IMPORTANT NOTICE

THIS OFFERING IS AVAILABLE ONLY TO INVESTORS WHO ARE EITHER (1) QIBS (AS DEFINED BELOW) OR (2) PERSONS LOCATED OUTSIDE OF THE UNITED STATES.

IMPORTANT: You must read the following before continuing. The following applies to the prospectus (the "**Prospectus**"), whether received by e-mail, accessed from an internet page or received as a result of electronic transmission, and you are therefore advised to read this carefully before reading, accessing or making any other use of the Prospectus. In accessing the Prospectus, you agree to be bound by the following terms and conditions, including any modifications to them any time you receive any information as a result of such access.

The Prospectus has been prepared solely in connection with the proposed offering to certain institutional and professional investors of the securities described herein (the "**Notes**").

NOTHING IN THIS ELECTRONIC TRANSMISSION CONSTITUTES AN OFFER OF NOTES FOR SALE IN ANY JURISDICTION WHERE IT IS UNLAWFUL TO DO SO.

THE NOTES HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES AND MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED EXCEPT (1) IN ACCORDANCE WITH RULE 144A UNDER THE SECURITIES ACT ("RULE 144A") TO QUALIFIED INSTITUTIONAL BUYERS (AS DEFINED IN RULE 144A) ("QIBs") OR (2) OUTSIDE THE UNITED STATES IN RELIANCE ON REGULATION S UNDER THE SECURITIES ACT ("REGULATION S"), IN EACH CASE IN ACCORDANCE WITH ANY APPLICABLE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES.

THE PROSPECTUS MAY NOT BE FORWARDED OR DISTRIBUTED OTHER THAN AS PROVIDED BELOW AND MAY NOT BE REPRODUCED IN ANY MANNER WHATSOEVER. THE PROSPECTUS MAY ONLY BE DISTRIBUTED IN "OFFSHORE TRANSACTIONS," AS PERMITTED BY REGULATION S, OR WITHIN THE UNITED STATES TO QIBS IN ACCORDANCE WITH RULE 144A. ANY REPRODUCTION OF THE PROSPECTUS IN WHOLE OR IN PART IS UNAUTHORISED. FAILURE TO COMPLY WITH THESE RESTRICTIONS MAY RESULT IN A VIOLATION OF THE SECURITIES ACT OR THE APPLICABLE LAWS OF OTHER JURISDICTIONS.

Confirmation of your representation: In order to be eligible to view the Prospectus or make an investment decision with respect to the Notes, you must be (i) outside the United States for the purposes of Regulation S under the Securities Act or (ii) a QIB that is acquiring the Notes for its own account or for the account of another QIB. By accepting this electronic transmission and accessing, reading or making any other use of the Prospectus, you shall be deemed to have represented to the Republic of Armenia and to Deutsche Bank AG, London Branch, HSBC Bank plc and J.P. Morgan Securities plc (the "**Joint Lead Managers**") that (1) you understand and agree to the terms set out herein; (2) in respect of the Notes being offered pursuant to Rule 144A, you are (or the person you represent is) a QIB, and the e-mail address to which, pursuant to your request, the Prospectus has been delivered by electronic transmission is utilised by someone who is a QIB; (3) in respect of the Notes being offered outside of the United States in an offshore transaction pursuant to Regulation S, you are outside the United States, and the e-mail address to which, pursuant to your request, the Prospectus has been delivered by electronic transmission is not located in the United States for the purposes of Regulation S under the Securities Act; (4) you consent to delivery by electronic transmission; (5) you will not transmit the Prospectus (or any copy of it or part thereof) or disclose, whether orally or in writing, any of its contents to any other person (other than your professional advisors bound by an undertaking of confidentiality) except with the consent of the Joint Lead Managers; and (6) you acknowledge that you will make your own assessment regarding any legal, taxation or other economic considerations with respect to your decision to subscribe for or purchase any of the Notes.

You are reminded that the Prospectus has been delivered to you on the basis that you are a person into whose possession the Prospectus may be lawfully delivered in accordance with the laws of the jurisdiction in which you are located and you may not, nor are you authorised to, deliver the Prospectus to any other person and in particular to any U.S. address. Failure to comply may result in a direct violation of the Securities Act or the applicable laws of other jurisdictions. The materials relating to the offering do not constitute, and may not be used in connection with, an offer or solicitation in any place where offers or solicitations are not permitted by law. If a jurisdiction requires that the offering be made by a licensed broker or dealer and any of the Joint Lead Managers or any affiliate of the Joint Lead Managers is a licensed broker or dealer in that jurisdiction, the offering shall be deemed to be made by such Joint Lead Manager or such affiliate on behalf of the Ministry of Finance of the Republic of Armenia acting on behalf of the Republic of Armenia in such jurisdiction.

Under no circumstances shall the Prospectus constitute an offer to sell or the solicitation of an offer to buy nor shall there be any sale of the Notes in any jurisdiction in which such offer, solicitation or sale would be unlawful.

The Prospectus has been sent to you in an electronic form. You are reminded that documents transmitted via this medium may be altered or changed during the process of electronic transmission, and consequently none of the Republic of Armenia or the Ministry of Finance of the Republic of Armenia or any officials thereof, the Joint Lead Managers, any person who controls any of the foregoing, any director, officer, employee, representative or agent of any of the foregoing or affiliate of any such person accepts any liability or responsibility whatsoever in respect of any difference between the Prospectus distributed to you in electronic format and the hard copy version available to you on request from the Joint Lead Managers.

Republic of Armenia

(*acting through the Ministry of Finance*)

U.S.$700,000,000
6.000 per cent. Notes due 2020
Issue Price of the Notes: 98.600 per cent.

The U.S.$700,000,000 6.000 per cent. Notes due 2020 (the "**Notes**") to be issued by the Republic of Armenia (the "**Issuer**" or "**Armenia**"), acting through the Ministry of Finance of Armenia (the "**Ministry of Finance**"), will mature on 30 September 2020, and, unless previously purchased and cancelled, will be redeemed at their principal amount on that date.

The Notes will bear interest at a rate of 6.000 per cent. per annum. Interest will accrue on the outstanding principal amount of the Notes from and including 30 September 2013 and will be payable semi-annually in arrear on 30 March and 30 September in each year, commencing on 30 March 2014. All payments of principal and interest in respect of the Notes will be made free and clear of, and without withholding or deduction for, any taxes, duties, assessments or government charges of whatever nature imposed, levied, collected, withheld or assessed by Armenia or any political subdivision or any authority thereof or therein having power to tax, unless such withholding or deduction is required by law. In that event, the Issuer shall pay such additional amounts as will result in the receipt by the holders of the Notes of such amounts as would have been received by them if no such withholding or deduction had been required, subject to certain exceptions set out in the Terms and Conditions of the Notes.

The Notes have not been and will not be registered under the U.S. Securities Act of 1933, as amended (the "**Securities Act**"), or with any securities regulatory authority of any state or other jurisdiction of the United States, and may not be offered or sold within the United States except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act. For a summary of certain restrictions on resale, see "*Subscription and Sale*" and "*Transfer Restrictions.*"

The Notes will be offered and sold outside the United States in reliance on Regulation S under the Securities Act ("**Regulation S**") and within the United States to "qualified institutional buyers" ("**QIBs**") only (as defined in Rule 144A under the Securities Act ("**Rule 144A**")) in reliance on Rule 144A. Prospective purchasers are hereby notified that sellers of the Notes may be relying on the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A.

SEE "RISK FACTORS" FOR A DISCUSSION OF CERTAIN FACTORS TO BE CONSIDERED IN CONNECTION WITH AN INVESTMENT IN THE NOTES STARTING ON PAGE 1.

The Notes are expected to be rated Ba2 by Moody's Investors Service, Ltd. ("**Moody's**") and BB- by Fitch Ratings Ltd. ("**Fitch**"). The rating agencies have also issued ratings in respect of the Issuer as set out in this prospectus (the "**Prospectus**"). A rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by the assigning rating organisation. As of the date of this Prospectus, each of the rating agencies is established in the European Union (the "**EU**") and is registered under Regulation (EU) No 1060/2009 (as amended) (the "**CRA Regulation**"). As such, each of the rating agencies is included in the list of credit rating agencies published by the European Securities and Markets Authority ("**ESMA**") on its website in accordance with the CRA Regulation. In general, European regulated investors are restricted under the CRA Regulation from using credit ratings for regulatory purposes, unless such ratings are issued by a credit rating agency established in the EU and registered under the CRA Regulation (and such registration has not been withdrawn or suspended), subject to transitional provisions that apply in certain circumstances whilst the registration application is pending. Such general restriction will also apply in the case of credit ratings issued by non-EU credit rating agencies, unless the relevant credit ratings are endorsed by an EU-registered credit rating agency or the relevant non-EU rating agency is certified in accordance with the CRA Regulation (and such endorsement or certification, as the case may be, has not been withdrawn or suspended). The list of registered and certified rating agencies published by ESMA on its website in accordance with the CRA Regulation is not conclusive evidence of the status of the relevant rating agency included in such list, as there may be delays between certain supervisory measures being taken against a relevant rating agency and the publication of the updated ESMA list.

The Notes will be offered and sold in registered form in denominations of U.S.$200,000 and integral multiples of U.S.$1,000 in excess thereof. The Notes offered and sold in reliance on Regulation S (the "**Unrestricted Notes**") are each represented by beneficial interests in an unrestricted global note (the "**Unrestricted Global Note**"), in registered form without interest coupons attached, which will be registered in the name of a nominee for, and shall be deposited on or about 30 September 2013 (the "**Closing Date**") with the common depositary (the "**Common Depositary**") for, and in respect of interests held through, Euroclear Bank SA/NV ("**Euroclear**") and Clearstream Banking, *société anonyme* ("**Clearstream, Luxembourg**"). The Notes offered and sold in reliance on Rule 144A (the "**Restricted Notes**") are each represented by beneficial interests in one or more restricted global notes (the "**Restricted Global Note**," and together with the Unrestricted Global Note, the "**Global Notes**"), in registered form without interest coupons attached, which will be deposited on or about the Closing Date with a custodian (the "**Custodian**") for, and registered in the name of Cede & Co. as nominee for, The Depository Trust Company ("**DTC**"). It is expected that the Notes will be issued on the Closing Date. Interests in the Restricted Global Note will be subject to certain restrictions on transfer. Beneficial interests in the Global Notes will be shown on, and transfers thereof will be effected only through, records maintained by DTC, Euroclear and Clearstream, Luxembourg and their participants. Except as described herein, certificates will not be issued in exchange for beneficial interests in the Global Notes.

The Prospectus has been approved by the Central Bank of Ireland (the "**Central Bank**"), as competent authority under Directive 2003/71/EC, as amended (the "**Prospectus Directive**"). The Central Bank only approves this Prospectus as meeting the requirements imposed under Irish law and EU law pursuant to the Prospectus Directive. Such approval relates only to the Notes which are to be admitted to trading on a regulated market for the purposes of Directive 2004/39/EC or which are to be offered to the public in any member state of the EU ("**Member State**"). The Prospectus constitutes a prospectus for the purposes of the Prospectus Directive. Application has been made to the Irish Stock Exchange for the Notes to be admitted to the official list (the "**Official List**") and trading on its Main Securities Market (the "**Market**"). The Market is a regulated market for the purposes of Directive 2004/39/EC (the "**Markets in Financial Instruments Directive**").

Joint Lead Managers

Deutsche Bank **HSBC** **J.P. Morgan**

Prospectus Dated 24 September 2013

Armenia accepts responsibility for the information contained in this Prospectus. To the best of Armenia's knowledge (having taken all reasonable care to ensure that such is the case), the information contained in this Prospectus is in accordance with the facts and does not omit anything likely to affect the import of such information.

Information included herein that is identified as being derived from information published by Armenia or one of its agencies or instrumentalities is included herein on the authority of such publication as a public official document of Armenia. All other information herein with respect to Armenia is included herein as a public official statement made on the authority of the Ministry of Finance.

No person has been authorised to give any information or to make any representation other than as contained in this Prospectus in connection with the offering of the Notes, and, if given or made, such information or representation must not be relied upon as having been authorised by Armenia or the Joint Lead Managers (as defined in "*Subscription and Sale*"). Neither the delivery of this Prospectus nor any offer or sale of the Notes made hereunder shall, under any circumstances, constitute a representation or create any implication that there has been no change in the affairs of Armenia since the date hereof. The Joint Lead Managers expressly do not undertake to review the financial condition or affairs of Armenia during the life of the Notes or to advise any investor in the Notes of any information coming to their attention. This Prospectus may only be used for the purposes for which it has been published.

This Prospectus does not constitute an offer to sell or an offer to buy in any jurisdiction to any person to whom it is unlawful to make the offer or solicitation in such jurisdiction, nor does this Prospectus constitute an offer or an invitation to subscribe for or purchase any Notes and it should not be considered as a recommendation by Armenia or any Joint Lead Manager that any recipient of this Prospectus should subscribe for or purchase any Notes. The distribution of this Prospectus and the offering, sale and delivery of the Notes in certain jurisdictions may be restricted by law.

Persons into whose possession this Prospectus comes are required by Armenia and the Joint Lead Managers to inform themselves about and to observe any such restrictions. None of Armenia or the Joint Lead Managers makes any representation to any recipient of this Prospectus regarding the legality of an investment in the Notes by such recipient under applicable investment or similar laws. Each investor should consult with its own advisors as to the legal, tax, business, financial and related aspects of its purchase of the Notes. For a description of certain restrictions on offers, sales and deliveries of Notes, see "*Subscription and Sale*" and "*Transfer Restrictions*."

Every prospective investor must determine the suitability of an investment in the Notes in the light of its particular circumstances. Accordingly, each prospective investor should:

(i) have sufficient knowledge and experience to make a meaningful evaluation of the Notes and the merits and risks of investing in Notes;

(ii) have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in Notes and the impact the Notes will have on its overall investment portfolios;

(iii) have sufficient financial resources and liquidity to bear all of the risks of an investment in Notes, including where the currency for principal or interest payments is different from its currencies;

(iv) understand thoroughly the terms of the Notes and be familiar with the behaviour of any relevant indices and financial markets; and

(v) be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for currency, economic, interest rate and other factors that may affect its investments and ability to bear the applicable risks.

The Notes have not been approved or disapproved by the United States Securities and Exchange Commission or any other securities commission or other regulatory authority in the United States, nor have the foregoing authorities passed upon or endorsed the merits of the offering of the Notes or approved this Prospectus or confirmed the accuracy or determined the adequacy of the information contained in this Prospectus. Any representation to the contrary is a criminal offence in the United States.

The Joint Lead Managers have not separately verified the information contained in this Prospectus. Accordingly, no representation, warranty or undertaking, express or implied, is made, and no responsibility or liability is accepted, by the Joint Lead Managers as to the accuracy or completeness of the information contained in this Prospectus or any other information provided by Armenia in connection with the Notes or their distribution. Each investor contemplating purchasing any Notes should make its own independent investigation of the financial condition and affairs, and its own appraisal of the creditworthiness, of Armenia.

IN CONNECTION WITH THE ISSUE OF THE NOTES, HSBC BANK PLC (THE "STABILISING MANAGER") (OR ANY PERSON ACTING FOR THE STABILISING MANAGER) MAY OVER-ALLOT NOTES OR EFFECT TRANSACTIONS WITH A VIEW TO SUPPORTING THE MARKET PRICE OF THE NOTES AT A LEVEL HIGHER THAN THAT WHICH MIGHT OTHERWISE PREVAIL. HOWEVER, THERE IS NO ASSURANCE THAT THE STABILISING MANAGER (OR PERSONS ACTING ON BEHALF OF THE STABILISING MANAGER) WILL UNDERTAKE STABILISATION ACTION. ANY STABILISATION ACTION MAY BEGIN ON OR AFTER THE DATE ON WHICH ADEQUATE PUBLIC DISCLOSURE OF THE TERMS OF THE OFFER OF THE NOTES IS MADE AND, IF BEGUN, MAY BE ENDED AT ANY TIME, BUT IT MUST END NO LATER THAN THE EARLIER OF 30 DAYS AFTER THE CLOSING DATE OF THE NOTES AND 60 DAYS AFTER THE DATE OF THE INITIAL ALLOTMENT OF THE NOTES. ANY STABILISATION ACTION OR OVER-ALLOTMENT MUST BE CONDUCTED BY THE STABILISING MANAGER (OR PERSONS ACTING ON BEHALF OF THE STABILISING MANAGER) IN ACCORDANCE WITH ALL APPLICABLE LAWS AND RULES.

This Prospectus has been prepared by Armenia for use in connection with the offer and sale of the Notes outside the United States, the resale of the Notes in the United States in reliance on Rule 144A under the Securities Act and the admission of the Notes to the Official List and to trading on the Market. Armenia and the Joint Lead Managers reserve the right to reject any offer to purchase the Notes, in whole or in part, for any reason. This Prospectus does not constitute an offer to any person in the United States other than any QIB to whom an offer has been made directly by one of the Joint Lead Managers or its U.S. broker-dealer affiliate. Distribution of this Prospectus to any person within the United States, other than any QIB and those persons, if any, retained to advise such QIB with respect thereto, is unauthorised and any disclosure without the prior written consent of Armenia of any of its contents to any person within the United States, other than any QIB and those persons, if any, retained to advise such QIB, is prohibited.

NOTICE TO NEW HAMPSHIRE RESIDENTS

NEITHER THE FACT THAT A REGISTRATION STATEMENT OR AN APPLICATION FOR A LICENCE HAS BEEN FILED UNDER CHAPTER 421-B OF THE NEW HAMPSHIRE REVISED STATUTES ("**RSA**") WITH THE STATE OF NEW HAMPSHIRE NOR THE FACT THAT A SECURITY IS EFFECTIVELY REGISTERED OR A PERSON IS LICENSED IN THE STATE OF NEW HAMPSHIRE CONSTITUTES A FINDING BY THE SECRETARY OF STATE OF NEW HAMPSHIRE THAT ANY DOCUMENT FILED UNDER RSA 421-B IS TRUE, COMPLETE AND NOT MISLEADING. NEITHER ANY SUCH FACT NOR THE FACT THAT AN EXEMPTION OR EXCEPTION IS AVAILABLE FOR A SECURITY OR A TRANSACTION MEANS THAT THE SECRETARY OF STATE HAS PASSED IN ANY WAY UPON THE MERITS OR QUALIFICATIONS OF, OR RECOMMENDED OR GIVEN APPROVAL TO, ANY PERSON, SECURITY OR TRANSACTION. IT IS UNLAWFUL TO MAKE, OR CAUSE TO BE MADE, TO ANY PROSPECTIVE PURCHASER, CUSTOMER OR CLIENT ANY REPRESENTATION INCONSISTENT WITH THE PROVISIONS OF THIS PARAGRAPH.

SERVICE OF PROCESS AND ENFORCEMENT OF CIVIL LIABILITIES

Armenia is a sovereign state, and nearly all of the assets of Armenia are located outside the United States and the United Kingdom. There is a risk that, notwithstanding the limited waiver of sovereign immunity by Armenia in connection with the Notes, a claimant will not be able to enforce a foreign court judgment or arbitral award against Armenia (including the imposition of any arrest order or the attachment or seizure of such assets and their subsequent sale), without Armenia having specifically consented to such enforcement at the time when the enforcement is sought. See "*Terms and Conditions of the Notes—17. Governing Law and Jurisdiction*." In addition, certain state-owned assets are statutorily exempt from court enforcement procedures within Armenia. Armenia has not waived any immunity in respect of present or future property (i) used by a diplomatic or consular mission of Armenia; (ii) of a military character and under control of a military authority or defence agency; (iii) the international reserves of Armenia held by the Central Bank of Armenia (the "**CBA**"); or (iv) located in Armenia and dedicated to a public, governmental, religious or cultural use (as distinct from property which is for the time being in use or intended for use for commercial purposes).

It may not be possible to effect service of process against Armenia in courts outside Armenia or in a jurisdiction to which Armenia has not explicitly submitted, and the choice of jurisdiction of a foreign court (including English courts) in contractual agreements may be held to be invalid by an Armenian court. In addition, courts in Armenia will not enforce a judgment obtained in a foreign court unless such enforcement is provided for by treaty ratified by Armenia or by an arrangement between such country and Armenia providing for reciprocal enforcement of judgments, and then only in accordance with the terms of such treaty or arrangement and with Armenian law. Armenia has no such treaty (or arrangement) with the United Kingdom or with the United States.

Notwithstanding that Armenia is a party to the Convention on Recognition and Enforcements of Foreign Arbitral Awards of 10 June 1958 (the "**NY Convention**") in accordance with which an award of the International Chamber of Commerce (the "**ICC**") should be recognised and enforced by the courts of Armenia, it may not be possible as a practical matter to enforce foreign arbitral awards against Armenia possibly due to Armenian courts interpreting widely "public policy" as a ground for refusing recognition and enforcement of the award.

See "*Risk Factors—Risk Factors Relating to an Investment in the Notes—Judgments Relating to Assets in Armenia and Armenian Assets in Other Jurisdictions May Be Difficult to Enforce*," and "*Risk Factors—Risk Factors Relating to an Investment in the Notes—Armenian Courts May Not Enforce Foreign Arbitral Awards*."

PRESENTATION OF CERTAIN INFORMATION

All references in this Prospectus to the "**Government**" or to the "**National Assembly**" are to the central government and to the Parliament of Armenia, respectively; and references to the "**CIS**" are to the Commonwealth of Independent States.

In this Prospectus, all references to the "**dram**" and "**AMD**" are to the lawful currency of Armenia; all references to "**dollar**" and "**U.S.$**" are to the lawful currency of the United States of America; all references to "**euro**" and "**€**" are to the lawful single currency introduced at the start of the third stage of European Economic and Monetary Union pursuant to the Treaty Establishing the European Community, as amended by the Treaty on the European Union; all references to "**rouble**" are to the lawful currency of the Russia; all references to "**SDRs**" are to special drawing rights allocated by the International Monetary Fund (the "**IMF**"); all references to "**ECUs**" are to the basket of currencies used by the EU as a unit of account before being replaced by the euro.

Gross domestic product ("**GDP**") is a measure of the total value of final products and services produced in a country. "**Nominal GDP**" measures the total value of final production in current prices. "**Real GDP**" measures the total value of final production in constant prices, thus allowing historical GDP comparisons that exclude the effect of inflation. For the purposes of this Prospectus, real GDP figures are calculated by reference to 2005 prices.

In this Prospectus, all references to "**ADB**" are to the Asian Development Bank; all references to the "**EBRD**" are to the European Bank for Reconstruction and Development; all references to "**EIB**" are to the European Investment Bank; all references to "**IBRD**" or "**World Bank**" are to the International Bank for Reconstruction and Development; all references to the "**IDA**" are to the International Development Association of the World Bank; all references to "**IFAD**" are to the International Fund for Agricultural Development; all references to "**JICA**" are to the Japan International Cooperation Agency; and all references to "**OPEC**" are to the Organisation of Petroleum Exporting Countries.

All references in this Prospectus to interest accruing from a specified date or to a specified date are to interest accruing from and including the first specified date to but excluding the second specified date.

Except as otherwise provided, translations of amounts from one currency into another currency are solely for the convenience of the reader and are made at various exchange rates. No representation is made that amounts referred to herein could have been, or could be, converted into another currency at any particular exchange rate or at all.

Statistical data appearing in this Prospectus has, unless otherwise stated, been obtained from the National Statistics Service of Armenia ("**Armstat**"), the Ministry of Finance, the Central Bank of Armenia (the "**CBA**") and other official Government sources. Certain statistics are preliminary and are identified as such where presented. The development of statistical information relating to Armenia is an ongoing process, and revised figures and estimates are produced on a continuous basis and may change further in the future. For this reason, certain data presented herein may differ from data made public previously. All statistical information provided in this Prospectus may differ from that produced by other sources for a variety of reasons, including the use of different definitions and cut-off times. See "*Risk Factors—Risk Factors Relating to Armenia—Statistical Information*."

Unless otherwise stated, all annual information, including budget information, is based on calendar years, and interim statistical information has not been annualised. Data included in this Prospectus have been subject to rounding adjustments; accordingly, data shown for the same item of information may vary, and total figures may not be arithmetical sums of their components.

In 2003, Armenia subscribed to the Special Data Dissemination Standard (the "**SDDS**") of the IMF, which is designed to improve the timeliness and quality of information of subscribing member countries. The SDDS requires subscribing member countries to provide schedules indicating, in advance, the date on which data will be released (the "**Advance Release Calendar**"). For Armenia, precise dates or "no-later-than" dates for the release of data under the SDDS are disseminated no later than three months in advance through the Advance Release Calendar, which is published on the Internet under the IMF's Dissemination Standards Bulletin Board. Summary methodologies of all data and data dissemination practices (metadata) to enhance the transparency of statistical compilation are also provided on the Internet under the IMF's Dissemination Standards Bulletin Board. The website is *http://dsbb.imf.org/Applications/web/sddscountrycategorylist/?strcode=GEO*.

FORWARD LOOKING STATEMENTS

This Prospectus includes forward looking statements. All statements other than statements of historical fact included in this Prospectus regarding, among other things, Armenia's economy, fiscal condition, politics, debt or prospects may constitute forward looking statements. In addition, forward looking statements generally can be identified by the use of forward looking terminology such as "may," "will," "expect," "project," "intend," "estimate," "anticipate," "believe," "continue," "could," "should," "would" or the like. Although Armenia believes that expectations reflected in its forward looking statements are reasonable as at the date of this Prospectus, there can be no assurance that such expectations will prove to have been correct. Armenia undertakes no obligation to update the forward looking statements contained in this Prospectus or any other forward looking statement it may make.

For Armenia, in addition to the factors described in this Prospectus, including, but not limited to, those discussed under "Risk Factors," the following factors, among others, could cause future conditions to differ materially from those expressed in any forward looking statements made herein:

- adverse external factors, such as global or regional economic slowdowns that may affect Armenia, higher international interest rates, reduced demand for Armenia's exports or increases in oil and gas prices, which could each adversely affect Armenia's economy;

- adverse domestic factors, such as recession, declines in foreign direct investment ("**FDI**") and portfolio investment, high domestic inflation, high domestic interest rates, exchange rate volatility, a reduction in oil and gas supplies, difficulties in borrowing on the domestic or foreign markets, trade and political disputes between Armenia and its trading partners and neighbours (in particular, an escalation of the conflict in Nagorno-Karabakh), reduced workers' remittances, political uncertainty or lack of political consensus;

- decisions of Armenia's creditors regarding the provision of new debt or the rescheduling of existing debt and decisions of international financial institutions, such as the IMF, the World Bank, the EBRD and the ADB, regarding the terms of their financial assistance to Armenia and the funding of new or existing projects in Armenia and accordingly the net cash flow to or from such international organisations over the life of the Notes; and

- political factors in Armenia, which may affect, *inter alia*, the timing and structure of economic reforms in Armenia and the climate for FDI.

EXCHANGE RATES

For ease of presentation, certain financial information included herein is presented as translated into dollars and euros.

The following tables set forth, for the periods indicated, the exchange rate history of the dram relative to the dollar and euro, respectively:

Dram to Dollar Exchange Rate History

Year	Low	High	Period average(1)	Period End
2013 (through 31 August)	403.87	419.08	411.36	406.24
2012	386.15	418.66	401.76	403.58
2011	362.26	385.77	372.50	385.77
2010	357.98	404.36	373.66	363.44
2009	304.78	388.01	363.28	377.89
2008	300.73	310.59	305.97	306.73

Note:

(1) The average rates are calculated as the average of the monthly exchange rates for the period. Average monthly exchange rates are calculated as the average of the daily exchange rates for the relevant month.

Source: CBA.

Dram to Euro Exchange Rate History

Year	Low	High	Period average(1)	Period End
2013 (through 31 August)	527.25	555.90	541.00	537.66
2012	492.47	539.38	516.38	532.24
2011	469.43	555.82	518.72	498.72
2010	448.72	553.61	496.03	481.16
2009	383.90	583.14	507.35	542.23
2008	381.49	495.07	450.24	435.00

Note:

(1) The average rates are calculated as the average of the monthly exchange rates for the period. Average monthly exchange rates are calculated as the average of the daily exchange rates for the relevant month.

Source: CBA.

As on 20 September 2013, the exchange rates published by the CBA were AMD406.71 = U.S.$1.00 and AMD549.91 = €1.00.

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RISK FACTORS

Investment in the Notes involves a high degree of risk. Potential investors should carefully review this entire Prospectus and, in particular, should consider, among other things, all the risks inherent in making such an investment, including the risk factors set forth below, before making a decision to invest.

If any of the risks discussed below is realised, in part or in whole, individually or in some combination, the value of the Notes could decline, and such circumstance could have a material adverse effect on Armenia's ability to pay principal, interest and other amounts due on the Notes, so that investors could lose some or all of their investment.

Armenia believes that the risk factors described below represent the principal risks in relation to investing in the Notes. Prospective investors should, however, note that there may be additional risks and uncertainties that Armenia currently considers immaterial or of which Armenia is currently unaware, and any of these risks and uncertainties could have similar effects as those set forth below or other adverse effects. Prospective purchasers of Notes should make such inquiries as they think appropriate regarding Armenia and the Notes prior to making any investment decision.

Risk Factors Relating to Armenia

Emerging Market Risks

Investing in securities involving emerging markets, such as Armenia, involves a higher degree of risk than investments in securities of corporate or sovereign issuers of more developed markets. This higher degree of risk reflects the exposure of emerging economies to higher volatility, limited liquidity, a narrow export base, and fiscal and current account deficits while they are also subject to sometimes sudden and unexpected changes in their political, economic, social, legal and regulatory environments. Emerging economies, such as the Armenian economy, are subject to rapid change and are vulnerable to market conditions and economic downturns elsewhere in the world. Emerging markets may also experience more instances of corruption of government officials and misuse of public funds than more mature markets.

In addition, international investors' reactions to events occurring in one emerging market country or region sometimes indicate a "contagion" effect, in which an entire region or class of investment is disfavoured by such investors. If such a contagion effect occurs, Armenia could be adversely affected by negative economic/financial developments in emerging markets generally, in neighbouring countries and/or in countries with similar credit ratings (e.g., Belarus, Georgia and Ukraine). Armenia has been adversely affected by contagion effects in the past, such as the 2008 global financial crisis, and may be affected by similar effects in the future. See "*—Vulnerability to Global/Regional Economic Conditions and Commodities Markets*."

Accordingly, an investment in Armenia carries risks that are not typically associated with investing in more mature markets. Prospective investors should also note that emerging economies such as Armenia's are subject to rapid change and that the information set out in this Prospectus may soon become outdated. Accordingly, prospective investors should exercise particular care in evaluating the risks involved and must decide for themselves whether, in light of those risks, their investment is appropriate. Investment in emerging markets is only suitable for sophisticated investors who appreciate the significance of the risks involved. Prospective investors are urged to consult with their legal and financial advisers before making an investment decision.

Political Risk Associated with a Transitional Democracy

With its independence only re-established in 1991 and with no historic tradition of democratic rule, Armenia remains a transitional democracy, its political institutions still maturing. Presidential elections have in the past been marred by allegations of irregularities, the worst case of disputed elections taking place in 2008, when ten people died in violent protests, resulting in a declaration of a 20-day state of emergency. International election observers considered the February 2013 polling in which President Sargsyan was re-elected to a second, five-year term as well conducted, while also noting shortcomings such as the use of governmental resources to support the incumbent, irregularities in voting rolls and lack of sufficient redress for election violations, and there were some mass rallies to challenge the declared results, which the runner-up questioned.

As a transitional democracy, Armenia's political institutions may be less stable than political institutions in mature democracies, may not carry the same institutional legitimacy as in the case of mature democracies, and may be more prone to the effects of mass demonstrations and street protests. Although such has not happened in Armenia, other former members of the Soviet Union – such as Georgia, Kyrgyzstan and Ukraine – have had popular uprisings, the so-called 'color revolutions,' resulting in extra-constitutional transfers of power or contested elections being repeated. Economic hardship, higher prices for electricity, heat and transport, increased food prices, and/or perceived Governmental mismanagement could provoke social unrest. Accordingly, while the Government is currently pursuing a course of political, economic and regulatory reforms, such may not continue. The pursuit of reforms and economic growth may be frustrated as a result of a change in Government or changes affecting the stability of the Government or as a result of a rejection or reversal of Governmental policies.

Regional Tensions – Nagorno-Karabakh and Relations with Azerbaijan

The dissolution of the Soviet Union not only allowed its constituent republics, including Armenia, to become sovereign nation states, but led to other groups to assert claims for independence, sometimes leading to violent clashes. Such has occurred, for example, in Russia's Chechnya region, in Moldova's Transdniester region and in Georgia's Abkhazia and South Ossetia regions.

A largely ethnic Armenian enclave, Nagorno-Karabakh during Soviet times was administered as the Nagorno-Karabakh Autonomous Oblast (within the Azerbaijan Soviet Socialist Republic) affording some degree of local autonomy. Azerbaijan's abolition of the Nagorno-Karabakh Autonomous Oblast in November 1991 helped to spur local assertions of independence by the population of Nagorno-Karabakh. In December 1991, in a plebiscite carried out in accordance with then-applicable Soviet law, as well as public international law, the population of Nagorno-Karabakh voted in favour of the establishment of the Nagorno-Karabakh Republic. Thus, on the territory of the former Azerbaijan Soviet Socialist Republic, two equal state formations were created – the Nagorno-Karabakh Republic and the Republic of Azerbaijan. To date, no country (including Armenia) has recognised the Nagorno-Karabakh Republic.

Full-scale hostilities broke out in 1991-1992, with Armenia supporting the Nagorno-Karabakh population. There were thousands of casualties. In May 1994, a Russian-brokered cease-fire signed by representatives of Azerbaijan, Armenia and the self-proclaimed Nagorno-Karabakh Republic ended large-scale warfare and established truce lines that endure to this day. The truce line encompasses significant territory inside Azerbaijan beyond the borders of the self-proclaimed Nagorno-Karabakh Republic. At present, negotiations are held within the framework of the Minsk Group of the Organisation for Security and Co-operation in Europe (the "**OSCE**"). Despite ongoing efforts, a definitive settlement has yet to be reached, and skirmishes continue to break out from time to time along the truce line.

The Government believes that the conflict should be settled on the principles that Nagorno-Karabakh's people are to have the right to self-determination, uninterrupted land communication with Armenia, and internationally guaranteed security. Armenia is committed to protecting the territorial integrity of Nagorno-Karabakh and provides financial assistance to Nagorno-Karabakh. Armenia seeks the peaceful resolution of the conflict. Conversely, Azerbaijan has been significantly strengthening its military forces and does not rule out the use of force to re-assert control of all territory within its borders, including Nagorno-Karabakh.

The Nagorno-Karabakh conflict has had serious repercussions for Armenia. In 1993, Turkey closed its land border with Armenia, which remains closed to this day, and Azerbaijan has kept its borders closed, depriving Armenia of the benefits of significant mutual trade and severely limiting Armenia's access to international trade routes. See "*—Limited Export Capacity.*" Armenia is not well-integrated into the regional economy and has been effectively excluded from major cross-border infrastructure projects traversing the South Caucasus such as the Baku (Azerbaijan)-Tbilisi (Georgia)-Ceyhan (Turkey) oil pipeline, the Baku-Tbilisi-Erzurum (Turkey) natural gas pipeline and the Baku-Tbilisi-Kars (Turkey) railway (under construction), which are routed to circumvent the Armenian border. The need to defend Nagorno-Karabakh also contributes to a relatively high defence expenditure for Armenia (15.2% of the State Budget (as defined herein) for 2012).

An escalation in hostilities arising from the situation in Nagorno-Karabakh could materially disrupt the Armenian economy, require Armenia to make substantial expenditures to defend its positions, and have negative consequences for Armenia in its international diplomatic and trade relations.

Relations with Russia

Armenia has historically maintained good strategic relations with Russia. Maintaining good relations with Russia is vital for Armenia given the role that Russia plays in Armenia's trade and investment, workers' remittances, energy supply and distribution, and military security.

Russia is one of Armenia's significant trading partners, responsible for 24.8% of imports and 20.2% of exports in 2012. Russia has also been the largest single country source for FDI in Armenia since its independence, in 2012 providing 15.1% (U.S.$90.6 million) of FDI inflows. As of 31 December 2012, total Russian FDI stock in Armenia was U.S.$2,450 million, 52.8% of total FDI stock. Bilateral loans from Russia represented 13.4% of the total External Public Debt (as defined herein) of Armenia as of 30 June 2013. Thousands of Armenians work in Russia, and their remittances – approximately U.S.$1.3 billion in 2012 (part of the approximately U.S.$1.4 billion of total remittance flow) – help sustain private consumption and capital formation in Armenia. Accordingly, as Russia is Armenia's largest single-country export market and largest source of worker remittances, the health of the Russian economy, which is itself highly dependent on cyclical world energy and commodities prices, is of significant importance for the health of the Armenian economy.

On 3 September 2013, President Sargsyan announced that Armenia would enter into the customs union that Russia has with Belarus and Kazakhstan. Armenia's entry into the customs union may lead to a revised tariff policy for Armenia, including possibly an increase in tariffs after a transitional period, but is expected to be carried out in a manner consistent with Armenia's obligations under WTO rules. Armenia also plans to continue its negotiations on an association agreement with the EU (but is no longer pursuing entry into the EU's deep and comprehensive free trade area, as had been under consideration).

Natural gas is Armenia's main source of primary energy (providing heat for all Armenian consumers and used to generate roughly one-third of its electricity) and Armenia imports roughly 80% of all its natural gas supply (approximately two billion cubic metres per annum) from Russia with Gazprom Export (a subsidiary of Gazprom, Russia's national gas company) selling supply to ArmRusGazProm, a joint venture between the Armenian Ministry of Energy (which holds a 20% stake in the joint venture) and Gazprom (which holds 80%),which in turn sells to end-customers in Armenia at tariff rates established by the Armenian Public Services Regulatory Commission. Negotiations have started with Gazprom on the possible sale of the 20% stake in ArmRusGazProm held by the Armenian Ministry of Energy.

Traditionally, Armenia received its natural gas supply at substantially below Western European pricing, but Gazprom has been pursuing a policy of moving to market pricing in its exports to various CIS markets, including its sales to ArmRusGazProm. This has resulted in significantly higher pricing in 2013 for Gazpom's natural gas sales to Armenia. Reflecting the increase in the cost of natural gas, the Armenian Public Services Regulatory Commission has increased, from 1 July 2013, the tariff price for natural gas in Armenia from 132,000 drams per 1,000 cubic metres to 156,000 drams per 1,000 cubic metres, a price in keeping with Western European gas pricing. This increased pricing (and any future increases) may fuel inflation in Armenia and add to the costs of energy-consuming businesses to the detriment of the Armenian economy. The increase in natural gas pricing has led to increased pricing for electricity and proposed increased pricing for public transport (as most of Armenia's public road transportation is powered by natural gas). Daytime electricity tariffs were increased 27% in July 2013. Municipal authorities in Yerevan put forth a 50% increase in public transport fares in July 2013, which was withdrawn after street demonstrations. A future increase in public transport fees remains likely, but only after a public process to explain the need and rationale for the increase.

Armenia has always been able to reach timely agreement with Gazprom on natural gas pricing; and the current agreement on pricing is to last to 1 April 2018. But in other former Soviet Union states – in particular Ukraine – disagreements on pricing in the context of renewing supply contracts have led to interruptions in gas supply (although the Armenian case is different due to Gazprom's ownership in ArmRusGazProm). If for any reason the Russian supply of natural gas to Armenia is interrupted (including due to any outbreak of hostilities or terrorist act damaging the gas pipeline), such event could have a material adverse effect on Armenia's economy.

Likewise, Russian companies (including state-owned entities) provide a significant amount of the petroleum products used in Armenia. Further, Inter RAO UES, a state-controlled Russian energy company, owns and operates Armenia's electricity distribution network. Inter RAO UES also operates the Metsamor Nuclear Power Plant (the "**Metsamor Plant**"), the single most important producer of electricity in Armenia, for which Russian entities also provide the feedstock. Armenia intends to build a new unit which would replace the old part of the Metsamor Plant.

Russia is also Armenia's principal military ally. Russia maintains a base in the country with roughly 3,000 troops under an arrangement recently extended to last to the year 2044. Russian guards help patrol Armenia's borders. Russia is the chief supplier of arms to the Armenian military. Under a June 2013 agreement, Russia confirmed that it is committed to assuring the security of Armenia.

Although Russia is Armenia's traditional ally, any deterioration in their relations could, in light of Russia's vital economic, energy and military importance to Armenia, have significant effect on Armenia's economy and security.

Relations with the Islamic Republic of Iran

Armenia has generally enjoyed cordial relations with Iran since independence in 1991. While there is limited transport infrastructure between the two countries, there is some trade between them: in 2012, Armenia exported U.S.$108.5 million of goods to Iran and imported U.S.$219.4 million of goods from Iran. The border with Iran is Armenia's only alternative open border to the rest of the world from routing via Georgia, and accordingly if for any reason the Georgian borders are effectively closed, as happened in connection with the August 2008 Georgian-Russian conflict, then the Iranian trade route becomes a vital supply route for Armenia.

The single biggest source of trade between the countries is the sale of natural gas (by the state-owned entity National Iranian Gas Company) to Armenia (to the state-owned entity Yerevan Thermal Power Plant), using a gas pipeline which came into operation in May 2009. The Iranian gas is bartered for Armenian electricity (with Armenia using more of the gas for its own domestic needs – especially heating – in the winter months and providing more electricity generated by the use of the supplied gas to Iran during the summer months). In 2012, 481 million cubic metres of gas were supplied under this arrangement, roughly 20% of Armenia's natural gas supply. See "*Economy of Armenia—Energy—Electricity*."

Iran is subject to sanctions imposed by the United Nations. The Armenian authorities (principally the Ministry of Foreign Affairs, the Anti-Money Laundering Department of the CBA and the Prosecutor's Office) monitor compliance by Armenia with its international obligations. Other jurisdictions, including the EU and the United States, also impose sanctions against Iran. While Armenia is conscious of its commitments to international economic sanctions and maintains appropriate internal policies with respect to sanctioned entities or countries, such as Iran, there can be no assurance that Armenia will not inadvertently deal (or be alleged to have dealt) with sanctioned entities or countries in a way that may violate international sanctions.

The closure of the border with Iran (especially at a time when Armenia's principal trade route via Georgia is effectively closed) due to international sanctions or the outbreak of hostilities involving Iran could have a material adverse impact on the Armenian economy as could a further tightening of sanctions that have the effect of curbing existing trade relations between the countries, in particular the current arrangement for the barter of natural gas for electricity.

Vulnerability to Global/Regional Economic Conditions and Commodities Markets

Armenia has a relatively small economy (nominal GDP in 2012 of U.S.$9.9 billion); low GDP per capita (U.S.$3,290 in 2012); and a high poverty rate (35% of the population in 2011). As such, the Armenian economy is sensitive to exogenous economic developments.

Armenia's vulnerability to economic downturns is illustrated by the impact of the 2008 global financial crisis, which resulted in decreased demand for Armenia's metals exports and lowered workers' remittances, yielding a fall in domestic demand, especially in the construction sector. In 2009 (in each case, in comparison to 2008): nominal GDP declined from U.S.$11.7 billion to U.S.$8.6 billion (in 2012: U.S.$9.9 billion); the current account deficit increased from 11.8% of GDP to 15.8% of GDP (in 2012: 11.2%); general Government expenditure as a percentage of GDP increased from 22.7% to 29.6% (in 2012: 25.3%); the fiscal deficit as a percentage of GDP increased from 0.7% to 7.6% (in 2012: 1.5%); and total public debt as a percentage of GDP increased from 16.3% to 44.1% (in 2012: 44.1%). Post-2009 trends have been generally positive, but Armenia has yet to return to its 2008 nominal GDP level in dollar terms. Other effects of the 2008 global economic crisis included a decrease in industrial production, increased inflation and pressure on foreign exchange rates for the dram.

Armenia's economy remains vulnerable to further external shocks. Decreased demand of any of Armenia's major trading partners, such as the EU member states and Russia, could have a material adverse impact on Armenia's balance of trade and on the export-oriented sectors of Armenia's economy. As discussed above, there is a strong correlation between Armenian and Russian economic performance. Russian GDP growth has been slowing since 2010 and global oil prices – which are a key factor in Russian economic performance given the importance of the oil and gas sector in Russia – are volatile and may fall, while Russian oil and gas production may stagnate.

Mining and base metals accounted for 57.6% of Armenia's exports in 2011 and 54.0% in 2012. Accordingly, Armenia has a relatively narrow export base and is particularly vulnerable to global demand for mining and metals products, which tends to be cyclical, reflecting global production and demand. A sustained downturn in metals prices, in particular for Armenia's chief metal exports – copper, aluminium, molybdenum, precious metals, zinc and ferrous metals– could have a material adverse impact on the Armenian economy.

Limited Routes for Exports

Armenia's borders with Azerbaijan and land border with Turkey remain closed as a consequence of the Nagorno-Karabakh conflict. While Armenia's border with Iran is open, the host of international sanctions on Iran, and the lack of transport infrastructure between the countries, severely constrains Armenia's ability to trade with Iran and to export its goods via Iran (especially during the winter months). As such, Armenia's single practical export route is via Georgia. Georgia itself has suffered periods of instability and civil insurrections since achieving independence, and two of its regions – Abkhazia and South Ossetia – hold themselves out as independent. Georgia's relations with Russia have sometimes been strained, in 2008 to the point of armed conflict, and at times resulted in trade largely halting across the Georgian-Russian frontier. When that occurred, emergency deliveries of wheat, diesel fuel and other goods from Iran were organised, but such deliveries may not be possible in the future due to sanctions or a conflict involving Iran. The lack of practical export routes other than via Georgia increases the cost of transport of Armenia's exports.

Lack of Economic Diversification and Competition

The lack and uncertainty of export routes for Armenian goods, together with a relatively small domestic base and geopolitical concerns, has discouraged investment into and development of the Armenian economy, which helps explain Armenia's lack of economic diversification and outdated technological base. FDI in Armenia is relatively low – in 2012 total FDI was U.S.$598.4 million. In turn, this has allowed a relatively small number of exporters and importers to dominate certain markets, decreasing competition and fostering oligopolistic behaviour. The World Bank has ranked Armenia 130th out of 144 countries in terms of the intensity of local competition in 2012. Furthermore, these circumstances contribute towards the relatively high unemployment rate in Armenia (17.3% in 2012).

Depreciation of Dram and Consequences for Public Finances

There has been significant volatility in the dram/dollar exchange rate, in particular in the spring of 2009, which was mainly due to the consequences of the global economic crisis. In addition, outflows from the economy that would lead to further pressure on the dram could arise from changes in the expectations of monetary intervention by the central banks of developed countries (e.g., the U.S. Federal Reserve tapering asset purchases).

In March 2009, the nominal dram/dollar exchange rate fell from AMD305.8/dollar to AMD367.7/dollar. Between September 2008 and March 2009, the CBA expended significant amounts of foreign reserves to defend the dram, which was intended to allow banks, and more specifically their customers, time to adjust to the depreciating dram to help lessen the impact of the crisis and prevent runs on the banks by depositors. More recently, and in keeping with the recommendation of the IMF, the CBA has allowed greater exchange rate flexibility. On 30 June 2013, the dram/dollar exchange rate was AMD409.9/dollar.

As of 30 June 2013, 59.5% of Armenia's total External Public Debt was in SDRs, 22.3% was dollar-denominated, and the remainder in other foreign currencies. In 2012, the dram depreciated against the dollar by 7.9% in nominal terms and 4.4% in real, inflation-adjusted, terms. Depreciation of the dram against the dollar (or other foreign currencies in which Armenia's Public Debt is denominated or payable) negatively affects Armenian public finances because such results in an increase in the dram amount of Armenian public funds required for debt servicing. In addition, the share of foreign currency denominated loans (including loans indexed to foreign currency) in private lending was 63.5% as of 30 June 2013 so that private Armenian borrowers are also exposed to exchange rate risk. Furthermore, depreciation of the dram increases prices of imported goods. Accordingly, an abrupt and significant fall of the dram against foreign currencies (and in particular against the dollar), as was experienced during 2009, may adversely affect the financial and economic condition of Armenia.

External Debt Burden

Armenia's total Public Debt (as defined herein) has increased from U.S.$1.9 billion (16.3% of GDP) in 2008 to U.S.$4.4 billion (44.1% of GDP) in 2012, and as of 30 June 2013 stood at U.S.$4.2 billion; total External Public Debt increased from U.S.$1.6 billion to U.S.$3.7 billion in 2012, and as of 30 June 2013 stood at U.S.$3.6 billion. Much of this increase in debt has been funded by multilateral institutions such as the IMF and the World Bank on concessionary terms. As of 30 June 2013, U.S.$2.5 billion of External Public Debt was funded by multilateral institutions, with an average maturity of 11.3 years. Armenia paid out interest on its External Public Debt at an average interest rate of 1.5% in 2011, 1.6% in 2012, and 1.5% for the six months ended 30 June 2013. Multilateral lenders have also provided significant financing to the Armenian banking sector. Armenia has good relations with its multilateral lenders and seeks to satisfy the conditions of their lending programmes, but if multilateral lenders were to curtail future lending to Armenia, that could have a material adverse effect on the financial and economic condition of Armenia. As Armenia graduates from concessional financings from multilateral institutions, its borrowing costs are expected to increase. Armenia's relatively high levels of debt (as measured against its GDP) may constrain its ability to attract new net financing.

Current Account Deficit

Armenia's current account deficit was U.S.$1.1 billion in 2011 (10.9% of GDP); in 2012 it was U.S.$1.1 billion (11.2% of GDP), reflecting total imports (goods and services) of U.S.$4.9 billion and total exports of U.S.$2.4 billion as well as total worker remittances of U.S.$1.4 billion, and in the six months ended 30 June 2013 it was U.S.$597.4 million. See "*External Sector—Balance of Payments*." In recent years, the current account deficit has been financed, in part, by increased borrowing especially funding from multilateral institutions. See "*Public Debt and Related Matters*." A widening current account deficit, which is not accompanied by a recovery in net FDI inflows, may result in a further increase in the levels of Government borrowing to finance the current account deficit and a devaluation of the dram; and it may affect the capacity of Armenia's economy to generate foreign currency assets sufficient to cover liabilities arising from private external debt and External Public Debt. Any of these events could have a material adverse effect on the financial and economic condition of Armenia.

Fiscal Deficit

Over the past decade, Armenia has consistently run a fiscal deficit, peaking at 7.5% of GDP in 2009. In 2012, the fiscal deficit was 1.5% of GDP; in 2013, it is budgeted to be 2.6% (but currently projected to be less). The fiscal deficit has been largely funded by a combination of increased borrowing, especially funding from multilateral institutions, and the issuance of dram-denominated treasury bills in the domestic capital markets. To the extent such fiscal deficits continue, the lack of future debt funding (or the deterioration of terms on which funding is made) could have a material adverse effect on the financial and economic condition of Armenia. According to the IMF, a fiscal deficit of no more than 2.0% of GDP is needed to stabilise Public Debt (at its current relatively high level of 44.1% of GDP in 2012). The Government has been able to manage the fiscal deficit in recent years, but there is no assurance this will remain the case, especially if the Government needs to address an economic downturn or if fiscal policy loosens. The Government may, for example, increase funding infrastructure projects or health and education improvements (for which state financing has declined in recent years), as the World Bank has recommended. Recent energy price increases might lead the Government to provide subsidies for escalating energy costs (although no such subsidies are currently planned); bad harvests may lead the Government to provide subsidies to the agricultural sector. The implementation of pension reform in 2014 (which has been budgeted) is expected to add to Government expenditure 0.4–0.8% of GDP annually. An annual fiscal deficit of close to 2.0% of GDP is targeted, but there is no assurance that this target will be hit. In general, social pressures may restrain the Government's ability to prioritise lower fiscal deficits over social needs. Increasing fiscal deficits could have a material adverse effect on the financial and economic condition of Armenia.

Inflation

Annual inflation, as measured by the end-of-period Consumer Price Index ("**CPI**"), in Armenia was 9.4% in 2010, 4.7% in 2011 and 3.2% in 2012. In the 1990s, Armenia suffered from hyperinflation. Inflation for the 12 months ended 30 June 2013 was 6.5%. See "*Monetary and Financial System—Monetary Policy of the CBA—Inflation and Interest Rates*." Recent increases in energy prices and food prices (due to severe spring weather conditions destroying crops) is leading to higher than expected annual inflation in 2013. While the CBA has in recent years been able to manage supply-side driven inflation, it may not be able to do so in the future. Sustained high inflation could lead to market instability, a reduction in consumer purchasing power and erosion of consumer confidence. Any of these events could have a material adverse impact on the financial and economic condition of Armenia.

Dollarisation of the Economy

Reflecting concerns over the stability of the dram, the Armenian economy has become highly dollarised, with foreign currency deposits accounting for approximately 72.2% of all deposits at Armenian banks held as of 30 June 2013. Foreign currency loans accounted for 63.5% of all loans by Armenian banks as of 30 June 2013, in part reflecting foreign-parent ownership of much of the Armenian banking sector. The dollarisation rate tempers the effectiveness of the CBA's monetary and exchange rate policies. Armenian banks are also exposed to the risk that borrowers are borrowing in foreign currencies but their revenues are in drams. While the CBA is taking steps to decrease dollarisation, there can be no assurance that such efforts will be successful. See "*Monetary and Financial System—Monetary Policy of the CBA—Monetary Aggregates*."

Foreign Ownership in the Banking Sector

As of 30 June 2013, foreign-owned banks accounted for 67.6% of total assets, 67% of total loans and 74% of total deposits in the Armenian banking system (viewing any bank with 50% or more share of foreign capital in its total statutory capital as a foreign bank), which has grown rapidly in recent years (total assets of the Armenian banking sector increased by 157.1% from AMD1,024.2 billion as of 31 December 2008 to AMD2,633.5 billion as of 30 June 2013). See "*Monetary and Financial System—Banking Sector.*" These banks may seek to rebalance their global loan portfolios in a manner adversely affecting Armenia as a result of events related or unrelated to Armenia. In addition, foreign banks may decrease funding to their subsidiaries operating in Armenia due to actual or perceived deterioration in asset quality (such as a substantial increase in lending risk), particularly in the event of a weaker than expected economic performance. As a result of these or other factors or other potential shocks, foreign banks may revise their business strategies in, or relating to, Armenia and, in particular, their decision to fund their subsidiaries in Armenia. This may lead to, among other things, a loss of confidence in the dram which in turn, may result in significant devaluation of the dram. Such events could have a material adverse effect on the financial and economic condition of Armenia.

Informal Economy

A significant portion of the Armenian economy, estimated by Armstat to be roughly one-quarter of the economy, is comprised of an informal, or shadow, economy. The informal economy is only partially taxed, resulting in a lack of revenue for the Government. Likewise, the informal economy is not fully policed and regulated, giving rise to other issues such as health and safety standards. Armstat takes the informal economy into account when it calculates GDP but measuring the output of the informal economy is inherently more difficult than the output of businesses complying with tax, regulatory and reporting requirements. Although the Government is attempting to address the informal economy by streamlining certain regulations, particularly tax laws, there can be no assurance that such reforms will adequately address the issues and bring the informal economy into the formal sector.

Tax Collection

Armenia's ability to administer and collect taxes falls short of Western norms, and improved tax collection has been identified by international organisations as a critical measure to bolster the state's finances. In 2012, tax revenues were 24.1% of GDP; the IMF considers this to be 4–6% below the tax collection achieved by comparable jurisdictions with better tax administration. With the support of the World Bank and USAID, Armenia's State Revenue Committee, which is chiefly responsible for the collection of taxes and customs in the country, has been reorganised, including the establishment of a new unit to focus on large tax payers. While there have been recent improvements in tax and customs administration – including improved collection of VAT and customs duties on imports, a new mining royalty and initiation of e-filings together with enhanced used of IT in tax administration – lack of further progress in Armenia's ability to efficiently assess, collect and enforce taxes on a consistent, even-handed basis for all taxpayers (yet in a business-friendly manner) could have a material adverse effect on the financial and economic condition of Armenia.

Corruption

Corruption has been identified as a significant problem in Armenia, although there has been recent improvement. In Transparency International's 2012 Corruption Perceptions Index survey of 176 countries, Armenia was ranked 105th, up from 129th in 2011. Tackling corruption has been identified as a key area for reform by international organisations advising Armenia. Government corruption can lead to the misallocation of state funds/tax revenues or the mismanagement of state projects. Corruption, and allegations of corruption, in Armenia may have a negative impact on Armenia's economy and reputation abroad, especially on its ability to attract foreign investment.

Developing Legal System

While Armenia has undergone a transformation from being a Soviet socialist republic to an independent sovereign state with a market economy, its legal framework is still evolving. The recent nature of much of Armenian legislation and the rapid evolution of the Armenian legal system place the quality and the enforceability of laws in doubt and result in ambiguities and inconsistencies in their application.

Armenia's court system is understaffed and has been undergoing significant reforms; public trust in the judicial system is low. Judges and courts in Armenia are generally less experienced in the area of business and corporate law than is the case in many Western jurisdictions. Enforcement of contractual rights as well as court judgments may, in practice, be slow and difficult in Armenia. Improving the judicial system – including addressing corruption, assuring the independence of the judiciary and improving the training of the judges – has been identified as a key area for reform by international organisations advising Armenia and by the Government, which is currently implementing the large-scale Judicial Reform Programme for 2012-16. Nevertheless, existing inadequacies of the Armenian judicial system may generally deter foreign and domestic investment in Armenia, and materially adversely affect its economic growth.

Earthquakes, Armenia's Ageing Nuclear Power Plant, Weather and Global Warming

Armenia straddles two tectonic plates, a geology conducive to earthquakes from time to time. In December 1988, a powerful earthquake struck in northwestern Armenia as a result of which an estimated 25,000 people died and 500,000 were rendered homeless. It is not possible to predict when earthquakes may recur.

Armenia operates the Soviet-built Metsamor Plant, located 36 km outside Yerevan, using a reactor that came into use in 1980, which generates over 25% of Armenia's electricity supply. This reactor was shuttered after the 1988 earthquake, but re-opened in 1995 to help address electricity shortages. In April 2012, it was announced that the plant would remain in operation for the next decade, and in practice the old plant is likely to remain in operation until a new plant can replace its output. The EU has requested the earliest possible closure of the Metsamor Plant, taking the view that it cannot be upgraded to meet internationally recognised safety standards. The Metsamor Plant could come under increasing international pressure to improve its operating standards or cease its operations prematurely. A plan whereby Rosatom, the Russian state-owned nuclear power company, would construct a new nuclear power plant coming into operation in the early 2020s at the same site is under active consideration, at a cost of at least U.S.$4.5 billion. See "*Economy of Armenia—Energy—Electricity*."

Global warming and climate change could have a material impact on Armenia's economy, given the high vulnerability of mountain ecosystems such as Armenia's to these phenomena. As discussed in a 2009 report prepared by the United Nations Development Programme, without effective remedial actions the projected rise in average temperatures is expected to eventually result in: heat waves and droughts; a fall in river flows, lake levels and water supply; de-forestation, landslides and mudflows; and increased flooding. This could be especially harmful to Armenia given its topography and geography, an arid zone with no access to the sea, and taking into account the importance of agriculture to its economy. A single strong weather extreme – such as the spring 2013 hail storms which destroyed much of the season's crops – can cause a sharp rise in food prices, inflation and hardship to the rural poor.

Catastrophes, whether natural or man-made, and remedial efforts carried out in their aftermath can have a material adverse impact on the Armenian economy.

Ongoing Emigration

Since the independence of Armenia in 1991, there has been a consistent pattern of emigration from Armenia. Emigration was especially high during the 1990s as the country suffered protracted hardship (see "*Description of Armenia—History*") but persists to this day (although at decreasing rates), in part due to Armenia's relatively high unemployment and poverty rates (the unemployment rate stood at 17.3% in 2012 while 35% of the population was below the poverty line in 2011). Emigration in recent years is estimated to be roughly 25,000-30,000 people per annum. Other Armenians work abroad on a seasonal, migrant basis, in some cases year after year. Many of the emigrants and migrant workers take employment in Russia, sending remittances to their families in Armenia; other emigrants join the global Armenian diaspora. The Government has undertaken various initiatives to encourage the return of emigrants to Armenia, but this has yet to occur in significant numbers. Persistent and ongoing emigration from Armenia, including a "brain drain" of educated citizenry, could materially adversely affect Armenia's economic growth.

Statistical Information

Although a number of government ministries, including the Ministry of Finance, the CBA and Armstat produce statistics relating to Armenia and its economy, there can be no assurance that these statistics are as accurate or reliable as those produced by the relevant bodies in more developed countries. Potential investors in the Notes should be aware that the data on Armenia's GDP and other data referred to in this Prospectus may not have been prepared in accordance with international standards and/or to the same degree of accuracy as equivalent statistics produced by the relevant bodies in more developed countries.

In addition, the accuracy of statistical data can vary from one institution to another or from one period to another, due to various factors, including different methodologies having been applied. In this Prospectus, the data is presented as having been provided by the relevant responsible ministry to which it relates, and there has been no attempt to reconcile this data with the data collected by other ministries or other organisations, such as the IMF or World Bank. See "*Presentation of Certain Information.*"

The existence of a substantial unofficial or unrecorded economy may also affect the accuracy and reliability of statistical data. Potential investors should also be aware that none of the statistical data presented in this Prospectus has been independently verified.

Armenia's Credit Rating

Armenia has been assigned a government bond rating of "Ba2" (with stable outlook) by Moody's and a long-term foreign currency issuer default rating of "BB-" (with stable outlook) by Fitch. See "*Economy of Armenia—Overview*." The Notes are expected to be assigned the same ratings. These ratings are sub-investment grade. These ratings may be lowered at any time by the relevant rating agency in its discretion. A rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by the assigning rating organisation. Any adverse change in the rating of the Notes could adversely affect the price that a purchaser will be willing to pay for the Notes, cause trading in the Notes to be volatile and adversely affect the trading price of the Notes.

Risk Factors Relating to an Investment in the Notes

Judgments Relating to Assets in Armenia and Armenian Assets in Other Jurisdictions May Be Difficult to Enforce

Armenia is a sovereign state. There is a risk that, notwithstanding the limited waiver of sovereign immunity by Armenia in connection with the Notes, a claimant will not be able to enforce a court judgment against certain assets of Armenia (including the imposition of any arrest order or attachment or seizure of such assets and their subsequent sale) without Armenia having specifically consented to such enforcement at the time when the enforcement is sought. See *"Terms and Conditions of the Notes—17. Governing Law and Jurisdiction."* In addition, certain state-owned assets are statutorily exempt from court enforcement procedures within Armenia. Armenia has not waived any immunity in respect of present or future property (i) used by a diplomatic or consular mission of Armenia; (ii) of a military character or under control of a military authority or defence agency; (iii) the international reserves of Armenia held by the CBA; or (iv) located in Armenia and dedicated to a public, governmental, religious or cultural use (as distinct from property which is for the time being in use or intended for use for commercial purposes).

It may not be possible to effect service of process against Armenia in courts outside Armenia or in a jurisdiction to which Armenia has not explicitly submitted, and the choice of jurisdiction of a foreign court (including English courts) in contractual agreements may be held to be invalid by an Armenian court. In addition, courts in Armenia will not enforce a judgment obtained in a foreign court unless such enforcement is provided for by treaty ratified by Armenia or by an arrangement between such country and Armenia providing for reciprocal enforcement of judgments, and then only in accordance with the terms of such treaty or arrangement and with Armenian law. Armenia has no such treaty (or arrangement) with the United Kingdom or with the United States. See "*Service of Process and Enforcement of Civil Liabilities*."

Armenian Courts May Not Enforce Foreign Arbitral Awards

Notwithstanding that Armenia is a party to the NY Convention in accordance with which an award of the ICC should be recognised and enforced by the courts of Armenia, it may not be possible as a practical matter to enforce foreign arbitral awards against Armenia possibly due to Armenian courts interpreting widely "public policy" as a ground for refusing recognition and enforcement of the award. Furthermore, it may be difficult to enforce arbitral awards in Armenia due to a number of other factors, including the lack of experience of Armenian courts in international commercial transactions, certain procedural ambiguities, official and unofficial political resistance to the enforcement of awards against Armenia in favour of foreign investors, Armenian courts' inability to enforce such orders and corruption, thereby introducing delay and unpredictability into the process of enforcing any foreign arbitral award in Armenia. See "*Service of Process and Enforcement of Civil Liabilities*."

Armenian Courts May Not Enforce Gross-up Obligations

Currently Armenia law generally prohibits contractual provisions requiring one party to pay tax for another party. No official interpretation or guidance exists on whether such restriction would apply to the obligations of Armenia in Condition 7 of the Terms and Conditions of the Notes. In the absence of any such official interpretation or guidance regarding the validity of the tax gross up provisions, a risk exists that such restriction may be interpreted broadly by the courts and applied to gross up provisions. As a result, Condition 7 of the Terms and Conditions of the Notes could be found null and void and, therefore, unenforceable in Armenia.

Investors should also refer to "*Taxation—Armenian Taxation*" for a discussion of certain risks relating to the enforceability of the Issuer's obligations under Condition 7 of the Terms and Conditions of the Notes.

Collective Action Clauses

The Notes contain provisions regarding acceleration and voting on amendments, modifications, changes and waivers, which are commonly referred to as "collective action clauses." Under these provisions, certain key provisions of the Notes may be amended, including the maturity date, interest rate and other payment terms, with the consent of Armenia and the specified majority of Noteholders. Each such amendment will be binding on all Noteholders, whether or not they voted in favour of such amendment or at all.

The provisions of the clause permit "cross-series modifications" to be made to one or more series of debt securities issued by Armenia (provided that those debt securities also contain a cross-series modification provision), including the Notes. In the case of a cross-series modification, a defined majority of the holders of the debt securities of all series (when taken in the aggregate) that would be affected by the proposed modification may bind all holders of such series, provided that a lower defined majority of Noteholders of each affected series of Notes approve the relevant amendment. See "*Terms and Conditions of the Notes—11. Meetings of Noteholders, Written Resolutions.*"

EU Savings Directive

Under Council Directive 2003/48/EC on the taxation of savings income (the "**EU Savings Directive**"), each Member State is required to provide to the tax authorities of another Member State details of payments of interest or other similar income paid by a person within its jurisdiction to, or secured by such a person for, an individual beneficial owner resident in, or certain limited types of entity established in, that other Member State. However, for a transitional period, Austria and Luxembourg will (unless during such period they elect otherwise) instead operate a withholding system in relation to such payments. Under such a withholding system, the beneficial owner of the interest payment must be allowed to elect that certain provision of information procedures should be applied instead of withholding. The rate of withholding is 35%. The transitional period is to terminate at the end of the first full fiscal year following agreement by certain non-EU countries to exchange of information procedures relating to interest and other similar income. The Luxembourg government has announced that Luxembourg will elect out of the withholding system in favour of automatic exchange of information with effect from 1 January 2015.

A number of non-EU countries and certain dependent or associated territories of certain Member States have adopted similar measures to the EU Savings Directive.

A proposal for amendments to the EU Savings Directive has been published, including a number of suggested changes which, if implemented, would broaden the scope of the rules described above. At a meeting on 22 May 2013, the European Commission called for the adoption of an amended EU Savings

Directive before the end of 2013. Investors who are in any doubt as to their position should consult their professional advisers.

If a payment were to be made or collected through a Member State that has opted for a withholding system and an amount of, or in respect of, tax were to be withheld from that payment pursuant to the EU Savings Directive or any law implementing or complying with, or introduced in order to conform to the EU Savings Directive, neither Armenia nor any Paying and Transfer Agent nor any other person would be obliged to pay additional amounts with respect to any Note as a result of the imposition of such withholding tax. Armenia is required to maintain a Paying and Transfer Agent in a Member State (if such exists) that is not obliged to withhold or deduct tax pursuant to the EU Savings Directive or any law implementing or complying with, or introduced in order to conform to the EU Savings Directive. See "*Taxation—EU Savings Directive*."

The Secondary Market Generally

The Notes may have no established trading market when issued and one may never develop. If a market does develop, it may not be liquid, which may have a severely adverse effect on the market value of the Notes. The market for the Notes will be influenced by economic and market conditions in Armenia and, to varying degrees, interest rates, currency exchange rates and inflation rates in other countries, such as the United States, the Member States of the EU and elsewhere. There can be no assurance that events in Armenia, in the region or elsewhere will not cause market volatility or that such volatility will not adversely affect the liquidity or the price of the Notes or that economic and market conditions will not have any other adverse effect. If the Notes are traded after their initial issuance, they may trade at a discount to their offering price, depending upon prevailing interest rates, the market for similar securities, general economic conditions, the political, economic or financial condition of Armenia or other factors. Therefore, investors may not be able to sell their Notes easily or at prices that will provide them with a yield comparable to similar investments that have a developed secondary market.

Pari Passu Securities

There is no restriction on the amount of securities that Armenia may issue ranking equally in right of payment with the Notes. The issue of any such securities may reduce the amount investors may recover in respect of the Notes in certain scenarios as the incurrence of additional debt could affect Armenia's ability to repay principal of, and make payment of interest on, the Notes. For the avoidance of doubt, Armenia does not understand the pari passu clause of the Terms and Conditions of the Notes, or any comparable provision in any other debt instrument of Armenia, to require Armenia to pay all items of its Public Debt on a ratable basis.

Unsecured Obligations

Upon issue, the Notes will constitute unsecured obligations of Armenia.

Legal Investment Considerations

The investment activities of certain investors are subject to legal investment laws and regulation, or review or regulation by certain authorities. Each potential investor should consult its legal advisers to determine whether and to what extent: (i) the Notes are legal investments for it; (ii) the Notes can be used as collateral for various types of borrowing; and (iii) other restrictions apply to its purchase or pledge of the Notes. Financial institutions should consult their legal advisers or the appropriate regulators to determine the appropriate treatment of the Notes under any applicable risk-based capital or similar rules.

USE OF PROCEEDS

The proceeds of the issuance of the Notes (net of commissions and expenses paid by the Issuer) are expected to amount to approximately U.S.$689,675,000 and will be used for general governmental purposes, including potentially the prepayment in full or in part of the outstanding amount under the U.S.$500 million loan from Russia (the "**2009 Russia Loan**") and infrastructure investment. See "*Public Debt and Related Matters—2009 Russia Loan*."

DESCRIPTION OF ARMENIA

History

An ancient nation, Armenia regained independence in 1991 when the Republic of Armenia was proclaimed.

Organised settlement existed in Armenia by the 14th century BC; references to an Armenian people first occur in the sixth century BC. In antiquity and medieval times, Armenia existed on the edges of Western empires (Greek, Roman, Byzantine) and Eastern empires (Assyrian, Persian, Parthian, Arab). In practice, Armenia often had significant self-rule; the hereditary chiefs of Armenian clans (the *nakharars*) exercised local power in an often fractious relationship with their king. In the first century BC, King Tigran the Great established a short-lived Armenian empire stretching from the Mediterranean to the Caspian. A golden age of Armenian culture flourished in the 10th century under the Bagratid dynasty, with its court in Ani.

A pivotal and defining moment in Armenian history was the nation's conversion to Christianity in AD 301 when King Tiridates III was baptised; thus Armenia became the first state to adopt Christianity as its religion. The Armenian Apostolic Church, headed by its patriarch, the Catholicos, remains an important national institution to this day. The medieval stone churches that dot the Armenian countryside are a source of great national pride. Of like importance was the invention, attributed to Saint Mesrop Mashtots, of the Armenian alphabet in AD 404 to reduce the Armenian language to writing. Through the following centuries when they had no nation state, the religion and the alphabet of the Armenian people were essential to preserving their national identity.

Weakened following its incorporation into the Byzantine Empire in 1045, Armenia was overrun by the Seljuk Turks in 1064, when Ani was sacked (Ani is now an abandoned town located in the Turkish province of Kars). The Mongol invasions followed, an especially bleak period of Armenian history. Presaging future migrations, a group of Armenians moved to the southwest, and Armenian princes established in 1080 the kingdom of Cilicia (sometimes referred to as 'Lesser Armenia') along the northeastern Mediterranean coast, which continued to 1375; other Armenians moved along the Black Sea littoral and into Ukraine, Poland and Russia.

From the 16th century, the main Armenian population was split between those living to the west (in the vicinity of Kars, Erzerum and Van) under Ottoman rule (with some authority delegated to the Armenian Patriarch of Constantinople) and those living to the east (in the vicinity of Yerevan, Gyumri and Nagorno-Karabakh) initially under Persian rule and then, following the 1826-1828 Russo-Persian war and other military campaigns, under imperial Russian rule. During the course of the 19th century, in keeping with wider European trends, a national consciousness developed.

World War I and the 1917 Bolshevik Revolution unleashed forces that largely define modern Armenian history. In the midst of World War I, the Ottoman authorities organised a genocide of the Armenian people starting in 1915, achieved in large part by forced deportations and marches of the populations of entire villages and towns, and directly by massacres. The estimate of deaths in the genocide is up to 1,500,000 people, one-third of the Armenian nation. The Turkish government staunchly denies a genocide was carried out, attributing the deaths to the mayhem of civil war and famine. There was mass starvation in Armenia in 1919. The genocide also resulted in massive emigration. The plight of the Armenian people garnered worldwide attention.

Russia fell into civil war, and as Turkish armies were making advances, in May 1918, the first republic of Armenia was proclaimed, a democratic parliamentarian republic based on western models. The first republic faced multiple existential challenges: territorial disputes with the newly-independent states of Georgia and Azerbaijan; assertions of power by Bolshevik authority; invasion by Turkish armies; the ongoing genocide; an influx of refugees; epidemics of typhus and cholera; and severe food shortages. Brief wars ensued with Georgia and with Azerbaijan (over control of Nagorno-Karabakh). While President Wilson as part of the post-war diplomatic settlement imagined Armenia regaining its western territories and access to the Black Sea, the new Turkish government attacked Armenia in September 1920, resulting in a treaty that ceded to Turkey what had been Armenian-populated, Russian-ruled territories (including the national symbol of Armenia, Mount Ararat), which effectively settled Armenia's modern border with Turkey. On 2 December

1920, as the Red Army entered Yerevan, the pro-Bolshevik socialist republic of Armenia was declared. In March 1922, the Transcaucasian Soviet Federated Socialist Republic (encompassing Armenia, Azerbaijan and Georgia) was declared; in 1936, it was divided into its constituent nations and the Soviet Socialist Republic of Armenia established (the smallest, by land area, of the 15 Soviet republics).

Seven decades of Soviet rule in some ways benefitted Armenia: after the devastation of genocide and the 1918-1920 sequence of wars, it provided a degree of security and assurance of national survival. The economy was significantly industrialised and the population significantly urbanised. Major transportation and energy infrastructure projects were carried out. Education and healthcare improved.

In December 1988, a devastating and powerful earthquake struck northwestern Armenia, around the city of Leninakan (now Gyumri), as a result of which an estimated 25,000 people died, over 200,000 were rendered homeless, and much of Leninakan and nearby towns were damaged or destroyed. A global relief effort was launched in response. Armenia's Metsamor Plant (located outside Yerevan, and which was not affected by the earthquake) was closed down as a precautionary measure.

The political reforms introduced by Soviet leader Mikhail Gorbachev in the late 1980s allowed long suppressed nationalist aspirations to emerge. This led to violent confrontations as local populations pressed for independence against a faltering central Soviet authority. In the South Caucasus, this was brought out by the shooting of Georgian pro-independence protesters in April 1989 in Tbilisi by Soviet troops. For Armenia, its move towards independence became inextricably tied to the status of Nagorno-Karabakh, a traditional Armenian-majority region to the east of Armenia proper.

When the Soviet Socialist Republic of Armenia was founded, Armenian authorities sought to have Nagorno-Karabakh included within its borders. The clear majority of the Nagorno-Karabakh population supported unification with Armenia. The central Soviet authorities did not incorporate Nagorno-Karabakh within Armenia's borders but instead, in 1923, created the Nagorno-Karabakh Autonomous Oblast, a separate administrative unit within the borders of the Soviet Socialist Republic of Azerbaijan.

This approach proved workable so long as the security and supervision provided by central Soviet authority was assured (although various petitions were made in post-Stalinist times to return Nagorno-Karabakh to Armenia). But as the various Soviet republics moved towards independence in the late 1980s and early 1990s, the prospect of direct rule over Nagorno-Karabakh by a newly-independent Azerbaijan led the Armenian population of Nagorno-Karabakh and Armenia itself to demand sovereignty for Nagorno-Karabakh. Assertions of independence by Nagorno-Karabakh met counter-assertions of its subservience by Azerbaijan. The dispute over Nagorno-Karabakh exacerbated growing Armenian-Azeri ethnic tensions in both countries, which eventually led to almost all the ethnic Armenian population leaving Azerbaijan and almost all the ethnic Azeri population leaving Armenia. The conflict escalated and full-scale hostilities broke out in 1991-1992 with Armenia supporting the Nagorno-Karabakh population. There were thousands of casualties. In December 1991, in a plebiscite carried out in accordance with then-applicable Soviet law, as well as public international law, the population of Nagorno-Karabakh voted in favour of the establishment of the Nagorno-Karabakh Republic. In May 1994, a Russian-brokered cease-fire signed by representatives of Azerbaijan, Armenia and the self-proclaimed Nagorno-Karabakh Republic ended large-scale warfare and established truce lines that endure to this day. The truce lines encompass significant territory inside Azerbaijan beyond the borders of the self-proclaimed Nagorno-Karabakh Republic. See "*Risk Factors—Regional Tensions—Nagorno-Karabakh and Relations with Azerbaijan.*"

The Nagorno-Karabakh conflict spurred demands for independence in Armenia itself, at a time when Soviet central authority was waning. In August 1990, the legislature asserted the sovereignty of Armenia. The failed August 1991 putsch against Gorbachev further weakened central authority. On 21 September 1991, the independent Republic of Armenia was proclaimed. The USSR itself was dissolved on 26 December 1991. On 2 March 1992, Armenia took membership in the United Nations.

Upon its independence, Armenia's immediate future was daunting. Armenia was still coping with the consequences of the 1988 earthquake. The dissolution of the Soviet Union severely disrupted the economies of all the former Soviet Union states. The conflict in Nagorno-Karabakh strained national resources. Azerbaijan stopped its supply of natural gas to Armenia, which led to energy shortages with frequent blackouts and lack of heat in winter. The economy was racked by high inflation, high unemployment, low investment and declining GDP. There was large-scale emigration from Armenia while at the same time a large influx of refugees from Azerbaijan. It was estimated that 85% of the population lived at or below the poverty line. The situation stabilised during the course of the 1990s when the Nagorno-Karabakh truce was brokered in May 1994, the Metsamor Plant (a vital source of electricity) re-opened in 1995, and Russia, Armenia's key economic, energy and security partner, recovered.

Levon Ter-Petrosyan was elected as the first President of the new Republic of Armenia in polling held in October 1991. Ter-Petrosyan had been a leader of the Nagorno-Karabakh independence movement. Controversially, in December 1994, Ter-Petrosyan outlawed one of the main opposition parties, the Armenian Revolutionary Federation (also known as the Dashnaktsutyun), which traced its roots to the late nineteenth century independence movement and whose candidate had taken a reported 4.3% of the popular vote in the first presidential election. The 1995 Constitution established broad powers for the President. Ter-Petrosyan was re-elected in September 1996. Ter-Petrosyan's pursuit of peace talks to resolve the Nagorno-Karabakh conflict – in which it was considered that Nagorno-Karabakh forces might withdraw to its borders, the blockades of Azerbaijan and Turkey might end, but the ultimate status of the Nagorno-Karabakh deferred for later resolution – attracted large-scale opposition both within Armenia and from the Armenian diaspora. Ter-Petrosyan resigned from the presidency in February 1998.

Upon Ter-Petrosyan's resignation, the Prime Minister, Robert Kocharian, assumed the presidency, pending the holding of an extraordinary presidential election. Kocharian then ran in, and won, the elections held in March 1998, defeating Karen Demirchyan. Kocharian had earlier served as President of the self-proclaimed Nagorno-Karabakh Republic, and was an independent candidate in the 1998 presidential elections. Parliamentary elections in May 1999 resulted in a legislature led by the Unity block (an alliance between Demirchyan's newly-formed People's Party and Vazgen Sargsyan's Republican Party of Armenia), with Vazgen Sargsyan serving as Prime Minister and Demirchyan as Parliamentary President. In October 1999, Vazgen Sargsyan, Demirchyan and five others were assassinated in a terrorist attack on the National Assembly. Kocharian was elected to a second five-year term in March 2003.

In November 2005, a nationwide constitutional referendum was held, and an amended constitution was adopted. According to the November 2005 Constitution, the President of Armenia appoints the Prime Minister based on the distribution of seats in the National Assembly and consultations with parliamentary factions. The President also appoints (and may dismiss from office) the members of the Government upon the recommendation of the Prime Minister. Under the November 2005 Constitution, the President is allocated primary responsibility for international relations and security, while the Prime Minister is allocated primary responsibility for domestic affairs.

In February 2008, Serzh Sargsyan, the leader of the Republican Party of Armenia, won the presidential election in which his main opponent was former President Ter-Petrosyan. Prior to Serzh Sargsyan's election, he had served as Prime Minister and Minister of Defence during the Kocharian administration and led the Nagorno-Karabakh Self-Defence Forces Committee. In the worst post-election violence during Armenia's independence, ten people died in violent protests in Yerevan, resulting in a declaration of a 20-day state of emergency. President Sargsyan was re-elected to a second, five-year term in February 2013. The current Prime Minister is Tigran Sargsyan (no relation to the President).

The conduct of none of Armenia's presidential or parliamentary elections has been met with the full approval of international election observers. See "*Risk Factors—Political Risk Associated with a Transitional Democracy*." At the same time, unlike other former Soviet Union states Armenia has had no extra-constitutional changes of government, and the two-consecutive-term limit has been observed, resulting in two successful transitions in the presidency. President Sargysan will not be eligible to run again when his current term ends in 2018.

President Sargsyan has identified as his second term goals the further development of the Armenian economy – especially combatting unemployment, poverty and emigration – the deepening of democracy, improving judicial administration and the equality of all citizens before the law, and the peaceful resolution of the Nagorno-Karabakh issue (while maintaining military preparedness should renewed military conflict break out). These goals are in keeping with the platform of his party, the Republican Party of Armenia, which holds a majority of the seats in the National Assembly.

Location and Population

Armenia is a landlocked country with an area of 29,800 square kilometres in the South Caucasus. The Great Caucasus mountain range runs to the north of Armenia while the Minor Caucasus run across the northeast of the country, and roughly 80% of its terrain is mountainous. Armenia is ringed to the west by Turkey, to the north by Georgia, to the east by Azerbaijan, to the south by Iran, and to the southwest by the Nakhchivan province of Azerbaijan (which is a non-contiguous exclave of Azerbaijan). Armenia has a number of fast-flowing but non-navigable rivers, a source of some hydropower. The Arax River largely defines its border with Turkey and Iran. Agricultural production is possible in the plains and valleys of the country, especially in the Ararat plain to the southwest of Yerevan, the volcanic highlands around Gyumri and along Lake Sevan, and roughly 20% of its land is arable. Given sparse rainfall, agriculture generally requires irrigation. Over the centuries, Armenia has lost most of its forests and the country has a predominantly arid and rocky landscape. Armenia's natural resources include hydropower, copper, bauxite, molybdenum, gold, zinc and iron ore.

Politically, Armenia is organised into ten regions plus Yerevan, the capital city, and 915 communities.

According to Armstat, Armenia has a total population of approximately 3.0 million as of 1 January 2013, with the following breakdown by age and gender:

Armenia's Population

Age	Percentage of Population	Male	Female	Total Population
0-14	18.8	305,001	265,680	570,681
15-64	70.6	1,018,982	1,117,718	2,136,700
65 and over	10.6	127,663	191,835	319,498
Total	100.0	1,451,646	1,575,233	3,026,879

Source: Armstat.

Most of the population lives in the western and northwestern parts of the country; the two principal cities are the capital Yerevan with a population of approximately 1.1 million people and Gyumri (in Soviet times called Leninakan, and in Tsarist times Aleksandropol) with a population of approximately 121,300 people.

Based on the preliminary results of the 2011 census, approximately 98.1% of the population are ethnic Armenians. Other ethnic groups include Yezidis, Russians, Assyrians and Kurds. The official language of Armenia is Armenian, using the Armenian alphabet. A large majority of the population speaks Armenian, while Russian is often a second language. The literacy rate for the population over the age of 15 is 99.7%. The predominant religion in Armenia is the Armenian Apostolic Church. Other religious communities in Armenia include Orthodox Christians and Catholics.

The Constitution and the President

The Constitution of Armenia was adopted on 5 July 1995 and amended in 2005. Under the Constitution, the President of Armenia is the head of state, and serves as guarantor of the independence, territorial integrity and security of the country. The President is elected for a five-year term of office, and the same person may not be elected to the office of the President for more than two consecutive terms. In the most recent, February 2013, presidential election, President Sargsyan won 59% of the vote with the runner-up, Raffi Hovannisian, taking 37%. The next presidential election is due in 2018; President Sargsyan will have served two full terms and will not be eligible to stand for re-election.

Articles 55 and 56 of the Constitution grant the President broad-ranging powers, including powers to:

- act as Commander-in-Chief of the armed forces of Armenia;
- represent Armenia in international relations and conclude international agreements;
- on the basis of the distribution of seats in the National Assembly and consultations with parliamentary factions, appoint as Prime Minister the person enjoying the confidence of a majority (or, if not possible, the maximum number) of the Deputies;
- appoint and dismiss from office the members of the Government upon the recommendation of the Prime Minister;
- recommend to the National Assembly the candidacy of the Chairman of the CBA and the Prosecutor General;
- appoint four members of the Constitutional Court as well as appoint and terminate the powers of judges on the Court of Cassation and other courts upon the recommendation of the Council of Justice;
- form and preside over the National Security Council;
- declare martial law and call for a general or partial mobilisation of the armed forces;
- declare a state of emergency after consulting with the Chairman of the National Assembly and the Prime Minister;
- sign and promulgate the laws passed by the National Assembly;
- issue decrees and orders within the President's authority; and
- dissolve the National Assembly in the cases defined in the Constitution and declare extraordinary elections.

The Government

The Government is comprised of the Prime Minister and 19 ministers heading 19 ministries, one of whom is appointed as Deputy Prime Minister by the President upon the recommendation of the Prime Minister. The Government has the power under the Constitution to develop and implement the domestic policy of Armenia and, jointly with the President, to develop and implement the foreign policy of Armenia. Sittings of the Government are convened and chaired by the Prime Minister, though the President may convene and chair sittings of the Government on issues concerning foreign policy, defence, and national security.

The Prime Minister manages the activities of the Government and coordinates the work of ministers, as well as adopts decisions on issues within the Government's jurisdiction. Regional governors are appointed and dismissed from office by the decision of the Government, validated by the President. The regional governors implement the policy of the Government within their regions.

The Government's powers and responsibilities include:

- submitting the draft State Budget to the National Assembly for approval, ensuring execution of the budget and submitting financial reports to the National Assembly;
- managing state property; and
- implementing the unified state policies on finances, the economy, taxation, loans and credits, and state development policy.

All matters of state administration, which are not reserved by law to other state or local self-government bodies, fall within the competence of the Government.

The National Assembly

Legislative power in Armenia is vested in the National Assembly, a unicameral body consisting of 131 Deputies elected for a term of five years, of whom 41 are elected from single-member districts and 90 by party list. In the most recent, May 2012, legislative elections, the Republican Party of Armenia (RPA), which is led by President Sargsyan, received 44% of the vote, yielding 69 seats in the National Assembly (based on the combined results from single-member districts and the proportional party list voting), the Prosperous Armenia Party (PAP) came second with 31% yielding 37 seats and the Armenian National Congress (ANC), which is led by Armenia's first president, Levon Ter-Petrosyan, took 7% of the votes, yielding seven seats, and the Country of Law party, led by Artur Baghdasaryan, took 6% of the votes, yielding six seats. The Republican Party of Armenia and the Country of Law party currently form a coalition government.

Standing Committees of the National Assembly conduct preliminary discussion of draft legislative acts and other issues and provide the National Assembly with opinions thereon. The Chairman of the National Assembly (elected by a majority vote of its Deputies) chairs National Assembly sittings, manages its resources and ensures its normal functioning. The procedure for the operation of the National Assembly, as well as the formation and activities of its bodies, is defined by the Constitution and the Rules of Procedure of the National Assembly.

Under the Constitution, the National Assembly has power to:

- adopt the State Budget upon its submission by the Government, and oversee its implementation, along with that of loans and credits received from foreign governments and international organisations;
- annul the measures taken by the President provided under his power to declare martial law or a state of emergency;
- appoint five members of the Constitutional Court upon the recommendation of the Chairman of the National Assembly, as well as the Chairman of the Constitutional Court from among its members and to terminate the powers of any of its appointees on the Constitutional Court on the basis of the opinion of the Constitutional Court;
- appoint the Chairman of the CBA upon the recommendation of the President, and remove the Chairman of the CBA in cases prescribed by the law of the National Assembly and upon the recommendation of the President;
- upon the recommendation of the President, ratify, suspend or terminate the international treaties of Armenia; and
- upon the recommendation of the President, declare war (unless a sitting of the National Assembly cannot be convened, in which case the President may declare war).

The National Assembly is also empowered to express no confidence in the Government by a majority vote of the total number of Deputies. If a no confidence motion is passed, a new government is to be formed, failing which the President may call new legislative elections.

Judicial System

The courts in Armenia consist of: (i) the courts of first instance of general jurisdiction; (ii) the courts of appeal; (iii) the Court of Cassation, the highest appellate court in Armenia, except for matters of constitutional justice, which are heard by (iv) the Constitutional Court. There is also a specialised Administrative Court.

Constitutional justice in Armenia is administered by the Constitutional Court, comprised of nine judges. The judges hold their office until the age of 65. The role of the Constitutional Court is to:

- determine the compliance of laws, decisions of the National Assembly, decrees of the President, and decisions of the Government, Prime Minister, and local self-government bodies with the Constitution;

- prior to ratification of an international treaty, determine the compliance of commitments stipulated therein with the Constitution;
- resolve all disputes arising from the results of referenda, and all disputes concerning the outcomes of elections of the President or Deputies;
- confirm the existence of grounds for impeaching the President;
- determine the incapacity of the President to discharge his or her responsibilities; and
- confirm grounds to discharge a Head of Community (see "—*Local Self-Government*").

The Council of Justice, a separate body, is comprised of nine judges elected by the General Assembly of Judges plus four academic lawyers, two appointed by the President and two by the National Assembly. The Chairperson of the Court of Cassation presides over its sittings, but has no voting right. The role of the Council of Justice is to:

- prepare the list of candidates for judges and official promotion lists of judges on the basis of which appointments are made, and submit them to the President for approval;
- give opinions on the nominated candidates for judges;
- give opinions on pardon matters upon the request of the President; and
- impose disciplinary action on judges, submit a recommendation to the President for termination of the power of a judge, detain him or her, involve him or her as an accused or subject him or her to administrative liability through judicial procedures.

Local Self-Government

Armenia is comprised of ten regions plus Yerevan, the capital city, and 915 communities, of which 49 communities are classified as urban and 866 as rural. The Government appoints the regional governors, subject to the President's validation. In the communities, local self-government is exercised to resolve local issues for the welfare of its population in accordance with the Constitution and law. These communities generate their own budgets, which are primarily funded by their taking a share of taxes (e.g., property taxes and taxes on luxury cars) collected by the national authorities, as well as by state subsidies (intended to address regional economic disparities), local taxes, duties and fees for services. See "*Public Finance—Fiscal Relations with Local Governments*."

The bodies carrying out local self-government are the Council of Aldermen and the Head of Community (in a city, the mayor), who are elected to four-year terms. The Mayor of Yerevan is elected by the Community Council of Yerevan (whose members are themselves popularly elected). If a political party participating in the Yerevan municipal elections wins more than 50% of the Community Council's seats, the first person on such party's list of candidates shall be the Mayor of Yerevan. The Government may remove the Head of Community from office on the opinion of the Constitutional Court, in cases specified by law.

Armed Forces

Armenia's armed forces are comprised of five Army Corps and independent units, including special forces, artillery, anti-tank, reconnaissance, signal, electronic warfare, military police, engineer, disaster relief, logistics, maintenance, medical, chemical, biological, radiological and nuclear defence, aviation, air surveillance, air defence and other specialised units. In 2012, the armed forces had approximately 38,979 serving military personnel, of which 18,953 were conscripts and 20,026 professionals. The defence sector also employs approximately 5,444 technical and supporting civilian personnel and 364 career civilian officers. The defence budget for 2013 is approximately AMD182.7 billion (15.8% of the 2013 State Budget). See "*Public Finance—2013 State Budget*."

The National Security Strategy outlines the nation's fundamental values, the factors and activities that provide security and identifies the threats to the nation's security. It highlights the necessity for an effective state governance system, for the rule of law and inculcation of democratic values, for an independent and impartial judiciary, for combat readiness of the armed forces and purposeful activities of security and law-enforcement structures, for foreign policy, for ensuring full-fledged international engagement and guaranteed social justice.

The Military Doctrine, being defensive in nature, further elaborates in detail the relevant provisions of the National Security Strategy, that pertain to the defence and military sector, and establishes priorities of the Defence Policy. The Defense Policy, reviewed every five years through a Strategic Defence Review, is conducted based on an analysis of the regional and international political-military situation, strategic forecasts, requirements of the military security system and the capabilities of the economy, current threats and challenges, the nature of probable future armed conflicts, as well as the international commitments of Armenia.

Armenia's current Defence Policy aims to develop security guarantees, promote peace and stability in the region, and create necessary political and military preconditions for the peaceful resolution of the Nagorno-Karabakh (Artsakh) conflict. The Defence Policy is also aimed at enhancing Armenia's strengthened capabilities to implement international commitments for participation in international peacekeeping and peace support operations. Armenian Defence Policy is based on a multilayered system of cooperation, including agreed relations of a strategic nature with the Russian Federation, membership in the Collective Security Treaty Organisation (the "**CSTO**"), deepened Armenia-NATO partnership relations in security and defence sectors through NATO programmes (Individual Partnership Action Plan ("**IPAP**") and Partnership Planning and Review Process), Armenia-EU cooperation in the area of common security and defence policy, cooperation in the framework of the OSCE, bilateral cooperation with NATO, EU and CIS member and other states as well as engagement in international arms control and disarmament treaties.

International Relations

Armenia has established bilateral and diplomatic relations with 185 countries and has 80 diplomatic missions (38 resident) and seven general consulates abroad. Armenia hosts 92 diplomatic and consular missions, of which 61 are non-resident. Armenia is a member of a number of international and regional organisations, including the UN, the IMF, the World Bank, the Council of Europe, the EBRD, the World Trade Organisation (the "**WTO**"), the CIS, the CSTO and the OSCE. Armenia has been consistently pursuing a foreign policy of multiple engagements and compatibility of interests in order to maximise its security and development potential. See "*External Sector—International Trade Agreements*" for a discussion of Armenia's international trade relations and WTO membership.

European Union

The basis for EU-Armenia relations is the Partnership and Cooperation Agreement (the "**PCA**") , which entered into force in 1999 and established several institutions to facilitate EU-Armenia cooperation. In 2004, the European Council invited 16 countries, including Armenia, to participate in the EU's European Neighborhood Policy (the "**ENP**"). The ENP provides a framework for the deepening of relations between the EU and its closest neighbouring countries, in particular addressing matters in political, economic and cultural relations as well as security concerns and cross-border cooperation. To address these issues in Armenia, Armenia and the EU signed an ENP Action Plan (the "**ENP Action Plan**") in 2006 to expand the relationship established in the PCA and to set goals under the ENP. The ENP Action Plan envisions improvement in Armenia's democratic structures and the rule of law, human rights, economic development, poverty reduction, investment climate, economic legislation and administrative practices, regional cooperation and energy strategy as well as a peaceful solution of the Nargorno-Karabakh conflict.

At the May 2009 Prague Summit, the Eastern Partnership (the "**EaP**") was launched to provide another framework for improving the relationships between the EU and countries in Eastern Europe/Southern Caucasus. The EaP sets forth concepts for creating new association agreements, including deep and comprehensive free trade agreements ("**DCFTAs**"), gradual integration into the EU economy as well as a liberalised visa regime. Armenia is participating in the EaP, but is not pursuing a DCFTA. See "*External Sector—International Trade Agreements*" for further discussion of Armenia's trade relations with the EU.

CIS

On 21 December 1991, Armenia, Azerbaijan, Belarus, Kazakhstan, Kyrgyzstan, Moldova, Russia, Tajikistan, Turkmenistan, Ukraine and Uzbekistan signed the Alma-Ata Protocol and established the CIS. Georgia joined the CIS in 1993, then withdrew in 2009; Turkmenistan withdrew and became an associate member in 2005. The goals of the CIS are to realise political, economic, environmental, humanitarian and cultural cooperation and assist in the free interaction, contact and movement of citizens within the CIS. Armenia is an active participant in the development and implementation of cooperation programmes within the CIS.

CSTO

The CSTO is a regional collective security organisation founded by Armenia, Belarus, Kazakhstan, Kyrgyzstan, Russia and Tajikistan. The CSTO goals are to support international and regional security and to collectively protect the independence, territorial integrity and the sovereignty of each of its members through the coordination of military and political efforts. Additionally, the members of the CSTO have undertaken not to participate in any military union, group of nations or take actions that are directed against any other member of the CSTO (which has been viewed as ruling out NATO membership for any member of the CSTO). The member states of CSTO have conducted joint military exercises in the past, the largest of which was hosted by Armenia in 2008. Armenia remains an active member in the CSTO.

NATO

Armenia first established relations with NATO in 1992 when Armenia joined the North Atlantic Cooperation Council. In 2005, Armenia concluded an IPAP with NATO, which has formed the basis for cooperation in a number of defence, reform, counter-terrorism, disaster response and anticorruption programmes. Armenia is currently contributing military personnel to NATO-led operational mentor and liaison teams in Afghanistan. While Armenia intends to intensify practical and political cooperation with NATO in order to draw closer to the alliance, it does not seek membership in NATO.

Bilateral Relations

Georgia

Building on their historic and strong political relations, in recent years, Armenia and Georgia have increased their bilateral cooperation, especially in such areas as energy, transport, trade, education and culture. High-level meetings between various branches of the two governments are regularly held, with specific issues of cooperation discussed within the framework of the intergovernmental Commission on Economic Cooperation between Armenia and Georgia. In addition, the neighbouring countries hold many programmes for cultural exchange. As a gesture of goodwill to Armenia, Georgia opened its “Kazbegi” customs checkpoint on the Russian border on 1 March 2010, permitting movement from the Russian “Zemo Larsi” checkpoint.

Azerbaijan

Azerbaijan and Armenia have no formal relations and are engaged in peace talks over the Nagorno-Karabakh conflict, mediated by France, Russia and the United States in the framework of the OSCE Minsk Group Co-chairmanship. Armenia supported the Nagorno-Karabakh forces in full-scale hostilities in 1991-1994 with Azerbaijan until the May 1994 cease-fire, signed between Azerbaijan, the de facto authorities of Nagorno-Karabakh and Armenia. The agreed truce line has effectively left a swath of southwestern Azerbaijan under control of Nagorno-Karabakh forces. Skirmishes break out from time to time along the truce line. Armenian citizens are prohibited entry into Azerbaijan. Armenia fully supports the basic principles for the settlement of the conflict as proposed by the mediators.

Various incidents can heighten tensions in relations as in August 2012 when the Azeri President freed an Azeri officer convicted of killing an Armenian army lieutenant during a NATO seminar in Hungary upon his extradition to Azerbaijan to serve out his sentence. Significant outlays in military expenditure by Azerbaijan, fueled by its oil and gas revenues, are a source of concern. See "*Risk Factors—Regional Tensions—Nagorno-Karabakh and Relations with Azerbaijan.*"

Turkey

Armenia's political relations with Turkey have been strained since Armenia regained its independence in 1991.

In part this stems from Turkey's refusal to acknowledge Ottoman Turkey's responsibility for the Armenian 1915-1918 genocide. Turkish authorities actively lobby and discourage any commemoration of the genocide by other nations – such as occurred in March 2010 after the Committee on Foreign Affairs of the U.S. House of Representatives voted in favour of a bill to acknowledge the genocide (which has never been passed by the U.S. Congress).

In 1993, in reaction to Armenian support for the population of Nagorno-Karabakh, Turkey closed its border with Armenia, which remains closed to this day. This has stymied the development of mutual trade between the countries. In October 2009, the foreign ministers of Armenia and Turkey signed two protocols, which envisioned the establishment of diplomatic relations, re-opening of the land border, recognition of the existing frontier and other mutual cooperation. There was hope this would lead to improved relations and the opening of the border. This has not occurred. Instead, Turkish authorities have held off ratification and implementation of the protocols and taken the position that resolving the final status of Nagorno-Karabakh is a pre-condition to its ratifying the protocols; the Armenian authorities have forwarded the protocols to the National Assembly, and, to date, while ratification remains pending, the protocols have not been recalled.

Iran

The Islamic Republic of Iran promptly recognised the independence of Armenia upon its founding, and soon afterwards the two countries signed a declaration on establishing diplomatic relations. In 1995, the two countries signed an agreement on construction of an Iran-Armenia gas pipeline, which came into operation in May 2009. The Iranian gas is bartered for Armenian electricity. In 2012, 481 million cubic metres of gas were supplied under this arrangement, roughly 20% of Armenia's natural gas supply. See "*Economy of Armenia—Energy—Oil and Natural Gas*." Transport infrastructure between Iran and Armenia remains very limited. In general, Armenia's relations with Iran are cordial. At the same time, Armenia is conscious of the international sanctions that have been imposed on Iran, and complies with the sanctions. See "*Risk Factors—Risk Factors Relating to Armenia—Relations with the Islamic Republic of Iran.*"

Russia

Russia has traditionally been the stalwart ally of Armenia. Armenia and Russia enjoy strategic allied relations, and work constructively in regional multilateral institutions such as the CIS and the CSTO. Maintaining good relations with Russia is vital for Armenia given the role that Russia plays in Armenia's trade and investment, workers' remittances, energy supply and distribution, and military security. Russia is the largest investor in Armenia and maintains a military base there. See *"Risk Factors—Relations with Russia."*

The Armenian Diaspora

The depredations that Armenia has endured over the centuries (and especially at the time of persecution and genocide in the Ottoman Empire at the beginning of the 20th century) has led hundreds of thousands of Armenians to emigrate. There are significant ethnic Armenian communities in the United States mostly concentrated in Los Angeles and the Boston areas; Europe, with the largest community in France; Latin America, most significantly in Argentina; as well as in the Middle East, with significant concentrations in Syria, Lebanon and Egypt. A large population of ethnic Armenians live in Russia (some on a seasonal basis), augmented by emigrants in the past three decades escaping civil strife in the South Caucasus and drawn by better economic conditions. Worker remittances from Russia (predominantly from ethnic Armenians to their families in Armenia), estimated at U.S.$1.4 billion in 2012, are a key source of capital and investment for the Armenian economy. Some of the diaspora has returned to Armenia after it achieved its independence, although there is still a net migration flow out of the country of approximately 25,000-30,000 persons per year. The Armenian diaspora provides important moral and financial support to Armenia. Since 2008, Armenia has operated a Ministry of the Diaspora, which was established to strengthen ties between the Armenian diaspora and their homeland and to promote Armenian national identity.

ECONOMY OF ARMENIA

Overview

Armenia has made the successful transition from a centrally planned economy to a market economy, having implemented a broad set of political and economic reforms designed to stimulate growth and investment, maintain price stability, restore confidence in the dram and improve tax collection.

The principal sectors of the Armenian economy are agriculture, trade, construction and industry. In 2012, agriculture accounted for 19.1% of nominal GDP, followed by trade, which comprised 12.9% of GDP, mining and manufacturing, which, on a combined basis, accounted for 12.9% of GDP and construction, which comprised 12.1% of GDP.

The reforms adopted by the Government since independence resulted in a period of strong economic growth between 2000 and 2008. However, as a result of the global financial crisis, Armenia entered into a recession in 2009, with the economy contracting by 14.1%, caused largely by a 41.6% decline in construction and a 6.9% decline in industry. The Government responded to the global financial crisis with a series of anti-crisis measures, including large-scale road renovation projects, intended, in part, to support employment levels in the regions of Armenia. See "*—Principal Sectors of the Economy—Transport and Storage—Road Transport*." Consequently, in 2009, the budget deficit as a percentage of GDP increased in 2009 to 7.6% from 0.7% in 2008. Since 2010, the Armenian economy returned to growth, expanding by 2.2% in 2010, 4.7% in 2011 and 7.2% in 2012. The budget deficit fell to 5.0% of GDP in 2010, 2.8% of GDP in 2011 and 1.5% of GDP in 2012.

FDI is an important source of financing for Armenia. The Government has put into place a legislative framework designed to promote foreign investment in Armenia. Key components of this framework include a streamlined tax system with beneficial tax regimes for certain projects, a progressive customs regime with low import tariffs and no export restrictions, and a system that allows for the free movement of capital and the repatriation of earnings, dividends or interest. See "*—Economic Policy*." In 2012, FDI inflows equaled U.S.$598.4 million, allocated across a wide range of sectors, including telecommunications, mining, real estate, agriculture, financial services, food and beverage and power and gas supply. See "*—External Sector—FDI*."

Remittances are also an important feature of the Armenian economy and are used to finance a substantial share of Armenia's trade deficit, which for goods and services equaled 24.8% of GDP in 2012. In 2012, net remittance inflows amounted to U.S.$1,395.0 million, or 14.0% of GDP. Most remittances come from Russia. See "*—External Sector—Remittances*."

In August 2013, Moody's affirmed Armenia's government bond rating of Ba2, raising the outlook from "negative" to "stable," and adjusted Armenia's local-currency ceiling from Baa1 to Baa3. In August 2013, Fitch affirmed Armenia's long-term foreign currency and local currency issuer default ratings of "BB-" (with stable outlook), its short-term issuer default rating of "B" and its country ceiling of "BB." A rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by the assigning rating organisation. See "*Risk Factors—Risk Factors Relating to Armenia—Armenia's Credit Rating*."

Economic Policy

The Government is committed to alleviating poverty, reducing unemployment and improving the overall socio-economic condition of the Armenian population. To achieve these goals, the Government adheres to a liberal economic policy that is designed to increase the competitiveness of the Armenian economy and foster sustainable, long-term economic growth.

In recent years, the Government has introduced a wide range of reforms aimed at creating an economic environment that is both transparent and business friendly for local entrepreneurs and foreign investors alike. The following areas have been identified by the Government as core components of Armenia's economic development policy:

Investment climate. Armenia has adopted an "open door" policy designed to promote foreign investment. In line with this policy, the Government has introduced an extensive set of reforms to promote the country's business climate and attract FDI, including (i) allowing the free repatriation of capital; (ii) eliminating export duties and any other type of export restrictions; (iii) lowering import tariffs to either 0% or 10%; (iv) introducing full convertibility of the dram; and (v) abolishing restrictions on the foreign ownership of property and assets in Armenia (with certain exceptions in respect of land ownership). Armenia is a party to several bilateral and multilateral free trade agreements, and has been a member of the WTO since 2003. Armenia has also entered into bilateral investment treaties and double-taxation treaties with over 40 countries. See "*External Sector*" and "*Monetary and Financial System*."

Improving the business environment. Substantial progress has been made in improving Armenia's business climate. Procedures for starting, operating and liquidating a business have been simplified. The Government has reduced the scope of activities subject to licensing requirements and has taken steps to streamline the process for acquiring construction permits. Steps to optimise the country's tax system have also been taken, resulting in substantially improved tax collection capabilities. See "*Public Finance—Armenian Tax System*." In 2010, the Government passed a Code of Corporate Governance that was drafted in accordance with OECD principles and international best practices, and, in 2011, launched the "regulatory guillotine" initiative, which is expected to result in a substantial reduction of regulations that impact business operations in Armenia. The CBA has also played a role in improving Armenia's business climate, having issued a series of legal acts aimed to ensure the confidentiality of credit information, which expedites the process for obtaining loans.

Industrial policy. Industry has historically been and continues to be one of the largest sectors of the Armenian economy. The Government has adopted an export-led industrial policy that is designed to position Armenia as a leading producer of high-value and knowledge-intensive goods and services. 11 sectors have been identified as having significant export potential, including pharmaceuticals, precision engineering and biotechnology, and the Government intends to support these sectors, in addition to its more developed industries, such as metallurgy and mining. Measures the Government plans to take in respect of its industrial policy include: (i) further simplifying import/export procedures; (ii) streamlining property registration procedures; (iii) further developing the legal framework for protecting intellectual property rights; and (iv) creating additional investment friendly tax and customs regimes, including the opening of new free economic zones ("**FEZs**"). See "*Public Finance—Armenian Tax System—Beneficial Ta Regimes*."

*Quality Infrastructur*e. Recognising the critical role that high quality infrastructure plays in the country's continuing economic development, the Government has carried out several major infrastructure projects in recent years, including the renovation of Zvartnots International Airport ("**Zvartnots Airport**") outside Yerevan. In close collaboration with international organisations and foreign governments, the Government has renovated hundreds of kilometers of roads across the country and is currently implementing the North-South Road Project, which is designed to reconstruct the highway system that extends from Armenia's southern border with Iran to its northern border with Georgia. See "*—Principal Sectors of the Economy—Transport and Storage—Road Transport*." Improving Armenia's infrastructure, including its road network and irrigation system, is expected to remain a long-term priority of the Government.

Legal Reform. The Government has demonstrated a clear commitment to developing a legal framework that supports business and economic development. In recent years, Armenia has introduced several important legal reforms. As discussed above, it has taken measures to streamline the regulatory framework facing businesses and to promote the country's investment climate. As a means to further integrate Armenia into the global economy, the Government also places a priority on harmonising Armenia's legislation, particularly in the fields of economic competition, trade and corporate governance, with model legislation in other countries and international best practices. Since 2011, all draft laws must undergo a regulatory impact assessment, which is designed to improve the effectiveness of legislation, enhance the transparency of the legislative process and reduce corruption. Regulatory impact assessments are carried out by six ministries, of which the Ministry of Economy reviews draft laws for their impact on economic competitiveness, the Ministry of Finance reviews for their impact on the budget and the Ministry of Justice reviews for their consistency with the Government's anticorruption strategy.

*Support for Small and Medium-Sized Enterprise ("**SME**") Sector*. The Government views the promotion of the SME sector as critical for reducing unemployment, balancing regional development and creating a robust middle class. In 2001, the National Assembly adopted the Law of Armenia on State Support for Small and Medium Entrepreneurship, which codified the Government's strategic commitment to the SME sector; since 2001, the Government has passed an Annual SME State Support Programme that sets forth key objectives for the sector in the upcoming year. In 2002, the Government established the Small and Medium Entrepreneurship Development National Center of Armenia (the "**SME DNC**"), which is the main organisation responsible for providing state support to SMEs. The SME DNC's duties include expanding SMEs' access to financing, liaising between SMEs and the Government and otherwise serving as a "one-stop-shop" for stakeholders in the SME sector.

Gross Domestic Product

The following table sets forth certain information about Armenia's GDP for the periods indicated:

Gross Domestic Product Indicators

	For the year ended 31 December					For the six months ended 30 June	
	2008	2009	2010	2011	2012	2012[(1)]	2013[(1)]
Nominal GDP (AMD, millions)	3,568,227.6	3,141,651.0	3,460,202.7	3,777,945.6	3,997,630.8	1,543,570.0	1,623,197.7
Nominal GDP (U.S.$, millions)[(2)]	11,662.0	8,648.0	9,260.3	10,142.1	9,950.3	3,907.8	3,938.1
Real GDP (AMD, millions)[(3)]	3,088,620.8	2,651,581.3	2,709,916.1	2,837,282.2	3,041,567.0	1,177,222.0	1,219,601.7
Real GDP (U.S.$, millions)[(2)]	10,094.5	7,299.0	7,252.4	7,616.9	7,570.6	2,980.5	2,958.9
Real GDP growth (period-on-period, %)	6.9	(14.1)	2.2	4.7	7.2	6.4	3.6
GDP deflator (period-on-period, %)	5.9	2.6	7.8	4.3	(1.2)	1.6	1.5
Nominal GDP per capita (AMD)[(4)]	1,103,348.0	968,539.0	1,062,683.0	1,252,801.0	1,321,924.0	n/a	n/a
Nominal GDP per capita (U.S.$)[(2)(4)]	3,606.0	2,666.0	2,844.0	3,363.0	3,290.0	n/a	n/a
Real GDP per capita growth (period-on-period, %)[(4)]	6.7	(14.4)	1.8	4.3	6.9	n/a	n/a
Real GDP per capita (U.S.$)[(4)]	3,121,4	2,250.2	2,227.3	2,525.8	2,503.4	n/a	n/a

Notes:

n/a = not available. Per capita figures are only calculated on an annual basis.

(1) First half numbers are preliminary estimates of the Ministry of Finance.

(2) Converted to dollars, using the period average AMD/U.S.$ exchange rate. See "*Exchange Rates*."

(3) Calculated on the basis of 2005 prices.

(4) Per capita figures based on the preliminary results of the 2011 census.

Sources: Armstat; Ministry of Finance.

The following table sets forth the structure of GDP by expenditure for the periods indicated:

Gross Domestic Product by Structure

	For the year ended 31 December										For the three months ended 31 March			
	2008		2009		2010		2011		2012		2012		2013	
	%	% change	%	% change	%	% change	%	% change	%	% change	%	% change	%	% change
GDP	**100.0**	**6.9**	**100.0**	**(14.1)**	**100.0**	**2.2**	**100.0**	**4.7**	**100.0**	**7.2**	**100.0**	**5.4**	**100.0**	**7.5**
Consumption[(1)]	**81.8**	**4.5**	**93.7**	**(4.0)**	**95.1**	**3.9**	**96.6**	**2.6**	**101.4**	**7.8**	**118.3**	**5.6**	**119.3**	**7.3**
Private	71.4	5.4	80.2	(4.5)	81.8	3.8	83.2	2.4	88.1	9.1	103.9	6.5	104.7	7.0
Public	10.2	(1.9)	13.3	(1.2)	13.1	3.9	12.9	1.9	13.0	0.2	14.2	(0.3)	14.3	9.3
Non-profit institutions	0.1	15.2	0.2	27.7	0.2	21.1	0.4	95.7	0.4	(13.5)	0.2	13.3	0.3	65.3
Gross capital formation	**40.9**	**12.6**	**34.7**	**(30.9)**	**32.9**	**(0.5)**	**27.3**	**(5.2)**	**23.8**	**(5.7)**	**11.7**	**(25.7)**	**9.9**	**(9.8)**
Gross fixed assets accumulation	39.8	11.9	36.4	(25.4)	33.4	(2.9)	26.1	(11.7)	23.7	(1.8)	13.8	(3.2)	12.1	(5.4)
Change in inventories	1.1	n/a	(1.7)	n/a	(0.6)	n/a	1.2	n/a	0.1	n/a	2.1	n/a	(2.2)	n/a
Net exports	**(25.6)**	**26.8**	**(27.5)**	**(24.3)**	**(24.5)**	**5.1**	**(23.6)**	**(15.1)**	**(24.8)**	**(14.1)**	**(33.5)**	**(9.3)**	**(30.7)**	**13.3**
Exports	15.0	(13.1)	15.5	(10.4)	20.8	26.5	23.8	14.7	24.6	8.4	29.2	12.2	30.6	11.4
Imports	40.7	7.3	43.0	(19.2)	45.3	12.8	47.4	(1.4)	49.4	(2.8)	62.7	1.1	61.4	(1.0)
Statistical discrepancy	**2.9**	**n/a**	**(0.8)**	**n/a**	**(3.5)**	**n/a**	**(0.3)**	**n/a**	**(0.4)**	**n/a**	**3.5**	**n/a**	**1.5**	**n/a**

Note:

n/a = not available.

(1) Represents expenditures on final consumption.

Source: Armstat.

Principal Sectors of the Economy

Armenia maintains a diverse economy, with particular strengths in agriculture, trade, construction and manufacturing. Agriculture is the single largest contributor to the Armenian economy, accounting for 17.0%, 20.3% and 19.1% of nominal GDP in 2010, 2011 and 2012, respectively. Armenia's main agricultural products include vegetables, dairy products, grains, fruits and berries. Trade (both retail and wholesale) continues to account for a consistently large share of the Armenian economy, representing 12.9% of nominal GDP in 2012, compared to 12.6% in 2011 and 12.9% in 2010. As a share of nominal GDP, construction has declined significantly in recent years, in large part due to the effects of the global financial crisis. Nevertheless, construction remains an important part of the Armenian economy, accounting for 12.2% of nominal GDP in 2012, compared to 13.0% in 2011 and 17.3% in 2010. Armenia has also developed a strong manufacturing sector, ranging from the production of foods and beverages to the processing of metals. Its principal food products include canned foods, meat, dairy products and candy, while natural juices, mineral waters, brandy, wine, beer and vodka account for most of Armenia's beverage production. Armenia's manufacturing sector is supported by the country's sizable deposits of copper concentrate, zinc concentrate and molybdenum. In 2012, manufacturing represented 9.9% of Armenia's nominal GDP, compared to 10.6% in 2011 and 9.7% in 2010.

Nominal GDP

In 2011, Armstat changed the methodology it uses to classify economic activities. In this Prospectus, figures are presented in the following manner:

- for nominal GDP by economic activity and share in nominal GDP by economic activity in 2008 and 2009, figures are presented in accordance with the Statistical Classification of Economic Activities in the European Community ("**NACE**") 1.1.
- for the growth rate of nominal GDP by economic activity in 2008, 2009 and 2010, figures are presented in accordance with NACE 1.1.

- for nominal GDP by economic activity and share in nominal GDP by economic activity for 2010, 2011 and 2012 and the six-month periods ended 30 June 2012 and 2013, figures are presented in accordance with NACE 2.0.
- for the growth rate of nominal GDP by economic activity for 2011 and 2012 and the six-month periods ended 30 June 2012 and 2013, figures are presented in accordance with NACE 2.0.

Figures presented under NACE 1.1 and NACE 2.0 are not comparable.

The following table sets forth the composition of Armenia's nominal GDP by economic activity for 2008 and 2009 in accordance with NACE 1.1 methodology:

Nominal GDP by Economic Activity

	For the year ended 31 December	
	2008	**2009**
	(AMD millions)	
Agriculture, hunting and forestry	574,848.0	524,482.0
Fishing	7,704.0	6,828.0
Mining and quarrying	55,491.0	52,253.0
Manufacturing	315,508.0	273,112.0
Electricity, gas and water supply	103,348.0	96,016.0
Construction	903,038.0	584,436.0
Trade[(1)]	413,071.0	399,811.0
Hotels and restaurants	15,006.0	19,968.0
Transport and communications	242,331.0	226,048.0
Financial services	122,400.0	123,524.0
Real estate, renting and business activities	133,521.0	152,402.0
Public administration	95,611.0	120,269.0
Education	96,914.0	113,391.0
Health care and social services	95,642.0	110,836.0
Other community, social and personal service activities	43,407.0	55,426.0
Private households[(2)]	748.0	878.0
FISIM adjustment[(3)]	(55,013.0)	(50,580.0)
Nominal GVA[(4)]	**3,162,945.0**	**2,809,097.0**
Taxes less subsidies on products	405,282.0	332,554.0
Nominal GDP at market prices	**3,568,228.0**	**3,141,651.0**
Nominal GDP per capita *(AMD)*	1,103,348.0	968,539.0
Nominal GDP per capita *(U.S.$)*[(5)]	3,606.0	2,666.0
Nominal GDP *(U.S.$ millions)*[(5)]	11,662.0	8,648.0

Notes:

(1) Includes wholesale and retail trade and repairs of motor vehicles and personal and household goods.

(2) Includes activities of private households as employers and other miscellaneous production activities of private households.

(3) Financial Intermediation Services Indirectly Measures ("**FISIM**") refers to the total property income receivable by financial intermediaries minus total interest payable, excluding the value of any property income receivable from the investment of their own funds, as such income does not arise from financial intermediation.

(4) Gross Value Added ("**GVA**") is a measure of the total value of products and services within a particular sector before taking into account taxes and subsidies.

(5) Converted to dollars, using the period average AMD/U.S.$ exchange rate. See "*Exchange Rates*."

Source: Armstat.

The following table sets forth the composition of Armenia's nominal GDP by economic activity for 2010, 2011 and 2012 and for the six-month periods ended 30 June 2012 and 2013 in accordance with NACE 2.0 methodology:

Nominal GDP by Economic Activity

	For the year ended 31 December			For the six months ended 30 June	
	2010	2011	2012	2012	2013
			(AMD millions)		
Agriculture, hunting and forestry; fishing	588,205.0	767,881.0	764,032.0	174,188.0	163,949.7
Mining and quarrying	89,251.0	102,847.0	116,940.0	55,404.0	49,348.0
Manufacturing	335,251.0	399,271.0	396,837.0	182,480.0	199,192.7
Electricity, gas, steam and air conditioning supply	97,513.0	131,188.0	160,346.0	80,219.0	74,782.3
Water supply, sewage, waste management and remediation	15,854.0	14,500.0	13,328.0	5,964.0	6,336.8
Construction	599,495.0	491,082.0	489,019.0	170,567.0	138,221.3
Trade[(1)]	444,712.0	476,695.0	517,020.0	193,421.0	213,052.8
Transport and storage	116,533.0	117,422.0	128,734.0	58,050.0	54,506.9
Hotels and restaurants	24,550.0	27,040.0	37,647.0	15,446.0	20,410.1
Information and communications	133,149.0	135,303.0	140,546.0	65,474.0	75,462.0
Financial and insurance activities	126,257.0	151,910.0	181,097.0	87,783.0	96,463.0
Real estate activities	73,305.0	101,018.0	115,573.0	56,545.0	67,526.6
Professional, scientific and technical activities	47,050.0	44,121.0	45,436.0	20,103.0	23,115.
Administrative and support service activities	33,536.0	38,448.0	38,575.0	17,651.0	16,766.2
Public administration	127,912.0	141,844.0	150,671.0	70,365.0	74,435.1
Education	120,187.0	120,739.0	119,843.0	54,371.0	56,844.4
Human health and social work activities	111,198.0	138,695.0	151,309.0	59,017.0	66,526.1
Arts, entertainment and recreation	30,216.0	36,588.0	52,562.0	24,171.0	30,976.1
Other service activities	20,265.0	23,381.0	27,442.0	12,644.0	14,692.4
Private households[(2)]	1,011.0	1,836.0	1,858.0	854.0	859.9
FISIM adjustment[(3)]	(64,229.0)	(96,186.0)	(109,319.0)	(54,288.0)	(60,252.4)
Nominal GVA	**3,071,077.0**	**3,365,622.0**	**3,539,495.0**	**1,350,429.0**	**1,383,215.1**
Taxes less subsidies on products	389,126.0	412,324.0	458,136.0	193,141.0	239,982.6
Nominal GDP at market prices	**3,460,203.0**	**3,777,945.0**	**3,997,631.0**	**1,543,570.0**	**1,623,197.7**
Nominal GDP per capita *(AMD)*[(4)]	1,062,683.0	1,252,801.0	1,321,924.0	n/a	n/a
Nominal GDP per capita *(U.S.$)*[(4)(5)]	2,844.0	3,363.0	3,290.0	n/a	n/a
Nominal GDP (U.S.$ millions)[(5)]	9,260.3	10,138.1	9,950.3	3,907.8	3,938.1

Notes:

n/a = not available.

(1) Includes wholesale and retail trade and repairs of motor vehicles and personal and household goods.

(2) Includes activities of private households as employers and other miscellaneous production activities of private households.

(3) FISIM refers to the total property income receivable by financial intermediaries minus total interest payable, excluding the value of any property income receivable from the investment of their own funds, as such income does not arise from financial intermediation.

(4) Per capita figures based on the preliminary results of the 2011 census.

(5) Converted to dollars, using the period average AMD/U.S.$ exchange rate. See "*Exchange Rates*."

Source: Armstat.

The following table sets forth the share of various economic sectors in Armenia's nominal GDP for 2008 and 2009 in accordance with NACE 1.1 methodology:

Share in Nominal GDP by Economic Activity

	For the year ended 31 December	
	2008	**2009**
	(% of Nominal GDP)	
Agriculture, hunting and forestry	16.1	16.7
Fishing	0.2	0.2
Mining and quarrying	1.6	1.7
Manufacturing	8.8	8.7
Electricity, gas and water supply	2.9	3.1
Construction	25.3	18.6
Trade[1]	11.6	12.7
Hotels and restaurants	0.4	0.6
Transport and communications	6.8	7.2
Financial services	3.4	3.9
Real estate, renting and business activities	3.7	4.9
Public administration	2.7	3.8
Education	2.7	3.6
Health care and social services	2.7	3.5
Other community, social and personal service activities	1.2	1.8
Private households[2]	0.0	0.0
FISIM adjustment[3]	(1.5)	(1.6)
Nominal GVA	**88.6**	**89.4**
Taxes less subsidies on products	11.4	10.6
Nominal GDP at market prices	**100.0**	**100.0**

Notes:

(1) Includes wholesale and retail trade and repairs of motor vehicles and personal and household goods.

(2) Includes activities of private households as employers and other miscellaneous production activities of private households.

(3) FISIM refers to the total property income receivable by financial intermediaries minus total interest payable, excluding the value of any property income receivable from the investment of their own funds, as such income does not arise from financial intermediation.

Source: Armstat.

The following table sets forth the share of various economic sectors in Armenia's nominal GDP for 2010, 2011 and 2012 and for the six-month periods ended 30 June 2012 and 2013 in accordance with NACE 2.0 methodology:

Share in Nominal GDP by Economic Activity

	For the year ended 31 December			For the six months ended 30 June	
	2010	**2011**	**2012**	**2012**	**2013**
	(% of Nominal GDP)				
Agriculture, hunting and forestry; fishing	17.0	20.3	19.1	11.3	10.1
Mining and quarrying	2.6	2.7	2.9	3.6	3.0
Manufacturing	9.7	10.6	9.9	11.8	12.3
Electricity, gas, steam and air conditioning supply	2.8	3.5	4.0	5.2	4.6
Water supply, sewage, waste management and remediation	0.5	0.4	0.3	0.4	0.4
Construction	17.3	13.0	12.2	11.1	8.5
Trade[(1)]	12.9	12.6	12.9	12.5	13.1
Transport and storage	3.4	3.1	3.2	3.8	3.4
Hotels and restaurants	0.7	0.7	0.9	1.0	1.3
Information and communications	3.8	3.6	3.5	4.2	4.6
Financial and insurance activities	3.6	4.0	4.5	5.7	5.9
Real estate activities	2.1	2.7	2.9	3.7	4.2
Professional, scientific and technical activities	1.4	1.2	1.1	1.3	1.4
Administrative and support service activities	1.0	1.0	1.0	1.1	1.0
Public administration	3.7	3.8	3.8	4.6	4.6
Education	3.5	3.2	3.0	3.5	3.5
Human health and social work activities	3.2	3.7	3.8	3.8	4.1
Arts, entertainment and recreation	0.9	1.0	1.3	1.6	1.9
Other service activities	0.6	0.6	0.7	0.8	0.9
Private households[(2)]	0.0	0.0	0.0	0.1	0.1
FISIM adjustment[(3)]	(1.9)	(2.5)	(2.7)	(3.5)	(3.7)
Nominal GVA	**88.8**	**89.1**	**88.5**	**87.5**	**85.2**
Taxes less subsidies on products	11.2	10.9	11.5	12.5	14.8
Nominal GDP at market prices	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

Notes:

(1) Includes wholesale and retail trade and repairs of motor vehicles and personal and household goods.

(2) Includes activities of private households as employers and other miscellaneous production activities of private households.

(3) FISIM refers to the total property income receivable by financial intermediaries minus total interest payable, excluding the value of any property income receivable from the investment of their own funds, as such income does not arise from financial intermediation.

Source: Armstat.

The following table sets forth the year-on-year growth rates of Armenia's nominal GDP by economic activity for 2008, 2009 and 2010 in accordance with NACE 1.1 methodology:

Growth Rate of Nominal GDP by Economic Activity

	For the year ended 31 December		
	2008	**2009**	**2010**
		(%)	
Agriculture, hunting and forestry	0.3	(8.8)	10.6
Fishing	362.5	(3.5)	32.9
Mining and quarrying	(21.8)	(5.8)	70.8
Manufacturing	6.9	(13.4)	23.3
Electricity, gas and water supply	(2.0)	92.9	11.9
Construction	16.9	(35.3)	2.6
Trade[(1)]	20.5	(3.2)	11.7
Hotels and restaurants	20.6	133.1	22.9
Transport and communications	11.0	(6.7)	(1.0)
Financial services	52.9	0.9	2.2
Real estate, renting and business activities	12.8	14.1	11.2
Public administration	20.1	25.8	6.4
Education	8.8	17.0	6.0
Health care and social services	22.9	15.9	0.7
Other community, social and personal service activities	7.4	27.7	11.8
Private households[(2)]	222.2	17.3	15.2
FISIM adjustment[(3)]	23.9	23.9	(8.1)
Nominal GVA	**111.6**	**(11.2)**	**9.3**
Taxes on products	28.4	(17.9)	17.0
Nominal GDP at market prices	**13.3**	**(12.0)**	**10.1**

Notes:

(1) Includes wholesale and retail trade and repairs of motor vehicles and personal and household goods.

(2) Includes activities of private households as employers and other miscellaneous production activities of private households.

(3) FISIM refers to the total property income receivable by financial intermediaries minus total interest payable, excluding the value of any property income receivable from the investment of their own funds, as such income does not arise from financial intermediation.

Source: Armstat.

The following table sets forth the year-on-year growth rates of Armenia's nominal GDP by economic activity for 2011 and 2012 and for the six-month periods ended 30 June 2012 and 2013 in accordance with NACE 2.0 methodology:

Growth Rate of Nominal GDP by Economic Activity

	For the year ended 31 December		For the six months ended 30 June	
	2011[(1)]	2012	2012	2013
	(%)			
Agriculture, hunting and forestry; fishing	30.5	(0.5)	(2.7)	(5.9)
Mining and quarrying	15.2	13.7	(14.4)	(10.9)
Manufacturing	19.1	(0.6)	7.9	9.2
Electricity, gas, steam and air conditioning supply	34.5	22.2	14.2	(6.8)
Water supply, sewage, waste management and remediation	(8.5)	(8.1)	(5.5)	6.3
Construction	(18.1)	(0.4)	4.1	(19.0)
Trade[(2)]	7.2	8.5	6.3	10.1
Transport and storage	0.8	9.6	29.1	(6.1)
Hotels and restaurants	10.1	39.2	32.3	32.1
Information and communications	1.6	3.9	8.4	15.3
Financial and insurance activities	20.3	19.2	22.2	9.9
Real estate activities	37.8	14.4	21.9	19.4
Professional, scientific and technical activities	(6.2)	3.0	9.3	15.0
Administrative and support service activities	14.6	0.3	7.9	(5.0)
Public administration	10.9	6.2	12.6	5.8
Education	0.5	(0.7)	4.0	4.5
Human health and social work activities	24.7	9.1	9.6	12.7
Arts, entertainment and recreation	21.1	43.7	52.5	28.2
Other service activities	15.4	17.4	30.6	16.2
Private households(3)	81.6	1.2	(3.5)	0.7
FISIM adjustment(4)	49.8	13.9	18.0	11.0
Nominal GVA	**9.2**	**5.2**	**9.1**	**2.4**
Taxes on products	6.0	11.1	1.6	24.3
Nominal GDP at market prices	**9.2**	**5.8**	**8.1**	**5.2**

Notes:

(1) To calculate the growth rate in 2011 compared to 2010, figures for 2010 were classified in accordance with NACE 2.0 methodology.

(2) Includes wholesale and retail trade and repairs of motor vehicles and personal and household goods.

(3) Includes activities of private households as employers and other miscellaneous production activities of private households.

(4) FISIM refers to the total property income receivable by financial intermediaries minus total interest payable, excluding the value of any property income receivable from the investment of their own funds, as such income does not arise from financial intermediation.

Source: Armstat.

Real GDP

The following table sets forth the composition of Armenia's real GDP by economic activity for the periods indicated (based on 2005 prices):

Real GDP by Economic Activity

	For the year ended 31 December					For the three months ended 31 March	
	2008	**2009**	**2010**	**2011**	**2012[1]**	**2012**	**2013[1]**
	(AMD millions, unless otherwise indicated)						
Industry	499,683.7	467,582.8	515,132.5	586,934.1	625,280.4	127,917.5	132,329.6
Agriculture	490,998.9	520,206.7	436,642.2	496,062.5	542,395.0	40,537.1	41,497.8
Construction	797,560.6	466,104.6	481,486.0	421,300.3	436,142.9	43,551.5	37,100.5
Services, *of which*	947,669.1	924,424.6	966,775.6	1,009,780.7	1,074,222.0	230,094.9	253,545.5
Trade and food services	351,039.5	338,147.1	350,830.9	364,844.0	388,320.3	70,883.8	74,483.1
Transport and communications	207,422.0	186,908.7	199,992.3	208,792.0	219,722.3	51,223.9	59,889.6
Real GVA	**2,735,912.3**	**2,378,381.7**	**2,400,036.3**	**2,514,077.6**	**2,678,040.3**	**442,101.0**	**464,473.4**
Taxes less subsidies on products	352,708.5	273,262.6	309,879.8	323,204.6	355,089.1	66,398.8	71,969.2
Real GDP	**3,088,620.8**	**2,651,581.3**	**2,709,916.1**	**2,837,282.2**	**3,033,129.4**	**508,499.8**	**536,442.6**
Real GDP per capita[2]	955,054.9	817,452.8	832.252.7	940,861.1	1,005,765.6	n/a	n/a
Real GDP per capita (U.S.$)[2][3]	3,121.4	2,250.2	2,227.3	2,525.8	2,503.4	n/a	n/a
Real GDP *(U.S.$ million[2])*	10,094.5	7,299.0	7,252.4	7,616.9	7,570.6	1,309.1	1,310.1

Notes:

n/a = not available. Per capita figures are only calculated on an annual basis.

(1) Numbers for 2012 and the first quarters of 2013 are preliminary estimates of the Ministry of Finance.

(2) Per capita figures based on the preliminary results of the 2011 census.

(3) Converted to dollars, using the period average AMD/U.S.$ exchange rate. See "*Exchange Rates*."

Sources: Armstat; Ministry of Finance.

The following table sets forth the contribution of various economic sectors to real GDP for the periods indicated (based on 2005 prices):

Share in Real GDP by Economic Activity

	For the year ended 31 December					For the three months ended 31 March	
	2008	**2009**	**2010**	**2011**	**2012[1]**	**2012**	**2013[1]**
	(%)						
Industry	16.2	17.6	19.0	20.7	20.6	25.2	24.7
Agriculture	15.9	19.6	16.1	17.5	17.9	8.0	7.7
Construction	25.8	17.6	17.8	14.8	14.4	8.6	6.9
Services, *of which*	30.7	34.9	35.7	35.6	35.4	45.2	47.3
Trade and food services	11.4	12.8	12.9	12.9	12.8	13.9	13.9
Transport and communications	6.7	7.0	7.4	7.4	7.2	10.1	11.2
Real GVA	**88.6**	**89.7**	**88.6**	**88.6**	**88.3**	**86.9**	**86.6**
Taxes less subsidies on products	11.4	10.3	11.4	11.4	11.7	13.1	13.4
Real GDP	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

Note:

(1) Numbers for 2012 and the first quarter of 2013 are preliminary estimates of the Ministry of Finance.

Sources: Armstat; Ministry of Finance.

The following table sets forth the year-on-year growth rates of Armenia's real GDP by economic activity for the periods indicated (based on 2005 prices):

Growth Rate in Real GDP by Economic Activity

	For the year ended 31 December					For the three months ended 31 March	
	2008	**2009**	**2010**	**2011**	**2012[(1)]**	**2012**	**2013[(1)]**
				(%)			
Industry	2.1	(6.9)	9.2	13.6	7.0	16.7	3.4
Agriculture......................	3.3	6.0	(16.0)	14.0	9.5	1.9	2.4
Construction	11.3	(41.6)	3.3	(12.2)	3.3	2.2	(14.8)
Services, of *which*	4.8	(3.3)	4.1	4.7	6.5	4.3	10.2
Trade and food services	8.1	(3.7)	3.8	4.0	6.4	0.8	5.1
Transport and communications........	8.4	(9.9)	7.0	4.4	5.2	17.0	16.9
Real GVA	**5.8**	**(13.1)**	**0.9**	**5.9**	**6.5**	**6.6**	**7.3**
Taxes less subsidies on products	17.1	(22.5)	13.4	3.8	9.9	(1.0)	(8.4)
Real GDP	**6.9**	**(14.1)**	**2.2**	**4.7**	**7.2**	**5.4**	**7.5**

Note:

(1) Numbers for 2012 and the first quarter of 2013 are preliminary estimates of the Ministry of Finance.

Sources: Armstat; Ministry of Finance.

Agriculture, Hunting and Forestry; Fishing

In 2012, agriculture accounted for 19.1% of Armenia's nominal GDP, compared to 20.3% in 2011 and 17.0% in 2010. In the six months ended 30 June 2013, agriculture, hunting, forestry and fishing accounted for 10.1% of Armenia's nominal GDP, compared to 11.3% in the six months ended 30 June 2012.

Over 65% of Armenia's land area is classified as agricultural land, which is mainly comprised of pastures, arable land and plough land. Pastures, arable land and plough land account for approximately 50% , 20% and 6%, respectively, of Armenia's agricultural land. Approximately 55% of Armenia's total sown area is used for grains and grain legumes. The remaining sown area is mainly allocated to forage crops, potatoes and vegetables.

The following table sets forth the structure of Armenia's agricultural output by sector and type of farm for the periods indicated:

Share in Agricultural Output by Sector and Farm[1]

	For the year ended 31 December				
	2008	**2009**	**2010**	**2011**	**2012**
			(%)		
Household plots	**97.2**	**96.8**	**97.0**	**96.9**	**96.8**
Planting	64.6	62.6	61.6	58.4	n/a
Animal husbandry	32.7	34.2	35.4	38.5	n/a
Commercial organisations	**2.8**	**3.2**	**3.0**	**3.1**	**3.2**
Planting	0.0	0.2	0.1	0.0	n/a
Animal husbandry	2.7	3.0	2.9	3.0	n/a
Total	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

Note:
n/a = not available.
(1) Share of output in current prices.
Source: Armstat.

The following table sets forth Armenia's annual production of certain agricultural products for the periods indicated:

Annual Production of Certain Agricultural Products

	For the year ended 31 December				
	2008	**2009**	**2010**	**2011**	**2012**
	(in thousands of tonnes, unless otherwise indicated)				
Vegetables	825.3	819.8	707.6	787.1	849.0
Eggs[1]	576.1	630.1	702.2	633.6	658.1
Milk	661.9	615.7	600.9	601.5	618.2
Potatoes	648.6	593.6	482.0	557.3	647.2
Grains and grain legumes	415.4	374.9	326.4	440.7	456.1
Fruits and berries	317.8	332.2	128.5	239.4	331.7
Grapes	185.8	208.6	222.9	229.6	241.4
Melons	182.2	216.1	132.5	180.9	205.1
Meat[2]	70.9	70.7	69.5	71.7	130.3
Wool[3]	1,332.0	1,307.0	1,188.0	1,230.0	n/a

Notes:
n/a = not available.
(1) Number of eggs.
(2) Slaughter weight.
(3) Physical weight.
Source: Armstat.

The Government's key objectives in the agricultural sphere are improving the country's food security, increasing the harvest of agricultural crops and enhancing the productivity of livestock.

The Government is carrying out a wide range of programmes designed to support the agricultural sector, including the following:

- monitoring seed quality in order to ensure stable plant development and further diversify Armenia's crop portfolio;
- preserving soil fertility through the ecologically safe use of fertilisers;
- providing rural advisory services to enable farmers to increase production volumes and enhance the quality of the country's agricultural output;
- increasing the share of wheat crops in domestic production as a means to reduce Armenia's reliance on wheat imports;
- preserving forest areas;
- undertaking measures to maintain the health of agricultural plants, in particular, through improvements in monitoring, diagnosing and quarantining infectious diseases and the selective use of pesticides; and
- taking steps to protect and enhance the quality of the country's livestock, including through the use of artificial insemination designed to improve milk yields and reduce the spread of infectious diseases and the widespread vaccination of livestock against infectious diseases.

Agriculture is an important component of Armenia's international trade. In 2012, prepared foodstuffs and animals/animal products accounted for 8.3% and 3.6%, respectively, of Armenia's imports and 18.5% and 2.4%, respectively, of Armenia's exports. Vegetables accounted for 2.5% of Armenia's exports in 2012. See "*External Sector—International Trade*."

Mining and Quarrying

In 2012, mining and quarrying accounted for 2.9% of Armenia's nominal GDP, compared to 2.7% in 2011 and 2.6% in 2010. In the six months ended 30 June 2013, mining and quarrying accounted for 3.0% of Armenia's nominal GDP, compared to 3.6% in the six months ended 30 June 2012. The mining and quarrying sector has exhibited strong growth in recent years, expanding by 16.7% in 2012.

In 2012, Armenia's mining and quarrying sector accounted for 17.2% of the value of the country's overall industrial production. Metal ores accounted for 96.6% of mining and quarrying output in 2012. Most of Armenia's mining and quarrying production takes place in Syunik, the country's southernmost region where many of the country's largest molybdenum, copper and zinc mines are located, including Zangezur Copper Molybdenum Complex, which holds significant reserves of molybdenum.

Manufacturing

In 2012, manufacturing accounted for 9.9% of Armenia's nominal GDP, compared to 10.6% in 2011 and 9.7% in 2010. In the six months ended 30 June 2013, manufacturing accounted for 12.3% of Armenia's nominal GDP, compared to 11.8% in the six months ended 30 June 2012. The manufacturing sector has expanded in recent years, growing by 3.1% in 2012.

In 2012, Armenia's manufacturing sector accounted for 58.0% of the value of the country's overall industrial production. The main areas of manufacturing in Armenia include food, beverage and tobacco production, basic metals production and non-metallic mineral production, such as rubber, plastics and other non-metallic goods. In 2012, food production accounted for 35.8% of the value of manufacturing output; basic metals for 23.6%; and beverage production for 14.4%. Armenia's principal food products include canned foods, meat, dairy and candy. Main beverage products are natural juices, mineral waters, brandy, wine, beer and vodka. Of basic metals, Armenia produces copper concentrate, aluminum foil, zinc concentrate and various types of molybdenum, as well as other metals. Non-metallic minerals manufactured in Armenia include concrete, cement and other building materials. Approximately half of the country's manufacturing output is generated in Yerevan.

Electricity, Gas, Steam and Air Conditioning Supply

In 2012, electricity, gas, steam and air conditioning supply accounted for 4.0% of Armenia's nominal GDP, compared to 3.5% in 2011 and 2.8% in 2010. In the six months ended 30 June 2013, electricity, gas and water supply accounted for 4.6% of Armenia's nominal GDP, compared to 5.2% in the six months ended 30 June 2012. This sector grew by 9.4% in 2012.

In 2012, Armenia's electricity, gas, steam and air conditioning supply sector accounted for 18.9% of the value of the country's overall industrial production. Nearly half of the country's electricity, gas, steam and air conditioning supply is generated in Yerevan. See "—*Energy*," below, for a discussion of Armenia's electricity, oil and gas sectors.

Construction

In 2012, construction accounted for 12.2% of Armenia's nominal GDP, compared to 13.0% in 2011 and 17.3% in 2010. In the six months ended 30 June 2013, construction accounted for 8.5% of Armenia's nominal GDP, compared to 11.1% in the six months ended 30 June 2012.

Prior to the global financial crisis, the construction industry experienced significant growth, as Soviet-era housing and office buildings were replaced with more modern structures. In 2009, however, the construction sector contracted by 35.3% (under NACE 1.1), largely as a result of the global financial crisis. The construction sector continued to decline in 2010 (under NACE 1.1) and in 2011 and 2012 (under NACE 2.0).

The largest public construction projects undertaken in recent years include the construction of a new terminal at Zvartnots Airport near Yerevan, the construction of Northern Avenue, which runs through the center of Yerevan and came into operation in 2007, and the overhaul of Republic Square in central Yerevan. There have also been talks concerning the creation of a business centre in Yerevan, the construction of a nuclear power plant near the Metsamor Plant (see "—*Energy—Electricity*") and the expansion of the Yerevan Metro system (see "—*Transport and Storage—Metro*"). The reconstruction of buildings and homes damaged during the 1988 earthquake continues. Many of Armenia's large-scale construction projects have been financed, in part, by wealthy members of the Armenian diaspora.

The authorities in Armenia have taken steps in recent years to streamline the process for obtaining construction permits. For example, the Yerevan government has abolished the requirement to make charitable contributions as a pre-condition to receiving the right to design a building. The requirement to obtain an environmental impact assessment for small construction projects has also been eliminated. In cooperation with the UNDP, World Bank, USAID, OSCE and other international organisations, the Government launched a "regulatory guillotine" initiative at the end of 2011. The purpose of the initiative is to review and streamline the country's regulatory framework impacting business activity and to ultimately substantially reduce the number of regulations, many of which have made it more difficult to plan and implement projects in the construction sector.

Trade

In 2012, trade accounted for 12.9% of Armenia's nominal GDP, compared to 12.6% in 2011 and 12.9% in 2010. In the six months ended 30 June 2013, trade accounted for 13.1% of Armenia's nominal GDP, compared to 12.5% in the six months ended 30 June 2012.

The trade sector comprises retail trade turnover, wholesale trade turnover and motor vehicle trade. In 2012, retail turnover accounted for 62.3% of overall trade turnover, followed by wholesale trade turnover (33.2%) and motor vehicle trade (4.0%). Between 2008 and 2012, retail trade turnover increased in nominal terms by 30.1%. Food products account for the majority of retail trade turnover by volume. Between 2008 and 2012, in nominal terms, wholesale trade turnover increased by 41.4%, and motor vehicle trade decreased by 14.1%. Both wholesale trade turnover and motor vehicle trade declined substantially in 2009 as a result of the global financial crisis.

Transport and Storage

In 2012, transport and storage accounted for 3.2% of Armenia's nominal GDP, compared to 3.1% in 2011 and 3.4% in 2010. In the six months ended 30 June 2013, transport and storage accounted for 3.4% of Armenia's nominal GDP, compared to 3.8% in the six months ended 30 June 2012. The transport and storage sector grew by 8.5% in 2012.

Investment in Armenia's transport infrastructure, particularly the country's road network, has been and continues to be a key priority of the Government. Loans and grants from international organisations have been a significant source of funding for infrastructure projects; funds from the State Budget are also allocated to such projects. See "*Public Debt and Related Matters—Multilateral and Bilateral Development Organisations*." A substantial share of investments in the aviation and rail sectors are made pursuant to long-term concession agreements.

Road Transport

As of 31 December 2011, the Armenian road network was comprised of 10,430.9 km of roads, including 7,749 km general purpose roads. Of the general purpose roads, Armenia has approximately 1,730 km of interstate roads, 4,057 km of national roads (between major cities and regional centres) and 1,962 km of local roads (between villages and regional centres). In 2012, 10.1 million tonnes of cargo and 248 million passengers were carried by road transport. Freight and passenger turnover on Armenia's road network equaled 399.3 million tonnes-km and 2,611.1 million passengers-km, respectively, in 2012. Motor vehicles remain the most popular form of transport in Armenia, accounting for 48.0% of total cargo volumes and 90.8 of total passenger volumes, by type of transport in 2012.

Because Armenia is a landlocked country, the development and maintenance of its road network is critical to the country's sustainable development. In recent years, the Government has significantly increased funding for construction, rehabilitation and maintenance of Armenia's road network. The Government has prioritised the reconstruction of over 7,500 km of roads. As part of its anti-crisis policy, in 2009, the Government launched the Lifeline Roads Improvement Project (the "**LRIP**"), which is designed to rehabilitate the country's rural road network and, in particular, to ensure that each rural community has access to at least one "lifeline road" connected to an interstate highway. The lifeline road network runs over 3,000 km, and, by some estimates, 60% of this network remains in poor condition. Through 2012, a total of 433 km of lifeline roads have been rehabilitated under the LRIP, which has led to substantial reductions in travel time and helped increase levels of employment in the regions. The LRIP has also improved overall road safety, as sidewalks and facilities for disabled pedestrians were introduced on lifeline roads passing through residential areas. The World Bank provided U.S.$101.6 million in financing to support the LRIP. In 2013, the World Bank approved a follow-up project to the LRIP, the Lifeline Road Network Improvement Project (the "**LRNIP**"), which provides an additional U.S.$45 million in financing to continue road rehabilitation efforts. Under the LRNIP, approximately 170 km of roads are scheduled for reconstruction by 2017. The LRNIP also contemplates a pilot "Safe Village" project that is designed to augment traffic control measures along the lifeline road network.

The ADB has also provided loans for road construction and rehabilitation in Armenia, including the reconstruction of over 220 km of roads in 2009 and 2010 within the framework of the Rural Road Sector Programme and the renovation of sections of the main North-South Highway.

Civil Aviation

Currently, Armenia maintains two airports with regularly-scheduled commercial service: Zvartnots Airport near Yerevan and the Shirak International Airport ("**Shirak Airport**") outside Gyumri. In 2012, traffic at Zvartnots Airport approximated 1.7 million passengers, while traffic at Shirak Airport was an estimated 71,560 passengers. Freight turnover at Zvartnots Airport was 12,251 tonnes, compared to 10,014 tonnes in 2011. Shirak Airport currently operates scheduled flights to Moscow, Rostov-on-Don and Sochi.

Zvartnots Airport was built in 1961 and underwent renovations in the 1980s. In 2001, the Government entered into a 30-year concession agreement with Armenian International Airports CJSC ("**Armenian**

International Airports") for the management of operations at the airport. Armenian International Airports is owned by the Argentine company, Corporation America. Since 2007, Armenian International Airports has also been managing operations at Shirak Airport.

In 2004, construction of a new international terminal began at Zvartnots Airport. The new arrivals terminal opened in 2006, followed by a new departures terminal in 2007. Between 2008 and 2011, an additional passenger terminal was built, doubling the number of passenger check-in counters and security control points. As a result of these renovation projects, Zvartnots Airport has the capacity to serve up to 3.5 million passengers annually. Zvartnots Airport is currently serviced by over 30 airlines with regular flights to Europe, Russia and the Middle East. In January 2013, Zvartnots Airport was named the best airport in the CIS during the Emerging Markets Airports Award ceremony in Dubai.

Armenia is currently without a national airline, following the suspension of operations of Armavia, Armenia's then flag carrier, in March 2013. Armavia was established in 1996 and began commercial flights to Russia and Turkey in 2001. In 2002, Armavia established a strategic alliance with the Russian airline S7 Airlines, purchasing a 50% stake in Armavia; by 2003, S7 Airlines had increased its stake to approximately 68%. In 2003, Armavia expanded its operations by taking over some of the routes flown by the now-defunct Armenian Airlines, including the Yerevan-Moscow route. In March 2013, Armavia declared bankruptcy, citing difficult financial conditions, and immediately ceased operations. At the time of suspension, Armavia was wholly-owned by a prominent Armenian businessman, who had purchased S7's stake in the airline in 2005.

Armenia is a member of several supra-national aviation organisations, including the International Civil Aviation Organisation, the Joint Aviation Authorities, the European Civil Aviation Conference, the Interstate Aviation Committee and, since 2006, EUROCONTROL. As a member of EUROCONTROL, Armenia plans to continue harmonising its air traffic control and navigation practices with those of the EU. Armenia is also a party to over 40 bilateral agreements on air transport and air services.

Railways

The Armenian railway system runs on 853.9 km of track (as of 31 December 2011), and is used mainly for cargo transport. In 2012, 3.3 million tonnes of freight (or 33.6% of all freight transported in Armenia) were shipped by rail, and freight turnover amounted to 815.9 million tonnes-km. The main types of cargo shipped by rail include non-ferrous metal ore (1,230.5 thousand tonnes in 2012), mineral building materials (349.2 thousand tonnes in 2012) and cement (126.4 thousand tonnes in 2012). In 2012, approximately 551,000 passengers traveled by rail, 0.2% of total passenger volumes by type of transport.

Since 2008, Armenia's railway system has been operated by Southern Caucasus Railways, a subsidiary of the Russian state-owned enterprise Russian Railways, pursuant to a 30-year concession agreement. Pursuant to the concession agreement, Russian Railways is expected to invest approximately U.S.$570 million in the development of Armenia's rail infrastructure, including approximately U.S.$170 million to renovate rolling stock. As part of the concession, in April 2012, Russian Railways completed the reconstruction of the Zamanlinsky Bridge, which crosses the River Debed in Lori Marz. The Zamanlinsky Bridge was first built in 1898 along the Tbilisi-Kars Railway Line and was at that time considered to be highest railway bridge in Tsarist Russia.

Southern Caucasus Railways currently operates seven passenger routes, including one international route between Yerevan and Tbilisi. Currently, all rail links with Azerbaijan, Turkey and Iran (through Nakhichevan) are closed.

Metro

Armenia operates one metro system, the Yerevan Metro. The Yerevan Metro opened in 1981 and runs on a single, 13.4 km line, servicing 10 stations. In 2012, there were approximately 14.9 million trips on the Yerevan Metro. The European Investment Bank, together with the EBRD, have been financing a programme to renovate the Yerevan Metro, which includes the rehabilitation of rail carriages and improvements to its drainage system. The expansion of the Yerevan Metro, including the possible opening of a second or third line, is under discussion.

Information and Communications

In 2012, information and communications accounted for 3.5% of Armenia's nominal GDP, compared to 3.6% in 2011 and 3.8% in 2010. In the six months ended 30 June 2013, information and communications accounted for 4.6% of Armenia's nominal GDP, compared to 4.2% in the six months ended 30 June 2012.

As of 31 December 2012, there were 583,685 fixed telephone line subscribers, a decrease of 6.7% from 31 December 2008.

In recent years, the use of mobile telephony has increased substantially in Armenia. As of 31 December 2012, there were approximately 3.3 million mobile phone subscribers, compared to approximately 2.4 million subscribers as of 31 December 2008. The major mobile network operators in Armenia are VivaCell-MTS, Orange Cell and Beeline; VivaCell-MTS currently has the largest number of subscribers. 3G was introduced in 2008 and is now available in most major towns and cities of Armenia.

Armentel, which is 90%-owned by the Russian mobile network operator Vimpelcom and 10%-owned by the Government, controls all of the country's fixed-line networks and a significant share of the country's cellular network. From 1998 to 2004, while under the control of the Greek company Greece Hellenic Telecommunications Organisation (OTE), Armentel maintained a monopoly over all mobile telecommunications services in Armenia. In 2004, this monopoly was abolished when the Lebanese-based K-Telecom introduced VivaCell into the Armenian market. In 2007, the Russian telecommunications company MTS purchased a 100% stake in K-Telecom, and, as a result, currently controls over 50% of Armenia's cellular networks. Orange, the operator of Orange Cell, is a wholly-owned subsidiary of France Télécom.

As of 31 December 2012, there were approximately 209.8 thousand internet subscribers in Armenia, compared with approximately 80.4 thousand subscribers as of 31 December 2008. Internet services in Armenia are provided through a range of fixed wire networks, such as dial-up and DSL, wireless fixed networks, such as Wimax and mobile communications networks, such as GSM, GPRS, EDGE, UMTS and HSDPA.

Armenia is connected to the Trans-Asia-Europe fiber-optic cable system, which runs from the Black Sea port of Poti, Georgia to Tbilisi and then south to Armenia. At Poti, the Trans-Asia-Europe cable connects to KAFOS, a sub-marine telecommunications system in the Black Sea, which, in turn, connects to the Black Sea Fiber Optic Cable System.

Financial and Insurance Activities

In 2012, financial and insurance activities accounted for 4.5% of Armenia's nominal GDP, compared to 4.0% in 2011 and 3.6% in 2010. In the six months ended 30 June 2013, financial and insurance activities accounted for 5.9% of Armenia's nominal GDP, compared to 5.7% in the six months ended 30 June 2012.

In recent years, the financial services sector has grown, even in 2009 during the global financial crisis. In 2012, the financial and insurance sector grew by 19.2%. According to the CBA, total assets of Armenia's banking sector increased in nominal terms by 158.2% from AMD1,024.2 billion as of 31 December 2008 to AMD2,644.5 billion as of 30 June 2013. Net profits of the banking sector increased in nominal terms by 58.1% from AMD26,868.0 million in 2008 to AMD42,471.0 million in 2012. See "*Monetary and Financial System—Banking Sector*."

The growth in Armenia's financial services sector has mainly been driven by an increase in customer loans. For example, the gross loan portfolio increased from 16.9% of GDP in 2008 to 38.6% of GDP in 2012. The rise in loans has, in turn, been due to increased access to and demand for funding, greater competition among banks and higher volumes of foreign investment in the sector. See "*Monetary and Financial System—Banking Sector*."

Energy

Electricity

The following table sets forth Armenia's total electricity capacity for the periods indicated:

Electricity Capacity

	For the year ended 31 December			
	2008	**2009**	**2010**	**2011**
	(kW thousands)			
Total capacity	**3,192.7**	**3,204.7**	**3,504.5**	**3,508.7**
Thermal power plants	1,702.5	1,692.1	1,931.1	1,906.0
Hydropower plants	1,080,0	1,102.4	1,162.0	1,191.2
Nuclear power plants	407.5	407.5	407.5	407.5
Wind farms	2.7	2.7	3.9	4.0

Source: Armstat.

The following table sets forth Armenia's electricity generation and consumption for the periods indicated:

Electricity Generation and Consumption

	For the year ended 31 December					For the six months ended 30 June	
	2008	**2009**	**2010**	**2011**	**2012**	**2012**	**2013**
	(kWh millions, except where indicated)[1]						
Total generation	**6,114.4**	**5,671.5**	**6,491.4**	**7,432.7**	**8,036.2**	**4,058.5**	**3,860.7**
Nuclear power plants	2,461.6	2,493.7	2,490.0	2,548.1	2,311.0	1,411.6	1,394.7
Thermal power plants	1,853.9	1,154.1	1,438.3	2,390.3	3,401.1	1,485.0	1,302.4
Hydropower plants	1,797.0	2,019.4	2,556.1	2,488.7	2,322.0	1,160.9	1,162.3
Wind farms	1.9	4.3	7.0	5.6	2.1	1.0	1.3
Net import (export)	**(16.2)**	**(44.9)**	**(815.0)**	**(1,081.7)**	**(1,590.8)**	**(812.6)**	**(637.7)**
Import	343.4	291.1	246.2	301.2	98.1	69.0	87.5
Export	359.6	336.0	1,061.2	1,382.9	1,688.9	881.6	725.2
Total consumption	**6,098.2**	**5,626.6**	**5,676.4**	**6,351.0**	**5,923.5**	**2,967.0**	**2,978.1**
Distribution companies and direct customers	5,238.1	4,783.4	4,949.4	5,446.9	6,041.6	3,042.7	3,024.6
Transmission losses	860.1	843.2	730.0	904.1	145.8	73.8	71.6
Losses to total consumption (%)	14.1	15.0	12.9	14.2	2.0	2.0	2.1

Note:

(1) Kilowatt hours.

Sources: Armstat, Ministry of Energy and Natural Resources.

The Metsamor Plant, which is owned and operated by Inter RAO UES, a state-controlled Russian energy company, is Armenia's sole nuclear power plant. Metsamor has historically generated over one-third of Armenia's annual electricity supply. In 2012, however, the Metsamor Plant's share in the country's electricity generation declined to 28.8% due to an increase in the volume of electricity produced by Armenia's thermal power plants.

The Metsamor Plant, which is located 36 km outside Yerevan, operates a single reactor that first came into use in 1980; a second reactor of equal capacity is not in operation. After closing as a precautionary measure following the 1988 earthquake, the Metsamor Plant was re-activated in 1995 to help address electricity shortages. Although the EU has publicly requested its closure, in April 2012 Armenia announced that the Metsamor Plant would remain in operation for the next decade. A plan whereby Rosatom would construct a new nuclear plant at the same site is under active consideration, at a cost of at least U.S.$4.5 billion. See "*Risk Factors—Risk Factors Relating to Armenia—Relations with Russia*." Russia provides all of the feedstock used at the Metsamor Plant, which is transported by air to Yerevan.

There are three thermal power plants in Armenia. The Hrazdan Thermal Power Plant, with a capacity of 1,100 MW, and the Yerevan Thermal Power Plant, with a capacity of 550 MW, are Armenia's two largest thermal power plants in operation. Armenia also operates the much smaller Yerevan Thermoelectric Plant, which is equipped with a single, 50 MW turbine. The Yerevan Thermoelectric Plant mainly provides electricity, heat and steam to the Nairit Chemical Plant. Armenia's thermal power plants are fired by natural gas imported from Russia and Iran.

The Hrazdan Thermal Power Plant operates four Soviet-era units and a fifth unit that came on line in 2012. In 2004, Armenia transferred ownership of the Hrazdan Thermal Power Plant to ArmRusGazprom (the joint venture that is 80% owned by Gazprom and 20% owned by the Armenian Ministry of Energy) as a means to satisfy certain Armenian state debt to Russia. Gazprom completed the construction between 2006 and 2008 of the fifth unit at the Hrazdan Thermal Power Plant (initially begun in the 1980s) in return for an increased equity stake in ArmRusGazprom.

The Yerevan Thermal Power Plant currently operates one Soviet-era turbine and one 240 MW combined cycle gas turbine that came on line in 2010. Construction of the new turbine was financed by a long-term, U.S.$247 million loan from the Japanese Bank of International Cooperation. The loan was extended on concessional terms. The Yerevan Thermal Power Plant is wholly-owned by the Government.

Thermal power has become an increasingly important part of Armenia's electricity policy since the Yerevan Thermal Power Plant came on line in 2010. Whereas, in 2010, thermal power accounted for approximately 22.2% of Armenia's electricity supply, in 2011 and 2012, the share of thermal power increased to 32.2% and 42.1%, respectively.

Armenia also operates a series of hydropower plants, which, in 2011 and 2012, collectively generated 33.5% and 28.9%, respectively, of Armenia's electricity supply. Armenia's largest hydropower plant is the Sevan-Hrazdan Cascade, with an installed capacity of 556 MW. The Sevan-Hrazdan Cascade was built between 1936 and 1961 and consists of seven hydropower stations, canals and reservoirs between Lake Sevan and Yerevan. The Sevan-Hrazdan Cascade is majority-owned by the Russian company RusHydro. Armenia's second largest hydropower plant is the Vorotan Cascade, located in the Syunik region of Armenia. The Vorotan Cascade was built between 1970 and 1989 and maintains three stations with an installed capacity of 404 MW. The Vorotan Cascade is owned by the Government. There are also over 140 commercial size small hydropower plants operating in Armenia (with a total installed capacity of approximately 237MW), as well as numerous micro size units that are operated by individuals for personal use.

There is one wind farm in operation in Armenia, the Lori 1 Wind Farm, which is located in the Lori region in the north of the country. It consist of four 660-kW wind turbines and has an installed capacity of 2.6 MW. Lori 1 was built with the support of the Iranian-based construction and energy conglomerate Sunir.

Following a 7.2% decline in 2009, Armenia has demonstrated annual growth in total electricity generation, with output increasing by 14.5% in each of 2010 and 2011 and by 8.2% in 2012. In 2010, the volume of electricity exports increased to 12.5% of total electricity generation. Armenia exports electricity to Georgia and Iran. In 2007, Armenia and Iran entered into a 25-year barter arrangement, under which the Government-owned Yerevan Thermal Power Plant delivers electricity to the state-owned National Iranian Gas Company in exchange for natural gas. Armenia generally uses the gas for its own domestic needs – especially heating – in the winter months and provides more electricity generated by the use of the supplied gas to Iran during the summer months. See "*Risk Factors—Risk Factors Relating to Armenia—Relations with the Islamic Republic of Iran*."

Armenia's electricity transmission grid consists of over 160 km of 330 kV lines, over 1,300 km of 220 kV lines and over 3,100 km of 110 kV lines. One 220 kV line connects Armenia with Georgia, and one 220 kV line connects Armenia with Iran. Armenia also maintains several other transmission lines that are currently not in use because the borders with Turkey and Azerbaijan are closed. Inter RAO UES owns and operates Armenia's electricity distribution network.

Electricity tariffs are regulated by the Armenian Public Services Regulatory Commission. The tariff for electricity exports is currently not regulated. As a result of the increase in natural gas pricing, daytime electricity tariffs increased by 27% in July 2013. See "*—Oil and Natural Gas*" and "*Risk Factors—Risk Factors Relating to Armenia—Relations with Russia*."

Petroleum Products and Natural Gas

Armenia has no proven reserves of oil or natural gas, nor does it have a refinery to refine crude oil. The following table sets forth Armenia's imports of petroleum products and gas imports by source for the periods indicated:

Petroleum Products and Gas Imports

	For the year ended 31 December					For the six months ended 30 June	
	2008	**2009**	**2010**	**2011**	**2012**	**2012**	**2013**
	(thousands of tonnes)						
Petroleum Products							
Russia	42.4	72.4	67.6	91.2	86.7	35.1	45.1
Romania	96.9	102.3	96.2	84.5	69.7	32.1	42.6
Bulgaria	94.9	94.4	83.6	76.0	65.1	29.5	25.5
Israel	9.2	9.0	8.7	15.9	44.4	18.4	17.7
Iraq	0.0	0.0	0.1	17.7	38.5	17.1	11.3
Greece	12.1	20.1	32.6	23.3	4.1	4.1	0.0
Other countries	144.8	46.6	90.3	49.2	37.9	18.9	8.4
Total	**400.2**	**344.7**	**379.0**	**357.7**	**346.6**	**155.1**	**150.6**
	(millions of cubic metres)						
Gas							
Russia	2,276.6	1,707.4	1,430.3	1,593.1	1,911.1	1,095.9	1,084.5
Iran	7.0	41.9	434.2	441.8	495.2	258.0	227.5
Other countries	1.6	0.9	0.3	2.3	2.7	1.7	1.9
Total	**2,285.2**	**1,750.2**	**1,864.7**	**2,037.3**	**2,409.0**	**1,355.7**	**1,314.0**

Source: Armstat.

Russia is Armenia's principal supplier of natural gas. In 2012, Russia accounted for 79.3% of Armenia's gas supply, down from nearly 100% in 2008 and 2009. Beginning in 2010, Iran has become an increasingly important source of gas for Armenia. In 2010, 2011 and 2012, Iran accounted for 30.4%, 27.7% and 20.5%, respectively, of Armenia's gas supplies. Russia supplies gas to Armenia by means of a single pipeline that transits through Georgia. There is one gas pipeline that runs between Armenia and Iran, the Iran-Armenia Natural Gas Pipeline, which came on line in 2009 and within Armenia is owned by ArmRusGazprom and the Armenian High Voltage Network Company and operated by ArmRusGazprom.

Gas imports from Russia are provided by Gazprom Export (a subsidiary of Gazprom, Russia's national gas company), which sells the gas to ArmRusGazProm, pursuant to a long-term contract expected to last until 1 April 2018. ArmRusGazProm, in turn, sells gas to end-consumers in Armenia at tariff rates established by the Armenian Public Services Regulatory Commission. Armenia is currently in talks with Gazprom to sell the 20% stake in ArmRusGazProm that is held by the Ministry of Energy.

Historically, Gazprom has exported gas to Armenia at prices substantially below Western European pricing. However, Gazprom has been pursuing a policy of moving to market pricing in its exports to various CIS markets, including its sales to ArmRusGazProm. In 2013, the price Armenia pays for gas supplied by

Gazprom increased substantially, and, as a result, effective 7 July 2013, the Armenian Public Services Regulatory Commission increased the tariff price for natural gas from AMD132,000/1,000 cubic metres to AMD156,000/1000 metres. See "*Risk Factors—Risk Factors Relating to Armenia—Relations with Russia*."

Iran supplies gas to Armenia pursuant to a 25-year barter arrangement in exchange for electricity supplies. See "*—Electricity*."

As Armenia has no oil refining capacity, it does not import crude oil. Russia is Armenia's largest supplier of petroleum products, accounting for 25% of Armenia's petroleum products' imports in 2012. Armenia also receives substantial supplies of petroleum products from Romania, Bulgaria and Israel, as well as a growing share from Iraq starting in 2011. In 2012, Iraq exported 28.5 thousand tonnes of petroleum products to Armenia, more than doubling its supply in 2011 of 17.7 thousand tonnes. Most of Armenia's petroleum products are transported by tanker across the Black Sea to the Georgian port of Poti and from there to Armenia by rail.

Privatisation

Armenia completed a substantial part of its privatisation programme in the 1990s. To date, over 2,000 enterprises have been privatised, including nearly all of the enterprises operating in the trade, services, banking and industry sectors. Privatisation can be carried out by means of a public offer, such as an auction or tender, or by direct sale, with public offers accounting for most privatisations (by number of sales).

Some of the key privatisations in recent years include the following:

- the Zangezur Copper and Molybdenum Combine in 2004 for U.S.$132 million (see "*—Principal Sectors of the Economy—Mining and Quarrying*);"
- the telecommunications company Armentel in 1997 for U.S.$73.1 million (see "*—Principal Sectors of the Economy—Information and Communications*);"
- the Yerevan Brandy Factor in 1997 for U.S.$30.0 million; and
- the Hotel Armenia in 1997 for U.S.$8.0 million.

Between 2008 and 2012, Armenia generated approximately U.S.$6.2 million in privatisation receipts. As of 1 January 2013, there were 41 enterprises on the Government's privatisation list. The principal remaining state-owned assets that the Government intends to privatise include enterprises in the industrial and scientific sectors.

The primary strategic goals of Armenia's privatisation programme include the following:

- generate revenues for the State Budget;
- promote market competition and exports;
- invest in state-owned assets, including real estate, in preparation for future sale; and
- create jobs and reduce poverty.

Environment

Armenia's natural resources include its land, forests, water, subsoil resources and air. Armenia occupies approximately 2,974.3 thousand hectares of land, of which approximately 2,076.9 thousand hectares are agricultural land and 343.1 thousand hectares are forested land. Armenia currently operates four national parks and three nature reserves. In total, specially protected areas cover 12% of Armenia's total territory.

Primary responsibility over environmental protection in Armenia rests with the Ministry of Nature Protection. The Ministry of Nature Protection collaborates with other Governmental ministries handling environmental issues and maintains close relationships with environmental protection agencies worldwide. The Government receives assistance within the framework of multilateral and bilateral cooperation and from private donors for the implementation of projects designed to remediate, protect and make sustainable use of Armenia's natural resources.

In addition to its core departments, the Ministry of Nature Protection also oversees four separate agencies that have specific mandates with respect to environmental protection: (i) the Bio-Resource Management Agency, which provides services in the fields servicing biodiversity conservation and resource management; (ii) the National Environmental Inspectorate, which is a supervisory body that monitors overall compliance of both the public and private sectors with Armenia's environmental legislation; (iii) Waste Matter and Air Pollution Management Agency, which enforces waste and emission quotas for legal entities and individuals and maintains the national registry of waste disposal sites; and (iv) the Water Resource Management Agency, which regulates water management and monitors the overall supply and demand of the country's water resources.

Armenia is a party to a number of international environmental conventions on the environment, including eight regional conventions and 11 multilateral conventions as of 30 June 2013. Armenia ratified the UN Framework Convention on Climate Change (the "**UNFCCC**") in 1993 and the Kyoto Protocol to the UNFCCC in 2003. Armenia is associated with the Copenhagen Accord, which the Conference of Parties to the UNFCCC took note of in 2009. Armenia joined the Kyoto Protocol as a "Non-Annex 1" party, which means that Armenia, while committed to reducing emissions, is not subject to binding emissions targets. Armenia endorses the continuation of the Kyoto Protocol.

Environmental protection in Armenia is mainly financed out of the State Budget. There are various ongoing environmental projects in Armenia that are being financed by private enterprises international organisations, donors and governments, including projects related to renewable energy, reforestation, biodiversity protection, water and waste management and energy conservation. Since 2008, the international community has disbursed approximately U.S.$42.9 million in funds for projects related to the environment. In 2012, an estimated U.S.$14.2 million of funds from the State Budget were spent on environmental protection measures.

The table below sets forth certain information concerning the protection of Armenia's environment:

Certain Environmental Indicators

	For the year ended 31 December			
	2008	**2009**	**2010**	**2011**
	(kW thousands)			
Discharges				
Waste water discharge (mln. cubic metres)	375.0	359.9	431.0	750.0
Hazardous atmospheric emissions (thousand tonnes), *of which*	206.5	235.1	263.9	269.3
Emissions from stationary sources	34.4	74.7	97.5	114.6
Emissions from vehicles	172.1	160.4	166.4	154.7
Payments				
For protection of the environment (AMD millions), *of which*	569.6	591.1	735.1	803.4
Harmful discharge into water bodies and sewage	303.7	279.3	283.8	366.1
Emissions from stationary sources	169.0	203.1	356.4	293.7
For use of natural resources (AMD millions)	3,309.4	2,788.4	4,073.5	4,792.7
Total	**3,879.0**	**3,379.5**	**4,808.6**	**5,596.1**

Source: Armstat.

Labour and Social Policy

Wages

The following table sets forth key figures on wages for the periods indicated:

Wages

	For the year ended 31 December					For the six months ended 30 June	
	2008	**2009**	**2010**	**2011**	**2012**	**2012**	**2013**[1]
	(period average)						
Average monthly nominal wage (AMD)	87,406.0	96,019.0	102,652.0	108,092.0	113,605.0	138,840.0	142,642.0
Average monthly nominal wage (U.S.$)[2]	286.0	264.0	275.0	290.0	282.8	351.5	346.0
Average monthly real wage(AMD)[2][3]	80,189.0	92,682.0	94,873.0	103,287.0	110,771.1	137,875.0	137,024.0
Average monthly nominal wage (AMD) by sector							
Public sector	72,809.0	83,103.0	85,735.0	90,805.0	97,502.0	111,560.0	114,040.0
Private sector	105,115.0	110,312.0	121,019.0	125,410.0	131,053.0	168,007.0	175,651.0
Agriculture, forestry and fishing	68,459.0	69,532.0	70,569.0	70,099.0	n/a	n/a	n/a
Industry	103,965.0	114,253.0	125,337.0	128,084.0	n/a	n/a	n/a
Construction	119,262.0	122,396.0	137,036.0	137,673.0	n/a	n/a	n/a
Services	81,467.0	90,739.0	95,391.0	102,141.0	n/a	n/a	n/a

Notes:

n/a = not available.

(1) Preliminary estimates of the Ministry of Finance.

(2) Calculated using the average AMD/U.S.$ exchange rate for the relevant period. See "*Exchange Rates*."

(3) Average monthly real wage is the average monthly nominal wage divided by the consumer price index for the relevant period.

Sources: Armstat; Ministry of Finance.

The average monthly wage in Armenia has grown in recent years. Average monthly real wages increased by 15.6% in 2009, 2.4% in 2010, 5.3% in 2011 and 17.8% in 2012. Overall, average monthly real wages grew by 17.8% between 2008 and 2012. Average monthly real wages fell by 0.6% in the six months ended 30 June 2013, compared to the six months ended 30 June 2012. Average monthly nominal wages in dollar terms increased in each year between 2008 and 2012, except for 2009 and 2012, when they declined by 7.7% and 2.5%, respectively, due to depreciation of the dram against the dollar.

In nominal terms, Armenia recorded wage growth in both the public and private sectors. Nominal public sector wages increased by 15.6% in 2009 due, in part, to the Government's decision to raise public sector wages in an effort to curb corruption and retain workers. Nominal public sector wages continued to grow in subsequent years, rising by 3.2% in 2010, 5.9% in 2011 and 7.4% in 2012. Nominal public sector wages grew by 2.2% in the six months ended 30 June 2013, compared to the six months ended 30 June 2012.

Armenia recorded nominal wage growth in each of the principal sectors of its economy. Between 2008 and 2011, nominal wages grew by 2.4% in the agriculture sector, by 23.2% in industry, by 15.4% in the construction sector and by 25.4% in the services sector.

The minimum monthly wage remains low in Armenia compared to the level of average monthly wages. In 2008, the minimum wage equaled AMD25,000, or 28.6% of average nominal wages. In 2009 and 2010, the minimum wage was AMD30,000, or 31.2% and 29.2%, respectively, of average nominal wages. In 2011 and 2012, the minimum wage was AMD32,500, 30.1% and 30.8%, respectively, of average nominal wages. In the first half of 2013, the minimum monthly wage was AMD35,000; from 1 July 2013, the minimum wage was raised to AMD45,000.

Employment

The following table sets forth key employment statistics for the periods indicated:

Employment Indicators[(1)]

	For the year ended 31 December					For the three months ended 31 March	
	2008	**2009**	**2010**	**2011**	**2012**	**2012**	**2013**[(1)]
	(thousands of people, unless otherwise indicated)						
Total population[(1)]	3,238.0	3,249.5	3,262.6	3,274.3	3,026.9	3,275.4	3,028.0
Labour force[(2)]	1,414.6	1,418.8	1,463.3	1,440.9	1,418.3	1,424.1	1,359.6
Employed persons[(3)]	1,183.1	1,152.8	1,185.2	1,175.1	1,172.8	1,138.5	1,129.4
Employers	4.9	6.3	6.1	7.5	n/a	n/a	n/a
Hired	686.6	655.3	673.9	653.0	n/a	n/a	n/a
Self-employed	348.0	290.3	325.5	349.8	n/a	n/a	n/a
Others	143.5	200.9	179.6	164.9	n/a	n/a	n/a
Unemployed persons[(4)]	231.6	265.9	278.2	265.7	245.5	285.6	230.2
Unemployment rate (%)[(5)]	16.4	18.7	19.0	18.4	17.3	20.1	16.9
Activity rate (%)[(6)]	59.5	59.2	61.2	63.0	62.7	61.6	63.5
Employed persons by sector (%)							
Private sector[(7)]	77.6	73.5	76.0	77.9	n/a	n/a	n/a
Public sector[(7)]	22.4	26.6	24.0	22.1	n/a	n/a	n/a
Agriculture, forestry and fishing	37.6	39.5	38.6	38.9	42.3	n/a	n/a
Industry	11.0	9.9	10.2	11.0	10.6	n/a	n/a
Construction	8.9	7.1	7.2	5.7	4.6	n/a	n/a
Services	42.5	43.5	44.0	44.4	37.8	n/a	n/a

Notes:

n/a = not available.

(1) Figures in this table are presented on an average basis for each period, except for total population, for which numbers are presented as of the end of each period. Numbers for 2012 and the first quarter of 2013 are based on the preliminary results of the 2011 census.

(2) Labour force includes all employed and unemployed persons.

(3) Employed persons refer to persons who are (i) between the ages of 15 and 75; (ii) working on a paid-basis, are self-employed or are engaged in household or faming activities, provided that such production from such household or farming activities comprised a significant share in household consumption. Employed persons include those who are temporarily absent from work for various reasons.

(4) Unemployed persons refer to persons who are (i) between the ages of 15 and 75; (ii) not eligible under Armenian law to receive a pension; (iii) without work or gainful employment; (iv) capable and willing to work within two weeks; (v) registered in the employment register; and (vi) actively seeking employment.

(5) Unemployed persons as a percentage of the labour force.

(6) Labour force as a percentage of the population between the ages of 15 and 75.

(7) Figures for 2008 and 2009 are compiled based on population data and reports from organisations. Since 2010, figures are based on household survey data. Therefore, figures for 2008 and 2009 are not comparable with later periods.

Source: Armstat.

The unemployment rate in Armenia remains relatively high. In 2009, the unemployment rate was 18.7%, compared to 16.4% in 2008. In 2009, in line with the 14.1% contraction in the economy (as measured by real GDP), the share of people employed in the private sector declined to 73.5% from 77.6% in 2008. In 2010, the unemployment rate continued to increase, rising to 19.0%, despite annual growth in real GDP of 2.2%. Since 2010, unemployment has been falling, which is consistent with more robust growth in real GDP. In 2011, the unemployment rate fell to 18.4%, supported by 4.7% growth in real GDP; in 2012, the unemployment rate declined to 17.3%, aided by a real GDP growth rate of 7.2%. In the first quarter of 2013, the unemployment rate was 16.9%, compared to 20.1% in the first quarter of 2012, supported by a quarter-on-quarter real GDP growth rate of 5.5%.

The services industry is the leading source of employment in Armenia, followed by agriculture. Between 2008 and 2012, the services industry and agriculture employed an average of 43.8% and 38.7%, respectively, of employed persons. A significant share of the labour force is also employed in industry and construction. Between 2008 and 2012, industry employed an average of 10.6% of employed persons and construction an average of 6.9%.

Social Insurance System

Poverty Assessment

Since 1996, Armenia has relied on the Integrated Living Conditions Survey ("**ILC Survey**") to gather information on the living conditions of households. With assistance from the World Bank, Armenia has taken steps to improve the ways in which it collects statistical information and over time has expanded the sample size of its ILC Surveys. Since 2001, the ILC Surveys have been administered on an annual basis.

Armenia relies on both an income and consumption approach for assessing poverty levels. A consumption aggregate comprised of both food and non-food baskets as well as an estimated rental value of durables is an important tool for measuring poverty because consumption is considered to be more accurately declared and less sensitive to changes than income. Based on the consumption approach, Armenia has established three poverty lines: an upper poverty line, a lower poverty line and an extreme (or food) poverty line. Those whose monthly consumption is below the upper poverty line are deemed "poor;" those whose consumption is below the lower poverty line are deemed "very poor;" and those whose monthly consumption levels are below the food poverty line are classified as "extremely poor."

The table below sets forth certain information about Armenia's poverty levels:

Poverty Indicators

	For the year ended 31 December			
	2008	**2009**	**2010**	**2011**
		(%)		
Poverty lines[1]				
Extreme (or food) poverty line (monthly consumption, AMD)	17,644	17,483	19,126	21,306
Upper poverty line (monthly consumption, AMD)	29,903	30,920	33,517	36,158
Average monthly consumption per capita of all households (AMD)	28,878	27,667	28,646	32,585
Poverty levels				
Extremely poor (% of households)	1.6	3.6	3.0	3.7
Poor (% of households)	27.6	34.1	35.8	35.0
Poverty gap (%)[2]	5.1	7.8	8.1	7.9

Notes:

(1) Poverty lines are based on average annual prices (both urban and rural) from the 2011 ILC Survey.

(2) Poverty gap indicates, in percentage terms, the extent to which the average consumption of the poor falls short of the poverty line.

Source: Armstat.

In 2009, compared to 2008, poor households as a share of total households increased by 6.5% and extremely poor households as a share of total households increased by 125.0%, largely as a result of the impact of the global financial crisis on the Armenian economy. In 2010, compared to 2009, the share of Armenian households classified as poor increased by 5.0%, while the share of Armenian households classified as extremely poor fell slightly. In 2011, compared to 2010, the share of poor households declined slightly, although the share of extremely poor households increased to 3.7% from 3.0%.

Poverty Alleviation

Under the Law on Benefits, which was passed in October 2005, families classified as poor or extremely poor are entitled to receive a poverty family benefit or lump-sum financial assistance. Poverty benefits are paid out of the State Budget and are classified as social transfers within the expenditure ledger of the State Budget.

The table below sets forth certain information regarding Armenia's poverty alleviation benefits:

Poverty Alleviation Benefits

	As of the year ended 31 December				
	2008	**2009**	**2010**	**2011**	**2012**
Total number of families receiving benefits	129,414	123,293	108,940	96,358	105,403
Number receiving poverty family benefit	111,918	108,460	102,472	83,997	96,309
Number receiving lumpsum payment	17,496	14,833	6,468	12,361	9,094
Average size of monthly benefit per family (AMD)	21,100	23,560	26,853	26,853	29,350

Source: Armstat.

Unemployment

The Law on Social Insurance in the Event of Employment and Unemployment (the "**Unemployment Law**"), which was passed in October 2005, regulates the provision of unemployment benefits. A person is entitled to unemployment benefits in the circumstances enumerated in the Unemployment Law.

The table below sets forth certain information about Armenia's unemployment allowances:

Unemployment Benefits

	For the year ended 31 December				
	2008	**2009**	**2010**	**2011**	**2012**
Average number of persons receiving unemployment benefits	21,043	22,880	24,546	17,867	12,818
Per capita monthly unemployment benefit (AMD)[1]	15,000	18,000	18,000	18,000	18,000
Total amounts of unemployment benefits paid out of State Budget (AMD millions)	2,752.5	4,539.4	4,707.1	3,589.5	2,427.1

Note:

(1) Flat rate as approved by the Government.

Source: Armstat.

Health Insurance

The Law on Health Insurance regulates health insurance policy, the rights and obligations of payments, the activities of health care participants and other important health care issues. The Ministry of Health Care oversees Armenia's health insurance system. There is no system for mandatory health insurance in Armenia

Student Support

Under the Decree of the Prime Minister dated 14 April 1997 Law, certain categories of students are entitled to grants from the State Budget. The table below sets forth certain information regarding student subsidies:

Student Subsidies

	For the year ended 31 December				
	2008	2009	2010	2011	2012
Minimum size of monthly grants (AMD/month)					
For students of higher education	5,000	5,000	5,000	5,000	5,000
For students at certain specialised secondary schools	3,725	4,650	4,650	4,750	4,750
For post-graduate students(1)	20,000	20,000	20,000	25,000	25,000

Note:

(1) Students who have discontinued employment to return for post-graduate work at scientific, research and other academic institutions.

Source: Armstat.

Pensions and Disability

The basic eligibility criteria for state pensions are as follows: (i) reaching the retirement age (65 years for both men and women); (ii) disability; or (iii) the death of a household's primary provider.

Armenia's pension system the ("**Pension System**") is undergoing significant reforms. Currently, the Pension System consists of two components: the State pension (the "**State Pension**") and the funded pension (the "**Funded Pension**").

The State Pension, in turn, is composed of a fixed amount (the "**Basic Component**") and a variable component (the "**Variable Component**"). The fixed amount is set by law and is modified on an annual basis by the National Assembly. The Variable Component is determined largely on the basis of past contributions and length of employment, but is also subject to certain annual adjustments.

After completion of the Pension System reform, the Funded Pension, which consists of funds accumulated in a pensioner's individual pension account, is expected to consist of two components: the mandatory pillar (the "**Mandatory Pillar**") and the voluntary pillar (the "**Voluntary Pillar**"). The Mandatory Pillar is expected to come into effect on 1 January 2014, whereas the Voluntary Pillar has been in effect since 1 January 2011.

Under the Pension System reform, those born in or after 1974 must contribute a percentage of their salary to their private individual pension account, with a matching Government contribution, as described below. Those who were born before 1974 may also contribute to the Mandatory Pillar. However, once such an individual decides to contribute to the Mandatory Pillar, he will not have the right to change this decision. For those individuals born before 1974 who decide to contribute to the Mandatory Pillar, contributions are made on a pay-as-you-go basis.

Anyone, regardless of age, may contributed to the Funded Pension through the Voluntary Pillar, and an individual who is required to make funded pension contributions may also make voluntary funded contributions in excess of his mandatory payments.

Individuals have the ability to choose the pension fund or fund manager for the management of their funded contributions. They also have the ability to change pension funds or fund managers and may invest in more than one fund, whether operated by a single manager or a team of managers. Currently, there is one private fund manager; however, additional pension funds and fund managers are expected to be licensed after the Mandatory Pillar of the Funded System comes into effect. Should an individual fail to choose a fund or manager, his pension contributions will be managed by a fund manager randomly selected by computer. Private pension funds and fund managers may invest pension savings in a variety of assets, including securities of Armenian public and private issuers and bank accounts in drams or foreign currency.

The Government is expected to match an employee's contributions to his private pension account, subject to an overall cap. The mechanism for making matching contributions, as currently drafted, is as follows: For an employee who earns up to AMD500,000 a month, he will be required to pay 5% of his salary to his personal account, and the Government will match this 5%. For those individuals with monthly incomes greater than or equal to AMD500,000, the Government will contribute AMD25,000 and employees will each pay the difference, such that total contributions equal 10% of income.

The State Pension is funded by social contributions made by employers and employees. Since 1 January 2005, these social contributions are made directly to the State Revenue Committee rather than to a separate Pension Fund.

In 2013, the Government introduced several other reforms in an effort to make the Pension System more efficient and transparent. It completed the integration of the personal income tax and social contributions regimes, as well as the roll-out of a new electronic system for individual accounting of personal income tax payments and pension contributions. The Government has also taken steps to integrate and streamline the work of agencies that provide services to pensioners or otherwise disburse social payments.

The following table sets forth certain statistics concerning the Pension System:

Pension Benefits

	As of or for the year ended 31 December				
	2008	**2009**	**2010**	**2011**	**2012**
	(AMD billions)				
Total number of pensioners (in thousands, as of year-end)	523.8	522.8	520.3	509.3	425,866
Minimum monthly payment rom State Pension (AMD, for each period)	6,800	8,000	10,500	10,500	13,000
Average size of monthly pensions (AMD, for each period)	21,370	24,520	27,107	27,062	31,255

Note:
n/a = not available.
Source: Ministry of Finance.

EXTERNAL SECTOR

Balance of Payments

The following table sets forth the balance of payments of Armenia for the periods indicated:

Balance of Payments of Armenia in Dollars[(1)(2)]

	For the year ended 31 December					For the six months ended 30 June	
	2008	**2009**	**2010**	**2011**	**2012**	**2012**	**2013**[(3)]
	(U.S.$ millions)						
Current account	**(1,381.8)**	**(1,368.9)**	**(1,373.2)**	**(1,108.2)**	**(1,115.1)**	**(773.5)**	**(597.4)**
Goods and services	**(2,990.6)**	**(2,349.4)**	**(2,274.7)**	**(2,389.8)**	**(2,466.9)**	**(1,185.8)**	**(1,091.7)**
Export	1,757.0	1,338.4	1,937.0	2,406.9	2,440.4	1,085.3	1,158.8
Import	(4,747.6)	(3,687.8)	(4,211.7)	(4,796.7)	(4,907.3)	(2,271.1)	(2,250.5)
Goods	(2,663.5)	(2,081.3)	(2,032.5)	(2,077.6)	(2,118.9)	(1,014.4)	(926.3)
Export	1,112.0	748.9	1,175.4	1,580.0	1,619.1	749.2	803.2
Import	(3,775.5)	(2,830.1)	(3,208.0)	(3,657.7)	(3,738.0)	(1,763.7)	(1,729.5)
Services	(327.1)	(268.1)	(242.2)	(312.1)	(348.0)	(171.4)	(165.4)
Export	645.0	589.5	761.6	826.9	821.3	336.1	355.6
Import	(972.1)	(857.6)	(1,003.7)	(1,139.0)	(1,169.3)	(507.5)	(521.1)
Investment income and employee compensation	**471.2**	**166.6**	**338.6**	**558.5**	**628.5**	**108.5**	**164.5**
Received	994.4	715.2	959.7	1,261.8	1,323.9	450.9	480.5
Paid	(523.2)	(548.6)	(621.1)	(703.3)	(695.3)	(342.4)	(316.0)
Employee compensation[(4)]	760.2	546.8	770.8	1,052.2	1,123.7	350.1	396.0
Received	929.2	677.0	918.9	1,204.9	1,279.8	424.1	472.4
Paid	(169.0)	(130.2)	(148.1)	(152.7)	(156.1)	(74.0)	(76.4)
Investment income[(5)]	(289.0)	(380.2)	(432.1)	(493.7)	(495.1)	(241.6)	(231.5)
Received	65.2	38.2	40.9	57.0	44.0	26.8	8.1
Paid	(354.3)	(418.4)	(473.0)	(550.6)	(539.2)	(268.4)	(239.6)
Current transfers[(6)]	**1,137.6**	**813.9**	**562.9**	**723.1**	**723.3**	**303.9**	**329.8**
Received	1,239.5	894.8	783.7	969.9	983.2	412.0	446.4
Paid	(101.8)	(80.9)	(220.8)	(246.9)	(260.0)	(108.1)	(116.6)
Capital and financial account	**1,369.3**	**1,349.6**	**1,355.7**	**1,137.5**	**949.9**	**630.3**	**512.2**
Capital account	**148.9**	**89.1**	**107.9**	**96.2**	**105.4**	**44.0**	**29.8**
Capital transfers[(7)]	148.9	89.1	107.9	96.2	105.4	44.0	29.8
Received	165.9	102.6	123.1	119.8	128.4	55.3	–
Paid	(17.0)	(13.5)	(15.2)	(23.6)	(23.0)	(11.3)	–
Financial account	**1,220.4**	**1,260.4**	**1,247.8**	**1,041.3**	**844.4**	**586.3**	**482.4**
Direct investment[(8)]	925.2	724.8	561.8	447.5	473.6	175.7	134.7
Abroad	(10.2)	(52.7)	(8.3)	(78.0)	(15.8)	(11.6)	(9.4)
In Armenia	935.4	777.5	570.1	525.5	489.4	187.3	144.0
Portfolio investment[(9)]	8.4	(3.9)	10.7	(10.4)	0.8	(1.2)	(1.0)
Assets	2.6	(10.6)	(1.5)	0.4	(1.1)	(0.3)	(0.3)
Liabilities	5.8	6.7	12.2	(10.8)	2.0	(0.9)	(0.6)
Other investment[(10)]	53.3	1,139.8	563.7	737.1	321.7	241.9	188.7
Assets	(580.6)	(478.0)	(245.6)	(88.1)	(61.6)	43.1	16.9
Currency and deposits	(537.1)	(307.8)	(150.9)	(71.9)	(105.8)	(6.3)	83.2
Trade credits and advances	(18.3)	(8.8)	(12.5)	(16.0)	(0.1)	1.1	(8.3)
Loans extended (excl. arrears)	(33.5)	(120.2)	(72.3)	16.7	48.0	61.5	(48.1)
Other assets	8.2	(41.2)	(9.9)	(16.9)	(3.7)	(13.1)	(9.9)
Liabilities	633.9	1,617.8	809.4	825.3	383.3	198.7	171.4
Currency and deposits	140.7	52.6	54.4	213.9	(14.8)	(77.6)	61.2
Trade credits and advances received	2.9	49.9	14.2	27.3	61.9	50.3	0.8
Loans received (excl. arrears)	485.1	1,377.4	716.1	563.7	301.8	222.6	113.8
Other liabilities	5.1	137.9	24.7	20.3	34.4	3.6	(4.1)
Change in reserve assets (increase)	233.5	(600.3)	111.5	(132.9)	48.3	169.9	160.0
Net errors and omissions	**12.5**	**19.3**	**17.5**	**(29.4)**	**165.2**	**143.2**	**85.2**

Notes:

1) Figures in this table are presented in accordance with the IMF's *Balance of Payments Manual—5th Edition* and are current as of 30 June 2013.
2) For those transactions denominated in currencies other than the dollar, conversions into dollars are made using period-average exchange rates.
3) Data for first half of 2013 are preliminary.
4) Employee compensation reflects wages and other payments received by residents of Armenia who carry out temporary or seasonal work abroad , as well as wages received by residents of Armenia for work at embassies and international organisations in Armenia.
5) Net investment income reflects net income received by residents of Armenia from investments abroad or paid by residents of Armenia for capital attracted from abroad.
6) Current transfers reflect monetary or in-kind transfers from abroad, except for transfers related to fixed assets which are included in capital transfers. Current transfers include both public transfers and transfers by individuals working abroad on a long-term basis to residents of Armenia.
7) Capital transfers comprise transfers received/paid for the acquisition of fixed assets or for construction work, and also include debt forgiveness.
8) Direct investments reflect international investment activities when a resident obtains influence in a company of another country by means of investments. Direct investments in equity and reinvested earnings are included in direct investments.
9) Portfolio investments consist of investments in securities issued by nonresidents of Armenia which are otherwise not included under direct investment.
10) Other investments comprise all investments which are not otherwise classified as direct or portfolio investments.

Source: CBA.

The following table sets forth certain key figures from Armenia's balance of payments as a percentage of GDP for the periods indicated:

Key Balance of Payments Figures of Armenia as a Percentage of GDP(1)(2)(3)

	For the year ended 31 December					For the six months ended 30 June	
	2008	2009	2010	2011	2012	2012	2013(3)
	(% of GDP)						
Current account	**(11.8)**	**(15.8)**	**(14.8)**	**(10.9)**	**(11.2)**	**(19.8)**	**(14.7)**
Goods and services	(25.6)	(27.2)	(24.6)	(23.6)	(24.8)	(30.4)	(26.8)
Investment income and employee compensation	4.0	1.9	3.7	5.5	6.3	2.8	4.0
Current transfers	9.8	9.4	6.1	7.1	7.3	7.8	8.1
Capital and financial account	**11.7**	**15.6**	**14.6**	**11.2**	**9.5**	**16.2**	**9.7**
Capital account	1.3	1.0	1.2	0.9	1.1	1.1	0.7
Financial account	10.5	14.6	13.5	10.3	8.5	15.0	8.9
Direct investment	7.9	8.4	6.1	4.4	4.8	4.5	3.3
Abroad	(0.1)	(0.6)	(0.1)	(0.8)	(0.2)	(0.3)	(0.2)
In Armenia	8.0	9.0	6.2	5.2	4.9	4.8	3.5
Portfolio investment	0.1	0.0	0.1	(0.1)	0.0	0.0	0.0
Assets	0.0	(0.1)	0.0	0.0	0.0	0.0	0.0
Liabilities	0.0	0.1	0.1	(0.1)	0.0	0.0	0.0
Other investment	0.5	13.2	6.1	7.3	3.2	6.2	5.6
Assets	(5.0)	(5.5)	(2.7)	(0.9)	(0.6)	1.1	0.4
Liabilities	5.4	18.7	8.7	8.1	3.9	5.1	4.6
Change in reserve assets (increase)	2.0	(6.9)	1.2	(1.3)	0.5	4.4	3.9
Net errors and omissions	**0.1**	**0.2**	**0.2**	**(0.3)**	**1.7**	**3.7**	**2.1**

Notes:

(1) Figures in this table are current as of 30 June 2013.

(2) For those transactions denominated in currencies other than the dollar, conversions into dollars are made using period-average exchange rates.

(3) Calculated as a percentage of Armenia's nominal GDP converted in dollars, using the average AMD/U.S.$ exchange rates for the respective period.

(4) Data for first half of 2013 are preliminary.

Source: CBA.

Current Account

Between 2008 and 2012 and in the first six months of 2013, Armenia recorded substantial current account deficits, driven largely by high trade deficits that in turn were caused by the value of imports outpacing the value of exports.

In 2009, compared to 2008, the trade deficit for goods declined by 21.9%, mainly due to a decline in domestic demand for imports resulting from the effects of the global financial crisis. Despite the decline in the trade deficit, the current account deficit did not change appreciably in 2009 compared to 2008 on account of a 28.5% decline in current transfers and a 28.1% decline in net employee compensation inflows. The decline in current transfers and net inflows of employee compensation to a large extent reflect lower remittances from Armenians working abroad, particularly, in Russia, during the global financial crisis. As a share of GDP, the current account deficit increased from 11.8% in 2008 to 15.8% in 2009, mainly due to a decline in GDP.

In 2010, compared to 2009, the trade deficit declined by 2.3%, with growth recorded in the value of both exports and imports. Current transfers continued to decline in 2010. Despite the decline in current transfers, the current account deficit held steady in 2010 compared to 2009 due to an increase in net employee compensation inflows from Armenians working abroad. As a share of GDP, the current account deficit declined to 14.8% in 2010 from 15.8% in 2009.

In 2011, compared to 2010, the trade deficit increased by 2.2%. The current account deficit declined, however, by 19.3%, due to a 28.4% increase in current transfers and a 36.5% rise in net inflows of employee compensation. As a share of GDP, the current account deficit declined to 10.9% in 2011 from 14.8% in 2010, supported by 9.2% growth in nominal GDP.

In 2012, compared to 2011, the trade deficit increased by 2.0%. The current account deficit, however, did not increase appreciably in 2012 mainly due to the 6.8% increase in net inflows of employee compensation. As a share of GDP, the current account deficit increased to 11.2% in 2012 from 10.9% in 2011.

In the six months ended 30 June 2013, the trade deficit decreased by 8.7% compared to the six months ended 30 June 2012 due to a 7.2% increase in exports and a 1.9% decrease in imports. The current account deficit declined by 22.8% in the first half of 2013 compared to the first half of 2012 due to the lower trade deficit, but also to a 13.1% increase in employee compensation inflows and an 8.5% increase in inbound current transfers, reflecting growth in remittances sent from abroad.

Capital and Financial Account

The current account deficit is financed mainly by FDI inflows and external borrowing, together with inbound current transfers and net inflows of employee compensation. See "*—Current Account*."

Between 2008 and 2010, net FDI in Armenia declined, and as a result Armenia's current account deficit was financed largely through external financing. See "*—FDI*." Net direct investments declined by 21.7% in 2009, compared to 2008, and by 22.5% in 2010, compared to 2009. Net other investments, however, increased substantially in 2009 compared to 2008, which reflected inflows of external financing in the amount of U.S.$1,377.4 million. Although net other investments declined by 50.5% in 2010 compared to 2009, they remained significantly higher than 2008 levels due to U.S.$716.1 million in additional external financing.

In 2011, as the current account deficit improved, Armenia recorded a 20.4% decline in net direct investments, driven by both an increase in Armenian investment abroad and a decrease in foreign investment in Armenia. External financing also declined, as the value of loans received from abroad fell by 21.3% in 2011 compared to 2010. Despite the decrease in external financing, net other investments increased by 30.8% in 2011, due in large part to a 52.3% decline in the outflow of capital to foreign currencies and nonresident bank deposits.

In 2012, compared to 2011, net direct investments increased by 5.8% and net other investments decreased by 56.4%. Net direct investments increased due to a decline in Armenian direct investments abroad and in spite of the overall decline in foreign investment inflows. See "*—FDI*." The decline in net other investments was in large part attributable to a 46.5% decline in loans received from abroad.

In the six months ended 30 June 2013, compared to the six months ended 30 June 2012, net direct investments decreased by 23.3% and net other investments declined by 22.0%. Net direct investments declined as a result of lower FDI in Armenia.

Remittances

The following table sets forth the source, by country, of net inflows of remittances into Armenia for the periods indicated:

Net Remittance Inflows[1]

	For the year ended 31 December					For the six months ended 30 June	
	2008	**2009**	**2010**	**2011**	**2012**	**2012**	**2013**
	(U.S.$ millions, except percentage)						
Russian Federation	1,248.3	804.5	945.3	1,153.8	1,280.4	477.3	530.8
USA	28.8	36.0	43.2	47.0	40.6	23.1	22.1
Kazakhstan.................	18.5	16.6	17.4	18.8	21.0	8.1	9.5
Ukraine	21.3	12.0	5.9	8.9	3.7	1.1	1.0
Spain	8.5	4.9	4.9	4.6	2.5	1.8	0.8
France	3.7	4.3	5.7	3.2	6.8	2.8	4.1
Germany	7.0	6.9	5.2	3.8	3.9	1.1	2.5
Turkey	(5.3)	(4.1)	(5.1)	(2.8)	(2.6)	(1.1)	(0.9)
UAE	2.1	(2.9)	(3.3)	(4.3)	(0.3)	0.6	1.4
China	(7.1)	(5.2)	(5.2)	(8.2)	(7.7)	(2.4)	(4.2)
Other	67.2	56.2	57.8	57.5	46.2	20.2	21.4
Total	**1,393.1**	**929.2**	**1,072.0**	**1,282.4**	**1,395.0**	**532.6**	**588.7**
Net remittances/ GDP(%)[2]	11.9	10.7	11.6	12.6	14.0	13.6	14.8

Notes:

n/a = not available.

(1) The figures in this table reflect net inflows of non-commercial money transfers of individuals via the banking system. These transfers include (i) financial resources received from or sent abroad on behalf of individuals to meet certain needs, such as financial aid, donations, allowances and pensions; (ii) compensation of employees who work in an economy where they are not resident and who receive their income via bank transfers; and (iii) compensation of resident employees of foreign organisations that is received from abroad as a direct transfer.

(2) Calculated as a percentage of Armenia's nominal GDP in dollars, using the average AMD/U.S.$ exchange rates for the respective period.

Source: CBA.

Remittances finance a substantial share of Armenia's current account deficit. Net remittance inflows to Armenia have generally fluctuated in line with the state of the global economy, and, in particular, the Russian economy, which is where most remittances to Armenia originate. For example, during the global financial crisis, total net remittances to Armenia declined sharply: from U.S.$1,393.1 million in 2008 to U.S.$929.2 million in 2009, or by 33.3%. Since 2009, net remittances have been on the rise, reaching pre-crisis levels in 2012 after 15.4% year-on-year growth in 2010, 19.6% year-on-year growth in 2011 and 8.8% year-on-year growth in 2012. Net remittance inflows increased by 10.5% in the first half of 2013 compared to the first half of 2012, supported by an 11.2% increase in remittances from Russia. Net remittance inflows are an important feature of the Armenian economy, representing 11.9% of GDP in 2008, 10.7% of GDP in 2009, 11.6% of GDP in 2010, 12.6% of GDP in 2011 and 14.0% of GDP in 2012.

Remittances from Russia have accounted for the highest proportion of net remittance inflows into Armenia from 2008 through 2012 and in the first six months of 2013. Of total net remittances to Armenia, Russia comprised

89.6% in 2008, 86.6% in 2009, 88.2% in 2010, 90.0% in 2011, 91.8% in 2012 and 90.2% in the first half of 2013. The United States, the EU, Kazakhstan and Ukraine are also important sources of remittance flows to Armenia.

International Trade

Armenia is an open economy, and the value of foreign trade in goods and services represented approximately 56.5% of GDP in 2012. Armenia's principal trading partners are Russia and the EU.

Armenia's trade balance, i.e., the balance between the import and export of goods, has been characterised by a substantial structural deficit, with the country running a simple average annual deficit of 22.1% from 2008 through 2012. Structural factors affect the nature of Armenia's imports and exports. Armenia is dependent on imports of energy and certain other commodities, the prices for which have been relatively high since 2008. Although Armenia's domestic savings rate reached 18.2% of GDP in 2008, it has since declined, largely due to the use of remittances to finance consumption. Armenia's principal exports are commodities, such as mineral products and metals, which heighten the country's vulnerability to price and demand fluctuations on the world markets. Armenia is also particularly dependent on the state of the Russian economy, as Russia-bound exports accounted for 20.2% and 20.5%, respectively, of Armenia's overall exports by value in 2012 and the first six months of 2013. Armenian exports are restricted by its geopolitical position. Armenia's borders with Azerbaijan and land border with Turkey remain closed as a consequence of the Nagorno-Karabakh conflict (although Turkish goods flow into Armenia via Georgia). Trading with Iran is limited both by limited transport infrastructure and by international sanctions against Iran. Therefore, Armenia's sole reliable trade route is through Georgia, which increases transportation costs, limits the types of goods that can be exported and hampers competition in the country's export and import sectors. See "*Risk Factors—Risk Factors Relating to Armenia—Limited Routes for Exports*."

The following table sets forth Armenia's trade balance by value for the periods indicated:

Trade Balance by Value[(1)(2)(3)(4)]

	For the year ended 31 December					For the six months ended 30 June	
	2008	2009	2010	2011	2012	2012	2013
	(U.S.$ millions)						
Trade balance	(3,368.9)	(2,610.9)	(2,707.9)	(2,811.0)	(2,881.0)	(1,376.8)	(1,271.7)
Imports	4,426.1	3,321.1	3,749.0	4,145.3	4,261.2	2,013.6	1,971.5
Exports	1,057.2	710.2	1,041.1	1,334.3	1,380.2	636.8	699.7

Notes:

(1) Figures in this table are current as of 30 June 2013.

(2) The trade balance is limited to the import and export of goods, and does not reflect trade in services.

(3) The value of imports are recorded on a CIF (cost, insurance, freight) basis. The value of exports are recorded on an FOB (free on board) basis, i.e., the value of goods to the port of shipment, and includes goods of domestic origin and re-exported goods of foreign origin. Figures in this table do not reflect unregistered trade volumes.

(4) For those transactions denominated in currencies other than the dollar, conversions into dollars are made using period-end exchange rates.

Source: Armstat.

The following table sets forth Armenia's trade balance as a percentage of GDP for the periods indicated:

Trade Balance by Percentage of GDP[(1)(2)(3)(4)]

	For the year ended 31 December					For the six months ended 30 June	
	2008	**2009**	**2010**	**2011**	**2012**	**2012**	**2013**
	(% of GDP)						
Trade balance...........	(28.9)	(30.2)	(29.2)	(27.7)	(29.0)	(35.3)	(31.2)
Imports.......................	38.0	38.4	40.5	40.9	42.8	51.6	48.4
Exports.......................	9.1	8.2	11.2	13.2	13.9	16.3	17.2

Notes:

(1) Figures in this table are current as of 30 June 2013.

(2) The trade balance is limited to the import and export of goods, and therefore does not reflect trade in services.

(3) The value of imports are recorded on a CIF basis. The value of exports are recorded on an FOB basis, i.e., the value of goods to the port of shipment, and includes goods of domestic origin and re-exported goods of foreign origin. Figures in this table do not reflect unregistered trade volumes.

(4) Calculated as a percentage of Armenia's nominal GDP converted in dollars, using the average AMD/U.S.$ exchange rate for the respective period.

Source: Armstat.

Imports

Armenia's imports are primarily comprised of mineral products (including natural gas and petroleum products), machinery and equipment, foodstuffs, transport (mainly motor vehicles), chemical products, base metals and plastics and rubber.

The following table sets forth the value of Armenia's imports by product category for the periods indicated:

Imports of Goods by Value in Dollars(1)(2)(3)

	For the year ended 31 December					For the six months ended 30 June	
	2008	**2009**	**2010**	**2011**	**2012**	**2012**	**2013**
	(U.S.$ millions)						
Mineral products	664.6	540.6	666.0	821.6	915.9	443.9	423.3
Machinery and equipment	645.0	628.7	651.8	566.5	602.0	262.6	245.8
Prepared foodstuffs	348.7	264.7	308.8	348.0	355.8	169.4	165.0
Transport	574.4	241.6	297.1	370.3	351.2	180.8	154.0
Chemical products	270.4	252.9	273.5	302.8	325.5	156.9	168.2
Base metals	418.6	375.6	368.2	326.2	309.1	136.9	134.9
Precious stones and metals	304.6	107.3	158.9	214.9	179.1	90.6	128.1
Plastics and rubber........	186.6	130.1	148.1	172.8	169.4	82.2	80.0
Textiles.........................	152.7	92.3	122.6	160.3	153.6	68.1	73.5
Animals and animal products	125.7	97.5	101.5	133.3	136.3	68.7	69.0
Miscellaneous manufactured products	85.1	62.3	69.5	87.8	96.3	41.3	40.6
Paper products	80.6	67.3	68.4	80.1	86.7	41.0	36.7
Stone, plaster and cement	114.6	74.5	82.5	86.9	81.7	38.8	37.2
Wood products	68.9	51.0	56.6	68.4	70.8	30.0	33.1
Instruments and devices	58.1	54.6	69.6	58.9	64.4	32.4	31.4
Fats and oils.................	52.8	51.8	49.2	58.0	59.6	30.4	32.1
Footwear, umbrellas and headgear	30.1	21.9	32.0	33.6	29.9	14.9	15.1
Leather products	9.5	7.8	9.2	12.1	12.8	5.8	6.2
Art and antiques...........	1.9	0.9	1.5	1.1	2.0	0.6	0.3
Total	**4,426.1**	**3,321.1**	**3,749.0**	**4,145.3**	**4,261.2**	**2,013.6**	**1,971.5**

Notes:

(1) Figures in this table are current as of 30 June 2013.

(2) The value of imports are recorded on a CIF basis and reflect goods of foreign manufacture that have been imported for consumption and for re-export. Figures in this table do not reflect unregistered trade volumes.

(3) For those transactions denominated in currencies other than the dollar, conversions into dollars are made using period end exchange rates.

Source: Armstat.

The following table sets forth the value of Armenia's imports, in percentage terms, by product category for the periods indicated:

Imports of Goods by Value in Percentage Terms[(1)(2)]

	For the year ended 31 December					For the six months ended 30 June	
	2008	**2009**	**2010**	**2011**	**2012**	**2012**	**2013**
				(%)			
Mineral products	15.0	16.3	17.8	19.8	21.5	22.0	21.5
Machinery and equipment	14.6	18.9	17.4	13.7	14.1	13.0	12.5
Prepared foodstuffs	7.9	8.0	8.2	8.4	8.3	8.4	8.4
Transport	13.0	7.3	7.9	8.9	8.2	9.0	7.8
Chemical products	6.1	7.6	7.3	7.3	7.6	7.8	8.5
Base metals	9.5	11.3	9.8	7.9	7.3	6.8	6.8
Precious stones and metals	6.9	3.2	4.2	5.2	4.2	4.5	6.5
Plastics and rubber	4.2	3.9	4.0	4.2	4.0	4.1	4.1
Textiles	3.4	2.8	3.3	3.9	3.6	3.4	3.7
Animals and animal products	2.8	2.9	2.7	3.2	3.2	3.4	3.5
Miscellaneous manufactured products	1.9	1.9	1.9	2.1	2.3	2.0	2.1
Paper products	1.8	2.0	1.8	1.9	2.0	2.0	1.9
Stone, plaster and cement	2.6	2.2	2.2	2.1	1.9	1.9	1.9
Wood products	1.6	1.5	1.5	1.7	1.7	1.5	1.7
Instruments and devices	1.3	1.6	1.9	1.4	1.5	1.6	1.6
Fats and oils	1.2	1.6	1.3	1.4	1.4	1.5	1.6
Footwear, umbrellas and headgear	0.7	0.7	0.9	0.8	0.7	0.7	0.8
Leather products	0.2	0.2	0.2	0.3	0.3	0.3	0.3
Art and antiques	0.0	0.0	0.0	0.0	0.0	0.3	0.0
Total	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

Notes:

(1) Figures in this table are current as of 30 June 2013.

(2) The value of imports are recorded on a CIF basis, and reflect goods of foreign manufacture that have been imported for consumption and for re-export. Figures in this table do not reflect unregistered trade volumes.

Source: Armstat.

In 2012 and the first half of 2013, the EU accounted for 26.4% and 26.8%, respectively, Russia accounted for 24.8% and 23.0%, respectively, and China accounted for 9.4% and 8.7%, respectively, of Armenia's imports.

The following table sets forth the value of Armenia's imports by country of origin for the periods indicated:

Value of Imports of Goods by Country of Origin in Dollars[(1)(2)(3)]

	For the year ended 31 December					For the six months ended 30 June	
	2008	2009	2010	2011	2012	2012	2013
	(U.S.$ millions)						
Imports from CIS countries and Georgia	**1,312.2**	**1,082.7**	**1,196.5**	**1,269.0**	**1,383.4**	**636.4**	**613.2**
Russia	851.2	792.2	835.3	890.9	1,057.4	490.8	453.4
Ukraine	314.8	201.9	229.9	232.4	215.6	97.3	102.6
Georgia	49.4	40.9	54.3	60.2	48.9	16.4	33.0
Belarus	28.4	24.6	31.9	29.6	33.6	19.5	20.4
Turkmenistan	38.0	14.3	25.8	25.5	14.2	5.1	1.8
Kazakhstan	18.5	3.2	11.9	25.3	8.9	5.6	0.4
Other CIS countries	11.9	5.4	7.4	5.1	4.9	1.7	1.5
Imports from EU	**1,359.9**	**897.8**	**1,026.9**	**1,167.8**	**1,124.4**	**527.7**	**528.6**
Germany	255.2	176.0	210.7	245.1	265.2	123.0	118.5
Italy	157.2	113.7	122.2	169.6	168.8	76.4	79.2
Romania	100.2	72.8	85.7	105.0	87.8	41.8	51.2
Bulgaria	118.6	86.3	112.4	102.2	86.5	40.0	35.8
Belgium	94.6	58.5	71.4	64.6	73.8	40.2	37.0
France	127.4	73.5	76.7	82.5	67.5	31.2	28.1
Spain	36.4	19.0	24.6	40.3	48.4	22.2	24.3
Poland	31.4	33.9	30.3	35.5	41.8	18.8	20.2
Austria	161.6	57.3	56.6	47.7	39.8	13.3	27.4
United Kingdom	44.8	30.4	37.8	46.9	39.8	19.6	18.1
Netherlands	22.6	26.7	23.5	37.1	37.8	19.9	15.1
Other EU countries	209.9	149.7	175.0	191.4	167.0	81.4	73.8
Imports from other countries	**1,754.0**	**1,340.7**	**1,525.5**	**1,708.5**	**1,753.4**	**849.6**	**829.7**
China	382.2	284.6	404.0	404.2	399.7	194.8	171.1
Iran	203.0	162.4	199.9	216.8	219.4	105.2	84.1
Turkey	180.2	177.6	210.4	240.2	213.5	92.1	89.3
USA	218.8	120.8	110.8	147.4	143.1	78.8	71.0
Japan	168.9	76.2	83.3	72.4	98.7	49.1	42.6
Brazil	58.3	54.7	51.8	83.3	93.1	54.2	38.5
Switzerland	21.9	123.0	69.4	78.3	87.0	40.2	64.8
India	49.1	43.4	46.7	68.7	69.6	34.6	34.0
Other countries	471.8	297.9	349.2	397.1	429.4	200.4	234.5
Total	**4,426.1**	**3,321.1**	**3,749.0**	**4,145.3**	**4,261.2**	**2,013.6**	**1,971.5**

Notes:

(1) Figures in this table are current as of 30 June 2013.

(2) The value of imports are recorded on a CIF basis i.e., the value of goods up to the borders of Armenia, with insurance and transportation costs included, and reflect goods of foreign manufacture that have been imported for consumption and for re-export. Figures in this table do not reflect unregistered trade volumes.

(3) For those transactions denominated in currencies other than the dollar, conversions into dollars are made using period-end exchange rates.

Source: Armstat.

The following table sets forth the value of Armenia's imports, in percentage terms, by country of origin for the periods indicated:

Value of Imports of Goods by Country of Origin in Percentage Terms(1)(2)

	For the year ended 31 December					For the six months ended 30 June	
	2008	2009	2010	2011	2012	2012	2013
				(%)			
Imports from CIS countries and Georgia	**29.6**	**32.6**	**31.9**	**30.6**	**32.5**	**31.6**	**31.1**
Russia	19.2	23.9	22.3	21.5	24.8	24.4	23.0
Ukraine	7.1	6.1	6.1	5.6	5.1	4.8	5.2
Georgia	1.1	1.2	1.4	1.5	1.1	0.8	1.7
Belarus	0.6	0.7	0.9	0.7	0.8	1.0	1.0
Turkmenistan	0.9	0.4	0.7	0.6	0.3	0.3	0.1
Kazakhstan	0.4	0.1	0.3	0.6	0.2	0.3	0.0
Other CIS countries	0.3	0.2	0.2	0.1	0.1	0.1	0.1
Imports from EU	**30.7**	**27.0**	**27.4**	**28.2**	**26.4**	**26.2**	**26.8**
Germany	5.8	5.3	5.6	5.9	6.2	6.1	6.0
Italy	3.6	3.4	3.3	4.1	4.0	3.8	4.0
Romania	2.3	2.2	2.3	2.5	2.1	2.1	2.6
Bulgaria	2.7	2.6	3.0	2.5	2.0	2.0	1.8
Belgium	2.1	1.8	1.9	1.6	1.7	2.0	1.9
France	2.9	2.2	2.0	2.0	1.6	1.5	1.4
Spain	0.8	0.6	0.7	1.0	1.1	1.1	1.2
Poland	0.7	1.0	0.8	0.9	1.0	0.9	1.0
Austria	3.7	1.7	1.5	1.2	0.9	0.7	1.4
United Kingdom	1.0	0.9	1.0	1.1	0.9	1.0	0.9
Netherlands	0.5	0.8	0.6	0.9	0.9	1.0	0.8
Other EU countries	4.7	4.5	4.7	4.6	3.9	4.0	3.7
Imports from other countries	**39.6**	**40.4**	**40.7**	**41.2**	**41.1**	**42.2**	**42.1**
China	8.6	8.6	10.8	9.8	9.4	9.7	8.7
Iran	4.6	4.9	5.3	5.2	5.1	5.2	4.3
Turkey	4.1	5.3	5.6	5.8	5.0	4.6	4.5
USA	4.9	3.6	3.0	3.6	3.4	3.9	3.6
Japan	3.8	2.3	2.2	1.7	2.3	2.4	2.2
Brazil	1.3	1.6	1.4	2.0	2.2	2.7	2.0
Switzerland	0.5	3.7	1.9	1.9	2.0	2.0	3.3
India	1.1	1.3	1.2	1.7	1.6	1.7	1.7
Other countries	10.7	9.0	9.3	9.6	10.1	10.0	11.9
Total	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

Notes:

(1) Figures in this table are current as of 30 June 2013.

(2) The value of imports are recorded on a CIF basis, i.e., the value of goods up to the borders of Armenia, with insurance and transportation costs included, and reflect goods of foreign manufacture that have been imported for consumption and for re-export. Figures in this table do not reflect unregistered trade volumes.

Source: Armstat.

Imports declined by 25.0% in 2009 compared to 2008, as a result of the global financial crisis, before recovering by 12.9% in 2010, 10.6% in 2011 and 2.8% in 2012. Nevertheless, from 2008 to 2012, the total value of imports of goods declined by 3.7% from U.S.$4,426.1 million in 2008 to U.S.$4,261.2 million in 2012, driven mainly by declines in the import values of vehicles (38.9%), machinery and equipment (6.7%), base metals (26.2%), precious stones and metals (41.2%) and stone, plaster and cement (28.7%). A 37.8%

increase in the value of minerals imports, mainly attributable to high prices on the global markets for energy and petroleum products, partially offset the overall decline in imports between 2008 and 2012.

The total value of imports of goods decreased from U.S.$2,013.6 million in the six months ended 30 June 2012 to U.S.$1,971.5 million in the six months ended 30 June 2013, or by 2.1%, mainly due to declines in imports of mineral products, machinery and equipment and vehicles.

Exports

Armenia's exports are primarily comprised of mineral products, such as copper and which encompasses electricity exports, base metals, such as copper ore and ferro-molybdenum, food products (including fruit juices, wines and brandy) and precious stones and metals.

The following table sets forth the value of Armenia's exports by product category for the periods indicated:

Exports of Goods by Value in Dollars(1)(2)(3)

	For the year ended 31 December					For the six months ended 30 June	
	2008	**2009**	**2010**	**2011**	**2012**	**2012**	**2013**
	(U.S.$ millions)						
Mineral products	172.5	145.6	306.8	404.1	403.2	189.9	201.9
Base metals	346.8	231.2	332.4	364.7	342.1	165.3	168.6
Prepared foodstuffs	167.9	99.6	131.1	183.8	254.8	108.1	132.4
Precious stones and metals	173.1	105.1	134.1	196.4	173.0	82.4	89.4
Machinery and equipment	40.3	21.0	30.1	33.5	41.2	28.2	8.3
Vegetables	22.3	19.9	15.9	23.2	34.3	12.3	25.6
Animals and animal products	9.3	15.3	23.6	30.0	33.1	10.0	18.2
Instruments and devices	17.7	7.9	7.3	14.8	19.8	9.9	7.3
Textiles	40.2	14.8	6.8	8.3	19.0	4.1	16.7
Stone, plaster and cement	14.3	13.5	16.1	16.9	17.9	8.3	10.7
Chemical products	16.3	6.4	9.1	11.1	13.1	6.5	7.6
Plastics and rubber	19.2	10.2	15.5	8.7	11.4	4.8	5.5
Transport	6.5	13.1	5.0	30.1	6.2	2.3	2.2
Leather products	3.2	1.8	2.2	3.5	3.4	1.7	1.9
Miscellaneous manufactured products	1.5	1.4	1.6	1.4	2.6	1.0	1.1
Footwear, umbrellas and headgear	1.4	0.9	1.4	1.5	2.3	1.0	0.9
Art and antiques	1.3	0.9	0.7	0.8	1.0	0.5	1.0
Paper products	2.5	1.3	0.7	0.7	0.9	0.2	0.4
Wood products	0.8	0.4	0.7	0.6	0.8	0.3	0.2
Fats and oils	0.1	0.0	0.0	0.0	0.1	0.0	0.0
Total	**1,057.2**	**710.2**	**1,041.1**	**1,334.3**	**1,380.2**	**636.8**	**699.7**

Notes:

(1) Figures in this table are current as of 30 June 2013.

(2) The value of exports are recorded on a FOB basis, i.e., the value of goods to the port of shipment, and includes goods of domestic origin and re-exported goods of foreign origin. Figures in this table do not reflect unregistered trade volumes.

(3) For those transactions denominated in currencies other than the dollar, conversions into dollars are made using period-end exchange rates.

Source: Armstat.

The following table sets forth the value of Armenia's exports, in percentage terms, by product category for the periods indicated:

Exports of Goods by Value in Percentage Terms(1)(2)

	For the year ended 31 December					For the six months ended 30 June	
	2008	**2009**	**2010**	**2011**	**2012**	**2012**	**2013**
				(%)			
Mineral products	16.3	20.5	29.5	30.3	29.2	29.8	28.9
Base metals	32.8	32.6	31.9	27.3	24.8	26.0	24.1
Prepared foodstuffs	15.9	14.0	12.6	13.8	18.5	17.0	18.9
Precious stones and metals.........................	16.4	14.8	12.9	14.7	12.5	12.9	12.8
Machinery and equipment	3.8	3.0	2.9	2.5	3.0	4.4	1.2
Vegetables	2.1	2.8	1.5	1.7	2.5	1.9	3.7
Animals and animal products	0.9	2.2	2.3	2.2	2.4	1.6	2.6
Instruments and devices	1.7	1.1	0.7	1.1	1.4	1.6	1.0
Textiles.......................	3.8	2.1	0.7	0.6	1.4	0.6	2.4
Stone, plaster and cement	1.4	1.9	1.5	1.3	1.3	1.3	1.5
Chemical products......	1.5	0.9	0.9	0.9	0.9	1.0	1.1
Plastics and rubber......	1.8	1.4	1.5	0.7	0.8	0.8	0.8
Transport	0.6	1.8	0.5	2.3	0.4	0.4	0.3
Leather products	0.3	0.3	0.2	0.3	0.2	0.3	0.3
Miscellaneous manufactured products	0.1	0.2	0.2	0.1	0.2	0.2	0.2
Footwear, umbrellas and headgear	0.1	0.1	0.1	0.1	0.2	0.1	0.1
Art and antiques..........	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Paper products	0.2	0.2	0.1	0.1	0.1	0.0	0.1
Wood products...........	0.1	0.1	0.1	0.0	0.1	0.0	0.0
Fats and oils................	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

Notes:

(1) Figures in this table are current as of 30 June 2013.

(2) The value of exports are recorded on a FOB basis, i.e., the value of goods to the port of shipment, and includes goods of domestic origin and re-exported goods of foreign origin. Figures in this table do not reflect unregistered trade volumes.

Source: Armstat.

In 2012 and the first half of 2013, the EU accounted for 37.1% and 35.8%, respectively, Russia accounted for 20.2% and 20.5%, respectively, and Iran accounted for 7.9% and 6.8%, respectively, of Armenia's exports. Exports to the EU primarily consist of copper and other metals, exports to Russia primarily consist of alcohol, diamonds and fish, and exports to Iran primarily consist of the electricity generated by the sale of Iranian natural gas to Armenia in a barter arrangement. See "*Economy of Armenia—Energy—Electricity*." The United States, Canada, Switzerland and Georgia are also significant export markets for Armenian goods.

The following table sets forth the value of Armenia's exports by country of destination for the periods indicated:

Value of Exports of Goods by Country of Destination in Dollars(1)(2)(3)

	For the year ended 31 December					For the six months ended 30 June	
	2008	**2009**	**2010**	**2011**	**2012**	**2012**	**2013**
	(U.S.$ millions)						
Exports to CIS countries and Georgia	**331.0**	**191.1**	**247.8**	**330.0**	**407.5**	**175.3**	**211.7**
Russia	208.2	107.4	160.5	222.3	279.1	120.6	143.5
Georgia	81.8	52.8	49.0	61.9	70.9	29.9	36.9
Ukraine	21.9	12.7	12.1	11.1	14.5	5.9	6.8
Turkmenistan	4.5	3.0	8.9	4.6	13.8	3.6	10.2
Belarus	2.8	4.6	4.6	6.0	6.7	2.8	3.3
Kazakhstan	2.9	2.4	3.1	4.4	4.0	2.0	2.8
Other CIS countries	8.9	8.2	9.7	19.7	18.5	10.4	8.3
Exports to EU	**573.0**	**310.2**	**501.1**	**607.4**	**511.6**	**258.3**	**250.6**
Bulgaria	59.6	60.0	156.6	152.2	129.3	62.1	67.9
Belgium	89.6	46.8	72.5	70.5	127.2	61.1	81.1
Germany	183.7	115.0	132.6	158.0	104.4	56.5	38.8
Netherlands	130.9	52.2	98.6	117.2	79.7	39.2	35.2
Spain	11.2	7.6	15.2	82.5	30.1	22.0	9.5
Cyprus	0.3	0.1	0.6	1.7	8.2	1.7	0.0
Italy	27.6	7.0	4.8	4.6	7.7	1.5	9.3
France	10.6	5.7	7.5	9.6	4.4	2.1	3.6
Other EU countries	59.5	16.0	12.7	11.1	20.6	12.2	5.2
Exports to other countries	**153.2**	**208.8**	**292.1**	**397.0**	**461.1**	**203.2**	**237.5**
Iran(4)	25.1	33.0	84.8	106.3	108.5	51.7	47.7
USA	52.8	67.0	82.7	100.7	87.5	38.6	46.9
Canada	15.9	34.1	29.6	70.4	85.1	37.6	39.3
Switzerland	8.9	25.2	16.9	33.7	71.4	28.4	13.6
China	1.8	17.9	30.9	16.3	31.3	6.1	27.6
UAE	8.9	5.3	8.2	9.9	9.4	4.0	3.9
Other countries	39.7	26.4	39.1	59.8	68.0	36.7	58.4
Total	**1,057.2**	**710.2**	**1,041.1**	**1,334.3**	**1,380.2**	**636.8**	**699.7**

Notes:

(1) Figures in this table are current as of 30 June 2013.

(2) The value of exports are recorded on a FOB basis, i.e., the value of goods to the port of shipment, and includes goods of domestic origin and re-exported goods of foreign origin. Figures in this table do not reflect unregistered trade volumes.

(3) For those transactions denominated in currencies other than the dollar, conversions into dollars are made using period-end exchange rates.

(4) Includes sales of electricity pursuant to Armenia's barter arrangements with Iran. See "*Economy of Armenia—Energy—Electricity*."

Source: Armstat.

The following table sets forth the value of Armenia's exports, in percentage terms, by country of destination for the periods indicated:

Value of Exports of Goods by Country of Destination in Percentage Terms(1)(2)

	For the year ended 31 December					For the six months ended 30 June	
	2008	**2009**	**2010**	**2011**	**2012**	**2012**	**2013**
				(%)			
Exports to CIS countries and Georgia	**31.3**	**26.9**	**23.8**	**24.7**	**29.5**	**27.5**	**30.3**
Russia	19.7	15.1	15.4	16.7	20.2	18.9	20.5
Georgia	7.7	7.4	4.7	4.6	5.1	4.7	5.3
Ukraine	2.1	1.8	1.2	0.8	1.1	0.9	1.0
Turkmenistan	0.4	0.4	0.9	0.3	1.0	0.6	1.5
Belarus	0.3	0.7	0.4	0.4	0.5	0.4	0.5
Kazakhstan	0.3	0.3	0.3	0.3	0.3	0.3	0.4
Other CIS countries	0.8	1.2	0.9	1.5	1.3	1.6	1.2
Exports to EU	**54.2**	**43.7**	**48.1**	**45.5**	**37.1**	**40.6**	**35.8**
Bulgaria	5.6	8.5	15.0	11.4	9.4	9.7	9.7
Belgium	8.5	6.6	7.0	5.3	9.2	9.6	11.6
Germany	17.4	16.2	12.7	11.8	7.6	8.9	5.5
Netherlands	12.4	7.3	9.5	8.8	5.8	6.1	5.0
Spain	1.1	1.1	1.5	6.2	2.2	3.5	1.4
Cyprus	0.0	0.0	0.1	0.1	0.6	0.3	0.0
Italy	2.6	1.0	0.5	0.3	0.6	0.2	1.3
France	1.0	0.8	0.7	0.7	0.3	0.3	0.5
Other EU countries	5.6	2.2	1.2	0.8	1.5	1.9	0.7
Exports to other countries	**14.5**	**29.4**	**28.1**	**29.8**	**33.4**	**31.9**	**33.9**
Iran(3)	2.4	4.7	8.1	8.0	7.9	8.1	6.8
USA	5.0	9.4	7.9	7.5	6.3	6.1	6.7
Canada	1.5	4.8	2.8	5.3	6.2	5.9	5.6
Switzerland	0.8	3.5	1.6	2.5	5.2	4.5	2.0
China	0.2	2.5	3.0	1.2	2.3	1.0	3.9
UAE	0.8	0.8	0.8	0.7	0.7	0.6	0.6
Other countries	3.8	3.7	3.8	4.5	4.9	5.8	8.3
Total	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

Notes:

(1) Figures in this table are current as of 30 June 2013.

(2) The value of exports are recorded on a FOB basis, i.e., the value of goods to the port of shipment, and includes goods of domestic origin and re-exported goods of foreign origin. Figures in this table do not reflect unregistered trade volumes.

(3) Includes sales of electricity pursuant to Armenia's barter arrangements with Iran. See "*Economy of Armenia—Energy—Electricity.*"

Source: Armstat.

Exports declined by 32.8% in 2009 compared to 2008, as a result of the global financial crisis, before recovering by 46.6% in 2010, 28.2% in 2011 and 3.4% in 2012. From 2008 to 2012, the total value of exports of goods increased by 30.6% from U.S.$1,057.2 million in 2008 to U.S.$1,380.2 million in 2012, driven mainly by growth in the export values of minerals (133.7%) and prepared foodstuffs (51.8%).

The total value of exports of goods increased from U.S.$636.8 million in the six months ended 30 June 2012 to U.S.$699.7 million in the six months ended 30 June 2013, or by 9.9%, mainly due to export growth in mineral products (6.3%), prepared foodstuffs (22.5%), vegetables (108.1%) and textiles (307.3%). A 70.6% decline in the value of machinery and equipment exports partially offset this overall increase.

The significant decline in exports to 'other EU countries' from U.S.$59.5 million in 2008 to U.S.$16.0 million in 2009 was mainly attributable to a decrease in exports to the United Kingdom from U.S.$40.8 million in 2008 to U.S.$1.8 million in 2009. This trend continued in 2010-2012 and in the first half of 2013.

International Trade Agreements

Armenia has signed a number of multilateral and bilateral economic cooperation agreements. Since 1991, Armenia has been a member of the CIS, and, since 2003, a member of the WTO. Upon signing the Protocol on Accession to the Marrakesh Agreement (the "**Marrakesh Protocol**") establishing the WTO, Armenia joined several WTO agreements and made commitments under the annexes to the Marrakesh Protocol. Armenia is accordingly bound by WTO maximum customs tariff rates allowed on imports, and it is currently compliant with WTO tariff rules. Since accession, Armenia has been improving its customs and tariff practices, replacing *ad valorem* customs fees with good-specific duties. The average tariff of imports to Armenia for most-favoured-nations is 2.7%, one of the lowest rates among WTO member countries. Armenia has most-favoured-nation trading relationships with all WTO members.

Together with Albania, Azerbaijan, Bulgaria, Georgia, Greece, Moldova, Romania, Russia, Serbia, Turkey and Ukraine, Armenia is also a member of the Organisation of Black Sea Economic Cooperation, which is designed to foster closer economic times among the countries of the Black Sea region. Armenia has bilateral free trade agreements in place with Georgia, Russia, Ukraine, Moldova, Belarus, Kazakhstan, Tajikistan, Turkmenistan and Kyrgyzstan. On 3 September 2013, President Sargsyan announced that Armenia would enter into the customs union that Russia has with Belarus and Kazakhstan. Armenia's entry into the customs union may lead to a revised tariff policy for Armenia, including possibly an increase in tariffs after a transitional period, but is expected to be carried out in a manner consistent with Armenia's obligations under WTO rules.

Armenia's trade relations with the EU are governed by the PCA. In 2004, Armenia became a member of the ENP and, in 2006, signed the ENP Action Plan. The ENP Action Plan has several objectives, including the harmonisation of Armenian trade-related standards and rules with those of the EU. In 2010, Armenia launched negotiations with the EU on an EU-Armenia Association Agreement, which is expected to replace the PCA but not include entry into a DCFTA given Armenia's decision to join the customs union established by Russia, Belarus and Kazakhstan. See "*Description of Armenia—International Relations*" for further discussion of Armenia's relations with the EU.

Since 2008, Armenia has maintained Generalised System of Preferences ("**GSP**") arrangements with all EU countries (and GSP+ status since 2009), the United States, Canada, Japan and Switzerland. The EU's GSP+ programme provides preferential access to the EU market in the form of zero duties and tariffs for approximately 7,200 products. To continue to enjoy this preferential treatment, Armenia must ensure effective implementation of 27 core international conventions on sustainable development and good governance. Armenia's utilisation rate of the programme is high: 90% of Armenia's exports to the EU are under the GSP+ programme. Armenia's current GSP+ status with the EU is valid through 2013 and is subject to renewal.

Barriers to Trade

Armenia does not apply quantitative restrictions or non-tariff barriers on trade, except for health, safety and environmental protection considerations. VAT and excise taxes apply equally to imported and local products. See "*Public Finance—Armenian Tax System*." Licensing requirements remain in effect for the import of certain medicine, weapons, explosive materials and radioactive products.

Pursuant to the Customs Code of Armenia (the "**Customs Code**"), adopted in 2000, Armenia has two tariff rates: 0.0% and 10.0%. In most cases, the tariff rate that applies to imports is 0.0%, with a tariff rate of 10.0%

imposed only on certain imports, such as luxury cars. See "*Public Finance—Armenian Tax System—Tax Structure—Customs Duties*." Armenia currently does not have any export restrictions in place, such as export quotas, export tariffs or voluntary export restraints.

FDI

Net FDI in Armenia has been supported by the full convertibility of the dram and is an important source of financing for the Armenian economy. Armenia relies on net FDI inflows, together with Government and CBA financing and workers' remittances, to cover its current account deficit.

FDI inflows decreased by 25.9% from U.S.$1,118.4 million in 2008 to U.S.$828.7 million in 2009, due to the effects of the global financial crisis and to the completion of the fifth unit of the Hrazdan Thermal Power Plant in 2008 for a total amount of U.S.$248.8 million. See "*Economy of Armenia—Energy—Electricity*." FDI continued to decline in 2010, falling by 35.4% to U.S.$535.7 million, mainly due to lower investments in the power and gas supply and land transport sectors. FDI began to recover in 2011, increasing by 31.3% to U.S.$703.2 million, on the back of higher investments in metals manufacturing. In 2012, FDI declined by 14.9% to U.S.$598.4 million due mainly to declines in investments in metals manufacturing, power and gas supply and land transport. In 2012, FDI in telecommunications increased by 103.8% due to a series of projects in the sector.

There are no restrictions on foreign ownership of property or assets in Armenia. There are no restrictions on the repatriation of profits/dividends from Armenia, subject to compliance with applicable tax laws.

The following table sets forth the value of FDI into Armenia by product category for the periods indicated:

Value of FDI Inflows into Armenia by Product Category in Dollars[1]

	For the year ended 31 December					For the six months ended 30 June	
	2008	**2009**	**2010**	**2011**	**2012**	**2012**	**2013**
	(U.S.$ millions)						
Telecommunications	157.8	253.4	190.7	138.7	282.7	229.9	39.4
Financial services[2]	133.5	97.9	54.3	79.3	28.7	0.5	0.3
Metals manufacturing	–	16.1	–	135.6	1.0	–	1.9
Mining industry	33.8	20.9	32.3	23.5	92.8	39.6	15.1
Real estate	29.6	34.6	24.9	63.0	54.4	24.2	19.7
Agriculture and hunting	22.9	6.7	3.8	2.8	36.1	4.7	3.3
Food and beverage	25.4	29.4	28.8	38.5	25.8	9.7	9.8
Power and gas supply	476.3	151.3	101.8	97.6	25.6	11.3	4.3
Construction	1.6	–	1.9	2.3	17.2	0.6	1.5
Land transport[3]	136.3	148.8	37.9	43.7	14.7	–	10.8
Hotel services	4.8	5.0	11.1	16.0	6.1	3.0	0.5
Air transport activities	53.7	31.2	25.0	6.1	3.5	3.3	4.4
Research	5.2	4.5	3.1	4.8	1.9	1.0	0.1
Other	37.5	28.9	20.1	51.3	7.9	4.2	11.1
Total	**1,118.4**	**828.7**	**535.7**	**703.2**	**598.4**	**322.0**	**122.3**

Notes:

(1) Figures in this table are current as of 30 June 2013.

(2) Excludes insurance and pension funding.

(3) Includes FDI used for the construction of transportation infrastructure, including the construction of the gas pipeline to Iran. See "*Economy of Armenia—Energy—Oil and Gas*."

Source: Armstat.

The following table sets forth the value of FDI inflows into Armenia by product category in percentage terms for the periods indicated:

Value of FDI Inflows into Armenia by Product Category in Percentages[1]

	For the year ended 31 December					For the six months ended 30 June	
	2008	2009	2010	2011	2012	2012	2013
				(%)			
Telecommunications	14.1	30.6	35.6	19.7	47.2	69.3	32.2
Financial services[2]	11.9	11.8	10.1	11.3	4.8	0.2	0.3
Metals manufacturing ..	–	1.9	–	19.3	0.2	–	1.6
Mining industry	3.0	2.5	6.0	3.3	15.5	11.9	12.4
Real estate	2.6	4.2	4.6	9.0	9.1	7.3	16.1
Agriculture and hunting	2.0	0.8	0.7	0.4	6.0	1.4	2.7
Food and beverage........	2.3	3.5	5.4	5.5	4.3	2.9	8.0
Power and gas supply ..	42.3	18.3	19.0	13.9	4.3	3.4	3.5
Construction..................	0.1	–	0.4	0.3	2.9	0.2	1.2
Land transport[3]	12.2	18.0	7.1	6.2	2.5	–	8.8
Hotel services...............	0.4	0.6	2.1	2.3	1.0	0.9	0.4
Air transport activities ..	4.8	3.8	4.7	0.9	0.6	1.0	3.6
Research.......................	0.5	0.5	0.6	0.7	0.3	0.3	0.1
Other	3.4	3.5	3.8	7.3	1.3	1.3	9.1
Total	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

Notes:

(1) Figures in this table are current as of 30 June 2013.

(2) Excludes insurance and pension funding.

(3) Includes FDI used for the construction of transportation infrastructure, including the gas pipeline to Iran. See "*Economy of Armenia—Energy—Oil and Gas.*"

Source: Armstat.

The following table sets forth the value of FDI into Armenia by country of origin for the periods indicated:

Value of FDI Inflows into Armenia by Country of Origin in Dollars[(1)]

	For the year ended 31 December				For the six months ended 30 June	
	2009	**2010**	**2011**	**2012**	**2012**	**2013**
	(U.S.$ millions)					
Russia	399.5	201.8	357.8	90.6	39.3	36.6
France	197.4	146.8	115.4	230.4	207.0	28.9
Argentina	48.3	29.8	8.8	51.3	4.9	8.3
Germany	19.4	22.8	25.3	50.7	14.2	12.4
Switzerland	8.9	12.0	7.9	43.7	25.3	4.8
Seychelles	–	–	–	23.6	3.1	–
Lebanon	28.4	11.3	18.7	13.6	7.0	3.3
Other	126.8	111.2	169.3	94.5	31.2	28.0
Total	**828.7**	**535.7**	**703.2**	**598.4**	**332**	**122.3**

Note:

(1) Figures in this table are current as of 30 June 2013.

Source: Armstat.

The following table sets forth the value of FDI into Armenia by country of origin in percentage terms for the periods indicated:

Value of FDI Inflows into Armenia by Country of Origin in Percentages[(1)]

	For the year ended 31 December				For the six months ended 30 June	
	2009	**2010**	**2011**	**2012**	**2012**	**2013**
	(%)					
Russia	48.2	37.7	50.9	15.1	11.8	30.0
France	23.8	27.4	16.4	38.5	62.4	23.7
Argentina	5.8	5.6	1.2	8.6	1.5	6.8
Germany	2.3	4.3	3.6	8.5	4.3	10.1
Switzerland	1.1	2.2	1.1	7.3	7.6	3.9
Seychelles	–	–	–	4.0	0.9	–
Lebanon	3.4	2.1	2.7	2.3	2.1	2.7
Other	15.4	20.7	24.1	15.7	9.4	22.9
Total	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

Note:

(1) Figures in this table are current as of 30 June 2013.

Source: Armstat.

Armenian Development Agency

The Armenian Development Agency (the "**ADA**") was originally established in 1998 with the dual aim of encouraging FDI in Armenia and promoting Armenian exports abroad.

The ADA facilitates FDI in several ways. It provides information on investment opportunities in Armenia, assists foreign investors in setting up local businesses, advises foreign investors on developments in investment-related laws and regulations and liaises with the Government on behalf of foreign investors. One of the ADA's key priorities is to support the development of the information technology sector in Armenia.

The ADA promotes Armenian exports by researching potential markets for Armenian goods and services, locating joint venture partners on behalf of Armenian exporters and organising various kinds of international conferences and trade fairs in support of Armenian products.

The ADA is considered the principal intermediary between the Government and investors, both foreign and local. The Ministers of Economy, Finance and Foreign Affairs each sit on ADA's board, together with leading members of the local business community. The Prime Minister of Armenia serves as the chairman of ADA's board.

PUBLIC FINANCE

Overview

The Law on the Budgetary System of Armenia (the "**Budgetary System Law**"), adopted on 21 July 1997, defines the procedures governing Armenia's budgetary system and regulates the preparation, adoption, execution and monitoring of the Consolidated Budget (as defined below). The Budgetary System Law also defines the budgetary relations between the Government and the local governments.

The consolidated general government budget (the "**Consolidated Budget**") comprises (i) the state budget (the "**State Budget**") and (ii) the local government budgets.

The following table sets out the Consolidated Budget of Armenia for the periods indicated:

Consolidated Budget

	2008	2009	2010	2011	2012
			(AMD billions)		
Consolidated Budget					
Revenues	812.2	711.7	804.3	906.1	975.3
Expenditures	841.3	947.6	975.9	1,1013.5	1,037.1
Deficit	29.1	235.9	171.6	107.4	61.8
State Budget					
Revenues	785.4	690.0	780.4	880.9	946.2
Expenditures	810.6	929.1	954.3	986.5	1,006.1
Deficit	25.2	239.1	173.9	105.7	59.9
Local budgets					
Revenues	51.7	52.6	84.9	87.3	95.5
Expenditures	55.6	49.4	82.6	89.1	97.5
Deficit/(surplus)	3.9	(3.2)	(2.3)	1.8	1.9

Source: Ministry of Finance.

The Ministry of Finance is centrally involved in each stage of the budgetary process, establishing fiscal policy objectives and coordinating the preparation, adoption, execution and reporting of the State Budget. In addition to the Ministry of Finance, each of the Government, National Assembly and Audit Chamber of Armenia (the "**Audit Chamber**") performs certain oversight functions with respect to execution of the State Budget. Budget figures are also discussed with IMF missions in the context of their annual review process.

Under the Budgetary System Law, local governments are entitled to a share of the revenues from certain Government-imposed taxes and are permitted to raise revenues directly through limited property tax levies and local duties, as well as through certain fees and other non-tax measures. The Government also allocates funds to local governments by subsidies (to address regional economic disparities) and other transfers. See "*—Fiscal Relations with Local Governments*."

Fiscal Reforms

Modernising the country's public finance system in an effort to improve the preparation, execution and oversight of the budgetary process is a key priority of the Government. In 1996, the Government initiated a set of reforms, whereby all bank accounts held by State and local budgetary institutions were closed and replaced with a single unified treasury account ("**UTA**") held at the CBA and controlled by the Ministry of Finance. All budgetary receipts and payments on both the State and community levels are now processed through the UTA. As part of these reforms, the Government established an integrated general treasury ledger with sub-accounts for each budgetary institution and began to report all accounts on a cash basis and in accordance with the principle of double-entry accounting. Improved methods for monitoring all stages of the expenditure cycle were also introduced, and contingent liabilities are now recorded. Since 2008, Government financial statistics have been prepared and reported in accordance with the guidelines and definitions set forth in the IMF's Government Finance Statistics Manual ("**GFSM 2001**").

In 2010, the Government approved the Public Financial Management Strategy, which sets forth reforms designed to: (i) enhance fiscal discipline; (ii) reform the public procurement process; (iii) improve treasury administration; and (iv) facilitate more effective oversight and accountability concerning the use of public resources. In particular, the Ministry of Finance is in the process of instituting further reforms, which include the introduction of an internal auditing system and new accounting standards based on International Public Sector Accounting Standards (IPSAS) in line ministries and their respective internal budget departments.

Furthermore, since 2011, the Government has begun the transition to a programme-based budgetary system, which is a results-oriented budgeting procedure meant to shift focus from managing financial resources to managing results. Under a programme-based approach to budgeting, non-financial performance indicators, such as the quality of services purchased or delivered by a budgetary institution, in addition to financial performance measures, are taken into consideration when planning appropriations and assessing their use. As part of this transition, public spending is expected to be channeled through programmes tied to specific targets and measurable indicators. Furthermore, the Government plans to continue with measures to improve the presentation of expenditure items in accordance with functional classification spheres. These reforms are expected to grant the ministries more autonomy over the development and management of their respective budgets, to make the budget planning process more detailed and to put greater emphasis on medium-term benchmarking.

See "*—Armenian Tax System—Reforms*," for a discussion of tax reforms.

Budget Process

Budget Preparation and Adoption

The draft State Budget is prepared by the Ministry of Finance, in consultation with other ministries and agencies. The process of drafting and enacting the State Budget is carried out in accordance with detailed budget calendars and procedures as prescribed by the Budgetary System Law.

Armenia's fiscal year is from 1 January to 31 December. During the first half of each year, the Ministry of Finance prepares the Medium-Term Public Expenditure Framework (the "**MTEF**"), using budgetary information and spending requests gathered from other ministries and agencies, which it then submits to the Government for approval. The MTEF is an important component of the budgetary process as it sets out the Government's fiscal priorities over the medium-term and analyses the historical performance and future needs of the Armenian economy on a sector-by-sector basis. The MTEF also contains certain medium-term economic and budgetary projections. The MTEF, produced annually since 2003, is typically approved by the Government in June or July of each year. The MTEF currently in effect was approved in July 2013 and covers the three-year period from 2014 to 2016.

After the Government approves the MTEF, the Ministry of Finance and other ministries and Government departments begin to prepare the draft State Budget for the following year, a basic framework of which is submitted to the Government in accordance with a schedule adopted by the Prime Minister. No later than 90 days before the end of the current year, the Government presents the draft State Budget for the following year to the National Assembly for review and comment, together with an explanatory note that contains three-year forecasts for the main socio-economic indicators of the country as well as budget projections for the three years following the fiscal year covered by the draft State Budget. The State Budget for the upcoming year is typically adopted by the National Assembly in November or early December, after which it is sent to the President for signature. The 2013 State Budget was approved by the National Assembly on 5 December 2012.

Budget Execution and Monitoring

After the annual State Budget becomes law, the Government issues an implementing decree on its execution, which includes quarterly breakdowns of revenues and expenditures.

The Ministry of Finance is responsible for managing the execution of the State Budget, which sets out targets for revenues and expenditures, as well as caps on domestic and foreign borrowing and other sources of deficit financing. The expenditure levels as set forth in the State Budget are annual spending limits with breakdowns for each line item. Upon adoption of the State Budget, the Ministry of Finance promulgates annual, quarterly and monthly allocation targets for each line item. Within the annual spending limits, the Government may, and often does, reallocate funds between line items. In addition, pursuant to the Budgetary System Law, the Government has access to a reserve fund ("**Government Reserve Fund**"), which is a source of financing for expenditures not foreseen in the State Budget. The Government Reserve Fund may not exceed 5% of the total budgetary appropriations for the relevant fiscal year. Subject to certain conditions under the Budgetary System Law, the Government may increase spending levels beyond annual spending limits without seeking approval of the National Assembly.

There are various mechanisms in place for monitoring implementation of the State Budget. The Audit Chamber is responsible for carrying out periodic audits of Government accounts, and, in addition to the audits it is required to perform, may also on its own initiative and at any time initiate an investigation of Government programmes and expenditures. In addition, the Government has certain reporting obligations concerning the State Budget. Within 40 days after the end of each quarter, the Government is required to deliver a status report (prepared with the assistance of the Ministry of Finance) to the National Assembly on progress made in the implementation of the State Budget, and, on 1 May of each year, the Government must submit to the National Assembly a final report on the performance of the previous year's State Budget (the "**Annual Budget Report**"). The Annual Budget Report is required by law to include analyses of key economic and budgetary trends and to disclose certain data on the Public Debt and any use of the Government Reserve Fund. The Audit Chamber reviews the Annual Budget Report and provides the National Assembly with its own set of findings on the accuracy of the figures included therein and on the level of Government compliance with the country's budgetary laws and regulations. The National Assembly is required under the Budgetary System Law to discuss and approve the Annual Budget Report no later than the second Wednesday in June.

The following table shows the actual public revenues and expenditures against the State Budget for the years 2008 to 2012 and for the first six months of 2013:

Actual and Budgeted Revenues and Expenditures

	For the year ended 31 December										For the six months ended 30 June	
	2008		2009		2010		2011		2012		2013	
	Budget	Actual	Budget	Actual	Budget	Actual	Budget	Actual	Budget	Actual	Budget	Actual
	(AMD billions)											
Revenues	**746.0**	**785.4**	**905.4**	**690.0**	**742.1**	**780.4**	**852.4**	**880.9**	**911.6**	**946.2**	**486.9**	**507.2**
Tax revenues	702.0	726.1	855.9	625.3	675.2	699.4	773.4	777.4	874.3	878.4	465.2	479.6
Grants	34.9	15.0	34.7	21.7	42.5	30.6	56.0	59.4	16.3	18.7	11.4	3.2
Other revenues	9.0	44.3	14.8	43.0	24.4	50.4	23.0	44.0	21.0	49.1	10.2	24.4
Expenditures	**822.1**	**810.6**	**945.4**	**929.1**	**935.5**	**954.3**	**1,001.1**	**986.5**	**1,044.2**	**1,006.1**	**526.7**	**471.6**
Debt service	11.0	11.0	15.9	16.3	37.1	30.4	42.6	35.5	47.7	40.7	24.9	22.4
Interest on Internal Public Debt	7.5	7.5	11.9	8.8	17.4	15.8	24.4	20.7	26.2	23.2	14.5	13.8
Interest on External Public Debt	3.6	3.6	4.1	7.5	19.7	14.6	18.2	14.8	21.5	17.4	10.4	8.5
Non-interest expenditures	811.0	799.5	929.5	912.8	898.4	923.9	958.5	951.0	996.4	965.5	501.8	449.2
General public services, *of which*	92.8	93.8	107.2	96.7	102.7	112.8	110.6	118.6	117.3	119.8	71.8	56.2
Interbudgetary transfers to local governments	21.0	21.0	27.5	27.5	32.4	32.4	32.4	32.4	32.4	32.4	18.1	18.1
Defence	125.4	121.2	149.6	130.2	135.7	147.6	146.2	145.5	154.5	152.8	82.5	79.3
Public order, security and judiciary	53.3	61.7	64.2	69.5	56.6	67.4	60.8	72.5	61.5	76.7	34.1	38.7
Economic relations	100.8	89.4	103.1	133.8	113.1	112.5	97.0	84.0	113.9	71.1	44.1	24.2
Environmental protection	4.3	3.0	6.4	3.9	6.1	4.9	8.9	6.6	5.3	7.0	2.7	1.9
Housing and public services	18.7	14.0	18.6	21.1	46.4	42.8	48.4	43.8	19.5	14.3	11.9	7.2
Health care	54.5	50.0	66.1	56.2	55.2	56.1	62.5	63.3	65.1	64.5	32.3	27.2
Tourism, culture and religion	15.7	16.0	19.8	16.3	16.3	16.1	18.0	17.6	22.7	22.8	9.4	9.2
Education	103.7	103.5	126.9	107.5	99.9	97.8	108.4	106.1	105.6	102.8	50.5	46.6
Social welfare	219.2	212.6	252.5	243.6	244.4	244.2	271.9	256.2	307.3	291.7	151.7	146.4
Other reserve funds	22.6	34.3	15.1	33.9	21.9	21.6	25.8	36.8	23.9	41.9	10.7	12.3
Budget balance	**(76.0)**	**(25.2)**	**(40.0)**	**(239.1)**	**(193.4)**	**(173.9)**	**(148.6)**	**(105.7)**	**(132.5)**	**(59.9)**	**(39.9)**	**35.7**

Source: Ministry of Finance.

With the exception of 2009, actual revenues exceeded budgeted revenues in each period under review. In 2009, as a result of the global financial crisis, actual revenues were 23.8% lower than budgeted revenues due to substantially lower tax revenues and grant proceeds from international organisations. With the exception of 2010, actual expenditures were lower than budgeted expenditures in each period under review. In 2010, actual expenditures were 2% higher than budgeted expenditures, mainly as a result of higher outlays on defence, general public services and public order and security. Actual budget deficits in each period under review were lower than expected, except for 2009, when the deficit was substantially higher than planned as a result of the global financial crisis.

2013 State Budget

The following table sets forth the State Budget for 2013, as approved by the National Assembly:

2013 State Budget

	AMD billions	**% of GDP**
Total revenues	**1,032.8**	**22.8**
Tax revenues and duties	993.1	21.9
Grants	17.5	0.4
Other revenues	22.3	0.5
Total expenditures	**1,152.6**	**25.4**
Debt service	**52.5**	**1.2**
Interest on Internal Public Debt	29.9	0.7
Interest on External Public Debt	22.7	0.5
Non-interest expenditures	**1,100.1**	**24.2**
General public services, *of which*	156.4	3.4
Interbudgetary transfers to local governments	36.2	0.8
Defence	182.7	4.0
Public order, security and judicial activity	72.4	1.6
Economic relations	131.4	2.9
Environment protection	5.4	0.1
Housing and public services	25.9	0.6
Health care	72.0	1.6
Tourism, culture and religion	18.2	0.4
Education	108.3	2.4
Social welfare	304.7	6.7
Other reserve funds	22.7	0.5
Deficit	**(119.8)**	**(2.6)**
Deficit financing	**119.8**	**2.6**
Domestic financing	**55.2**	**1.2**
Net borrowings	28.3	0.6
Net financial assets	26.9	0.6
External financing	64.6	1.4
Net borrowings	104.4	2.3
Net financial assets	(39.8)	(0.9)

Source: Ministry of Finance.

The 2013 State Budget was based on the following macroeconomic assumptions for 2013: a nominal GDP of AMD4,537.3 billion; annual inflation of 4.0%; and an average exchange rate of AMD405.5/U.S.$1.

The 2013 State Budget envisages revenues in 2013 of AMD1,032.8 billion, or 22.8% of GDP, expenditures of AMD1,152.6 billion, or 25.4% of GDP, and an overall deficit of AMD119.8 billion, or 2.6% of GDP. The 2013 State Budget envisions net external financing in 2013 of AMD104.4 billion, or 2.3% of GDP excluding the proceeds from the Notes.

The following table sets forth certain budgetary projections, as set forth in the current MTEF and approved by the Government:

Medium-Term Expenditure Framework for 2014-2016

	For the year ended 31 December					
	2014		**2015**		**2016**	
	AMD billions	% of GDP	AMD billions	% of GDP	AMD billions	% of GDP
Total revenues	**1146.3**	**23.6**	**1266.8**	**23.6**	**1416.4**	**23.9**
Tax revenues and duties	1103.3	22.8	1236.0	23.0	1387.5	23.4
Grants	22.1	0.5	11.2	0.2	10.3	0.2
Other revenues	20.9	0.4	19.6	0.4	18.6	0.3
Total expenditures	**1257.9**	**25.9**	**1374.1**	**25.6**	**1535.1**	**25.9**
Debt service	54.2	1.1	60.0	1.1	66.0	1.1
Interest on Internal Public Debt	33.7	0.7	38.7	0.7	43.3	0.7
Interest on External Public Debt	20.6	0.4	21.6	0.4	22.7	0.4
Non-interest expenditures	1203.6	24.8	1314.1	24.5	1469.1	24.8
Social, culture, science	603.0	12.4	657.3	12.3	683.0	11.5
Defence, public order, security and judicial activity	259.7	5.4	285.1	5.3	313.7	5.3
Economic relations, Environment protection, Housing and public services	132.5	2.7	170.0	3.2	216.8	3.7
Public administration	110.7	2.3	98.4	1.8	104.8	1.8
Others, *of which*	97.8	2.1	103.4	1.9	150.9	2.5
Interbudgetary transfers to local governments	39.0	0.8	43.6	0.8	48.2	0.8
Deficit	**(111.6)**	**(2.3)**	**(107.3)**	**(2.0)**	**(118.7)**	**(2.0)**
Deficit financing	**111.6**	**2.3**	**107.3**	**2.0**	**118.7**	**2.0**
Domestic financing	93.8	1.9	76.9	1.4	75.7	1.3
Net borrowings	35.3	0.7	38.3	0.7	42.0	0.7
Net financial assets	58.5	1.2	38.6	0.7	33.7	0.6
External financing	17.8	0.4	30.4	0.6	43.0	0.7
Net borrowings	62.3	1.3	78.9	1.5	96.8	1.6
Net financial assets	(44.6)	(0.9)	(48.5)	(0.9)	(53.8)	(0.9)
Assumptions:						
Nominal GDP, AMD billions	4,850.20	–	5,364.0	–	5,934.80	–
CPI	4.0	–	4.0	–	4.0	–
Average exchange rate (AMD/U.S.$)	417.63	–	417.63	–	417.63	–

Source: Ministry of Finance.

Public Accounts

The following table sets forth a summary of the actual revenues and expenditures of, and certain other statistics related to, the State Budget for the periods indicated:

Public Accounts

	For the year ended 31 December					For the six months ended 30 June	
	2008	**2009**	**2010**	**2011**	**2012**	**2012**	**2013**
	(AMD billions, except percentages)						
Revenues	**785.4**	**690.0**	**780.4**	**880.9**	**946.2**	**422.0**	**507.2**
Taxes and duties	726.1	625.3	699.4	777.4	878.4	396.0	479.6
VAT	381.3	254.2	301.7	328.5	369.7	156.7	192.4
Social contributions	105.0	102.9	105.3	123.4	129.1	61.3	13.9
Excise taxes	45.9	42.8	48.1	39.4	49.3	20.8	21.7
Personal income tax	53.7	60.2	73.9	81.2	91.7	42.1	114.8
Profit tax	86.2	81.8	77.8	97.8	118.7	65.9	62.4
Customs duties	37.3	25.1	29.4	36.3	43.0	17.4	24.2
Stamp duties	22.3	19.0	20.0	22.4	23.8	10.8	11.9
Presumptive tax	20.3	22.8	22.0	20.7	14.9	8.3	5.8
Other taxes	37.0	16.4	21.1	27.6	38.3	16.2	29.2
Grants	15.0	21.7	30.6	59.4	18.7	3.8	3.2
Other revenues	44.3	43.0	50.4	44.0	49.1	22.2	24.4
Expenditures[(1)]	**810.6**	**929.1**	**954.3**	**986.5**	**1,006.1**	**436.7**	**471.6**
Debt service	**11.1**	**16.3**	**30.4**	**35.5**	**40.7**	**20.1**	**22.4**
Interest on Internal Public Debt	7.5	8.8	15.8	20.7	23.2	11.9	13.8
Interest on External Public Debt	3.6	7.5	14.6	14.8	17.4	8.1	8.5
Non-interest expenditures	**799.5**	**912.8**	**923.9**	**951.0**	**965.4**	**416.6**	**449.2**
Social welfare	212.6	243.6	244.2	256.2	291.7	141.2	146.4
Defence	121.2	130.2	147.6	145.5	152.8	69.5	79.3
General public services, *of which*	93.8	96.7	112.8	118.6	119.8	51.8	56.2
Interbudgetary transfers to local governments	21.0	27.5	32.4	32.4	32.4	16.2	18.1
Education	103.5	107.5	97.8	106.1	102.8	48.8	46.6
Public order, security and judiciary	61.7	69.5	67.4	72.5	76.7	32.6	38.7
Economic relations	89.4	133.8	112.5	84.0	71.1	24.3	24.2
Health care	50.0	56.2	56.1	63.3	64.5	27.9	27.2
Other reserve funds	33.6	33.9	21.6	36.8	41.9	5.2	12.3
Tourism, culture and religion	16.0	16.3	16.1	17.6	22.8	9.0	9.2
Housing and public services	14.0	21.1	42.8	43.8	14.3	3.7	7.2
Environmental protection	3.0	3.9	4.9	6.6	7.0	2.5	1.9

Public Accounts (continued)

	For the year ended 31 December					For the six months ended 30 June	
	2008	2009	2010	2011	2012	2012	2013
	(AMD billions, except percentages)						
State Budget deficit......	**25.2**	**239.1**	**173.9**	**105.7**	**59.9**	**14.6**	**35.7**
Revenues/GDP (%)[(2)]	22.0	22.2	22.9	23.3	23.8	27.3	31.2
Expenditures/GDP (%)[(2)]	22.7	29.9	27.3	26.1	25.3	28.3	29.0
Deficit/GDP (%)[(2)]..........	0.7	7.7	5.0	2.8	1.5	1.0	2.2

Notes:

(1) Under the Budgetary System Law, the Government has the authority to allocate extra-budgetary funding (which arises from the collection of fees by Government agencies, e.g., the issuance of licence plates and passports, fines, and donations from multilateral organisations). This funding is not recorded as a separate line-item in the State Budget, but rather is distributed among existing line items based on the sphere to which the money is allocated. This funding is not subject to approval by the National Assembly. However, the Government's approval of such spending is considered an amendment to the State Budget and is subject to the same execution processes and reporting rules as the other items of the State Budget. Extra-budgetary funds in the periods under review were as follows: AMD13.7 billion (1.7% of annual expenditures) in 2008; AMD15.5 billion (1.7% of annual expenditures) in 2009; AMD18.8 billion (2.0 % of annual expenditures) in 2010; AMD21.9 billion (2.2% of annual expenditures) in 2011; AMD23.7 billion (2.4% of annual expenditures) in 2012; and AMD9.7 billion (2.1% of period expenditures) in the six months ended 30 June 2013.

(2) Calculated as a percentage of Armenia's nominal GDP.

Source: Ministry of Finance.

Revenues

The Government's principal sources of revenues are taxes, in particular, VAT and profit taxes. See "—*Armenian Tax System—Tax Structure*."

Total revenues have grown over the past five years, from AMD785.4 billion in 2008 to AMD946.2 billion in 2012, an increase of 20.5%. With the exception of 2009, revenues experienced year-on-year growth in each year under review. Revenues declined by 12.1% in 2009, mainly due to a 33.3% decline in VAT collections attributable to the impact of the global financial crisis on the Armenian economy. In the six months ended 30 June 2013, revenues increased by 21.1%, compared to the six months ended 30 June 2012, driven mainly by 22.7% growth in VAT. Beginning 1 January 2013, social contributions are classified as personal income tax. Therefore, in the six months ended 30 June 2013, compared to the six months ended 30 June 2012, social contributions declined from AMD61.3 billion to AMD13.9 billion (which represents remaining amounts accrued in 2012, but transferred in January 2013) and personal income taxes increased from AMD42.1 billion to AMD114.8 billion.

Taxes and duties represent the largest share of Government revenues, accounting for 92.8% and 94.8%, respectively, of State Budget revenues in 2012 and the first six months of 2013. Due to a combination of GDP growth and measures taken to improve tax collection (see "—*Armenian Tax System—Reforms*"), tax revenues and duties increased by 21.0% between 2008 and 2012, driven largely by 70.8% growth in personal income tax receipts and a 32.5% rise in profit tax collections.

The following table sets forth certain additional information about State Budget revenues for the periods indicated:

State Budget Revenues

	For the year ended 31 December					For the six months ended 30 June	
	2008	**2009**	**2010**	**2011**	**2012**	**2012**	**2013**
	(AMD billions, except percentages)						
Total tax revenues and duties	**726.1**	**625.3**	**699.4**	**777.4**	**878.4**	**396.0**	**479.6**
Annual (period) change *(%)*	21.2	(13.9)	11.9	11.2	13.0	5.4	21.1
% of GDP(1)	20.3	19.9	20.2	20.6	22.0	25.7	29.5
% of total revenues	92.4	90.6	89.6	88.3	92.8	93.8	94.6
VAT	**381.3**	**254.2**	**301.7**	**328.5**	**369.7**	**156.7**	**192.4**
Annual (period) change *(%)*	20.9	(33.3)	18.7	8.9	12.5	3.8	22.8
% of GDP(1)	10.7	8.1	8.7	8.7	9.2	10.2	11.9
% of total revenues	48.5	36.8	38.7	37.3	39.1	37.1	37.9
Social contributions	**105.0**	**102.9**	**105.3**	**123.4**	**129.1**	**61.3**	**13.9**
Annual (period) change *(%)*	18.7	(2.0)	2.3	17.2	4.6	0.7	(77.3)
% of GDP(1)	2.9	3.3	3.0	3.3	3.2	4.0	0.9
% of total revenues	13.4	14.9	13.5	14.0	13.6	14.5	2.7
Excise taxes	**45.9**	**42.8**	**48.1**	**39.4**	**49.3**	**20.8**	**21.7**
Annual (period) change *(%)*	10.4	(6.8)	12.4	(18.1)	25.1	16.7	4.3
% of GDP(1)	1.3	1.4	1.4	1.0	1.2	1.3	1.3
% of total revenues	5.8	6.2	6.2	4.5	5.2	4.9	4.3
Personal income tax	**53.7**	**60.2**	**73.9**	**81.2**	**91.7**	**42.1**	**114.8**
Annual (period) change *(%)*	14.8	12.1	22.8	9.9	12.9	12.5	172.7
% of GDP(1)	1.5	1.9	2.1	2.1	2.3	2.7	7.1
% of total revenues	6.8	8.7	9.5	9.2	9.7	10.0	22.6
Profit tax	**86.2**	**81.8**	**77.8**	**97.8**	**118.7**	**62.4**	**65.9**
Annual (period) change *(%)*	14.2	(5.1)	(4.9)	25.7	21.4	10.3	(5.3)
% of GDP(1)	2.4	2.6	2.2	2.6	3.0	4.3	3.8
% of total revenues	11.0	11.9	10.0	11.1	12.5	15.6	12.3
Customs duties	**37.3**	**25.1**	**29.4**	**36.3**	**43.0**	**17.4**	**24.2**
Annual (period) change *(%)*	55.3	(32.7)	17.1	23.5	18.5	1.3	39.1
% of GDP(1)	1.0	0.8	0.8	1.0	1.1	1.1	1.5
% of total revenues	4.7	3.6	3.8	4.1	4.5	4.1	4.8
Stamp duties	**22.3**	**19.0**	**20.0**	**22.4**	**23.8**	**10.8**	**11.9**
Annual (period) change (%)	2.0	(14.8)	5.3	12.0	6.3	10.5	10.2
% of GDP(1)	0.6	0.6	0.6	0.6	0.6	0.7	0.7
% of total revenues	2.8	2.8	2.6	2.5	2.5	2.6	2.3
Presumptive tax	**20.3**	**22.8**	**22.0**	**20.7**	**14.9**	**8.3**	**5.8**
Annual (period) change (%)	13.8	12.3	(3.5)	(5.9)	(28.0)	17.3	(30.1)
% of GDP(1)	0.6	0.7	0.6	0.5	0.4	0.5	0.4
% of total revenues	2.6	3.3	2.8	2.3	1.6	2.0	1.1

State Budget Revenues (continued)

	For the year ended 31 December					For the six months ended 30 June	
	2008	2009	2010	2011	2012	2012	2013
	(AMD billions, except percentages)						
Other taxes	**37.0**	**16.4**	**21.1**	**27.6**	**38.3**	**16.2**	**29.2**
Annual (period) change (%)	(5.7)	(55.7)	28.7	30.8	38.8	11.1	80.2
% of GDP(1)	1.0	0.5	0.6	0.7	1.0	1.0	1.8
% of total revenues	4.7	2.4	2.7	3.1	4.0	3.8	5.8
Grants	**15.0**	**21.7**	**30.6**	**59.4**	**18.7**	**3.8**	**3.2**
Annual (period) change (%)	(38.9)	44.7	41.0	94.1	(68.5)	78.5	(15.8)
% of GDP(1)	0.4	0.7	0.9	1.6	0.5	0.2	0.2
% of total revenues	1.9	3.1	3.9	6.7	2.0	0.9	0.6
Other revenues	**44.3**	**43.0**	**50.4**	**44.0**	**49.1**	**22.2**	**24.4**
Annual (period) change (%)	30.6	(2.9)	17.2	(12.7)	11.6	6.7	9.9
% of GDP(1)	1.2	1.4	1.5	1.2	1.2	1.4	1.5
% of total revenues	5.6	6.2	6.5	5.0	5.2	5.3	4.8

Note:

n/a = not available.

(1) Calculated as a percentage of Armenia's nominal GDP.

Source: Ministry of Finance.

Expenditures

The Government's largest areas of spending are: (i) social welfare, which accounted for 29.0% of expenditures in 2012; (ii) defence, which accounted for 15.2% of expenditures in 2012; and (iii) general public services, which accounted for 11.9% of expenditures in 2012. Social welfare includes retirement, survivor and disability pensions, unemployment compensation, allowances to parents of newborn children, as well as certain other social disbursements, and general public services include interbudgetary transfers to local governments and expenses on legislative and executive affairs, financial and fiscal affairs, general research and other administrative expenses.

Total expenditures have grown over the past five years, from AMD810.6 billion in 2008 to AMD1,006.1 billion in 2012, an increase of 24.1%. There was annual expenditure growth in each year under review, particularly in 2009, when Government spending increased by 14.6%. The substantial increase in Government spending in 2009 was mainly driven by a 14.6% rise in social welfare spending and a 49.7% rise in spending on economic relations. Economic relations expenditures consist of expenditures on various sectors of the economy, including agriculture, forestry, irrigation, energy, mining, transport, communications and tourism. In the three largest areas of Government spending, expenditures grew by 21.9% between 2008 and 2012, with social welfare spending increasing by 37.2%, defence spending increasing by 26.1% and general public services by 27.7%.

In the first six months of 2013, expenditures increased by 8.0%, compared to the first six months of 2012, driven mainly by spending growth in social welfare, defence, general public services, public order, security and judiciary and other reserve funds.

Between 2008 and 2012, debt service payments increased by 270.0%, from AMD11.0 billion 2008 to AMD40.7 billion in 2012. This increase was driven by growth in interest payments on Internal Public Debt, which rose from AMD7.5 billion in 2008 to AMD23.2 billion in 2012, and on External Public Debt, which rose from AMD3.6 billion in 2008 to AMD17.4 billion in 2012. See "*Public Debt*." In the first six months of 2013, debt service payments increased by 11.4%, compared to the first six months of 2012, mainly reflecting growth in interest payments on Internal Public Debt.

The following table sets forth certain additional information about State Budget expenditures for the periods indicated:

State Budget Expenditures

	For the year ended 31 December					For the six months ended 30 June	
	2008	2009	2010	2011	2012	2012	2013
	(AMD billions, except percentages)						
Debt service	**11.0**	**16.3**	**30.4**	**35.5**	**40.7**	**20.1**	**22.4**
Annual (period) change *(%)*	n/a	48.2	86.5	16.8	14.6	13.1	11.4
% of GDP[1]	0.3	0.5	0.9	0.9	1.0	1.3	4.7
% of total expenditures	1.5	1.8	3.2	3.6	4.0	4.6	4.7
% of tax revenues and duties	1.5	2.6	4.3	4.6	4.6	5.1	4.7
Social welfare	**212.6**	**243.6**	**244.2**	**256.2**	**291.7**	**141.2**	**146.4**
Annual (period) change *(%)*	n/a	14.6	0.2	4.9	13.9	11.6	3.7
% of GDP[1]	6.0	7.8	7.1	6.8	7.3	9.1	9.0
% of total expenditures	26.2	26.2	25.6	26.0	29.0	32.3	31.0
% of tax revenues and duties	29.3	39.0	34.9	33.0	33.2	35.7	30.5
Defence	**121.2**	**130.2**	**147.6**	**145.5**	**152.8**	**69.5**	**79.3**
Annual (period) change *(%)*	n/a	7.4	13.4	(1.4)	5.0	10.8	14.1
% of GDP[1]	3.4	4.1	4.3	3.9	3.8	4.5	4.9
% of total expenditures	15.0	14.0	15.5	14.7	15.2	15.9	16.8
% of tax revenues and duties	16.7	20.8	21.1	18.7	17.4	17.6	16.5
General public services	**93.8**	**96.7**	**112.8**	**118.6**	**119.8**	**51.8**	**56.2**
Annual (period) change *(%)*	n/a	3.1	16.6	5.1	1.0	1.4	8.5
% of GDP[1]	2.6	3.1	3.3	3.1	3.0	3.4	3.5
% of total expenditures	11.6	10.4	11.8	12.0	11.9	11.9	11.9
% of tax revenues and duties	12.9	15.5	16.1	15.3	13.6	13.1	11.7
Education	**103.5**	**107.5**	**97.8**	**106.1**	**102.8**	**48.8**	**46.6**
Annual (period) change *(%)*	n/a	3.9	(9.0)	8.5	(3.1)	6.0	(4.5)
% of GDP[1]	2.9	3.4	2.8	2.8	2.6	3.2	2.9
% of total expenditures	12.8	11.6	10.2	10.8	10.2	11.2	9.9
% of tax revenues and duties	14.3	17.2	14.0	13.6	11.7	12.3	9.7
Public order, security and judiciary	**61.7**	**69.5**	**67.4**	**72.5**	**76.7**	**32.6**	**38.7**
Annual (period) change *(%)*	n/a	12.6	(3.0)	7.6	5.8	6.0	18.7
% of GDP[1]	1.7	2.2	1.9	1.9	1.9	2.1	2.4
% of total expenditures	7.6	7.5	7.1	7.3	7.6	7.5	8.2
% of tax revenues and duties	8.5	11.1	9.6	9.3	8.7	8.2	8.1

State Budget Expenditures (continued)

	For the year ended 31 December					For the six months ended 30 June	
	2008	2009	2010	2011	2012	2012	2013
	(AMD billions, except percentages)						
Economic relations	**89.4**	**133.8**	**112.5**	**84.0**	**71.1**	**24.3**	**24.2**
Annual (period) change *(%)*	n/a	49.7	(15.9)	(25.3)	(15.4)	28.7	(0.4)
% of GDP[(1)]	2.5	4.3	3.3	2.2	1.8	1.6	1.5
% of total expenditures	11.0	14.4	11.8	8.5	7.1	5.6	5.1
% of tax revenues and duties	12.3	21.4	16.1	10.8	8.1	6.1	5.0
Health care	**50.0**	**56.2**	**56.1**	**63.3**	**64.5**	**27.9**	**27.2**
Annual (period) change (%)	n/a	12.4	(0.2)	12.8	1.9	10.9	(2.5)
% of GDP[(1)]	1.4	1.8	1.6	1.7	1.6	1.8	1.7
% of total expenditures	6.2	6.0	5.9	6.4	6.4	6.4	5.8
% of tax revenues and duties	6.9	9.0	8.0	8.1	7.3	7.0	5.7
Other reserve funds	**34.3**	**33.9**	**21.6**	**36.8**	**41.9**	**5.2**	**12.3**
Annual (period) change (%)	n/a	(1.2)	(36.3)	70.4	13.9	28.5	136.5
% of GDP[(1)]	1.0	1.1	0.6	1.0	1.0	0.3	0.8
% of total expenditures	4.2	3.6	2.3	3.7	4.2	1.2	2.6
% of tax revenues and duties	4.6	5.4	3.1	4.7	4.8	1.3	2.6
Tourism, culture and religion	**16.0**	**16.3**	**16.1**	**17.7**	**22.8**	**9.0**	**9.2**
Annual (period) change (%)	n/a	1.9	(1.2)	9.9	28.8	17.1	2.2
% of GDP[(1)]	0.4	0.5	0.5	0.5	0.6	0.6	0.6
% of total expenditures	0.4	0.5	0.5	0.5	0.6	2.1	2.0
% of tax revenues and duties	2.2	2.6	2.3	2.3	2.6	2.3	1.9
Housing and public services	**14.0**	**21.1**	**42.8**	**43.8**	**14.3**	**3.7**	**7.2**
Annual (period) change (%)	n/a	50.7	102.8	2.3	(67.4)	84.0	94.6
% of GDP[(1)]	0.4	0.7	1.2	1.2	0.4	0.2	0.4
% of total expenditures	1.7	2.3	4.5	4.4	1.4	0.8	1.5
% of tax revenues and duties	1.9	3.4	6.1	5.6	1.6	0.9	1.5
Environmental protection	**3.0**	**3.9**	**4.9**	**6.6**	**7.0**	**2.5**	**1.9**
Annual (period) change (%)	n/a	30.0	25.6	34.7	6.1	6.5	(24.0)
% of GDP[(1)]	0.1	0.1	0.1	0.2	0.2	0.2	0.1
% of total expenditures	0.4	0.4	0.5	0.7	0.7	0.6	0.4
% of tax revenues and duties	0.4	0.6	0.7	0.8	0.8	0.6	0.4

Note:

n/a = not available.

(1) Calculated as a percentage of Armenia's nominal GDP.

Source: Ministry of Finance.

Fiscal Relations with Local Governments

The two main sources of funding for local governments are tax revenues (both state and local) and non-tax transfers from the State Budget. Land and real property tax collections collected by the Government are allocated directly to local governments; all other taxes are transferred to the State Budget. The Government also allocates equalisation subsidies and other non-tax transfers to local governments.

Armenian Tax System

Reforms

Armenia's tax system has undergone numerous reforms designed to streamline the number of taxes levied and improve the country's tax collection capabilities. In December 2012, the Government, in cooperation with the World Bank and USAID, launched a tax modernisation project (the "**Tax Administration Modernisation Project**") that envisages the restructuring of the State Revenue Committee ("**SRC**"), which is responsible for the collection of all major taxes and customs within Armenia, and sets out further reforms to improve strategic planning, revenue analysis, internal controls and the use of information technology in tax administration. Effective 1 January 2013, social contributions are accounted for as part of personal income tax. In addition, as a means to improve tax collection, the Government has prepared draft transfer pricing legislation, based on OECD principles. The draft legislation is currently the subject of discussions between the Government and National Assembly.

Armenia is considering further reforms to its tax system, such as introducing taxes on certain luxury items and raising land and property taxes on certain types of real estate.

Tax Structure

Armenia's tax structure includes both direct taxation, such as personal income taxes and corporate profit taxes, and indirect taxation, such as VAT. In addition, Armenia collects excise taxes, customs duties, stamp duties, presumptive fees and certain other taxes, and administers a regime of social contributions. See "*Economy of Armenia—Labour and Social Policy—Pensions*" for a discussion of Armenia's pension system.

VAT

VAT, which is a general consumption tax levied on the supply of goods and services in Armenia and on the supply of goods imported into Armenia is the largest source of State Budget revenues. The general VAT rate for the supply of goods and services and the import of goods is 20%. Certain limited items, such as the supply of goods and services to educational, scientific, social and religious institutions, the sale of domestically-produced handmade carpets, the sale of certain precious stones and the provision of insurance and re-insurance services, are exempt from VAT.

VAT accounted for 48.5%, 36.8%, 38.7%, 37.3% and 39.1% of State Budget revenues in 2008, 2009, 2010, 2011 and 2012, respectively. In the first six months of 2012 and 2013, VAT accounted for 37.1% and 37.9%, respectively, of State Budget revenues.

Social Contributions

Social contributions represent mandatory employer/employee pension contributions. For employees, social contributions are withheld by employers at the source and are assessed on the following scale: (i) for monthly salaries up to AMD2,000,000, a rate of 3% of monthly wages; and (ii) for monthly salaries in excess of AMD2,000,000, plus 8% of the amount of monthly wages in excess of AMD2,000,000. Employers are required to make social contributions on the following scale: (i) for monthly salaries up to AMD20,000, AMD7,000; (ii) for monthly salaries between AMD20,000 and AMD100,000, plus 15% of the amount of monthly wages in excess of AMD20,000; and (iii) for monthly salaries above AMD100,000, plus 5% of the amount of monthly wages in excess of AMD100,000.

Social contributions (employee/employer combined) accounted for 13.4%, 14.9%, 13.5%, 14.0% and 13.6% of State Budget revenues in 2008, 2009, 2010, 2011 and 2012, respectively. Beginning 1 January 2013, social contributions are classified as personal income tax. Therefore, in the six months ended 30 June 2013, compared to the six months ended 30 June 2012, social contributions declined from 14.5% of State Budget revenues to 2.7% of State Budget revenues. Social contribution paid in the first half of 2013 reflect remaining amounts accrued in December 2012. See "*Economy of Armenia—Labour and Social Policy—Pensions*."

Excise Taxes

Excise taxes are regulated by the Law on Excise Tax, which was adopted in 2000. Excise taxes are currently levied on alcoholic beverages, tobacco substitutes and certain hydrocarbon products (on imports or domestic production) and on luxury cars. Domestic and imported excise products are treated equally. Excise tax is paid upon sale or import.

The following table shows the rate of excise tax for certain products as of 30 June 2013:

Excise Tax Rates

Product	*Excise Rate*
Alcohol products	
Beer	30% of factory price (but no less than U.S.$0.25/litre)
Wine	10% of factory price (but no less than U.S.$0.25/litre)
Spirits	50% of factory price (but no less than U.S.$1.20/litre)
Ethyl spirits	50% of factory price (but no less than U.S.$2.00/litre)
Tobacco substitutes	U.S.$3.50/kg
Hydrocarbon products	
Crude oil and petroleum products	U.S.$65.00/tonne
Gas produced from oil and other hydrocarbons (excluding natural gas)	U.S.$2.00/tonne
Gasoline	U.S.$60.00/tonne
Diesel fuel	10% of customs value (but no less than U.S.$81.00/tonne)
Lubricating oil	10% of customs value (but no less than U.S.$1.00/kg)
Luxury cars	20% of customs value

Excise taxes accounted for 5.8%, 6.2%, 6.2%, 4.5% and 5.2% of State Budget revenues in 2008, 2009, 2010, 2011 and 2012, respectively. In the first six months of 2012 and 2013, excise taxes accounted for 4.9% and 4.3%, respectively, of State Budget revenues.

Personal Income Tax

A resident, individual taxpayer is required to pay tax on income generated in Armenia or in any other country, whereas a non-resident, individual taxpayer is taxed only on income earned in Armenia. Personal income is taxed regardless of whether the income is generated in money, in kind, in services or otherwise. Personal income tax is assessed on two scales, depending on whether the tax is payable directly by the taxpayer or by a tax agent on behalf of the taxpayer. If the personal income tax is paid directly by the taxpayer (which is generally applicable to natural persons and individual entrepreneurs), it is assessed on the following scale: (i) for annual taxable income up to AMD1,400,000, a rate of 24.4%; and (ii) for annual taxable equal to or greater than AMD1,440,000, plus 26% of the amount over AMD1,400,000. If the personal income tax is payable by a tax agent on behalf of the taxpayer, it is assessed on the following scale: (i) for monthly taxable income up to AMD120,000, a rate of 24.4%; (ii) for monthly taxable income between AMD120,000 and AMD2,000,000, plus 26% of the amount over AMD120,000; and (iii) for monthly taxable income above AMD2,000,000, plus 36% of the amount over AMD2,000,000. Certain types of income are exempt from the personal income tax, including Government disbursements to certain categories of vulnerable people, pension payments and insurance compensation.

Personal income taxes accounted for 6.8%, 8.7%, 9.5%, 9.2% and 9.7% of State Budget revenues in 2008, 2009, 2010, 2011 and 2012, respectively. In the first six months of 2012 and 2013, personal income taxes accounted for 10.0% and 22.6%, respectively, of State Budget revenues. See "—*Social Contributions*," above, for an explanation for the significant increase in personal income tax receipts in the six months ended 30 June 2013.

Profit Tax

The profit tax is payable by resident and non-resident legal entities. Legal entities resident in Armenia are required to pay profit tax on all profits generated in Armenia and/or any other country, while non-resident legal entities are required to pay profit tax only on profits generated in Armenia. The resident profit tax rate is 20%. The non-resident profit tax rate is 20%, except in respect of passive income, which is taxed at 10%, and certain types of insurance compensation, which is taxed at 5%. Profits from the sale of agricultural products are exempt from the profit tax.

Profit tax accounted for 11.0%, 11.9%, 10.0%, 11.1% and 12.5% of State Budget revenues in 2008, 2009, 2010, 2011 and 2012, respectively. In the first six months of 2012 and 2013, profit tax accounted for 15.6% and 12.3%, respectively, of State Budget revenues. In absolute terms, profit tax receipts have increased by 37.7% between 2008 and 2012 as a result of growth in the Armenian economy and improvements in tax collection.

Customs Duties

Customs duties are regulated by the Customs Code, and are imposed only on imports. Customs duties are assessed at either 10% or 0% depending on the type of product being imported. See "*External Sector—International Trade Agreements—Barriers to Trade*."

Customs duties accounted for 4.7%, 3.6%, 3.8%, 4.1% and 4.5% of State Budget revenues in 2008, 2009, 2010, 2011 and 2012, respectively. In the first six months of 2012 and 2013, customs duties accounted for 4.1% and 4.8%, respectively, of State Budget revenues.

Other Taxes

The Government also imposes various other taxes, including stamp duties, presumptive fees, property tax, land tax, turnover tax and patent fees. The presumptive fee, which in 2012 accounted for 1.6% of State Budget revenues, was introduced in 1998 in an effort to improve government tax collection. The presumptive fee assigns fixed lump-sum payments to certain groups of taxpayers based on occupation or business activity. The following business activities are currently subject to the presumptive fee: gas-filling stations; casino ownership and other gambling activities; and certain transportation activities.

International Taxation Agreements

The Government has entered into double taxation treaties with 41 states, including Russia and Georgia. In July 2013, Armenia became a member of the International Convention on the Simplification and Harmonisation of Customs Procedures, as amended in 2006 (the "**Kyoto Convention**"). The Kyoto Convention was drafted in an effort to standardise and simplify international customs procedures.

Beneficial Tax Regimes

Armenian tax legislation also extends certain tax benefits to the following regimes:

International Development Organisations

Armenia has agreements in place with certain international development organisations, such as the World Bank, ADB KfW and the United States Agency for International Development. The Government bears all tax liabilities incurred on the part of such organisations during the implementation of these agreements.

Free Economic Zones

Armenia opened its first FEZ in July 2013. It has 55,800 square metres of industrial space and 37,900 square metres of office space and is open to businesses specialising in certain high-tech sectors, such as precision engineering, biotechnology, pharmaceuticals, information technology and telecoms. FEZ residents are exempt from VAT, customs duties and profit and property taxes, as well as currency restrictions, and enjoy the free movement of capital, profits and dividends. The FEZ is managed by Sitronics Armenia, a unit of the Russian company Sistema JSFC.

MONETARY AND FINANCIAL SYSTEM

Central Bank of Armenia

The CBA is the central bank of the Republic of Armenia. It is an autonomous public entity governed by the Law of the Republic of Armenia on the Central Bank of Armenia (the "**CBA Law**"), which was adopted on 30 June 1996 by the National Assembly, and subsequently amended.

The CBA Law sets out the objectives, authority, structure and management of the CBA. The key objective of the CBA is price stability in Armenia by developing, approving and conducting monetary policy. The CBA Law sets out further objectives of the CBA, including the creation of requisite conditions for stability, liquidity, solvency and normal functioning of the banking sector, and the creation and development of an efficient payment and settlement system. The CBA Law establishes the CBA's relationship with Government authorities, banks and other legal entities. The CBA Law establishes the CBA as the authority responsible for the circulation of the dram and for currency control. The CBA is responsible for implementing monetary and foreign exchange policies, supervising the banking sector, regulating other financial services (including insurance and trading in securities), as well as holding foreign reserves and acting as the fiscal agent and banker for the Government. The CBA's website is www.cba.am.

The CBA is independent of the Government and National Assembly. The Constitution guarantees the independence of the CBA.

CBA Strategy for 2012-2014

The CBA's strategic programme for 2012-2014 is based on four strategic goals:

- *Price stability*. In light of its key objective, to maintain price stability, the CBA implements an inflation targeting policy designed to set inflation expectations within an inflation target. The CBA is implementing reforms that are designed to develop Armenia's money markets, critical to the effective use of monetary policy tools.

- *Financial stability*. The banking sector holds a substantial share of the assets of Armenia's financial sector. To strengthen the country's financial stability, the CBA is carrying out reforms designed to align Armenia's financial services legislation with that of the EU and strengthen its capacity to combat money laundering and terrorism financing, while also putting into place more effective crisis-management systems for monitoring, evaluating and responding to risks to the country's financial stability. The CBA is also developing a national strategy to promote financial literacy among the population and is taking steps to foster non-cash, electronic methods of payment (see "*—Financial Services Industry—Banking Supervision—Payment and Settlement Systems*"), create a secondary mortgage market, reform the pension system and develop local capital markets. See "*Economy of Armenia—Labour and Social Policy—Social Insurance System—Pensions and Disability*."

- *National currency cycle stability*. In recent years, the CBA has taken measures to protect against currency fraud, including the installation of new facilities at the CBA to monitor cash maintenance and the introduction of an automated system for the exchange of information among the CBA, commercial banks, collection agencies and Government ministries.

- *Institutional development*. The CBA has prioritised and will continue to prioritise the professional development of its staff. It is committed to recruiting and retaining the country's leading specialists in the fields of economics and finance and to fostering an environment that encourages continued learning and research. The CBA is expanding its research staff and intends to open an economics research and education centre in Dilijan.

CBA Management

The supreme governing body of the CBA is the board (the "**CBA Board**"), which consists of the chairman, his deputy and five members. The CBA Board members, with the exception of the chairman and deputy chairman, are appointed by the President of Armenia for a period of five years.

The chairman of the CBA is the highest official of the CBA. In the absence of the chairman, or if the chairman is unable to perform his or her duties, the chairman is substituted by the deputy chairman, and in case of the deputy chairman's absence, or the inability of the deputy chairman to perform his or her duties, the eldest member of the CBA Board shall act in his place. The chairman is appointed by the National Assembly, at the recommendation of the President, for a period of six years, and the deputy chairman is appointed by the President for a period of six years. The chairman coordinates the work of the CBA, represents the CBA overseas and in meetings of international organisations, and implements other rights assigned exclusively to the CBA Board. The chairman and the deputy chairman as well as members of the CBA Board cannot be members of any political party, may not hold another office title, and may not carry out other paid work.

As of the date of this Prospectus, the chairman of the CBA Board is Mr. Arthur Javadyan (whose current terms ends in 2014) and the deputy chairman is Mr. Nerses Yeritsyan. The members of the CBA Board are Mr. Armenak Darbinyan, Mr. Oleg Aghasyan, Mr. Vakhtang Abrahamyan, Mr. Ashot Mkrtchyan and Mr. Artur Stepanyan.

Monetary Policy of the CBA

Overview

The CBA is responsible for the formulation and implementation of monetary policy. The Monetary Policy Department (the "**MPD**"), established within the CBA, is responsible for the development and implementation of the CBA's monetary and foreign exchange policies. The MPD is composed of three divisions – the Monetary and Fiscal Analysis Division, the External Economic Relations and Analysis Division and the Modelling and Forecasting Division. A team within the MPD, known as the Forecasting Team, meets eight times per year in order to discuss monetary policy, present inflation forecasts for the upcoming 12 months and advise the chairman of the CBA on policies to minimise deviation from the targeted rate of inflation, including by means of interest rate adjustments. The Forecasting Team also assists in the preparation of inflation reports. The CBA's interest rates and the press release on policy rates are published on the CBA website in Armenian and English.

In 2011, the CBA established a consultative body known as the Financial Stability Committee, which is responsible for the assessment of financial stability. The Financial Stability Committee is composed of the chairman and deputy chairman of the CBA and heads of the Financial System Stability and Development Department, MPD, Financial Supervisory Department, Financial Department and Financial System Regulation Department. The Financial Stability Committee employs various tools to monitor the stability of Armenia's financial system, including various stress-testing models, identifies potential risks to the stability of Armenia's financial system, considers appropriate measures to ensure financial stability, and suggests policies and other actions. The Financial Stability Committee meets every quarter, although in extraordinary situations a special session may be convened.

The CBA's primary policy objective is to ensure price stability, and since 2006 the CBA has adopted a policy of inflation targeting to meet this objective. Each year, an inflation target is set out in the State Budget. Inflation reports, consisting of (i) a monetary policy programme with a forecast horizon and (ii) a report on the implementation of such monetary policy programme, are submitted to, although not subject to the approval of, the National Assembly. Since January 2006, the CBA has maintained an annual inflation target of 4%, with a tolerance band of 1.5%.

Implementation

Since 1 July 2006, the CBA has been implementing an inflation-targeting strategy. The principal inflation-targeting tool that the CBA employs is a short-term interest rate (the "**Refinancing Rate**"), which is the rate that applies to short-term loans from the CBA to the domestic banking system. Beginning in May 2009, the CBA began to progressively lower the Refinancing Rate in an effort to counteract the effects of the global financial crisis. The Refinancing Rate reached 5.0% in September 2009, where it remained under early 2010. Since 21 January 2010, the CBA has consistently increased the Refinancing Rate. Effective 13 August 2013, the Refinancing Rate is set at 8.5%.

The following table sets forth the Refinancing Rate for the dates indicated:

Refinancing Rates

Dates	Refinancing Rate
14 August 2013 – present	8.5%
7 September 2011 – 13 August 2013	8.0%
13 April 2011 – 6 September 2011	8.5%
5 March 2011 – 12 April 2011	8.25%
9 February 2011 – 4 March 2011	7.75%
12 May 2010 - 8 February 2011	7.25%
14 April 2010 – 11 May 2010	7.00%
10 March 2010 – 13 April 2010	6.50%
17 February 2010 – 9 March 2010	6.0%
21 January 2010 – 16 February 2010	5.5%
11 November 2009 – 20 January 2010	5.0%

Source: CBA.

In addition to the Refinancing Rate, the CBA may choose to use other monetary policy instruments, including open-market operations, standing facilities and minimum reserve requirements.

To manage short-term deviations in liquidity and interest rates, the CBA uses various adjustment instruments, including repo, reverse repo, deposit auction and foreign currency swap transactions. The CBA also employs a variety of structural instruments that are designed to encourage long-term adjustments to liquidity and interest rates. The CBA also engages in the purchase and sale of Government securities on the domestic market.

Armenian banks may make use of the CBA's standing facilities, consisting of one-day Lombard repos and one-day deposit facilities. Lombard repos expand liquidity in the financial system, while deposit facilities have the effect of absorbing market liquidity. Through the use of Lombard repos and deposit facilities, an interest rate corridor is set within the interbank market, which limits interest rate volatility. Only treasury bills issued by the CBA and the Ministry of Finance, or securities issued by certain commercial entities which have been assigned a high rating by the CBA, can be used in repo transactions.

Beginning in April 2009, the CBA began to progressively lower the rates on deposit facilities and one-day Lombard repos in an effort to counteract the effects of the global financial crisis. In September 2009, the deposit facility rate and one-day Lombard repo rate reached 2.0% and 8.0%, respectively, where they remained until early 2010. Since 21 January 2010, the deposit facility rate has progressively increased. Since that time, the one-day Lombard rate has also consistently increased, except for an adjustment that took place in June 2010, when the rate fell from 12.25% to 10.25%. Effective 13 August 2013, the deposit facility rate and one-day Lombard rate are set at 7.0% and 10.0%, respectively.

The following table sets forth the rates on the CBA's standing facilities for the dates indicated:

Standing Facilities

Dates	Deposit Facility Rate	One-day Lombard Repo Rate
14 August 2013 – present	7.0%	10.0%
7 November 2012 – 13 August 2013	6.5%	9.5%
5 September 2012 – 6 November 2012	6.0%	10.0%
6 June 2012 – 4 September 2012	5.5%	10.5%
7 September 2011 – 5 June 2012	5.0%	11.0%
13 April 2011 – 6 September 2011	5.5%	11.5%
5 March 2011 – 12 April 2011	5.25%	11.25%
9 February 2011 – 4 March 2011	4.75%	10.75%
9 June 2010 – 8 February 2011	4.25%	10.25%
12 May 2010 – 8 June 2010	4.25%	12.25%
14 April 2010 – 11 May 2010	4.0%	12.0%
19 March 2010 – 13 April 2010	3.5%	11.5%
10 March 2010 – 18 March 2010	3.5%	9.5%
17 February 2010 – 9 March 2010	3.0%	9.0%
21 January 2010 – 16 February 2010	2.5%	8.5%
11 November 2009 – 1 January 2010	2.0%	8.0%

Source: CBA.

To safeguard the stability of the local banking sector, the CBA establishes minimum reserve requirements, which are determined separately for dram liabilities and foreign currency liabilities. By changing the reserve ratio, the CBA affects the ability of commercial banks to lend and thus influences the liquidity of the market. The reserve requirements are applied to all bank liabilities, except capital and equivalent long-term funding sources. In June 2013, as a measure to de-dollarise the economy and promote local lending in drams, the CBA lowered the minimum reserve requirement ratio on dram-denominated liabilities to 4.0% from 8.0%. The CBA believes that this decrease should lead to a tightening of interest rate spreads on the domestic interbank market and boost the demand for Government securities. The minimum reserve requirement ratio on foreign currency-denominated liabilities is currently 12.0%. See "*—Financial Services Industry—Banking Supervision—Key Prudential Requirements*."

Monetary Aggregates

The table below sets forth certain statistics relating to money aggregates in Armenia and in the Armenian banking sector at the end of the periods indicated:

Money Aggregates

	As of 31 December					As of 30 June
	2008	2009	2010	2011	2012	2013
	(AMD millions, unless otherwise indicated)					
Currency in circulation	315,949	282,441	304,324	349,407	384,065	351,789
Broad money (M2)	537,958	450,878	521,633	659,437	737,983	731,228
Broad money (M3)	707,788	814,990	911,386	1,126,978	1,346,365	1,383,118
Broad money (M3) year-on year growth rate (%)	2.4	15.1	11.8	23.7	19.5	2.7
Broad money (M3) share of DP(1) (%)	19.8	25.9	26.3	29.8	33.7	n/a
Reserve money	449,731	511,678	507 552	671,271	683,846	659,174
Growth rate *(%)*	5.3	13.8	(0.8)	32.3	1.9	(3.6)
Deposits in drams	228,031	178,665	218,593	308,809	366,678	393,985
Deposits in foreign currencies	268,114	463,626	542,912	714,305	845,467	1,025,693
Loans in drams	391,815	361,535	403,641	495,004	573,274	616,677
Loans in foreign currencies	242,551	388,018	545,497	773,785	1,032,405	1,071,236

Note:

n/a= not available.

(1) Calculated as a percentage of nominal GDP.

Source: CBA.

Monetisation of the Armenian economy, expressed as the ratio of broad money (M3) to nominal GDP, was 19.8% in 2009, 25.9% in 2009, 26.3% in 2010, 29.8% in 2011 and 33.7% in 2012 and is forecasted to be 33.0% in 2013.

An increase in monetary aggregates has resulted from growing money demand as the Armenian economy has recovered from the slowdown in 2009. The growth of both deposits and loans is explained by the growth in economic activity and financial intermediation, and an increase in competition between commercial banks. Deposit growth both in national and foreign currencies is principally the result of an increase in remittances from abroad.

Armenia is a highly dollarised economy. As of 31 December 2008, foreign currency deposits accounted for 54.3% of all deposits and foreign currency loans account for 38.2% of all loans. The global financial crisis led to greater dollarisation of the economy: As of 31 December 2009 and 2010, foreign currency deposits accounted for 72.2% and 71.3%, respectively, of all deposits, and foreign currency loans accounted for 51.8% and 57.5%, respectively, of all loans. In 2011 and 2012, foreign currency deposits as a share of total deposits declined, falling to 69.8% as of 31 December 2011 and to 59.6% as of 31 December 2012, while foreign currency loans as a share of total loans moved in the opposite direction, to 61.0% as of 31 December 2011 and to 64.3% as of 31 December 2012. As of 30 June 2013, foreign currency deposits accounted for 72.2% of total deposits and foreign currency loans accounted for 63.5% of loans. The share rise in foreign currency deposits as of 30 June 2013 was mainly due to market expectations concerning the relative value of the dram against certain foreign currencies.

The CBA has adopted certain measures to de-dollarise the Armenian economy and support the domestic money markets. For example, the reserve ratio for dram-denominated loans was lowered to 4.0% in June 2013, compared to 12.0% for foreign-currency loans, which is expected to boost dram liquidity, while making it more difficult for Armenian banks to lend in foreign currencies. See "*Risk Factors—Risk Factors Relating to Armenia—Dollarisation of the Economy*."

Liquidity and Credit Aggregates

The following table sets forth the liquidity and credit aggregates for the Armenian banking sector as of the dates indicated:

Liquidity and Credit Aggregates

	As of 31 December					As of 30 June
	2008	2009	2010	2011	2012	2013
	(AMD millions)					
Liquid Assets (core)(1)	222,837	420,774	421,180	529,670	562,542	622,525
Short-term liabilities	216,065	298,810	320,318	438,524	446,280	489,723
Total loans(2)	634,366	749,552	949,139	1,268,789	1,605,680	1,687,914
Loans to resident public sector	6,245	8,787	14,435	22,110	20,614	22,595
Loans to resident private sector (excluding interbank loans)	621,691	707,113	891,061	1,204,510	1,539,242	1,600,264
Loans to non-residents	6,430	33,652	43,643	42,179	45,824	65,055
Interbank loans	12,308	23,590	40,827	53,216	50,427	60,904

Notes:

(1) Core liquid assets include currency, deposits and other financial assets that are available either on demand or within three months or less.

(2) Total loans includes loans by commercial banks to non-residents and resident non-financial corporations, households, non-profit organisations and other financial organisations. Total loans also include factoring, leasing and repo agreements.

Source: CBA.

As of 31 December 2009, the liquid assets to short term-liabilities ratio was 140.8%, an increase from 103.1% as of 31 December 2008. This increase was mainly due to the global financial crisis, which caused the banking sector to adopt a relatively more conservative lending policy, and was partially offset by depositors increasing their savings held in term deposits, also largely in response to the global financial crisis. The liquid assets to short-term liabilities ratio fell to 131.5% as of 31 December 2010 as a result of an increase in short-term deposits held by the banking sector, and to 120.8% as of 31 December 2011, due to short-term liabilities of banks growing at a faster rate than liquid assets. As of 31 December 2012 and as of 30 June 2013, the liquid assets to short-term liabilities ratio equalled 126.1% and 127.1%, respectively.

The local private sector is the primary recipient of loans from the Armenian banking sector. As of 31 December 2012 and as of 30 June 2013, loans to the domestic private sector (excluding interbank loans) accounted for 92.9% and 91.5%, respectively, of all banking sector loans. Since 2008, the volume of loans to the domestic private sector has demonstrated consistent annual growth: by 13.7% as of 31 December 2009; by 26.1% as of 31 December 2010; by 35.2% as of 31 December 2011; by 27.8% as of 31 December 2012; and by 4.0% as of 30 June 2013. Outstanding loans to non-residents have been consistently on the rise, increasing from AMD6,430 million as of 31 December 2008 (1.0% of outstanding banking sector loans) to AMD65,055 million (3.7% of outstanding banking sector loans) as of 30 June 2013. Interbank loans have increased in recent years: As of 30 June 2013, interbank loans stood at AMD60,904 million (3.6% of total loans outstanding), compared to AMD12,308 million as of 31 December 2008 (1.9% of total loans outstanding).

Inflation

CPI

CPI is used as a broad measure of inflation in Armenia. CPI statistics are collected and calculated on a monthly basis by Armstat and published on its website at www.armstat.am on the last business day of every month. The CBA uses the data collected by Armstat to monitor both headline inflation and core inflation.

Core inflation is that part of headline inflation, which is net of supply-side shocks, such as abrupt or short-term price fluctuations resulting, for example, from one-off increases in public utility fees or adverse weather conditions of a temporary nature.

The CBA puts primary emphasis on 12-month end-of-period inflation indicators. To ensure that inflation remains within the confidence band set in accordance with Armenia's inflation targeting policy (currently 4.0% per annum, plus or minus 1.5 percentage points), the CBA monitors the 12-month inflation indicator on a monthly basis against the same month of the previous year.

The following table sets forth certain CPI information for the periods indicated:

CPI Inflation Rates

	For the year ended 31 December					For the six months ended 30 June	
	2008	2009	2010	2011	2012	2012	2013
				(%)			
CPI (end of period)	**5.2**	**6.5**	**9.4**	**4.7**	**3.2**	**(0.4)**	**2.7**
Food	3.3	2.2	14.0	5.8	3.1	(2.6)	3.2
Non-food	0.2	14.6	4.6	4.3	5.7	1.8	0.9
Services	11.4	10.3	4.2	2.9	2.1	1.4	2.7
CPI (period average)	**9.0**	**3.4**	**8.2**	**7.7**	**2.6**	**2.2**	**4.1**
Food	10.0	(0.7)	8.6	11.2	2.3	1.8	4.5
Non-food	5.1	4.7	9.6	3.4	4.6	3.9	5.3
Services	9.0	10.4	6.8	3.6	2.1	2.0	2.6

Source: Armstat.

To determine CPI, Armstat monitors the prices of approximately 470 goods and services across Armenia.

The following table sets forth the composition of CPI and the relative weight attributable to each component in calculating CPI:

Composition of CPI

	(%)
Food and non-alcoholic beverages	48.47
Alcoholic beverages and tobacco	5.04
Clothing and footwear	4.55
Housing, water, electricity, gas and other fuels	13.64
Furnishings, household equipment and routine	3.17
Health	5.47
Transportation and communication	10.96
Recreation and culture	2.33
Miscellaneous goods and services	6.38
Total	**100.0**

Source: Armstat.

The following table sets forth the annual average inflation rates by CPI component for the periods indicated:

Inflation Rates of CPI Components

	For the year ended 31 December					For the period ended 30 June	
	2008	**2009**	**2010**	**2011**	**2012**	**2012**	**2013**
All items	**9.0**	**3.4**	**8.2**	**7.7**	**2.6**	**2.2**	**4.1**
Food and non-alcoholic beverages	11.1	(0.9)	9.4	12.3	2.0	1.5	4.5
Alcoholic beverages and tobacco	0.0	1.4	1.5	1.1	5.1	5.3	5.4
Clothing and footwear	6.8	8.5	11.5	3.4	6.8	6.9	6.3
Housing, water, electricity, gas	6.6	14.6	11.0	2.9	0.8	0.5	0.7
Furnishings, household equipment	2.7	10.3	3.8	0.6	4.0	2.2	5.4
Health..........................	13.6	2.5	6.6	8.0	7.0	7.3	10.5
Transportation and communication	6.6	(0.1)	5.9	3.8	0.6	0.2	0.2
Recreation and culture	2.9	5.1	6.2	(0.9)	2.6	1.1	4.3
Miscellaneous goods and services	7.8	7.8	8.7	3.7	4.7	5.0	5.3

Source: Armstat.

In 2010, Armenia's end-of-year annual CPI inflation rate was 9.4%, compared to 6.5% in 2009. Inflation in 2010 was due to a 14.0% increase in food prices, which, in turn, was driven by higher prices for bread, meat and milk products, as well as a lower than usual seasonal drop in prices on account of adverse weather conditions. The 9.3% increase in utility tariffs, particularly for natural gas, also contributed to inflation in 2010, given the relatively large weighting afforded to public utility prices in the composition of CPI. Food prices grew at a faster rate in 2010, compared to 2009, while the prices for non-food products and services grew at slower rates: by 4.6% and 4.2%, respectively, compared to 14.6% and 10.3%, respectively, in 2009.

In 2011, Armenia's end-of-year annual CPI inflation rate was 4.7%, compared to 9.4% in 2009. Inflation in 2011 was due to a 5.8% increase in food prices, particularly, of bread, meat, sugar, milk, oils and fats, a 4.3% increase in non-food prices and a 2.9% increase in the prices for services. Price growth in the services sector was, in turn, due to a 12.6% increase in the prices for medical services and a 7.9% increase in transportation prices owing to higher natural gas tariffs. Overall price growth was slower in 2011 compared to 2010 mainly due to an increase in the supply of agricultural products, which caused food prices to decelerate, and to slower price growth for non-food products and services.

In 2012, Armenia's end-of-year annual CPI inflation rate was 3.2%, compared to 4.7% in 2011. Inflation in 2012 was due to a 3.1% increase in food prices (particularly of bread and meat), which mainly took place in the second half of 2012, a 5.7% increase in non-food prices and a 2.1% increase in services. Price growth in services was in large measure caused by a 9.5% increase in the price for medical services. Overall price growth was slower in 2012 compared to 2011 mainly due to an increase in the supply of food products resulting from a strong harvest.

In the six-month period ended 30 June 2013, the CPI inflation rate was 2.7%, compared to negative 0.4% in the six-month period ended 30 June 2012. Inflation in the first half of 2013 was mainly due to a 3.2% increase in food prices and a 2.7% increase in the prices for services. After contracting during the first half of 2012 due to favourable weather conditions, food prices began to grow in the second half of 2012 and the first half of 2013. Since the beginning of 2013, prices for medical and transportation services have also exhibited growth. As a result, the 12-month inflation rate as of 30 June 2013 reached 6.5%, exceeding the upper limit of the CBA's confidence band.

Inflation in July 2013 and August 2013 was 0.4% and 0.3%, respectively, compared to (1.5)% and (0.4)%, respectively, in July 2012 and August 2012. Inflation is expected to grow at a faster rate in the second half of 2013, compared to the second half of 2012, mainly due to a reduction in the supply of agricultural products owing to poor weather conditions in May 2013 and to the one-off increase in gas and energy tariffs in July 2013. See "*Risk Factors—Risks Relating to Armenia—Relations with Russia*." To address inflationary pressures, the CBA has recently increased interest rates; as a result, the CBA expects the inflation rate to decelerate during 2014. See "*—Monetary Policy of the CBA—Implementation*."

Other Inflation Indices

In addition to the CPI, the CBA uses other indices to monitor price movements in the economy, including: (i) the producer price index ("**PPI**"), which measures price changes in various industrial sectors; (ii) the freight tariff index, which measures changes in freight tariffs based on mode of transport; (iii) the construction price index, which measures changes in prices for various construction inputs, including materials, parts and labour; and (iv) the sale price index for agricultural products, which measures changes in the sales price of a basket of agricultural products.

The following table sets forth certain information of these other inflation indices, as measured on an average basis:

Selected Inflation Rates

	For the year ended 31 December					For the six months ended 30 June	
	2008	2009	2010	2011	2012	2012	2013
				%			
PPI (end of period) ..	**(12.3)**	**30.8**	**15.7**	**9.7**	**8.6**	**3.9**	**(1.1)**
PPI (period average)	**2.2**	**7.1**	**22.6**	**9.1**	**7.0**	**6.1**	**4.8**
Freight tariff index (period average)	**5.6**	**11.4**	**17.8**	**6.4**	**2.4**	**3.6**	**1.8**
Roads	10.4	(1.3)	2.7	3.3	2.9	3.0	2.6
Rail.............................	17.4	8.8	9.0	11.1	4.5	10.3	2.7
Air	0.3	17.7	5.2	1.4	7.5	7.2	5.9
Pipeline	0.0	14.6	32.5	7.1	0.0	0.0	0.0
Construction price index (period average)	**26.9**	**8.0**	**4.2**	**(3.5)**	**(2.5)**	**(4.4)**	**2.3**
Sale price index for agricultural products (period average)	**(0.8)**	**(12.2)**	**32.0**	**17.1**	**(5.0)**	**(3.6)**	**(8.1)**

Source: Armstat.

Financial Market Interest Rates

The following table sets forth the weighted average interest rates for all deposits (dram and foreign currency) in Armenian banks for the periods indicated:

Interest Rates on Deposits[1]

	For the year ended 31 December					For the period ended 30 June
	2008	2009	2010	2011	2012	2013
			(%)			
January	3.29	4.84	5.57	6.03	6.65	7.87
February	3.05	6.65	6.07	5.93	6.32	7.28
March	3.42	5.70	5.74	5.38	6.18	6.62
April	2.87	5.65	6.05	4.93	5.39	6.35
May	2.84	5.73	6.12	4.60	6.14	6.32
June	3.18	6.24	5.62	5.18	6.54	6.26
July	3.38	6.43	5.27	4.56	6.41	–
August	3.40	6.34	5.80	5.07	6.59	–
September	3.40	6.17	5.73	5.12	6.06	–
October	3.68	5.53	5.36	5.26	6.69	–
November	2.26	5.75	6.03	5.59	6.54	–
December	3.02	5.96	6.01	5.71	6.81	–

Note:

(1) These figures include interest rates on both dram and foreign currency deposits of all maturities, including demand deposits, for both individual depositors in Armenian banks and institutional and corporate depositors. Foreign currency deposit amounts are converted into drams using the relevant period-average exchange rates.

Source: CBA.

Interest rates on deposits have historically varied, sometimes significantly, depending on the currency of the deposit and the identity of the depositor. Variations are driven by competition between Armenian commercial banks and anticipated exchange rates.

In June 2013, the weighted average interest rates on short-term dram-denominated and foreign currency-denominated household deposits (excluding demand deposits) stood at 10.7% and 6.0%, respectively, compared to 11.0% and 6.1%, respectively, in December 2012. In June 2013, the weighted average interest rates on short-term dram-denominated and foreign currency-denominated deposits (excluding demand deposits) for non-financial corporations stood at 9.8% and 4.9%, respectively, compared to 9.4% and 6.9%, respectively, in December 2012.

In June 2013, the weighted average interest rates on long-term dram-denominated and foreign currency-denominated household deposits (excluding demand deposits) stood at 12.6% and 7.9%, respectively, compared to 13.1% and 8.2%, respectively, in December 2012. In June 2013, the weighted average interest rates on long-term dram-denominated and foreign currency-denominated deposits (excluding demand deposits) for non-financial corporations stood at 10.1% and 8.1%, respectively, compared to 9.9% and 6.5%, respectively, in December 2012.

In June 2013, the weighted average interest rates on short-term dram-denominated and foreign currency-denominated household loans (including mortgage, consumer and other loans) stood at 21.6% and 16.1%, respectively, compared to 21.5% and 16.9%, respectively, in December 2012. In June 2013, the weighted average interest rates on short-term dram-denominated and foreign currency-denominated loans to non-financial corporations stood at 12.8% and 10.1%, respectively, compared to 12.0% and 10.2%, respectively, in December 2012.

In June 2013, the weighted average interest rates on long-term dram-denominated and foreign currency-denominated household loans (including mortgage, consumer and other loans) stood at 18.1% and 14.8%, respectively, compared to 18.2% and 15.3%, respectively, in December 2012. In June 2013, the weighted average interest rates on long-term dram-denominated and foreign currency-denominated loans to non-financial corporations stood at 15.1% and 11.1%, respectively, compared to 14.8% and 11.3%, respectively, in December 2012.

Dram-denominated mortgage loans to individuals carried a 12.0% weighted average interest rate in June 2013, compared to a 12.8% weighted average interest rate in December 2012. Foreign currency-denominated mortgage loans to individuals carried a 12.4% weighted average interest rate in June 2013, compared to a 12.6% weighted average interest rate in December 2012.

The weighted average yield on short-term Government securities issued in the primary market was 9.0% in June 2013, compared to 10.4% in December 2012. The weighted average yield on mid-term Government securities issued in the primary market was 13.9% in June 2013, compared to 14.3% in December 2012. The weighted average yield on long-term Government securities issued in the primary market was 15.8% in June 2013, compared to 16.3% in December 2012.

Exchange Rates and Exchange Rate Policy

Armenia's national currency, the dram, was introduced in 1993. Consistent with its policy of inflation targeting, the CBA oversees a freely floating exchange rate regime. The exchange rate of the dram against the dollar is published on each business day as the weighted average rate of the buying and selling exchange rates of the dollar for transactions carried out by commercial banks, credit organisations and investment companies. Exchange rates of other currencies are calculated using their cross rates against the dollar, which are obtained from Bloomberg information systems at 14:00 Yerevan time. The exchange rates are published on the CBA's website before 15:45, Yerevan time, each business day and are effective for the next day.

The CBA has the exclusive right to issue bank notes and coins in Armenia. The CBA is responsible for the printing of bank notes and the minting of coins, the security and safekeeping of bank notes and coins intended for circulation and the custody and destruction of bank notes and coins withdrawn from circulation.

The following tables set forth, for the periods indicated, the exchange rate history of the dram relative to the dollar and euro, respectively:

Dram to Dollar Exchange Rate History

Year	Low	High	Period average[1]	Period End
2013 (through 31 August)	403.87	419.08	411.36	406.24
2013 (through 30 June)	403.87	419.08	412.18	409.90
2012	386.15	418.66	401.76	403.58
2011	362.26	385.77	372.50	385.77
2010	357.98	404.36	373.66	363.44
2009	304.78	388.01	363.28	377.89
2008	300.73	310.59	305.97	306.73

Note:

(1) The average rates are calculated as the average of the monthly exchange rates for the period. Average monthly exchange rates are calculated as the average of the daily exchange rates for the relevant month.

Source: CBA.

Dram to Euro Exchange Rate History

Year	Low	High	Period average[1]	Period End
2013 (through 31 August)	527.25	555.90	341.00	537.66
2013 (through 30 June)	529.80	555.90	541.35	535.25
2012	492.47	539.38	516.38	532.24
2011	469.43	555.82	518.72	498.72
2010	448.72	553.61	496.03	481.16
2009	383.90	583.14	507.35	542.23
2008	381.49	495.07	450.24	435.00

Note:

(1) The average rates are calculated as the average of the monthly exchange rates for the period. Average monthly exchange rates are calculated as the average of the daily exchange rates for the relevant month.

Source: CBA.

In 2009, in nominal terms, the dram depreciated against the dollar by 15.8% based on average rates and by based on year-end exchange rates. In 2009, the dram depreciated against the euro in nominal terms by 12.7% based on average rates and by 24.7% based on year-end rates. The average nominal effective, i.e., trade-weighted, exchange rate of the dram depreciated by 5.5%, and the average real effective exchange rate of the dram depreciated by 6.0% in 2009. During 2009, the CBA intervened in the foreign exchange market on several occasions in an attempt to mitigate potential negative developments in the financial system mainly credit risks, and manage liquidity shortages. The depreciation of the dram in 2009 led to an increase in dollarisation of the economy. See *"Risk Factors—Risk Factors Relating to Armenia—Dollarisation of the Economy.*"

In 2010, in nominal terms, the dram depreciated against the dollar by 2.8% based on average rates and appreciated against the dollar by 3.8% based on year-end exchange rates. In 2010, the dram appreciated against the euro in nominal terms by 2.2% based on average rates and by 11.2% based on year-end rates. The average nominal effective exchange rate of the dram depreciated by 2.5%, and the average real effective exchange rate of the dram appreciated by 0.5% in 2010. During the course of 2010, the CBA pursued a policy of monetary tightening, raising interest rates several times. See "*—Monetary Policy of the CBA—Implementation*." The tighter money supply, including higher reserve requirements, resulted in an increase in the demand for drams, which, in turn, contributed to the slowdown in exchange rate volatility in 2010. The CBA was a net seller of foreign exchange in 2010.

In 2011, in nominal terms, the dram depreciated against the dollar by 0.3% based on average rates and by 6.1% based on year-end exchange rates. In 2011, the dram depreciated against the euro in nominal terms by 4.6% based on average rates and by 3.6% based on year-end rates. The average nominal effective exchange rate of the dram appreciated by 2.4%, and the average real effective exchange rate of the dram depreciated by 0.9% in 2011. The CBA raised the Refinancing Rate and rates on standing facilities on three occasions during the first four months of 2011, before lowering key rates in September due to the easing of inflationary pressures. See "*—Monetary Policy of the CBA—Implementation*." The CBA was a net seller of foreign exchange in 2010, but the scale of its interventions declined compared to 2009 and 2010.

In 2012, in nominal terms, the dram depreciated against the dollar by 7.9% based on average rates and by 4.6% based on year-end exchange rates. In 2012, the dram appreciated against the euro in nominal terms by 0.5% based on average rates and by 6.7% based on year-end rates. The average nominal effective exchange rate of the dram depreciated by 3.0%, and the average real effective exchange rate of the dram depreciated by 4.4% in 2012. In 2012, the CBA did not adjust the Refinancing Rate, although it continued to make net sales of foreign exchange in an effort to minimise exchange rate volatility.

In the first half of 2013, in nominal terms, the dram depreciated against the dollar by 2.6% based on average rates and by 1.6% based on period-end exchange rates. In the first half of 2013, the dram depreciated against the euro in nominal terms by 4.8% based on average rates and by 0.6% based on period-end rates. The average nominal effective exchange rate of the dram depreciated by 0.9%, and the average real effective exchange rate of the dram appreciated by 1.6% in the first half of 2013. In August 2013, in an effort to combat inflation, the CBA took measures to tighten the money supply, increasing the Refinancing Rate to 8.5% (the first change in the Refinancing Rate since September 2011) and the rates on its standing facilities to 7.0% in respect of the deposit facility rate and 10.0% in respect of the one-day Lombard repo rate.

Net Foreign Assets

Armenia has no gold reserves and does not maintain a reserve position in the IMF. Its foreign exchange reserves are held in a mixture of foreign currencies, principally the dollar, euro, Japanese Yen, the British Pound,Swiss franc, Swedish krona, Danish krone, Norwegian krone, rouble, Canadian dollar and Australian dollar, as well as SDRs.

Foreign liabilities of the CBA primarily consist of IMF credits, SDR allocations and other loans.

The following table sets forth the official reserves of Armenia and foreign liabilities of the CBA in dollars as of the end of each period indicated:

Official Reserves and Foreign Liabilities[(1)]

	As of 31 December					As of 30 June
	2008	2009	2010	2011	2012	2013
	(U.S.$ millions)					
Foreign exchange reserves	1,403.9	1,879.0	1,832.3	1,875.4	1,767.7	1,572.3
SDR holdings	2.9	124.7	33.5	57.0	31.7	34.0
Gross official reserves	**1,406.8**	**2,003.7**	**1,865.8**	**1,932.5**	**1,799.4**	**1,606.3**
IMF credits	134.8	426.5	487.9	518.0	464.3	408.5
SDR allocation	0.0	138.0	135.6	135.1	135.2	132.3
Other loans	40.6	74.9	75.9	100.7	131.8	134.8
Other liabilities	0.6	0.5	0.5	0.3	0.3	0.6
Foreign liabilities	**176.0**	**639.9**	**699.9**	**754.1**	**731.6**	**676.2**

Note:

(1) Amounts converted into dollars are calculated based on period-end exchange rates, and include accrued interest.

Source: CBA.

As of 31 December 2009, the gross official reserves of Armenia stood at U.S.$2,003.7 million, an increase of U.S.$596.9 million, or 42.4%, compared to the level of gross official reserves as of 31 December 2008. The increase in reserves in 2009 was driven by a U.S.$475.1 million increase in foreign exchange reserves and a U.S.$121.8 million increase in SDR holdings. Inflows from IMF credits and the 2009 Russian loan were the main reasons for the increase in gross official reserves. As of 31 December 2009, foreign liabilities equaled U.S.$639.9 million, compared to U.S.$176.0 million as of 31 December 2008. The growth in foreign liabilities was mainly due to an increase of U.S.$291.5 million in IMF credits and the allocation of SDRs in 2009 in the amount of U.S.$138.0 million. Consequently, net foreign assets increased to U.S.$1,363.8 million as of 31 December 2009 from U.S.$1,230.8 million as of 31 December 2008. As of 31 December 2009, Armenia's foreign exchange reserves represented import coverage of 6.5 months.

As of 31 December 2010, the gross official reserves of Armenia stood at U.S.$1,865.8 million, a decrease of U.S.$137.9 million, or 6.8%, compared to the level of gross official reserves as of 31 December 2009. The decrease in reserves in 2010 was driven by a U.S.$46.7 million decline in foreign exchange reserves and a U.S.$91.2 million decline in SDR holdings. The decline in gross official reserves in 2010 was mainly due to a decline in the reserve requirements for foreign currencies and CBA interventions on the foreign exchange market. As of 31 December 2010, foreign liabilities equaled U.S.$699.9 million, compared to U.S.$639.9 million as of 31 December 2009. The growth in foreign liabilities was mainly due to an increase of U.S.$61.4 million in IMF credits. Consequently, net foreign assets decreased to U.S.$1,165.9 million as of 31 December 2010 from U.S.$1,363.8 million as of 31 December 2009. As of 31 December 2010, Armenia's foreign exchange reserves represented import coverage of 5.3 months.

As of 31 December 2011, the gross official reserves of Armenia stood at U.S.$1,932.5 million, an increase of U.S.$66.7 million, or 3.6%, compared to the level of gross official reserves as of 31 December 2010. The increase in reserves in 2011 was driven by a U.S.$43.1 million increase in foreign exchange reserves and a U.S.$23.5 million increase in SDR holdings. As of 31 December 2011, foreign liabilities equaled U.S.$754.1 million, compared to U.S.$699.9 million as of 31 December 2010. The growth in foreign liabilities was mainly due to an increase of U.S.$61.4 million in IMF credits. Consequently, net foreign assets decreased to U.S.$1,165.9 million as of 31 December 2011 from U.S.$1,3,63.8 million as of 31 December 2010. As of 31 December 2011, Armenia's foreign exchange reserves represented import coverage of 4.8 months.

As of 31 December 2012, the gross official reserves of Armenia stood at U.S.$1,799.4 million, a decrease of U.S.$133.1 million, or 6.9%, compared to the level of gross official reserves as of 31 December 2011. The decrease in reserves in 2012 was driven by a U.S.$107.7 million decline in foreign exchange reserves and a U.S.$25.3 million decrease in SDR holdings. The decline in foreign exchange reserves in 2012 was mainly due to CBA interventions on the foreign exchange market to defend the dram as well as a decline in the reserve requirements for foreign currencies. As of 31 December 2012, foreign liabilities equaled U.S.$731.6 million, compared to U.S.$754.1 million as of 31 December 2011. The decrease in foreign liabilities was mainly due to a decline of U.S.$53.7 million in IMF liabilities. Consequently, net foreign assets decreased to U.S.$1,067.8 million as of 31 December 2012 from U.S.$1,165.9 million as of 31 December 2011. As of 31 December 2012, Armenia's foreign exchange reserves represented import coverage of 4.4 months.

As of 30 June 2013, the gross official reserves of Armenia stood at U.S.$1,606.3 million, a decrease of U.S.$193.1 million, or 10.7%, compared to the level of gross official reserves as of 31 December 2012. The decrease in reserves in the first half of 2013 was driven by a U.S.$195.4 million decline in foreign exchange reserves, which, in turn, was mainly due to the repayment of Government debt and efforts on the part of the CBA to limit volatility of the dram. As of 30 June 2013, foreign liabilities equaled U.S.$676.2 million, compared to U.S.$731.6 million as of 31 December 2012. The decrease in foreign liabilities was mainly due to a decline of U.S.$55.8 million in IMF liabilities. Consequently, net foreign assets decreased to U.S.$930.1 million as of 30 June 2013 from U.S.$1,067.8 million as of 31 December 2012. As of 30 June 2013, Armenia's foreign exchange reserves represented import coverage of 3.9 months.

Armenia's reserves may come under pressure in the medium term as monetary support provided during the global financial crisis is repaid. Nevertheless, the Government believes that Armenia's reserves at the CBA are consistent with internationally-accepted metrics.

Financial Services Industry

Supervision and Licensing

Following the adoption of the CBA Law in 1996, the CBA is the sole regulator and supervisor of the financial services sector in Armenia, including in respect of, *inter alios*, banks, credit organisations, insurance companies, security market participants, currency exchange bureaus and money remittance service providers. The CBA is authorised to issue and revoke licences, carry out on- and off-site inspections and impose restrictions and sanctions. The CBA is also authorised to place banks and insurance companies into temporary administration, liquidation or insolvency regimes, as the case may be.

Banking Sector

As of 31 December 2012, there were 21 commercial banks and one development bank in Armenia, of which 20 had foreign capital participation. Foreign capital participation exceeded 50% of total share capital in 15 banks in Armenia as of 31 December 2012.

As of 30 June 2013, total assets of the Armenian banking sector equaled AMD2,633.5 billion, compared to AMD2,470.6 billion as of 31 December 2012 and AMD2,066.7 billion as of 31 December 2011. Between 31 December 2008 and 30 June 2013, total assets of the Armenian banking sector increased by AMD1,609.3 billion, or 157.1%, in large part due to significant growth in lending. As of 30 June 2013, loans accounted for AMD1,608.4 billion of total assets compared to AMD616.8 billion of total assets as of 31 December 2008, an increase of 160.8%. Loans account for the largest share of banking sector assets, comprising 61.1% of total assets as of 30 June 2013.

As of 30 June 2013, total liabilities of the Armenian banking sector amounted to AMD2,227.5 billion, compared to AMD2,077.0 billion as of 31 December 2012 and AMD1,710.8 billion as of 31 December 2011. Between 31 December 2008 and 30 June 2013, total liabilities of the Armenian banking sector increased by AMD1,438.9 billion, or 182.5%, in large part due to substantial growth in deposits. As of 30 June 2013, demand and time deposits accounted for AMD1,338.5 billion of total liabilities compared to AMD449.5 billion of total liabilities as of 31 December 2008, an increase of 197.8%. A 92.5% increase in other liabilities to banks from AMD211.6 billion as of 31 December 2008 to AMD407.2 billion as of 30 June 2013 also contributed to growth in total liabilities of the banking sector. Time deposits account represent the single largest component of banking sector liabilities, accounting for 38.4% of total liabilities as of 30 June 2013.

As of 30 June 2013, banks with majority foreign capital participation accounted for 68.1% of the banking sector's total assets. As of 30 June 2013, banks with majority foreign capital participation accounted for 65.3% of the banking sector's total capital.

There are no restrictions under Armenian law on the foreign ownership of banks. Areximbank is 100% owned by Gazprombank OJSC, a Russian bank. VTB Bank Armenia is 100% owned by VTB Bank, a Russian bank. Credit Agricole Banking Group, a French banking group, has a 28.0% shareholding in ACBA-Credit Agricole Bank. The EBRD has a 25.0% shareholding in Armeconombank, a 25.0% plus one share shareholding in Byblos Bank Armenia and a 14.4% holding in ProCredit Bank. Lebanese Credit Bank, a Lebanese bank, has a 89.9% shareholding in Anelik Bank. Mellat Bank Yerevan CJSC ("**Mellat Bank Yerevan**") is 100% owned by Bank Mellat, an Iranian bank. Mellat Bank Yerevan has no correspondent accounts with any Armenian bank and is not able to engage in any type of international wire transfer since it has been disconnected from the international SWIFT system. The CBA believes that, in general, increasing foreign investment in the Armenian banking sector has supported the development of a competitive and resilient banking market.

Lending to customers is the primary activity of banks operating in Armenia. Between 2008 and 2012, the gross loan portfolio increased from 16.9% of GDP to an estimated 38.6% of GDP. As of 31 December 2012, corporate loans accounted for 60.7% of the gross loan book of the banking sector, with loans to individuals accounting for the remaining 39.3%.

The global financial crisis and the ensuing economic recession in Armenia resulted in a significant exchange of dram-denominated deposits for deposits denominated in foreign currencies. Nevertheless, the global financial crisis did not lead to a significant increase in deposit withdrawals, and the CBA did not impose any restrictions on deposit withdrawals. The CBA does not, and is not authorised to, guarantee deposits.

The CBA believes that the banking sector's refinancing risk is relatively low due to the high percentage of long-term borrowings from parent entities and international financial institutions.

The following table sets forth the aggregate balance sheet and certain key ratios of the Armenian commercial banking sector as of the dates indicated:

Aggregate Balance Sheet and Key Ratios of Banking Sector in Armenia

	As of 31 December					As of 30 June
	2008	**2009**	**2010**	**2011**	**2012**	**2013**
	(AMD millions, unless otherwise indicated)					
Cash	41,627	64,673	74,900	89,164	99,041	94,309
Balances on correspondent accounts	179,919	274,858	205,044	324,034	322,718	401,676
Other claims on banks	19,319	63,851	72,830	90,593	80,213	86,565
Government securities	81,108	109,191	151,298	167,502	178,384	184,153
Other securities	3,393	4,331	5,695	4,960	5,681	6,618
Repo agreements (without interbank repos)	1,032	20,980	21,453	24,178	13,354	15,220
Loans	616,790	703,366	888,612	1,210,495	1,535,190	1,608,389
Accrued interest	6,095	9,032	15,496	16,107	27,816	33,476
Fixed assets	51,773	61,279	67,031	71,874	79,854	79,124
Other assets	23,176	14,402	58,112	67,816	128,379	123,958
Total assets	**1,024,232**	**1,325,963**	**1,560,472**	**2,066,723**	**2,470,631**	**2,633,486**
Current accounts	5,422	6,531	11,539	8,666	7,292	7,581
Other liabilities to banks	211,571	211,233	267,811	384,129	453,044	407,244
Liabilities to other financial institutions	60,194	87,384	138,279	221,836	289,329	299,581
Demand deposits (legal and natural persons)	186,816	252,480	265,045	375,760	355,599	482,256
Time deposits (legal and natural persons)	262,644	374,313	408,017	558,460	776,848	856,208
Accrued interest	6,622	10,185	11,654	15,749	22,754	23,458
Other liabilities	55,273	105,455	139,177	146,197	172,176	151,134
Total liabilities	**788,542**	**1,047,580**	**1,241,521**	**1,710,797**	**2,077,042**	**2,227,462**
Share capital	152,490	188,641	203,799	233,945	244,127	244,127
Reserves	6,458	8,208	15,079	18,642	20,033	22,013
Retained earnings	65,202	64,738	81,950	85,375	109,013	118,383
Equity	**235,690**	**278,384**	**318,951**	**355,926**	**393,589**	**406,024**
Total liabilities and equity	**1,024,232**	**1,325,963**	**1,560,472**	**2,066,723**	**2,470,631**	**2,633,486**
Key Ratios						
Loans/total assets (%)	60.0	53.0	57.0	59.0	62.0	61.0
Liquid assets/total assets (%)	24.0	34.0	29.0	28.0	26.0	26.0
Loans/non-bank deposits (%)	137.0	112.0	132.0	130.0	136.0	120.0
Total deposits/total liabilities (%)	57.0	60.0	54.0	55.0	55.0	60.0
Demand deposits/total deposits (%)	41.6	40.3	39.4	40.2	31.4	36.0

Source: CBA.

The following table sets forth the aggregate profit and loss statement and certain key ratios of the Armenian banking sector for the periods indicated:

Aggregate Profit and Loss Statement and Key Ratios of the Banking Sector in Armenia

	For the year ended 31 December					For the period ended 30 June	
	2008	**2009**	**2010**	**2011**	**2012**	**2012**	**2013**
	(AMD millions, unless otherwise indicated)						
Interest income	94,479.0	114,724.5	136,160.8	175,483.8	225,728.3	108,260.4	123,548.1
Interest expense	34,817.4	52,925.1	58,669.9	81,462.6	111,193.9	51,112.7	65,459.6
Net interest income	**59,661.5**	**61,799.4**	**77,490.9**	**94,021.1**	**114,534.4**	**57,147.6**	**58,090.5**
Non-interest income	35,445.3	31,746.6	40,663.7	48,585.5	56,480.6	24,448.1	29,895.9
Non-interest expense	54,903.3	59,612.9	69,352.3	81,592.0	96,474.8	45,197.2	50,890.1
Net non-interest expense	**(19,457.9)**	**(27,866.3)**	**(28,688.6)**	**(33,006.5)**	**(39,994.2)**	**(20,749.1)**	**(20,995.2)**
Asset loss provisioning	(46,594.5)	(88,708.1)	(72,735.4)	(86,383.2)	(149,798.1)	59,215.8	145,811.9
Recoveries from asset loss provisioning	41,154.0	67,670.3	62,832.2	68,228.8	129,986.2	42,813.8	124,937.8
Pre-tax profit	**34,728.1**	**12,924.4**	**38,897.4**	**42,851.8**	**54,728.3**	**16,401.9**	16,220.2
Profit tax	7,859.8	4,516.0	8,692.5	9,672.2	12,257.1	19,994.2	4,112.6
Net profit	**26,868.3**	**8,408.4**	**30,204.9**	**33,180.0**	**42,471.2**	**4,610.9**	**12,107.6**
Dividends	0.0	0.0	152.0	196.1	196.1	0.0	0.0
Retained earnings	26,683.3	8,408.4	30,052.9	32,983.5	42,275.1	15,383.3	12,107.6
Key ratios							
Return on average assets *(%)*	3.1	0.7	2.2	1.9	1.1	1.5	1.0
Return on average equity *(%)*	13.6	3.4	10.2	9.8	11.5	8.6	6.1
Net interest margin *(%)*	45.9	42.2	43.8	42.0	40.6	43.1	37.9

Source: CBA.

In 2009, net profits of the banking sector declined by AMD18,459.9 million, or by 68.7%, to AMD8,408.4 million from AMD26,868.3 million in 2008 mainly due to a 90.4% increase in asset loss provisioning from AMD46,594.5 million in 2008 to AMD88,708.1 million in 2009. A 43.2% increase in net non-interest expense from AMD19,457.9 million in 2008 to AMD27,866.3 million in 2009 also contributed to the overall decline in net profits.

In 2010, net profits of the banking sector increased by AMD21,796.5 million, or by 259.2%, to AMD30,204.9 million from AMD8,408.4 million in 2008 mainly due to an 25.4% increase in net interest income from AMD61,799.4 million in 2009 to AMD77,490.9 million in 2010.

In 2011, net profits of the banking sector increased by AMD2,975.1 million, or by 9.8%, to AMD33,180.0 million from AMD30,204.9 million in 2010 mainly due to a 21.6% increase in net interest income from AMD77,490.9 million in 2010 to AMD94,021.1 million in 2011. The increase in net interest income was partially offset by a 15.1% rise in net interest expense from AMD28,688.6 million in 2010 to AMD33,006.5

million in 2011. In 2011, asset loss provisioning increased by 18.8%, while recoveries from asset loss provisioning increased by 8.6%, compared to 2010.

In 2012, net profits of the banking sector increased by AMD9,291.2 million, or by 28.0%, to AMD42,471.2 million from AMD33,180.0 million in 2011 mainly due to a 21.8% increase in net interest income from AMD94,021.1 million in 2011 to AMD114,534.4 million in 2012. The increase in net interest income was partially offset by a 21.2% rise in net non-interest expense from AMD33,006.5 million in 2011 to AMD39,994.2 million in 2012. In 2012, asset loss provisioning increased by 73.4%, while recoveries from asset loss provisioning increased by 90.5%, compared to 2011.

In the six months ended 30 June 2013, net profits of the banking sector decreased by AMD3,275 million, or by 21.3%, to AMD12,107.6 million from AMD15,383.3 million in the six months ended 30 June 2012 mainly due to a 27.3% increase in net loan loss provisioning to AMD20,874.1 million in the first half of 2013 from AMD16,401.9 million in the first half of 2012.

Between 2008 and 2012, net profits of the banking sector increased largely in proportion with the increase in total assets of the banking sector.

Non-Performing Loans

The CBA classifies a loan as non-performing where: (i) payments of principal or interest are past due by 90 days or more; (ii) at least 90 days of interest payments have been capitalised, refinanced or delayed by agreement; or (iii) payments of principal or interest are overdue by less than 90 days, but there are other good reasons to doubt that payments will be made in full. The CBA does not classify loans which are more than 270 days past due as non-performing loans.

The following table sets forth certain statistics concerning non-performing loans as of the dates indicated:

Non-Performing Loans

	As of 31 December					**As of 30 June**
	2008	**2009**	**2010**	**2011**	**2012**	**2013**
Non-performing loans (*AMD millions*)	27,877	36,324	28,635	43,697	58,372	101,100
Total outstanding loans (*AMD millions*)	633,581	756,287	934,383	1,273,678	1,627,588	1,717,890
Non-performing loans/ total loans (%)	4.4	4.8	3.1	3.4	3.6	5.9
Reserves for loan losses/ total loans (%)	1.7	2.2	1.7	1.9	2.0	2.3
Non-performing loan coverage ratio (%)(1)	38.2	46.7	56.7	55.4	55.1	39.1

Note:

(1) The ratio of reserves for loan losses to non-performing loans.

Source: CBA.

The share of non-performing loans to total loans increased to 4.8% as of 31 December 2009 from 4.4% as of 31 December 2008, before decreasing to 3.1% as of 31 December 2010. Since the end of 2010, non-performing loans have accounted for an increasing share of total loans, from 3.4% as of year-end 2011, to 3.6% as of year-end 2012 and then to 5.9% as of 30 June 2013. The increase in the share of non-performing loans in the first half of 2013 was mainly due to an increase in watch category loans (loans which are past due by 90 days) and to a change in the accounting treatment of a large (performing) loan that was transferred from the balance sheet of an Armenian bank to the balance sheet of its parent company.

Banking Supervision

Key Prudential Requirements

The principal laws regulating the Armenian banking sector are the CBA Law and the Law on Banks and Banking of Armenia, dated 30 June 1996, as amended (the "**Banking Law**"). The Banking Law (i) sets out the list of permitted and prohibited activities for banks and (ii) establishes the framework for the registration and licensing of banks in Armenia and the regulation and supervision of banking activity. The CBA regulates financial institutions in line with risk-based supervision principles and organises banking supervision through specialised-function units. The CBA also has the authority to revoke the banking licence of any bank that becomes insolvent, as well as under certain other circumstances.

The CBA is currently drafting amendments to Armenia's prudential standards in order to introduce Basel III principles, and has developed an indicative time-frame for local implementation. In particular, steps are being taken in Armenia to improve capital quality, implement new approaches to liquidity risk management and improve corporate governance, all of which are designed to gradually harmonise the regulatory framework governing Armenia's banking system with Basel III.

To improve corporate governance, the CBA made certain amendments in 2013 to the legislation governing internal control procedures in Armenian banks. Pursuant to these amendments, banks are required to have separate risk management and compliance functions. The amendments are expected to assist each bank in the timely identification, measurement, control and monitoring of different risks. The new requirements will come into force on 1 July 2014.

As of 31 December 2012, each commercial bank in Armenia must maintain regulatory capital of at least AMD5,000 million. A bank's Tier I capital ratio, i.e., the ratio of Tier I capital to risk-weighted assets, must be at least 8.0%, and a bank's regulatory capital ratio, i.e., the ratio of regulatory capital to risk-weighted assets, must be at least 12.0%. To reduce foreign currency-induced credit risk, banks are required to assign a risk weight to foreign currency-denominated loans that is 50.0% higher than the risk weight that would be attributed to an equivalent dram-denominated loan. This approach effectively raises the prudentially-mandated ratio well above the corresponding BIS (Basel I) requirement. These requirements have recently been strengthened, following a relaxation of certain prudential requirements during the global financial crisis. See "*—Monetary Policy of the CBA*."

The following table sets forth certain statistics relating to capital adequacy ratios as of the dates indicated:

Capital Adequacy Ratios

	As of 31 December					As of 30 June
	2008	2009	2010	2011	2012	2013
Equity/total assets	23.0	21.0	20.4	17.2	15.9	15.4
CBA total capital adequacy ratio	27.5	28.3	22.2	18.3	16.8	16.3
CBA Tier I capital adequacy ratio	28.2	26.7	20.2	16.7	15.2	14.6

Source: CBA.

Banks are required to set aside sufficient capital to cover potential losses on loans and other assets, to review these provisions and to report them to the CBA on a monthly basis. CBA regulations set forth the provisioning requirements for the creation of loan loss reserves. For regulatory purposes, banks classify loans into the following five categories: (i) standard, (ii) watch, (iii) sub-standard, (iv) doubtful and (v) loss. Loans are classified based on the financial position of the borrower, the quality of the borrower's servicing of the debt, the number of past due days and any other relevant factors. Assets are also classified by the CBA. In 2010, the CBA made changes to the provisioning requirements for foreign currency assets. Pursuant to these changes, each bank is required to make an additional 20.0% capital provision for foreign currency assets as compared to equivalent assets denominated in drams.

For each reporting month, bank are required to maintain highly liquid assets equal to at least 15.0% of total assets. The minimum ratio of a bank's highly liquid assets expressed in Group I currencies, which comprise the dollar, euro, Japanese Yen, British pound, the Swiss franc, Canadian dollar, Swedish krona, Danish krone and banking gold, to total assets expressed in Group I currencies is 4.0%. Should liabilities expressed in any Group II currency (being any currency that is not a Group I currency), exceed 5.0% of a bank's total liabilities according to the month's average daily calculation, then, for each Group II currency the following standard shall apply: the average ratio of highly liquid assets expressed in dollars, euros and the applicable Group II currency to total assets expressed in dollars, euros and the applicable Group II currency must be at least 4.0%.

Banks are required to keep highly liquid assets for any reporting month of not less than 60.0% of demand liabilities for such reporting month. The minimum ratio of a bank's highly liquid assets expressed in Group I currencies to demand liabilities expressed in Group I currencies is 10.0%. Should liabilities expressed in any Group II currency exceed 5.0% of a bank's total liabilities according to the month's average daily calculation, then, for each Group II currency, the following standard shall apply: the average ratio of highly liquid assets expressed in dollars, euros and the applicable Group II currency to demand liabilities expressed in dollars, euros and the applicable Group II currency must be at least 10.0%.

A bank's gross foreign currency position as a share of total capital must not exceed 10.0%. A bank's maximum open position in any foreign currency as a share of total capital must not exceed 7.0%.

Payment and Settlement Systems

The CBA is empowered to assist banks in organising facilities for the clearing and settlement of interbank payments and may establish procedures and issue regulations relating thereto as it deems appropriate to ensure the efficient operation of the payment system.

From 1996 to 2001, the interbank electronic payments system (known as BANKMAIL) and the Government securities accounting and settlements system (known as BOOKENTRY) were introduced, and the SWIFT system was put into more widespread use in international payments. A national payments and settlements system was developed in compliance with international standards, including the creation of a unified payment and settlement system, known as the Armenian Card or ArCa payment system.

In 2012, an average of 57,000 non-cash payments were made daily in Armenia, on average equal to AMD121.1 billion per day. In 2012, compared with 2011, the daily average amount of non-cash payments carried out through the CBA's payment and settlement systems increased by 45.0%, while the number of transactions increased by 50.0%. In 2012, the daily average amount of payments through the CBA's payment system increased by 8.0% to on average AMD30.9 billion per day, while the number of transactions decreased by 28.0% to 23,000 transactions per day, compared with 2011. As a result, the average amount per transfer decreased by 28.0%.

In 2012, the growth rate of non-cash payments was higher than the growth rate of GDP. As a result, the daily average non-cash payments/GDP ratio increased to 2.9% as of 31 December 2012, an increase of 0.6 percentage points, compared with 2011.

In 2012, compared with 2011, card operations (including cards issued by foreign banks) increased by 35.0% to 18.9 million transactions. In 2012, card operations amounted to approximately AMD1 trillion. In 2012, non-cash transactions by payment cards amounted to AMD91.4 billion, an increase of 55.0% compared to 2011. Internet payments accounted for AMD18.4 billion of these transactions, of which card-to-card transfers comprised AMD14.0 billion and electronic commerce comprised AMD4.4 billion. In 2012, the total number of cards in circulation increased by 35.0% compared to 2011, totaling 1.3 million cards as of year-end 2012. In 2012, compared to 2011, money transfers to individuals by banks and money transfer organisations (including SWIFT payments) increased by 27.0% to AMD896.5 billion, while the amount of outgoing transfers increased by 1.0% to AMD332.2 billion. As a result, in 2012, net money transfer inflows totaled AMD564.3 billion, an increase of 37.0% compared to 2011.

As of 31 December 2012, 19 commercial banks in Armenia provided and serviced payment cards through the ArCa payment system. In 2012, 161 new automated teller machines ("**ATMs**") were installed in Armenia, with 1,170 ATMs in operation as of 31 December 2012. Commercial banks also installed 1,519 point-of-sale terminals, bringing the total number of such terminals as of 31 December 2012 to 6,674, of which 623 were installed in bank branches. In 2012, the number of active ArCa cards grew by 26.0% compared to 2011, bringing the total number of such cards to 492,000 as of 31 December 2012. The number of international cards grew by 42.0% in 2012, with MasterCard, Visa and other international cards accounting for 46.0%, 43.0% and 8.4%, respectively, of the total number of such cards in circulation as of 31 December 2012.

Regulation of Accounting and Reporting Rules

The CBA is responsible for promulgating accounting and reporting rules and procedures consistent with IFRS. The Law on Accounting of Armenia, adopted on 26 December 2002, sets out the basis for accounting and financial reporting in Armenia.

AML Legislation

Armenia's first legislation designed to prevent money laundering and terrorism financing was signed into law in 2004 and came into force in 2005. The Law on Combating Money Laundering and Terrorism Financing of Armenia (the "**AML Law**"), which was adopted on 21 June 2008 and came into force on 31 August 2008, is the current framework under which Armenia controls the movement of funds within the country, recognises and investigates suspicious business activities and freezes proceeds that are related to money-laundering or terrorism. The AML Law also sets out the entities, such as banks, that are required to disclose certain financial transactions, as well as regulates the scope of information that such reporting entities must provide.

The Ministry of Foreign Affairs of Armenia is responsible for overseeing Armenia's compliance with the international sanctions regime. The Ministry of Foreign Affairs works closely with Armenia's Prosecutor's Office, which is mandated to investigate and prosecute criminal cases related to money laundering or terrorism financing, including any matter related to the violation of international sanctions, and with the CBA.

In 2005, the Financial Monitoring Centre of Armenia (the "**FMC**") was established as an autonomous unit within the CBA to act as an intermediary between reporting entities and law enforcement authorities. The authority for the FMC is established under the AML Law, whilst the organisation structure and functions of the FMC are defined in the FMC Statute, approved on 8 May 2009 by Decision No. 117A of the board of the CBA.

There are four departments within the FMC – the Legal Compliance Division, the Analyses Division, the Information Systems Design and Development Division, and the International Relations Division. The primary responsibilities of the FMC are to gather and analyse information from reporting entities, state bodies and organisations, refer suspicious activity to the relevant government bodies for criminal prosecution and cooperate and exchange information with international financial intelligence units and local governmental bodies. The FMC prepares quarterly and annual reports on its activities and maintains a current list of persons and entities that are subject to international sanctions. The National Security Service, which is an independent agency of the Government, is the competent body within Armenia for investigating money laundering and terrorism financing matters.

Armenia is a member of the Council of Europe's Committee of Experts on the Evaluation of Anti-Money Laundering Measures and the Financing of Terrorism (MONEYVAL) and maintains observer status within the Eurasian Group on Combating Money-Laundering and Terrorism Financing. Both of these groups implement and enforce recommendations of the Financial Action Task Force. In addition, since 2007, Armenia has been a member of the Egmont Group of Financial Intelligence Units (the "**Egmont Group**"), which provides Armenia the opportunity to cooperate with financial intelligence units from approximately 130 countries and exchange information with these units through a secured system. Armenia participates in plenary sessions and working group meetings of the Egmont Group. Armenia actively cooperates with its international partners on matters related to sanctions, hosting representatives from the U.S. Department of Treasury's Office of Foreign Assets Control and regularly participating in meetings on sanctions issues at the United States Embassy in Yerevan.

Under the AML Law, financial institutions, including all banks, are obliged to report all real estate-related transactions with a value in excess of AMD50,000,000, any other transactions with a value in excess of AMD20,000,000 (or the foreign currency equivalent) and all suspicious transactions, irrespective of value, to the FMC. The CBA requires banks to conduct relationships with clients according to the "Core Principles for Effective Banking Supervision" ("**CPEBS**") published by the Basel Committee on Banking Supervision. All banks and other financial institutions employ officers whose responsibility it is to ensure internal compliance with CPEBS. To assist banks in monitoring illicit financing, the FMC has shared with them a matching algorithm programme that is designed to recognise key words, phrases and meta data related to suspicious individuals and entities designated under applicable sanctions regimes.

The CBA is authorised to carry out on-site and off-site inspections of anti-money laundering issues arising in the financial sector and has dedicated budget resources and personnel to carry out such inspections and report to the FMC on any breach of the AML Law or related regulations. Representatives of the FMC are also involved in inspections carried out by the Financial Supervision Department of the CBA.

Stock Market

The Armenian Stock Exchange ("**ASE**") was established in 2000 as a joint-stock company and is the only recognised stock exchange in Armenia. It was renamed NASDAQ OMX Armenia on 27 January 2009 after becoming a member of the NASDAQ OMX Group, Inc. in 2008.

The following table sets forth certain statistics regarding trading on the ASE for the periods indicated:

ASE Market Statistics

	For the year ended 31 December					For the period ended 30 June	
	2008	**2009**	**2010**	**2011**	**2012**	**2012**	**2013**
Number of trades at ASE	480.0	1,108.0	805.0	356.0	387.0	90.0	213.0
Average number of trades per month	40.0	92.0	67.0	30.0	32.0	15.0	30.0
Securities traded *(# of shares, millions)*	262.1	97.9	127.6	200.3	411.9	146.0	1.419
Average securities traded per month	22.0	82.0	11.0	17.0	34.0	27.0	202.0
Treasury bills traded *(# of bills, millions)*....	1,662.2	4,331.4	5,492.9	5,373.8	4,183.5	1,715.0	2,951
Average treasury bills traded per month	139.0	361.0	458.0	149.0	116.0	95.0	141.0
Corporate bonds traded *(# of bonds, millions)*......................	2,221.6	10,545.5	2,815.9	709.0	417.4	176.0	2,834.0
Average corporate bonds traded per month....................	185.0	162.0	235.0	59.0	35.0	29.0	405.0
Trading volume at ASE *(AMD millions)*	4,145.9	14,634.0	8,436.0	6,992.0	5,012.0	2,035.8	7,203.0
Year-on-year change *(%)*.................	n/a	253.0	(42.4)	(17.1)	(28.3)	(19.5)	168.7
Average trading volume per month....................	346.0	444.0	234.0	291.0	418.0	339.0	1,029.0

Note:
n/a = not available.
Source: ASE.

Insurance Sector

Under the CBA Law and the Law on Insurance and Insurance Activities, which was adopted in 2007, the CBA is responsible for the supervision of the insurance sector. The CBA also issues and revokes licences of insurance companies, registers insurance brokerage companies, sets minimum capital and other requirements for insurance companies, adopts corresponding regulations with respect to insurance supervision, examines insurers' activities, imposes sanctions on insurance companies violating legal requirements and performs forced administration, liquidation and bankruptcy procedures. The CBA is a member of the International Association of Insurance Supervisors.

As of 31 December 2012, there were seven insurance companies operating in Armenia, all of which provide non-life insurance services. None of the insurance companies provide life-insurance services. Three of these insurance companies have at least 50% foreign participation in its equity. In addition, as of 31 December 2012, there were three insurance brokers in Armenia.

In recent years, there has been in increase in the assets, liabilities and shareholders' equity of insurance companies in Armenia. Total assets of insurance companies equaled AMD50,249 million as of 30 June 2013, compared to AMD38,351 million as of 31 December 2012 and AMD31,442 million as of 31 December 2011. Total liabilities of insurance companies equaled AMD35,915 million as of 30 June 2013, compared to

AMD24,296 million as of 31 December 2012 and AMD17,486 million as of 31 December 2011. Total capital of insurance companies equaled AMD14,334 million as of 30 June 2013, compared to AMD14,054 million as of 31 December 2012 and AMD13,956 million as of 31 December 2011.

PUBLIC DEBT AND RELATED MATTERS

Overview

The Law on State Debt of Armenia (the "**Law on State Debt**") defines the state debt of Armenia (the "**Public Debt**") as the (i) aggregate debt incurred or guaranteed by the Government, state bodies and agencies of Armenia on behalf of Armenia; and (ii) aggregate debt issued or guaranteed by the CBA to non-residents of Armenia, foreign states and international organisations. The Public Debt is comprised of Internal Public Debt and External Public Debt (each, as described below). Public Debt may be incurred to finance the public deficit and provide liquidity to the Government, to support the balance of payments and replenish Armenia's foreign reserves and to develop the country's market for Internal Public Debt. Local governments are permitted to issue both domestic and foreign debt, although such debt is not part of the Public Debt (so that it is not an obligation of Armenia).

As of 30 June 2013, Public Debt amounted to U.S.$4,208.5 million, of which U.S.$3,569.3 million was External Public Debt and U.S.$639.2 million was Internal Public Debt. According to the Law on State Debt, Public Debt as of the end of a particular year must not exceed 60% of the GDP of the previous year. The ceiling for Public Debt is set out in the annual message on the budget (the "**Budget Message**"), which forms part of the draft State Budget. Under the 2013 Budget Message, the ceiling for Public Debt is U.S.$4,790.7 million, of which U.S.$4,080.4 million is allocated to External Public Debt and U.S.$710.3 million is allocated to Internal Public Debt. Under the MTEF for 2014-2016, the ceiling for Public Debt in 2014 is U.S.$4,721.3 million, of which U.S.$3,928.6 million is allocated to External Public Debt and U.S.$792.7 million is allocated to Internal Public Debt.

The following table sets forth certain key statistics with regard to Public Debt for the periods indicated:

Public Debt

	As of and for the year ended 31 December					As of and for the six months ended 30 June
	2008	**2009**	**2010**	**2011**	**2012**	**2013**
	(U.S.$ millions, except as indicated)					
Public Debt	**1,906.0**	**3,362.7**	**3,795.0**	**4,128.7**	**4,369.3**	**4,208.5**
Internal Public Debt[1]	328.9	396.0	496.0	560.5	631.0	639.2
External Public Debt	1,577.1	2,966.7	3,299.0	3,568.2	3,738.3	3,569.3
of Government	1,401.1	2,465.9	2,736.4	2,950.9	3,143.7	3,027.3
of Central Bank	176.0	500.8	562.6	617.3	594.6	542.0
Interest payments	**36.5**	**51.7**	**78.6**	**105.9**	**112.5**	**59.2**
Internal Public Debt[2]	24.4	24.3	42.4	55.5	57.8	33.7
External Public Debt	12.1	27.4	44.2	50.4	55.0	25.5
Principal payments	**170.1**	**219.5**	**262.2**	**319.4**	**389.8**	**290.8**
Internal Public Debt[2]	128.0	174.8	215.5	268.2	205.4	119.8
External Public Debt	42.1	44.7	46.7	51.2	184.4	171.0
Public Debt/GDP (%)[3]	**16.4**	**40.4**	**39.9**	**42.2**	**44.1**	**n/a**
Internal Public Debt/GDP (%)	2.8	4.8	5.2	5.7	6.4	n/a
External Public Debt/GDP (%)[3]	13.6	35.7	34.7	36.4	37.7	n/a
Public Debt/State Budget revenues (%)[3]	74.4	184.2	176.7	180.8	186.4	n/a
Public Debt service/State Budget revenues (%)[4]	8.0	14.3	16.3	18.0	21.3	n/a
External Public Debt/official foreign exchange reserves (%)	112.3	157.9	180.0	190.3	211.5	n/a

Notes:

n/a = not available.

(1) Figures for Internal Public Debt are converted into dollars, using the AMD/U.S.$ exchange rate at the end of each period. See "*Exchange Rates*."

(2) Figures for interest and principal payments on Internal Public Debt are converted into dollars, using the average AMD/U.S.$ exchange rate for each period. See "*Exchange Rates*."

(3) Figures for External Public Debt are converted into drams, using the AMD/U.S.$ exchange rate as of the end of each period. See "*Exchange Rates*."

(4) Figures for interest and principal payments on External Public Debt are converted into drams, using the average AMD/U.S.$ exchange rate for each period. See "*Exchange Rates*."

Source: Ministry of Finance.

The Government also issues domestic and external debt guarantees. As of 30 June 2013, total amounts outstanding under domestic guarantees equaled U.S.$2.6 million and total amounts outstanding under external debt guarantees equaled U.S.$134.4 million.

As of 31 December 2012, total external debt of Armenia, which includes private external debt and External Public Debt, amounted to U.S.$7,631.0 million, or 76.7% of GDP. According to preliminary data, as of 31 March 2013, total external debt of Armenia amounted to U.S.$7,727.0 million.

Internal Public Debt

Internal Public Debt consists of (i) Government securities acquired by residents of Armenia; and (ii) commercial loans issued by residents of Armenia to the Ministry of Finance (the "**Internal Public Debt**"). Domestic state guarantees are part of the Public Debt, but historically have not been reported as part of Internal Public Debt. Therefore, the figures for Internal Public Debt included herein do not reflect amounts issued under domestic state guarantees. See "*—Government Guarantees*." From August 2013, the Government has begun to report domestic state guarantees as Internal Public Debt.

As of 31 December 2012, Internal Public Debt amounted to AMD254.7 billion, or 6.4% of GDP. As of 30 June 2013, Internal Public Debt amounted to AMD261.8 billion.

The following table sets forth information on Internal Public Debt as of the indicated dates:

Internal Public Debt

	As of 31 December					As of 30 June
	2008	2009	2010	2011	2012	2013
			(AMD billions)			
Total[1]	**100.9**	**149.6**	**180.3**	**216.2**	**254.7**	**261.8**
Government securities	92.3	140.6	173.0	210.0	249.8	257.7
Medium-term bonds	36.9	71.4	86.4	111.2	128.8	134.5
Long-term bonds	25.0	27.5	34.5	65.0	82.7	91.3
T-bills	30.1	41.4	51.4	33.0	37.4	30.8
Savings bonds	0.3	0.2	0.6	0.8	0.9	1.0
Commercial loans	8.6	9.1	7.3	6.2	4.8	4.1
			(% of total)			
Total	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**
Government securities	91.5	93.9	96.0	97.1	98.1	98.4
Medium-term bonds	36.5	47.7	47.9	51.4	50.6	51.4
Long-term bonds	24.8	18.4	19.2	30.1	32.5	34.9
T-bills	29.9	27.7	28.5	15.2	14.7	11.8
Savings bonds	0.3	0.2	0.3	0.4	0.3	0.4
Commercial loans	8.5	6.1	4.0	2.9	1.9	1.6

	As of 31 December					As of 30 June
	2008	**2009**	**2010**	**2011**	**2012**	**2013**
			(AMD billions)			
			(% of GDP)			
Total	2.8	4.8	5.2	5.7	6.4	n/a
Government securities	2.6	4.5	5.0	5.6	6.2	n/a
Medium-term bonds	1.0	2.3	2.5	2.9	3.2	n/a
Long-term bonds	0.7	0.9	1.0	1.7	2.1	n/a
T-bills	0.8	1.3	1.5	0.9	0.9	n/a
Savings bonds	0.0	0.0	0.0	0.0	0.0	n/a
Commercial loans	0.2	0.3	0.2	0.2	0.1	n/a
Memo:						
Internal Public Debt ceiling (*U.S.$ millions*)(2)	282.9	407.0	443.0	576.3	648.0	710.3(3)
GDP (*AMD billions*)	3,568.2	3,141.7	3,460.2	3,777.9	3,997.6	n/a
Exchange rate, AMD/U.S.$, end of period(4)	306.7	377.9	363.4	385.8	403.6	409.6
Internal Public Debt in U.S.$ millions	328.9	396.0	496.0	560.5	631.0	639.2

Notes:

n/a = not available.

(1) Excludes domestic state guarantees. As of 31 December 2008, no domestic state guarantees were outstanding. As of 31 December 2009, 2010, 2011 and 2012, and as of 30 June 2013, amounts outstanding under domestic state guarantees equaled U.S.$12.6 million, U.S.$10.1 million, U.S.$6.0 million, U.S.$3.0 million and U.S.2.7 million, respectively. See "—*Government Guarantees*."

(2) As set forth in the relevant annual Budget Message.

(3) Figure represents the Internal Public Debt ceiling for the year ended 31 December 2013.

(4) As published by the CBA. See "*Exchange Rates*."

Source: Ministry of Finance.

The following table provides information on the maturity profile of Armenia's domestic government securities based on time to redemption:

Domestic Government Securities

	As of 31 December					As of 30 June
	2008	2009	2010	2011	2012	2013
	(AMD billions)					
Medium-term and long-term bonds	**61.9**	**98.9**	**120.9**	**176.2**	**211.5**	**225.9**
Up to one year	7.2	6.7	8.1	15.8	24.6	27.0
1-2 years	6.7	13.9	22.7	30.7	32.7	50.8
2-3 years	12.3	24.2	21.7	28.3	41.5	33.8
3-4 years	6.0	8.9	18.1	24.3	17.0	21.8
4-5 years	4.9	18.8	17.3	13.7	14.6	29.8
5 years or more	24.7	26.3	33.0	63.4	81.2	62.7
T-bills	**30.1**	**41.4**	**51.4**	**33.0**	**37.4**	**30.8**
1-71 days	11.2	12.2	15.1	11.5	8.9	7.4
71-140 days	8.3	10.8	16.6	10.2	12.0	6.4
141-210 days	4.6	8.4	12.1	5.0	7.0	6.8
211-280 days	3.5	5.0	5.7	4.2	7.0	6.9
281-365 days	2.5	5.0	1.9	2.0	2.6	3.4
Savings bonds	**0.3**	**0.2**	**0.6**	**0.8**	**0.9**	**1.0**
Up to one year	0.2	0.1	0.3	0.4	0.6	0.5
1 year or more	0.1	0.1	0.3	0.4	0.3	0.5

Source: Ministry of Finance.

As of 30 June 2013, Government securities amounted to AMD257.7 billion (U.S.$629.2 million), comprising 98.4% of Internal Public Debt. Government securities consist mainly of medium-term and long-term bonds and to a lesser extent T-bills and savings bonds. The remaining Internal Public Debt, equaling AMD4.1 billion (U.S.$10 million) as of 30 June 2013, comprised a commercial loan from a local bank.

Medium-term bonds are fixed rate, dram-denominated obligations with maturities of between one and five years. All of Armenia's outstanding medium-term bonds bear either three- or five-year maturities. Medium-term bonds have become an increasingly significant component of Internal Public Debt. As of 31 December 2008, outstanding medium-term bonds amounted to AMD36.9 billion, or 36.5% of total Internal Public Debt. As of 30 June 2013, the outstanding amount of medium-term bonds was AMD134.5 billion, or 51.4% of total Internal Public Debt. In 2012 and the first half of 2013, a total of 27 auctions of medium-term bonds took place.

Long-term bonds are fixed rate, dram-denominated obligations with maturities of six years or longer. All of Armenia's outstanding long-term bonds bear either 10- or 20-year maturities. As of 31 December 2008, outstanding long-term bonds amounted to AMD25.0 billion, or 24.8% of total Internal Public Debt. As of 30 June 2013, the outstanding amount of long-term bonds was AMD91.3 billion, or 34.9% of total Internal Public Debt. In 2012 and the first half of 2013, a total of 16 auctions of long-term bonds were held.

T-bills are fixed rate, dram-denominated obligations with a maturity of up to one year. As of 31 December 2008, outstanding T-bills amounted to AMD30.1 billion, or 29.9% of Internal Public Debt. As of 30 June 2013, the outstanding amount of T-bills was AMD30.8 billion, or 11.8% of total Internal Public Debt. In 2012, a total of 45 T-bill auctions took place. In the first half of 2013, 29 T-bill auctions were held.

Since 2007, the Government has also issued savings bonds, which are fixed rate, non-tradable securities sold only to individual retail investors. Coupon payments for savings bonds can be made on a quarterly, semiannual or annual basis, and the maturity period for savings bonds range from three months to 25 years.

As of 30 June 2013, the outstanding amount of savings bonds was AMD1.0 billion, or 0.4% of total Internal Public Debt.

As of 30 June 2013, the weighted average yield of government securities was 13.96%, and the average contractual maturity of government securities equaled 1,786 days. All government securities carry fixed interest rates.

Commercial loans, which currently comprise one loan extended by a domestic bank to the Ministry of Finance, have over time represented a decreasing share of Internal Public Debt. As of 31 December 2008, the outstanding commercial loan amounted to AMD8.6 billion, or 8.5% of total Internal Public Debt. As of 30 June 2013, the outstanding commercial loan equaled AMD4.1 billion, or 1.6% of total Internal Public Debt.

In 2012, turnover on the secondary market for domestic government securities equaled AMD199.8 billion, consisting of AMD183.4 billion in interbank transactions, AMD12.1 billion in CBA transactions and AMD4.3 billion in transactions on the Armenian Stock Market. In the first six months of 2013, turnover on the secondary market for domestic government securities equaled AMD127.8 billion, consisting of AMD122.7 billion in interbank transactions, AMD3.0 billion in CBA transactions and AMD2.1 billion in transactions on the Armenian Stock Market.

Turnover on the secondary market is expected to increase after the pension reform comes into force, which is expected to occur in 2014. Under the proposed pension reform, workers aged 40 or below will cease making contributions to the state pension fund directly and will begin making payments into their own private pension accounts. The Government is expected to match workers' contributions to their private pension accounts subject to a cap. See "*Economy of Armenia—Labour and Social Policy—Social Insurance System—Pensions and Disability*." The pension reform is expected to contribute to the development of Armenia's domestic capital markets.

External Public Debt

According to the Law on State Debt, External Public Debt consists of (i) debt incurred or guaranteed by the Ministry of Finance on behalf of Armenia and held by non-residents of Armenia; and (ii) debt incurred or guaranteed by the CBA and held by non-residents of Armenia (the "**External Public Debt**").

The outstanding External Public Debt was U.S.$3,569.3 million as of 30 June 2013. As of 30 June 2013, External Public Debt was comprised of (i) debt to multilateral financial institutions of U.S.$2,530.2 million; (ii) bilateral debt to other sovereigns of U.S.$1,024.6 million; and (iii) indebtedness to commercial banks, consisting of U.S.$10.4 million to Raiffeisen Bank International and U.S.$4.1 million to KBC BANK NV (Belgium).

As of 30 June 2013, approximately 99.6% of External Public Debt was owed to multilateral creditors, bilateral sovereign creditors and financial institutions. Historically, most of the External Public Debt was raised on concessionary terms. As of 30 June 2013, approximately 55.6% of External Public Debt was extended on concessionary terms and 44.4% on commercial terms.

As of 30 June 2013, the average weighted interest rate of Armenia's External Public Debt was approximately 1.5% per annum, and the average contractual maturity was approximately 10.3 years. As of 30 June 2013, approximately 65.6% of Armenia's External Public Debt portfolio carried fixed interest rates, and the remainder carried floating rates. In 2012, approximately 24% of the incurred External Public Debt was used for on-lending activities to small and medium enterprises.

The following table sets forth information on External Public Debt as of the indicated dates:

External Public Debt

	As of 31 December					As of 30 June
	2008	**2009**	**2010**	**2011**	**2012**	**2013**
	(U.S.$ billions)					
Total	**1,577.1**	**2,966.7**	**3,299.0**	**3,568.2**	**3,738.3**	**3,569.3**
***Government**, of which*	**1,401.1**	**2,465.9**	**2,736.4**	**2,950.9**	**3,143.7**	**3,027.3**
***Multilateral creditors**, of which*	1,100.0	1,563.0	1,736.9	1,918.6	2,125.9	2,072.6
IDA	1,014.6	1,160.8	1,159.9	1,186.2	1,234.4	1,204.0
IMF	–	161.0	254.1	310.7	313.1	263.1
IBRD	4.5	28.0	75.5	110.5	185.9	197.9
ADB	8.1	126.5	146.7	165.3	187.9	193.0
EU	0.0	0.0	0.0	33.6	85.7	84.6
IFAD	57.8	60.4	62.0	66.3	67.3	66.2
OPEC	15.0	25.0	28.7	28.3	30.7	33.5
EBRD	0.0	1.3	10.0	13.7	14.3	15.3
EIB	0.0	0.0	0.0	3.9	6.6	15.0
***Bilateral creditors**, of which*	301.1	902.9	999.5	1,030.1	1,004.9	940.2
Russia	0.0	500.0	500.0	500.0	500.0	478.3
Japan (JICA)	174.9	270.6	374.4	397.2	355.9	310.5
Germany (KfW)	84.0	92.8	86.8	94.6	111.5	114.1
USA	37.2	34.7	33.1	31.1	29.3	28.1
France	5.0	4.8	4.3	4.1	4.0	4.6
Abu Dhabi Fund for Development	0.0	0.0	0.9	3.1	4.2	4.7
Commercial banks	0.0	0.0	0.0	2.2	12.9	14.5
***CBA**, of which*	176.0	500.8	562.6	617.3	594.6	542.0
***Multilateral creditors**, of which*	134.8	450.8	516.8	556.9	513.0	457.6
IMF	134.8	425.7	486.7	516.8	463.0	407.6
IBRD	0.0	25.1	30.1	40.1	50.0	50.0
***Bilateral creditors**, of which*	41.2	50.0	45.8	60.4	81.6	84.4
Germany (KfW)	41.2	50.0	45.8	60.4	81.6	84.4
	(% of total)					
Total	100.0	100.0	100.0	100.0	100.0	100.0
***Government**, of which*	88.8	83.1	82.9	82.7	84.1	84.8
***Multilateral creditors**, of which*	69.7	52.7	52.6	53.8	56.9	58.1
IDA	64.3	39.1	35.2	33.2	33.0	33.7
IMF	0.0	5.4	7.7	8.7	8.4	7.4
IBRD	0.3	0.9	2.3	3.1	5.0	5.5
ADB	0.5	4.3	4.4	4.6	5.0	5.4
EU	0.0	0.0	0.0	0.9	2.3	2.4
IFAD	3.7	2.0	1.9	1.9	1.8	1.9
OPEC	1.0	0.8	0.9	0.8	0.8	0.9
EBRD	0.0	0.0	0.3	0.4	0.4	0.4
EIB	0.0	0.0	0.0	0.1	0.2	0.4
***Bilateral creditors**, of which*	19.1	30.4	30.3	28.9	26.9	26.7
Russia	0.0	16.9	15.2	14.0	13.4	13.4
Japan (JICA)	11.1	9.1	11.3	11.1	9.5	8.7
Germany (KfW)	5.3	3.1	2.6	2.7	3.0	3.2
USA	2.4	1.2	1.0	0.9	0.8	0.8
France	0.3	0.2	0.1	0.1	0.1	0.1
Abu Dhabi Fund for Development	0.0	0.0	0.0	0.1	0.1	0.1
Commercial banks	0.0	0.0	0.0	0.1	0.3	0.4
***CBA**, of which*	11.2	16.9	17.1	17.3	15.9	15.2
***Multilateral creditors**, of which*	8.5	15.2	15.7	15.6	13.7	12.8
IMF	8.5	14.4	14.8	14.5	12.4	11.4
IBRD	0.0	0.8	0.9	1.1	1.3	1.4

External Public Debt (continued)

	As of 31 December					As of 30 June
	2008	2009	2010	2011	2012	2013
			(U.S.$ billions)			
***Bilateral creditors**, of which*	2.6	1.7	1.4	1.7	2.2	2.4
Germany (KfW)	2.6	1.7	1.4	1.7	2.2	2.4
			(% of GDP)[(1)]			
Total	13.6	35.7	34.6	36.4	37.7	n/a
***Government,** of which*...........	12.0	29.7	28.7	30.1	31.7	n/a
***Multilateral creditors**, of which*	9.5	18.8	18.2	19.6	21.5	n/a
IDA	8.7	14.0	12.2	12.1	12.5	n/a
IMF	–	1.9	2.7	3.2	3.2	n/a
IBRD	0.0	0.3	0.8	1.1	1.9	n/a
ADB	0.1	1.5	1.5	1.7	1.9	n/a
EU	0.0	0.0	0.0	0.3	0.9	n/a
IFAD	0.5	0.7	0.7	0.7	0.7	n/a
OPEC...............................	0.1	0.3	0.3	0.3	0.3	n/a
EBRD	0.0	0.0	0.1	0.1	0.1	n/a
EIB	0.0	0.0	0.0	0.0	0.1	n/a
***Bilateral creditors**, of which*	2.6	10.9	10.5	10.5	10.1	n/a
Russia	0.0	6.0	5.3	5.1	5.0	n/a
Japan (JICA)	1.5	3.3	3.9	4.1	3.6	n/a
Germany (KfW)	0.7	1.1	0.9	1.0	1.1	n/a
USA.................................	0.3	0.4	0.3	0.3	0.3	n/a
France	0.0	0.1	0.0	0.0	0.0	n/a
Abu Dhabi Fund for Development	0.0	0.0	0.0	0.0	0.0	n/a
Commercial banks	0.0	0.0	0.0	0.0	0.1	n/a
***CBA**, of which*	1.5	6.0	5.9	6.3	6.0	n/a
***Multilateral creditors**, of which*	1.2	5.4	5.4	5.7	5.2	n/a
IMF	1.2	5.1	5.1	5.3	4.7	n/a
IBRD	0.0	0.3	0.3	0.4	0.5	n/a
***Bilateral creditors**, of which*	0.4	0.6	0.5	0.6	0.8	n/a
Germany (KfW)	0.4	0.6	0.5	0.6	0.8	n/a
Memo:						
External Public Debt ceiling (U.S.$ millions)[(2)]...............	1,523.8	1,785.6	3,566.0	3,814.8	4,044.0	4,080.4(3)
GDP (AMD billions)...........	3,568.2	3,141.7	3,460.2	3,777.9	3,997.6	n/a
Exchange rate, AMD/U.S.$, end of period[(4)]	306.7	377.9	363.4	385.8	403.6	409.6

Notes:

(1) Figures for External Public Debt converted into drams, using the AMD/U.S.$ exchange rate as of the end of each period. See "*Exchange Rates*."

(2) As set forth in the relevant annual Budget Message.

(3) Figure represents the External Public Debt ceiling for the year ended 31 December 2013.

(4) As published by the CBA. See "*Exchange Rates.*"

Source: Ministry of Finance.

Of the U.S.$3,569.3 million outstanding as of 30 June 2013, U.S.$3,027.3 million represented External Public Debt incurred by the Government, including U.S.$2,072.6 million in loans from multilateral creditors, U.S.$940.2 million in loans from bilateral sovereign creditors and U.S.$14.5 million in loans from commercial banks. As of 30 June 2013, Armenia's largest multilateral lenders were the IDA, IMF, IBRD and ADB. Russia was Armenia's largest bilateral sovereign creditor as of 30 June 2013, followed by Japan and then Germany.

Loans with fixed interest rates comprised 64.7% of Public External Debt as of 31 December 2012 and 65.6% of Public External Debt as of 30 June 2013. The remaining share of Public External Debt consisted of loans with floating interest rates. The following table sets forth the structure of Public External Debt by currency for the periods indicated:

External Public Debt by Currency

	As of 31 December					As of 30 June
	2008	2009	2010	2011	2012	2013
			(%)			
SDR	77.1	65.2	63.9	62.9	60.6	59.6
Dollar	3.6	20.7	20.2	19.9	21.3	22.3
Euro	8.3	5.0	4.5	6.0	8.5	9.3
Japanese Yen	11.1	9.1	11.3	11.1	9.5	8.7
AED	–	0.0	0.0	0.1	0.1	0.1
Total	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

Note:

(1) Non-dollar amounts have been converted into dollar amounts, using the period-end exchange rates as published by the CBA. See "*Exchange Rates.*"

Source: Ministry of Finance.

Government Guarantees

The Government issues domestic and external debt guarantees. As of 30 June 2013, the total amount outstanding under Government domestic debt guarantees was U.S.$2.6 million in respect of a loan from "HSBC Bank Armenia" CJSC to "Tamara Fruit" CJSC. As of 30 June 2013, the total amount outstanding under Government external debt guarantees was U.S.$134.4 million. All of the external debt guarantees outstanding as of 30 June 2013 consisted of Government guarantees in respect of loans provided by official creditors, such as the IBRD, ADB and KfW, to the CBA. These external guarantees are reflected as External Public Debt of the CBA.

External Debt (Public and Private)

The following table sets forth certain statistics regarding Armenia's total external debt, including Public External Debt as well as private sector external debt:

Total External Debt (Public and Private)

	As of and for the year ended 31 December					As of the three months ended 31 March
	2008	2009	2010	2011	2012	2013
Total external debt[2] (*U.S.$ millions*)	3,443.4	5,023.0	6,289.8	7,394.1	7,630.4	7,727.0
Public External Debt/ total external debt (*%*)	45.9	61.9	54.7	50.2	51.0	48.6
Total external debt/ GDP[3] (*%*)	29.5	58.1	67.9	72.9	76.7	n/a

Notes:

n/a = not available.

(1) Total external debt figures as of the period ended 31 March 2013 are preliminary.

(2) Includes Public External Debt and private sector external debt.

(3) Figures for total external debt converted into drams, using the AMD/U.S.$ exchange rate as of the end of each period. See "*Exchange Rates.*"

Sources: Ministry of Finance; CBA.

Domestic bank borrowings constituted approximately 49.4% of outstanding private sector debt as of 31 December 2012.

Public Debt Service

The following table sets forth the total Public Debt service for the periods indicated:

Public Debt Service

	For the year ended 31 December					For the period ended 30 June
	2008	2009	2010	2011	2012	2013
	(U.S.$ millions)					
Internal Public Debt service[1]	**152.4**	**199.1**	**257.9**	**323.7**	**263.2**	**153.5**
Principal	128.0	174.8	215.5	268.2	205.4	119.8
Interest	24.4	24.3	42.4	55.5	57.8	33.7
External Public Debt service	**54.2**	**72.1**	**90.9**	**101.6**	**239.4**	**196.5**
Principal	42.1	44.7	46.7	51.2	184.4	171.0
Interest	12.1	27.4	44.2	50.4	55.0	25.5
Total Public Debt Service[1]	**206.6**	**271.2**	**348.8**	**425.3**	**502.6**	**350.0**

Note:

(1) Figure for Internal Public Debt converted into dollars, using the average AMD/U.S.$ exchange rate. See "*Exchange Rates*."

Source: Ministry of Finance.

The following table sets forth the projected total principal service payments on External Public Debt by type of creditor for the periods indicated:

Projected Total External Public Debt Principal Service Requirements[1]

	As of 31 December									
	2013	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**
	(U.S.$ millions)[2]									
Government External Public Debt, *of which*	**167.8**	**135.8**	**99.8**	**112.5**	**139.7**	**162.7**	**178.0**	**185.8**	**183.9**	**169.2**
Multilateral creditors*, of which*	116.9	84.3	35.7	48.4	75.5	98.1	112.8	120.5	115.3	104.0
IDA	19.2	21.0	25.2	29.7	41.4	48.1	59.6	65.6	70.5	71.0
IMF	93.3	58.6	4.8	8.0	20.8	32.9	34.8	33.2	20.4	6.5
IBRD	0.6	0.0	0.3	1.2	1.4	1.4	2.6	5.8	8.2	10.6
ADB	0.0	0.0	0.1	3.5	6.0	9.3	9.4	9.5	9.5	9.5
EU	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
IFAD	1.4	1.4	1.9	1.9	1.9	2.3	2.3	2.3	2.6	2.6
OPEC	1.0	1.9	1.9	2.2	2.2	2.2	2.2	2.2	2.2	2.2
EBRD	1.4	1.4	1.4	1.4	1.4	1.4	1.4.	1.4	1.4	1.0
EIB	0.0	0.0	0.2	0.5	0.6	0.6	0.6	0.6	0.6	0.6
Bilateral creditors*, of which*	51.0	51.3	63.7	63.8	63.8	63.8	63.9	63.9	67.3	64.0
Russia	43.5	43.5	43.5	43.5	43.5	43.5	43.5	43.5	43.5	43.5
Japan (JICA)	3.0	3.0	13.0	13.0	13.0	13.0	13.0	13.0	13.0	13.0
Germany (KfW)	2.3	2.6	5.1	5.1	5.1	5.1	5.3	5.3	5.3	5.3
USA	1.7	1.7	1.7	1.7	1.7	1.7	1.7	1.7	5.1	1.7
France	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Abu Dhabi Fund for Development	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3
Commercial banks	0.0	0.2	0.4	0.4	0.4	0.8	1.3	1.3	1.3	1.3
Central Bank External Public Debt, *of which*	187.6	98.5	27.6	32.5	37.4	36.6	36.6	32.8	24.6	11.9
Multilateral creditors*, of which*	183.7	92.8	21.8	26.6	31.3	30.3	30.3	28.1	21.5	10.4
IMF	183.7	92.1	20.5	25.1	29.8	28.7	28.6	26.4	19.6	8.4
IBRD	0.0	0.7	1.4	1.4	1.5	1.6	1.7	1.8	1.8	1.9
Bilateral creditors*, of which*	3.8	5.7	5.8	5.9	6.1	6.3	6.3	4.7	3.1	1.5
Germany (KfW)	3.8	5.7	5.8	5.9	6.1	6.3	6.3	4.7	3.1	1.5

Notes:

(1) The table reflects contractual payments of existing obligations as of 31 December 2012. Therefore, it does not include any borrowings or prepayments of External Public Debt by or on behalf of the Government or the CBA since 31 December 2012, including the issuance of the Notes or any prepayment of the 2009 Russia Loan. See "*—2009 Russia Loan" and "Use of Proceeds*."

(2) Foreign currency values of outstanding External Public Debt have been converted into dollars at the relevant market exchange rates prevailing at the end of the indicated period.

Source: Ministry of Finance.

The following table sets forth the projected total interest service payments on External Public Debt by type of creditor for the periods indicated:

Projected Total External Public Debt Interest Service Requirements(1)

	As of 31 December									
	2013	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**
	(U.S.$ millions)(2)									
Government External Public Debt, *of which*	**46.8**	**44.1**	**41.2**	**39.2**	**37.0**	**34.5**	**31.7**	**28.9**	**26.0**	**23.0**
Multilateral creditors, *of which*	21.6	20.4	19.4	19.4	19.2	18.7	18.0	17.2	16.3	15.4
IDA	9.9	9.8	9.6	9.4	9.2	8.9	8.5	8.0	7.5	7.0
IMF	1.5	0.8	0.1	-	-	-	-	-	-	-
IBRD	2.7	2.7	2.7	2.7	2.7	2.7	2.6	2.6	2.5	2.4
ADB	2.3	2.1	2.1	2.5	2.7	2.7	2.6	2.4	2.3	2.1
EU	2.9	2.9	2.9	2.9	2.9	2.9	2.9	2.9	2.9	2.9
IFAD	0.5	0.5	0.5	0.5	0.5	0.4	0.4	0.4	0.4	0.4
OPEC	1.2	1.2	1.1	1.0	0.9	0.9	0.8	0.7	0.6	0.5
EBRD	0.5	0.4	0.4	0.3	0.3	0.2	0.2	0.1	0.1	0.1
EIB	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Bilateral creditors, *of which*	25.1	23.6	21.7	19.7	17.6	15.6	13.6	11.6	9.6	7.5
Russia	19.8	18.5	16.8	15.0	13.2	11.5	9.7	8.0	6.2	4.4
Japan (JICA)	3.2	3.1	3.1	3.0	2.8	2.7	2.6	2.4	2.3	2.2
Germany (KfW)	1.3	1.2	1.2	1.1	1.0	0.9	0.9	0.8	0.7	0.6
USA	0.6	0.5	0.5	0.4	0.4	0.4	0.3	0.3	0.3	0.2
France	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Abu Dhabi Fund for Development	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Commercial banks	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Central Bank External Public Debt, *of which*	6.4	5.0	3.9	3.5	3.1	2.6	2.1	1.6	1.2	0.9
Multilateral creditors, *of which*	5.1	3.8	2.8	2.6	2.3	1.9	1.6	1.2	0.9	0.6
IMF	4.4	3.1	2.1	1.9	1.6	1.3	0.9	0.6	0.3	0.1
IBRD	0.7	0.7	0.7	0.7	0.7	0.7	0.6	0.6	0.6	0.6
Bilateral creditors, *of which*	1.3	1.2	1.1	0.9	0.8	0.7	0.5	0.4	0.3	0.3
Germany (KfW)	1.3	1.2	1.1	0.9	0.8	0.7	0.5	0.4	0.3	0.3

Notes:

(1) The table reflects contractual payments of existing obligations as of 31 December 2012. Therefore, it does not include any borrowings or prepayments of External Public Debt by or on behalf of the Government or the CBA since 31 December 2012, including the issuance of the Notes or any prepayment of the 2009 Russia Loan. See "—2009 Russia Loan" and "Use of Proceeds."

(2) Foreign currency values of outstanding External Public Debt have been converted into dollars at the relevant market exchange rates prevailing at the end of the indicated period.

Source: Ministry of Finance.

Public Debt Restructuring

Russia

In 1997, Armenia and Russia concluded an agreement under which four sovereign loans extended by Russia to Armenia between 1992 and 1994 were restructured. The total amount outstanding under these loans at the time of restructuring was U.S.$73.7 million, all of which was repaid as of 29 January 2004.

In 2002, Armenia and Russia concluded an agreement under which five sovereign loans extended by Russia to Armenia between 1994 and 2000 were restructured. The total amount outstanding under these loans at the time of restructuring was U.S.$93.8 million. By January 2004, Armenia settled the full amount of this debt by transferring equity stakes in five Armenian state-owned companies to Russia.

Turkmenistan

In 1996, Armenia and Turkmenistan concluded an agreement which restructured Armenian debt for gas supplied by Turkmenistan in 1994 and 1995. The total amount outstanding at the time of restructuring was U.S.$34.0 million. In 2000, Armenia and Turkmenistan entered into a second agreement which restructured the remaining U.S.$12.8 million of debt in respect of these gas supplies. All amounts were fully repaid as of 2 December 2003.

EU

In 1998, Armenia and the EU signed a loan agreement that restructured ECU51 million of overdue Armenian debt to the EU. The ECU51 million in funds were provided to Armenia in 1992 and 1993 within the framework of an ECU58 million loan agreement provided for the purchase and import into Armenia of agricultural products and medical supplies. Pursuant to the restructuring, the EU agreed to convert ECU30 million of the overdue debt into grants and to reduce the amount outstanding under the loan to ECU28 million, which amount was prepaid between 1999 and 2005.

2009 Russia Loan

In May 2009, Russia provided the 2009 Russia Loan to Armenia, the proceeds from which were used by Armenia to alleviate the impact of the global financial crisis on the Armenian economy. The 2009 Russia Loan has a tenor of 15 years and bears an interest rate of LIBOR on six-month deposits + 3%, payable semi-annually. The 2009 Russia Loan provides for rolling repayment on a semi-annual basis, with the first installment due in June 2013 (which was timely repaid) and the last in June 2024. Armenia may potentially use a portion of the proceeds from the Notes to repay in full the outstanding amount under the 2009 Russia Loan. See "*Use of Proceeds*."

Multilateral and Bilateral Development Organisations

World Bank

Armenia became a member of the World Bank in 1992. Armenia's partnership with the World Bank has focused on, *inter alia*, achieving sustained economic growth, fostering development of the private sector, improving social services and protecting Armenia's environment. Since the inception of the World Bank's programmes in Armenia, the World Bank has approved approximately 78 public sector projects (of which 61 are IDA projects and 17 are IBRD projects) totaling U.S.$1.7 billion.

Armenia's borrowing from the World Bank has been mainly on concessionary terms through the IDA. As of 30 June 2013, the total amount of External Public Debt owed to the World Bank in respect of IDA loans was U.S.$1,204 million. In 1992, the World Bank became eligible for IBRD borrowing. As of 30 June 2013, the total amount of External Public Debt owed to the World Bank in respect of IBRD loans was U.S.$247.9 million.

Armenia became a member and shareholder of the International Finance Corporation (the "**IFC**") in 1995. Since that time, the IFC has invested approximately U.S.$244 million in 40 projects across a range of sectors, including financial markets, manufacturing and mining, and has assisted in securing an additional U.S.$9 million from other lenders.

The Government considers small- and medium-sized enterprise development, public administration reforms and infrastructure development as priority areas for further World Bank cooperation.

IMF

Armenia became a member of the IMF in 1992. Funds received from the IMF are held and managed by the CBA to manage Armenia's international reserve position and by the Ministry of Finance to support Armenia's budget. As of 30 June 2013, the total amount owed to the IMF was SDR446.0 million, of which SDR271.0 million are payable by the CBA and SDR175.0 million by the Ministry of Finance.

In 2010, the IMF approved a blended Extended Fund Facility ("**EFF**") and Extended Credit Facility ("**ECF**") in a total amount of SDR266.8 million (the "**2010 EFF/ECF Arrangements**"). Armenia has drawn down the full amount of the 2010 EFF/ECF Arrangements, having received the final installment of SDR55 million in July 2013 following the IMF's sixth and final review under the programme. Since 1992, Armenia has drawn down a total of SDR490.1 million under various EFF/ECF arrangements, including the amounts received under the 2010 EFF/ECF Arrangements. Standard terms for EFF/ECF loans are as follows: a ten-year maturity period with a 4.5-5.5 year grace period (during which the borrower pays only interest), a variable interest rate for EFF loans and a fixed interest rate of 0.5% per annum for ECF loans. As of 30 June 2013, the total amount of debt outstanding under Armenia's EFF/ECF arrangements equaled SDR240.2 million.

In March 2009, the IMF approved a Stand-By-Arrangement in favour of Armenia (the "**2009 SBA**") for a total amount of SDR533.6 million. Armenia drew down a total of SDR350.4 million under the 2009 SBA, of which SDR222.8 million was used by the CBA for reserves management purposes. The 2009 SBA expired in June 2010. Standard terms for SBA loans are as follows: a five-year maturity period with a three-year grace period and a variable interest rate. As of 30 June 2013, the total amount of debt outstanding under Armenia's SBA loans, including the 2009 SBA, was SDR182.6million.

In September 2013, Armenia expects to begin negotiations on a new three-year loan package from the IMF.

ADB

Armenia became a member of the ADB in 2005. To date, Armenia and the ADB have entered into 11 public sector projects for a total amount of approximately U.S.$512.2 million. The ADB has focused its investments on transportation infrastructure and water supply and sanitation projects and also extended several crisis-recovery loans to Armenia in 2009. Loans from the ADB are provided on concessional terms through the Asian Development Fund (the "**ADF**") and also through Ordinary Capital Resources ("**OCR**"). As of 30 June 2013, the total amount of ADF-funded External Public Debt was U.S.$184.7 million, and the total amount of OCR-funded External Public Debt was U.S.$8.3 million.

EU

In 2011-12, the EU provided macro-financial assistance to Armenia in an aggregate amount of €100.0 million, of which €65.0 million was extended in the form of a loan and €35.0 million in the form of a grant. As of 30 June 2013, the total amount of External Public Debt owed to the EU was €65.0 million.

IFAD

To date, Armenia and the IFAD have entered into six public sector projects for a total amount of U.S.$82.0 million. IFAD primarily invests in Armenia's agricultural sector. As of 30 June 2013, the total amount owed to IFAD was U.S.$66.2 million.

OPEC

To date, Armenia and OPEC have entered into four rural and agricultural development projects for a total amount of U.S.$49.0 million. As of 30 June 2013, the total amount owed to OPEC was U.S.$33.5 million.

EBRD

Most of the EBRD assistance to Armenia since 1991 has consisted of private sector investments, which are not included in the definition of Public Debt under the Law on State Debt. To date, Armenia and the EBRD have entered into seven public sector projects for a total amount of U.S.$124.2 million. EBRD's investments in the public sector of Armenia have focused mainly on projects to improve the environment and transportation infrastructure. As of 30 June 2013, the total amount of Public Debt outstanding to the EBRD was U.S.$15.3 million.

EIB

Armenia entered into a framework agreement with the EIB in 2008. In 2010, the EIB launched its first project in Armenia, which is focused on reconstructing the Yerevan subway system. Total investment in the project amounted to U.S.$6.5 million. As of 30 June 2013, the total amount outstanding owed to the EIB was U.S.$15.0 million.

TERMS AND CONDITIONS OF THE NOTES

The issue of the Notes is authorised pursuant to The Law of the Republic of Armenia on the Securities Market, which was approved by the President of Armenia on 20 October 2007 and subsequently amended on 12 November 2012. A fiscal agency agreement dated 30 September 2013 (the "**Fiscal Agency Agreement**") will be entered into in relation to the Notes between the Republic of Armenia ("**Armenia**"), acting through the Ministry of Finance of Armenia (the "**Issuer**"), Citibank, N.A., London Branch as fiscal agent, registrar, transfer agent and paying agent and Citibank, N.A., New York Branch as New York paying agent and transfer agent. The fiscal agent, the paying agents, the transfer agents and the registrar for the time being are referred to below respectively as the "**Fiscal Agent**", the "**Registrar**", the "**Transfer Agents**" and the "**Paying Agents**" (which expression shall include the Fiscal Agent). The expression "**Paying and Transfer Agents**" shall include the Paying Agents and the Transfer Agents

The Fiscal Agency Agreement includes the form of the Notes. Certain provisions of these Conditions are summaries of the Fiscal Agency Agreement and are subject to its detailed provisions. Copies of the Fiscal Agency Agreement are available for inspection during normal business hours at the specified offices of the Paying and Transfer Agents. The holders of the Notes (the "**Noteholders**") are bound by and are deemed to have notice of all the provisions of the Fiscal Agency Agreement applicable to them. References to "**Conditions**" are, unless the context otherwise requires, to the numbered paragraphs of these terms and conditions.

1. FORM, DENOMINATION, TITLE AND STATUS

(a) **Form and denomination**: The Notes are in registered form, serially numbered and in principal amounts of U.S.$200,000 and integral multiples of U.S.$1,000 in excess thereof (each, an "**authorised denomination**").

(b) **Title**: Title to the Notes will pass by transfer and registration as described in Condition 2. The holder (as defined below) of any Note will (except as otherwise required by law or as ordered by a court of competent jurisdiction) be treated as its absolute owner for all purposes (whether or not it is overdue and regardless of any notice of ownership, trust or any interest in it or its theft or loss (or that of the related certificate, as appropriate) or anything written on it or on the certificate in respect of it (other than a duly executed transfer thereof)) and no person will be liable for so treating the holder. For this purpose, "**holder**" shall mean the person in whose name a Note is registered in the Register (as defined in Condition 2(a)).

(c) **Status**: The Notes constitute direct, unconditional, general and (subject to Condition 3) unsecured obligations of the Issuer and rank, and shall at all times rank, *pari passu* and without any preference among themselves and with all other present and future unsecured obligations of the Issuer, save only for such exceptions as may be provided by applicable legislation.

2. REGISTRATION AND TRANSFER OF NOTES

(a) **Registration**: The Issuer will cause a register (the "**Register**") to be kept at the specified office of the Registrar outside the United Kingdom on which will be entered the names and addresses of the holders of the Notes and the particulars of the Notes held by them and of all transfers and redemptions of Notes.

(b) **Transfer**: Notes may, subject to the terms of the Fiscal Agency Agreement and to Conditions 2(c) and 2(d), be transferred in whole or in part in an authorised denomination by lodging the relevant Note (with the form of application for transfer in respect thereof duly executed and duly stamped where applicable) at the specified office of the Registrar or any Paying and Transfer Agent.

No transfer of a Note will be valid unless and until entered on the Register. A Note may be registered only in the name of, and transferred only to, a named person (or persons, not exceeding four in number).

The Registrar will within seven business days (as defined in Condition 6(c)), in the place of the specified office of the Registrar, of any duly made application for the transfer of a Note, deliver a new Note to the transferee (and, in the case of a transfer of part only of a Note, deliver a Note for the untransferred balance to the transferor) at the specified office of the Registrar or (at the risk and, if mailed at the request of the transferee or, as the case may be, the transferor otherwise than by ordinary mail, at the expense of the transferee or, as the case may be, the transferor) mail the Note by uninsured mail to such address as the transferee or, as the case may be, the transferor may request.

(c) **Formalities free of charge**: Any such transfer will be effected without charge subject to (i) the person making such application for transfer paying or procuring the payment of any taxes, duties and other governmental charges in connection therewith, (ii) the Registrar being satisfied with the documents of title and/or identity of the person making the application and (iii) such reasonable regulations as the Issuer may from time to time agree with the Registrar.

(d) **Closed Periods**: Neither the Issuer nor the Registrar will be required to register the transfer of any Note (or part thereof) (i) during the period of 15 calendar days ending on and including the day immediately prior to 30 September 2020 (the "**Final Maturity Date**"); or (ii) during the period of 7 calendar days ending on (and including) any Record Date (as defined in Condition 6(a)) in respect of any payment of interest on the Notes.

3. NEGATIVE PLEDGE

(a) **Restriction**: So long as any Note remains outstanding (as defined in the Fiscal Agency Agreement) the Issuer will not create or permit to subsist any mortgage, charge, pledge, lien or other form of encumbrance or security interest ("**Security**") upon the whole or any part of the assets or revenues present or future of the Government of Armenia or the Ministry of Finance of Armenia to secure any of its Public External Indebtedness, or any guarantee of or indemnity in respect of any Public External Indebtedness unless, at the same time or prior thereto, the Issuer's obligations under the Notes (i) are secured equally and rateably therewith or benefit from a guarantee or indemnity in substantially identical terms thereto, as the case may be, or (ii) have the benefit of such other security, guarantee, indemnity or other arrangement as shall be approved by an Extraordinary Resolution (as defined in Condition 11(e)) of the Noteholders.

(b) **Definition**: For the purposes of these Conditions "**Public External Indebtedness**" means any present or future indebtedness of Armenia, the Government of Armenia or the Ministry of Finance of Armenia (I) in the form of, or represented by, bonds, notes, debentures or other securities which are for the time being, or are capable of being, quoted, listed or ordinarily dealt in or purchased and sold on any stock exchange, over-the-counter or other securities market and (II) denominated or payable, or at the option of the holder thereof payable, in a currency other than the lawful currency of Armenia;

4. INTEREST

Each Note bears interest from and including 30 September 2013 at the rate of 6.000 per cent. per annum payable semi-annually in arrear on 30 March and 30 September in each year (each an "**Interest Payment Date**"), commencing on 30 March 2014. Each Note will cease to bear interest from and including the due date for redemption thereof unless, upon due presentation, payment of principal is improperly withheld or refused. In such event it shall continue to bear interest at such rate (both before and after judgment) up to but excluding whichever is the earlier of (a) the day on which all sums due in respect of such Note up to that day are received by or on behalf of the relevant holder and (b) the day which falls seven days after the Fiscal Agent has notified Noteholders of receipt of all sums due in respect of all the Notes up to that seventh day (except to the extent that there is failure in the subsequent payment to the relevant Noteholders under these Conditions).

If interest is required to be calculated for a period of less than an Interest Period, it will be calculated on the basis of a 360-day year consisting of 12 months of 30 days each and, in the case of an incomplete month, the actual number of days elapsed. The period beginning on and including 30 September 2013 and ending on but excluding the first Interest Payment Date and each successive period beginning on and including an

Interest Payment Date and ending on but excluding the next succeeding Interest Payment Date is called an "**Interest Period**".

5. REDEMPTION AND PURCHASE

(a) **Redemption**: Unless previously purchased and cancelled, the Notes will be redeemed at their principal amount on the Final Maturity Date.

(b) **Purchase and Cancellation**: The Issuer may, directly or through any of its agencies or instrumentalities, at any time purchase Notes in the open market or otherwise at any price. Any Notes so purchased may be cancelled or held and resold, provided that any Notes so purchased, while held by or on behalf of the Issuer, shall not entitle the holder to vote at any meeting of the Noteholders and shall not be deemed to be outstanding for the purposes of calculating quorums at meetings of the Noteholders or for any other purpose pursuant to Conditions 8, 11 or 12. Any Notes so purchased and cancelled may not be re-issued or resold.

6. PAYMENTS

(a) **Method of payment**: Payment of principal in respect of the Notes will be made to the persons shown in the Register at the close of business on the Record Date and subject to the surrender of the Notes at the specified office of any Paying and Transfer Agent. Payments of interest will be made to the persons shown in the Register at close of business on the relevant Record Date. For this purpose, "**Record Date**" means the seventh business day, in the place of the specified office of the Registrar, before the due date for the relevant payment. Each such payment will be made by transfer to a U.S. dollar account maintained by the payee with a bank in New York City.

(b) **Payments subject to fiscal laws**: All payments are subject in all cases to any applicable fiscal or other laws and regulations, but without prejudice to the provisions of Condition 7. No commissions or expenses shall be charged to the Noteholders in respect of such payments.

(c) **Delay in payment**: Noteholders will not be entitled to any interest or other payment for any delay after the due date in receiving the amount due (i) as a result of the due date not being a business day or (ii) if the holder is late in surrendering (where so required) the relevant Note(s).

In these Conditions "**business day**" means a day on which commercial banks and foreign exchange markets are open in the relevant city and (where such surrender is required by these Conditions) in the place of the specified office of the relevant Paying and Transfer Agent to whom the relevant Note is surrendered.

(d) **Paying and Transfer Agents**: The initial Registrar and Paying and Transfer Agents and their initial specified offices are listed below. The Issuer reserves the right at any time to vary or terminate the appointment of any Paying and Transfer Agent and/or the Registrar and appoint additional or other Paying and Transfer Agents, provided that it will maintain (i) a Registrar and a Fiscal Agent, (ii) Paying and Transfer Agents having specified offices in at least two major European cities and (iii) a Paying and Transfer Agent with a specified office in a European Union member state that will not be obliged to withhold or deduct tax pursuant to European Council Directive 2003/48/EC on the taxation of savings income or any law implementing or complying with, or introduced in order to conform to, such Directive, to the extent such a Paying and Transfer Agent is not already maintained pursuant to (ii) above.

7. TAXATION

All payments of principal and interest by or on behalf of the Issuer in respect of the Notes shall be made free and clear of, and without withholding or deduction for, any present or future taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by or within Armenia or any political subdivision thereof or any authority therein or thereof having power to tax, unless such withholding or deduction is required by law. If such withholding or deduction is required by law, the

Issuer shall pay such additional amounts as will result in receipt by the Noteholders of such amounts as would have been received by them had no such withholding or deduction been required, except that no such additional amounts shall be payable in respect of any Note:

(a) **Other connection**: to a holder, or to a third party on behalf of a holder, who is liable for such taxes, duties, assessments or governmental charges in respect of such Note by reason of his having some connection with Armenia other than the mere holding of the Note; or

(b) **Surrendered for payment more than 30 days after the Relevant Date**: surrendered for payment more than 30 days after the Relevant Date except to the extent that the holder of it would have been entitled to such additional amounts on surrender of such Note for payment on the last day of such period of 30 days; or

(c) **Payment to individuals**: where such withholding or deduction is imposed on a payment to an individual and is required to be made pursuant to European Council Directive 2003/48/EC on the taxation of savings income or any law implementing or complying with, or introduced in order to conform to, such Directive; or

(d) **Payment by another Paying and Transfer Agent**: to a holder, or to a third party on behalf of a holder, who would have been able to avoid such withholding or deduction by surrendering the relevant Note to another Paying and Transfer Agent in a Member State of the European Union.

In these Conditions "**Relevant Date**" means whichever is the later of (i) the date on which such payment first becomes due and (ii) if the full amount payable has not been received in New York City by the Fiscal Agent as provided in the Fiscal Agency Agreement on or prior to such due date, the date on which, the full amount having been so received, notice to that effect shall have been given to the Noteholders. Any reference in these Conditions to principal and/or interest shall be deemed to include any additional amounts which may be payable under this Condition 7.

8. EVENTS OF DEFAULT

If any of the following events (each an "**Event of Default**") occurs and is continuing:

(a) **Non-payment**: the Issuer fails to pay any amount of interest or principal on any of the Notes when due and such failure continues for a period of 10 calendar days in the case of principal and 15 calendar days in the case of interest; or

(b) **Breach of other obligations**: the Issuer does not perform or comply with any one or more of its other obligations in the Notes which default is incapable of remedy or if capable of remedy, is not remedied within 30 calendar days after notice of such default shall have been given to the Issuer (with a copy to the Fiscal Agent at its specified office) by any Noteholder; or

(c) **Cross-acceleration**: (i) any Public External Indebtedness of the Issuer becomes due and payable prior to its stated maturity by reason of any actual or potential default, event of default or the like (howsoever described), or (ii) any Public External Indebtedness of the Issuer is not paid when due or, as the case may be, within any originally applicable grace period, or (iii) the Issuer fails to pay when due any amount payable by it under any present or future guarantee for, or indemnity in respect of, any Public External Indebtedness, provided that the aggregate amount of such Public External Indebtedness, guarantees and indemnities in respect of which one or more of the events mentioned above in this paragraph (c) have occurred equals or exceeds U.S.$25,000,000 or its equivalent in another currency or currencies (on the basis of the middle spot rate for the relevant currency against the U.S. dollar as quoted by any leading bank on the day on which this paragraph operates); or

(d) **Moratorium**: the Issuer declares a general moratorium on the payment of principal of, or interest in respect of, any Public External Indebtedness of the Issuer or any present or future guarantee given by the Issuer for, or indemnity given by the Issuer in respect of, any Public External Indebtedness or is unable, or officially admits its inability, to pay its Public External Indebtedness, or under any present or future guarantee given by the Issuer for, or indemnity given by the Issuer in respect of, any Public

External Indebtedness, as it falls due or commences negotiations with one or more of its creditors with a view to the general rescheduling of all or part of its Public External Indebtedness or any present or future guarantee given by the Issuer for, or indemnity given by the Issuer in respect of, any Public External Indebtedness; or

(e) **IMF**: (i) the International Monetary Fund ("**IMF**") deems that the Issuer is ineligible to use the general resources of the IMF, (ii) the Issuer ceases to be a member of the IMF or (iii) the IMF suspends the provision of any line of credit or any other facility granted by it to the Issuer the aggregate maximum principal amount of which, alone or together with other such lines of credit or facilities so suspended, if any, equals or exceeds U.S.$25,000,000 (other than by mutual agreement as a result of which the Issuer's eligibility to use the general resources of the IMF is not affected), and in the case of each event mentioned in this paragraph (e), such event is not remedied within 30 calendar days; or

(f) **Performance prevented**: it is or will become unlawful for the Issuer to perform or comply with any of its obligations under or in respect of the Notes or the Fiscal Agency Agreement or any of such obligations shall be or become unenforceable or invalid; or

(g) **Repudiation**: the Issuer repudiates its obligations under the Notes or does any act or thing evidencing its intention to do so, or otherwise denies that the Notes or any of them constitute the legal, valid, binding and enforceable obligations of the Issuer; or

(h) **Consents etc.**: any regulation, decree, consent, approval, licence or other authority necessary to enable the Issuer to perform its obligations under the Notes or the Fiscal Agency Agreement or for the validity or enforceability thereof expires or is withheld, revoked or terminated or otherwise ceases to remain in full force and effect or is modified in a manner which adversely affects any right or claim of any of the Noteholders in respect of any payment due pursuant to these Conditions, then the holders of at least 25% in aggregate principal amount of the outstanding Notes may, by notice in writing to the Issuer (with a copy to the Fiscal Agent), declare all the Notes to be immediately due and payable, whereupon they shall become immediately due and payable at their principal amount together with accrued interest without further action or formality. Notice of any such declaration shall promptly be given to all other Noteholders by the Issuer in accordance with Condition 14. If the Issuer receives notice in writing from holders of at least 50% in aggregate principal amount of the outstanding Notes to the effect that the Event of Default or Events of Default giving rise to any such declaration is or are cured following any such declaration and that such holders wish the relevant declaration to be withdrawn, the Issuer shall give notice thereof to the Noteholders (with a copy to the Fiscal Agent) in accordance with Condition 14, whereupon the relevant declaration shall be withdrawn and shall have no further force or effect. No such withdrawal shall affect any other or any subsequent Event of Default or any right of any Noteholder in relation thereto.

9. PRESCRIPTION

Claims in respect of principal and interest shall be prescribed and will become void unless made within a period of 10 years in the case of principal and five years in the case of interest from the appropriate Relevant Date.

10. REPLACEMENT OF NOTES

If any Note is lost, stolen, mutilated, defaced or destroyed it may be replaced at the specified office of the Fiscal Agent, subject to all applicable laws and stock exchange or other relevant authority requirements, upon payment by the claimant of the expenses incurred in connection with such replacement and on such terms as to evidence, security, indemnity and otherwise as the Issuer may reasonably require. Mutilated or defaced Notes must be surrendered before replacements will be issued.

11. MEETINGS OF NOTEHOLDERS, WRITTEN RESOLUTIONS

(a) **Convening meetings of Noteholders**: The Fiscal Agency Agreement contains provisions for convening meetings of Noteholders to consider matters relating to the Notes, including the modification of any provision of these Conditions or the provisions of the Fiscal Agency Agreement. Such a meeting may be convened by the Issuer or the Fiscal Agent in their discretion and shall be convened by the Issuer or the Fiscal Agent at any time upon the request in writing of holders of at least 10% of the aggregate principal amount of the outstanding Notes. Notwithstanding any provision contained in these Conditions or in the Fiscal Agency Agreement, no modification or amendment of these Conditions or the Fiscal Agency Agreement may be made without the prior written consent of the Issuer.

(b) **Quorum**: The quorum at any meeting of Noteholders convened to vote on an Extraordinary Resolution will be:

(i) one or more persons present and holding or representing at least 50% of the aggregate principal amount of the outstanding Notes; or

(ii) where a meeting is adjourned and rescheduled owing to a lack of quorum, at any rescheduled meeting of Noteholders, one or more persons present and holding or representing at least 25% of the aggregate principal amount of the outstanding Notes,

provided, however, that any proposals relating to a Reserved Matter may only be approved by an Extraordinary Resolution passed at a meeting of Noteholders at which one or more persons present and holding or representing at least 75% of the aggregate principal amount of the outstanding Notes form a quorum.

(c) **Reserved Matters**: In these Conditions, "**Reserved Matter**" means, subject as provided in paragraph (d), any proposal:

(i) to change the dates, or the method of determining the dates, for payment of principal, interest or any other amount in respect of the Notes, to reduce or cancel the amount of principal, interest or any other amount payable on any date in respect of the Notes or to change the method of calculating the amount of principal, interest or any other amount payable in respect of the Notes on any date;

(ii) to change the currency in which any amount due in respect of the Notes is payable or the place in which any payment is to be made;

(iii) to change the quorum required at any meeting of Noteholders or the majority required to pass an Extraordinary Resolution, Written Resolution or any other resolution of Noteholders or the number or percentage of votes required to be cast, or the number or percentage of Notes required to be held, in connection with the taking of any decision or action by or on behalf of the Noteholders or any of them;

(iv) to change this definition or the definition of "**Extraordinary Resolution**", "**outstanding**" or "**Written Resolution**";

(v) to change or waive the provisions of the Notes set out in Conditions 1(c)) and/or 3; or

(vi) to change any provision of the Notes describing circumstances in which Notes may be declared due and payable prior to their scheduled maturity date, as set out in Condition 8,

and has the same meaning in relation to the debt securities of any other series save that any of the foregoing references to the Notes or any agreement governing the issuance or administration of the Notes shall be read as references to such other debt securities or any agreement governing the issuance or administration of such other debt securities.

(d) **Matters requiring unanimity**: Any proposal:

(i) to change the law governing the Notes, the courts or arbitral tribunals to the jurisdiction of which the Issuer has submitted in these Conditions, the Issuer's obligation to maintain an agent for service of process in England or the Issuer's waiver of immunity in respect of actions or proceedings brought by any Noteholder set out in Condition 17; or

(ii) to modify the provisions of this Condition 11(d),

may only be given effect with the consent of the holders of all of the outstanding Notes.

(e) **Modifications**: Subject as provided in Condition 11(d), any modification of any provision of these Conditions may be made if approved by an Extraordinary Resolution or a Written Resolution. In these Conditions, "**Extraordinary Resolution**" means a resolution passed at a meeting of Noteholders duly convened and held in accordance with the Fiscal Agency Agreement by a majority of at least:

(i) in the case of a Reserved Matter, 75% of the aggregate principal amount of the outstanding Notes which are represented at that meeting; or

(ii) in the case of a matter other than a Reserved Matter, 66⅔% of the aggregate principal amount of the outstanding Notes which are represented at that meeting.

Any Extraordinary Resolution duly passed at any such meeting shall be binding on all the Noteholders, whether present or not and whether they voted in favour or not.

(f) **Cross-series modification:** In the case of a cross-series modification, the terms and conditions of the Notes and debt securities of any other series, and any agreement governing the issuance or administration of the Notes or debt securities of such other series, may be modified in relation to a Reserved Matter with the consent of the Issuer and:

(I)(x) the affirmative vote of not less than 75% of the aggregate principal amount of the outstanding debt securities represented at separate duly called meetings of the holders of the debt securities of all the series (taken in aggregate) that would be affected by the proposed modification; or

(I)(y) a written resolution signed by or on behalf of the holders of not less than 66⅔% of the aggregate principal amount of the outstanding debt securities of all the series (taken in aggregate) that would be affected by the proposed modification;

and

(II)(x) the affirmative vote of more than 66⅔% of the aggregate principal amount of the outstanding debt securities represented at separate duly called meetings of the holders of each series of debt securities (taken individually) that would be affected by the proposed modification; or

(II)(y) a written resolution signed by or on behalf of the holders of more than 50% of the aggregate principal amount of the then outstanding debt securities of each series (taken individually) that would be affected by the proposed modification.

A separate meeting will be called and held, or a separate written resolution signed, in relation to the proposed modification of the Notes and the proposed modification of each other affected series of debt securities.

(g) **Proposed cross-series modification**: A proposed cross-series modification may include one or more proposed alternative modifications of the terms and conditions of each affected series of debt securities or of any agreement governing the issuance or administration of any affected series of debt securities, provided that all such proposed alternative modifications are addressed to and may be accepted by any holder of any debt security of the affected series.

(h) **Partial cross-series modification**: If a proposed cross-series modification is not approved in relation to a Reserved Matter in accordance with Condition 11(f), but would have been so approved if the proposed modification had involved only the Notes and one or more, but less than all, of the other series of debt securities affected by the proposed modification, that cross-series modification will be deemed to have been approved, notwithstanding Condition 11(f), in relation to the Notes and debt securities of each other series whose modification would have been approved in accordance with Condition 11(f) if the proposed modification had involved only the Notes and debt securities of such other series, provided that:

i. prior to the Voting Record Date for the proposed cross-series modification, the Issuer has publically notified holders of the Notes and other affected debt securities of the conditions under which the proposed cross-series modification will be deemed to have been approved if it is approved in the manner described above in relation to the Notes and some but not all of the other affected series of debt securities; and

ii. those conditions are satisfied in connection with the proposed cross-series modification.

(i) **Written Resolutions**: In addition, the Fiscal Agency Agreement contains provisions relating to Written Resolutions. A "**Written Resolution**" is a resolution in writing signed by or on behalf of the holders of at least 75% of the aggregate principal amount of the outstanding Notes, in the case of a Reserved Matter, or 66⅔% of the aggregate principal amount of the outstanding Notes, in the case of a matter other than a Reserved Matter. Any Written Resolution may be contained in one document or several documents in the same form, each signed by or on behalf of one or more Noteholders, and the date of such resolution shall be the date of the latest such document. Any Written Resolution shall be binding on all of the Noteholders, whether or not signed by them.

(j) **Manifest error, etc.**: The Notes, these Conditions and the provisions of the Fiscal Agency Agreement may be amended without the consent of the Noteholders to correct a manifest error. In addition, the parties to the Fiscal Agency Agreement may agree to modify any provision hereof or thereof, but the Issuer shall not agree, without the consent of the Noteholders, to any such modification unless it is of a formal, minor or technical nature or it is not materially prejudicial to the interests of the Noteholders.

(k) **Notes controlled by the Issuer**: For the purposes of (i) ascertaining the right to attend and vote at any meeting of Noteholders or the right to sign, or authorise the signature of, any Written Resolution, (ii) this Condition 11 and Schedule 3 to the Fiscal Agency Agreement, (iii) Condition 12 and (iv) Condition 8, those Notes (if any) which are held in circumstances where the Issuer has the power to direct the casting of votes in respect of such Notes, whether directly or indirectly, shall (unless and until ceasing to be so held) be disregarded and be deemed not to remain outstanding. Without prejudice to the generality of the previous sentence, the Issuer shall be deemed to have the power to direct the casting of votes in respect of a Note if the Note is held by or on behalf of the Issuer or by or on behalf of any person which is owned or controlled directly or indirectly by the Issuer or by any public sector instrumentality of the Issuer, where:

(i) "**public sector instrumentality**" means the Central Bank of Armenia, any department, ministry or agency of the Government of Armenia or any corporation, trust, financial institution or other entity owned or controlled by the Government of Armenia; and

(ii) "**control**" means the power, directly or indirectly, through the ownership of voting securities or other ownership interests or otherwise, to direct the management of, or elect or appoint a majority of the board of directors or other persons performing similar functions in lieu of, or in addition to, the board of directors of a corporation, trust, financial institution or other entity.

In advance of any meeting of Noteholders or the adoption of any Written Resolution the Issuer shall provide to the Fiscal Agent a certificate of the Issuer setting out the total number of Notes which are held in circumstances where the Issuer has at the date of such certificate the power to direct the casting of votes in respect of such Notes. Such certificate shall, in the absence of manifest error, be conclusive evidence of the total number of Notes held in such circumstances. The Fiscal Agent shall make any such certificate available for inspection during normal business hours at its specified office and, upon reasonable request, will allow copies of such certificate to be taken.

(l) **Outstanding debt securities**: In determining whether holders of the requisite principal amount of outstanding debt securities of another series have voted in favor of a proposed cross-series modification or whether a quorum is present at any meeting of the holders of such debt securities called to vote on a proposed cross-series modification, an affected debt security will be deemed to be not outstanding, and may not be voted for or against a proposed cross-series modification or counted in determining whether a quorum is present, in accordance with the applicable terms and conditions of that debt security.

(m) **Calculation Agent**: In the case of a cross-series modification, the Issuer will appoint a person to calculate whether a cross-series modification has been approved by the requisite principal amount of outstanding debt securities of each affected series of debt securities.

(n) **Definitions**: For the purposes of this Condition:

"**cross-series modification**" means a modification involving (i) the Notes or any agreement governing the issuance or administration of the Notes, and (ii) the debt securities of one or more other series or any agreement governing the issuance or administration of such other debt securities;

"**debt securities**" means the Notes and any other bills, bonds, debentures, notes or other debt securities issued by the Issuer in one or more series with an original stated maturity of more than one year, and includes any such obligation, irrespective of its original stated maturity, that formerly constituted a component part of a debt security;

"**modification**" in relation to the Notes means any modification, amendment, supplement or waiver of the terms and conditions of the Notes or any agreement governing the issuance or administration of the Notes, and has the same meaning in relation to the debt securities of any other series save that any of the foregoing references to the Notes or any agreement governing the issuance or administration of the Notes shall be read as references to such other debt securities or any agreement governing the issuance or administration of such other debt securities;

"**series**" means a tranche of debt securities, together with any further tranche or tranches of debt securities that in relation to each other and to the original tranche of debt securities are (i) identical in all respects except for their date of issuance or first payment date, and (ii) expressed to be consolidated and form a single series, and includes the Notes and any further issuances of Notes; and

"**Voting Record Date**" means in relation to a cross-series modification, the date fixed by the Issuer for determining the holders of Notes and the holders of debt securities of each other series that are entitled to vote on or sign a written resolution in relation to the proposed modification.

12. NOTEHOLDERS' COMMITTEE

(a) **Appointment**: The Noteholders may, by a resolution passed at a meeting of Noteholders duly convened and held in accordance with the Fiscal Agency Agreement by a majority of at least 50% in aggregate principal amount of the Notes then outstanding, or by notice in writing to the Issuer signed by or on behalf of the holders of at least 50% in aggregate principal amount of the Notes then outstanding, appoint any person or persons as a committee to represent the interests of the Noteholders if any of the following events has occurred:

(i) an Event of Default;

(ii) any event or circumstance which could, with the giving of notice, the lapse of time and/or fulfilment of any other requirement provided for in Condition 8 become an Event of Default; or

(iii) any public announcement by the Issuer, to the effect that the Issuer is seeking or intends to seek a restructuring of the Notes,

provided, however, that no such appointment shall be effective if the holders of more than 25% of the aggregate principal amount of the outstanding Notes have either: (A) objected to such appointment by notice in writing to the Issuer (with a copy to the Fiscal Agent) during a specified period following notice of the appointment being given (if such notice of appointment is made by notice in writing to the Issuer) where such specified period shall be either 30 days or such other longer or shorter period as the committee may, acting in good faith, determine to be appropriate in the circumstances, or (B) voted against such resolution at a meeting of Noteholders duly convened and held in accordance with the Fiscal Agency Agreement. Such committee shall, if appointed by notice in writing to the Issuer, give notice of its appointment to all Noteholders in accordance with Condition 14 as soon as practicable after the notice is delivered to the Issuer.

(b) **Powers**: Such committee in its discretion may, among other things, (i) engage legal advisers and financial advisers to assist it in representing the interests of the Noteholders, (ii) adopt such rules as it considers appropriate regarding its proceedings, (iii) enter into discussions with the Issuer and/or other creditors of the Issuer, (iv) designate one or more members of the committee to act as the main point(s) of contact with the Issuer and provide all relevant contact details to the Issuer, (v) determine whether or not there is an actual or potential conflict of interest between the interests of the holders of the Notes then outstanding and the interests of the holders of debt securities of any one or more other series issued by the Issuer and (vi) upon making a determination of the absence of any actual or potential conflict of interest between the interests of the holders of the Notes then outstanding and the interests of the holders of debt securities of any one or more other series issued by the Issuer, agree to transact business at a combined meeting of the committee and such other person or persons as may have been duly appointed as representatives of the holders of securities of each such other series. Except to the extent provided in this Condition 12(b), such committee shall not have the ability to exercise any powers or discretions which the Noteholders could themselves exercise. The Issuer shall pay any fees and expenses which are reasonably incurred by any such committee or any such combined committee (including, without limitation, the costs of giving notices to Noteholders, fees and expenses of the committee's legal advisers and financial advisers, if any) within 30 days of the delivery to the Issuer of a reasonably detailed invoice and supporting documentation.

13. FURTHER ISSUES

The Issuer may from time to time without the consent of the Noteholders create and issue further securities either having the same terms and conditions as the Notes in all respects (or in all respects except for the first payment of interest on them) and so that such further issue shall be consolidated and form a single series with the outstanding securities of any series (including the Notes) or upon such terms as the Issuer may determine at the time of their issue. References in these Conditions to the Notes include (unless the context requires otherwise) any other securities issued pursuant to this Condition and forming a single series with the Notes.

Notwithstanding the foregoing, further notes that are not issued pursuant to a "qualified reopening" for U.S. tax purposes shall be issued with a CUSIP or ISIN different from that of the original Notes.

14. NOTICES

All notices to Noteholders shall be mailed to them at their respective addresses appearing in the Register and shall be deemed to have been given on the fourth weekday (excluding Saturday and Sunday) after the date of mailing. In addition, so long as the Notes are listed on the Irish Stock Exchange and the rules or guidelines of that exchange so require, notices will be published via the companies announcements of the Irish Stock Exchange. Any such notice shall be deemed to have been given on the date of such publication or, if published more than once or on different dates, on the first date on which publication is made.

If it shall be impracticable to provide such notice to Noteholders as provided above, then such notification to the Noteholders as shall be given in accordance with the rules of the Irish Stock Exchange shall constitute sufficient notice to the Noteholders for every purpose hereunder.

15. CURRENCY INDEMNITY

United States dollar (the "**Contractual Currency**") is the sole currency of account and payment for all sums payable by the Issuer under or in connection with the Notes, including damages. Any amount received or recovered in a currency other than the United States dollar (whether as a result of, or of the enforcement of, a judgment or order of a court of any jurisdiction or otherwise) by any Noteholder in respect of any sum expressed to be due to it from the Issuer shall only constitute a discharge to the Issuer to the extent of the Contractual Currency amount which the recipient is able to purchase with the amount so received or recovered in that other currency on the date of that receipt or recovery (or, if it is not practicable to make that purchase on that date, on the first date on which it is practicable to do so). If that Contractual Currency amount is less than the Contractual Currency amount expressed to be due to the recipient under any Note, the Issuer shall indemnify such recipient against any loss sustained by it as a result. In any event, the Issuer shall indemnify the recipient against the cost of making any such purchase. For the purposes of this Condition, it will be sufficient for the Noteholder to demonstrate that it would have suffered a loss had an actual purchase been made. These indemnities constitute a separate and independent obligation from the Issuer's other obligations, shall give rise to a separate and independent cause of action, shall apply irrespective of any indulgence granted by any Noteholder and shall continue in full force and effect despite any other judgment, order, claim or proof for a liquidated amount in respect of any sum due under any Note or any other judgment or order, until paid in full.

16. CONTRACTS (RIGHTS OF THIRD PARTIES) ACT 1999

No person shall have any right to enforce any term or condition of the Notes under the Contracts (Rights of Third Parties) Act 1999.

17. GOVERNING LAW, ARBITRATION AND JURISDICTION

(a) **Governing law:**

The Fiscal Agency Agreement and the Notes, and any non-contractual obligations arising out of or in connection with them, are governed by, and shall be construed in accordance with, English law.

(b) **Arbitration:**

Subject to Conditions 17(c) and 17(d), the Issuer and the Noteholders irrevocably and unconditionally agree that any dispute which may arise out of or in connection with the Notes or the Fiscal Agency Agreement (including any dispute regarding their existence, validity or termination and any dispute relating to non-contractual obligations arising out of or in connection with the Notes or the Fiscal Agency Agreement) (a "**Dispute**") shall be referred to and finally resolved by arbitration under the Rules of Arbitration of the International Chamber of Commerce (the "**Rules**"). The place of such arbitration shall be Paris and the language English.

The arbitral tribunal shall be composed of three (3) arbitrators. The claimant(s), irrespective of number, shall nominate jointly one arbitrator and the respondent(s), irrespective of number, shall nominate jointly the second arbitrator, in accordance with the Rules, for confirmation by the ICC Court. If a party or parties fail(s) to nominate an arbitrator, the appointment shall be made by the ICC Court. The third arbitrator, who shall serve as president of the arbitral tribunal, shall be nominated, for confirmation by the ICC Court, by agreement of the two party-nominated arbitrators within 15 days of the nomination of the second arbitrator, or, in default of such agreement, shall be appointed by the ICC Court as soon as possible.

(c) **Noteholders' option:**

Before the Noteholders have nominated an arbitrator to resolve any Dispute or Disputes pursuant to Condition 17(b), the Noteholders, at their sole option, may require by notice in writing to the Issuer that all Disputes or a specific Dispute be heard by a court of law. If the Noteholders give such notice, the Dispute to which such notice refers shall be determined in accordance with Condition 17(d).

(d) **Jurisdiction**:

In the event that the Noteholders serve a written notice in respect of any Dispute(s) pursuant to Condition 17(c), the Issuer irrevocably agrees for the benefit of the Noteholders that the courts of England shall have exclusive jurisdiction to resolve and settle such Disputes and that accordingly any suit, action or proceedings arising out of or in connection therewith (together referred to as "**Proceedings**") may be brought in the courts of England. Nothing in this Condition shall limit any right of the Noteholders to take proceedings relating to a Dispute against the Issuer in any other court of competent jurisdiction, nor shall the taking of proceedings in one or more jurisdictions preclude the taking of proceedings in any other jurisdiction, whether concurrently or not.

(e) **No objection to Proceedings:**

The Issuer irrevocably and unconditionally waives and agrees not to raise any objection which it may have now or subsequently to the laying of the venue of any Proceedings in the courts of England and any claim that any Proceedings have been brought in an inconvenient forum and further irrevocably and unconditionally agrees that a final non-appealable judgment in any Proceedings brought in the courts of England shall be conclusive and binding upon the Issuer and may, subject to the proviso in paragraph (g) below, be enforced in the courts of any other jurisdiction to which the Issuer is or may be subject.

(f) **Agent for service of process:**

The Issuer irrevocably appoints the Embassy of Armenia, 25a Cheniston Gardens, Kensington, London W8 6TG, United Kingdom as its authorised agent for service of process in England. If for any reason such agent shall cease to be such agent for service of process, the Issuer shall appoint a new agent for service of process in England and deliver to the Fiscal Agent a copy of the new agent's acceptance of that appointment within 30 days.

(g) **Waiver of immunity:**

The Issuer hereby irrevocably waives any right to claim sovereign or other immunity from jurisdiction or execution and any similar defence, and irrevocably consents to the giving of any relief or the issue of any process, including, without limitation, the making, enforcement or execution against any property whatsoever of any order, award or judgment made or given in connection with any Proceedings provided, however, that immunity is not waived with respect to (i) present or future "premises of the mission" as defined in the Vienna Convention on Diplomatic Relations signed in 1961, "consular premises" as defined in the Vienna Convention on Consular Relations signed in 1963 or otherwise used by a diplomat or consular mission of Armenia or any agency or instrumentality thereof (except as may be necessary to effect service of process), (ii) property of a military character or under the control of a military authority or defence agency, (iii) the international reserves of Armenia held by the Central Bank of Armenia or (iv) property located in Armenia and dedicated to a public, governmental, religious or cultural use (as opposed to a commercial use).

PROVISIONS RELATING TO THE NOTES WHILST IN GLOBAL FORM

The Global Notes

The Notes will be evidenced on issue, in the case of Unrestricted Notes, by the Unrestricted Global Note (which will be deposited with, and registered in the name of a nominee for, a common depositary for Euroclear and Clearstream, Luxembourg) and, in the case of Restricted Notes, by the Restricted Global Note (which will be deposited with a custodian for, and registered in the name of Cede & Co. as nominee of DTC).

Beneficial interests in the Unrestricted Global Note may be held only through Euroclear or Clearstream, Luxembourg at any time. See "*Clearing and Settlement—Book-Entry Ownership*." By acquisition of a beneficial interest in an Unrestricted Global Note, the purchaser thereof will be deemed to represent, among other things, that it is not located in the United States.

Beneficial interests in the Restricted Global Note may only be held through DTC at any time. See "*Clearing and Settlement—Book-Entry Ownership*." By acquisition of a beneficial interest in the Restricted Global Note, the purchaser thereof will be deemed to represent, among other things, that it is a QIB and that, if in the future it decides to transfer such beneficial interest, it will transfer such interest in accordance with the procedures and restrictions contained in the Fiscal Agency Agreement. See "*Transfer Restrictions*."

Beneficial interests in each Global Note will be subject to certain restrictions on transfer set forth therein and in the Fiscal Agency Agreement, and with respect to Restricted Notes, as set forth in Rule 144A, and the Restricted Global Note will bear the legend set forth thereon regarding such restrictions set forth under "*Transfer Restrictions*." A beneficial interest in the Unrestricted Global Note may be transferred to a person who takes delivery in the form of an interest in the Restricted Global Note in denominations greater than or equal to the minimum denominations applicable to interests in the Restricted Global Note and only upon receipt by the Registrar of a written certification (in the form provided in the Fiscal Agency Agreement) to the effect that the transferor reasonably believes that the transferee is a QIB and that such transaction is in accordance with any applicable securities laws of any state of the United States or any other jurisdiction. Beneficial interests in the Restricted Global Note may be transferred to a person who takes delivery in the form of an interest in the Unrestricted Global Note and in accordance with Regulation S.

A beneficial interest in the Unrestricted Global Note that is transferred to a person who takes delivery in the form of an interest in the Restricted Global Note will, upon transfer, cease to be an interest in the Unrestricted Global Note and become an interest in the Restricted Global Note, and, accordingly, will thereafter be subject to all transfer restrictions and other procedures applicable to a beneficial interest in the Restricted Global Note for as long as it remains such an interest. A beneficial interest in the Restricted Global Note that is transferred to a person who takes delivery in the form of an interest in the Unrestricted Global Note will, upon transfer, cease to be an interest in the Restricted Global Note and become an interest in the Unrestricted Global Note and, accordingly, will thereafter be subject to all transfer restrictions and other procedures applicable to a beneficial interest in the Unrestricted Global Note for so long as it remains such an interest. No service charge will be made for any registration of transfer or exchange of Notes, but the Registrar may require payment of a sum sufficient to cover any tax or other governmental charge payable in connection therewith. Except in the limited circumstances described below, owners of beneficial interests in Global Notes will not be entitled to receive physical delivery of the definitive registered certificates ("**Note Certificates**"). No Notes will be issued in bearer form.

Legends

The holder of a Note Certificate may transfer the Notes evidenced thereby in whole or in part in the applicable minimum denomination by surrendering it at the specified office of the Registrar or any Paying and Transfer Agent, together with the completed form of transfer thereon. Upon the transfer, exchange or replacement of a Note Certificate issued and sold in reliance on Rule 144A (a "**Restricted Note Certificate**") bearing the legend referred to under "*Transfer Restrictions*," or upon specific request for removal of the legend on a Restricted Note Certificate, the Issuer will deliver only Restricted Note Certificates that bear such legend, or will refuse to remove such legend, as the case may be, unless there is delivered to the Issuer and the Registrar such satisfactory evidence, which may include an opinion of counsel, as may reasonably be required by the Issuer that neither the legend nor the restrictions on transfer set forth therein are required to ensure compliance with the provisions of the Securities Act.

Amendments to Terms and Conditions of the Notes

Each Global Note contains provisions that apply to the Notes that it evidences, some of which modify the effect of the Terms and Conditions of the Notes. The following is a summary of those provisions.

Payments

Payments of principal and interest in respect of Notes evidenced by a Global Note will be made to, or to the order of, the person who appears in the Register (as defined in the Terms and Conditions of the Notes) at the close of business on the Clearing System Business Day immediately prior to the date for payment, where Clearing System Business Day means Monday to Friday inclusive except 25 December and 1 January, as holder of the Notes against presentation for endorsement by the Fiscal Agent and, if no further payment falls to be made in respect of the relevant Notes, surrender of such Global Note to or to the order of the Fiscal Agent or such other Paying and Transfer Agent as shall have been notified to the relevant Noteholders for such purpose. A record of each payment so made will be endorsed in the appropriate schedule to the Global Note, which endorsement will be *prima facie* evidence that such payment has been made in respect of the relevant Notes.

Notices

Notices to Noteholders may be given by delivery of the notice to the relevant clearing systems for communication by them to entitled account Noteholders.

Meetings

The holder of each Global Note will be treated as being two persons for the purposes of any quorum requirements of, or the right to demand a poll at, a meeting of Noteholders and in any such meeting as having one vote in respect of each integral U.S.$1,000 in principal amount of Notes.

Cancellation

Cancellation of any Note required by the Terms and Conditions of the Notes to be cancelled will be effected by reduction in the principal amount of the applicable Global Note.

Exchange for Note Certificates

Exchange

The Unrestricted Global Note will be exchangeable, free of charge to the holder, in whole but not in part, for Note Certificates if: (i) it is held by or on behalf of a clearing system and such clearing system is closed for business for a continuous period of 14 calendar days (other than by reason of holidays, statutory or otherwise) or announces an intention permanently to cease business or does in fact do so, by the holder giving notice to the Registrar or (ii) if the Issuer would suffer a material disadvantage in respect of the Notes as a result of a change in the laws or regulations (taxation or otherwise) of any jurisdiction referred to in Condition 7 of the Terms and Conditions of the Notes which would not be suffered were the Notes in definitive form, by the Issuer giving notice to the Registrar and the Noteholders, in each case of its intention to exchange interests in the Unrestricted Global Note for individual note certificates (the "**Unrestricted Note Certificates**," and together with the Restricted Note Certificates, the "**Note Certificates**") on or after the Exchange Date (as defined below) specified in the notice.

The Restricted Global Note will be exchangeable, free of charge to the holder, in whole but not in part, for Note Certificates if (i) DTC or its successor depositary notifies the Issuer that it is no longer willing or able to discharge properly its responsibilities as depositary with respect to the Restricted Global Note or ceases to be a "clearing agency" registered under the United States Securities Exchange Act of 1934, as amended (the "**Exchange Act**"), or is at any time unable to act as such, and the Issuer is unable to locate a qualified successor within 90 days of receiving notice of such ineligibility on the part of such depositary or (ii) the Issuer would suffer a material disadvantage in respect of the Notes as a result of a change in the laws or regulations (taxation or otherwise) of any jurisdiction referred to in Condition 7 of the Terms and Conditions of the Notes which would not be suffered were the Notes in definitive form, by the Issuer giving notice to the Registrar and the Noteholders, in each case, of its intention to exchange interests in the Restricted Global Note for Restricted Note Certificates on or after the Exchange Date specified in the notice.

"**Exchange Date**" means a day falling not later than 60 calendar days after that on which the notice requiring exchange is given and on which banks are open for business in the city in which the specified office of the Registrar or the relevant Paying and Transfer Agent is located.

If any of the events in the first or second paragraphs of this section ("—*Exchange*") occurs, the relevant Global Note shall be exchangeable in full for Note Certificates, and the Issuer will, free of charge to the Noteholders (but against such indemnity as the Registrar or any relevant Paying Agent may require in respect of any tax or other duty of whatever nature which may be levied or imposed in connection with such exchange), cause sufficient Note Certificates to be executed and delivered to the Registrar for completion and despatch to the relevant Noteholders. A person having an interest in a Restricted Global Note or an Unrestricted Global Note must provide the Registrar with (a) a written order containing instructions and such other information as the Issuer and the Registar may require to complete, execute and deliver such Note Certificates and (b) in the case of the Restricted Global Note only, a fully completed, signed certification substantially to the effect that the exchanging holder is not transferring its interest at the time of such exchange or, in the case of a simultaneous sale pursuant to Rule 144A, a certification that the transfer is being made in compliance with the provisions of Rule 144A or to a QIB. Except as otherwise permitted, Restricted Note Certificates issued in exchange for an interest in the Restricted Global Note shall bear the legend applicable to transfers pursuant to Rule 144A, as set out under "*Transfer Restrictions*."

The Registrar will not register the transfer of, or exchange of interests in, a Global Note for Note Certificates for a period of 15 calendar days ending on the date for any payment of principal or interest in respect of the Notes.

CLEARING AND SETTLEMENT

*The information set out below is subject to any change in or reinterpretation of the rules, regulations and procedures of DTC, Euroclear or Clearstream, Luxembourg (together, the "**Clearing Systems**") currently in effect. Investors wishing to use the facilities of any of the Clearing Systems are advised to confirm the continued applicability of the rules, regulations and procedures of the relevant Clearing System. None of the Issuer nor any other party to the Fiscal Agency Agreement will have any responsibility or liability for any aspect of the records relating to, or payments made on account of, beneficial ownership interests in the Notes held through the facilities of any Clearing System or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests.*

The Clearing Systems

Custodial and depositary links are to be established between DTC, Euroclear and Clearstream, Luxembourg to facilitate the initial issue of the Notes and cross-market transfers of the Notes associated with secondary market trading. See "— *Book-Entry Ownership*" and "—*Settlement and Transfer of Notes*" below.

Investors may hold their interests in a Global Note directly through DTC, Euroclear or Clearstream, Luxembourg if they are accountholders ("**Direct Participants**") or indirectly ("**Indirect Participants**" and, together with Direct Participants, "**Participants**") through organisations which are Direct Participants therein.

Euroclear and Clearstream, Luxembourg

Euroclear and Clearstream, Luxembourg each hold securities for their customers and facilitate the clearance and settlement of securities transactions through electronic book-entry transfer between their respective accountholders. Indirect access to Euroclear and Clearstream, Luxembourg is available to other institutions which clear through or maintain a custodial relationship with an accountholder of either system. Euroclear and Clearstream, Luxembourg provide various services including safekeeping, administration, clearance and settlement of internationally-traded securities and securities lending and borrowing. Euroclear and Clearstream, Luxembourg also deal with domestic securities markets in several countries through established depository and custodial relationships. Euroclear and Clearstream, Luxembourg have established an electronic bridge between their two systems across which their respective customers may settle trades with each other. Their customers are worldwide financial institutions including underwriters, securities brokers and dealers, banks, trust companies and clearing corporations.

DTC

DTC has advised the Issuer as follows: DTC is a limited purpose trust company organised under the laws of the State of New York, a "banking organization" under the laws of the State of New York, a member of the U.S. Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial code and a "clearing agency" registered pursuant to the provisions of Section 17A of the Exchange Act. DTC was created to hold securities for its Participants and facilitate the clearance and settlement of securities transactions between Participants through electronic computerised book-entry changes in accounts of its Participants, thereby eliminating the need for physical movement of certificates. Participants include securities brokers and dealers, banks, trust companies, clearing corporations and certain other organisations. Indirect access to DTC is available to others, such as banks, securities brokers, dealers and trust companies, that clear through or maintain a custodial relationship with a DTC Direct Participant, either directly or indirectly.

Investors may hold their interests in the Restricted Global Note directly through DTC if they are Direct Participants in the DTC system, or as Indirect Participants through organisations which are Direct Participants in such system.

Under the rules, regulations and procedures creating and affecting DTC and its operations (the "**DTC Rules**"), DTC makes book-entry transfers of Restricted Notes represented by the Restricted Global Note among Direct Participants on whose behalf it acts with respect to Restricted Notes and receives and transmits distributions of principal and interest on Restricted Notes. The DTC Rules are on file with the Securities and Exchange Commission. Direct Participants and Indirect Participants with which beneficial owners of Restricted Notes have accounts with respect to the Restricted Notes similarly are required to make book-entry transfers and receive and transmit such payments on behalf of their beneficial owners. Accordingly, although beneficial owners who hold Restricted Notes through Direct Participants or Indirect Participants will not possess Restricted Notes, the DTC Rules, by virtue of the requirements described above, provide a mechanism by which Participants will receive payments and will be able to transfer their interest in respect of the Restricted Notes.

DTC has advised the Issuer that it will take any action permitted to be taken by a holder of Notes only at the direction of one or more Direct Participants and only in respect of such portion of the aggregate principal amount of the Restricted Global Note as to which such Participant or Participants has or have given such direction. However, in the circumstances described under "*Provisions Relating to the Notes whilst in Global Form—Exchange for Note Certificates*," DTC will cause its custodian to surrender the Restricted Global Note in exchange for Note Certificates (which will bear the legend applicable to transfers pursuant to Rule 144A).

Payments through DTC

Payments of principal and interest in respect of a Global Note registered in the name of, or in the name of a nominee for, DTC will be made to the order of DTC or such nominee (as the case may be) as the registered holder of such Note.

Book-Entry Ownership

Euroclear and Clearstream, Luxembourg

The Unrestricted Global Note evidencing Unrestricted Notes will have an ISIN and a Common Code and will be registered in the name of a nominee for, and deposited with a common depositary on behalf of, Euroclear and Clearstream, Luxembourg.

DTC

The Restricted Global Note evidencing the Restricted Notes will have an ISIN, Common Code and a CUSIP number and will be deposited with the Custodian and registered in the name of Cede & Co. as nominee of DTC. The Custodian and DTC will electronically record the principal amount of the Notes held within the DTC system.

Relationship of Participants with Clearing Systems

Each of the persons shown in the records of DTC, Euroclear or Clearstream, Luxembourg as the holder of a Note evidenced by a Global Note must look solely to DTC, Euroclear or Clearstream, Luxembourg (as the case may be) for its share of each payment made by the Issuer to the holder of such Global Note and in relation to all other rights arising under such Global Note, subject to and in accordance with the respective rules and procedures of DTC, Euroclear or Clearstream, Luxembourg (as the case may be). The Issuer expects that, upon receipt of any payment in respect of Notes evidenced by a Global Note, the common depositary by whom such Note is held, or nominee in whose name it is registered, will immediately credit the relevant Participants' or accountholders' accounts in the relevant Clearing System with payments in amounts proportionate to their respective beneficial interests in the principal amount of the relevant Global Note as shown on the records of the relevant Clearing System or its nominee. The Issuer also expects that payments by Direct Participants in any Clearing System to owners of beneficial interests in any Global Note held through such Direct Participants in any Clearing System will be governed by standing instructions and customary practices. Save as aforesaid, such persons shall have no claim directly against the Issuer in respect of payments due on the Notes for so long as the Notes are evidenced by such Global Note and the obligations of the Issuer will be discharged by payment to the registered holder of such Global Note in respect of each amount so paid. None of the Issuer, the Fiscal Agent or any other Paying and Transfer Agent will have any responsibility or liability for any aspect of the records relating to or payments made on account of ownership interests in any Global Note or for maintaining, supervising or reviewing any records relating to such ownership interests.

Settlement and Transfer of Notes

Subject to the rules and procedures of each applicable Clearing System, purchases of Notes held within a Clearing System must be made by or through Direct Participants, which will receive a credit for such Notes on the Clearing System's records. The ownership interest of each actual purchaser of each such Note (the "**Beneficial Owner**") will in turn be recorded on the Direct and Indirect Participants' records.

Beneficial Owners will not receive written confirmation from any Clearing System of their purchase, but Beneficial Owners are expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which such Beneficial Owner entered into the transaction.

Transfers of ownership interests in Notes held within the Clearing System will be effected by entries made on the books of Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates evidencing their ownership interests in such Notes, unless and until interests in any Global Note held within a Clearing System are exchanged for Note Certificates.

No Clearing System has knowledge of the actual Beneficial Owners of the Notes held within such Clearing System and their records will reflect only the identity of the Direct Participants to whose accounts such Notes are credited, which may or may not be the Beneficial Owners. The Participants will remain responsible for keeping account of their holdings on behalf of their customers. Conveyance of notices and other communications by the Clearing Systems to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

The laws of some jurisdictions may require that certain persons take physical delivery in definitive form of securities. Consequently, the ability to transfer interests in a Global Note to such persons may be limited. As DTC can only act on behalf of Direct Participants, who in turn act on behalf of Indirect Participants, the ability of a person having an interest in a Restricted Global Note to pledge such interest to persons or entities that do not participate in DTC, or otherwise take actions in respect of such interest, may be affected by a lack of a physical certificate in respect of such interest.

Trading between Euroclear and Clearstream, Luxembourg Participants

Secondary market sales of book-entry interests in the Notes held through Euroclear or Clearstream, Luxembourg to purchasers of book-entry interests in the Notes held through Euroclear or Clearstream, Luxembourg will be conducted in accordance with the normal rules and operating procedures of Euroclear and Clearstream, Luxembourg and will be settled using the procedures applicable to conventional Eurobonds.

Trading between DTC Participants

Secondary market sales of book-entry interests in the Notes between DTC Participants will occur in the ordinary way in accordance with DTC rules and will be settled using the procedures applicable to United States corporate debt obligations in DTC's Same-Day Funds Settlement system in same-day funds, if payment is effected in dollars, or free of payment, if payment is not effected in dollars. Where payment is not effected in dollars, separate payment arrangements outside DTC are required to be made between the DTC participants.

Trading between DTC Seller and Euroclear/Clearstream, Luxembourg Purchaser

When book-entry interests in Notes are to be transferred from the account of a DTC Participant holding a beneficial interest in the Restricted Global Note to the account of a Euroclear or Clearstream, Luxembourg accountholder wishing to purchase a beneficial interest in the Unrestricted Global Note (subject to the certification procedures provided in the Fiscal Agency Agreement), the DTC participant will deliver instructions for delivery to the relevant Euroclear or Clearstream, Luxembourg accountholder to DTC by 12 noon, New York time, on the settlement date. Separate payment arrangements are required to be made between the DTC Participant and the relevant Euroclear or Clearstream, Luxembourg Participant. On the settlement date, the custodian of the Restricted Global Note will instruct the Registrar to (i) decrease the amount of Notes registered in the name of Cede & Co. and evidenced by the Restricted Global Note and (ii) increase the amount of Notes registered in the name of the nominee of the common depositary for Euroclear and Clearstream, Luxembourg and evidenced by the Unrestricted Global Note. Book-entry interests will be delivered free of payment to Euroclear or Clearstream, Luxembourg, as the case may be, for credit to the relevant accountholder on the first business day following the settlement date.

Trading between Euroclear/Clearstream, Luxembourg Seller and DTC Purchaser

When book-entry interests in the Notes are to be transferred from the account of a Euroclear or Clearstream, Luxembourg accountholder to the account of a DTC Participant wishing to purchase a beneficial interest in the Restricted Global Note (subject to the certification procedures provided in the Fiscal Agency Agreement), the Euroclear or Clearstream, Luxembourg Participant must send to Euroclear or Clearstream, Luxembourg delivery free of payment instructions by 7:45 p.m., Brussels or Luxembourg time, one business day prior to the settlement date. Euroclear or Clearstream, Luxembourg, as the case may be, will in turn transmit appropriate instructions to the common depositary for Euroclear and Clearstream, Luxembourg and the Registrar to arrange delivery to the DTC Participant on the settlement date. Separate payment arrangements are required to be made between the DTC Participant and the relevant Euroclear or Clearstream, Luxembourg accountholder, as the case may be. On the settlement date, the common depositary for Euroclear and Clearstream, Luxembourg will (a) transmit appropriate instructions to the custodian of the Restricted Global Note who will in turn deliver such book-entry interests in the Notes free of payment to the relevant account of the DTC Participant and (b) instruct the Registrar to (i) decrease the amount of Notes registered in the name of the nominee of the common depositary for Euroclear and Clearstream, Luxembourg and evidenced by the Unrestricted Global Note; and (ii) increase the amount of Notes registered in the name of Cede & Co. and evidenced by the Restricted Global Note.

Although DTC, Euroclear and Clearstream, Luxembourg have agreed to the foregoing procedures in order to facilitate transfers of beneficial interests in Global Notes among Participants and accountholders of DTC, Euroclear and Clearstream, Luxembourg, they are under no obligation to perform or continue to perform such procedures, and such procedures may be discontinued at any time. None of the Issuer, the Fiscal Agent or any other Paying and Transfer Agent will have any responsibility for the performance by DTC, Euroclear, Clearstream, Luxembourg or their respective Direct or Indirect Participants of their respective obligations under the rules and procedures governing their operations.

Settlement of Pre-issue Trades

It is expected that delivery of Notes will be made against payment therefor on the Closing Date, which could be more than three business days following the date of pricing. Under Rule 15c6-1 under the Exchange Act, trades in the United States secondary market generally are required to settle within three business days (T+3), unless the parties to any such trade expressly agree otherwise.

Accordingly, purchasers who wish to trade Notes in the United States on the date of pricing or the next succeeding business days until three days prior to the Closing Date will be required, by virtue of the fact the Notes initially will settle beyond T+3, to specify an alternate settlement cycle at the time of any such trade to prevent a failed settlement. Settlement procedures in other countries will vary.

Purchasers of Notes may be affected by such local settlement practices, and purchasers of Notes between the relevant date of pricing and the Closing Date should consult their own advisers.

TAXATION

The following discussion summarises certain Armenian tax considerations that may be relevant to holders of Notes. It also includes a limited discussion of certain United States federal income tax considerations and certain EU and United Kingdom tax considerations. This summary is based on laws, regulations, rulings and decisions now in effect and is subject to changes in tax law, including changes that could have a retroactive effect.

This summary does not describe all of the tax considerations that may be relevant to holders of Notes, particularly holders of Notes subject to special tax rules. Holders of Notes are advised to consult their own professional advisers as to the consequences of purchasing Notes under the tax laws of the country of which they are resident.

Armenian Taxation

The following is a summary of certain Armenian tax considerations relevant to the acquisition, ownership and disposal of the Notes.

The following summary is included for general information only. Prospective investors should consult their own tax adviser as to the tax consequences under the laws of Armenia of the acquisition, ownership and disposition of the Notes. Such laws and regulations are subject to change or varying interpretations, possibly with retroactive effect. As with other areas of Armenian legislation, tax law and practice in Armenia is not as clearly established as that of more developed jurisdictions. It is possible, therefore, that changes may be made in the law or in the current interpretation of the law or current practice, including changes that could have a retroactive effect. Accordingly, it is possible that payments to be made to the holders of the Notes could become subject to taxation in ways that cannot be anticipated as at the date of this Prospectus.

Tax on Issue of the Notes

No state duty or similar tax will be payable in Armenia upon the issue of the Notes.

Tax Implications for Non-Residents of Armenia

Effective 12 September 2013, under the Law on Profit Tax of Armenia No. 155, as amended, income earned by non-resident legal entities in the form of interest or income (discount) on state securities and any capital gains by a non-resident legal entity from disposal of the Notes are not treated as taxable income and not subject to withholding or deduction by Armenia or any political subdivision thereof on payments under the Notes.

Under Article 7 of the Law on Income Tax of Armenia, income earned by non-resident individuals from the purchase, holding, sale, disposal or exchange of Government securities, including the Notes, is not treated as taxable income and therefore will not be subject to personal income taxation.

Gross-up Obligations

Condition 7 of the Terms and Conditions of the Notes requires Armenia to increase the payment of principal or interest made in respect of the Notes in the event any taxes are withheld or deducted, subject to the exceptions therein provided. There has been some uncertainty as to whether the payments of additional amounts to a lender in the event Armenian tax is withheld from payments made to that lender is consistent with Armenian law. Consequently, Armenian courts may construe the gross-up provisions of Condition 7 of the Terms and Conditions of the Notes as invalid and, therefore, unenforceable against the Issuer.

United States Federal Income Tax Considerations

TO ENSURE COMPLIANCE WITH U.S. TREASURY DEPARTMENT CIRCULAR 230, HOLDERS ARE HEREBY NOTIFIED THAT: (A) ANY DISCUSSION OF UNITED STATES

FEDERAL TAX ISSUES HEREIN IS NOT INTENDED OR WRITTEN TO BE RELIED UPON, AND CANNOT BE RELIED UPON, BY HOLDERS FOR THE PURPOSE OF AVOIDING PENALTIES THAT MAY BE IMPOSED ON HOLDERS UNDER THE INTERNAL REVENUE CODE; (B) SUCH DISCUSSION IS INCLUDED HEREIN BY THE ISSUER IN CONNECTION WITH THE PROMOTION OR MARKETING (WITHIN THE MEANING OF CIRCULAR 230) BY THE ISSUER OF THE TRANSACTIONS OR MATTERS ADDRESSED HEREIN; AND (C) HOLDERS SHOULD SEEK ADVICE BASED ON THEIR PARTICULAR CIRCUMSTANCES FROM AN INDEPENDENT TAX ADVISOR.

The following is a summary of certain U.S. federal income tax considerations that may be relevant to a beneficial owner of a note that is, for U.S. federal income tax purposes, a citizen or resident of the United States, a domestic corporation or an entity otherwise subject to U.S. federal income taxation on a net income basis in respect of the note (a "**U.S. Holder**"). This summary addresses only U.S. Holders that purchase notes as part of the initial offering, and that hold such notes as capital assets. The summary does not address tax considerations applicable to investors that may be subject to special tax rules, such as banks or other financial institutions, tax-exempt entities, partnerships (or entities or arrangements treated as partnerships for U.S. federal income tax purposes) or partners therein, insurance companies, dealers in securities or currencies, traders in securities electing to mark to market, persons that will hold the notes as a position in a "straddle" or conversion transaction, or as part of a "synthetic security" or other integrated financial transaction or persons that have a "functional currency" other than the dollar

This summary is based on the Internal Revenue Code of 1986, as amended, existing, proposed and temporary U.S. Treasury regulations and judicial and administrative interpretations thereof, in each case as of the date hereof. All of the foregoing are subject to change (possibly with retroactive effect) or to differing interpretations, which could affect the U.S. federal income tax consequences described herein.

INVESTORS SHOULD CONSULT THEIR OWN TAX ADVISORS REGARDING THE TAX CONSEQUENCES OF THE ACQUISITION, OWNERSHIP AND DISPOSITION OF THE NOTES, INCLUDING THE APPLICATION TO THEIR PARTICULAR CIRCUMSTANCES OF THE

U.S. FEDERAL INCOME TAX CONSIDERATIONS DISCUSSED BELOW, AS WELL AS THE APPLICATION OF U.S. FEDERAL ESTATE, GIFT AND ALTERNATIVE MINIMUM TAX LAWS, U.S. STATE AND LOCAL TAX LAWS AND FOREIGN TAX LAWS.

Payments of Interest and Additional Amounts

Payments of interest on a note (including additional amounts) generally will be taxable to a U.S. Holder as ordinary interest income when such interest is accrued or received, in accordance with the U.S. Holder's regular method of accounting for U.S. federal income tax purposes.

Interest income in respect of the notes generally will constitute foreign-source income for purposes of computing the foreign tax credit allowable under the U.S. federal income tax laws. The limitation on foreign income taxes eligible for credit is calculated separately with respect to specific classes of income. Such income generally will constitute "passive category income" for foreign tax credit purposes for most U.S. Holders. The calculation and availability of foreign tax credits and, in the case of a U.S. Holder that elects to deduct foreign income taxes, the availability of such deduction involves the application of complex rules that depend on the U.S. Holder's particular circumstances. In addition, foreign tax credits generally will not be allowed for certain short-term or hedged positions in the notes.

U.S. Holders should consult their own tax advisors regarding the availability of foreign tax credits or deductions in respect of foreign taxes and the treatment of additional amounts.

Sale or Disposition of Notes

A U.S. Holder generally will recognise capital gain or loss upon the sale, exchange, retirement or other taxable disposition of a note in an amount equal to the difference between the dollar value of the amount realised upon such disposition (other than amounts attributable to accrued but unpaid interest, which will be taxed as ordinary income to the extent not previously included in gross income) and such U.S. Holder's tax basis in the note as determined in dollars. A U.S. Holder's tax basis in the note will generally equal such U.S. Holder's purchase price of the note. Gain or loss realised by a U.S.Holder on the disposition of a note generally will be long-term capital gain or loss if, at the time of the disposition, the note has been held for more than one year. The net amount of long-term capital gain realised by an individual U.S. Holder generally is subject to tax at a reduced rate. The deductibility of capital losses is subject to limitations.

Capital gain or loss recognised by a U.S. Holder generally will be U.S.-source gain or loss. Consequently, if any such gain is subject to foreign withholding tax, a U.S. Holder may not be able to credit the tax against its U.S. federal income tax liability unless such credit can be applied (subject to the applicable limitation) against tax due on other income treated as derived from foreign sources. U.S. Holders should consult their own tax advisors as to the foreign tax credit implications of a disposition of the notes.

Medicare Contribution Tax

Interest on the Notes received by certain individuals, estates and trusts and gain on the disposition of the Notes by certain individuals, estates and trusts will generally be includible in "net investment income" for purposes of the Medicare contribution tax.

Backup Withholding and Information Reporting

Payments in respect of the notes that are paid within the United States or through certain U.S.-related financial intermediaries are subject to information reporting, and may be subject to backup withholding, unless the U.S. Holder (i) is a corporation or other exempt recipient, and demonstrates this fact when so required, or (ii) provides a correct taxpayer identification number, certifies that it is not subject to backup withholding and otherwise complies with applicable requirements of the backup withholding rules. The amount of any backup withholding collected from a payment to a U.S. Holder will be allowed as a credit against the U.S. Holder's U.S. federal income tax liability, and may entitle the U.S. Holder to a refund, provided that certain required information is timely furnished to the IRS.

U.S. Holders may be subject to other U.S. information reporting requirements. Holders should consult their own advisors regarding the application of U.S. information reporting rules in light of their particular circumstances.

EU Savings Directive

Under the EU Savings Directive, each Member State is required to provide to the tax authorities of another Member State details of payments of interest or other similar income paid by a person within its jurisdiction to, or secured by such a person for, an individual beneficial owner resident in, or certain limited types of entity established in, that other Member State. However, for a transitional period, Austria and Luxembourg will (unless during such period they elect otherwise) instead operate a withholding system in relation to such payments. Under such a withholding system, the beneficial owner of the interest payment must be allowed to elect that certain provision of information procedures should be applied instead of withholding. The rate of withholding is 35%. The transitional period is to terminate at the end of the first full fiscal year following agreement by certain non-EU countries to exchange of information procedures relating to interest and other similar income. The Luxembourg government has announced that Luxembourg will elect out of the withholding system in favour of automatic exchange of information with effect from 1 January 2015.

A number of non-EU countries and certain dependent or associated territories of certain Member States have adopted similar measures to the EU Savings Directive.

A proposal for amendments to the EU Savings Directive has been published, including a number of suggested changes which, if implemented, would broaden the scope of the rules described above. At a meeting on 22 May 2013, the European Commission called for the adoption of an amended EU Savings Directive before the end of 2013. Investors who are in any doubt as to their position should consult their professional advisers. See "*Risk Factors—Risk Factors Relating to an Investment in the Notes—EU Savings Directive*."

The Proposed Financial Transactions Tax

The European Commission has published a proposal for a directive on a common financial transactions tax ("**FTT**") in certain participating Member States, which may also impact persons not in participating Member States. The proposal remains subject to negotiation and is the subject of a legal challenge. Accordingly, it is not clear when the FTT will be implemented, if at all, and what form it will take if it is implemented. However, if implemented in the form currently proposed, the FTT might apply to certain dealings in the Notes. Prospective holders of the Notes are advised to seek their own professional advice in relation to the FTT.

UK Provision of Information Requirements

HM Revenue & Customs ("**HMRC**"), the UK tax authorities, have powers to obtain information, including in relation to interest or payments treated as interest and payments derived from securities. This may include details of the beneficial owners of the Notes (or the persons for whom the Notes are held), details of the persons to whom payments derived from the Notes are or may be paid and information in connection with transactions relating to the Notes. Information obtained by HMRC may be provided to tax authorities in other countries.

SUBSCRIPTION AND SALE

Each of Deutsche Bank AG, London Branch, HSBC Bank plc and J.P. Morgan Securities plc (each, a "**Joint Lead Manager**" and, together, the "**Joint Lead Managers**") has, in a subscription agreement dated 24 September 2013 (the "**Subscription Agreement**") and upon the terms and subject to the conditions contained therein, severally agreed to subscribe and pay for the aggregate principal amount of Notes listed next to its name in the table below at the issue price of 98.600% of their principal amount. The Issuer has agreed to pay to the Joint Lead Managers a fee in respect of their agreement to subscribe and pay for the Notes. The Joint Lead Managers are entitled in certain circumstances to be released and discharged from their obligations under the Subscription Agreement prior to the closing of the issue of the Notes.

Joint Lead Manager	**Principal Amount of the Notes**
Deutsche Bank AG, London Branch	U.S.$233,333,333
HSBC Bank plc	U.S.$233,333,334
J.P. Morgan Securities plc	U.S.$233,333,333
Total	U.S.$700,000,000

United States

The Notes have not been and will not be registered under the Securities Act and may not be offered or sold within the United States except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act. Accordingly, the Joint Lead Managers have agreed, severally and not jointly, nor jointly and severally, to offer the Notes for resale in the United States initially only to persons who they reasonably believe to be QIBs in reliance on Rule 144A and outside the United States in offshore transactions in reliance on Regulation S. Terms used in this paragraph have the respective meanings given to them by Regulation S.

The Notes are being offered and sold by the Joint Lead Managers outside the United States in accordance with Regulation S. The Subscription Agreement provides that the Joint Lead Managers may, through their respective U.S. affiliates, resell a portion of the Notes within the United States only to QIBs in reliance on Rule 144A.

In addition, until 40 days after the commencement of the offering of the Notes, an offer or sale of Notes within the United States by a dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act if such offer or sale is made otherwise than in accordance with Rule 144A, or another available exemption from registration under the Securities Act.

United Kingdom

Each Joint Lead Manager has represented and agreed that:

(a) it has only communicated or caused to be communicated and will only communicate or cause to be communicated and invitation or inducement to engage in investment activity (within the meaning of Section 21 of the Financial Services and Markets Act 2000 (the "**FSMA**")) received by it in connection with the issue or sale of the Notes in circumstances in which Section 21(1) of the FSMA does not apply to the Issuer; and

(b) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Notes in, from or otherwise involving the United Kingdom.

Armenia

Under current securities laws in Armenia, there are no restrictions on the offer or sale of foreign currency denominated state bonds, such as the Notes.

Each Joint Lead Manager has represented and agreed that it has complied and will comply with all applicable provisions of Armenian law with respect to anything done by it in relation to the Notes in, from or otherwise involving Armenia.

Italy

No application has been or will be made by any person to obtain an authorisation from *Commissione Nazionale per le Società e la Borsa* ("**CONSOB**") for the public offering (*offerta al pubblico*) of the Notes in the Republic of Italy. Accordingly, the subscriber of the Notes represents and agrees that it has not offered, sold or delivered, and will not offer, sell or deliver, has not distributed and will not distribute and has not made and will not make available in the Republic of Italy any of the Notes nor any copy of the Prospectus nor any other offering material relating to the Notes other than:

(a) to qualified investors (*investitori qualificati*), as defined by CONSOB Regulation no. 11971 of 14 May 1999, as amended and supplemented, on the basis of the relevant criteria set out by the Prospectus Directive 2003/71/EC of the European Parliament and of the Council of 4 November 2003 as modified by Directive 2010/73/EU of the European Parliament and of the Council of 24 November 2010, pursuant to art. 100, paragraph 1, lett. a) of Italian Legislative Decree no. 58 of 24 February 1998, as amended and supplemented (the "**Consolidated Financial Act**"); or

(b) in any other circumstances where an express exemption from compliance with the rules relating to public offers of financial products provided for by the Consolidated Financial Act and the relevant implementing regulations (including CONSOB Regulation no. 11971 of 14 May 1999, as amended and supplemented) applies.

Any offer, sale or delivery of the Notes or any offering material relating to the Notes in the circumstances described in the preceding paragraphs (a) and (b) shall be made:

(i) only by banks, investment firms (*imprese di investimento*) or financial intermediaries, to the extent duly authorised to engage in the placement and/or underwriting (*sottoscrizione e/o collocamento*) of financial instruments (*strumenti finanziari*) in Italy in accordance with the Italian Legislative Decree no. 385 of 1 September 1993, as amended and supplemented, the Consolidated Financial Act and the relevant implementing regulations; and

(ii) in accordance with all applicable Italian laws and regulations, including all relevant Italian securities and tax laws and regulations and

General

Each Joint Lead Manager has severally acknowledged that no representation is made by the Issuer or any Joint Lead Manager that any action has or will be taken in any jurisdiction by the Issuer or any Joint Lead Manager that would permit a public offering of the Notes, or possession or distribution of the Prospectus in any country or jurisdiction where action for that purpose is required. Each Joint Lead Manager has undertaken that it will comply to the best of its knowledge and belief in all material respects, with all applicable securities laws and regulations in each jurisdiction in which it purchases, offers, sells or delivers Notes or has in its possession or distributes the Prospectus, in all cases at its own expense unless agreed otherwise.

Some of the Joint Lead Managers, dealers and agents who participate in the distribution of the Notes may engage in other transactions with, or perform other services for, the Issuer in the ordinary course of business, for which they may have received or will continue to receive customary compensation.

TRANSFER RESTRICTIONS

The Issuer is a "foreign government" as defined in Rule 405 under the Securities Act and is eligible to register securities on Schedule B of the Securities Act. Therefore, the Issuer is not subject to the information provision requirements of Rule 144A(d)(4)(i) under the Securities Act.

Each purchaser of Restricted Notes, by accepting delivery of this Prospectus and the Notes, will be deemed to have represented, agreed and acknowledged that:

1. It is (a) a QIB, (b) acquiring the Notes for its own account, or for the account of a QIB, (c) not formed for the purpose of investing in the Issuer, and (d) aware, and each beneficial owner of such Notes has been advised, that the sale of such Notes to it is being made in reliance on Rule 144A. If it is acquiring any Notes for the account of one or more QIBs, it represents that it has sole investment discretion with respect to each such account and that it has the full power to make the foregoing representations, agreements and acknowledgements on behalf of each such account.

2. It understands that the Restricted Notes are being offered only in a transaction not involving any public offering in the United States within the meaning of the Securities Act, and that the Restricted Notes have not been and will not be registered under the Securities Act or any applicable state securities laws; it acknowledges that a Restricted Note is a "restricted security" as defined in Rule 144(a)(3) under the Securities Act; and it understands that (i) if in the future, the purchaser decides to offer, resell, pledge or otherwise transfer the Restricted Notes, such Restricted Notes may be offered, sold, pledged or otherwise transferred only (a) in accordance with Rule 144A to a person that it and any person acting on its behalf reasonably believe is a QIB purchasing for its own account or for the account of a QIB, (b) in an offshore transaction in accordance with Rule 903 or Rule 904 of Regulation S under the Securities Act, (c) pursuant to an exemption from registration under the Securities Act provided by Rule 144A thereunder (if available) or (d) to the Issuer or an affiliate of the Issuer (upon redemption thereof or a similar transaction), in each case in accordance with any applicable securities laws of any state or other jurisdiction of the United States; and (ii) no representation can be made as to the availability at any time of the exemption provided by Rule144A for the resale of the Notes.

3. The Issuer has the right to refuse to honour the transfer of an interest in the Restricted Notes to a U.S. person who is not a QIB.

4. It understands that the Restricted Notes, unless otherwise agreed between the Issuer and the Fiscal Agent in accordance with applicable law, will bear a legend to substantially the following effect:

   THIS NOTE HAS NOT BEEN AND WILL NOT BE REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE "**SECURITIES ACT**"), OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES AND MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED EXCEPT (1) TO THE ISSUER, (2) IN ACCORDANCE WITH RULE 144A UNDER THE SECURITIES ACT ("**RULE 144A**") TO A PERSON THAT THE HOLDER AND ANY PERSON ACTING ON ITS BEHALF REASONABLY BELIEVE IS A QUALIFIED INSTITUTIONAL BUYER WITHIN THE MEANING OF RULE 144A (A "**QIB**"), THAT IS ACQUIRING THIS NOTE FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF ONE OR MORE QIBS, (3) IN AN OFFSHORE TRANSACTION IN ACCORDANCE WITH RULE 903 OR RULE 904 OF REGULATION S UNDER THE SECURITIES ACT OR (4) PURSUANT TO AN EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT PROVIDED BY RULE 144 THEREUNDER, IF AVAILABLE, IN EACH CASE IN ACCORDANCE WITH ANY APPLICABLE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES AND THE HOLDER WILL, AND EACH SUBSEQUENT HOLDER IS REQUIRED TO, NOTIFY ANY PURCHASER OF THE RESALE RESTRICTIONS REFERRED TO ABOVE. NO REPRESENTATION CAN BE MADE AS TO THE AVAILABILITY OF ANY EXEMPTION UNDER THE SECURITIES ACT FOR RESALES OF THE NOTES.

5. It understands that the Restricted Notes will be evidenced by the Restricted Global Note. Before any interest in a Restricted Global Note may be offered, sold, pledged or otherwise transferred to a person who takes delivery in the form of an interest in an Unrestricted Global Note, it will be required to provide a Paying and Transfer Agent with a written certification (in the form provided in the Fiscal Agency Agreement) as to compliance with applicable securities laws.

6. It acknowledges that none of the Issuer, the Joint Lead Managers or any person representing any such entity has made any representation to it with respect to any such entity or the offering or sale of any Notes, other than the information in this Prospectus.

7. It acknowledges that the Issuer, the Registrar, the Joint Lead Managers and their affiliates, and others will rely upon the truth and accuracy of the foregoing acknowledgements, representations and agreements and agrees that, if any of the acknowledgements, representations or agreements deemed to have been made by it by its purchase of Restricted Notes is no longer accurate, it shall promptly notify the Issuer and the Joint Lead Managers. If it is acquiring any Notes as a fiduciary or agent for one or more investor accounts, it represents that it has sole investment discretion with respect to each of those accounts and that it has full power to make the foregoing acknowledgements, representations and agreements on behalf of each account.

8. Prospective purchasers are hereby notified that sellers of the Notes may be relying on the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A.

Each purchaser of the Unrestricted Notes, by accepting delivery of this Prospectus and the Notes, will have been deemed to have represented, agreed and acknowledged that:

1. It is, or at the time the Unrestricted Notes are purchased will be, the beneficial owner of such Unrestricted Notes and (a) that it is located outside the United States (within the meaning of Regulation S) and (b) it is not an affiliate of the Issuer or a person acting on behalf of such an affiliate.

2. It understands that the Unrestricted Notes have not been and will not be registered under the Securities Act and may not be offered, sold, pledged or otherwise transferred except (a) in accordance with Rule 144A to a person that it and any person acting on its behalf reasonably believe is a QIB purchasing for its own account or for the account of one or more QIBs or (b) to a non U.S. person in an offshore transaction in accordance with Rule 903 or Rule 904 of Regulation S, in each case in accordance with any applicable securities laws of any state of the United States.

3. It understands that the Notes, while represented by the Unrestricted Global Note or if issued in exchange for an interest in the Unrestricted Global Note or for Unrestricted Note Certificates, will bear a legend to the following effect:

   THIS NOTE HAS NOT BEEN AND WILL NOT BE REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE "**SECURITIES ACT**"). THIS NOTE MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED WITHIN THE UNITED STATES EXCEPT PURSUANT TO AN EXEMPTION FROM, OR IN A TRANSACTION NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT.

4. It understands that Unrestricted Notes will be evidenced by an Unrestricted Global Note. Before any interest in an Unrestricted Global Note may be offered, sold, pledged or otherwise transferred to a person who takes delivery in the form of an interest in the corresponding Restricted Global Note, it will be required to provide a Paying and Transfer Agent with a written certification (in the form provided in the Fiscal Agency Agreement) as to compliance with applicable securities laws.

5. It acknowledges that none of the Issuer, the Joint Lead Managers or any person representing any such entity has made any representation to it with respect to any such entity or the offering or sale of any Notes other than the information in this Prospectus.

6. It acknowledges that the Issuer, the Registrar, the Joint Lead Managers and their affiliates, and others will rely upon the truth and accuracy of the foregoing acknowledgements, representations and

agreements and agrees that, if any of the acknowledgements, representations or agreements deemed to have been made by it by its purchase of the Unrestricted Notes is no longer accurate, it shall promptly notify the Issuer and the Joint Lead Managers. If it is acquiring any Notes as a fiduciary or agent for one or more investor accounts, it represents that it has sole investment discretion with respect to each of those accounts and that it has full power to make the foregoing acknowledgements, representations and agreements on behalf of each account.

GENERAL INFORMATION

Authorisation

Armenia has obtained all necessary consents, approvals and authorisations in the Republic of Armenia in connection with the issue and performance of the Notes. The issue of the Notes has been duly authorised pursuant to Articles 85 and 89 of the Constitution of Armenia, Articles 2 and 7 of the Law on State Debt and the Decree of the Government No. 936-N, dated 29 August 2013.

Listing

Application has been made to the Irish Stock Exchange for the Notes to be admitted to the Official List and trading on the Market. It is expected that admission of the Notes to trading will be granted on or the next working day after the Closing Date. Transactions will normally be effected for delivery on the third working day after the day of the transaction, subject only to the issue of the Global Notes.

The expenses in connection with the admission of the Notes to the Official List and to trading on the Market are expected to amount to approximately €5,000.

Arthur Cox Listing Services Limited is acting solely in its capacity as listing agent for Armenia in relation to the Notes and is not itself seeking admission to the Official List or trading on the regulated market of the Irish Stock Exchange for the purposes of the Prospectus Directive.

Clearing Systems

The Notes have been accepted for clearance through Euroclear, Clearstream, Luxembourg and DTC. The Common Code and ISIN for the Unrestricted Global Note and the Common Code, ISIN and CUSIP number for the Restricted Global Note are as follows:

> ***Unrestricted Global Note***
> Common Code: 097464227
> ISIN: XS0974642273
>
> Restricted Global Note
> ISIN: US042207AA84
> CUSIP: 042207 AA8

The address of Euroclear is 1 Boulevard du Roi Albert II, B-1210 Brussels, Belgium. The address of Clearstream, Luxembourg is 42 Avenue JF Kennedy, L-1855 Luxembourg. The address of DTC is 55 Water Street, New York, NY 10041, United States of America.

Litigation

Armenia has not been involved in any governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which Armenia is aware) during the previous 12 months that may have, or have had in the recent past, significant effects on Armenia's financial position.

No Significant Change

Since 31 December 2012, there has been no significant change in the Issuer's (i) tax and budgetary systems, (ii) gross public debt, (iii) foreign trade and balance of payments figures, (iv) foreign exchange reserves, (v) financial position and resources and (vi) income and expenditure figures.

Yield

On the basis of the issue price of the Notes of 98.600 per cent. of their principal amount, the re-offer yield of the Notes is 6.250 per cent. on a semi-annual basis.

Address

The address of the Issuer is Ministry of Finance of the Republic of Armenia, 1, Melik-Adamyan Street, Yerevan, 0010, Armenia. The telephone number of the Issuer is +374 10 595 382.

Documents

For so long as the Notes are listed on the Irish Stock Exchange, hard copies of the Fiscal Agency Agreement may be inspected during normal business hours at the offices of the Fiscal Agent, as set forth on the back cover of this Prospectus. The "Law of the Republic of Armenia on the Budgetary System of the Republic of Armenia" is available free of charge on the website of the Ministry of Finance (http://www.minfin.am).

Third Party Information

Armenia confirms that where information included in this Prospectus has been sourced from a third party, that information has been accurately reproduced and that as far as Armenia is aware and is able to ascertain from information published by that third party, no facts have been omitted which would render the reproduced information inaccurate or misleading.

Websites

Any reference to websites in this Prospectus is for information purposes only, and such websites shall not form any part of this Prospectus.

Interested Persons

Save as described in "*Subscription and Sale*," so far as the Issuer is aware, no person involved in the offering of the Notes has any interest in the offering of the Notes that is material to the offering of the Notes.

Joint Lead Managers Transacting with the Issuer

Certain of the Joint Lead Managers and their affiliates have engaged, and may in the future engage, in investment banking and/or commercial banking transactions with, and may perform services for, the Issuer in the ordinary course of business.

ISSUER

Republic of Armenia
(acting through the Ministry of Finance of Armenia)
1, Melik-Adamyan Street
Yerevan 0010
Republic of Armenia

JOINT LEAD MANAGERS

Deutsche Bank AG, London Branch
Winchester House
1 Great Winchester Street
London EC2N 2DB
United Kingdom

HSBC Bank plc
8 Canada Square
London E14 5HQ
United Kingdom

J.P. Morgan Securities plc
25 Bank Street
Canary Wharf
London E14 5JP
United Kingdom

FISCAL AGENT, EXCHANGE AGENT, TRANSFER AGENT AND PAYING AGENT

Citibank, N.A., London Branch
14th Floor, Citigroup Centre
Canada Square
London E14 5LB
United Kingdom

U.S. PAYING AGENT, U.S. TRANSFER AGENT AND U.S. REGISTRAR

Citibank, N.A., New York Branch
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USA

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As to English and U.S. law

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LISTING AGENT

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