



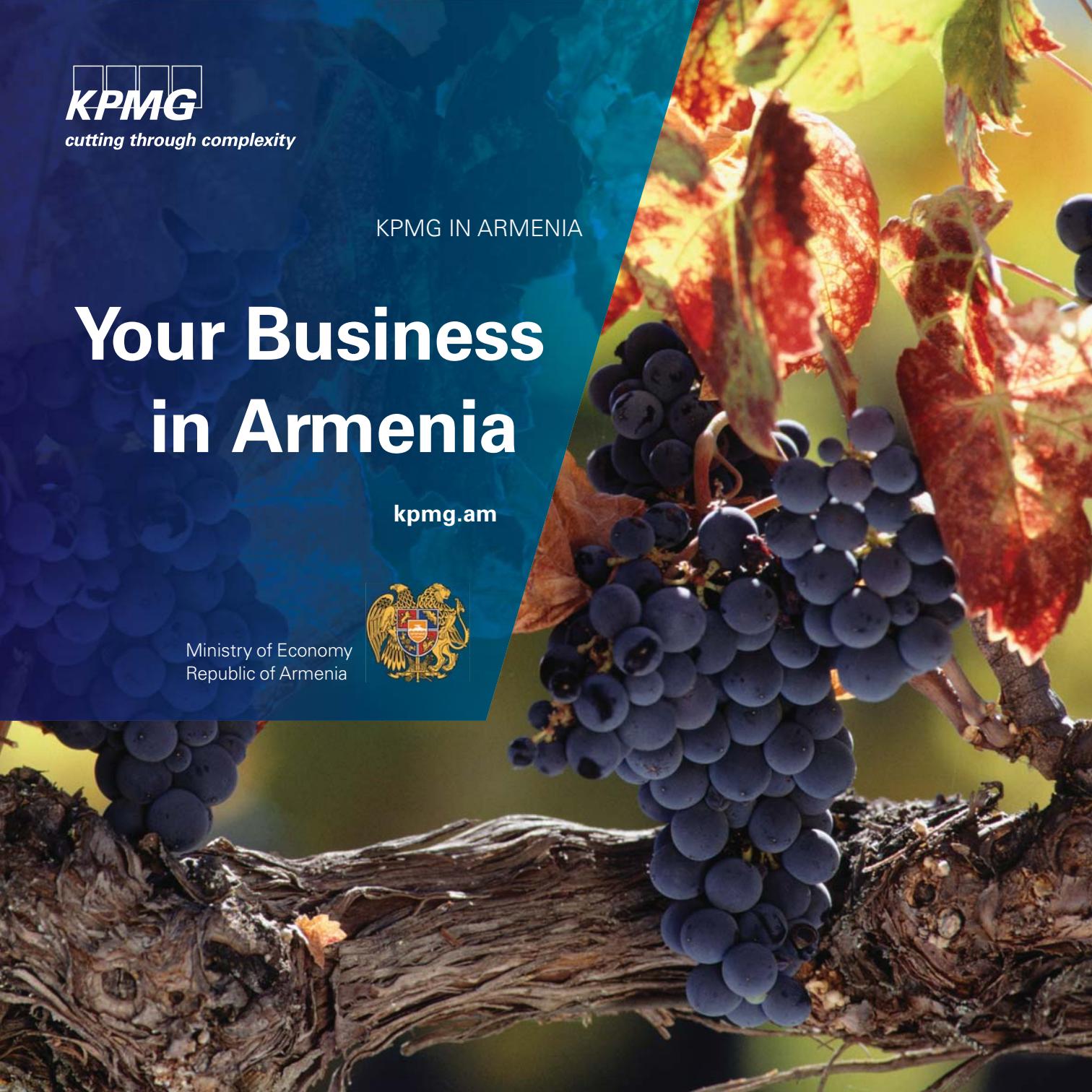
cutting through complexity

KPMG IN ARMENIA

Your Business in Armenia

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Ministry of Economy
Republic of Armenia





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Sincerely yours,

*Vahram Avanesyan
Minister of Economy
Republic of Armenia*

I am pleased to introduce an Investment Guide: “Your Business in Armenia”. This publication is a part of a wider Government effort aimed at the attraction and promotion of investments in Armenia.

Significant reforms have been conducted and several weighty developments have been achieved during the last decade in order to make Armenia a more favorable destination for foreign investments, including both reforms of the legal system and practical steps in easing business processes.

The principal added value of this publication is to introduce the potential investor to the peculiarities of the Armenian investment and business climate as well as to disclose the possible investment opportunities. The creation of the first free economic zone in Armenia has marked the start of a new stage for the attraction of investments. An investor can find here all the information for the setup of a new business in Armenia and making it successful.

I am confident that this publication will not only improve the understanding of business environment in Armenia, but will also encourage the use of the valuable knowledge accumulated here for new businesses representing different sectors of economy in the context of broader approaches to expand opportunities for potential investors.

Today the “voices” of businesses should be heard, their creativity engaged, and their rights respected while dealing with investment attraction issues. With this publication let us one more time commit to supporting innovative and business-led solutions for building a world of productive businesses that is a gateway to a progressively better future.



We are pleased to introduce you to the new publication issued by KPMG Armenia in cooperation with the Ministry of Economy of the Republic of Armenia “Your Business in Armenia”. The publication includes basic information for foreign businesses and individuals who are thinking about or intend to make an investment in Armenia. It includes general information about the country, economy, culture, legal and taxation requirements related to investments, government plans and priorities for the development of Armenia, as well as stories of some successful businesses – foreign companies or individuals who chose to invest in Armenia.

Armenia has recovered after the financial crisis, which had a significant negative impact on the economy of the country. A number of sectors have shown significant growth during the last few years, including infrastructure, financial services, technologies, construction and mining. In particular there has been a significant increase in the investments from foreign companies and international financial institutions. The first Free Economic Zone was opened in Armenia in 2013 with favorable taxation terms for businesses.

It is worth mentioning that Armenia has started receiving financing from International Financial Institutions (WB, EBRD, KfW etc) to assist Armenia in post-crisis recovery in 2012 and 2013 (total over USD 200 million). The financial resources are targeted on the improvement of tax and customs services, management of economic growth, enhancement of tax administration effectiveness and promotion of investments in agriculture. In addition these funds are intended to be utilized for the rehabilitation of rural roads, irrigation infrastructures and drinking water facilities as well as for the implementation of healthcare and education programs and international cooperation.

We believe that Armenia will continue its growth and become an increasingly attractive country to invest in. Notwithstanding the political tensions in terms of the relations with some neighboring countries, Armenia continues to move forward towards growth and prosperity.

Sincerely yours,

*Andrew Coxshall
Managing Partner
KPMG in Armenia and Georgia*





Armenia Profile



- Total area:** 29,734 sq km
- Borders with:** Georgia, Azerbaijan, Iran, Turkey
- Population:** 3,018,850 (2011 census)
- Capital:** Yerevan (1.1 mln)
- Large cities:** Gyumri (146 thousand)
Vanadzor (105 thousand)
- Government:** Presidential Republic
- Monetary unit:** Armenian Dram
- Climate:** Continental

Favorable Environment for Investment

Current Investment Climate

Armenia has a positive and open attitude towards foreign investments. The reforms related to the economy and infrastructure, macroeconomic stabilization and economic growth have contributed to the development and implementation of the country's foreign investment policy.

The main principles of the investment policy may be summarized as follows:

- A liberal attitude towards foreign investments
- An "Open door" investment principle
- Protection of investors' rights
- Provision of equal conditions for foreign and domestic investors.

There are virtually no restrictions concerning the sectors in which a foreign investor may invest, except the territories where foreign investments may be restricted taking into account necessity of national defense. A prior approval for making an investment is generally not required, except for the investments made in regulated establishments, such as banks, investment companies and certain public utilities.



Investment incentives

Foreign investors can benefit from the following investment incentives:

- 100% ownership permitted
- Companies registered by a foreigner in Armenia have the right to buy land. Although foreign citizens are not allowed to own land in Armenia, they are offered long-term lease contracts
- For investment projects, VAT payments for imported goods exceeding 300 million AMD are deferred for 3 years
- Free exchange of foreign currencies
- Free repatriation of profit
- Zero rating in Armenia applies to goods and services exported under “Free Turnover” and “Re-exportation” customs regimes.
- In case of any changes in legislation foreign investors can choose which law to use for up to a five-year term (five-year grandfather clause)
- Free Economic Zones (NO income tax, NO property tax, NO profit tax, NO custom duties)
- No screening and specific authorization required for making investment
- No export duties and restrictions
- No restrictions on remittances
- No restrictions on staff recruitment
- No sector-specific or geographic restrictions on investments, except in certain national defense-related sectors

Armenia has signed bilateral treaties on reciprocal promotion and protection of investments with 40 countries and is currently negotiating more such treaties with an additional 24 countries. Armenia is also a signatory of the International Convention of Investment Disputes (ICSID), CIS Multilateral Convention on the Protection of Investor Rights. In addition, it has double taxation treaties with 35 countries as of 2012. The benefits of these particular treaties are easy to access by providing supporting documentation of residency from foreign tax authorities.

The country has signed free-trade agreements with Georgia and most of the CIS countries. Armenia currently enjoys GSP beneficiary status with Canada, Japan, Norway, Switzerland, and the United States. Since 2009, Armenia has also been included in the list of countries granted GSP+ by the European Union.

“On September 3 2013, Armenia’s President Serzh Sargsyan announced Armenia’s intention to join the Eurasia Customs Union, which is a political and economic union between Russia, Belarus, and Kazakhstan.”

Government Economic Policy

The direction of the Government's economic policy will be the creation of a diversified, export-oriented and highly competitive economy. In this context, the Government will mostly emphasize the formation of advanced industry, continuous improvement of the business and investment climates, increased access to foreign markets using the effective tools of trade settlement, enhancement of regional cooperation through regional institutions, extension of applications of knowledge and innovations in separate branches of the economy of RA.

With regards to the improvement of business climate, the Government will continue facilitating administrative procedures for businesses, reducing unnecessary state intervention, implementing corporate governance

culture, promoting the development of small and medium enterprises, implementing a balanced tax and customs policy (reducing tax reporting and tax payment frequency, simplifying and specifying customs formalities).

A major component for further improvement of the investment environment will be the review of a targeted investment policy, including the improvement of legislation relating to foreign investments, through disclosure of the investment potential and competitive advantages of the Republic of Armenia.



Economic Drivers

Armenia has had positive annual real GDP growth rate during the last 5 years, except in 2009 when due to the economic crisis the real GDP decreased by 14%. The compound annual growth rate of real GDP for the years 2008 to 2012 has been 2.9%. In 2012 GDP grew by 7.2% compared to 2011. During the first two quarters of 2013 GDP grew by 5.2% compared to the same period of 2012. According to the IMF, the real GDP is expected to grow by 4.6% in 2013 and 4.8% in 2014. Later starting from 2015 to 2018 the IMF expects Armenia to have 5.5% annual growth rate in real GDP.

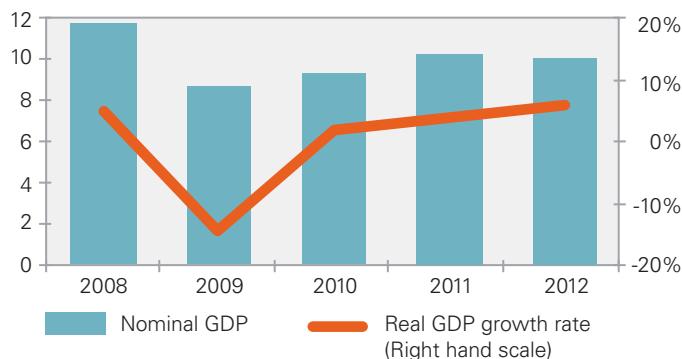
Key Economic Indicators

| | 2011 | 2012 |
|---|----------------|---------------|
| Nominal GDP | USD 10,138 mln | USD 9,949 mln |
| Real GDP growth | 4.7% | 7.2% |
| Inflation (period average) | 7.7% | 2.6% |
| FDI | USD 631 mln | USD 567 mln |
| FDI growth | -8.0% | -10.1% |
| AMD/USD exchange rate (period average) | 372.5 | 401.8 |

Source: NSS

Overall structure of GDP has been stable during the last five years; however construction share in nominal GDP has been decreasing during the last 3 years after a remarkable growth in 2005-2008.

GDP (USD billion)

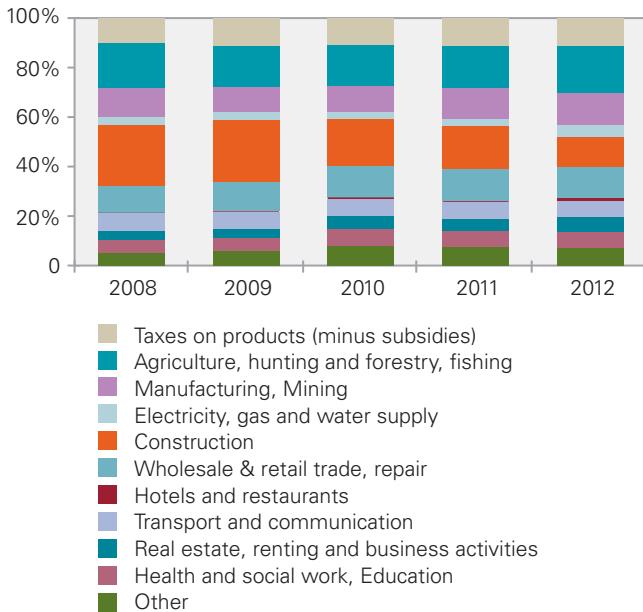


Source: NSS

On the other hand the wholesale and retail trade sector has been experiencing stable growth in recent years. In 2012 GDP composition was as follows: Agriculture-19.1%, Industry 40.9%, Services 40%.



Nominal GDP Structure



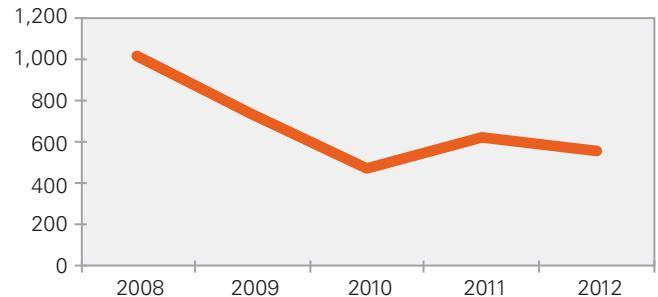
Source: NSS

FDI in Armenia has had an increasing balance till 2008 reaching USD 1,001 million. Starting from 2009 FDI had a substantial decrease over the years and decreased to USD 567 million in 2012. During the first two quarters of 2013 the level of FDI decreased by 64.2% compared to the same period of 2012 and was USD 118 million.

The average annual inflation rate for Armenia in 2008-2012 was 6.2%. The average inflation rate in 2012 was 2.6%. During the first two quarters of 2013 the inflation rate was 2.7%.

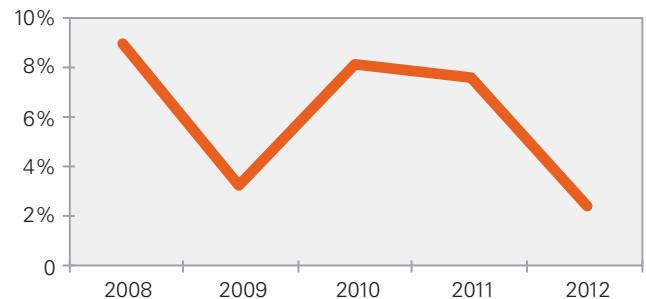
The main countries from where Armenia imports are Russia, UAE, Georgia, Iran, and Ukraine. Armenia mainly exports to Russia, Germany, Bulgaria, the Netherlands and Iran.

FDI (USD million)



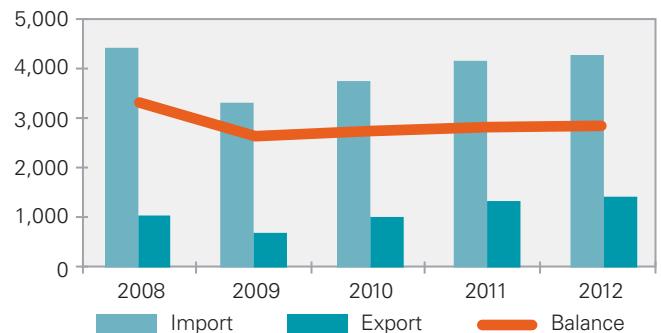
Source: NSS

CPI



Source: NSS

Foreign Trade (USD million)



Source: NSS

Regulatory Framework



Legal forms for establishing a business

There are certain legal options for establishing business (commercial activities) in the Republic of Armenia:

- sole entrepreneurs;
- business partnerships (full partnerships and trust partnerships);
- limited liability companies;
- supplementary liability companies;
- joint-stock companies (open and closed);
- cooperatives;
- branches.

Representative offices of foreign companies can be established in Armenia for the purposes of representation and protection of the rights of its founding company but are not entitled to perform commercial activities.

Incorporation of organizations and sole entrepreneurs

Legal entities, their separate subdivisions (branches and representative offices) and sole entrepreneurs are subject to state registration in the Republic of Armenia. State registration includes also registration with the tax authorities. The one-stop shop principle is applied in the process of state registration (including registration of the firm name, state registration of the company itself and registration with the tax authorities). The required documents can be submitted either in hard copies or electronically.

The registration of commercial entities is made immediately (if documents are submitted electronically or approved templates of the required documents are used) or within 2 working days (in other cases). State duty for registration of a commercial legal entity is AMD 17,000 (approximately USD 42), branch and representative office is AMD 12,000 (approximately USD 30).

Foreign investment legislation

The Law “On foreign investments” sets forth the rights, guarantees and privileges for foreign investors, who can make their investment in various forms, such as a joint venture or the establishment of a wholly-owned subsidiary.

The Law contains a grandfather clause, which allows foreign investors to apply the investment legislation, effective for a five-year period from the moment of making the investment.

Investments made by foreigners shall not be nationalized or confiscated. Seizure of property can be applied as an exclusive measure if authorized by a court and where a state of emergency has been declared by the Government.

Seizure of property is subject to full compensation. Foreign investors are also entitled to compensation of damages and losses (including lost profit) resulting from unlawful acts of state authorities or state officials or improper performance of their duties.

Goods (from the list established by the Government), which are imported by foreign investors with the purpose of paying up shares or the charter capital, are exempt from customs duties. However, if these goods are disposed within 3 years after their import, the customs duties shall be paid.

Insurance of bank deposits

The bank deposits of individuals are insured in the Republic of Armenia. The limit of an insured deposit amount in a bank is AMD 4 mln (approximately USD 10,000) – for deposits in Armenian currency and AMD 2 mln (approximately USD 5,000) for deposits in foreign currency.

Insurance

There is one type of mandatory insurance in Armenia: motor vehicle liability insurance. Other types of insurances are not mandatory.

Anti money-laundering and terrorism financing legislation

Armenia has detailed regulations on anti money-laundering and to combat terrorism financing. The Central Bank of Armenia exercises supervision on compliance with the legislation and imposes sanctions in the field to combat money laundering and terrorism financing.

Currency regulation

As a general rule transactions in Armenia have to be made in Armenian drams. There are several cases (mainly, transactions between resident and non-resident legal entities and sole entrepreneurs) where use of foreign currency is permitted.

The judicial system of the Republic of Armenia

A three-tier judicial system currently exists in Armenia:

I. First Instance Courts

- Courts of general jurisdiction (hearing civil and criminal cases);
- Administrative court (hearing claims against administrative bodies).

II. Courts of Appeal

- Civil Court of Appeal;
- Criminal Court of Appeal;
- Administrative Court of Appeal.

III. Cassation Court of the Republic of Armenia

In the field of constitutional justice the highest judicial power is the Constitutional Court of the Republic of Armenia.

Note: The judicial precedent is applied in Armenia.

Labor Market

The Labor Code is the main Legal Act regulating employment relations in Armenia. The Code sets forth the main provisions related to employment agreements, collective agreements, length of a working day, rest time, duration of vacations, calculation of salaries and other payments to employees, termination of employment relations, duration and payment for special leave, etc.



Taxation Overview¹

In general, the following state and municipal taxes are defined in the Republic of Armenia:

State taxes:

- Profit Tax
- Income Tax
- Excise Tax
- Value Added Tax.

The law may specify turnover tax, presumptive payments or license fees as a replacement to the above mentioned taxes.

Municipal taxes:

- Property Tax
- Land Tax.

Profit Tax

Tax payers: Profit Tax in Armenia is payable both by residents (organizations established in the RA) and non-residents (organizations created outside the RA and their subdivisions registered in Armenia).

Taxable profit: Profit Tax is calculated on the basis of the taxable profit representing the positive difference between the total income from the sale of goods, services, assets and other property, less total expenses which are deductible by law.

Profit tax rate: For residents and registered non-residents the rate of Profit Tax is currently 20% of the taxable profit.

Reporting period: Taxpayers have to submit their Profit Tax return to their local tax authority **before April 15** of the year following the reporting year. The amount of the Profit Tax should be transferred to the State Budget **not later than April 25** of the year following the reporting year. The reporting year end is 31 December for all companies. When establishing the amount of the Profit Tax liability, the income and expenditure are calculated on the accruals basis.

¹ Based on the legislation effective 1 July 2013.

The key Profit Tax implications for resident and non-resident registered entities are presented in the table below.

| Profit Tax | Residents | Non-residents registered in Armenia |
|---------------------------|---|--|
| Tax object | Taxable profit received on the territory of Armenia, as well as outside Armenia. | The taxable profit derived only from Armenian sources. |
| Tax methodology | The taxable profit is the positive difference between income recognized for taxation purposes and allowances established by law (expenses, losses, other allowances). | The taxable profit can be established: <ol style="list-style-type: none"> 1. as the positive difference between income recognized for taxation purposes and allowances established by law (expenses, other allowances); or 2. using one of the indirect methods defined by legislation (proportion of revenue , proportion of expenses, proportion of number of staff of Armenian subdivision in overall revenue, expenses, number of staff of non-resident) |
| Tax losses | Tax losses that arose during the last 5 years are deducted when calculating the taxable profit. | Losses are not deducted. |
| Dividends received | Dividends received are deducted from the gross income when calculating the taxable profit. | Dividends received are taxed. |
| Prepayments | Prepayments are made on a quarterly basis in the amount of the 18.75% of the previous year actual Profit tax, if the previous year actual Profit tax exceeded AMD 500 thousand (USD 1,250). | Prepayments are made on a half-annual basis in the amount of 1/4 of the previous year actual Profit tax, if the previous year actual Profit tax exceeded AMD 2 mln (USD 5,000). |

In case the non-resident company is not registered in Armenia, taxation of income derived from Armenian sources is performed by a tax agent at the following rates:

| Type of Income | Amount of the Profit Tax |
|--|--------------------------|
| Insurance compensation, reinsurance payments and income received from freight | 5 percent |
| Dividends, interests, royalty, income from the lease of property, increase in the value of property and other passive income (with the exception of the income received from the freight). | 10 percent |
| Income from other services provided by non-residents, as well as income from services provided by non-residents to Armenian residents outside Armenia, which include consulting, legal, accounting, management services, expertise, marketing, advertising, translating, engineering and other similar services. | 20 percent |

Double Taxation Treaties: Currently Armenia has signed Double Tax Treaties with the following countries: Austria, Belarus, Belgium, Bulgaria, Canada, China, Croatia, Cyprus, Czech Republic, Estonia, Finland, France, Georgia, Germany, Greece, Hungary, India, Iran, Italy, Kazakhstan, Kuwait, Latvia, Lebanon, Lithuania, Luxembourg, Moldova, the Netherlands, Poland, Qatar, Romania, Russia, Spain, Switzerland, Syria, Slovenia, Thailand, Turkmenistan, Ukraine, the United Arab Emirates, the United Kingdom and Ireland.



Value Added Tax

VAT payers: VAT payers are individuals and legal entities that carry out economic (entrepreneurial) activities and perform the VAT taxable transactions on the territory of the RA.

VAT taxable transactions:

- Delivery (supply) of goods for compensation;
- Rendering of services for any form of compensation;
- Free (partially free) delivery of goods or provision of services;
- Importation of goods under the “Import for free turnover” customs regime.

VAT rate: The rate of VAT is 20 percent of taxable turnover.

Privileges: The RA Law “On VAT” specifies the types of transactions that are not taxable by VAT (these transactions are out of the scope of VAT), the types of activities that are exempt from VAT (insurance, most banking and financial activities, scientific and research works, sales of newspapers and magazines, procurement and supply of goods and provision of services arising from loans and grants made by international organizations for the realization of programs in Armenia, etc.), as well as transactions for which zero rate of VAT is applied. The zero rate of VAT is, in general, applied to the exportation of goods and services (works) from the territory of Armenia. The main difference between zero rating and exemption is that in the case of exemption the VAT paid to the supplier is not compensated.

Reporting period: Every quarter (or every month, if the taxable turnover of the previous year exceeded AMD 100mln (USD 250,000). VAT taxpayers are obliged to submit VAT reports to tax authorities and pay VAT by the 20th day of the month following the reporting period.

Tax Invoices: VAT payers are obliged to issue tax invoices for goods supplied and services rendered. Tax invoices should be issued either electronically or by completing the paper forms of tax invoices obtained from the tax authorities.

E-Reporting: Starting from January 1, 2012 the companies and individual entrepreneurs which by the results of the previous reporting year have VAT taxable turnover of more than AMD 58.35 million (USD 145,000) (exceeding the threshold of VAT) must submit tax returns to the tax authority electronically.

Turnover tax

The turnover tax is a substitute of VAT and profit tax for legal entities and VAT for private entrepreneurs.

Turnover tax payers: The turnover tax is applicable for taxpayers with previous year revenues from the sale of goods and provision of services not exceeding AMD 58.35 million, with some exceptions.

The taxable object: The taxable object is the turnover of goods delivered and services rendered for the reporting period and other income received. For determining the taxable object income is recognized by accrual method. It should be noted that no deductions are allowed when calculating the tax base.

Turnover tax rates: The turnover tax rates are the following:

| Type of Income | Rate |
|--|------|
| Income from commercial and industrial activities | 3.5% |
| Rent income, interest, royalties, income from sale of assets | 10% |
| Income from notaries activities | 20% |
| Income from other activities | 5% |

Income Tax

Tax payers: In Armenia Income Tax is paid by RA resident and non-resident individuals.

Residents are the persons who have spent 183 days or more in Armenia in any twelve month period starting or ending in a tax year, or whose vital interests are located in the RA (home, family, property and business), irrespective of the citizenship.

Tax object: For RA residents the tax object is taxable income received in Armenia and outside of Armenia, non-residents will have an Income Tax liability solely on income received from Armenian sources.

Types of income which are subject to Income Tax:

wages and salaries, interest, income from donations and assistance (unless specifically exempt), royalties, rental income, benefits in kind, income from entrepreneurial activities received by soul entrepreneur, etc.

For most of the employees their employer will withhold the income tax and pay to the tax authorities as tax agent.

Taxable income: The taxable income is the positive difference between the gross income of the taxpayer and the deductions made in accordance with the provisions of the RA Law "On Income Tax".

Income Tax rates:

I. The Income Tax rates on wages and salaries are:

| Monthly Taxable Income | Income Tax Rate |
|---------------------------------|---|
| Up to AMD120,000 | 24.4% |
| From AMD120,000 to AMD2,000,000 | AMD 29,280 + 26% of the amount exceeding AMD 120,000 |
| Over AMD 2,000,000 | AMD 518,080 + 36% of the amount exceeding AMD 2,000,000 |

II. The income tax rates on income not taxed by tax agent are:

| Annual Taxable Income | Income Tax Rate |
|-----------------------|---|
| Up to AMD 1,440,000 | 24.4% |
| Over AMD 1,440,000 | AMD 351,360 + 26% of the amount exceeding AMD 1,440,000 |

III. Tax rates on some types of income received by foreign citizens are:

| Type of Income | Rate |
|--|------|
| Dividends | 0% |
| Insurance reimbursements and income from transportation (freight) | 5% |
| Royalties, interests, lease payments, increase in the value of property and other passive income, as well as other income received from Armenian sources | 10% |

IV. Tax rates on some types of income received by foreign citizens are:

| Type of Income | Rate |
|---|------|
| Royalties, rental income, income from the sale of property, interest income | 10% |

Individual obligations of Income Tax reporting: The RA residents, per the results of the tax year, have an obligation of submitting electronically the Income Calculation **before April 15** of the year following the reporting year with the exception (in particular) of the following cases:

- When income received is taxed by tax agents;
- When income received by the individual, consisted exclusively of the non-taxable types of income (deductible income).

Income Tax reporting by tax agents: An income tax report is submitted by tax agents (employers) electronically on a monthly basis.

Other Issues — Mandatory funded pension scheme

Starting from January 1, 2014 a mandatory funded pension scheme will enter into force based on the RA Law “On Funded Pensions,” which was adopted by RA National Assembly on 22 December 2010. The law provides the following pension schemes:

- Mandatory Funded Pension Scheme (will enter into force from 1 January 2014)
- Voluntary Funded Pension Scheme (is in force from 1 January 2011).

Under the Mandatory Funded Pension Scheme

- Participants are:
 - employees, individual entrepreneurs and notaries who were born on or after 1 January 1974 (including foreign citizens or persons without citizenship, who receive basic income, i.e. who work in an Armenian incorporated company and receive income taxable by income tax)

- RA citizens and foreign citizens who were born before 1974 can participate in mandatory funded pension component on a voluntary basis. Military servants and persons having an equal status cannot participate in funded pension schemes.
- Funded contributions are paid by the participants of the mandatory funded scheme. The employer has no obligation to make contributions for their employees on a mandatory basis.
- The base for calculation of the contribution is basic income. The basic income is salary and other payments equal to it, income gained from civil-legal agreements for performance of works (delivery of services) and entrepreneurial activities, which is subject to taxation under the RA Law “On Income Tax.”
- The amount of mandatory funded pension contribution for a mandatory participant employees shall be 10 percent of the individual’s basic income, from which 5 percent should be paid by the employee, the other 5 percent will be transferred to the individual’s account from the state budget (limited to AMD 25,000; the remaining amount for 10 percent shall be paid by the employee). For a participant having voluntarily joined the mandatory funded pension scheme the contribution shall be at the rate of 5% of the basic income and no additional contributions are made for him/her from the state budget.
- The employer as a tax agent is obliged to withhold the amount of pension contribution as well as submit monthly personalized reports to tax authorities on calculated income, amount of tax and pension contribution withheld from individual within the terms established by the RA Law “On Income Tax.” The payments are due by 20th of the month following the payment of income to individuals.
- It is expected that the fund will be run by an international fund manager.

Any person irrespective of the age and the fact whether the person is a mandatory funded pension payer or not, can participate in voluntary pension scheme on a voluntary basis.

The pension income received within the compulsory funded pension scheme is not taxable by unified income tax. Voluntary funded pension contributions performed

by the individual and (or) a third party (including employer) are deducted from the gross income in the amount not exceeding 5 % of the gross income of the individual. Pensions received within the scope of a voluntary funded pension scheme will be subject to unified income tax at the rate of 10% without considering deductions established by law.



Accounting Requirements

According to the Law of RA “On Accounting,” all legal entities registered in Armenia, as well as branches and representative offices of foreign legal entities must carry out financial accounting and prepare general purpose financial statements.

The Ministry of Finance adopted Accounting Standards of the Republic of Armenia (ASRA), which was based on IFRS effective as of the end of 2000, with minor changes. However, from 2009 the transition to IFRS was initiated. Mandatory IFRS reporting for banks started from January 2009, for other financial institutions including credit, insurance and investment companies started from January 2010, for the remaining organizations with revenue exceeding AMD 100 mln (approximately equivalent to USD 250,000) started from January 2011.

The reporting currency of the financial statements is the Armenian dram. The full package of financial statements includes:

- The balance sheet;
- The income statement;
- A statement of changes in equity;
- A cash flow statement;
- Notes to the financial statements.





Where the company has a subsidiary, it should prepare consolidated financial statements for the Group.

Directors of the company are responsible for preparing and signing the financial statements. The financial statements are submitted to founders or shareholders of the company and to appropriate state authorities before 15 April following the reporting year.

All companies that have an annual turnover and/or total assets over AMD 1 billion should publish their audited financial statements before 1 July following the reporting year.

Banks should publish their quarterly financial statement before the 15th of the month following the reporting period and their annual audited financial statements within six months following the reporting year.

If financial statements are not submitted/ published on the required dates the companies are fined by AMD 50,000 (USD 125), if the delay exceeds 30 days the non-compliance fee applied amounts to AMD 500,000 (USD 1,250).

Auditors, audit requirements and standards

Audit of the annual financial statements carried out by an independent audit company is mandatory for certain companies, such as open joint-stock companies, banks and financial institutions, stock exchange participants, etc. Audit companies are licensed by the Ministry of Finance. In order to receive a license the audit firm should have at least five qualified auditors, who obtain a professional qualification from the Ministry of Finance. Additionally, the signatory of audit opinions on the financial statements of commercial banks and other financial organizations regulated by the CBA is required to possess a professional qualification from the Ministry of Finance.

Audits are performed in accordance with auditing standards of the RA, approved by the Ministry of Finance, which are based on International Standards on Auditing (ISA). There is also a Law on Audit, which regulates this field.





Infrastructure

Armenia has a relatively developed public transportation system, which includes buses, taxi services, vans or “route taxis” in major cities and also a metro in Yerevan. Road and railroad communication exists between all the major regions of Armenia.

Two international airports are in operation: Zvartnots International Airport in Yerevan and Shirak airport in Gyumri. A new international terminal was opened on 1 June 2007. Yet another terminal, built in accordance with the newest international standards, with modern equipment and with high earthquake stability was opened on 26 September 2011. The airport is able to accept any type of aircraft.

Several international airlines (such as Aeroflot, Air France, Austrian Airlines, Czech Airlines, Siberia Airlines, Alitalia and Lufthansa) provide a number of flights to the largest cities in the CIS, Europe, USA, Asia and Australia. Scheduled flights operate to Amsterdam, Athens, Beirut, Dubai, Istanbul, Frankfurt, Kiev, London, Moscow, Munich, Paris, Prague, Rome, Tehran, Vienna, and other major cities in the world.

There are 725 km of railways of general purposes in Armenia. Of the three international railroad connections via Georgia, Azerbaijan and Turkey, only the connection through Georgia to the Black Sea ports (mainly Poti and Batumi) is

in use at present. Highways of general purposes within Armenia total 7,704 km and there are connections with all neighboring states with which Armenia has diplomatic relations, including Georgia and Iran.

The Armenian telecommunications network is currently operated by three mobile operators, ArmenTel (operating under the trade mark Beeline), which is fully owned by Russia’s VimpelCom, K-Telecom (operating under the trademark VivaCell MTS), a subsidiary of Russia’s MTS and Orange Armenia, a subsidiary of France Telecom.

Main competitors in 3G internet services in Armenia are Orange Armenia, VivaCell MTS and Beeline. Armenia is also the 10th country in the world that launched the 4G Internet communication network also introduced by VivaCell MTS. Currently one of the main DSL highline internet suppliers in Armenia is Beeline. Optical fiber network suppliers are Ucom telecom company and Rostelecom Armenia. Ucom has also built up the first FTTH (Fiber to the home) Network in Armenia. The fiber-optic cable (FOC) network of Rostelecom Armenia now covers 80% of the territory of RA, spreading for over 2500km. Ucom and Rostelecom Armenia provide internet, IPTV and Digital Phone services to both individuals and corporate clients.

Financial Market

As of 30 September 2013 the Armenian Financial Market comprised of 21 commercial banks, one development bank, 33 credit organizations (with a total of 120 branches), 7 insurance companies, 2 insurance brokers, 9 investment companies, NASDAQ OMX Armenia and the Armenian Central depository, 238 exchange offices and 148 pawnshops. Since 1 January 2006 the CBA has been acting as regulator and supervisor of the Armenian Financial Market.

Per the Government decision the head offices of banks and the CBA will move to Dilijan city (about 110 km from Yerevan), which will become the financial center of Armenia. The process of moving different departments of the CBA has already started.

Banking Sector

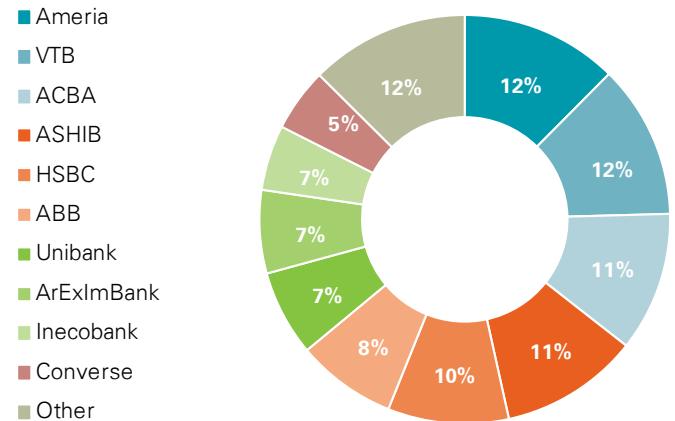
As of the end of September 2013 the 21 commercial banks operating in Armenia had 493 branches in Armenia and in Nagorno Karabakh, from which 209 are located in Yerevan. The total number of employees in Armenian commercial banks is 11,310.

Total assets of the Armenian banking system were about AMD 2,720 billion as of September 30 of 2013 including total loan portfolio of AMD 1,681 billion. This figure makes the Armenian banking system the biggest part of the Armenian financial market.

The total equity amounted to AMD 446 billion and total liabilities were about AMD 2,275 billion including AMD 1,456 billion of total deposits.

As of 30 September 2013 "AmeriaBank" CJSC was leading the Armenian commercial banks list with almost all of the key financial figures. Below we present key indicators of 10 biggest banks of Armenia, which totaled about 76% of the total assets of the banking system. Nevertheless, the banking industry concentration is not high and is defined as unconcentrated according to the Herfindahl-Hirschman Index, which has the value of 0.071².

Bank Assets

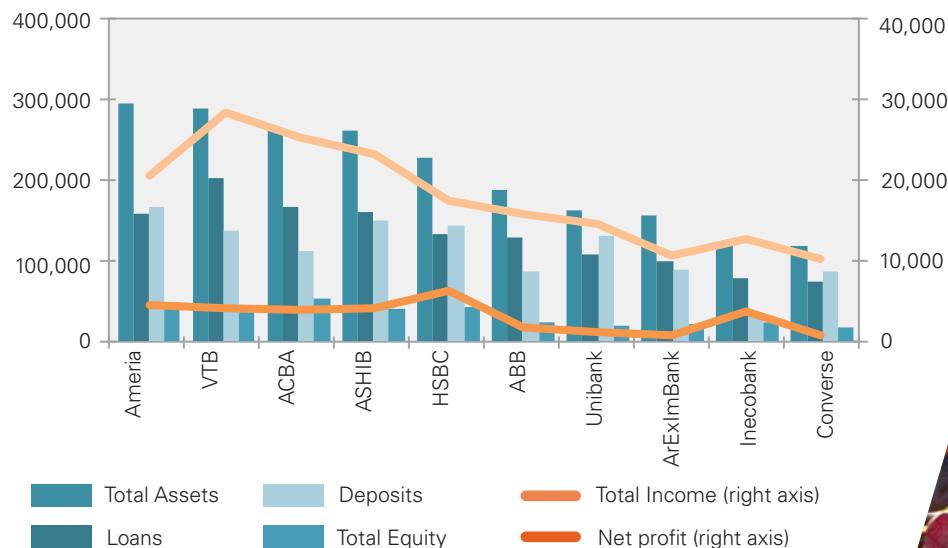


Source: CBA

² Index below 0.1 indicates an unconcentrated index; index between 0.1 and 0.18 indicates moderate concentration; index above 0.18 indicates high concentration. U.S. Department of Justice and the Federal Trade Commission

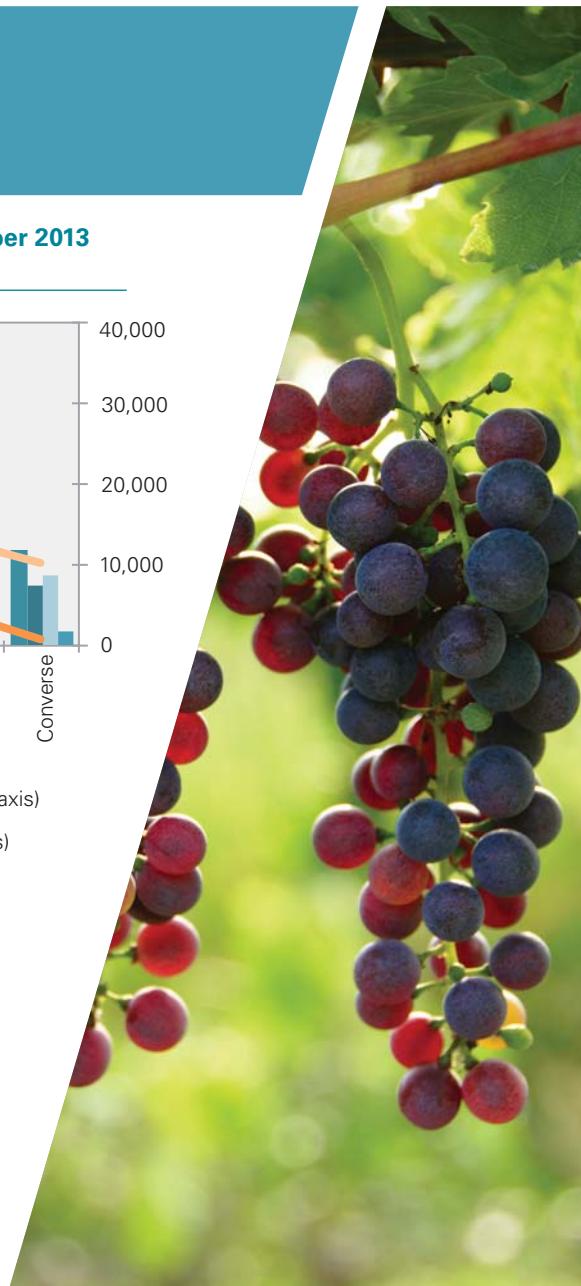
Top Ten Banks of the Armenian Banking Sector as of 30 September 2013

(in million AMD)



Source: CBA

The shareholder structure of the Armenian banks is very different. There are both resident and non-resident shareholders. Meanwhile, almost in all the Armenian banks non-resident shareholders are presented. Non-resident participants, both legal entities and individuals, are mainly from Russia, Switzerland, Iran, Lebanon, Liechtenstein, France, United Kingdom, USA and Kazakhstan. There are several international organizations that have shares in several Armenian banks (e.g. IFC, DEG, EBRD, and KfW).





Capital market

Currently the only stock exchange operating in Armenia is “NASDAQ OMX Armenia” open joint stock company (NOA). The company is part of the NASDAQ OMX Group, Inc. and is the 100% owner of “Central Depository of Armenia” OJSC.

Membership in NASDAQ OMX Armenia is open to all companies, providing investment services and complying with the Central Bank of Armenia and NASDAQ OMX Armenia requirements. Currently all the commercial banks, 5 investment companies and the Central Bank of Armenia participate in the exchange trading.

“Central Depository of Armenia” OJSC acts as a centralized custodian, as well as an operator of securities centralized registry and settlement system in Armenia. As of the end of July 2013, 1,950 registers were kept and 179,665 securities depo accounts were maintained by the Depository.

NOA operates the market through its fully electronic, multi-asset trading system, whereby facilitates the trading in a range of instruments such as equities, corporate bonds, government bonds, repos, currencies and credit resources.

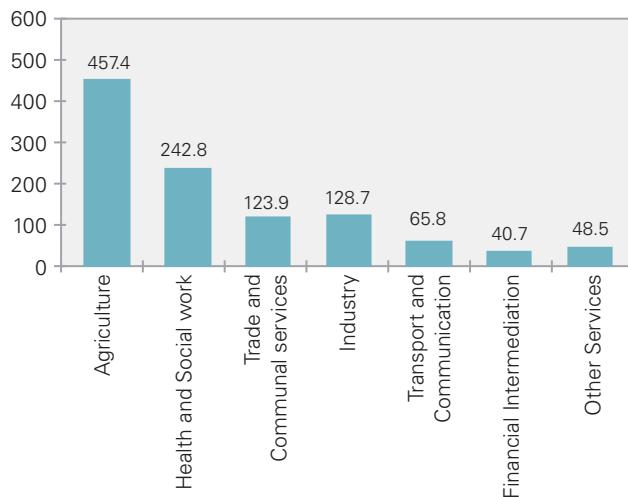
Currently CDA has cross-border securities correspondent accounts with National Settlement Depository, Russian Clearing and Settlement Depository, and Kazakhstan Clearing and Settlement Depository. Negotiations on international agreements with Euroclear and Clearstream are being finalized, so Armenian securities are expected to be available for foreign investors on their accounts through international Clearing and Settlement Depositories in the nearest future.

Labor Market



Employment by Sectors of Economy

(thousand people)



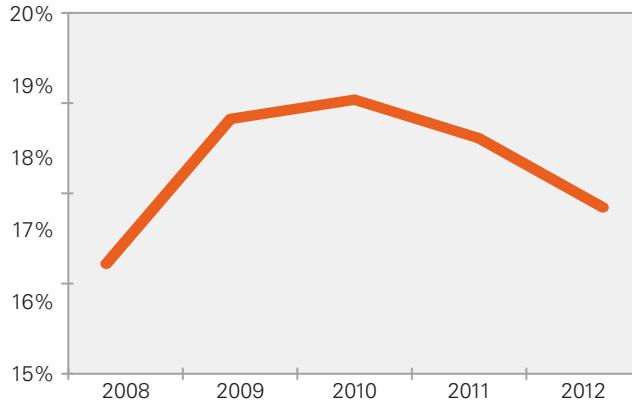
Source: NSS

In 2012 there were 1,192 thousand people employed in Armenia which is 39.4% of the total population. The number of employed people in Armenia in 2012 increased by 1% compared to 2011.

About 38.9% of employed persons in 2011 worked in the agricultural sector.

The geographical concentration rate of employment is high: about 28% of the total employed persons are in Yerevan, while the share of the other regions in the total number of employed persons ranges from 2% to 11%.

Unemployment

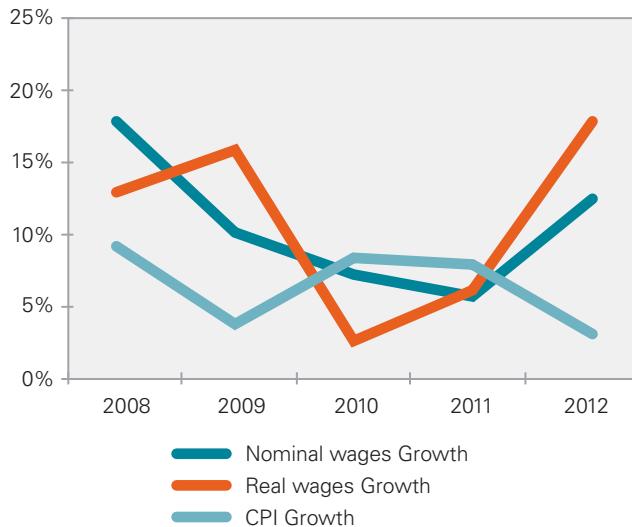


Source: NSS

The average employee turnover rate (the number of employees who left the company during the year in relation to the average total number of employees) in 2011 was 19.7%, while the average employee acceptance rate (the number of employees who joined the company during the year in relation to the average total number of employees) was 21.7%.

As per the National Statistics Service of Armenia the official unemployment rate³ in 2011 was 18.4%. In 2012 the unemployment rate was 17.3%.

Wages



Source: NSS

The average monthly nominal wages increased by 12.3% in 2012 compared to 2011 and comprised AMD 121,342 (USD 291). The growth of monthly nominal wages surpassed the CPI for the period from 2007 to 2012 resulting in the real growth of wages: CAGR of monthly nominal wages for the mentioned period was about 8.5% compared to the CPI⁴ CAGR of 5.4% for the same period. The minimum wage in Armenia is currently AMD 59,524 (USD 147).

³ Since 2008 the indicators are not comparable with the data of previous years. The number of unemployed has been calculated by the NSS of RA since 2008 based on the ILO standard definition used by EU countries. The latter partially differs from the methodology used in 2001-2007, which is based on the expanded definition of unemployment, recommended by the ILO for use in transition countries (by opinion of country).

⁴ 2007 is taken to be as a base year for calculations of CPI.

Country Rating

On 20 August 2013 Moody's rating agency has changed the outlook of Armenia's Ba2 government bond rating to stable from negative⁵.

Based on the Doing Business 2013 prepared by IFC (the WB Group) Armenia was ranked 32 out of 185 economies improving its position by 18 places compared with 2011 ranking⁶.

⁵ http://www.moodys.com/research/Moodys-changes-outlook-on-Armenias-Ba2-rating-to-stable-from-PR_280344

⁶ <http://www.doingbusiness.org/data/exploreeconomies/armenia>





Membership to International Organizations

Armenia is a member of many international organizations including:

- IMF
- World Bank, IDA,
- EBRD
- BSEC
- WTO
- UN, UNCTAD, UNESCO, UNIDO, UNECE
- CIS
- WIPO
- INTERPOL
- IAEA
- CCC
- OECD
- TRACECA
- ADB
- CSTO
- WHO
- ECE
- ESCAP
- WCO
- ICAO
- IFAD
- ILO
- INTELSAT
- IOC
- ITU
- ISO
- MIGA
- OSCE
- Council of Europe
- NATO
- EurAsEC

Investment Opportunities

Industrial Policy

Driven by the imperative to increase economic competitiveness and ensure sustainable economic growth, the Government has initiated the implementation of an active industrial policy that will target the expansion of the exportable sector of the economy by identifying and utilizing export potential.

The Government has declared building a knowledge-based economy as its long-term strategic objective. On this basis, the guiding vision for the industrial policy will be to turn Armenia into a country producing high-value and knowledge-intensive goods and services with creative human capital at its core. Achieving this vision requires a phased approach that entails a gradual transition from resource-intensive production to capacity and skills, and subsequently knowledge-based production to play a dominant role in the longer term.

Small and Medium Enterprises

SME development policy targets at contribution to the activation of entrepreneurship in the country, ensuring balanced regional development, enlargement of the role of SMEs in the process of economic diversification, growth of the level of employment and self-employment. In this context, an important tool is the expansion of direct support to the SMEs, particularly diversification of state support tools aimed at the development of the SME sector, as well as provision of better targeting of state support given to the SMEs.

Based on the SME development policy the state support to SME sector is planned in the following areas:

- Implementation of measures aimed at creation of most favorable environment for existing and start-up SMEs, particularly improvement of legal framework in the fields of tax, customs and public procurement services;
- Implementation of measures aimed at strengthening the infrastructure supporting the SMEs and development of new supporting institutions;
- Provision of continuity and expansion of the support for business initiatives (financial, consulting, etc for start-up and existing enterprises), particularly in the RA marzes;
- Enlargement of opportunities for women to be engaged in entrepreneurship;
- Introduction of new tools for state support to SMEs, in favor of the formation of industrial clusters on regional and community levels, as well as regional development;
- Internationalization of SME activities, including: support for “aggressive” promotion of SME innovative initiatives, as well as support for prospective SMEs with export potential, particularly in the form of integration to international structures and networks supporting SMEs; etc.





IT and High Tech

The Government has made and is making measures for the development of an advanced electronic society in Armenia. Among the most important preconditions for this purpose will be the technical education corresponding to high international standards, the development of information and communication technology infrastructure and the improvement of computer literacy levels.

The Government activates the initiatives aimed at proper representation of the field in Armenia and abroad, increasing the volume of exports and investments in the field, training and retraining of highly qualified personnel, promoting entrepreneurship, establishing new businesses and creating jobs, expanding the applications of industry products, innovative technology and e-services in other areas of the economy, encouraging creation of venture funds supporting up-to-date technologies, promoting cooperation with international organizations in the IT sector, attracting world-famous IT companies, developing a country rating as a regional IT center.

The program of starting an Armenian center for oncology will continue within the framework of the initial strategy of innovative economic development, and will include equipping the radio-isotope production center with cyclotrons and integrated devices acquired by the state for the needs of nuclear medicine, as well as receiving the necessary permissions for the operation of cyclotrons and for the production of radiation sources. The Government will continue the activities aimed at attracting investors and private partners into the implementation of the program. Cancer diagnosis and high-quality therapy services will be offered after the completion of the project.

Free Economic Zones

FEZ based on “RAO Mars” CJSC and “The Yerevan Computer R&D Institute” CJSC

Free economic zones (FEZs) in Armenia offer a unique opportunity for entrepreneurs to establish businesses in strategic sectors of the economy and to process produce and export goods with a reduced tax burden. FEZs allow the export of goods without any restrictions to international markets with more than 500 million consumers.

The first Free Economic Zone in Armenia based on “RAO Mars” CJSC and “The Yerevan Computer R&D Institute” CJSC officially has launched on August 1, 2013 with “Sytronics Armenia” CJSC as an organizer.

The establishment of FEZ in Armenia seeks to promote direct foreign investments, increase exports, create new jobs, and generate prerequisites for sustainable economic development in Armenia.

The free economic zone has about 60,000 square meters of economic production area and 38,000 square meters of office space. The zone is oriented to the production and exports of high and innovative technologies in the field of electronics, precision engineering, pharmaceuticals and biotechnologies, information technologies, alternative energy, industrial design and telecommunications (elaboration and production of technological equipment, systems and materials for data/information transfer).

The services rendered by the state bodies in the FEZ are implemented based on a simplified (“one stop shop”) principle. They can take advantage of tax benefits as well as of absence of exchange restrictions, free transfer of capital, profits and dividends. The preferential terms are supposed to reduce production cost and enhance competitiveness.

Investment Proposals

The Ministry of Economy has recently established the Investment Policy Department, an official institution to deal with foreign investments, including the very important task of taking arrangements for introducing the potential investors and investment seeking projects. The department has developed an investment project teaser, in order to be able to collect all the projects in the same format and make them precise and presentable for foreign investors.

The teasers of the projects can be found at the official Webpage of the Ministry of Economy <http://www.mineconomy.am/>.

State investment projects and Public Private Partnership (PPP) initiatives in Armenia can be found at the official country profiles of the Republic of Armenia on the Webpages of regional and international banks, such as:

- EBRD at <http://www.ebrd.com/pages/country/armenia.shtml>
- ADB at <http://www.adb.org/countries/armenia/main>
- IBRD of the World Bank Group at <http://www.worldbank.org/en/country/armenia>, etc.

⁷ <http://mineconomy.am/eng/26/text.html>

More information regarding available investment projects can also be found on the official webpages of the following organizations:

- ADA which serves as a central point of contact for the investment process all at no charge to the investor. The agency helps companies from all parts of the world to start new business ventures in Armenia as well as expand existing operations.
[/www.ada.am/](http://www.ada.am/)
- The Competitiveness Foundation of Armenia which aims to achieve breakthrough development toward national competitiveness in key areas of economic activity. The Foundation operates through PPPs, mobilizing strategic investments which have the potential of catalyzing development and accelerating progress toward competitiveness.
[/www.cf.am/](http://www.cf.am/)



They Chose Armenia





Mr. Vahak Hovnanian is a successful businessman, real estate developer and philanthropist from the USA. During his more than fifty-year experience in the field, he has developed and built over five thousand homes and commercial properties throughout the USA and Europe.

Hovnanian International LTD

Mr. Hovnanian visited Armenia many times. When he was here after the earthquake of 1988 he visualized his dream: to construct houses which will have appropriate seismic safety for a region like Armenia.

After the collapse of the Soviet Union when the economy of Armenia was opened up to foreign investments Mr. Hovnanian wrote a letter to the President of Armenia asking to give him permission to build a residential community for local people, as well as for Armenian retired Diaspora, who would live in Armenia bringing with them their experience and money.

He started from wooden houses, promoted them among locals and Diasporas. Over time Mr. Hovnanian made the Vahakni community more and more attractive for both locals and foreigners by adding stone houses and custom built houses constructed by customers per their designs.

Knowledge of the local language and culture of the local people, more than 50 years of expertise in the sector; individual treatment of each client; successful partnerships with local professionals; high quality; cooperation with local banks and introduction of the new concepts, including retirement community, golf course and first long-term payment allowance by customers turned the business idea into a successful business.

Mr. Hovnanian thinks that good educational background of local people, the presence of high quality audit and accounting companies and the developed banking sector of Armenia created a favorable environment for the business to succeed.

Vahak S. Hovnanian enjoys living and working in Armenia and he has a number of interesting projects in the pipeline, which include:

- Vahakni Residential Community and resort in the town of Yerevan
- Light industry factories in the town of Gyumri, Armenia
- Residential and resort complex in the town of Dilijan, which is now becoming the financial center of Armenia
- New constructions in Vahakni bringing 2,300 new apartments, a commercial center and a school.

**"...Armenia
is a great place
to live and
to work..."**



Renco Armestate LLC

From one hotel to the largest foreign construction company in Armenia

All began in 1999, when Renco (an Italian company founded in 1979 by Rinaldo Gasparini) won the tender for the refurbishment of Yerevan Hotel (currently Golden Tulip Armenia). When the project was completed they chose to stay in Armenia for the long term as they saw good opportunities to invest and work in Armenia.

During already 13 years in Armenia they developed and operated a number of real estate projects, including:

- hotel in Yerevan – Congress hotel
- office buildings – Piazza Grande, Yerevan Plaza, Italian Embassy
- residential buildings – Italian Ambassador’s residence, Park Residence, Sole and Luna, Piazza Grande
- civil projects – Opera underground parking, Tatev ropeway, Halizor cafeteria

Renco cooperates with the Armenian Government participating in a private public partnership initiative. The Yerevan Municipality gave a land plot to the company in the city center in exchange of for the company’s commitment to construct the Opera underground parking and a new velodrome.

According to Mr. Talevi, the Armenia Branch Director, great local people and Government support encourage the company to stay here for many other more years. They plan to start new projects (residential buildings, hotel and office buildings in the Yerevan’s center) after completing the current projects in progress, including:

- The building of the Central Bank of Armenia in the town of Dilijan
- Central Bank of Armenia Village in the town of Dilijan

R **RENCO ARMESTATE LLC**

“...Armenia seems like a new Switzerland... people in Armenia are looking for serious companies and new innovative ideas...”

Green Bean Coffee Shop

All began about 5 months ago when a group of young and talented people from Armenia, USA and Switzerland decided to develop a new “home grown” business concept in Armenia.

The fully non-smoking and eco-friendly coffee shop was launched in the heart of Yerevan and gained quick success and popularity. The owners consider that the business success is mainly backed up by:

- Availability of new business opportunities in Armenia
- Understanding of the local market and culture of the local people
- Focusing on the appropriate target market
- Expertise in the sector
- Cooperation with local experts
- New concepts and openness of local people to new ideas

The Green Bean was designed and constructed to feature the utilization of eco-friendly, renewable, and green materials. Besides, they expected to come up with a business that would provide benefits for many layers of the local economy, including producers, as they buy all the consumables (except coffee) from the local market. On the other side the cheaper labor and material costs in Armenia made the establishment of the new business concept easier.

The success in Armenia inspired the investors for new achievements. They are planning to use Armenia as a jumping point to franchise their business concept to neighboring countries in the near future.

“...there is lot of room for new business ideas in Armenia... Armenia is a great jumping point to develop a business concept and extend to other countries”

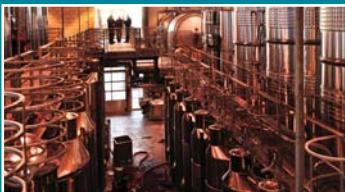


Brands represented in Armenia



Abbreviations and Glossaries

| | | | | | |
|---------|---|----------|---|----------------|--|
| ADA | Armenian Development Agency | IFC | International Financial Cooperation | PPP | Public Private Partnership |
| ADB | Asian Development Bank | IFRS | International Financial Reporting Standards | RA | Republic of Armenia |
| AMD | Armenian Dram | ILO | International Labour Organization | R&D | Research and development |
| ASRA | Accounting standards of the Republic of Armenia | IMF | International Monetary Fund | SME | Small and medium enterprises |
| BSEC | Black Sea Economic Cooperation | INTELSAT | International Telecommunications Satellite Organization | sq.m. | Square meter |
| CAGR | Compound Annual Growth Rate | INTERPOL | International Criminal Police Organization | TRACECA | Transport Corridor Europe-Caucasus-Asia |
| CBA | The Central Bank of Armenia | IOC | International Olympic Committee | UAE | United Arab Emirates |
| CCC | Customs Cooperation Council | IPTV | Internet Protocol television | UN | United Nations |
| CIS | Commonwealth of Independent States | ISA | International Standards on Auditing | UNECE | United Nations Economic Commission for Europe |
| CSTO | Collective Security Treaty Organization | ISO | International Organization for Standardization | UNESCO | United Nations Educational, Scientific and Cultural Organization |
| DSL | Digital subscriber line | IT | Information Technology | UNCTAD | United Nations Conference on Trade and Development |
| EBRD | European Bank for Reconstruction and Development | ITU | International Telecommunications Union | UNIDO | United Nations Industrial Development Organization |
| ESCAP | Economic and Social Commission for Asia and the Pacific | KFW | Reconstruction Credit Institute, German government-owned development bank | USA | United States of America |
| EurAsEC | Eurasian Economic Community | LLC | Limited Liability Company | USD | United States Dollar |
| FDI | Foreign Direct Investment | LTD | Limited Company | VAT | Value Added Tax |
| FEZ | Free Economic Zone | MIGA | Multilateral Investments Guarantee Agency | WB | World Bank |
| FTTH | Fiber to the home | NATO | North Atlantic Treaty Organization | WCO | World Customs Organization |
| GDP | Gross Domestic Product | NKR | Nagorno Karabakh Republic | WHO | World Health Organization |
| IAEA | International Atomic Energy Agency | NSS | RA National Statistics Service | WIPO | World Intellectual Property Organization |
| IBRD | International Bank for Reconstruction and Development | OECD | Organisation for Economic Co-operation and Development | WTO | World Trade Organization |
| ICAO | International Civil Aviation Organization | OSCE | Organization for Security and Co-operation in Europe | The Government | The Government of the Republic of Armenia |
| IDA | International Development Association | | | | |
| IDR | Issuer Default Rating | | | | |
| IFAD | International Fund for Agricultural Development | | | | |



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