are:

- ▶ Definition, description and control of accidents and other incidents with the purpose of mitigating their consequences, in particular maximally neutralizing or mitigating the harms caused to human health and the environment,
- ▶ Implementation of activities necessary for protection of human health and the environment from the consequences of accidents and other incidents,
- ▶ Provision of necessary information to the population and relevant authorities or bodies in the given region,
- ▶ Envisaging environmental recovery and purification activities after occurrence of accidents.

The methodological guideline for the content and development of the action plan for emergency situations is defined by the MES¹⁹¹. The Code also provides a right to the population of the affected community to participate in development and revision of the action plan for emergency situations and the responsibility of the MES to inform the affected community about implementation of relevant activities¹⁹². MES also defines the procedure for informing the population of the affected community, provision of recommendations from the population of the affected community and discussion of these recommendations.

The methodological guideline for the content and development of the action plan for emergency situations was approved by the Decision of the RA Minister of Emergency Situations No. 316-A dated April 3, 2018, and the procedure for informing the population of the affected community, provision of recommendations from the population of the affected community and discussion of these recommendations with the purpose of ensuring the participation of the population of affected communities in development and revision of the action plan for emergency situations was defined by the Minister's Order No. 302-N dated March 30, 2018.

(ix) *The Ministry of Health*

The RA Ministry of Health, as an authorized body in healthcare sector, has certain authorities related to the development and revision of the action plan for emergency situations. Thus, according to the Code, the Ministry of Health may participate in the process of development and revision of the action plan for emergencies¹⁹³. With this purpose, the MES informs the Ministry of Health about implementation of

¹⁹⁰ The Code, reference 38, Article 60.6(3)(2)

¹⁹¹ The Code, reference 38, Article 60.6(5)

¹⁹² *Ibid.*, Article 60.6(10)

¹⁹³ *Ibid.*, Article 60.6(9).

relevant activities providing information about the procedure for participation in the decision-making and the authorized bodies to be included in the process.

In case of accidents mining companies shall immediately provide the Ministry of Health necessary information with the purpose of mitigating the consequences of these accidents on human health¹⁹⁴.

(x) *State Revenue Committee*

During the reporting period the body controlling State revenues was named State Revenue Committee under the RA Government (separated from the RA Ministry of Finance based on RA President's Order No. NH-213-N dated March 1, 2016). Prior to that (starting from 2014) the functions of the latter were carried out by RA Ministry of Finance. Starting from April 9, 2018 the body under consideration has been operating under the name of "the RA State Revenue Committee" (hereinafter referred to as "SRC").

SRC is a tax and customs body envisaged by the Republic of Armenia Laws "On Tax Service", "On Custom Regulations" and "On Custom Service"¹⁹⁵. In addition to the others the functions of the latter include supervision over implementation and application of the RA Tax Legislation and the requirements of other legal acts regulating tax relations in compliance with the procedure defined by the Law, prevention, exclusion of violations of the requirements of RA tax legislation (tax crimes), disclosure of these violations, implementation of activities aimed at covering the commitments to RA State Budget and community budgets arising from non-implementation of the liabilities stipulated by RA tax legislation, as well as implementation of supervision over payment of State fees, non-tax revenues and other payments defined by the RA Legislation within its authorities.

From legal viewpoint the inspections over environmental payments (royalties) realized by the SRC and their collection through administrative acts is problematic. As indicated above the relations established with regards to use of subsoil and payment of environmental fee – royalty to the State for the right of using the subsoil are per se private legal relations which has also been affirmed by the RA Constitutional Court¹⁹⁶. With its Decision No. CDo-816 dated July 18, 2009 the Constitutional Court highlighted the gaps of the legislation related to the regime applied to nature use payments:

"Despite the fact that in RA Law "On Nature Protection and Nature Use Payments" the legal content of this payment is clear, however [...] point 4 of Article 1 of the RA Law "On Organization and Implementation of Inspections in the Republic of Armenia" defines that "... the inspections aimed at verifying the accuracy of calculation and payment of nature protection, nature use and other mandatory payments defined by the Law are [...] thematic...". At the same time, sub-point

¹⁹⁴ *Ibid.*, Article 60.6(7).

¹⁹⁵ The Charter of GOA State Revenue Committee, RA Government Decree No. 224-N (dated March 10, 2016), Article 1.

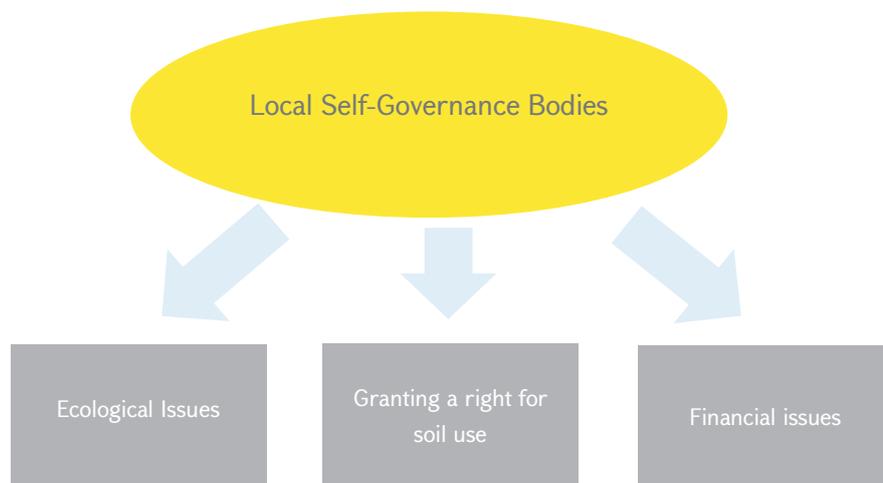
¹⁹⁶ The decision of RA Constitutional Court no. SDO-816 (July 18, 2009) on defining the conformity of Articles 7 and 19 of the RA Law "On Nature Protection and Nature Use Payments" and Point 2 of Article 22 of the RA Law "On Taxes" with the Constitution based on the applications received from of "Bjni" Mineral Water Plant" CJSC and "Kommunnakhagits" CJSC.

“i” of point 2 of Article 17 of the RA Law “On RA Budgetary System” views nature use payment as tax revenue. Such a situation should be excluded and the issue of ensuring precise regulations by the law should be solved under the legislative policy of the RA National Assembly”.

Despite the position expressed in the Decision above the legislator has never solved the stated issue. As a result, SRC prepares administrative acts for royalties incorrectly calculated by mining companies. However, administrative acts are legal acts of individual influence passed in the sphere of public rights¹⁹⁷. The acts under consideration are in their turn subject to mandatory execution and bannings may be applied with their regard, besides, the acts are appealed in SRC appeal commission or become a lawsuit under the administrative trial (but not civil trial) which seriously contradicts to the private nature and essence of nature use relationships.

(xi) *Local Self-Governance Bodies*

Local self-governance bodies (hereinafter referred to as “LSG Bodies”) are also granted certain authorities in the area of subsoil use, environmental protection and finances. The authorities of the latter may be conditionally divided into 3 groups as shown in the figure below:



Ecological issues. According to the Code the recultivation program (activities targeted at recovery (bringing to a condition suitable for safe use) of soils damaged as a result of mining activities), which should be included by a person having a right for subsoil use in the mineral extraction project, should be submitted for the approval of the community head¹⁹⁸.

¹⁹⁷ The RA Law “On Administrative Basis and Administrative Trials” No. HO-41-N (passed on February 18, 2004), Article 53(1): “administrative act is a decision, regulation, order or any other individual legal act, passed by the administrative body for regulation of the certain case in the area of civil rights and is aimed at defining, changing, removing or recognizing rights and responsibilities of people”.

¹⁹⁸ The Code, *supra* reference 38, Article 17(3)(2)

Local Self-Governance bodies are also granted authorities by RA Law “On Environmental Impact Assessment and Expertise”. In particular, during environmental impact assessment and expertise process the Local Self-Governance bodies:

- 1) Provide opinion on provisions of the conceptual document and (or) envisaged activities related to the community, unless otherwise stipulated by the law,
- 2) In the scopes of their authorities and in compliance with the procedure defined by the law ensure provision of notifications, organization of public hearings on conceptual documents and (or) envisaged activities, assessment and expertise of their impact, and ensure public participation,
- 3) Provide information on conceptual documents related to certain area upon the requirement of the initiator,
- 4) During the environmental impact assessment processes provide necessary consultations to the initiator, as well as any other information necessary for implementation of impact assessment¹⁹⁹.

Granting a right for soil use. The person granted the right for using the subsoil cannot initiate mining activities without prior agreement of the owner of the given territory or land use contract. If the land area is under the ownership of the community, than according to the decision of the community council the head of the community signs a land use contract with the persons having a right for subsoil use²⁰⁰.

Financial issues. LSG bodies are also granted certain authorities in the area of finance. In particular, the head of the community organizes collection and supervision over local taxes (real estate tax, property tax for transportation means²⁰¹), fees and payments, lands under the property of the community or the State and located within the administrative territory of the community and rent payments for the assets under the ownership of the community, provides the rates of local fees and payments (within the limits allowed by the legislator) for the approval of community council, and applies corresponding measures to the non-paying persons in compliance with the procedure defined by the law²⁰².

Social-economic issues. Although the primary beneficiaries of the social-economical obligations taken over by mining companies are the local communities (the community located in the area of direct impact of the mine), however the legislation does not stipulate any mechanism for participation of LSG bodies representing the community in the process of defining and clarifying the scopes of social-economical obligations of mining companies.

¹⁹⁹ The RA Law “On Environmental Impact Assessment and Expertise” No. HO-110-N (June 21, 2014), Article 13.

²⁰⁰ The Code, *supra* reference 38, Article 17(3)(1)

²⁰¹ The Tax Code, reference 51, Article 6(1)(2)

²⁰² RA Law “On Local Self-Governance” No. HO-337 (May 7, 2002), Article 38(1)(3)-(4).

D. Privileges granted by the State to mining companies

RA legislation does not define particular privileges to be granted to mining companies. Moreover, application of a number of tax privileges defined by the law is excluded by the force of law for companies extracting and (or) involved in processing of metal minerals²⁰³. However, the legislation defines a number of tax and customs privileges, which may be used by entrepreneurs realizing investment projects, including mining companies. The authority for granting of such privileges is as a rule under the legal competence of RA Government. In particular, extension of VAT payment periods for goods imported in the scopes of investment projects and the privileges granted for exemption of custom duty payments for equipment imported under investment projects realized in the primary sectors should be mentioned, which are applied in mining sector once during each reporting period.

Extension of VAT payment period for goods imported under investment projects: The Tax Code envisages a procedure for extending the period of VAT payment calculated by customs authorities under the investment projects for the period of up to three years, by delegating the authority of defining the procedure for investor selection to the Government. In part 4 of Article 79 of the Tax Code:

“In the scopes of the investment projects realized by Organizations and private entrepreneurs selected by the [RA] Government [...] the period of VAT payment calculated for import of goods is extended for a period of three years. The procedure for selection of Organizations and private entrepreneurs is defined by the Government of the Republic of Armenia”.

Based on the mentioned provision the RA Government passed a Decree No. 1225-N on October 5, 2017 approving the “Procedure for selection of organizations and private entrepreneurs implementing investment projects”²⁰⁴.

According to previous regulation the criteria used during evaluation process were changed and are provided in the table 3.1.7 below:

Table 3.1.7: Investment project evaluation criteria according to Decree No. 1225-N

Investment project evaluation criteria according to Decree No. 1225-N	Points
Multiplier effect on the economy	7
Employment level increase	10
Innovativeness and increased productivity	10
Export orientation	10
Average wage paid during project implementation	10
Compliance of the person to the classification stipulated by the Republic of Armenia Law “On State Support to Small and Medium Business”	3

²⁰³ For example: the Tax Code in force from January 1, 2018, defining profit tax privileges with decreased rates, which are applied for projects approved by the RA Government, clearly excludes their application (in addition to the others) for companies operating in the spheres of metal mineral extraction and (or) their processing (Article 128, Part 1, point 1).

²⁰⁴ RA Government Decree No. 1225-N (dated October 5, 2017), available from

<https://www.arlis.am/DocumentView.aspx?DocID=119820>

The bodies realizing the evaluation are the RA Ministry of Finances, SRC and the authorized State body of the sector, which provide the marking together with their opinion regarding the project to RA Ministry of Economic Development and Investments. RA Ministry of Economic Development and Investments, summarizing the opinions and the marking, develops a draft Government Decree and presents it to RA Government Staff.

During the reporting period out of all mining companies only “Lydian Armenia” CJSC used the discussed privilege: a privilege for extension of payment of VAT calculated by customs and tax bodies for the period of 3 years from the date of import registration was granted to the latter by RA Government Decree No. 417-A dated April 20, 2017 for 155 items for with the total amount of 27 677 784 604 AMD imported during the time period from April 14, 2017 till December 31, 2018 inclusive²⁰⁵.

Exemption from custom fees for equipment imported under investment projects in the spheres considered as primary: On September 17, 2015 the RA Government, using the opportunity granted by Annex 6 of the contract “On Eurasian Economic Union” signed on May 29, 2014 on Unified regulation of custom duties, passed the Decree no. 1118-N defining the procedure for granting exemption from custom duties calculated by custom authorities in compliance with the procedure prescribed by the legislation for technological equipment, their components and fixtures, raw produces and materials (hereinafter referred to as “equipment and materials”) imported to Armenia under investment programs realized in the sectors considered to be primary and envisaged for use solely on the territory of Armenia²⁰⁶.

Such equipment and materials are exempt from custom duties if they are not produced in EAEU member states (or are produced in quantities insufficient for implementation of investment projects) or do not meet the technical requirements necessary for implementation of the investment project.

The applications for receiving an exemption from custom duties are provided to the Government and should include the investment project, the list of equipment and materials, technological specifications and announcement on using the technological equipment and materials already imported or being imported under the investment project solely on the territory of Armenia²⁰⁷.

RA Ministry of Finance, SRC and, if necessary, relevant sectoral ministries²⁰⁸ provide opinion with regard to the application. The provided opinions are summarized by RA Ministry of Economic Development and

²⁰⁵ RA Government Decree No. 417-U (April 20, 2017), Article 1.

²⁰⁶ RA Government Decree No. 1118-N (September 17, 2015), Article 1.

²⁰⁷ *Ibid.*, point 4 and 5.

²⁰⁸ Decree No. 1118-N, reference 186, Annex 1, point 7. The Decree also mentions the RA Ministry of Economic Integration and Reforms, which however no longer exists: according RA Law “On the Structure and Functions of the Government” (No. HO-253-N) passed on March 23, 2018 and in force since April 9, 2018 the Ministry under consideration no longer exists and its operations were terminated by the force of establishment of RA Prime Minister’s staff. However, the Government Decree under discussion has not yet been changed. RA Law “On the Structure and Functions of the Government” does not regulate all the issues occurring as a result of closing down the stated institution, it only states that “*The Staff of the Prime Minister is the successor of the Ministry of International Economic Integration and Reforms with the purpose of ensuring the liabilities of international contracts*” (Article 20, part 5).

Investments, which prepares a conclusion and provides it to RA Government Staff²⁰⁹ (in its turn the Ministry of Justice issues an opinion regarding the conclusion provided by the Ministry of Economy²¹⁰).

The opinions and conclusions of the agencies regarding the application are prepared based on the criteria provided in the table 3.1.8 below²¹¹.

Table 3.1.8: Investment project evaluation criteria according to Government Decree No. 1118-N

Investment project evaluation criteria according to Government Decree No. 1118-N	
1	Investment project is realized in primary sector
2	Technological equipment, their components and fixtures and (or) raw produces and materials imported (being imported) in the scopes of investment projects will be used solely on the territory of the Republic of Armenia
3	Technological equipment, their components and fixtures, raw produces and materials imported (being imported) in the scopes of investment projects are not produced in EAEU member states (or are produced in quantities insufficient for implementation of investment projects) or do not meet the technical requirements necessary for implementation of the investment project
4	The volume of investments actually realized or planned as a result of investment project implementation
5	Types of goods produced (being produced) as a result of investment project implementation, sales volumes (actual or projected) and sales directions
6	New work places created (being created) as a result of investment project implementation

During the reporting period only “Lydian Armenia” CJSC out of all subsoil use companies used the discussed privilege: a privilege for exemption from custom duties for 5 types of imported (being imported) equipment for the total amount of 2 489 000 000 AMD was granted to the latter by RA Government Decree No. 698-A dated June 23, 2017²¹².

During the reporting period subsoil use companies have not used any other tax privileges envisaged by RA legislation.

RA Legislation also stipulates “stabilization provisions” for mining companies, as well as foreign investors (participation of some mining companies is actually foreign direct investment only). Thus Article 25 of the Code (“Guarantees for subsoil use rights”) defines:

“Protection of the rights of mining companies is guaranteed by the Republic of Armenia Legislation. In case of changes in the Republic of Armenia Legislation the rates applied for nature use payments (including royalty), resident’s profit tax, non-resident’s dividends, interest rates, royalty taxation used at the moment of granting the right for subsoil use are applied to the person granted the right for subsoil use for the period of 3 years from the moment of being granted the mentioned, based on the application addressed by the latter to an authorized body.”

²⁰⁹ *Ibid.*, point 9.

²¹⁰ *Ibid.*, point 11.

²¹¹ *Ibid.*, point 10.

²¹² RA Government Decree No. 698-A (June 23, 2017), Annex 1. Invested goods are bulldozer on wheels, switches and switch bands.

This regulation grants a right to mining companies, which had been granted the right for subsoil use during the last three years, in case of unfavourable legislative changes, to require from the Ministry of Energy Infrastructures and Natural Resources application of previous more favourable legislative regulations, in case these changes refer to the rates of nature use payments, residents' profit tax, non-residents' dividends, interest rates and royalty taxations.

It is notable however, that the mentioned payments are under the supervision of the SRC, but not under the supervision of the MEINR. Therefore, even in case of submitting necessary application the real procedure for application of the privilege is unclear. This legal uncertainty may be addressed in case of passing a Government decree, however relevant legislative changes are also necessary in this case (the Article should envisage a provision on delegating such an authority to the Government).

A similar "stabilization provision" is also defined by the RA Law "On Foreign Investments" the Article 7 of which ("Guarantees in case of changes in the Republic of Armenia Legislation") states:

"In case of changes in the Republic of Armenia Legislation regulating foreign investments within 5 years after the moment of realizing the investment, upon the discretion of the foreign investor, the legislation in force at the moment of investment is applied."

RA Legislation does not envisage precise procedures for implementation of this regulation, as a result of which it has turned into a subject for litigations. In particular, RA Administrative Appeals Court in its Decision of April 29, 2011 of the case No. VD/0724/05/10 of "Dino Gold Mining Company" CJSC²¹³ vs. SRC defined:

"The only condition of applying the mentioned legal norm is the wish of foreign investor, which should be expressed by the foreign investor in any manner – through its operations, disseminating an announcement and any other manner, in order to make it clear for the bodies realizing supervision over their operations that in case of any changes of RA legislation this company continues to follow the previous legislation. This wish should be expressed immediately after RA legislative changes enter into force, or at least within 5 years after realizing the investment."

Thus, in the conditions of the absence of formal legal procedures the investors are expected to at least realize certain active measures so that their wish is made clear for the certain State body responsible for the given sector.

²¹³ The name of "Kapan Mining and Processing Company" CJSC at the time of previous shareholders

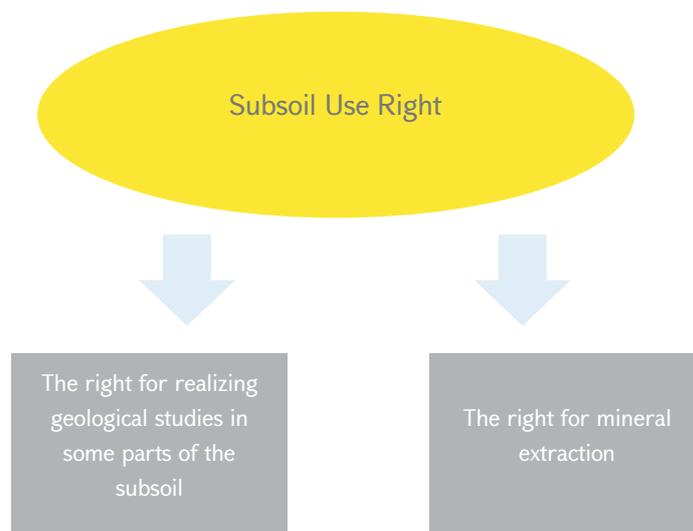
3.2 Procedures for granting permits and conclusion of contracts, their registration (Requirements 2.2 and 2.3)

A. Process of granting permits and conclusion of contracts

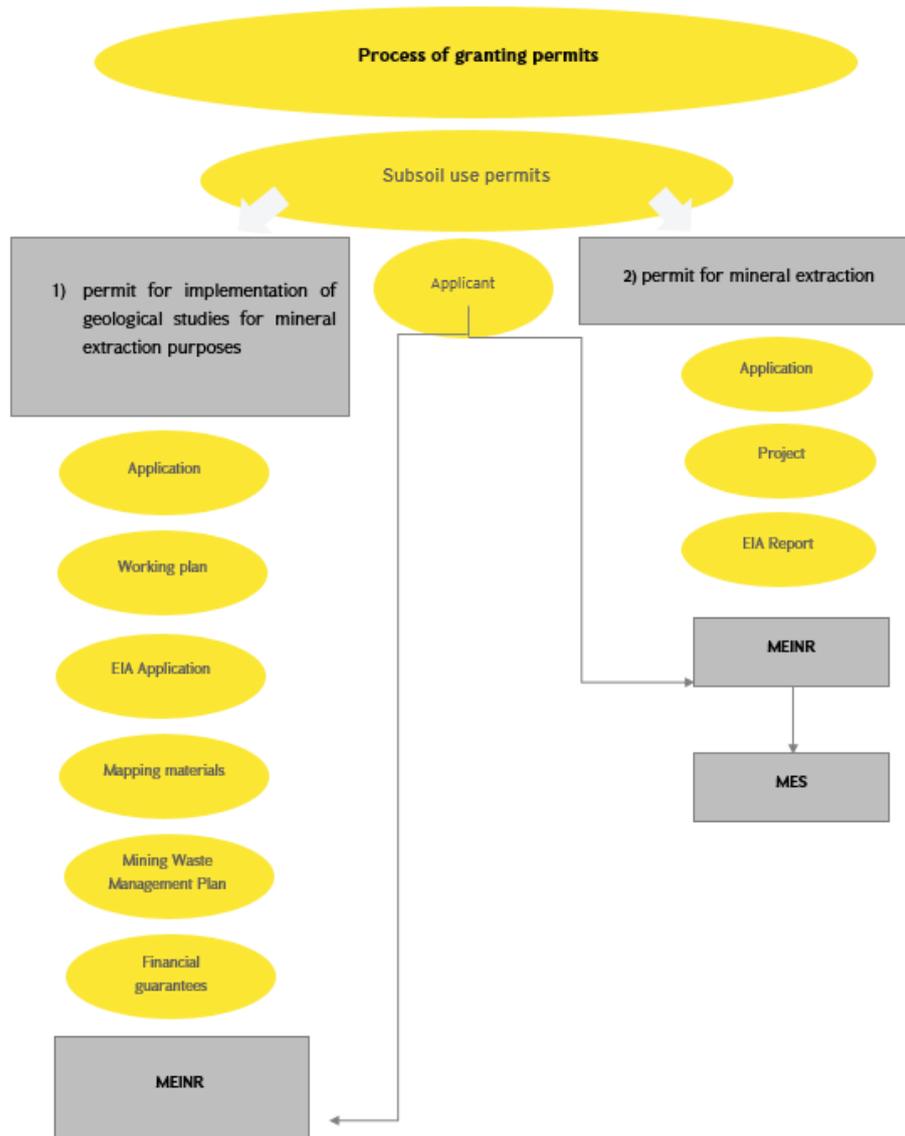
(i) General description

As stated above RA subsoil belongs to the State and is under its exclusive ownership. It is provided to the subsoil use companies only with the right of use for realization of geological studies for mineral extraction purposes or implementation of mineral extraction activities. RA legislation envisages two trade regimens for use of subsoil and correspondingly two types of permits for these regimes: a permit for implementation of geological studies for mineral extraction purposes and a permit for mineral extraction (the legislation also regulates a separate regime for granting agreements for implementation of geological studies).

The first type grants a right for realizing geological studies in some areas of subsoil for finding minerals, while the second type grants a right for implementation of mineral extraction and (or) mining waste processing activities in some parts of the subsoil.



The Legislation also regulates the transfer of the right for subsoil use: alienation of the right to third persons or its transfer to new legal entity formed as a result of division or separation realized in scopes of reorganization of the legal entity holding the right, is realized exceptionally upon the agreement of the MEINR. No regulations or control is however applied to trade of shares of the legal entities having the right for subsoil use (with the exception of applicable norms for regulation of economic competition).



(ii) The procedure for granting an agreement for geological studies for mineral extraction purposes

The procedure of receiving permits for implementation of geological studies of subsoil for mineral extraction purposes (application for the right for implementation of studies) is regulated by the Code. The application for receiving a right for realization of geological studies of subsoil for mineral extraction purposes is submitted to MEINR. The application includes the information listed in the table below²¹⁴.

²¹⁴ The Code, reference 39, Article 38

Information to be included in and the documents to be attached to the applications for being granted the right for implementation of geological studies for mineral extraction purposes

1	Corporate data of the applicant (the copy of the state registration certificate of the applicant) – in case of a legal entity
2	The anticipated time period required for implementation of works
3	Mineral resource(s) subject for geological studies
4	The general and geological description of the requested part of the subsoil with geological map and the plan with outline coordinates
5	The work plan of geological studies (presented with the purpose of being agreed with MEINR) which includes and has attachments of the following ²¹⁵ :
	i. Objectives and anticipated time-frames of the activities to be implemented
	ii. Identified methods, ways and directions for work implementation, complying with best international practices, and estimated volumes
	iii. The following documents are attached to the work plan of geological studies
	(a) Necessary mapping materials
(c) The application for initial assessment of environmental impact, including nature protection activities' plan	
(d) Mining waste management plan and financial guarantees required for implementation of activities envisaged by mining waste management plan, and in the cases prescribed by this Code – mining waste processing plan and financial guarantees required for implementation of activities envisaged by mining waste processing plan	
6	Data on previously held rights of the applicant for implementation of mining activities in the Republic of Armenia
7	The names, residency (in case of legal entity the copy of state registration certificate) of the persons (entities) having 10 or more percent of shares (stocks) of the applicant legal entity, as well as other data in compliance with the procedure defined by the authorized body
8	Information on financial and technical capacities and means, the content and the requirements set forth for which are defined by the Government
9	The list of submitted documents

The financial and technical capacities of the applicant stated in point 8 above are evaluated as satisfactory according to the procedure defined by RA Government, if:

- ▶ In terms of financial resource availability:
 - The personal financial resources of the applicant are sufficient for implementation of the project or plan,
 - As an alternative, the applicant has a contract signed with a financial organization (bank) for provision of a line of credit or bank guarantee or a loan of involved financial resources, the financial resources envisaged by which are sufficient for implementation of the project or plan,
 - The applicant does not have overdue tax liabilities.

²¹⁵ The Code, Reference 39, Article 39

- ▶ In terms of technical resource availability:
 - The quantity of technical resources belonging to the applicant under the ownership right is sufficient for implementation of the project or plan,
 - As an alternative, the applicant has a relevant contract signed in compliance with the procedure defined by RA Legislation for use of technical resources, the quantity of technical resources envisaged by which is sufficient for implementation of the project or plan²¹⁶.

The Government has also approved the procedure for providing information about financial and technical resources²¹⁷ and the corresponding forms (statement on implementation of relevant specialized activities in subsoil use industry, statement on availability of necessary engineering-technical staff, statement on availability of necessary technical capacities and resources, statement on necessary financial resource, statement on the absence of overdue tax liabilities issues by RA tax authorities).

As indicated in the table above the work plan for implementation of geological studies to be carried out for mineral extraction purposes should be attached to the application and should include the objectives and anticipated timeframes of the works to be implemented, as well as identified methods, ways and directions of work implementation complied with the best international practices, and their tentative volumes. Mapping materials, EIA application (together with nature protection program) and mining waste management plan and the financial guarantees required for implementation of activities envisaged by the mining waste management plan, and in case of those applicants wishing to process mining wastes - mining waste processing plan and the financial guarantees required for implementation of activities envisaged by the mining waste processing plan should be attached to the project.

The geological study implementation work plan is agreed with the MEINR. Implementation of geological studies is not allowed without prior agreement of the project.

Application review: Within a 5-day period after receiving the application the MEINR notifies the applicant about the completeness of the document package submitted with the application and the registration of the latter. Within 10 days after registering the application the MEINR discusses the geological study implementation work plan attached to the application and the submitted EIA application, and submits it for initial EIA together with mapping materials, mining waste management plan and financial guarantees.

Within 30-day period after receiving the project the Ministry of Nature Protection provides conclusion regarding the latter. In case corresponding conclusion on the initial EIA is not provided within a 30-day period, it is deemed to be positive.

²¹⁶ The RA Government Decree No. 368-N (dated March 28, 2013) "On Assessing the qualitative indicators of information on physical and technical capacities and resources of companies applying for the right for subsoil use", available from <https://www.arlis.am/DocumentView.aspx?DocID=82723>.

²¹⁷ The RA Government Decree No. 367-N "On the content and requirements set forth for information on financial and technical capacities and resources of organizations applying for the subsoil use right" (dated March 28, 2013), available from <https://www.arlis.am/DocumentView.aspx?DocID=82720>.

After receiving the positive conclusion regarding the initial EIA the MEINR, within 60 days from the day of registering the application, makes a decision regarding the application and notifies the applicant regarding the decision in written form. In case a decision on the application is not made within the defined period it is deemed to be positive.

In case two or more persons have submitted an application with regard to the same subsoil area, the priority is given to the applicant the application of which was registered first.

In case the documents provided by the applicant are deficient, or the provided study project, as well as information on financial and technical capacities and resources of the applicant does not meet the requirements stipulated by the legislation, the MEINR, within 10-day period, informs the applicant about it. The applicant, within 10 days after receiving the notification, eliminates the mentioned deficiencies. In case the mentioned deficiencies are not eliminated within the defined period the authorized body refuses the application on this basis.

As a result of administrative proceeding (application review) a permit for geological studies of subsoil is granted and invitation for verification of geological study contract is sent.

The permit includes the serial number, the year, month and date of issue and validity period, the subsoil area outline coordinates in compliance with unified coordinates system, the purpose of geological studies and the name of the mineral resource. The study project and geological study contract are attached to the permit and are considered its integral parts²¹⁸.

Declining the application. The bases stipulated by the Code for declining an application by the MEINR are provided in the table below:

Table 3.2.1: Bases for declining an application for receiving the right for implementation of geological studies

Bases for declining an application for receiving the right for implementation of geological studies	The documents attached to the application or the information provided in them are forged
	The subsoil area stated in the application or a part of it is an object of other mining right
	The subsoil area for which the applicant claims to receive mineral extraction right cannot be considered a separate site for subsoil use right
	The subsoil area for which the applicant claims to receive the right for implementation of geological studies exceeds the area required for implementation of mining activities envisaged by the geological study project summary provided by the applicant
	The information on financial and technical capacities and resources of the applicant does not meet the requirements stipulated by the law
	The financial guarantee provided by the applicant is insufficient for implementation of activities envisaged by mining waste management and (if applicable) mining waste processing plan
	The financial guarantee was provided by a legal person which does not meet the criteria defined by the RA Government for legal persons providing financial guarantee

²¹⁸ The code, reference 38, Article 37

Provision of the right for implementation of geological studies will contradict with the requirements of the RA legislation, including the requirements for assuring the RA national security and international contracts with the participation of RA

Any previously held right for subsoil use of the applicants has been terminated for one of the following reasons:

- ▶ the applicant received a notice and within the time-period stipulated by the MEINR did not eliminate the bases for the notice,
- ▶ the subsoil was used for reasons other than the bases for the right,
- ▶ the mining company discovered and within 14 days did not notify the authorized body about discovering accumulations of minerals not stated in the right for subsoil use or presence of rare objects and objects of scientific-cultural value or emergence of unforeseen ecological risks

On the land area of the claimed subsoil site there are (i) cemeteries, (ii) natural, historical and cultural monuments, (iii) plants or populations of animals registered in RA red book, as well as in case animal migration ways pass through this area

The part of the subsoil for which the application was submitted is a site of radioactive minerals

According to the information provided by MEINR, during 2016 15 companies applied for implementation of geological studies, 10 of which were rejected. During 2017 36 companies applied for implementation of geological studies, 28 of which were rejected²¹⁹. The applications were mainly rejected due to negative conclusion of EIA. No privileged applications were received. Only two out of the received applications were for the same site, however both were rejected for the mentioned reason. According to the information provided by the employees of the same Ministry the permits provided to 4 out of the 5 companies that received permits for implementation of geological studies during 2016 were provided with violations of the time frames defined by the Code, and during 2017 similar violations were registered in case of 7 out of the 8 permits received. According to the representatives of the MEINR violations of the defined time frames were conditions by deficiencies of the “single window” principle applied for granting the permits as prescribed by the Code, as well as discrepancies between the Code and the RA Law “On Environmental Impact Assessment and Expertise”, in particular the discrepancies between the time periods provided for elimination of deficiencies observed in the submitted documents.

(iii) The procedure for granting mineral extraction permits

The procedure of receiving the permits for mineral extraction (request for extraction right) is regulated by the Code. With the purpose of receiving the right for mineral extraction the legal entities submit an application to RA Ministry of Energy Infrastructures and Natural Resources (hereinafter referred to as the “MEINR”). The application contains the information provided in the table below:

²¹⁹ The information was received as a result of inquiry made to State bodies, it is not published.

Table 3.2.2: Information included in the application for being granted the right for mineral extraction

1	Corporate data of the applicant (the copy of the state registration certificate of the applicant, note on the size of the Charter capital of the legal person of the applicant)
2	The anticipated time period of mine use calculated on the basis of the available technical-economic indicators
3	The geological description of the part of the subsoil for which the applicant aims to receive the right for mineral extraction
4	The list of the approved minerals
5	Mineral extraction plan
	i. Such methods of opening the mineral deposits and exploitation systems, which comply with the best international practice and ensure reasonable and comprehensive, economically expedient extraction ensuring minimal environmental losses of main and accompanying mineral reserves, as well as safe and lasting use of constructions
	ii. Details on the ways of structuring envisaged infrastructures
	iii. Calculation of the planned period of deposit use based on the available technical-economic indicators
	iv. Evaluation of environmental impact, including environmental control plan and monitoring plans
	v. Social impact assessment
	(a) In case of the need for repopulation - provision on improving the social conditions of the population
	(c) Provision on improving the living standards of the population
	(d) Guarantees for ensuring participation in community's social-economic development processes
	(e) Storage and maintenance of the removed soil layer and simultaneously extracted lean ore
(f) Ensuring the norms and rules defined for labor safety, employee health protection and environmental protection	
(g) Recovery of damaged lands	
6	Mine closure plan
	i. Physical mine closure plan which includes disassembly of infrastructures, machines, equipment and constructions
	ii. The recultivation plan for land areas damaged as a result of mineral extractions, including the recultivation plan during the existence of the deposit (based on the deposit exploitation method)
	iii. Social mitigation program for employees, compliant to the procedure stipulated by the law
	iv. Monitoring implementation plan for ensuring the safety and health of population of the communities in mineral extraction areas, the areas of dumping production waste originated during the production process and their adjoining territories
	v. 2 years prior to completing mine exploitation activates testifying the preparation of final mine closure plan
7	Data on previously held rights of the applicant for implementation of mining activities in the Republic of Armenia
8	The names, residency (in case of legal entity the copy of state registration certificate) of the persons having 10 or more percent of shares (stocks) of the applicant legal entity, as well as other data in compliance with the procedure defined by the authorized body
9	Information on financial and technical capacities and means, the content and the requirements set forth for which are defined by the Government
10	Financial proposals and guarantees which should include details on mine operations, capital and operational costs
11	Mining waste management plan and relevant financial guarantee, and in cases stipulated by the law - mining waste processing plan and financial guarantees necessary for implementation of activities envisaged by the mining waste processing plan

Table 3.2.2: Information included in the application for being granted the right for mineral extraction

12 The receipt of the state fee set for implementation of environmental impact expertise

The criteria set forth for legal entities providing financial guarantee²²⁰ stated in point 11 of the table above were defined by RA Government Decree No. 885-N “On criteria set forth for legal entities providing financial guarantees”²²¹ dated July 20, 2017.

According to the latter the legal entity – bank, other credit organization or insurance company should be a person licensed by the Republic of Armenia Central Bank in compliance with the procedure defined by the Republic of Armenia Law “On the Republic of Armenia Central Bank”²²², and non-resident legal person should be rated by one of the following international credit organizations - Standard & Poor’s, Moody’s, A.M. Best or Fitch, with rating not lower than:

The lowest rating from non-resident persons providing guarantees	
Standard & Poor’s	A-
Moody’s	A3
A.M. Best	A-
Fitch	A-

RA legislation envisages prohibition of implementation of subsoil use activities in some areas. Thus, according to the Code use of separate parts of the subsoil is prohibited from the viewpoint of ensuring national security, protection of life and health, cultural-historical values or environment, if cemeteries, natural, historical or cultural sites, plants or animal populations registered in RA Red Book are located on the requested part of the subsoil, as well as in case animal migration routes pass through these areas.

Application review: A number of agencies such as the MEINR, MES, Ministry of Nature Protection, take part in application review process.

The MEINR, within 10 days after registering the application, discusses the plan attached to the application and provides it to MES for technical safety expertise, and EIA (Environmental Impact Assessment) report is provided with attached documents for expertise to the Ministry of Nature Protection.

MES carries out the expertise within 60 days after receiving the plan. MES provides expertise conclusion regarding the plan²²³. As indicated above the expertise itself is realized by “National Center for Technical Safety” SNCO or legal persons or private entrepreneurs accredited in compliance with the procedure defined by RA Legislation and registered by MES²²⁴, following the “Technical Safety Expertize

²²⁰ Financial guarantees are provided for use, closure of mining waste objects and mining waste processing objects, and implementation of procedures defined by the legislation to be realized after closure, which are defined by mining waste management and mining waste processing plans.

²²¹ <https://www.arlis.am/DocumentView.aspx?DocID=115056>

²²² <https://www.arlis.am/DocumentView.aspx?docID=64633>

²²³ The Code, reference 38, Article 51(2)(1).

²²⁴ Refer to RA Law “On state regulation of technical safety assurance” No. HO-204-N (October 24, 2005), Article 11(1).

Implementation Procedure” approved by RA Government²²⁵. In case the conclusion is not provided on time, it is deemed to be positive.

In case the plan is deficient MES, within 5 days after its receipt, informs the MEINR about it stating the deficiencies, and the latter in its turn notifies the applicant within 5-day period. The applicant has the right to correct the deficiencies within 10 days after receiving the notification, otherwise the MEINR declines the application.

In case of receiving corrected version of the plan the MEINR within 5-day period provides it to MES for technical safety expertise.

In its turn the Ministry of Nature Protection provides expertise conclusion within 100 days after receiving the EIA report. In case the conclusion is not provided within 100 days, it is considered to be positive.

If EIA report is prepared with deficiencies the Ministry of Nature Protection informs the applicant about it within 10-day period from its receipt, stating the deficiencies. The applicant may eliminate the deficiencies within a 10-day period. Otherwise, the MEINR declines the application.

After receiving the revised version of EIA report the MEINR once again provides it to the Ministry of Nature Protection for expertise.

After receiving positive expertise conclusions the MEINR, within 180 days after registering the application, makes a decision regarding the application and notifies the applicant. In case of not making a decision within 180-day period the application is considered satisfied.

In case the documents provided together with the application are with deficiencies or the provided financial and technical information does not comply with the requirements of the law, the MEINR, within 10 days after registering the application, notifies the applicant, who has 10 days for eliminating the deficiencies. Otherwise, the MEINR declines the application.

Declining the application. The bases stipulated by the Code for declining an application by the MEINR are provided in the table below:

Table 3.2.3: Bases for declining an application for receiving the right for mineral extraction

Bases for declining an application for receiving the right for mineral extraction	The documents attached to the application or the information provided in them are forged
	The subsoil area stated in the application or a part of it is an object of other mining right
	The subsoil area for which the applicant claims to receive mineral extraction right exceeds the area required for implementation of mining activities envisaged by the mineral extraction project summary provided by the applicant
	Provision of mineral extraction right contradicts with the requirements of the Republic of Armenia legislation, including the requirements for assuring the national security of the Republic of Armenia, as well as the requirements of international contracts of the Republic of Armenia

²²⁵ RA Government Decree No. 1359-N (passed on September 22, 2011).

Any previously held mining right of the applicants has been terminated for the following reasons: (i) the applicant received a notice and within the time-period stipulated by the Ministry (90 days) did not eliminate the bases for the notice, (ii) used the subsoil for reasons other than the bases for the right, (iii) the mining company discovered and within 14 days did not notify the authorized body about a) discovering accumulations of minerals not stated in mining right, b) presence of rare objects and objects of scientific-cultural value, c) emergence of unforeseen ecological risks (Article 30 of the Code)

Time frames were violated

On the land area of the claimed subsoil site there are (i) cemeteries, (ii) natural, historical and cultural monuments, (iii) plants or populations of animals registered in RA red book, as well as in case animal migration ways pass through this area

Financial guarantees provided by the applicant are insufficient for implementation of activities envisaged by mining waste management and (if applicable) mining waste processing plan

Financial guarantee was provided by a legal person which does not meet the criteria defined by RA Government for legal persons providing financial guarantee

During 2016 6 organizations applied for mineral extraction, from which 3 were declined. No privileged applications were received. All 3 applications were declined due to negative EIA conclusion. During 2017 no applications for mineral extraction were received²²⁶.

Elimination of possible deficiencies available in the application. RA legislation envisages an opportunity for correcting the deficiencies observed in the application. Thus, part 9 of the Article 51 of the Code defines:

In case the documents provided by the applicant are deficient, or the provided extraction project, as well as information on financial and technical capacities and resources of the applicant does not meet the requirements stipulated by the legislation, then the authorized body, within 10-day period after registering the application, informs the applicant about it. The applicant, within 10 days after receiving the notification, eliminates the mentioned deficiencies. In case the mentioned deficiencies are not eliminated within the defined period the authorized body refuses the application on this basis.

In case of submitting applications by two or more persons for the same subsoil area, or such subsoil areas, which have general parts, the preference is given to the privileged applicant (bearer of the right for subsoil use for implementation of geological studies for mineral extraction purposes), and in case of the absence of the latter to the person first submitting the application (Article 51 of the Code, part 10).

(iv) *The MEINR agreement on transfer of subsoil use right*

As stated above the legislation also regulates the transfer of subsoil use right, which is alienation of the right to third persons or its transfer to new legal entity formed as a result of division or separation

²²⁶ The information was received as a result of inquiries made to State bodies and it is not published.

realized in scopes of reorganization of the legal entity having the right. The transfer is possible only upon agreement of the MEINR. It is noteworthy that the Code stipulates only the requirements set forth for the application and the time frames for application review by the MEINR (30 days). However, no basis for rejection of the application are stipulated. According to the position expressed by the MEINR employees the authorized body rejects the application for granting an agreement for transfer of the right for subsoil use on the same bases, on which the applications for granting the right for subsoil use are rejected.

The application should include:

- ▶ The full name of the legal entity having the right for subsoil use
- ▶ Note on the subsoil use right to be transferred
- ▶ Information stipulated by the Code for requesting the right for subsoil use
- ▶ Report on implementation of activities envisaged by the project or the plan, including on nature protection activities
- ▶ Report on implementation of activities envisaged by mining waste management or mining waste processing plans²²⁷.

According to the information provided by the MEINR employees no applications for transferring the right for subsoil use were submitted to the Ministry during 2016-2017.

As indicated above sale of company shares having the right for subsoil use is in no manner controlled by the MEINR.

(v) *The procedure for granting agreement for implementation of geological studies of the subsoil*

The Code also regulates the regimen for granting agreements for implementation of geological studies of the subsoil. The right for geological studies provided by the MEINR provides the following rights to the subject:

- ▶ Implementation of regional geological studies – regional geological-geophysical activities, geological extraction (mapping), geo-chemical, seismological, hydro-geological and engineering-geological studies, scientific-research, archeological and other activities aimed at implementation of general geological studies of the subsoil,
- ▶ Geological studies of volcanic activity, monitoring of external geological processes,
- ▶ Creation of mineralogical, archeological and other geological collections, collection of aesthetic and semi-precious stones,
- ▶ Description and maintenance of scientific, cultural, aesthetical and geological objects of other values (rare geological phenomena, natural monuments, caves and others).

²²⁷ The Code, reference 38, Article 23(2)

The entities claiming to receive the right (agreement) submit an application to the MEINR, which should include the following information²²⁸.

Documents included in applications for being granted the right for geological studies	
1	Corporate data of the applicant (name, address)
2	The copy of the state registration certificate of the applicant
3	The anticipated time period required for implementation of works
4	The description of the part of the subsoil for which the application for implementation of geological studies is submitted, and the plan of that part of the subsoil with outline coordinates
5	The work plan of geological studies
6	The applicant's data on previously held subsoil use right in RA
7	Information on financial and technical resources in compliance with the requirements stipulated by the Government
8	The list of submitted documents

It is noteworthy that the Legislation does not stipulate the bases for not granting an agreement for implementation of geological studies by the MEINR.

B. Companies granted permits for subsoil use (signed contracts for mineral extraction)

The list of companies having permits for implementation of geological study activities for mineral extraction purposes is available on MEINR website²²⁹. The names of companies granted permits, the dates of issuing the permits and their numbers, the validity period of the permits, date and number of contract, the dates and numbers of contract amendments, the names of mineral resource manifestations or objects, outline coordinates and total areas, names of minerals and notes on termination of rights are published on the MEINR website.

The list of companies having the right for mineral extraction is also available on MEINR website²³⁰. The names of companies granted permits, the dates of applications submitted for receiving the permits, the dates of issuing the permits and their numbers, the validity period of the permits, date and number of contract, the dates and numbers of contract amendments, the names of mines (sites), outline coordinates and total areas, names of minerals, primary components and their quantities, accompanying components and their quantities, annual mine productivity and notes on termination of rights are published on the MEINR website. All mining contracts with their annexes and amendments are also available on the MEINR website²³¹. The list of companies is provided in Annex 14:

²²⁸ The Code, reference 38, Article 33

²²⁹ See <http://www.minenergy.am/page/569>

²³⁰ *Ibid.*:

²³¹ See <http://www.minenergy.am/page/569>

3.3 Information on subsoil use contracts (requirement 2.4)

A. State policy on publication of contracts

Until April 7, 2018 subsoil use contracts were not publicly accessible. During 2017 the issue of public accessibility of contracts was discussed by the EITI multi-stakeholder group and relevant activities in the area of realization of necessary legislative amendments aimed at their publication were realized. In particular, during the session of the EITI multi-stakeholder group held on October 10, 2017 it was decided to study whether the *“information presented in [subsoil use] contracts contains commercial secrets”* and it was determined that in the absence of commercial secrets and legal obstacles *“the contracts may be disclosed”*²³². As a result of realized studies the conclusion was made on the fact that the subsoil use contracts did not contain commercial secrets²³³ and a package of respective legislative amendments was initiated.

During the session of the EITI multi-stakeholder group held on December 6, 2017 the package of already amended draft laws was presented, which was aimed at the publication of subsoil use contracts. The package of legislative amendments was approved by the multi-stakeholder group and adopted by general agreement (consensus)²³⁴.

As a result, after being circulated among interested State bodies and incorporation of certain amendments, on March 21, 2018 the Law No. HO-191-N “On Making Changes and Amendments to the Code on Subsoil” has been adopted by the National Assembly of the Republic of Armenia (entered into force on April 7, 2018), according to which Article 9 of the Code on Subsoil was reformulated, including in particular part 2 with the following wording:

“The authorized body shall also publish on its official website the subsoil use contracts concluded with subsoil users [mining companies] extracting minerals and the amendments thereto, excluding the publication of the information (data) specified as not being a subject to disclosure by the Law of the Republic of Armenia “On Freedom of Information””.

As a result of the above-mentioned legislative reform, all the subsoil use contracts (along with their amendments and appendices) concluded with the subsoil users extracting minerals are currently available on the website of the RA Ministry of Energy Infrastructures and Natural Resources through the following link: <http://www.minenergy.am/page/571>.

The table 3.3.1 below provides the list of companies having the right for implementation of geological activities for mineral extraction purposes and numbers and dates of contracts, as well as company registration number and TINs taken from the MEINR website:

²³² Minutes of the meeting of the EITI multi-stakeholder group (No. 6) held on October 10, 2017, page 6, available from https://www.eiti.am/file_manager/EITI%20Documents/Minutes/MSG_meeting_minute_10_10_%202017.pdf

²³³ The results of the study are reflected in the “Preliminary study for the 2018 EITI report of the RA” published on March 15, 2018, pages 35-38

²³⁴ Minutes (No.8) of the multi-stakeholder group session held on December 6, 2017, pages 6 and 7, available from https://www.eiti.am/file_manager/EITI%20Documents/Minutes/MSG_meeting_minute_12_06_%202017.pdf

Table 3.3.1: The numbers, conclusion dates of contracts signed with companies having the right for implementation of geological activities for mineral extraction purposes, company registration number and TINs

Mining company	Registration Number	TIN	Number and date of mining contract
"GEOREID" CJSC	264.120.08798	00258804	No. PV -066, 13.07.2012
"GEOMINING" LLC	271.110.119888	01253043	No. P-098, 30.08.2012
"G METALS INVESTMENT LIMITED" LLC	88.110.01068	09811529	No. PV-114, 20.10.2012
"ECUIVEST ALLIANCE FOUNDATON" LLC	264.110.847218	00140736	No. P-212, 03.08.2015
"RAM GROUP" LLC	273.110.856629	02637888	No. P-213, 22.07.2015
"SENTERRA MINING" CJSC	286.120.840310	02633612	No. P-224, 25.12.2015
"NARIPROF" LLC	271.110.58684	01250852	No. P-219, 02.04.16
"TATSTONE" LLC ²³⁵	264.110.06348	00079433	No. P-112, 12.10.2012
			No. P-225, 11.06.2016
"MINING CONSULTING" LLC	273.110.846143	02635264	No. P-228, 02.11.2016
"GHARAGULYANNER" CJSC	286.120.929505	02583292	No. P-229, 25.10.2016
"IRON MINING" LLC	286.110.929307	02653565	No. P-236, 25.03.2017
"PREMIUM MINING" LLC	273.110.925468	02652485	No. P-237, 25.02.2017
"ENERGO INVEST HOLDING" CJSC	85.120.879763	03021382	No. P-238, 13.03.2017
"MINE INVEST" LLC	264.110.922496	00156261	No. P-243, 23.05.2017
"GOLDEN LAND" LLC	273.110.912900	02649955	No. P-245, 17.07.2017
"METALS MINING GROUP" LLC	273.110.912899	02649947	No. P-246, 17.07.2017
"HARUST METAGH" LLC	278.110.927638	00470677	No. P-247, 20.10.2017
"COPPER PLUS" LLC	286.110.944106	02657454	No. P-251, 13.11.2017
			No. P-252, 13.11.2017
"GEVLER" LLC	72.110.955975	09425628	No. P-255, 14.12.2017
"POLIMETAL ARMENIA" LLC	264.110.849028	00141145	No. P-259, 31.01.2018
"NIG MINING" LLC	273.110.965994	02662823	No. P-263, 04.04.2018
"INTER MINING" LLC	282.110.997805	00908544	No. P-266, 28.03.2018
"CHUDO METAL" LLC	51.110.891426	04228339	No. P-269, 25.04.2018

²³⁵ The right was terminated as of November 20, 2018 based on the refusal of the mining company

The table 3.3.2 below provides the list of companies having the right for mineral extraction and numbers and dates of contracts, as well as company registration number and TINs taken from the MEINR website.

Table 3.3.2: The numbers, conclusion dates of contracts signed with companies having the right for mineral extraction, company registration number and TINs

Mining company	Registration number	TIN	Number and date of mining contract
“Meghradzor Gold” LLC	286.110.07682	02709666	No. PV-057, 2012 August 22
“Paramount Gold Mining” CJSC	286.120.58034	04219371	No.089, 2012 June 12
“Sagamar” CJSC	278.120.03167	00410036	No. PV-093, 2012 October 20
“Ler-Ex” LLC	27.110.00893	09412188	No. PV-094, 2012 August 16
“Akhtala Mining and Processing Enterprise” CJSC	96.120.00632	06602309	No. PV-103, 2012 October 20
“Fortune Resources” LLC	39.110.01312	02806526	No. PV-169, 2012 October 20
“Molibdeni Ashkharh” LLC	286.110.05872	02580107	No. PV-174, 2012 November 7
“Kapan Mining and Processing Company” CJSC	27.120.01216	09416902	No. PV-183, 2012 November 27
“Mego-Gold” LLC	77.110.00610	04213127	No. PV-184, 2012 December 28
“Geopromining Gold” LLC	273.110.02424	01530525	No. PV-189, 2012 October 20
“Vardani Zartonk” LLC	79.110.00234	09414399	No. PV-239, 2012 September 27
“Lydian Armenia” CJSC	264.120.07314	00091919	No. PV-245, 2012 September 26
“Lichkvaz” CJSC	286.120.07744	02710054	No. PV-293, 2012 November 22
“Agarak Copper Molybdenum Combine” CJSC	79.140.00036	09700039	No. PV-311, 2013 April 5
“Assat” LLC	77.110.00569	03807664	No. PV-366, 2013 June 6
“Vayk Gold” LLC	264.110.111245	00114369	No. P-371, 2012 November 30
“Teghout” CJSC	286.120.06078	02700773	No. PV-376, 2013 February 20
“Marjan Mining Company” LLC	273.110.05412	01569837	No. PV-398, 2013 March 7
“Tatstone” LLC	264.110.06348	00079433	No. P-458, 2013 February 11 No. P-459, 2013 February 11
“AT-Metals” LLC	271.110.738775	00118721	No. P-514, 2015 January 16
“Baktek Eco” LLC	282.110.06759	00870494	No. P-515, 2014 August 22
“Hrashk Metagh” LLC	51.110.844405	04226807	No. P-542, 2016 June 15
“Geghi Gold” LLC	72.110.121815	09423012	No. P-544, 2016 July 22
“Multi Group Concern” LLC	42.110.01460	03516447	No. PV-213, 2012 October 20
“Zangezur Copper-Molybdenum Combine” CJSC	27.140.00009	09400818	No. PV-232, 2012 November 27
“Aktiv Lernagorts” LLC	273.110.03365	01544838	No. PV-425, 2012 December 28
“Gharagulyanner” CJSC	286.120.929505	02583292	No. P-547, 2016 October 25

B. Social responsibilities stipulated in the contracts concluded with companies

The Code on Subsoil sets forth a number of social responsibilities for subsoil users. These are the social responsibilities envisaged by the mine-closure plan (workforce social mitigation plan) and responsibilities assumed in the area of social-economic development of the community.

(i) *Social responsibilities stipulated by the mine-closure plan (workforce social mitigation plan)*

Pursuant to the Code, the companies applying to the MEINR for the purpose of obtaining a right for mineral extraction shall, along with the application, submit also a mine-closure plan, which shall include, inter alia, a “workforce social mitigation plan” (Article 49, part 2, point 6, sub-point c)).

It is necessary to make several observations with regard to the foregoing obligation. First, although the Code stipulates that the workforce social mitigation plan is prepared “in the order prescribed by the legislation”, however in practice the RA legislation does not prescribe the procedure for implementation of workforce social mitigation plan, procedures for determining the scope of actions, as well as criteria for supervising the implementation and evaluating efficiency of such actions.

The workforce social mitigation plan is mentioned in the Code one more time, in Article 58, which regulates the renouncement procedure from the subsoil area deemed as an object of mineral extraction right.

According to the latter, the person having the right for mineral extraction wishing to refuse from the right of mineral extraction with respect to a subsoil plot or a part thereof, shall submit to the authorized body an application which shall contain, inter alia, a workforce social mitigation plan, including provisions on creation of workplaces, organization of professional education and training (Article 58, part 2, point 3, sub-point c)) to be carried out after mine closure. The provision in question, as follows from the foregoing, somewhat discloses the scope of the workforce social mitigation plan. From the perspective of legislative technics, however, there is a gap. It is peculiar that the Contract template mentions also the obligation to ensure “*the implementation of activities envisaged for the social-economic mitigation for communities located within the zone of immediate impact of the closing mine*” (clause 3.4.18). While the Code does not mention anything about this obligation, it becomes clear from the structure of the Annex 2 of the Contract template (“Obligations provided by the mine-closure plan”) that it is also considered as a social obligation inseparable from the mine-closure plan. Annex 2 stipulates also the scope of this obligation – “*participation in the social-economic development of the communities, support to the organization of small and medium businesses, etc.*”. Again, from the aspect of legal technics, the absence of provisions on the obligation in the Code is problematic.

Secondly, as already mentioned, problems arise in relation to subsoil use contracts which have been concluded not on the basis of the subsoil use permit issued as a result of applications submitted for the purpose of obtaining mineral extraction right, but as a result of reformulation of the licenses previously issued in the field of subsoil use. Given that the former Code on Subsoil valid during the period of 2002-2012 did not provide the legislative necessity of submitting a mine-closure plan, many of the reformulated

permits do not have mine-closure plans. Hence, workforce social mitigation plan is also unavailable (as well as the list of activities envisaged for the social-economic mitigation in the communities located within the immediate impact zone of the closing mine).

In this situation it is disputable whether obligations related to the mine-closure and workforce social mitigation is applicable for this group of contracts (reformulated contracts).

Ensuring the implementation of measures envisaged by the mine-closure plan, including workforce social mitigation after mine closure is mentioned in the Contract template under the obligations of the subsoil user (clause 3.4.17).

“The subsoil user shall [...] ensure the implementation of the activities envisaged by the mine-closure plan, including workforce social mitigation activities to be realized after the closure of the mine”.

The wording in question has been in place since the first edition of the Contract template and has actually been incorporated in all the subsoil use contracts for minerals extraction. It turns out that the contractual obligation exists, but its content is unclear (since it is not defined in the contract or its annexes).

The absence of the mine-closure plan is mitigated by point 1.3 of Annex 2 of the Contract template, which states:

“1. Obligations stipulated by the mine-closure plan

...

1.3. 2 years prior to the end of the mine exploitation works prepare the final mine-closure plan and submit it to the authorized body”.

Apart from having syntax deficiencies, this wording is problematic in the sense that pursuant to the Code, “the verification of preparation of the final mine-closure plan 2 years prior to the end of the mine exploitation works” is itself an integral part of the mine-closure plan²³⁶, and not a separately standing obligation. The same also follows from the Contract template: such obligation is not provided in the core text, and in Annex 2 it is mentioned as an obligation envisaged by the mine-closure plan.

Hence, in case of companies not submitted a mine-closure plan the issue of the obligations related to the workforce social mitigation plan remains open from the legal viewpoint.

(ii) Obligations assumed in the field of social-economic development of the community

Pursuant to the Code, the minerals extraction contract shall contain, inter alia, provisions on the scope and implementation schedule of the obligations assumed in the field of social-economic development of the community²³⁷. Besides, for the purpose of obtaining a mineral extraction right, the minerals extraction

²³⁶ Code, Article 49, part 2, point 6, sub-point e)

²³⁷ *Ibid*, Article 54, part 4, point 9

plan²³⁸ shall be enclosed to the application directed to the MEINR, which shall include, inter alia, a social impact assessment. The latter includes:

- ▶ Provisions on improvement of social conditions in case resettlement of the population is necessary,
- ▶ Provisions on improvement of the living standards of the population,
- ▶ Guarantees of participation in the procedure of social-economic development of the community.

Annex 3 of the Contract template sets forth the list of the obligations assumed in the field of social-economic development of the community²³⁹.

Again, similarly to the case of social measures envisaged by the mine-closure plan, no criteria on the formulation of the scope and content of the obligations in question are provided by the laws. The only functioning mechanism of enforcement of the obligations is actually the procedure of warning and termination of the right for subsoil use prescribed by Article 30 of the Code.

The social obligations set forth in the contracts with subsoil users (mining companies) are summarized in the table 3.3.3 below:

²³⁸ *Ibid*, Article 49, part 2, point 5

²³⁹ Available from <http://www.arlis.am/DocumentView.aspx?DocID=119993>

Table 3.3.3: Social obligations set forth in the contracts with subsoil users and the size of actual investment during 2016-2017

Subsoil user (mining company)	Number and date of subsoil use contract	Social obligations envisaged by the Contract	The amount of actual investment for 2016, according to the reports submitted by the companies, mln AMD	The amount of actual investment for 2017, according to the reports submitted by the companies, mln AMD
“Agarak Copper Molybdenum Combine” CJSC	No. PV-311, April 5, 2013	Social mitigation activities for the workforce are drafted ambiguously, as in the contract template. Obligation to annually invest 3 300 000 AMD in the social-economic development of the community, as well as annual financial assistance to the medical center in the size of 500 000 AMD and participation in the development programs of the city of Agarak in the size of 6 500 000 AMD.	6.5	6.5
“Akhkala Mining and Processing Enterprise” CJSC	No. PV-103, October 20, 2012	None	N/A ²⁴⁰	N/A
“Aktiv Lernagorts” LLC	No. PV-425, December 28, 2012	None	N/A	N/A
“Assat” LLC	No. PV-366, June 6, 2013	Social mitigation activities for the workforce are drafted ambiguously, as in the contract template. Obligation to annually invest 800 000 AMD in the social-economic development of the community, as well as participation in the restoration works of auto routes in the size of 200 000 AMD.	No data available	0
“AT Metals” LLC	No. PV-514, January 16, 2015	Social mitigation activities for the workforce are drafted ambiguously, as in the contract template. Obligation to annually invest 3 600 000 AMD in the social-economic development of the community.	0	0

²⁴⁰ “Not applicable” (N/A) is used in those cases when social mitigation activities stipulated by the contract are missing
 “No data available” is used in those cases when no information was provided by the company

Subsoil user (mining company)	Number and date of subsoil use contract	Social obligations envisaged by the Contract	The amount of actual investment for 2016, according to the reports submitted by the companies, mln AMD	The amount of actual investment for 2017, according to the reports submitted by the companies, mln AMD
“Baktek Eco” LLC	No. P-515, August 22, 2014	Social mitigation activities for the workforce are drafted ambiguously, as in the contract template. Obligation to annually invest 650 000 AMD in the social-economic development of the community.	No data available	0
“Geghi Gold” LLC	No. P-544, July 22, 2016	Social mitigation activities for the workforce are drafted ambiguously, as in the contract template. Obligation to annually invest 650 000 AMD in the social-economic development of the community.	0	0
“GeoProMining Gold” LLC	No. PV-189, October 20, 2012	Social mitigation activities for the workforce are drafted ambiguously, as in the contract template. Obligation to annually invest 12 000 000 AMD in the social-economic development of the community, as well as 1 200 000 AMD for the purposes of compensating tuition fees for 2-3 students from the affected communities.	0	0
“Zangezur Copper and Molybdenum Combine” CJSC	No. PV-232, November 27, 2012	None	N/A	N/A
“Tatstone” LLC	No. P-458, February 11, 2013	Social mitigation activities for the workforce are drafted ambiguously, as in the contract template. Obligation to annually invest 3 000 000 AMD in the social-economic development of the community.	0	3
“Tatstone” LLC	No. PV-459, February 11, 2013	Social mitigation activities for the workforce are drafted ambiguously, as in the contract template. Obligation to annually invest 2 030 000 AMD in the social-economic development of the community, as well as an obligation for realizing	0	2

Subsoil user (mining company)	Number and date of subsoil use contract	Social obligations envisaged by the Contract	The amount of actual investment for 2016, according to the reports submitted by the companies, mln AMD	The amount of actual investment for 2017, according to the reports submitted by the companies, mln AMD
		investment of 850 000 AMD, upon necessity, into the creation of social relief funds for the employees of the company.		
“Teghout” CJSC	No. PV-376, February 20, 2013	None	N/A	N/A
“Ler-Ex” LLC	No. PV-094, August 16, 2012	None	N/A	N/A
“Lydian Armenia” CJSC	No. PV-245, September 26, 2012	Social mitigation activities for the workforce are drafted ambiguously, as in the contract template. Obligation to annually invest 61 500 000 AMD in the social-economic development of the community.	7.3	0
“Lichqvaz” CJSC	No. PV-293, November 22, 2012	None	N/A	N/A
“Kapan Mining and Processing Company” CJSC	No. PV-183, November 27, 2012	None, however following the amendments made in the contract on August 25th, 2015, Annex 3 has been added, according to which the company undertook to perform a social impact assessment within a 6-month period.	0	0
“Hrashq Metagh” LLC	No. P-542, June 15, 2016	Social mitigation activities for the workforce are drafted ambiguously, as in the contract template. Obligation to annually invest 550 000 AMD in the social-economic development of the community.	No data available	No data available
“Gharagulyanner” CJSC	No. P-547, October 25, 2016	Social mitigation activities for the workforce are drafted ambiguously, as in the contract template. Obligation to annually invest 1 000 000 AMD in the social-economic development of the community and provision of 250 000 AMD as a semester tuition fee for one student.	0	1.3

Subsoil user (mining company)	Number and date of subsoil use contract	Social obligations envisaged by the Contract	The amount of actual investment for 2016, according to the reports submitted by the companies, mln AMD	The amount of actual investment for 2017, according to the reports submitted by the companies, mln AMD
“Marjan Mining Company” LLC	No. PV-398, March 7, 2013	None	N/A	N/A
“Mego Gold” LLC	No. PV-184, December 28, 2012	None	N/A	N/A
“Meghradzor Gold” LLC	No. PV-057, August 22, 2012	None	N/A	N/A
“Molibdeni Ashkharh” LLC	No. PV-174, November 7, 2012	Social mitigation activities for the workforce are drafted ambiguously, as in the contract template. Obligation to annually invest 12 80 ,000 AMD in the social-economic development of the community.	0	0
“Multi Group” Concern LLC	No. PV-213, October 20, 2012	None	N/A	N/A
“Paramount Gold Mining” CJSC	No.089, June 12, 2012	None	N/A	N/A
“Sagamar” CJSC	No. PV-093, October 20, 2012,	Social mitigation activities for the workforce are drafted ambiguously, as in the contract template. Obligation to annually invest 4 000 000 AMD in the social-economic development of the community, as well as participation in renovation works of reservoirs in the size of 1 000 000 AMD once every 3 years and in the size of 1 000 000 AMD once every 5 years for renovation of community’s pipelines.	0	0
“Yayq Gold” LLC	No. PV-371, November 30, 2012	Social mitigation activities for the workforce are drafted ambiguously, as in the contract template. Obligation to annually invest 3 000 000 AMD in the social-economic development of the community.	No data available	0

Subsoil user (mining company)	Number and date of subsoil use contract	Social obligations envisaged by the Contract	The amount of actual investment for 2016, according to the reports submitted by the companies, mln AMD	The amount of actual investment for 2017, according to the reports submitted by the companies, mln AMD
"Yardani Zartonk" LLC	No.PV-239, September 27, 2012	None	N/A	N/A
"Fortune Resources" LLC	No.PV-169, October 20, 2012	None	N/A	N/A

According to the data of EITI reports collected by the companies the charity allocations, grants or other contributions realized by the companies to community without the need for compensation are provided below:

Table 3.3.4: Charity allocations, grants or other contributions realized by the companies to community without the need for compensation in 2016-2017

	Mining Company	2016	Community	Type of grant	Good or service	2017	Community	Type of grant	Good or service
1.	“Agarak Copper Molybdenum Combine” CJSC	8,500,000	Meghri	financial	-	57,000,000	Meghri	financial	-
2.	“Agarak Copper Molybdenum Combine” CJSC	10,000,000	Meghri	financial	-	-	-	-	-
3.	“Akhtala Mining and Processing Enterprise” CJSC	2,205,607	Chochkan village	non-financial	Renovation of Chochkan village pipeline	500,000	Ayrum	financial	-
4.	“Akhtala Mining and Processing Enterprise” CJSC	659,955	Shamlukh	non-financial	Cleaning of Akhtala-Shamlukh inter-community road from snow	747,210	Shamlukh	non-financial	Road cleaning works
5.	“Aktiv Lernagorts” LLC	0	-	-	-	0	-	-	-
6.	“Assat” LLC	-	-	-	-	-	-	-	-
7.	“AT Metals” LLC	-	-	-	-	-	-	-	-
8.	“Baktek Eco” LLC	-	-	-	-	-	-	-	-
9.	“Geghi Gold” LLC	-	-	-	-	-	-	-	-
10.	“GeoProMining Gold” LLC	-	-	-	-	9,600,000	Geghamasar	financial	-
11.	“Zangezour Copper and Molybdenum Combine” CJSC	47,900,000	Kapan	financial	-	108,463,740	Qajaran	financial	-

	Mining Company	2016	Community	Type of grant	Good or service	2017	Community	Type of grant	Good or service
12.	“Zangezur Copper and Molybdenum Combine” CJSC	10,000,000	Qajaran	financial	-	24,000,000	Kapan	financial	
13.	“Zangezur Copper and Molybdenum Combine” CJSC	8,000,000	Meghri	financial	-	6,100,000	Meghri	financial	
14.	“Zangezur Copper and Molybdenum Combine” CJSC	7,457,000	Sisian	financial	-	800,000	Kapan	financial	
15.	“Zangezur Copper and Molybdenum Combine” CJSC	100,000,000	The Republic of Artsakh	financial	-	182,663,464	Qajaran	non-financial	Implementation of construction, improvement and similar activities in Qajaran community through contractors
16.	“Zangezur Copper and Molybdenum Combine” CJSC	11,181,041	Artsvanik	non-financial	Implementation of construction, improvement and similar activities in Artsvanik community through contractors	88,460,000	Qajaran	non-financial	Organization of cultural events in Qajaran community through contractors
17.	“Zangezur Copper and Molybdenum Combine” CJSC	4,200,000	Lernadzor	non-financial	Co-financing of other expenses in Lernadzor village	30,723,887	Qajaran	non-financial	Financing of healthcare sector in Qajaran community
18.	“Zangezur Copper and Molybdenum Combine” CJSC	7,500,000	Kapan	non-financial	Organization of cultural events in Kapan community	65,250,652	Meghri	non-financial	Implementation of construction, improvement and similar activities in Meghri community through contractors
19.	“Zangezur Copper and Molybdenum Combine” CJSC	24,000,000	Kapan	non-financial	Financing of healthcare sector in Kapan community	34,111,992	Meghri	non-financial	Financing of defense sector in Meghri community
20.	“Zangezur Copper and Molybdenum Combine” CJSC	105,371,487	Meghri	non-financial	Implementation of construction, improvement and similar activities in	43,023,711	Kapan	non-financial	Implementation of construction, improvement and similar activities in Kapan

	Mining Company	2016	Community	Type of grant	Good or service	2017	Community	Type of grant	Good or service
					Meghri community through contractors				community through contractors
21.	“Zangezur Copper and Molybdenum Combine” CJSC	5,221,714	Meghri	non-financial	Co-financing of other community expenses in Meghri community	32,782,871	Kapan	non-financial	Financing of healthcare sector in Kapan community
22.	“Zangezur Copper and Molybdenum Combine” CJSC	35,827,155	Syunik Marz	non-financial	Strengthening works of Syunik Marz RA MOD battle units	20,500,000	Kapan	non-financial	Organization of cultural events in Kapan community through contractors
23.	“Zangezur Copper and Molybdenum Combine” CJSC	9,111,886	Qajaran	non-financial	Financing of healthcare sector in Qajaran community	4,200,000	Lernadzor	non-financial	Co-financing of other community expenses in Lernadzor village
24.	“Zangezur Copper and Molybdenum Combine” CJSC	45,000,000	Qajaran	non-financial	Organization of cultural events in Qajaran community	2,900,000	Yerevan	non-financial	Financing of social-economical activities
25.	“Zangezur Copper and Molybdenum Combine” CJSC	2,233,812	Qajaran	non-financial	Implementation of construction, improvement and similar activities in Qajaran community through contractors	1,880,000	Goris	non-financial	Co-financing of construction of residential buildings for socially vulnerable families in Goris
26.	“Zangezur Copper and Molybdenum Combine” CJSC	35,880,000	Syunik Marz	non-financial	Assistance to Syunik Marz MOD divisions with diesel fuel and other material assets	1,442,424	Artsvanik	non-financial	Co-financing of Artsvanik house of culture capital renovation works
27.	“Zangezur Copper and Molybdenum Combine” CJSC	19,361,945	Kapan	non-financial	Provision of material assets to Kapan municipality without compensation (construction materials, assets, etc.)	277,440	Qajaran	non-financial	Provision of material assistance for compensation of other community expenses in Qajaran community
28.	“Zangezur Copper and Molybdenum Combine” CJSC	2,113,335	Syunik village administration	non-financial	Provision of fuel to Syunik village administration without compensation	7,000,000	Meghri	non-financial	Financing of healthcare sector in Meghri community

	Mining Company	2016	Community	Type of grant	Good or service	2017	Community	Type of grant	Good or service
29.	“Zangezur Copper and Molybdenum Combine” CJSC	360,000	Aghvan village administration	non-financial	Provision of fuel to Aghvan village administration without compensation	525,000	Lernadzor	non-financial	Co-financing of other community expenditures in Lernadzor village
30.	“Zangezur Copper and Molybdenum Combine” CJSC	206,668	Achanan village administration	non-financial	Provision of fuel to Achanan village administration without compensation	175,000	Sevakar	non-financial	Co-financing of other community expenditures in Sevakar village
31.	“Zangezur Copper and Molybdenum Combine” CJSC	697,503	Artsvanik	non-financial	Provision of fuel to Artsvanik village administration without compensation	2,875,000	The Republic of Artsakh	non-financial	Assistance to RA MES with computer equipment
32.	“Zangezur Copper and Molybdenum Combine” CJSC	3,916,255	Geghi	non-financial	Provision of fuel and construction materials to Geghi village administration without compensation	22,729,492	Syunik Marz	non-financial	Assistance to Syunik Marz MOD divisions with diesel fuel and other material assets
33.	“Zangezur Copper and Molybdenum Combine” CJSC	273,336	Lernadzor	non-financial	Provision of fuel to Lernadzor village administration without compensation	-	-	-	-
34.	“Zangezur Copper and Molybdenum Combine” CJSC	210,000	Lichq	non-financial	Provision of fuel to Lichk village administration without compensation	-	-	-	-
35.	“Zangezur Copper and Molybdenum Combine” CJSC	630,000	Khdrantsi village administration	non-financial	Provision of fuel to Khdrantsi village administration without compensation	-	-	-	-
36.	“Zangezur Copper and Molybdenum Combine” CJSC	136,668	Nor Astghaberd village administration	non-financial	Provision of fuel to Nor Astghaberd village administration without compensation	-	-	-	-

	Mining Company	2016	Community	Type of grant	Good or service	2017	Community	Type of grant	Good or service
37.	“Zangezur Copper and Molybdenum Combine” CJSC	630,000	Chapni village administration	non-financial	Provision of fuel to Chapni village administration without compensation	-	-	-	-
38.	“Zangezur Copper and Molybdenum Combine” CJSC	175,000	Sevakar village administration	non-financial	Provision of fuel to Sevakar village administration without compensation	-	-	-	-
39.	“Zangezur Copper and Molybdenum Combine” CJSC	468,623	Kajaran municipality	non-financial	Provision of fuel to Qajaran MC for organization of ambulance works	-	-	-	-
40.	“Tatstone” LLC	400,000	Meghri	non-financial	Working and beef cattle	842,590	Meghri	non-financial	Sweets for children
41.	“Tatstone” LLC	157,640	Meghri	non-financial	Sweets for children	-	-	-	-
42.	“Teghout” CJSC	2,000,000	Shnogh	financial	-	2,000,000	Shnogh	financial	-
43.	“Teghout” CJSC	1,000,000	Shnogh	financial	-	1,000,000	Shnogh	financial	-
44.	“Teghout” CJSC	6,214,464	Shnogh	non-financial	Road asphaltting	255,228	Shnogh	non-financial	Renovation of Shnogh water pipeline
45.	“Ler-Ex” LLC	-	-	-	-	-	-	-	-
46.	“Lydian Armenia” CJSC	7,000,000	Lori	non-financial	-	6,989,500	Artavan	non-financial	-
47.	“Lydian Armenia” CJSC	7,000,000	Shenatagh	non-financial	-	29,823,230	Vayk	non-financial	-
48.	“Lydian Armenia” CJSC	6,300,000	Vayk	non-financial	-	-	-	-	-
49.	“Lichqvaz” CJSC	10,083,333	Meghri	non-financial	Waste collection vehicle GAZ 330900-1357-02	27,244,781	Meghri	financial	-

	Mining Company	2016	Community	Type of grant	Good or service	2017	Community	Type of grant	Good or service
50.	“Kapan Mining and Processing Company” CJSC	4,430,000	Kapan town	financial	-	115,100,000	Kapan	financial	-
51.	“Kapan Mining and Processing Company” CJSC	8,621,750	Kapan town	financial	-	6,000,000	Kapan	financial	-
52.	“Kapan Mining and Processing Company” CJSC	640,000	Kapan town	financial	-	8,635,482	Geghanush	financial	-
53.	“Kapan Mining and Processing Company” CJSC	501,755	Kapan town	financial	-	-	-	-	-
54.	“Hrashk Metagh” LLC	-	-	-	-	-	-	-	-
55.	“Gharagulyanner” CJSC	0	-	-	-	0	-	-	-
56.	“Marjan Mining Company” LLC	-	-	-	-	-	-	-	-
57.	“Mego Gold” LLC	-	-	-	-	-	-	-	-
58.	“Meghradzor Gold” LLC	3,150,000	Meghradzor	financial	N/A	4,950,000	Meghradzor	financial	-
59.	“Molitbeni Ashkharh” LLC	-	-	-	-	399,990	Dastakert	non-financial	Participation in community development social-economical programs
60.	“Multi Group” Concern LLC	-	-	-	-	-	-	-	-
61.	“Paramount Gold Mining” CJSC	-	-	-	-	-	-	-	-
62.	“Sagamar” CJSC	-	-	-	-	-	-	-	-
63.	“Vayq Gold” LLC	-	-	-	-	-	-	-	-



	Mining Company	2016	Community	Type of grant	Good or service	2017	Community	Type of grant	Good or service
64.	"Vardani Zartonk" LLC	-	-	-	-	-	-	-	-
65.	"Fortune Resources" LLC	-	-	-	-	-	-	-	-

3.4 The policy of the government on the disclosure of beneficial owners

A. Legal regulations (policy) concerning the disclosure of beneficial owners

(i) *The legislative obligation of providing information on beneficial owners*

The RA legislative regulations on the disclosure of beneficial owners are incomplete and do not entirely meet the requirements set forth in point 2.5 of the EITI standard. The subject matter regulations are generic (they apply to all legal entities) and stem exclusively from the legal regulations on combating money laundering and terrorism financing.

Although the RA Code “On Subsoil” does stipulate a requirement of providing information about persons who have 10 or more percent of shares (stocks) in the applying legal entity when submitting an application for the purpose of acquiring a right for mineral extraction (Article 49, part 2, point 2), the subject-matter regulation can be directed to the disclosure of beneficial owners only in case when the person having 10 or more percent of shares (stocks) is a physical person. In cases when the participants of the applying legal entity are legal entities, the said requirement factually cannot result in the disclosure of information about beneficial owners.

Thus, Article 9 of the Law “On Combating Money Laundering and Terrorism Financing” No HO-80-N (adopted on May 26, 2008) (hereinafter CMLTF Law) stipulates the general regulation:

“In case of registering legal persons, making changes in the chartered capital (equity capital and the like) or in composition of the founders, participants, members, shareholders, stockholders of legal person, the founders (participants, members, shareholders, stockholders and the like) shall be obligated to file a declaration on the beneficial owners of the legal person to the state body performing registration of legal persons (state register) in the manner, and form and within the timeframes established by the Authorized Body [RA Central Bank]. Upon request, the state body performing registration of legal persons (state register) shall provide to the Authorized Body with a copy of the mentioned declaration”.

The subject-matter form, procedure and timeframes have been established by the Decision of the Board of the RA Central Bank No 20-N “On approving the sample of the declaration, the procedure and timeframes of filing a declaration on beneficial owners by legal entities to the authority performing state registration of legal entities” (hereinafter “the Form of declaration on beneficial owners” and “the Procedure for filing a declaration on beneficial owners”).

The Procedure for filing a declaration on beneficial owners incorporates the definition of the beneficial owner provided in the CMLTF Law (Article 3, part 1, point 14) and includes those physical persons who:

- ▶ actually act on behalf or for the benefit of the legal entity, or
- ▶ exercises factual (real) control over the legal person or transaction or business relationship, and/or on whose behalf the business relationship or transaction is being carried out, or

- ▶ owns 20 percent or more of the voting stocks (equities, shares) of the given legal person (with the exception of reporting issuers under the RA Law “On Securities Market”) with the right of voting; or by force of his/her participation in or under the agreement concluded with the legal person, has the ability to predetermine its decisions; or
- ▶ is a member of the management and/or governing body of the given legal person; or
- ▶ acts in agreement with the given legal person, based on common economic interests.

The information to be provided on the abovementioned persons includes the date of birth, place of residence, nationality, passport data (in case passport data is not available, the passport data of the person authorized to represent the legal entity are provided) (points 6 and 7).

The information is to be submitted to the State Register Agency of Legal Entities of the Ministry of Justice of the Republic of Armenia (hereinafter referred to as “the Register”), in the following cases:

- ▶ state registration of legal entities;
- ▶ amendment, addition to the charter of the legal entity, registration of the change of the head of the executive body;
- ▶ (in case of LLCs) registration of the change of participants.

It is noteworthy, that although under the Procedure for filing a declaration on beneficial owners, the information on beneficial owners should be submitted to the Register within two working days after filing an application for implementation of the abovementioned activities (point 3), in practice the sample form of the declaration is provided by the Register immediately at the moment of submitting of the application. Moreover, the Register rejects the registration even in cases when there is no mention of the authority of filing a declaration on beneficial owners in the power of attorney of the person performing the registration.

In practice, the subject-matter regulations are not applied effectively and are of formal nature, despite the fact that legislation also provides for responsibility. Although the CMLTF Law speaks of the declaration of “**beneficial owners of legal entities**” (our emphasis) in plural, and according to the Procedure of filing a declaration on beneficial owners by legal entities to the authority performing state registration of legal entities “*in the presence of two or more beneficial owners, the declaration shall comprise data of the respective number of beneficial owners, using the same form of declaration for each member, stating the consecutive number*” (point 10), in practice, however, this requirement is not applied.

Thus, according to point 4 of the aforesaid Procedure, physical persons falling under the abovementioned categories “**may be added in the declaration as beneficial owners**” (our emphasis). Basing on the aforesaid, factually information on only one beneficial owner is filed to the Register. Primarily, it is the head of the executive body, which intrinsically does not reflect the real picture about beneficial owners.

Under these conditions, the existing regulations cannot conform to the EITI requirements.

(ii) *Reasons of inefficiency of the legislative regulations*

Among the foremost reasons for inefficiency of the legislative regulations related to the provision of information on beneficial owners might be the absence of sanctions for the breach of a requirement.

Thus, although part 2 of Article 9 of the CMLTF Law does envisage that “*legal persons shall bear legally defined responsibility for the failure to submit the data on beneficial owners, for incorrect (including false or inaccurate) or incomplete submission of such data*”, article 30 of the same Law, however, which stipulates the concrete means of responsibility, does not address the breach of the requirement to submit information on beneficial owners, as well as for incorrect (including false or inaccurate) or incomplete data.

Another reason for inefficiency of the regulation might be lack of any verification of the provided information and non-implementation of its continuous supervision. Thus, according to the last sentence of part 1 of Article 9 of the CMLTF Law “*upon request, the state body performing registration of legal entities (state register) provides a copy of the declaration on [beneficial owners] to the Authorized Body*”. That is to say, the provided information per se is not subjected to any analysis by the Register, but is rather maintained for as long as required by the Central Bank upon necessity. Unlike the information on beneficial owners, the same CMLTF Law stipulates a group of legal entities of special category (financial institutions), the information submitted by which is subject for verification by the Central Bank. Information provided by other legal entities (including mining companies) is actually not not verified upon its provision.

B. Anticipated legislative reforms

The process of implementation of the requirements directed to the disclosure of beneficial owners and preparation of respective legislative amendments has undergone several stages. Initially, under the technical assistance provided by the European Bank for Reconstruction and Development to the Republic of Armenia and through cooperation with the RA EITI multi-stakeholder group, RA EITI National Secretariat, representatives of the authorized State bodies and other interested persons, the involved international and local consultants prepared “The Legislative Analysis on Disclosure of Beneficial Owners in Armenia”²⁴¹.

As a result of the analysis institutional recommendation were made, in particular application of multisectoral approach, according to which “*in relevant cases the data should be provided to MEINR (in compliance with subsoil use code amendments) and RA State Register and Central Depository. The Ethics Commission shall have the right for receiving information on persons having political impact*”.

The same consultants developed also “The Roadmap for Disclosure of Beneficial Owners of the Republic of Armenia”²⁴², which was approved by the MSG²⁴³.

²⁴¹ The analysis is available from

https://www.eiti.am/file_manager/EITI%20Documents/Beneficial%20Ownership/Legal%20Report%20EITI%20Armenia%20Final%20Report%20Arm%20EXE+.pdf

²⁴² The Roadmap is available from

https://www.eiti.am/file_manager/EITI%20Documents/Beneficial%20Ownership/BO%20Roadmap_ARM.pdf

²⁴³ MSG meeting protocol is available from

https://www.eiti.am/file_manager/EITI%20Documents/Minutes/MSG_meeting_minute_12_06_%202017.pdf

As a result an interdepartmental working group has been established by the decision of the RA Prime-Minister²⁴⁴ for the purpose of the implementation of the requirements directed to the disclosure of beneficial owners and preparation of respective legislative amendments (the term “beneficial ownership” is used in the draft). On July 31, 2018, during the working session of the EITI multi-stakeholder group, it was reported that together with the secretariat, the interdepartmental working group on the disclosure of beneficial ownerships had organized a number of working meetings, and had developed a package of draft laws on the disclosure of beneficial ownerships according to the schedule, which was already been approved by the RA Government and recognized as a priority subject for discussion in the National Assembly²⁴⁵. The package suggests that additions and amendments be made to the RA Code on Subsoil, and the RA Laws “On state registration of legal entities, separated divisions of legal entities, enterprises and individual entrepreneurs” and “On Public Service”.

Under the subject matter legislative amendments, the Register shall perform the registration of beneficial ownerships. The following definition of “beneficial ownership” shall be applied:

A beneficial owner means a physical person, who:

- a) alone or jointly with affiliated persons owns or controls at least 10% of participation in the chartered capital of the legal entity, including shares, stocks or voting rights in the legal entity, or the sum of 10% of participation in the chartered capital of the legal entities which are participants or shareholders of the given legal entity;
- b) has control of the legal entity through participation in the chartered capital by ownership of priority shares, preference shares and/or voting shares (stocks, hereinafter referred to as shares) providing a right for having more than one vote and other securities;
- c) receives at least 15% of the annual company profit;
- d) holds the right to appoint or dismiss individuals involved in the managing body of the company;
- e) without being involved in the managing bodies of the legal entity may influence management of the legal entity, exercise control over the management and operations of the company or has the capacity to predetermine decisions of the legal entity through other means, including trust management agreement, agreements on joint activity, option contract, contract for provision of converted liabilities of shares/stocks and others.

The draft also incorporates the concept of “the person with political impact”, which in case of owning or controlling the legal entity is considered a beneficial owner, irrespective of the level of control and share of ownership.

The scope of the person with political impact shall be identified according to the RA Law “On public service” with the scope of persons who have an obligation to file an interest statement, along with the scope of the latter’s family members.

²⁴⁴ RA Prime-Minister’s Decree No. 297-A (passed on March 27, 2018), available from <https://www.e-gov.am/decrees/item/18321/>

²⁴⁵ Available from <https://www.e-gov.am/sessions/archive/2018/10/10/>

The opportunity of future connection of the system through an electronic platform with the database of ethics – later corruption prevention committee of high-level officials, through which the committee will be able to verify the information. The scope of interrelated individuals has also been defined.

Under the package of draft laws, each year, until February 20 of the following year the mining company shall submit a declaration (declarations) on beneficial owners to the Register, validating the information provided in the declaration by a signature. For data verification purposes the legal entity shall also submit documents certifying the right of ownership in Armenian language, or certified and translated into Armenian.

In case of having an ownership right over a share of the chartered capital of the legal entity, the declarations shall be attached.

For the purpose of effective implementation of regulations on beneficial owners, it is suggested to incorporate in the RA Code on Subsoil a new concept of suspension of the right for subsoil use. The latter is applied as a sanction in cases when the legal entity does not submit a declaration on disclosure of beneficial owners in compliance with the established procedure and does not eliminate the reasons of warning. Overall the principle of warning, suspension, and consequent termination shall be applied as a sanction.

When submitting an application for implementation of geological studies for metal mineral extraction purposes the legal entity shall also disclose its beneficial owners. Moreover, for receiving a permit for implementation of geological studies of the soil, the declaration on beneficial owners will also be set as a mandatory requirement, the noncompliance to which shall be a ground for rejection. Thus, for the first time grounds for rejecting a permit will be stipulated by the legislation.

When submitting an application for refusing from all kinds of permits, the submission of a statement on declaration of beneficial owners will also be set as a requirement.

The data shall be public, with the exception of the data considered secret under the RA Law “On Personal Data Protection” and the RA legislation. The declarations shall be submitted until the end of 2019.

C. Shareholders and the shares of ownership of the mining companies

According to point (g) of EITI requirement 2.5 the EITI Report shall disclose the legal owners and share of ownership of the companies. In the table below, information on the shareholders of mining companies having an organizational-legal form of a limited liability company is extracted as a result of realization of paid inquiry regarding company shareholders from the electronic system of the State Register Agency of Legal Entities of the Ministry of Justice of the Republic of Armenia (extracted from www.e-register.am website).

Table 3.4.1: Information on the shareholders of mining companies having an organizational-legal form of a limited liability company

Mining Company	Shareholder	Share
«Meghradzor Gold» LLC	Vardan Volodya Margaryan	100%
«Ler-Ex» LLC	«Zangezur Copper-Molybdenum Combine» CJSC	100%
«Fortune Resources» LLC	Suren Vardan Ayvazyan	28%
	Caspian Bounty Steel Limited. ²⁴⁶	72%
«Molibdeni Ashkhar» Co. Ltd	Global Metals (ARM) Limited ²⁴⁷	100%
«Mego Gold» LLC	«GGCR» LLC ²⁴⁸	100%
«Geopromining Gold» LLC	«GPM Armenia BVI» LTD ²⁴⁹	100%
«Vardani Zartonq» LLC	Suren Vardan Ayvazyan	40%
	Hrachya Suren Hovhannisyan	40%
	Artashes Filiko Kakoyan	20%
«Assat» LLC	Aram Osikyan	100%
«Vayq Gold» LLC	Data is not available on www.e-regiser.am website	
«Marjan Mining Company» LLC	«Global Gold Mining» LLC ²⁵⁰	100%
«Tatstone» LLC	Aram Yurik Safaryan	50%
	Aurelio Investments Limited Company ²⁵¹	30%
	Metstream DMCC ²⁵²	20%
«AT Metals» LLC	«Airtechnology Group» LLC ²⁵³	25.1%
	Karen Hamlet Hovsepyan	19.8%
	Hamlet Balabek Hovsepyan	15%
	Vardan Hamlet Hovsepyan	15%
	«Airtechnology» CJSC ²⁵⁴	25.1%
«Baktek-Eco» LLC	Grigor Badiryan	100%
«Hrashq Metagh» LLC	Anna Aramays Sahakyan	100%
«Geghi Gold» LLC	Surik Sergey Khachatryan	100%
«Multi Group» Concern LLC	Gagik Kolya Tsarukyan	65.8%
	Samvel Styopa Tsarukyan	34.2%
«Aktiv Lernagorts» LLC	Vardan Margaryan	100%

²⁴⁶ The Company is registered in BVI.

²⁴⁷ The Company is registered in Cyprus.

²⁴⁸ The Company is registered in Delaware, USA.

²⁴⁹ The Company is registered in the Netherlands.

²⁵⁰ Information on the Company available on www.e-register.am website is inaccurate. Armenia, Wellington, DE 19808 is mentioned as its address.

²⁵¹ The Company is registered in UAE, Emirate of Dubai.

²⁵² The Company is registered in UAE, Emirate of Dubai.

²⁵³ The Company is registered in Russian Federation.

²⁵⁴ The Company is registered in Russian Federation.

Information on shareholders of companies having the organizational-legal form of closed-joint stock companies is not publicly available, since the registry of their shareholders is managed by specialized registrars. The Independent Administrator has sent inquiries to the companies with organizational-legal form of CJSC requesting information on their owners and the companies' consent to publish that information (despite the absence of a legal requirement). Only Teghout CJSC and Zangezur Copper Molybdenum Combine CJSC have responded to the inquiry, in particular the latter has stated, that the provision of information in the absence of a legal requirement is inexpedient. No response has been received from other companies. Therefore, the list of shareholders of “Paramount Gold Mining” CJSC, “Sagamar” CJSC, “Akhtala Mining and Processing Enterprise” CJSC, “Kapan Mining and Processing Company” CJSC, “Lydian Armenia” CJSC, “Lichqvaz” CJSC, “Agarak CMC” CJSC, “Teghout” CJSC, “Zangezur Mining and Processing Enterprise” CJSC and “Gharagulyan” CJSC is not presented. It is expected that the legislative requirement to publish the information on the shareholders will enter into force in 2020.

3.5 Audit and levelling procedures in the Republic of Armenia, the State budget (requirements 5.1 and 5.3)

Audit activities

The body realizing regulatory and supervisory policy in the area of audit activities carried out on the territory of the Republic of Armenia is the Republic of Armenia Ministry of Finance, as stipulated by the RA Law “On the Structure and Operations of the Government”.

Armenia has adopted the international accounting standards (hereafter “IFRS”), as well as the principles of development and implementation of financial statements published by the International Accounting Standards Board, including the guidelines on the use of the principles and other mandatory documents.

As per the Law of the Republic of Armenia “On Accounting”²⁵⁵ legal entities (including institutions established by them) that have undergone state registration in the Republic of Armenia as per the stipulated procedure, branches and representative offices of foreign companies shall prepare and present financial statements to their founders and shareholders, as well as to State bodies in the cases stipulated by the law, in accordance with the, in accordance with the international financial reporting standards, their guidelines and amendments.

According to Article 24 of the Law of the Republic of Armenia “On Accounting” (“Publicity of financial statements”), large companies (i.e. whose total balance of assets as of the end of the reporting year exceeds 1 billion AMD), shall publish annual reports. Companies, whose financial statements are subject to publication as per the law (except from banks and branches of foreign banks, which publish their financial reports based on the standards and within the terms stipulated by the RA Law on “Banks and banking operations”) shall publish the annual reports no later than July 1st following the reporting year, and shall publish the interim financial report no later than within 60 days period from the end of the interim period.

The financial statements can be published in the press or via internet or disseminated through booklets. Annual financial statements shall be published only after undergoing an audit, along with the audit opinion, with the exception of large organizations which can publish their financial reports without audit opinion. Annex 2 contains information about the mining companies who have passed an external audit. During the period of 2016-2017 only 7 out of the 27 metal mining companies undergone an audit (“Agarak Copper Molybdenum Combine” CJSC, “Geghi Gold” LLC, “Geopromining Gold” LLC, “Zangezur Copper-Molybdenum Combine” CJSC, “Teghout” CJSC, “Ler-Ex” LLC, “Lydian Armenia” CJSC). The links to the financial reports of these 7 companies is provided in Annex 2.

Implementation of audit activities in the Republic of Armenia is regulated by the Law of the Republic of Armenia “On Auditing” adopted on December 26, 2002. Audit shall include independent revision of information contained in the financial statements of the audited company, followed by presentation of an audit opinion. The purpose of conducting audit of financial reports is to give the auditor an opportunity

²⁵⁵ <https://www.arlis.am/DocumentView.aspx?docid=541>

to give an opinion on whether or not the financial statements have been, in all material aspects, prepared in accordance with the RA legislation.

As per Article 11 of the Republic of Armenia Law “On Auditing”²⁵⁶ (“Audit Standards”) while conducting the audit the auditors and auditing companies apply the appropriate standards of audit. The audit standards applicable in Armenia are based on “International Standards on Auditing and [International] Code of Ethics for Professional Accountants” published by the International Federation of Accountants.

As per Article 7 of the Law of the Republic of Armenia “On Auditing” (“Audit”), the audit can be performed upon the request of the party when such party wishes to undergo an audit (voluntary audit) or when it is envisaged by the law (mandatory audit).

Besides, according to Article 27 of the Law of the Republic of Armenia “On Funded Pensions”²⁵⁷, the audit of financial-economic activities of the pension fund and its manager is performed in compliance with the procedure prescribed by the Law of the Republic of Armenia “On investments funds”. The pension fund manager shall publish its financial statements and the audit opinion on the official website of Republic of Armenia public notifications (<http://www.azdarar.am/>), as well as place it on its own webpage.

According to Article 37 of the Law of the Republic of Armenia “On Insurance and Insurance Activities”²⁵⁸ the financial-economic activities of the company shall be subjected to an annual audited carried out by a person/entity conducting audit. Normative legal acts of the Central Bank can set out criteria towards persons/entities conducting the audit of the financial-economic activities of the companies, and compliance to these criteria serves as grounds for the person/entity conducting the audit to provide audit services to the company.

As per the existing legislation currently in force, there are no direct requirements to undergo an audit or to present any other reports for mining companies, apart from the general requirements presented above.

According to paragraph 3 of Article 5 of the Republic of Armenia Law “On Internal Audit”, the internal audit system within the ministries of the Republic of Armenia operates under the supervision of the minister, within other public administration bodies subordinated to the Government of the Republic of Armenia it operates under the supervision of the head of such bodies, in the communities - under the supervision of the head of the community, and in other state bodies established under the laws of the Republic of Armenia - under the supervision of the head of the given body.

The internal audit is carried out based on the strategy and annual action plans of the internal audit by providing assurance or consulting services to the management of the company.

²⁵⁶ <https://www.arlis.am/DocumentView.aspx?docID=69162>

²⁵⁷ <https://www.arlis.am/DocumentView.aspx?docid=64546>

²⁵⁸ <https://www.arlis.am/DocumentView.aspx?docid=66322>

Generally, the internal audit department of ministries:

- Assists the ministry, its separate and structural subdivisions, as well as subordinate organizations in being accountable to the whole public,
- Reduces the likelihood of fraud, waste and other cases of abuse,
- Audits all the functions related to the activities of the ministry, its separate and structural subdivisions, as well as subordinate organizations, including the systems of internal control,
- Performs the internal in accordance with the code of conduct of internal auditors and the following principles:
 - a. Independence,
 - b. Objectivity,
 - c. Competency,
 - d. Impartiality,
 - e. Confidentiality.

Information regarding all the activities of the organization, including confidential information, as per the procedure on accessibility of confidential information set forth in the RA legislation, as well as all the notes, including electronic ones, which are required for conducting the audit, shall be accessible to the head of the internal audit department and internal auditors.

At the same time, it shall be noted that as per Article 5 of the RA Law “On Audit Chamber” passed in 2018, the audit chamber is entitled to study the efficiency of internal audit systems in the bodies audited by it.

Under the Draft Laws of the Republic of Armenia “On Accounting”²⁵⁹, “On Auditing”²⁶⁰ and “On Accounting and Auditing Regulations and Public Review”²⁶¹ it is envisaged to clarify the scope of the companies subject to mandatory auditing by switching from the current formal legislative requirement to involvement of companies which have public demand of being subject to mandatory auditing.

According to the above mentioned projects, it is also expected to have changes in the list of companies subject to mandatory auditing from the mining industry. Based on the new standards set forth by the draft law for the companies subject for mandatory auditing, the new criteria were applied to identify companies subject to mandatory auditing based on the data from 2017 financial statements. Later, the list of the companies, which are likely to be subjected to mandatory auditing under the new law, but which were not subjected to it before, was separated. The criteria applied are presented in the table below.

²⁵⁹ <https://www.e-draft.am/projects/1069/about>

²⁶⁰ <https://www.e-draft.am/projects/1070/about>

²⁶¹ <https://www.e-draft.am/projects/1071/about>

Table 3.5.1: Criteria set forth for the companies subjected to mandatory audit in compliance with the draft law

Type	Criteria
Large organization	Exceeds at least 2 of the following. <ul style="list-style-type: none"> • Total balance amount: AMD 10 billion. • Revenue: AMD 20 billion. • Number of employees: 250
Medium organization	Is not a small or micro company and does not exceed at least 2 of the following. <ul style="list-style-type: none"> • Total balance amount: AMD 10 billion. • Revenue: AMD 20 billion. • Number of employees: 250
Small organization	Is not a micro organization and does not exceed at least 2 of the following. <ul style="list-style-type: none"> • Total balance amount: AMD 2 billion. • Revenue: AMD 4 billion. • Number of employees: 100
Micro organization	Does not exceed at least 2 of the following. <ul style="list-style-type: none"> • Total balance amount: AMD 175 mln. • Revenue: AMD 300 mln. • Number of employees: 10

The list of companies from the relevant industry subject to mandatory audit based on the changes in the legislation is presented below:

N	Company name	Annual turnover for 2017, in AMD, according to the EITI report of the company	Number of employees	Total assets	Company type based on size	Subject to mandatory auditing according to the draft law (without consideration of the asset size)	Audited in 2017	Can the amount of total assets lead to a mandatory auditing?
1	"Ler-Ex" LLC	-	47	No data available	Small	No	Yes	No
2	"Fortune Resources" LLC	-	1	No data available	Small	No	No	No
3	"Geghi Gold" LLC	-	30	No data available	Small	No	Yes	No
4	"Gharagulyanner" CJSC	-	1	No data available	Small	No	No	No
5	"Teghout" CJSC	73 949 928 272	1 199	123 632 204 000	Large	Yes	Yes	Yes
6	"Multi Group Concern" LLC	124 861 657	139	No data available	Small	No	No	Yes
7	"Geopromining Gold" LLC	70 774 618 617	1 187	No data available	Large	Yes	Yes	-
8	"Agarak Copper Molybdenum Combine" CJSC	15 047 601 174	979	26 885 333 000	Large	Yes	Yes	-
9	"Marjan Mining Company" LLC	-	14	No data available	Small	No	No	No
10	"Mego-Gold" LLC	-	38	No data available	Small	No	No	No
11	"Aktiv Lernagorts" LLC	-	1	No data available	Small	No	No	No
12	"AT-Metals" LLC	493 428 248	9	No data available	Small	No	No	No
13	"Paramount Gold Mining" CJSC	-	5	No data available	Small	No	No	No
14	"Zangezur Copper-Molybdenum Combine" CJSC	187 297 500 633	3 726	No data available	Large	Yes	Yes	-
15	"Yardani Zartonk"	-	1	No data available	Small	No	No	No
16	"Baktek Eco" LLC	-	2	No data available	Small	No	No	No
17	"Lydian Armenia" CJSC	-	222	200 910 697 900	Medium	Yes	Yes	-
18	"Assat" LLC	-	17	No data available	Small	No	No	No
19	"Molibdeni Ashkharh" LLC	-	4	No data available	Small	No	No	No
20	"Lichkvaz" CJSC	-	26	No data available	Small	No	No	No
21	"Sagamar" CJSC	-	58	No data available	Small	No	No	No
22	"Vayk Gold" LLC	6 675 000	1	No data available	Small	No	No	No
23	"Kapan Mining and Processing Company" CJSC	29 708 940 903	1 084	No data available	Large	Yes	No	-
24	"Tatstone" LLC	-	11	No data available	Small	No	No	No
25	"Akhtala Mining and Processing Enterprise" CJSC	8 740 582 998	387	No data available	Small	Yes	No	-
26	"Meghradzor Gold" LLC	1 271 607 401	179	No data available	Small	No	No	Yes
	Total	387 415 744 903	9 368					

State budget

Brief description of the budgetary system of the Republic of Armenia

According to the RA Law “On Budgetary System of the Republic of Armenia” adopted by the National Assembly in 1997²⁶² the budgetary system of the Republic of Armenia is the totality of two-level budgets: state budget and community budget. The budgetary system of the Republic of Armenia is based on the following principles: budget autonomy, completeness of inflows and outflows of the budget, publicity of the budgets, realistic nature of the budget, and other fundamental principles. Budgetary year of the Republic of Armenia starts each year on January 1st and ends on December 31st of the same year.

Implementation of budgets is a regulated process of formation of state and community budgets and execution of the expenses thereof by correspondingly state and community authorities. Implementation of budgets is performed based on unified cash basis accounting principle which provides that all budgetary inflows and outflows are performed via unified state treasury account of authorized body. The uniformity of budget inflows makes it impossible to determine the further distribution of incomes.²⁶³

The preparation of draft annual State budget is carried out by the Government based on the decision of the Prime Minister of the Republic of Armenia to commence the budgetary processes for the upcoming year and within the period prescribed by the Law. The process of drafting the State budget is composed of two stages:

a. Development of mid-term state expenditure program of the Republic of Armenia for the upcoming 3-year period for the purpose of establishing a proper programmatic basis for the development of the draft State budget for the upcoming year.

b. Development of the draft State budget for the upcoming year.

The draft State budget is presented to the National Assembly as per procedure prescribed by the Law where it is discussed and approved. In case of non-approval of the State budget prior to the start of budgetary year the expenditures are performed in compliance with proportions of the previous year’s budget.

Community budgets are developed upon presentation of the Head of Community based on the 3-year development program adopted by the Community Council. Draft Community budget is prepared by the Head of Community and presented for discussion to the Community Council. Community budget is approved by the Community Council. The Community Council may approve community budget even prior to the approval of the State budget. In case the community budget is not approved the Head of Community may raise the question of early termination of its powers via resignation. If the Community

²⁶² <https://www.arlis.am/documentview.aspx?DocID=121480>

²⁶³ The RA Law “On the Budgetary System of the Republic of Armenia” stipulates only the requirement that the expenditures provided through the state budget for environmental projects cannot be less, than the sum of environmental payments for second budgetary year preceding that year, and starting from 2020 – the sum of all actual inflows as to the environmental tax and nature use payments.

Council does not make a decision within 3-day period regarding the resignation of the Head of Community, the community budget is deemed to be approved.

State budget draft contains the budgetary message of the Government and the law on state budget. The budgetary message includes the report of the Government on main directions of social-economic development and tax and budgetary policies and the prediction on social-economic situation of the country for the upcoming 3-year period. The law on State budget includes the incomes and expenditures of the state budget, the deficit or surplus of the budget and sources of financing the deficit or directions of surplus use. The State budget envisages a Government reserve fund, which is the source of financing of expenditures for preserving the budgetary guarantees and of expenditures not envisaged in the State budget of the current year.

The structure of community budget includes administrative and fund parts of community budget. In addition, the community budget has a reserve fund, which can be used for financing unforeseeable expenditures of the current year's budget or for additional financing of envisaged expenditures. Besides the community budget, the financing of expenditures for performing the powers delegated by the State to the Local Self-Governance Bodies is performed through the State budget at the expense of allocations provided for that purpose.

The body responsible for implementation of the State budget is the Government. Within 40-day period after the end of each quarter the Government presents information on the process of State budget implementation to the National Assembly. The control over implementation of the State budget is carried out by the Government as per the procedure approved by itself. The oversight over the implementation of the State budget is carried out by the National Assembly. The Government provides an annual report on implementation of each year's State budget to the National Assembly before May 1 of the following year.

The person responsible for implementation of the community budget is the Head of Community, and the bodies carrying out its oversight are the Community Council, National Assembly and the Government within the scope of authorities provided to them by the Law. The Head of Community, on quarterly basis, before the 15th day of each month following the reporting quarter, informs the Community Council and the respective head of the region (Marzpet) on the process of the budget implementation.

For the purposes of ensuring the publicity of State and community budgets the Government and the heads of communities publish the State and community budgets on the official website of the Republic of Armenia on public notifications (<http://www.azdarar.am/>) within 3 and 5 days respectively after the approval of the budgets. Though the law of 1997 on "Budgetary System of the Republic of Armenia" stipulates that each person willing to familiarize with and analyze the draft budgets and annual reports shall have easy access to those documents ensured via internet and media, the law does not require that budgets be subject to public hearings for the purposes of collecting opinions and suggestions before their adoption.

Table 3.5.2: The size of summarized budgets of the Republic of Armenia for 2016-2018 as provided under the Law “On the State Budget of the Republic of Armenia for 2016-2018”²⁶⁴

Summarized budget of the Republic of Armenia	2016 (billion AMD)	2017 (billion AMD)	2018 billion AMD)
Income	1,223	1,244	1,343
Expenditures	1,416	1,394	1,501
Deficit	192	150	157

During the mentioned 3 years the State budget of the Republic of Armenia provided certain allocations to the mining (extraction) industry, which are summarized in the below table.

Table 3.3.3: Allocations made from the State budget to the mining (extraction) industry during 2016-2018

	Allocations made for extraction of mineral resources, except from natural fuel, thousand AMD	Allocations made for research and estimation activities in mining (extraction) industry, manufacturing industry and construction, thousand AMD
2016	20,602	42,400
2017	20,571	120,235
2018	16,926	36,295

According to reports on implementation of budgets, as well as the detailed budget plans, the allocations provided for extraction of mineral resources, except for natural fuel, were provided to the Ministry of Energy Infrastructures and Natural Resources of the Republic of Armenia for ensuring the provision of information on subsoil. In their turn the allocations for research and estimation activities of mining (extraction) industry, manufacturing industry and construction were provided to: (1) State Committee of Urban Development under the Government of the Republic of Armenia for development of normative and technical documents and conducting investigations on technical condition of buildings and their technical certification, and (2) Ministry of Finance of the Republic of Armenia for providing informative and methodological analytical services on reference prices for goods, works (services) required for public needs. As stated in the “Preliminary examination” (Section 6.9, page 46) an inquiry was sent to the State Property Management Department under the Government of the Republic of Armenia for the purposes of acquiring clarification on state participation in metal mining (extraction) industry. On November 22, 2017 head of State Property Management Department replied to our inquiry stating that there are no enterprises with state participation in the sphere of mining (extraction) industry in Armenia.

²⁶⁴<https://www.arlis.am/documentview.aspx?DocID=111471>
<https://www.arlis.am/documentview.aspx?DocID=119841>
<https://www.arlis.am/DocumentView.aspx?DocID=126060>

Financial levelling

Financial levelling in the Republic of Armenia is governed by the RA Law “On Financial Levelling” (hereinafter referred to as the “Law”) adopted on October 20, 2016.²⁶⁵

The law provides for certain expenditure factors, which are called to describe the particularities of the given community. Such factors include, particularly, the following:

- 1) scale factor;
- 2) transport accessibility factor;
- 3) factor of altitude of community;
- 4) factor of the number of settlements within the given community;
- 5) population age structure factor.

Thus, the *scale expenditure factor* reflects the impact of the number of population on the expenditures of the community for performance of own authorities. The below table presents how the value of the factor is calculated based on number of population:

Population size range	SF _i
0-3,500 inhabitants	1.0
3,501-5,000 inhabitants	2.8
5,001-20,000 inhabitants	2.0
20,001-150,000 inhabitants	1.5
150,001 and more inhabitants	1.0

Within the context of the above table the SF_i reflects the value of scale expenditure factor of the community.

The next is the *transport accessibility expenditure factor*, which determines the impact of community’s distance on the expenditures for performance of community’s own authorities. It shall be noted that the formula of this factor includes elements such as the distance between the capital city, region center, district center and the community, as well as the average distance of all communities from the capital city.²⁶⁶

The *expenditure factor of community altitude* shows the impact of the altitude on the community expenditures for performance of its own authorities. The latter is calculated based on the altitude of the community, as per the following table:

Range of altitude of community	AF _i
Up to 1700 m	1,0
1700-2000 m	1,1
2000 m and higher	1,25

²⁶⁵ <https://www.arlis.am/DocumentView.aspx?DocID=94584>

²⁶⁶ Formula and meaning can accessed from the following link: <https://www.arlis.am/documentview.aspx?docid=118597> (Article 12).

Within the context of the above table the AF_i reflects the value of expenditure factor of the community altitude.

The next is the *expenditure factor of the number of settlements in the community*, which determines the impact of the number of settlements within the community on the expenditures needed for performance of community's own authorities. The formula of this factor considers both the value of the expenditure factor of the number of settlements in the community, as well as the number of included settlements.²⁶⁷

The law also stipulates the procedure for calculation of *expenditure factor of the age structure of population*. The following elements are considered within the scope of this factor: number of inhabitants of the community, number of inhabitants of the community between the age 0–16, the sum of the numbers of inhabitants of all communities between the age 0-16, the sum of numbers of inhabitants of all communities at pension age (63 years and above), as well as the sum of the numbers of inhabitants of all communities (number of the population of the Republic of Armenia).²⁶⁸ At the same time, it shall be noted, that the law does not provide for any factor which is related to the exploitation of mines. 47,127,542 thousand AMD²⁶⁹ and 48,068,316 thousand AMD²⁷⁰ was paid under financial levelling in 2016 and 2017 respectively.

Public perception and dialogue

The following published normative acts and reports currently constitute efficient means for promoting public perception and public dialogue relating to questions on sustainability of incomes of metal mining (extraction) industry and its dependence from resources:

- ▶ The Law of the Republic of Armenia “On Budgetary System”²⁷¹ and the Law “On the State Budget of the Republic of Armenia”²⁷², the RA Law “On Financial Levelling”²⁷³ (presented in section 3.5), the RA Law “On Targeted Use of Environmental Payments Made by Companies”²⁷⁴ (presented in section 2.3.3), mid-term expenditures project and quarterly and yearly reports on EITI implementation works of RA.²⁷⁵

²⁶⁷ Same, article 14:

²⁶⁸ Same, article 15:

²⁶⁹ http://www.minfin.am/hy/page/_petakan_byujei_hashvetvutyun_2016_t_tarekan

²⁷⁰ http://www.minfin.am/hy/page/petakan_byujei_hashvetvutyun_2017_t_tarekan

²⁷¹ <https://www.arlis.am/DocumentView.aspx?docID=75497>

²⁷² <https://www.arlis.am/DocumentView.aspx?DocID=118144>

²⁷³ <https://www.arlis.am/DocumentView.aspx?DocID=94584>

²⁷⁴ <https://www.arlis.am/DocumentView.aspx?DocID=122784>

²⁷⁵ <https://www.eiti.am/hy/%D4%B5%D5%BC%D5%A1%D5%B4%D5%BD%D5%B5%D5%A1%D5%AF%D5%A1%D5%B5%D5%AB%D5%B6-%D5%BF%D5%A1%D6%80%D5%A5%D5%AF%D5%A1%D5%B6-%D5%B0%D5%A1%D5%B7%D5%BE%D5%A5%D5%BF%D5%BE%D5%B8%D6%82%D5%A9%D5%B5%D5%B8%D6%82%D5%B6%D5%B6%D5%A5%D6%80>



4 RECONCILIATION PROCESS

4. RECONCILIATION PROCESS

4.1 Reconciliation methodology and scope

Publication of information on company payments and government revenues can contribute to informed public discussions on governance of extractive industries. Based on EITI standard Requirement 4: “Revenue collection”, it is required to realize comprehensive reconciliation of company’s payments and the revenues received by the Government and Local Self-Governance bodies from extractive industries. For that purpose, the RA State Revenue Committee, RA Ministry of Territorial Administration and Development, RA Ministry of Nature Protection and extractive companies selected by the RA EITI MSG are required to comprehensively disclose information on revenues and payments, by filling in reports defined by the RA Government Decree N 666-N dated 8 June 2018. The Independent Administrator makes reconciliation of information on revenues and payments collected from state authorities and the companies and presents the reconciliation together with discovered discrepancies in the EITI report.

4.1.1. Determination of the list of companies to be reconciled within EITI Report

The list of reporting companies for EITI report is determined by the EITI MSG. The protocol N9²⁷⁶ from the RA EITI MSG meeting held on March 27, 2018 states that it was unanimously agreed that all companies having metal mineral extraction permits should submit reports to be included in the EITI report. As a result of performed analysis it was determined that when applying the threshold equivalent or exceeding AMD 150 million to taxes and payments (excluding the customs duties and fees) the list of companies to be reconciled will also include the companies which run intensive activity and the taxes and payments made by which are material. According to the RA Government Decree N 666-N dated 8 June 2018 bankrupt companies are exempt from reporting obligations. The list of reporting companies has been clarified in the EITI Scoping Study, according to which 27 companies are included in the list. Companies with taxes and payments (excluding customs duties and fees) equivalent to or exceeding 150 million AMD during the reporting fiscal year paid to the RA State Budget are considered as companies to be reconciled.

The tables below illustrate application of materiality threshold in relation to 27 companies for 2016 and 2017 based on figures reported by the RA State Revenue Committee. For informative purpose, the first column of the tables provides the information on RA State Budget revenue streams according to the data provided by the companies.

²⁷⁶ Protocol (No. 9) from the meeting of EITI MSG held on March 27, 2018, available (page 4) from https://www.eiti.am/file_manager/EITI%20Documents/Minutes/MSG_meeting_minute_27_03_%202018.pdf

Table 4.1.1 - Application of materiality threshold with regard to the 27 companies for 2016

N	Company name	Total revenue streams to State Budget for 2016, AMD thousand - based on information from companies	Total revenue streams to State Budget for 2016, AMD thousand - based on information from the RA SRC	Share of the company in total revenue streams ²⁷⁷ , %	Exceeding materiality threshold
1	“Zangezur Copper-Molybdenum Combine” CJSC	19,274,346	19,245,539	39.09%	Exceeding
2	“Geopromining Gold” LLC	11,532,125	11,534,493	23.43%	Exceeding
3	“Teghout” CJSC	9,009,369	8,948,555	18.18%	Exceeding
4	“Kapan Mining and Processing Company” CJSC	3,681,859	3,775,576	7.67%	Exceeding
5	“Agarak Copper Molybdenum Combine” CJSC	2,741,496	2,957,245	6.01%	Exceeding
6	“Lydian Armenia” CJSC	1,133,214	1,129,452	2.29%	Exceeding
7	“Akhtala Mining and Processing Enterprise” CJSC	694,872	695,411	1.41%	Exceeding
8	“Meghradzor Gold” LLC	392,173	391,386	0.80%	Exceeding
9	“Ler-Ex” LLC	160,598	160,598	0.33%	Exceeding
	Total revenue streams from material companies	48,620,052	48,838,257	99.20%	
10	“Sagamar” CJSC	136,296	137,083	0.28%	
11	“Mego-Gold” LLC	29,704	54,683	0.11%	
12	“Lichkvaz” CJSC	34,240	35,821	0.07%	
13	“AT-Metals” LLC	23,626	35,165	0.07%	
14	“Tatstone” LLC	27,575	27,576	0.06%	
15	“Geghi Gold” LLC	21,757	24,069	0.05%	
16	“Marjan Mining Company” LLC	8,872	23,178	0.05%	
17	“Molibdeni Ashkharh” LLC	14,328	14,590	0.03%	
18	“Vardani Zartonk” LLC	12,327	13,846	0.03%	
19	“Aktiv Lernagorts” LLC	10,293	10,301	0.02%	
20	“Gharagulyanner” CJSC	10,013	10,013	0.02%	
21	“Fortune Resources” LLC	5,127	5,125	0.01%	
22	“Paramount Gold Mining” CJSC	18,978	0	0.00%	
23	“Assat” LLC	The company did not want to participate			
24	“Baktek Eco” LLC	The company did not want to participate			
25	“Vayk Gold” LLC	The company did not want to participate			
26	“Multi Group Concern” LLC	The company did not want to participate			
27	“Hrashk Metagh” LLC	The company did not want to participate			
	Total revenue streams from non-material companies	353,136	391,450	0.82%	
	Total revenue streams from all companies	48,973,189	49,229,707	100.00%	

Based on applied materiality threshold the taxes and payments (excluding custom duties and fees) paid by 11 companies in 2017 (hereinafter referred to as "reconciled companies") were identified that had

²⁷⁷Is calculated based on data from the RA State Revenue Committee

taxes and payments (excluded custom duties and fees) exceeding AMD 150 million. Based on data received from the RA SRC the share of taxes and payments (excluded custom duties and fees) made by these 9 companies comprised 99.18% (or AMD 48,838,257 thousand)²⁷⁸ of all taxes and payments (excluded custom duties and fees) made by reporting companies of extractive industries to the RA State Budget in 2016 (AMD 49,229,707 thousand).

According to the information provided by State bodies in 2016 revenue streams from these companies to the RA State and community budgets comprised AMD 51,372,195 thousand (all types of payments), from which AMD 50,037,989 thousand was collected from payments exceeding the materiality threshold. The share of revenues received from the reconciled companies in the total revenue from all the reporting mining companies for all types of payments in 2016 amounted to 99.14%.

Thus, based on the results of assessment of materiality of revenues in accordance with the requirements of the EITI Standard, the scope of reconciliation within the EITI Report for 2016 included the revenues of the State budget from 9 material companies by 6 types²⁷⁹ of material payments in the amount of AMD 50,037,989 thousand. That comprises 96.59% of total revenue streams received from all reporting companies of the mining industry (See **Table 4.3**).

Table 4.1.2: Application of materiality threshold in relation to 27 companies for 2017

N	Company name	Total revenue streams to State Budget for 2017, AMD thousand - based on information from companies	Total revenue streams to State Budget for 2017, AMD thousand - based on information from the RA SRC	Share of the company in total revenue streams ²⁸⁰ , %	Exceeding materiality threshold
1	"Zangezur Copper-Molybdenum Combine" CJSC	32,205,703	32,267,617	38.30%	Exceeding
2	"Geopromining Gold" LLC	13,833,672	13,842,325	16.43%	Exceeding
3	"Teghout" CJSC	13,170,713	13,830,753	16.42%	Exceeding
4	"Lydian Armenia" CJSC	10,490,685	10,490,781	12.45%	Exceeding
5	"Kapan Mining and Processing Company" CJSC	8,536,358	8,422,965	10.00%	Exceeding
6	"Agarak Copper Molybdenum Combine" CJSC	2,397,914	2,547,808	3.02%	Exceeding
7	"Akhtala Mining and Processing Enterprise" CJSC	916,994	917,009	1.09%	Exceeding
8	"Sagamar" CJSC	830,086	830,077	0.99%	Exceeding
9	"Meghradzor Gold" LLC	260,287	260,033	0.31%	Exceeding
10	"Ler-Ex" LLC	257,580	257,576	0.31%	Exceeding
11	"Multi Group Concern" LLC	159,229	158,329	0.19%	Exceeding
	Total revenue streams from material companies	83,059,220	83,825,273	99.50%	

²⁷⁸ The analysis was implemented on basis of the data of 22 companies that presented reports in scope of EITI, since only 22 of 27 extracting companies wished to participate. The numbers for 2016 mentioned above would have been a bit different, if the calculations were done on the basis of data of all 27 companies.

²⁷⁹ The process of defining the materiality is presented in details in the section 4.1.2.

²⁸⁰ Is calculated based on data from the RA State Revenue Committee

12	“AT-Metals” LLC	120,253	127,926	0.15%	
13	“Tatstone” LLC	64,913	64,915	0.08%	
14	“Lichkvaz” CJSC	52,647	53,087	0.06%	
15	“Mego-Gold” LLC	29,922	39,922	0.05%	
16	“Marjan Mining Company” LLC	9,359	23,974	0.03%	
17	“Geghi Gold” LLC	(135,261)	21,293	0.03%	
18	“Assat” LLC	0	21,113	0.03%	
19	“Molibdeni Ashkharh” LLC	14,201	14,299	0.02%	
20	“Vayk Gold” LLC	11,815	11,813	0.01%	
21	“Aktiv Lernagorts” LLC	10,293	10,519	0.01%	
22	“Baktek Eco” LLC	274	10,442	0.01%	
23	“Gharagulyanner” CJSC	10,006	10,006	0.01%	
24	“Fortune Resources” LLC	6,088	6,088	0.01%	
25	“Vardani Zartonk” LLC	14,089	2,548	0.00%	
26	“Paramount Gold Mining” CJSC	31,574	0	0.00%	
27	“Hrashk Metagh” LLC	The company has not submitted the report.	0	0.00%	
	Total revenue streams from non-material companies	240,173	417,944	0.50%	
	Total revenue streams from all companies	83,299,393	84,243,217	100.00%	

Based on applied materiality threshold the taxes and payments (excluding custom duties and fees) paid by 11 companies in 2017 (hereinafter referred to as "reconciled companies") exceeding AMD 150 million. Based on data received from the RA SRC the share of taxes and payments (excluding custom duties and fees) paid by these 11 companies comprised 99.50% (or AMD 83,825,273 thousand) of all taxes and payments (excluded custom duties and fees) made to the RA State Budget in 2017 (AMD 84,243,217 thousand).

According to the data provided by the State bodies in 2017 revenue streams from these 11 companies to the RA State and community budgets comprised AMD 87,509,493 thousand (all types of payments), from which AMD 85,708,762 thousand was collected from payments exceeding the materiality threshold. The share of revenues received from the reconciled companies in the total revenue from all the reporting mining companies (AMD 88,006,957 thousand) for all types of payments in 2017 amounted to 99.43%.

Thus, based on the results of assessment of materiality of revenues in accordance with the requirements of the EITI Standard, the scope of reconciliation within the EITI Report for 2017 included the revenues to the state from 11 material companies by 8 types of material payments in the amount of AMD 85,708,762 thousand, which comprised is 97.39% of total revenue streams from all reporting companies of the mining industry (See Table 4.3).

4.1.2. Determination of revenue streams under reconciliation within the EITI Report

According to point 4.1 of EITI standard Requirement 4 “Comprehensive disclosure of taxes and revenues”, MSG is required to define which payments and revenues are considered to be material, and which are appropriate materiality definitions and thresholds. The same point explains that the payments and revenues are considered material if their omission or misstatement could significantly affect the comprehensiveness of the EITI Report. In order to meet the above mentioned requirement, before the start of the reporting process, EITI MSG has clarified the threshold of materiality to allow each revenue stream to be described with relevant definitions and thresholds. According to the protocol N9 from the RA EITI MSG meeting held on March 27, 2018 the revenue streams from extractive industries, the share of which in the total revenue streams from extractive industries is 1% or above, are considered to be material and should be reconciled in EITI report. The decision was based on the Scoping Study realized for RA EITI MSG by AUA Center for Responsible Mining. According to the latter, the threshold was suggested by BDO auditing company, based on business experience, as there is no accounting standard or criteria for it.

The list of material revenue streams addressed during the reconciliation process was developed based on the information on the revenues paid to the RA State and community budgets provided by the State bodies (the RA State Revenue Committee, RA Ministry of Territorial Administration and Development, RA Ministry of Nature Protection) (Table 4.2.1 and Table 4.2.2). Table 4.2.1 and Table 4.2.2 present the information on revenue streams provided by the mining companies, according to the list of reporting companies determined by the EITI MSG.

Table 4.2.1: Revenue streams of the State and community budgets from reporting mining companies for 2016 (based on information received from State bodies)

Budget classification code	Title in the budget classification	Revenue streams for 2016		Government authority body
		Thousand AMD	%	
1146 - 714612	Royalty	23,570,665	45.50%	RA State Revenue Committee
1111 - 711100	Income tax	11,798,021	22.77%	RA State Revenue Committee
1141 - 714110	Value added tax	8,820,267	17.03%	RA State Revenue Committee
1112 - 711200	Profit tax	4,223,832	8.15%	RA State Revenue Committee
1151 - 715100, 1422 - 742212, 1145 - 714511	Custom duties and fees	1,079,811	2.08%	RA State Revenue Committee
1415 - 741520	Rent payments	790,951	1.53%	RA Ministry of Territorial Administration and Development
Total material streams		50,283,547	97.06%	
1431 - 743110	Penalties	293,544	0.57%	RA State Revenue Committee
N/A	Land disposal	266,471	0.52%	RA Ministry of Territorial Administration and Development
N/A	Replenishment of environmental protection fund	260,866	0.50%	RA Ministry of Nature Protection
1145 - 714522, 1145 - 714522	Duties	210,090	0.41%	RA State Revenue Committee
1142 - 714200	Excise tax	116,775	0.23%	RA State Revenue Committee

1431 - 743110	Fines	115,557	0.22%	RA State Revenue Committee
N/A	Social - economic contribution	83,650	0.16%	RA Ministry of Territorial Administration and Development
1146 - 714612, 1145 - 714523	Nature Use and Nature Protection payments	70,665	0.14%	RA State Revenue Committee
1131 - 713121, 1136 - 713611	Property tax	44,974	0.09%	RA Ministry of Territorial Administration and Development
N/A	Monitoring implementation fee	27,592	0.05%	RA Ministry of Nature Protection
1131 - 713122	Land Tax	16,499	0.03%	RA Ministry of Territorial Administration and Development
1145 - 714523	Environmental fees for goods imported from non EEU member states	10,292	0.02%	RA State Revenue Committee
1145 - 714523	Environmental fees for goods imported from EEU member states	2,767	0.01%	RA State Revenue Committee
N/A	Environmental impact assessment and expertise fee	2,000	0.00%	RA Ministry of Nature Protection
1431 - 743120, 1161 - 716122	Fines to community budgets	41	0.00%	RA Ministry of Territorial Administration and Development
1431 - 743120, 1161 - 716122	Penalties to community budgets	15	0.00%	RA Ministry of Territorial Administration and Development
Total other types of streams (immaterial)		1,521,798	2.94%	
Total all types of streams		51,805,345	100.00%	

Table 4.2.2: Revenue streams of the State and community budgets from reporting mining companies for 2017 (based on information received from State bodies)

Budget classification code	Title in the budget classification	Revenue streams for 2016		State Body
		Thousand AMD	%	
1146 - 714612	Royalty	37,575,080	42.70%	RA State Revenue Committee
1141 - 714110	Value added tax	16,984,582	19.30%	RA State Revenue Committee
1111 - 711100	Income tax	14,348,957	16.30%	RA State Revenue Committee
1112 - 711200	Profit tax	11,810,718	13.42%	RA State Revenue Committee
1151 - 715100, 1422 - 742212, 1145 - 714511	Custom duties and fees	2,035,798	2.31%	RA State Revenue Committee
1431 - 743110	Penalties	1,308,783	1.49%	RA State Revenue Committee
1431 - 743110	Fines	1,089,813	1.24%	RA State Revenue Committee
1415 - 741520	Rent payments	865,737	0.98%	RA Ministry of Territorial Administration and Development
Total material streams		86,019,468	97.74%	
1146 - 714612, 1145 - 714523	Nature use payments and Nature protection taxes	794,289	0.90%	RA State Revenue Committee

N/A	Replenishment of environmental protection fund	368,484	0.42%	RA Ministry of Nature Protection
N/A	Social - economic contribution	352,139	0.40%	RA Ministry of Nature Protection
1145 - 714522, 1145 - 714522	Duties	240,100	0.27%	RA State Revenue Committee
1142 - 714200	Excise tax	64,734	0.07%	RA State Revenue Committee
1131 - 713121, 1136 - 713611	Property tax	59,060	0.07%	RA Ministry of Territorial Administration and Development
N/A	Monitoring implementation fee	34,413	0.04%	RA Ministry of Nature Protection
1131 - 713122	Land tax	23,753	0.03%	RA Ministry of Territorial Administration and Development
N/A	Land alienation	23,342	0.03%	RA Ministry of Territorial Administration and Development
1145 - 714523	Environmental fees for goods imported from non EEU member states	20,912	0.02%	RA State Revenue Committee
1145 - 714523	Environmental fees for goods imported from EEU member states	5,249	0.01%	RA State Revenue Committee
N/A	Environmental impact assessment and expertise fee	1,000	0.00%	RA Ministry of Nature Protection
1431 - 73120, 1161 - 716122	Penalties to community budgets	13	0.00%	RA Ministry of Territorial Administration and Development
Total other types of streams (immaterial)		1,987,489	2.26%	
Total all types of streams		88,006,957	100.00%	

Taking into account the requirements of the EITI Standard, including Guidance note No. 13 (on defining materiality threshold, reporting threshold and reporting companies), protocol N9²⁸¹ of the RA EITI MSG meeting held on March 27, 2018, based on the analysis of information on revenues by types of payments, a list of significant revenue streams (comprising 1% or above in the total revenue streams) was determined for the relevant companies to be included in the scope of the reconciliation within EITI report of the Republic of Armenia for 2016 and 2017:

N	2016	2017
1	Royalty	Royalty
2	Value added tax	Value added tax
3	Income tax	Income tax
4	Profit tax	Profit tax
5	Custom duties and fees	Custom duties and fees
6	Rent payments	Rent payments
7	-	Penalties
8	-	Fines

²⁸¹ Protocol (No. 9) from the meeting of EITI multi-stakeholder group held on March 27, 2018, available (page 4) from https://www.eiti.am/file_manager/EITI%20Documents/Minutes/MSG_meeting_minute_27_03_%202018.pdf

Thus, the total amount of revenues from the extractive companies by material types of payments in 2016 was AMD 50,283,547 thousand or 97.06% of the total payments received from mining companies. Meanwhile, the total amount of revenues from the extractive companies by material types of payments was AMD 86,024,901 thousand or 97.74% of the total payments received from mining companies in 2017.

Table 4.3: Revenues from the reconciled companies to the RA State and community budgets in 2016 and 2017, by material types of payments (based on information received from State bodies)

Budget classification code	Title in the budget classification	Revenue streams from reconciled companies for 2016		Revenue streams from reconciled companies for 2017	
		AMD thousand	%	AMD thousand	%
1146 - 714612	Royalty	23,570,665	47.11%	37,574,813	43.84%
1141 - 714110	Value added tax	8,811,544	17.61%	16,838,897	19.65%
1111 - 711100	Income tax	11,576,044	23.13%	14,225,225	16.60%
1112 - 711200	Profit tax	4,215,831	8.43%	11,807,947	13.78%
1151 - 715100, 1422 - 742212, 1145 - 714511	Custom duties and fees	1,079,729	2.16%	2,035,678	2.37%
1415 - 741520	Rent payments	784,176	1.57%	843,020	0.98%
1431 - 743110	Penalties	n/a	n/a	1,293,852	1.51%
1431 - 743110	Fines	n/a	n/a	1,089,331	1.27%
Total material payments		50,037,989	100.00%	85,708,762	100.00%

4.1.3. Other non-tax payments

In the course of preparation of the RA EITI Report only one non-tax payment type exceeding the materiality threshold was identified, which were Rent payments. Information about three types of Rent payments (Property, Vehicle and Land) was gathered from reporting companies. According to the data obtained from the RA Ministry of Territorial Administration and Development, in 2016 the total rent payments to community budgets of 22 reporting companies amounted to AMD 790,951 thousand, of which 99.14% or AMD 784,176 thousand was the share of the reconciled companies. In 2017 the total rent payments to community budgets paid by the reporting companies amounted to AMD 865,737 thousand, of which 97.38% or AMD 843,020 thousand was the share of reconciled companies.

4.1.4. Data collection

The development of EITI official website is carried out by “Helix Consulting” LLP in cooperation with UN Development Program office in Armenia. “Helix Consulting” LLP has developed an online reporting platform available from the reports.eiti.am/hy website for the purpose of gathering the information from companies and State bodies.

The point 7.1 “The public debate” of EITI Standard 7 requires MSG to provide the comprehensiveness of EITI report, promote its publicity, information accessibility for the general public and contribute to public dialogue. EITI data availability and ensuring the implementation and improving of reconciliation are vital for implementation of this requirement. The key benefit of application of online reporting system is expected to be an increased information accessibility for the general public which, in its turn, should improve the transparency of IETI reporting.

In context of EITI the information is considered to be public, which can be freely used, reused and distributed by everyone retaining the copyright. In accordance with the principle of public information ensuring the accessibility of EITI information can inform individuals, civil society, media, entrepreneurs and science-educational institutions about extracting industry and form a platform of informed debate.

According to public information policy of the RA EITI (December, 2017) the following main principles of publishing information collected in the scope of EITI were defined - completeness of information, source disclosure, actuality, accessibility, machine recognition, non-discriminative usage, sustainability of data, open license of usage, free usage and feedback. The National Secretariat of the RA EITI and RA EITI MSG should be guided by these principles during the implementing of the RA EITI work programs, publishing EITI national reports, ensuring the accessibility of information and data under EITI, also promote responsible government entities and other interested parties to pursue the principle of public information when publishing appropriate information.

Use of online platform shall reduce the time required for collecting information and the probability of inaccurate information in reports. The system has introduced regulations for maximal reduction of technical errors, for example, the limitation of filling in digits or letters, availability of mandatory and non-mandatory fields, the logic of filling related fields, etc.

The responsible persons of State bodies and companies authorized to sign the reports register in the online platform by selecting the name of their company or government body from the menu and filling remaining mandatory fields for registration. After clicking the command “Register” a confirmation mail is automatically sent to the e-mail stated during registration which instructs to confirm the accuracy of the e-mail and activate the account. The registration e-mail is also sent to the system administrator, which checks the accuracy of the information, confirms the registration and grants login access. After being granted a login access the State bodies and companies can complete electronic reports. The formats of electronic reports were developed based on templates and instructions approved by the RA Government Decree No. 666-N.

The next phase of the procedure of gathering the information from extractive companies and government entities included completion of electronic reports by the responsible persons of the companies and government entities; approving and validating the correctness of the inputted data via application of e-signature. The submitted reports are then collected on CMS portal becoming available for the Independent Administrator. The reports cannot be edited after being e-signed by the responsible person of government entities and companies. At the data collection phase, the Independent Administrator prepares reconciliation data from the database in Microsoft Excel and PDF formats.

The Independent Administrator performs initial review of the submitted reports and provides the list of companies reported within the defined deadline to the MEINR which monitors implementation of reporting and deadline adherence requirements. Based on the information obtained from the Independent Administrator, the Ministry of Energy Infrastructures and Natural Resources initiates proceedings towards reporting companies failing to submit reports within the set deadlines.

The current standards do not require the Independent Administrator to perform detailed check of the initial documents in order to identify omissions. The Independent Administrator considers the information provided by the reporting entities and State bodies to be comprehensive and reliable, since it is confirmed by the signatures of the heads of the companies and State bodies or chief accountants, or by persons authorized by the latter.

The individuals stated above also bear relevant responsibility for submission of tax reports to the State Revenue Committee using the online report submission system for implementation of tax monitoring processes, which also provides for the accuracy of information provided to the Independent Administrator and the compliance with legal bases.

Information on the availability of financial statements and audit opinion by extractive companies is provided in Annex 2.

Independent administrator compares the State and companies' data collected based on the above-mentioned reporting templates. After the data comparison initial discrepancies are identified.

As agreed with the MSG within Inception report, the Independent Administrator applied the following thresholds to identify the data subject to reconciliation:

- ▶ all companies that have a right for metal mineral extraction shall be included in the EITI Report, and companies paying taxes and payments (excluding customs duties and fees) equivalent to or exceeding 150 million AMD during the reporting fiscal year to the RA State Budget are considered as companies to be reconciled;
- ▶ the revenue streams from the extractive sector whose share in the total revenue streams from extractive sector is 1 % or more are material and should be reconciled in the EITI Report.

The Independent Administrator has developed reconciliation variance template containing data reported initially by both company and State bodies to be reconciled and asks from the companies and State bodies to confirm whether numbers stated in the additional circularization template comply with numbers initially reported by each entity. In order to identify any information gaps or discrepancies, as required

under the EITI Standard, EY directly contacts the responsible persons from reconciled companies and State bodies. Independent Administrator asks them to provide further information on declarations and calculations reported on revenue streams in order to determine the reason for discrepancy.

In case of identifying discrepancies in the bilaterally disclosed financial flows, the consultant shall address and provide explanations for those cases when the identified discrepancies make up 4% or more of the financial data, but are not less than 1 million AMD, as stipulated by the Protocol N9 from MSG working session held on March 27, 2018. The basis for the calculation is considered the smallest data presented by either of the parties.

Once the Independent Administrator identifies the discrepancies complying with the standards mentioned above, the reports are being rejected of the CMS platform by being returned to reporting companies and State bodies. As a result of returning the reports the relevant company or State body receives an opportunity for editing the report and making necessary adjustment in the electronic platform. Where applicable initial differences exceeding variance threshold were adjusted in accordance with the additional explanations provided by the entities.

Explanations of discrepancies arising from the reconciliation of data reported by the companies and State bodies were categorized and presented in Annex 7.

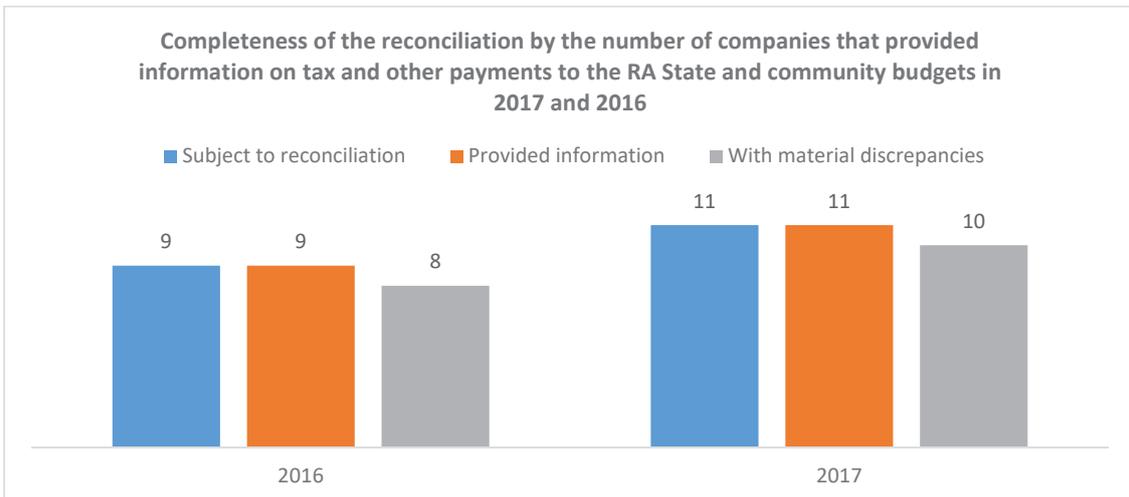
Within the scope of the report preparation processes certain limitations were observed, which were related to short deadlines for report completion and collection, as well as due to the first-time implementation of EITI in the Republic of Armenia, the absence of reporting experience for companies and State bodies. The process was implied by ongoing testing and improvements to electronic platform. Nevertheless, these factors did not affect the comprehensiveness of the reports and data thanks to close cooperation with the Secretariat and activities realized with the purpose of mitigating the impact of the mentioned factors. In particular, as a result of cooperative actions of the Independent Administrator and the administrators of the online platform the joint testing of system was realized and improvement recommendations were provided; reporting extractive companies were provided ongoing support through addressing their queries. Conditioned by the first-time practical application of the report templates the State bodies and companies were applying different approaches for collecting the data to be included in the reports, in particular during the calculation of the VAT amounts the amounts of deferred VAT payments were left out, in case of VAT debit balances negative amounts were being presented instead of 0, etc. Those issues were discussed with the parties during reconciliation phase to develop a common approach and were reflected in recommendations for report template improvements.

4.2 Completeness of the reconciliation process

From 27 reporting extractive companies participating in Extractive Industries Transparency Initiative only 26 submitted reports for 2017, whereby 2 companies submitted their reports after the submission deadline. An administrative proceeding was filed with regard to the non-reported company and a penalty was applied. Besides, an administrative proceeding was filed with regard to one of the companies submitted the report post-deadline and a penalty was applied, while only an administrative proceeding was applied to the second company since it has justified the late submission of the report due to technical issue. The non-reported company is non-material and is not considered subject to reconciliation based on the data received from the RA State Revenue Committee (AMD 0) and had no impact on the reconciliation process.

As for 2016, since the participation of companies in the Extractive Industries Transparency Initiative was of voluntary nature, only 22 out of 27 extractive companies have expressed interest in participation and submitted reports.

All the companies subject to reconciliation provided information about their tax and other payments to the State and community budgets for both 2017 and 2016. Based on the obtained information, all the payments made by the companies subject to reconciliation to the State comprising AMD 50,037,989 thousand in 2016 and AMD 85,708,762 thousand in 2017 were fully reconciled. The initial reconciliation identified material discrepancies for 8 out of 9 companies in 2016 and for 10 out of 11 companies in 2017 between the data provided by the reconciled companies and the State bodies (Figure 4.1). With regard to these cases, the second inquiry was made for further clarification and adjustment of information.



4.3 General results of reconciliation

According to the data of initial reports of the State bodies, the total revenues of the RA State and community budgets received from 11 reconciled companies amounted to AMD 47,072,245 thousand for 2016 and AMD 85,545,897 thousand for 2017, while according to the companies themselves, the payments amounted to AMD 49,237,215 thousand and AMD 72,499,182 thousand, respectively. The net discrepancies amounted to -4.6% (or AMD -2,164,971 thousand) for 2016 and 13.86% (or AMD 10,046,715 thousand) for 2017. The gross discrepancies amounted to 7.39% (or AMD 3,477,829 thousand) for 2016 and 29.64% (or AMD 21,490,679 thousand) for 2017.

After the reconciliation process according to the data provided by the State bodies, the total revenues of the RA State and community budgets received from reconciled 11 companies amounted to AMD 50,037,989 thousand in 2016 and AMD 85,708,762 thousand in 2017, while according to the companies themselves, these amounts equalled to AMD 49,905,350 thousand and AMD 84,909,824 thousand, respectively.

Based on findings of reconciliation and further adjustments of data, the net discrepancies amounted to 0.27% or AMD 132,639 thousand for 2016 and 0.94% or AMD 798,937 thousand for 2017, and gross discrepancies amounted to 0.38% or AMD 191,033 thousand for 2016 and 1.23% or AMD 1,041,166 thousand for 2017. Details of all discrepancies and reasons for adjustments for each extractive company for both years are provided in Appendix 7.

The most common discrepancies and reasons for their adjustments are as follows:

- ▶ Companies and the RA State Revenue Committee applied different approaches for calculation of value added tax. As a result of additional interpretation of the reporting guide during the reconciliation process, the approach to the calculation of VAT amounts was generalized by companies and the RA SRC and relevant adjustments were made to their preliminary reports.
- ▶ Some companies have either missed or only partially incorporated the amounts set out in the tax inspection acts in the preliminary reports.
- ▶ Some companies left out non-resident profit tax amounts in their preliminary reports.
- ▶ While calculating the amount of custom duties and fees, some payments were accidentally left out or payments not related to custom duties and fees, such as road payments or others, were included.
- ▶ There were cases when rent payments of some communities were left out by the RA MTAD and/or companies or payments not related to rent were accidentally included.

Several cases of discrepancies exceeding the materiality threshold between the data provided by the companies and RA SRC in their final reports were identified as a result of reconciliation. All such cases together with their explanations are also provided in Annex 7.

Table 4.4.1: Results of reconciliation of material revenues of the State and community budgets by types in 2016

Final data, AMD thousand	Initial data, AMD thousand			Final data, AMD thousand		
	Reported by State body	Reported by companies	Discrepancies	Reported by State body	Reported by companies	Discrepancies
Royalty	23,570,665	23,506,679	63,986	23,570,665	23,570,665	-
Value added tax	5,854,984	8,279,406	(2,424,422)	8,811,544	8,664,729	146,815
Income tax	11,576,044	11,579,202	(3,158)	11,576,044	11,580,855	(4,811)
Profit tax	4,215,831	4,216,165	(334)	4,215,831	4,215,831	-
Custom duties and fees	1,072,564	930,654	141,910	1,079,729	1,088,698	(8,969)
Rent payments	782,156	725,109	57,047	784,176	784,572	(396)
Total	47,072,244	49,237,215	(2,164,971)	50,037,989	49,905,350	132,639

Table 4.4.2: Results of reconciliation of material revenues of the State and community budgets by types in 2017

Type of payment	Initial data, AMD thousand			Final data, AMD thousand		
	Reported by State body	Reported by companies	Discrepancies	Reported by State body	Reported by companies	Discrepancies
Royalty	32,441,657	36,893,879	(4,452,222)	37,574,813	37,574,813	-
Value added tax	18,860,194	4,767,668	14,092,526	16,838,897	16,717,686	121,211
Income tax	14,225,225	14,225,902	(677)	14,225,225	14,226,369	(1,144)
Profit tax	11,807,947	12,094,803	(286,856)	11,807,947	11,736,141	71,806
Custom duties and fees	1,997,243	1,893,327	103,916	2,035,678	2,030,360	5,318
Fines	1,230,627	683,542	547,085	1,293,852	693,197	600,655
Penalties	1,089,331	1,071,458	17,873	1,089,331	1,089,289	42
Rent payments	893,674	868,602	25,072	843,020	841,971	1,049
Total	82,545,898	72,499,181	10,046,717	85,708,763	84,909,826	798,937

Royalty

According to the initial data of the RA SRC the amount of royalty payments made by reconciled extractive companies in 2016 comprised AMD 23,570,665 thousand, while according to the reconciled companies this amount equalled to AMD 23,506,679 thousand. Total discrepancy between the initial data provided by the RA SRC and the companies was AMD 63,986 thousand and was nullified after reconciliation.

At the same time, according to the initial data of the RA SRC the amount of royalty payments made by reconciled extractive companies in 2017 comprised AMD 32,441,657 thousand and AMD 36,893,879 thousand according to reconciled extractive companies. Total discrepancy between the initial data provided by the RA SRC and the companies was AMD (4,452,222) thousand and was nullified after reconciliation.

(amounts in AMD thousand)

2016			
	Initial data	Adjustments	Final data after reconciliation
Reported by the RA SRC	23,570,665	-	23,570,665
Reported by companies	23,506,679	63,986	23,570,665
Discrepancy	63,986	(63,986)	-
2017			
	Initial data	Adjustments	Final data after reconciliation
Reported by the RA SRC	32,441,657	5,133,156	37,574,813
Reported by companies	36,893,879	680,934	37,574,813
Discrepancy	(4,452,222)	4,452,222	-

Value added tax

According to the initial data of the RA SRC the amount of value added tax received from reconciled extractive companies in 2016 comprised AMD 5,854,984 thousand, and according to the data provided by the reconciled extractive companies it comprised AMD 8,279,406 thousand.

Total discrepancy between the initial data provided by the RA SRC and the companies was AMD (2,424,422) thousand and equalled to AMD 146,815 thousand after reconciliation.

At the same time, according to the initial data of the RA SRC the amount of value added tax received from reconciled extractive companies in 2017 comprised AMD 18,860,194 thousand and AMD 4,767,668 thousand according to reconciled extractive companies. Total discrepancy between the initial data provided by the RA SRC and the companies was AMD 14,092,526 thousand and equalled to AMD 126,644 thousand after reconciliation.

(amounts in AMD thousand)

2016			
	Initial data	Adjustments	Final data after reconciliation
Reported by the RA SRC	5,854,984	2,956,560	8,811,544
Reported by companies	8,279,406	385,323	8,664,729
Discrepancy	(2,424,422)	2,571,237	146,815
2017			
	Initial data	Adjustments	Final data after reconciliation
Reported by the RA SRC	18,860,194	(2,021,297)	16,838,897
Reported by companies	4,767,668	11,950,018	16,717,686
Discrepancy	14,092,526	(13,971,315)	121,211

Income tax

According to the initial data of the RA SRC the amount of income tax received from reconciled extractive companies in 2016 comprised AMD 11,576,044 thousand, and according to the data provided by the

reconciled extractive companies it comprised AMD 11,579,202 thousand. Total discrepancy between the initial data provided by the RA SRC and the companies was AMD (3,158) thousand and equalled to AMD (4,811) thousand after reconciliation.

At the same time, according to the initial data of the RA SRC the amount of income tax received from reconciled extractive companies in 2017 comprised AMD 14,225,225 thousand and AMD 14,225,902 thousand according to reconciled extractive companies. Total discrepancy between the initial data provided by the RA SRC and the companies was AMD (677) thousand and equalled to AMD (1,144) thousand after reconciliation.

(amounts in AMD thousand)

2016			
	Initial data	Adjustments	Final data after reconciliation
Reported by the RA SRC	11,576,044	-	11,576,044
Reported by companies	11,579,202	1,653	11,580,855
Discrepancy	(3,158)	(1,653)	(4,811)
2017			
	Initial data	Adjustments	Final data after reconciliation
Reported by the RA SRC	14,225,225	-	14,225,225
Reported by companies	14,225,902	466	14,226,369
Discrepancy	(677)	(466)	(1,144)

Profit tax

According to the initial data of the RA SRC the amount of profit tax received from reconciled extractive companies in 2016 comprised AMD 4,215,831 thousand, and according to the data provided by the reconciled extractive companies it comprised AMD 4,216,165 thousand. Total discrepancy between the initial data provided by the RA SRC and the companies was AMD (334) thousand and was nullified after reconciliation.

At the same time, according to the initial data of the RA SRC the amount of profit tax received from reconciled extractive companies in 2017 comprised AMD 11,807,947 thousand and AMD 12,094,803 thousand according to reconciled extractive companies. Total discrepancy between the initial data provided by the RA SRC and the companies was AMD (286,856) thousand and equalled to AMD 71,806 thousand after reconciliation.

(amounts in AMD thousand)

2016			
	Initial data	Adjustments	Final data after reconciliation
Reported by the RA SRC	4,215,831	-	4,215,831
Reported by companies	4,216,165	(334)	4,215,831
Discrepancy	(334)	334	-
2017			
	Initial data	Adjustments	Final data after reconciliation
Reported by the RA SRC	11,807,947	0	11,807,947
Reported by companies	12,094,803	(358,663)	11,736,141
Discrepancy	(286,856)	358,663	71,806

Customs duties and fees

According to the initial data of the RA SRC the amount of customs duties and fees received from reconciled extractive companies in 2016 comprised AMD 1,072,564 thousand, and according to the data provided by the reconciled extractive companies it comprised AMD 930,654 thousand. Total discrepancy between the initial data provided by the RA SRC and the companies was AMD 141,910 thousand and equalled to AMD (8,969) thousand after reconciliation.

At the same time, according to the initial data of the RA SRC the amount of customs duties and fees received from reconciled extractive companies in 2017 comprised AMD 1,997,243 thousand and AMD 1,893,327 thousand according to reconciled extractive companies. Total discrepancy between the initial data provided by the RA SRC and the companies was AMD 103,916 thousand and equalled to AMD 5,318 thousand after reconciliation.

(amounts in AMD thousand)

2016			
	Initial data	Adjustments	Final data after reconciliation
Reported by the RA SRC	1,072,564	7,165	1,079,729
Reported by companies	930,654	158,044	1,088,698
Discrepancy	141,910	(150,879)	(8,969)
2017			
	Initial data	Adjustments	Final data after reconciliation
Reported by the RA SRC	1,997,243	38,435	2,035,678
Reported by companies	1,893,327	137,033	2,030,360
Discrepancy	103,916	(98,598)	5,318

Rent payments

According to the initial data of the RA Ministry of Territorial Administration and Development the amount of rent payments received from reconciled extractive companies in 2016 comprised AMD 782,156 thousand, and according to the data provided by the reconciled extractive companies it comprised AMD 725,109 thousand. Total discrepancy between the initial data provided by the RA MTAD and the companies was AMD 57,047 thousand and equalled to AMD (396) thousand after reconciliation.

At the same time, according to the initial data of the RA MTAD the amount of rent payments received from reconciled extractive companies in 2017 comprised AMD 893,674 thousand and AMD 868,602 thousand according to reconciled extractive companies. Total discrepancy between the initial data provided by the RA MTAD and the companies was AMD 25,072 thousand and equalled to AMD 1,049 thousand after reconciliation.

(amounts in AMD thousand)

2016			
	Initial data	Adjustments	Final data after reconciliation
Reported by the RA MTAD	782,156	2,020	784,176
Reported by companies	725,109	59,463	784,572
Discrepancy	57,047	(57,443)	(396)
2017			
	Initial data	Adjustments	Final data after reconciliation
Reported by the RA MTAD	893,674	(50,654)	843,020
Reported by companies	868,602	(26,631)	841,971
Discrepancy	25,072	(24,023)	1,049

Penalties

This type of revenue stream exceeded the materiality threshold only in 2017. According to the initial data of the RA SRC the amount of penalties received from reconciled extractive companies in 2017 comprised AMD 1,230,627 thousand and according to the data provided by the reconciled extractive companies it comprised AMD 683,542 thousand. Total discrepancy between the initial data provided by the RA SRC and the companies was AMD 547,085 thousand and equalled to AMD 600,655 thousand after reconciliation which exceeds the materiality threshold of discrepancy justification after reconciliation. This type of discrepancy is mainly caused by the amounts of additional penalties presented by the RA SRC, which hadn't been agreed by the companies. The discrepancies due to penalties with relevant explanations of the companies are provided in Annex 7.

(amounts in AMD thousand)

2017			
	Initial data	Adjustments	Final data after reconciliation
Reported by the RA SRC	1,230,627	63,225	1,293,852
Reported by companies	683,542	9,655	693,197
Discrepancy	547,085	53,570	600,655

Fines

This type of revenue stream exceeded the materiality threshold only in 2017. According to the initial data of the RA SRC the amount of fines received from reconciled companies in 2017 comprised AMD 1,089,331 thousand and according to the data provided by the reconciled companies it comprised AMD 1,071,458 thousand. Total discrepancy between the initial data provided by the RA SRC and the companies was AMD 17,873 thousand and equalled to AMD 42 thousand after reconciliation

(amounts in AMD thousand)

2017			
	Initial data	Adjustments	Final data after reconciliation
Reported by the RA SRC	1,089,331	-	1,089,331
Reported by companies	1,071,458	17,831	1,089,289
Discrepancy	17,873	(17,831)	42

5 RECOMMENDATIONS FOR IMPROVEMENT OF THE EITI REPORTING PROCESS

5. RECOMMENDATIONS FOR IMPROVEMENT OF THE EITI REPORTING PROCESS

5.1 Recommendations for improving the EITI Reporting process

Ensuring the up-to-date EITI reporting

Planning and managing the process of developing the subsequent EITI Reports, in particular:

- ▶ The scope of the EITI report and the deadline for development and approval of the terms of reference should be at least until the end of the first quarter of the current year
- ▶ Tender organization and Independent Administrator's selection should be realized no later than the end of May of the current year.

2016-2017 EITI Report validation functions

The EITI Board has agreed that the first validation process for Armenia will commence on 9 September 2019. To meet this deadline, the MSG will need to ensure proper documentation of all activities required under EITI Standard and Work Plan, decisions and potential deviations.

Beneficial Ownership

MSG and National Secretariat should pay particular attention to the Beneficial Ownership disclosure. Currently, there is no comprehensive and publicly available database on beneficial ownership complying with the EITI Standard. In addition, there are no relevant questions in the report templates completed by mining companies.

Preparing for transition to project-level reporting within the EITI Standard

The decision of the International Secretariat initiated the process of gradual transition of all countries applying the EITI Standard to the disclosure of information that is disaggregated by projects in their EITI annual reports.

The overwhelming majority of companies in the metal mining industry in Armenia have one license (mining contract) only and are not involved in other industries, thus government revenues from the majority of project are essentially publicly available and benefits generated from each project are obvious. Hence it may be concluded that the reporting process applied in Armenia per se corresponds to the project-level reporting format.

These circumstances substantially simplify the transition to project-level reporting, but still require MSG and mining companies to ensure appropriate preparation (changes in legislation, templates, etc.).

The payments made based on the subsoil use permits are (i) environmental tax (prior to Tax Code changes of 2018 – environmental payment), (ii) (reclamation) payment for replenishment of environmental protection fund, (iii) monitoring implementation fee and (iv) nature use payments, including royalty and (v) state duties for granting subsoil use permits.

More detailed analysis of project-level reporting is presented in the Chapter 5.6.

5.2 Recommendations on improvement of reporting templates for the following periods

Public Report Template for Mining Company

N	Field	Comment
1.	Link to the Audit Report and Opinion	According to Article 13 of the RA Law “On Auditing,” an audit report shall be prepared in cases provided for in the contract or upon the initiative of the audit entity. Simultaneously, according to Article 16 of the Law the audit report is a document containing a commercial secret. It is therefore suggested to reformulate the mentioned point to sound as follows: link to the financial reports and audit Opinion.
2.	Link to the Audit Report and Opinion	We recommend to change the question as follows: "Link to the of the audit report and opinion, electronic version of the documents or, in case the reports are published in printed media – the electronic version of the latter".
3.	Rent payments	Replace the formulation of ”Paid during the reporting year” Rent Payment field with “Paid during the reporting year (excluding penalties and fines)” field as indicated in the template of public report to be submitted by the head of the community to the Ministry of Territorial Administration and Development.
4.	Social-economic contribution	Add “Payment date (for each payment) ” and “Number and date of payment supporting document” fields in the “Social-economic contribution” section as indicated in the template of public report to be submitted by the head of the community to the Ministry of Territorial Administration and Development.
5.	-	In case of absence of data from other sources, we recommend adding questions regarding the beneficial owners of the company to the questionnaire.

6.	Value Added Tax and Excise tax	In order to simplify the data collection process to separate and include different fields for tax related data calculated by tax authorities and the State Revenue Committee.
7.	Paid during the reporting year (without penalties and fines)	Taken the fact that starting from 2018 a unified tax system is applied, we recommend removing the columns relating to actual payments from report template and RA Government Decree No. 666-N dated June 8, 2018 and add a line “Payment submitted to the unified system of treasury account according to the payment schedule”.
8.	-	In the Guidance we recommend clarifying the procedure for submitting information on “Tax calculation (declaration) for the reporting year”, so that the amount reflects the sum of tax liabilities from tax calculations (in case of setting-off of VAT the amount should be null), the tax liabilities reflected in the customs declarations and the tax liabilities reflected in the tax returns. It’s worth mentioning, that only the deferred VAT payable during the current year should be included in the tax calculation of the reporting period.
9.	Replenishment of environmental protection fund	In order to match this field with the principles of filling information regarding payments made in the reporting year in other tables of the public report, we suggest changing the wording in Armenian in the field to the precise equivalent of “Actual payments to the fund for the reporting year.”
10.	Profit Tax	We recommend separating the fields for entering the profit tax paid for non-residents.
11.	-	We recommend including a clarification so that the final reconciled data regarding tax streams are included in public reports in case of this reconciled data is available.

12.	-	We recommend including in the report for the following year a question on the quality (on average)/class of the exported or sold concentrate/casting.
13.	-	In the reporting templates add a question on the distribution of employees by regions of RA.
14.	-	In the reporting templates add a question on the technical indicators of mine extraction.

Template for the Public Report of the State Revenue Committee

N	Field	Comment
1.	“Taxes and Payments” Table	<p>We recommend discussing and reviewing the reporting template, and specify the frequency of submission of data on each type of tax as well as the number of fields for data completion. Below are some of the considerations:</p> <ol style="list-style-type: none"> 1. Profit Tax - 1 row 2. Value Added Tax - 12 rows 3. Excise tax - 12 rows 4. Royalty - 1 row
2.	Profit Tax	Add a sub-field “Profit tax paid for non-residents”.
3.	<p>Taxes calculated (declared) for the reporting year</p> <p>Paid in the reporting year (without penalties and fines)</p> <p>Set-offs in the reporting year</p>	<p>Since there can be time period difference between payment and accrual and/or set-off, it must be specified to which periods do the taxes pertain. Thus we recommend adding the phrase “opened as per the reporting period” in these fields.</p>
4.	Value Added Tax and Excise tax	In these rows, add fields to fill in the amounts calculated by the customs authorities separately.
5.	-	<p>In the Guidance we recommend clarifying the procedure for submitting information on “Tax calculation (declaration) for the reporting year”, so that the amount reflects the sum of tax liabilities from tax calculations (in case of setting-off of VAT the amount should be null), the tax liabilities reflected in the customs declarations and the tax liabilities reflected in the tax returns. It’s worth mentioning, that only the deferred VAT payable during the current year should be included in the tax calculation of the reporting period.</p>
6.	Export by types of products	<p>In the Guidance we recommend clarifying the information provision process in order to fill in the export related data by each export country.</p>

7.	Fines and penalties	<p>We recommend adding a field which will allow to identify taxes and payments to which fines and penalties were applied to.</p> <p>In case of the absence of the information on the inspection act, examination or protocols, we recommend specifying the date of the infringement in a mandatory completion field.</p>
8.	Customs duty, customs fee and road tax (payment) collected by customs service	<p>We suggest reviewing the effects of other payments on the revenue streams of customs bodies and consider involving these payments in the report. Thus, for example, it is suggested to include in the RA SRC fees the antidumping payments and environmental protection payments associated with the pollution of air with hazardous substances.</p>

Public Report Template for The Ministry of Nature Protection

N	Field	Comment
1.	Replenishment of environmental protection fund	We recommend unifying the reporting templates of the Ministry of Nature Protection and the companies. We recommend removing the following fields: “Calculated total amount to be paid to the fund as of December 31 of the year preceding the reporting year” and “Total amount paid to the fund as of December 31 of the year preceding the reporting year” from the report template for the Ministry of Nature Protection.
2.	Allocations from Environmental Protection Fund to the Company	We recommend removing the question related to the dates of the payments.
3.	Monitoring Implementation Fee	We recommend unifying the reporting templates of the Ministry of Nature Protection and the companies. We recommend removing the field “Total amount of payment made as of December 31 of the year preceding the reporting year” from the report template for the Ministry of Nature Protection.
4.	-	We recommend including Inspectorate for Nature Protection and Mineral Resources in the list of reporting entities for the following year in order to obtain information on penalties and fines.
5.	Replenishment of environmental protection fund	In order to match this field with the principles of filling information regarding payments made in the reporting year in other tables of the public report, we suggest changing the wording in Armenian in the field to the precise equivalent of “Actual payments to the fund for the reporting year.”

5.3 Recommendations on resolving the issues related to the online data collection system

N	Field	Comment
1.	Adjustments deriving from reconciliation process	We recommend adding a mandatory field, which will contain a brief description of reasons of adjustments in the tables of public reports as a result of reconciliation process.
2.	Electronic system user guideline	We recommend developing and publishing on the website a guideline on technical difficulties faced by the users, which will contain frequently asked questions regarding the registration on the website, restoration of personal data, filling in the report fields, saving the work and use of digital signature.
3.	Viewing the report	We recommend providing the reporting entities with the opportunity to extract and save the Excel version of the public report before approving it by a digital signature.
4.	Exportable Excel reports	We recommend replacing the “Payments” field extracted in tables F and G for each tax stream with “Tax calculation (declaration) for the reporting year” and “The date of submitting tax calculation (clarified calculation)” fields.
5.	Format of the data in reports exported in PDF format	We recommend matching the sequence of columns in the tables of the report to the Forms of public reports.
6.	Format of the data in reports exported in Excel format	We recommend developing the tables in the report by applying an electronic format which will match the contents, for example using a numerical format for tax registration.

5.4 Recommendations regarding the cooperation with the State Revenue Committee for the purposes of avoiding possible inconsistencies during the next year

We recommend forming a working group 1-2 months prior to the deadline of filing the reports, which will involve employees from both departments responsible for taxes and customs duties.

We recommend that the Tax Committee periodically provides the mining companies with information on balances of taxes, as well as on calculated penalties and fines.

5.5 Short overview and recommendations on improving the 2017-2018 EITI working plan

The EITI working plan consists of 6 key points, which relate to principal challenges and obstacles faced by the mining (extraction) industry of Armenia:

- ▶ Ensuring access to and timeliness of information,
- ▶ Development of roadmap for identifying beneficial owners
- ▶ Revision of legal framework of Armenia, identification of possible gaps and inconsistencies with the EITI standards,
- ▶ Study of international best-practices and development of a roadmap for harmonization with international best-practices and the EITI for the purposes of introducing responsible mining industry
- ▶ Ensuring Armenia's candidate status with the EITI
- ▶ Comprehensive report in accordance with the EITI standards.

We recommend considering and, if necessary, carrying out a scoping study for the EITI 2019 report.

In the framework of the Open Data Policy, we propose to work towards mainstreaming the creation of open data for EITI into government systems to ensure data timeliness, quality and accessibility.

5.6 Recommendation on implementation of project-level reporting in Armenia

EITI Standard requirement 4.7 (level of disaggregation) provides as follows:

“The multi-stakeholder group is required to agree the level of disaggregation for the publication of data. It is required that EITI data is presented by individual company, government entity and revenue stream. Reporting at project level is required, provided that it is consistent with the United States Securities and Exchange Commission rules and the forthcoming European Union requirements.”

During the meeting held on July 30, 2018 (protocol N10) MSG has made a decision that in the framework of the 2018 EITI Report activities held on the basis of mining right/permit will be considered as projects. According to the MSG decision revenue streams presented on project level will be discussed further, based on the analysis and recommendations received from the Independent Administrator.

EITI guidance note 29 published in September 2017 (“Guidance 29 on project-level reporting and reporting templates methodology”) clarifies that the MSG is advised to explore the following questions:

- (i) What definitions of the term “project” are used in other jurisdictions?
- (ii) What are the types of legal instruments governing the extractive activities in the country?
- (iii) Are substantially interconnected legal agreements an issue in the country?
- (iv) Documenting the definition of project.

The stated questions are addressed below

1. Definitions of projects in other jurisdiction

Guidance 29 provides two examples of legislative definitions of a term “project”, which are stipulated by European Union Accounting Directive and Canada’s Extractive Sector Transparency Measures Act. Point 4 of Article 41 of the European Union Accounting Directive defines the “project” as follows:

“The operational activities that are governed by a single contract, license, lease, concession or similar legal agreements and form the basis for payment liabilities with a government. Nonetheless, if multiple such agreements are substantially interconnected, they shall be together recognized as one project.”

Canada’s Extractive Sector Transparency Measures Act (ESTMA) contains the following definition of the term “project”:

“Operational activities that are governed by a single contract, license, lease, concession or similar legal agreement and form the basis for payment liabilities with a government. Nonetheless, if multiple such agreements are substantially interconnected, they shall be together recognized as one project.” “Substantially interconnected” means forming a set of operationally

and geographically integrated contracts, licenses, leases or concessions or related agreements with substantially similar terms that are signed with a government and serve as a base for payment liabilities.

The problem of applying such definitions in Armenia is that legal instruments governing the extractive activities do not form the bases of payment liabilities (with the exception of certain environmental payments, like the contributions to the environmental protection fund and environmental monitoring fees), which raises the issue of feasibility and effectiveness of applying like definitions in the context of Armenia (addressed below in more detail).

2. Types of legal instruments governing the extractive activities in RA

With respect to legal instruments the Guidance 29 clarifies:

Legal instruments can take many different forms, including contracts, concessions, production-sharing agreements and other agreements, as well as licensees, leases, titles and permits governing rights for managing oil, gas and mineral resources. It is recommended that the MSG produces a list of applicable types of instruments which should therefore be part of the definition of the term “project”.

Thus, under the Code on Subsoil the right for subsoil use is granted through the following tools:

- ▶ Mineral extraction permit;
- ▶ Land use act;
- ▶ Mining/subsoil use contract.

The mineral extraction permit stipulates, inter alia, the date of permit issue, validity period, the amount of the granted mineral reserves by their classes, annual productivity of the mine, coordinates of the outline of the subsoil site, names of the minerals and accompanying elements. The mineral extraction project, mining contract and the land use act that have undergone relevant expertise, are attached to the mineral extraction permit and are considered inalienable parts of the latter.

The land use act testifies the granting of exclusive title (land use rights) over a specified site of land for implementation of mining activities.

The mineral extraction permit, mining contract, land use act and the project that has undergone all relevant expertizes are jointly considered the documents affirming the mining rights of a subject.

Guidance 29 clarifies: *“in a production-sharing regime, a project is typically the contract that serves as a basis for payment liabilities. In a tax/royalty regime, a project is typically the license that stipulates the payment liabilities”.* It further states that *“MSGs should follow the guiding principle that project level payments should be reported in relation to the legal agreement which forms the basis for payment liabilities with the government”.*

The current regime applied in the Republic of Armenia is a clear tax/royalty regime, however connection of the “project level” with the mineral extraction permit will be technically ineffective given that the base for royalty calculation is the turnover of sales of supplied concentrate, casting or mining wastes, ores, concentrate and any final product received as a result of processing the casting, and not the legal agreement or the specific permit as such.

3. Whether substantially interconnected legal agreements are an issue in Armenia

According to Guidance 29, substantially interconnected legal agreements are those which allow for multiple legal agreements to be grouped together to form one project in cases where all of the following criteria apply: the legal agreements are both operationally and geographically integrated and have substantially similar terms.

The only entity, however, that as of now has more than one mining contract is “Tatstone” LLC (registration number: 264.110.06348, TIN: 00079433), which however has held only the 752nd position on the list of top tax payers during the first quarter of 2018 and has even not been included in the list of the first 1000 largest taxpayers for the first half of 2018.

Also, only one entity in the market – “Multi Group Concern” LLC (registration number: 42.110.01460, TIN: 03516447) which together with mining activities is also involved in other industries. However, at least royalty payments made by the latter are clearly discernible from any other budgetary obligations.

Based on the aforementioned, we conclude that substantially interconnected legal agreements are not an issue for the Republic of Armenia.

4. Whether currently there is a need for a definition of the term “project” in Armenia.

Based on the foregoing and having in the mind the purpose of having a definition of a “project” (as stated by EITI²⁸²) we conclude that there is no material necessity for providing a definition of a “project” for Armenia.

This conclusion is based on the foregoing considerations:

²⁸² Guidance 29 states the following purposes:

Public disclosure of payments by project may enable the public to assess the extent to which the government receives what it ought to from each individual extractive project, by comparing the terms governing a project with data on actual payments. For host communities, it could contribute to showing the benefits that each extractive project generates. It has also been argued that project-level reporting can help address tax avoidance and tax evasion by shedding light on transfer pricing practices. It can also assist governments in making more accurate forecasts for future changes in revenues.

- ▶ predominant majority of companies in the metal mining industry have one permit (mining contract) only and are not involved in other industries, thus government revenues from the majority of projects are publicly available and benefits generated from each project are obvious;
- ▶ Substantially interconnected legal agreements are not an issue for the Republic of Armenia;
- ▶ Although Armenia has a tax/royalty regime, the base for the calculation of royalty is the turnover of the supplied concentrate and not the legal agreement (or the specific permit).

Until further major changes in the mining sector, the reporting in Armenia is ipso facto project-level. This does not exclude, however, the possibility of one of the current major mining companies obtaining a second permit. Implementation of project-level reporting in that case will require major legislative changes, since technically it will be impossible to disaggregate government revenues from each project under the local regulations. Such changes, inter alia, would need to address the royalty calculation base and link it with the mining contracts (as well as make amendments to the mining contract templates), introduce separate book-keeping requirements for each project, and other issues.

Until then, the definition proposed in Guidance 29²⁸³ cannot be adopted. Only a truncated wording can be adopted and documented by the MSG under the current legislation:

“In Armenia, a project is defined as operational activities that are governed by a single permit and mining contract”.

Even so, solutions must be implemented to mitigate the reporting obligations of “Tutstone” LLC and “Multi-Group Concern” LLC.

²⁸³ Guidance 29 provides the following definition:

“[In the country] the project is defined as operational activities that are governed by a single [contract, agreement, concession, license, lease, permit, title, etc.] and form the basis for payment liabilities with a government.

5.7 Recommendations and interpretations regarding non-applicable financial flows in the EITI report of the Republic of Armenia

Based on the scoping study and other analyses, the multi-stakeholder group adopted a decision during its meeting held on March 27, 2018²⁸⁴ on non-applicable financial flows within the scope of the EITI report. The suggestions and analysis of the Independent Administrator on the financial flows mentioned above are presented below.

Supplies and barter arrangements for infrastructures (Requirement 4.3)

Based on publicly available information (including mining contracts) the Independent Administrator did not find any evidence of supplies and barter arrangements for infrastructures in metal mining industry of Armenia. However, road construction and other similar obligations are provided by some of the contracts, which constitute a part of social obligations.

Revenues from transportation activities (Requirement 4.4)

According to the decision of MSG and the Terms of Reference the Independent Administrator did not analyse financial flows from transportation revenues, that Armenia may have had during the reporting period.

The Independent Administrator, through survey, has implemented a study during 2016-2017 on all the companies ensuring almost complete scale manufacturing. The study was mainly aimed at collecting initial information on transportation means used by the companies and the interrelations of the parties involved. The survey results may be summarized as follows:

- ▶ Internal transportation and export of goods is carried out using vehicles or by railroad. In case of rail transportation, the goods are primarily transported from Yerevan, to where they are brought using road transportation.
- ▶ The majority of the companies cooperates with one cargo transportation service provider, however, in case of some companies, 3-4 suppliers may be involved.
- ▶ The companies do not have direct relations with railway transportation company. The cooperation is carried out through a mediator company.
- ▶ In some cases the cargo transportation services are ensured by the Client (product buyer).

²⁸⁴ https://www.eiti.am/file_manager/EITI%20Documents/Minutes/MSG_meeting_minute_27_03_%202018.pdf

The Independent Administrator recommends including analytical study of transportation revenues in the scoping study for next EITI Report or try to collect initial information by including a respective inquiry in the reports completed within the scope of EITI.

Given that currently the concession governance of the railway system is implemented by one company, the direct State revenues from railway transportation of raw minerals may be analyzed as an initial proposal, simultaneously considering the public or private nature of the companies engaged, as well as possible limitations related to disclosure of commercial secret and collection of comparable data from all parties.

Payments made to and received from state enterprises, quasi-fiscal expenditures (Requirement 6.2)

According to EITI Requirement 6.2 “in case state participation in the extractive industries results in material revenue increases, EITI implementing countries must include disclosures of enterprises with State participation in the information on their quasi-fiscal expenditures”.

Quasi-fiscal expenditures include arrangements whereby enterprises with state participation undertake social expenditure such as payments for social services, fuel subsidies, national debt servicing and others.

As indicated in the “Scoping Study” (Section 6.9, p. 46), an inquiry for providing clarifications on State participation in metal mining industry was sent to the State Property Management Department of the RA Government. A response to that inquiry from the deputy head of the State Property Management Department dated November 22, 2017 was received, stating that there are no companies with State participation operating in Armenian metal mining industry. Thereby, the absence of state-owned companies and quasi-fiscal expenditures in this field makes EITI Requirement 6.2 not applicable for Armenia.

5.8 Progress in the area of Responsible Mining

During the working meeting of the multi-stakeholder group held on May 5, 2015, a proposal was made to create a working group for dealing with the EITI responsible mining issues. The group was created in the third quarter of 2017, and the composition of the group working on the EITI responsible mining issues was revised at the meeting of the multi-stakeholder group held on July 31, 2018 (Annex 11). This group has developed a draft project roadmap for introduction of responsible mining to be discussed at the working meeting of December 5, 2018.

In the draft project roadmap for introduction of responsible mining it is recommended to develop a concept paper “On the attitude of the Armenian EITI multi-stakeholder group towards responsible mining” before March 30, 2019 in order to provide a definition of responsible mining or the scope thereof. It is also proposed to the multi-stakeholder group to participate in the economic analysis of the mining industry aimed at assessing the economic management level of mines, as well as the investment of the community in the development of the affected community. In addition to the foregoing, it is proposed to participate in the environmental and health assessment activities in the mining industry in 2019 for the purpose of contributing to the policy development for the industry, and participate in the development of such a policy in the mining industry by 2020 which would contribute to the long-term sustainable development of the country. Finally, it is proposed to carry out continuous activities targeted at legal documents currently circulated with State bodies and aimed at developing new draft legal acts.

For the purposes of EITI implementation and promoting introduction of responsible mining in the Republic of Armenia, the AUA Center for Responsible Mining has carried out an analysis of legal and institutional gaps relating to several problems of responsible mining for MSG, within the scope of which the economic assessment of mining projects, environmental and social impact assessment (ESIA) procedure, and the procedures of submitting/monitoring of reports on public health and occupational safety in communities and environment were studied. The discovered institutional legal gaps impeding the introduction of responsible mining are as follows:

1. While there are certain mechanisms for assessing investment projects in different areas of the RA legislation, those are not unified, centralized or explicitly prescribed, there is no mandatory requirement for assessment with a cost-benefit tool, and even if the mentioned tool is used by a State agency during project assessment process, the results of the assessment are not made public.
2. Although the Republic of Armenia Code on Subsoil and the Republic of Armenia Law “On the Environmental Impact Assessment and Expertise” stipulate a requirement to implement Environmental Impact Assessment, the RA Government has not yet approved the EIA implementation methodology. In essence, the business entity determines the methodology, criteria and procedure for EIA implementation itself.
3. Besides, there is no provision in the legislation which would provide the legal status of the EIA expertise conclusion.

4. It has been concluded that there are no explicitly prescribed types of health monitoring and the connection with the monitoring results with the further steps of their application is not clear. The Independent Administrator held consultations with MSG members to determine the main expectations from Responsible Mining component, as well as record progress in this direction during 2016–2017. For this purpose, a questionnaire was prepared and circulated among MSG members (Annex 9 and 10). Based on the responses of MSG members, the following conclusions can be drawn:

1. MSG members are familiar with concept of Responsible Mining, but so far there is no single vision for its implementation in Armenia;
2. According to MSG members Responsible Mining component should address, first of all, environmental, social and healthcare issues;
3. To achieve these goals, it is necessary to:
 - ▶ Ensure transparency in the mining industry;
 - ▶ Engage all stakeholders in discussions on important issues related to the mining activities;
 - ▶ amend the legislation (the RA Law “On Environmental Impact Assessment and Examination” and the RA Law “On Environmental Control”, as well as the RA Code on Subsoil) by improving the environmental regulation mechanisms in the mining industry, based on the international best practice;
 - ▶ introduce “cost-benefit” analysis mechanism.
4. According to the MSG members, a significant progress in responsible mining will be achieved in the next 5 years: the Government should lead the process of introducing Responsible Mining, however the interests of the other stakeholders (civil society, business, local communities) must also be taken into account.
5. The Government policy on Responsible Mining should be based on a number of key elements:
 - ▶ Financial sanctions;
 - ▶ Administrative measures and control (inspections, reports, etc.);
 - ▶ Financial incentives (preferential loans, tax privileges, etc.);
 - ▶ Awareness and Corporate Social Responsibility (CSR) (self-regulation of business under the influence of public opinion).
6. It was also noted that over the last two years Armenia has made significant progress in this area. The approval of Armenia’s EITI candidacy has initiated development and introduction of EITI Standard. The Standard includes most of the issues related to the Responsible Mining. The EITI Standard is a good starting point for future progress of Armenia in Responsible Mining component.

6 FINDINGS IDENTIFIED IN THE FRAMEWORK OF THE EITI REPORT

6. FINDINGS IDENTIFIED IN THE FRAMEWORK OF THE EITI REPORT

A number of legislative gaps and discrepancies were revealed by the Independent Administrator during the EITI Report preparation, which are summarized below:

1. Despite the clear position expressed by the RA Constitutional Court regarding the fact that the relations arising from nature use payments are per se private legal relations, in terms of the inspections of royalty payments carried out by the SRC and the practice of their collection via administrative acts, as well as the appeals process of these acts explicitly remains in civil-legal domain, and the discrepancies observed in the legislation and highlighted by the Constitutional Court have not been eliminated by the Legislator. As a result, administrative proceedings are filed by the SRC with regard to the royalties incorrectly calculated by the extractive companies.
2. Despite the clear regulations for transferring and alienating the mining right trading of shares/stocks of legal entities having the right for subsoil use is not subject to any regulation and control by the MEINR.
3. The Legislation does not stipulate the bases for refusing the transfer of the right for subsoil use.
4. Obvious practical issues are faced by the subsoil users as a result of the fact that granting the right for subsoil use in no way guarantees that the company will necessarily be granted other rights mandatorily required for application of the mentioned right (water use right, land use right).
5. Although the local communities are the primary beneficiaries of the social-economical obligations taken over by the mining companies, the Legislation does not stipulate any certain mechanism for participation of the Local Self-Governance bodies representing the community in the process of formulating and clarifying the scopes of the social-economical obligations of the companies.
6. Although the Code stipulates that the employee social mitigation plan is developed “in compliance with the procedure prescribed by the Law”, however no procedures for actual implementation of employee social mitigation plan, procedures for clarifying the scopes of activities, as well as supervision over implementation of such activities and criteria for assessing their effectiveness are defined by RA legislation.
7. A number of legal gaps are observed in the context of regulating the payments made to the Fund. In particular, the Code does not stipulate any criteria for defining the scopes of environmental activities and the fact of their implementation by the mining companies, as well as any criteria for assessing the harm caused to the environment. The base rate for recultivation payments is not defined in the majority of the existing mining contracts, which results in legal uncertainty: the legislation makes a reference to contracts (as well as projects/plans), while the contracts do not

envisage any liability and only make a reference to “the size” and “payment order stipulated by the legislation”.

8. Legal uncertainties are available in mining contracts signed in the mining sector as a result of reformulating previously granted licenses. Taken that the previous Code on Subsoil applicable for the period of 2002-2012 did not envisage legal requirement for submitting a mine-closure plan, in case of the majority of reformulated permits mine-closure plans are missing. Therefore, the estimate price for monitoring, as well as employee mitigation plan and the action plan for social-economical mitigation for communities located on the territory of the direct impact of the closing mines are not available. In case of some of the contracts the Annex 2 titled “Mine-Closure Plan” defines only obligations for implementation of employee social mitigation activities and social-economical activities for communities located on the territory of the direct impact of the mines (without specifying the nature of these activities), while no mention is made on monitoring implementation fees. In case of another group of contracts, in Annex 2 titled “Mine-Closure Plan” which speaks about social mitigation activities, an action plan is also provided at the end of the Annex in form of a table, which in their essence are rather ecological than social.

Property tax payable to the Shnogh community by Teghout CJSC

It is welcomed that even in case of no registration the company was willingly making payments to community budget, however from the viewpoints of both the payment size definitions and adherence to the established procedures the issue should be given an institutional solution. From EITI viewpoint this is particularly important since in this case a deviation from the defined procedure for financial flows in the area of property tax is registered.

In this context the Independent Administrator recommends making corresponding inquiries or realizing studies to determine whether the stated issues, as well as the applied relevant approaches, are also present in other companies operating in the metal mining industry and how the heads of corresponding communities and the representatives of the RA State Committee of Real Estate Cadastre respond to these issues.

Employment in metal mining (extractive) industry

It was determined that the total number of employees in the metal mining (extractive) industry extracted from company reports is different from that published by the RA Statistical Committee. In particular, according to the data provided by the companies in metal mining (extracting) industry for 2016 and 2017 correspondingly 9.2 and 9.3 thousand employees worked in these companies, while according to the RA SC this numbers equaled to 8.8 and 9.2 thousand respectively.

Specifically, RA SC employment data is based on sampling of households (eligible for labor force participation), whereas the mining firm's employment data is based on average annual list of employees for any given year (the average of reporting year's 12-month average listed numbers).

Based on the clarifications provided by the companies and SC it can be concluded that this difference is conditioned by differences in data collection methodologies. In particular, the employment statistics of RA SC is based on selective workforce surveys conducted in households, while the employment indicator of the companies represents the average number of employees per reporting year (the average listed numbers for each of the 12 months of the given reporting year).

Production in metal mining (extractive) industry

The data provided by both SC and the companies on the volumes of copper and molybdenum ores and concentrates production in Armenia for 2016-2017 reflected different indicators. These differences are summarized in the table below:

	Production volumes according to the data of the RA SC, tons		Production volumes according to the data provided by the metal mining companies, wmt	
	2016	2017	2016	2017
Copper ore and concentrate	388,534	428,500	428,743	459,273
Molybdenum concentrate	10,662	11,542	638	2,303
Zinc ore and concentrate	7,891	9,640	8,901	10,869

The results of the inquiries made to the SC and metal mining companies allow to clarify that the differences between volume indicators are conditioned by different natural measurement methodologies and expertise approaches.

Exports in metal mining (extractive) industry

It turned out that the total monetary value of both the copper ore and concentrate and molybdenum concentrate provided by the RA SC are different from the same values extracted from the reports of metal mining companies. In particular, the RA SC reported export of copper ore and concentrate for the total amount of USD 571.5 million and export of molybdenum concentrate for the total amount of USD 8.6 million, whereas the amounts from the reports of metal mining companies are USD 484.3 million and USD 9.0 million respectively. Based on the comments received from the SC and the companies, the difference between the export values indicated above are conditioned by different methodological solutions used by the SC and the companies. The difference is based on the fact that the sale of the products in the domestic market are exported by other companies, and as a result those exported products are not reported by metal mining companies.

Moreover, another reason for the differences above is conditioned by the fact that some companies record the export sales transaction at the moment when the product leaves their warehouse, however, depending on a number of factors affecting exports, some part of the batch may stay in other warehouses in Armenia before being actually exported. As a result of this export data recorded for a given year might contain a part, which has been recorded by companies for the previous year or will be in the following.

Revenues for special programs or geographical areas

There are certain shortcomings in the legislative framework, which are related to the following facts:

- ▶ There are no clear legal regulations on the rules and guidelines for determining the "affected community";
- ▶ There is no clear regulation on the assessment of the damage caused to the community as a result of the activities realized in the mining industry and the mandatory nature of implementation of relevant programs and the necessity of submitting corresponding programmatic reports;
- ▶ there is no legal regulation on the effectiveness of defining upper and lower thresholds for the amounts allocated for environmental projects from the environmental payments stipulated by the Law;
- ▶ The Law "On Targeted Use of Environmental Payments Made by the Companies" only lists 4 metal ore extractive companies;
- ▶ there is no publicly available criteria for defining the size of the subsidy provided to each community;
- ▶ There is no obligation for publication of program implementation reports.



Annexes

ANNEX 1. THE LIST OF THE AGENCIES AND RESPONSIBLE PERSONS INVOLVED IN THE INFORMATION COLLECTION PROCESS IN THE FRAMEWORK OF THE EITI REPORT

Agency	Contact person, position
Statistical Committee	Ashot Ananyan, Head of the Industry and Energy Statistics Division of the Statistical Committee of RA
	Naira Mandalyan, Leading Specialist at the Social Sector and Nature Protection Statistic Division of the Statistical Committee of RA
MTAD	Karen Bakoyan, Head of the Local Self-Governance Affairs Coordination Division of the Local Self-Governance Policy Department of MTAD Staff
	Parandzem Darbinyan, Leading Specialist at the Regional Development Planning Division of the Territorial Administration Department
Ministry of Economic Development and Investments	Armen Yeganyan, Head of the Industrial Policy Department
	Samvel Paranyan, Chief Specialist at the Industrial Policy Department
Ministry of Health	Artavazd Vanyan, General Director of the “National Center for Disease Control and Prevention” SNCO of RA MOH
	Kristina Gyurjyan, Head of the Public Health Division of RA MOH Staff
Health Inspectorate	Ashot Harutyunyan, Head of Workers’ Wellness and Safety Management Department
	Garik Poghosyan, Chief Specialist of Workers’ Wellness and Safety Management Department
Ministry of Energy Infrastructures and Natural Resources	Anushavan Ayzazyan, Acting Head of the Mining Agency of RA MEINR Staff
	Shushanik Kerobyan, Head of Geology, Normative-Methodical and Analysis Division of the same Agency
Ministry of Emergency Situations	Karapet Karapetyan, Head of Technogenic Accidents Division of the Department for the Protection of Population and Disaster Reduction of MES Rescue Service, R/S Colonel
	Siranush Badalyan, Chief Specialist at the Emergency Situations Policymaking Division of the Emergency Situations Policymaking and International Cooperation Department

Ministry of Justice	Roza Baghdasaryan, Acting Head of the State Register Agency of Legal Entities of the RA Ministry of Justice Staff
	Tatevik Sarukhanyan, Leading Specialist at the Department for Drafting Anti-Corruption and Penitentiary Policies of the RA Ministry of Justice Staff
Ministry of Finance	Ori Alaverdyan, Head of the Revenue Policy and Administration Methodology Department of the RA Ministry of Finance Staff
Ministry of Nature Protection	Tamara Nurijanyan, Chief Economist at the “Environmental Impact Expertise Center” SNCO
	Karen Episkoposyan, Leading Specialist at the Division of Underground Resources Protection Policy of the Underground Resources and Land Protection Policy Department
State Revenue Committee	<p>Hasmik Khachatryan, Information Technology Department</p> <p>Lusine Mkrtychyan, Deputy Head of the Organization and Monitoring Department of RA SRC</p> <p>Suren Movsisyan, Head of the Customs Charges and Registration Division of the Customs Statistics and Income Registration Department of RA SRC</p> <p>Ashkhen Papoyan, Head of the Information Exchange and Management Division of the Information Technology Infrastructure Introduction and Development Department of RA SRC</p> <p>Elizabeth Mamikonyan, RA SRC Chairman’s Assistant, Working Group Leader</p> <p>Lusine Ayvazyan, Chief Tax Inspector of the Information System Change Management and Impact Assessment Division of the Information Technology Infrastructure Introduction and Development Department of RA SRC</p>
The Inspectorate for Nature Protection and Mineral Resources of the Ministry of Nature Protection	Armen Movsisyan, Head of the Risk Assessment and Analysis Department

ANNEX 2. INFORMATION ON CONDUCTING EXTERNAL FINANCIAL AUDIT IN THE COMPANIES

N	Company name	An external financial audit was carried out for 2016	Reference to the audit report and opinion 2016	An external financial audit was carried out for 2017	Reference to the audit report and opinion 2017
1	“Agarak Copper Molybdenum Combine” CJSC	Yes	https://issuu.com/narekegiazaryan/docs/summary_acmc_2016_local_fs_armenian	Yes	https://yadi.sk/i/ZMhKa3-3Yd444m
2	“Geghi Gold” LLC	Yes	The reference is missing	Yes	https://www.azdarar.am/announcements/org/129/00396391/
3	“Geopromining Gold” LLC	Yes	Published in the press	Yes	Published in the press
4	“Zangezur Copper-Molybdenum Combine” CJSC	Yes	“Gortsq” magazine	Yes	https://www.azdarar.am/announcements/org/161/00390630/
5	“Teghout” CJSC	Yes	www.vallex.com	Yes	www.vallex.com
6	“Ler-Ex” LLC	Yes	“Gortsyntats” newspaper N215 14/06/2017	Yes	https://www.azdarar.am/announcements/org/129/00390617/
7	“Lydian Armenia” CJSC	Yes	https://www.lydianarmenia.am/images/2017/FS_Lydian_Armenia_CJSC_2016_eng_final.pdf	Yes	https://www.lydianarmenia.am/img/uploadFiles/990b18daa90666bb3b46FS_LydianArmeniaCJSC_2017_eng_Final_signed.pdf
8	“Molibdeni Ashkharh” LLC	No		No	
9	“Sagamar” CJSC	No		No	
10	“Akhtala Mining and Processing Enterprise” CJSC	No		No	
11	“Aktiv Lernagorts” LLC	No		No	
12	“Assat” LLC	No		No	
13	“AT-Metals” LLC	No		No	
14	“Baktek Eco” LLC	No		No	

N	Company name	An external financial audit was carried out for 2016	Reference to the audit report and opinion 2016	An external financial audit was carried out for 2017	Reference to the audit report and opinion 2017
15	"Tatstone" LLC	No		No	
16	"Lichkvaz" CJSC	No		No	
17	"Kapan Mining and Processing Company" CJSC	No		No	
18	"Hrashk Metagh" LLC	No		No	
19	"Gharagulyanner" CJSC	No		No	
20	"Marjan Mining Company" LLC	No		No	
21	"Mego-Gold" LLC	No		No	
22	"Meghradzor Gold" LLC	No		No	
23	"Multi Group Concern" LLC	No		No	
24	"Paramount Gold Mining" CJSC	No		No	
25	"Vayk Gold" LLC	No		No	
26	"Vardani Zartonk" LLC	No		No	
27	"Fortune Resources" LLC	No		No	

ANNEX 3. THE BASIC RATE OF RECULTIVATION PAYMENTS DETERMINED BY SUBSOIL USE CONTRACTS, SIZES OF INITIAL AND ANNUAL CONTRIBUTIONS BASED ON REPORTS PROVIDED BY THE MINING COMPANIES AND THE MINISTRY OF NATURE PROTECTION

N	Metal mining company	Number and date of subsoil use agreement	According to the mining companies, 2016, AMD			According to the Ministry of Nature Protection, 2016, AMD				
			Basic rate for calculation	Amount payable to the fund	Actual payments to the fund	Basic rate for calculation	Amount payable to the fund calculated for the reporting year	Actual payments to the fund for the reporting year	Amount payable to the fund as of December 31 of the year preceding the reporting year	Actual payments to the fund as of December 31 of the year preceding the reporting year
1.	"Agarak Copper Molybdenum Combine" CJSC	No PV-311, 2013 April 5	428 690 000	26 027 607	-	428 689 820	26 027 600	-	142 386 270	3 833 300
2.	"Akhtala Mining and Processing Enterprise" CJSC	No PV-103, 2012 October 20	190 968 000	32 466 000	-	190 981 500	26 388 000	-	-	2 250 000
3.	"Aktiv Lernagorts" LLC	No PV-425, 2012 December 28	3 700 000	379 880	-	11 620 000	379 880	-	3 262 520	607 350
4.	"Assat" LLC	No PV-366, 2013 June 6	-	-	-	1 698 800	144 400	-	688 020	-
5.	"AT-Metals" LLC	No P-514, 2015 January 16	119 920 000	15 989 333	-	119 919 500	15 681 780	-	33 669 710	-
6.	"Baktek Eco" LLC	No P-515, 2014 August 22	-	-	-	2 440 000	82 960	-	531 920	-
7.	"Fortune Resources" LLC	No PV-169, 2012 October 20	1	1 028 460	1 028 460	27 829 000	1 028 460	1 028 460	11 373 570	4 288 840
8.	"Geghi Gold" LLC	No P-544, 2016 July 22	-	-	-	58 597 000	1 717 498	-	-	-
9.	"Geopromining Gold" LLC	No P-189, 2012 October 20	901 700 000	58 957 300	58 957 300	901 700 000	58 957 300	58 957 300	135 255 000	135 255 000
10.	"Gharagulyanner" CJSC	No P-547, 2016 October 25	9 891 560	233 511	-	9 891 560	233 550	-	-	-
11.	"Hrashk Metagh" LLC	No P-542, 2016 June 15	-	-	-	-	-	-	-	-

N	Metal mining company	Number and date of subsoil use agreement	According to the mining companies, 2016, AMD			According to the Ministry of Nature Protection, 2016, AMD				
			Basic rate for calculation	Amount payable to the fund	Actual payments to the fund	Basic rate for calculation	Amount payable to the fund calculated for the reporting year	Actual payments to the fund for the reporting year	Amount payable to the fund as of December 31 of the year preceding the reporting year	Actual payments to the fund as of December 31 of the year preceding the reporting year
12.	"Kapan Mining and Processing Company" CJSC	No PV-183, 2012 November 27	105 000 000	-	-	-	-	-	-	-
13.	"Ler-Ex" LLC	No PV-094, 2012 August 16	-	-	-	31 278 420	1 107 780	-	15 769 560	100 000
14.	"Lichkvaz" CJSC	No PV-293, 2012 November 22	32 500 000	1 453 947	-	5 285 700	187 220	-	1 541 730	2 190 000
15.	"Lydian Armenia" CJSC	No PV-245, 2012 September 26	1 864 926 000	121 938 000	121 938 000	1 864 926 000	121 938 000	121 938 000	279 738 000	281 349 760
16.	"Marjan Mining Company" LLC	No PV-398, 2013 March 7	-	-	-	7 853 000	290 170	-	3 209 140	1 179 000
17.	"Meghradzor Gold" LLC	No PV-057, 2012 August 22	3 385 140	307 740	307 740	3 385 200	307 740	430 000	1 738 740	1 986 700
18.	"Mego-Gold" LLC	No PV-184, 2012 December 28	-	-	-	3 070 670	435 000	-	3 070 670	2 325 000
19.	"Molibdeni Ashkharh" LLC	No PV-174, 2012 November 7	16 916 000	1 561 152	1 561 152	-	-	1 561 152	-	7 420 150
20.	"Multi Group Concern" LLC	No PV-213, 2012 October 20	6 315 000	233 381	-	-	-	-	-	-
21.	"Paramount Gold Mining" CJSC	No 089, 2012 June 12	-	-	-	-	-	-	-	-
22.	"Sagamar" CJSC	No PV-093, 2012 October 20	46 500 450	1 001 440	-	46 500 450	1 001 440	-	20 656 960	7 621 000
23.	"Tatstone" LLC	No P-458, No P-459, 2013 February 11	241 245	241 245	-	5 830 733	247 120	1 839 595	1 615 970	-
24.	"Teghrout" CJSC	No PV-376, 2013 February 20	-	2 953 000	2 953 000	20 841 300	2 953 000	2 953 000	20 841 300	20 671 000
25.	"Vardani Zartonk" LLC	No PV-239, 2012 September 27	2 616 800	171 100	-	2 616 700	171 100	-	1 419 100	342 200
26.	"Vayk Gold" LLC	No P-371, 2012 November 30	-	-	-	6 826 533	241 780	-	1 749 320	517 000

N	Metal mining company	Number and date of subsoil use agreement	According to the mining companies, 2016, AMD			According to the Ministry of Nature Protection, 2016, AMD				
			Basic rate for calculation	Amount payable to the fund	Actual payments to the fund	Basic rate for calculation	Amount payable to the fund calculated for the reporting year	Actual payments to the fund for the reporting year	Amount payable to the fund as of December 31 of the year preceding the reporting year	Actual payments to the fund as of December 31 of the year preceding the reporting year
27.	"Zangezur Copper-Molybdenum Combine" CJSC	No PV-232, 2012 November 27	45 206 750	1 829 800	5 489 400	51 206 800	1 813 570	5 489 400	18 250 450	2 076 920

N	Metal mining company	Number and date of subsoil use agreement	According to the mining companies, 2017, AMD			According to the Ministry of Nature Protection, 2017, AMD				
			Basic rate for calculation	Amount payable to the fund	Actual payments to the fund	Basic rate for calculation	Amount payable to the fund calculated for the reporting year	Actual payments to the fund for the reporting year	Amount payable to the fund as of December 31 of the year preceding the reporting year	Actual payments to the fund as of December 31 of the year preceding the reporting year
1.	"Agarak Copper Molybdenum Combine" CJSC	No PV-311, 2013 April 5	428 690 000	26 027 607	-	428 689 820	26 027 600	-	168 413 870	3 833 300
2.	"Akhtala Mining and Processing Enterprise" CJSC	No PV-103, 2012 October 20	190 968 000	32 466 000	-	190 981 500	32 466 000	-	26 388 000	2 250 000
3.	"Aktiv Lernagorts" LLC	No PV-425, 2012 December 28	3 700 000	379 880	-	11 620 000	379 880	-	3 642 400	607 350
4.	"Assat" LLC	No PV-366, 2013 June 6	-	-	-	1 698 800	144 400	-	832 420	-
5.	"AT-Metals" LLC	No P-514, 2015 January 16	119 920 000	15 989 333	-	119 919 500	15 681 780	-	49 351 490	-
6.	"Baktek Eco" LLC	No P-515, 2014 August 22	-	-	-	2 440 000	82 960	-	614 880	-
7.	"Fortune Resources" LLC	No PV-169, 2012 October 20	1	1 028 460	1 028 460	27 829 000	1 028 460	1 028 460	12 402 030	5 317 300
8.	"Geghi Gold" LLC	No P-544, 2016 July 22	-	-	-	58 597 000	1 717 498	-	10 507 050	-

9.	"Geoproming Gold" LLC	No PV-189, 2012 October 20	901 700 000	58 957 300	58 957 300	901 700 000	58 957 300	58 957 300	194 212 300	194 212 300
10.	"Gharagulyanner" CJSC	No P-547, 2016 October 25	9 891 560	233 511	233 550	9 891 560	233 550	1 717 020	-	-
11.	"Hrashk Metagh" LLC	No P-542, 2016 June 15	-	-	11 780	415 700	11 780	74 120	-	-
12.	"Kapan Mining and Processing Company" CJSC	No PV-183, 2012 November 27	105 000 000	-	-	-	-	-	-	-
13.	"Ler-Ex" LLC	No PV-094, 2012 August 16	-	-	1 107 780	31 278 420	1 107 780	16 877 340	100 000	100 000
14.	"Lichkvaz" CJSC	No PV-293, 2012 November 22	32 500 000	1 453 947	187 220	5 285 700	187 220	1 728 950	2 190 000	2 190 000
15.	"Lydian Armenia" CJSC	No PV-245, 2012 September 26	1 864 926 000	121 938 000	121 938 000	1 864 926 000	121 938 000	401 676 000	403 731 870	403 731 870
16.	"Marjan Mining Company" LLC	No PV-398, 2013 March 7	-	-	290 170	7 853 000	290 170	3 499 310	1 179 000	1 179 000
17.	"Meghradzor Gold" LLC	No PV-057, 2012 August 22	3 385 140	307 740	307 740	3 385 200	307 740	2 046 280	2 416 700	2 416 700
18.	"Mego-Gold" LLC	No PV-184, 2012 December 28	-	-	435 000	3 070 670	435 000	3 070 670	2 325 000	2 325 000
19.	"Molibdeni Ashkharh" LLC	No PV-174, 2012 November 7	16 916 000	1 561 152	1 561 152	-	-	1 561 152	8 982 000	8 982 000
20.	"Multi Group Concern" LLC	No PV-213, 2012 October 20	6 315 000	233 381	233 381	6 315 000	233 381	3 514 430	1 180 630	1 180 630
21.	"Paramount Gold Mining" CJSC	No 089, 2012 June 12	-	-	891 680	25 176 600	891 680	10 018 250	3 776 490	3 776 490
22.	"Sagamar" CJSC	No PV-093, 2012 October 20	46 500 450	1 001 440	1 001 440	46 500 450	1 001 440	7 834 800	7 621 000	7 621 000
23.	"Tatstone" LLC	No P-458, No P-459, 2013 February 11	241 245	241 245	247 120	5 830 733	247 120	1 863 090	1 839 570	1 839 570
24.	"Teghout" CJSC	No PV-376, 2013 February 20	-	2 953 000	2 953 000	20 841 300	2 953 000	20 841 300	23 624 000	23 624 000
25.	"Yardani Zartok" LLC	No PV-239, 2012 September 27	2 616 800	171 100	171 100	2 616 700	171 100	1 590 200	342 200	342 200
26.	"Vayk Gold" LLC	No P-371, 2012 November 30	-	-	241 780	6 826 533	241 780	1 991 100	517 000	517 000
27.	"Zangezur Copper-Molybdenum Combine" CJSC	No PV-232, 2012 November 27	548 751 230	101 747 623	101 747 623	548 751 230	101 747 623	101 747 623	7 566 320	7 566 320

ANNEX 4. SUBSIDIES AND ENVIRONMENTAL PROGRAMS ALLOCATED TO AFFECTED COMMUNITIES IN THE FRAMEWORK OF THE LAW OF THE REPUBLIC OF ARMENIA “ON TARGETED USE OF ENVIRONMENTAL PAYMENTS MADE BY COMPANIES” FOR 2016-2017

Region, Community name	Activities implemented under the environmental program, 2016 Name	Amount /thousand AMD/
Yerevan		-
Lori region		
Akhtala	Total Akhtala	52,270
	Environmental activities, including:	4,588
	Asphalting works at Abovyan street in Sarahart district of Akhtala community	3,212
	Healthcare activities:	3,212
	Total Odzun	1,376
Odzun	Total Odzun	47,682
	Environmental activities, including:	39,766
	Asphalting works of 2nd, 3rd and 8th streets of Odzun community	39,766
	Healthcare activities:	7,916
Syunik region		
	Total Kajaran	32,462
	Environmental activities, including:	15,619
	1. Procurement of sweeping-cleaning "vacuum cleaner"	12,369
Kajaran		11,000
	2. Development of ecological education and information	1,369
Kapan	Healthcare activities:	3,250
	Total Kapan	6,276
	Environmental activities, including:	6,276
	Tree planting, green areas restoration, improvement and renovation works on Kapan Community Manoogian street sidewalks	6,276
	Healthcare activities:	

Region, Community name	Activities implemented under the environmental program, 2016 Name	Amount /thousand AMD/
Lernadzor	Total Lernadzor	5,843
	<i>Environmental activities, including:</i>	5,843
	Cleaning of the operating drainpipes of Lernadzor village	865
	Construction of 25m long new drainpipes	4,977
	<i>Healthcare activities:</i>	-
Agarak	Total Agarak	3,340
	<i>Environmental activities, including:</i>	-
	<i>Healthcare activities:</i>	3,340
Karchevan	Total Karchevan	1,384
	<i>Environmental activities, including:</i>	-
	<i>Healthcare activities:</i>	1,384
Ararat region	Total Ararat	4,042
	<i>Environmental activities, including:</i>	4,042
	Development of design-estimation documents	350
	Reconstruction and commissioning of artesian deep wells or commissioning of a conserved pool	3,692
	<i>Healthcare activities:</i>	-
Kotayk region	Total Charentsavan	975
	<i>Environmental activities, including:</i>	975
	Acquisition and installation of "DINOVA" or equivalent type garbage bins	-
Total		89,749

Region, Community name	Activities implemented under the environmental program, 2017	Amount /thousand AMD/
Yerevan	Name	-
Lori region		
	Total Alaverdi	111,667
	Environmental activities, including:	29,757
	1.Restoration and expansion of community green areas	20,830
	2.Platform repair	4,000
	3.Purchase and installation of garbage bins	12,000
	4.Drainage pipes cleaning	2,000
	Healthcare activities:	2,830
	Total Aqori	8,927
	Total Aqori	24,903
	Environmental activities, including:	22,053
	1. Asphaltting of the 2nd and 3rd streets of the community	13,903
	2. Capital renovation of the "Chapreladzor-Achory" irrigation water line	4,000
	3. Renovation of the kindergarten building	4,150
	Healthcare activities:	2,850
	Total Haghpat	3,155
	Environmental activities, including:	2,209
	1.Organizing community waste removal, transportation of waste to the landfill of Alaverdi community	2,209
	Healthcare activities:	947
	Total Odzun	19,806
	Environmental activities, including:	13,612
	1. Construction of 7th, 8th (partially) and 13th streets lighting systems	13,612
	Healthcare activities:	6,195
	Total Hagvi	30,051
	Environmental activities, including:	30,051
	Asphaltting of Hagvi inter-community and rural roads	30,051
	Healthcare activities:	-
	Total Chochkan	1,192
	Environmental activities, including:	-
	Healthcare activities:	1,192
	Total Mets Ayrum	682
	Environmental activities, including:	416
Mets Ayrum Chochkan		
	Total Mets Ayrum	682
	Environmental activities, including:	416

Region, Community name	Activities implemented under the environmental program, 2017 Name	Amount /thousand AMD/
Shnogh	1. Organizing community waste removal, transportation of waste to the landfill of Alaverdi community	416
	Healthcare activities:	266
	Total Shnogh	2,120
	Environmental activities, including:	1,500
	<i>Cleaning of Shnogh drainpipes</i>	1,500
Syunik region	Healthcare activities:	620
	Total Kajaran	18,311
	8,400	
	7,820	
	3,300	
Kajaran	Environmental activities, including:	1,430
	1. Energy efficiency modernization of urban illumination system	2,016
	2. Ecological education and information	1,074
	3. Protection of atmospheric air	580
	4. Improvement of municipal waste management	
Kapan	Healthcare activities:	8,875
	Total Kapan	8,875
	8,875	
	8,875	
	8,875	
Agarak	Tree planting, green areas restoration, improvement and renovation works on Kapan Community Manoogian street sidewalks	-
	Healthcare activities:	1,036
	Total Agarak (Meghri)	-
	Environmental activities, including:	1,036
	Healthcare activities:	1,036
Tavush region	Total Ayrum	7,666
	5,323	
	4,079	
	Environmental activities, including:	5,323
	Organizing Ayrum community waste removal, transportation of waste to the landfill of Haghtanak community	
Ayrum	Organizing Archis village waste removal, transportation of waste to the landfill of community	600
	Organizing Deghdzavan village waste removal, transportation of waste to the landfill of community	637
	Organizing Debedavan village waste removal, transportation to the landfill of Bagratashen community	173
	Organizing Lchkadzor village waste removal, transportation to the landfill of community	341
	Construction of irrigation water line	255
Organizing Haghtanak village waste removal, transportation to the landfill of community	1,110	

Region, Community name	Activities implemented under the environmental program, 2017 Name	Amount /thousand AMD/
	Organizing Ptghavan village waste removal, transportation to the landfill of Bagratashen community	723
	<i>Healthcare activities:</i>	240
	Total Noyemberyan	1,244
	<i>Environmental activities, including:</i>	1,833
	Berdavan village park and playground cleaning and renovation	1,833
	Berdavan Village waste dump and Surrounding Area cleaning and renovation	1,119
	Cleaning of Berdavan village drainpipes	200
	Cleaning of the surrounding area of Berdavan twice a year	100
	<i>Healthcare activities:</i>	414
	Total Koghb	-
	<i>Environmental activities, including:</i>	510
	Organizing Zorakan village waste removal, transportation to the landfill of community	510
	<i>Healthcare activities:</i>	510
	Total Ayrum	-
Total		137,644

ANNEX 5. VOLUNTARY DONATIONS, ALLOCATIONS AND OTHER CONTRIBUTIONS MADE TO INDIVIDUALS WITHOUT COMPENSATION IN 2016-2017

	Company	Number of individuals		The amount of the donations, allocations or contributions, AMD	
		2016	2017	2016	2017
1.	“Agarak Copper Molybdenum Combine” CJSC	18	23	10,202,475	8,203,790
2.	“Akhtala Mining and Processing Enterprise” CJSC	0	4	0	1,250,000
3.	“Aktiv Lernagorts” LLC	0	0	0	0
4.	“Assat” LLC	N/A	0	N/A	0
5.	“AT-Metals” LLC	0	0	0	0
6.	“Baktek Eco” LLC	N/A	0	N/A	0
7.	“Fortune Resources” LLC	N/A	0	N/A	0
8.	“Geghi Gold” LLC	0	0	0	0
9.	“Geopromining Gold” LLC	88	92	14,751,100	26,547,637
10.	“Gharagulyanner” CJSC	0	0	0	0
11.	“Kapan Mining and Processing Company” CJSC	777	438	3,710,726	9,993,088
12.	“Ler-Ex” LLC	0	0	0	0
13.	“Lydian Armenia” CJSC	104	18	49,422,802	4,723,258
14.	“Lichkvaz” CJSC	0	0	0	0
15.	“Marjan Mining Company” LLC	0	0	0	0
16.	“Meghradzor Gold” LLC	7	5	4,141,175	2,810,225
17.	“Mego-Gold” LLC	0	0	0	0
18.	“Molibdeni Ashkharh” LLC	0	0	0	0
19.	“Multi Group Concern” LLC	N/A	0	N/A	0
20.	“Paramount Gold Mining” CJSC	0	0	0	0
21.	“Sagamar” CJSC	0	0	0	0
22.	“Tatstone” LLC	0	0	0	0
23.	“Teghout” CJSC	0	0	0	0
24.	“Vardani Zartonk” LLC	0	0	0	0
25.	“Vayk Gold” LLC	N/A	0	N/A	0
26.	“Zangezur Copper-Molybdenum Combine” CJSC	4	11	5,713,000	10,171,000
27.	“Hrashk Metagh” LLC	N/A	N/A	N/A	N/A

ANNEX 6. TABLES OF FIGURES AND GRAPHS PRESENTED IN THE REPORT

Chapter 2.1 The share of the mining industry in the economy of Armenia

Gross Value Added in Mining and quarrying and its share in GDP

	2010	2011	2012	2013	2014	2015	2016	2017
Gross Value Added - AMD mln	89,251	102,847	114,327	102,687	102,553	107,718	130,836	176,989
GDP share, %	2.6%	2.7%	2.7%	2.3%	2.1%	2.1%	2.6%	3.2%

Chapter 2.2 Employment in the metal mining industry

Gross Value Added in mining and quarrying sector and its share in employment

	2010	2011	2012	2013	2014	2015	2016	2017
Total employment	1185.2	1176.1	1172.8	1163.8	1133.5	1072.6	1006.2	1011.7
Total Industry	120.6	128.7	123	131.9	131	120.8	121.4	132.9
Mining and quarrying	11	10,4	10	9,4	7.9	9,3	8,8	9.2

Chapter 2.3 State revenues from the metal mining sector and their distribution

Contribution to the State budget by mining companies for 2016-2017

	Share
Tax payments from mining companies	4.40%
Other Revenues of the State Budget	95.60%
Total	100%

Contribution to the State budget by mining companies for 2017

	Share
Tax payments from mining companies	7.10%
Other Revenues of the State Budget	92.90%
Total	100%

The share of payments made by mining companies to the State budget in 2016

	State Income
Royalty	23,571
Income tax	11,824
VAT	9,030
Profit Tax	4,224
Custom duties and fees	1,083
Penalties	509
Fee for subsoil use	230
Other	633
Total	45,619

The share of payments made by mining companies to the State budget in 2017

	State Income
Royalty	37,575
Income tax	14,363
VAT	16,995
Profit Tax	11,811
Penalties	2,036
Excise tax	1,04
Fines	240
Other	2,983
Total	76,488

Taxes and payments calculated by mining companies in 2016

	Total payments from extractive companies, AMD million
“Zangezur Copper-Molybdenum Combine” CJSC	19,493
“Geopromining Gold” LLC	11,701
“Teghout” CJSC	9,449
“Kapan Mining and Processing Company” CJSC	3,929
“Agarak Copper Molybdenum Combine” CJSC	3,448
“Lydian Armenia” CJSC	1,323
“Akhtala Mining and Processing Enterprise” CJSC	699
“Ler-Ex” LLC	395
“Meghradzor Gold” LLC	214
“Sagamar” CJSC	137
Other	312
Total payments, mln AMD	51,100

Taxes and payments calculated by mining companies in 2017

	Total payments from extractive companies, AMD million
“Zangezur Copper-Molybdenum Combine” CJSC	32,583
“Geopromining Gold” LLC	14,315
“Lydian Armenia” CJSC	2,592
“Kapan Mining and Processing Company” CJSC	11,282
“Teghout” CJSC	14,114
“Agarak Copper Molybdenum Combine” CJSC	9,263
“Akhtala Mining and Processing Enterprise” CJSC	952
“Sagamar” CJSC	258
“Ler-Ex” LLC	265
“Meghradzor Gold” LLC	831
Other	594
Total payments, mln AMD	87,048

Chapter 2.4 Production, reserves, export and local sales in the metal mining industry

Copper concentrate production, 2010–2017, according to Statistical Committee

	2010	2011	2012	2013	2014	2015	2016	2017
Copper concentrate production, tons	118,105	127,744	155,545	184,494	192,273	315,599	388,534	428,500

International average annual price of copper in 2010-2017

	2010	2011	2012	2013	2014	2015	2016	2017
Price of copper, average annual, USD/tons	7,539	8,871	8,015	7,322	6,862	5,494	4,863	6,166
Copper concentrate export, thousand tons	118	128	156	184	192	316	389	429

Molybdenum concentrate production, 2010 – 2017, tons, according to Statistical Committee

	2010	2011	2012	2013	2014	2015	2016	2017
Molybdenum concentrate production	8 583	9 455	10 677	11 635	11 807	10 440	10 662	11 542

International average annual price of molybdenum in 2012-2017

	2012	2013	2014	2015	2016	2017
Price of molybdenum, average annual, USD/tons	27,311	21,963	24,565	14,311	13,991	15,398
Molybdenum concentrate export, thousand tons	11	12	12	10	11	11

Zinc concentrate production, 2010 – 2017, tons, according to Statistical Committee

	2010	2011	2012	2013	2014	2015	2016	2017
Zinc concentrate production, tons	14,361	15,588	16,215	15,950	14,709	11,319	7,891	9,640

International average annual price of gold in 2010-2017

	2010	2011	2012	2013	2014	2015	2016	2017
Price of gold, average annual, USD/toz	1225	1572	1669	1411	1266	1160	1251	1257

International average annual price of zinc in 2010-2017

	2010	2011	2012	2013	2014	2015	2016	2017
Price of zinc, average annual, USD/tons	2187	2213	1965	1941	2165	1943	2098	2891
Zinc concentrate export, thousand tons	14	16	16	16	15	11	8	10

Concentrate exports (thousand tons), according to Statistical Committee

	2010	2011	2012	2013	2014	2015	2016
Precious metal ore and concentrate	0	1	1	1	1	1	0
Zinc ore and concentrate	16	15	17	18	14	14	9
Copper ore and concentrate	116	118	131	173	185	309	397

Ore exports (mln USD), according to Statistical Committee

	2010	2011	2012	2013	2014	2015	2016	2017
Precious metal ore and concentrate	1	0	25	0	33	32	33	2
Molybdenum concentrate	0	1	1	1	1	1	0	1
Zinc ore and concentrate	16	15	17	18	14	14	9	10
Copper ore and concentrate	116	118	131	173	185	309	397	475
The share of copper ore and concentrate in the exported ore	86.3%	86.6%	84.7%	90.2%	89.8%	93.5%	96.2%	97.2%

The share of copper ore and concentrate in total exports, according to Statistical Committee

	2010	2011	2012	2013	2014	2015	2016	2017
Copper ore and concentrate	211	261	228	280	236	317	357	571
Other mining products	20	27	52	24	55	49	44	27
Other branches of economy	811	1047	1101	1175	1256	1119	1391	1625
The share of copper ore and concentrate in the total export of Armenia	20.2%	19.5%	16.5%	18.9%	15.2%	21.3%	19.9%	25.7%

Export of molybdenum concentrates by countries for 2016

	Share
The Netherlands	98,8%
Austria	1,2%
Total export in 2016	100%

Export of molybdenum concentrates by countries for 2017

	Share
The Netherlands	65,4%
Austria	34,6%
Total export in 2017	100%

Export of zinc ore and concentrates by countries for 2016, according to the companies

	Share
Belgium	100%
Total export in 2016	100%

Exports of zinc ore and concentrates by countries for 2017, according to the companies

	Share
Belgium	91%
Republic of Korea	9%
Total export in 2017	100%

Export of precious metal ores and concentrates by countries for 2016

	Share
China	98%
Belgium	2%
Total export in 2016	100%

Export of precious metal ores and concentrates by countries for 2017

	Share
Switzerland	98%
Islamic Republic of Iran	1.94%
Russian Federation	0.06%
Total export in 2017	100%

ANNEX 7. ADJUSTMENTS MADE BASED ON RECONCILIATION

The results of data reconciliation for 2016 and interpretation of adjustments made

Company name	Presented by a state body (preliminary report)	Presented by the company (preliminary report)	Presented by a state body (final report)	Presented by the company (final report)	Final discrepancy between the data provided by State body and the company	The share of final discrepancy by relevant company indicator	Adjustment reason
Royalty							
“Agarak Copper Molybdenum Combine” CJSC	1,142,149	1,072,385	1,142,149	1,142,149	0	0.00%	The company had only partially included the amount of royalty set by the inspection act in its preliminary report, which was corrected as a result of the reconciliation.
“Meghradzor Gold” LLC	179,796	185,574	179,796	179,796	0	0.00%	Data of the company’s 2017 inspection act concerning 2016 was included in the 2016 reports. As a result of the reconciliation, the company excluded the royalty amount of 5,778 thousand AMD set by the inspection act from its 2016 report.
Value added tax							
“Teghout” CJSC	1,692,381	3,890,355	1,692,381	1,704,372	(11,991)	-0.71%	As a result of additional interpretation of the reporting guide, the approach for calculation of VAT amount was generalised, as a result of which the company reviewed the reported amount of VAT.
“Agarak Copper Molybdenum Combine” CJSC	317,926	350,302	796,388	643,222	153,166	23.81%	As a result of additional interpretation of the reporting guide, the approach for calculation of VAT amount was generalised, as a result of which both the company and RA SRC reviewed the amounts of VAT reported in their preliminary reports. Based on the data of final reports, the

Company name	Presented by a state body (preliminary report)	Presented by the company (preliminary report)	Presented by a state body (final report)	Presented by the company (final report)	Final discrepancy between the data provided by State body and the company	The share of final discrepancy by relevant company indicator	Adjustment reason
							difference between the data presented by the company and the RA SRC exceed the reconciliation materiality, amounting to 153,166 thousand AMD or 23.8%. The difference is mainly associated with the deferred VAT amount of 163,863 thousand AMD, which was twice included in the report of the RA SRC, because the company mistakenly included that amount in the VAT payment calculations in the data provided for the month of deferred tax, when presenting them to the RA SRC
“Akhtala Mining and Processing Enterprise” CJSC	14,743	-	14,743	14,743	0	0.00%	As a result of additional interpretation of the reporting guide, the approach for calculation of VAT amount was generalised, as a result of which the company reviewed the reported amount of VAT.
“Geopromining Gold” LLC	1,116,464	1,175,814	2,949,664	2,942,029	7,635	0.26%	As a result of additional interpretation of the reporting guide, the approach for calculation of VAT amount was generalised, as a result of which the company and the SRC reviewed the amount of VAT reported in their preliminary reports.
“Zangezur Copper-Molybdenum Combine” CJSC	1,673,572	1,827,803	1,973,535	1,976,810	(3,275)	-0.17%	As a result of additional interpretation of the reporting guide, the approach for calculation of VAT amount was generalised, as a result of which the company and the SRC reviewed the amount of VAT reported in their preliminary reports.

Company name	Presented by a state body (preliminary report)	Presented by the company (preliminary report)	Presented by a state body (final report)	Presented by the company (final report)	Final discrepancy between the data provided by State body and the company	The share of final discrepancy by relevant company indicator	Adjustment reason
"Lydian Armenia" CJSC	337,883	-	337,883	337,883	0	0.00%	As a result of additional interpretation of the reporting guide, the approach for calculation of VAT amount was generalised, as a result of which the company reviewed the reported amount of VAT.
"Meghradzor Gold" LLC	37,791	29,880	40,418	40,418	0	0.00%	As a result of additional interpretation of the reporting guide, the approach for calculation of VAT amount was generalised, as a result of which the company and the SRC reviewed the amount of VAT reported in their preliminary reports.
"Kapan Mining and Processing Company" CJSC	598,106	939,133	940,414	939,133	1,281	0.14%	As a result of additional interpretation of the reporting guide, the approach for calculation of VAT amount was generalised, as a result of which the RA SRC reviewed the reported amount of VAT.
Income tax							
"Akhtala Mining and Processing Enterprise" CJSC	319,898	318,245	319,898	319,898	0	0.00%	The company agreed with the Income tax amount presented by RA SRC and made corresponding adjustment.
Profit tax							
"Agarak Copper Molybdenum Combine" CJSC	31,788	34,122	31,788	31,788	0	0.00%	There was a mistake concerning the inspection acts related to the profit tax in the preliminary report presented by the company (the amount was mentioned with the opposite sign), which was corrected as a result of the reconciliation.
"Kapan Mining and Processing Company" CJSC	368,610	366,610	368,610	368,610	0	0.00%	The company did not include the non-resident profit tax amount of 2,000 thousand AMD in its preliminary report,

Company name	Presented by a state body (preliminary report)	Presented by the company (preliminary report)	Presented by a state body (final report)	Presented by the company (final report)	Final discrepancy between the data provided by State body and the company	The share of final discrepancy by relevant company indicator	Adjustment reason
Customs duty, customs fee and road fee							
“Agarak Copper Molybdenum Combine” CJSC	31,332	18,114	31,272	29,264	2,008	6.86%	For the purpose of reconciliation, the amounts were reviewed and agreed between RA SRC and the company.
“Akhtala Mining and Processing Enterprise” CJSC	12,192	10,179	12,192	12,192	0	0.00%	For the purpose of reconciliation, the amounts were reviewed and agreed between RA SRC and the company.
“Geopromining Gold” LLC	159,157	145,802	159,399	159,399	0	0.00%	For the purpose of reconciliation, the amounts were reviewed and agreed between RA SRC and the company.
“Zangezur Copper-Molybdenum Combine” CJSC	197,260	63,153	204,242	206,153	(1,911)	-0.94%	For the purpose of reconciliation, the amounts were reviewed and agreed between RA SRC and the company.
“Teghout” CJSC	494,904	511,394	494,904	499,678	(4,774)	-0.96%	For the purpose of reconciliation, the amounts were reviewed and agreed between RA SRC and the company.
Rent payments							
“Agarak Copper Molybdenum Combine” CJSC	31,724	35,664	35,664	35,664	0	0.00%	The RA Ministry of Territorial Administration and Development did not include some rent payments in its preliminary report. As a result of the reconciliation, these payments were included in the final report.
“Zangezur Copper-Molybdenum Combine” CJSC	150,813	148,239	147,843	148,239	(396)	-0.27%	The RA Ministry of Territorial Administration and Development mistakenly included some extra amounts of rent payments in its preliminary report. As a result of the reconciliation, the extra

Company name	Presented by a state body (preliminary report)	Presented by the company (preliminary report)	Presented by a state body (final report)	Presented by the company (final report)	Final discrepancy between the data provided by State body and the company	The share of final discrepancy by relevant company indicator	Adjustment reason
"Lydian Armenia" CJSC	359,940	313,865	359,940	359,940	0	0.00%	amounts were removed from the final report. The company agreed with the amount of rent payments presented by RA Ministry of Territorial Administration and Development and made the corresponding correction.
"Teghout" CJSC	30,223	31,273	31,273	31,273	0	0.00%	The RA Ministry of Territorial Administration and Development did not include some rent payments in its preliminary report. As a result of the reconciliation, these payments were included in the final report.
"Kapan Mining and Processing Company" CJSC	105,688	92,301	105,688	105,688	0	0.00%	As a result of rent payment reconciliation process realized with Local Self-Governance bodies the rent payments missing from the previous report were added to the final report.

The results of data reconciliation for 2017 and interpretation of adjustments made

Company name	Presented by a state body (preliminary report)	Presented by the company (preliminary report)	Presented by a state body (final report)	Presented by the company (final report)	Final discrepancy between the data provided by State body and the company	The share of final discrepancy by relevant company indicator	Adjustment reason
	Royalty						
“Teghout” CJSC	2,010,018	7,199,233	7,143,174	7,143,174	0	0.00%	RA SRC has omitted the amount of royalty due to technical error then filing preliminary report. For the purpose of reconciliation, the amounts were reviewed and agreed between RA SRC and the company.
“Meghradzor Gold” LLC	72,952	67,174	72,952	72,952	0	0.00%	Data of the company’s 2017 inspection act concerning 2016 were included in the 2016 reports. As a result of the reconciliation, the company included 5,778 thousand AMD royalty in its 2017 report.
“Sagamar” CJSC	731,215	-	731,215	731,215	0	0.00%	The company missed the royalty amount set by the inspection act, which was later included in the report, as a result of the reconciliation.
Value added tax							
“Teghout” CJSC	2,865,264	(943,343)	2,865,264	2,837,175	28,089	0.99%	As a result of additional interpretation of the reporting guide, the approach for calculation of VAT amount was generalised, as a result of which the company reviewed the reported amount of VAT. The company also included 18,397 thousand AMD set by the inspection act in its calculations, which

Company name	Presented by a state body (preliminary report)	Presented by the company (preliminary report)	Presented by a state body (final report)	Presented by the company (final report)	Final discrepancy between the data provided by State body and the company	The share of final discrepancy by relevant company indicator	Adjustment reason
“Agarak Copper Molybdenum Combine” CJSC	566,112	382,462	377,493	382,462	(4,969)	-1.32%	was missing in the preliminary report presented by the company. As a result of additional interpretation of the reporting guide, the approach for calculation of VAT amount was generalised, as a result of which the RA SRC reviewed the reported amount of VAT.
“Akhtala Mining and Processing Enterprise” CJSC	17,695	-	17,695	17,695	0	0.00%	As a result of additional interpretation of the reporting guide, the approach for calculation of VAT amount was generalised, as a result of which the company reviewed the reported amount of VAT.
“Geopromining Gold” LLC	1,998,273	2,017,526	1,769,102	1,733,144	35,958	2.07%	As a result of additional interpretation of the reporting guide, the approach for calculation of VAT amount was generalised, as a result of which the company and the SRC reviewed the amount of VAT reported in their preliminary reports.
“Zangezur Copper-Molybdenum Combine” CJSC	2,389,255	1,936,080	2,081,224	2,019,121	62,103	3.08%	As a result of additional interpretation of the reporting guide, the approach for calculation of VAT amount was generalised, as a result of which the company and the RA SRC reviewed the amount of VAT reported in their preliminary reports.

Company name	Presented by a state body (preliminary report)	Presented by the company (preliminary report)	Presented by a state body (final report)	Presented by the company (final report)	Final discrepancy between the data provided by State body and the company	The share of final discrepancy by relevant company indicator	Adjustment reason
“Lydian Armenia” CJSC	8,282,581	-	8,282,581	8,282,581	0	0.00%	As a result of additional interpretation of the reporting guide, the approach for calculation of VAT amount was generalised, as a result of which the company reviewed the reported amount of VAT.
“Meghradzor Gold” LLC	19,020	(72,008)	19,020	19,020	0	0.00%	As a result of additional interpretation of the reporting guide, the approach for calculation of VAT amount was generalised, as a result of which the company reviewed the reported amount of VAT.
“Multi Group Concern” LLC	78,442	142,524	78,442	78,442	0	0.00%	As a result of additional interpretation of the reporting guide, the approach for calculation of VAT amount was generalised, as a result of which the company reviewed the reported amount of VAT.
“Sagamar” CJSC	43,620	-	43,620	43,620	0	0.00%	As a result of additional interpretation of the reporting guide, the approach for calculation of VAT amount was generalised, as a result of which the company reviewed the reported amount of VAT.
“Kapan Mining and Processing Company” CJSC	2,410,479	1,114,974	1,115,003	1,114,974	29	0.00%	As a result of additional interpretation of the reporting guide, the approach for calculation of VAT amount was generalised, as a result of which the RA

Company name	Presented by a state body (preliminary report)	Presented by the company (preliminary report)	Presented by a state body (final report)	Presented by the company (final report)	Final discrepancy between the data provided by State body and the company	The share of final discrepancy by relevant company indicator	Adjustment reason
Income tax							
“Akhtala Mining and Processing Enterprise” CJSC	349,139	348,802	349,139	349,130	9	0.00%	The company agreed with the Income tax amount presented by RA SRC and made corresponding correction.
“Sagamar” CJSC	30,409	30,271	30,409	30,409	0	0.00%	The company agreed with the Income tax amount presented by RA SRC and made corresponding correction.
Profit tax							
“Kapan Mining and Processing Company” CJSC	(149,933)	140,215	(149,933)	(149,933)	0	0.00%	The recovered profit tax amount of (290,148) thousand AMD set by the inspection act was included in the column “Calculated by inspection act” in the final report instead of the column “Returned in reporting year”
“Sagamar” CJSC	2,655	228	2,655	2,654	1	0.04%	The company missed profit tax amount of 2,426 thousand AMD set by the inspection act, which was later included in its report as a result of the reconciliation.
“Akhtala Mining and Processing Enterprise” CJSC	832	-	832	832	0	0.00%	The company agreed with the profit tax amount presented by RA SRC and made corresponding correction.
“Teghout” CJSC	1,275,572	1,275,572	1,275,572	1,203,554	72,018	5.98%	After presenting the preliminary report, the company corrected the calculation of the profit tax for September 2017 with the amount of 72,018 thousand AMD and included this correction in the final

Company name	Presented by a state body (preliminary report)	Presented by the company (preliminary report)	Presented by a state body (final report)	Presented by the company (final report)	Final discrepancy between the data provided by State body and the company	The share of final discrepancy by relevant company indicator	Adjustment reason
							report. RA SRC has not yet reviewed the profit tax amount presented in the final report.
“Multi Group Concern” LLC	23,707	23,462	23,707	23,707	0	0.00%	The company did not include the non-resident profit tax amount of 245 thousand AMD in its preliminary report, which was included in the final report as a result of the reconciliation.
Customs duty, customs fee and road payment							
“Agarak Copper Molybdenum Combine” CJSC	32,513	20,617	32,513	34,565	(2,052)	-6.31%	For the purpose of reconciliation, the amounts were reviewed and agreed between RA SRC and the company. According to the data of the final reports, the difference between the data presented by the company and RA SRC exceeds the reconciliation materiality, amounting to 2,052 thousand AMD or 6.3%. According to the information obtained, the main reason of the difference is the discrepancy of information on the actual payments made by the company with the database of the RA SRC.
“Lydian Armenia” CJSC	790,474	741,365	790,474	790,474	0	0.00%	For the purpose of reconciliation, the amounts were reviewed and agreed between RA SRC and the company.
“Akhtala Mining and Processing Enterprise” CJSC	21,630	17,778	21,630	21,630	0	0.00%	For the purpose of reconciliation, the amounts were reviewed and agreed between RA SRC and the company.

Company name	Presented by a state body (preliminary report)	Presented by the company (preliminary report)	Presented by a state body (final report)	Presented by the company (final report)	Final discrepancy between the data provided by State body and the company	The share of final discrepancy by relevant company indicator	Adjustment reason
“Geopromining Gold” LLC	302,284	297,746	313,673	313,673	0	0.00%	For the purpose of reconciliation, the amounts were reviewed and agreed between RA SRC and the company.
“Meghradzor Gold” LLC	4,467	2,372	4,467	4,467	0	0.00%	For the purpose of reconciliation, the amounts were reviewed and agreed between RA SRC and the company.
“Zangezur Copper-Molybdenum Combine” CJSC	260,401	253,246	260,401	260,401	0	0.00%	For the purpose of reconciliation, the amounts were reviewed and agreed between RA SRC and the company.
“Teghout” CJSC	478,158	470,846	478,158	474,345	3,813	0.80%	For the purpose of reconciliation, the amounts were reviewed and agreed between RA SRC and the company.
“Kapan Mining and Processing Company” CJSC	102,425	84,456	129,471	125,904	3,567	2.83%	For the purpose of reconciliation, the amounts were reviewed and agreed between RA SRC and the company.
Fines							
“Agarak Copper Molybdenum Combine” CJSC	89,974	-	154,093	-	154,093	100.00%	The company does not agree with neither the amount of the fine presented by the RA SRC in the preliminary report, nor with the amount presented in the final report. As of the final report signing date, the amount of the fine is appealed by the company. The amount of fine presented in the preliminary report was revised by RA SRC as result of the reconciliation.
“Akhtala Mining and Processing Enterprise” CJSC	321	-	321	321	0	0.00%	The company agreed with the amount of the fine presented by RA SRC and made corresponding correction.

Company name	Presented by a state body (preliminary report)	Presented by the company (preliminary report)	Presented by a state body (final report)	Presented by the company (final report)	Final discrepancy between the data provided by State body and the company	The share of final discrepancy by relevant company indicator	Adjustment reason
"Geopromining Gold" LLC	31,094	29,077	30,402	30,402	0	0.00%	For the purpose of reconciliation, the amounts were reviewed and agreed between RA SRC and the company.
"Lydian Armenia" CJSC	2,798	-	2,798	2,798	0	0.00%	The company agreed with the amount of the fine presented by RA SRC and made corresponding correction.
"Meghradzor Gold" LLC	3,470	-	3,470	3,470	0	0.00%	Data of the company's 2017 inspection act concerning 2016 was included in the 2016 reports. As a result of the reconciliation, the company included 2,545 thousand AMD fines amount in its 2017 report. The company also corrected other fine amounts of 925 thousand AMD (royalty, related to income tax and profit tax), which were not included in its preliminary reports.
"Sagamar" CJSC	1,742	-	1,742	1,742	0	0.00%	The company agreed with the amount of the fine presented by RA SRC and made the corresponding correction.
"Teghout" CJSC	560,136	-	559,934	-	559,934	100.00%	The company does not agree with neither the amount of the fine presented by the RA SRC in the preliminary report, nor with the amount presented in the final report. As of the final report signing date, the amount of the fine is appealed by the company.
"Kapan Mining and Processing Company" CJSC	511,847	625,324	511,847	625,324	(113,477)	-22.17%	According to the data of the final reports, the difference between the data presented by the company and RA SRC

Company name	Presented by a state body (preliminary report)	Presented by the company (preliminary report)	Presented by a state body (final report)	Presented by the company (final report)	Final discrepancy between the data provided by State body and the company	The share of final discrepancy by relevant company indicator	Adjustment reason
							exceeds the reconciliation materiality, amounting to 113,477 or 22.2%. During 2017, the company paid fines amounting to 113,477 thousand AMD, which was correspondingly included in the 2017 report of the Extractive Industries Transparency Initiative. According to data of RA SRC the above mentioned fine relates to the 2015 and 2016 years. The amount related to 2016 (92,049 thousand AMD) was presented by the RA SRC in the report of 2016.
Penalties							
“Meghradzor Gold” LLC	7,593	-	7,593	7,593	0	0.00%	Data of the company’s 2017 inspection act concerning 2016 was included in the 2016 reports. As a result of the reconciliation, the company included the penalty amount of 7,593 from the inspection act in its report of 2017.
“Sagamar” CJSC	10,238	-	10,238	10,238	0	0.00%	The company agreed with the amount of the penalty presented by RA SRC and made corresponding correction.
Rent payments							
“Zangezur Copper-Molybdenum Combine” CJSC	163,133	154,980	156,029	154,980	1,049	0.68%	Some extra amounts of rent payments were included in the preliminary report of RA Ministry of Territorial Administration and Development. As a result of the reconciliation, the extra

Company name	Presented by a state body (preliminary report)	Presented by the company (preliminary report)	Presented by a state body (final report)	Presented by the company (final report)	Final discrepancy between the data provided by State body and the company	The share of final discrepancy by relevant company indicator	Adjustment reason
							amounts were removed from the final report.
“Akhtala Mining and Processing Enterprise” CJSC	55,099	8,749	8,749	8,749	0	0.00%	A typo was detected in the preliminary report of RA Ministry of Territorial Administration and Development (Instead of 5,149,329 AMD an amount of 51,499,329 AMD was written), which was corrected as a result of the reconciliation.
“Lydian Armenia” CJSC	411,125	452,721	411,125	411,125	0	0.00%	The company agreed with the amount of rental payment presented by RA Ministry of Territorial Administration and Development and made corresponding correction.
“Sagamar” CJSC	600	-	600	600	0	0.00%	The company agreed with the amount of rental payment presented by RA Ministry of Territorial Administration and Development and made corresponding correction.
“Teghout” CJSC	27,927	31,523	30,727	30,727	0	0.00%	As a result of the reconciliation, the amounts of rental payments were agreed between the RA Ministry of Territorial Administration and Development and the company.
“Kapan Mining and Processing Company” CJSC	107,128	91,967	107,128	107,128	0	0.00%	As a result of rent payment reconciliation process realized with Local Self-Governance bodies the rent payments missing from the previous report were added to the final report.

ANNEX 8. DATA PROVIDED BY THE REPORTING MINING COMPANIES FOR 2016-2017 (CALCULATED)

Data provided by reporting mining companies, 2016
(thousand AMD)

	TIN 2001 Code	1112 711200	1111 711100	1141 714110	1146 714612	Excise Tax	1146 714612	1145 714523
	Name of the Taxpayer (in English)	Profit Tax	Income tax	VAT	Royalty		Nature use payment	Environmental payments (taxes), according to the tax report
1	"Zangezur Copper-Molybdenum Combine" CJSC	1,091,506	4,847,417	1,976,810	11,212,488	65,969	31,550	12,020
2	"Geopromining Gold" LLC	2,158,197	2,002,509	2,942,029	4,366,089	39,954	5,039	2,311
3	"Teghout" CJSC	158,807	1,874,944	1,704,372	5,189,216	2,448	4,243	1,657
4	"Kapan Mining and Processing Company" CJSC	368,610	1,110,064	939,133	1,218,951	26,752	548	4,925
5	"Agarak Copper Molybdenum Combine" CJSC	31,788	802,735	643,222	1,142,149	21,117	-	6,108
6	"Lydian Armenia" CJSC	390,832	337,883	337,883	-	-	-	-
7	"Akhkala Mining and Processing Enterprise" CJSC	-	319,898	14,743	261,977	-	590	1,208
8	"Meghradzor Gold" LLC	16,092	144,401	40,418	179,796	-	-	400
9	"Ler-Ex" LLC	-	84,440	66,119	-	-	-	34
10	"Sagamar" CJSC	3,714	122,572	-	-	-	-	-
11	"Lichkvaz" CJSC	-	22,622	1,618	-	-	-	-
12	"Mego-Gold" LLC	-	29,704	-	-	-	-	-
13	"Tatstone" LLC	-	1,716	5,860	-	-	-	-
14	"AT-Metals" LLC	-	13,339	287	-	-	-	-
15	"Geghi Gold" LLC	956	12,482	(2,278)	-	-	-	-
16	"Paramount Gold Mining" CJSC	3,899	5,079	-	-	-	-	-
17	"Vardani Zartok" LLC	-	198	-	-	-	-	-
18	"Gharagulyanner" CJSC	-	13	-	-	-	-	-
19	"Aktiv Lernagorts" LLC	-	293	-	-	-	-	-
20	"Molibdeni Ashkharh" LLC	-	-	-	-	-	-	-
21	"Marjan Mining Company" LLC	-	8,872	-	-	-	-	-
22	"Fortune Resources" LLC	-	4,657	420	-	-	-	-
23	"Vayk Gold" LLC	-	-	-	The company did not wish to participate	-	-	-
24	"Hrashk Metagh" LLC	-	-	-	The company did not wish to participate	-	-	-
25	"Baktek Eco" LLC	-	-	-	The company did not wish to participate	-	-	-

	TIN 2001 Code	1145 714523	1145 714523	1145 714523	1145 714523	1145 714522	1433 743110	Total taxes and fees
	Name of the Taxpayer (in English)	Environmental Fees (taxes) ²⁸⁵	Environmental Fees (taxes) ²⁸⁶	Customs duties and fees, transportation tax (fee) collected by custom service	Fees	Penalties ²⁸⁷	Fines	Rent payments
15	"Geghi Gold" LLC	-	-	-	10,000	597	-	-
16	"Paramount Gold Mining" CJSC	-	-	-	10,000	-	-	-
17	"Vardani Zartonk" LLC	-	-	-	10,000	2,129	-	-
18	"Gharagulyanner" CJSC	-	-	-	10,000	-	-	1,302
19	"Aktiv Lernagorts" LLC	-	-	-	10,000	-	-	136
20	"Molibdeni Ashkharh" LLC	-	-	-	10,000	-	-	-
21	"Marjan Mining Company" LLC	-	-	-	-	-	-	-
22	"Fortune Resources" LLC	-	-	-	50	-	-	-
23	"Vayk Gold" LLC	The company did not wish to participate						
24	"Hrashk Metagh" LLC	The company did not wish to participate						
25	"Baktek Eco" LLC	The company did not wish to participate						
26	"Assat" LLC	The company did not wish to participate						
27	"Multi Group Concern" LLC	The company did not wish to participate						

Data provided by reporting mining companies, 2017
(thousand AMD)

	TIN 2001 Code	1112 711200	1111 711100	1141 714110	1146 714612	Excise Tax	1146 714612	1146 714612	1145 714523
	Name of the Taxpayer (in English)	Profit Tax	Income tax	VAT	Royalty	Excise Tax	Nature use payment	Environmental payments (taxes), according to the tax report	
1	"Zangezur Copper-Molybdenum Combine" CJSC	5,629,639	6,112,038	2,019,121	17,842,943	40,810	31,550	23,686	
2	"Geopromining Gold" LLC	3,672,477	2,415,329	1,733,144	5,833,298	49,749	2,941	4,869	
3	"Teghout" CJSC	1,203,554	1,954,608	2,837,175	7,143,174	677	4,136	1,683	
4	"Lydian Armenia" CJSC	1,120,149	1,065,456	8,282,581	-	-	127	83	
5	"Kapan Mining and Processing Company" CJSC	(149,933)	1,179,143	1,114,974	4,525,420	202	705,614	4,907	
6	"Agarak Copper Molybdenum Combine" CJSC	233,062	881,606	382,462	877,533	-	-	11,752	
7	"Akhtala Mining and Processing Enterprise" CJSC	832	349,130	17,695	535,816	300	911	1,562	
8	"Sagamar" CJSC	2,654	30,409	43,620	731,215	-	-	-	
9	"Meghrazor Gold" LLC	-	146,772	19,020	72,952	-	-	428	
10	"Ler-Ex" LLC	-	57,317	189,452	-	-	-	30	
11	"Multi Group Concern" LLC	23,707	34,562	78,442	12,461	-	-	-	
12	"AT-Metals" LLC	-	9,476	100,776	-	-	-	-	
13	"Tatstone" LLC	2,027	13,535	29,014	-	-	-	-	
14	"Lichkvaz" CJSC	-	33,282	9,364	-	-	-	-	
15	"Paramount Gold Mining" CJSC	3,657	17,918	-	-	-	-	-	
16	"Mego-Gold" LLC	-	29,922	-	-	-	-	-	
17	"Molibdeni Ashkharh" LLC	-	4,201	-	-	-	-	-	
18	"Yardani Zartonk" LLC	-	184	-	-	-	-	-	
19	"Yayk Gold" LLC	-	213	1,335	267	-	-	-	
20	"Aktiv Lernagorts" LLC	-	293	-	-	-	-	-	
21	"Gharagulyanner" CJSC	-	6	-	-	-	-	-	
22	"Marjan Mining Company" LLC	-	9,359	-	-	-	-	-	
23	"Fortune Resources" LLC	-	5,618	420	-	-	-	-	
24	"Baktek Eco" LLC	-	274	-	-	-	-	-	
25	"Assat" LLC	-	-	-	-	-	-	-	
26	"Hrashk Metagh" LLC	The company did not present a report ²⁸⁸	-	-	-	-	-	-	
27	"Geghi Gold" LLC	(130,170)	11,507	-	-	-	-	-	

²⁸⁸ The company applied to the regulating bodies in order to revoke its license in 2018

Data provided by reporting mining companies, 2017 (Continued)

	TIN 2001 Code	1145 714523	1145 714523	1145 714523	1145 714523	1145 714523	1145 714522	1433 743110	Total taxes and fees
	Name of the Taxpayer (in English)	Environmental Fees (taxes) ²⁸⁹	Environmental Fees (taxes) ²⁹⁰	Customs duties and fees, transportation tax (fee) collected by custom service	Fees	Penalties ²⁹¹	Fines	Rent payments	
1	"Zangezur Copper-Molybdenum Combine" CJSC	380	2,870	260,401	10,010	28,883	463,774		32,466,104
2	"Geopromining Gold" LLC	6,361	325	313,673	10,000	30,402	74,777		14,147,344
3	"Teghout" CJSC	3,719	-	474,345	10,000	-	11,986		13,645,057
4	"Lydian Armenia" CJSC	9,401	80	790,474	10,010	2,798	-	411,125	11,692,284
5	"Kapan Mining and Processing Company" CJSC	52	302	125,904	10,000	625,324	520,355	107,128	8,769,389
6	"Agarak Copper Molybdenum Combine" CJSC	753	745	34,565	10,000	-	-	31,724	2,464,202
7	"Akhtala Mining and Processing Enterprise" CJSC	365	63	21,630	10,000	321	-	8,749	947,373
8	"Sagamar" CJSC	198	-	1,093	10,010	1,742	10,238	600	831,779
9	"Meghradzor Gold" LLC	32	-	4,467	10,020	3,470	7,593	24,910	289,664
10	"Ler-Ex" LLC	-	-	-	10,000	215	567	1,539	259,119
11	"Multi Group Concern" LLC	15	-	3,810	10,000	42	-	2,490	165,528
12	"AT-Metals" LLC	-	-	22,200	10,000	-	-	-	142,453
13	"Tatstone" LLC	-	-	-	20,000	-	-	12,132	76,708
14	"Lichkvaz" CJSC	-	-	120	10,000	-	-	5,191	57,957
15	"Paramount Gold Mining" CJSC	-	-	-	10,000	-	-	-	31,574
16	"Mego-Gold" LLC	-	-	-	-	-	-	-	29,922
17	"Molibdeni Ashkharh" LLC	-	-	-	10,000	-	-	-	14,201
18	"Vardani Zartonk" LLC	-	-	-	10,000	3,905	-	-	14,089
19	"Vayk Gold" LLC	-	-	-	10,000	-	-	-	11,815

²⁸⁹ Environmental charges (taxes) collected for goods imported from non-member countries of the EAEU, according to the declared customs declarations

²⁹⁰ Environmental charges (taxes) collected for goods imported from EAEU member countries according to the declared customs declarations

²⁹¹ TIN codes: 1151 715100, 1422 742212, 1145, 714511

TIN 2001 Code	1145 714523	1145 714523	1145 714523	1145 714523	1145 714522	1433 743110	Total taxes and fees
Name of the Taxpayer (in English)	Environmental Fees (taxes) ²⁸⁹	Environmental Fees (taxes) ²⁹⁰	Customs duties and fees, transportation tax (fee) collected by custom service	Fees	Penalties ²⁹¹	Rent payments	
20	-	-	-	10,000	-	181	10,474
21	-	-	-	10,000	-	-	10,006
22	-	-	-	-	-	-	9,359
23	-	-	-	50	-	-	6,088
24	-	-	-	-	-	909	1,183
25	-	-	-	-	-	-	-
26	The company did not present a report ²⁹²						
27	-	-	-	10,000	170	78	(108,415)

²⁹² The company applied to the regulating bodies in order to revoke its license in 2018

ANNEX 9. QUESTIONNAIRE FOR IDENTIFYING THE EXPECTATIONS OF MSG MEMBERS FROM THE RESPONSIBLE MINING COMPONENT

Independent Administrator has prepared a relevant questionnaire that should be filled in by the MSG members in order to identify their expectations from responsible mining component.

The information on responsible mining will be summarized and updated as a result of the analysis of responses provided by MSG members.

1. Are you familiar with concept of Responsible Mining?
 - ▶ Fully familiar
 - ▶ Familiar to a certain extent
 - ▶ No

2. What issues should be covered by Responsible Mining:

3. How quickly can Armenia make progress in implementing Responsible Mining?
 - ▶ Less than 2 years
 - ▶ 3-5 years
 - ▶ More than 5 years

4. Who should lead the process of introduction of Responsible Mining?
 - ▶ Civil society
 - ▶ International donors and IFIs
 - ▶ Private business
 - ▶ Government

5. What should be the basis for policy in this area?
 - ▶ Financial sanctions
 - ▶ Administrative instruments and controls (inspections, reporting, etc.)
 - ▶ Financial incentives (preferential loans, tax relief, etc.)
 - ▶ Awareness and CSR (self-regulation of business under the influence of public opinion)

6. Please indicate main changes and progress in Responsible Mining during 2016-2017

ANNEX 10. COMMENTS TO THE QUESTIONNAIRE FOR IDENTIFYING THE EXPECTATIONS OF MSG MEMBERS FROM THE RESPONSIBLE MINING COMPONENT

Questions	What issues should be addressed by Responsible Mining	How quickly can Armenia makes progress in implementing Responsible Mining?	Who should lead the process of introduction of Responsible Mining	What should be the basis for policy development in this area?	Please indicate main changes and progress in Responsible Mining during 2016-2017	
Respondent	Are you familiar with the concept of Responsible Mining?	What issues should be addressed by Responsible Mining	How quickly can Armenia makes progress in implementing Responsible Mining?	Who should lead the process of introduction of Responsible Mining	What should be the basis for policy development in this area?	Please indicate main changes and progress in Responsible Mining during 2016-2017
Harutyun Movsisyan, Chair of Prospecting and Exploration of Mineral Deposits at Yerevan State University	Familiar to a certain extent	<p>Mining is an activity which cannot take place without damages and risks for second (government) and third (society) parties. For minimizing risks, damages and losses for those, who are not involved in mining, and for significantly contributing to the economy, the sector has to be regulated with regards to all issues.</p> <p>The issues are: the absence of correct and acceptable policies/strategy; the absence of concrete legislative/legal regulations; the imperfection of tax policies; the lack of responsibility in the activities of mining companies; the inefficient use of socio-economic and healthcare resources; etc.</p>	Less than 2 years	Government	Administrative instruments and controls (inspections, reporting, etc.)	I cannot do so because I think that these are essentially missing
Vardan Gevorgyan, Ministry of Energy Infrastructures and Natural Resources	Familiar to a certain extent	<p>1. The protocols for organizing public hearings for solving social issues (evacuation, alienation of land, job creation) that are caused by mining in affected communities should be reviewed in light of the international experience.</p> <p>2. The liminal standards of environmental</p>	3-5 years	Government	Awareness and CSR (self-regulation of business under the influence of public opinion)	Ensuring the transparency of mining activities

Questions	Are you familiar with the concept of Responsible Mining?	What issues should be addressed by Responsible Mining	How quickly can Armenia makes progress in implementing Responsible Mining?	Who should lead the process of introduction of Responsible Mining	What should be the basis for policy development in this area?	Please indicate main changes and progress in Responsible Mining during 2016-2017
Respondent		<p>protection should be reviewed in light of the international experience.</p> <p>3. Introduction of “cost-benefit” analysis mechanism</p>				
<p>Karen Isakhanyan, Ministry of Territorial Administration and Development</p>	<p>Fully familiar</p>	<p>Responsible mining can help resolve a number of issues in environmental protection, healthcare and socio-economic sectors</p>	<p>3-5 years</p>	<p>Government</p>	<ul style="list-style-type: none"> • Financial sanctions • Administrative instruments and controls (inspections, reporting, etc.) • Financial incentives (preferential loans, tax relief, etc.) • Awareness and CSR (self-regulation of business under the influence of public opinion) 	<p>The approval of Armenia’s EITI candidacy in 2017</p>

Questions	Are you familiar with the concept of Responsible Mining?	What issues should be addressed by Responsible Mining	How quickly can Armenia makes progress in implementing Responsible Mining?	Who should lead the process of introduction of Responsible Mining	What should be the basis for policy development in this area?	Please indicate main changes and progress in Responsible Mining during 2016-2017
<p>Respondent</p> <p>Arthur Hambardzumyan, "Civil Voice" NGO</p>	<p>I am not familiar with any legislative act bearing the name "Responsible Mining Concept Paper" or one, which defines the conceptual norms of responsible mining. I am familiar with the pieces entitled "Framework for Responsible Mining: A Guide to Evolving Standards" and "Framework for Responsible Mining: A Guide to Evolving Standards Executive Summary" co-authored by Marta Miranda, David Chalmers and Catherine</p>	<p>Problems and problematic issues are many and these must be adequately discussed, fixed and appropriate solutions for them must be found. I would like to mention the following problems, which are subject to priority solution.</p> <p>a. The EIA assessment procedure is entirely distorted on the level of legislation. The legislative mechanisms regulating the process contain contradictions, deficiently defined legal relations and have illogical solutions:</p> <p>b. There are contradictions, deficiencies and illogical solutions in certain legal norms pertaining to the closure of mines, reclamation, founding money, governance of environmental protection, the action plan of environmental protection, the monitoring program, the waste management plan and its supervision.</p> <p>c. On a legislative level, the most important document pertaining to the process, the mining project is being - seemingly intentionally and systematically - undone. I consider the mining project the most important document for the following reasons:</p> <ul style="list-style-type: none"> • The mining project document must contain definitions and provisions for all the actions, which are to be undertaken during the whole course of operation. • In the case of mining, the project document is 	<p>I think that in case of productive work, it is possible to record progress in responsible mining implementation within 2 years.</p>	<p>The government – but by also taking into account the opinions and suggestions, which spring from the interests of the RA and RA citizens, of the civil society, the international donor and financial institutions and private organizations.</p>	<p>Through the improvement of legislation in order to ensure the availability of exact, logical and legal administrative tools for the reduction or exclusion of pollution, and the predictability and controllability of operations.</p> <p>In addition, I am also not against the utilization of financial incentives and the formation of corporate responsibility culture, in case these are found to be well-reasoned and justified.</p>	<p>As a lawyer, I will briefly mention the legislative reforms, which were carried out in order to implement certain elements of responsible mining.</p> <p>The RA Code on Subsoil was adopted on November 28, 2011.</p> <p>With the aim of implementing a legal mechanism for the assessment of environment impact, the law "On environmental impact assessment" was adopted, and changes and amendments in the RA Code on subsoil were</p>

Questions	Are you familiar with the concept of Responsible Mining?	What issues should be addressed by Responsible Mining	How quickly can Armenia makes progress in implementing Responsible Mining?	Who should lead the process of introduction of Responsible Mining	What should be the basis for policy development in this area?	Please indicate main changes and progress in Responsible Mining during 2016-2017
<p>Respondent</p>	<p>Coumans. I have sent these pieces to the Responsible mining working group. I find that, irrespective of the components, with which responsible mining will end up being defined, the most important and priority component will be that of the protection of the environment. The priority indicator of responsible mining must be avoidance of pollution, following which other components of responsible mining must be listed according to</p>	<p>the only document subject to Environment Impact Assessment.</p> <ul style="list-style-type: none"> • The project document is essentially the only document, the deviation from which grants the Ministry of Nature Protection certain powers. • It is the most public documents since it is discussed during public hearings • During operation, the environmental regulation mechanisms are based on the mandatory requirement to not deviate from and conduct activities in agreement with the project document, which has undergone and received positive specialist assessment. It follows that the more proper, complete and comprehensive is project document (in case of mining, the document must include all three stages – preparatory, mining, closure), the more transparent and accountable will the following operation be. <p>The abovementioned issues can be solved by legislative changes and amendments in the RA laws “On environmental impact assessment” and “On environmental regulation,” as well as in the RA Code on Subsoil.</p>				<p>carried out in June of 2014. Given the contradictions and other types of deficiencies present in the changes that were adopted, these changes can be considered as a regress, rather than a progress. In 2018, with the aim of regulating the wastes caused by mining, there were changes made in the RA Code on Subsoil. According to my personal assessment, there are serious issues in these changes, and the “reform” has a negative, rather than a positive impact.</p>

<p>Questions</p>	<p>Are you familiar with the concept of Responsible Mining?</p>	<p>What issues should be addressed by Responsible Mining</p>	<p>How quickly can Armenia makes progress in implementing Responsible Mining?</p>	<p>Who should lead the process of introduction of Responsible Mining</p>	<p>What should be the basis for policy development in this area?</p>	<p>Please indicate main changes and progress in Responsible Mining during 2016-2017</p>
<p>Respondent</p>	<p>their relative importance.</p>					<p>In the present moment, the RA ministry of environmental protection has prepared a project for implementing new changes in the RA Code on Subsoil, which, however, creates more questions than answers.</p>

Questions	Are you familiar with the concept of Responsible Mining?	What issues should be addressed by Responsible Mining	How quickly can Armenia makes progress in implementing Responsible Mining?	Who should lead the process of introduction of Responsible Mining	What should be the basis for policy development in this area?	Please indicate main changes and progress in Responsible Mining during 2016-2017
<p>Respondent</p> <p>Irina Ghaplanyan, Ministry of Nature Protection</p>	<p>Familiar to a certain extent</p>	<ul style="list-style-type: none"> - Ensuring transparency in the mining sector - Discovering real owners - The sector experiences risk of corruption - Low level of public awareness 	<p>3-5 years</p>	<p>Private business</p>	<ul style="list-style-type: none"> • Financial sanctions • Administrative instruments and controls (inspections, reporting, etc.) • Financial incentives (preferential loans, tax relief, etc.) • Awareness and CSR (self-regulation of business under the influence of public opinion) 	<p>The approval of Armenia's candidacy application in the EITI conference in Bogota on the 9th of March, 2017.</p>

ANNEX 11. WORKING GROUP ON RESPONSIBLE MINING

Name, Last name	Position
Irina Ghaplanyan	EITI MSG member, First Deputy Minister of Nature Protection (chair of the working group)
Vardan Gevorgyan	EITI MSG member, Deputy Minister of Energy Infrastructures and Natural Resources
Armen Stepanyan	EITI MSG member, Vice President on Sustainability, "Lydian Armenia" CJSC
Vahe Vardanyan	EITI MSG member, General Manager of "Geomining" LLC
Sona Ayvazyan	EITI MSG member, Executive Director of Transparency International Anti-Corruption Center NGO
Harutyun Movsisyan	EITI MSG member, Associate Professor of the Department of Prospecting and Exploration of Mineral Deposits of the Yerevan State University
Artur Hambardzumyan	EITI MSG member, Board Member of "Civil Voice" NGO
Ori Alaverdyan	Head of the Revenue Policy and Administration Methodology Department of the Ministry of Finance
Vigen Avetisyan	Head of the Department of underground resources and land protection policy of the Ministry of Nature Protection
Tatevik Sarukhanyan	Leading Specialist of the Department for Drafting Anti-Corruption and Penitentiary Policies of the Ministry of Justice
Parandzem Darbinyan	Leading Specialist of Regional Development Planning Division of the Territorial Administration Department of the Ministry of Territorial Administration and Development
Hrachya Muradyan	Head of Administration Methodology, Procedures and Service Department of the State Revenue Committee
Shushanik Kerobyan	Head of the Geology, Normative-Methodological and Analytical Division of the Mining Agency of the Ministry of Energy Infrastructures and Natural Resources
Hrant Avetisyan	Head of the Mining Expertise and Resource Approval Division of the Mining Agency of the Ministry of Energy Infrastructures and Natural Resources

Name, Last name	Position
Armen Yeganyan	Head of the Department of Sectoral Economic Policy of the Ministry of Economic Development and Investments
Nane Paskevichyan	"Ecological Right" NGO ("EcoRight")
Shahen Khachatryan	Head of the Chair of Historical and Regional Geology of the Faculty of Geography and Geology of Yerevan State University, PhD in geology, Associate Professor
Alen Amirkhanian	Director of the Center for Responsible Mining of the American University of Armenia
Lusine Tovmasyan	Expert of EITI Secretariat
Davit Shindyan	Expert of EITI Secretariat
Lilya Shushanyan	Head of EITI Secretariat

ANNEX 12. ENVIRONMENTAL PAYMENT RATES

Environmental payment rates provided by the Republic of Armenia Law “On Environmental Payments” for the emission of 1 ton of dust, carbon monoxide, nitric oxide, sulfuric anhydrite, chlorine and chloroprene:

Hazardous substances ejected from fixed sources into the air	Rate for 1 ton
Dust	1 800 AMD
Carbon monoxide	240 AMD
Nitric oxide (recalculated based on nitrogen dioxide)	14 800 AMD
Sulphuric anhydride	1 800 AMD
Chlorine	12 000 AMD
Chloroprene	90 000 AMD

The rates provided by the Republic of Armenia Law on “Environmental Payments” for emission of 1 ton of suspended materials, ammonia nitrogen, oil products, copper, zinc, sulphates, chlorides, nitrites, nitrates, total phosphorus, detergents, heavy metallic salts, as well as cyanide and cyanide compounds into the water basin:

Hazardous substances ejected into the water basin	Rate for 1 ton
Suspended materials	5,300 AMD
Ammonia nitrogen	5,100 AMD
Biological need for oxygen	18,400 AMD
Oil products	204,600 AMD
Copper	1,023,900 AMD
Zinc	1,023,900 AMD
Sulphates	100 AMD
Chlorides	30 AMD
Nitrites	511,500 AMD
Nitrates	1,100 AMD
Total phosphorus	40,000 AMD
Detergent (chemical washing) substances	102,300 AMD
Heavy metallic salts	511,500 AMD
Cyanide and cyanide compounds	511,500 AMD

Environmental payment rates for placement (keeping) of each ton of industrial and consumption wastes in specially designated places (except for manufacturing sites):

Type of waste	Rate for 1 ton
Waste of 1 st degree of hazard	48,000 AMD
Waste of 2 nd degree of hazard	24,000 AMD
Waste of 3 rd degree of hazard	4,800 AMD
Waste of 4 th degree of hazard	1,500 AMD

Non-hazardous waste (except for non-hazardous waste placed by extracting legal entities and generated as a result of demolition of soil cover and construction)	600 AMD
Non-hazardous waste placed by extracting legal entities	0 AMD
Non-hazardous waste generated as a result of demolition of soil cover and construction	60 AMD

Environmental payment rates for placement (keeping) each ton of industrial and consumption wastes in manufacturing sites:

	Rate as per the period of placement (calculated from the moment of waste generation), AMD		
	In case of keeping for up to 1 year	In case of keeping from 1 to 3 years inclusive	In case of keeping for over 3 years
Waste of 1 st degree of hazard	0	16 000	48 000
Waste of 2 nd degree of hazard	0	8 000	24 000
Waste of 3 rd degree of hazard	0	1 600	4 800
Waste of 4 th degree of hazard	0	500	1 500
Non-hazardous wastes (except for non-hazardous waste placed by extracting legal entities)	0	200	600

ANNEX 13. INFORMATION ON GEOLOGICAL STUDY ACTIVITIES OF THE SUBSOIL FOR MINERAL EXTRACTION PURPOSES²⁹³

No	Name of the legal entity granted a permit	License No	License Issuance Date	Validity period	Name of the mineral manifestation or the site	Total Surface
1	Georaid CJSC	GELR-29/066	13.07.2012	30.06.2019	Mutsk (Bardzravan) Multi-metal ore manifestation site, Syunik Region, RA	600,0 ha
2	Geomining LLC	GEL-29/098	30.08.2012	31.08.2019	Vardenis Multi-metal ore manifestation, Vayots Dzor region, RA	882,0 ha
3	Tatstone LLC	GEL-29/112	12.10.2012	30.09.2019	Side-parts and lower levels of Tghkut area of Aygedzor copper-molybdenum mining area, Syunik region, RA	130,1 ha
4	G Metals Investment Limited LLC	GELR-29/114	20.10.2012	30.12.2019	Southern part of Dastakert region, Syunik region, RA	405,0 ha
5	Equivest Alliance Foundation LLC, no changes	GEL-29/212	27.07.2015	3 years	Urut mine of Stepanavan mine region, Lori region, RA	3290,0 ha
6	RAM Group LLC	GEL-29/213	22.07.2015	3 years	Gold bearing ore manifestation of the middle section of Sotk river basin, Gegharkunik region, RA	526,6 ha
7	Centerra Mining CJSC, no changes	GEL-29/224	25.12.2015	3 years	Kapuyt multi-metal ore manifestation area, Vayots Dzor region, RA	18,9 km ²
8	Nariprof LLC, no changes	GEL-29/219	02.04.2016	3 years	Nrnadzor (Nyuvand) Copper-gold ore manifestation area, Syunik region, RA	100,0 ha
9	Tatstone, LLC	GEL-29/225	11.06.2016	3 years	Lichk multi-metal mine, Syunik region, RA	22,84 km ²
10	Mining Consulting LLC, no changes	GEL-29/228	02.11.2016	3 years	Vaghashen multi-metal ore manifestation area, of Vayots Dzor region, RA	199,3 km ²
11	Gharagyulyanner CJSC, no changes	GEL-29/229	25.10.2016	3 years	Verin Vardanidzor gold-multimetal mine area, Syunik region, RA	2134,09 ha
12	Iron Mining LLC	GEL-29/236	23.03.2017	3 years	Bazum iron ore manifestation, Lori region, RA	540,5 ha
13	Premium Mining LLC, no changes	GEL-29/237	25.02.2017	3 years	Karnut-Sarnaghyu copper-multimetal mining area, Tavush region, RA	8355,17 ha

²⁹³ <http://minenergy.am/page/569>

No	Name of the legal entity granted a permit	License No	License Issuance Date	Validity period	Name of the mineral manifestation or the site	Total Surface
14	Energo-Invest Holding CJSC, no changes	GEL -29/238	13.03.2017	3 years	Murkhuz multi-metal ore manifestation, Tavush region, RA	96,24 km ²
15	Mine Invest LLC, no changes	GEL -29/243	03.05.2017	2 years 6 months	Secondary quartzite (metallic) ore manifestation of Lusajur area of Meghradzor mine, Kotayq region	24,23 ha
16	Golden Land LLC, no changes	GEL -29/245	28.06.2017	3 years	Arevis multimetal mine area, Syunik region, RA	792,6 ha
17	Metals Mining Group LLC, no changes	GEL -29/246	28.06.2017	3 years	Shambi multimetal ore manifestation area, Syunik region	877,0 ha
18	Harust Metagh LLC, no changes	GEL -29/247	07.10.2017	3 years	Privolnoye mine area of Stepanavan mining region, Lori region, RA	102,9 km ²
19	Copper Plus LLC, no changes	GEL -29/251	24.10.2017	3 years	Ttujur multi-metal ore manifestation area, Gegharkunik region, RA	15,9 km ²
20	Copper Plus LLC, no changes	GEL -29/252	24.10.2017	3 years	Sarikar-Kutakan multi-metal ore manifestation area, Gegharkunik region, RA	129,6 km ²
21	Gevler LLC, no changes	GEL -29/255	14.12.2017	2 years	The area of mineralized water outflow at the exit of the new transport mine-path of the central mine of Kapan copper mine, Syunik Region RA	0,12 ha
22	Polymetal Armenia LLC	GEL -29/259	31.01.2018	3 years	Kapan plateau area, Syunik region, RA	286,0 km ²
23	NIG Mining LLC, no changes	GEL -29/263	04.04.2018	3 years	Khdebants gold ore manifestation area, Syunik region RA	529,2 ha
24	Inter Mining LLC, no changes	GEL -29/266	28.03.2018	3 years	Sarasar gold ore manifestation area, Gegharkunik region, RA	1205,0 ha
25	Chudo Metal LLC, no changes	GEL -29/269	25.04.2018	3 years	Borders of Arjizdor gold-multimetal ore manifestation are, Syunik RA	292,8 ha

ANNEX 14. INFORMATION ON MINERAL EXTRACTION ACTIVITIES²⁹⁴

No	Name of the legal entity granted a permit	License No	License Issuance Date	Validity period	Name of the Mine (site)	Total surface	Annual productivity of the mine
1	"Meghradzor Gold" LLC	EPLR-29/057	20.08.2012	10.09.2023	Meghradzor gold mine, Kotayk region, RA	567,0 ha	60,0 thousand tons
2	"Paramount Gold Mining" LLC	EPLR -29/089	12.06.2012	01.04.2035	Lusajur site of Meghradzor gold mine, Kotayk region, RA	35,9 ha	150,0 thousand tons
3	"Sagamar" CJSC	EPLR -29/093	20.10.2012	01.03.2049	Armanis gold-multimetall mine, Lori region, RA	69,6 ha	500,0 thousand tons
4	"Ler-Ex" LLC	EPLR -29/094	16.08.2012	14.08.2032	Central part of Hankasar copper-molybdenum mine, Syunik region, RA	20,58 ha	150,0
5	"Akhtala Mining And Processing Enterprise" CJSC	EPLR -29/103	20.10.2012	04.11.2022	Shamlukh copper mine, Lori region, RA	426,2 ha	100,0 thousand tons
6	"Fortune Resources" LLC	EPLR -29/169	20.10.2012	26.01.2032	Hrazdan iron mine, Kotayk region, RA	38,7 ha	for years 1-10, 2000.0 thousand tons yearly; for years 11-20, 3000.0 thousand tons yearly; for years 21-25, 4000.0 thousand tons yearly
7	"Molibdeni Ashkharh" LLC	EPLR-29/174	06.11.2012	9.2 years	Dastakert copper-molybdenum mine, Syunik region, RA	51,8 ha	2000,0 thousand tons
8	"Kapan Mining and Processing Company" CJSC	EPL -29/183	27.11.2012	01.04.2050	Shahumyan gold-multimetall mine, Syunik region, RA	378,6 ha	600,0 thousand tons

²⁹⁴ <http://minenergy.am/page/569>

No	Name of the legal entity granted a permit	License No	License Issuance Date	Validity period	Name of the Mine (site)	Total surface	Annual productivity of the mine
9	"Mego Gold" LLC	EPLR -29/184	28.12.2012	21.07.2040	Central part of Tukhmanuk gold mine, Aragatsothn region, RA	25,99 ha	during the first year, 120,0; during 2-4 years 150,0 annually; during the 5 th year, 180,0; during the 6 th year 300,0; during 7-25 years 1100,0 yearly;
10	"Geopromining Gold" LLC	EPLR -29/189	20.10.2012	10.09.2028	Sotk gold mine, Gegharkunik region, RA	224,0 ha	yearly minimum of 811,4 thousand tons and a maximum of 2096,5 thousand tons. Starting January 1 st of 2014 until September 10 th of 2028, with open processing methods.
11	"MULTI GROUP" CONCERN" LLC	EPLR -29/213	20.10.2012	06.03.2031	N 5 and 8 mine bodies of Mighart gold mine, Lori region, RA	1,08 ha	1,345 thousand tons with N 5 body and 8,648 thousand tons with N 8 body
12	"Zangezur Copper-Molybdenum Combine" CJSC	EPLR -29/232	27.11.2012	30.05.2041	Kajaran copper-molybdenum mine, Syunik region, RA	421,2 ha	22000,0 thousand tons
13	"Vardani Zartonk" LLC	EPLR -29/239	27.08.201	03.12.2026	Sofi Binay gold-multimetal mine, Vayots Dzor region, RA		10,0 thousand tons
14	"Lydian Armenia" LLC	EPLR -29/245	26.09.201	01.01.2034	"Tigranes," "Artavazdes" and "Erato" parts of Amulsar gold bearing quartzite mine, Vayots Dzor region, RA	113,0 ha	10000,0 thousand tons
15	"Lichkvaz" LLC	EPLR -29/293	22.11.2012	08.02.2036	Lichkvaz-Tey gold mine, Syunik region, RA	57,4 ha	100,0-300,0 thousand tons according to the schedule, (see point 2.1 of the contract)

No	Name of the legal entity granted a permit	License No	License Issuance Date	Validity period	Name of the Mine (site)	Total surface	Annual productivity of the mine
16	"Agarak Copper Molybdenum Combine" CJSC	EPLR -29/311	05.04.2013	08.02.2027	Agarak copper-molybdenum mine, Syunik region, RA	47,8 ha	3500,0 thousand tons

No	Name of the legal entity granted a permit	License No	License Issuance Date	Validity period	Name of the Mine (site)	Total surface	Annual productivity of the mine
17	"Assat" LLC	EPL-29/366	06.06.2013	06.06.2024	Central part of Qaraberd gold mine, Lori region, RA	2,6 ha	from the quarry (stage 1): 3 years-11,5513 thousand tons yearly. From the underground mine (stage 2): 8 years -29,6731 thousand tons yearly
18	"Vayk Gold" LLC	EPL -29/371	23.11.2012	23.11.2037	Azatek gold-multimetal mine, Vayots Dzor region, RA	27,4 ha	300,0 thousand tons
19	"Teghout" LLC	EPLR -29/376	20.02.2013	08.02.2026	Teghout copper-molybdenum mine, Lori region, RA	103,0 ha	7000,0 thousand tons
20	"Marjan Mining Company" LLC	EPLR -29/398	05.03.2013	22.04.2033	Central part and wings of Marjan gold-multimetal mine, Syunik region, RA	1941,2 ha	50,0 thousand tons
21	"Active Lernagorts" LLC	EPLR -29/425	28.12.2012	24.10.2036	Central part of Aygedzor copper-molybdenum mine, Syunik region, RA	11,2 ha	320,26 thousand tons
22	"Tatstone" LCC	EPL-29/458	11.02.2013	11.02.2038	Tghkut part of the Ayghedzor copper-molybdenum mine, Syunik region, RA	86,7 ha	600,0 thousand tons
23	"Tatstone" LCC	EPL -29/459	11.02.2013	01.06.2028	Lichk copper mine, Syunik region, RA	26,1 ha	1268,0 thousand tons
24	"AT-Metals" LLC	EPL -29/514	24.12.2014	7.5 years	Meghrasar gold mine, Syunik region, RA	44,2 ha	45,65 thousand tons
25	"Backtech Eco" LLC	EPL -29/515	15.08.2014	26 years	Arjut gold mine, Lori region, RA	16,7 ha	100,0 thousand tons
26	"Hrashk Metagh" LLC	EPL -29/542	15.06.2016	31 years	Bardzradir (Mazra) gold mine, Syunik region, RA	40,5 ha	30,0 thousand tons
27	"Geghi Gold" LLC	EPL -29/544	22.07.2016	29. 4 years	Voskedzor gold-multimetal mine, Syunik region, RA	34,2 ha	1000,0 thousand tons
28	"Gharagulyanner" CJSC	EPL -29/547	25.10.2016	37 years	The central part of Upper Vardandzor gold-multimetal mine, Syunik region, RA	209,9 ha	150,0 thousand tons

ANNEX 15. PUBLIC REPORT TEMPLATES

15.1 Template of public report submitted by mining company

Template N 1

I. Publicly reporting mining company, production, internal sales, exports and employment

Taxpayer's Name (Armenian)	
Taxpayer's Name (English)	
Taxpayer identification number (TIN)	
Mining permit number (numbers)	
Taxpayer registration address	
Taxpayer's business address (addresses)	
Mine's name	
Mine's region (regions)	

Has external financial audit been conducted for the reporting year?	
Link to the Audit Report and Audit Opinion	

(AMD)			
Production (by commodity)	Unit	Volume	Total value
			Notes

(AMD)				Buyer		Notes
Sales in the domestic market (by commodity)	Unit	Volume (quantity)	Total sales value	Company name	Sales volume	

(AMD)						
Exports (by commodity)	Code	Unit	Volume	Total sales value	Export Countries	Notes

Number of people employed		indefinite term	fixed term	Notes
From which ' male				
From which ' female				
From which ' RA resident				
From which ' foreign resident				

II. Taxes, fees and duties made by the mining company

GFS 2001 code	Taxes and payments	Tax calculation for the reporting year (by declaration)	Calculated by inspection act (acts) (examination protocol) (without penalties and fines)	Date (dates) of inspection act (acts) (examination protocol)	Number (numbers) of inspection act (acts) (examination protocol)	Paid during the reporting year (without penalties and fines)	Set-offs during the reporting year	Returned during the reporting year	Notes (AMD)
1112 711200	Profit Tax								
1111 711100	Income tax								
1141 714110	Value Added Tax								
1142 714200	Excise tax								
1146 714612	Royalty								
	Component 1								
	Component 2								
1146 714612	Nature use payments								
1145 714523	Environmental payments (taxes) by calculation-reports								
1145 714523	Environmental charges (taxes) collected for goods imported from non-member countries of the EAEU, according to the provided customs declarations								

1145 714523	Environmental charges (taxes) collected for goods imported from EAEU member countries according to the provided customs declarations																
1151 715100, 1422 742212, 1145 714511	Customs duties, fees, road tax (payment) collected by customs service	x	x		x												

GFS 2001 code	State duties	Permit Number	Duty rate	Calculated amount of the duty	Calculated by inspection act (examination protocol)	Date (dates) of inspection act (acts) (inspection protocol)	Number (numbers) of inspection act (acts) (inspection protocol)	Paid during the reporting year	Notes
1145 714522	State duty for granting a permit for using (exploiting) each mine of precious, non-ferrous, ferrous and rare metals								
1145 714522	State duty for granting Water Use Permit								

Replenishment of environmental protection fund	Permit Number	Basic rate for calculation	Fund payment amount calculated for the reporting year	Actual payments to the fund for the reporting year	Notes

		(AMD)		
Allocations from Environmental Protection Fund to the Company	Permit Number	Amount allocated	Notes	

(AMD)					
Monitoring Implementation Fee	Permit Number	Basic rate for calculation	Amount to be paid for the reporting year	Paid during the reporting year	Notes

(AMD)				
Environmental Impact Assessment implementation fee	Permit Number	Project name	Amount paid	Notes

III. Local taxes and payments made by a mining company

GFS 2001 code	Taxes	Tax calculation for the reporting year	Calculated by inspection act (acts) (examination protocol) (without penalties and fines)	Paid during the reporting year (without penalties and fines)	Overpayment or debt by the end of the reporting year	Community name before consolidation	Community name after consolidation	Notes
1131 1136 713611	Property tax							
1131 713122	Land tax							

Land acquisition	Auction prepay	Value specified in the contract	Paid during the reporting year	Overpayment or debt by the end of the reporting year	Community name before consolidation	Community name after consolidation	Notes
Land acquisition							
Payment of the difference of the cadastral values of land plots at the moment of changing the land purpose	x	x					

(AMD)

GFS 2001 code	Rent payments	Rent object	Paid during the reporting year (without fines and penalties)	Community name before consolidation	Community name after consolidation	Notes	
"1145			real estate				
			vehicle				
			plot				

IV. Penalties and fines paid by the mining company

GFS 2001 code	Penalties and fines	The infringement of the law for which the penalty or the fine has been imposed	The amount of penalties and fines (including the amount calculated by the inspection act (examination protocol) during the reporting year)	Date of the inspection act (examination protocol)	Numbers the inspection act (examination protocol)	Paid during the reporting year	Paid to (State)		Paid to (Local Self-Governance Body)			Notes (AMD)
							RA State budget	extra-budgetary account	community budget	community extra-budgetary account	Community name before consolidation	
1431 743120, 1161 716122	Penalties											
1431 743120, 1161 716122	Fines											

V. Social-economic contribution of the mining company to the community

Responsibilities taken over in the field of social-economic development and charity contributions to the community	Permit Number	Name of the obligation (investment)	Amount of investment	out of which		Non-financial		Community name before consolidation	Community name after consolidation	Notes (AMD)
				to community budget	to extra-budgetary account of the community	Commodity or service (project)	Estimated value			
Obligations related to social-economic development of communities defined by the mining contract						X	X			
			X	X	X		X			
Charity donations, contributions or other allocations made to the communities without compensation by the mining company										
							X			
							X			
				X	X					
			X	X						

15.2. Template of the public report submitted by the State Revenue Committee

Exports (by commodity)	Code	Taxpayer's Name	Taxpayer identification number (TIN)	Unit	Volume	Total sales value	Export Countries	Notes (AMD)

Taxpayer's Name (Armenian)	
Taxpayer's Name (English)	
Taxpayer identification number (TIN)	

GFS 2001 code	Taxes and payments	Calculated by tax calculation (declaration) for the reporting year	The date (dates) of providing the calculation (corrected calculation)	Calculated by inspection act (acts) (examination protocol) (without penalties and fines)	Date (dates) of inspection act (acts) (examination protocol)	Number (numbers) of inspection act (acts) (examination protocol)	Paid during the reporting year (without penalties and fines)	Set-offs during the reporting year	Returned during the reporting year	Notes (AMD)
1112 711200	Profit Tax									
	Income tax									

1145 714523	Environmental payments (taxes) collected for goods imported from non-member countries of the EAEU, according to the provided customs declarations																			
1145 714523	Environmental payments (taxes) collected for goods imported from EAEU member countries according to the provided customs declarations																			
1151 715100, 1422 742212, 1145 714511	Customs duties, fees, road tax (payment) collected by customs service	x	x	x	x	x	x													

GFS 2001 code	State duties	Permit Number	Duty rate	Calculated amount of the duty	Paid during the reporting year	Notes
1145 714522	State duty for granting a permit for using (exploiting) each mine of precious, non-ferrous, ferrous and rare metals					
1145 714522	State duty for granting Water Use Permit					

GFS 2001 code	Penalties and fines	The infringement of the law for which the penalty or the fine has been imposed	The amount of penalties and fines (including the amount calculated by the inspection act (examination protocol) during the reporting year)	Dates of inspection act (examination protocol)	Number of inspection act (examination protocol)	Paid during the reporting year	Notes (AMD)
1431 743110	Penalties						
1431 743110	Fines						

15.3 Template of public report submitted by the Ministry of Nature Protection

Taxpayer's Name (Armenian)	
Taxpayer's Name (English)	

Replenishment of environmental protection fund	Permit Number	Basic rate for calculation	The total calculated amount to be paid to the fund as of 31 December of the year preceding the reporting year	The total amount paid to the fund as of 31 December of the year preceding the reporting year	Amount to be paid to the fund calculated for the reporting year	The actual payment made to the fund during the reporting year	Notes	(AMD)

Allocations from Environmental Protection Fund to the Company	Permit Number	Amount allocated	Payment dates (for each payment)	Notes	(AMD)

(AMD)

Monitoring Implementation Fee	Permit Number	Basic rate for calculation	The total payment from the total payable amount made as of 31 December of the year preceding the reporting year	The total payable amount calculated for the reporting year	Paid during the reporting year	Notes

(AMD)

Environmental Impact Assessment Fee	Permit Number	Project name	The amount paid during the reporting year	Notes

(AMD)

Fines and penalties	Permit Number	The infringement of the law for which the penalty or the fine has been imposed	The amount of penalties and fines (including the amount calculated by the inspection act (examination protocol) during the reporting year)	Date of inspection act (examination protocol)	Number of inspection act (examination protocol)	Paid during the reporting year	Account's number	Notes
Penalties								
Fines								

15.4 Template for public report to be provided by the community leader to the Ministry of Territorial Administration and Development

<table border="1"> <tr> <td> <table border="1"> <tr> <td>Taxpayer's Name (Armenian)</td> <td></td> </tr> <tr> <td>Taxpayer's Name (English)</td> <td></td> </tr> </table> </td> </tr> </table>	<table border="1"> <tr> <td>Taxpayer's Name (Armenian)</td> <td></td> </tr> <tr> <td>Taxpayer's Name (English)</td> <td></td> </tr> </table>	Taxpayer's Name (Armenian)		Taxpayer's Name (English)	
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Taxpayer's Name (Armenian)					
Taxpayer's Name (English)					

GFS 2001 code	Taxes	Tax calculation for the reporting year	Dates of filing in semi-annual tax calculation (adjustments)	Calculated by inspection acts (examination protocols) (without penalties and fines)	Paid in the reporting year (without penalties and fines)	Surplus or debt by the end of the reporting year	Community name before consolidation	Community name after consolidation	Notes (AMD)
1131 713121, 1136 713611	Property tax"								
1131 713122	Land tax								

GFS 2001 code	Rent payments	Object for renting	Paid in the reporting year (without penalties and fines)	Community name before consolidation	Community name after consolidation	Notes (AMD)
1415 741520		real estate vehicle Land plot				

Land alienation	Auction prepayment	Cadastral value of the land	Value specified in the contract	Paid in the reporting year	Payment date (for each payment)	The number of payment document	Overpayment or debt by the end of the reporting year	Community name before consolidation	Community name after consolidation	Notes (AMD)
Land alienation										
Payment of the difference of the cadastral values of land plots at the moment of changing the land purpose	x	x	x							
	x	x	x							
	x	x	x							
	x	x	x							
	x	x	x							

Social-economic development contributions	Amount paid		Payment dates (for each payment)	The number of payment document	Non-financial: Commodity or service	Community name before consolidation	Community name after consolidation	Notes (AMD)
	to community budget	to extra-budgetary account						
Contributions paid for implementation of obligations for social-economical development of communities defined by the extractive company in the mining contract					x			
					x			
	x	x	x	x				
	x	x	x	x				
	x	x	x	x				

GFS 2001 code	Fines and penalties	The infringement of the law for which the penalty or the fine has been imposed	The calculated amount of penalty and fine (including the amount calculated by the inspection act (examination protocol) during the given year)	Date of inspection act (examination protocol)	Number of inspection act (examination protocol)	Paid during the reporting year	Account's number	Payment dates (for each payment)	Number of the payment document	Community name before consolidation	Community name after consolidation	Notes (AMD)
1431 743120, 1161 716122	Penalties											
1431 743120 1161 716122	Fines											



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