

Trghi 1

Trghi 2

Mataghis 1

Trghi 3

Mataghis 2



Additional
ISSUE
OF SHARES
Underwriter: "ARMSWISSBANK" CJSC

ARTSAKH HEK
For information on acquiring shares of Artsakh HEK OJSC within the scope of the third issuance, please, visit Artsakh HEK OJSC's or ARMSWISSBANK CJSC's websites at www.artsakhhpp.com and www.armswissbank.am respectively. For more detailed information on the offered solutions, please, visit Artsakh HEK OJSC's or ARMSWISSBANK CJSC's office buildings.

"ARTSAKH HEK" OJSC	"ArmSwissBank" CJSC
Address: V.Sargsyan 25a, Stepanakert, NKR	Address: V.Sargsyan 10, Yerevan, RA
Tel./Fax +374 479 7-42-14	Tel +374 52-95-93 (111,187)
e-mail artsakhhek@mail.ru	e-mail info@armswissbank.am
Web-site www.artsakhhpp.com	Web-site www.armswissbank.am



ARM SWISS BANK
Private & Investment Banking

General Provisions



The message of Artsakh HEK OJSC's executive director Vahram Beglaryan

Since the declaration of the independence of NKR, the construction of new hydropower plants has become a strategic project for the economy of Artsakh because the energy has a great importance for the energetic independence and security of NKR. It is also considered as one of the major infrastructures for the economic growth.

Thus, the provision of reliable energy at low prices through modern and effective hydropower plants is one of the most important Government policies in the energy sector.

The new HPPs' construction project will also have a significant economic impact supporting the development of the economy as a whole, fostering the creation of new jobs, which in turn will benefit the transmigration processes and will surely solve many social and economic problems.



- The Investment Memorandum of the initial Public Offering intends to provide information and clarification to the potential investors on the main terms and conditions of the offering, as well as a brief description of "Artsakh HEK" OJSC (hereinafter the Company). The Memorandum is based on the Company's IPO Prospectus which was registered by the Central Bank of Armenia. The Company takes the full responsibility for the accuracy and authenticity of the information contained in this Memorandum.
- The placement of the offered shares is implemented by "ArmSwissBank" CJSC (hereinafter-The Underwriter). Except the Company and The Underwriter, no other person is authorized to give any information or make any representation connected with the offer made by this Memorandum, nor any person is authorized to give any information or make any representation other than those contained in this Memorandum and if given or made, such information or representations must not be relied upon.



About the Company

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.

According to the decision of NKR government No 360 as of 13 May 2008, the Company was reorganized into "Artsakh HEK" OJSC.

The statutory capital of the Company is 7.362.074.000 AMD which is comprised from 7.362.074 ordinary nominal shares.

The face value per share is 1000 AMD.

The shareholders structure can be presented as follows:

The government of NKR -69.3%

- «VPBP»CJSC- 8.56%
- Sanasar Beglaryan-7.05%
- Other resident and non-resident individuals and legal entities- 15.09%

The registrar of shareholders is "The Central Depository of Armenia" OJSC. The Company has 127 employees.

- The highest governing body of the Company is the General Meeting of shareholders.
- The Board of Directors, which is currently comprised of 5 members, oversees the management of the company.
- The Chairman of the Board is Spartak Tevosyan, also the Deputy Prime Minister and the Minister of Finance of NKR.
- The executive director of the Company is Vahram Beglaryan.



About the Activity

The general activity of the Company is production of electricity, which is the only source of its profit.

The main asset of "Artsakh HEK" OJSC is Sarsang HPP which was constructed in 1976 on the largest river of NKR, the river Tartar. Sarsang HPP is located on Sarsang water reservoir which has an effective estimated capacity of 500 mln m³. The height and the length of the platinum for that reservoir are 730m and 550m accordingly, which is regarded to be one of the highest dams even in Europe.

The HPP has 50 MWT capacity and produces 85-120 million KWT/h of electricity per year (in 2010 the Company produced 177.64 mln. KWT/h electricity, which covered 76.3% of the local demand on electricity of NKR). Sarsang HPP is equipped with two hydro turbines, with installed capacity of 25 MWT each and water consumption volume of 33.2 m³ per second. The exploitation of Trghi 1 HPP started in June 2010. It is located in the North of NKR, in Martakert region, and is regarded as the first upper level of Trghi small HPPs cascade. It has three ladle shaped hydro turbines. The HPP has 3 MW capacity and produces 16-18 million KWT/h of electricity per year.

The produced electricity is sold to "AEG" LTD, which has a license to export the electricity to Armenia. The distribution of electricity in NKR is performed by "ARTSAKHENERGO" CJSC.

The tariffs for electric power are defined by the State committee regulating public services and economic competitiveness of NKR. In 2011 the tariffs for electricity were set 9 AMD and 18 AMD per Kwt/h for Sarsang and Trghi1 HPPs.

Investment Activity

Within the scope of its aggressive investment policy the Company started the exploitation of Trghi1 HPP in June 2010 and currently the construction works of 4 new HPPs are in progress. The HPPs are constructed on the Tartar river and the waters pouring from Tartar into Trghi river. The estimates of construction installation works are made by "Armhydroenergoproject" CJSC and according to these estimates the initial cost for construction of HPPs amounted to AMD 9.200.000.000.



The estimated and actual costs for the construction of new HPPs as of 30.06.2011 are presented in the table below.

INDICATORS	Trghi2	Trghi3	Mataghis1	Mataghis2	Total
The estimated cost of the project, mln AMD	2,200	1,700	3,300*	2,000	9,200
The actual cost of the project, mln AMD	2,033	76	2,804	1,763	6,676

The new HPPs are considered small plants equipped with modern technology, which has an estimated useful life of 40 years. The HPPs are constructed through the effective usage of both the Company's own and borrowed funds. The Company's management expects that Trghi-2 will be exploited in October 2011 and Mataghis-1 and 2 in the first quarter of 2012.

The company plans to implement a large-scale investment project of Trghi -3 HPP. The pipeline's video topographical works has already been carried out, the technical task has been developed in order to start the designing works, the location for the new HPP has already been chosen and has been given preliminary technical instructions for the preparation of the main and auxiliary equipment.

According to the Company's management forecasts Trghi-3 HPP's construction works will start in November, 2011 and the design and construction processes can take about one year.

The major technical indicators of proposed HPPs is presented in the table below

TECHNICAL INDICATORS	Measure units	Trghi-2	Trghi-3*	Mataghis-1	Mataghis-2
Installed capacity	MWT	5.97	4.2	4.8	3
Electricity output, GWT/h	Min KWT/h	24.82	17.2	22.4	13.2
Base pressure	m	355.5	303	19.5	11.7
The volume of annual flow	mln m3	28.54	26.21	632.4	632.4
Number of units	unit	2	2	3	3
The pipe length	km	4.54	4.0	0.24	0.033
The diameter of the pipeline	unit/mm	1/1220	1/1220/1800 2/720/2200	3*1600/ 3*2520	3*2520

* Trghi-3 HPP's technical indicators can change.

The exploitation of new HPPs will allow to cover 96% of NKR's electricity demand and the Company will also have an opportunity to export the produced electricity to Armenia.

Indicators and Forecasts of Financial end Economic Performance



	2010 I term	2010 II term	2011 I term
Revenue	941,743	1,614,897	383,030
Gross income	806,437	1,304,888	221,172
Gross margin	85.64%	80.80%	57.74%
Operating income	743,904	1,163,350	119,375
Operating margin	79%	72.04%	31.20%
Net income	719,412	1,098,854	43,501
Net margin	76.4%	68.04%	11.35%

The reason of electricity production low volume in 2011 is that due to the technical repair works on Sarsang HPP dam, Sarsang HPP were not functioning for several months.

The table below represents the forecasts of electricity, tariffs and revenues of the Company from 2012 to 2016

	Sarsang	Trghi 1	Trghi 2	Trghi 3	Mataghis 1	Mataghis 2
Period	2012-2016	2012-2016	2012-2016	2013	2014-2016	2012-2016
Electricity production, mln Kwt/h	133.24	15.4	21.93	7.35	16.97	27.61
Tariff	9	18	18	18	18	18
Revenue	1199.16	277.2	394.74	132.3	305.46	496.98
						317.34

Forecasts of Artsakh HEK performance are based on the past trends of water flow and water consumption (including cyclic trends of water flow), as well as on their installed capacity and expert estimations of similar rivers' appropriate parameters.



The First public offering of Shares

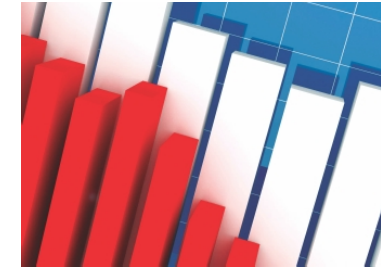
Events and achievements

In May, 2009 "Artsakh HEK" OJSC implemented the first public offering of shares . The number of allocated shares was 862.074. During the economic crisis the Company managed to obtain funds for the total amount of 905.177.700 AMD (the offer price per share was AMD 1050).

The consultant and main underwriter was "Armenbrok" OJSC. During the IPO process an underwriting syndicate was formed and "ArmSwissBank" CJSC gained a membership to it. Starting from October 2009, the stocks of "Artsakh HEK" OJSC have been listed on list B of Nasdaq OMX Armenia. On April 3, 2010 ArmSwissBank OJSC became a market maker for "Artsakh HEK" OJSC stocks and since then the Bank has been implementing everyday bid and ask quotations thus providing the liquidity of stocks.

On April 27, 2010 the first general meeting of shareholders was held which made a resolution on profit distribution and for 2009 fiscal year the Company paid AMD 100 per share as cash dividends.

The meeting approved some rules and regulations to improve the Company's corporate governance, including the



dividend policy. According to the dividend policy the amount of dividends depends on the results of financial and economic performance of the Company but it can't be less than the 20% of the Company's net profit.

In December 2010 the company implemented the second IPO. All the 1.400.000 issued shares were allocated. The Company managed to obtain funds for the total amount of 1,554,000,000 (the offer price per share was AMD 1,110). The consultant and main underwriter was "ArmSwissBank" CJSC. Since May, 2011 all 7,362,074 shares have been listed on list B of Nasdaq OMX Armenia.

On May 30, 2011 the annual general meeting made a resolution to pay AMD 100 per share as cash dividends.

The additional/third/ placement of issued shares Main Terms

COMPANY	"ARTSAKH HEK" OJSC
Instrument	Ordinary(non documentary) shares
Denomination	AMD
Face value per share	1,000 AMD
Offer price per share	1,110 AMD
Number of shares offered	3.673.926 shares
Offer volume	4.078,057,860 AMD
The Underwriter	"ARMSWISSBANK" CJSC
Placement method	Exercising of preemptiveright,open subscription
Registrar	"Central Depository of Armenia" OJSC
Subscription open date	
Subscription close date	

The funds accumulated from the third public offering will be used to finish the construction of new HPPs and also for a new Trghi-3 HPP construction, and also to refinance the lendings and borrowings used by the Company in its investment activity.



Risk Factors

Having a lot of advantages, the project, however, contains some risks which can negatively affect the Company's performance and financial indicators either directly or indirectly.



The table below sets some of the probable risks threatening the Company as well as the Company's management level of those risks.

Risk factors		
Systemic Risks		
Political Risk	Political instability	Not manageable
Climate Change and Flooding Risk	Sarsang's water reservoir allows to manage the river's natural water flow decreasing the risk of climate changes in the short term.	Not manageable
Ecological Risks	Possible negative impact on the environment	Provision of social responsibility and ecological security
Legal Risk	Indirect impact on the performance of the Company	The legal field is in the stage of development and improves continuously
Non Systemic Risks		
Production Risk	The physical amortisation of machinery and deterioration of exploitation terms	Complete renovation works, optimization of the number and structure of spare parts
Liquidity Risk	Not impacted	The liquidation is 100% guaranteed by "Artsakhenergo" CJSC
Currency Risk	Not impacted	The Company does not conduct foreign economic policy
Interest Rate Risk	The impact can be serious	Not manageable
Inflation Risk	The indirect impact can be serious	Not manageable

- Before making a decision, each investor must review the risk factors, the list of which is not limited.
- The investor should realize that the Memorandum does not provide a complete coverage of all the risks related to the investments in the offered shares.
- Considering the fact that many essential risks are out of the Company's control, the efficiency of the measures to decrease the negative impact of the above mentioned and other possible risks is not guaranteed by the Company.

The Attractiveness of Shares

Related to the Attractiveness of the Company's Performance

- Provision of energetic independence
- No local or global crisis effect
- No substantial competition in the market
- Guaranteed sales and predictable tariffs
- Strong government support
- Strongly business oriented tax and tax administration system (corporate tax rate is 5%)
- Favorable dividend policy

- In the regulated market, demand and supply are provided by the Company or its biggest shareholder in case of disruption between demand and supply.

Corporate Governance

- The corporate governance of the Company is targeted to provide the shareholders' long term welfare and protect the interests of small shareholders,



Related to the Investments in Shares

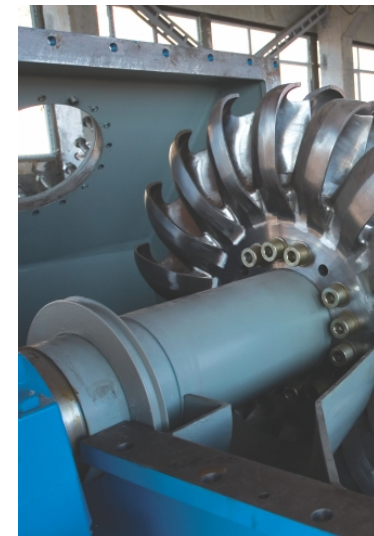
- The shareholder gets an opportunity to participate in the governance of the Company
- Unlike other instruments shares can generate high profits through capital gains in the secondary market and dividends
- The dividends derived from shares are tax exempt
- The profit derived from buy and sell operation is also tax exempt for individuals

- The Company takes active measures to increase the level of public awareness.

*A reporting issuer is a company all shares of which are listed in the organized secondary market ("NASADQ OMX ARMENIA" OJSC).

Related to the Secondary Market

- Since October 2009 the Company has been represented as a reporting* issuer and took the responsibility to work transparently.
- On April 3, 2010 "ArmSwissBank" OJSC was awarded the status of market maker for the shares of "Artsakh HEK" OJSC, the main responsibility of which is to make bid and ask quotations in the stock market to provide liquidity.



How to subscribe for the shares of “Artsakh HEK,” OJSC.



Investors must present the copy of passport, copy of the investor's state registration certificate (in case of legal entity), the document confirming the full payment for the subscribed shares with the subscription form.

All investors can pay for the subscribed shares in non cash form through the “ArmSwissBank” CJSC account number(transit) 2500036910046100. Transfers outside Armenia could be done by the Bank details attached in the CD. The individual investor can debit the funds in cash by presenting the copy of passport with the subscription form.

After the acceptance of subscription forms investors can partially or entirely recall their subscriptions in written form within one working day(working hours) if until that time the subscriptions were not satisfied.

If you have any difficulties filling in the subscription form, You can contact “**ArmSwissBank**” OJSC's staff to receive assistance about filling in the subscription form or other advice related to the purchase of the shares.

