MINISTRY OF TRANSPORT
AND COMMUNICATION OF
THE REPUBLIC OF ARMENIA

ARMENIA INVESTMENT FORUM 2016
YOUR GATEWAY TO MAJOR MARKETS

CONNECTIVITY

YOUR EMERGING TRANSIT PARTNER

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ARMENIA AS A REGIONAL
TELECOMMUNICATION HUB

The Foreign Economic Policy of the Republic of Armenia stipulates a liberal approach. Its main priorities are the productive integration of the Republic of Armenia into the global economy, export promotion, reducing tariff and non-tariff barriers for the import of goods to partner countries, investment attraction, creation of legal framework, and developing a favorable environment for foreign trade.

One of the cornerstones of Armenia's economic policy is the investment support emphasis and the open-door policy adopted by the government. The consistency of policy implementation in addition to bilateral investment promotion and protection treaties signed with over forty countries have transformed Armenian economy into one of the most open investment regimes in the CIS region.

There are a number of attractive investment conditions and simplified procedures for doing business in Armenia. These include equal treatment for local and foreign investors, free expatriation of capital, no limitation on foreign ownership, no export duties, a high-skilled and cost-effective labor force, and many other attractive features and favorable investment opportunities.

A series of reforms have been carried out in recent years in order to improve the investment and business climate and the results are clearly positive. According to the Heritage Foundation's report, Armenia is ranked 54 th among 178 countries in the 2016 Index of Economic Freedom.

Armenia is ranked 23rd in the world on the Investment Freedom Index by the Heritage Foundation.

According to the World Bank's "Doing Business 2016" report, Armenia is ranked 35 th in the world for its favorable business conditions.

There are two free economic zones established in Armenia. One is the Alliance Free Economic Zone, which is oriented to the production and exports of high-end, innovative technologies in the field of electronics, precision engineering, pharmaceuticals and biotechnologies, information technologies, alternative energy, industrial design, and telecommunications.The second is the Meridian Free Economic Zone, which specializes in jewelry, diamond cutting and watch making.

In terms of its investor attraction strategy implementation, the government goes beyond the traditional tools of promotion and fiscal incentives and takes action to involve world-renowned companies in the Armenian market; provides sectoral companies with subsidies for loans, co-finances certification,; promotes local products in international markets; and organizes training and research programs to identify the production capacity of new, export-oriented products.

Public private partnership (PPP) projects play a major role in the development of necessary infrastructure for communication and transport sectors. Among the most successful projects in the recent past are the reconstruction of the Zvartnots International Airport jointly with the company Corporación America, the project in the water supply and sanitation sector in cooperation with French company SAUR, and the Tatev Rebirth project.

In 2013, the Government of the Republic of Armenia announced the introduction of the Open Skies Policy in the field of civil aviation and air communication in Armenia.

It is expected that the majority of stakeholders will benefit from the policy. In particular, the new policy is expected to increase the number and diversity of incoming tourists, make the business environment in the aviation sector more stable, and foster more favorable conditions and expanded opportunities for businesses.

Armenia's geographical position and developed infrastructure will enable an optimal way to link Europe to Asia and Africa in the Eurasian region. This will benefit global and regional integration and will contribute to transforming Armenia into a transportation hub.

Armenia is a country full of opportunities with modern, well-educated, hard-working human capital, and various models of cooperation with a number of countries. Armenia has the potential to become a unique bridge between the member states of the European Union and the Eurasian Economic Union Especially considering the combination of the EEU membership with GSP+ preferential trade system with the EU. Armenia already enjoys GSP preferential trade benefits with Canada, Switzerland, Japan, Norway, and the USA. The Trade and Investment Framework Agreement, signed between the Government of the Republic of Armenia and the Government of the USA, creates favorable conditions for investments, commodities, and trade promotion between both countries.

Throughout history, Armenia has been located on the crossroads between East and West; Armenia and the Armenian people have bridged cultures and acted as a link between economies in Europe and Asia. Armenia aspires to become a hub for the international business community: introducing traditional Armenian hospitality and comfortable accommodation conditions for businesspersons and their families, and bringing together the western and eastern mindsets and lifestyles together.

The value added by the transport sector between 2010 and 2014 was on average around 320 million USD annually in Armenia. The transport services market is much larger than the GDP estimate, as a large share of transport services are performed by foreign companies. The share of transport and storage services in Armenia's GDP holds around 2.8% on average for the last four years. The volume of import of transport services has been about 2.5 times higher than the export of transport services during last four to five years.

NORTH-SOUTH ROAD CORRIDOR

The North-South Road Corridor Investment Program, a major infrastructure project, will connect the north and south borders through the reconstruction of the 556 km-long Meghri-Yerevan- Bavra highway. The construction of this strategic road will improve traffic flow between the Southern border of Armenia, the Georgian border and up to Black Sea ports, and will allow passenger and cargo transportation in accordance with European standards. The highway will also provide serious development opportunities for communities throughout Armenia.

The North-South Road Corridor Investment Program is aimed at upgrading the 2 nd and 3 rd category carriageway, with a current speed limit of 30-90 km/h, to a 470 km-long 1 stcategory high-speed carriageway, with a speed limit of 100-110 km/h. This will reduce travel time by over 50%, enabling drivers to cover the distance in under five hours, as opposed to the current ten.

It will increase comfort and safety by ensuring the fulfilment of the project goal to make the North-South Road a transit carriageway for passenger and cargo transportation within the scope of the TRACECA and Silk Road Projects.

Contracts have been signed with the Asian Development Bank (ADB) and European Investment Bank (EIB) for the implementation of the project; the target completion dates are 2017 and 2019 respectively.

Estimated Length of North-South Road Corridor	**470** KM
VELOCITY	**100** KM/H
DURATION OF TRAVEL	**4.5-5** HOURS
LENGTH OF EXISTING ROAD ABOUT	**560** KM
VELOCITY	**30-90** KM/H
DURATION OF TRAVEL	**9.5-10** HOURS
TOTAL INVESTMENT	**$2-3** BLN ESTIMATED FOR PROJECT IMPLEMENTATION

PROJECT IMPLEMENTATION WILL RESULT IN THE FOLLOWING OUTCOMES:

- Improved road corridor in compliance with international standards;
- Four-lane Category 1 Road on Yerevan-Gyumri and Yerevan-Ararat sections;
- Other road sections meeting international standards with the possibility to be widened tofour-lane roads in the future;
- Efficient and safe traffic management.

SOCIAL AND ENVIRONMENTAL IMPACT

The correct evaluation of social and environmental impact a significant component of the North-South Road Corridor Investment Program. Within the framework of the project implementation, this component addresses the possible social impact, land acquisition and resettlement issues regarding certain sections of the road. Thus, for each tranche requiring land acquisition and resettlement, LARP (Land Acquisition and Resettlement Programs) will be developed and implemented in accordance with existing Armenian laws and legislative acts, Asian Development Bank's Policy on involuntary resettlement as well as land acquisition and resettlement frameworks.

SOUTHERN ARMENIA RAILWAY

The southern railway construction project in Armenia will enable the country to become an important supply corridor on the Silk Road leading to Europe. As an ancient transport corridor, the 3,000-kilometer- long Silk Road stretched from China, through Central and West Asia, Iran, Armenia, and on to Europe, reinforcing commercial ties throughout the Eurasian landmass.

LENGTH OF RAILWAY	**304.71** KM
ESTIMATED VELOCITY	**80** KM/H FOR PASSENGER TRAINS
MINIMUM CURVE RADIUS	**500** M FOR ORDINARY CASES **300** M FOR COMPLICATED ONES
MAXIMUM TRACTION TYPE	**30**% CURVATURE ELECTRIC
CARGO TRACTION	**2,100** TONS
ESTIMATED WIDTH OF ARRIVAL-DEPARTURE LINES	**550** AND **850** M

THE PROJECT INVOLVES THE:

- Construction of 84 bridges with a total length of 19,618 m.
- Construction of 60 tunnels with a total length of 102.36 km.
- Construction of 27 stations, including 13 intermediate stations and the reconstruction of Gagarin station.
- Construction of posters of 152,73 km for the entire line.

PURPOSE OF THE SOUTHERN RAILWAY CONSTRUCTION

The project will establish a connection with the railway network in the South Caucasus region, pass through the mountainous regions of the central and southern parts of Armenia, and cross the border between Armenia and Iran, becoming a structural link between the existing railway network of the South Caucasus region and Iran. It will become the shortest transport route between the Persian Gulf and the Black Sea ports, as well as Central and East Asia, including China and Europe, saving significant transportation costs and time. The project will greatly contribute to passenger and cargo transportation to EU member countries, clearly reducing the transportation distance of oil products to European countries from Iran and the surrounding region.

EXPECTED OUTCOMES

The Southern Armenia Railway on the ancient Silk Road is a key element missing from the north-south transport corridor. Its construction creates a strong bridge, improving trade and passenger travel between Asia, Europe, and the Middle East. It will provide the most convenient and expedient overland transport between Southwest and Central Asia, particularly the Persian Gulf and the Black Sea. The time for cargo transportation from the Middle East to Europe will be reduced by over 30 percent, helping the economic development of the Gulf's oil production. The railway will also facilitate trade between northern and southern Armenia, and aid in the extraction and export of mineral resources. The comfortable and convenient rapid transit will provide real economic benefits for all participating countries.

PROJECT PROGRESS

In 2012, the Government of the Republic of Armenia signed a concession agreement on the construction of the Southern Armenia Railway with the Russia FZE company. Russia FZE signed a contract on the project's implementation study with China's Communicating Company (CCC), which prepared a result a feasibility study for the new construction project and a new alignment was prepared.

In 2016, a Memorandum of Understanding was signed between the Ministry of Transport and Communication of the Republic of Armenia and the Ministry of Transportation and Urban Development of the Islamic Republic of Iran regarding the railway network connection between the two countries. According to this, the construction of the railway in the territory of Iran will start after the completion of 30% of the railway construction in the territory of Armenia.

FEASIBILITY STUDY

The economic calculations were made based on the following estimated annual cargo volumes:

- **Initial short-term (up to 2025): 15.4 million tons per year;**
- **Continued Long-term (up to 2035): 18.3 million tons per year.**

According to the preliminary estimates, the required investment amount for the project is around $3.2 bln, which does not include:

- The costs necessary for technical inspection and controls;
- Electricity costs;
- Environmental and land acquisition costs;
- Duties, taxes, project expertise and control costs;
- Other costs for construction permits, and formulation of the final act.

The calculated internal rate of return of the project is 5.5%. It is estimated that even in the case of a 3% internal rate of return, the profit will be around $1.18 bln.

The project's return on investment is calculated at 24 years. If the investment return period changes, the Government of Armenia is ready to discuss the possibility of a concession period extension for an extra 20 years.

DOMESTIC CARGO VOLUMES FORECAST

It is predicted that on average about 3.5 million tons of domestic cargo annually will be transported using the new railway.

TRANSIT CARGO VOLUMES FORECAST

Currently, European companies are importing oil from Iran predominantly via sea, through the Strait of Hormuz. After construction of the new railway, a portion of the oil could be exported from Iran to the European Union overland to the Black Sea and then by sea to the destination point. This will significantly reduce transportation costs compared to the current sea-only methods. After the launch of the new railway, the transit cargo (mainly oil and oil products) will amount to 7.9 million, 8.7 million and 10.1 million tons, respectively on an initial, short-term, and long-term basis.

TRANSIT PASSENGER VOLUME FORECAST

The annual passenger transit estimates are:

	INITIAL	SHORT-TERM	LONG-TERM
NORTHWARD	270,000	340,000	510,000
SOUTHWARD	310,000	390,000	590,000

TELECOMMUNICATION

A settlement policy based on the principles of technological neutrality is being carried out by the Government of the Republic of Armenia to preserve and promote the development of competition between public telecommunication networks.

TELECOMMUNICATION SECTOR FACTS:

- The level of digitalization of fixed telephony in Yerevan is 100% and around 89% across the country.
- Coverage of mobile 3G technology is 99.9% in all urban and rural communities.
- The number of mobile network subscribers totaled 3,442,237.
- 4G/LTE is constantly developing in Armenia, now covering Yerevan and seven other large cities. By the end of 2016, 4G/LTE will cover around 80% of the country.
- Fiber optic technology FTTx networks are available in more than 40 cities andtowns in Armenia.
- In 2015 international IP traffic in Armenia was 161,524 Mb/s, 200% higher than the previous year.
- Due to significant growth and competition in this sector, the price of international IP transit service in 2016 has been reduced by up to 4,000 AMD (around 8.5 USD), constituting a 22% reduction compared to 2014.