

INITIAL PUBLIC OFFERING

PROSPECTUS

ARTSAKH HEK OJSC

Issuer's firm name

Open Join-Stock Company

Organisational-legal form

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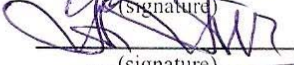
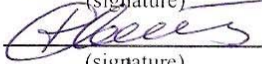
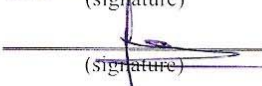
Location, means of communication (telephone, fax, e-mail etc.)

Issue Instrument	Ordinary shares
Type of instrument	non-documentary
Quantity of instruments	3,285,715
Face value	AMD 1,000
Offer Price	AMD 1,050
Offer Volume	AMD 3,450,000,750

CENTRAL BANK OF REPUBLIC OF ARMENIA IS NOT RESPONSIBLE FOR ACCURACY AND AUTHENTICITY OF INFORMATION IN THIS PROSPECTUS. THE FACT OF REGISTRATION DOES NOT GUARANTEE THE SECURITY OF YOUR INVESTMENT.

We, the undersigned, verify that all information included in this Memorandum is accurate and authentic, that it does not include any omissions which can distort integrity of this Memorandum.

Signed

Vahram Beglaryan	CEO, President of Board of directors	 (signature)	18.04.2009 (date)
Arthur Petrosyan	Member of Board of directors	 (signature)	18.04.2009 (date)
Hayk Avetisyan	Member of Board of directors	 (signature)	18.04.2009 (date)
Arayik Davtyan	Chief Accountant	 (signature)	18.04.2009 (date)

The signatures are verified

Vahram Beglaryan	CEO, President of Board of directors
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(signature)

Contents of information included in Memorandum: executive summary, information on issued securities, information on issuer



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1 EXECUTIVE SUMMARY

1.1 General information

- 1.1.1 The Executive Summary briefly summarizes the most important information, contained in the Prospectus.
- 1.1.2 The Executive Summary should be considered as a brief introduction to the Prospectus.
- 1.1.3 The investor should base its decision on the investment in the offered shares on the entire Prospectus.
- 1.1.4 The person, responsible for the preparation of the executive summary, is liable to civil proceedings if the executive summary is not complete or contains errors or omissions.
- 1.1.5 The investor can get the documents annexed to the Prospectus in hardcopy from the location of “Artsakh HEK” OJSC (hereinafter the Company), while the electronic version can be received from the internet sites of both the Company and “Armenbrok” OJSC (hereinafter placement agent): www.artsakhhpp.com, www.armenbrok.com.
- 1.1.6 The Company accepts responsibility for the information contained in this Prospectus, and has taken all reasonable care to ensure that the information contained in this Prospectus is, to the best of Company’s knowledge, in accordance with the facts and contains no omission likely to affect its performance.
- 1.1.7 The placement of the offered shares is implemented by the placement agent, which has created an underwriting syndicate. Except from the Company and the placement agent, no other person has been authorized to give any information or to make any representation in connection with the offer made by this Prospectus, nor has any person been authorized to give any information or make any representation other than those contained in this Prospectus, and if given or made, such information or representations must not be relied upon.
- 1.1.8 This Prospectus does not constitute an offer to sell or solicitation of an offer to buy in any jurisdiction in which such offer or solicitation would be unlawful or to any person to whom it is unlawful to make such offer or solicitation.

1.2 Forward-Looking Statements.

- 1.2.1 This Prospectus includes certain statements, estimates and projections with respect to the future performance of the Company. Such statements may be identified by forward-looking words such as “may”, “will”, “expect”, “anticipate”, “believe”, “estimate”, “forecast” and “continue” or similar words. They can also be identified by the fact that they do not relate strictly to historical or current facts. These statements, estimates and projections reflect various assumptions by the Company concerning its anticipated results, which have been included solely for illustrative purposes.
- 1.2.2 By their very nature, forward-looking statements involve inherent risks and uncertainties, both general and specific, and risks exist that the predictions,

forecasts, projections and other forward-looking statements will not be achieved. These risks, uncertainties and other factors include, among other things, those listed under “Risk Factors,” as well as those included elsewhere in this Prospectus. Investors should be aware that a number of important factors could cause actual results to differ materially from the plans, objectives, expectations, estimates and intentions expressed in such forward-looking statements.

- 1.2.3 These statements, estimates and projections should not however, be relied upon as a representation, warranty or undertaking, expressed or implied, as the future performance of the Company and actual results may vary materially from the projected results contained herein and/or the assumptions on which such statements, estimates and projections were based. Any projections or other forward-looking statements or opinions contained in this Prospectus constitute estimates of the Company and Armenbrok based upon sources deemed to be reliable, but the accuracy of this information is not guaranteed. The Investors should not consider the contents of this Prospectus as legal, business or tax advice. Prior to making a decision to buy offered shares, the Investors should carefully review and consider this Prospectus and should consult their own attorneys, business advisors and tax advisors as to legal, business and tax related matters concerning this offering.

1.3 Information on issued shares

- 1.3.1 Shares issued by the Company are ordinary, non-documentary.
- 1.3.2 Total Offer volume is AMD 3,285,715,000 (three billion two hundreds eighty-five million seven hundreds fifteen thousands), calculated by face-value, or AMD 3,450,000,750 (three billion four hundreds fifty million seven hundreds and fifty), calculated by offer price. Quantity of issued (offered) shares is 3,285,715 (three billion two hundreds eighty five and seven hundreds fifteen).
- 1.3.3 Face-value per share is AMD 1,000 (one thousand).
- 1.3.4 Offer value per share is AMD 1,050 (one thousand and fifty)
- 1.3.5 The placement of the offered shares will start in three business days after the registration of this Prospectus by the Central Bank of Armenia and will last 4 months. In case of selling the whole amount of the Offer before the end of three months, the placement will be considered to be finished from that moment.
- 1.3.6 Placement of shares will be implemented through a licensed qualified company – placement agent (underwriter). The underwriter of the Company is “ARMENBROK” OJSC (hereinafter Placement agent, registered and licensed by Central bank of Republic of Armenia on 04.11.2008, registration number 10, certificate number 10, license of providing investment services ՆԸ number 0010 location - 32/1 Tigran Mets ave., Yerevan, RA). The Placement Agent, within the framework of the authorities granted by the issuer, has created an underwriting syndicate. The participants of the syndicate are ARMENBROK OJSC, as a lead underwriter and ARMSWISSBANK CJSC (registered by the Central Bank of RA 07.10.2008, registration number 84, registration certificate number 0476, license of

committing banking activity N84, address: 13/2 Khanjyan str, 0010 Yerevan, RA, Phone: 52-95-93) as a member of underwriting syndicate.

- 1.3.7 The subscription of the offered shares will be made on the open subscription basis.
- 1.3.8 The payment for the subscribed shares should be made in full before subscription on the special account of Placement Agent in the following banks: “Ardshinvestbank” OJSC - 2472300356740040 and “Artsakhbank” OJSC - 223005000169.
- 1.3.9 The payment for the subscribed shares can be made in only Armenian Drams (AMD). Those investors who hold their funds in other currencies can make the transfer on the following accounts of “Ardshinvestbank” CJSC:

USD	-	2472300356740050
EUR	-	2472300356740060
- 1.3.10 Resident and non-resident entities of Republic of Nagorno Karabakh, both legal and individual, have the right to participate in the placement.
- 1.3.11 Accounting and registration of rights and obligations of offered shares will be provided by “Central Depository of Armenia” OJSC, located on 5b M. Mkrtchyan street, Yerevan, RA, tel. (374 10) 56-64-46.
- 1.3.12 The Company proposes to address the net proceeds from initial public offering to construction of three HPPs. These plants – Madaghis 1, Madaghis 2 and Trghi 1, will be constructed on the largest rivers of NKR - Tartar and Trghi.

1.4 Company overview

1.4.1 General information

- 1.4.1.1 The Company was established as a 100% state owned closed joint stock company according to the decision of NKR government No 484 as of 1 November 2007 (state registration on 12 December 2007 named “Artsakh HEK”).

“Artsakh HEK” CJSC was established by separation from “Artsakh Energo” CJSC (state registration by registrar department of Ministry of Justice on 28.02.2005, registration number 443.120.20892, registration certificate 001350), the operator of electricity sector, which besides being the operator, owned the Sarsang HPP, the only HPP in NKR and thus producing energy in the Republic. To this extent, “Artsakh HEK” CJSC became the legal successor of “Artsakh Energo” CJSC in terms of electricity production according to the separator balance sheet.

According to resolution number 360 of NKR Government from 13 May 2008, “On reorganizing “Artsakh HEK” Closed Joint-Stock Company”, “Artsakh HEK” CJSC (state registration by register department of Ministry of Justice

on 12.12.2007, registration number 443.120.11328, registration certificate 02 U 001980) was reorganized into “Artsakh HEK” Open Joint Stock Company.

- 1.4.1.2 Location of the Company and its legal (postal) address is 10 A. Araqelyan str., Stepanakert, NKR.
- 1.4.1.3 Amount of Company’s authorized capital is AMD 5,100,000,000 (five billion and one hundred million), which is constituted of 5,100,000 (five million and one hundred thousand) ordinary non-documentary shares. Face value per share is AMD 1,000 (one thousand).
- 1.4.1.4 All 5,100,000 issued shares of the Company are placed, belong to Nagorno-Karabakh Republic and are fully (100%) paid.
- 1.4.1.5 Company has no preferred shares.

1.4.2 Business activity of the Company

- 1.4.2.1 The Company has license (number 0001) for electricity production in NKR. License was given by state committee regulating public services and economic competition in Nagorno-Karabakh Republic on March 20, 2008. License was given for 15 years.
- 1.4.2.2 General activity of the Company is the production and trade of electro energy, which is the only source of its profit. Company is fulfilling production of electro energy via Sarsang HPP. Produced energy with fixed price is sold to the only operator of NKR in electro energy market – “Artsakhenergo” CJSC, which has a license for transfer and distribution of electro energy in NKR. Sales are implemented according to contract of purchase-sale, which is registered by state committee regulating public services and economic competition in NKR (hereinafter the Committee). Prices for sales are stated by the Committee.
- 1.4.2.3 The main asset of Artsakh HEK is Sarsang HPP, which was constructed in 1976 and is located on the main river of the country - Tartar. Sarsang HPP is considered to be one of the best and well equipped HPPs in post-Soviet area. The Sarsang Hydro Power Plant is the largest source of energy in the NKR.
- 1.4.2.4 Though Artsakh HEK was established only on 1 November 2007 and has a very limited business and operating history, Sarsang HPP has been operating on the area of NKR almost 32 years.
- 1.4.2.5 Sarsang HPP is the only unit producing electro energy in NKR. It produces annually 90-140 mln kWt/h electro energy, which constitutes nearly 40-60% of available demand for it (consumption of electro energy in 2007 constituted 225 mln. kWt/h). The rest of demand is satisfied with electricity imported from Armenia.

1.4.2.6 The table below shows general indicators of electricity produced by the Company by months.

Volumes and prices of electricity produced by the Company by months

Year	Month	Price (AMD/kWt/h, without VAT)	Volume (kWt/h)
2007	November	3	12,727,600
	December	3	11,932,000
	Total 2007		24,659,600
2008	January	3	10,836,400
	February	3	11,212,400
	March	3	10,202,800
	April	3	1,400,400
	April	3.5	1,447,200
	May	3.5	5,339,200
	June	3.5	5,886,971
	July	3.5	3,000,000
	August	3.5	5,300,000
	September	3.5	3,500,000
	October	3.5	6,000,000
	November	9	14,000,000
	December *	9	13,000,000
Total 2008		-	91,125,371

Source: “Artsakh HEK” OJSC

* Information concerning December 2008 is estimates of “Artsakh HEK” OJSC

Related to tariffs, from the moment of Company’s establishment till April, produced electro energy was sold to “Artsakhenergo” for a fixed price of 3 AMD per kWt/h (excluding VAT). The resolution of State Committee regulating public services and economic competition in NKR from 20 April 2008 stated to set tariff of 3.5 AMD per kWt/h for “Artsakh HEK” OJSC. But, according to Company’s application, taking into consideration Company’s future activity and goals of increasing competitiveness, Committee has revised the working tariffs. According to Committee’s resolution number 51² from October 1, 2008 new tariff of 9 AMD per kWt/h was set that came to force on November 1, 2008.

1.4.3 The financial condition and performance of the Company

- 1.4.3.1 The indicators on Company’s financial position and performance results from the moment of its establishment are represented in the tables below.
- 1.4.3.2 During the analysis of financial performance indicators represented in this and other tables of this Prospectus, it is necessary to take into consideration that the results for 2007 summarizes the performance results of the Company only for November and December, as Company started its activity in November 2007.

The main indicators of the Company's performance, '000 AMD

	31.12.2007	30.09.2008
Revenue	36,989	188,511
Gross Income	6,835	18,745
Gross Margin	18.48%	9.94%
Operating Income	3,465	-18,984
Operating Margin	9.37%	-10.07%
Net Income	3,230	-22,586
Net Margin	8.73%	-11.98%

Source: "Artsakh HEK" OJSC

* the net income for Q3 2008 does not include profit tax charges

- 1.4.3.3 Profitability indexes of Company's activity are represented in the table below. During analysis of these data, must be taken into consideration that profitability indexes for 2007 are based on amounts of net profits only for November and December, but indexes for Q3 2008 are based on amounts of 9m profits.

Profitability indicators of the Company

	31.12.2007	30.09.2008
Return on Assets, %	6.41%	-0.40%
Return on Equity, %	8.22%	-0.44%

Source: "Artsakh HEK" OJSC

- 1.4.3.4 At the end of Q3 2008 current liabilities of the Company constituted AMD 500,253,000. Company did not have any non-current liabilities. The table below sets forth the structure of Company's liabilities.

Structure of Companies liabilities

	30.12.2007		30.09.2008	
	'000 AMD	%	'000 AMD	%
Current Liabilities				
Short term Bank loans	0	0.0%	413,281	82.6%
Accounts payables for sales	2,623	23.7%	6,981	1.4%
Advances received	0	0.0%	70,000	14.0%
Accounts payables to budget	6,363	57.6%	1,333	0.3%
Accounts payables in terms of social security payments	944	8.5%	1,845	0.4%
Accounts payables to employees	1,117	10.1%	6,661	1.3%
Other accounts payables	0	0.0%	152	0.0%
Total current liabilities	11,047	100.0%	500,253	100.0%
Non-current liabilities				
Long-term bank loans	0.0	0.00	0.0	0.00
Deferred tax liabilities	0.0	0.00	0.0	0.00
Other non-current liabilities	0.0	0.00	0.0	0.00
Total non-current liabilities	0.0	0.00	0.0	0.00
Total liabilities	11,047	100.0%	500,253	100.0%

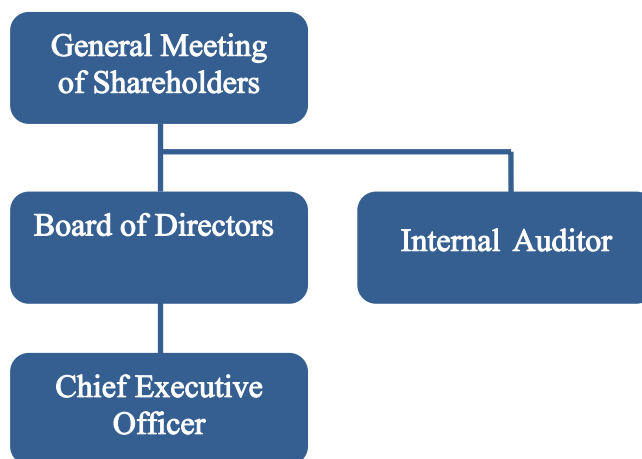
Source: "Artsakh HEK" OJSC

1.4.4 Information on Company's management and management employees.

1.4.4.1 According to the Charter, the Company's corporate bodies are the General Meeting of Shareholders (hereinafter GMS), the Board of Directors (hereinafter the Board), the CEO and Internal Auditor, each having its own responsibilities and authorities in accordance with NKR legislation and the Company's Charter.

1.4.4.2 Structure of the Company Management is presented below:

Figure. The structure of the Company Management



1.4.4.3 The Board of the Company includes:

Vahram Beglaryan	-	President of the Board
Artur Petrosyan	-	Member of the Board
Hayk Avetisyan	-	Member of the Board

1.4.5 Information about shares issued by Issuer

1.4.5.1 The Company has previously issued shares. Below find some brief information on them:

- ✓ The issued shares are ordinary and non-documentary.
- ✓ Issued shares of the Company are not listed.
- ✓ Total volume of Company's issued and placed shares is AMD 5,100,000,000, quantity is 5,100,000.
- ✓ Company's shares are non-redeemable.

1.4.5.2 From the moment of establishment Company's shares haven't been traded at any stock exchange.

2 INFORMATION ON ISSUED SHARES

2.1 General information

- 2.1.1 Shares issued by the Company are ordinary, non-documentary.
- 2.1.2 Total Offer volume is AMD 3,285,715,000 (three billion two hundreds eighty-five million seven hundreds fifteen thousands), calculated by face-value, or AMD 3,450,000,750 (three billion four hundred fifty million seven hundred and fifty), calculated by offer price. Quantity of issued (offered) shares is 3,285,715 (three billion two hundreds eighty five and seven hundreds fifteen).
- 2.1.3 Face-value per share is AMD 1,000 (one thousand).
- 2.1.4 The issued shares are non convertible.
- 2.1.5 The placement of the offered shares will start in three business days after the registration of this Prospectus by the Central Bank of Armenia and will last 4 months. In case of selling the whole amount of the Offer before the end of three months, the placement will be considered to be finished from that moment.
- 2.1.6 Company does not envisage any conditions for cancelling, postponing or suspending the offering or placement of shares. However, if the placement is suspended according to the article 21 of the Law of RA on “Securities market” and the placement does not start in one business day after suspending deadline, than the placement agent must cancel the placement and return the funds to the investors who had already purchased the offered shares. In case of cancelling the placement, investor’s funds are returned in following way:
- 2.1.6.1 From the moment of cancelling the placement, issuer and/or placement agent must inform investors about cancelling the placement in 10 business days
- 2.1.6.2 Investors must present statements on return of invested funds, which has to include:
- ✓ Complete company name of investor (in case of individual investor – first name and second name), data on state registration (passport data), location (address);
 - ✓ Amount invested;
 - ✓ Proffered way of return of funds – cash or wire transfer. In case of transfer, bank name and account number must also be included, directed with corresponding details in case of international transfer.
- 2.1.6.3 Statements are satisfied within 3 (three) business days.
- 2.1.6.4 If no statement is presented within 6 months from the date of informing the investors or no physical presence for money return (in case of cash return) has been performed, the funds of investors are paid and saved as notaries deposits.

- 2.1.7 The payment for the subscribed shares should be made in full before subscription on the special account of Placement Agent in the following banks: “Ardshinvestbank” OJSC - 2472300356740040 and “Artsakhbank” OJSC - 223005000169.
- 2.1.8 The payment for the subscribed shares can be made in only Armenian Drams (AMD). Those investors who hold their funds in other currencies can make the transfer on the following accounts of “Ardshinvestbank” CJSC:
- | | | |
|-----|---|------------------|
| USD | - | 2472300356740050 |
| EUR | - | 2472300356740060 |
- 2.1.9 The transferred currency will be converted into Armenian Dram according to the exchange rate set by “Ardshinvestbank” CJSC.
- 2.1.10 The decision on issue and placement of shares was adopted by Government of Nagorno-Karabakh Republic by resolution No 781 from 24.11.2008 as well as order No 19V of the Head of Industrial Infrastructure Department under the Government of Nagorno-Karabakh Republic from 25.11.2008.

2.2 Information on share price

- 2.2.1 According to resolution No 2 of Board of Directors of "Artsakh Hek" Open Joint-Stock Company from 10.06.2008 market price for shares was stated AMD 1,050 (one thousand and fifty), and offer price also was stated as AMD 1,050 (one thousand and fifty) by resolution No 781 of Government of Nagorno-Karabakh Republic from 24.11.2008 .
- 2.2.2 Shareholders of the Company does not have any preemptive rights to buy shares of the Company, since the order No 19V of the Head of Industrial Infrastructure Department under the Government of Nagorno-Karabakh Republic from 25.11.2008 states not to grant preemptive right to present shareholders in order to create equal conditions for all shareholders. This resolution is in power for one year. In case present shareholders do not use their preemptive rights, the existing shareholders of the Company come to equal conditions with the new investors.

2.3 Information on dividends

- 2.3.1 The Company can pay either annual or interim (quarterly, semiannual) dividends. Adoptions of resolutions on payments of intermediate dividends and its amounts are implemented by Company’s Board of Directors. Adoptions of resolutions on payment of annual dividends and their amounts are implemented by General Meeting of Shareholders.
- 2.3.2 The company does not have policies regulating volumes of dividends or its establishment. Up to this day Company hasn’t paid any dividends.
- 2.3.3 Dividends can be paid in cash or by wire transfer. In case of cash payment, Shareholders can receive their dividends at the basement of the Company. In case of

paying dividends via wire transfer, dividends are wired to the bank account specified by the shareholder.

2.3.4 Company neither has any limitations for the rights of receiving dividends nor has any special principles for paying dividends to non-resident shareholders. The dividends to non-resident shareholders are paid according to the 2.3.3. Section of this Prospectus.

2.3.5 Company plans to pay dividends depending on results of its activity. Thus, the Company has forecasted the future dividend payments according to the following table:

Table 1. Dividend forecasts

	2009	2010	2011	2012	2013	2014	2015
Net income	565,766	659,086	1,270,533	1,250,165	1,193,134	1,417,583	1,428,822
Number of shares outstanding	8,385,714	10,027,619	10,027,619	10,027,619	10,027,619	10,027,619	10,027,619
Dividend payout ratio	0%	10%	10%	10%	10%	12%	12%
Total dividends	0	1,002,762	1,002,762	1,002,762	1,002,762	1,203,314	1,203,314
Dividend per share		100	100	100	100	120	120

Source: Company forecasts

2.3.6 The above presented data are the forecasts of the Company based on some assumptions and estimations of its future performance. The investors should realize that implied assumptions, estimations and forecasts can contain some risks/uncertainties and besides there is a risk that these forecasts may not come to life.

2.4 General rights and obligations of shareholders of this type of shares

2.4.1 Shareholder of ordinary shares of the Company has the right to:

- ✓ participate in General Meetings of Shareholders and have the right to vote for all issues that are in jurisdiction of the Meeting;
- ✓ In 60 days after the end of financial year present no more than 2 suggestions referring to the agenda of General Meeting of Shareholders, also suggest candidates for Board of Directors and Supervisor, in case the shareholder owns no less than 2 percent of voting shares;
- ✓ participate in the management of the Company;
- ✓ receive dividend from net profit gained in result of Company's activity;
- ✓ use preemptive right to buy shares issued by the company, if nothing else is stated by the law "On Joint-Stock Companies" of NKR and Charter of the Company;
- ✓ receive any information referring to activity of the Company, except secret information, including revision of balance sheets, reports, account books, production-economic activity of the Company, as stated in charter;
- ✓ Shareholders owning at least 5% of voting shares in authorized capital of the Company have the right to demand an expert or formation of expert groups for examination of reports on Company's activity and secret

documents. Expenses on examinations must be covered by shareholders demanding the provision of the examination;

- ✓ authorize any third person party to represent his right on General Meeting of shareholders;
- ✓ present suggestions on General Meetings of Shareholders;
- ✓ vote on General Meetings of Shareholders in compliance with their amount of shares;
- ✓ apply to the court against adopted decisions of general meeting of shareholders that are contrary to adopted laws and other legal acts;
- ✓ in case of liquidation of the Company, receive property or its money equivalent, left after payments to creditors;
- ✓ alienate or pass to other persons shares that are their property;
- ✓ require redemption of their shares in cases stated by the law of NKR “On Joint-Stock Companies”
- ✓ use other rights stated by the Charter.

2.4.2 Shareholders are obliged not to publish secret information referring the Company’s activity.

2.5 Information on limitations

2.5.1 According to the Charter of the Company, the number of authorized shares is 10,000,000 (ten million) shares, which is considered to be the maximum number of the shares to be issued. There are no limitations on the issue of shares and qualified investors of these shares.

2.6 Information on placement agents and extent of their participation

2.6.1 Placement of shares will be implemented through a licensed qualified company – placement agent (underwriter). The underwriter of the Company is “ARMENBROK” OJSC (hereinafter Placement agent, registered and licensed by Central bank of Republic of Armenia on 04.11.2008, registration number 10, certificate number 10, license of providing investment services ՆԸ number 0010 location - 32/1 Tigran Mets ave., Yerevan, RA).

2.6.2 Placement will be implemented via open subscription,

2.6.3 According to the Agreement between the Company and Placement Agent, the latter is obliged to organize and implement the placement of the issued shares on the “best effort” but not-guaranteed basis. According to the mentioned agreement, the Company is obliged to pay commission fee to the placement agent, amounting 2% of the total volume placed.

2.6.4 The Placement Agent, within the framework of the authorities granted by the issuer, has created an underwriting syndicate. The participants of the syndicate are ARMENBROK OJSC, as a lead underwriter and ARMSWISSBANK CJSC (registered by the Central Bank of RA 07.10.2008, registration number 84, registration certificate number 0476, license of committing banking activity N84,

address: 13/2 Khanjyan str, 0010 Yerevan, RA, Phone: 52-95-93) as a member of underwriting syndicate.

- 2.6.5 According to the Agreement, signed between ARMENBROK OJSC and ARMSWISSBANK OJSC, the latter is obliged to place the issued shares on the “best effort” but not-guaranteed basis. No particular volume of placement is specified. According to the mentioned agreement, a 1.8% placement fee is set for the volume, placed by the member of placement syndicate.
- 2.6.6 The number of shares, offered by the placement agent is 3,285,715 (three millions two hundred eighty five thousand seven hundred and fifteen) shares. The price per share, offered by the placement agent is AMD 1,050 (one thousand and fifty).

2.7 Subscription terms

- 2.7.1 Resident and non-resident entities of Republic of Nagorno Karabakh, both legal and individual, have the right to participate in the placement.
- 2.7.2 The subscription of the offered shares will be made on the open subscription basis.
- 2.7.3 The subscription will start on the third business day after the registration of this Prospectus by the Central Bank of Armenia and will last 4 months.
- 2.7.4 Investors, who are interested in purchasing the offered shares, must send subscription forms to Armenbrok OJSC by any contacts given in “Contacts” section. The sample of the subscription form is given in the Annex 5.2. The Subscription form must be signed (and sealed in case of legal entity) by the investor.
- 2.7.5 After sending the Subscription form, the investor should pay for the subscribed shares on the special banking account of Armenbrok in the following banks: “Ardshininvesbank” CJSC - 2472300356740040 and “Artsakhbank” OJSC - 223005000169 (see the points 2.1.8. and 2.1.9.).
- 2.7.6 The subscription form will considered valid only after the full payment for the subscribed shares. Besides, the subscription form will be considered not valid in case of: 1) the subscription form is not filled properly (does not contain any of the required information) and/or 2) the subscription form was received later then the subscription deadline.
- 2.7.7 The Placement agent guarantees settlement of the approved number of shares to the Customer account in the Central Depository of Armenia.
- 2.7.8 No withdraw of subscription forms is accepted.
- 2.7.9 In case of selling the whole amount of the Offer before the end of three months, the placement will be considered to be finished from that moment.
- 2.7.10 In case the amount of subscribed shares exceeds 3,285,715 shares, Issuer will reduce the amount of subscriptions.

- 2.7.11 In case of subscriptions reduction, funds are returned in the following order:
- 2.7.11.1 From the moment of subscriptions reduction, during 1 (one) business day Issuer and/or placement agent informs investor about the fact of reduction, amount and reason for the reduction.
- 2.7.11.2 Investor presents a statement for receiving the invested funds back which should include:
- ✓ Investor's complete firm name (in case of individual – name), data on state registration (passport data), location (address);
 - ✓ Amount of funds to be returned;
 - ✓ Preferred way of return of funds – cash or via wire transfer. In case of wire transfer the statement must also include preferred bank account number and SWIFT transaction details (in case of international wire).
- 2.7.11.3 Applications are satisfied within 3 (three) business days.
- 2.7.12 If no statement is presented within 6 months from the date of informing the investors or no physical presence for money return (in case of cash return) has been performed, the funds of investors are paid and saved as notaries deposits.

2.8 Complete and detailed description of taxation of shareholder's income, received from issued shares

- 2.8.1 **Profit Tax.** Legal entities carrying out activities in NKR are subject to corporate profit tax. The entities, which, are incorporated or managed in NKR (in other words, are resident entities), pay corporate profit tax on their worldwide income, whereas foreign entities – on NKR-source income only. Taxable profit of NKR entities, as well as that of foreign entities operating in NKR, is equal to the difference between taxable income and tax deductible expenses. The corporate profit tax rate applied to taxable profit for resident entities is flat and equals to 5% (except for the financial institutions, which are taxed by 20% tax rate). There is draft project in NKR to increase the profit tax rate for resident entities to 10%. There are tax exemptions for the residents which have foreign participation in their charter capital. Below see the table on Profit Tax Exemptions.

Table 2. Profit tax exemptions for foreign investments in NKR

Amount of Investment, mln AMD	Exemption	
	by 100%	by 50%
25-50	first year	subsequent 2 years
50-100	first year	subsequent 3 years
100-200	first 2 years	subsequent 3 years
200-300	first 3 years	subsequent 3 years
300 and more	first 4 years	subsequent 3 years

The profit of non-residents is subject to profit tax by 3% tax rate (except from insurance premiums, which are taxed by 2% tax rate).

- 2.8.2 **Dividends.** The dividends, received by an individual, both resident and non-resident, are not subject to income tax. When determining taxable income of the individual, the gross income shall be reduced by the amount of dividends received.

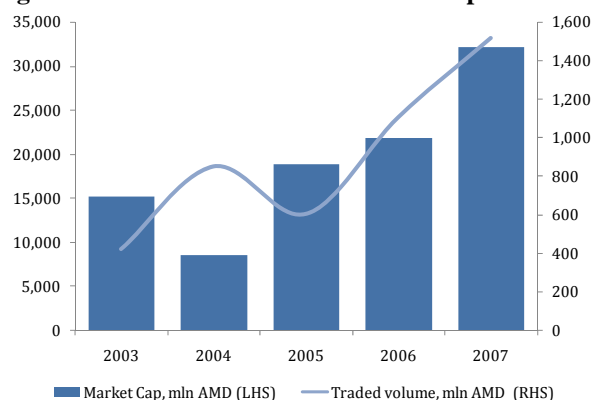
This is also applicable to the legal entities, incorporated or managed in NKR. On the contrary, dividends received by foreign legal entities are subject to profit tax by the rate of 3%.

- 2.8.3 **Capital gains.** NKR does not have separate tax on capital gains. Capital gains of individuals, both resident and non-resident, arising from the sale of shares is not subject to income tax. Legal entities, on the contrary, do pay tax for the income, gained from the selling of shares. The tax rates are: for residents – 5%, for non-residents – 3%.

2.9 Information on permission for trading on Stock Exchange

- 2.9.1 Shares of the Company don't circulate on any stock exchange yet. However, as soon as the placement of shares is over, Company proposes listing of its shares on Armenian Stock Exchange OJSC (NASDAQ OMX GROUP - ARMENIA, hereinafter - Armex) – 5b M. Mkrtychyan, Yerevan, RA. Trading sessions on Armex take place from Monday till Friday, one hour daily.
- 2.9.2 During the recent years capital market of RA experienced serious developments. Particularly, during last 5 years the trading volume has increased by 111.5% and average annual growth rate constituted 34.5%, which can be considered to be a significant success among transition and developing countries. The turnover volume of Armex has significantly gone up, constituting 1.5 billion AMD for 2007, what have raised index of total growth for 89% in comparison with 2002. Besides that, entrance of NASDAQ OMX on capital market of RA also can be considered as incentive of future development, which will provide its future development and liquidity.

Figure 1. Main indicators of Armenian capital market



Source: Armex

- 2.9.3 The company has no agreement with any market-maker yet. However, for providing liquidity of offered shares, during Armex trading sessions the placement agent will provide double-sided quotation of these shares, acting as market-maker of Company's shares.

2.10 Information on organizations providing accounting and (or) registration of rights and obligations of offered shares

Accounting and registration of rights and obligations of offered shares will be provided by “Central Depository of Armenia” OJSC, locating on 5^b M. Mkrtchyan street, Yerevan, RA, tel. (374 10) 56-64-46.

2.11 Issuance purposes

- 2.11.1 The Company proposes to address the net proceeds from initial public offering to construction of three HPPs. These plants – Madaghis 1, Madaghis 2 and Trghi 1, will be constructed on the largest rivers of NKR - Tartar and Trghi.
- 2.11.2 At present pre-research activities on constructing these HPPs are being carried out. Particularly, these activities are provided by “Armhydroproject” CJSC and on basis of their estimations the preliminary value of the program is AMD 3,450,000,000 (Three billion four hundred fifty million).
- 2.11.3 Proposed HPPs are small (with max capacity of 5 MWt) units, equipped with modern turbines and generators. The estimated useful life of each plant is 40 years.

2.12 The estimated schedule of new issuances

- 2.12.1 In case of success with these offering, the Company intends to implement one more offering in 2010 for funding the construction of two additional HPPs – Trghi 2 and Trghi 3. These projects come out from NKR Government project “Utilization of NKR water resources”.
- 2.12.2 By prior estimations, construction of these two HPPs will constitute AMD 1,724,000,000 (One billion seven hundred twenty four million), which will be the volume of the new offering. The project is very draft and the details will be adjusted in future. All shareholders of the Company will be informed on the details as soon as they become more or less realistic.

3 COMPANY OVERVIEW

3.1 General description

3.1.1 History and development of the Company

3.1.1.1 Company's firm name is:

In Armenian

complete «ԱՐՑԱԽ ՀԷԿ» Բաց Բաժնետիրական Ընկերություն

brief «ԱՐՑԱԽ ՀԷԿ» ԲԲԸ

In Russian

complete Открытое Акционерное Общество “АРЦАХ ГЭК”

brief ОАО “АРЦАХ ГЭК”

In English

complete “ARTSAKH HEK” Open Joint Stock Company

brief “ARTSAKH HEK” OJSC

3.1.1.2 The Company was established as a 100% state owned closed joint stock company according to the decision of NKR government No 484 as of 1 November 2007 (state registration on 12 December 2007 named “Artsakh HEK”).

“Artsakh HEK” CJSC was established by separation from “Artsakh Energo” CJSC (state registration by registrar department of Ministry of Justice on 28.02.2005, registration number 443.120.20892, registration certificate 001350), the operator of electricity sector, which besides being the operator, owned the Sarsang HPP, the only HPP in NKR and thus producing energy in the Republic. To this extent, “Artsakh HEK” CJSC became the legal successor of “Artsakh Energo” CJSC in terms of electricity production according to the separator balance sheet.

According to resolution number 360 of NKR Government from 13 May 2008, “On reorganizing “Artsakh HEK” Closed Joint-Stock Company”, “Artsakh HEK” CJSC (state registration by register department of Ministry of Justice on 12.12.2007, registration number 443.120.11328, registration certificate 02 U 001980) was reorganized into “Artsakh HEK” Open Joint Stock Company.

3.1.1.3 The Company received its first registration on December 12, 2007 by the state registrar department of Ministry of Justice (registration number 443.120.11328, registration certificate 02 U 001980). From the moment of registration till the current day the Company is carrying out actual activity.

3.1.1.4 Location of the Company and its legal (postal) address is 10 A. Araqelyan str., Stepanakert, NKR.

3.1.2 Information on financial and other groups

Company does not participate in any industrial, banking, financial groups and communities.

3.1.3 Issuer's branches and representatives

Company has no branches and representatives in and out of NKR.

3.1.4 Auditors of the Company

3.1.4.1 From the date the Company was established, audit of it was implemented by "V.S. AUDIT" Limited Liability Company, which has license for fulfilling auditing services (series - ՉՆ N 019, given by Ministry of Finance and Economics of Republic of Armenia on 13 June 2003 (resolution number 637 U).

The contacts of "V.S. AUDIT" Limited Liability Company are given below:

Registration address: 0903, Nor Kharberd Village, Ararat Marz, RA;

Basement address: 48/1 G Njdeh street, Yerevan, RA, Tel: (374 93) 750016:

3.1.4.2 From the moment of Company's establishment there haven't raised situations of refusal, non-participation in re-election, and release from work on any other purpose from audit company.

3.1.5 Expert's professional opinion and information received from other persons

3.1.5.1 No professional opinion of any expert or consultant has been used in this Prospectus.

3.1.5.2 Some information received from other persons is included in this Prospectus. Each time when this kind of information was used, corresponding source was linked.

These sources are:

- ✓ Industrial Infrastructures Department under the Government of NKR
- ✓ National Statistics Service of NKR
- ✓ State Committee regulating public services and economic competition of NKR
- ✓ "Artsakhenergo" CJSC
- ✓ "Armhydroproject" CJSC
- ✓ CIA-World Factbook,
- ✓ World Bank-World Development Indicators:

3.1.6 Volume and structure of authorized (shareholders') capital

3.1.6.1 Amount of Company's authorized capital is AMD 5,100,000,000 (five billion and one hundred million), which is constituted of 5,100,000 (five million and

one hundred thousand) ordinary non-documentary shares. Face value per share is AMD 1,000 (one thousand).

- 3.1.6.2 All 5,100,000 issued shares of the Company are placed, belong to Nagorno-Karabakh Republic and are fully (100%) paid.
- 3.1.6.3 At the moment of establishment of the Company, authorized capital was paid fully and constituted:
- | | |
|--------------------|-------------------|
| At the end of 2007 | AMD 36,083,000 |
| Since 9 June 2008 | AMD 5,100,000,000 |
- 3.1.6.4 Amount of authorized capital of “Artsakh HEK” OJSC was stated on 29.05.2008 in resolution number 70/1 “On establishment of “Artsakh HEK” Open Joint-Stock Company via reorganization of “Artsakh HEK” Closed Joint-Stock Company” of the Head of Administration-minister of NKR Government .
- 3.1.6.5 Company proposes to raise authorized capital via initial (described in this Prospectus) and secondary (2010) public placements.
- 3.1.6.6 Company has no preferred shares.

3.1.7 Information on availability of options on shares issued by Issuer

There are no options on shares issued by the Company.

3.1.8 The order for inviting annual and special meetings of shareholders (in case of presence of any other orders besides the ones, stated in the Charter)

The Company has no other orders for inviting annual and special meetings of shareholders besides the ones stated in the Charter.

3.2 Information on Company’s business activity

3.2.1 Risk factors

Investing into the offered shares is risk-related. Therefore, before making a decision, each Investor must review the risk factors below, the list of which is not limited. The Investors should realize that this Prospectus does not provide a complete coverage of all risks related to the investments in offered shares. The Investors should make a decision on purchasing the shares only if they fully understand the nature of such investment and the risks they will be exposed to. They should carefully consider whether transaction matches their experience, objectives, financial resources and other related factors.

The Company has described the risks and uncertainties that it believes are material, but these risks and uncertainties may not be the only ones the Company faces. Additional risks and uncertainties, including those the Company currently is not

aware of or deems immaterial, may also result in decreased revenues, incurred expenses or other events that could result in a decline in the value of the shares.

Artsakh HEK OJSC will take all the necessary measures to reduce negative influence of any risk factors stated below upon their occurrence. However, because in most cases the stated risk factors are beyond the Company's control, there is no guarantee for success of measures taken by the Company to reduce or eliminate negative effect of the stated but not limited to this list risk factors.

- 3.2.1.1 **Conflict zone risks.** NKR has experienced a heavy war with its neighbor Azerbaijan Republic. Though the cease-fire Agreement of 1994 was signed by both parties and the conflict awaits final, peaceful, and equitable resolution through direct negotiations, it is not yet finally resolved. The main vehicle for the resolution of the Nagorno Karabakh conflict has been the Minsk Group of the Organization for Security and Cooperation in Europe (OSCE), which has sought to mediate a durable peace settlement. The Minsk Group has come forward with a series of proposals to solve the crisis.
- 3.2.1.2 **Political risks.** NKR is a transition country, where political, economic and social transformation processes are still in progress. Any adverse changes in the political climate in NKR, in particular any of such changes affecting the stability of the NKR government or involving a rejection or reversal of its current reform policies favoring privatization, and legislative reform, may have negative effects on the Company's and could materially adversely affect the market price of the shares.
- 3.2.1.3 **Emerging markets risk.** Investors interested in transition economies as NKR should be aware that these markets are subject to greater risk than more developed markets. Investors should also note that NKR economy, like other transition economies is subject to rapid changes and that the information set out in this document may become outdated relatively quickly. Accordingly, the 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. Generally, investment in emerging markets is suitable only for sophisticated investors who fully appreciate the significance of the risks involved. Investors are urged to consult with their own legal and financial advisors before making an investment decision.
- 3.2.1.4 **Currency risk.** The offered shares will be denominated and paid for in Armenian drams (AMD). For investors whose financial assets are denominated in a currency other than the specified, an investment in the offered shares entails significant risks. Such risks include, without limitation, the possibility of significant changes in the exchange rate between the Armenian dram and the Investor's currency and the possibility of the imposition or modification of exchange controls by the Armenian and NKR monetary authorities. Such risks generally depend on economic and political events over which the Company's has no control.
- 3.2.1.5 **Liquidity Risk.** As noted above, the offered shares will be listed on Armex. The investors should be aware that low liquidity is inherent to Armenian

capital market as to all other transition economies. Although the Company's shares will be listed on the Armex trading platform, despite the efforts of the Company an active secondary market in the Company's shares may not develop. Therefore the Investor may find himself/herself in a situation when he/she will have no opportunity to sell the shares in the secondary market, i.e. this low liquidity will affect the Company shareholders' ability to exit their investment in the Company. Moreover, a situation can arise, when the difference between the buy and sell price will be significant and, therefore, the sale of the shares will cause significant losses.

- 3.2.1.6 **Legal Risks.** Legislative system of NKR is currently under reforms. In this reforming process, certain changes can be introduced to the legal system, which will raise an additional uncertainty factor in relation to court decisions making concerning disputable matters. Any uncertainty with regards to the legal system of NKR can cause worsening of the economic situation in the country and, respectively, influence the Company's operational activities. At the same time, a number of laws adopted in the early 1990s, including economy-related laws, at present need revision and amendments or to be replaced by brand new laws. Therefore, legislation of NKR is still under reformation and so there is an uncertainty as to which extent this process can provide the essential legislative support to the economic activity in the country, avoiding excessive legislative regulation.
- 3.2.1.7 **Risks of Climate change.** Since the Company produces special product - electricity through using and processing river water, the climate conditions can have adverse effect on the company's final performance. Thus, the revenue of the company heavily depends on the volumes of river water flows. Though the historical data for the recent past 10 and more years give us well ground for making some estimation on their future flows, the climate changes could bring to the decline of the revenues and, therefore other financial indicators of the Company.

3.2.2 Overview of Company's General activity

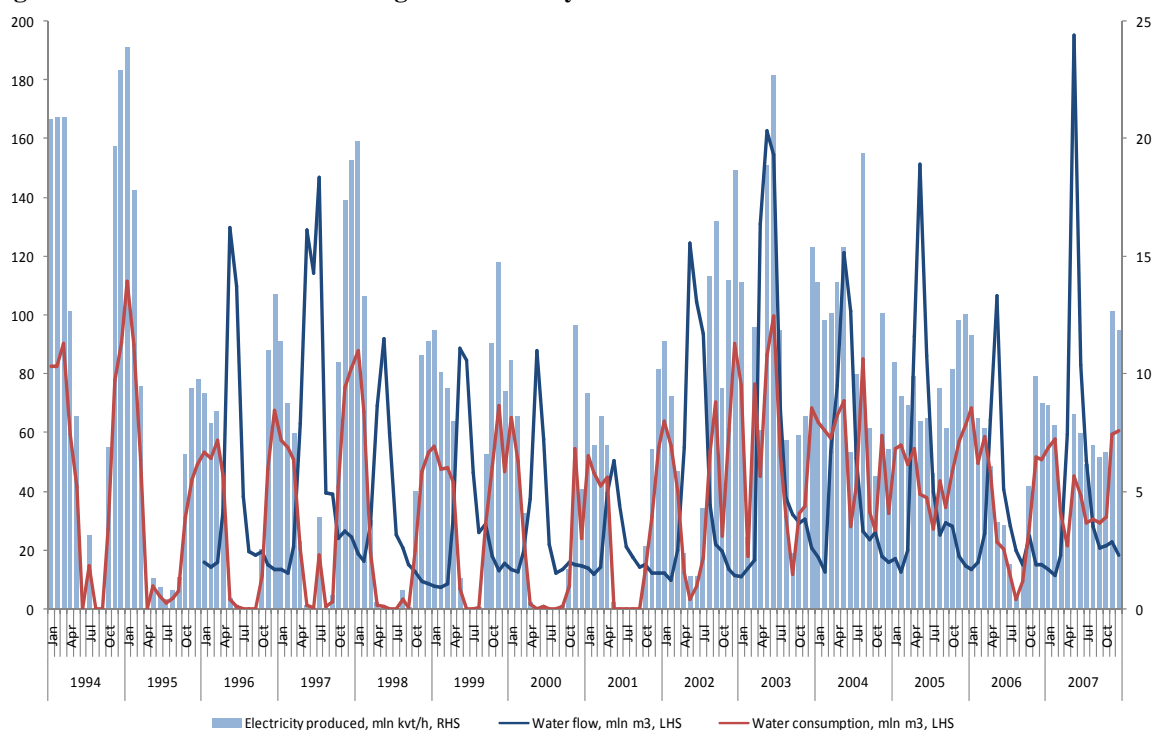
- 3.2.2.1 General activity of the Company is the production and trade of electro energy, which is the only source of its profit. Company is fulfilling production of electro energy via Sarsang HPP. Produced energy with fixed price is sold to the only operator of NKR in electro energy market – “Artsakhenergo” CJSC, which has a license for transfer and distribution of electro energy in NKR. Sales are implemented according to contract of purchase-sale, which is registered by state committee regulating public services and economic competition in NKR (hereinafter the Committee). Prices for sales are stated by the Committee.
- 3.2.2.2 The main asset of Artsakh HEK is Sarsang HPP, which was constructed in 1976 and is located on the main river of the country - Tartar. Sarsang HPP is considered to be one of the best and well equipped HPPs in post-Soviet area. The Sarsang Hydro Power Plant is the largest source of energy in the NKR.

The HPP has 50-megawatt capacity and produces 90-140 million kilowatt-hours of energy per year. Sarsang HPP is equipped with two hydro turbines, with installed capacity of 25 MW each and water consumption volume of 33.2 m³ per second. The turbines are being reconstructed every 7 years, besides, there is also a scheduled current repair once in every 3 years as well as technical support services once a year.

3.2.2.3 The HPP is located on Sarsang water reservoir, with the effective estimated capacity of 500 mln m³. The height and the length of the platinum for that reservoir are 730 m and 550m correspondingly, which is regarded to be one of the highest even among European countries.

3.2.2.4 Though Artsakh HEK was established only on 1 November 2007 and has a very limited business and operating history, Sarsang HPP has been operating on the area of NKR almost 32 years. Unfortunately the data on water flows and electricity production is available only since 1994, which is presented on the figure below.

Figure 2. Main indicators of Sarsang HPP's activity for 1994-2007



Source: “Artsakh HEK” OJSC

3.2.2.5 As the figure above demonstrates, the electricity production volume varies by years depending on the water flows. Besides that, electricity production volume also varies by months. It is noteworthy that though the water flow increases in spring, the electricity production does not go up with that. This is due to the particular policy of the HPPs Management, which lies on the understanding of electricity demand structure. In particular, the demand on the electricity increases in the late autumn and winter, going down with hotter

climate. Therefore, to meet the changing demand equivalently, the Sarsang HPP stores the water in the Sarsang Water Reservoir, limiting the electricity production in the spring and starts to use it more in autumn when the water flows decrease and demand goes up.

- 3.2.2.6 Sarsang HPP is the only unit producing electro energy in NKR. It produces annually 90-140 mln kWt/h electro energy, which constitutes nearly 40-60% of available demand for it (consumption of electro energy in 2007 constituted 225 mln. kWt/h). The rest of demand is satisfied with electricity imported from Armenia.
- 3.2.2.7 As it was mentioned above, Company has strictly limited history of activity. The table below shows general indicators of electricity produced by the Company by months.

Table 3. Volumes and prices of electricity produced by the Company by months

Year	Month	Price (AMD/kWt/h, without VAT)	Volume (kWt/h)
2007	November	3	12,727,600
	December	3	11,932,000
	Total 2007		24,659,600
2008	January	3	10,836,400
	February	3	11,212,400
	March	3	10,202,800
	April	3	1,400,400
	April	3.5	1,447,200
	May	3.5	5,339,200
	June	3.5	5,886,971
	July	3.5	3,000,000
	August	3.5	5,300,000
	September	3.5	3,500,000
	October	3.5	6,000,000
	November	9	14,000,000
	December *	9	13,000,000
	Total 2008	-	91,125,371

Source: “Artsakh HEK” OJSC

* Information concerning December 2008 is estimates of “Artsakh HEK” OJSC

- 3.2.2.8 As we can see from the table volumes of electro energy production strictly decreased from April. It is explained with a number of circumstances:
- ✓ First of all change of weather and increase of average air temperature lead to decrease of demand for electricity and hence to reduction of its production volumes;
 - ✓ A non-scheduled emergency repair of one of Sarsang HPP’s two hydro turbines was done in summer, during which HPP worked with one hydro turbine – with half of its capacity;
 - ✓ Some of construction works of Madaghis 1 (one new HPPs to be constructed) required minimal amount of water in the river.

In result of all these circumstances, volumes of electricity production decreased. But one of Sarsang HPP's and hence Company's advantages is availability of Sarsang Water Reservoir which gives an opportunity to store flowing water in circumstances of low demand and use it later to increase electricity production volumes even in conditions of natural decrease of water flow. So, Sarsang Water Reservoir gives an opportunity for effective management of river's natural water flow, reducing risk of environmental influence in short-term period.

- 3.2.2.9 Related to tariffs, from the moment of Company's establishment till April, produced electro energy was sold to "Artsakhenergo" for a fixed price of 3 AMD per kWt/h (excluding VAT). The resolution of State Committee regulating public services and economic competition in NKR from 20 April 2008 stated to set tariff of 3.5 AMD per kWt/h for "Artsakh HEK" OJSC. But, according to Company's application, taking into consideration Company's future activity and goals of increasing competitiveness, Committee has revised the working tariffs. According to Committee's resolution number 51² from October 1, 2008 new tariff of 9 AMD per kWt/h was set that came to force on November 1, 2008.
- 3.2.2.10 During the period before representing this Prospectus for registration, Company hasn't produced any new goods or services.
- 3.2.2.11 The Company does not exploit or manufacture any natural resource.

Brief review of the Sector and development trends

- 3.2.2.12 NKR electro energy system is connected with Armenia via 110 km electric wires connecting Shinuhayr, Armenia with Stepanakert, NKR. Actually, NKR electro energy system is a part of corresponding system of Armenia, taking into consideration the fact that daily volume of electricity production is regulated from Armenia. In spite of that Company annually concludes contracts with Artsakhenergo, where electro energy minimal volumes of production and sale are fixed. Fixations of marked volumes are based on Company's, "Artsakhenergo" CJSC's, also Armenia's experts' professional estimates referring to demand of electro energy for next year.
- 3.2.2.13 Currently dramatic changes are anticipated in the electricity sector of NKR. These changes are pushed by the new policy of the government in this area. Hydro power energy is considered to be one of the priority areas of state policy. Due to that, the newly elected government has created several incentives and has carried out actions towards development and attraction of foreign and local investments into this sector. The government has undertaken two major reforms in electricity sector.
- ✓ The first one, entitled "Reconstruction and Renovation of Electricity Distribution Networks in NKR", aims at providing the population and the economy with high quality and unbreakable electricity. The program includes reconstruction the old and construction new 110/35 kW

substations and wires, implementation of modern information technologies in distribution networks management system as well as in the financial and managerial accounting systems, construction of the second basic electricity transfer line between Armenia and NKR. The major output of the program is to ensure the high quality and unbreakable electricity transmission and distribution to final consumers. This program will also make it possible to reduce the technical losses in the general network from 12% to 10% and the over regulative losses from 10% to 1-2%. Such kind of reduction in losses will save additional resources amounting, by rough estimations, AMD 430 mln, making available to address them to the further development of the distribution networks. The program will be implemented in the period of 2008-2015.

- ✓ The second reform, which has found its adaptation in the Government Program “Deployment of Water Resources of NKR”, aims at ensuring the energy independence and, thus energetic security of the republic. The main actions that were already undertaken by the government, was the separation of electricity production function from “Artsakhenergo” and passing it to the newly created “Artsakh HEK”. The further actions to be taken is to support “Artsakh HEK” in attraction foreign and local investments in order to construct new HPPs, which will make possible to increase the local production of energy and therefore decrease the import, thus providing self coverage of the local demand on electricity as the local water resources support the construction of small HPPs in almost every region of NKR. According to the program, the target indicator of electricity production in 2015 is 350 mln kW/h electricity, which, with the estimated local demand of 300 mln kW/h, will allow not only to cover the domestic needs for electricity, but also to export additional volumes to Armenia.

The main instrument of realization of the last program is the Initial Public Offering of new shares of Artsakh HEK represented by this Prospectus.

3.2.3 Description of consumption markets

Production and consumption

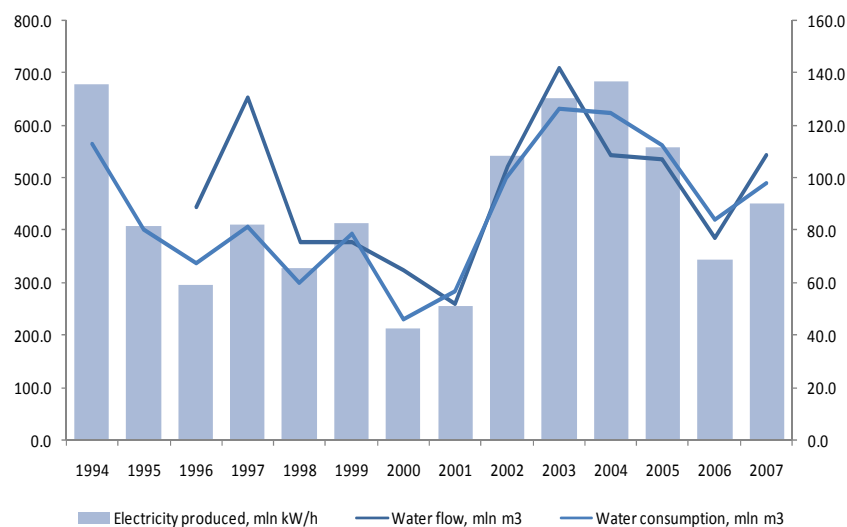
- 3.2.3.1 Company carries out its activity on internal markets.
- 3.2.3.2 The Energy sector of NKR consists of two main industries: Gas industry and Electricity industry. Electricity still remains the main source of energy for population and economy (industry agriculture, construction and services). The production and distribution of electricity totaled AMD 4.2 bln, which constituted the 63.1% of “electricity, gas and water supply” account of the economy. The table below demonstrates the electricity balance of NKR for the period of 2000-2008Q1.

Table 4. Electricity Balance of NKR, mln kwt/h

	2000	2001	2002	2003	2004	2005	2006	2007	2008Q1
Electricity produced	43.1	51.4	108.6	130.6	137.0	112.1	69.1	90.4	32.3
Import	117.4	112.2	72.0	68.9	77.3	115.7	154.0	145.2	37.6
Export	-5.5	-12.5	-33.3	-44.0	-44.6	-17.7	-3.4	-10.1	-0.3
Total electricity consumed	155.0	151.1	147.3	155.5	169.7	210.1	219.7	225.5	69.6

Source: National Statistical Service of NKR, Artsakh-Energo

3.2.3.3 As presented in the table above, the total consumption of electricity has increased by about 45% over the last 8 years. In spite of this, the electricity production has been varying rapidly over the noted years, thus leaving the government cover the most part of local demand through imported energy, which in 2007 constituted about 64% of total electricity consumption. This is mainly due to the factor, that the only unit that has been producing electricity in the country is Sarsang HPP which was formerly owned by Artsakh Energo CJSC and in November 2007 passed to Artsakh HEK OJSC. The Sarsang HPP is located on the largest river of NKR, Tartar, and is highly dependent on the volume of water flow.

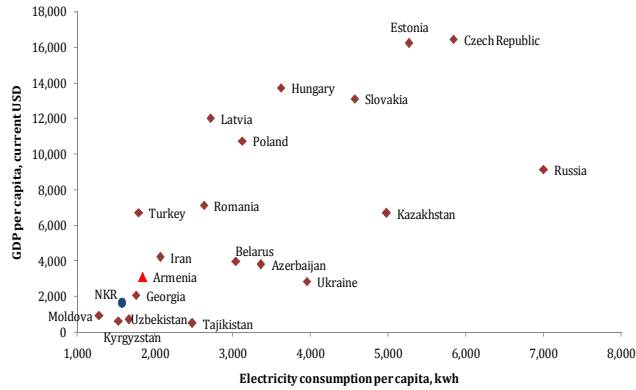
Figure 3. Main indicators of Sarsang HPP

Source: Artsakh HEK

As presented on the figure above, the water flow and thus, the water consumption and electricity production has had a cyclic trend of development. By very rough estimations, each cycle lasts from 4 to 6 years. The recent cyclic development, which started in 2001 and lasted about 6 years, had max and min volumes of water flows correspondingly 708.9 and 258.9 mln m³, providing electricity production of 137 and 51.5 mln kW/h. But besides these big cycles, there are also smaller ones within the year. In this framework, the water flow starts to increase in late autumn, continues in the winter, boosts in the spring and going down in the late spring and summer.

3.2.3.4 In 2007 the electricity consumption per capita amounted to 1624.6 kW/h and showed an increase against 2006 by 1.83%. By this indicator, combined the general indicator of economic development, GDP per capita, NKR is among such countries as Moldova, Kyrgyzstan, Uzbekistan and Georgia. As presented on the figure above, the highest consumption rate per capita has the Russian Federation. But considering the combination of noted two indicators, eastern European countries take the first places among developing and transition countries.

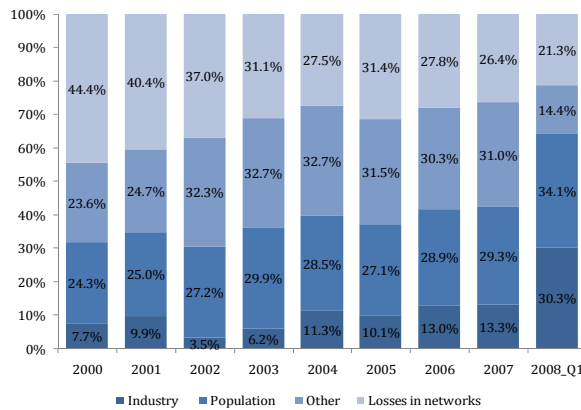
Figure 4. Electricity Consumption in developing and transition countries in 2006



Source: CIA World Factbook, World Development Indicators, State Statistical Committee of NKR

3.2.3.5 Looking to the structure of demand on electricity, we will see that the share of industry has already doubled in 2007 against 2000, and has reached up to 30.3% of total demand in the first quarter of 2008 which can be due to the significant development in industry in the recent years. It is also noteworthy, that total losses in distribution networks has decreased more than twice in 2008Q1 as against 2000. Concerning the losses, the government has undertaken a program of reconstruction and renovation of distribution network which will reduce these losses in general to 12%.

Figure 5. Composition of electricity consumption, % of total



Source: National Statistical Service of NKR

Transfer and Distribution

- 3.2.3.6 The electricity distribution network of NKR is interconnected with that of Republic of Armenia, and constitutes a part of a whole, and on general, the volume of production, export and import is, to some extent, dependant to the demand and supply on electricity in Armenia.
- 3.2.3.7 The main operator of NKR electricity sector is a state owned closed joint stock company Artsakh Energo. The latter has licenses for providing services of transfer and distributor of electricity in NKR. As was said above, until recently, Artsakh Energo, besides acting as an operator and distributor, had also a license of producing hydro power energy and it was carrying out this activity via Sarsang HPP as it owned that HPP since establishment. Though, in November 2007 by the decision of the newly elected government of NKR, a 100% state owned closed joint stock company Artsakh HEK was established and the Sarsang HPP was passed to him. The purpose of these actions was to separate the function of production from transfer and distribution, thus:
- ✓ laying grounds for establishment and developing small and medium HPPs of corporate form
 - ✓ ensuring and increasing the efficiency of regulation and supervision towards the market players
 - ✓ make it possible of further enlargement of Artsakh HEK activity and creation of new HPPs on the various rivers of NKR via attracting private local and foreign investments in this sector.

Regulation of Energy sector in NKR

- 3.2.3.8 The legislative and regulative environment of Energy sector of Nagorno-Karabakh Republic is grounding on 4 main laws and a number of regulations. The laws are:
- ✓ Energy Law of NKR
 - ✓ The Law of NKR on Energy Saving and Renewable Energy
 - ✓ The Law of NKR on State Technical Supervision in Energy and Energy Consumption Sector
 - ✓ The Law of NKR on Government body regulating public services and economic competition
- 3.2.3.9 The main law, the sets the basic principles of activity and regulation in Energy sector is the Energy Law of NKR. This Law regulates the relationships between the government bodies, legal entities of the energy sector, and consumers of electricity, thermal energy and natural gas in the NKR
- 3.2.3.10 Regulation of the NKR's energy sector is carried out by the Energy Regulatory Commission of the NKR, which acts pursuant to authorities vested in the Commission by the Energy Law, and is independent within its jurisdiction.

Electro energy tariffs

3.2.3.11 The tariffs for the electricity are being set by the Commission, based on the following principles:

- ✓ Providing for compensation of justified operation and maintenance costs, as well as the depreciation allocations of the fixed assets and non-material assets essential for the production of electricity necessary for implementing activity in compliance with license conditions;
- ✓ Providing the opportunity for reasonable profit;
- ✓ Inclusion of justified loan service costs;
- ✓ Establishment of differentiated tariffs for customers dependent on the consumption volume, requested capacity, season, time of day use, connection terms, type of service;
- ✓ Inclusion of justified and essential insurance costs
- ✓ Inclusion of justified costs related to compliance with environmental norms
- ✓ Inclusion of the costs for conservation and maintenance of energetic locations set by the NKR Government.
- ✓ Inclusion of justified technical and reasonable commercial losses
- ✓ Inclusion of other justified and necessary costs as provided by the Legislation.

3.2.3.12 The tariffs are being set by the Commission. The established tariffs become effective in 30 days after the adoption of the resolution. Tariffs are commonly in effect for a minimum of 6 months, unless otherwise is noted in the Law. Besides, the Commission can set a long-term tariff for the operation of the electricity producers and distributors. The established tariffs may be expressed as a definite number value, or as a clear formula based on certain calculation of parameters. Tariffs can be reviewed and renewed upon the initiative of the Commission according to the procedures set forth by the Commission, based on the results of the economic activity, investment programs of the electricity producer, as well as its compliance with the customer service quality requirements.

3.2.3.13 The following table sets forth present and forecasted tariffs of production and distribution of electricity in NKR.

Table 5. Tariff scheme effective as of May 28, 2008, AMD per kW/h

		2007	2008	2009E	2010F	2011F	2012F	2013F	2014F
Production Tariffs, including									
	<i>for old HPPs</i>	3.0	3.5*	9	9	9	9	9	12
	<i>for new HPPs</i>			15	15	15	15	15	15
Distribution Tariffs, including:									
	<i>to legal entities</i>								
	<i>night</i>	15	15	22	22	22	22	22	22
	<i>day</i>	25	25	30	30	30	30	30	30
	<i>to population</i>								
	<i>night</i>	15	15	22	22	22	22	22	22
	<i>day</i>	20	20	30	30	30	30	30	30

Source: Energy Regulatory Commission of the NKR, Estimates of Infrastructure Department under the Government of NKR

* The production tariff of AMD 3.5 per kW/h is effective since May 1, 2008. In the period of Jan-May 2008 a tariff of AMD 3 per kW/h was effective. Starting from November 1, AMD 9 per kW/h is effective.

3.2.4 Company's main competitors

3.2.4.1 In essence, Company has no competitors in electricity production sector. Sarsang HPP is the only HPP in NKR and belongs to the Company. According to contract, all produced electricity is sold to "Artsakhenergo" CJSC. HPPs acting in Armenia are also selling their production to transfer agents via which consumers get electro energy. Transfer agents buy from HPPs all electro energy they produce. Volume and terms of production are set from one center – from Armenia. In particular, marked factors generally depend not on capacity of HPP, its owner or price for produced energy, but place where energy is needed, place of HPP and other similar factors.

3.2.4.2 There is no information about appearing of new competitors in future.

3.2.5 Company's main suppliers

The main suppliers of the Company, which more than 10% of total provision is set forth in the table below:

Table 6. The main suppliers of the Company

	The goods supplied	The volume of the supply	%
"Flash Plus" LTD	petrol	7,287,950	42.3%
"Nakoil" LTD	technical oil	5,184,000	30.1%

Source: "Artsakh HEK" OJSC

3.2.6 Company's main contracts

3.2.6.1 During its short life Company has concluded a number of contracts. The following table sets forth main terms of some contracts (value of which exceed 5% of book-value of Company's assets):

Table 7. Company's contracts that exceed 5% of its assets volume

	Contract party	Subject of a contract	Contract price	Period of validity
1.	"Artsakhenergo" CJSC	Contract on purchase and sale of electricity	AMD 3.6 - 4.8 per kWt/h	01.01.2008-31.12.2008
2.	"Armhydroenegoproject" CJSC	Implementation of labor project for Madaghis Small HPP 2	AMD 12,000,000	21.01.2008-30.09.2008
3.	Russian-Armenian cooperation association branch in NKR	Provision contract, delivery of Russian cable production	AMD 8,143,000	18.02.2008-30.06.2008
4.	Russian-Armenian cooperation association branch in NKR	Provision contract, delivery of 110 Russian production accumulators, type 12ÁĬ-300	AMD 22,827,000	18.02.2008-30.06.2008
5.	Legal entities of China – "Guangdong Dabu Water &	Delivery of hydroelectric	USD 630,000	15.04.2008-

	Electricity Equipment Factory” generators and “Guangzhou Karlson Trading Limited”		
6.	“ Artsakhbank” CJSC	Provision of credit	AMD 250,000,000
			22.05.2008 – till acquaintance of obligations set in contract

Source: “Artsakh HEK” OJSC

3.2.6.2 The company does not have overdue contracts.

3.2.6.3 Tariffs for electricity in the contract with “Artsakhenergo” CJSC are: for June-July 3.0 AMD per kWt/h without VAT and for July-December 4.0 AMD per kWt/h without VAT. Though tariffs were marked in contract, they were revised by the Committee and were registered as appendices for the contract.

3.2.7 Licenses, certificates, product labels etc.

The Company has license (number 0001) for electricity production in NKR. License was given by state committee regulating public services and economic competition in Nagorno-Karabakh Republic on March 20, 2008. License was given for 15 years.

3.2.8 Researches and trends of development

3.2.8.1 Considering specific type of activity, Company cannot enlarge range of its products or provide any other services, that is why main shareholder of the Company and management see future development of the Company in enlarging the production volumes. From the other side, enlarging of Sarsang HEK’s volumes is limited by the river’s water flow, environment conditions and HPPs installed capacity. That is why future enlargement of production volumes is possible only via construction of new producing units – HPPs.

3.2.8.2 In the nearest future Company intends to construct three new HPPs – Madaghis 1 and Madaghis 2 (on river Tartar) and Trghi 1 (on the channel connecting Trghi and Tartar). Construction of this HPPs will be financed via funds received from issuance and placement of shares envisaged in this Prospectus. Besides this, Company also intends to construct two additional new HPPs – Trghi 2 and Trghi 3, also on the channel connecting Trghi and Tartar.

3.2.8.3 From the moment of its establishment, the Company has been implementing researches on construction of new HPPs. Particularly, “Armhydroenergoproject” CJSC was hired to provide labor projects of HPPs, based on contract concluded on 21.01.2008. According to “Armhydroenergoproject” CJSC’s estimations, primary value of HPPs construction is AMD 3,450,000,000. Final results of these researches are

being summarized. According to the contract, researches and development policy works cost AMD 12,000,000.

- 3.2.8.4 Now Madaghis 1 HPP's construction works started using equity and debt funds.

3.2.9 Property used in Company's activity

The tables below set forth description of main property that is included in Company's activity.

Table 8. Description of main property included in Company's activity

Property	Owning rights	Exploitation terms	Book value ¹
Land (151,120.0 m ²) NKR, Martakert region	usage on a gratis basis	unlimited	-
“Tartar” HPP (constructions, overall area 3,047.16 m ²) NKR, Martakert region	ownership	-	131,406,675
Emergency water tunnel, construction tunnel	ownership	-	2,126,054,449
Derivation tunnel	ownership	-	942,997,162
Hydro generator (2 units)	ownership	-	1,573,875,000
Administration system	ownership	-	67,152,000
Transformer	ownership	-	244,825,000
Administration building (150 m ²) 10 A.Araqelyan, Stepanakert, NKR	rent		-
Total			5,086,310,286

Source: “Artsakh HEK” OJSC

The above presented property is being used exceptionally for the main activity of the Company.

¹ Values are represented at the moment of December 2007, according to estimates of independent appraiser “WHITE GATE” LTD

Table 9. Description and structure of Company's main property on 01.07.2008

Property	Description	Balance (thousand AMD),	
			%
1. Buildings	Book value	3,137,563	61.68%
	Value	4,519,755	61.62%
	Accumulated depreciation	1,382,192	61.49%
2. Transfer devices	Book value	113,026	2.22%
	Value	163,900	2.23%
	Accumulated depreciation	50,875	2.26%
3. Machines and equipment	Book value	1,569,517	30.85%
	Value	2,264,432	30.87%
	Accumulated depreciation	694,915	30.91%
4. Transport	Book value	9,367	0.18%
	Value	10,733	0.15%
	Accumulated depreciation	1,365	0.06%
5. Industrial property, economic property, tools	Book value	254,991	5.01%
	Value	373,405	5.09%
	Accumulated depreciation	118,414	5.27%
6. Perennial plants	Book value	2,637	0.05%
	Value	2,876	0.04%
	Accumulated depreciation	240	0.01%
Total PP&E	Book value	5,087,101	100.00 %
	Value	7,335,101	100.00 %
	Accumulated depreciation	2,248,001	100.00 %

Source: "Artsakh HEK" OJSC

3.2.10 Investment details

3.2.10.1 In the table below investments implemented by Company from the moment of establishment are represented

Table 10. Company's investments

Investment objects	Investment value, AMD		
	Purchase price	Accumulated depreciation	Residual value
1. Transport			
2. Computer equipment			
3. Office property			
4. License			
5. Other property			
Total			

Source: "Artsakh HEK" OJSC

3.2.10.2 Company has no current investments.

3.2.11 List of entities where issuer and/or its daughter companies is/are significant shareholder(s)

3.2.11.1 Company isn't significant or principal shareholder of any entity's shares.

3.2.11.2 Company does not have any daughter or dependent companies in the territory of NKR and out of its borders.

3.2.12 Issuer's employees, remunerations

- 3.2.12.1 At the end of 2007 Company had 110 (one hundred and ten) employees.
- 3.2.12.2 Employees do not own Company's shares.
- 3.2.12.3 Employees' participation in authorized capital is proposed via acquisition during open subscription. At the moment Company doesn't propose any projects via which employees can have opportunity to participate in Company's authorized capital on any proffered conditions.

3.2.13 Tax exemptions

There aren't any tax exemptions stated for the Company. The Company works in the framework of general taxation structure.

3.2.14 Court and legal procedures

From the moment Company was established, there have not been any prosecutions referring to the Company, also any bringing to account (administration, civil responsibility) penalties by state bodies.

3.2.15 Information about affiliated transactions

Below find information on affiliated transactions commenced by the Company since its establishment.

- 3.2.15.1 A transaction was concluded based on resolution of NKR prime-minister number 145 from May 7, 2008 on "Granting financial resources" to "Artsakh HEK" CJSC from balance of humane help off-budget account on basis of future recovery. This amount constituted AMD 70,000,000 (seventy million), the share of which in Company's total income (gross revenue) for 2008Q1 was 48.17%.
- 3.2.15.2 According to the contract number 1 signed between "Artsakh HEK" CJSC and "Artsakh Energo" CJSC on 1 January 2008, the Company sells and "Artsakh Energo" CJSC buys electricity. The contract is effective till 31 December 2008. The contract sets the following tariffs for electricity:
- ✓ AMD 3 per kW/h without VAT for the period January-June 2008;
 - ✓ AMD 4 per kW/h without VAT for the period July-December 2008.

Since the transaction is not yet over, the share of its volume in the total income of the Company can not be estimated.

3.2.16 Company's proposed activity and perspectives

- 3.2.16.1 Company does not propose change of its main activity in the future. As Company produces very specific production – electricity, it cannot produce

new production and provide other services. Related to this, the source of Company's income cannot change in future. Its main source will still remain the funds received from the sale of electricity.

- 3.2.16.2 Company proposes to fulfill wide investment program on construction of new HPPs. It is proposed to construct three HPPs on river Tartar and the channel connecting Trghi and Tartar. Proposed HPPs will be small (capacity up to 5 MWt) equipped with newest equipment efficient life of which is estimated about 40 years (depending on quality of main equipment of HPP – hydro turbines, generators and management stations).
- 3.2.16.3 According to preliminary estimations of “Armhydroproject” CJSC, construction of these 3 HPPs will cost AMD 3.45 billion. On purpose of financing this investment project Company issues and offers via this Prospectus ordinary shares. It is planned to finish construction works and place new HPPs in operation in August 2010.
- 3.2.16.4 Besides mentioned 3 HPPs, Company intends to construct also 2 HPPs – Trghi 2 and Trghi 3, on the channel that connects rivers Trghi and Tartar. These HPPs will also be to small ones (capacity up to 5 MWt), construction cost of which will be AMD 1.72 billion, according to preliminary estimations of “Armhydroproject” CJSC. It is proposed to finish construction of these HPPs in 2011.
- 3.2.16.5 Proposed five HPPs will give Company an opportunity to produce extra 85.1 mln. KWt/h electro energy starting from 2011 It will give an opportunity to cover 85% of NKR demand using own resources.
- 3.2.16.6 Forecasts of HPPs electro energy production are represented in the table below. Forecasts are based on data received from Industrial Infrastructure department under the government of NKR and Company's management, also on their estimates. These estimations were based on past trends of water flow and water usage (including cyclic trends of water flow), also installed capacity of Sarsang and new HPPs and expert estimates of other technical conditions.

Table 11. Forecasts of the electricity production, mln kWt/h

	2009F	2010F	2011F	2012F	2013F	2014F	2015F
Sarsang	115.1	118.3	113.6	120.0	115.0	110.1	115.5
Madaghis 1		10.2	22.4	22.4	22.4	22.4	22.4
Madaghis 2		5.8	13.2	13.2	13.2	13.2	13.2
Trghi 1		4.7	16.5	16.5	16.5	16.5	16.5
Trghi 2			20.9	20.9	20.9	20.9	20.9
Trghi 3			12.1	12.1	12.1	12.1	12.1
Total	115.1	139	198.7	200.3	197.5	195.2	200.6

Source` Industrial Infrastructure Department under the Government of NKR, “Artsakh HEK“ OJSC,

3.2.16.7 The Company does not fulfill any scientific-research activity as well as activities on implementing and renovating new products, service and technologies.

3.2.17 Targeted investment projects

As it was already mentioned, the Company proposes to fulfill investments in construction of small HPPs. The Company considers each planned HPP as separate investment project with its operating and financial indicators. Below is represented description of given investments projects. Particularly, description of environmental, natural and climatic conditions, as main factors of HPPs activity, technical parameters of planned HPPs, summarized calculations for HPPs construction etc.

3.2.18 Description of environmental conditions

3.2.18.1 Nagorno-Karabakh Republic is characterized by presence of mountainous rivers, which have high hydro-energetic potential. River Tartar is considered to be the largest river of NKR: its total length is about 200 km and the water gathering surface is 2,650 km². On this river the only HPP – Sarsang HPP is placed, which is located on Sarsang Water Storage.

3.2.18.2 Sources of river Tartar and its feeders are located on the highest points of mountainous system of Karabakh, out of NKR borders. It passes through Martakert region, accepts Trghi feeder and goes to Azerbaijan Republic. Relief is typically mountainous, which is stipulated with features of geological structure and essence of physiographic conditions.

3.2.18.3 River Tartar has a huge energetic potential for NKR. It belongs to mountainous rivers that have cyclic fluctuations of water flow. Tartar has mixed power-supply source system: main sources are thawed snow and rain waters, while underground water sources have secondary meaning.

3.2.18.4 From climatic point of view, regions where Sarsang and Madaghis water storages are located have mild climatic conditions. Average annual air temperature is +13.8°C, absolute minimal temperature -31 °C, absolute maximal temperature is +35 °C. Average duration of non-frost period is 252 days, maximal – 285 days, minimal – 235 days.

3.2.19 HPPs technical conditions

3.2.19.1 It is proposed to build Madaghis 1 and Madaghis 2 HPPs on river Tartar, near Madaghis water storage. Economic expediency of planned HPPs is mainly stipulated with presence of Madaghis water storage. This water storage has total volume of 5.8 mln. m³ and effective volume of 3.5 mln. m³, but energetic volume of water storage comprises only 0.64 mln. m³.

- 3.2.19.2 Madaghis 1 HPP is connected with water storage through a pressure pipe which has length of 600m (3 pipes, each 200m). Pipe diameter is generally 2.5 m (at the end of each pipe a transitional part is proposed with diameter of 1.6 m and length of 33m). Water pipe of Madaghis 2 is smaller generally on 100m in length (3 pipes, each 33 m). HPPs will be equipped with 3 turbines each. Each turbine of Madaghis 1 will have capacity of 1.6 MWt, turbines of Madaghis 2 – 1 MWt.
- 3.2.19.3 Trghi 1 HPP will be located on water pipe that connects rivers Trghi and Tartar. This water pipe is being built on initiative of government and at the expense of state budget and it will have agricultural meaning – will be used in for irrigation of lands. According to estimations, besides use in irrigational purposes, it can also be used for hydroelectroenergy production. Length of the pipe is 14.46 km, diameter is 1,000-1,200 cm. Trghi 1 will be located on 6,051 m from beginning of pipe. It will have 3.7 MWt installed capacity, which will give an opportunity to produce annually 3.7 mln. KWt/h electro energy. The table below represents technical parameters of planned HPPs.

Table 12. Technical parameters of the proposed HPPs

	Madaghis HPP 1	Madaghis HPP 2	Trghi HPP 1
Location	Martakert	Martakert	Martakert
River	Tartar	Tartar	Tartar
Water consumption, m ³ /sec	30	30	1.8
Water head, m	22	12	291
Number of units	3	3	
Installed capacity, MWt	4.8	3.0	3.7
Electricity output, GWt/h	22.4	13.2	16.5

Source: “Artsakh HEK” OJSC, “Armhydroenergoproject” CJSC

3.2.20 Construction works

The tables below set forth estimates of construction installation works for Madaghis 1, Madaghis 2 and Trghi 1. These estimates were made by “Armhydroenergoproject” CJSC. Proposed period of construction is 2 years. As construction works already started on own and borrowed funds of the Company, according to prior estimations, construction works will be finished and HPPs will be installed in August 2010.

Table 13. Cost breakdown of the construction of Madaghis HPP 1, ‘000 AMD

	Construction and Assembly works	Equipment	Other	Total
Total cost of construction (excluding VAT)	930,946.0	268,900.0	205,154.5	1,405,000.5
including`				
Head unit	231,147.0	5,556.0		236,703.0
Turbine tunnel	372,280.6			372,280.6
HPP building	152,465.0			152,465.0
Hydro mechanical equipment	11,904.5	238,095.5		250,000.0

35 kWt substations	6,568.3	15,174.6		21,742.9
35 kVt two tier wires (3km)	29,772.2	1,841.6		31,613.8
other	126,808.4	8,232.3	205,154.5	340,195.2
Source: “Armhydroproject” CJSC				

Table 14. Cost breakdown of the construction of Madaghis HPP 2, ‘000 AMD

	Construction and Assembly works	Equipment	Other	Total
Total cost of construction (excluding VAT)	617,810.3	265,626.8	17,115.9	900,553.0
including`				
Head unit	98,645.4			98,645.4
Turbine tunnel	273,028.0	2,778.4		275,806.4
HPP building	152,465.0			152,465.0
Hydro mechanical equipment	11,904.5			11,904.5
35 kWt substations	6,568.3	15,174.6		21,742.9
35 kVt two tier wires (3km)	29,772.2	1,841.6		31,613.8
other	45,426.9	245,832.2	17,115.9	308,375.0

Source: “Armhydroproject” CJSC

Table 15. Cost breakdown of the construction of Trghi HPP 1, ‘000 AMD

	Construction and Assembly works	Equipment	Other	Total
Total cost of construction (excluding VAT)	370,014.1	40,098.4	154,892.6	565,005.1
including`				
Head unit	9,690.4	5,556.0		15,246.5
Turbine tunnel	30,493.0			30,493.0
HPP building	121,972.0			121,972.0
Hydro mechanical equipment	140,633.2	16,206.8		156,840.0
35 kWt substations	6,568.3	15,174.6		21,742.9
35 kVt two tier wires (3km)	29,772.2	1,841.6		31,613.8
other	30,885.0	1,319.4	154,892.6	187,096.9

Source: “Armhydroproject” CJSC

Table 16. The Summary of Costs for construction of three HPPs, ‘000 AMD

	Construction and Assembly works	Equipment	Other	Total
Madaghis 1 (excluding VAT)	930,945.9	268,900.0	205,154.5	1,405,000.5
Madaghis 2 (excluding VAT)	617,810.3	265,626.8	17,115.9	900,553.0
Trghi 1 (excluding VAT)	370,014.1	40,098.4	154,892.6	565,005.1
Total (excluding VAT)	1,918,770.3	574,625.2	377,163.0	2,870,558.6
Total (including VAT)	2,302,524.36	689,550.24	452,595.60	3,444,670.3

Source: “Armhydroproject” CJSC

3.3 Information on Issuer's financial position and performance results

3.3.1 Financial statements

Financial statements of the Company for 2007 and Q3 2008 are included in documents that are represented as appendixes to this Prospectus. If needed, investors can also get Company's financial statements at Company's and Placement agent's location, also on home page of Company's web-site: www.artsakhhpp.com.

3.3.2 Information about financial position, changes in activity results

- 3.3.2.1 The indicators on Company's financial position and performance results from the moment of its establishment are represented in the tables below.
- 3.3.2.2 During the analysis of financial performance indicators represented in this and other tables of this Prospectus, it is necessary to take into consideration that the results for 2007 summarizes the performance results of the Company only for November and December, as Company started its activity in November 2007.

Table 17. The main indicators of the Company's performance, '000 AMD

	31.12.2007	30.09.2008
Revenue	36,989	188,511
Gross Income	6,835	18,745
Gross Margin	18.48%	9.94%
Operating Income	3,465	-18,984
Operating Margin	9.37%	-10.07%
Net Income	3,230	-22,586
Net Margin	8.73%	-11.98%

Source: "Artsakh HEK" OJSC

* the net income for Q3 2008 does not include profit tax charges

- 3.3.2.3 Profitability indexes of Company's activity are represented in the table below. During analysis of these data, must be taken into consideration that profitability indexes for 2007 are based on amounts of net profits only for November and December, but indexes for Q3 2008 are based on amounts of 9m profits.

Table 18. Profitability indicators of the Company

	31.12.2007	30.09.2008
Return on Assets, %	6.41%	-0.40%
Return on Equity, %	8.22%	-0.44%

Source: "Artsakh HEK" OJSC

3.3.3 Company's Indebtedness

3.3.3.1 At the end of Q3 2008 current liabilities of the Company constituted AMD 500,253,000. Company did not have any non-current liabilities. The table below sets forth the structure of Company's liabilities.

Table 19. Structure of Companies liabilities

	30.12.2007		30.09.2008	
	'000 AMD	%	'000 AMD	%
Current Liabilities				
Short term Bank loans	0	0.0%	413,281	82.6%
Accounts payables for sales	2,623	23.7%	6,981	1.4%
Advances received	0	0.0%	70,000	14.0%
Accounts payables to budget	6,363	57.6%	1,333	0.3%
Accounts payables in terms of social security payments	944	8.5%	1,845	0.4%
Accounts payables to employees	1,117	10.1%	6,661	1.3%
Other accounts payables	0	0.0%	152	0.0%
Total current liabilities	11,047	100.0%	500,253	100.0%
Non-current liabilities				
Long-term bank loans	0.0	0.00	0.0	0.00
Deferred tax liabilities	0.0	0.00	0.0	0.00
Other non-current liabilities	0.0	0.00	0.0	0.00
Total non-current liabilities	0.0	0.00	0.0	0.00
Total liabilities	11,047	100.0%	500,253	100.0%

Source: "Artsakh HEK" OJSC

3.3.3.2 The above presented liabilities rose during Company's performance in correspondence with requirements on financial-economic activity. Particularly, amounts payable and received advances rose during current activity and are directed to finance its common activity. Though the Company had losses in Q3 2008, the rise of electricity tariff from AMD 3.5 to AMD 9 per kWt/h will considerably increase the profit margin as the expenditures will not increase correspondingly.

3.3.3.3 Structure of Company's Equity is represented in the following table.

Table 20. Structure of the Company's Equity, '000 AMD

	30.12.2007	30.09.2008
Equity		
Authorized capital	36,083	5,100,000
Share premium	0	0
Differences from revaluation	0	13,087
Retained earnings	3,230	-19,356
Reserve capital	0	0
Total Equity	39,313	5,093,731

Source: "Artsakh HEK" OJSC

3.3.3.4 As we can see from the table above, the Equity of the Company has increased during 2008 against the end of 2007. This increase is generally stipulated with the following fact: before establishment of "Artsakh HEK" CJSC, Sarsang

HPP was included in balance sheet of “Artsakhenergo” CJSC at a much underestimated value. Thus, 13 buildings with total area of 3,047.16 m², water emergency outflow tunnel, derivation tunnel, 2 hydro generators, electronic management systems, also other property including transport, were booked at the value of AMD 34.8 mln. At this value Sarsang HPP with its property passed to the Company. At the end of 2007 Company revalued Sarsang HPP’s property (revaluation was implemented by independent appraisal “White Gate” LTD), in result of which the row of difference from revaluation increased by AMD 5,077,004,000. Further according to resolution of NKR government Head of administration-minister number 70/1 from 29.05.2008, authorized capital of Company was stated AMD 5,100,000,000, partially passing the revaluation differences to the authorized capital.

3.3.4 Forecasts and estimations of Company’s profit

3.3.4.1 Following forecasts are based on the information received from Industrial Infrastructure department under the government of NKR and Company’s management. The table below sets forth estimated volumes of electricity production for mentioned years of Sarsang HPP, planned 3 HPPs, also of 2 HPPs proposed in future – Trghi 2 and Trghi 3. These forecasts are based on past trends of water flow and water consumption (including cyclic trends of water flow), also on their installed capacity and expert estimations of corresponding rivers technical parameters.

Table 21. The forecasts of electricity production for the years indicated, mln KWt/h

	2008	2009	2010	2011	2012	2013	2014	2015
Sarsang HPP	90.4	115.1	118.3	113.6	115.2	112.4	110.1	115.5
Madaghis HPP 1			10.2	22.4	22.4	22.4	22.4	22.4
Madaghis HPP 2			5.8	13.2	13.2	13.2	13.2	13.2
Trghi HPP 1			4.7	16.5	16.5	16.5	16.5	16.5
Trghi HPP 2				20.9	20.9	20.9	20.9	20.9
Trghi HPP 3				12.1	12.1	12.1	12.1	12.1
Total	90.4	115.1	139.0	198.7	200.3	197.5	195.2	200.6

Source: “Artsakh HEK” OJSC

3.3.4.2 As we can see from the table above, in 2011 new HPPs will be able to produce extra 85.1 mln kWt/h electro energy. This will give an opportunity to cover 85% of electricity demand with own resources.

3.3.4.3 Implying electricity production tariffs for forecasted volumes of Company’s electricity production, we can have estimations of forecasted revenues.

Table 22. The forecasts of the Company’s revenues

	2008	2009	2010	2011	2012	2013	2014	2015
Electricity production, mln KWt/h	90.4	115.1	139.0	198.7	200.3	197.5	195.2	200.6

Tariff, including								
For old HPPs	3.5*	9.0	9.0	9.0	9.0	9.0	12.0	12.0
For new HPPs	-	15.0	15.0	15.0	15.0	15.0	15.0	15.0
Revenue, '000 AMD	450,613	1,035,900	1,375,200	2,298,900	2,313,300	2,288,100	2,597,700	2,662,500

Source: “Artsakh HEK” OJSC

- 3.3.4.4 After forecasts of HPPs profits, estimations of operational expenditures were made. Total operational expenditures were divided into three main parts: Cost of goods sold (hereinafter - COGS), Sells, General and Administrative expences (hereinafter - SG&A) and depreciation and Amortization (hereinafter - D&A). Though in general D&A is included in COGS, but for provision of authenticity and preciseness of forecasts and estimation, we considered depreciation as separate expenditure article.
- 3.3.4.5 **COGS.** Calculations of COGS for electricity produced by planned HPPs were based on corresponding expenditure articles of Sarsang HPP. A big share of COGS goes to wages and salaries of main (industrial) employees (on average 55% of COGS). Moreover, the Company intends to raise the current low level of compensations in order to create incentives for the employees and thus increase the efficiency of the Company’s performance. Particularly, it was proposed that in result of this policy, taking into account also the inflation level, the total level of wages and salaries will increase by 30% in comparison with 2008 and in future – for 10% annually. Besides, technical estimations of the work load for the HPPs show that average number of employees per new HPP will be 20 persons.
- 3.3.4.6 Other elements of COGS are consumption of electricity and raw materials. For estimation of electricity consumption, new forecasted tariff was used (30 AMD per kWt/h starting from 2009), as well as the corresponding expences of Sarsang HPP, adjusted for new HPPs. Similar approach was used for estimations of raw materials consumption as well as expenditures for provision of HPPs security. In COGS were also included transport expenditures, local taxes and transport tax (special tax of NKR, constitutes 0.4% of received gross revenue). The table below summarizes the total COGS for electricity production for the years indicated.

Table 23. Forecasts of the Company’s COGS, ‘000 AMD unless otherwise noted

	2008	2009	2010	2011	2012	2013	2014	2015
<i>Total number of Industrial employees, person</i>	60	60	120	160	160	160	160	160
<i>Growth of salary, %</i>	0%	30%	10%	10%	10%	10%	10%	10%
Salary	75,036	97,547	214,603	314,751	346,226	380,849	418,934	460,827
Local taxes	649	649	649	649	649	649	649	649
Transport tax	1,802	4,144	5,501	9,196	9,253	9,152	10,391	10,650
Security	24,486	24,486	48,972	65,296	65,296	65,296	65,296	65,296
Electricity consumption	15,000	18,000	36,000	48,000	48,000	48,000	48,000	48,000
Raw materials	18,080	23,020	27,800	39,740	40,060	39,500	39,040	40,120

Transportation costs	2,118	2,118	4,236	5,648	5,648	5,648	5,648	5,648
Total COGS	137,171	169,963	337,761	483,280	515,132	549,094	587,957	631,190

Source: “Artsakh HEK” OJSC

3.3.4.7 **SG&A.** The Estimation of these expenditures was based on same assumptions as for the COGS: structure of Sarsang HPP’s SG&A, increase of administrative employee’s salaries and all this adjusted for new HPPs. Following table sets forth total SG&A estimates for the years indicated.

Table 24. Forecasts of the Company’s SG&A, ‘000 AMD unless otherwise noted

	2008	2009	2010	2011	2012	2013	2014	2015
<i>Total number of administrative employees, person</i>	15	15	30	40	40	40	40	40
<i>Growth of salary, %</i>	0%	30%	10%	10%	10%	10%	10%	10%
Salary	13,932	18,112	39,846	58,440	64,284	70,713	77,784	85,562
Transportation costs	284	313	688	1,009	1,060	1,113	1,169	1,227
Banking fees	59	65	144	211	221	232	244	256
Communication costs	120	132	290	426	447	470	493	518
Office property	270	297	653	958	1,006	1,057	1,109	1,165
Rent	432	648	1,944	2,851	3,136	3,450	3,795	4,174
Total SG&A	15,098	19,567	43,565	63,896	70,155	77,034	84,594	92,902

Source: “Artsakh HEK” OJSC

3.3.4.8 **D&A.** D&A for planned HPPs was calculated via linear method. Depreciation period was accepted as 40 years, based on performance of similar HPPs, also on periods of effective life of planned buildings and equipment. So annual D&A charges constitute 2.5% of fixed assets.

3.3.4.9 Summarizing analysis of income and expenditures for planned HPPs, we derive the estimation of operating income. According to our assumptions, planned HPPs will not have any non-operational income or expenditures (or their value will be so small that they will not affect the final efficiency of the investment project). Besides, according to prior assumptions, the funds to be used for construction will be generally from own sources, i.e. debt capital won’t be used, therefore investment project does not propose any financial costs. The following table summarizes estimations of Company’s operating costs.

Table 25. Forecasts of the Company’s operating costs

	2008	2009	2010	2011	2012	2013	2014	2015
Total operating costs, '000 AMD	242,058	361,506	604,177	812,751	850,988	892,504	939,602	991,268
Operating costs per KWt/h, including	2.68	3.14	4.35	4.09	4.25	4.52	4.81	4.94
COGS, AMD	1.52	1.48	2.43	2.43	2.57	2.78	3.01	3.15
SG&A, AMD	0.17	0.17	0.31	0.32	0.35	0.39	0.43	0.46
D&A, AMD	1.00	1.50	1.60	1.34	1.33	1.35	1.37	1.33

Source: “Artsakh HEK” OJSC

3.3.4.10 In spite of NKR present taxation system sets 5% corporate profit tax rate, in our estimations 10% rate was used, which corresponds to the program of NKR government on reforming the tax policy.

3.3.4.11 Following table summarizes estimates of expected operating incomes and expenditures of the Company.

Table 26. The Pro Forma Income Statement of the Company

	2008	2009	2010	2011	2012	2013	2014	2015
Revenue	450,613	1,035,900	1,375,200	2,298,900	2,313,300	2,288,100	2,597,700	2,662,500
COGS	-137,171	-169,963	-337,761	-483,280	-515,132	-549,094	-587,957	-631,190
Gross Income	-89,989	-172,156	-223,013	-265,721	-265,832	-266,494	-267,157	-267,271
SG&A	223,453	693,781	814,426	1,549,899	1,532,336	1,472,512	1,742,586	1,764,039
D&A	-15,098	-19,567	-43,565	-63,896	-70,155	-77,034	-84,594	-92,902
Operating Income (EBIT)	208,355	674,214	770,861	1,486,003	1,462,181	1,395,478	1,657,992	1,671,137
Interest expenses	-17,500	-12,500	0	0	0	0	0	0
EBT	190,855	661,714	770,861	1,486,003	1,462,181	1,395,478	1,657,992	1,671,137
Profit tax charges	-19,085	-66,171	-77,086	-148,600	-146,218	-139,548	-165,799	-167,114
Net income	171,769	595,543	693,775	1,337,403	1,315,963	1,255,930	1,492,193	1,504,023

Source: “Artsakh HEK” OJSC

3.3.4.12 Company’s management has an opportunity to influence on the main factors that have impact on Company’s performance in the following ways:

- ✓ efficient use of proceeds received from this placement
- ✓ increase of the efficiency of the employee’s performance

3.3.4.13 Company’s management can react but have no opportunity to impact on the following factors that can affect the Company’s performance:

- ✓ water flow of corresponding rivers
- ✓ electricity tariffs
- ✓ force-majeure factors (announcement of special situation, abortion of work of communication means, natural disaster, war, resolutions of state bodies etc., which can make Company’s ordinary activity impossible).

3.3.4.14 Company hadn’t made any forecasts of profits before.

3.3.4.15 Information represented in this point (3.3.4) is just forecasts and must not be taken into consideration while making investment decision.

3.4 Information on Company’s management and management employees.

3.4.1 General information on Company’s management

According to the Charter, the Company’s corporate bodies are the General Meeting of Shareholders (hereinafter GMS), the Board of Directors (hereinafter the Board)

and the Management, each having its own responsibilities and authorities in accordance with NKR legislation and the Company's Charter. The GMS elects the members of the Board, which is responsible for supervising the Management and carrying out the general governance of the Company. The Board appoints the Chief Executive Officer (hereinafter the CEO), which is the executive body of the Company directly responsible for day-to-day operations.

3.4.2 General Meeting of Shareholders

3.4.2.1 According to the Charter, the annual GMS must be held after two months following the completion of an external audit of the Company within four months. The Shareholders should be notified about the GMS at least 3 days prior to the Meeting. Besides the General Meeting, a special Meeting of Shareholders is convened whenever the Board, the Management, Supervisor, External Auditor or a shareholder holding more than or equal to 10% of the shares of the Company deems such meeting necessary.

3.4.2.2 The GMS is authorized under NKR legislation and under the Charter to pass resolutions on the following issues:

- ✓ Approval and amendment of the Charter
- ✓ Reorganization of the Company
- ✓ Dissolution of the Company
- ✓ Election of Company's dissolution committee, approval of intermediate and dissolution balance sheets
- ✓ Approval of Company's Board, election of its members and their dismissal
- ✓ Settlement of maximal amount of authorized shares
- ✓ Increase of authorized capital via increase of face value of shares or issuance of new shares
- ✓ Decrease of Company's authorized capital via decrease of face value, purchase of placed shares for reduction of total amount of shares, also via paying-off of purchased or redeemed shares
- ✓ Purchase and pay-off of Company's placed shares
- ✓ Election and dismissal of Supervisor
- ✓ Approval of the nominee for the External Audit
- ✓ Approval of the annual statements, balance sheets, statements of profit and losses, distribution of profit and losses, resolutions about the payment of annual dividends and approval of their amounts
- ✓ Reduction (split) and increase (consolidation) of face value of securities
- ✓ Conclusion of large contracts referring to the Company's property
- ✓ Establishment of daughter companies and subsidiary enterprises
- ✓ Participation in daughter and subsidiary companies
- ✓ Establishment of holdings and other unions of commercial enterprises
- ✓ Participation in holdings and other unions of commercial enterprises.

- 3.4.2.3 The authorities listed above are within the exclusive scope of authority of the GMS and may not be delegated to the other corporate bodies of the Company (if other is not mentioned in the Charter).
- 3.4.2.4 GMS of the Company is authorized to discuss and make decisions referring to any question that is in his authority according to law of NKR “On Joint-Stock Companies” and Charter.

3.4.3 Board of Directors

- 3.4.3.1 General governance of the Company is implemented by the Board. In performing their duties, the Board members are required to act in the best interests of the Company and its business. The Board consists of three members. The GMS appoints and dismisses the members of the Board. The statutory term of each Board member is one year.
- 3.4.3.2 Responsibilities of the Board include:
- ✓ Identification of the main directions of the Company’s business
 - ✓ Convention of the annual and special Meetings of the Shareholders, except the cases provided by the law
 - ✓ Approval of the agenda of GMS
 - ✓ Valuation of the market price of the Company’s property
 - ✓ Purchase of the shares, bonds and other securities placed by the Company in the cases provided by the law of NKR “On Joint-Stock companies”
 - ✓ Appointment of CEO, determination of the terms of his remuneration and ahead termination of his authorities
 - ✓ Placement of bonds and other securities
 - ✓ Settlement of remuneration amount for external audit company
 - ✓ Preparation of suggestions to GMC on amount and payment order of annual dividends for Company’s shares
 - ✓ Settlement of amount and payment order for intermediate dividends of Company’s shares
 - ✓ use of the Reserve Capital
 - ✓ approval of the inner documents governing the activity of the management bodies
 - ✓ resolutions on major deals in the cases provided by the law of NKR “On Joint-Stock Companies”
 - ✓ resolutions concerning the participation in other entities if it is not considered to be a major deal
 - ✓ establishment, termination and approvement of charters of Company’s separate subdivision and institutions
 - ✓ approval of the organizational administrative structure of the Company
 - ✓ approval of the staff list
 - ✓ approval of the estimate of annual expenses and approval of their execution
 - ✓ Other issues provided by law of NKR “On Joint-Stock Companies” and the Charter.

3.4.4 Chief Executive Officer

3.4.4.1 The CEO is an executive body that is responsible for the day-to-day management of the Company (exception of those functions reserved to the GMS and the Board). The CEO is entitled to delegate his direct tasks to its deputies and the heads of the relevant departments of the Company. The CEO is accountable to the GMS and the Board and is appointed and dismissed by the Board. The Board determines the remuneration and further conditions of employment for each of the Management members (CEO, its deputies and heads of departments including Chief Accountant and Chief Engineer), within the remuneration policy adopted by the GMS.

3.4.4.2 The CEO of the Company shall:

- ✓ Manage the Company's property, including finances, implements transactions on behalf of the Company
- ✓ Represent the Company within and without Nagorno-Karabakh Republic
- ✓ Act on behalf of the Company without Power of Attorney
- ✓ Give Powers of Attorney
- ✓ Appear as a President on GMSs
- ✓ Conclude contracts in stated order, including employment contracts
- ✓ Open settlement and other accounts with the banks in any currency
- ✓ Submit to the approval of the Board the regulations of the Company, Charters of its subdivisions and institutions, administrative structures of the Company
- ✓ Within the frames of his powers, issue orders, instructions and control their performance
- ✓ In conformity with the procedure provided by the law admit and dismiss the employees
- ✓ Discipline or award the employees.

3.4.5 Internal Auditor

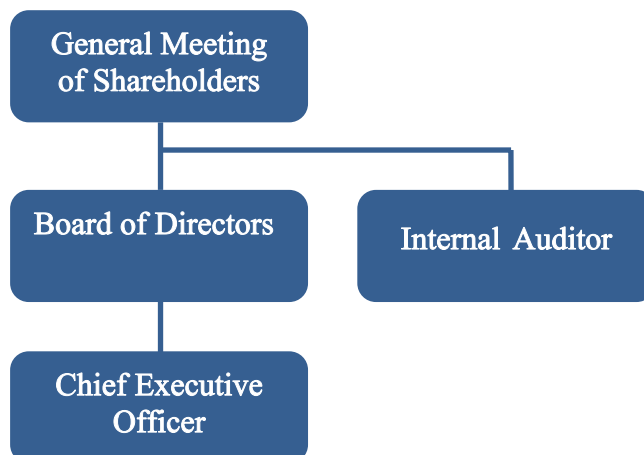
3.4.5.1 For implementation of the supervision of Company's financial-economic activity GMS elects supervisor of the Company. Internal Auditor can be any person not included in management of the Company. Internal Auditor is elected for three years. Internal Auditor of the Company:

- ✓ observes implementation of Company's management resolutions;
- ✓ examines compliance of Company's documents with rules, other legal acts and Company's charter;
- ✓ implements examine of annual results of Company's financial-economic activity, examines Company's financial-economic activity self-initiated – anytime, based on resolutions of GMC or Board of Directors, also on demand of shareholder(s) of the Company that in sum own 10 and more percent in authorized capital of the Company;
- ✓ represents results of examinations to GMS;
- ✓ makes conclusion based on annual statement and balance-sheet;
- ✓ requires holding of GMS in order stated by the law of NKR “On Joint-Stock Companies”;

- ✓ takes part in GMSs as an advisor;
- ✓ requires all necessary documents, materials and explanations referring to financial-economic activity of the Company and its separate subdivisions.

3.4.6 Structure of the Company Management is presented below:

Figure 6. The structure of the Company Management



3.4.7 Information Company's management employees

3.4.7.1 President of Company's Board of Directors and CEO is Vahram Beglaryan. Information about him is presented in table below:

Required information	Description
Address	V.Vagharshyan str. 1/40 Stepanakert, NKR
Specialty	Economist
Positions during last three years	<ol style="list-style-type: none"> 1. October 2005 - September 2007 CEO, Stepanakert Brandy Company CJSC 2. September 2007 - January 2008, CFO, Karabakh Gold CJSC 3. March 2008 - January 2009 CEO, Technoshin CJSC
Remuneration received from the Company in last three years	has not been remunerated
Number of Company's shares owned by this person	Does not own any share of the Company
Significant participation in authorized capital of other entities	no significant participation in any entity
Brief description of contracts and resolutions, according to which this person is participant of Company's management, terms of his authorities	Resolution of the Head of Industrial Infrastructure Department under the Government of NKR No. 04Գ as at 08.01.2009, Resolution of the Board of Directors of "Artsakh HEK" OJSC No. 1 as at 08.01.2009. Terms of authorities – not limited.

3.4.7.2 Arthur Petrosyan is a member of Company's Board of Directors. Information about him:

Required information	Description
Address	4 Mesrop Mashtots ave., ap. 46, Stepanakert, NKR
Specialty	Economist-lawyer
Positions during last three years	<ol style="list-style-type: none"> 1. 2002 – 01.11.2007 - legal adviser, “Karabakh gold” CJSC 2. 01.11.2007 up to date - assistant to the prime-minister of NKR 3. 09.06.2008 up to date - Member of the Board in “Artsakh HEK” OJSC
Remuneration received from the Company in last three years (annual)	has not been remunerated
Number of Company's shares owned by this person	Does not own any share of the Company
Significant participation in shares of other entities	“Art-Rit” LTD, 100% of shares
Brief description of contracts and resolutions, according to which this person is participant of Company's management, terms of his authorities	Resolution of NKR Government Head of Administration-Minister number 70/2 from 29.05.2008. Terms of authorities – not limited.

3.4.7.3 Hayk Avetisyan is a member of Company's Board of Directors. Information about him:

Required information	Description
Address	66 Garegin Njdeh ave., Stepanakert, NKR
Specialty	Engineer, automatization
Positions during last three years	<ol style="list-style-type: none"> 1. 2000 - 22.11.2007 - Deputy CEO in “Electric Network of Kajaran” LTD 2. 22.11.2007 - up to date - Head of Energy Division of the Industrial Infrastructure Department under the Government of NKR
Remuneration received from the Company in last three years (annual)	has not been remunerated
Number of Company's shares owned by this person	Does not own any share of the Company
Significant participation in shares of other entities	no significant participation in any entity
Brief description of contracts and resolutions, according to which this person is participant of Company's management, terms of his authorities	Resolution of NKR Government Head of Administration-Minister number 70/2 from 29.05.2008. Terms of authorities – not limited.

3.4.7.4 Internal Auditor of the Company is Vagharshak Manukyan. Information about him:

Required information	Description
Address	1 Nerkin Shengavit str. apt. 25 Yerevan, RA
Specialty	Economist
Positions during last three years	<ol style="list-style-type: none"> 01.10.2005 - 02.06.2008 Head of Interna Audit Department of “Flesh” LLC, 01.10.2006 - 01.02.2008 Board Member in “Araratbank” OJSC 09.06.2008 - up to date Board Member of «Artsakh HEK» OJSC
Remuneration received from the Company in last three years (annual)	2008p. - AMD 150,000 monthly
Number of Company’s shares owned by this person	Does not own any share of the Company
Significant participation in shares of other entities	“Aviatemp” LLC, 100% of ordinary shares
Brief description of contracts and resolutions, according to which this person is participant of Company’s management, terms of his authorities	Resolution of NKR Government Head of Administration-Minister number 70/2 from 29.05.2008. Terms of authorities till 29.05.2011.

3.4.7.5 Before presentation of this Prospectus to registration there have been no solicitations for bankruptcy (insolvency) against management participants, also no disciplinary penalties applied based on any court decisions.

3.4.7.6 There isn’t any kinship between management participants of the Company.

3.4.7.7 Any conflict of interests between Company and Company’s management participants are regulated by the law of NKR.

3.5 Information on Issuer’s affiliated persons and Issuer’s significant participants

3.5.1 Information on Issuer's affiliated persons

- 3.5.1.1 Nagorno-Karabakh Republic on behalf of Head of Industrial Infrastructure Department under the Government of NKR Valeri Balayan owns 100% of Company's shares.
- 3.5.1.2 As Nagorno-Karabakh Republic on behalf of Head of Industrial Infrastructure Department under the Government of NKR Valeri Balayan is the owner of the Company shares, he can significantly influence on all the decisions of the Company, in the framework of all the authorities of GMS.
- 3.5.1.3 Valery Balayan has not held any position in the Company.
- 3.5.1.4 There is only one legal entity affiliated to the Company:
"Artsakh Energo" CJSC is affiliated to the Company as they are both governed by the same authorised entity - Industrial Infrastructure Department under the Government of NKR. "Artsakh Energo" CJSC is located at the following address: 64 Sasunci David street, Stepanakert, NKR. It operates as a distributor of electricity in NKR (buys electricity from producers and sells to the final consumers). "Artsakh Energo" CJSC does not own any shares of the Company thus it does not have opportunity to predetermine the decisions of the Company.

3.5.2 Issuer's significant participants (except shareholders that own 20 and more percent of shares)

- 3.5.2.1 No individual has significant participation in the authorized capital of the Company
- 3.5.2.2 No legal entity has significant participation in the authorized capital of the Company

3.5.3 Information about shares issued by Issuer

- 3.5.3.1 The Company has previously issued shares. Below find some brief information on them:
- ✓ The issued shares are ordinary and non-documentary.
 - ✓ Issued shares of the Company are not listed.
 - ✓ Total volume of Company's issued and placed shares is AMD 5,100,000,000, quantity is 5,100,000.
 - ✓ Company's shares are non-redeemable.
- 3.5.3.2 The main authorities of the shareholders are:
- ✓ participate in General Meetings of Shareholders and have the right to vote for all issues that are in jurisdiction of the Meeting;
 - ✓ In 60 days after the end of financial year present no more than 2 suggestions referring to the agenda of General Meeting of Shareholders,

- also suggest candidates for Board of Directors and Supervisor, in case the shareholder owns no less than 2 percent of voting shares;
- ✓ participate in the management of the Company;
 - ✓ receive dividend from net profit gained in result of Company's activity;
 - ✓ use preemptive right to buy shares issued by the company, if nothing else is stated by the law "On Joint-Stock Companies" of NKR and Charter of the Company;
 - ✓ receive any information referring to activity of the Company, except secret information, including revision of balance sheets, reports, account books, production-economic activity of the Company, as stated in charter;
 - ✓ Shareholders owning at least 5% of voting shares in authorized capital of the Company have the right to demand an expert or formation of expert groups for examination of reports on Company's activity and secret documents. Expenses on examinations must be covered by shareholders demanding the provision of the examination;
 - ✓ authorize any third person party to represent his right on General Meeting of shareholders;
 - ✓ present suggestions on General Meetings of Shareholders;
 - ✓ vote on General Meetings of Shareholders in compliance with their amount of shares;
 - ✓ apply to the court against adopted decisions of general meeting of shareholders that are contrary to adopted laws and other legal acts;
 - ✓ in case of liquidation of the Company, receive property or its money equivalent, left after payments to creditors;
 - ✓ alienate or pass to other persons shares that are their property;
 - ✓ require redemption of their shares in cases stated by the law of NKR "On Join-Stock Companies"
 - ✓ use other rights stated by the Charter.
- 3.5.3.3 Shareholders are obliged not to publish secret information referring the Company's activity.
- 3.5.3.4 The volume of the dividends is being estimated basing on the total net income of the Company according to the Dividend policy of the Company.
- 3.5.3.5 Decisions of General meeting on payment of dividends shall be made based on majority vote of shareholders present at the meeting.
- 3.5.3.6 Dividends for placed shares are paid from net profit in AMD. Quarter and semi-annual dividends are paid based on resolution of Board of Directors, annual dividends - based on resolution of Company's general meeting. Resolutions on amount and payment order of annual dividends, also terms of payment, are made by annual meeting of shareholders based on suggestion of Board of Directors.
- 3.5.3.7 Shareholders can receive their dividends from Company's location in cash or via wire transfer to their bank account.

- 3.5.3.8 Some limitations for dividend payment rights settled by NKR legislation and Company's charter are stated. Particularly, Company is prohibited to pay any dividends if:
- ✓ Authorized capital is not fully paid;
 - ✓ Company didn't redeem shareholder's all shares upon his requirement in cases when:
 - resolutions on reorganization, not using preemption right or on concluding of major deal of the Company were made, and some shareholders voted against one of this issues or didn't participate in voting at all;
 - any amendments or changes in Company's charter were made, or new version of charter was approved, in result of which shareholder's rights were limited and shareholder voted against or didn't participate in voting at all;
 - ✓ for the moment of making resolution on dividends payment, Company's position was similar to characteristics on bankruptcy (insolvency) stated by the law or they will come out in result of dividends payment;
 - ✓ value of Company's net assets is less then Company's authorized capital or will become less in result of dividend payment.
- 3.5.3.9 Dividend payments to residents and non-residents are implemented in same conditions.
- 3.5.3.10 The Company does not have any placed proffered shares.
- 3.5.3.11 According to resolution of shareholders meeting (minister's resolution), no dividends on the results of 2007 were paid, the whole net profit was directed for increasing of Company's capitalization. During the current year Company didn't pay any intermediate dividends.
- 3.5.3.12 From the moment of establishment Company's shares haven't been traded at any stock exchange.
- 3.5.3.13 There haven't been any cases of split, consolidation, purchase, redemption or conversion of Company's shares from the moment of establishment.

4 CONTACTS

“ARTSAKH HEK” OJSC

General information

10 A. Araqelyan str.,
Stepanakert, NKR

Tel./Fax: +374479 74214
E-mail: artsakhhek@mail.ru

Vahram Beglaryan

CEO

Tel./Fax: +374479 74214
E-mail: artsakhhek@mail.ru

“ARMENBROK” OJSC

General information

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Vazgen Abgaryan

Financial Advisor

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Tel./Fax: +37410 528986
E-mail: abgaryan@armenbrok.com

5 ANNEXES

- ✓ **Sample subscription forms**
- ✓ **Map of Martakert region of NKR and locations of proposed HPPs**
- ✓ **Brief description of NKR economy**
- ✓ **The Company Charter**
- ✓ **Extract from the Financial Statements of the Company**

5.1 Sample subscription form

ԲԱԺԱՆՈՐԳԱԳՐՈՒԹՅԱՆ ՀԱՅՏ
Ֆիզիկական անձանց համար



SUBSCRIPTION FORM
For individuals

Ներդրողի վերաբերյալ տեղեկություններ
Information about Investors

Անուն, ազգանուն Name, Surname	
Անձնագրի տվյալներ Passport details	
Բնակության հասցեն Residence address	
Կապի միջոցները (Հեռ., Ֆաքս, Էլ. փոստ) Contact details (Tel., Fax, E-mail)	
Արժեթղթերի հաշվի համարը (սովորական դեպքում) Securities account details (if available)	

Բաժանորդագրության վերաբերյալ տեղեկություններ
Information about subscription

Բաժնետոմսերի քանակը Number of shares	
Գործարքի ծավալը (ՀՀ դրամ) Transaction volume (AMD)	
Բաժանորդագրության ձևը Type of subscription	<input type="checkbox"/> լրիվ կամ ոչինչ all or nothing <input type="checkbox"/> մասնակի partially allowed

Ես, ներքոստորագրյալս, ստորագրելով սույն փաստաթուղթը, տեղեկացնում եմ, որ,
I, undersigned, signing this document verify, that.

- Ծանոթացել եմ «Արցախ ՀԷԿ» ԲԲԸ բաժնետոմսերի թողարկման Ազդագրին
I have read the entire Prospectus of "Artsakh HEK" OJSC
- Լիովին գիտակցում եմ սույն բաժնետոմսերում ներդրումների հետ կապված ռիսկերը:
I fully realize the risks related to the investment in the offered shares.

Ներդրող (լիազոր անձ)
Investor (authorized person)

_____ Անուն Ազգանուն, Name Surname

_____ Ստորագրություն, Signature

Լրացվում է Տեղաբաշխողի լիազորված աշխատակցի կողմից
For the Placement Agent use only

Հայտի ներկայացման ամսաթիվ Submission date	_____ օր, ամիս, տարեթիվ, day, month, year	_____ ժամ, րոպե, hour, minute
Վճարման ամսաթիվ Payment date	_____ օր, ամիս, տարեթիվ, day, month, year	
Բաժանորդագրված բաժնետոմսեր Subscribed shares	_____ քանակ, quantity	_____ զույմար, volume
Լիազորված աշխատակից Authorized employee	_____ Անուն Ազգանուն, Name Surname	_____ ստորագրություն, signature

ԲԱԺԱՆՈՐԴԱԳՐՈՒԹՅԱՆ ՀԱՅՏ
Իրավաբանական անձանց համար



SUBSCRIPTION FORM
For legal entities

Ներդրողի վերաբերյալ տեղեկություններ
Information about Investors

Վազմակերպության անվանումը Company name	
Գրանցման տվյալները Registration details	
Գործունեության հասցեն Business address	
Իրավաբանական հասցեն Legal address	
Վապի միջոցները (Հեռ., Ֆաքս, Էլ. փոստ) Contact details (Tel., Fax, E-mail)	
Արժեթղթերի դեպո հաշվի համարը (առկայության դեպքում) Details of securities depo account (if available)	

Բաժանորդագրության վերաբերյալ տեղեկություններ
Information about subscription

Բաժնետոմսերի քանակը Number of shares	
Գործարքի ծավալը (ՀՀ դրամ) Transaction volume (AMD)	
Բաժանորդագրության ձևը Type of subscription	<input type="checkbox"/> լրիվ կամ ոչինչ all or nothing <input type="checkbox"/> մասնակի partially allowed

Ես, ներքոստորագրողս, ստորագրելով սույն փաստաթուղթը, տեղեկացնում եմ, որ,
I, undersigned, signing this document verify, that.

- Ծանոթացել եմ «Արցախ ՀԷԿ» ԲԲԸ բաժնետոմսերի բողոքկման Ազդագրին
I have read the entire Prospectus of "Artsakh HEK" OJSC
- Լիովին գիտակցում եմ սույն բաժնետոմսերում ներդրումների հետ կապված ռիսկերը:
I fully realize the risks related to the investment in the offered shares.

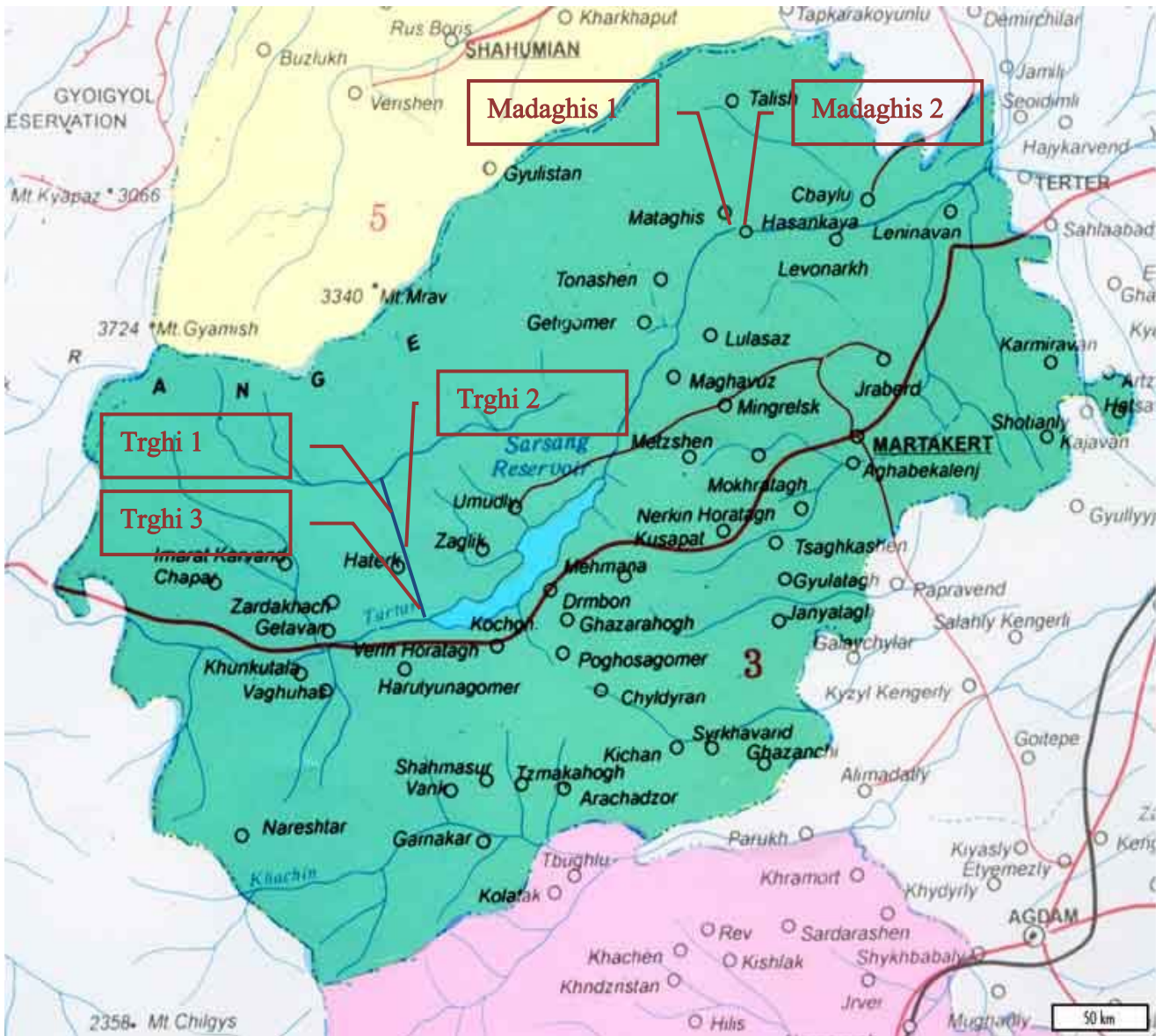
Ներդրողի լիազոր անձ
Authorized person of the Investor

_____ **Անուն Ազգանուն,** _____ **Ստորագրություն (կնիք),**
Name Surname **Signature (Seal)**

Լրացվում է Տեղաբաշխողի լիազորված աշխատակցի կողմից
For the Placement Agent use only

Հայտի ներկայացման ամսաթիվ Submission date	_____	_____
	օր, ամիս, տարեթիվ, day, month, year	ժամ, րոպե, hour, minute
Վճարման ամսաթիվ Payment date	_____	
	օր, ամիս, տարեթիվ, day, month, year	
Բաժանորդագրված բաժնետոմսեր Subscribed shares	_____	_____
	քանակ, quantity	զույգում, volume
Լիազորված աշխատակից Authorized employee	_____	_____
	Անուն Ազգանուն, Name Surname	ստորագրություն, signature

5.2 Map of Martakert region of NKR and locations of proposed HPPs



5.3 Brief description of NKR economy

5.3.1.1 Economic development of the Nagorno Karabakh Republic is characterized mainly by changes in the volume of production and services in the five main spheres of the country's economy: industry, agriculture, construction, transport, and trade. The table below presents dynamics of main macroeconomic indicators of the republic for years.

Table 27. Main Macroeconomic Indicators of NKR

	2002	2003	2004	2005	2006	2007
GDP, mln AMD	26,477.8	33,883.7	42,830.0	51,379.4	61,885.9	70,791.0
Real growth of GDP, %	11.3%	20.2%	18.2%	14.1%	10.1%	8.8%
GDP per capita, '000 AMD	193.8	247.3	312.2	373.1	449.4	510.0
Industrial output, mln AMD	8,082.6	11,125.4	18,579.1	17,773.0	24,203.6	27,802.0
Agricultural output, mln AMD	15,176.2	21,160.1	21,715.0	21,055.0	20,735.5	23,812.5
Construction output, mln AMD	6,734.4	8,694.4	9,138.8	12,596.5	17,602.0	20,810.1
Budget revenues, mln AMD	3,418.6	4,569.8	6,440.4	9,309.7	12,149.7	15,065.2
Gross Fixed Capital Formation, mln AMD	9,261.6	10,018.2	9,166.5	7,297.7	11,914.2	-
Export, '000 AMD	14,136.3	29,314.9	39,115.3	38,214.9	45,331.1	72,549.6
Import, '000 AMD	48,069.2	54,329.1	76,467.0	94,902.8	113,180.3	204,843.3
Consumption Price Index, %	100.9	110.0	102.6	100.6	108.5	108.2
Industrial Price Index, %	102.8	95.6	100.4	89.9	99.6	103.0
Bank Loans, mln AMD	5,093.1	6,033.5	9,138.9	16,612.3	14,957.5	-

Source: National Statistical Service of NKR

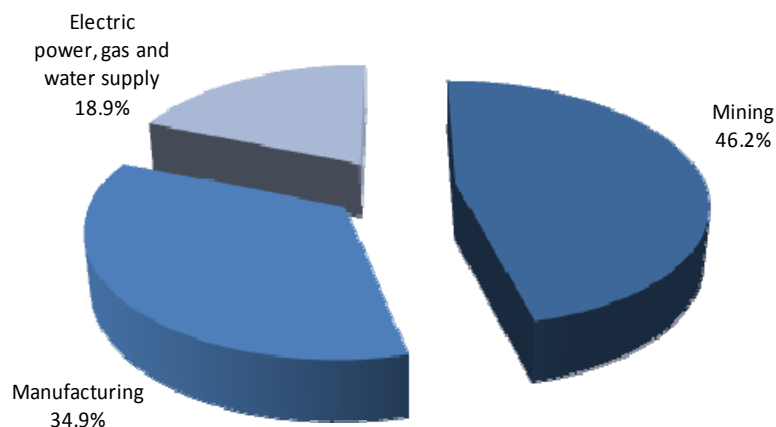
5.3.1.2 As presented on the table, the GDP of NKR has about tripled over the past six years (in market prices), showing on average 11.5% annual growth rate. Such kind of growth rates were fueled, among others, by economic reforms, which led to the 244% of compound growth of industrial output over the last six years, having average annual growth rates of 24.6%. Besides this, large contribution to GDP growth in the recent years has had the construction sector, which has also grown more than 3 times over this period reaching to AMD 20.8 bln in 2007. Construction sector development pushed up the capital investments or, in other words, gross fixed capital formation, which also demonstrated good growth rates.

5.3.1.3 All this developments came along with the low rates of inflation (average CPI and IPI rates in 2002-2007 period were 4.3% and -1% respectively).

5.3.1.4 Looking into the Industry, we can see, that mining industry constitutes the largest part of NKR Industry (See that figure below), followed by

manufactory. Within the manufactory, Food and beverage processing, contributes to the industry the most (Food & Beverage comprise 55.3% of total manufactory).

Figure 7. Composition of NKR Industry, % of total



Source: National Statistical Service of NKR

- 5.3.1.5 Electricity, water and gas supply constitute the smallest part of the total industry, having AMD 4,232.3 mln output in 2007, AMD 2670.3 mln of which goes to electricity production and distribution.
- 5.3.1.6 Concerning the foreign investments in NKR, we have to note, that the NKR government highly appreciates and encourages the foreign investments in the republic. Due to that they have created several incentives for foreign investors, particularly companies that use foreign capital while doing business in the Nagorno Karabakh Republic are eligible for exemptions from profit taxes. In addition to this, there are certain goods that are free of excise and value added taxes when produced by foreign investors. Due to these factors, FDI has grown 10-fold since 1999.
- 5.3.1.7 It is also worth mentioning, that rapid changes and reforms are being currently implemented by the newly elected government of NKR, which has already shown positive results in terms of tax administration and quarterly economic growth. Besides, basing on these results, the government anticipates the real economic growth equaling 15% annually over the next five years.

5.4 The Company Charter

Printed in 6 copies
COPY 5

APPROVED BY

Resolution number 70/1
of
Head of Administration-Minister
under the Government of NKR

Minister

_____ S. Grigoryan

9 June 2008

REGISTERED BY

Regional department of Stepanakert
State Register of Legal Entities
Under the Ministry of Justice of NKR

9 June 2008

Registration number 443.130.11407

Certificate 02² N: 002083

Head of Stepanakert R/D

_____ G. Maksimova

“ARTSAKH HEK” Open Joint Stock Company

CHARTER

This is a non-official translation of the Charter. In case of any discrepancies between this document and Armenian original version, the Armenian version will prevail.

Stepanakert 2008

1. GENERAL PROVISIONS

1.1. “ARTSAKH HEK” open joint stock company (hereinafter the Company) is considered to be commercial business economic enterprise, authorized capital of which is segregated on some quantity of shares that affirm obligations of shareholders concerning the Company. Owners of shares (hereinafter Shareholders) have right to alienate shares that they own without consent of other shareholders. The Company is a legal entity and is entitled to have its own property, separated from its Shareholders', which is accounted in self-dependent balance. The Company is legal entity, has its own property, different from the shareholders' property, which is accounted in its books.

The Company was established by the resolution of NKR Government Number 360 “On reorganization of “Artsakh HEK” closed joint stock company (registered by State Register of Legal Entities Under the Ministry of Justice of NKR on 12.12.2007 No: 443.120.11328, certificate: 02² 001980) as of May 13 2008 in result of reorganization (changing of type) of “ARMENBROK” closed joint stock company (registered by State register of legal entities of NKR 05.07.1994, registration number 286.110.00117, certificate 01² 013837) and is entitled assignee according to act of transfer.

“Artsakh HEK” closed joint stock company was established in the result of separation from “Artsakh Energo” closed joint stock company (registered by State Register of Legal Entities Under the Ministry of Justice of NKR on 28.02.2005 No: 443.120.20892, certificate: 001350) and is entitled assignee according to act of transfer.

The State body, authorized to act on behalf of the Company is the Head of Administration - Minister under the Government of NKR.

- 1.2. The Company shall exercise any and all the rights of a legal entity since the moment of its state registration and act in this capacity until the end of its dissolution (up to the moment of the due registration of its liquidation).
- 1.3. The Company has its firm name (in Armenian, Russian and English), special logo (trademark (servicing) mark – which includes the state Emblem of NKR, also common round seal, stamps and letterheads, also symbol that contain other conditions stated by laws, trademark and other proprietary marks.
- 1.4. The Company's activity is governed by the Civil Code of NKR (hereinafter referred to as the Code), Joint Stock Companies Law of NKR (hereinafter referred to as the “Law”), other laws and legal deeds of NKR, and these Charter. If in NKR's international contracts are settled other norms regulating activity of joint stock companies that differ from ones represented in this Charter, international norms are used.
- 1.5. Relations between Company and Shareholders are regulated with Law and this Article.
- 1.6. The Company shall be liable for its liabilities by its entire property. The Company shall bear no responsibility for the liabilities of its Shareholders. Likewise the Shareholders are not liable for the liabilities of the Company. Each Shareholder shall carry the risk within the amount of the shares held by him.
- 1.7. If the Company is recognized insolvent (bankrupt) because of the actions (inactivity) of its shareholders or any other person empowered to make decisions or instructions mandatory for the Company or otherwise influence, or predetermine the business of the Company, such shareholders or persons shall bear subsidiary liability for the Company's obligations. Activities (inactivity) of abovementioned Shareholders are considered to be reasons for bankruptcy (insolvency) of the Company only if they have used their abovementioned powers or rights and they knew in advance that this will cause Company's bankruptcy (insolvency).

- 1.8. Nagorno Karabakh Republic and its communities shall bear no responsibility for the liabilities of the Company. Likewise the Company is not liable for the obligations of Nagorno Karabakh Republic and its communities.
- 1.9. The firm name of the Company is:
- In Armenian full: «ԱՐՑԱԽ ՀԷԿ» Բաց Բաժնետիրական Ընկերություն
Briefly: «ԱՐՑԱԽ ՀԷԿ» ԲԲԸ
In Russian full: Открытое Акционерное Общество “АРЦАХ ГЭК”
Briefly: ОАО “АРЦАХ ГЭК”
In English full: “ARTSAKH HEK” Open Joint Stock Company
Briefly: “ARTSAKH HEK” OJSC
- 1.10. The registered office and legal (P/O) address of the Company is: 10 A. Arakelyan street, Stepanakert, NKR.

2. OBJECTIVES AND SCOPE OF ACTIVITY

- 2.1 The Company was established for gaining profit from business.
- 2.2 Main activities of the Company are:
- production of electricity
 - operating of the Main property of the Company as well as implementation of current and regulative repairs
 - implementation of
 - implementation of technical repairs, capital constructions and full repairing activities, implementation of the contractor activities for new constructions.
 - implementation of new energo facilities.
- 2.3 The Company is entitled to maintain any economic activity, which is not prohibited by the Law. Types of activity subject to licensing may be carried only upon obtaining such a license, since the effective date and up to the date of its expiry. If the terms and conditions stipulated in the License provide that the Company shall not be entitled to maintain any activity other than those mentioned in the License, or there are certain limitations to some types of activity, the Company has to limit its activity to the types mentioned in the license till the expiry of its validity.
- 2.4 Company's rights can be restricted just in cases stated in Law and in stated order.

3. LEGAL STATUS, RIGHTS AND LIABILITIES OF THE COMPANY

- 3.1 The Company is a commercial enterprise legal entity. The Company is entitled to have its own separate property and shall bear responsibility for its obligations by all its property. The Company is entitled to effect contracts, acquire or exercise property or personal non-property rights, bear liabilities, be a plaintiff and defendant in the court. The Company has its own

independent balance-sheet and can open accounts with the banks of NKR or other countries, in AMD and foreign currencies in order stated in Law.

3.2 The Company shall be entitled to place the shares of stock issued by it through an open or close subscription or sell them in the market in conformity with the law and legal deeds of NKR.

3.3 Except for cases provided under the Code, Law and other laws, the Company shall be entitled to establish or to participate in other companies (including subsidiary and daughter enterprises).

3.4 The Company may:

- acquire, hold, use and manage any property, securities included and dispose of its profits or other useful results thereof in any manner not prohibited by the NKR law;
- transfer, let on lease, exchange or otherwise legally transfer its property rights, be a pawnbroker or a depositor;
- independently form of its financial assets, including borrowed means, take banking and business loans from the NKR and foreign banks in local and foreign currencies;
- emit and place securities in the manner envisaged by the NKR law;
- sign contracts and take obligations in the manner envisaged by the NKR law
- independently determine its foreign economic policy and implement it directly without any intermediaries or through other entity connected with the Company by contractual relations;
- hold assets in foreign currency. Acquire funds in currency (including as a result of foreign economic activity), manage them independently, including selling to the Government, legal entities and individuals.
- in conformity with the procedure provided by the NKR law perform import-export transactions with the property, or legally acquired commodities, or produced goods, production, articles, provide services, perform works for any foreign legal entities or organizations and citizens, make use of the results of such persons' works or services, make investments in other countries, or establish, or participate in the establishment of new legal entities under the law of any such country;
- independently plan its business, determine the amount and prices of the production, works or services to be manufactured, performed or rendered, choose suppliers or consumers;
- in conformity with the procedure provided by the law redeem part of the shares placed by the Company;
- Acquire the part of own shares.
- exercise other rights provided by the Law or this Charter.

3.5 The Company shall:

- Keep its books, accounting and financial statements in conformity with the procedure provided by the NKR law or other acts;
- publish in mass media its annual statements and balance-sheets;
- Conclude job contracts with its personnel;
- To be liable and indemnify any injury that are result of not implementing or not properly implementing of concluded contracts, for violation of owning rights of other people;
- Announce about its bankruptcy in conformity with the procedure and in the cases provided by the law, when it is impossible to satisfy legal property requirements of creditors ;

- Ensure the compliance and safe custody of inner documentation (Articles, deeds, instruments certifying the title to property, inner accounting of the Company and its subsidiaries (if any), annual statements, accounting documents or minutes of the Meetings held by any administrative body and other documents required by the Law or legal acts) at the office place;
- To make opportunities for Shareholders to overview documents mentioned above (except documents that include confidential information);
- To inform bodies that implement legal registration of establishing branches and representative offices;
- Carry other liabilities provided by the Law or this Charter.

4. SEPARATE SUBDIVISIONS, INSTITUTIONS, DAUGHTERS AND SUBSIDIARY ENTERPRISES OF THE COMPANY

- 4.1 The Company shall be entitled to establish under this Charter, Code, Law and other acts separate subdivisions (daughter or subsidiary enterprises) both within and out of NKR. For the purpose of maintaining administrative, social, cultural, educational and other non-commercial or charitable activity the Company may establish separate institutions. Such separate subsidiaries and institutions of the Company shall have no legal entity status, act based on the Bylaws approved by the Company. Heads of such branches and offices shall act on the ground of Power of Attorney issued by the Company. The Company's branch is considered to be its separate subdivision, which is placed out of the office place of the Company and is empowered to implement Company's all functions or a part of them, including representative functions. Representative office of the Company is considered to be its separate subdivision, which is placed out of the office place of the Company and represents Company's interests and their implements their protection.
- 4.2 Other company is considered to be Daughter Company if the Company has opportunity of influence that company's decisions in accordance with majority of participation in that company's authorized capital or in any other way allowed by the law (including contracts concluded between main and daughter companies). Other company is considered to be subsidiary enterprise if the Company owns more than twenty percent of that company's share fractions (voting shares).

Establishment of or participation in the daughter or subsidiary companies in the foreign countries shall be governed by the laws and acts of such countries unless the international treaties signed by the NKR provide for rules other than the provisions contained in this Charter. Daughter Company shall not account for the liabilities of the Company. The Company cares out solidar obligation for daughter company's transactions that are implemented according to instructions of the Company and are compulsory. In case of insolvency of Daughter Company because of the Company, the Company bears additional liability for daughter company's obligations. Shareholders of daughter company are empowered to require damage indemnity if that damages were through Company's fault. Damages are considered to be through Company's fault if they caused in result of implementing Company's obligatory instructions by Daughter

Company. The company must permanently publish information of buying more than twenty percent of voting shares of Limited Liability Company or Joint Stock Company.

5. AUTHORIZED CAPITAL OF THE COMPANY AND ITS ALTERATION

- 5.1 Authorized capital of the Company is the minimum amount of property securing the interests of the Company's creditors. The authorized capital of the Company can be not less than the amount limited by the Law. The authorized capital consists of the par value of the shares acquired by the Shareholders.
- 5.2 Authorized capital of the Company constitutes 5,100,000,000 (Five billion one hundred million) Armenian drams, divided to 5,100,000 (Five million one hundred thousand) shares, each with a par value of 1000 drams. All 5,100,000 shares of the Company are placed fully and paid and are owned by the Government of NKR. Maximum amount of the authorized shares declared by the Company shall be 10,000,000,000 (Ten billion) common ordinary shares each with the par value of 1000 drams. The placement of declared common shares is implemented by general meeting via adopting a resolution of placement in stated order and terms.
- 5.3 The Company may alter the amount of its authorized capital based on the resolution of the General Meeting of the Shareholders, which shall enter in force upon the registration of an according change at the State Register of NKR.
- 5.3.1 **Increase of the authorized capital** may be made only upon the full payment of all shares in the authorized capital either at the account of the Company's property through increasing the face value of the shares earlier placed or through additional investments of the Shareholder if all shares placed before are all sold. Shareholders of the Company shall have preemption in acquiring the shares newly issued by the Company within the fixed term in proportion to their share in the authorized capital. At that holders of convertible securities issued by the Company shall have priority in exchanging, within the fixed term, their securities before placement of the shares with the Shareholders. Term for implementing preemption rights for holders of convertible securities is 15 days. Term for implementing preemption rights for Shareholder is 30 days. Action about increasing the size of the authorized capital at the account of additional investments shall be made only within the amount of shares declared by the Company and only after the full payment of the shares earlier placed. Action on the issuance of additional shares shall stipulate:
- the number of additional common and preference shares of each class and series within the fixed number of declared shares;
 - terms and conditions of placement and names of the Shareholders having preemptive rights, and the cost of such shares within the scale of other securities placed by the Company.
- If the cost of the shares placed by the Company is not fully paid the Company cannot increase its authorized capital through involving additional funds. The Company cannot issue shares for covering the losses incurred from its financial activity. Upon summing up the results of its annual activity the Company may:
- install part of its net profit into the authorized capital thus increasing the face value of its shares;

- transfer the (part of) property exceeding the amount of the authorized capital, reserve capital and difference between liquidation and face values of preferred shares (net assets) to the authorized capital.
- 5.3.2 **Decrease of the authorized capital** may be done through decreasing the par value of the shares and (or) decreasing the number of shares by redemption and pay off the outstanding shares in the cases envisaged by the Law. The Company cannot decrease its authorized capital if as a result of such decrease the authorized capital shall be less than the minimum amount provided by the Law. Decreasing the amount of authorized capital by the Company less than the amount stated in the Law is a basis for liquidation of the Company. The action about decreasing the authorized capital is permitted only after the notification in the manner envisaged by the law of all the creditors of the Company. In such case the latter shall be entitled to call, within the terms provided by the Law, for additional security, or repayment of their debts ahead of the term, or demand to perform the obligations and reimburse the losses. The action about decreasing the authorized capital and accordingly amending the Articles of Organization shall be made at the General Meeting of the Shareholders by 3/4 of voices of Shareholders who take part in the Meeting but not less than 2/3 of shares representing the total voting power of the Company. Payments connected with the reduction of the authorized capital shall be made by Shareholders upon the state registration of the according change in the Articles of the Company.

6. SHARES AND OTHER SECURITIES

- 6.1 The Company may place shares, bonds and other securities provided by Securities Market Regulation Law and other legal acts of NKR.
- 6.2 The Company is entitled to place common and preference shares of one or several classes. However the par value of the preference shares placed by the Company shall not exceed 25% of the total amount of the authorized capital. The par value of the common shares shall be equal. Preference shares of each separate class or type issued by the Company (with distinctive similar characteristic features – as to their face value, special rights, privileges and restrictions) shall have the same par value. The Company may within the terms and in the manner envisaged by the resolution of the General Meeting issue shares bearing fixed and (or) alternative dividends (irrespective of the results of its economic activity) as well as preference shares for the employees. Holders of the preference shares shall have no right for voting at the General Meeting of the Shareholders unless the issues of liquidation or reorganization are being deliberated at such Meeting. Preference shares may be converted to common shares. At that while converting such shares the Company shall pay all its debts to the holders of preference shares. All the shares of the Company are nominal.
- 6.3 The Company may by the resolution of the General Meeting issue non-documentary nominal shares also documentary (printed) and non-documentary bonds.
- 6.4 Upon the payment of the share capital and state registration of the Company the Company shall record the shares of the Shareholders in the Shareholders Log against the

- personal account of each Shareholder in conformity with the rules of keeping the Log provided by the Law.
- 6.5 The share is indivisible. If one and the same share is jointly held by two or more Shareholders such joint holders shall be considered as one.
 - 6.6 In the order stated by the General Meeting employees of the Company can be provided with regular (ordinary) also preference (if available) shares. Owners of the employees' shares have the same rights that are stated by the Law and this Article for owners of regular (ordinary) and different types of preferred shares. Face value of employees' shares shall not differ from the face value of regular (ordinary) and equal type of preferred shares.
 - 6.7 Installments for additional shares placed by the Company shall be invested within the term fixed by the action of their placement but not later than within a year of such placement. Payment against the shares and other securities of the Company may be made in money form, in securities, other property or property rights, or any other right, which may be expressed in money terms. If the payment against the shares or securities shall be made in non monetary form, such shares shall be paid up fully at a time during their acquisition. For the incorporation moment the price of the property given by incorporators against the shares shall be evaluated and fixed between parts and in the case of additional issuance of shares or securities by the Board of Directors in conformity with the procedure provided by the law being subject to independent audit estimation. Unless the share is fully paid up the Shareholder shall have no right of voting provided for the Founders of the Company. Any shares returned, redeemed or kept by the Company as treasury shares are not entitled to vote, shall not be counted during voting, nor bear dividends. Such shares shall be placed by the Company within a year of their redemption. In the opposite case the General Meeting of the Shareholders of the Company shall make an action about decreasing its authorized capital through paying off the shares.
 - 6.8 The Company shall have a Reserve Fund in amount of 15% of the authorized capital. If the Reserve constitutes less than the size herein provided the annual allocations to the Reserve shall amount to at least 5% of the profit of the Company. The Reserve shall be used for covering the losses, pay-off and redemption of shares if the Company's profit does not suffice.
 - 6.9 The Company may by resolution of the General Meeting of the Shareholders establish funds for paying dividends, issuance of the shares for employees, consumption, accumulation, social development and other funds.
 - 6.10 The cost of net assets of the Company shall be evaluated based on the data of its accounting – in the manner envisaged by the legal acts of NKR. If at the end of the second or any subsequent fiscal year the cost of the Company's net assets is less than the size of its authorized capital, the Company shall announce about decreasing its authorized capital and register such change at the State Register of NKR. Decrease of the authorized capital below the minimum amount provided by the Law shall lead to the dissolution of the Company. If the Company hasn't resolved about decreasing the amount of its authorized capital or dissolution, the Shareholders, creditors or the authorized government agencies may demand to dissolve the Company by the court action.

7. RIGHTS AND LIABILITIES OF THE SHAREHOLDERS

7.1 Each common (ordinary) share of the Company entitles its owner to similar rights. In conformity with the Law and this Charter each holder of a common share has a right to:

- take part in the General Meeting of the Shareholders with the right of vote on any issue of its discretion;
- suggest no more than 2 issues for agenda of the General Meeting during 60 days after the end of fiscal year also suggest contenders for internal audit and Directors Board, if he owns no less than 2 percent of shares that have voting rights;
- participate in the management of the Company;
- receive dividends from the profit earned by the Company;
- have preemption in acquiring the shares placed by the Company in the cases provided by the Law and this Charter;
- be fully informed about the activity of the Company book-keeping and accounting, or other industrial and economic accountancy of the Company included, provided always for confidential documents;
- any Shareholder(s) of the Company holding in aggregate at least 5% of the Company's shares shall be reserved the right to demand an audit for examining the accountancy and confidential documents of the Company. Such Shareholders shall bear the costs connected with the examination;
- appoint a proxy for representing him at the General Meeting;
- carry motions to the consideration of the General Meeting of the Members;
- vote at the General Meeting by the total number of fully paid shares entitled to vote;
- suit in the court against the decisions of the General Meeting, if they contradict the Law and acts;
- receive his share of property upon the settlements with the Company's creditors and dissolution of the Company;
- freely sell or otherwise transfer his shares to the third party
- exercise other rights provided herein or by the Law.

No Shareholder of the Company may have any additional votes, which do not arise from the par value and the number of shares held by him.

The Company does not guarantee payment of dividends against the common shares.

The percentage of the common shares within the authorized capital of the Company shall be not less than 75%.

7.2 In conformity with the Law and this Charter holders of the preference shares shall be entitled to:

- participate in the management of the Company;
- appoint a proxy for representing their rights at the General Meeting of the Shareholders of the Company;
- receive their share of property upon the dissolution of the Company;
- carry out suggestions to the consideration of the General Meeting of the Members;
- participate in the General Meeting with the right of vote in the cases and in the manner envisaged by the Law;
- receive dividends from the profit earned by the Company;

- have preemption in acquiring the shares placed by the Company in the cases and in the manner envisaged by the Law.

Rights listed in the last three sub-clauses shall be exercised by the holders of preference shares with the reservations provided in clauses 6.2 and 8.2.

7.3 Shareholders shall not compromise the confidential information relating the business of the Company.

8. DIVIDEND POLICY

8.1 The Company is entitled to declare (make an action) about paying quarterly, semi-annual or annual dividends against the shares placed with its Shareholders.

Dividends shall be paid from the net profit of the current year. Dividends against the preference share of a certain class may be paid from a fund specially established by the Company for this purpose.

Based on the annual results: if the dividends paid against the common shares from the net profit of the given year exceed the amount of dividends fixed against the preference shares, holders of the preference shares may by the action of the General Meeting of the Shareholders of the Company receive the same amount of dividends payable against the common shares.

The action about paying the interim (quarterly and semi-annual) dividends against the shares of each class and series shall be made by the Board of Directors of the Company while the action about paying the annual dividends against the shares of each class and series and about the form of payment shall be made by the General Meeting of the Shareholders based on the proposal of the Board of Directors. The amount of annual dividends can not be less than suggested by the Board of Directors and can not be less than the amount of interim dividends already paid up. The amount of intermediate dividends shall not exceed 50 percent of dividends placed based on results of previous fiscal year.

If by decision of the General Meeting of the Shareholders the amount of the annual dividends is equal to the amount of the interim dividends already paid up against certain class and series of shares, annual dividends against the shares of the according class shall not be paid.

If by decision of the General Meeting of the Shareholders the amount of the annual dividends exceeds the amount of the interim dividends already paid up against certain class and series of shares, annual dividends against such shares shall constitute the difference between the sum of annual and the sum of interim dividends already paid in the given year.

General Meeting of the Shareholders of the Company may make an action about non-payment or not full repayment of dividends against the shares of a certain class or series. The term of validity of such decision shall be fixed by the General Meeting of the Shareholders but it cannot exceed one year.

The date of the annual dividends payment shall be fixed by the General Meeting of the Shareholders along with the action about paying the dividends. The date of paying interim dividends shall be fixed by the action of the Board of Directors about paying the interim dividends, but not earlier than in 30 days after making such decision.

Before making decision about the payment of dividends the Board of Directors shall compile the list of the Shareholders entitled to dividends, which shall contain:

- in the case of interim dividends: names of the Shareholders registered in the Shareholders Log of the Company at least 10 days prior the date of making such action by the Board of Directors;
- in the case of annual dividends: names of the Shareholders registered in the Shareholders Log as at the date of compiling the list of the Shareholders entitled to participate in the annual General Meeting of the Shareholders of the Company.

8.2 Peculiarities of the payment of dividends to the holders of preference shares:

- 8.2.1 Dividends payable against each class and series of preference shares and their salvage value (payable at the dissolution of the Company) shall be fixed by the General Meeting in the form of a sum or rate of interest accrued on the face value of such preference share.
- 8.2.2 Based on the financial results of the current year if the dividends payable against the common shares exceed the dividends payable against the preference shares holders of the preference shares may receive equal dividends if the General Meeting so decides;
- 8.2.3 If by decision of the General Meeting the Company issues and places two or more classes of preference shares, it shall also fix the order of paying the dividends and the salvage value.
- 8.2.4 Failure to pay dividends against the preference shares during three consecutive years may serve a ground for dissolving the Company by the Court action.

8.3 The Company shall not declare about the payment of dividends if:

- the authorized capital of the Company is not fully paid;
- it has not redeemed its outstanding shares under the provision of Art. 58 of the Law;
- as at the moment of making an action about paying the dividends the economic standing of the Company shows the signs of insolvency (bankruptcy) defined by the Law, or such signs will occur as a consequence of payment.
- the cost of the net assets is less than the authorized capital of the Company or will be less after such payment.

The Company shall not make an action about paying the dividends against the common and preference shares, which do not bear fixed dividends if no action is made about the payment of dividends against other classes of preference shares with fixed dividends.

The Company shall not make an action about paying the dividends against the preference shares with fixed dividends, if no action is made in respect to the other classes of preference shares, which have preemptive rights in receiving the dividends.

9. MANAGEMENT OF THE COMPANY

9.1 The highest management body of the Company is the General Meeting of the Shareholders.

Regular General Meetings of the Shareholders shall be convened annually. The annual General Meeting shall be held within 4 months after 2 months of the end of each fiscal year.

Any other Meetings held on special occasions are Special General Meetings. Such Meetings may be convened for deliberating any urgent issues.

Special Meetings may be convened by the initiative of the Board of Directors on basis of written resolution. Special Meetings also can be convened by request of general director, internal audit committee (auditor), external audit body or on the request of a Shareholder(s) of at least 10% of shares entitled to vote. If in terms stated in the Law the Directors Board does not make a resolution on convening a Meeting or makes a resolution to refuse it, Special Meeting can be convened with persons who required this Special Meeting.

A resolution of convening Special Meeting shall state:

- date, place and time of General Meeting of Shareholders,
- agenda of General Meeting of Shareholders,
- date of making up list of Shareholders who have right to participate the General Meeting of Shareholders,
- the order of informing Shareholders about convened General Meeting of Shareholders,
- list of information and materials that should be delivered to Shareholders in preparatory period of General Meeting of Shareholders,
- name and surname of secretary of General Meeting of Shareholders,
- ballot type and its maintenance when voting process is carried out via ballots.

The order of informing about General Meeting of Shareholders is sending of ordered letter or hand-over delivering or delivering via e-mail.

The Company shall inform its Shareholders of convening General Meeting in order stated in this point no less than 3 days before the Meeting.

General Meetings of Shareholders are presided by President of Board of Directors. At the absence of President General Meeting is presided by elder of present Shareholders if there isn't assigned any other person in resolution of convening the Meeting.

9.2 The exclusive capacity of the General Meeting includes the matters of:

1. Approval of changes of the Articles, additions and amendments, or the new version of Articles;
2. Reorganization of the Company;
3. Dissolution of the Company;
4. Appointment of the Liquidation committee, approval of the Liquidation balance-sheets (consolidated statement, interim and final liquidation balance-sheets);
5. Approval of the number of Directors, their election and recall ahead of the term;
6. Establishment of the maximum amount of authorized shares;
7. Increase of the authorized capital through increasing face value of the shares or via placement of additional shares;
8. Decrease of the authorized capital through decreasing face value of the shares, reducing total amount of shares, also redemption and pay off or decrease of the face value of shares;
9. Purchase and pay off of placed shares;
10. Election of the Internal Audit Committee and termination of its proxies ahead of time.
11. Approval of the nominee for the invited audit;

12. Approval of the annual statements, balance sheets, statements of profit and losses, distribution of profit and losses, resolutions about the payment of annual dividends and approval of their amount;
13. Reduction (split) and increase (consolidation) of face value of securities;
14. Concluding big contracts referring to Company's property;
15. Creating of daughter companies and subsidiary enterprises;
16. participation in daughter companies and subsidiary enterprises;
17. Creation of holdings and other unions of commercial enterprises;
18. Participation in holdings and other unions of commercial enterprises;

The General Meeting is entitled to deliberate and make resolutions on any issue, stipulated in the Law and this Charter.

- 9.3 Issues of authorities of General Meeting cannot be transferred to the CEO for solution, except cases stated in point 9.2 and sub-clauses 16, 18. Issues of authorities of General Meeting cannot be transferred to the Board of Directors for solution, except cases stated in point 9.2 and sub-clauses 9, 15, 16, 17 and 18.
- 9.4 The right of voting at the General Meeting shall be exercised by the holders of the common shares.
- 9.5 Except for the cases provided under clause 9.7 herein resolutions on any issue shall be made by the majority vote of the holders of shares entitled to vote.
- 9.6 Resolutions mentioned in par. 2, 9, 12 - 15 of clause 9.2 herein shall be made by the presentation of the Board of Directors.
- 9.7 Resolutions mentioned in par. 1, 2, 3, 4, 6, 8, 14 herein shall be made by $\frac{3}{4}$ majority of all the Shareholders participating in the General Meeting, at that in cases mentioned in sub-clauses 3 and 8 quantity of voices shall not be less than $\frac{2}{3}$.
- 9.8 Information about the resolutions of the General Meeting and the results of voting shall be delivered to the Shareholders (on demand) within 45 days.
- 9.9 Any Shareholder may appeal against the action of the General Meeting made in breach of the Law, legal acts and this Charter if he has not participated in the meeting or voted against such action, or if such action infringes his legal interests and rights. The Court may leave the action of the General Meeting unchanged if the participation of such shareholder could affect the results of voting or in the case of insignificant breaches that could not harm such Shareholder.
- 9.10 Decisions on issues relating to the capacity of the General Meeting (provided for sub-clause 12 of clause 9.2) through remote voting (questioning). Discussion and resolving of issues stated in sub-clause 12 of point 9.2. If annual General Meeting didn't take place or weren't accepted corresponding resolutions, at Special Meeting can not be discussed any other questions, except cases of decreasing authorized capital based on resolutions approved before.

Resolutions made by the General Meeting held through questioning shall be valid if more than a half of the holders of shares entitled to vote have participated in voting.

In the latter case the ballots for voting shall be sent to each Shareholder at least 30 days prior to the deadline for receiving the votes.

- 9.11 Participants of the General Meeting of the Shareholders are empowered holders of the common shares placed by the Company, also holders of the preferred shares proportional

to the total number and face value of fully paid up preferred shares except members of the Board of Incorporators who can have right to vote equal to quantity and face value of all common (preferred) shares placed on their name, in terms stated by Article of the Company, but no later than within 1 year after state registration.

Members of Board of Directors who are not shareholders, General Director, also members of internal audit committee and invited auditor of the Company can participate General Meetings of Shareholders with right of consulting voice.

List of the Shareholders entitled to participate at the General Meeting shall be compiled as the date fixed by the Board of Directors based on the Shareholders Log of the Company.

9.12 The Board of Directors shall manage the current activity of the Company.

Members of the Board of Directors shall be elected at the General Meeting of Shareholders for 1 year period. Elections of members of Board of Directors can be held through regular voting or summary (cumulative) voting.

The exclusive capacity of the Board of Directors includes the issues of:

1. determination of the main directions of the Company's business;
2. convention of the annual and special Meetings of the Shareholders, except the cases provided by the Law;
3. approval of the agenda of the Meetings of the Shareholders;
4. valuation of the market price of the property;
5. redemption of the shares, bonds and other securities placed by the Company in the cases provided by the law;
6. appointment of General director, determination of the terms of his compensation and ahead termination of his authorities;
7. placement of bonds and other securities;
8. determination of amount of compensation of invited external audit;
9. work out of proposals concerning the amount of annual dividends and terms of their payment to the General Meeting;
10. fixing the amount of interim dividends and terms of their payment;
11. use of the Reserve Fund;
12. approval of the inner documents governing the activity of the management bodies;
13. resolutions about major deals in the cases provided by the law;
14. resolutions concerning the participation in other entities if it is not a major deal;
15. establishment of separate subdivisions and institutions of the Company, termination of their activities, affirmation of their Articles;
16. approval of the organizational administrative structure of the Company;
17. approval of the staff list;
18. approval of the estimate of annual expenses and approval of their execution;
19. solution of any issues, reserved under the Law and this Charter, to the discretion of the Board of Directors.

Resolutions of the Board of Directors shall be made by majority vote of the members present at the Meeting. While voting each member of the Board shall have one vote, at that in the case of equal division of votes the Chairman's vote is casting. In the case provided under sub-clause 13 of clause 9.12 the action shall be made by unanimous vote of the Directors.

9.13 Authorities of the Board of Directors can be implemented by General Meeting of Shareholders based on resolution of General Meeting. In this case General Meeting of Shareholders is entitled to act referring to issues that are considered to be authorities of the Board of Directors, except issues marked in sub-clauses 2, 3, 5, 9, 16, 17 and 18 of point 9.12, which should be transferred to authorities of General Director.

The offices of Chairman of Board of Directors and General Director can be combined based on decision of General Meeting (in cases allowed by Law). Chairman of the Board of Directors shall be elected by and among the members of the Board by the majority vote of the members. Chairman of the Board of Directors cannot hold more than one paid office in the Company, except cases stated in this point.

9.14 Chairman of the Board of Directors shall:

1. organize the works of the Board;
2. hold and preside at the Meeting of the Board;
3. organize making protocols of the Meetings.
4. Leads the GSM

9.15 The current business of the Company shall be managed by the General director who may solve any problem besides those being in the sole discretion of the General Meeting or the Board.

The General Director shall organize the implementation of the decisions of the General Meeting or the Board, is accountable to them and shall have no right of making actions mandatory for the General Meeting or the Board. The General Director shall act conscientiously and reasonably, for benefit of the Company that he represents. On require of Incorporators (Shareholders) he shall compensate the Company all the harm that he caused, if there isn't envisaged anything else by the Law or contract.

General director of the Company shall:

1. manage the Company's property, financial means included;
2. represent the Company within and out of NKR;
3. act on behalf of the Company without Power of Attorney;
4. issue Powers of Attorney;
5. conclude contracts in stated order, including employment contracts;
6. open settlement and other accounts with the banks in any currency;
7. submit to the approval of the Board the work regulations of the Company, bylaws and administrative structures of its subdivisions and institutions;
8. within the frames of his powers issue orders, instructions and control their performance;
9. in conformity with the procedure provided by the law admit and dismiss the employees;
10. discipline or award the employees.

Following the resolution of the General Meeting of the Shareholders of the Company the powers of the executive body may be conferred on a professional manager (entity or a private person) on contractual basis.

10. CONTROL OF THE FINANCIAL ACTIVITY OF THE COMPANY

- 10.1 For the purpose of controlling its financial activity the General Meeting of the Company elects an Internal Audit Committee (auditor) of the Company.

In case of Internal Audit Committee (auditor) required by law and other legal documents these authorities should be transferred to Internal Audit Committee (auditor).

The Internal Audit Committee shall supervise the performance of the decisions of the management bodies of the Company, examine the compliance of the Company's documents with the laws, legal acts and this Charter.

The work of the Internal Audit Committee (auditor) shall be governed by the Regulations of Internal Audit Committee (auditor) approve by the General Meeting.

The Committee shall supervise the annual results of the Company's financial and economic activity and may examine the financial activity of the Company on its own initiative, or based on the decision of the General Meeting, or on the request of any Shareholder(s) holding at least 10% of the shares entitled to vote.

The conclusion of the Internal Audit Committee based on the examination of the annual statements and balance sheet shall be submitted to deliberation of the General Meeting. The General Meeting of the Company cannot approve the annual statements and balance sheet without such conclusion.

The Committee is entitled to demand a convention of an urgent special Meeting.

On request of the Internal Audit Committee the executive bodies of the Company shall submit any necessary documents, records and clarifications relating to the business of the Company or its subsidiaries.

Members of the Internal Audit Committee shall be elected by the General Meeting for the term of three years.

The General Meeting shall also determine the amount, terms and conditions of their remuneration.

Any physical person may be elected to the Internal Audit Committee if he is not a member of the executive bodies of the Company.

- 10.2 Following the resolution of General Meeting authorities of Internal Audit Committee can be transferred to Auditor.

- 10.3 For the purpose of examining the compliance of the annual financial returns the Company shall invite a professional auditor organization (external audit), which is not connected with the Company or its members by any valuable interests.

As a result of the examination of the financial activity of the Company the invited auditor shall submit his opinion.

Audit of the financial activity of the Company may be also performed on the request of any Shareholder of the Company. In this case the expenses connected with the audit shall be carried by the shareholder demanding such audit.

The nominee for invited audit shall be approved by the General Meeting of the Company and the agreement with him, which shall also provide for the fee against the auditor's services, must be effected by the Board of Directors.

Audit of the Company's business on the request of a Shareholder(s) holding at least 10% of the share capital of the Company shall be performed once such a request is received.

- 10.4 Audit of financial and economic activity of the Company can be implemented also by financial and other authorized bodies, audit services of NKR in frames of their authorities.

11. PROCEDURE OF MAKING CHANGES AND AMENDMENTS IN THE ARTICLES OF ORGANIZATION

- 11.1 Changes, additions and amendments, as well as the approval of the new version of Articles shall be made by the decision of the General Meeting of the Members, passed by the 3/4-majority vote of the Members present. The issues of increasing the authorized capital shall be made by majority vote of the Shareholders present at the General Meeting.
- 11.2 Any changes, additions and amendments, as well as the new version of Articles shall be effective for the third parties only upon their state registration.

12. REORGANIZATION AND LIQUIDATION OF THE COMPANY

- 12.1 The Company may be reorganized or dissolved following the resolution of General meeting of Shareholders.

If the property of the Company undergoing liquidation is insufficient for covering the creditors calls, the Company may be dissolved as a result of bankruptcy only. The procedure, terms and conditions of reorganization or dissolution of the Company are provided by the Civil Code, Law and other laws of NKR.

- 12.2 The Company may be reorganized into Limited Liability Company or commercial society.
- 12.3 Dissolution of the Company brings Company's termination without assignation of rights and liabilities of the Company.

Resolution on dissolution of the Company is made by General Meeting of Shareholders with 3/4 of voices of present Shareholders but not less than 2/3 of voices of shares that have voting right. From the moment of generation of Liquidation committee all authorities of management of the Company are transferred to this committee. Liquidation committee presents the Company in court. Information about Company being in process of liquidation (including members of Liquidation committee) shall be registered in State register of legal entities.

- 12.4 The Company is considered to be reorganized from the moment of registration of new company in State register of legal entities, except cases of reorganization through merger of companies. In case of reorganization through merger of companies the Company is considered to be reorganized from the moment of registration of termination of the merged company in State register of legal entities.
- 12.5 Dissolution of the Company is considered to be finished and its existence terminated from the moment of registration of that fact in State register of legal entities.

5.5 Extract from the Financial Statements of the Company

The following tables present selected financial information, which has been extracted without material adjustment from, and should be read in conjunction with, the Financial Statements for the years ended 31 December 2007 and for the nine month period ended 30 September 2008 prepared in accordance with Accounting Standards of Republic of Armenia, and the notes thereto. The official versions of these Statements could be found in the locations of the Company and/or the Placement Agent as well as on their websites: www.artsakhhpp.com, www.armenbrok.com.

Table 28. Income Statement, AMD '000

	31.12.2007	30.09.2008
Revenue	36,989	188,511
COGS	-30,154	-169,766
Gross Income	6,835	18,745
SG&A	-3,370	-37,162
Other operating income (loss)	0	-567
EBIT	3,465	-18,984
Interest expenses	0	-2,219
Other non operating income (loss)	0	-1,383
EBT	3,465	-22,586
Profit tax charge	-235	0
Net Income	3,230	-22,586

Table 29. Balance Sheet Summary, AMD '000

	31.12.2007	30.09.2008
Current Assets	15,586	52,709
Cash and cash equivalents	5,822	5,602
Inventory	1,966	3,975
Advances paid	6,455	12,165
Accounts receivable	927	29,892
Other current assets	416	1,075
Fixed Assets	34,774	5,541,275
PP&E	34,774	5,088,522
Intangible Assets		3,578
Other non-current assets		449,175
Total Assets	50,360	5,593,984
Equity	39,313	5,093,731
Charter Capital	36,083	5,100,000
Differences from revaluation		13,087
Retained earnings	3,230	-19,356
Current liabilities	11,047	500,253
Bank loans		413,281
Accounts payable	11,047	16,972
Advances received		70,000
Total equity and liabilities	50,360	5,593,984