Հավելված N 1
ՀՀ կառավարության 2015 թվականի
մարտի 10-ի N 218 - Ն որոշման

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 preliminary 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.$●

● per cent. Notes due ●

Issue Price of the Notes: ● per cent.

The U.S.$● ● per cent. Notes due ● (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 ●, 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 ● per cent. per annum. Interest will accrue on the outstanding principal amount of the Notes from and including ● and will be payable semi-annually in arrear on ● and ● in each year, commencing on ●. 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 ● by Moody's Investors Service, Ltd. ("**Moody's**") and ● 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 ● 2015 (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 ● 2015

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 the Notes;

(ii) have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the 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 the 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**" and "**RUB**" are to the lawful currency of Russia; and all references to "**SDRs**" are to special drawing rights allocated by the International Monetary Fund (the "**IMF**").

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 2008 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 "**EEU**" are to the Eurasian Economic Union; 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 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 (including a deterioration in the economy of Russia, Armenia's largest trading partner and largest source of worker remittances), 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 (including those transferred from Russia), 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, euro and rouble, respectively:

Dram to Dollar Exchange Rate History

Year	Low	High	Period average(1)	Period End
2015 (through 28 February)	471.02	479.48	477.06	478.76
2014	405.95	527.20	415.92	474.97
2013	403.87	419.08	409.63	405.64
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

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
2015 (through 28 February)	529.14	577.47	548.96	537.12
2014	512.36	656.94	552.11	577.47
2013	527.25	560.31	544.12	559.54
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

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 Rouble Exchange Rate History

Year	Low	High	Period average(1)	Period End
2015 (through 28 February)	6.79	8.15	7.44	7.84
2014	7.46	12.44	10.98	8.15
2013	12.16	13.62	12.88	12.44
2012	11.96	13.44	12.94	13.27
2011	11.45	13.69	12.70	11.98
2010	11.38	13.85	12.32	11.91

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 of 9 March 2015, the exchange rates published by the CBA were AMD479.59 = U.S.$1.00, AMD526.06 = €1.00 and AMD8.04 = RUB1.00.

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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 Serbia). For example, a sustained disruption in the Russian economy, such as that which Russia is currently experiencing, has an adverse impact on Armenia's economy, a linkage that both Moody's and Fitch cite in their recent downgrade in Armenia's credit ratings. See "*—Slowing of the Armenian Economy and Ratings Downgrade*" and "*External Sector*." Armenia has also 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 Ukraine, Georgia and Kyrgyzstan– have had popular uprisings resulting in extra-constitutional transfers of power (most recently in Ukraine in February 2014) or contested elections being repeated. Economic hardship, increased unemployment, decreased remittances from Armenians abroad, increased food prices, perceived Governmental mismanagement or other events 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 other subnational jurisdictions 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 declaration of independence from the Soviet Union on 30 August 1991 led, in turn, to the declaration of independence by the Nagorno-Karabakh Autonomous Oblast in September 1991. In December 1991, in a referendum 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 Republic. There were thousands of casualties. In May 1994, a Russian-brokered cease-fire signed by representatives of Azerbaijan, Armenia and Nagorno-Karabakh 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 Nagorno-Karabakh Republic as well as some territory within the Nagorno-Karabakh Republic. At present, negotiations are mediated by the Co-Chairs of the Minsk Group (France, Russia and the United States) under the auspices 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 (as happened in the summer and fall of 2014).

The Government believes that the conflict should be settled according to the principles of a people's 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 over Nagorno-Karabakh.

The Nagorno-Karabakh conflict has had serious repercussions for Armenia. In 1993, Turkey in solidarity with Azerbaijan 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 2015).

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 24.9% of imports and 20.3% of exports in 2014. Russia has also been the largest single country source for FDI in Armenia since its independence, providing 23.8% (U.S.$72.5 million) of FDI inflows in 2013, and 74.4% (U.S.$592.5 million) of FDI inflows in the nine months ended 30 September 2014. As of 31 December 2013, total Russian real sector FDI stock in Armenia was U.S.$2,424 million, 56.4% of total FDI stock. Thousands of Armenians work in Russia, and their remittances – approximately U.S.$1.2 billion in 2014 (part of the approximately U.S.$1.4 billion of total remittance flow) – help sustain private consumption and capital formation in Armenia. As a result of the current downturn in the Russian economy, worker remittances from Russia fell by 10.1% in 2014 and Armenia expects such remittances to fall by a further 20-30% in 2015. "*External Sector—Remittances*." 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, a relationship cited by the World Bank in its recent decision to lower Armenia's GDP growth forecasts for 2015 and by Moody's and Fitch in their downgrade of Armenia's credit ratings. See *"—Slowing of the Armenian Economy and Ratings Downgrade"* and *"—Vulnerability to an Expected Russian Recession and to Global/Regional Economic Conditions and Commodities Markets."*

On 2 January 2015, Armenia joined the EEU, which seeks to integrate the economies of its member states; the other current EEU member-states are Russia, Belarus and Kazakhstan. Accordingly, Armenia is part of the EEU's customs union. Armenia's entry into the EEU precluded further pursuit of a deep and comprehensive free trade area with the EU, as had been under consideration; at the same time Armenia remains keen to further develop mutually-beneficial cooperation with the EU. Armenia's entry into the EEU entails a gradual transition (with scheduled completion by 2022) to the unified tariff system of the EEU (although Armenia is seeking substantial exclusion from the EEU tariff regime), as a result of which some tariffs will increase (according to IMF statistics, the weighted average of EEU tariffs is 9.2% versus 3.1% for Armenia's current tariff regime) although no tariffs apply within the EEU. Armenia's entry into the EEU is expected to further tie the Armenian economy to the Russian economy. At the same time Armenia plans to comply with its obligations under WTO rules as a member of the WTO. Armenia shares no contiguous border with any EEU member state, and goods transiting between Armenia and another EEU state through Georgia still need to undergo procedural formalities and incur road charges in connection with passage through Georgia (although no Georgian customs duties are payable on such goods). As a result, Armenia may not fully exploit the benefits of EEU membership.

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 its natural gas supply (approximately two billion cubic metres per annum) from Russia (via a pipeline that crosses Georgia) with Gazprom Export (a subsidiary of Gazprom, Russia's national gas company) selling supply to Gazprom's subsidiary Gazprom Armenia (which was called ArmRusGazProm prior to the sale by the Armenian Ministry of Energy of its 20% stake in the entity to Gazprom in January 2014, at which time it was renamed), which in turn sells to end-customers in Armenia at tariff rates established by the Armenian Public Services Regulatory Commission. In January 2014, as part of a 30-year long-term supply contract, Gazprom agreed, taking into account a 30% discount (due to the waiver of Russian export duty to EEU members), to sell gas to Armenia at U.S.$189 per 1,000 cubic meters through 2018. According to the IMF, the discounted gas price yields annual savings of up to 1.5% of Armenia's GDP. 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 or closure of the connecting pipeline across Georgia, which had a military conflict with Russia in 2008) or should Gazprom significantly increase the price at which it sells natural gas to Armenia (e.g., when current agreed pricing ends in 2018), such events 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. In December 2014, it was announced that Rosatom, the Russian state-owned nuclear power company, would undertake a project to extend the operating lifetime of the

Metsamor Plant to 2026, and in February 2015, Russia agreed to provide a U.S.$270 million financing (and also a U.S.$30 million grant to support safety upgrades) to finance this project. See *"Economy of Armenia—Energy—Electricity*." Russia has provided important economic support in past years, including a U.S.$500 million loan in 2009 to provide fiscal assistance (repaid in 2013).

Russia is also Armenia's principal military ally. Russia maintains a base in the country with roughly 3,000 troops under an arrangement that lasts to 2044. Russian guards help patrol Armenia's borders with Iran and Turkey. Russia is the chief supplier of arms to the Armenian military. Under a June 2011 agreement, Russia confirmed its 1995 commitment to assure 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.

Regional Tensions – the Ukraine Crisis

Armenia's economy is dependent on regional economic growth patterns and thus can be significantly impacted by regional instability. As a result of the crisis in Ukraine, the European Union nations and the United States (as well as other countries such as Canada and Australia) have passed a variety of economic sanctions against Russia. One approach these sanctions have taken is to identify certain persons as 'designated nationals' with the basic practical consequences that EU and U.S. nationals cannot do business with them and their assets in the EU and United States are 'frozen' or immobilised. A number of Russian government officials, businessmen, banks and companies have been so designated. Another approach these sanctions have taken, with greater consequence for the Russian economy, are so-called 'sectoral' sanctions that effectively restrict access by Russia's leading banks and oil & gas companies (as specifically identified in the sanctions) to Western capital (as EU and U.S. persons are prohibited from extending them debt financing in excess of 30 days or subscribing to their equity issuances in the case of the banks or extending them debt financing in excess of 90 days in the case of the energy companies). These sectoral sanctions have had the effect, magnifying over time, of adding to the overall cost of capital in Russia and may be one factor in the downturn in the Russian economy, while also negatively impacting the Armenian economy, including growth prospects and FDI and remittance flows. See "*—Relations with Russia*," "*—Slowing of the Armenian Economy and Ratings Downgrade"* and *"—Vulnerability to an Expected Russian Recession and to Global/Regional Economic Conditions and Commodities Markets."* If persons, including Armenian persons, conduct business with sanctioned Russian persons, there could be calls for such persons themselves to be directly sanctioned; more broadly, the U.S. Congress in December 2014 authorised the U.S. President to impose 'secondary sanctions' under which non-U.S. persons engaged in conduct sanctioned by the United States would become the subject of U.S. sanctions.

Armenia supports diplomatic efforts to achieve a comprehensive resolution of the crisis in Ukraine (including negotiations held in the context of the "Normandy format," such as the meetings that took place in Minsk, Belarus on 11-12 February 2015, which led to the signing of what are known as the Minsk II accords). Nonetheless, the crisis in Ukraine is ongoing and could escalate, which would cause further economic disruption across the region. Sanctions against Russian persons may continue in their current format or may be broadened, which would have follow-on consequences for, and could have a material adverse effect on, the Armenian economy.

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 2014, Armenia exported U.S.$84.6 million of goods to Iran (5.6% of value of total exports) and imported U.S.$206.5 million of goods from Iran (4.7% of value of total imports). 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 would become a vital supply route for Armenia.

The single biggest source of trade between the countries is the exchange of natural gas (provided by the state-owned entity National Iranian Gas Company) for electricity (provided by the state-owned entity Yerevan Thermal Power Station); gas supplies are delivered by means of 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 2014, 389.2 million cubic metres of gas were supplied under this arrangement, roughly 15.9% 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 and Counter Terrorism Department of the Financial Monitoring Centre of the CBA (the "**FMC**") 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. 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 (including the monitoring of OFAC, EU and other applicable sanctions lists). While Armenia believes such policies are an effective means to monitor its commitments with international sanctions regimes, 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 an Expected Russian Recession and to Global/Regional Economic Conditions and Commodities Markets

Armenia has a relatively small economy (nominal GDP in 2013 of U.S.$10.4 billion); low nominal GDP per capita (U.S.$3,452 in 2013); and a high poverty rate (32% of the population in 2013). 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 2013: U.S.$10.4 billion); the current account deficit increased from 11.8% of GDP to 15.8% of GDP (in 2013: 8.0%); general Government expenditure as a percentage of GDP increased from 22.7% to 29.6% (in 2013: 26.7%); the fiscal deficit as a percentage of GDP increased from 0.7% to 7.6% (in 2013: 1.7%); and total public debt as a percentage of GDP increased from 16.3% to 44.1% (in 2013: 43.6%). 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 Russia (which is Armenia's largest single-country export market) and the EU member states, could have a material adverse impact on Armenia's balance of trade and on the export-oriented sectors of Armenia's economy. In particular, the fall in global oil prices – which are a key factor in Russian economic performance given the importance of the oil and gas sector in Russia – together with the effects of Western sanctions imposed on Russia as a result of the Ukraine crisis are expected to put the Russian economy into recession during the course of 2015 with Russian GDP widely predicted to fall 3-5% in 2015 and continue to contract in 2016 (e.g., the IMF in January 2015 predicted Russian real GDP contracting by 3% in 2015 and a further 1% in 2016). The impact of a weakening Russian economy on the economy of Armenia might prove to be of at least the magnitude as the 2008 global financial crisis had on the Armenian economy. Thousands of Armenians work in Russia, and their remittances to friends, family and businesses in Armenia help sustain the Armenian economy. A Russian recession may significantly decrease the employment of Armenians in Russia. The significant fall in the rouble over the past six months (on 30 September 2014 the exchange rate was AMD10.32/RUB1, on 31 December 2014 AMD8.15/RUB1 and on 9 March 2015 AMD8.04/RUB1) means that the value of such remittances has also fallen significantly (in the fourth quarter 2014, remittances (as measured by net non-commercial transfers through the banking system by individuals) from Russia fell 31% compared to fourth quarter 2013) while also making Armenian exports to Russia more expensive and, as there is some correlation between the trading value of the rouble and the dram, has put pressure on the dram. The decline in remittances may also contribute to an increase in non-performing loans in the Armenian banking sector, as has occurred in 2014 (as of 31 December 2014, non-performing loans comprised 6.8% of all loans issued by Armenian banks, compared to 4.5% as of 31 December 2013). See "*Monetary and Financial*

System—Financial Services Industry—Banking Sector—Non-Performing Loans."

Mining and base metals accounted for 48.4% of Armenia's exports in 2013 and 45.8% in 2014. 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 and ferrous metals – could have a material adverse impact on the Armenian economy.

Slowing of the Armenian Economy and Ratings Downgrade

The Armenian economy is now unlikely to enjoy the 4.1% GDP growth that was the basis of the 2015 State Budget. In January 2015, the World Bank revised its forecast 2015 GDP growth for Armenia from 5.0% to 3.3%; other commentators have predicted lower or flat or negative growth in 2015. The leading reason for this revision is Armenia's exposure to the economic downturn in Russia, as discussed above, in particular (1) the prospect of lower remittances from Armenians working in Russia (in 2013, such remittances as measured by net non-commercial transfers through the banking system by individuals from Russia totalled U.S.$1,604 million, comprising 15.4% of GDP) both because of the steep decline in the rouble and decreased employment prospects for Armenians in Russia and (2) the prospect of reduced exports to Russia, in part because the steep decline in the rouble has made Armenian goods more expensive in Russia (on 30 September 2014 the exchange rate was AMD10.32/RUB1, on 31 December 2014 AMD8.15/RUB1). Fourth quarter 2014 net non-commercial transfers through the banking system by individuals from Russia to Armenia were U.S.$330.3 million, compared to U.S.$475.4 million for fourth quarter 2013. In January 2015, Moody's and Fitch downgraded Armenia's ratings: in the case of Moody's, its government bond rating, from Ba2 to Ba3 (negative outlook) and in the case of Fitch, its long-term foreign currency issuer default rating from BB- to B+ (stable outlook). In announcing the downgrades, the agencies highlighted the linkage of Armenia's economy to the faltering Russian economy, citing as possible consequences the fall in remittances, a decline in Armenian exports to Russia and uncertain FDI, in turn leading to a deterioration in Armenia's balance of payments and currency reserves. See *"External Sector*."

The recent volatility of the dram together with an increase in interest rates by the CBA to help defend the dram reduced market appetite for short-term dram-denominated government securities. In December 2014, there were three unsuccessful auctions of short-term treasury bills in which no bids were placed. In response, in an effort to promote liquidity in the market including treasury bill auctions, the Ministry of Finance is carrying out an AMD 25 billion programme in February-March 2015 whereby it purchases medium- and long-term government securities (with maturities of 3, 5, 10 and 20 years) from market participants, which funds are then used to purchase treasury bills (with maturities of 3, 6, 9 or 12 months) at auction; in February there have been successful placements. Nonetheless, with lower-than-anticipated growth generating lower-than-anticipated tax revenues, and an uncertain domestic treasury bond market, the 2015 fiscal deficit (stated at 2.3% of GDP under the 2015 State Budget) may be higher than budgeted.

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 modern 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: total FDI was U.S.$304.4 million in 2013 and U.S.$796.9 million in the nine months ended 30 September 2014. 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 Economic Forum has ranked Armenia 85th out of 144 countries in terms of the intensity of local competition in its Global Competitiveness Report for 2014-2015. Furthermore, these circumstances contribute towards the relatively high unemployment rate in Armenia (16.2% in 2013 and 17.5% in the nine months ended 30 September 2014). As the IMF has remarked, further structural reform must be carried out to further the transformation of the Armenian economy from a growth model that involved capital accumulation in construction with strong positions of well-connected business interests to a more open, integrated, competitive and diversified emerging market economy.

Depreciation of Dram and Consequences for Foreign Exchange Reserves and 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, and in late 2014, which was mainly due to the faltering Russian economy together with public concern about the strength of the dram in light of the fall of the rouble. In addition, a contraction of net capital inflows to 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., by the U.S. Federal Reserve or the European Central Bank).

In March 2009, the dram/dollar exchange rate fell from AMD305.8/dollar to AMD367.7/dollar, a 20% decline. 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.

The dram/dollar exchange rate experienced significant depreciation from 17 November 2014 at AMD415.7/dollar to 17 December at AMD527.2/dollar, a 27% decline. See *"–Slowing of the Armenia Economy*" and "*–Relations with Russia*." On 17 December 2014, the CBA doubled its reserve requirement for Armenian banks on their exposure to foreign-currency liabilities from 12% to 24% (with the reserve to be held in drams), which had the effect of immediately stabilising the dram, which has since traded at approximately AMD475/dollar (January 2015 average: AMD475.73/$1).

In part due to efforts to support the dram as well as the repayment of Government debt, Armenia's foreign exchange reserves fell, by 34.1%, from U.S.$2,250 million as of 31 December 2013 to U.S.$1,438 million as of 31 December 2014. Should further pressure develop on the dram and the CBA expend reserves in its defence, Armenia's foreign exchange reserves may be further depleted, which may adversely affect Armenia's ability to service its Public External Debt as well as the financial and economic condition of Armenia.

As of 31 December 2014, 61.9% of Armenia's total External Public Debt was in SDRs, 17.6% was dollar-denominated, and the remainder in other foreign currencies. 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 67.4% as of 31 December 2014 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 and late 2014, 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 (42% of GDP) in 2014; total External Public Debt has increased from U.S.$1.6 billion to U.S.$3.8 billion in 2014. 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 31 December 2014, External Public Debt amounted to U.S.$3.8 billion, U.S.$2.6 billion of which was funded by multilateral institutions and U.S.$0.7 billion of which was funded by the issuance of U.S.$700,000,000 6.000% Notes due 2020 (the "**2013 Eurobond**"). The average maturity of External Public Debt was 10.2 years as of 31 December 2014. Armenia paid out interest on its External Public Debt at an average interest rate of 1.5% in 2012, 1.3% in 2013, and 1.9% in 2014. As of 31 December 2014, approximately 81.2% of Armenia's External Public Debt portfolio carried fixed interest rates, and the remainder carried floating rates. In 2014, approximately 21% of the incurred External Public

Debt was used for on-lending activities to small and medium enterprises. 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. Depreciation of the dram increases the cost, in dram terms, of servicing Armenia's External Public Debt. 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 2012 (11.1% of GDP); in 2013 it was U.S.$0.8 billion (8.0% of GDP), reflecting *inter alia* total imports (goods and services) of U.S$4.9 billion, total exports of U.S.$2.7 billion and remittances (as measured by compensation of employees and private transfers, including estimated physical cash transfers) of U.S.$1.75 billion, and in the nine months ended 30 September 2014 it was U.S.$0.8 billion (11.4% of GDP). 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 depreciation 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. As the IMF has observed, the combination of the current account deficit and high dollarization of the Armenian economy leave it vulnerable to shocks. A widening current account deficit 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, 1.7% and in 2014 budgeted to be 2.4% (but actual 1.7%, in part due to under-spending on infrastructure projects). 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 42% of GDP in 2014). 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; bad harvests may lead the Government to provide subsidies for the agricultural sector. The implementation of pension reform in 2014 (which has been budgeted) is expected to add to Government expenditure 0.5–0.6% of GDP annually. 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 3.2% in 2012 increasing to 5.6% in 2013 and was 4.6% in 2014. In the 1990s, Armenia suffered from hyperinflation. See "*Monetary and Financial System—Monetary Policy of the CBA—Inflation and Interest Rates*." In 2013, increases in energy prices (when Gazprom had increased its selling price for national gas to Armenia prior to the new pricing agreed in January 2014 discussed above under *"Relations with Russia"*) and food prices (due to severe spring weather conditions destroying crops) led to higher than expected annual inflation; in 2014, despite the increase in prices of certain imported goods due to the fall in the dram in the last months of the year, annual inflation for 2014 stood at 4.6%. Inflation remains volatile in Armenia in part because food comprises roughly half of the CPI basket. 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 71.6% of all deposits at Armenian banks held as of 31 December 2014. Foreign currency loans accounted for 66.5% of all loans by Armenian banks as of 31 December 2014, 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 31 December 2014, foreign-owned banks accounted for 59% of total assets, 60% of total loans and 63% 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 118.6% from AMD1,560.5 billion as of 31 December 2010 to AMD3,403.6 billion as of 31 December 2014). 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 may be indicated by increasing non-performing loans as the Armenian economy slows). 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. 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 2013, tax revenues were 23.4% of GDP; the IMF considers this to be 5–7% 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 2014 Corruption Perceptions Index survey of 175 countries, Armenia was ranked 94th. Tackling corruption has been identified as a key area for reform by international organisations advising Armenia (and there has been a recent increase in prosecutions for corruption). 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. 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 (according to the 2015 World Bank "Doing Business" Survey, Armenia ranked 119 out of 189 countries in terms of efficacy of enforcing contracts). 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 occurring 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 mothballed 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 previously requested the earliest possible closure of the Metsamor Plant, taking the view that it cannot be upgraded to meet internationally recognised safety standards. However, in December 2014, it was announced that Rosatom, the Russian state-owned nuclear power company, would undertake a project to extend the operating lifetime of the Metsamor Plant ten years, to 2026, and in February 2015 Russia agreed to provide a $270 million loan (and also a $30 million grant to support safety upgrades) to finance this project. 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, in part due to Armenia's relatively high unemployment and poverty rates (the unemployment rate stood at 16.2% in 2013 while 32% of the population was below the poverty line in 2013). 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 (and this may increase with Armenia's joining the EEU as that will ease Armenian travel to and from Russia). 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 Ba3 (with negative outlook) by Moody's and a long-term foreign currency issuer default rating of B+ (with stable outlook) by Fitch, which ratings reflect recent downgrades. See *"—Slowing of the Armenian Economy and Ratings Downgrade"* and "*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 (there being no established court practice in this regard). 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, resistance in Armenia 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 Armenian 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.

The Notes contain a "collective action" clause under which the terms of the Notes may be amended, modified or waived without the consent of all the holders of the Notes

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 "collective action clause" 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.*"

Any modification or actions relating to Reserved Matters (as defined in the Terms and Conditions of the Notes), including in respect of payments and other important terms, may be made to the Notes with the consent of the holders of 75 per cent. of the aggregate principal amount outstanding of the Notes, and to multiple series of debt securities issued by the Issuer with the consent of both (i) the holders of 66 2/3 per cent. of the aggregate principal amount outstanding of all debt securities being aggregated and (ii) the holders of 50 per cent. in aggregate principal amount outstanding of each series of debt securities being aggregated. In addition, under certain circumstances, including the satisfaction of the Uniformly Applicable condition (as more particularly described in the Terms and Conditions of the Notes), any such modification or action relating to Reserved Matters may be made to multiple debt securities with the consent of 75 per cent. of the aggregate principal amount outstanding of all debt securities being aggregated only, without requiring a particular percentage of the holders in any individual affected debt securities to vote in favour of any proposed modification or action. Any modification or action proposed by the Issuer may, at the option of the Issuer, be made in respect of some debt securities only and, for the avoidance of doubt, the provisions may be used for different groups of two or more debt securities simultaneously. At the time of any proposed modification or action, the Issuer will be obliged, *inter alia,* to specify which method or methods of aggregation will be used by the Issuer.

There is a risk, therefore, that the Terms and Conditions of the Notes may be amended, modified or waived in circumstances whereby the holders of debt securities voting in favour of an amendment, modification or waiver may be holders of different debt securities and as such, less than 75 per cent. of the Noteholders would have voted in favour of such amendment, modification or waiver. In addition, there is a risk that the provisions allowing for aggregation across multiple debt securities may make the Notes less attractive to purchasers in the secondary market on the occurrence of an Event of Default (as defined in the Terms and Conditions of the Notes) or in a distress situation. Further, any such amendment, modification or waiver in relation to the Notes may adversely affect their trading price.

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 certain 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 will (unless during such period it elects otherwise) instead operate a withholding system in relation to such payments. The rate of withholding is 35%. However, the beneficial owner of the interest (or similar income) payment may elect that certain provision of information procedures should be applied instead of withholding, provided that certain conditions are met. 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 certain other similar income.

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.

The Council of the European Union has adopted a Directive amending the EU Savings Directive (the "**Amending Directive**") which, when implemented, will broaden the EU Savings Directive's scope. The Member States will have until 1 January 2016 to adopt national legislation necessary to comply with the Amending Directive, which legislation must apply from 1 January 2017. The changes made under the Amending Directive include extending the scope of the EU Savings Directive to payments made to, or secured for, certain other entities and legal arrangements (including certain trusts and partnerships), where certain conditions are satisfied. They also broaden the definition of "interest payment" to cover certain additional types of income.

The EU Savings Directive may, however, be repealed in due course in order to avoid overlap with the amended Council Directive 2011/16/EU on administrative cooperation in the field of taxation, pursuant to which Member States other than Austria will be required to apply other new measures on mandatory automatic exchange of information from 1 January 2016. Austria has an additional year before being required to implement the new measures, but it has announced that it will nevertheless begin to exchange information automatically in accordance with the timetable applicable to the other Member States.

If a payment under a Note were to be made by or collected through a person in Austria and an amount of, or in respect of, tax were to be withheld from that payment pursuant to the EU Savings Directive (as amended from time to time) or any law implementing or complying with, or introduced in order to conform to such 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 with a specified office in a Member State that will not be obliged to withhold or deduct tax pursuant to the EU Savings Directive (as amended from time to time) or any law implementing or complying with, or introduced in order to conform to such Directive. Investors who are in any doubt as to their position should consult their professional advisers.

The Secondary Market Generally

The Notes have no established trading market. While application has been made to list the Notes on the Official List, and any one or more of the Managers may make a market in the Notes, they are not obligated to do so and may discontinue any market making, if commenced, at any time without notice. There can be no assurance that a secondary market will develop for the Notes, or, if a secondary market therein does develop, that it will continue or 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.

Armenia is not required to effect equal or rateable payment(s) with respect to its other debt obligations, and is not required to pay other debt obligations at the same time or as a condition of paying sums on the Notes and vice versa

The Notes will at all times rank at least *pari passu* with all other unsubordinated obligations of Armenia. However, Armenia will have no obligation to effect equal or rateable payment(s) at any time with respect to any other unsubordinated obligations of Armenia and, in particular, will have no obligation to pay other unsubordinated obligations of Armenia at the same time or as a condition of paying sums due on the Notes and vice versa. Accordingly, the Issuer may choose to grant preferential treatment to, and therefore prioritise payment obligations to, other unsubordinated creditors of Armenia as payments fall due. For the avoidance of doubt, Armenia does not construe 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.

The Notes may be issued with original issue discount for U.S. federal income tax purposes

The Notes may be issued with original issue discount ("**OID**") for U.S. federal income tax purposes. The Notes are considered to be issued with OID if the stated principal amount of the Notes exceeds the issue price of the Notes by more than a de minimis amount. Certain holders of Notes may be required to include such OID in gross income on a constant yield to maturity basis, in advance of the receipt of cash attributable to such income (regardless of such holder's method of accounting for U.S. federal income tax purposes). See "*Taxation—United States Federal Income Tax Considerations*."

USE OF PROCEEDS

The proceeds of the issuance of the Notes (net of commissions and expenses paid by the Issuer (including in connection with the Issuer's tender offer in respect of the 2013 Eurobonds (the "**Tender Offer**"))) are expected to amount to approximately U.S.$● million. Up to U.S.$200 million of the net proceeds will be used to pay the purchase price and accrued interest for the notes the Issuer purchases pursuant to the Tender Offer, which commenced on 12 March 2015 and is expected to settle on or around 26 March 2015. The remaining net proceeds will be used for general governmental purposes, and in particular may be used to fund the fiscal deficit (in part because the domestic market for new dram-denominated treasury bills has recently been weak) and to provide state support for strategic sectors of the Armenian economy such as the agricultural sector.

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 14^{th} 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 10^{th} 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 16^{th} 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 19^{th} 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. Up to 1,500,000 people are estimated to have died in the genocide, 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 ceasefire 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. A Commission on Constitutional Reforms has been formed to consider revising the Constitution so that Armenia would be a parliamentary republic (with executive powers primarily invested in the Prime Minister and his cabinet); any resulting proposal (expected to take the form of a "Concept for Constitutional Amendments" but not yet promulgated) to amend the Constitution would first need to be approved by the National Assembly and then by a natiowide referendum to come into effect.

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 Hovik Abrahamyan of the Republican Party of Armenia, who was appointed in April 2014, replacing Tigran Sargsyan (no relation to the President), who now serves as Armenia's ambassador to the United States.

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 had a total population of approximately 3.0 million as of 1 January 2015 and 1 January 2014, with the following breakdown by age and gender (such breakdowns current as of 1 January 2014):

Armenia's Population

Age	*Percentage of Population*	*Male*	*Female*	*Total Population*
0-14	19.1	307,509	268,129	575,638
15-64	70.3	1,008,482	1,112,206	2,120,688
65 and over	10.6	127,506	193,247	320,753
Total	100.0	1,443,497	1,573,582	3,017,079

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 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. After the election, the Republican Party of Armenia initially ruled in coalition with the Country of Law Party, but its junior partner left the coalition in April 2014.

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, logistics, maintenance, medical, chemical, biological, radiological and nuclear defence, aviation, air surveillance, air defence and other specialised units. In 2014, the armed forces had approximately 43,923 serving military personnel, including 9,690 officers, 10,567 contract soldiers, 19,418 conscripts, as well as 4,248 civilians (of which 3,879 are contracted civilians and 396 are special civilian service personnel). The defence budget for 2015 is approximately AMD199 billion (15.2% of the 2015 State Budget). See "*Public Finance—2015 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 Defence 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 161 countries and has 47 diplomatic missions and eight general consulates abroad. Armenia hosts 89 diplomatic and consular missions, including 34 embassies and 25 offices of intergovernmental organizations and international financial instituions. 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 EEU, 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. 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. Armenia is currently engaged in a 'scoping exercise' with the EU (intended to confirm past tentative agreements with the EU while also taking into account Armenia's recent entry into the EEU) so as to set the terms of further Armenian-EU cooperation. As established by the ENP Action Plan, Armenia's cooperation with the EU is aimed at continuous improvement of 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. See "*External Sector—International Trade Agreements*" and "*Public Debt and Related Matters—Multilateral and Bilateral Development Organisations* 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.

EEU

The EEU is an international organization for regional economic integration of its members: Armenia, Belarus, Kazakhstan and Russia (Kyrgyzstan is currently pursuing membership). The EEU provides for free movement of goods, services, capital and labour amongst its member states. The EEU's stated goal is to comprehensively upgrade, raise the competitiveness of and cooperation between the national economies, and to promote stable development in order to raise the living standards of the nations of the Member-States.

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 Resolute Support mission 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. Energy cooperation is actively being discussed, including possible construction of an electricity plant and new transmission lines. 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 ceasefire, 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, in the summer of 2014 when an outbreak of fighting along the ceasefire line led to the deaths of over twenty soldiers and in November 2014 when Azeri forces shot down an Armenian-manned military helicopter. 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 where their ratification remains pending, although in September 2014 in a speech before the U.N. General Assembly President Sargsyan suggested the protocols may be recalled given the lack of progress with Turkish ratification.

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 2014, 389.2 million cubic metres of gas were supplied under this arrangement, roughly 15.9% 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, the CSTO and the EEU. 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.$1.43 billion in 2014, are a key source of capital and investment for the Armenian economy, although such remittances are expected to fall in 2015 as a result of the slowdown in the Russian economy. See "*Risk Factors—Relations with Russia*". Some of the diaspora has returned to Armenia after it achieved its independence (mostly recently, approximately 16,000 ethnic Armenians arriving from Syria), 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 2013, agriculture accounted for 19.3% of nominal GDP, followed by trade, which comprised 12.8% of GDP, mining and manufacturing, which, on a combined basis, accounted for 12.5% of GDP, and construction, which comprised 10.5% 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 (in real terms) 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 (in real terms) by 2.2% in 2010, 4.7% in 2011, 7.2% in 2012 and 3.5% in 2013. The budget deficit fell to 5.0% of GDP in 2010, 2.8% of GDP in 2011, 1.5% of GDP in 2012 and 1.7% of GDP in 2013

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 2013 and the nine months ended 30 September 2014, FDI inflows equalled U.S.$304.4 and U.S.$796.9 million, respectively, 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 equalled 21.1% of GDP in 2013 and 21.4% of GDP in the nine months ended 30 September 2014. In 2014, net remittance inflows amounted to U.S.$1,389.0 million. Most remittances come from Russia. See "*—External Sector—Remittances*."

In January 2015, Moody's downgraded Armenia's government bond rating to Ba3 from Ba2, changing the outlook to "negative" from "stable," and lowered Armenia's local-currency ceiling to Ba1 from Baa3. In January 2015, Fitch downgraded Armenia's long-term foreign currency and local currency issuer default ratings to "B+" from "BB-" (with stable outlook), affirmed its short-term issuer default rating of "B" and revised its country ceiling to "BB-"from "BB." In announcing the downgrades, the agencies highlighted the linkage of Armenia's economy to the faltering Russian economy, citing as possible consequences the fall in remittances, a decline in Armenian exports to Russia and uncertain FDI, in turn leading to a deterioration in Armenia's balance of payments and currency reserves. See "*Risk Factors—Risk Factors Relating to Armenia--Slowing of the Armenian Economy and Ratings Downgrade*." 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 became a member of the EEU in January 2015. See "*Risk Factors—Risk Factors Relating to Armenia—Relations with Russia*." 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 Tax Regimes*" and "*External Sector—FDI—Armenian Development Agency/Armenian Development Fund*."

*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.

In 2014, the Government passed the Armenia Development Strategy for 2014-2025 (the "**ADS**"), which outlines Armenia's main socioeconomic priorities in the medium term. For 2014-2025, the ADS sets out the following four priority areas: (i) employment growth, with a focus on job creation and fair wages; (ii) the development of human capital, with a focus on enhancing the scope and accessibility of public services (including health care and education) and on reducing emigration; (iii) improvement of the social protection system, with a focus on maintaining a comprehensive programme for the provision of social services (while gradually shifting to a needs-based approach to delivering public assistance from one that prioritised the disbursement of monetary aid) and on reducing poverty; and (iv) modernization of public administration and governance, with a focus on improving Government efficiency, reducing corruption, increasing transparency of decision-making processes and encouraging greater participation on the part of civil society in the country's governance.

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 nine months ended 30 September	
	2009	2010	2011	2012	2013	2013	2014
Nominal GDP (AMD, millions)	3,141,651.0	3,460,202.7	3,777,945.6	4,000,722.0	4,272,894.6	2,913,459.0	3,066,130.0
Nominal GDP (U.S.$, millions)[(1)]	8,648.0	9,260.3	10,142.1	9,958.0	10,431.1	7,088.5	7,464.0
Real GDP (AMD, millions)[(2)]	3,063,323.8	3,131,179.8	3,276,803.5	3,511,594.8	3,634,500.6	2,479,233.4	2,575,923.5
Real GDP (U.S.$, millions)[(1)]	8,432.4	8,379.8	8,796.8	8,740.5	8,872.6	6,032.1	6,270.7
Real GDP growth (period-on-period, %)	(14.1)	2.2	4.7	7.2	3.5	2.8	3.9
GDP deflator (period-on-period, %)	2.6	7.8	4.3	(1.2)	3.2	2.6	1.3
Nominal GDP per capita (AMD)[(3)]	968,539.0	1,062,683.0	1,252,801.0	1,322,946.0	1,413,929.0	n/a	n/a
Nominal GDP per capita (U.S.$)[(1)(3)]	2,666.0	2,844.0	3,363.0	3,292.9	3,451.7	n/a	n/a
Real GDP per capita growth (period-on-period, %)[(3)]	(14.4)	1.8	13.0	6.9	3.6	n/a	n/a
Real GDP per capita (U.S.$)[(3)]	2,599.6	2,573.6	2,917.1	2,890.3	2,936.0	n/a	n/a

Notes:

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

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

(2) Calculated on the basis of 2008 prices.

(3) Per capita figures based on the 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 nine months ended 30 September			
	2009		2010		2011		2012		2013		2013		2014	
	%	% change	%	% change	%	% change	%	% change	%	% change	%	% change	%	% change
GDP	**100**	**(14.1)**	**100**	**2.2**	**100**	**4.7**	**100**	**7.2**	**100**	**3.5**	**100**	**2.8**	**100**	**3.9**
Consumption(1)	**93.7**	**(4)**	**95.1**	**3.9**	**96.6**	**2.6**	**101.2**	**7.7**	**102.9**	**2.8**	**106.7**	**2.7**	**103.8**	**(0.9)**
Private	80.2	(4.5)	81.8	3.8	83.2	2.4	88	9.1	88.1	1	92	1.1	89	(0.9)
Public	13.3	(1.2)	13.1	3.9	12.9	1.9	12.7	(1.4)	14.5	16.3	14.4	14.4	14.5	(0.6)
Non-profit institutions	0.2	27.7	0.2	21.1	0.4	95.7	0.5	8.2	0.3	(26.2)	0.3	(19)	0.3	(19.9)
Gross capital formation	**34.7**	**(30.9)**	**32.9**	**(0.5)**	**27.3**	**(5.2)**	**25.4**	**0.5**	**21.7**	**(11.5)**	**17.5**	**(16.4)**	**17.4**	**1.3**
Gross fixed assets accumulation	36.4	(25.4)	33.4	(2.9)	26.1	(11.7)	23.6	(1.9)	20.9	(7.9)	16.8	(9.2)	16.1	(1.6)
Change in inventories	(1.7)	n/a	(0.6)	n/a	1.2	n/a	1.8	n/a	0.8	n/a	0.8	n/a	1.3	n/a
Net exports	**(27.5)**	**(24.3)**	**(24.5)**	**5.1**	**(23.6)**	**(15.1)**	**(24.8)**	**(14.1)**	**(21.1)**	**(24.5)**	**(20.9)**	**(26.7)**	**(20.3)**	**(11.6)**
Exports	15.5	(10.4)	20.8	26.5	23.8	14.7	24.6	8.4	27	16.3	28.7	16	34	26.3
Imports	43	(19.2)	45.3	12.8	47.4	(1.4)	49.3	(2.8)	48	(4.2)	49.6	(5.1)	54.3	10.3
Statistical discrepancy	**(0.8)**	**n/a**	**(3.5)**	**n/a**	**(0.3)**	**n/a**	**(1.8)**	**n/a**	**(3.5)**	**n/a**	**(3.3)**	**n/a**	**(0.9)**	**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 19.1% and 19.3% of nominal GDP in 2012 and 2013, respectively, and 19.4% and 18.7% of nominal GDP in the nine months ended 30 September 2013 and 2014, 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 12.8% of nominal GDP in 2013, compared to 12.7% in 2012. Trade comprised 12.2% and 11.8% of nominal GDP in the nine months ended 30 September 2013 and 2014, respectively. 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 in 2008-09. Nevertheless, construction remains an important part of the Armenian economy, accounting for 10.5% of nominal GDP in 2013, compared to 12.4% in 2012, and 7.8% of nominal GDP in the nine months ended 30 September 2014, compared to 8.9% of nominal GDP in the nine months ended 30 September 2013. 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 2013, manufacturing represented 10.1% of Armenia's nominal GDP, compared to 9.9% in 2012. In the nine months ended 30 September 2014, manufacturing accounted for 10.3% of nominal GDP, compared to 10.5% of nominal GDP in the nine months ended 30 September 2013.

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 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 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, 2012 and 2013 and the nine-month periods ended 30 September 2013 and 2014, figures are presented in accordance with NACE 2.0.

- for the growth rate of nominal GDP by economic activity for 2011, 2012 and 2013 and the nine-month periods ended 30 September 2013 and 2014, 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 2009 in accordance with NACE 1.1 methodology:

Nominal GDP by Economic Activity

	For the year ended 31 December
	2009
	(AMD millions)
Agriculture, hunting and forestry	524,482.0
Fishing	6,828.0
Mining and quarrying	52,253.0
Manufacturing	273,112.0
Electricity, gas and water supply	96,016.0
Construction	584,436.0
Trade[(1)]	399,811.0
Hotels and restaurants	19,968.0
Transport and communications	226,048.0
Financial services	123,524.0
Real estate, renting and business activities	152,402.0
Public administration	120,269.0
Education	113,391.0
Health care and social services	110,836.0
Other community, social and personal service activities	55,426.0
Private households[(2)]	878.0
FISIM adjustment[(3)]	(50,580.0)
Nominal GVA[(4)]	**2,809,097.0**
Taxes less subsidies on products	332,554.0
Nominal GDP at market prices	**3,141,651.0**
Nominal GDP per capita *(AMD)*	968,539.0
Nominal GDP per capita *(U.S.$)*[(5)]	2,666.0
Nominal GDP *(U.S.$ millions)*[(5)]	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 Indirect 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, 2012 and 2013 and for the nine-month periods ended 30 September 2013 and 2014 in accordance with NACE 2.0 methodology:

Nominal GDP by Economic Activity

	For the year ended 31 December				For the nine months ended 30 September	
	2010	**2011**	**2012**	**2013**	**2013**	**2014**
	(AMD millions)					
Agriculture, hunting and forestry; fishing	588,205.0	767,881.0	763,940.7	826,291.8	564,897.3	574,589.5
Mining and quarrying	89,251.0	102,847.0	114,326.8	103,461.6	75,955.5	73,440.6
Manufacturing	335,251.0	399,271.0	397,549.4	429,659.8	305,671.7	316,439.0
Electricity, gas, steam and air conditioning supply	97,513.0	131,188.0	153,985.1	187,041.3	112,752.2	148,842.0
Water supply, sewage, waste management and remediation	15,854.0	14,500.0	13,654.1	15,278.9	11,108.0	11,522.4
Construction	599,495.0	491,082.0	497,985.3	450,267.1	260,736.2	238,546.2
Trade[(1)]	444,712.0	476,695.0	508,629.8	546,246.9	354,664.8	362,093.5
Transport and storage...............................	116,533.0	117,422.0	130,599.8	123,228.7	89,032.4	93,044.9
Hotels and restaurants	24,550.0	27,040.0	36,093.8	47,790.4	34,593.6	39,561.5
Information and communications	133,149.0	135,303.0	145,870.3	156,354.6	116,280.5	125,599.9
Financial and insurance activities.............	126,257.0	151,910.0	180,640.7	201,390.7	147,173.8	144,930.0
Real estate activities	73,305.0	101,018.0	115,201.8	142,945.0	104,614.9	120,714.6
Professional, scientific and technical activities..	47,050.0	44,121.0	41,304.9	46,126.2	32,177.3	33,072.0
Administrative and support service activities..	33,536.0	38,448.0	41,356.5	35,133.9	24,759.3	28,901.4
Public administration	127,912.0	141,844.0	149,869.0	173,753.2	119,740.3	136,497.1
Education	120,187.0	120,739.0	125,799.4	127,876.7	90,845.6	96,073.4
Human health and social work activities ..	111,198.0	138,695.0	149,013.8	179,580.7	116,520.6	122,369.6
Arts, entertainment and recreation	30,216.0	36,588.0	55,469.7	63,212.5	45,328.7	65,416.1
Other service activities	20,265.0	23,381.0	28,575.1	32,690.8	23,359.0	27,142.6
Private households[(2)]................................	1,011.0	1,836.0	1,634.6	1,858.1	1,303.7	1,122.8
FISIM adjustment[(3)].................................	(64,229.0)	(96,186.0)	(109,012.9)	(123,626.9)	(92,910.3)	(94,594.7)
Nominal GVA	**3,071,077.0**	**3,365,622.0**	**3,542,487.7**	**3,766,562.0**	**2,538,605.1**	**2,665,324.4**
Taxes less subsidies on products	389,126.0	412,324.0	458,234.3	506,332.6	374,853.9	400,805.6
Nominal GDP at market prices	**3,460,203.0**	**3,777,945.6**	**4,000,722.0**	**4,272,894.6**	**2,913,459.0**	**3,066,130.0**
Nominal GDP per capita *(AMD)*[(4)]	1,062,683.0	1,252,801.0	1,322,946.0	1,413,929.0	n/a	n/a
Nominal GDP per capita *(U.S.$)*[(4)(5)]	2,844.0	3,363.0	3,292.9	3,451.7	n/a	n/a
Nominal GDP *(U.S.$ millions)*[(5)]	9,260.3	10,142.1	9,958.0	10,431.1	7,088.5	7,464.0

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 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 2009 in accordance with NACE 1.1 methodology:

Share in Nominal GDP by Economic Activity

	For the year ended 31 December
	2009
	(% of Nominal GDP)
Agriculture, hunting and forestry	16.7
Fishing	0.2
Mining and quarrying	1.7
Manufacturing	8.7
Electricity, gas and water supply	3.1
Construction	18.6
Trade(1)	12.7
Hotels and restaurants	0.6
Transport and communications	7.2
Financial services	3.9
Real estate, renting and business activities	4.9
Public administration	3.8
Education	3.6
Health care and social services	3.5
Other community, social and personal service activities	1.8
Private households(2)	0.0
FISIM adjustment(3)	(1.6)
Nominal GVA	**89.4**
Taxes less subsidies on products	10.6
Nominal GDP at market prices	**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, 2012 and 2013 and for the nine-month periods ended 30 September 2013 and 2014 in accordance with NACE 2.0 methodology:

Share in Nominal GDP by Economic Activity

	For the year ended 31 December				For the nine months ended 30 September	
	2010	**2011**	**2012**	**2013**	**2013**	**2014**
			(% of Nominal GDP)			
Agriculture, hunting and forestry; fishing	17.0	20.3	19.1	19.3	19.4	18.7
Mining and quarrying	2.6	2.7	2.9	2.4	2.6	2.4
Manufacturing	9.7	10.6	9.9	10.1	10.5	10.3
Electricity, gas, steam and air conditioning supply	2.8	3.5	3.8	4.4	3.9	4.9

Water supply, sewage, waste management and remediation	0.5	0.4	0.3	0.4	0.4	0.4
Construction	17.3	13.0	12.4	10.5	8.9	7.8
Trade[(1)]	12.9	12.6	12.7	12.8	12.2	11.8
Transport and storage	3.4	3.1	3.3	2.9	3.1	3.0
Hotels and restaurants	0.7	0.7	0.9	1.1	1.2	1.3
Information and communications	3.8	3.6	3.6	3.7	4.0	4.1
Financial and insurance activities	3.6	4.0	4.5	4.7	5.1	4.7
Real estate activities	2.1	2.7	2.9	3.3	3.6	3.9
Professional, scientific and technical activities	1.4	1.2	1.0	1.1	1.1	1.1
Administrative and support service activities	1.0	1.0	1.0	0.8	0.8	0.9
Public administration	3.7	3.8	3.7	4.1	4.1	4.5
Education	3.5	3.2	3.1	3.0	3.1	3.1
Human health and social work activities	3.2	3.7	3.7	4.2	4.0	4.0
Arts, entertainment and recreation	0.9	1.0	1.4	1.5	1.6	2.1
Other service activities	0.6	0.6	0.7	0.8	0.8	0.9
Private households[(2)]	0.0	0.0	0.0	0.0	0.0	0.0
FISIM adjustment[(3)]	(1.9)	(2.5)	(2.7)	(2.9)	(3.2)	(3.1)
Nominal GVA	**88.8**	**89.1**	**88.5**	**88.2**	**87.1**	**86.9**
Taxes less subsidies on products	11.2	10.9	11.5	11.8	12.9	13.1
Nominal GDP at market prices	**100.0**	**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 2009 and 2010 in accordance with NACE 1.1 methodology:

Growth Rate of Nominal GDP by Economic Activity

	For the year ended 31 December	
	2009	**2010**
	(%)	
Agriculture, hunting and forestry	(8.8)	10.6
Fishing	(3.5)	32.9
Mining and quarrying	(5.8)	70.8
Manufacturing	(13.4)	23.3
Electricity, gas and water supply	92.9	11.9
Construction	(35.3)	2.6
Trade[(1)]	(3.2)	11.7
Hotels and restaurants	133.1	22.9
Transport and communications	(6.7)	(1.0)
Financial services	0.9	2.2
Real estate, renting and business activities	14.1	11.2
Public administration	25.8	6.4
Education	17.0	6.0
Health care and social services	15.9	0.7
Other community, social and personal service activities	27.7	11.8
Private households[(2)]	17.3	15.2
FISIM adjustment[(3)]	23.9	(8.1)
Nominal GVA	**(11.2)**	**9.3**
Taxes on products	(17.9)	17.0
Nominal GDP at market prices	(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, 2012 and 2013 and for the nine-month periods ended 30 September 2013 and 2014 in accordance with NACE 2.0 methodology:

Growth Rate of Nominal GDP by Economic Activity

	For the year ended 31 December			For the nine months ended 30 September	
	2011[1]	**2012**	**2013**	**2013**	**2014**
			(%)		
Agriculture, hunting and forestry; fishing	30.5	(0.5)	8.2	5.5	1.7
Mining and quarrying	15.2	11.2	(9.5)	(11.1)	(3.3)
Manufacturing	19.1	(0.4)	8.1	7.8	3.5
Electricity, gas, steam and air conditioning supply	34.5	17.4	21.5	4.0	32.0
Water supply, sewage, waste management and remediation	(8.5)	(5.8)	11.9	14.8	3.7
Construction	(18.1)	1.4	(9.6)	(17.3)	(8.5)
Trade[2]	7.2	6.7	7.4	10.2	2.1
Transport and storage	0.8	11.2	(5.6)	(9.3)	4.5
Hotels and restaurants	10.1	33.5	32.4	38.5	14.4
Information and communications	1.6	7.8	7.2	8.9	8.0
Financial and insurance activities	20.3	18.9	11.5	7.6	(1.5)
Real estate activities	37.8	14.0	24.1	24.2	15.4
Professional, scientific and technical activities	(6.2)	(6.4)	11.7	11.7	2.8
Administrative and support service activities	14.6	7.6	(15.0)	(20.3)	16.7
Public administration	10.9	5.7	15.9	11.9	14.0
Education	0.5	4.2	1.7	0.4	5.8
Human health and social work activities	24.7	7.4	20.5	20.7	5.0
Arts, entertainment and recreation	21.1	51.6	14.0	21.3	44.3
Other service activities	15.4	22.2	14.4	16.8	16.2
Private households[3]	81.6	(11.0)	13.7	8.9	(13.9)
FISIM adjustment[4]	49.8	13.3	13.4	12.7	1.8
Nominal GVA	**9.6**	**5.3**	**6.3**	**4.0**	**5.0**
Taxes on products	6.0	11.1	10.5	16.5	6.9
Nominal GDP at market prices	**9.2**	**5.9**	**6.8**	**5.5**	**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 2008 prices):

Real GDP by Economic Activity

	For the year ended 31 December					For the nine months ended 30 September	
	2009	**2010**	**2011**	**2012**	**2013**	**2013**	**2014**(1)
	(AMD millions, unless otherwise indicated)						
Industry	441,860.0	481,334.6	546,630.6	581,431.3	612,619.8	430,273.1	431,133.6
Agriculture	615,747.7	517,084.0	589,557.8	645,434.9	691,966.9	473,681.9	509,208.0
Construction	527,747.0	545,225.8	478,852.0	502,068.2	447,750.4	257,732.1	249,742.4
Services	1,163,974.7	1,213,115.1	1,271,941.1	1,359,684.6	1,438,138.8	1,000,035.6	1,054,037.5
Real GVA	**2,749,329.4**	**2,756,759.5**	**2,886,981.5**	**3,088,619.0**	**3,190,475.9**	**2,161,722.7**	**2,248,191.6**
Taxes less subsidies on products	313,994.4	356,107.5	369,754.3	406,453.8	418,030.0	293,301.0	300,926.8
Real GDP at market prices	**3,063,323.8**	**3,131,179.8**	**3,276,803.5**	**3,511,594.8**	**3,634,916.5**	**2,478,412.5**	**2,575,070.6**
Real GDP per capita(2)	944,391.5	961,634.9	1,086,617.7	1,161,203.0	1,202,680.2	n/a	n/a
Real GDP per capita (U.S.$)(2)(3)	2,599.6	2,573.6	2,917.1	2,890.3	2,936.0	n/a	n/a
Real GDP *(U.S.$ millions*(2))	8,432.4	8,379.8	8,796.8	8,740.5	8,872.6	6,032.1	6,270.7

Notes:

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

(1) Numbers for the nine-month period ended 30 September 2014 are the estimates of the Ministry of Finance, based on 2014 real growth rates as published by Armstat.

(2) Per capita figures based on the 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 2008 prices):

Share in Real GDP by Economic Activity

	For the year ended 31 December					For the nine months ended 30 September	
	2009	**2010**	**2011**	**2012**	**2013**	**2013**	**2014**(1)
				(%)			
Industry	14.4	15.5	16.8	16.6	17.0	17.5	16.9
Agriculture	20.1	16.6	18.1	18.5	19.2	19.3	20.0
Construction	17.2	17.5	14.7	14.4	12.4	10.5	9.8
Services	38.0	39.0	39.1	38.9	39.8	40.7	41.4
Real GVA	**89.7**	**88.6**	**88.6**	**88.4**	**88.4**	**88.0**	**88.2**
Taxes less subsidies on products	10.3	11.4	11.4	11.6	11.6	12.0	11.8
Real GDP at market prices	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

Note:

(1) Numbers for the nine-month period ended 30 September 2014 are the estimates of the Ministry of Finance, based on 2014 real growth rates as published by Armstat.

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 2008 prices):

Growth Rate in Real GDP by Economic Activity

	For the year ended 31 December					For the nine months ended 30 September	
	2009	**2010**	**2011**	**2012**	**2013**	**2013**	**2014[(1)]**
				(%)			
Industry	(6.9)	9.2	13.6	6.3	5.4	3.9	0.2
Agriculture	6.0	(16.0)	14.0	9.5	7.2	5.8	7.5
Construction	(41.6)	3.3	(12.2)	4.8	(10.8)	(18.1)	(3.1)
Services	(3.3)	4.1	4.7	6.3	5.8	6.6	5.4
Real GVA	**(13.1)**	**0.9**	**4.8**	**6.8**	**3.3**	**2.7**	**4.0**
Taxes less subsidies on products	(22.5)	13.4	3.8	9.9	2.8	3.0	2.6
Real GDP at market prices	**(14.1)**	**2.2**	**4.7**	**7.2**	**3.5**	**2.8**	**3.9**

Note:

(1) Numbers for the nine-month period ended 30 September 2014 are the estimates of the Ministry of Finance, based on 2014 real growth rates as published by Armstat.

Sources: Armstat; Ministry of Finance.

Agriculture, Hunting and Forestry; Fishing

In 2013, agriculture accounted for 19.3% of Armenia's nominal GDP, compared to 19.1% in 2012 and 20.3% in 2011. In the nine months ended 30 September 2014, agriculture accounted for 18.7% of Armenia's nominal GDP, compared to 19.4% in the nine months ended 30 September 2013.

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 years indicated:

Share in Agricultural Output by Sector and Farm[(1)]

	For the year ended 31 December				
	2009	**2010**	**2011**	**2012**	**2013**
			(%)		
Household plots	**96.8**	**97.0**	**96.9**	**96.5**	**97.1**
Planting	62.6	61.6	58.4	61.1	62.2
Animal husbandry	34.2	35.4	38.5	35.3	34.9
Commercial organisations	**3.2**	**3.0**	**3.1**	**3.5**	**2.9**
Planting	0.2	0.1	0.1	0.2	0.2
Animal husbandry	3.0	2.9	3.0	3.4	2.7
Total	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

Note:

(1) Share of output in current prices.

Source: Armstat.

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

Annual Production of Certain Agricultural Products

	For the year ended 31 December				
	2010	**2011**	**2012**	**2013**	**2014**
	(in thousands of tonnes, unless otherwise indicated)				
Vegetables	707.6	787.1	849.0	876.0	954.6
Eggs(1)	702.2	633.6	658.1	615.2	638.3
Milk	600.9	601.5	618.2	657.0	700.4
Potatoes	482.0	557.3	647.2	660.5	732.9
Grains and grain legumes	326.4	440.7	456.1	548.8	590.6
Fruits and berries	128.5	239.4	331.7	338.1	291.1
Grapes	222.9	229.6	241.4	240.8	261.3
Melons	132.5	180.9	205.1	208.1	245.8
Meat	69.5	71.7	73.9	83.4	n/a
Wool(2)	1,188.0	1,230.0	1,280.0	1,426.0	n/a

Notes:

n/a = not available.

(1) Number of eggs (in millions).

(2) Physical weight (in tonnes).

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;
- rehabilitating the country's irrigation and drainage infrastructure, including the construction of four large dams;
- establishing a network of large-scale greenhouses;
- 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 2014, prepared foodstuffs, vegetables and animals/animal products accounted for 8.4%, 5.4% and 3.3%, respectively, of Armenia's imports and 22.2%, 3.3% and 2.5%, respectively, of Armenia's exports. See "*External Sector—International Trade*."

Mining and Quarrying

In 2013, mining and quarrying accounted for 2.4% of Armenia's nominal GDP, compared to 2.9% in 2012 and 2.7% in 2011. In the nine months ended 30 September 2014, mining and quarrying accounted for 2.4% of Armenia's nominal GDP, compared to 2.6% in the nine months ended 30 September 2013. The mining and quarrying sector has exhibited volatile growth in recent years, expanding (in nominal terms) by 15.2% and 11.2% in 2011 and 2012, respectively, before contracting by 9.5% in 2013. In the nine months ended 30 September 2014, the mining and quarrying sector contracted by 3.3%, compared to the nine months ended 30 September 2013. The contraction in mining and quarrying in 2013 and the nine months ended 30 September 2014 was mainly due to the fall in the global price for copper.

In 2014, Armenia's mining and quarrying sector accounted for 15% of the value of the country's overall industrial production. Metal ores accounted for 97.4% of mining and quarrying output in 2014. 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 2013, manufacturing accounted for 10.1% of Armenia's nominal GDP, compared to 9.9% in 2012 and 10.6% in 2011. In the nine months ended 30 September 2014, manufacturing accounted for 10.3% of Armenia's nominal GDP, compared to 10.5% in the nine months ended 30 September 2013. The manufacturing sector expanded (in nominal terms) by 8.1% in 2013 and by 3.5% in the nine months ended 30 September 2014 (compared to the nine months ended 30 September 2013) mainly due to an increase in the production of food products, basic metals and tobacco.

In 2014, Armenia's manufacturing sector accounted for 65.6% 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 2014, food production accounted for 36.2% of the value of manufacturing output; basic metals for 20.3%; and beverage production for 14.6%. 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 2013, electricity, gas, steam and air conditioning supply accounted for 4.4% of Armenia's nominal GDP, compared to 3.8% in 2012 and 3.5% in 2011. In the nine months ended 30 September 2014, electricity, gas, steam and air conditioning supply accounted for 4.9% of Armenia's nominal GDP, compared to 3.9% in the nine months ended 30 September 2013. This sector grew (in nominal terms) by 21.5% in 2013 and by 32.0% in the nine months ended 30 September 2014 (compared to the nine months ended 30 September 2013) mainly as a result of an increase in electricity prices.

In 2014, Armenia's electricity, gas, steam and air conditioning supply sector accounted for 18.0% 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 2013, construction accounted for 10.5% of Armenia's nominal GDP, compared to 12.4% in 2012 and 13.0% in 2011. In the nine months ended 30 September 2014, construction accounted for 7.8% of Armenia's nominal GDP, compared to 8.9% in the nine months ended 30 September 2013.

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 improved slightly in 2010 (under NACE 1.1), but declined significantly in 2011 (under NACE 2.0). In 2012, the construction sector grew by 1.4%, before contracting by 9.6% in 2013. In the nine months ended 30 September 2014, the construction sector contracted by 8.5%, compared to the nine months ended 30 September 2013.

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 2013, trade accounted for 12.8% of Armenia's nominal GDP, compared to 12.7% in 2012 and 12.6% in 2011. In the nine months ended 30 September 2014, trade accounted for 11.8% of Armenia's nominal GDP, compared to 12.2% in the nine months ended 30 September 2013.

The trade sector comprises retail trade turnover, wholesale trade turnover and motor vehicle trade. In 2014, retail turnover accounted for 61% of overall trade turnover, followed by wholesale trade turnover 35.3% and motor vehicle trade 3.7%. Between 2010 and 2014, retail trade turnover increased in nominal terms by 26.1%. Food products account for the majority of retail trade turnover by volume. Between 2010 and 2014, in nominal terms, wholesale trade turnover increased by 45.9%, and motor vehicle trade increased by 32.9%.

Transport and Storage

In 2013, transport and storage accounted for 2.9% of Armenia's nominal GDP, compared to 3.3% in 2012 and 3.1% in 2011. In the nine months ended 30 September 2014, transport and storage accounted for 3.0% of Armenia's nominal GDP, compared to 3.1% in the nine months ended 30 September 2013. The transport and storage sector contracted (in nominal terms) by 5.6% in 2013. The sector expanded by 4.5% in the nine months ended 30 September 2014 (compared to the nine months ended 30 September 2013) mainly due to growth in air transport.

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 2014, the Armenian road network was comprised of 10,056.4 km of roads, including 7,530.4 km general purpose roads. Of the general purpose roads, Armenia has approximately 1,758.8 km of interstate roads, 1,965.9 km of national roads (between major cities and regional centres) and 3,805.7 km of local roads (between villages and regional centres). In 2014, 5.4 million tonnes of cargo and 201.9 million passengers were carried by road transport. Freight and passenger turnover on Armenia's road network equalled 543.5 million tonnes-km and 2,535.6 million passengers-km, respectively, in 2014. Motor vehicles remain the most popular form of transport in Armenia, accounting for 52.6% of total cargo volumes and 89.4% of total passenger volumes, by type of transport in 2014.

Because Armenia is a landlocked country, the development and maintenance of its road network are 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, from 2009 to 2013, the Government implemented the Lifeline Roads Improvement Project (the "**LRIP**"), which was 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. 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. Through 2014, a total of 921 km of lifeline roads have been rehabilitated under the LRIP and the LRNIP, which has led to substantial reductions in travel time and helped stimulate employment in the regions. The LRIP and the LRNIP have also improved overall road safety, as sidewalks and facilities for disabled pedestrians were introduced on lifeline roads passing through residential areas.

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 2014, traffic at Zvartnots Airport approximated 2.0 million passengers, while traffic at Shirak Airport was an estimated 37,860 passengers. Freight turnover at Zvartnots Airport was 10,345 tonnes, compared to 10,361 tonnes in 2013. Shirak Airport currently operates scheduled flights to Moscow.

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 managed 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, which purchased 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.

Following the bankruptcy of Armavia, the Government has been working with several international organisations to develop a new policy framework for the country's civil aviation sector. The framework, which was approved in October 2013, aims to increase competition, improve connectivity, enhance service costs and lower costs. As part of this new policy, the Government is in the process of introducing 'open skies' principles into its bilateral aviation agreements, and has begun negotiations with the EU on a Common Aviation Area Agreement. Since 2008, Armenia has had an open skies agreement in place with the U.S.

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 1,131.3 km of track (as of 31 December 2014), and is used mainly for cargo transport. In 2014, 3.1 million tonnes of freight (or 29.9% of all freight transported in Armenia) were shipped by rail, and freight turnover amounted to 786.1 million tonnes-km. The main types of cargo shipped by rail include non-ferrous metal ore (1,235.8 thousand tonnes in 2014), grain and re-grinding products (403.3 thousand tonnes in 2014), petroleum and petroleum products (276.4 thousand tonnes in 2014), mineral building materials (144.6 thousand tonnes in 2014) and cement (80.4 thousand tonnes in 2014). In 2014, approximately 375,200 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 AMD175 billion in the development of Armenia's rail infrastructure, including approximately AMD52 billion 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 the highest railway bridge in Tsarist Russia. Between 2008 and 2014, Southern Caucasus Railways invested approximately AMD98 billion, including AMD27 billion to renovate rolling stock.

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 2014, there were approximately 15.8 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, as well as other structural improvements. The expansion of the Yerevan Metro, including the possible opening of a second or third line, is under discussion.

Information and Communications

In 2013, information and communications accounted for 3.7% of Armenia's nominal GDP, compared to 3.6% in each of 2012 and 2011. In the nine months ended 30 September 2014, information and communications accounted for 4.1% of Armenia's nominal GDP, compared to 4.0% in the nine months ended 30 September 2013.

As of 31 December 2013, there were 578,450 fixed telephone line subscribers, a decrease of 2.3% from 31 December 2010.

In recent years, the use of mobile telephony has increased substantially in Armenia. As of 31 December 2013, there were approximately 3.35 million mobile phone subscribers, compared to approximately 3.37 million subscribers as of 31 December 2010. 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 2013, there were approximately 480 thousand internet subscribers in Armenia, compared with approximately 104 thousand subscribers as of 31 December 2010. 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. Information and communications has been designated by the Government as a priority sector for investment and development. The number of companies operating in this sector, both local start-ups and branches of foreign companies, has increased significant over the past 10 years. According to the World Bank, turnover in the Armenian software and service sector grew by a CAGR of 22.8% between 1998 and 2012, reaching U.S.$244.4 million in 2012, approximately 2% of nominal GDP in that year. Turnover in this sector was U.S.$294 million in 2013 (approximately 2.8% of nominal GDP) and U.S.$349.4 million in 2014.

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 2013, financial and insurance activities accounted for 4.7% of Armenia's nominal GDP, compared to 4.5% in 2012 and 4.0% in 2011. In the nine months ended 30 September 2014, financial and insurance activities accounted for 4.7% of Armenia's nominal GDP, compared to 5.1% in the nine months ended 30 September 2013.

In recent years, the financial services sector has grown, even in 2009 during the global financial crisis. In 2013, the financial and insurance sector grew (in nominal terms) by 11.5%. In the nine months ended 30 September 2014, the sector contracted (in nominal terms) by 1.5%, compared to the nine months ended 30 September 2013. According to the CBA, total assets of Armenia's banking sector increased in nominal terms by 119% from AMD1,560.5 billion as of 31 December 2010 to AMD3,403.6 billion as of 31 December 2014. Net profits of the banking sector decreased in nominal terms by 30% from AMD30.2 billion in 2010 to AMD21.2 billion in 2014. 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 25.3% of GDP in 2010 to 45.3% of GDP in 2014. The rise in loans was, in turn, 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*." The net profits of the banking sector, however, has decreased in 2013 and 2014 mainly due to increases in asset loss provisioning and non-performing loans. See "*Monetary and Financial System—Financial Services Industry—Banking Sector*."

Energy

Electricity

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

Electricity Capacity

	For the year ended 31 December				
	2009	**2010**	**2011**	**2012**	**2013**
			(kW thousands)		
Total capacity	**3,204.7**	**3,504.5**	**3,508.7**	**4,054.6**	**4,094.4**
Thermal power plants	1,692.1	1,931.1	1,906.0	2,394.0	2,394.0
Hydropower plants	1,102.4	1,162.0	1,191.2	1,249.2	1,289.0
Nuclear power plants	407.5	407.5	407.5	407.5	407.5
Wind farms	2.7	3.9	4.0	3.9	3.9

Source: Armstat.

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

Electricity Generation and Consumption

	For the year ended 31 December				
	2010	**2011**	**2012**	**2013**	**2014**
	(kWh millions, except where indicated)(1)				
Total generation	**6,491.4**	**7,432.7**	**8,036.2**	**7,710.0**	**7,750.0**
Nuclear power plants	2,490.0	2,548.1	2,322.0	2,359.7	2,464.8
Thermal power plants	1,438.3	2,390.3	3,399.1	3,173.1	3,288.6
Hydropower plants	2,556.1	2,488.7	2,311.0	2,173.4	1,992.6
Wind farms	7.0	5.6	4.1	3.8	4.0
Net import (export)	**(815.0)**	**(1,081.7)**	**(1,598.0)**	**(1,028.0)**	**n/a**
Import	246.2	301.2	98.1	197.7	n/a
Export	1,061.2	1,382.9	1,696.1	1,225.7	n/a
Total consumption	**5,676.4**	**6,351.0**	**6,438.2**	**6,682.0**	**n/a**
Distribution companies and direct customers	4,949.4	5,446.9	5,456.8	5,733.3	n/a
Transmission losses	730.0	904.1	981.4	948.7	n/a
Losses to total consumption (%)	12.9	14.2	15.2	14.2	n/a

Note:

n/a = not available.

(1) Kilowatt hours.

Source: Armstat.

The Metsamor Plant, which is state-owned and operated by Inter RAO UES, a state-controlled Russian energy company, is Armenia's sole nuclear power plant. Metsamor has historically generated approximately one-third of Armenia's annual electricity supply. In 2014, the share of Metsamor Plant in the country's electricity generation amounted to 31.8%.

The Metsamor Plant, which is located 36 km outside Yerevan, operates a single unit that first came into use in 1980; a second unit of equal capacity is not in operation. After closing as a precautionary measure following the 1988 earthquake, the second unit of 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. In December 2014, it was further announced that Rosatom, the Russian state-owned nuclear power company, would undertake a project to extend the operating lifetime of the Metsamor Plant to 2026, and in February 2015, Russia agreed to provide a U.S.$270 million financing (and also a U.S.$30 million grant to support safety upgrades) to finance this project. See "*Risk Factors—Risk Factors Relating to Armenia—Relations with Russia*." Russia provides the fuel 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, the Yerevan Thermal Power Station, with a capacity of 550 MW, and the Vanadzor Thermal Power Station, with a capacity of 96 MW. Of Armenia's thermal power plants, only the Hrazdan Thermal Power Plant is currently in operation, although it is not operating at full capacity. 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 with a capacity of 440 MW that came on line in 2012. In 2004, Armenia transferred ownership of the fifth unit of the Hrazdan Thermal Power Plant to Gazprom Armenia (the joint venture that was previously known as ArmRusGazprom when it was 80% owned by Gazprom and 20% owned by the Armenian Ministry of Energy and which was renamed Gazprom Armenia after the Ministry of Energy sold its 20% stake to Gazprom in January 2014 (see "—*Petroleum Products and Natural Gas*")) 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 Gazprom Armenia.

The Yerevan Thermal Power Station has one Soviet-era turbine and a second unit with a capacity of 240 MW. Construction of the second unit 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 Station 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 2014, the share of thermal power was 42.1%.

Armenia also operates a series of hydropower plants, which, in 2013 and 2014, collectively generated 28.6% and 26.1%, 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 between1970 and 1989 and maintains three stations with an installed capacity of 404 MW. The Vorotan Cascade was sold by the Government in February 2015 to ContourGlobal Hydro Cascade CJSC. There are also over 165 commercial size small hydropower plants operating in Armenia (with a total installed capacity of approximately 282MW), as well as numerous micro size units that are operated by individuals for personal use. Plans have been developed for the construction of the 100 MW Meghri Hydropower Plant on the Araks River bordering Iran. In addition, under the auspices of the Climate Investment Fund, in 2014, the Renewable Energy Investment Programme of Armenia was approved, which contemplates the construction of a 40-50 MW solar-powered grid power station and a 30 MW geothermal power station. Hydroelectric power accounts for approximately 10% of Armenia's electricity supply.

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 company Sunir.

Total electricity generation declined by 4.1% in 2013 and increased by 0.5% in 2014. Apart from domestic usage, Armenia also exports electricity to Georgia and Iran. In 2007, Armenia and Iran entered into a 20-year barter arrangement, under which the Government-owned Yerevan Thermal Power Station 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 two 220 kV lines connect 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,and by an additional 10% in August 2014. See "*—Oil and Natural Gas*" and "*Risk Factors—Risk Factors Relating to Armenia—Relations with Russia*."

Armenia's energy sector faces three significant challenges going forward. It will need approximately 500 MW of new generating capacity by 2020 as obsolete infrastructure is taken off-line and demand continues to grow. It will need to preserve energy supplies and avoid supply interruptions as it is dependent on imports for all of its transport fuel and heating/cooking fuel as well as a substantial share of fuel for electricity. It will also need to ensure that energy remains affordable for the population in the face of rising gas and electricity prices and the development of new, potentially more expensive, generating units. To meet these challenges, Armenia works closely with international organisations and other governments to implement projects designed to improve energy efficiency and promote increasing use of renewable energy supplies.

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 by source for the years indicated:

Petroleum Products and Gas Imports

	For the year ended 31 December				
	2010	**2011**	**2012**	**2013**	**2014**
	(thousands of tonnes)				
Petroleum Products					
Russia	67.6	91.2	86.7	98.3	223.3
Romania	96.2	84.5	69.7	97.2	22.8
Bulgaria	83.6	76	65.1	45.7	5.5
Israel	8.7	15.9	44.4	40.5	26.3
Iraq	0.1	17.7	38.5	31.4	27.6
Greece	32.6	23.3	4.1	-	-
Other countries	90.3	49.2	37.9	14.9	19.5
Total	**379**	**357.7**	**346.6**	**328.0**	**325.0**
	(millions of cubic metres)				
Gas					
Russia	1,430.30	1,593.10	1,911.10	1,925.20	2,109.97
Iran	434.2	441.8	495.2	408.25	383.15
Other countries	0.3	2.3	2.7	-	-
Total	**1,864.70**	**2,037.30**	**2,409.00**	**2,333.45**	**2,493.12**

Source: Armstat.

Russia is Armenia's principal supplier of natural gas. In 2014, Russia accounted for 84.6% 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 2012, 2013 and 2014, Iran accounted for 20.5%, 17.5% and 15.4%, 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 the Armenian High Voltage Network Company.

Gas imports from Russia are provided by Gazprom Export (a subsidiary of Gazprom, Russia's national gas company), which sells the gas to its subsidiary Gazprom Armenia, pursuant to a gas price agreement signed in December 2013 (the "**Gas Price Agreement**"). Pursuant to the Gas Price Agreement, a new base price of U.S.$189/1,000 cubic metres (effective January 2014) was set, reflecting Russia's waiver of a 30% customs tax (such waiver granted in connection with Armenia's accession to the EEU). The sales price is subject to adjustment for changes in the domestic gas price in the Orenburg region of Russia and U.S CPI. The

Government estimates that the discount will save Armenia approximately 1.5% of GDP per year. The Gas Price Agreement also contains a 30-year immunity clause shielding Gazprom Armenia from any changes in Armenian laws (including tax rates).

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 Armenia. Between 2011 and 2013, the price charged at the border by Gazprom increased substantially, which prices were not passed on to end-consumers. As a result, Gazprom Armenia incurred over U.S.$300 million in liabilities to Gazprom Export. According to the Gas Price Agreement, Armenia repaid U.S.$155 million of this debt by transferring its remaining 20% stake in Gazprom Armenia to Gazprom. The remaining portion of this debt, which had accrued from 1 April 2013 until the Gas Price Agreement came into effect, was written off in the form of an exemption granted by Russia to Gazprom Export from the requirement to pay the 30% customs tax at the Russian border (and the corresponding reduction of Gazprom Armenia's debt to Gazprom Export).

Gazprom Armenia sells gas to end-consumers in Armenia at tariff rates established by the Armenian Public Services Regulatory Commission. On 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 20-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 68.7% of Armenia's petroleum products' imports in 2014, a significant increase from 29.9% in 2013. A substantial share of the petroleum products provided by Bulgaria are now provided by Russia on account of lower prices due primarily to Armenia's accession to the EEU. Armenia also receives substantial supplies of petroleum products from Romania, Iraq and Israel. 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 2010 and 2014, Armenia generated approximately U.S.$15.1 million in privatisation receipts. As of 1 January 2014, there were 28 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 2,049.4 thousand hectares are agricultural land and 334.3 thousand hectares are forested land. Armenia currently operates four national parks and three nature reserves. In total, specially protected areas cover 13.1% 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) the 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 four regional conventions, two protocols and 12 multilateral conventions as of 31 December 2014. 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 2010, the international community has disbursed approximately U.S.$20.2 million in funds for projects related to the environment that were implemented by the Ministry of Nature Protection. In 2014, approximately U.S.$7.8 million of funds from the State Budget were spent on environmental protection measures. Armenia's mining industry generates tailings and other waste rock and materials, which may cause damage to the environment if not properly disposed of. Therefore, a portion of the State Budget's funds for environmental protection measures is spent on the maintenance of over 20 storage sites for tailings and waste resulting from mining activity.

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

Certain Environmental Indicators

	For the year ended 31 December				
	2009	**2010**	**2011**	**2012**	**2013**
Discharges					
Waste water discharge (mln. cubic metres)	359.9	431.0	750.0	813.0	938.0
Hazardous atmospheric emissions (thousand tonnes), *of which*	235.1	263.9	269.3	259.8	261.4
Emissions from stationary sources	74.7	97.5	114.6	117.4	119.7
Emissions from vehicles	160.4	166.4	154.7	142.4	141.7

Payments					
For protection of the environment (AMD millions), *of which*	591.1	735.1	803.4	546.5	706.1
Harmful discharge into water bodies and sewage	279.3	283.8	366.1	223.6	237.9
Emissions from stationary sources	203.1	356.4	293.7	163.4	133.8
For use of natural resources (AMD millions)(1)	2,788.4	4,073.5	4,792.7	1,091.9	1,224.7
Total	**3,379.5**	**4,808.6**	**5,596.1**	**1,638.4**	**1,930.8**

Note:

(1) From 2012, such payments no longer include those made by the metals and mining sector, which instead make environmental usage payments in the form of royalties.

Source: Armstat.

Labour and Social Policy

Wages

The following tables set forth key figures on wages for the years indicated. Figures for 2010 and 2011 do not include social security contributions made by employers, whereas the figures for 2012-2014 do reflect such contributions. Therefore, figures for 2010 and 2011 are not comparable with figures for 2012, 2013 and 2014.

Wages

	For the year ended 31 December	
	2010	**2011**
	(period average)	
Average monthly nominal wage (AMD)	102,652.0	108,092.0
Average monthly nominal wage (U.S.$)(1)	275.0	290.0
Average monthly real wage (AMD)(1)(2)	94,873.0	100,364.0
Average monthly nominal wage (AMD) by sector		
Public sector	85,735.0	90,805.0
Private sector	121,019.0	125,410.0
Agriculture, forestry and fishing	70,569.0	70,099.0
Industry	125,337.0	128,186.0
Construction	137,036.0	137,483.0
Services	95,391.0	102,141.0

Notes:

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

(2) 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.

Wages

	For the year ended 31 December		
	2012	**2013**	**2014**
	(period average)		
Average monthly nominal wage (AMD)	140,739.0	146,524.0	171,120.0
Average monthly nominal wage (U.S.$)(1)	350.0	358.0	411.0
Average monthly real wage (AMD)(1)(2)	137,173.0	138,491.0	166,135.9
Average monthly nominal wage (AMD) by sector			
Public sector	127,292.0	134,193.0	150,809.0
Private sector	155,143.0	160,324.0	199,711.0

Agriculture, forestry and fishing	100,879.0	92,037.0	n/a
Industry	160,423.0	168,786.0	n/a
Construction	158,757.0	156,702.0	n/a
Services	n/a	n/a	n/a

Notes:

n/a = not available.

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

(2) 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 5.3% in 2011 (compared to 2010), by 1.0% in 2013 (compared to 2012) and by 20.0% in 2014 (compared to 2013). Average monthly nominal wages in dollar terms increased in each year between 2010 and 2014.

In nominal terms, Armenia recorded wage growth in both the public and private sectors. Nominal public sector wages increased since 2010 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 grew by 5.4% in 2013 and 12.4% in 2014.

The minimum monthly wage remains low in Armenia compared to the level of average monthly wages. In 2010, the minimum wage was AMD30,000, or 29.2%, 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 to 30 June 2014, the minimum wage equalled AMD45,000. From 1 July 2014, the minimum wage was raised to AMD50,000.

Employment

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

Employment Indicators[1]

	For the year ended 31 December					**For the nine months ended 30 September**	
	2009	**2010**	**2011**	**2012**	**2013**	**2013**	**2014**
	(thousands of people, unless otherwise indicated)						
Total population[1]	3,249.5	3,262.6	3,274.3	3,026.9	3,017.1	3,017.1	3,017.1
Labour force[2]	1,418.8	1,463.3	1,440.9	1,418.3	1,388.4	1,388.4	1,418.2
Employed persons[3]	1,152.8	1,185.2	1,175.1	1,172.8	1,163.8	1,164.0	1,170.6
Employers	6.3	6.1	7.5	6.3	5.4	n/a	n/a
Hired	655.3	673.9	653.0	663.2	665.5	n/a	n/a
Self-employed	290.3	325.5	349.8	334.0	350.3	n/a	n/a
Others	200.9	179.6	164.9	169.4	142.6	n/a	n/a
Unemployed persons[4]	265.9	278.2	265.7	245.5	224.6	224.4	247.6
Unemployment rate (%)[5]	18.7	19.0	18.4	17.3	16.2	16.2	17.5
Activity rate (%)[6]	59.2	61.2	63.0	62.7	63.4	63.8	63.1
Employed persons by sector (%)							
Private sector[7]	73.5	76.0	77.9	77.3	78.3	n/a	n/a
Public sector[7]	26.6	24.0	22.1	22.7	21.7	n/a	n/a
Agriculture, forestry	39.5	38.6	38.9	37.3	36.3		

and fishing						n/a	n/a
Industry	9.9	10.2	11.0	11.8	11.3	n/a	n/a
Construction	7.1	7.2	5.7	5.9	5.7	n/a	n/a
Services	43.5	44.0	44.4	45.0	46.7	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.

(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 farming activities, provided that production from such household or farming activities comprised a significant share of 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.

Source: Armstat.

Unemployment

The unemployment rate in Armenia remains relatively high, although in recent years it has fallen, which is consistent with the country's 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 2013, the unemployment rate further declined to 16.2%, while real GDP grew by 3.5%. In the nine months ended 30 September 2014, the unemployment rate increased to 17.5% mainly as a result of (i) the passage of the 2014 Employment Law (as defined below), which expands the group of people who can claim unemployment benefits to persons with disabilities and certain agricultural landowners and (ii) a significant increase in the number of economic migrants returning from Russia as a result of changes in Russia's migration policies and the downturn in the Russian economy.

Employment

The services industry is the leading source of employment in Armenia, followed by agriculture. In 2013, the services industry and agriculture employed 46.7% and 36.3%, respectively, of Armenia's workforce. A significant share of the labour force is also employed in industry and construction. In 2013, industry employed 11.3% of Armenia's labour force and construction 5.7%.

In January 2014, a revised employment law (the "**2014 Employment Law**") was passed, according to which 13 focus areas have been developed in an effort to boost employment. These include (i) lump-sum reimbursements to employers for costs incurred in seeking out unemployed people of certain categories; (ii) partial wage reimbursement to employees for costs incurred in obtaining additional work skills or in assisting those with disabilities; (iii) seasonal work assignments in the agricultural sector; and (iv) improved vocational training and job placement activities.

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 for the years indicated:

Poverty Indicators

	For the year ended 31 December				
	2009	**2010**	**2011**	**2012**	**2013**
			(%)		
Poverty lines[(1)]					
Extreme (or food) poverty line (monthly consumption, AMD)	17,483	19,126	21,306	21,732	22,993
Upper poverty line (monthly consumption, AMD)	30,920	33,517	36,158	37,044	39,193
Average monthly consumption per capita of all households (AMD)	**27,667**	**28,646**	**32,585**	**34,921**	**36,787**
Poverty levels					
Extremely poor (% of households)	3.6	3.0	3.7	2.8	2.7
Poor (% of households)	34.1	35.8	35.0	32.4	32.0
Poverty gap (%)[(2)]	7.8	8.1	7.9	5.6	5.9

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 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%. In 2012 and 2013, poverty levels declined, with the share of poor households falling to 32.4% in 2012 and 32.0% in 2013 and the share of extremely poor households falling to 2.8% in 2012 and 2.7% in 2013. Armenia's poverty gap dropped sharply in 2012 compared to 2011, only to slightly increase in 2013. Although the economic situation deteriorated significantly in the last two months of 2014, the Ministry expects only a slight increase in overall poverty levels in 2014.

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 for the years indicated:

Poverty Alleviation Benefits

As of the year ended 31 December

	2009	2010	2011	2012	2013
Total number of families receiving benefits .	**123,293**	**108,940**	**96,358**	**111,412**	**112,796**
Number receiving poverty family benefit.........	108,460	102,472	83,997	100,879	103,130
Number receiving lumpsum payment.............	14,833	6,468	12,361	10,533	9,666
Average size of monthly benefit per family (AMD)..	**23,560**	**26,853**	**26,853**	**29,350**	**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 for the years indicated:

Unemployment Benefits

	For the year ended 31 December				
	2009	**2010**	**2011**	**2012**	**2013**
Average number of persons receiving unemployment benefits	22,880	24,546	17,867	12,818	10,090
Per capita monthly unemployment benefit (AMD)[(1)]	18,000	18,000	18,000	18,000	18,000
Total amounts of unemployment benefits paid out of State Budget (AMD millions)	4,539.4	4,707.1	3,589.5	2,427.1	1,945.7

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, certain categories of students are entitled to grants from the State Budget. The table below sets forth certain information regarding student subsidies for the years indicated:

Student Subsidies

	For the year ended 31 December				
	2009	**2010**	**2011**	**2012**	**2013**
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...	4,650	4,650	4,750	4,750	4,750
For post-graduate students[(1)]............................	20,000	20,000	20,000	20,000	20,000

Note:

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

Source: Armstat.

In February 2015, the Government put into place a tuition fee cap that regulates maximum tuition fees at institutions of higher education. Such caps apply regardless of course of study or whether the student is enrolled full time or part time or as a distance learner.

Pensions and Disability

The basic eligibility criteria for state pensions are as follows: (i) reaching the retirement age (63) years for both men and women); (ii) disability; or (iii) the death of a household's primary provider.

Armenia launched a new mandatory funded pension in January 2014. Armenia's pension system (the "**Pension System)** currently consists of two components: the State pension (the "**State Pension**") and the funded pension (the "**Funded Pension**").

State Pension

The State Pension 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.

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.

Funded Pension

The Funded Pension, which consists of funds accumulated in a pensioner's individual pension account, has two components: the voluntary pillar (the "**Voluntary Pillar**") and the mandatory pillar (the "**Mandatory Pillar**"). The Voluntary Pillar has been in effect since 1 January 2011, while the Mandatory Pillar came into effect on 1 January 2014. The Mandatory Pillar has been the subject of public protests and constitutional challenge (as discussed below).

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

Those born on or after 1 January 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 1 January 1974 may also contribute to the Mandatory Pillar by selecting a pension fund through an application process. 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.

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 are three private fund managers, of which one – Capital Asset Management – manages voluntary contributions and two – Amundi-Acba Asset Management CJSC and C-Quadrat Ampega Asset Management Armenia LLC – manage contributions made under the Mandatory Pillar. 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 between 10% of monthly income and AMD25,000, such that total contributions equal 10% of income.

Shortly after the launch of the Mandatory Pillar, protests began. Protestors declared that the compulsory nature of the deductions was unconstitutional and the age limits unjust. The protest movement began mainly within the IT industry, where a disproportionate share of employees earn monthly salaries higher than AMD500,000 and thus are eligible for fixed-amount Government contributions rather than matching contributions. Fixed-amount contributions, the protestors claimed, are more susceptible to inflation than percentage matching contributions. In March 2014, the Constitutional Court declared eight articles of the law "On Funded Pensions" unconstitutional. In response to this decision, in June 2014, amendments to the Law on Funded Pensions were adopted, according to which public sector employees were given the opportunity to postpone participation in the Mandatory Pillar until 1 July 2017, provided they submit the required application form before 25 December 2014. From 1 July 2017, all employees in Armenia will be required to participate in the Mandatory Pillar.

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				
	2009	**2010**	**2011**	**2012**	**2013**
Total number of pensioners (in thousands, as of year-end)......................................	522.8	520.3	509.3	508.1	515.3
Minimum monthly payment from State Pension (AMD, for each period)	8,000	10,500	10,500	13,000	13,000
Average size of monthly pensions (AMD, for each period)	24,520	27,107	27,062	29,696	29,122

Source: Armstat.

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 nine months ended 30 September	
	2009	2010	2011	2012	2013	2013	2014[3]
				(U.S.$ millions)			
Current account	**(1,520.4)**	**(1,318.2)**	**(1,123.5)**	**(1,103.8)**	**(839.2)**	**(619.6)**	**(805.6)**
Goods and services	**(2,461.2)**	**(2,383.2)**	**(2,240.3)**	**(2,259.5)**	**(2,204.4)**	**(1,486.7)**	**(1,516.5)**
Export	1,366.3	1,975.6	2,467.9	2,554.4	2,733.5	1,972.0	2,461.1
Import	3,827.5	4,358.8	4,708.2	4,813.8	4,937.9	3,458.8	3,977.7
Goods	(2,090.0)	(2,065.7)	(2,109.8)	(2,111.9)	(2,092.3)	(1,391.7)	(1,493.2)
Export	773.6	1,197.5	1,431.6	1,515.7	1,635.9	1,197.2	1,216.2
Import	2,863.6	3,263.2	3,541.4	3,627.6	3,728.1	2,588.9	2,709.4
Services	(371.2)	(317.5)	(130.5)	(147.6)	(112.1)	(95.0)	(23.3)
Export	592.7	778.1	1,036.3	1,038.7	1,097.7	774.8	1,245.0
Import	963.9	1,095.6	1,166.8	1,186.2	1,209.8	869.8	1,268.3
Investment income and employee compensation	**358.8**	**458.3**	**360.1**	**423.1**	**540.5**	**310.3**	**169.0**
Received	875.8	1,049.1	1,065.5	1,115.2	1,259.1	809.0	855.3
Paid	517.0	590.8	705.5	692.2	718.5	498.7	686.3
Employee compensation[4]	760.5	909.2	855.9	915.0	1,051.0	661.1	688.0
Received	837.6	1,008.2	1,008.6	1,071.2	1,228.3	786.0	832.0
Paid	77.1	98.9	152.7	156.1	177.3	124.9	144.0
Investment income[5]	(401.7)	(451.0)	(495.8)	(492.0)	(510.5)	(350.8)	(519.0)
Received	38.2	40.9	57.0	44.0	30.7	23.0	23.3
Paid	439.9	491.9	552.8	536.0	541.2	373.7	542.3
Current transfers[6]	**582.0**	**606.8**	**756.7**	**732.6**	**824.6**	**556.8**	**541.9**
Received	750.3	813.5	997.9	990.3	1,117.9	755.9	770.1
Paid	168.3	206.7	241.2	257.7	293.4	199.1	228.3
Capital account	**87.9**	**98.9**	**94.6**	**107.7**	**76.1**	**51.3**	**45.2**
Capital transfers[7]	87.9	98.9	94.6	107.7	76.1	51.3	45.2
Received	103.0	111.0	113.5	128.5	94.7	63.4	56.2
Paid	15.1	12.1	18.9	20.8	18.7	12.2	11.0
Financial account	**(1,440.0)**	**(1,318.5)**	**(1,000.9)**	**(750.6)**	**(1,030.2)**	**(556.1)**	**(640.4)**
Direct investment[8]	(709.6)	(521.4)	(437.3)	(473.0)	(351.5)	(254.4)	(359.3)
Assets	50.4	7.9	215.9	15.8	18.7	14.0	12.7
Liabilities	760.0	529.3	653.2	488.8	370.2	268.4	371.9
Portfolio investment[9]	4.2	(18.3)	8.4	(0.8)	(689.1)	(687.7)	47.4
Assets	11.3	0.9	0.0	1.1	5.4	0.5	4.7
Liabilities	7.2	19.2	(8.4)	2.0	694.5	688.2	(42.7)
Financial derivatives (other than reserves) and employee stock options	0.0	0.0	0.0	0.0	(0.6)	(0.3)	0.5
Other investment[10]	(1,334.8)	(650.0)	(704.8)	(228.5)	(459.7)	(262.6)	191.0
Assets	281.3	133.2	120.8	151.9	(88.6)	147.6	33.9
Other equity	0.3	1.9	2.4	2.7	3.1	2.1	2.2
Currency and deposits	111.2	38.5	104.1	190.9	(107.5)	123.5	(62.2)
Trade credits	11.0	12.7	17.0	1.2	(0.5)	10.9	28.8
Loans extended	120.2	72.3	(16.2)	(48.0)	24.1	20.2	48.9
Insurance, pension and standardized guarantee schemes	0.0	0.0	0.0	1.1	3.7	3.2	0.8
Other assets	38.6	7.7	13.5	4.0	(11.6)	(12.3)	15.3
Liabilities	1,616.2	783.2	825.6	380.4	371.1	410.1	(157.1)
Other equity	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Currency and deposits	52.6	54.4	213.9	(14.8)	437.7	203.5	(131.5)
Trade credits	50.0	14.1	27.2	62.0	8.8	6.9	(14.4)
Loans extended	1,375.8	689.6	563.7	298.6	(83.3)	200.1	(21.3)
Insurance, pension and	0.0	0.0	0.4	0.3	0.0	0.2	0.1

standardized guarantee schemes							
Other assets..............................	0.1	25.1	20.5	34.3	7.9	(0.6)	10.1
Special drawing rights (net incurrence of liabilities)	137.7	0.0	0.0	0.0	0.0	0.0	0.0
Change in reserve assets (increase)	600.3	(128.7)	132.9	(48.3)	470.6	648.8	(520.0)
Net errors and omissions	**(7.5)**	**(99.2)**	**28.0**	**245.6**	**(267.1)**	**12.3**	**120.0**

Notes:

1) Figures in this table are presented in accordance with the IMF's *Balance of Payments Manual—6th Edition* and are current as of 31 December 2014.

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

3) Data for nine months of 2014 is 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 nine months ended 30 September	
	2009	2010	2011	2012	2013	2013	2014(4)
				(% of GDP)			
Current account...............................	**(17.6)**	**(14.2)**	**(11.1)**	**(11.1)**	**(8.0)**	**(8.3)**	**(11.4)**
Goods and services	(28.5)	(25.7)	(22.1)	(22.7)	(21.1)	(19.9)	(21.4)
Investment income and employee compensation................................	4.1	4.9	3.6	4.2	5.2	4.2	2.4
Current transfers	6.7	6.6	7.5	7.4	7.9	7.4	7.6
Capital account	**1.0**	**1.1**	**0.9**	**1.1**	**0.7**	**0.7**	**0.6**
Financial account	**(16.7)**	**(14.2)**	**(9.9)**	**(7.5)**	**(9.9)**	**(7.4)**	**(9.0)**
Direct investment	(8.2)	(5.6)	(4.3)	(4.7)	(3.4)	(3.4)	(5.1)
Assets	0.6	0.1	2.1	0.2	0.2	0.2	0.2
Liabilities	8.8	5.7	6.4	4.9	3.5	3.6	5.2
Portfolio investment....................	0.0	(0.2)	0.1	0.0	(6.6)	(9.2)	0.7
Assets.....................................	0.1	0.0	0.0	0.0	0.1	0.0	0.1
Liabilities...............................	0.1	0.2	(0.1)	0.0	6.7	9.2	(0.6)
Other investment............................	(15.4)	(7.0)	(6.9)	(2.3)	(4.4)	(3.5)	2.7
Assets.....................................	3.3	(5.5)	(2.7)	(0.9)	(0.6)	1.1	0.4
Liabilities...............................	18.7	8.5	8.1	3.8	3.6	5.5	(2.2)
Change in reserve assets (increase)..	6.9	(1.4)	1.3	(0.5)	4.5	8.7	(7.3)
Net errors and omissions	**(0.1)**	**(1.1)**	**0.3**	**2.5**	**(2.6)**	**0.2**	**1.7**

Notes:

(1) Figures in this table are current as of 31 December 2014.

(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 nine months of 2014 is preliminary.

Source: CBA.

Current Account

Between 2009 and 2013 and in the nine months ended 30 September 2014, 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 2010, compared to 2009, the trade deficit (including services) declined by 3.2%, with growth recorded in the value of both exports and imports. Both current transfers and the compensation of Armenian employees working abroad recovered in 2010 from lower levels in 2009, thereby reducing the current account deficit. As a share of GDP, the current account deficit declined to 14.2% in 2010 from 17.6% in 2009.

In 2011, compared to 2010, the trade deficit (including services) decreased by 6.0% and current transfers rose by 24.7%. As a result, the current account deficit declined by 14.8% in 2011. As a share of GDP, the current account deficit declined to 11.1% in 2011 from 14.2% in 2010, supported also by 9.2% growth in nominal GDP.

In 2012, compared to 2011, the trade deficit (including services) increased by 0.9%. The current account deficit, however, decreased in 2012 mainly due to a 6.9% increase in net inflows of employee compensation. As a share of GDP, the current account deficit held steady in 2012 compared to 2011 at 11.1%.

In 2013, the trade deficit (including services) decreased by 2.4% compared to 2012 due to exports increasing at a faster rate than imports: exports of goods and services increased by 7.0%, while imports of goods and services increased by 2.6%. The current account deficit declined by 24.0% in 2013 compared to 2012 due to the lower trade deficit, but also to a 14.9% increase in employee compensation inflows and an 12.6% increase in inbound current transfers, reflecting growth in remittances sent from abroad. As a share of GDP, the current account deficit declined to 8.0% in 2013 compared to 11.1% in 2012.

In the nine months ended 30 September 2014, the trade deficit (including services) increased by 2.0% compared to the nine months ended 30 September 2013 due to a 24.8% increase in exports and a 15.0% increase in imports. The current account deficit increased by 30.0% in the first nine month of 2014 compared to the first nine month of 2013 due to the higher trade deficit, but also to a 47.9% increase in outflows of investment income, which, in turn, reflected Gazprom Armenia's reinvestment of earnings in the first quarter of 2014 (which is reflected as an outflow in the current account, while at the same time as an inflow of FDI in the capital account). See "—*Economy of Armenia—Energy—Petroleum Products and Natural Gas*." As a share of GDP, the current account deficit increased to 11.4% in the nine months ended 30 September 2014 from 8.3% in the nine months ended 30 September 2013.

Capital and Financial Account

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

In 2009 and 2010, net FDI in Armenia declined, and as a result Armenia's current account deficit was financed largely through external financing. See "—*FDI*." In 2010, net direct investments (i.e., net FDI) declined by 26.5% and net other investments fell by 51.3%, compared to 2009. The decline in net other investments was mainly due to a decrease in loans received from abroad to U.S.$689.6 million in 2010 from U.S.$1,375.8 million in 2009. The unprecedented high level of loans received in 2009 was mainly due to the U.S.$500 million loan from Russia, a U.S.$465 million loan from the IMF (of which the Government received U.S.$158 million and the CBA received U.S.$307 million), a U.S.$64 million from the IDA and a U.S.$81 million loan from the Asian Development Bank/Asian Development Fund.

In 2011, as the current account deficit improved, Armenia recorded a 16.1% decline in net direct investments driven by an increase in Armenian investment abroad, which was partially offset by an increase in foreign investment in Armenia. External financing through loans also declined in 2011, as the value of loans received from abroad fell by 21.3% compared to 2010. Despite the decrease in external loans, net other investments increased by 8.4% in 2011 mainly as a result of an inflow of bank funds into currency and deposits.

In 2012, compared to 2011, net direct investments increased by 8.2% and net other investments decreased by 67.6%. Net direct investments increased due to a decline in Armenian direct investments abroad, which was partially offset by a decline in foreign investment inflows. See "—*FDI*." The decline in net other investmens was in large part attributable to a 47.0% decline in loans received from abroad.

In 2013, compared to 2012, net direct investments decreased by 25.7%, mainly as a result of lower FDI in Armenia. See "—*FDI*." However, in 2013, for the first time during the years under review, portfolio investment flows had a material impact on Armenia's balance of payments. In 2013, the country recorded portfolio investment inflows of U.S.$694.5 million (or 6.9% of GDP), which reflected proceeds received from the 2013 Eurobond issuance. Net other investments increased by 101.2% driven by a rapid decline in the outflow of capital to foreign currencies and non-resident bank deposits.

In the nine months ended 30 September 2014, compared to the nine months ended 30 September 2013, net direct investments increased by 41.2% as a result of higher FDI in Armenia. See "—*FDI*." Armenia recorded net other investment outflows of U.S.$191 million in the nine months ended 30 September 2014 compared to U.S.$262.6 million of inflow in the nine months ended 30 September 2013 on account of net debt servicing of the banking sector as well as the accumulation of foreign assets in the non-banking private sector.

Remittances

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

Net Remittance Inflows[(1)]

	For the year ended 31 December				
	2010	**2011**	**2012**	**2013**	**2014**
	(U.S.$ millions, except percentage)				
Russian Federation	945.3	1,153.8	1,280.4	1,426.3	1,231.0
USA	43.2	47.0	40.6	49.4	72.6
Kazakhstan	17.4	18.8	21.0	21.6	23.5
Ukraine	5.9	8.9	3.7	2.2	5.6
Spain	4.9	4.6	2.5	1.8	2.9
France	5.7	3.2	6.8	8.6	9.5
Germany	5.2	3.8	3.9	7.4	10.6
Turkey	(5.1)	(2.8)	(2.6)	(2.5)	(1.8)
UAE	(3.3)	(4.3)	(0.3)	(0.2)	0.03
China	(5.2)	(8.2)	(7.7)	(10.4)	(11.2)
Other	57.8	57.5	46.2	41.4	46.1
Total	**1,071.8**	**1,282.3**	**1,394.5**	**1,545.6**	**1,388.8**
Net remittances/GDP(%)[(2)]	11.6	12.6	14.0	14.8	n/a

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. Between 2010 and 2013 net remittances rose on an annual basis: by 15.4% in 2010, 19.6% in 2011, 8.8% in 2012 and 10.8% in 2013. Net remittances declined, however, in 2014, falling by 10.1% year-on-year, as a result of the slowdown in the Russian economy. Net remittance inflows are an important feature of the Armenian economy, accounting for 11.6% of GDP in 2010, 12.6% of GDP in 2011, 14.0% of GDP in 2012 and 14.8% of GDP in 2013.

Remittances from Russia have accounted for the highest proportion of net remittance inflows into Armenia from 2010 through 2014. Of total net remittances to Armenia, Russia comprised 88.2% in 2010, 90.0% in 2011, 91.8% in 2012, 92.3% in 2013 and 88.6% in 2014. The United States, the EU, Kazakhstan and Ukraine are also important sources of remittance flows to Armenia.

As the Russian economy continues to weaken, Armenia expects remittances to drop by a further 20-30% in 2015. The CBA does not expect the overall currency profile of remittances to change materially in the short term.

International Trade

Armenia is an open economy, and the value of foreign trade turnover in goods and services represented approximately 73.5% of GDP in 2013. 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 28.8% from 2009 through 2013. 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 2009. Armenia's domestic savings rate has been in decline during the periods under review since remittances are used in large part to finance consumption. Armenia's principal exports are commodities, such as mineral products and metals and particularly copper, 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 22.6% and 20.3%, respectively, of Armenia's overall exports by value in 2013 and 2014. See "*Risk Factors—Risk Factors Relating to Armenia—Relations with Russia*." Armenian exports are also 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*."

Armenia is carrying out steps to develop a more diversified trade portfolio. Russia is and expects to remain a significant trade partner of Armenia, accounting for 24.9% of the value of imports and 20.3% of the value of exports in 2014. Armenia also values its trade relationship with the EU, with which it maintains a GSP + trade regime. See "*—International Trade Agreements*." In 2014, imports from the EU accounted for 25.5% of total imports and exports to the EU accounted for 28.8% of total exports (as measured by value). Armenia is also taking steps to broaden its trade relationships beyond the EU and Russia, with, for example, exports to other countries having increased to 41.6% of total exports in 2014 from 33.8% of total exports in 2013 (as measured by value). The Armenian Development Fund was set up in 2014 as one means to promote Armenian exports abroad; it currently is in the process of stationing representatives in up to six of Armenia's export markets. See "*—FDI—Armenian Development Agency/Armenian Development Fund*."

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

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

	For the year ended 31 December						For the nine months ended 30 September	
	2009	2010	2011	2012	2013	2014	2013	2014

	(U.S.$ millions)							
Trade balance	(2,610.98)	(2,707.90)	(2,810.99)	(2,881.03)	(2,907.12)	(2,882.31)	(1,962.82)	(2,082.17)
Imports	3,321.13	3,748.95	4,145.33	4,261.23	4,385.87	4,401.61	3,051.14	3,191.33
Exports	710.16	1,041.06	1,334.34	1,380.20	1,478.75	1,519.30	1,088.31	1,109.16

Notes:

(1) Figures in this table are current as of 31 January 2015.

(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 is recorded on a CIF (cost, insurance, freight) basis. The value of exports is 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 nine months ended 30 September	
	2009	2010	2011	2012	2013	2013	2014
	(% of GDP)						
Trade balance	(30.19)	(29.24)	(27.72)	(28.93)	(27.87)	(27.67)	(27.86)
Imports	38.40	40.48	40.87	42.79	42.05	43.02	42.70
Exports	8.21	11.24	13.16	13.86	14.18	15.34	14.84

Notes:

(1) Figures in this table are current as of 31 January 2015.

(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 is recorded on a CIF basis. The value of exports is 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 years indicated:

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

	For the year ended 31 December				
	2010	2011	2012	2013	2014
	(U.S.$ millions)				
Mineral products	666.0	821.6	915.8	872.4	829.9
Machinery and equipment	651.8	566.5	602.0	581.2	599.7
Prepared foodstuffs	308.8	347.9	355.8	395.8	369.9
Transport	297.1	370.3	351.2	354.8	347.4
Chemical products	273.5	302.8	325.5	358.8	352.9
Base metals	368.2	326.2	309.1	296.7	328.5
Precious stones and metals	158.9	214.9	179.1	295.3	302.9

Plastics and rubber	148.1	172.8	169.4	177.0	182.9
Textiles	122.6	160.3	153.6	156.9	171.5
Animals and animal products	101.4	133.3	136.3	144.7	146.9
Vegetables	214.1	242.0	259.0	244.9	239.3
Miscellaneous manufactured products	69.5	87.7	96.3	100.7	115.1
Paper products	68.3	80.1	86.7	73.0	76.5
Stone, plaster and cement	82.5	86.9	81.7	85.9	93.1
Wood products	56.5	68.4	70.8	67.0	71.6
Instruments and devices	69.6	58.9	64.4	75.1	73.4
Fats and oils	49.2	57.9	59.6	60.6	54.7
Footwear, umbrellas and headgear	32.0	33.6	29.9	31.6	31.2
Leather products	9.2	12.1	12.8	12.8	13.6
Art and antiques	1.4	1.1	1.9	0.8	0.7
Total	**3,749.0**	**4,145.3**	**4,261.2**	**4,385.9**	**4,401.6**

Notes:

(1) Figures in this table are current as of 31 January 2015.

(2) The value of imports is recorded on a CIF basis and reflects 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 years indicated:

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

	For the year ended 31 December				
	2010	**2011**	**2012**	**2013**	**2014**
			(%)		
Mineral products	17.8	19.8	21.5	19.9	18.9
Machinery and equipment	17.4	13.7	14.1	13.3	13.6
Prepared foodstuffs	8.2	8.4	8.3	9.0	8.4
Transport	7.9	8.9	8.2	8.1	7.9
Chemical products	7.3	7.3	7.6	8.2	8.0
Base metals	9.8	7.9	7.3	6.8	7.5
Precious stones and metals	4.2	5.2	4.2	6.7	6.9
Plastics and rubber	4.0	4.2	4.0	4.0	4.2
Textiles	3.3	3.9	3.6	3.6	3.9
Animals and animal products	2.7	3.2	3.2	3.3	3.3
Vegetables	5.7	5.8	6.1	5.6	5.4
Miscellaneous manufactured products	1.9	2.1	2.3	2.3	2.6
Paper products	1.8	1.9	2.0	1.7	1.7
Stone, plaster and cement	2.2	2.1	1.9	2.0	2.1
Wood products	1.5	1.7	1.7	1.5	1.6
Instruments and devices	1.9	1.4	1.5	1.7	1.7
Fats and oils	1.3	1.4	1.4	1.4	1.2
Footwear, umbrellas and headgear	0.9	0.8	0.7	0.7	0.7
Leather products	0.2	0.3	0.3	0.3	0.3
Art and antiques	0.0	0.0	0.0	0.0	0.0
Total	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

Notes:

(1) Figures in this table are current as of 31 January 2015.

(2) The value of imports is recorded on a CIF basis and reflects 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 2013 and 2014, the EU accounted for 26.4% and 25.8%, respectively, Russia accounted for 23.4% and 24.9%, respectively, and China accounted for 8.8% and 9.5%, respectively, of Armenia's imports.

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

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

	For the year ended 31 December				
	2010	**2011**	**2012**	**2013**	**2014**
	(U.S.$ millions)				
Imports from CIS countries and Georgia	**1,196.5**	**1,269.0**	**1,383.4**	**1,365.8**	**1,406.8**
Russia	835.3	890.9	1,057.4	1,025.2	1,094.3
Ukraine	229.9	232.4	215.6	226.5	201.9
Georgia	54.3	60.2	48.9	65.8	72.0
Belarus	31.9	29.6	33.6	40.9	31.0
Turkmenistan	25.8	25.5	14.2	2.7	1.2
Kazakhstan	11.9	25.3	8.9	0.7	0.6
Other CIS countries	7.4	5.1	4.9	4.0	5.8
Imports from EU	**1,026.9**	**1,167.8**	**1,124.4**	**1,156.5**	**1,136.7**
Germany	210.7	245.1	265.2	280.2	283.5
Italy	122.2	169.6	168.8	164.2	180.0
Romania	85.7	105.0	87.8	118.1	39.5
Bulgaria	112.4	102.2	86.5	68.3	25.5
Belgium	71.4	64.6	73.8	73.4	89.2
France	76.7	82.5	67.5	64.0	79.8
Spain	24.6	40.3	48.4	53.1	50.5
Poland	30.3	35.5	41.8	43.1	47.3
Austria	56.6	47.7	39.8	56.3	72.1
United Kingdom	37.8	46.9	39.8	49.2	55.9
Netherlands	23.5	37.1	37.8	36.1	48.9
Other EU countries	175.0	191.4	167.0	150.5	164.7
Imports from other countries	**1,525.5**	**1,708.5**	**1,753.4**	**1,863.6**	**1,858.1**
China	404.0	404.2	399.7	385.9	417.5
Iran	199.9	216.8	219.4	198.5	206.5
Turkey	210.4	240.2	213.5	210.7	232.4
USA	110.8	147.4	143.1	137.4	133.4
Japan	83.3	72.4	98.7	96.3	113.9
Brazil	51.8	83.3	93.1	87.4	91.4
Switzerland	69.4	78.3	87.0	172.1	145.8
India	46.7	68.7	69.6	67.4	63.5
Other countries	349.2	397.1	429.4	507.9	453.7
Total	**3,749.0**	**4,145.3**	**4,261.2**	**4,385.9**	**4,401.6**

Notes:

(1) Figures in this table are current as of 31 January 2015.

(2) The value of imports is recorded on a CIF basis, i.e., the value of goods up to the borders of Armenia, with insurance and transportation costs included, and reflects 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 years indicated:

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

	For the year ended 31 December				
	2010	2011	2012	2013	2014
			(%)		
Imports from CIS countries and Georgia	**31.9**	**30.6**	**32.5**	**31.1**	**32.0**
Russia	22.3	21.5	24.8	23.4	24.9
Ukraine	6.1	5.6	5.1	5.2	4.6
Georgia	1.4	1.5	1.1	1.5	1.6
Belarus	0.9	0.7	0.8	0.9	0.7
Turkmenistan	0.7	0.6	0.3	0.1	0.0
Kazakhstan	0.3	0.6	0.2	0.0	0.0
Other CIS countries	0.2	0.1	0.1	0.1	0.1
Imports from EU	**27.4**	**28.2**	**26.4**	**26.4**	**25.8**
Germany	5.6	5.9	6.2	6.4	6.4
Italy	3.3	4.1	4.0	3.7	4.1
Romania	2.3	2.5	2.1	2.7	0.9
Bulgaria	3.0	2.5	2.0	1.6	0.6
Belgium	1.9	1.6	1.7	1.7	2.0
France	2.0	2.0	1.6	1.5	1.8
Spain	0.7	1.0	1.1	1.2	1.1
Poland	0.8	0.9	1.0	1.0	1.1
Austria	1.5	1.2	0.9	1.3	1.6
United Kingdom	1.0	1.1	0.9	1.1	1.3
Netherlands	0.6	0.9	0.9	0.8	1.1
Other EU countries	4.7	4.6	3.9	3.4	3.7
Imports from other countries	**40.7**	**41.2**	**41.1**	**42.5**	**42.2**
China	10.8	9.8	9.4	8.8	9.5
Iran	5.3	5.2	5.1	4.5	4.7
Turkey	5.6	5.8	5.0	4.8	5.3
USA	3.0	3.6	3.4	3.1	3.0
Japan	2.2	1.7	2.3	2.2	2.6
Brazil	1.4	2.0	2.2	2.0	2.1
Switzerland	1.9	1.9	2.0	3.9	3.3
India	1.2	1.7	1.6	1.5	1.4
Other countries	9.3	9.6	10.1	11.6	10.3
Total	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

Notes:

(1) Figures in this table are current as of 31 January 2015.

(2) The value of imports is recorded on a CIF basis, i.e., the value of goods up to the borders of Armenia, with insurance and transportation costs included, and reflects 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 increased year-on-year by 12.9% in 2010, 10.6% in 2011, 2.8% in 2012, 2.9% in 2013 and 0.4% in 2014. From 2010 to 2014, the value of imports of goods increased by 17.4% from U.S.$3,749.0 million in 2010 to U.S.$4,401.6 million in 2014, driven in large part by an increase in the import value of mineral products (24.6%), precious stones and metals (90.6%), prepared foodstuffs (19.8%) and chemical products (29.0%). Partially offsetting this increase in the overall value of imports were an 8.0% decline in machinery and equipment imports and a 10.8% decline in base metals imports.

Exports

Armenia's exports are primarily comprised of mineral products, such as copper and electricity, 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 years indicated:

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

	For the year ended 31 December				
	2010	2011	2012	2013	2014
	(U.S.$ millions)				
Mineral products	306.8	404.1	403.2	407.3	393.8
Machinery and equipment	30.1	33.5	41.2	21.1	22.9
Prepared foodstuffs	131.1	183.8	254.8	310.2	337.8
Transport	5.0	30.1	6.2	13.3	8.8
Chemical products	9.1	11.1	13.1	16.3	14.2
Base metals	332.4	364.7	342.0	308.9	302.4
Precious stones and metals	134.0	196.4	173.0	188.1	230.3
Plastics and rubber	15.5	8.7	11.4	11.6	11.2
Textiles	6.8	8.3	19.0	39.0	50.3
Animals and animal products	23.6	30.0	33.1	54.5	50.6
Vegetables	15.8	23.2	34.3	50.1	37.4
Miscellaneous manufactured products	1.6	1.4	2.6	2.2	4.0
Paper products	0.7	0.7	0.9	0.9	1.9
Stone, plaster and cement	16.1	16.9	17.9	25.4	21.2
Wood products	0.7	0.6	0.8	0.7	0.8
Instruments and devices	7.3	14.8	19.8	20.9	24.7
Fats and oils	0.0	0.0	0.1	0.1	0.1
Footwear, umbrellas and headgear	1.4	1.5	2.3	2.2	1.6
Leather products	2.2	3.4	3.4	4.3	3.7
Art and antiques	0.7	0.8	1.0	1.7	1.6
Total	**1,041.1**	**1,334.3**	**1,380.2**	**1,478.7**	**1,519.3**

Notes:

(1) Figures in this table are current as of 31 January 2015.

(2) The value of exports is 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 years indicated:

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

	For the year ended 31 December				
	2010	2011	2012	2013	2014
	(%)				
Mineral products	29.5	30.3	29.2	27.5	25.9
Machinery and equipment	2.9	2.5	3.0	1.4	1.5
Prepared foodstuffs	12.6	13.8	18.5	21.0	22.2
Transport	0.5	2.3	0.5	0.9	0.6
Chemical products	0.9	0.8	1.0	1.1	0.9
Base metals	31.9	27.3	24.8	20.9	19.9
Precious stones and metals	12.9	14.7	12.5	12.7	15.2
Plastics and rubber	1.5	0.7	0.8	0.8	0.7
Textiles	0.6	0.6	1.4	2.6	3.3
Animals and animal products	2.3	2.3	2.4	3.7	3.3
Vegetables	1.5	1.7	2.5	3.4	2.5
Miscellaneous manufactured products	0.2	0.1	0.2	0.1	0.3
Paper products	0.1	0.1	0.1	0.1	0.1
Stone, plaster and cement	1.5	1.3	1.3	1.7	1.4
Wood products	0.1	0.0	0.1	0.0	0.1
Instruments and devices	0.7	1.1	1.4	1.4	1.6
Fats and oils	0.0	0.0	0.0	0.0	0.0
Footwear, umbrellas and headgear	0.1	0.1	0.2	0.1	0.1

Leather products	0.2	0.3	0.2	0.3	0.2
Art and antiques	0.1	0.1	0.1	0.1	0.1
Total	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

Notes:

(1) Figures in this table are current as of 31 January 2015.

(2) The value of exports is 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 2013 and 2014, the EU accounted for 33.4% and 28.8%, respectively, Russia accounted for 22.6% and 20.3%, respectively, and Iran accounted for 6.4% and 5.6%, respectively, of Armenia's exports. Bulgaria and Germany are Armenia's principal export markets within the EU. 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 Iranian natural gas transferred to Armenia pursuant to a gas-for-electricity barter arrangement. See "*Economy of Armenia—Energy—Electricity*." The United States, Canada, China 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 years indicated:

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

	For the year ended 31 December				
	2010	**2011**	**2012**	**2013**	**2014**
	(U.S.$ millions)				
Exports to CIS countries and Georgia	**247.8**	**329.9**	**407.5**	**485.3**	**449.5**
Russia	160.5	222.3	279.1	334.1	308.4
Georgia	49.0	61.9	70.9	85.2	84.0
Ukraine	12.1	11.1	14.5	15.2	11.0
Turkmenistan	8.9	4.6	13.8	19.0	14.9
Belarus	4.6	6.0	6.7	8.6	9.0
Kazakhstan	3.1	4.4	4.0	7.3	7.0
Other CIS countries	9.7	19.7	18.5	15.9	15.3
Exports to EU	**501.1**	**607.4**	**511.6**	**494.1**	**437.4**
Bulgaria	156.6	152.2	129.3	152.2	85.6
Belgium	72.5	70.5	127.2	131.1	62.4
Germany	132.6	158.0	104.4	85.6	158.5
Netherlands	98.6	117.2	79.7	66.4	74.3
Spain	15.2	82.5	30.1	9.7	0.5
Cyprus	0.6	1.7	8.2	0.0	0.2
Italy	4.8	4.6	7.7	23.2	34.6
France	7.5	9.6	4.4	6.4	5.1
Other EU countries	12.7	11.1	20.6	19.4	16.2
Exports to other countries	**292.1**	**397.0**	**461.1**	**499.3**	**632.4**
Iran(4)	84.8	106.3	108.5	95.0	84.6
USA	82.7	100.7	87.5	89.0	87.5
Canada	29.6	70.4	85.1	87.4	93.3
Switzerland	16.9	33.7	71.4	24.6	14.0
China	30.9	16.3	31.3	68.8	171.0
UAE	8.2	9.9	9.4	9.4	12.1
Other countries	39.1	59.8	68.0	125.1	170.0
Total	**1,041.1**	**1,334.3**	**1,380.2**	**1,478.7**	**1,519.3**

Notes:

(1) Figures in this table are current as of 31 January 2015.

(2) The value of exports is 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 years indicated:

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

	For the year ended 31 December				
	2010	2011	2012	2013	2014
			(%)		
Exports to CIS countries and Georgia	**23.8**	**24.7**	**29.5**	**32.8**	**29.6**
Russia	15.4	16.7	20.2	22.6	20.3
Georgia	4.7	4.6	5.1	5.8	5.5
Ukraine	1.2	0.8	1.0	1.0	0.7
Turkmenistan	0.9	0.3	1.0	1.3	1.0
Belarus	0.4	0.4	0.5	0.6	0.6
Kazakhstan	0.3	0.3	0.3	0.5	0.5
Other CIS countries	0.9	1.5	1.3	1.1	1.0
Exports to EU	**48.1**	**45.5**	**37.1**	**33.4**	**28.8**
Bulgaria	15.0	11.4	9.4	10.3	5.6
Belgium	7.0	5.3	9.2	8.9	4.1
Germany	12.7	11.8	7.6	5.8	10.4
Netherlands	9.5	8.8	5.8	4.5	4.9
Spain	1.5	6.2	2.2	0.7	0.0
Cyprus	0.1	0.1	0.6	0.0	0.0
Italy	0.5	0.3	0.6	1.6	2.3
France	0.7	0.7	0.3	0.4	0.3
Other EU countries	1.2	0.8	1.5	1.3	1.1
Exports to other countries	**28.1**	**29.8**	**33.4**	**33.8**	**41.6**
Iran(3)	8.1	8.0	7.9	6.4	5.6
USA	7.9	7.5	6.3	6.0	5.8
Canada	2.8	5.3	6.2	5.9	6.1
Switzerland	1.6	2.5	5.2	1.7	0.9
China	3.0	1.2	2.3	4.7	11.3
UAE	0.8	0.7	0.7	0.6	0.8
Other countries	3.8	4.5	4.9	8.5	11.2
Total	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

Notes:

(1) Figures in this table are current as of 31 January 2015.

(2) The value of exports is 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 increased year-on-year by 46.6% in 2010, 28.2% in 2011, 3.4% in 2012, 7.1% in 2013 and 2.7% in 2014. From 2010 to 2014, the value of exports of goods increased by 45.9% from U.S.$1,041.1 million in 2010 to U.S.$1,519.3 million in 2014, driven mainly by growth in the export value of mineral products (including electricity) (28.4%), prepared foodstuffs (157.7%) and precious stones and metals (71.9%). Partially offsetting this increase in the overall value of exports was a 9.0% decline in base metals exports.

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 trade-weighted average tariff of imports to Armenia for most-favoured-nations was 3.4% in 2014, 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 ties 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 2 January 2015, Armenia joined the EEU, which seeks to integrate the economies of its member states; the other current EEU member-states are Russia, Belarus and Kazakhstan. Accordingly, Armenia is part of the EEU's customs union. Armenia's entry into the EEU precluded further pursuit of a deep and comprehensive free trade area with the EU, as had been under consideration. Armenia's entry into the EEU entails a gradual transition (with scheduled completion by 2022) to the unified tariff system of the EEU (although Armenia is seeking substantial exclusion from the EEU tariff regime), as a result of which some tariffs will increase (according to WTO statistics for 2012, the trade-weighted average of EEU tariffs was 9.1%. In 2015, Armenia expects proceeds from important tariffs to increase on account of entry into the EEU. At the same time Armenia plans to comply with its obligations under WTO rules as a member of the WTO.

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; however, negotiations were discontinued in September 2013, following Armenia's decision to join the EEU. See "*Description of Armenia—International Relations*" for further discussion of Armenia's relations with the EU.

Since 2009, Armenia has benefited from participation in the Generalised System of Preferences + ("**GSP +**") preferential trading regime. The GSP+ programme provides preferential access to the EU market in the form of zero duties and tariffs for approximately 7,200 products. To continue benefiting from this regime, Armenia must ensure effective implementation of 27 core international conventions on sustainable development and good governance. From year to year, approximately 90% of Armenia's exports to the EU fall under the GSP+ regime. Armenia's GSP+ plus is valid for 10 years and is subject to discussion every two years; current GSP+ arrangements are valid until 2024. Armenia also benefits from Generalised System of Preferences status with the United States, Canada, Japan, Norway and Switzerland.

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**"), which was adopted in 2000 and in force through 2014, Armenia had two tariff rates: 0.0% and 10.0%. In most cases, the tariff rate that had applied to imports was 0.0%, with a tariff rate of 10.0% having been imposed only on certain imports, such as luxury cars. See "*Public Finance—Armenian Tax System—Tax Structure—Customs Duties*." Following Armenia's entry into the EEU, the Customs Code was annulled with the exception of certain transitional provisions. 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 is 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, CBA and commercial bank financing and workers' remittances, to cover its current account deficit.

FDI inflows have been volatile in recent years. They declined by 35.4% to U.S.$535.7 million in 2010, mainly due to lower investments in the power and gas supply and land transport sectors. Then, in 2011, FDI increased to U.S.$703.2 million, or by 31.3%, on account of higher investments in metals manufacturing. In 2012, FDI declined to U.S.$598.4 million, or by 14.9%, due mainly to declines in investments in metals manufacturing, power and gas supply and land transport, and despite a 103.8% increase in FDI in the telecommunications sector. FDI dropped sharply in 2013, falling by 49.1% to U.S.$304.4 million as a result of declines in FDI in the telecommunications and mining sectors. FDI rose sharply in the nine months ended 30 September 2014, reaching U.S.$796.9 million, compared to U.S.$178.3 million in the nine months ended 30 September 2013. This increase was mainly due to FDI inflows of U.S.$556.7 million in the power and gas supply sector, reflecting mainly the gas supply contract with Russia. See "*Economy of Armenia—Energy—Petroleum Products and Natural Gas*." Russia has historically been Armenia's single largest source for FDI, and FDI inflows are likely to fall as a result of the current downtown in the Russian economy. See "*Risk Factors—Risk Factors Relating to Armenia—Slowing of the Armenian Economy and Ratings Downgrade*."

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 inflows 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 nine months ended 30 September
	2009	**2010**	**2011**	**2012**	**2013**	**2014**(2)
			(U.S.$ millions)			
Telecommunications	253.4	190.7	138.7	282.7	113.1	30.8
Financial services(3)	97.9	54.3	79.3	28.7	29.5	36.7
Metals manufacturing	16.1	-	135.6	1.0	1.9	13.1
Mining industry	20.9	32.3	23.5	92.8	30.3	39.6
Real estate	34.6	24.9	63.0	54.4	46.0	12.7
Agriculture and hunting	6.7	3.8	2.8	36.1	7.2	10.3
Food and beverage	29.4	28.8	38.5	25.8	29.4	57.2
Power and gas supply	151.3	101.8	97.6	25.6	7.3	556.7
Construction	-	1.9	2.3	17.2	2.5	5.4
Land transport(4)	148.8	37.9	43.7	14.7	10.8	2.1
Hotel services	5.0	11.1	16.0	6.1	1.5	8.4
Air transport activities	31.2	25.0	6.1	3.5	4.9	0.2
Research	4.5	3.1	4.8	1.9	1.3	0.1
Other	28.9	20.1	51.3	7.9	18.8	23.6
Total	**828.7**	**535.7**	**703.2**	**598.4**	**304.4**	**796.9**

Notes:

(1) Figures in this table are current as of 30 January 2015.

(2) The methodology for calculating FDI changed in 2014. As a result, figures for the nine months ended 30 September 2014 are not comparable with other historical periods. For this reason, FDI figures for the nine months ended 30 September 2013 have not been included in this table.

(3) Excludes insurance and pension funding.

(4) 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 nine months ended 30 September
	2009	2010	2011	2012	2013	2014[(2)]
				(%)		
Telecommunications	30.6	35.6	19.7	47.2	37.1	3.9
Financial services[(3)]	11.8	10.1	11.3	4.8	9.7	4.6
Metals manufacturing	1.9	-	19.3	0.2	0.6	1.6
Mining industry	2.5	6.0	3.3	15.5	9.9	5.0
Real estate	4.2	4.6	9.0	9.1	15.1	1.6
Agriculture and hunting	0.8	0.7	0.4	6.0	2.4	1.3
Food and beverage	3.5	5.4	5.5	4.3	9.6	7.2
Power and gas supply	18.3	19.0	13.9	4.3	2.4	69.9
Construction	-	0.4	0.3	2.9	0.8	0.7
Land transport[(4)]	18.0	7.1	6.2	2.5	3.5	0.3
Hotel services	0.6	2.1	2.3	1.0	0.5	1.0
Air transport activities	3.8	4.7	0.9	0.6	1.6	0.0
Research	0.5	0.6	0.7	0.3	0.4	0.0
Other	3.5	3.8	7.3	1.3	6.2	3.0
Total	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

Notes:

(1) Figures in this table are current as of 30 January 2015.

(2) The methodology for calculating FDI changed in 2014. As a result, figures for the nine months ended 30 September 2014 are not comparable with other historical periods. For this reason, FDI figures for the nine months ended 30 September 2013 have not been included in this table.

(3) Excludes insurance and pension funding.

(4) 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 inflows 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 nine months ended 30 September
	2009	2010	2011	2012	2013	2014[(2)]
			(U.S.$ millions)			
Russia	399.5	201.8	357.8	90.6	72.5	592.5
France	197.4	146.8	115.4	230.4	99.1	10.1
Argentina	48.3	29.8	8.8	51.3	12.6	15.0
Germany	19.4	22.8	25.3	50.7	28.2	39.9
Switzerland	8.9	12.0	7.9	43.7	10.3	12.5
Seychelles	-	-	-	23.6	-	(0.9)
Lebanon	28.4	11.3	18.7	13.6	9.0	17.7
Other	126.8	111.2	169.3	94.5	72.7	110.1
Total	**828.7**	**535.7**	**703.2**	**598.4**	**304.4**	**796.9**

Notes:

(1) Figures in this table are current as of 30 January 2015.

(2) The methodology for calculating FDI changed in 2014. As a result, figures for the nine months ended 30 September 2014 are not comparable with other historical periods. For this reason, FDI figures for the nine months ended 30 September 2013 have not been included in this table.

Source: Armstat.

The following table sets forth the value of FDI inflows 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 nine months ended 30 September	
	2009	**2010**	**2011**	**2012**	**2013**	**2013**	**2014**[(2)]
				(%)			
Russia	48.2	37.7	50.9	15.1	23.8	31.6	74.4
France	23.8	27.4	16.4	38.5	32.6	23.0	1.3
Argentina	5.8	5.6	1.3	8.6	4.1	6.0	1.9
Germany	2.3	4.3	3.6	8.5	9.3	13.9	5.0
Switzerland	1.1	2.2	1.1	7.3	3.4	3.1	1.6
Seychelles	0.0	0.0	0.0	3.9	0.0	0.0	0.1
Lebanon	3.4	2.1	2.7	2.3	3.0	3.7	2.2
Other	15.3	20.8	24.1	15.8	23.9	18.6	13.8
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 January 2015.

(2) The methodology for calculating FDI changed in 2014. As a result, figures for the nine months ended 30 September 2014 are not comparable with other historical periods. For this reason, FDI figures for the nine months ended 30 September 2013 have not been included in this table.

Source: Armstat.

Armenian Development Agency/Armenian Development Fund

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.

At the end of 2014, the Government created the Armenian Development Fund by merging the Industrial Development Foundation and the National Competitiveness Foundation of Armenia. The two foundations were consolidated in an effort to more effectively advance the competitiveness of Armenia's manufacturing enterprises, boost industrial exports and strengthen cooperation between the Government and private investors. The ADA was formally dissolved, with its responsibilities to be taken over by the Armenian Development Fund.

PUBLIC FINANCE

Overview

The Law on the Budgetary System of Armenia (the "**Budgetary System Law**"), adopted on 21 July 1997 (and subsequently amended) 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

	For the year ended 31 December					For the nine months ended 30 September	
	2009	2010	2011	2012	2013	2013	2014
	(AMD billions)						
Consolidated Budget							
Revenues	711.7	804.3	906.1	975.3	1,101.7	888.5	855.3
Expenditures	947.6	975.9	1,1013.5	1,037.1	1,170.6	758.3	844.8
Deficit	235.9	171.6	107.4	61.8	68.8	(50.2)	(10.5)
State Budget							
Revenues	690.0	780.4	880.9	946.2	1,071.4	788.5	832.8
Expenditures	929.1	954.3	986.5	1,006.1	1,142.9	742.0	827.0
Deficit	239.1	173.9	105.7	59.9	71.5	(46.5)	(5.8)
Local budgets							
Revenues	52.6	84.9	87.3	95.5	105.8	68.3	74.4
Expenditures	49.4	82.6	89.1	97.5	103.1	64.6	69.8
Deficit/(surplus)	(3.2)	(2.3)	1.8	1.9	(2.7)	(3.7)	(4.6)

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 (except for project implementation units ("**PIUs**") that were required by donors to operate with commercial bank accounts) 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 of 31 December 2014, all PIUs were also transferred to 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 and to strengthen linkages between policy objectives and budgets. 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. Since Fall 2013, the Government submits programme budgets to the National Assembly, as required by the revised Budgetary System Law.

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 2014 and covers the three-year period from 2015 to 2017.

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 2015 State Budget was approved by the National Assembly on 4 December 2014.

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. As part of its commitment to e-governance and transparency, Armenia has become one of the first countries in the world to allow the real-time monitoring of the execution of the State Budget, having introduced this capacity on the Government website (www.e-gov.am) since 2012.

The following table shows the actual public revenues and expenditures against the State Budget for the years 2009 to 2013 and for the first nine months of 2014:

Actual and Budgeted Revenues and Expenditures

	For the year ended 31 December										**For the nine months ended 30 September**	
	2009		**2010**		**2011**		**2012**		**2013**		**2014**	
	Budget	Actual	Budget	Actual	Budget	Actual	Budget	Actual	Budget	Actual	Budget	Actual
	(AMD billions)											
Revenues	**905.4**	**690.0**	**742.1**	**780.4**	**852.4**	**880.9**	**911.6**	**946.2**	**1,032.8**	**1,071.4**	**832.3**	**832.8**
Tax revenues	855.9	625.3	675.2	699.4	773.4	777.4	874.3	878.4	993.1	1,000.9	798.5	778.2
Grants	34.7	21.7	42.5	30.6	56.0	59.4	16.3	18.7	17.5	13.3	16.9	7.3
Other revenues	14.8	43.0	24.4	50.4	23.0	44.0	21.0	49.1	22.3	57.2	16.9	47.3
Expenditures	**945.4**	**929.1**	**935.5**	**954.3**	**1,001.1**	**986.5**	**1,044.2**	**1,006.1**	**1,152.6**	**1,142.9**	**906.6**	**827.0**
Debt service	15.9	16.3	37.1	30.4	42.6	35.5	47.7	40.7	52.6	46.7	50.6	50.3
Interest on Internal Public Debt	11.9	8.8	17.4	15.8	24.4	20.7	26.2	23.2	29.9	29.9	24.6	25.2
Interest on External Public Debt	4.1	7.5	19.7	14.6	18.2	14.8	21.5	17.4	22.6	16.8	26.0	25.1
Non-interest expenditures	929.5	912.8	898.4	923.9	958.5	951.0	996.4	965.5	1,100.1	1,096.1	856.0	776.6
General public services	107.2	96.7	102.7	112.8	110.6	118.6	117.3	119.8	156.4	141.4	116.8	108.3
Interbudgetary transfers to local governments	27.5	27.5	32.4	32.4	32.4	32.4	32.4	32.4	36.2	36.2	30.8	30.7
Defence	149.6	130.2	135.7	147.6	146.2	145.5	154.5	152.8	182.7	182.0	147.0	131.1
Public order, security and judiciary	64.2	69.5	56.6	67.4	60.8	72.5	61.5	76.7	72.4	91.4	58.8	69.2
Economic relations	103.1	133.8	113.1	112.5	97.0	84.0	113.9	71.1	131.4	128.3	73.4	48.0
Environmental protection	6.4	3.9	6.1	4.9	8.9	6.6	5.3	7.0	5.4	4.6	2.9	2.7
Housing and public services	18.6	21.1	46.4	42.8	48.4	43.8	19.5	14.3	25.9	21.7	20.5	19.4

Health care	66.1	56.2	55.2	56.1	62.5	63.3	65.1	64.5	72.0	64.4	55.1	47.3
Tourism, culture and religion	19.8	16.3	16.3	16.1	18.0	17.6	22.7	22.8	18.2	18.6	14.8	14.3
Education	126.9	107.5	99.9	97.8	108.4	106.1	105.6	102.8	108.3	103.1	80.5	75.6
Social welfare	252.5	243.6	244.4	244.2	271.9	256.2	307.3	291.7	304.7	297.4	272.1	245.5
Other reserve funds(1)	15.1	33.9	21.9	21.6	25.8	36.8	23.9	41.9	22.7	43.2	14.1	15.2
Budget balance	**(40.0)**	**(239.1)**	**(193.4)**	**(173.9)**	**(148.6)**	**(105.7)**	**(132.5)**	**(59.9)**	**(119.8)**	**(71.5)**	**(74.4)**	**5.8**

Note:

(1) During the periods under review, "other reserve funds" consisted of solely the Government Reserve Fund.

Source: Ministry of Finance.

Actual revenues exceeded budgeted revenues in each period under review. 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 year under review were lower than budgeting estimates, except for 2009, when the deficit was substantially higher than planned as a result of the global financial crisis. In the first nine months of 2014, the actual budget reflected a surplus of AMD5.8 billion, compared to a budgeted deficit of AMD74.4 billion, mainly due to lower than expected expenditures on defence, economic relations and social welfare.

2015 State Budget

The following table sets forth the State Budget for 2015, as approved by the National Assembly:

2015 State Budget

	AMD billions	% of GDP
Total revenues	**1,191.5**	**24.5**
Tax revenues and duties	1,138.7	23.4
Grants	25.6	0.5
Other revenues	27.1	0.6
Total expenditures	**1,305.6**	**26.8**
Debt service	73.8	1.5
Interest on Internal Public Debt	35.2	0.7
Interest on External Public Debt	38.6	0.8
Non-interest expenditures	1,231.8	25.3
General public services	166.0	3.4
Interbudgetary transfers to local governments	43.0	0.9
Defence	199.0	4.1
Public order, security and judicial activity	101.4	2.1
Economic relations	85.5	1.8
Environment protection	5.1	0.1
Housing and public services	28.3	0.6
Health care	84.2	1.7
Tourism, culture and religion	28.1	0.6
Education	125.7	2.6
Social welfare	390.5	8.0
Other reserve funds(1)	18.1	0.4
Deficit	**(114.1)**	**(2.3)**

Deficit financing	**114.1**	**2.3**
Domestic financing	103.9	2.1
Net borrowings	38.3	0.8
Net financial assets	65.5	1.3
External financing	10.3	0.2
Net borrowings	56.1	1.2
Net financial assets	(45.8)	(0.9)

Note:

(1) For the 2015 Budget, "other reserve funds" consists of solely the Government Reserve Fund.

Source: Ministry of Finance.

The 2015 State Budget was based on the following macroeconomic assumptions for 2015: a nominal GDP of AMD4,867.5 billion; annual inflation of 4.0%; and an average exchange rate of AMD411.21/U.S.$1.

The 2015 State Budget envisages revenues in 2015 of AMD1,191.5 billion, or 24.5% of GDP, expenditures of AMD1,305.6 billion, or 26.8% of GDP, and an overall deficit of AMD114.1 billion, or 2.3% of GDP. The 2015 State Budget envisions net external borrowings in 2015 of AMD56.1 billion, or 1.2% 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 2015-2017

	For the year ended 31 December					
	2015		2016		2017	
	AMD billions	% of GDP	AMD billions	% of GDP	AMD billions	% of GDP
Total revenues	**1,228.1**	**24.3**	**1,333.8**	**24.1**	**1,479.0**	**24.3**
Tax revenues and duties	1,172.8	23.2	1,301.0	23.5	1,448.4	23.8
Grants	30.3	0.6	13.4	0.2	12.6	0.2
Other revenues	25.0	0.5	19.4	0.4	18.04	0.3
Total expenditures	**1,331.2**	**26.4**	**1,434.1**	**25.9**	**1,589.3**	**26.2**
Debt service	72.6	1.4	77.5	1.4	83.7	1.4
Interest on Internal Public Debt	35.2	0.7	38.9	0.7	44.3	0.7
Interest on External Public Debt	37.4	0.7	38.5	0.7	39.5	0.6
Non-interest expenditures	1,258.7	24.9	1,356.7	24.5	1,505.6	24.8
Social, culture, science	640.3	12.7	701.5	12.7	771.0	12.7
Defence, public order, security and judicial activity	286.1	5.7	308.1	5.6	337.4	5.6
Economic relations, Environment protection, Housing and public services	125.0	2.5	131.1	2.4	161.7	2.7
Public administration	98.0	1.9	98.0	1.8	108.5	1.8
Others, *of which*	109.2	2.2	118.0	2.1	127.0	2.1
Interbudgetary transfers to local governments	44.1	0.9	48.1	0.9	51.9	0.9
Deficit	**(103.1)**	**(2.0)**	**(100.4)**	**(1.8)**	**(110.3)**	**(1.8)**
Deficit financing	**103.2**	**2.0**	**100.4**	**1.8**	**110.3**	**1.8**
Domestic financing	89.2	1.8	89.1	1.6	117.2	1.9
Net borrowings	38.3	0.8	42.0	0.8	45.0	0.7
Net financial assets	50.8	1.0	47.1	0.9	72.2	1.2
External financing	14.0	0.3	11.2	0.2	(6.9)	(0.1)

Net borrowings	61.0	1.2	61.5	1.1	48.7	0.8
Net financial assets	(47.0)	(0.9)	(50.2)	(0.9)	(55.6)	(0.9)
Assumptions:						
Nominal GDP, AMD billions	5,046.6	-	5,526.7	-	6,075.4	-
CPI	3.3	-	4.0	-	4.0	-
Average exchange rate (AMD/U.S.$)	413.6	-	413.6	-	413.6	-

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 nine months ended 30 September	
	2009	**2010**	**2011**	**2012**	**2013**	**2013**	**2014**
			(AMD billions, except percentages)				
Revenues	**690.0**	**780.4**	**880.9**	**946.2**	**1,071.4**	**788.5**	**832.8**
Taxes and duties	625.3	699.4	777.4	878.4	1,000.9	741.6	778.2
VAT	254.2	301.7	328.5	369.7	401.9	299.7	323.8
Social contributions	102.9	105.3	123.4	129.1	17.6	15.1	8.9
Excise taxes	42.8	48.1	39.4	49.3	52.1	34.6	34.5
Personal income tax	60.2	73.9	81.2	91.7	256.9	183.5	209.3
Profit tax	81.8	77.8	97.8	118.7	124.6	97.1	88.4
Customs duties	25.1	29.4	36.3	43.0	46.3	36.8	36.9
Stamp duties	19.0	20.0	22.4	23.8	27.3	19.1	25.5
Presumptive tax	22.8	22.0	20.7	14.9	11.0	8.7	4.1
Other taxes	16.4	21.1	27.6	38.3	63.2	47.1	47.9
Grants	21.7	30.6	59.4	18.7	13.3	8.2	7.3
Other revenues	43.0	50.4	44.0	49.1	57.2	38.7	47.3
Expenditures[(1)]	**929.1**	**954.3**	**986.5**	**1,006.1**	**1,142.9**	**742.0**	**827.0**
Debt service	**16.3**	**30.4**	**35.5**	**40.7**	**46.7**	**33.0**	**50.3**
Interest on Internal Public Debt	8.8	15.8	20.7	23.2	29.9	21.8	25.2
Interest on External Public Debt	7.5	14.6	14.8	17.4	16.8	11.3	25.1
Non-interest expenditures	**912.8**	**923.9**	**951.0**	**965.4**	**1,096.1**	**708.9**	**776.6**
Social welfare	243.6	244.2	256.2	291.7	297.4	219.4	245.5
Defence	130.2	147.6	145.5	152.8	182.0	123.8	131.1
General public services	96.7	112.8	118.6	119.8	141.4	93.4	108.3
Interbudgetary transfers to local governments	27.5	32.4	32.4	32.4	36.2	27.2	30.7
Education	107.5	97.8	106.1	102.8	103.1	72.2	75.6
Public order, security and judiciary	69.5	67.4	72.5	76.7	91.4	61.9	69.2
Economic relations	133.8	112.5	84.0	71.1	128.3	47.4	48.0
Health care	56.2	56.1	63.3	64.5	64.4	43.3	47.3
Other reserve funds[(2)]	33.9	21.6	36.8	41.9	43.2	18.9	15.2
Tourism, culture and religion	16.3	16.1	17.6	22.8	18.6	13.7	14.3
Housing and public services	21.1	42.8	43.8	14.3	21.7	12.2	19.4
Environmental protection	3.9	4.9	6.6	7.0	4.6	2.7	2.7
State Budget deficit	**239.1**	**173.9**	**105.7**	**59.9**	**71.5**	**(46.5)**	**(5.8)**
Revenues/GDP (%)[(3)]	22.2	22.9	23.3	23.8	25.1	27.1	27.2
Expenditures/GDP (%)[(3)]	29.9	27.3	26.1	25.3	26.7	25.5	27.0
Deficit/GDP (%)[(3)]	7.7	5.0	2.8	1.5	1.7	(1.6)	(0.2)

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: 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; AMD31.9 billion (2.8% of annual expenditures) in the 2013; AMD19.2 billion (2.6% of period expenditures) in the nine months ended 30 September 2013; and AMD20.2 billion (2.4% of period expenditures) in the nine months ended 30 September 2014.

(2) During the periods under review, "other reserve funds" consisted of solely the Government Reserve Fund.

(3) 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, personal income taxes and profit taxes. See "*—Armenian Tax System—Tax Structure*."

Total revenues have grown over the past five years, from AMD690.0 billion in 2009 to AMD1,071.4 billion in 2013, an increase of 55.3%. In the nine months ended 30 September 2014, total revenues comprised AMD832.8 billion. Revenues experienced year-on-year growth in each year under review, and tax revenues as a share of GDP increased from 19.9% in 2009 to 23.4% in 2013 (in part achieved through the elimination of income tax exemptions for the military and law enforcement personnel, the introduction of a new royalty regime for mining and improved taxpayer monitoring capabilities) In the nine months ended 30 September 2014, revenues increased by 5.6%, compared to the nine months ended 30 September 2013, driven mainly by a 14.1% increase in personal income tax collections and an 8.0% increase in VAT collections. The increasing contribution of personal income tax revenues to the State Budget is mainly due to the reclassification of social contributions as personal income tax, commencing 1 January 2013.

Taxes and duties represent the largest share of Government revenues, accounting for 93.4%and 93.5%, respectively, of State Budget revenues in 2013 and the nine months ended 30 September 2014. 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 60.1% between 2009 and 2013, driven largely by substantial growth in personal income tax receipts (resulting principally from the reclassification of social contributions as personal income tax revenues), a 58.1% increase in VAT collections and a 52.3% 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 nine months ended 30 September	
	2009	**2010**	**2011**	**2012**	**2013**	**2013**	**2014**
	(AMD billions, except percentages)						
Total tax revenues and duties	**625.3**	**699.4**	**777.4**	**878.4**	**1,000.9**	**741.6**	**778.2**
Annual (period) change *(%)*	(13.9)	11.9	11.2	13.0	14.0	18.1	4.9
% of GDP(1)..................................	19.9	20.2	20.6	22.0	23.4	25.5	25.4
% of total revenues	90.6	89.6	88.3	92.8	93.4	94.1	93.5
VAT	**254.2**	**301.7**	**328.5**	**369.7**	**401.9**	**299.7**	**323.8**
Annual (period) change *(%)*	(33.3)	18.7	8.9	12.5	8.7	15.2	8.1
% of GDP(1)..................................	8.1	8.7	8.7	9.2	9.4	10.3	10.6
% of total revenues	36.8	38.7	37.3	39.1	37.5	38.0	38.9
Social contributions	**102.9**	**105.3**	**123.4**	**129.1**	**17.6**	**15.1**	**8.9**
Annual (period) change *(%)*	(2.0)	2.3	17.2	4.6	(86.3)	84.0	(41.1)
% of GDP(1)..................................	3.3	3.0	3.3	3.2	0.4	0.5	0.3
% of total revenues	14.9	13.5	14.0	13.6	1.6	1.9	1.1
Excise taxes	**42.8**	**48.1**	**39.4**	**49.3**	**52.1**	**34.6**	**34.5**
Annual (period) change *(%)*	(6.8)	12.4	(18.1)	25.1	5.6	3.7	(0.2)
% of GDP(1)	1.4	1.4	1.0	1.2	1.2	1.2	1.1
% of total revenues	6.2	6.2	4.5	5.2	4.9	4.4	4.1
Personal income tax	**60.2**	**73.9**	**81.2**	**91.7**	**256.9**	**183.5**	**209.3**

Annual (period) change *(%)*	12.1	22.8	9.9	12.9	80.2	179.3	14.0
% of GDP(1).....................................	1.9	2.1	2.1	2.3	6.0	6.3	6.8
% of total revenues	8.7	9.5	9.2	9.7	24.0	23.3	25.1
Profit tax.......................................	**81.8**	**77.8**	**97.8**	**118.7**	**124.6**	**97.1**	**88.4**
Annual (period) change *(%)*	(5.1)	(4.9)	25.7	21.4	5.0	8.7	(9.0)
% of GDP(1)...	2.6	2.2	2.6	3.0	2.9	3.3	2.9
% of total revenues	11.9	10.0	11.1	12.5	11.6	12.3	10.6
Customs duties	**25.1**	**29.4**	**36.3**	**43.0**	**46.3**	**36.8**	**36.9**
Annual (period) change *(%)*	(32.7)	17.1	23.5	18.5	7.6	19.4	0.2
% of GDP(1)...	0.8	0.8	1.0	1.1	1.1	1.3	1.2
% of total revenues	3.6	3.8	4.1	4.5	4.3	4.7	4.4
Stamp duties.................................	**19.0**	**20.0**	**22.4**	**23.8**	**27.3**	**19.1**	**25.5**
Annual (period) change (%)...........	(14.8)	5.3	12.0	6.3	14.5	11.5	34.1
% of GDP(1)...	0.6	0.6	0.6	0.6	0.6	0.7	0.8
% of total revenues	2.8	2.6	2.5	2.5	2.5	2.4	3.1
Presumptive tax	**22.8**	**22.0**	**20.7**	**14.9**	**11.0**	**8.7**	**4.1**
Annual (period) change (%)...........	12.3	(3.5)	(5.9)	(28.0)	(25.7)	(26.3)	(52.3)
% of GDP(1)...	0.7	0.6	0.5	0.4	0.3	0.3	0.1
% of total revenues	3.3	2.8	2.3	1.6	1.0	1.1	0.5
Other taxes	**16.4**	**21.1**	**27.6**	**38.3**	**63.2**	**47.1**	**46.8**
Annual (period) change (%)...........	(55.7)	28.7	30.8	38.8	65.1	81.8	(0.8)
% of GDP(1)...................................	0.5	0.6	0.7	1.0	1.5	1.6	1.5
% of total revenues	2.4	2.7	3.1	4.0	5.9	6.0	5.6
Grants...	**21.7**	**30.6**	**59.4**	**18.7**	**13.3**	**8.2**	**7.3**
Annual (period) change (%)...........	44.7	41.0	94.1	(68.5)	(28.9)	(0.6)	(11.0)
% of GDP(1)...................................	0.7	0.9	1.6	0.5	0.3	0.3	0.2
% of total revenues	3.1	3.9	6.7	2.0	1.2	1.0	0.9
Other revenues.............................	**43.0**	**50.4**	**44.0**	**49.1**	**57.2**	**38.7**	**47.3**
Annual (period) change (%)...........	(2.9)	17.2	(12.7)	11.6	16.3	12.9	22.2
% of GDP(1)	1.4	1.5	1.2	1.2	1.3	1.3	1.5
% of total revenues	6.2	6.5	5.0	5.2	5.3	4.9	5.7

Note:

(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 26.0% of expenditures in 2013; (ii) defence, which accounted for 15.9% of expenditures in 2013; and (iii) general public services, which accounted for 12.4% of expenditures in 2013. 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 years, from AMD929.1 billion in 2009 to AMD1,142.9 billion in 2013, an increase of 23.0%. In the three largest areas of Government spending (based on year-end 2013 figures), expenditures grew by 31.9% between 2009 and 2013, with social welfare spending increasing by 22.1%, defence spending increasing by 39.8% and general public services by 46.2%.

In the nine months ended 30 September 2014, expenditures increased by 11.5%, compared to the nine months ended 30 September 2013, driven mainly by spending growth in social welfare, defence and general public services, as well as an increase in interest payments on External Public Debt resulting from the issuance of the 2013 Eurobond.

Between 2009 and 2013, debt service payments increased by 186.5%, from AMD16.3 billion in 2009 to AMD46.7 billion in 2013. This increase was driven by growth in interest payments on Internal Public Debt, which rose from AMD8.8 billion in 2009 to AMD29.9 billion in 2013, and on External Public Debt, which rose from AMD7.5 billion in 2009 to AMD16.8 billion in 2013. See "*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 nine months ended 30 September	
	2009	**2010**	**2011**	**2012**	**2013**	**2013**	**2014**
	(AMD billions, except percentages)						
Debt service	**16.3**	**30.4**	**35.5**	**40.7**	**46.7**	**33.0**	**50.3**
Annual (period) change *(%)*	47.3	86.9	16.7	14.5	14.9	13.2	52.4
% of GDP[(1)]	0.5	0.9	0.9	1.0	1.1	1.1	1.6
% of total expenditures	1.8	3.2	3.6	4.0	4.1	4.5	6.1
% of tax revenues and duties	2.6	4.3	4.6	4.6	4.7	4.5	6.5
Social welfare	**243.6**	**244.2**	**256.2**	**291.7**	**297.4**	**219.4**	**245.5**
Annual (period) change *(%)*	14.6	0.2	4.9	13.9	1.9	2.1	11.9
% of GDP[(1)]	7.8	7.1	6.8	7.3	7.0	7.5	8.0
% of total expenditures	26.2	25.6	26.0	29.0	26.0	29.6	29.7
% of tax revenues and duties	39.0	34.9	33.0	33.2	29.7	29.6	31.5
Defence	**130.2**	**147.6**	**145.5**	**152.8**	**182.0**	**123.8**	**131.1**
Annual (period) change *(%)*	7.4	13.4	(1.4)	5.0	19.1	14.6	5.9
% of GDP[(1)]	4.1	4.3	3.9	3.8	4.3	4.2	4.3
% of total expenditures	14.0	15.5	14.7	15.2	15.9	16.7	15.9
% of tax revenues and duties	20.8	21.1	18.7	17.4	18.2	16.7	16.8
General public services	**96.7**	**112.8**	**118.6**	**119.8**	**141.4**	**93.4**	**108.3**
Annual (period) change *(%)*	3.1	16.6	5.1	1.0	18.0	13.7	16.0
% of GDP[(1)]	3.1	3.3	3.1	3.0	3.3	3.2	3.5
% of total expenditures	10.4	11.8	12.0	11.9	12.4	12.6	13.1
% of tax revenues and duties	15.5	16.1	15.3	13.6	14.1	12.6	13.9
Education	**107.5**	**97.8**	**106.1**	**102.8**	**103.1**	**72.2**	**75.6**
Annual (period) change *(%)*	3.9	(9.0)	8.5	(3.1)	0.3	(2.9)	4.7
% of GDP[(1)]	3.4	2.8	2.8	2.6	2.4	2.5	2.5
% of total expenditures	11.6	10.2	10.8	10.2	9.0	9.7	9.1
% of tax revenues and duties	17.2	14.0	13.6	11.7	10.3	9.7	9.7
Public order, security and judiciary	**69.5**	**67.4**	**72.5**	**76.7**	**91.4**	**61.9**	**69.2**
Annual (period) change *(%)*	12.6	(3.0)	7.6	5.8	19.2	22.2	11.8
% of GDP[(1)]	2.2	1.9	1.9	1.9	2.1	2.1	2.3
% of total expenditures	7.5	7.1	7.3	7.6	8.0	8.3	8.4
% of tax revenues and duties	11.1	9.6	9.3	8.7	9.1	8.4	8.9
Economic relations[(2)]	**133.8**	**112.5**	**84.0**	**71.1**	**128.3**	**47.4**	**48.0**
Annual (period) change *(%)*	49.7	(15.9)	(25.3)	(15.4)	80.5	3.8	1.4
% of GDP[(1)]	4.3	3.3	2.2	1.8	3.0	1.6	1.6
% of total expenditures	14.4	11.8	8.5	7.1	11.2	6.4	5.8
% of tax revenues and duties	21.4	16.1	10.8	8.1	12.8	6.4	6.2
Health care	**56.2**	**56.1**	**63.3**	**64.5**	**64.4**	**43.3**	**47.3**
Annual (period) change (%)	12.4	(0.2)	12.8	1.9	(0.2)	0.1	9.1
% of GDP[(1)]	1.8	1.6	1.7	1.6	1.5	1.5	1.5
% of total expenditures	6.0	5.9	6.4	6.4	5.6	5.8	5.7
% of tax revenues and duties	9.0	8.0	8.1	7.3	6.4	5.8	6.1
Other reserve funds[(3)]	**33.9**	**21.6**	**36.8**	**41.9**	**43.2**	**18.9**	**15.2**
Annual (period) change (%)	(0.1)	(36.3)	70.4	13.9	3.1	16.0	19.7
% of GDP[(1)]	1.1	0.6	1.0	1.0	1.0	0.6	0.5
% of total expenditures	3.6	2.3	3.7	4.2	3.8	2.5	1.8
% of tax revenues and duties	5.4	3.1	4.7	4.8	4.3	2.5	1.9
Tourism, culture and religion	**16.3**	**16.1**	**17.7**	**22.8**	**18.6**	**13.7**	**14.3**
Annual (period) change (%)	1.9	(1.2)	9.9	28.8	(18.3)	(6.5)	4.4
% of GDP[(1)]	0.5	0.5	0.5	0.6	0.4	0.5	0.5
% of total expenditures	0.5	0.5	0.5	0.6	1.6	1.8	1.7
% of tax revenues and duties	2.6	2.3	2.3	2.6	1.9	1.8	1.8
Housing and public services	**21.1**	**42.8**	**43.8**	**14.3**	**21.7**	**12.2**	**19.4**
Annual (period) change (%)	50.7	102.8	2.3	(67.4)	51.9	54.1	59.4
% of GDP[(1)]	0.7	1.2	1.2	0.4	0.5	0.4	0.6
% of total expenditures	2.3	4.5	4.4	1.4	1.9	1.6	2.3
% of tax revenues and duties	3.4	6.1	5.6	1.6	2.2	1.6	2.5
Environmental protection	**3.9**	**4.9**	**6.6**	**7.0**	**4.6**	**2.7**	**2.7**

Annual (period) change (%)	30.0	25.6	34.7	6.1	(34.6)	(29.8)	(0.4)
% of GDP(1)	0.1	0.1	0.2	0.2	0.1	0.1	0.1
% of total expenditures	0.4	0.5	0.7	0.7	0.4	0.4	0.3
% of tax revenues and duties	0.6	0.7	0.8	0.8	0.5	0.4	0.4

Notes:

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

(2) Economic relations consists of expenditures on various sectors of the economy, including agriculture, forestry, irrigation, energy, mining, transport, communications and tourism.

(3) During the periods under review, "other reserve funds" consisted of solely the Government Reserve Fund.

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. One such reform was to reclassify social contributions as personal income tax, effective 1 January 2013. In addition, as a means to improve tax collection, the Government has prepared draft transfer pricing legislation, based on OECD principles; such legislation has not yet been passed.

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. In 2014, the Government's tax reforms focused on improvements in tax and customs administration, as well as tax compliance, in an effort to consolidate the revenue gains achieved in recent years. In 2015, the Government plans to reduce the stock of tax credits by 0.3% of GDP, such credits having accrued in 2013 and 2014 due to enhanced monitoring of compliant taxpayers (rather than efforts to broaden the taxable base and close gaps in compliance) as a means to achieve revenue gains in an economic environment characterized by slower growth, which, in turn, led to a build-up of excess tax prepayments. Going forward, the Government may also consider introducing new tax instruments, such as new excise taxes on liquefied natural gas, increase certain tax rates (such as excise tax rates on alcohol, fuels and tobacco) and/or reducing or eliminating exemptions in certain spheres of economic activity, including agriculture, and forms of income, such as dividends and capital gains.

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 domesticallyproduced handmade carpets, the sale of certain precious stones and the provision of insurance and re-insurance services, are exempt from VAT. In 2014, changes were introduced to the country's VAT regime in an effort to liberalize the mechanisms for VAT payments at the border which came into force on 1 January 2015. Under the revised VAT regime, the payment of VAT on imports related to investment programmes, such as those related to the development of the wine-making and greenhouse industries (regardless of their origin or amount), may be postponed for up to three years following import; previously such postponement was permissible only in connection with investment programme imports in excess of AMD200 million. VAT accounted for 36.8%, 38.7%, 37.3%, 39.1%, and 37.5% of State Budget revenues in 2009, 2010, 2011, 2012, and 2013 respectively. In the nine months ended 30 September 2013 and 2014, VAT accounted for 38.0% and 38.9%, respectively, of State Budget revenues.

Social Contributions/Pensions

Social contributions represent mandatory employer/employee pension contributions. On 1 January 2014, the system of social contributions was replaced by the Pension System (as defined herein). See "*Economy of Armenia—Labour and Social Policy—Social Insurance System—Pensions and Disability*" for a discussion of the Pension System.

Social contributions (employee/employer combined) accounted for 14.9%, 13.5%, 14.0%, and 13.6% of State Budget revenues in 2009, 2010, 2011, and 2012 respectively. Beginning 1 January 2013, social contributions have been reclassified as personal income tax. Despite the reclassification, small amounts of social contributions continue to be generated due to payments of arrears and/or certain adjustments made to tax returns. 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). Domestic and imported products subject to excise 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 31 December 2014:

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)

Excise taxes accounted for 6.2%, 6.2%, 4.5%, 5.2%, and 4.9% of State Budget revenues in 2009, 2010, 2011, 2012 and 2013 respectively. In the nine months ended 30 September 2013 and 2014, excise taxes accounted for 4.4% and 4.1%, 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 8.7%, 9.5%, 9.2%, 9.7%, and 23.9% of State Budget revenues in 2009, 2010, 2011, 2012 and 2013 respectively. In the nine months ended 30 September 2013 and 2014, personal income taxes accounted for 23.3% and 25.1%, respectively, of State Budget revenues. See "—*Social Contributions/Pensions*" above, for an explanation for the significant increase in personal income tax receipts since 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. A draft law to reduce the profit tax for large exporters resident in Armenia (e.g., those resident companies whose exports exceed AMD50 billion per annum) from 20% to 2% has passed the first reading in the National Assembly. The purpose of the draft law is to improve tax compliance, while also reducing the country's current account deficit.

Profit tax accounted for 11.9%, 10.0%, 11.1%, 12.5% and 11.6% of State Budget revenues in 2009, 2010, 2011, 2012 and 2013 respectively. In the nine months ended 30 September 2013 and 2014, profit tax accounted for 12.3% and 10.6%, respectively, of State Budget revenues. In absolute terms, profit tax receipts have increased by 52.3% between 2009 and 2013 as a result of growth in the Armenian economy and improvements in tax collection.

Customs Duties

Until Armenia's entry into the EEU, customs duties were regulated by the Customs Code, and were imposed only on imports. Customs duties, during the periods under review, were 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 3.6%, 3.8%, 4.1%, 4.5%, and 4.3% of State Budget revenues in 2009, 2010, 2011, 2012 and 2013 respectively. In the nine months ended 30 September 2013 and 2014, customs duties accounted for 4.7% and 4.4%, respectively, of State Budget revenues.

The Customs Code was annulled as a result of Armenia's accession into the EEU. From 1 January 2015, customs duties will be regulated in accordance with EEU principles.

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 2013 accounted for 1.0% 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, according to which the Government bears all tax liabilities incurred by such organisations in connection with their work in Armenia.

Free Economic Zones

Armenia opened its first FEZ in July 2013 – the "Alliance" FEZ ("**Alliance**"). Alliance 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, alternative energy and telecoms. Alliance, in which currently five enterprises have the right to operate, is managed by Sitronics Armenia, a unit of the Russian company Sistema JSFC.

Armenia opened its second FEZ in 2014 – the "MERIDIAN" FEZ ("**MERIDIAN**"). The MERIDIAN specializes in jewelry- and watch-making as well as stone cutting. An investment of U.S.$14 million was made in connection with the opening of MERIDIAN, which has led to the creation of 120 new jobs.

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.

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 to preserve 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 the 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 2015-2017

The CBA's strategic programme for 2015-2017 is based on three 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 intends to improve crisis-management systems for monitoring, evaluating and responding to risks to the country's financial stability. To promote and preserve financial stability, the CBA puts particular emphasis on maintaining functional payment systems as well as a well-regulated securities market that protects investor rights.

- *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 (including continued development of the financial and economics curriculum at the Dilijan Training and Research Centre).

In addition to these three strategic goals, the CBA carries out the following critical functions: (i) creating an organised framework for the issuance and circulation of currency; (ii) combating money laundering and terrorism financing; (iii) regulating and protecting consumer rights; and (iv) effectively managing Armenia's international reserves.

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 2020) 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, and, in particular, its Monetary Policy Department (the "**MPD**"), is responsible for the formulation and implementation of Armenia's monetary and foreign exchange policies. The MPD is composed of four divisions – the Monetary and Fiscal Analysis Division, the External Sector Analysis and Forecasting Division, the Real Sector Analysis and Forecasting Division and the Macroeconomic 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 36 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 CBA carries out inflation targeting mainly through adjustments in the interest rate on short-term loans from the CBA to the domestic banking system (the "**Refinancing Rate**"). From January 2010 to September 2011, the Refinancing Rate was increased successively from 5% to 8.5% in an effort to strengthen stability of the dram. From 7 September 2011 to 13 August 2013, the Refinancing Rate remained unchanged at 8.0%, reflecting overall price stability in the Armenian economy during this period. Following a three-month increase in the Refinancing Rate to 8.5%, the CBA responded to low inflationary expectations by instituting a series of reductions in the Refinancing Rate, beginning in November 2013 and culminating in the second half of 2014, when the Refinancing Rate reached 6.75% between August 2014 and December 2014. On 24 December 2014, in response to an increase in inflationary expectations due to dram depreciation, the CBA increased the Refinancing rate to 8.5%, then to 9.5% on 22 January 2015 and further to 10.5% on 10 February 2015, where it currently remains.

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

Refinancing Rates

Dates	**Refinancing Rate**
10 February 2015 – current	10.5%
22 January 2015 – 10 February 2015	9.5%
24 December 2014 – 22 January 2015	8.5%
13 August 2014 – 24 December 2014	6.75%
23 June 2014 – 13 August 2014	7.0%
14 May 2014 – 23 June 2014	7.25%
12 February 2014 – 14 May 2014	7.5%
24 December 2013 – 12 February 2014	7.75%
13 November 2013 – 24 December 2013	8.0%
14 August 2013 – 13 November 2013	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	7.0%
10 March 2010 – 13 April 2010	6.5%
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 for the interbank market, thereby limiting 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.

Between 21 January 2010 and 14 August 2013, the deposit facility rate progressively increased, from 2.5% to 7.0%, where it remained from 14 August through 13 November 2013. Beginning 13 November 2013, the deposit facility rate underwent a series of reductions, reaching 5.25% in August 2014, where it remained until 24 December 2014. In line with the increase in the Refinancing Rate (as discussed above), the deposit facility rate was increased to 7.0% on 24 December 2014, to 8.0% on 21 January 2015, and then on 10 February 2015 to its current level of 9.0%. From January 2010 until November 2014, changes in the one-day Lombard rate generally followed the same pattern as with the deposit facility rate, except for an adjustment that took place in June 2010, when the rate fell from 12.25% to 10.25%. From November 2012 to November 2014, the rates on standing facilities were ±1.5 percentage points from the Refinancing Rate. Beginning in November 2014, the CBA began a series of increases in the one-day Lombard rate, raising it to 10.25% on 24 November (from 8.25%), and then sharply to 21% on 3 December 2014. The one-day Lombard rate was reduced to 17% on 21 January 2015, and then to its current level of 14.5% on 10 February 2015. The purpose of the movement in the Lombard rate beyond the 1.5 percentage point corridor was to mitigate short-term instability in the financial markets.

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

Standing Facilities

Dates	One-day Deposit Facility Rate	One-day Lombard Repo Rate
10 February 2015 – current	9.0%	14.5%
21 January 2015 – 10 February 2015	8.0%	17.0%
24 December 2014 – 21 January 2015	7.0%	20.0%
3 December 2014 – 24 December 2014	5.25%	21.0%
24 November 2014 – 3 December 2014	5.25%	10.25%
12 August 2014 – 25 November 2014	5.25%	8.25%
23 June 2014 – 13 August 2014	5.5%	8.5%
14 May 2014 – 23 June 2014	5.75%	8.75%
12 February 2014 – 14 May 2014	6.0%	9.0%
24 December 2013 – 12 February 2014	6.25%	9.25%
13 November 2013 – 24 December 2013	6.5%	9.5%
14 August 2013 – 13 November 2013	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%

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% from 8%; such rate was lowered further to 2% in December 2013. The CBA believes that these decreases 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 was 12% until November 2014, when it was increased to 24%. Such ratio was subsequently lowered to 20% as soon as pressure on the foreign exchange market in Armenia had eased. The sharp increase in the ratio, nevertheless, reflects the CBA's continued efforts to de-dollarise the Armenian economy, an initiative rendered more difficult by the depreciating dram. The CBA expects the minimum reserve requirement ratio on most foreign-currency liabilities to remain high in the near-term in furtherance of its de-dollarisation policy. At the end of 2014, the reserve requirement ratio was lowered to 0% for dram-denominated and foreign currency-denominated liabilities that meet certain conditions as set forth by the CBA. See "*—Financial Services Industry—Banking Supervision—Key Prudential Requirements*."

At the beginning of 2015, the CBA Board adopted a policy of diversified reserve requirement ratios for both long- and short-term liabilities. Pursuant to this policy, effective March 2015, the reserve requirement ratio for long-term dram-denominated and foreign currency-denominated liabilities provided by international financial institutions (IFIs) will be set at 1% and 6%, respectively.

Monetary Aggregates

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

Money Aggregates

	As of 31 December				
	2010	**2011**	**2012**	**2013**	**2014**
	(AMD millions, unless otherwise indicated)				
Currency in circulation	304,324	349,407	384,065	384,467	348,359
Broad money (M2)	521,633	659,437	737,983	848,046	818,277
Broad money (M2X)	911,386	1,126,978	1,346,365	1,545,372	1,674,196
Broad money (M2X) year-on-year growth rate (%)	11.8	23.7	19.5	14.8	8.3
Broad money (M2X) share of GDP(1) (%)	26.3	29.8	33.7	36.2	n/a
Reserve money	507,552	671,271	683,846	888,057	886,765
Reserve money year-on-year growth rate *(%)*	(0.8)	32.3	1.9	29.9	(0.1)
Deposits in drams(2)	218,593	308,809	366,678	480,136	499,381
Deposits in foreign currencies(2)	542,912	714,305	845,467	1,132,307	1,258,133
Loans in drams(3)	403,641	495,004	573,274	680,549	730,729
Loans in foreign currencies(3)	545,497	773,785	1,032,405	1,117,706	1,457,627

Notes:

n/a= not available.

(1) Calculated as a percentage of nominal GDP.

(2) Includes deposits in commercial banks from non-residents and resident non-financial corporations, households, non-profit organisations and other financial organisations.

(3) Includes loans by commercial banks to non-residents and resident non-financial corporations, households, non-profit organisations and other financial organisations.

Source: CBA.

Monetisation of the Armenian economy, expressed as the ratio of broad money (M3) to nominal GDP, has increased in recent years: from 26.3% in 2010 to 36.2% in 2013. It is estimated to be 40.9% in 2014.

The increase in monetary aggregates between 2010 and 2013 was due to growing money demand as the Armenian economy recovered from the slowdown in 2009. Currency in circulation, broad money (M2) and reserve money decreased and the rate of increase in broad money (M2X) (which is M2 plus foreign exchange deposits) slowed in 2014 compared to 2013 (to 8.3% in 14.8% to 14.8% in 2013) on account of a slowdown in economic activity and lower money demand. The growth of both deposits and loans (in both drams and foreign currencies) during the years under review was mainly the result of economic expansion and an increase in financial intermediation (and with respect to deposits, an increase in remittances from abroad), as well as an increase in competition between commercial banks. The CBA expects dram and foreign currency deposits to increase in the short term, despite a forecasted decline in remittances.

Armenia is a highly dollarised economy. As of 31 December 2010, foreign currency deposits accounted for 71.3% of all deposits, and foreign currency loans accounted for 57.5% 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 increased to 61.0% as of 31 December 2011 and 64.3% as of 31 December 2012. In 2013 and 2014, the share of foreign currency deposits and loans increased in response to the weakening dram and the market expectation that such weakening would continue. Foreign currency deposits as a share of total deposits accounted for 70.2% of all deposits as of 31 December 2013 and 71.6% of all deposits as of 31 December 2014. Foreign currency loans as a share of total loans equalled 62.2% as of 31 December 2013 and 66.6% as of 31 December 2014.

Despite the depreciation of the dram in 2014, the CBA is continuing its efforts to de-dollarise the Armenian economy and support the domestic money markets. For example, the minimum reserve requirement ratio for dram-denominated loans was lowered to 4% in June 2013 and then to 2% in December 2013, while the minimum reserve requirement ratio for foreign currency deposits was set at 12% before being sharply increased to 24% in December 2014. See "—*Monetary Policy of the CBA—Implementation*." These moves are 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				
	2010	2011	2012	2013	2014
			(AMD millions)		
Liquid assets (core)(1)	421,180	529,670	562,542	751,409	768,739
Short-term liabilities	320,318	438,524	446,280	528,002	594,221
Total loans(2)	949,139	1,268,789	1,605,680	1,798,255	2,192,921
Loans to resident public sector	14,435	22,110	20,614	24,243	21,102
Loans to resident private sector (excluding interbank loans)	891,061	1,204,510	1,539,242	1,719,460	2,074,840
Loans to non-residents	43,644	42,169	45,824	54,552	96,979
Interbank loans	40,827	52,916	50,427	38,502	66,734

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 2010, the liquid assets to short term-liabilities ratio was 131.5%, a decrease from 140.8% as of 31 December 2009. This decrease was the result of an increase in short-term deposits held by the banking sector. The ratio fell further 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, 2013 and 2014, the liquid assets to short-term liabilities ratio equalled 126.1%, 142.3% and 129.4%, respectively. The increase in the ratio as of 31 December 2013 was mainly the result of a 34.0% increase in highly liquid assets (compared to an 18.0% increase in short-term liabilities), whereas the decrease as of 31 December 2014 was generally due to a 13% increase in short-term liabilities (compared a 2.0% increase in highly liquid assets).

The local private sector is the primary recipient of loans from the Armenian banking sector. As of 31 December 2012, 2013 and 2014, loans to the domestic private sector (excluding interbank loans) accounted for 92.9%, 93.6% and 91.8%, respectively, of all banking sector loans. In recent years, the volume of loans to the domestic private sector has grown steadily: by 26.1% as of 31 December 2010; by 35.2% as of 31 December 2011; by 27.8% as of 31 December 2012; by 11.7% as of 31 December 2013; and by 20.7% as of 31 December 2014. After remaining relatively unchanged in 2010 and 2011, outstanding loans to non-residents have been on the rise, increasing from AMD45,824 million as of 31 December 2012 (2.9% of outstanding banking sector loans) to AMD54,552 as of 31 December 2013 (3.0% of outstanding banking sector loans) and to AMD96,979 million as of 31 December 2014. The sharp rise in outstanding loans to non-residents in 2014 was mainly attributed to an increase in demand from non-resident corporate entities. Volumes of interbank loans have fluctuated in recent years. Outstanding interbank loans fell from AMD50,427 million (3.0% of total loans outstanding) as of 31 December 2012, to AMD38,502 million (2.1% of total loans outstanding) as of 31 December 2013, before increasing to AMD66,734 million (2.9% of total loans outstanding). The sharp rise in interbank loan transactions in 2014 was mainly the result of rising demand for dram-denominated funding.

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 years indicated:

CPI Inflation Rates

	For the year ended 31 December				
	2010	2011	2012	2013	2014
			%		
CPI (end of year)	**9.4**	**4.7**	**3.2**	**5.6**	**4.6**
Food	14.0	5.8	3.1	4.0	6.3
Non-food	4.6	4.3	5.7	3.5	1.6
Services	4.2	2.9	2.1	9.7	3.0
CPI (average)	**8.2**	**7.7**	**2.6**	**5.8**	**3.0**
Food	8.6	11.2	2.3	5.8	2.2
Non-food	9.6	3.4	4.6	4.6	1.7
Services	6.8	3.6	2.1	6.4	5.1

Source: Armstat.

To determine CPI, Armstat monitors the prices of 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 years indicated:

Inflation Rates of CPI Components

	For the year ended 31 December				
	2010	2011	2012	2013	2014
All items	**8.2**	**7.7**	**2.6**	**5.8**	**3.0**
Food and non-alcoholic beverages	9.4	12.3	2.0	5.8	1.7
Alcoholic beverages and tobacco	1.5	1.1	5.1	5.9	7.1
Clothing and footwear	11.5	3.4	6.8	6.4	4.5
Housing, water, electricity, gas	11.0	2.9	0.8	9.2	11.1

Furnishings, household equipment	3.8	0.6	4.0	4.1	2.0
Health	6.6	8.0	7.0	10.9	3.3
Transportation and communication	5.9	3.8	0.6	0.0	(3.3)
Recreation and culture	6.2	(0.9)	2.6	4.4	4.5
Miscellaneous goods and services	8.7	3.7	4.7	4.2	0.9

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 2013, Armenia's end-of-year annual CPI inflation rate was 5.6%, compared to 3.2% in 2012. Inflation in 2013 was due to a 4.0% increase in food prices, a 3.5% increase in non-food prices and a 9.7% increase in services. Inflation accelerated in 2013 compared to 2012 mainly due to a sizeable, one-off increase in gas and electricity tariffs in July 2013, the first such increase since 2010.

In 2014, Armenia's end-of-year annual CPI inflation rate was 4.6%, compared to 5.6% in 2013. Inflation in 2014 was due to a 6.3% increase in food prices, a 1.6% increase in non-food prices and a 3.0% increase in services. The increase in food prices was mainly due to depreciation of the dram against the dollar, which led to inflation and inflationary expectations, while the increase in services resulted from the one-off increase in electricity tariffs in August 2014.

CPI in January 2015 and February 2015 was 2.5% and (0.2)%, respectively, compared to 2.8% and (1.2)%, respectively, in January 2014 and February 2014. The 12-month inflation rate (February 2014 to February 2015) increased slightly, reaching 5.4%, close to the upper bound of the confidence band. This 12-month inflation rate was due to a 6.6% increase in food prices, in turn, driven by higher prices for certain food imports (with a contribution to headline inflation of 3.5 percentage points), a 3.4% increase in non-food prices (with a contribution to headline inflation of 0.5 percentage points) and a 4.0% increase in service tariffs (with a contribution to headline inflation of 1.2 percentage points). To anchor inflationary expectations (arising at the end of 2014), the CBA has recently increased interest rates; as a result, the CBA expects the inflation rate to decelerate during 2015. 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:

Selected Inflation Rates

	For the year ended 31 December				
	2010	**2011**	**2012**	**2013**	**2014**
			%		
PPI (end of period)	**15.7**	**9.7**	**8.6**	**5.1**	**8.4**
PPI (period average)	**22.6**	**9.1**	**7.0**	**4.7**	**8.5**
Freight tariff index (period average)	**17.8**	**6.4**	**2.4**	**8.4**	**8.0**
Roads	2.7	3.3	2.9	0.9	14.5
Rail	9.0	11.1	4.5	2.2	(1.6)
Air	5.2	1.4	7.5	3.1	0.1
Pipeline	32.5	7.1	0.0	20.4	16.9
Construction price index (period average)	**4.2**	**(3.5)**	**(2.5)**	**2.5**	**2.1**
Sale price index for agricultural products (period average)	**32.0**	**17.1**	**(5.0)**	**(1.0)**	**0.8**

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 years indicated:

Interest Rates on Deposits[(1)]

	For the year ended 31 December				
	2010	**2011**	**2012**	**2013**	**2014**
			(%)		
January	5.57	6.03	6.65	7.87	7.13
February	6.07	5.93	6.32	7.28	6.81
March	5.74	5.38	6.18	6.62	6.45
April	6.05	4.93	5.39	6.35	6.47
May	6.12	4.60	6.14	6.32	6.45
June	5.62	5.18	6.54	6.26	6.40
July	5.27	4.56	6.41	6.20	6.51
August	5.80	5.07	6.59	6.51	6.40
September	5.73	5.12	6.06	6.64	6.47
October	5.36	5.26	6.69	6.02	6.56
November	6.03	5.59	6.54	7.12	6.26
December	6.01	5.71	6.81	6.70	5.95

Note:

(1) These figures include interest rates on both dram and foreign currency (dollar, euro and rouble) 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 2014, the weighted average interest rates on short-term dram-denominated and foreign currency-denominated household deposits (excluding demand deposits) stood at 11.8% and 5.4%, respectively, compared to 11.0% and 5.7%, respectively, in 2013. In 2014, the weighted average interest rates on short-term dram-denominated and foreign currency-denominated deposits (excluding demand deposits) for non-financial corporations stood at 9.1% and 6.3%, respectively, compared to 9.5% and 6.5%, respectively, in 2013.

In 2014, the weighted average interest rates on long-term dram-denominated and foreign currency-denominated household deposits stood at 13.1% and 7.2%, respectively, compared to 13.0% and 7.8%, respectively, in 2013. In 2014, the weighted average interest rates on long-term dram-denominated and foreign currency-denominated deposits for non-financial corporations stood at 10.5% and 7.0%, respectively, compared to 10.2% and 7.3%, respectively, in 2013.

In 2014, the weighted average interest rates on short-term dram-denominated and foreign currency-denominated household loans (including mortgage, consumer and other loans) stood at 21.2% and 14.8%, respectively, compared to 21.2% and 16.2%, respectively, in 2013. In 2014, the weighted average interest rates on short-term dram-denominated and foreign currency-denominated loans to non-financial corporations stood at 12.6% and 9.5%, respectively, compared to 12.3% and 10.0%, respectively, in 2013.

In 2014, the weighted average interest rates on long-term dram-denominated and foreign currency-denominated household loans (including mortgage, consumer and other loans) stood at 18.2% and 14.6%, respectively, compared to 18.2% and 15.0%, respectively, in 2013. In 2014, the weighted average interest rates on long-term dram-denominated and foreign currency-denominated loans to non-financial corporations stood at 15.1% and 10.6%, respectively, compared to 15.2% and 11.1%, respectively, in 2013.

Dram-denominated mortgage loans to individuals carried a 12.2% weighted average interest rate in 2014, compared to a 12.3% weighted average interest rate in 2013. Foreign currency-denominated mortgage loans to individuals carried a 12.1% weighted average interest rate in 2014, compared to a 12.4% weighted average interest rate in 2013. As of 31 December 2014, 42% of the volume of household mortgages was denominated in drams and 58% in dollars. In 2014, foreign currency mortgages increased by 33%, compared to an increase of 7% in dram-denominated mortgages.

The weighted average yield on short-term Government securities issued in the primary market was 7.6% in 2014, compared to 9.3% in 2013. The weighted average yield on mid-term Government securities issued in the primary market was 9.7% in 2014, compared to 13.3% in 2013. The weighted average yield on long-term Government securities issued in the primary market was 11.7% in 2014, compared to 14.9% in 2013.

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
2015 (through 28 February)	471.02	479.48	477.06	478.76
2014	405.95	527.20	415.92	474.97
2013	403.87	419.08	409.63	405.64
2012	386.15	418.66	401.76	403.58
2011	362.26	385.77	372.50	385.77

Year	Low	High	Period average(1)	Period End
2010	357.98	404.36	373.66	363.44

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
2015 (through 28 February)	529.14	577.47	548.96	537.12
2014	512.36	656.94	552.11	577.47
2013	527.25	560.31	544.12	559.54
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

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 2010, in nominal terms, the dram depreciated against the dollar by 2.8% based on average rates and appreciated against the dollar by 4.0% based on year-end exchange rates. In 2010, the dram appreciated against the euro in nominal terms by 2.3% based on average rates and by 12.7% 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 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 appreciated against the dollar by 0.3% based on average rates and depreciated by 5.8% based on year-end exchange rates. In 2011, the dram depreciated against the euro in nominal terms by 4.4% based on average rates and by 3.5% based on year-end rates. The average nominal effective exchange rate of the dram depreciated by 2.6%, 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 7.3% based on average rates and by 4.4% 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 6.3% based on year-end rates. The average nominal effective exchange rate of the dram depreciated by 2.9%, 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 be a net seller of foreign exchange in an effort to minimise exchange rate volatility.

In 2013, in nominal terms, the dram depreciated against the dollar by 1.9% based on average rates and by 0.5% based on year-end exchange rates. In 2013, the dram depreciated against the euro in nominal terms by 5.1% based on average rates and by 4.9% based on year-end rates. The average nominal effective exchange rate of the dram appreciated by 0.3%, and the average real effective exchange rate of the dram appreciated by 1.5% in 2013. In response to inflationary expectations, in August 2013, 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% in respect of the deposit facility rate and 10% in respect of the one-day Lombard repo rate. The Refinancing Rate was subsequently lowered to 8% and then 7.75% by the end of the year as inflationary pressures subsided, as were the deposit facility rates (to 6.5% and 6.25%) and one-day Lombard rates (9.5% and 9.25%). "—*Monetary Policy of the CBA—Implementation.*" In 2013, the CBA became a net buyer of foreign exchange, accumulating U.S.$72.2 million in reserves; reserves also rose in 2013 on account of the 2013 Eurobond issuance and an increase in commercial banks' foreign exchange deposits at the CBA. See "—*Net Foreign Assets*."

In 2014, in nominal terms, the dram depreciated against the dollar by 1.5% based on average rates and by 14.6% based on year-end exchange rates. In 2014, the dram depreciated against the euro in nominal terms by 1.5% based on average rates and by 3.1% based on year-end rates. Despite the depreciation of the dram against the dollar and euro, the average nominal and real effective exchange rates of the dram appreciated by 8.9% and 7.2%, respectively, in 2014 mainly due to appreciation of the dram against the rouble, Ukrainian hryvnia and Iranian rial. Until late November 2014, the CBA carried out a policy of monetary easing as a result of deflationary expectations. The Refinancing Rate was lowered on four occasions (from 7.5% to 6.75%); the deposit facility rate was lowered on four occasions (from 6.25% to 5.25%); and the one-day Lombard rate was lowered on four occasions (from 9.25% to 8.25%). See *"—Monetary Policy of the CBA—Implementation.*" At the end of 2014, owing to external events, primarily, the weakening of the rouble, the CBA implemented a series of measures designed to counteract depreciation and inflationary pressures and to manage liquidity shortages. The CBA intervened heavily on the foreign exchange market, selling U.S.$118.7 million of foreign exchange reserves in December 2014. See "—*Net Foreign Assets*." In December 2014, the CBA also increased the Refinancing Rate from 6.75% to 8.5%, the deposit facility rate from 5.25% to 7% and the one-day Lombard rate from 10.25% to 21.0%. "—*Monetary Policy of the CBA—Implementation.*" The CBA also implemented stricter reserve requirements on foreign-currency deposits, increasing the minimum reserve requirement ratio for foreign currency deposits to 24% in December 2014. See "—*Monetary Aggregates*" and "*Risk Factors—Risks Factors Relating to Armenia—Depreciation of Dram and Consequences for Public Finances*."

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, British Pound, Swiss franc and rouble, 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 dates indicated:

Official Reserves and Foreign Liabilities(1)

	As of 31 December				
	2010	**2011**	**2012**	**2013**	**2014(2)**
			(U.S.$ millions)		
Foreign exchange reserves	1,832.3	1,875.4	1,767.7	2,249.7	1,483.1
SDR holdings	33.5	57.0	31.7	1.9	6.2
Gross official reserves	**1,865.8**	**1,932.5**	**1,799.4**	**2,251.6**	**1,489.3**
IMF credits	487.9	518.0	464.3	365.1	290.5
SDR allocation	135.6	135.1	135.2	135.5	127.5
Other loans	75.9	100.7	131.8	143.9	150.0
Other liabilities	0.5	0.3	0.3	0.3	0.3
Foreign liabilities	**699.9**	**754.1**	**731.6**	**644.8**	**568.2**

Notes:

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

(2) Data for 2014 is preliminary.

Source: CBA.

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 equalled 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 equalled 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 equalled 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 31 December 2013, the gross official reserves of Armenia stood at U.S.$2,251.6 million, an increase of U.S.$452.2 million, or 25.1%, compared to the level of gross official reserves as of 31 December 2012. The increase in reserves in 2013 was driven by a U.S.$482.0 million increase in foreign exchange reserves, which, in turn, was due to the CBA purchases of foreign exchange, the 2013 Eurobond issuance proceeds and an increase in commercial banks' foreign currency deposits at the CBA. Partially offsetting the increase in foreign exchange reserves was a decline in SDR holdings to U.S.$1.9 million as of 31 December 2013 from U.S.$31.7 million as of 31 December 2012, the result of debt repayment to the IMF (as defined herein). See "*Public Debt and Related Matters—Multilateral and Bilateral Development Organisations—IMF*." As of 31 December 2013, foreign liabilities equalled U.S.$644.8 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.$99.2 million in IMF credits (see above). Consequently, net foreign assets decreased to U.S.$1,606.8 million as of 31 December 2013 from U.S.$1,067.8 million as of 31 December 2012. As of 31 December 2013, Armenia's foreign exchange reserves represented import coverage of 5.4 months.

As of 31 December 2014, the gross official reserves of Armenia stood at U.S.$1,489.3 million, a decrease of U.S.$762.3 million, or 33.9%, compared to the level of gross official reserves as of 31 December 2013. The decrease in reserves in 2014 was driven by a U.S.$766.6 million decline in foreign exchange reserves, which, in turn, was due to the repayment of the 2009 Russia Loan, a rapid deterioration in Armenia's external balance and efforts to mitigate depreciation of the dram, which came under significant pressure at the end of 2014 in response to the depreciation of the rouble. See "*—Exchange Rates and Exchange Rate Policy*." As of 31 December 2014, foreign liabilities equalled U.S.$568.2 million, compared to U.S.$644.8 million as of 31 December 2013. The decrease in foreign liabilities was mainly due to a decline of U.S.$74.6 million in IMF credits. Consequently, net foreign assets decreased to U.S.$921.1 million as of 31 December 2014 from U.S.$1,606.8 million as of 31 December 2013. As of 31 December 2013, Armenia's foreign exchange reserves represented import coverage of 3.4 months. Despite the depreciation pressures on the dram in 2014, the Government believes that Armenia's reserve position and import coverage 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 alia*, 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 2014, there were 21 commercial banks and one development bank in Armenia, of which 19 had foreign capital participation. Foreign capital participation exceeded 50% of total share capital in 14 banks in Armenia as of 31 December 2014.

As of 31 December 2014, total assets of the Armenian banking sector equalled AMD3,403.6 billion, compared to AMD2,936.5 billion as of 31 December 2013 and AMD2,470.6 billion as of 31 December 2012. Between 31 December 2010 and 31 December 2014, total assets of the Armenian banking sector increased by AMD1,843.2 billion, or 118.1%, in large part due to significant growth in lending. As of 31 December 2014, loans accounted for AMD2,069.3 billion of total assets, compared to AMD888,612 billion of total assets as of 31 December 2010, an increase of 132.9%. Loans account for the largest share of banking sector assets, comprising 60.8% of total assets as of 31 December 2014.

As of 31 December 2014, total liabilities of the Armenian banking sector amounted to AMD2,941.8 billion, compared to AMD2,487.7 billion as of 31 December 2013 and AMD2,077.0 billion as of 31 December 2012. Between 31 December 2010 and 31 December 2014, total liabilities of the Armenian banking sector increased by AMD1,700.3 billion, or 136.9%, in large part due to substantial growth in deposits. As of 31 December 2014, demand and time deposits accounted for AMD1,604.2 billion of total liabilities, compared to AMD673.1 billion of total liabilities as of 31 December 2010, an increase of 138.3%. A 128.1% increase in other liabilities to banks from AMD267.8 billion as of 31 December 2010 to AMD610.9 billion as of 31 December 2014 also contributed to growth in total liabilities of the banking sector. Time deposits represent the single largest component of banking sector liabilities, accounting for 38.5% of total liabilities as of 31 December 2014.

As of 31 December 2014, banks with majority foreign capital participation accounted for 59.0% of the banking sector's total assets and 58.9% 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 2010 and 2014, the gross loan portfolio increased from 25.3% of GDP to an estimated 45.3% of GDP. As of 31 December 2014, corporate loans accounted for 59.0% of the gross loan book of the banking sector, with loans to individuals accounting for the remaining 41.0%.

In 2005, the CBA established the Deposit Guarantee Fund, which guarantees local-currency deposits of up to AMD4 million and foreign currency deposits of up to the equivalent of AMD2 million.

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 banking sector as of the dates indicated:

Aggregate Balance Sheet and Key Ratios of Banking Sector in Armenia

	As of 31 December				
	2010	**2011**	**2012**	**2013**	**2014**
	(AMD millions, unless otherwise indicated)				
Cash	74,900	89,164	99,041	110,005	113,286
Balances on correspondent accounts	205,044	324,034	322,718	549,430	575,895
Other claims on banks	72,830	90,593	80,213	79,790	76,435
Government securities	151,298	167,502	178,384	224,019	236,758
Other securities	5,695	4,960	5,681	17,062	25,268
Repo agreements (without interbank repos)	21,453	24,178	13,354	15,241	15,231
Loans	888,612	1,210,495	1,535,190	1,706,100	2,069,276
Accrued interest	15,496	16,107	27,816	34,632	52,324
Fixed assets	67,031	71,874	79,854	83,105	87,901
Other assets	58,112	67,816	128,379	117,113	151,268
Total assets	**1,560,472**	**2,066,723**	**2,470,631**	**2,936,499**	**3,403,642**
Current accounts	11,539	8,666	7,292	10,404	9,356
Other liabilities to banks	267,811	384,129	453,044	416,084	610,866
Liabilities to other financial institutions	138,279	221,836	289,329	339,448	490,017
Demand deposits (legal and natural persons)	265,045	375,760	355,599	522,137	472,561
Time deposits (legal and natural persons)	408,017	558,460	776,848	999,118	1,131,686
Accrued interest	11,654	15,749	22,754	25,088	30,333
Other liabilities	139,177	146,197	172,176	175,398	196,960
Total liabilities	**1,241,521**	**1,710,797**	**2,077,042**	**2,487,677**	**2,941,779**
Share capital	203,799	233,945	244,127	255,530	282,608
Reserves	15,079	18,642	20,033	22,655	27,335
Retained earnings	81,950	85,375	109,013	136,428	129,773
Equity	**318,951**	**355,926**	**393,589**	**448,822**	**461,862**
Total liabilities and equity	**1,560,472**	**2,066,723**	**2,470,631**	**2,936,499**	**3,403,642**
Key Ratios					
Loans/total assets (%)	57.0	59.0	62.0	58.1	60.8
Liquid assets/total assets (%)	29.0	28.0	26.0	29.1	25.1
Loans/non-bank deposits (%)	132.0	130.0	136.0	112.2	129.0
Total deposits/total liabilities (%)	54.0	55.0	55.0	61.2	54.5
Demand deposits/total deposits (%)	39.4	40.2	31.4	34.3	29.5

Source: CBA.

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

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

	For the year ended 31 December				
	2010	**2011**	**2012**	**2013**	**2014**
	(AMD millions, unless otherwise indicated)				
Interest income	136,160.8	175,483.8	225,728.3	254,575.0	278,812.6
Interest expense	58,669.9	81,462.6	111,193.9	135,119.7	149,846.3
Net interest income	**77,490.9**	**94,021.1**	**114,534.4**	**119,455.4**	**128,966.3**
Non-interest income	40,663.7	48,585.5	56,480.6	67,129.2	82,045.5
Non-interest expense	69,352.3	81,592.0	96,474.8	106,176.9	114,689.9
Net non-interest expense	**(28,688.6)**	**(33,006.5)**	**(39,994.2)**	**(39,047.7)**	**(32,644.3)**

Asset loss provisioning	(72,735.4)	(86,383.2)	(149,798.1)	(222,914.1)	(309,556.9)
Recoveries from asset loss provisioning	62,832.2	68,228.8	129,986.2	191,762.4	242,838.0
Pre-tax profit	**38,897.4**	**42,851.8**	**54,728.3**	**49,255.9**	**29,603.0**
Profit tax	8,692.5	9,672.2	12,257.1	11,157.1	8,417.4
Net profit	**30,204.9**	**33,180.0**	**42,471.2**	**38,098.8**	**21,185.6**
Dividends	152.0	196.1	196.1	340.5	0.0
Retained earnings	30,052.9	32,983.5	42,275.1	37,758.4	21,185.6
Key ratios					
Return on average assets *(%)*	2.2	1.9	1.1	1.4	0.7
Return on average equity *(%)*	10.2	9.8	11.5	9.2	4.6
Net interest margin *(%)*	43.8	42.0	40.6	37.1	35.7

Source: CBA.

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 2013, net profits of the banking sector decreased by AMD4,372.4 million, or by 10.3%, to AMD38,098.8 million from AMD42,471.2 million in 2012 mainly due to a 48.8% increase in asset loss provisioning, which was partially offset by a 47.5% increase in recoveries from asset loss provisioning. The increase in net loan loss provisioning was mainly caused by an increase in non-performing loans. See "—*Non-Performing Loans*."

In 2014, net profits of the banking sector decreased by AMD16,913.2 million, or by 44.4%, to AMD21,185.6 million from AMD38,098.8 million in 2013 mainly due to a 38.9% increase in asset loss provisioning, which was partially offset by a 26.6% increase in recoveries from asset loss provisioning. As in 2013, the increase in net loan loss provisioning was primarily driven by an increase in non-performing loans. See "—*Non-Performing Loans*."

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				
	2010	**2011**	**2012**	**2013**	**2014**
Non-performing loans (*AMD millions*)	28,635	43,697	58,372	79,685	149,872
Total outstanding loans (*AMD millions*)	934,383	1,273,678	1,627,588	1,789,596	2,220,746
Non-performing loans/total loans (%)	3.1	3.4	3.6	4.5	6.8

Reserves for loan losses/total loans (%)	1.7	1.9	2.0	2.2	2.8
Non-performing loan coverage ratio (%)(1)	56.7	55.4	55.1	49.5	41.3

Note:

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

Source: CBA.

Between 2010 and 2014, non-performing loans have increased annually in absolute terms and as a share of total loans. As of 31 December 2013, outstanding non-performing loans increased by 36.5% compared to 31 December 2012 (or to 4.5% of total loans as of 31 December 2013 compared to 3.6% of total loans as of 31 December 2012), 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. Non-performing loans increased substantially in 2014 compared to 2013. As of 31 December 2014, outstanding non-performing loans increased by 88.1% compared to 31 December 2013 (or to 6.8% of total loans as of 31 December 2014 compared to 4.5% of total loans as of 31 December 2013), as a result of several factors, including high growth rates in loans, a slowdown in economic growth and a decrease in remittances.

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 2015, the CBA postponed implementation from 2017 to 2020 to give flexibility to banks to fulfill the new Tier II minimum capital requirements). 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 were strengthened following a relaxation of certain prudential requirements during the global financial crisis. See "*—Monetary Policy of the CBA*." From 1 January 2017, each commercial bank in Armenia will be required to maintain regulatory capital of at least AMD30,000 million, which is expected to lead to consolidation of the country's banking sector.

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

Capital Adequacy Ratios

	As of 31 December

	2010	2011	2012	2013	2014
Equity/total assets	20.4	17.2	15.9	15.3	14.0
CBA total capital adequacy ratio	22.2	18.3	16.8	16.7	14.1
CBA Tier I capital adequacy ratio	20.0	16.7	15.2	14.5	12.7

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, banks 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%.

The CBA performs stress tests at least quarterly on the Armenian banking industry. The tests follow best international practices and are designed to highlight the sensitivity of Armenian banks to changes in the credit or liquidity environment, to movements in interest rates and foreign exchange rates, and to changes generally in the macroeconomic environment (including possible contagion effects).

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 2013, an average of 64,000 non-cash payments were made daily in Armenia, on average equal to AMD138 billion per day. In 2013, compared with 2012, the daily average amount of non-cash payments carried out through the CBA's payment and settlement systems increased by 10.0% (to AMD116.2 billion), while the number of daily transactions decreased by 9.0% (to 22,000).

In 2013, 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 3.2% as of 31 December 2013, an increase of 0.6 percentage points (compared to 2012).

In 2013, 108.0 million payment card transactions were carried out in Armenia, amounting to approximately AMD1 trillion. In 2013, non-cash transactions by payment cards amounted to AMD105.8 billion, an increase of 16.0% compared to 2012. Internet payments accounted for AMD24.3 billion of these transactions, of which card-to-card transfers comprised AMD121.4 billion and electronic commerce comprised AMD2.9 billion. In 2013, the total number of cards in circulation increased by 18.0% compared to 2012, reaching 1.6 million cards as of year-end 2013. In 2013, the share of non-cash payments by cards (including internet operations) in the total number of card transactions reached 9.5%, an increase of 0.4 percentage points from 2012. In 2013, compared to 2012, money transfers to individuals by banks and money transfer organisations (including SWIFT payments) increased by 5.0% to AMD941.2 billion, while the amount of outgoing transfers increased by 1.0% to AMD334.3billion. As a result, in 2013, net money transfer inflows totaled AMD607.0 billion, an increase of 8.0% compared to 2012.

As of 31 December 2013, 19 commercial banks in Armenia provided and serviced payment cards; each of these banks also participated in the ArCa unified card payment system. In 2013, 85 new automated teller machines ("**ATMs**") were installed in Armenia, with 1,255 ATMs in operation as of 31 December 2013. Commercial banks also installed 160 point-of-sale terminals, bringing the total number of such terminals as of 31 December 2013 to 6,834, of which 670 were installed in bank branches. In 2013, the number of payment cards increased by 18.0%, bringing the total number of cards in circulation to 1.6 million. The number of active ArCa cards grew by 15.0% in 2013 (compared to 2012), bringing the total number of such cards to 565,000 as of 31 December 2013. The number of international cards grew by 20.0% in 2013, with Visa, MasterCard and other international cards increasing by 25.0% (to approximately 652,000 cards), 13.0% (to approximately 300,000 cards) and 5.0% (to approximately 48,000 cards), respectively.

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 second piece of legislation on money laundering and terrorism financing -- the Law on Combating Money Laundering and Terrorism Financing of Armenia (the "**AML/CFT Law**") -- was adopted on 21 June 2008, came into force on 31 August 2008 and was substantially amended in June 2014 (with such amendments entering into force in October 2014). The amendments implemented recommendations from the IMF and the Council of Europe's Committee on Experts on the Evaluation of Anti-Money Laundering Measures and the Financing of Terrorism ("**MONEYVAL**") and pursuant to the 40+9 Recommendations of the Financial Action Task Force ("**FATF**").

The AMT/CFT Law defines the role and responsibilities of the CBA and its national financial intelligence unit, the FMC in the fight against money laundering and terrorism financing. The AMT/CFT Law also governs the relationships between various stakeholders of the AML/CFT system (including the FMC, law enforcement and supervisory authorities and reporting entities), as well as sets out the framework for international cooperation. The AML/CFT Law lists the entities that are required to disclose certain financial transactions, as well as regulates the scope of information that such reporting entities must provide. Under the AML/CFT Law, financial institutions, including all banks, are deemed 'reporting entities' and are obliged to file reports with the FMC on all non-cash transactions in excess of AMD20 million, all cash transactions in excess of AMD5 million and all suspicious transactions or business relationships, regardless of the amount involved. To assist reporting entities, the FMC has shared with them a matching algorithm programme that is designed to recognise key words, phrases and metadata related to suspicious individuals and entities, including those designated under applicable sanctions regimes.

By Presidential decree, the Interagency Committee on Combating Counterfeit Money, Fraud with Plastic Cards and Other Payment Instruments, Money Laundering and Terrorism Financing (the "**Interagency Committee**") was established in 2002. It is the principal forum for cooperation and coordination among the country's authorities responsible for preventing money laundering and terrorism financing. It includes representatives of the CBA, law enforcement bodies, the Ministry of Foreign Affairs, the Ministry of Finance and the Union of Banks, among others. The main responsibilities of the Interagency Committee include (i) the issuance of policy recommendations in the sphere of anti-money laundering and terrorism financing; (ii) the development of strategies to implement such recommendations; and (iii) cooperation with applicable national and international authorities.

In 2005, the FMC was established as an autonomous unit within the CBA and, for purposes of the AML/CFT Law, acts as an intermediary between reporting entities and law enforcement authorities. The FMC carries out its work in accordance with the AML/CFT Law, Government decrees, CBA resolutions, decisions of the CBA chairman and the FMC Statute, approved on 8 May 2009 by Decision No. 117A of the CBA Board, and guidance from the CBA Board. The primary responsibilities of the FMC are to (i) gather and analyse information from reporting entities, state bodies and organisations, (ii) refer suspicious activity to the relevant authorities for criminal prosecution and (iii) cooperate and exchange information with international financial intelligence units. 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 FMC prepares quarterly and annual reports on its activities.

Armenia is a member of MONEYVAL and maintains observer status within the Eurasian Group on Combating Money-Laundering and Terrorism Financing. Both of these groups implement and enforce FATF recommendations. In addition, since 2007, the FMC has been a member of the Egmont Group of Financial Intelligence Units (the "**Egmont Group**"), which provides the FMC with the opportunity to cooperate with financial intelligence units from approximately 150 countries and exchange information with these units through a secured system. The FMC participates in plenary sessions and working group meetings of the Egmont Group. Armenia actively cooperates with its international partners on matters related to sanctions.

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 is to ensure internal compliance with CPEBS.

The CBA is authorised to carry out on-site and off-site inspections of AML/CFT issues arising in the financial sector and has dedicated budget resources and personnel to carry out such inspections and communicate to the FMC any breach of the AML/CFT 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 years indicated:

ASE Market Statistics

	For the year ended 31 December				
	2010	**2011**	**2012**	**2013**	**2014**
Number of trades....................	805.0	356.0	387.0	765.0	1,531.0
Average number of trades per month................................	67.0	30.0	32.0	64.0	128.0
Securities traded *(number of shares, millions)*.......................	127.6	200.3	411.9	1,494.5	28,772.1
Average securities traded per month..	11.0	17.0	34.0	125.0	2,398.0
Treasury bills traded *(number of bills, millions)*........	5,492.9	5,373.8	4,183.5	15,101.3	33,766.1
Average treasury bills traded per month..................................	458.0	149.0	116.0	1,258.0	2,814.0
Corporate bonds traded *(number of bonds, millions)*.....	2,815.9	709.0	417.4	5,130.8	10,777.4

Average corporate bonds traded per month	235.0	59.0	35.0	428.0	898
Trading volume *(AMD millions)*	8,436.0	6,992.0	5,012.0	21,726.6	73,315.65
Year-on-year change *(%)*	(42.4)	(17.1)	(28.3)	333.5	237.4
Average trading volume per month	234.0	291.0	418.0	1,811.0	6,110.0

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 2014, there were seven insurance companies operating in Armenia; none provide life-insurance services. Three of these insurance companies have at least 50% foreign participation in its equity. In addition, as of 31 December 2014, there were two insurance brokers in Armenia.

As of 31 December 2014 (compared to 31 December 2013), there was a decrease in the assets, liabilities and shareholders' equity of insurance companies in Armenia, although levels remained higher than at 31 December 2012. Total assets of insurance companies equalled AMD43,421 million as of 31 December 2014, compared to AMD50,007 million as of 31 December 2013 and AMD38,351 million as of 31 December 2012. Total liabilities of insurance companies equalled AMD27,662 million as of 31 December 2014, compared to AMD34,038 million as of 31 December 2013 and AMD24,296 million as of 31 December 2012. Total capital of insurance companies equalled AMD15,758 million as of 31 December 2014, compared to AMD15,968 million as of 31 December 2013 and AMD14,054 million as of 31 December 2012. As of 31 December 2014, the largest insurance companies in Armenia in terms of net assets were Ingo Armenia and Rosgosstrakh Armenia.

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 31 December 2014, Public Debt amounted to U.S.$4,441.5 million, of which U.S.$3,785.2 million was External Public Debt and U.S.$656.3 million was Internal Public Debt. As of the date of this Prospectus, over 90% of the outstanding debt from the 2013 Eurobond issuance is classified as External 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 2015 Budget Message, the ceiling for Public Debt is U.S.$4,861.0 million, of which U.S.$4,037.0 million is allocated to External Public Debt and U.S.$824.0 million is allocated to Internal Public Debt. Under the MTEF for 2015-2017, the ceiling for Public Debt in 2016 is U.S.$5,343.1 million, of which U.S.$4,411.5 million is allocated to External Public Debt and U.S.$931.6 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(1)

	As of and for the year ended 31 December				
	2010	2011	2012	2013	2014
	(U.S.$ millions, except as indicated)				
Public Debt	**3,805.3**	**4,134.4**	**4,372.0**	**4,588.5**	**4,441.5**
Internal Public Debt(2)	504.8	565.1	632.9	689.4	656.3
External Public Debt	3,300.5	3,569.3	3,739.1	3,899.1	3,785.2
of Government	2,737.9	2,952.0	3,144.5	3,390.8	3,345.3
of Central Bank	562.6	617.3	594.6	508.3	440.0
Interest payments	**86.6**	**105.9**	**112.8**	**122.6**	**154.6**
Internal Public Debt(3)	42.4	55.5	57.8	72.4	79.5
External Public Debt	44.2	50.4	55.0	50.2	75.1
Principal payments	**262.2**	**319.4**	**389.8**	**1,019.3**	**346.3**
Internal Public Debt(3)	215.5	268.2	205.4	208.3	155.3
External Public Debt	46.7	51.2	184.4	811.0	191.0
Public Debt/GDP (%)(4)	**40.0**	**42.2**	**44.1**	**43.6**	**n/a**
Internal Public Debt/GDP (%)	5.3	5.8	6.4	6.5	n/a
External Public Debt/GDP (%)(4)	34.7	36.4	37.7	37.0	n/a
Public Debt/State Budget revenues (%)(4)	177.2	181.1	186.5	173.7	n/a
Public Debt service/State Budget revenues (%)(5)	16.8	17.9	21.2	42.8	n/a
External Public Debt/official foreign exchange reserves (%)	180.1	190.3	211.5	173.3	255.2(6)

Notes:

n/a = not available

(1) Table includes amounts outstanding under domestic guarantees issued by the Government.

(2) 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*."

(3) 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*."

(4) 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.*"

(5) 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*."

(6) Preliminary data.

Source: Ministry of Finance.

As of 31 December 2014, total amounts outstanding under domestic guarantees issued by the Government (which are classified as Internal Public Debt) equalled U.S.$2.1 million. The Government also issues external guarantees; total amounts outstanding under such guarantees equalled U.S.$149.9 million as of 31 December 2014. All external guarantees issued by the Government are provided to the CBA and, to avoid double counting, are included in the External Public Debt of the CBA and not the Government.

As of 31 December 2013, total external debt of Armenia, which includes private external debt and External Public Debt, amounted to U.S.$8,694.6 million, or 83.4% of GDP. As of 30 September 2014, total external debt of Armenia amounted to U.S.$8,306.3 million.

Internal Public Debt

Internal Public Debt consists of (i) Government securities acquired by residents of Armenia; (ii) commercial loans issued by residents of Armenia to the Ministry of Finance; and (iii) domestic guarantees issued by the Government (the "**Internal Public Debt**").

As of 31 December 2013, Internal Public Debt amounted to AMD279.6 billion, or 6.5% of GDP. As of December 2014, Internal Public Debt amounted to AMD311.7 billion.

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

Internal Public Debt

	As of 31 December				
	2010	**2011**	**2012**	**2013**	**2014**
	(AMD billions)				
Total	**183.5**	**218.0**	**255.4**	**279.6**	**311.7**
Government securities	172.4	209.6	249.5	275.4	308.8
Medium-term bonds	85.9	110.9	128.6	146.9	150.6
Long-term bonds	34.5	65.0	82.7	102.8	125.5
T-bills	51.4	33.0	37.4	22.9	12.5
Eurobonds purchased by residents	-	-	-	1.9	19.4
Savings bonds	0.6	0.8	0.7	0.9	0.8
Commercial loans	7.3	6.2	4.8	3.2	1.9
Domestic guarantees	3.8	2.2	1.1	1.0	1.0
	(% of total)				
Total	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**
Government securities	94.0	96.1	97.7	98.5	99.1
Medium-term bonds	46.8	50.8	50.4	52.5	48.3
Long-term bonds	18.8	29.8	32.4	36.8	40.2
T-bills	28.0	15.1	14.7	8.2	4.0
Eurobonds purchased by residents	-	-	-	0.7	6.2
Savings bonds	0.3	0.3	0.3	0.3	0.3
Commercial loans	4.0	2.8	1.9	1.2	0.6
Domestic guarantees	2.0	1.0	0.4	0.4	0.3
	(% of GDP)				
Total	5.3	5.8	6.4	6.5	n/a
Government securities	5.0	5.5	6.2	6.4	n/a
Medium-term bonds	2.5	2.9	3.2	3.4	n/a

Long-term bonds	1.0	1.7	2.1	2.4	n/a
T-bills	1.5	0.9	0.9	0.5	n/a
Eurobonds purchased by residents	-	-	-	0.0	n/a
Savings bonds	0.0	0.0	0.0	0.0	n/a
Commercial loans	0.2	0.2	0.1	0.1	n/a
Domestic guarantees	0.1	0.1	0.0	0.0	n/a
Memo:					
Internal Public Debt ceiling (*U.S.$ millions*)[(1)]	443.0	576.3	648.0	710.3	733.3
GDP (market prices) (*AMD billions*)	3,460.2	3,777.9	4,000.7	4,272.9	n/a
Exchange rate, AMD/U.S.$, end of period[(2)]	363.4	385.8	403.6	405.6	475.0
Internal Public Debt (*U.S.$ millions*)	504.8	565.1	632.9	689.4	656.3

Notes:

n/a = not available

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

(2) 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[(1)]

	As of 31 December				
	2010	**2011**	**2012**	**2013**	**2014**
	(AMD billions)				
Total	**172.4**	**209.6**	**249.5**	**273.5**	**289.4**
Up to one year[(1)]	59.5	49.0	62.3	48.7	56.4
1-2 years	22.8	30.9	32.9	52.0	44.0
2-3 years	21.7	28.3	41.5	33.0	35.9
3-4 years	18.1	24.3	17.0	22.4	41.2
4-5 years	17.3	13.7	14.6	41.2	12.7
5 years or more	33.0	63.4	81.2	76.2	99.2

Note:

(1) Excludes Eurobonds purchased by residents.

(2) Includes T-bills and savings bonds with maturities of up to one year.

Source: Ministry of Finance.

As of 31 December 2014, Government securities amounted to AMD308.8 billion (U.S.$650.2 million), comprising 99.1% of Internal Public Debt. Government securities consist mainly of medium-term and long-term bonds and to a lesser extent T-bills, Eurobonds held by Armenian residents and savings bonds. The remaining Internal Public Debt as of 31 December 2014 comprised one commercial loan from a local bank, equaling AMD1.9 billion (U.S.$4.0 million), and domestic guarantees, equaling AMD1.0 billion (U.S.$2.1 million).

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 2010, outstanding medium-term bonds amounted to AMD85.9 billion, or 46.8% of total Internal Public Debt. As of 31 December 2014, the outstanding amount of medium-term bonds was AMD150.6 billion, or 48.3% of total Internal Public Debt. As a share of total Internal Public Debt, medium-term bonds fell from 52.5% as of 31 December 2013 mainly because of an increase in outstanding long-term bonds and in Eurobonds held by Armenian residents. In 2014, a total of 13 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 2010, outstanding long-term bonds amounted to AMD34.5 billion, or 18.8% of total Internal Public Debt. As of 31 December 2014, the outstanding amount of long-term bonds was AMD125.5 billion, or 40.3% of total Internal Public Debt. In 2014, a total of seven auctions of long-term bonds were held.

T-bills are fixed rate, dram-denominated obligations with a maturity of up to one year. Between 2010 and 2014, T-bills have comprised a declining share of Internal Public Debt. As of 31 December 2010, outstanding T-bills amounted to AMD51.4 billion, or 28.0% of Internal Public Debt. As of 31 December 2014, the outstanding amount of T-bills was AMD12.5 billion, or 4.0% of total Internal Public Debt. In 2014, a total of 36 T-bill auctions took place. In an effort to promote liquidity in the market, including treasury bill auctions, the Ministry of Finance is carrying out an AMD25 billion programme in February-March 2015, whereby it purchases medium- and long-term government securities (with maturities of 3, 5, 10 and 20 years) from market participants, which funds are then used to purchase treasury bills (with maturities of 3, 6, 9 or 12 months) at auction.

In February 2014, in an effort to increase domestic investor access to foreign-currency denominated Government securities, the 2013 Eurobonds were made available for trading on NASDAQ-OMX Armenia, the country's domestic securities exchange. As a result, domestic holdings of Eurobonds increased, reaching AMD19.4 billion, or 6.2% of Internal Public Debt, as of 31 December 2014.

The Government also issues 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 31 December 2014, the outstanding amount of savings bonds was AMD0.8 billion, or 0.3% of total Internal Public Debt.

As of 31 December 2014, the weighted average yield of domestic Government securities was 13.49%, and the average contractual maturity of domestic Government securities equalled 2,003 days. All Government securities carry fixed interest rates.

In 2014, turnover on the secondary market for domestic Government securities equalled AMD143.3 billion, consisting of AMD110.3 billion in interbank transactions, AMD32.2 billion in transactions on NASDAQ-OMX Armenia and AMD0.8 billion in CBA transactions.

Turnover on the secondary market is expected to increase after the pension reform came into force in January 2014. Under the pension reform, workers aged 40 or below no longer make contributions to the state pension fund directly, instead making payments into their own private pension accounts. The Government matches 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.

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 2010, the outstanding commercial loan amounted AMD7.3 billion, or 4.0% of total Internal Public Debt. As of 31 December 2014, the outstanding commercial loan equalled AMD1.9 billion, or 0.6% of total Internal Public Debt.

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**"). External guarantees issued by the Government are provided to the CBA and, to avoid double counting, are included in the External Public Debt of the CBA and not the Government.

The outstanding External Public Debt was U.S.$3,785.2 million as of 31 December 2014. As of 31 December 2014, External Public Debt was comprised of (i) debt to multilateral financial institutions of U.S.$2,604.6 million; (ii) bonds purchased by non-residents of U.S.$660.2 million, nearly all of which comprises outstanding Eurobond debt; (iii) bilateral debt to other sovereigns of U.S.$504.2 million; and (iv) indebtedness to commercial banks of U.S.$16.3 million, consisting of U.S.$9.8 million to Raiffeisen Bank International

(Austria), U.S.$5.8 million to KBC BANK NV (Belgium) and U.S.$0.7 million to Erste Bank (Austria).

Historically, most External Public Debt was raised on concessionary terms, although the share of External Public Debt raised on commercial terms has risen in recent years, particularly as a result of the September 2013 Eurobond issuance. As of 31 December 2014, approximately 52% of External Public Debt was extended on concessionary terms and 48% on commercial terms. In September 2013, the Ministry of Finance on behalf of the Republic of Armenia issued the 2013 Eurobond, the country's debut Eurobond issuance. One of the main purposes of the 2013 Eurobond issuance was to promote the country's transition from raising debt on concessionary terms to that raised on commercial terms.

As of 31 December 2014, the average weighted interest rate on External Public Debt was approximately 1.9% per annum, and the average contractual maturity was approximately 10.2 years. As of 31 December 2014, approximately 81.2% of Armenia's External Public Debt portfolio carried fixed interest rates, and the remainder carried floating rates. In 2014, approximately 21% 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				
	2010	**2011**	**2012**	**2013**	**2014**
	(U.S.$ millions)				
Total	**3,300.5**	**3,569.3**	**3,739.1**	**3,899.1**	**3,785.2**
***Government**, of which*	2,737.9	2,952.0	3,144.5	3,390.8	3,345.3
***Multilateral creditors**, of which*	1,736.9	1,918.6	2,125.9	2,222.5	2,257.6
IDA	1,159.9	1,186.2	1,234.4	1,274.0	1,198.4
IMF	254.1	310.7	313.1	220.3	152.0
IBRD	75.5	110.5	185.9	260.9	361.5
ADB	146.7	165.3	187.9	227.9	303.5
EU	0.0	33.6	85.7	89.7	79.0
IFAD	62.0	66.3	67.3	67.5	62.9
OPEC	28.7	28.3	30.7	34.3	34.5
EBRD	10.0	13.7	14.3	25.8	21.3
EIB	0.0	3.9	6.6	22.1	44.6
Government securities	1.5	1.1	0.8	696.9	660.2
Government domestic securities purchased by non-residents	1.5	1.1	0.8	1.6	0.9
Eurobonds purchased by non-residents	-	-	-	695.3	659.2
***Bilateral creditors**, of which*	999.5	1,030.1	1,004.9	454.7	411.2
Russia	500.0	500.0	500.0	-	-
Japan (JICA)	374.4	397.2	355.9	290.8	252.6
Germany (KfW)	86.8	94.6	111.5	126.0	118.9
USA	33.1	31.1	29.3	27.5	25.3
France	4.3	4.1	4.0	5.2	8.7
Abu Dhabi Fund for Development	0.9	3.1	4.2	5.1	5.7
Commercial banks	0.0	2.2	12.9	16.7	16.3
***CBA**, of which*	562.6	617.3	594.6	508.3	440.0
***Multilateral creditors**, of which*	516.8	556.8	513.0	414.5	347.0
IMF	486.7	516.7	463.0	364.5	290.1
IBRD	30.1	40.1	50.0	50.0	49.3
ADB	-	-	-	-	7.6
***Bilateral creditors**, of which*	45.8	60.5	81.6	93.8	93.0
Germany (KfW)	45.8	60.5	81.6	93.8	93.0
	(% of total)				
Total	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**
***Government**, of which*	**83.0**	**82.7**	**84.1**	**87.0**	**88.4**
***Multilateral creditors**, of which*	52.6	53.7	56.9	57.0	59.6
IDA	35.1	33.2	33.0	32.7	31.7
IMF	7.7	8.7	8.4	5.6	4.0
IBRD	2.3	3.1	5.0	6.7	9.6
ADB	4.4	4.6	5.0	5.8	8.0

EU	-	0.9	2.3	2.3	2.1
IFAD	1.9	1.9	1.8	1.7	1.7
OPEC	0.9	0.8	0.8	0.9	0.9
EBRD	0.3	0.4	0.4	0.7	0.6
EIB	-	0.1	0.2	0.6	1.2
Government securities	0.0	0.0	0.0	17.9	17.4
Government domestic securities purchased by non-residents	0.0	0.0	0.0	0.0	0.0
Eurobonds purchased by non-residents	-	-	-	17.8	17.4
Bilateral creditors*, of which*	30.3	28.9	26.9	11.7	10.9
Russia	15.1	14.0	13.4	-	-
Japan (JICA)	11.3	11.1	9.5	7.5	6.7
Germany (KfW)	2.6	2.7	3.0	3.2	3.1
USA	1.0	0.9	0.8	0.7	0.7
France	0.1	0.1	0.1	0.1	0.2
Abu Dhabi Fund for Development	0.0	0.1	0.1	0.1	0.2
Commercial banks	-	0.1	0.3	0.4	0.4
CBA*, of which*	17.0	17.3	15.9	13.0	11.6
Multilateral creditors*, of which*	15.7	15.6	13.7	10.6	9.2
IMF	14.7	14.5	12.4	9.3	7.7
IBRD	0.9	1.1	1.3	1.3	1.3
ADB	-	-	-	-	0.2
Bilateral creditors*, of which*	1.4	1.7	2.2	2.4	2.5
Germany (KfW)	1.4	1.7	2.2	2.4	2.5
			(% of GDP)[1]		
Total	**34.7**	**36.4**	**37.7**	**37.0**	**n/a**
Government*, of which*	28.8	30.1	31.7	32.2	n/a
Multilateral creditors*, of which*	18.2	19.6	21.4	21.1	n/a
IDA	12.2	12.1	12.5	12.1	n/a
IMF	2.7	3.2	3.2	2.1	n/a
IBRD	0.8	1.1	1.9	2.5	n/a
ADB	1.5	1.7	1.9	2.2	n/a
EU	-	0.3	0.9	0.9	n/a
IFAD	0.7	0.7	0.7	0.6	n/a
OPEC	0.3	0.3	0.3	0.3	n/a
EBRD	0.1	0.1	0.1	0.2	n/a
EIB	-	0.0	0.1	0.2	n/a
Government securities	0.0	0.0	0.0	6.6	n/a
Government domestic securities purchased by non-residents	0.0	0.0	0.0	0.0	n/a
Eurobonds purchased by non-residents	-	-	-	6.6	n/a
Bilateral creditors*, of which*	10.5	10.5	10.1	4.3	n/a
Russia	5.3	5.1	5.0	-	n/a
Japan (JICA)	3.9	4.1	3.6	2.8	n/a
Germany (KfW)	0.9	1.0	1.1	1.2	n/a
USA	0.3	0.3	0.3	0.3	n/a
France	0.0	0.0	0.0	0.0	n/a
Abu Dhabi Fund for Development	0.0	0.0	0.0	0.0	n/a
Commercial banks	-	0.0	0.1	0.2	n/a
CBA, of which	5.9	6.3	6.0	4.8	n/a
Multilateral creditors*, of which*	5.4	5.7	5.2	3.9	n/a
IMF	5.1	5.3	4.7	3.5	n/a
IBRD	0.3	0.4	0.5	0.5	n/a
ADB	-	-	-	-	n/a
Bilateral creditors*, of which*	0.5	0.6	0.8	0.9	n/a
Germany (KfW)	0.5	0.6	0.8	0.9	n/a
Memo:					
External Public Debt ceiling (*U.S.$ millions)*[2]	3,566.0	3,814.8	4,044.0	4,080.4	4,277.5
GDP (*AMD billions*)	3,460.2	3,778.0	4,000.7	4,272.9	n/a
Exchange rate, AMD/U.S.$, end of period[3]	363.4	385.8	403.6	405.6	475.0

Notes:

n/a = not available.

(1) 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.*"

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

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

Source: Ministry of Finance.

Of the U.S.$3,785.2 million outstanding as of 31 December 2014, U.S.$3,345.3 million represented External Public Debt incurred by the Government, including U.S.$2,257.6 million in loans from multilateral creditors, U.S.$659.2 million in Eurobonds, U.S.$411.2 million in loans from bilateral sovereign creditors, U.S.$16.3 million in loans from commercial banks and U.S.$0.9 million in dram-denominated Government securities held by non-residents. As of 31 December 2014, Armenia's largest multilateral lenders were the IDA, IBRD, ADB and the IMF.

Japan, followed by Germany, were Armenia's largest bilateral sovereign creditors as of 31 December 2014. Bilateral sovereign debt decreased substantially following repayment in the fourth quarter of 2013 of the U.S.$500 million loan granted by Russia in 2009, falling from U.S.$1,004.9 million as of 31 December 2012 to U.S.$454.7 million as of 31 December 2013. The 2009 Russia loan was granted to Armenia in order to alleviate the impact of the 2008-2009 global financial crisis on the Armenian economy.

In February 2015, Russia agreed to provide a U.S.$270 million financing (and also a U.S.$30 million grant to support safety upgrades) to extend the operating lifetime of the Metsamor Plant to 2026. Proceeds of the loan are to be used to finance certain reconstruction projects at the plant (including building a new unit that would replace the old part of the Metsamor Plant); preparatory work to determine the details of such projects is expected to be carried out in 2015-19. The loan bears an interest rate of 3% per annum; the first payment of principal is due on 15 January 2020.

As of 31 December 2014, fixed-rate loans and fixed-rate Government securities comprised 63.8% and 17.4%, respectively, of Public External Debt. The remaining share of Public External Debt (18.8%) consisted of loans with floating interest rates. The following table sets forth the structure of Public External Debt by currency as of the dates indicated:

External Public Debt by Currency(1)(2)

	As of 31 December				
	2010	**2011**	**2012**	**2013**	**2014**
			(%)		
SDR	63.9	62.9	60.6	53.7	51.1
Dollar	20.2	19.9	21.3	29.0	32.0
Euro	4.5	6.0	8.5	9.7	10.1
Japanese Yen	11.3	11.1	9.5	7.5	6.7
AED	0.0	0.1	0.1	0.1	0.2
AMD	0.1	0.0	0.0	0.0	0.0
Total	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

Notes:

(1) Includes loans and Government securities.

(2) 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 31 December 2014, the total amount outstanding under Government domestic debt guarantees was U.S.$2.1 million in respect of a loan from "HSBC Bank Armenia" CJSC to "Tamara Fruit" CJSC. As of 31 December 2014, the total amount outstanding under Government external debt guarantees was U.S.$149.9 million. All of the external debt guarantees outstanding as of 31 December 2014 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 30 September
	2010	2011	2012	2013	2014
Total external debt[1] (*U.S.$ millions*)	6,306.6	7,417.6	7,656.0	8,694.6	8,306.3
Public External Debt/total external debt (*%*)	54.5	50.0	50.8	46.6	46.9
Total external debt/GDP[2] (*%*)	67.9	72.9	76.7	53.4	n/a

Notes:

n/a = not available.

(1) Includes Public External Debt and private sector external debt.

(2) 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: CBA.

Borrowings by domestic banks and credit organisations represent the largest component of private sector debt, constituting approximately 51.7% of outstanding private sector debt as of 31 December 2013 and 50.9% of outstanding private sector debt as of 30 September 2014.

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				
	2010	2011	2012	2013	2014
	(*U.S.$ millions*)				
Internal Public Debt service[1]	**257.9**	**323.7**	**263.2**	**280.7**	**234.7**
Principal	215.5	268.2	205.4	208.3	155.3
Interest	42.4	55.5	57.8	72.4	79.4
External Public Debt service	**90.9**	**101.6**	**239.4**	**861.2**	**266.1**
Principal	46.7	51.2	184.4	811.0	191.0
Interest	44.2	50.4	55.0	50.2	75.1
Total Public Debt Service[1]	**348.8**	**425.3**	**502.6**	**1141.9**	**500.8**

Note:

(1) Figures for Internal Public Debt are 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									
	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
	(U.S.$ millions)[(2)]									
Government External Public Debt, *of which*	**55.8**	**71.0**	**98.0**	**116.1**	**132.2**	**843.5**	**146.5**	**133.7**	**132.7**	**135.5**
***Multilateral creditors**, of which*	37.2	52.3	79.2	97.0	111.9	123.2	123.3	113.4	112.3	115.5
IDA	24.5	28.0	39.3	46.6	58.9	64.6	69.7	70.2	71.2	72.2
IMF	4.5	10.8	24.0	29.5	29.5	29.5	18.7	5.5	0.0	0.0
IBRD	0.3	1.2	1.4	1.4	2.6	6.3	10.2	13.3	17.1	18.5
ADB	1.9	5.2	7.6	11.7	12.5	13.8	14.9	14.9	14.9	14.9
EU	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
IFAD	1.8	1.8	1.8	2.2	2.2	2.2	2.7	2.7	2.7	2.7
OPEC	1.9	2.6	2.6	2.6	2.6	2.6	2.6	2.6	2.6	2.6
EBRD	1.9	2.1	2.1	2.1	2.1	2.1	2.1	1.7	1.3	2.2
EIB	0.3	0.6	0.6	0.9	1.5	2.1	2.4	2.5	2.5	2.5
Foreign currency denominated bonds	0.0	0.0	0.0	0.0	0.0	700.0	0.0	0.0	0.0	0.0
***Bilateral creditors**, of which*	18.1	18.1	18.1	18.5	18.7	18.7	21.6	18.7	18.7	18.4
Japan (JICA)	9.4	9.4	9.4	9.4	9.4	9.4	9.4	9.4	9.4	9.4
Germany (KfW)	6.4	6.5	6.5	6.5	6.7	6.7	6.8	6.8	6.8	6.4
USA	1.7	1.7	1.7	1.7	1.7	1.7	4.6	1.7	1.7	1.7
France	0.1	0.1	0.1	0.5	0.5	0.5	0.5	0.5	0.5	0.5
Abu Dhabi Fund for Development	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4
Commercial banks	0.5	0.6	0.6	0.6	1.6	1.6	1.6	1.6	1.6	1.6
Central Bank External Public Debt, *of which*	28.4	36.1	39.9	47.9	54.8	51.2	43.4	30.5	19.4	7.4
***Multilateral creditors**, of which*	20.7	27.2	30.9	38.7	45.7	43.8	37.7	27.2	16.1	5.1
IMF	19.3	25.8	29.4	37.1	44.0	41.9	35.5	25.0	13.8	2.6
IBRD	1.4	1.4	1.5	1.6	1.7	1.8	1.8	1.9	2.0	2.1
ADB	0.0	0.0	0.0	0.0	0.0	0.2	0.3	0.3	0.3	0.3
***Bilateral creditors**, of which*	7.8	8.8	9.0	9.2	9.2	7.5	5.7	3.3	3.3	2.3
Germany (KfW)	7.8	8.8	9.0	9.2	9.2	7.5	5.7	3.3	3.3	2.3

Notes:

(1) The table reflects contractual payments of existing obligations as of 31 December 2014. 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 2014, including the issuance of the Notes.

(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									
	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
	(U.S.$ millions)[(2)]									
Government External Public Debt, *of which*	**87.2**	**85.8**	**84.7**	**83.6**	**82.1**	**80.3**	**36.4**	**34.3**	**32.1**	**29.9**
***Multilateral creditors**, of which*	40.4	39.3	38.5	37.6	36.4	35.0	33.3	31.5	29.6	27.7
IDA	25.6	25.0	24.3	23.5	22.5	21.4	20.2	18.9	17.6	16.3
IMF	0.0	-	-	-	-	-	-	-	-	-
IBRD	4.7	4.3	4.3	4.3	4.3	4.3	4.2	4.1	3.9	3.7
ADB	3.8	3.9	4.1	4.2	4.2	4.1	4.0	3.7	3.5	3.3
EU	2.7	2.7	2.7	2.7	2.7	2.7	2.7	2.7	2.7	2.7
IFAD	0.5	0.5	0.4	0.4	0.4	0.4	0.4	0.4	0.3	0.3
OPEC	1.4	1.3	1.2	1.1	1.0	0.9	0.8	0.7	0.6	0.5
EBRD	0.7	0.5	0.4	0.4	0.3	0.3	0.2	0.1	0.1	0.1
EIB	1.2	1.1	1.1	1.1	1.1	1.0	1.0	0.9	0.9	0.8
Foreign currency denominated bonds	42.0	42.0	42.0	42.0	42.0	42.0	0.0	0.0	0.0	0.0

***Bilateral creditors**, of which*	4.5	4.3	4.0	3.8	3.5	3.3	3.0	2.7	2.5	2.2
Japan (JICA)	2.2	2.1	2.0	2.0	1.9	1.8	1.7	1.6	1.5	1.4
Germany (KfW)	1.5	1.4	1.3	1.2	1.1	1.0	0.8	0.7	0.6	0.5
USA	0.5	0.4	0.4	0.4	0.3	0.3	0.3	0.2	0.2	0.1
France	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Abu Dhabi Fund for Development	0.2	0.2	0.2	0.2	0.1	0.1	0.1	0.1	0.1	0.1
Commercial banks	0.2	0.2	0.2	0.2	0.1	0.1	0.1	0.1	0.1	0.1
Central Bank External Public Debt, *of which*	5.1	5.0	4.5	3.8	3.2	2.6	2.0	1.5	1.2	1.0
***Multilateral creditors**, of which*	3.4	3.4	3.1	2.8	2.3	2.0	1.5	1.1	0.9	0.7
IMF	2.8	2.9	2.6	2.3	1.8	1.4	0.9	0.6	0.3	0.2
IBRD	0.6	0.6	0.5	0.5	0.5	0.5	0.5	0.5	0.4	0.4
ADB	0.0	0.0	0.0	0.0	0.0	0.1	0.1	0.1	0.1	0.1
***Bilateral creditors**, of which*	1.7	1.5	1.3	1.0	0.8	0.6	0.5	0.4	0.3	0.2
Germany (KfW)	1.7	1.5	1.3	1.0	0.8	0.6	0.5	0.4	0.3	0.2

Notes*:*

(1) The table reflects contractual payments of existing obligations as of 31 December 2014. 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 2014, including the issuance of the Notes.

(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 providing 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.

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 89 public sector projects (of which 66 are IDA projects and 23 are IBRD projects) totaling approximately U.S.$2.1 billion.

Armenia's borrowing from the World Bank has been mainly on concessionary terms through the IDA. As of 31 December 2014, the total amount of External Public Debt owed to the World Bank in respect of IDA loans was U.S.$1,198.4 million. In 1992, Armenia became eligible for IBRD borrowing. As of 31 December 2014, the total amount of External Public Debt owed to the World Bank in respect of IBRD loans was U.S.$410.8 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.$320 million in 52 projects across a range of sectors, including financial markets, manufacturing and mining, and has assisted in securing an additional U.S.$23 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 by the CBA to manage Armenia's international reserve position and by the Government to support Armenia's budget. As of 31 December 2014, the total amount owed to the IMF was U.S.$442.1 million, of which U.S.$290.1 million are payable by the CBA and U.S.$152.0 million by the Government.

In 2010, the IMF approved a blended Extended Fund Facility ("**EFF**") and Extended Credit Facility ("**ECF**") in for 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 June-July 2013 following the IMF's sixth and final review under the programme. Since 1992, Armenia has drawn down a total of SDR492.9 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. In March 2014, the IMF approved a 38-month EFF facility worth SDR82.21 million (approximately U.S.$127.6 million) aimed at supporting the domestic economy, reducing poverty, stabilizing inflation and reducing certain macroeconomic vulnerabilities. To date, Armenia has withdrawn SDR23.5 million under this new facility, which is subject to semi-annual reviews. As of 31 December 2014, the total amount of debt outstanding under Armenia's EFF and ECF arrangements was SDR299.1 million.

ADB

Armenia became a member of the ADB in 2005. To date, Armenia and the ADB have entered into 14 public sector projects for a total amount of approximately U.S.$690 million. The ADB has focused its investments on transportation infrastructure, water supply and sanitation projects and energy project, while also extending to Armenia several crisis-recovery loans in 2009 and budget support loans in 2013 and 2014. 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 31 December 2014, the total amount of ADF-funded External Public Debt was U.S.$272.1 million, and the total amount of OCR-funded External Public Debt was U.S.$39 million.

EU

In 2011-12, the EU provided to Armenia macro-financial assistance in the form of budget support 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. The loan was provided in two tranches (€26 million in 2011 and €39 million in 2012), both of which are to be repaid in 2026. The grant was also provided in two tranches (€14 million and €21 million, both provided in 2011). As of 31 December 2014, the total amount of External Public Debt owed to the EU was U.S.$79.0 million.

In November 2014, Armenia signed a memorandum of understanding with the EU, launching the Single

Support Framework for EU-support to Armenia, which sets out the strategic objectives and priorities for EU-Armenia cooperation through 2017. The memorandum of understanding contemplates €140-170 million in EU financing in the priority areas of private sector development, public administration and justice. Also, in November 2014, Armenia and the EU entered into a financing agreement, whereby the EU has agreed to provide €25 million in support to Armenia's agriculture sector in 2015-2020. To date, no amount has been disbursed under the financing agreement.

IFAD

To date, Armenia and the IFAD have entered into seven public sector projects for a total amount of approximately U.S.$90 million. IFAD primarily invests in Armenia's agricultural sector. As of 31 December 2014, the total amount owed to IFAD was U.S.$62.9 million.

OPEC

To date, Armenia and OPEC have entered into four rural and agricultural development projects for a total amount of U.S.$49 million. As of 31 December 2014, the total amount owed to OPEC was U.S.$34.5 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 nine public sector projects for a total amount of U.S.$132.5 million. EBRD's investments in the public sector of Armenia have focused mainly on projects to improve the environment and transportation infrastructure**.** As of 31 December 2014, the total amount of Public Debt outstanding to the EBRD was U.S.$21.3 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 Metro. Total investment in the project amounted to U.S.$6.5 million. As of 31 December 2014, the total amount outstanding owed to the EIB was U.S.$44.6 million, up from U.S.$22.1 million as of 31 December 2013 and U.S.$6.6 million as of 31 December 2012. The significant increase in debt owed to the EIB reflects new EIB projects in connection with border-crossing and infrastructure projects, particularly in the water and road transport sectors.

EEU

Armenia officially joined the EEU in January 2015. See "*Risk Factors—Risk Factors Relating to Armenia—Relations with Russia*." To date, no loans or grants have been extended to Armenia under the auspices of the EEU. However, it is expected that Armenia will receive two grants (U.S.$47 million and RUB130 million) to support the country's integration into the EEU.

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 ● 2015 (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 and will constitute direct, general, unconditional and unsubordinated obligations of the Issuer for which the full faith and credit of the Issuer is pledged. The Notes rank and will rank at all times without any preference among themselves and equally with all other unsubordinated obligations of the Issuer from time to time oustanding. It is understood that this provision shall not be construed so as to require the Issuer to make payments under the Notes ratably with payments being made under any other obligations.

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 1.1(c) and 1.1(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 ● 20● (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) 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 ● 2015 at the rate of ●% per annum payable semi-annually in arrear on ● and ● in each year (each an "**Interest Payment Date**"), commencing on ● 2015. 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 ● 2015 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 and 11. 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 but without prejudice to any rights or obligations which may have arisen before the Issuer gives such notice (whether pursuant to these Conditions or otherwise). 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; Conduct of Meetings of Noteholders; Written Resolutions:**

(i) The Issuer may convene a meeting of the Noteholders at any time in respect of the Notes in accordance with the provisions of the Fiscal Agency Agreement. The Issuer will determine the time and place of the meeting and will notify the Noteholders of the time, place and purpose of the meeting not less than 21 and not more than 45 days before the meeting.

(ii) The Issuer or the Fiscal Agent will convene a meeting of Noteholders if the holders of at least 10% in principal amount of the outstanding Notes (as defined in the Fiscal Agency Agreement and described in Condition 11(i)) have delivered a written request to the Issuer or the Fiscal Agent (with a copy to the Issuer) setting out the purpose of the meeting. The Fiscal Agent will agree the time and place of the meeting with the Issuer promptly. The Issuer or the Fiscal Agent, as the case may be, will notify the Noteholders within 10 days of receipt of such written request of the time and place of the meeting, which shall take place not less than 21 and not more than 45 days after the date on which such notification is given.

(iii) The Issuer (with the agreement of the Fiscal Agent) will set the procedures governing the conduct of any meeting in accordance with the Fiscal Agency Agreement. If the Fiscal Agency Agreement does not include such procedures, or additional procedures are required, the Issuer and the Fiscal Agent will agree such procedures as are customary in the market and in such a manner as to facilitate any multiple series aggregation, if in relation to a Reserved Matter the Issuer proposes any modification to the terms and conditions of, or action with respect to, two or more series of debt securities issued by it.

(iv) The notice convening any meeting will specify, *inter alia*;

(A) the date, time and location of the meeting;

(B) the agenda and the text of any Extraordinary Resolution to be proposed for adoption at the meeting;

(C) the record date for the meeting, which shall be no more than five business days before the date of the meeting;

(D) the documentation required to be produced by a Noteholder in order to be entitled to participate at the meeting or to appoint a proxy to act on the Noteholder's behalf at the meeting;

(E) any time deadline and procedures required by any relevant international and/or domestic clearing systems or similar through which the Notes are traded and/or held by Noteholders;

(F) whether Condition 11(b), or Condition 11(c), or Condition 11(d) shall apply and, if relevant, in relation to which other series of debt securities it applies;

(G) if the proposed modification or action relates to two or more series of debt securities issued by it and contemplates such series of debt securities being aggregated in more than one group of debt securities, a description of the proposed treatment of each such group of debt securities;

(H) such information that is required to be provided by the Issuer in accordance with Condition 11(f);

(I) the identity of the Aggregation Agent and the Calculation Agent, if any, for any proposed modification or action to be voted on at the meeting, and the details of any applicable methodology referred to in Condition 11(g); and

(J) any additional procedures which may be necessary and, if applicable, the conditions under which a multiple series aggregation will be deemed to have been satisfied if it is approved as to some but not all of the affected series of debt securities.

(v) In addition, the Fiscal Agency Agreement contains provisions relating to Written Resolutions. All information to be provided pursuant to this Condition 11(a) shall also be provided, *mutatis mutandis*, in respect of Written Resolutions.

(vi) A "**record date**" in relation to any proposed modification or action means the date fixed by the Issuer for determining the Noteholders and, in the case of a multiple series aggregation, the holders of debt securities of each other affected series that are entitled to vote on a Multiple Series Single Limb Extraordinary Resolution or a Multiple Series Two Limb Extraordinary Resolution, or to sign a Multiple Series Single Limb Written Resolution or a Multiple Series Two Limb Written Resolution.

(vii) An "**Extraordinary Resolution**" means any of a Single Series Extraordinary Resolution, a Multiple Series Single Limb Extraordinary Resolution and/or a Multiple Series Two Limb Extraordinary Resolution, as the case may be.

(viii) A "**Written Resolution**" means any of a Single Series Written Resolution, a Multiple Series Single Limb Written Resolution and/or a Multiple Series Two Limb Written Resolution, as the case may be.

(ix) Any reference to "**debt securities**" means any notes (including the Notes), bonds, debentures or other debt securities issued by the Issuer in one or more series with an original stated maturity of more than one year.

(x) **"Debt Securities Capable of Aggregation**" means those debt securities which include or incorporate by reference this Condition 11 and Condition 12 or provisions substantially in these terms which provide for the debt securities which include such provisions to be capable of being aggregated for voting purposes with other series of debt securities.

(b) **Modification of this Series of Notes only:**

(i) Any modification of any provision of, or any action in respect of, these Conditions or the Fiscal Agency Agreement in respect of the Notes may be made or taken if approved by a Single Series Extraordinary Resolution or a Single Series Written Resolution as set out below.

(ii) A "**Single Series Extraordinary Resolution**" means a resolution passed at a meeting of Noteholders duly convened and held in accordance with the procedures prescribed by the Issuer and the Fiscal Agent pursuant to Condition 11(a) by a majority of:

(A) in the case of a Reserved Matter, at least 75% of the aggregate principal amount of the outstanding Notes; or

(B) in the case of a matter other than a Reserved Matter, more than 50% of the aggregate principal amount of the outstanding Notes.

(iii) A "**Single Series Written Resolution**" means a resolution in writing signed or confirmed in writing by or on behalf of the holders of:

(A) in the case of a Reserved Matter, at least 75% of the aggregate principal amount of the outstanding Notes; or

(B) in the case of a matter other than a Reserved Matter more than 50% of the aggregate principal amount of the outstanding Notes.

(iv) Any Single Series Written Resolution may be contained in one document or several documents in the same form, each signed or confirmed in writing by or on behalf of one or more Noteholders.

(v) Any Single Series Extraordinary Resolution duly passed or Single Series Written Resolution approved shall be binding on all Noteholders, whether or not they attended any meeting, whether or not they voted in favour thereof and whether or not they signed or confirmed in writing any such Single Series Written Resolution, as the case may be.

(c) **Multiple Series Aggregation – Single limb voting:**

(i) In relation to a proposal that includes a Reserved Matter, any modification to the terms and conditions of, or any action with respect to, two or more series of Debt Securities Capable of Aggregation may be made or taken if approved by a Multiple Series Single Limb Extraordinary Resolution or by a Multiple Series Single Limb Written Resolution as set out below, provided that the Uniformly Applicable condition is satisfied.

(ii) A "**Multiple Series Single Limb Extraordinary Resolution**" means a resolution considered at separate meetings of the holders of each affected series of Debt Securities Capable of Aggregation, duly convened and held in accordance with the procedures prescribed by the Issuer and the Fiscal Agent pursuant to Condition 11(a), as supplemented if necessary, which is passed by a majority of at least 75% of the aggregate principal amount of the outstanding debt securities of all affected series of Debt Securities Capable of Aggregation (taken in aggregate).

(iii) A "**Multiple Series Single Limb Written Resolution**" means each resolution in writing (with a separate resolution in writing or multiple separate resolutions in writing distributed to the holders of each affected series of Debt Securities Capable of Aggregation, in accordance with the applicable bond documentation) which, when taken together, has been signed or confirmed in writing by or on behalf of the holders of at least 75% of the aggregate principal amount of the outstanding debt securities of all affected series of Debt Securities Capable of Aggregation (taken in aggregate). Any Multiple Series Single Limb Written Resolution may be contained in one document or several documents in substantially the same form, each signed or confirmed in writing by or on behalf of one or more Noteholders or one or more holders of each affected series of debt securities.

(iv) Any Multiple Series Single Limb Extraordinary Resolution duly passed or Multiple Series Single Limb Written Resolution approved shall be binding on all Noteholders and holders of each other affected series of Debt Securities Capable of Aggregation, whether or not they attended any meeting, whether or not they voted in favour thereof, whether or not any other holder or holders of the same series voted in favour thereof and whether or not they signed or confirmed in writing any such Multiple Series Single Limb Written Resolution, as the case may be.

(v) The "**Uniformly Applicable**" condition will be satisfied if:

(A) the holders of all affected series of Debt Securities Capable of Aggregation are invited to exchange, convert, or substitute their debt securities, on the same terms, for (A) the same new instrument or other consideration or (B) a new instrument, new instruments or other consideration from an identical menu of instruments or other consideration; or

(B) the amendments proposed to the terms and conditions of each affected series of Debt Securities Capable of Aggregation would, following implementation of such amendments, result in the amended instruments having identical provisions (other than provisions which are necessarily different, having regard to the currency of issuance).

(vi) Any modification or action proposed under paragraph (a) above may be made in respect of some series only of the Debt Securities Capable of Aggregation and, for the avoidance of doubt, the provisions described in this Condition 11(c) may be used for different groups of two or more series of Debt Securities Capable of Aggregation simultaneously.

(d) **Multiple Series Aggregation – Two limb voting:**

(i) In relation to a proposal that includes a Reserved Matter, any modification to the terms and conditions of, or any action with respect to, two or more series of Debt Securities Capable of Aggregation may be made or taken if approved by a Multiple Series Two Limb Extraordinary Resolution or by a Multiple Series Two Limb Written Resolution as set out below.

(ii) A "**Multiple Series Two Limb Extraordinary Resolution**" means a resolution considered at separate meetings of the holders of each affected series of Debt Securities Capable of Aggregation, duly convened and held in accordance with the procedures prescribed by the Issuer and the Fiscal Agent pursuant to Condition 11(a), as supplemented if necessary, which is passed by a majority of:

(A) at least 66⅔% of the aggregate principal amount of the outstanding debt securities of all affected series of Debt Securities Capable of Aggregation (taken in aggregate); and

(B) more than 50% of the aggregate principal amount of the outstanding debt securities in each affected series of Debt Securities Capable of Aggregation (taken individually).

(iii) A "**Multiple Series Two Limb Written Resolution**" means each resolution in writing (with a separate resolution in writing or multiple separate resolutions in writing distributed to the holders of each affected series of Debt Securities Capable of Aggregation, in accordance with the applicable bond documentation) which, when taken together, has been signed or confirmed in writing by or on behalf of the holders of:

(A) at least 66⅔% of the aggregate principal amount of the outstanding debt securities of all affected series of Debt Securities Capable of Aggregation (taken in aggregate); and

(B) more than 50% of the aggregate principal amount of the outstanding debt securities in each affected series of Debt Securities Capable of Aggregation (taken individually).

(iv) Any Multiple Series Two Limb Written Resolution may be contained in one document or several documents in substantially the same form, each signed or confirmed in writing by or on behalf of one or more Noteholders or one or more holders of each affected series of Debt Securities Capable of Aggregation.

(v) Any Multiple Series Two Limb Extraordinary Resolution duly passed or Multiple Series Two Limb Written Resolution approved shall be binding on all Noteholders and holders of each other affected series of Debt Securities Capable of Aggregation, whether or not they attended any meeting, whether or not they voted in favour thereof, whether or not any other holder or holders of the same series voted in favour thereof and whether or not they signed or confirmed in writing any such Multiple Series Two Limb Written Resolution, as the case may be.

(vi) Any modification or action proposed under paragraph (a) above may be made in respect of some series only of the Debt Securities Capable of Aggregation and, for the avoidance of doubt, the provisions described in this Condition 11(d) may be used for different groups of two or more series of Debt Securities Capable of Aggregation simultaneously.

(e) **Reserved Matters:** In these Conditions, "**Reserved Matter**" means 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 majority required to pass an Extraordinary Resolution, a 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**", "**Single Series Extraordinary Resolution**", "**Multiple Series Single Limb Extraordinary Resolution**", "**Multiple Series Two Limb Extraordinary Resolution**", "**Written Resolution**", "**Single Series Written Resolution**", "**Multiple Series Single Limb Written Resolution**" or "**Multiple Series Two Limb Written Resolution**";

(v) to change the definition of "**debt securities**" or "**Debt Securities Capable of Aggregation**";

(vi) to change the definition of "**Uniformly Applicable**";

(vii) to change the definition of "**outstanding**" or to modify the provisions of Condition 11(i);

(viii) to change the legal ranking of the Notes set out in Conditions 1(c) and/or 3;

(ix) 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;

(x) to change the law governing the Notes, the courts or arbitral tribunals to the jurisdiction of which the Issuer has submitted in the Notes, any of the arrangements specified in the Notes to enable proceedings to be taken (including the 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;

(xi) to impose any condition on or otherwise change the Issuer's obligation to make payments of principal, interest or any other amount in respect of the Notes, including by way of the addition of a call option;

(xii) to modify the provisions of this Condition 11(e);

(xiii) except as permitted by any related guarantee or security agreement, to release any agreement guaranteeing or securing payments under the Notes or to change the terms of any such guarantee or security; or

(xiv) to exchange or substitute all the Notes for, or convert all the Notes into, other obligations or securities of the Issuer or any other person, or to modify any provision of these Conditions in connection with any exchange of the Notes for, or the conversion of the Notes into, any other obligations or securities of the Issuer, which would result in the Conditions as so modified being less favourable to the Noteholders which are subject to the Terms and Conditions as so modified than:

(A) the provisions of the other obligations or debt securities of the Issuer or any other person resulting from the relevant exchange or conversion; or

(B) if more than one series of other obligations or debt securities results from the relevant exchange or conversion, the provisions of the resulting series of debt securities having the largest aggregate principal amount.

(f) **Information:**

(i) Prior to or on the date that the Issuer proposes any Extraordinary Resolution or Written Resolution pursuant to Condition 11(b), Condition 11(c) or Condition 11(d), the Issuer shall publish in accordance with Condition 12, and provide the Fiscal Agent with the following information:

(A) a description of the Issuer's economic and financial circumstances which are, in the Issuer's opinion, relevant to the request for any potential modification or action, a description of the Issuer's existing debts and a description of its broad policy reform programme and provisional macroecomic outlook;

(B) if the Issuer shall at the time have entered into an arrangement for financial assistance with multilateral and/or other major creditors or creditor groups and/or an agreement with any such creditors regarding debt relief, a description of any such arrangement or agreement and where permitted under the information disclosure policies of the multilateral or such other creditors, as applicable, copies of the arrangement or agreement shall be provided;

(C) a description of the Issuer's proposed treatment of external debt securities that fall outside the scope of any multiple series aggregation and its intentions with respect to any other debt securities and its other major creditor groups; and

(D) if any proposed modification or action contemplates debt securities being aggregated in more than one group of debt securities, a description of the proposed treatment of each such group, as required for a notice convening a meeting of the Noteholders in Condition 11(a)(iv)(G).

(g) **Claims Valuation:** For the purpose of calculating the par value of the Notes and any affected series of debt securities which are to be aggregated with the Notes in accordance with Condition 11(c) and Condition 11(d), the Issuer may appoint a Calculation Agent. The Issuer shall, with the approval of the Aggregation Agent and any appointed Calculation Agent, promulgate the methodology in accordance with which the Calculation Agent will calculate the par value of the Notes and such affected series of debt securities. In any such case where a Calculation Agent is appointed, the same person will be appointed as the Calculation Agent for the Notes and each other affected series of debt securities for these purposes, and the same methodology will be promulgated for each affected series of debt securities.

(h) **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.

(i) **Notes controlled by the Issuer:**

(i) For the purposes of (a) determining the right to attend and vote at any meeting of Noteholders, or the right to sign or confirm in writing, or authorise the signature of, any Written Resolution, (b) Condition 11(a) and (c) Condition 8, any Notes which are for the time being 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 shall be disregarded and be deemed not to remain outstanding, where:

(A) "**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 or any of the foregoing; and

(B) "**control**" means the power, directly or indirectly, through the ownership of voting securities or other ownership interests or through contractual control 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.

(ii) A Note will also be deemed to be not outstanding if the Note has previously been cancelled or delivered for cancellation or held for reissuance but not reissued, or, where relevant, the Note has previously been called for redemption in accordance with its terms or previously become due and payable at maturity or otherwise and the Issuer has previously satisfied its obligations to make all payments due in respect of the Note in accordance with its terms.

(iii) In advance of any meeting of Noteholders, or in connection with any Written Resolution, the Issuer shall provide to the Fiscal Agent a copy of the certificate prepared pursuant to Condition 12(d) which includes information on the total number of Notes which are for the time being 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 and, as such, such Notes shall be disregarded and deemed not to remain outstanding for the purposes of 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 in respect of any such meeting. 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.

(j) **Publication:** The Issuer shall publish all Extraordinary Resolutions and Written Resolutions which have been determined by the Aggregation Agent to have been duly passed in accordance with Condition 12(g).

(k) **Exchange and Conversion:** Any Extraordinary Resolutions or Written Resolutions which have been duly passed and which modify any provision of, or action in respect of, the Conditions may be implemented at the Issuer's option by way of a mandatory exchange or conversion of the Notes and each other affected series of debt securities, as the case may be, into new debt securities containing the modified terms and conditions if the proposed mandatory exchange or conversion of the Notes is notified to Noteholders at the time notification is given to the Noteholders as to the proposed modification or action. Any such exchange or conversion shall be binding on all Noteholders.

12. AGGREGATION AGENT; AGGREGATION PROCEDURES

(a) **Appointment:** The Issuer will appoint an Aggregation Agent to calculate whether a proposed modification or action has been approved by the required principal amount outstanding of Notes and, in the case of a multiple series aggregation, by the required principal amount of outstanding debt securities of each affected series of debt securities. In the case of a multiple series aggregation, the same person will be appointed as the Aggregation Agent for the proposed modification of any provision of, or any action in respect of, these Conditions or the Fiscal Agency Agreement in respect of the Notes and in respect of the terms and conditions or bond documentation in respect of each other affected series of debt securities. The Aggregation Agent shall be independent of the Issuer.

(b) **Extraordinary Resolutions:** If an Extraordinary Resolution has been proposed at a duly convened meeting of Noteholders to modify any provision of, or action in respect of, these Conditions and other affected series of debt securities, as the case may be, the Aggregation Agent will, as soon as practicable after the time the vote is cast, calculate whether holders of a sufficient portion of the aggregate principal amount of the outstanding Notes and, where relevant, each other affected series of debt securities, have voted in favour of the Extraordinary Resolution such that the Extraordinary Resolution is passed. If so, the Aggregation Agent will determine that the Extraordinary Resolution has been duly passed.

(c) **Written Resolutions:** If a Written Resolution has been proposed under the Conditions to modify any provision of, or action in respect of, these Conditions and the terms and conditions of other affected series of debt securities, as the case may be, the Aggregation Agent will, as soon as reasonably practicable after the relevant Written Resolution has been signed or confirmed in writing, calculate whether holders of a sufficient portion of the aggregate principal amount of the outstanding Notes and, where relevant, each other affected series of debt securities, have signed or confirmed in writing in favour of the Written Resolution such that the Written Resolution is passed. If so, the Aggregation Agent will determine that the Written Resolution has been duly passed.

(d) **Certificate:**

(i) For the purposes of Condition 12(b) and Condition 12(c), the Issuer will provide a certificate to the Aggregation Agent up to three days prior to, and in any case no later than, with respect to an Extraordinary Resolution, the date of the meeting referred to in Condition 11(b), Condition 11(c) or Condition 11(d), as applicable, and, with respect to a Written Resolution, the date arranged for the signing of the Written Resolution:

(ii) The certificate shall:

(A) list the total principal amount of Notes and, in the case of a multiple series aggregation, the total principal amount of each other affected series of debt securities outstanding on the record date; and

(B) clearly indicate the Notes and, in the case of a multiple series aggregation, debt securities of each other affected series of debt securities which shall be disregarded and deemed not to remain outstanding as a consequence of Condition 11(i) on the record date identifying the holders of the Notes and, in the case of a multiple series aggregation, debt securities of each other affected series of debt securities.

(iii) The Aggregation Agent may rely upon the terms of any certificate, notice, communication or other document believed by it to be genuine.

(e) **Notification:** The Aggregation Agent will cause each determination made by it for the purposes of this Condition 12 to be notified to the Fiscal Agent and the Issuer as soon as practicable after such determination. Notice thereof shall also promptly be given to the Noteholders.

(f) **Binding nature of determinations; no liability:** All notifications, opinions, determinations, certificates, calculations, quotations and decisions given, expressed, made or obtained for the purposes of this Condition 12 by the Aggregation Agent and any appointed Calculation Agent will (in the absence of manifest error) be binding on the Issuer, the Fiscal Agent and the Noteholders and (subject as aforesaid) no liability to any such person will attach to the Aggregation Agent or the Calculation Agent in connection with the exercise or non-exercise by it of its powers, duties and discretions for such purposes.

(g) **Manner of publication:** The Issuer will publish all notices and other matters required to be published pursuant to the Fiscal Agency Agreement including any matters required to be published pursuant to Condition 11, this Condition 12 and Condition 8:

(i) through Euroclear Bank SA/NV, Clearstream Banking, *Société Anonyme* and The Depository Trust Company and/or any other clearing system in which the Notes are held;

(ii) in such other places and in such other manner as may be required by applicable law or regulation; and

(iii) in such other places and in such other manner as may be customary.

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 contain the following provisions which apply to the Notes in respect of which they are issued whilst they are represented by the Global Notes, some of which modify the effect of the Terms and Conditions of the Notes. Unless elsewhere defined in this Prospectus, terms defined in the Terms and Conditions of the Notes have the same meaning in this section "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 the 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 an Unrestricted Global Note may be transferred to a person who takes delivery in the form of an interest in a Restricted Global Note in denominations greater than or equal to the minimum denominations applicable to interests in such 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 a Restricted Global Note may be transferred to a person who takes delivery in the form of an interest in an Unrestricted Global Note and in accordance with Regulation S.

A beneficial interest in an Unrestricted Global Note that is transferred to a person who takes delivery in the form of an interest in a Restricted Global Note will, upon transfer, cease to be an interest in such 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 a Restricted Global Note that is transferred to a person who takes delivery in the form of an interest in an Unrestricted Global Note will, upon transfer, cease to be an interest in such 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 an 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 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 Notes 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 Notes 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 Notes will be exchangeable, free of charge to the holder, in whole but not in part, for Note Certificates if (i) the 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 Notes 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 Notes 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 a 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 a 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 (as defined in the Terms and Conditions of the Notes) 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 a 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 Notes 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 Notes 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 are, and 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 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 a Restricted Global Note to the account of a Euroclear or Clearstream, Luxembourg accountholder wishing to purchase a beneficial interest in an 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 a Restricted Global Note will instruct the Registrar to (i) decrease the amount of Notes registered in the name of Cede & Co. and evidenced by such 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 a 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 such 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 an Unrestricted Global Note; and (ii) increase the amount of Notes registered in the name of Cede & Co. and evidenced by such 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

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 stated 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.

Original Issue Discount

The notes may issued with more than a de minimis amount of original issue discount ("**OID**"). Because the notes may be issued at a discount from their stated redemption price at maturity, and such discount may be equal to or more than the product of one-fourth of one percentage (0.25%) of the stated redemption price at maturity of the notes and the number of full years to their maturity, the notes may have OID equal to such discount. The "issue price" of the notes will be the first price at which a substantial amount of the Notes are sold to the public (in other words, excluding sales of Notes to underwriters, placement agents, wholesalers, or similar persons). The "stated redemption price at maturity" will include all payments under the notes other than payments of "qualified stated interest" (as defined below).

In general, and regardless of whether a U.S. Holder uses the cash or the accrual method of tax accounting, such holder will be required to include in ordinary gross income the sum of the "daily portions" of OID on a note for all days during the taxable year that the U.S. Holder owns such note. The daily portions of OID on a note will be determined by allocating to each day in any accrual period a ratable portion of the OID allocable to that period. Accrual periods may be any length and may vary in length over the term of a note, so long as no accrual period is longer than one year and each scheduled payment of principal or interest occurs on the first day or final day of an accrual period. The amount of OID allocable to each accrual period will be determined by: multiplying the "adjusted issue price" (as defined below) of the note at the beginning of the accrual period by the yield to maturity of such note (appropriately adjusted to reflect the length of the accrual period) and (b) subtracting from that product the amount (if any) of qualified stated interest (as defined below) allocable to that accrual period.

The "adjusted issue price" of a note at the beginning of any accrual period generally will be the sum of its issue price, including any accrued interest, and the amount of OID allocable to all prior accrual periods, reduced by the amount of all payments other than payments of qualified stated interest (if any) on the note in all prior accrual periods. The term "qualified stated interest" generally means stated interest that is unconditionally payable in cash or property (other than debt instruments of the issuer) at least annually during the entire term of a Note at a single fixed rate of interest or, subject to certain conditions, based on one or more interest indices. Payments of stated interest on the notes should be qualified stated interest. All payments on a note, other than payments of qualified stated interest, will generally be viewed first as payments of previously accrued OID, to the extent of the previously accrued discount, with payments considered made from the earliest accrual periods first, and then as a payment of principal. The "yield to maturity" of a note is the discount rate that causes the present value of all payments on the note as of its original issue date to equal the issue price of such note. As a result of this "constant yield" method of including OID income, the amounts includable in income by a U.S. Holder in respect of a note generally will be less in the early years, and greater in the later years, than amounts that would be includible on a straight-line basis.

A U.S. Holder may make an election, which may not be revoked without the consent of the IRS, to include in its income its entire return on a note (i.e., the excess of all remaining payments to be received on the note, including payments of qualified stated interest, over the amount paid by such U.S. Holder for the note) under the constant yield method described above.

The rules governing instruments with OID are complex, and prospective investors should consult with their own tax advisors about the application of such rules to the Notes.

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 increased by the amount of any OID included in the U.S. Holder's income with respect to 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 will (unless during such period it elects otherwise) instead operate a withholding system in relation to such payments. The rate of withholding is 35%. However, the beneficial owner of the interest (or similar income) payment may elect that certain provision of information procedures should be applied instead of withholding, provided that certain conditions are met. 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 certain other similar income.

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.

The Council of the European Union has adopted the Amending Directive which, when implemented, will broaden the EU Savings Directive's scope. The Member States will have until 1 January 2016 to adopt national legislation necessary to comply with the Amending Directive, which legislation must apply from 1 January 2017. The changes made under the Amending Directive include extending the scope of the EU Savings Directive to payments made to, or secured for, certain other entities and legal arrangements (including certain trusts and partnerships), where certain conditions are satisfied. They also broaden the definition of "interest payment" to cover certain additional types of income. 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 EU Savings Directive may, however, be repealed in due course in order to avoid overlap with the amended Council Directive 2011/16/EU on administrative cooperation in the field of taxation, pursuant to which Member States other than Austria will be required to apply other new measures on mandatory automatic exchange of information from 1 January 2016. Austria has an additional year before being required to implement the new measures, but it has announced that it will nevertheless begin to exchange information automatically in accordance with the timetable applicable to the other Member States.

The Proposed Financial Transactions Tax

The European Commission has published a proposal (the "**Commission's Proposal**") for a Directive for a common financial transactions tax ("**FTT**") in Austria, Belgium, Estonia, France, Germany, Greece, Italy, Portugal, Slovenia, Slovakia and Spain (the "**participating Member States**").

The Commission's Proposal has very broad scope and could, if introduced in its current form, apply to certain dealings in the Notes (including secondary market transactions) in certain circumstances.

Under the Commission's Proposal, the FTT could apply in certain circumstances to persons both within and outside of the participating Member States. Generally, it would apply to certain dealings in the Notes where at least one party is a financial institution, and at least one party is established in a participating Member State. A financial institution may be, or be deemed to be, "established" in a participating Member State in a broad range of circumstances, including (a) by transacting with a person established in a participating Member State or (b) where the financial instrument which is subject to the dealings is issued in a participating Member State.

Joint statements by participating Member States indicate an intention to implement the FTT by 1 January 2016.

The FTT remains subject to negotiation between the participating Member States and the scope of any such tax is uncertain. Additional EU Member States may decide to participate and/or certain of the participating Member States may decide to withdraw.

Prospective holders of the Notes are advised to seek their own professional advice in relation to the FTT.

UK Provision of Information Requirements

The comments below are of a general nature and are based on current United Kingdom ("**UK**") tax law as applied in England and Wales and published practice of HM Revenue & Customs ("**HMRC**"), the UK tax authorities. Such law may be repealed, revoked or modified and such practice may not bind HMRC and/or may change (in each case, possibly with retrospective effect), resulting in UK tax consequences different from those discussed below. The comments below deal only with UK rules relating to information that may need to be provided to HMRC in connection with the Notes. They do not deal with any other UK tax consequences of acquiring, owning or disposing of the Notes. Each prospective investor should seek advice based on its particular circumstances from an independent tax adviser.

HMRC has powers to obtain information relating to securities in certain circumstances. 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 and documents in connection with transactions relating to the Notes. Information may be required to be provided by, amongst others, the holders of the Notes, persons by or through whom payments derived from the Notes are made or credited or who receive such payments (or who would be entitled to receive such payments if they were made), persons who effect or are a party to transactions relating to the Notes on behalf of others and certain registrars or administrators. In certain circumstances, the information obtained by HMRC may be exchanged with 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 ● (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 ●% 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.$●
HSBC Bank plc	U.S.$●
J.P. Morgan Securities plc	U.S.$●
Total	**U.S.$●**

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.

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 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 144 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 Rule144 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 defined in the Terms and Conditions of the Notes)) 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 a 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. [●], dated 10 March 2015.

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 €2,690.

Walkers Listing & Support 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: ●
ISIN: ●

Restricted Global Note
ISIN: ●
CUSIP: ●

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 2014, 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 ● per cent. of the principal amount of the Notes, the re-offer yield of the Notes is ● 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
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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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LISTING AGENT

Walkers Listing & Support Services Limited
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17/19 Sir John Rogerson's Quay
Dublin 2
Ireland

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