On the Rules (methods) pricing titanium sponge, titanium ingots and magnesium primary bullion

Unofficial translation

Resolution of the Government Republic of Kazakhstan on June 30, 2011 № 741

Unofficial translation

In accordance with subparagraph 3) paragraph 10 of Article 10 of the Law of the Republic of Kazakhstan from July 5, 2008 "On Transfer Pricing" The Government of the Republic of Kazakhstan RESOLVES:

1. approve attached Rules (technique) pricing titanium sponge, titanium ingots and primary magnesium ingots.

2. This resolution shall be enforced after ten calendar days after its first official publication.

Prime Minister of the Republic of Kazakhstan   *K. Massimov*

Approved
Resolution of the Government
Republic of Kazakhstan
on June 30, 2011 № 741

Rules (technique) pricing for titanium sponge, titanium ingots and primary magnesium ingots 1. General Provisions

These rules (methods) establish the procedure for determining (calculating) the prices of transactions (sales) on the titanium sponge, titanium ingots and primary magnesium ingots when making export transactions on purchase and sale of goods.

2. The terms and definitions used in this Regulation

In these Rules, the following terms and definitions:

1) GS - interstate standard GT 17746-96 "Titanium sponge. Specifications ", adopted by the Interstate Council for Standardization, Metrology and Certification (Minutes № 9 of 12 April 1996);

2) differential - adjust size, used to bring in comparable economic conditions of the transaction value or the price of a source of information in accordance with the legislation of the Republic of Kazakhstan on transfer pricing and is determined taking into account the provisions of chapter 7 of these Rules;

3) long-term contract - a contract (agreement) the purchase and sale of titanium sponge, titanium ingots, magnesium primary bullion concluded for a period of one to two years;

4) primary magnesium ingots - primary magnesium ingots intended for the production of alloys, magnesium-thermal processes, desulphurization as a chemical reagent and other uses;

5) The customer specification - document containing the requirements to the hardness and chemical composition of titanium sponge, titanium ingots, magnesium primary bullion, which is approved by the consumer using the product of titanium and magnesium plant for the production of titanium products and alloys thereof;

6) Standard B 348-09 - International Standard "ASTM International" American voluntary organization (American Society for Testing and Materials), develops and publishes standards for materials, products, systems and services to all sectors;

7) The titanium sponge - biologically and environmentally harmless material obtained with magnesium manner to a vacuum heat cleaning and which is a raw material for the production of semi-finished titanium and its alloys, with a titanium content of not less than 95.0 wt.%;

8) titanium ingots - macroscopic homogeneous mixture based on titanium or with additives of aluminum, vanadium, iron, and other impurities in the form of cast metal billets intended for further processing through plastic deformation (rolling, forging, pressing), or the refining electrolysis. Depending on the percentage of titanium distinguish commercial purity titanium ingots and titanium alloys;

9) trader - a person performing mediating the sale of titanium sponge, titanium ingots primary magnesium ingots independently and (or) on behalf of the participant;

10) the price of sources of information - price, published in US dollars of "Megasoft" in the journal "Metallurgical Bulletin" (Russia) and the company "Metal Prices.Com" in the (US "Metal Prices" magazine);

11) The price of the transaction - selling price of titanium-magnesium plant for titanium sponge, titanium ingots, magnesium primary ingots, calculated in accordance with the provisions of this Regulation;

12) price range - upper and lower price limits set by the participants of the transaction at the conclusion of long-term contracts based on the number of minimum and maximum prices of sources of information:

for titanium sponge and (or) of the primary magnesium ingots - the magazine " Metallurgical Bulletin", www.metaltorg.ru website (Russia);

for titanium ingots - "Metal Prices" magazine, website www.metalprices.com (the USA).

3. The use in determining the price band transaction prices for long-term contracts

For long-term contracts of purchase and sale of titanium sponge, titanium ingots and primary magnesium ingots participants in the transaction set price limits applied during the entire duration of the contract.

The upper and lower limits of the price band are determined based on the minimum and maximum values of prices published in the appropriate information source to each first number of two calendar months preceding the month which is a long-term contract and price of the source information has been published on the first day of the month, which is a long-term contract.

Price band set by the participants of the transaction at the conclusion of a long-term contract, is used to determine the transaction price on the date of transfer of ownership of titanium sponge, titanium ingots and primary magnesium ingots.

When the arithmetic mean deviation of the price of the information source from the upper limit set price band upwards (increase), the transaction price on the date of transfer of ownership of titanium sponge, titanium ingots, magnesium primary bullion is calculated based on the upper limit of the established price band.

In the event the arithmetic average value of the price of the source of the information from the lower limit set by the price band in the direction of decrease (reduction), the transaction price on the date of transfer of ownership of titanium sponge, titanium ingots, magnesium primary bullion is calculated based on the lower limit of the established price band.

4. The procedure for determining the price of the transaction (sale) titanium sponge

For long-term contract of purchase and sale of titanium sponge price of the transaction (sale) is calculated as follows:

PTTi > PTTi x KTi -

$\triangle$ -

, where

PTTi - the price of the transaction (sale) of titanium sponge at the date of transfer of ownership to the buyer;

PSITi - the price of the source of information on the titanium sponge, which was published in the journal "Metallurgical Bulletin", defined as the arithmetic mean of the maximum and minimum prices at the date of transfer of ownership of goods to the buyer by the following formula:

PSIMБ min + PSIMБ max

fs24 PSITifs24 = ------------------------- where

2

PSIMB min. - the minimum price of the source of information on the titanium sponge, published in the journal "Metallurgical Bulletin" on the date of transfer of ownership to the buyer;

PSIMB max. - the maximum price of the source of information on the titanium sponge, published in the journal "Metallurgical Bulletin" on the date of transfer of ownership to the buyer.

At the same IICTi applied taking into account the limits of the price band and regulations chapter 3 of these Rules;

KTi - reduction factor used to determine the price of the transaction (sale) to titanium sponge in accordance with the buyer's specification and defined based maximum allowable limit of the content of the main impurities (iron (Fe), chlorine (Cl) and oxygen (O)), influencing the quality of sponge titanium, GOST defined by the following formula:

$$KTi = \frac{1}{(1+ (Fex - FeGOST)) \times (1+ (Ox - OGS)) \times (1+ (Clx - ClGS))}$$ where

Fex - iron	the maximum permissible content of impurities in
Ox - Oxygen	higher grades of titanium sponge in
	according to customer specifications
S1x - chloro	(in percents);
GS Fe - iron	the maximum permissible content of impurities in
GS O - oxygen	higher grades of titanium sponge in accordance
GS C1 - chloro	GS (in percent).

Δ -

the differential is taken into account, depending on the conditions of supply of titanium sponge, in particular long-term contract.

5. The procedure for determining the price of the transaction (sale) for titanium ingots

For long-term contract of purchase and sale of titanium ingots price of the transaction (sale) is calculated as follows:

$$PT_{Ingot} > PSI$$

Δ -

, where

PT_{Ingot}- the price of the transaction (sale) for titanium ingots at the date of transfer of ownership to the buyer;

PSI_{Ingot}- the price of a source of information for titanium ingots, which was published in " Metal Prices" magazine, defined as the arithmetic mean of the maximum and minimum prices at the date of transfer of ownership of goods to the buyer by the following formula:

$$PSI_{МБ\ min} + PSI_{МБ\ max}\ fs24\ TION_{Ingot}fs24 = \frac{}{2}$$ where

$PSI_{MP\ min.}$ - the minimum price of an information source for titanium ingots, published in the magazine "Metal Prices" at the date of transfer of ownership to the buyer;

$PSI_{MP\ max.}$ - the maximum price of a source of information for titanium ingots, published in the magazine "Metal Prices" at the date of transfer of ownership to the buyer.

At the same PSI_{Ingot} applied taking into account the limits of the price band and regulations chapter 3 of these Rules;

Δ -

reduction factor used to determine the price of the transaction (sale) to titanium ingots in accordance with the specification of the buyer, determined by the rate of the maximum allowable limit of the content of the main impurities (iron (Fe), oxygen (O), nitrogen (N), hydrogen (H) , carbon (C), vanadium (V), aluminum (Al), yttrium (Y), silicon (Si), boron (B) , copper (Cu), ruthenium (Ru), palladium (Pd)), influencing the quality of titanium ingots certain standard B 348-09, with the following formula:

$$KIngot = \frac{1}{(1+ (Fex - FeIngot)) \times (1 + (Ox - OIngot)) \times (1+ (Nx - NIngot)) \times (1+ (H_x - HIngot)) \times (1 + (Cx- CIngot)) \times (1+ (Vx - VIngot)) \times (1+ (Al_x- AlIngot)) \times (1+ (Yx - YIngot)) \times (1+ (Six - SiIngot)) \times (1+ (B_x- BIngot)) \times (1+ (Cux - CuIngot)) \times (1+ (Rux - RuIngot)) \times (1+ (Pd_x- PdIngot))}$$

where

Fex - iron	
Ox - Oxygen	
Nx - nitrogen	
Hx - hydrogen	
Cx - carbon	
Vx - vanadium	the maximum permissible content of impurities in titanium ingots, in accordance with specifications of buyers (in percentage);
Alx - Aluminum	
Yx - yttrium	
Six - silicon	
Bx - Bor	
Cux - Copper	
Rux - ruthenium	
Pdx - palladium	
FeIngot - iron	
OIngot - oxygen	
NIngot - nitrogen	
HIngot - hydrogen	
CIngot - carbon	
VIngot - vanadium	
AlIngot - aluminum	

YIngot - yttrium	the maximum permissible content of impurities in titanium ingots, in accordance with Standard B 348-09 (as a percentage).
SiIngot - silicon	
BIngot - Bor	
CuIngot - Copper	
R u I n g o t - ruthenium	
P d I n g o t - palladium	

In case the maximum content of the above impurities in titanium ingots by customers specifications below the maximum permissible content of impurities in the titanium ingots, certain standard B 348-09, the transaction price (sales) for titanium ingots determined without considering reduction factor.

$\triangle$ -

the differential is taken into account depending on the conditions of delivery of titanium ingots, certain long-term contracts.

6. The procedure for determining the price of the transaction (sale) on primary magnesium ingots

For long-term sales contract primary magnesium ingots transaction price (sales) is calculated by the following formula:

$$PT_{Mg} \geq PSI_{Mg}$$

$\triangle$ -

where

PT_{Mg} - the price of the transaction (sale) in the primary magnesium ingots at the date of transfer of ownership to the buyer;

PSI_{Mg}- the price of a source of information on primary magnesium ingots, published in the journal "Metallurgical Bulletin", defined as the arithmetic mean of the maximum and minimum prices at the date of transfer of ownership of goods to the buyer by the following formula:

$$PSIMg = \frac{PSI_{MБ\ min} + PSI_{MБ\ max}}{2} \quad \text{where}$$

$PSI_{MB\ min.}$ - the minimum price of the source of information on primary magnesium ingots, published in the journal "Metallurgical Bulletin" on the date of transfer of ownership to the buyer;

$PSI_{MB\ max.}$ - the maximum price of the source of information on primary magnesium ingots, published in the journal "Metallurgical Bulletin" on the date of transfer of ownership to the buyer.

At the same PSI_{Mg} applied taking into account the limits of the price band and the provisions of Chapter 3 of these Rules;

Δ -

differential is taken into account depending on the conditions of supply of primary magnesium ingots, in particular long-term contract.

7. Determination of the differential

The differential, in order to bring in comparable economic conditions prices of sources of information, depending on the conditions of delivery of titanium sponge, titanium ingots, magnesium primary bullion included sound and documented and (or) data sources buyer costs associated with delivery of goods to the appropriate destination market (supply) and for their implementation, including:
1) the cost of the goods stored in warehouses;
2) the cost of transportation of goods;
3) the cost of insurance of goods transport;
4) expenses on payment of customs duties (payment) on the titanium sponge, implemented in the United States;
5) commission of no more than 3% of the total costs incurred by the trader (the buyer) to purchase, delivery and sale of goods;
6) the cost of financing, including buyer compensation expense on loans (loans) granted to customers by commercial banks for the purchase, delivery and sale of goods, in the amount not exceeding LIBOR + 4%, as well as the costs of bank charges incurred by the buyer at attracting and servicing of credits (loans). Compensation loan (loan) is defined as the arithmetic mean of twelve-month rate LIBOR + 4%. Meaning twelve-month LIBOR rate is determined based on the data of the website www.bbalibor.com.

The components of the differential are confirmed by documents, including long-term contracts, acts of acceptance of services by an implementation costs with line item detail of the buyer the costs of delivery of the goods to the appropriate destination market (supply) goods and its implementation, and (or) the sources of information in the order, established Article 18 Law of the Republic of Kazakhstan from July 5, 2008 "On Transfer Pricing".