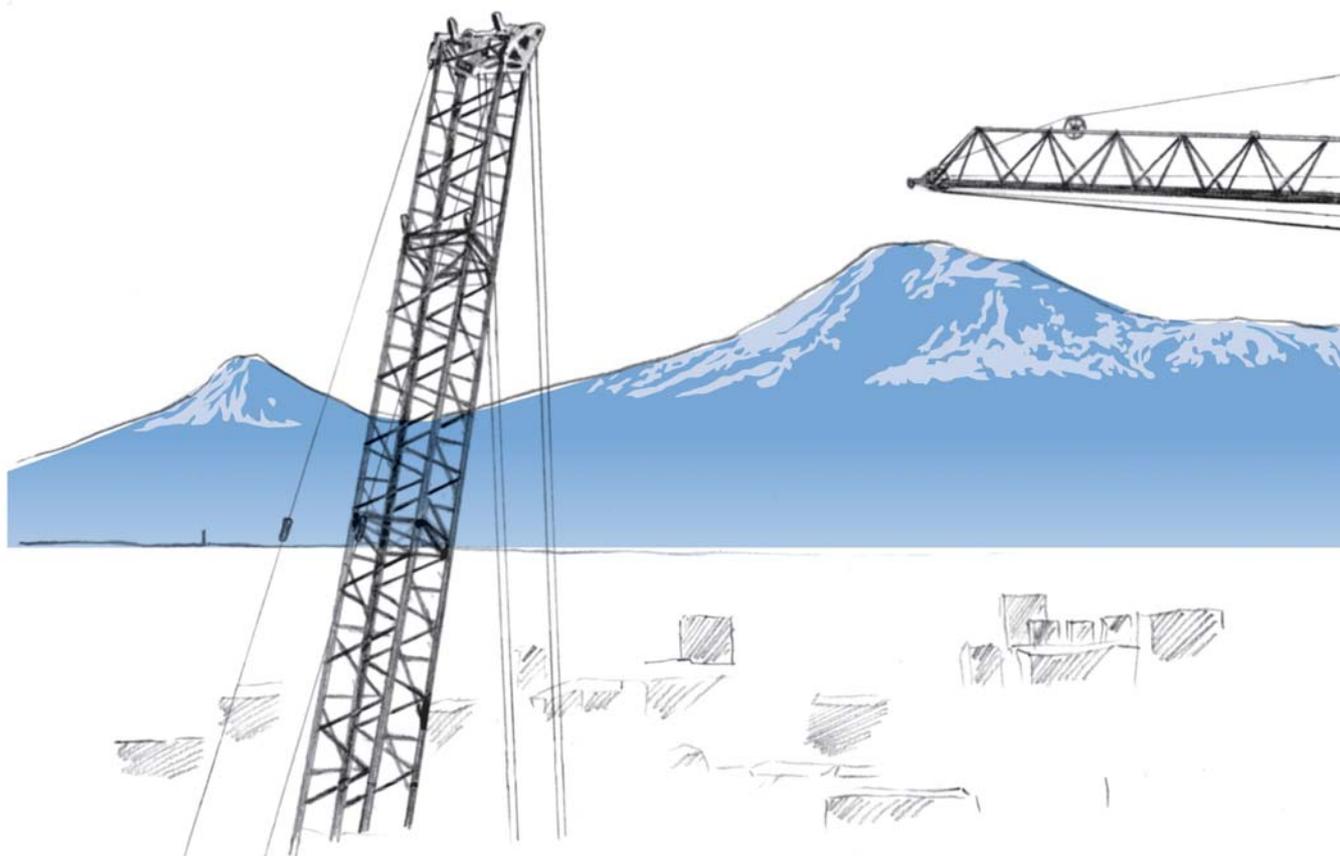


Commercial Guide 2008

For Investors in Armenia



Contents

	Page
Foreword	2
General Information about Armenia	3
Legal regulation of foreign investments	6
Different forms of investment	7
Banking and financial system	10
Regulation and remuneration of labor	12
Fiscal system	15
Goods import system in Armenia	20
Certification procedures and registration of intellectual property rights	22
Cargo transportation	23
Advertising	25
Useful links	26
Contact details	27

Foreword

The Armenian economy has undergone a major transformation during the last fifteen years. It has progressed from a planned global scale industry and agriculture inherited from the former Soviet Union to a developing and prosperous small and mid-size entrepreneurship. Since the successful stabilization of economy in the mid 1990s and the introduction of a free trade regime the economy has experienced low inflation and stable exchange rate. Recording a GDP average growth of 10% annually, Armenian economy with its liberal investment legislation has become very attractive to foreign investments.

Moreover, today the banking system of the country also undergoes a boost and creates favorable conditions for business activity. It is worthwhile mentioning that foreign direct investments and aid aimed at offsetting trade imbalance also play a significant role in the Armenian economy and support the growth and development in the country. Leading commercial enterprises and joint ventures have already gained solid reputation, which allows establishing trade links worldwide and promoting the export of Armenian products.

Last but not least today membership of Armenian state in different international organizations such as The World Bank Group, United Nations, World Trade Organization, European Council, as well as gradual integration with European Union positively impact development and consequently growth of economic relations and investment opportunities.

Being deeply involved in economic processes on the edge of changes Grant Thornton Armenia has played an outstanding role in supporting Armenian businesses and helping them grow. We have put all our energy and knowledge into the task of creating opportunities for local entrepreneurs as well as for foreign investors. Our work has brought and still continues to deliver fruits of success and prosperity to all our stakeholders and we see the prospects of the country's development as excellent.

In the spirit of support to development of Armenian economy and facilitating higher interest of foreign investors towards Armenia we are pleased to present to your attention this Guide, which is aimed at delivering quick and useful information about Armenia including major areas of interest to your future economic activity in the country. Here you will find some information on legal regulation of investments and forms of entrepreneurship, corporate, tax and customs legislation, labor code, peculiarities of conducting business activity in Armenia. We would like to bring to your attention that the information provided in the Guide might be subject to alteration due to legislative improvements and might not answer to all questions an investor might have. However we have tried to make it as comprehensive as possible and surely we will hold ourselves in readiness to clarify any outstanding issues that might arise.

We wish you success in all your endeavors.
Sincerely yours,

Armand Pinarbasi
Managing Partner /Chartered Accountant
Grant Thornton Amyot

General Information about Armenia

Geographical data

Armenia is located in the Southern Caucasus. It occupies 29,800 km². Armenia borders on the Republic of Georgia in the north, Azerbaijan – in the east, Turkey – in the west and Iran – in the south.

Armenia is a mountainous country, the average altitude of which is 1800 m above the mean sea level. Its climate is sharp continental (it is very hot in summer and very cold in winter), humidity is very low.

The capital of Armenia is Yerevan (with approximately 1 million of population), Gyumri and Vanadzor are two other largest cities.

Demographic data

According to the official data the population of Armenia is about 3.2 million. More than 95% of the population of the Republic of Armenia are Armenians. The rest 5% are mostly Russians, Ezidis, Kurds, Assyrians, Greeks and Ukrainians.

Of the general population the urban population comprises around 70%. 94% of Armenians are Christians, the overwhelming majority of which belong to Armenian Apostolic Church.

Political system

After 70 years within the Soviet Union, Armenia proclaimed its independence the 21st of September 1991.

The Republic of Armenia has its Constitution, which establishes the following political structure. The President of the country is elected by the general, equal and direct election right for 5 year period. The President appoints Prime Minister, and with the suggestion of the latter appoints the ministers forming the government. The last presidential elections took place in February 2008. The amendments to the Constitution, which were adopted by the referendum in November 2005, introduce a certain balance between the powers in favor of Prime Minister and Parliament.

The current President of the Republic of Armenia is Serzh Sargsyan.

Legislative power is exercised by the National Assembly, which is comprised of 131 members of parliament being elected once every five years in general, equal and direct elections. The representatives of the National Assembly represent various political parties.

Armenia has established diplomatic relations with 125 countries worldwide. Armenia is a member of the United Nations Organization (UNO), International Monetary Fund (IMF), The World Bank (WB), European Bank for Reconstruction and Development (EBRD), Council of Europe (is involved into “New Neighbors” Program), OSCE and since February 2003 to the World Trade Organization (WTO). Armenia is also a member of the Commonwealth of Independent States (CIS) and inherently is in the Customs Union with all CIS countries. In October 1994 Armenia signed a limited military cooperation agreement with NATO and participates in the Neighborhood policy program of EU.

Economic situation

Despite the transitional period the economy of Armenia is underway to improvement. In 2007 a GDP growth of 13.7% was recorded. It is the seventh continuous year that Armenia is recording the two-digit economic growth, which is stimulated mostly by the development of internal consumption, services and construction fields and is mainly recorded due to the incomes earned by business migrants lately. This flow of currency from the Diaspora provides the development of trade and construction fields, as well as stimulates export and private consumption. It should be noted that a certain progress was observed with the privatization program; specifically by the end of 2000, 90% of small enterprises and 80% of average and large enterprises were privatized and such process still continues. Armenia stands out for a number of advantages such as cheap labor force, awareness in high technologies, developing and very liberal banking legislation, etc. The annual rate of inflation for 2007 has been recorded at 4.4 percent.

Some Figures and Data about Armenia

Currency denomination	Armenian Dram ¹ (AMD)
GDP (2007)	9.2 billion USD
GDP per capita (2007)	2,844 USD
Key fields of activity in GDP (2007)	Industry: 17%; Agriculture: 19%; Services: 36%; Construction: 28%.
Current balance (2007)	1.3% of the GDP
External trade turnover (2007)	4,439.2 million USD (39.7% increase over 2006)
– Export	1,157.4 million USD (17.5% increase)
– Import	3,281.8 million USD (49.7% increase)
Main trade partners	Export countries: Germany, Netherlands, Belgium, Israel, Switzerland, USA; Import countries: Russia, Ukraine, Kazakhstan, Germany, Belgium.
Foreign Investment (2007)	845.4 million USD
Inflation (2007)	4.4%
Average monthly nominal wages	225 USD (77,000AMD)
Unemployment rate (2007)	7.4%
Average longevity	72 (men 68.5 years – women 75 years)
Literacy	98.6%
People development indicator (according to the UN classification)	83
Socially unsecured population	approximately 25% (7.2% of which are extremely poor)
Number of tourists in Armenia (2007)	510.3 thousand people (33.5% increase over 2006)

¹ Average exchange rate in 2007: 1USD=342AMD; 1EUR=467AMD

The state of foreign investment in Armenia

Since 1991 the inflow of foreign investments increased and dynamics of growth is encouraging. From 2000 to 2007 in Armenia total sum of foreign investments made more than 2.9 billion US dollars.

In real sector during 2007 the overall volume of the foreign investments increased by 33.9% in comparison to 2006, and direct investments volume increased by 32.9%. In 2007 significant investments have been made in the following sectors of the economy:

The sphere of communication	261.2 million USD (competition in communication sphere promoted growth of investments in this sphere)
Electricity, gas, hot water and steam production and distribution	233.2 million USD
Mining industry	86.6 million USD
Metallurgical industry	50.9 million USD
Real estate transactions	29.9 million USD
Air transport activity	24.3 million USD
Foods and drinks production	21.3 million USD
Hotel services	19.3 million USD

Source: www.mineconomy.am

Legal regulation of foreign investments

Law on Foreign Investments

Protection of foreign investments is secured by the Law on Foreign Investments adopted in 1998, which provides investors with guarantees against nationalization and seizure of the invested resources. In addition, this law envisages that in case of any change in the legislation investors may at their discretion either be subjected to a new law or continue following the law actually in force at the date of investment for 5 year period maximum. Generally, the government encourages foreign investments and often compromises especially when big foreign investments are concerned.

Making investment does not require any preliminary authorization. A foreign investor can acquire 100% participation in any Armenian company and does not carry any duties in respect to the investment or work. The legal regime applied to foreign investments and its application itself cannot be less favorable than the regime of property of the RA citizens and legal entities, proprietary rights and investing activity regime. A foreign investor has even a number of additional privileges.

In case of any disagreement between a foreign investor and the country of investment, the disputes shall be resolved in the RA courts. In case if the country where investments are made is not a party, investor shall have the right, upon his discretion, to apply to the RA court or go to any foreign arbitration court without even applying to the RA court. Beginning from October 16, 1992 Armenia has become a member of the International Dispute Resolution Centre and signed the Convention on dispute resolution between aliens and states in relation to investments.

Ownership right

Ownership right is established by the Constitution and is regulated by the Land and Civil Codes (Chapters 13, 14 and 15). The ownership right of the RA citizens is not somehow limited. Foreign citizens (physical persons) may enjoy any type of ownership right, except for the ownership right to the land. If these citizens own any property under ownership right, then they can enjoy only the right to land plot usage, but never an ownership right. Nevertheless, the legal entities registered in the RA State Register, as well as aliens having a special residence permit in the Republic of Armenia (10-year passport, residence card, issued in particular circumstances by the aliens' registration body – passport and visa inspection of the RA Police) as exception may be granted the ownership right to land.

Land alienation for public and state needs can be made only in some exclusive cases for the support of high interests of public in the manner established by the law under repayment of its original value plus interest of 15%. An owner can also be deprived of his lands, upon decision of the Court, in case of violation of the Land Code (articles 104 - 108 of the Land Code). There are no special economic zones in the territory of Armenia, which are aimed at attracting investors.

Different forms of investment

Relationships between companies are governed by the Civil Code, the Law on Joint Stock Companies, the Law on Limited Liability Companies and the Law on State Registration of Legal Entities. There is no restriction for foreigners in their right to manage local companies; simply some specific requirements are established related to the residence status of aliens. A foreigner can register his/her company as an Armenian legal entity (limited liability company, joint stock company, etc.), or to register as a private entrepreneur. For some activities a license from appropriate ministries may be required.

Different forms of Companies, Branches and Representations

Aliens are suggested various forms of investments to be made in Armenia, including:

- in the territory of Armenia foundation of companies with 100% foreign capital, or acquisition of any Armenian company;
- creation of joint ventures with participation of Armenian enterprises or private entrepreneurs, or purchase of shares of any Armenian company;
- getting the permit for subsurface use or concluding concession agreement, which will allow exploiting the Armenian natural resources with the participation of any Armenian company or citizens;
- other forms based on joint cooperation or agreements with Armenian companies or citizens.

There are different types of companies in Armenia. Below we present only the types most frequently used by aliens:

Joint Stock Companies

A joint stock company is a legal entity, the charter capital of which is distributed into a certain number of shares, defining the rights and obligations of the stockholders in relation to the company. There are two types of joint stock companies: joint stock companies of open type and joint stock companies of closed type. Open Joint Stock Company may, without restrictions, issue shares and sell them to public. Every shareholder has the right to sell shares without consent of the other shareholders. In closed joint stock companies shares are distributed only among the founders of the company and their number is restrained (maximum envisaged by the law: 49 shareholders).

Limited Liability Companies

A limited liability company is an economic entity, the charter capital of which is divided into shares the number of which is determined by its charter. The participants of the company are not liable for the obligations of the company and within the values of their contributions shall bear responsibility for the risks of losses related to the activity of the company.

Supplementary Liability Company

A supplementary liability company is a company founded by one or several entities, the charter capital of which is divided into shares envisaged by the charter. Besides, the company participants shall bear subsidiary liability for the obligations of the company with their property. In case of bankruptcy of any of the shareholders, his/her responsibility for the obligations of the company is shared among other shareholders

Branches

In Armenia it is easier and less costly to establish a branch rather than a daughter company. Founding a branch does not require any capital investments. There are no specific types of taxes applied in respect thereof. A branch of any foreign company must be registered in the State Register. For this the company must provide a letter proving the decision taken by the foreign company to open a branch, as well as a document proving that the company is registered in the manner established by the legislation of its country of origin.

Representations

Representation is very similar to a branch. It should be noted that, like a branch, it is also located and operates beyond the place of the founder company and does not have a status of a legal entity. Finally, like a branch, it acts in accordance with the powers delegated by the founder company.

There is however some difference between a branch and representation. The latter is entitled to represent and defend the interests of the founder company, while a branch can implement all those functions, which the founder company can perform, on top of that, it can perform all functions of the representation.

Registration

Registration of an enterprise is carried at the appropriate territorial subdivision of the State Register within 5 day period from the date of the submission of all required documents. The enterprise is deemed registered from the moment of obtaining a corresponding certificate of registration issued by the territorial subdivision of the State Register.

After registration and obtaining a certificate of registration, the enterprise within a month as from the date of registration, must be recorded with appropriate territorial tax body.

The creation of an enterprise consists of two stages:

- elaboration of a charter;
- state registration of a legal entity.

For registration of an enterprise, it will be necessary to provide the appropriate territorial subdivision of the State Register with the following documents envisaged by the RA Law “On State Registration of Legal Entities”:

- the application of the founder(s) of the enterprise;
- the decision on the creation of the enterprise or the protocol of the general meeting of the enterprise (if the legal entity is founded by more than one person);
- the copies of the charter of the enterprise (at least two copies);
- the decision of the appointment of the director of the enterprise;

- the passport details of the above mentioned director (a copy of his/her passport, and in case with an alien - a translated and certified copy of the passport);
- the receipt certifying payment of the state duty (12,000 AMD to be paid at any bank);
- the decision on registration of the firm name of the enterprise (registration is made by the territorial subdivision of the State Register after the state duty amounting to 5,000 AMD is paid at a bank);
- for opening a limited liability company: a certificate for a bank account with at least 50,000 AMD with any Armenian bank will be required;
- for opening a closed joint stock company: a certificate for a bank account with at least 100,000 AMD with any Armenian bank will be required;
- for opening an open joint stock company: a certificate for a bank account with at least 1 million AMD with any Armenian bank will be required.

If founder is a foreign legal entity, then it must submit the following documents, which should be translated into Armenian and be notary certified:

- extract from the commercial register of the country of origin of the enterprise, which contains information on organizational form of the enterprise declared at the time of the registration of the legal entity and its legal status;
- founding documents of the foreign legal entity, for instance, the Charter of the enterprise or appropriate extracts there from.

These documents should contain the following information:

- the organization is really a legal entity;
- the registration date in the country of residence;
- the juridical name of the enterprise;
- the place of residence of the enterprise;
- the length of activity;
- the competences of the management bodies of the enterprise (Assembly of the founders, Council, Executive body, Board);
- the management body, which is competent to make decisions on the foundation of this enterprise, acquiring a share in the charter capital and termination of participation.

A foreign physical entity who wants to open a firm in Armenia must also attach a translated and certified photocopy of his/her passport to the list of the above required documents.

Banking and financial system

General Provisions

The banking system involves the Central Bank of the Republic of Armenia and 22 commercial banks of Armenia. It is mostly regulated by three laws: the Law “On the Central Bank of the Republic of Armenia”, Law “On Banks and Banking Activity” and the Law “On Bankruptcy of Banks and Credit Organizations”.

Since its creation in 1993, the Central Bank strives to improve the banking sector by a policy of strict regulation. Since 2001, the financial audits of the commercial banks and the Central Bank of Armenia are being carried out only by independent auditors. Banks are classified according to CAMELS international standards (Capital, Assets, Management, Earnings, Liquidity, and Sensitivity to the market changes). The minimum charter capital required for operation of an existing bank shall be 5 billion AMD starting from 1 January 2009. The minimum charter capital for newly created banks (before 1 January 2009) shall also be 5 billion AMD, which decreases the risk of bankruptcy. In summer of 2005, a bank deposit guarantee fund was created, which guarantees bank deposits in the amount of 2 million AMD for deposits made in drams and 1 million AMD for deposits made in foreign currency (the latter is envisaged by the general policy and economy to support the national currency against dollar prevalence).

This policy of regulation specifically allowed seriously improving the banking sector, which was realized by the liquidation of numerous banks (in 1994 there were about 80 banks in the Republic of Armenia, presently their number is 22).

Banking System Capacities

In spite of the recent positive developments, the banking system continues to be small and, generally, the Armenian economy is not very much inculcated with banks. As the end of 2007 the total assets of banking system constituted 24% of the GDP. The amount of loans provided by banks and credit organizations rose by 78.7% (464,863 million AMD in 2007 over 260,148 million AMD in 2006) by the end of 2007. The savings balance of population in banks grew by 41.9% (173,045 million AMD compared to 121,921 million AMD of the same period in 2006). The deposits average interest rate is rather high – 6.17 % on average in 2007.

The borrowing interest rates remain high (17.2 % on average in 2007) and the conditions of bank credits provision are discouraging. Thus, the Armenian banking system does not finance the Armenian economy sufficiently. Though this situation is tend to evolve in a positive way, however nowadays, the majority of large-scale projects are financed by international organizations (European Bank for Reconstruction and Development, the World Bank, IMF, USAID, European Commission) or by foreign governments (Japan, Germany, the United States, France).

Banking Transactions

All banking transactions are possible in Armenia (opening a bank account, banking transfers, currency exchange, collection of liquid assets, letters of credit, savings, credit card services, check books), even if some of them are less frequent than others. The majority of the banks, for instance, offer checks issuance services, but this method of payment is practically never used in the country.

Operations with credit cards are more frequent, even though this system of payment is not yet widely spread. All banks offer their own credit cards and ATMs. More and more shops are accepting payments by credit cards.

The full list of banks operating in the Republic of Armenia is available at

- www.cba.am
- www.banks.am

Regulation and remuneration of labor

Labour relations in the Republic of Armenia are governed by the Labour Code, which became effective on the 21st of June 2005. This new Code aims at adapting the labour legislation to the present-day realities. It should be noted that this new code reduces the influence of the state on working relations and puts the emphasis on contractual relations.

Labor Force of Armenia

Qualifications

The main wealth of Armenia is probably its young and highly qualified population (65 % of the population ranges from 17 to 59 years old). The educational system is the biggest advantage of Armenia. Today there are about 60 universities (including 8 foreign universities), enrolling more than 60,000 students.

Personal work-book

Every worker should have a personal work-book - a document which contains the following information: identity of the employee (name, surname, and patronymic name), date of birth and occupied positions (with the starting and ending dates of the contracts). This document allows employees receiving their retirement allowances.

Labor remuneration in Armenia

Salaries/Wages

In 2007 the average wage in Armenia was 77,000 AMD. Nevertheless, there is a significant difference between the wages of the public sector: about 54,000 AMD on average, and those of the private sector: about 100,000 AMD. Salaries/wages must be paid in drams. The minimum allowed wage in Armenia is 25,000 AMD a month.

Taxes and compulsory social security payments

Compulsory social security payments in the Republic of Armenia are levied at income source. Thus, an employee receives the net amount of salary. Taxes are calculated as follows:

The order for calculating net salary/wage in the Republic of Armenia

- Salary/ social payment: 3 % of the wage
- Salary taxation: 10 % of the wage up to 80,000 AMD,
20 % of the wage exceeding 80,000 AMD.

Monthly Rate for Social Security Payment Object	Social Security Payment Rate
before 20,000 AMD	7,000 AMD
from 20,000 to 100,000 AMD	7,000 AMD + 15% of the amount exceeding 20,000 AMD
from 100,000 AMD and more	19,000 AMD + 5% of the amount exceeding 100,000 AMD

Working Time

Lawful age for employment and retirement

In Armenia the lawful age from which a person has the right to work is 16, and in some cases - 14. The lawful age of retirement is 65.

Working hours

Working hours should be 40 hours a week (8 hours a day maximum). Overtime is possible within the limits of 48 hours a week and 12 hours a day. They cannot exceed 4 hours during two successive days and cannot be more than total of 120 hours a year.

Night work (between 22:00 and 6:00 in the morning) is forbidden for persons under of 18, and there are certain privileges for pregnant women or mothers taking care of children under age 3.

Holidays/leaves

There are several types of holidays/leaves. Here we will recall the main ones:

December 31st - January 2nd: New Year

January 6th: Christmas

January 28th: Army Day

March 8th: Women's Day

April 24th: Day of Commemoration of Armenian Genocide

May 1st: Workers' Day

May 9th: Victory Day

May 28th: The First Armenian Republic Day

July 5th: Constitution Day

September 21st: Day of Independence

Paid leaves

The length of the annual paid leaves is 28 days. The employee can, if he/she does not want to take his/her leave in time or if he/she did not take leave(s) to which he/she was entitled, at the time of the termination of his/her contract, be reimbursed for not taken leaves.

Maternity leave

Usually, maternity leave is 140 days (70 days before and 70 days after child delivery). In case of complications in birth, leave is extended to 155 days (70 days before and 85 days after child delivery) and in case of twins or triplets birth - 180 days (70 days before and 110 days after children delivery).

Mothers taking care of a child under 3 (father, mother, grandparents or other members of the family) can benefit from a parental child-keeping leave while retaining their positions.

Agreements/contracts

Different types of agreements/contracts

All data to be indicated in an employment contract is listed in the Labour Code of the Republic of Armenia. According to the Labour Code of the Republic of Armenia there are different types of. A

contract can be concluded for a definite term or for unlimited term. Contracts concluded for certain term cannot exceed five years of validity, employment contract with definite terms can be also concluded in the following cases:

- if it is a contract by which the employee provides the employer with services of private nature (for instance, housekeeping job);
- if it is an employment contract to work at home;
- if it is a contract for a seasonal job (in that case it cannot exceed 8 months);
- if it is a contract for a temporary job (it cannot exceed two months, employee can be obliged to work during holidays/ days-off and employer can terminate the contract prematurely submitting at least three day prior notification in writing).

Termination of an employment contract

An employment contract is terminated if:

- both parties, upon mutual consent, decided to terminate it;
- it has been expired;
- on the initiative of the employee;
- on the initiative of the employer (for serious misconduct, loss of confidence towards the employee, in case of staff redundancy for economic reasons, etc.)

The law envisages provisions to protect pregnant women or women taking care of a child under 3, employees having got illnesses/diseases or having been hurt on their workplaces.

Fiscal system

The laws, regulations and taxation/fiscal cases of the Republic of Armenia envisaged by the law are rather sophisticated. The fiscal system is coined in most cases from the legislation of the European countries, conceived to promote the development of market economy. Armenian fiscal/tax legislation is changed frequently, and all modifications are made publicly available through official bulletins published by the RA Ministry of Justice and sold at book shops.

The profit tax rate is 20%; VAT - 20%; and income tax is levied at the source.

The tax year in the Republic of Armenia is a calendar year.

Profit Tax

Both, 'residents' and 'non-residents', in the Republic of Armenia should pay profit tax. Residents are taxed on the profit gained in the RA territory and outside; while non-residents are taxed on profit gained in the RA.

The annual profit tax rate is 20%.

It is calculated on the basis of the taxable profit, which corresponds to gross income, deducting the amounts specified by the law (expenses justified by corresponding documents, contributions to the public and religious organizations, donations, etc.)

For non-residents the following rates of profit tax taxable at the source are applied:

- insurance reimbursement - 5%;
- royalties, interests, dividends and earnings gained from property leasing - 10%.

Depreciation charges

The calculation of the depreciation charges on the capital is made on the original value by applying the various time-frames established by the law:

- 20 years for buildings,
- 10 years for the hotel complexes,
- 5 years for any other fixed material,
- 3 years for the robotized equipment and assembly lines,
- 1 year for computer equipment.

Profit tax prepayments made by residents and non-residents

The profit tax and the authorized deductions are calculated in accordance with the rates established by the tax legislation. The latter must attach a detailed annual report on his activities in the Armenian language to his declaration. All this should be submitted to the tax authorities no later than April 15 of the current year, and the tax must be paid before April 25 of the same year.

Advance payments shall be made monthly, in the amount of 1/16 of the actual amount of the profit tax for the previous year. A taxpayer, whose taxable profit for the preceding year has exceeded 500,000 AMD, shall make advance payments of the profit tax not later than on the 25th day of the current month in the amount of 1/16 of the actual amount of the profit tax for the previous year. The remaining part of the amount of profit tax shall be paid not later than April 25 of the following year. A newly established taxpayer may avoid advance payments of the profit tax having notified the Tax authorities in advance.

In case when the amount of the profit tax of a non-resident performing activities through a subdivision exceeds 2 million AMD for the preceding year, the non-resident shall make advance payments of the profit tax in equal parts every six months of a year (December 31st and January 1st), in the amount of 1/4-th of the actual amount of the profit tax for the preceding year.

Income Tax (tax levied from physical persons)

In the Republic of Armenia both resident and non-resident physical persons are entitled to pay income tax. An individual shall be considered a resident who during any twelve month period starting or ending in a tax year (from January 1 to December 31 inclusive) has been residing in the Republic of Armenia for a total duration of 183 days or more, or whose centre of vital interests is in the Republic of Armenia.

For a resident the taxable income received within or outside the territory of the Republic of Armenia is considered the object of taxation. For a non-resident the taxable income received from Armenian sources is considered the object of taxation.

Income Tax Rates

Income tax is calculated in the following way (by a tax agent):

Amount of Monthly Taxable Income Tax Amount (in %)

Up to 80,000 AMD	10% of taxable income
Over 80,000 AMD	8,000 AMD plus 20% of the amount exceeding 80,000 AMD

Rate of the annual taxable income

Amount of Annual Taxable Income	Tax Amount (in %)
Up to 960,000 AMD	10% of taxable income
Over 960,000 AMD	96,000 AMD plus 20% of the amount exceeding 960,000 AMD

- Income tax on royalties and income gained from property leases shall be calculated at the rate of 10%.
- Income tax on interest income shall be calculated at the rate of 10%.
- Tax agents calculate income tax liability at 10% rate from income paid for acquisition of property to individuals.

Non-residents receiving income in the country must pay:

Type of income	Amount (in %)
Insurance benefits received from insurance and income received from freight	5%
Royalties, interests, lease payments, increase in the value of property and other passive income (with the exception of income received from freight) as well as other passive income received from the sources in Armenia.	10%

A taxpayer who derives income from a business activity must make advance payments of the income tax during the course of a year.

The advance payments must be made quarterly, not later than on the 15th day.

Taxpayers commencing new business activities are not required to make advance payments of income tax until June 15 of the following year, provided that they have notified Tax Inspectorate bodies in advance.

Property Tax

Property tax is a direct tax on the property considered a taxable object and owned by persons by property right being paid to the relevant budgets following the procedure and at a stipulated rate, which does not depend on the outcomes of the taxpayers' economic activity.

The property tax shall be paid by the organizations set up in the Republic of Armenia and other countries, international organizations and those created by them outside the Republic of Armenia, the Republic of Armenia citizens, foreign citizens as well as those without citizenship who possess property in the Republic of Armenia that is considered a taxable object.

Property Tax Rates

Property tax for motor vehicles is calculated at the following annual rates:

- Motor cars with up to 10 passenger seats, if tax base is:
 - from 1 to 120 horsepower - 200 AMD per horsepower;
 - from 121 to 250 horsepower - 300 AMD per horsepower and additional 1000 AMD for each horsepower above 150 horsepower;
 - 251 horsepower and more - 500 AMD per horsepower and additional 1000 AMD for each horsepower above 150 horsepower.
- Motor cars and trucks with 10 and more passenger seats, if tax base is:
 - from 1 to 200 horsepower - 100 AMD per horsepower;
 - 201 and more horsepower - 200 AMD per horsepower.
- The annual amount of property tax on motorcycles is calculated at the rate of 40 AMD for each horsepower of tax base.
- The annual rate of property tax on watercraft is calculated at 150 AMD for each horsepower of tax base.
- The property tax on motor vehicles used up to three years is calculated at 100%.

- The amount of property tax on motor vehicles used for more than three years is reduced for each year following the third year by 10% but no more than 50% of tax amount. The time in use is calculated from the date when that motor vehicle was produced.

Property tax for constructions is calculated at the following annual rates:

- Constructions for public and production use - 0.3% of tax base.
- Other Constructions stated as taxable objects:

Tax base	Tax rate
Up to 3 million AMD	0% of tax base
From 3 million to 10 million AMD inclusive	100 AMD plus 0.1% of amount above 3 million AMD of tax base
From 10 million to 20 million AMD inclusive	7,100 AMD plus 0.2% of the portion exceeding 10 million AMD of tax base
From 20 million to 30 million AMD inclusive	27,100 AMD plus 0.4% of the portion exceeding 20 million AMD of tax base
From 30 million to 40 million AMD inclusive	67,100 AMD plus 0.6% of the portion exceeding 30 million AMD of tax base
40 million AMD and more	127,100 AMD plus 1.0% of the portion exceeding 40 million AMD of tax base

Value Added Tax (VAT)

The rate of VAT is determined in the amount of 20% of taxable turnover of goods and services. The amount of VAT within the amount of the total indemnity for the goods and services (including 20% rate) shall be determined at the rate of 16.67 %.

The invoice amount is deemed as a taxable base, to which the excise duties on the domestic or imported products are possibly levied. The principle of destination prevails and even in this case all imports coming from abroad are subject to VAT.

For goods imported into the RA, VAT shall be paid within 10 days after the importation. The exported goods and services are not subjected to VAT.

Excise Tax

The following goods shall be subject to excise tax: beer, grape wines and other wines, wine ingredients, spirits, cigars, cigarillos and cigarettes with tobacco or its substitutes, petrol and diesel fuel, raw oil and oil materials, oil gas (except natural gas).

Excise tax shall be paid by individuals, legal persons importing or exporting goods subject to excise tax in the Republic of Armenia.

Excise Tax Rates

Code of the production according to the trade nomenclature of the External Economic Activity	Name of the group of products	Taxable base	Rate of Excise Tax (in AMD)
2203	Beer	1 liter	70
2204	Grape and other wines, wine ingredients		10 % of factory price (not including VAT and excise tax) or customs value - in case of import, but not less than 100 AMD per liter

Code of the production according to the trade nomenclature of the External Economic Activity	Name of the group of products	Taxable base	Rate of Excise Tax (in AMD)
2205	Vermouth and other types of wine that contain vegetarian and other aromatic extracts	1 liter	500
2206	Other brewed drinks (apple cider, Pearru (pear cider), honey-drinks)	1 liter	180
2207	Ethyl spirit	1 liter (by recalculation of 100% spirit)	600
2208	Alcoholic drinks	1 liter	30 % of factory price (not including VAT and excise tax) or customs value - in case of import, but not less than 380 AMD per liter
2403	Tobacco substitutes	1 kilogram	1,500
2709	Raw oil and oil materials	1 ton	27,000
2711 (excluding 2711 11 and 2711 21)	Gases produced from oil and other hydro-carbons (except for natural gas)	1 ton	1,000

Land Tax

Landowners, permanent and temporary users of the State-owned land are considered payers of land tax. The calculated net income determined by the cadastral evaluation of the land shall be the object of taxation for agricultural lands.

The value of the land according to the cadastral evaluation shall be the object of taxation of non-agricultural lands.

The amount of the land tax shall not depend on the results of the taxpayers' agricultural activity and shall be defined as an annually paid fixed payment per unit of the land lot area.

The land tax is established as follows:

- The land tax rate for the agricultural lands (including land lots allotted for housing in settlements, and garden-plots) shall be determined in the amount of 15% of the calculated net income determined by their cadastral evaluation.
- For non-agricultural lands the land tax rates is fluctuated from 0.5% and 1% of the cadastral value of land.

Goods import system in Armenia

Armenia became a member to WTO (World Trade Organization) on 5 February 2003. Within the framework of the accession process, the government has performed a significant amount of work in terms of decreasing customs duties and rehabilitating the existing system.

Implementation of the Armenian customs policy is entrusted to the Customs State Committee. The regimes and procedures are defined by the Customs Code of the Republic of Armenia, and legal acts adopted by the Committee.

Import Duties and Tariffs

Customs duties

The efforts of decreasing the existing tariffs led to a general fall of the average customs tariffs. Armenia simplified its tariff structure by maintaining two ways of charging: 0% and 10%. According to the Customs State Committee, no tariff increase will be exercised and many products exempted from import duties (for example, equipment, raw materials, pharmaceutical products, manure, and cosmetics). The complete list of all products subjected to 10% can be found on the web site of the Customs Committee. Exported goods are exempted from duties and VAT. The data base “Market Access” developed by the European Commission, provides the customs nomenclature, rates of customs duties applicable to the goods imported to Armenia and originating in the European Union. This base enables obtaining open and free information from any country of the EU (<http://mkaccdb.eu.int>).

In addition to the customs duties and the expenses related to customs declaration VAT (20% rate only) and customs declaration expenses are equally levied. These payments are made according to the weight (1,000 AMD per ton) and contain also a contractual component (3,500 AMD for the expenses related to customs clearance). There are special customs duties for some goods, such as alcoholic beverage.

Free Trade Agreements

Armenia is adherent to free trade and is actively involved in the process of regional trade integration. This stance constitutes an asset for those producers who want to export a part of their production to the neighbouring countries. Meanwhile, many regional trade agreements between the CIS countries remain unapplied; Armenia is in free trade with the majority of these countries (except for Azerbaijan). Thus, for example the trade with Russia is exempted from customs duties.

Customs Nomenclature

The preparation of import or export operation supposes some knowledge on the customs nomenclature of the goods. The nomenclature is a coding and designation system allowing identifying goods and defining the rates for customs duties and taxes, as well as the applicable

regulations for each product at the time of customs clearance. Armenia is a member to the World Customs Organization (WCO) and for this reason applies the harmonized system (HS) of coding of goods. This system of coding and designation of goods includes six digit nomenclature used in the majority of the WCO Member States.

Licenses and Quotas

Except for certain products (for example military industries, pharmaceutical), Armenia maintains neither licenses nor quotas. However, many sectors are the subject of factual monopolies of importation (sugar, gasoline, etc).

Customs Procedures and Systems

Customs clearance points

The customs territory is divided into eight customs regions and seven customs clearance points. Customs clearance supposes the obligatory passage of goods through customs clearance point. The importation formalities are carried out by the customs clearance point, where the importing corporation is registered. Customs clearance at the Georgian or Iranian border is not obligatory. At the time of crossing the border, a transportation document is issued and the merchandise can be cleared inside the territory.

Customs regimes

The Customs Code provides for all customs regimes (e.g. temporary importation, importation for free circulation, temporary exportation, etc.). They suppose issuance of a customs declaration upon arrival of the merchandise. The system TIR (Transport International Routier) is in force in the Armenian territory.

Customs clearance procedures

Issuance of customs declaration is carried out either by the customs agents or by a customs broker upon submission by the importer of all the documents required.

The customs clearance procedures in Armenia are tend to come closer to the international norms. Application of customs clearance was particularly improved thanks to the reduction of the customs clearance delays and informatization of the procedure. All the customs application forms are available on the website of the Customs Committee. Meanwhile, the exported products are damaged due to complexity and sometimes lack of transparency of the procedures.

Although the Russian regulation is compatible with the agreement of the WTO on the customs evaluation (recognition of the transactional value as a key method for determination of the value of the merchandise), customs officers sometimes recalculate the billed value.

Certification procedures and registration of intellectual property rights

Certification

In order to protect the health and security of consumers, each country publishes its technical regulations and implements some procedures destined to assure thereof. A number of goods produced locally or imported are subject to an obligatory certification in the Republic of Armenia. The list of the products subject to this certification is set up by the decree # 239 as of 12 May 2000 and is available on the website of the Armenian Customs Houses (customs procedures section). Appropriate certificates are given by the National Institute of Standardization (ArmStateStandard) or by authorized bodies. The adopted norms are the international (ISO), interstate (GOST), Armenian (AST) and European (EN) norms. The certification is governed by the Law on Standardization and the Law on the Evaluation of Correspondence of Products and Services to the Norms in Force.

Intellectual property

In Armenia the intellectual property protection system is assured by the intellectual property agency (Armpatent). This agency involves the agency of intellectual property and the agency of patents.

Granting of patents and protection of intellectual property in Armenia are regulated by:

- Law on Copyrights and Neighboring Rights;
- Law on the Patents;
- Law on Trademarks and Service Marks, Appellation of Origin of Goods;
- Law on Firm Names.

Despite the legislation on the intellectual property rights, which entirely meets the rules of the WTO (Armenia is a member since 1993, World Intellectual Property Organization, WIPO), the circulation of forgeries in Armenia is wide-spread and the means to enforce the rights remain insufficient. Forgeries relate to various products such as audio-video products, food stuff, cosmetics and leather products. In this context, foreign operators must be particularly vigilant and watch to register their rights with Armenian authorities (Intellectual Property Protection Agency of Armenia, Armpatent).

Labeling

According to the Government Decree No. 616-N dated 20 April 2006 goods imported to the territory of Armenia shall be labeled in Armenian language.

Cargo transportation

Transport remains one of the main issues for export of merchandise to Armenia. Actually, owing to the closing of the border with Azerbaijan and surface border with Turkey, certain roads are closed and the transportation costs are high. Thus, 85% of merchandise has to transit through Georgia and the remainder - through Iran; meanwhile the air borders exist only via Turkey. Nevertheless, if the transportation costs to Armenia remain high, the exportation costs from Armenia per cargo weight and destinations are less costly.

Air transport infrastructure

Civil aviation infrastructure consists of two international airports: “Zvartnots” and “Gyumri”, and nine local (non-military) airports.

The following carriers are serving Armenia: British Mediterranean Airways (UK), Aeroflot (Russia), Austrian Airlines (Austria), Czech Airlines (Czech Republic), Armavia (Armenia), Air France (France), Siberia Airlines (Russia), Air Arabia (UAE), etc.

There is only one company - Armavia, possessing cargo airplanes and operating cargo flights from Armenia to the rest of the world. This company operates regular flights twice a week from Yerevan to Frankfurt and from Frankfurt to any other destination. Yerevan-Frankfurt flights are operated on Sundays and Wednesdays and flights from Frankfurt to Yerevan are operated on Mondays and Thursdays. Any corporation having more than 10 tons of cargo for transportation may apply to Air Armenia to deliver its merchandise directly to the airport of destination, without transiting Frankfurt. It is equally possible to charter the entire airplane for round trip from Yerevan to any desired destination. Depending on the weight of the merchandise, the cost of cargo transportation varies between 1.8 and 3 USD² per kilogram. Some companies offer more advantageous rates on the transportation of some products, such as textile.

The maximum weight of cargo accepted by Armavia is 17 tons, the minimum - 1 kilogram.

Transportation by rail, road and sea

Of 829 km of the Armenian railway network, only Yerevan-Tbilisi line is still operating. Leaving Yerevan, train passes Gyumri and Vanadzor towns and reaches Poti and Batumi - Georgian ports on the Black Sea.

The Armenian road network (7,633 km), despite certain obsolescence, serves the whole country. It operates all the year round.

² *All prices in this document are provided for information only.*

The main roads are:

- Yerevan-Ashtarak - Spitak - Tashir - Tbilisi or Yerevan - Ashtarak, Spitak - Vanadzor - Bagratashen - Tbilisi that connect Armenia with Georgia;
- Yerevan - Ashtarak - Gyumri - Ashotsk - Bogdanovka that connects Armenia with the Georgian ports Batumi and Poti. The average length of the road is approximately 700 km (four days);
- Yerevan - Eraskh - Vayk - Goris - Kapan - Meghri, that allows reaching the western border of Iran. This road is not anymore feasible on the section crossing Nakhitchevan. Up to Goris there is an avoiding line by another principal route.

The port of Poti is well equipped for the transportation of containers. The port of Batumi is used for transportation of oil products. It can take 10 days by rail (theoretically 12-24 hours, but practically a train transporting containers with commodities leaves Yerevan only when it is fully loaded; and the formalities at the border can take 48 hours) to get to these ports (distance: 700km), and four days by truck. Several storage sites and customs warehouses are located alongside this line. The most important ones are located in Yerevan.

A ferry service was established between the ports of Poti and Varna (Bulgaria). It allows transporting approximately 40 loaded trucks in two directions and facilitates the transportation to European destinations and back. Another one connects Poti with port of Caucasus (Russia, Krasnodar region), and the program on establishing the connection between ports of Poti and Ilichevsk, Ukraine is at the development stage.

Road transportation remains the best means of cargo transportation both from the Armenian borders into the country and to the ports of Georgia or Iran. The transportation corporations assume all transportation expenses and for the maritime transportation they cooperate with such companies as Maersk Sealand or MSC, and for the cargo transportations inside the country - with national carriers.

Advertising

General regulation

Order established by the law

Advertising in Armenia is governed by the Law on Advertising, which is in force since 1996. This Law sets up the framework and the principles, under the preservation of which advertising is allowed in Armenia.

It is specially established that important advertising announcements must be composed in Armenian. A text in any foreign language can be added, provided that it appears in smaller letters/fonts. Up to now this restrictive reservation is not applied to the publications, newspapers, magazines etc. published in other languages. Copyright of all advertisements is protected in the manner established by the legislation.

Restrictions and prohibitions

There are some restrictions in relation to advertising placements. For example, advertising of alcohol and tobacco is not forbidden, however it should not stress upon the positive impact of these products on health.

Advertisings of medicine are similarly subjected to the authorization of the Ministry of Health. Advertising of banks, insurance services and financial establishments are also regulated. Finally, there are certainly some prohibitions in respect to advertisings violating moral norms, causing damage to the state, slanderous and other advertisements, etc. For further details, see the text of the Law on Advertising.

Where to advertise?

General provisions

The most prevalent media for broadcasting advertisements are television, radio, print media and announcements. It is possible to use more updated means. For example, one can see advertisements on buses, and the number of billboards increases. However, the majority of advertising is undoubtedly broadcast by television.

Prices for advertising

The prices set out below are provided for information only. The price of an advertising in print media varies between 200 and 1,000 AMD for cm² depending on the placement page, frequency and popularity of a vehicle. For broadcast advertising including television and radio the price varies according to channel, programs and air time. Prime time advertising on television may cost maximum 60,000 AMD per minute. The price for radio varies between 1,000 and 5,000 AMD for the time up to one minute.

Useful links

- Armenian Yellow pages www.spyur.am
- National Statistical Service www.armstat.am
- Armenian Development Agency www.ada.am (assistance to enterprises, customs activity, taxation system, sector studies, etc.)
- AEPLAC (Armenian European policy and legal advice centre) www.aeplac.am (legislation translated into English, studies on the Armenian economy, figures, etc.)
- State Register of Legal Entities www.stateregistry.am (the recording of the businesses is done with the state register, Chapter III of this Commercial Guide)
- State Committee of Real Estate Cadastre under the RA Government www.cadastre.am
- State Customs Committee www.customs.am
- State Tax Service www.taxservice.am
- National Institute of Standards www.sarm.am
- Intellectual Property Agency www.armpatent.am
- Ministry of Economy www.mineconomy.am
- Ministry of Finance www.mfe.am
- Ministry of Foreign Affairs www.armeniaforeignministry.am
- Ministry of Culture www.mcyam.am
- Ministry of Education and Science www.edu.am
- Ministry of Healthcare www.moh.am
- Ministry of Justice www.moj.am
- Ministry of Nature Protection www.mnp.am
- Ministry of Agriculture www.minagro.am
- Ministry of Energy and Natural Resources www.minenergy.am
- Ministry of Labour and Social Affairs www.mss.am
- Ministry of Transport and Communication www.mtc.am

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