

INTER RAO UES:

Citius, altius, fortius!

Rating BUY

Target price, ¢ 0.16

Upside potential 77%

Basic information

RTS	IRAO
MICEX	IRAO
Last price of common shares, ¢	0.09
Number of common shares, m	2,274,114
Market cap, \$m	2,105
Net debt, \$m	(151)
EV, \$m	1,995
Free float	22.7%
52-week min, \$	0.014
52-week max, \$	0.12

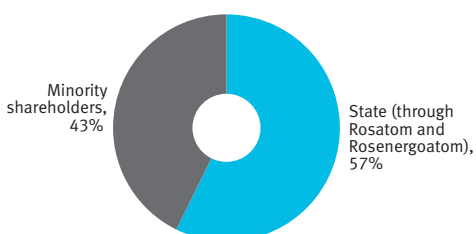
Sources: Bloomberg, OTKRITIE Research

Key metrics

	2009E	2010E
Revenue, \$m	2,266	2,231
EBITDA, \$m	272	292
Net income, \$m	73	97
P/E	112	15.1
EV/EBITDA	12.9	7.7
EV/S	1.5	1.2

Sources: Company, OTKRITIE estimates

Equity structure



Sources: Company

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We initiate coverage of INTER RAO UES with a BUY rating and a target price of ¢0.16/share, which implies a robust 77% upside to the current market price. INTER RAO offers a unique opportunity to invest in a diversified holding, which includes an electricity trading business, efficient generation assets in Russia and abroad, as well as distribution grids and retail sales businesses. INTER RAO's aggressive expansion is fully supported by the state and management aims to sharpen the company's investment appeal.

Investment summary:

Aggressive growth profile. INTER RAO will triple its generation asset base by 2015 and outpace all Russian generators in terms of Revenues and EBITDA growth.

Geographical and business-type diversification. Offering a unique mix of assets, both geographically and by business type, INTER RAO is unparalleled in the sector.

Owning efficient generation assets in Russia. INTER RAO's gas-fired plants are among the most fuel efficient in Russia, while OGG-1 and TGG-11, which are soon to be consolidated under INTER RAO, also offer attractive fundamental opportunities.

The only way to gain exposure to a lucrative electricity export business. INTER RAO controls 90% of Russia's electricity exports, with electricity trading itself being a high-margin business, and should manage to double its electricity export volumes by 2020.

State support. Having Mr. Sechin, the first VP of the Russian government and Mr. Shmatko, the Energy Minister, as well as others officials on the Board of Directors, offers INTER RAO unrivaled state support, lobbying capabilities and financing opportunities.

'Dark horse' of the Russian utilities sector. Discounted by investors on account of its low transparency in the past, INTER RAO has been working hard to improve its image, talking to investors and introducing best corporate governance practices.

Valuation:

Premium to domestic peers on capacity. INTER RAO trades at an EV/installed capacity multiple of \$247/kW, which implies a 61% premium to Russian peers.

Cheap on financials vs. EM peers. INTER RAO trades with '09E and '10E EV/EBITDA of 7.2x and 6.7x vs. the EM peers averages of 10.9x and 11.2x, respectively.

Catalysts:

The news flow regarding the consolidation of TGG-11. At the moment, we believe the consolidation will take place in 2010 and will signal the creation of the Holding of Central Asia, thereby giving rise to synergies between the activities of TGG-11 and other INTER RAO assets.

Share issue in favor of the state. The share issue in favor of the Vnesheconombank, Rosatom and the State Property Management Agency (Rosimuschestvo) has already been approved, but currently no pricing is available.

Will there be more? There are rumors that IES holding's stakes in TGG-6 and Volga TGG could be assigned to INTER RAO, while TGG-2 is named as another possible takeover target. Also, INTER RAO is supposedly working on several international M&A deals.

Risks:

Government leaning. A combination of the company's interests with the government's policy of foreign expansion in the utilities sector may not always lead to the most profitable decisions.

Volatility of trading business. Despite attractive potential, electricity trading is volatile in nature and highly dependent on the price discrepancies between different markets.

Slow economic recovery. INTER RAO operates mostly in Russia and the CIS, which were hit hard by the global crisis and face the prospects of a slow economic recovery.

Infrastructure issues. Technical problems such as linking Moldavskaya TPP to European grids limit growth plans and have to be overcome in order to unlock the full potential of the company's assets.

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VALUATION SUMMARY

DCF model

2008 IFRS financials – basis for valuation. INTER RAO completed restructuring only in summer 2008 during the breakup of RAO UES. The company recently released its 2008 IFRS financials, which, for the first time, consolidated all the subsidiaries in the latest structure. We base our forecasts on these financials.

Breakdown into geographical business segments. We use the same geographic principle of business segment breakdown as is used by INTER RAO itself. Our model has six segments: Finland, Russia, Georgia, Armenia, Moldova and Unallocated (includes the company's other assets in Kazakhstan, Ukraine, Turkey, Netherlands, Cyprus and Belgium). Each segment has a mixture of four asset types: electricity generation, distribution, trading and retail sales.

Acquisition of OGK-1 and TGK-11. We assume that INTER RAO will complete the acquisition of OGK-1 and TGK-11 at the end of 2010. We implement a pro-forma consolidation of our models for OGK-1, TGK-11 and INTER RAO's existing assets. Our estimate of INTER RAO's year-end 2010 balance sheets includes the assets and liabilities of both OGK-1 and TGK-11, while the P&L statements of both gencos are consolidated under INTER RAO's financials for FY11, taking into account that these two generators operated as standalone companies in 2010.

Main DCF assumptions. We model the company's cash flows until 2020 and use the euro as the base currency, i.e. the same as the company uses in its IFRS statements due to the multinational nature of its business. For terminal growth we use a conservative zero real growth rate and a nominal growth rate of 2%. To calculate WACC we use a cost of equity equal to 15.2% based on a 6% risk-free rate, 7.7% equity risk premium and Beta of 1.2. Our cost of debt is 14% based on the company's current loan average interest rate and a recent bank loan. Our final WACC for INTER RAO equals 14.0%.

DCF-derived fair value of €0.14. We derive a fair value of \$2.6bn for INTER RAO based on our free cash flows and terminal growth forecasts. To calculate net debt we use our year-end 2009 net debt and minority interest forecasts, which prompts us to project a \$2.7bn fair market cap estimate for the company. Finally, our 12-month target market cap is \$3.1bn and the fair value is €0.14/common share.

INTER RAO DCF valuation model, \$m

	2009E	2010E	2011E	2012E	2013E	2014E	2015E	2016E	2017E	2018E	2019E	2020E
Revenues	2,266	2,303	4,980	5,819	6,815	7,981	8,976	9,895	10,376	10,950	11,600	12,431
EBIT	153	153	455	512	873	1,095	1,289	1,392	1,479	1,557	1,640	1,772
Fully taxed EBIT	133	124	398	479	783	958	1,106	1,185	1,255	1,315	1,381	1,486
D&A	119	146	308	386	428	435	447	459	473	487	501	514
Unleveraged cash flow	252	270	705	865	1,211	1,394	1,553	1,644	1,728	1,802	1,882	2,000
Capital expenditures	(588)	(1,623)	(1,496)	(1,022)	(541)	(614)	(629)	(668)	(682)	(696)	(709)	(723)
Incremental working capital	(6)	(40)	(334)	(99)	(126)	(149)	(95)	(79)	24	13	1	(31)
Free cash flow	(343)	(1,393)	(1,125)	(255)	544	631	828	897	1,069	1,119	1,174	1,246
PV of FCF	(343)	(1,221)	(865)	(172)	322	327	377	358	374	343	316	294
WACC	14.0%											
Present value of free cash flows	110											
Terminal value	10,361											
Present value of terminal value	2,445											
Enterprise Value	2,555											
Net debt, end-2009E	(151)											
Minority interest, end-2009E	32											
FAIR EQUITY VALUE	2,673											
12-month target market cap	3,081											
Number of shares, m	2,274,114											
12-month fair value, ¢	0.140											
Long-term inflation rate	2.0%											
Real growth rate in perpetuity	0.0%											

Source: OTKRITIE estimates

WACC calculation for INTER RAO

Risk-free rate	6.0%
Russian Equity Risk Premium	7.7%
Beta	1.20
Cost of equity	15.2%
LT cost of debt	14.0%
Tax rate	20.0%
After-tax cost of debt	11.2%
E/EV	70.0%
D/EV	30.0%

Source: OTKRITIE estimates

Sensitivity analysis, INTER RAO target price, ¢

		FUTURE ELECTRICITY EXPORT PRICE VS. OUR ESTIMATES				
		-10%	-5%	0%	5%	10%
LT CAPEX SPENDING VS. OUR ESTIMATES	-6%	0.141	0.145	0.150	0.157	0.166
	-3%	0.134	0.138	0.143	0.150	0.158
	0%	0.126	0.130	0.140	0.142	0.151
	3%	0.119	0.123	0.128	0.135	0.143
	6%	0.111	0.115	0.120	0.127	0.136

Source: OTKRITIE estimates

Multiples approach

Sum-of-the-parts (SOTP) valuation. We complement our DCF-based valuation with a sum-of-the-parts approach in order to offset the risks inherent in our cash-flow estimates. We value each type of INTER RAO's businesses separately, using the multiples approach. Then we derive the company's cumulative valuation using the sum-of-the-parts method. In order to value individual business segments we do not use financial multiples. The reason for this is, firstly, due to the risks inherent in our own forecasts; and secondly, due to a non-comparable regulatory environment in the geographical regions where INTER RAO operates, which skews their financial performance.

EV/installed capacity multiple for generation assets. INTER RAO operates 8,248 MW of generation capacity in Russia and a number of CIS countries. The company's Russian assets feature superior fuel efficiency compared to the Russian average, while assets in Armenia, Georgia and Moldova continue to operate under regulated tariffs. That said, we use a \$161/kW current Russian average EV/installed capacity multiple of traded generation companies and apply a 20% premium to value INTER RAO's Russian generation assets, and a 15% discount to value its foreign generation business. These metrics yield a fair EV of \$368m.

EV/distribution multiple for distribution assets. INTER RAO operates Telasi distribution grids in Georgia and Armenia's national grid operator Electric Networks of Armenia. Both countries use regulated tariffs: Georgian distribution grids operate under the cost-plus tariff principle, while Armenian grids have already switched to RAB. We choose Russian traded distribution companies as our comparative framework, since Russian distributors are in the process of switching over to RAB and are currently in a transition period. As a result, we obtain a current average EV/distribution multiple of \$20/MWh, and a 15% discount is used to arrive at the final multiple of \$17/MWh and an \$81m fair valuation for INTER RAO's distribution business.

Market valuation for retail sales assets. INTER RAO operates two Russian ESCs, in the Oryol and Omsk regions. Both companies operate with very low margins and do not have any substantial impact on INTER RAO's overall business activity, as a result of which we assign these companies a fair EV of zero.

Financial multiples for electricity trading business. We value INTER RAO's trading business by comparing the company to prominent vertically integrated Utility companies operating in Emerging Markets, given that all of them derive a sizeable portion of their revenues and EBITDA from electricity trading. We then use our forecast of INTER RAO's 2010E EBITDA and an average EM 2010 EV/EBITDA multiple of 8.9x (after applying a 20% discount) to arrive at a fair EV of INTER RAO's trading business equal to \$2.3bn.

€0.18 fair value based on SOTP valuation. We found the final fair EV for INTER RAO based on sum-of-the-parts valuation to be \$3.4bn. This results in a \$4bn 12-month target market cap and a fair value of €0.18/share.

INTER RAO sum-of-the-parts valuation

RUSSIAN EXISTING GENERATION BUSINESS	FAIR EV, \$m	INSTALLED CAPACITY (2009), MW	OWNERSHIP %
Severo-Zapadnaya CHPP	174	900	100%
Kaliningradskaya CHPP-2	87	450	100%
Sochinskaya TPP	23	118	100%
Ivanovskie CCP	63	325	100%
Ivanovskiy Stand	21	110	100%
Average EV/IC multiple for Russian generators, \$/kW	161		
Premium due to high quality of INTER RAO's assets	20%		
Fair EV/IC multiple, \$/kW	193		
Fair EV of Russian existing generation business, \$m	368		
FOREIGN GENERATION BUSINESS	FAIR EV, \$m	INSTALLED CAPACITY (2009), MW	OWNERSHIP %
Mktvari TPP	82	600	100%
Khrami 1 and 2 HPP	0	220	management
Armenian NPP	0	815	management
Sevano-Hrazdan Hydro cascade	69	560	90%
Moldavskaya TPP	345	2,520	100%
Ekibastuzskaya GRES-2	68	1,000	50%
Sangutdinskaya HPP	61	670	67%
Average EV/IC multiple for Russian generators, \$/kW	161		
Discount due to regulatory risks	(15%)		
Fair EV/IC multiple, \$/kW	137		
Fair EV of foreign generation business, \$m	626		
FOREIGN DISTRIBUTION BUSINESS	FAIR EV, \$m	ELECTRICITY OUTPUT (2009), GWh	OWNERSHIP %
Telasi	24	1,837	75%
Electric Networks of Armenia	57	4,876	67%
Average EV/output multiple for Russian distributors, \$/MWh	20		
Discount due to regulatory risks	(15%)		
Fair EV/output multiple, \$/MWh	17		
Fair EV of foreign distribution business, \$m	81		
ELECTRICITY TRADING BUSINESS	FAIR EV, \$m	TRADING EBITDA, (2010E), \$m	OWNERSHIP %
INTER RAO electricity trading business	2,375	266	100%
Average '10 EV/EBITDA for EM peers	11.2		
Discount to EM peers due to regulatory risks	(20%)		
Fair '10 EV/EBITDA multiple	8.9		
Fair EV of electricity trading business, \$m	2,375		
INTER RAO TOTAL			
Fair Enterprise Value, \$m (*,**)	3,449		
Net debt (end-2009E), \$m	(151)		
Minority interest, end-2009E, \$m	32		
Fair equity value, \$m	3,568		
Cost of equity, %	15.2%		
12-month target market cap	4,111		
Number of Shares, m	2,274,114		
12-month target price, ¢	0.180		

* Assuming zero fair EV of Russian retail business

** Only the assets currently owned are included

Source: OTKRITIE estimates

Final target valuation

Combination of DCF and multiples approaches. We use a combination of DCF and SOTP approaches to minimize the risks in both of our valuation methods. We derive our final 12-month target price for INTER RAO by blending 50% of the DCF-based target price of ¢0.14 and 50% of the SOTP-based target price of ¢0.18. Consequently, our final target price for INTER RAO is ¢0.16/share, which implies 77% upside to the current market price and supports our BUY rating on the stock.

Comparative valuation

INTER RAO vs. international vertically integrated utilities												
COMPANY	COUNTRY	MCAP \$ MN	EV \$ MN	P/E			EV/EBITDA			EV/SALES		
				2009E	2010E	2011E	2009E	2010E	2011E	2009E	2010E	2011E
INTER RAO	RUSSIA	2,105	1,955	28.9	21.6	10.6	7.2	6.7	2.6	0.86	0.88	0.41
EMERGING MARKETS												
KEPCO	Korea	18,929	35,006	112.1	15.1	11.8	12.9	7.7	7.8	1.5	1.2	1.11
Enersis S.A.	Chile	11,739	24,414	13.0	13.4	13.1	5.9	5.9	5.5	2.71	2.20	2.19
CLP Holdings Limited	Hong Kong	16,144	22,306	16.3	14.7	14.2	12.0	11.4	11.0	3.26	3.20	3.20
Empresa nacional	Chile	12,529	18,582	17.0	15.8	13.3	8.8	9.0	9.2	5.61	4.56	4.22
Tenaga Nasional	Malaysia	10,229	15,245	16.6	12.8	12.5	7.1	6.7	6.4	2.11	1.78	1.71
Power Grid Corp. of India ltd.	India	9,668	15,120	n/a	22.9	20.3	n/a	12.4	10.7	13.36	10.19	8.85
Companhia de Transmissao de Energia Eletrica Paulista	Brazil	13,365	13,776	28.0	27.5	25.9	17.9	16.7	15.6	20.01	13.81	12.87
CPFL Energia S.A.	Brazil	8,531	12,134	11.8	10.4	8.6	7.6	6.8	6.1	2.97	1.99	1.83
Tractebel	Brazil	7,716	9,149	12.9	11.5	9.7	7.9	6.9	6.1	6.30	4.15	3.97
PTC India	India	426	210	19.6	23.9	18.4	17.6	28.3	16.5	n/a	0.16	0.12
EM AVERAGE				27.5	16.8	14.8	10.9	11.2	9.5	6.43	4.32	4.01
DEVELOPED MARKETS												
EDF Trading	France	102,125	130,570	17.7	15.3	13.7	5.2	4.7	4.5	1.62	1.26	1.19
Enel S.p.A.	Italy	42,996	82,856	6.8	7.1	7.0	3.7	3.5	3.4	1.11	0.88	0.87
Iberdola	Spain	46,569	66,264	11.7	11.2	10.4	6.4	6.0	5.6	2.28	1.66	1.56
E.On Energie	Germany	118,646	152,334	16.0	14.8	14.8	7.7	7.2	7.3	1.47	1.16	1.20
Endesa	Spain	35,331	50,970	9.1	11.3	11.0	5.0	5.1	4.9	1.92	1.65	1.59
RWE Supply&Trading	Germany	51,030	54,997	10.1	9.2	9.1	4.2	3.7	3.6	0.93	0.69	0.67
AES Corp.	US	9,133	27,866	12.7	11.3	9.6	8.2	7.7	7.5	1.84	2.02	1.91
Energias de Portugal	Portugal	16,557	27,314	12.3	12.3	11.7	5.8	5.4	5.0	1.75	1.36	1.29
Scottish& Southern Energy	UK	16,756	19,955	11.5	10.6	10.0	7.8	6.8	6.3	0.83	0.64	0.63
Fortum	Finland	22,154	31,512	11.5	13.1	12.4	9.0	9.6	9.1	4.32	3.94	3.70
DM AVERAGE				12.0	11.6	11.0	6.3	6.0	5.7	1.81	1.53	1.46

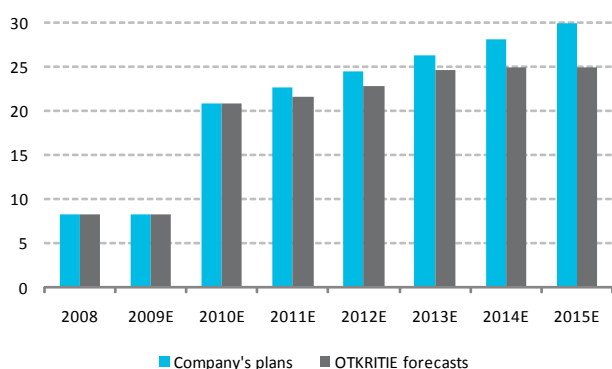
Source: Bloomberg, Company data, OTKRITIE estimates

INVESTMENT CASE

Aggressive growth profile

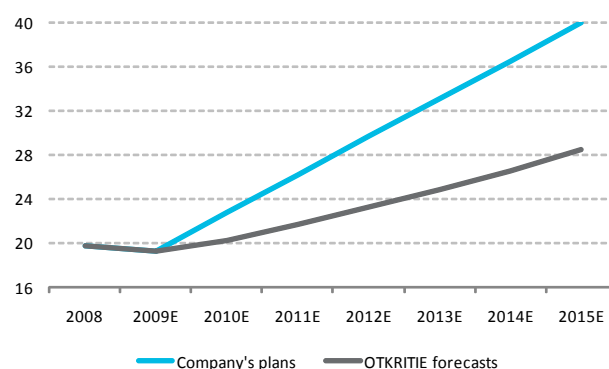
Plans for significant extension of its asset base. According to INTER RAO's strategy, which was announced in May 2008, the company intends to ramp up the total installed capacity of the generation assets under its control from the current 8.2GW to 30GW by 2015. During the same period of time, management also aims to boost the fair value of the company to \$14bn. Growth will be driven by acquisitions as well as by investments in extending the current capacity. We subscribe to a more conservative estimate of the company's installed capacity extension plans: 25GW by 2015. Additionally, the company plans to increase its electricity export volumes from the 20 TWh in 2008 to 40 TWh by 2015. Again, we are more conservative in our forecasts, expecting INTER RAO's electricity export to reach 28.5 TWh by 2015 and increase to 39.9 TWh by 2020.

INTER RAO's total installed capacity evolution, GW



Source: INTER RAO, OTKRITIE estimates

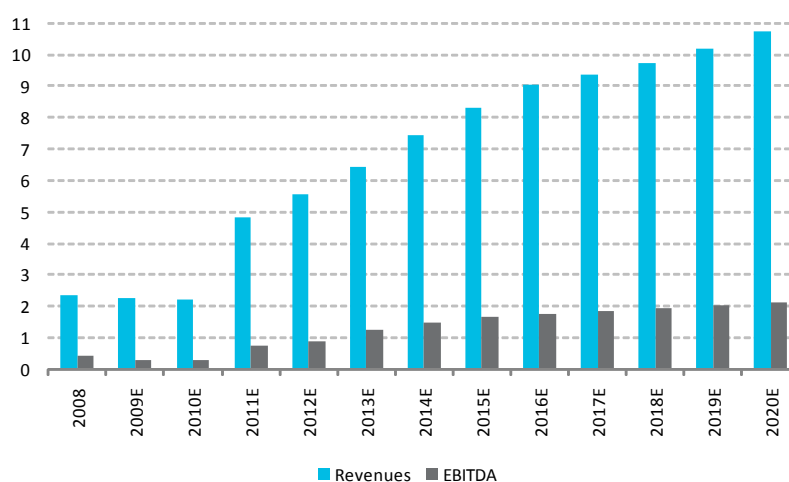
INTER RAO's total electricity exports outside Russia, TWh



Source: INTER RAO, OTKRITIE estimates

High growth profile vis-à-vis peers. We forecast INTER RAO's Revenues to increase from \$2.4bn in 2008 to \$9.1bn in 2015 (21% CAGR) and EBITDA from \$0.4bn to \$1.9bn (24% CAGR). This significantly exceeds our estimates of an 8% Revenues CAGR and 16% EBITDA CAGR during the same period for an average Russian generation company.

INTER RAO Revenues and EBITDA growth projections, \$bn



Source: OTKRITIE estimates

Growth both through acquisitions and internally. INTER RAO's investment program calls for the construction of 1,380MW of new capacity by 2013 at its currently owned Kaliningradskaya CHPP-2, Ivanovskie CCP, Sochinskaya CHPP and Ekibastuzskaya GRES-2. The total capex for these investment projects is estimated at \$1.1bn. Also, at the end of 2010 the company will consolidate 100% stakes in a 10GW OGK-1 and a 2.1GW TGK-11. Thus, we estimate that the company will spend a total of \$2.6bn on these acquisitions.

Myriad of potential growth areas in the offing. INTER RAO's management made several presentations which mapped out a number of different growth areas which lie ahead for the company. Such potential projects include: participation in privatization of distribution grid assets in Turkey, construction of generation assets in Georgia, Mongolia, Kyrgyzstan, Tajikistan, Laos, Jordan and Cuba, exports of electricity from Moldavskaya TPP to the European power grid, construction of electricity grid connections to South Korea and China. In addition, INTER RAO recently announced the possibility of another new project: the construction of a 600-1,000MW electricity transmission line from the Kaliningrad region to Germany along the route of the proposed Nord Stream gas pipeline, to export electricity from 2.4GW Baltiyskaya NPP (currently under construction, with the first unit slated for commissioning in 2016).

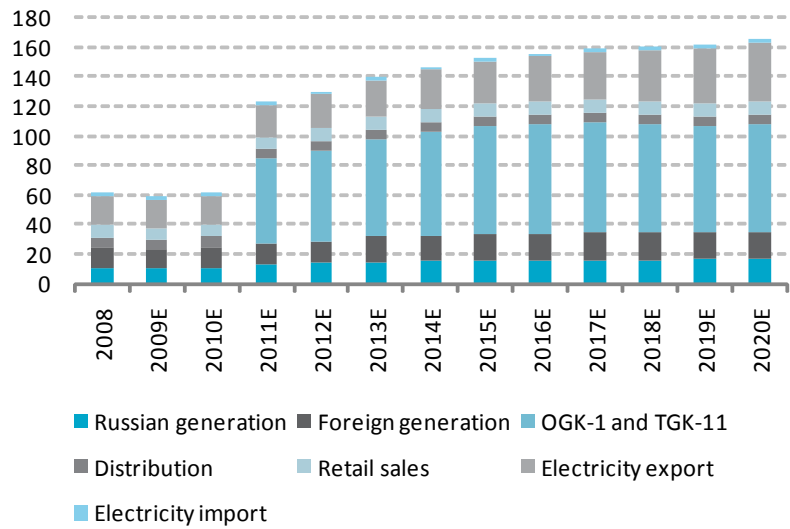
Asset swaps on the agenda. INTER RAO is an international company with primary interests in developing business outside of Russia. For this reason, the company plans to invest partially in "target" markets (Latin America, Europe and Asia) while considering swapping Russian-based generating assets for foreign generating assets. The discrepancy between the current multiples (EV/IC) of Russian and foreign companies is too great to contemplate such a swap now, although the management of INTER RAO is fully committed to the value accretion of Russian-based generating assets in order to make such swaps plausible.

Diversification

Business-type diversification unparalleled in the sector. INTER RAO is the most diversified company in the Russian Utilities sector in terms of business types, making it unique. The core activity of INTER RAO until 2009 lay in the electricity trading business. Export/import operations (90% of Russia's total) and cross-border power deliveries still account for the bulk of business activity, yet the company has been gradually raising its focus on generation both in Russia and abroad. In 2007, trading accounted for 57% of the company's revenue mix, while 18% fell to generation in Russia and 7% to generation abroad. Apart from that, INTER RAO engages in international distribution business, electricity retail sales as well as in investments and asset management.

Geographically spread out between Russia and the CIS, and beyond. At the moment, INTER RAO does business or intends to start doing it in the near future, in the following countries: Russia, Armenia, Georgia, Turkey, Syria, Jordan, Romania, Moldavia, Kazakhstan, Tajikistan, Kyrgyzstan, Mongolia, South Korea, China and Cuba. Further down the road, apart from these countries, the company sees opportunities in Latin America and South-East Asia. Such geographical diversification is unparalleled in the Russian utility sector, and we believe that INTER RAO will be able to tap into this as a powerful currency hedging mechanism, moving forward.

INTER RAO electricity output by business types, TWh



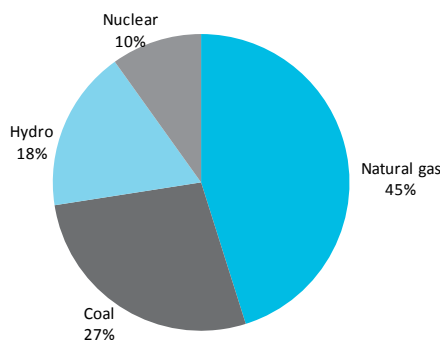
Source: OTKRITIE estimates

Crafting expertise. INTER RAO has already evolved into a diversified company with trading, generation and distribution businesses. Further diversification into energy efficiency and energy savings projects in Russia and abroad will help sharpen the company’s position as a cutting-edge global player.

Lucrative assets

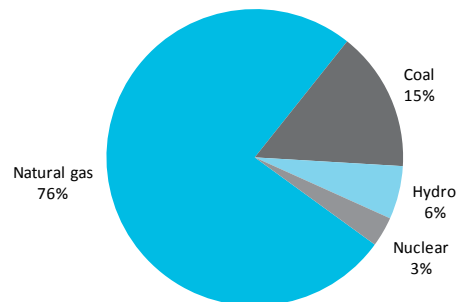
Most efficient generation assets in Russia. During the breakup of RAO UES INTER RAO received the newest and the most efficient gas-fired generation plants in Russia, which did not go to any OGK or TGK. The average heat rate of INTER RAO’s Russian generation plants is 260-270 goe/kWh, while the nationwide industry average is 300-350 goe/kWh. In our DCF model, we assume that these plants will be assigned a 5-7 ppt. premium to the average operating margin of other Russian gencos operating in the European region. Furthermore, we believe that the acquisition of OGK-1 is also beneficial for INTER RAO’s efficient asset mix, as OGK-1 owns superior generation plants with above-average capacity utilization rates.

INTER RAO installed capacity breakdown, 2008



Source: INTER RAO

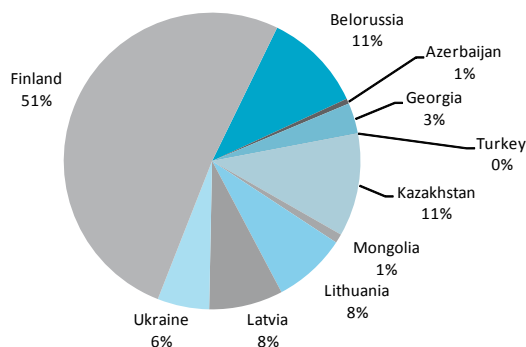
INTER RAO installed capacity breakdown, 2015E



Source: INTER RAO

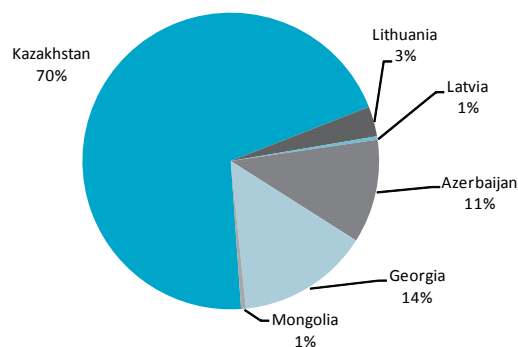
High-margin electricity trading business. INTER RAO's electricity export business operates at a 20% EBITDA margin, which is significantly higher than the company's overall 12% EBITDA margin in 2008. INTER RAO controls 90% of Russia's electricity exports, and offers a unique opportunity to invest in this business. Although it is likely that with the ongoing liberalization of the Russian electricity market the spread between domestic electricity price and the export price will decrease, we believe that INTER RAO will still be able to leverage its monopolistic position, bargaining power and extensive management experience in this area.

INTER RAO exported 19.8 TWh of electricity in 2008



Source: INTER RAO

INTER RAO imported 3 TWh of electricity in 2008



Source: INTER RAO

State support

Powerful Board of Directors. Having Deputy Prime Minister Igor Sechin as the Chairman of the Board of Directors, with the Minister of Energy Sergey Shmatko and the CEO of the government-owned nuclear generation monopoly Sergey Kirienko on the board, offers the company unrivaled state support, lobbying capabilities and financial leverage. Politically speaking, in our view INTER RAO has the strongest BoD in the entire sector.

Financial backing. It is already abundantly clear that INTER RAO enjoys additional financial support from the state, both on the debt and on equity levels. INTER RAO has already approved an additional share issue in favor of the state, which will be bought by Vnesheconombank, State Property Management Agency (Rosimuschestvo) and Rosatom. The proceeds will go towards financing the company's own investment program, and also to finance OGK-1's investment project at Urengoykaya TPP. Additionally, Vnesheconombank intends to float a long-term RUB8bn loan to help drive this project forward. We believe that INTER RAO will continue to enjoy a certain degree of financial backing from the state in the future.

Political leverage to pursue foreign projects. INTER RAO benefits from political support regarding the majority of its foreign projects, both existing and prospective assets. For example, INTER RAO has signed a memorandum of cooperation with Italian Utility major Enel, and the final document was signed in the presence of the Russian President Dmitry Medvedev and the Italian Prime Minister Silvio Berlusconi.

No longer a 'dark horse'

Short trading history and weak corporate governance record. The shares of INTER RAO have been discounted by investors since the beginning of the company's trading activity in the summer of 2009 due to the company's low transparency and unavailability of information about its business operations. INTER RAO's stock showed 94% drop from its high in August 2008 to its low in November 2008 and the stock only recovered to its starting price in May 2009.

Strategy of introducing best corporate governance practices. INTER RAO is working hard on improving its image as a global company committed to increasing profitability, entering new markets and expanding its exposure to various areas of professional activities. From the corporate governance standpoint, INTER RAO's numerous committees formed under its Board of Directors remains committed to consolidated IFRS reporting standards, aims to centralize management functions and launch a stock options program for its top management (2% of share capital).

Investor sentiment on the mend. We are witnessing a change in perception about INTER RAO's shares among investors, and think that management's work to improve corporate governance is finally paying off. As two important cases in point, we would like to mention INTER RAO's announcement about the launch of a new fund which invests in the Utilities sector together with a Kuwaiti company, formed in June 2009, and the publication of the company's 2008 IFRS results on July 20, 2009. The announcement concerning the launch of this fund triggered more than a 50% gain in INTER RAO's share price during a week, and the release of IFRS financial results caused the company's shares to spike 20% in a single day. Moving forward, we expect the disclosure of information and management's announcements to have a more pronounced effect on INTER RAO, which will be beneficial for its share price.

RISKS

Government leaning. INTER RAO combines the company's interests with the government's policy on foreign expansion in the utilities sector. Therefore, minority interests are not necessarily management's primary concern, although shareholders can still benefit from the company's rising profits derived from expanding the asset portfolio. We believe that some of the potential M&A projects may have political, rather than business, motivation and as a result have a low or negative NPV.

Volatility of trading business. Despite the potential benefits of the electricity business, the company's business is volatile by nature. INTER RAO always has to address the issue of electricity price discrepancies on the markets of different countries. Moreover, the ongoing liberalization of the Russian wholesale electricity market and growing average electricity prices put further pressure on INTER RAO's trading margins.

Slow economic recovery of the countries where INTER RAO operates. INTER RAO operates mainly in Russia and the CIS countries which have been hit among the hardest by the World economic crisis. As a result, these nations experienced some of the steepest GDP decreases and are facing the prospects of a slow recovery.

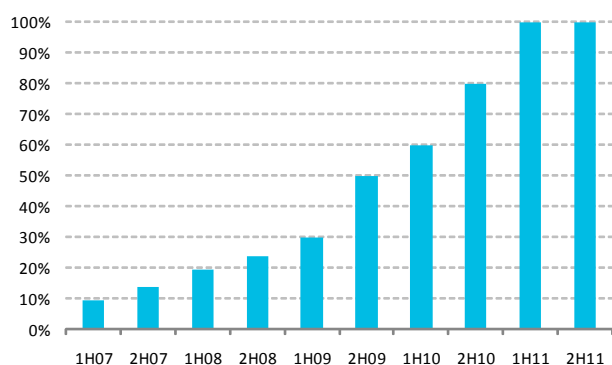
Infrastructure issues. Technical problems such as linking Moldavskaya TPP to European grids limit growth plans and have to be overcome in order to unlock the full potential of the company's assets.

FUNDAMENTAL ANALYSIS

Russian generation assets

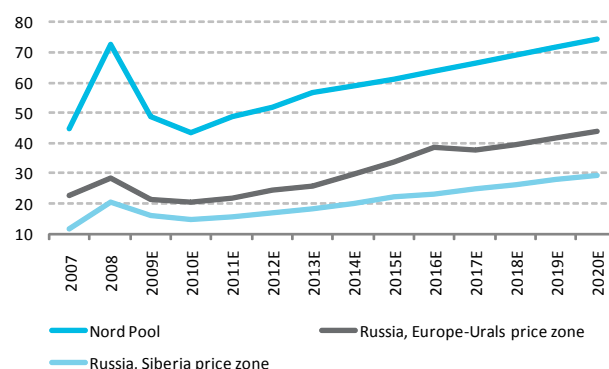
Domestic electricity market is driven by reform. The Russian Utilities sector is currently undergoing major reform. The wholesale liberalized market was launched in 2006 and since then the share of electricity sold on the market has been growing on a semi-annual basis. Currently, 50% of electricity in Russia is sold on the free market, while the rest remains regulated by the government and the average tariffs are notably lower than the spot price. We assume that in the future the fundamental driver for the Russian wholesale electricity prices will be the prices for generators' fuel – natural gas and coal. For 2015 we forecast the spot electricity price on par with the Europe-Urals price zone of the market of \$34/MWh, which is 58% higher than the 2009E average, but still implies a 45% discount to the spot price at the Nord Pool electricity exchange, which services Scandinavian countries (\$61/MWh, based on futures contracts). The discount to European prices will remain, first and foremost, due to lower domestic fuel prices in Russia, and second, due to the fact that Russian generators derive a large part of their revenues through so-called capacity payments, which are already included in the electricity prices for European markets.

Russian wholesale electricity market liberalization schedule



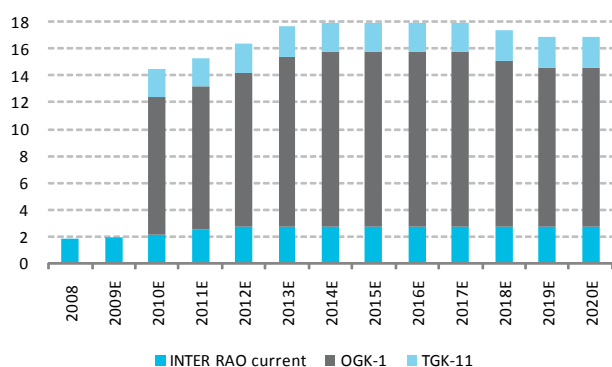
Source: Energy Ministry

Spot electricity wholesale prices dynamics (average p.a.), \$/MWh

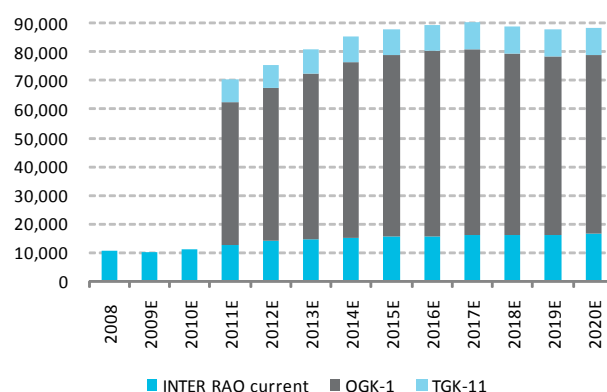


Source: Bloomberg, OTKRITIE estimates

INTER RAO'S installed generation capacity in Russia to surge from 2GW to 18GW. INTER RAO will be able to tap the growing Russian electricity market through the 1.9GW of generation assets it already owns and through another 12.4GW of installed capacity it will acquire at the end of 2010. Together with an ambitious investment program, this will allow INTER RAO to increase the installed capacity of its Russian generation assets to 18GW by 2014. Respectively, the company's total electricity output in Russia will skyrocket from the current 10 TWh to 80 TWh by as early as 2013.

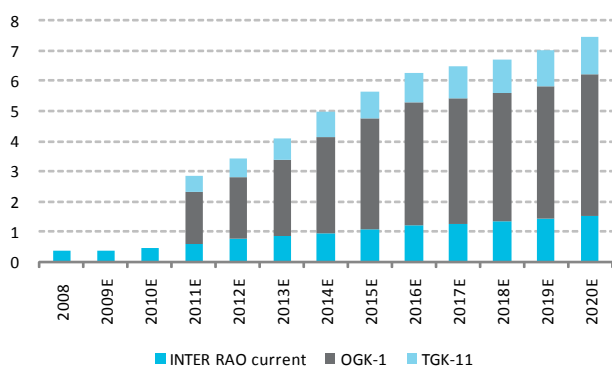
INTER RAO Russian generation assets Installed capacity breakdown, GW


Source: OTKRITIE estimates

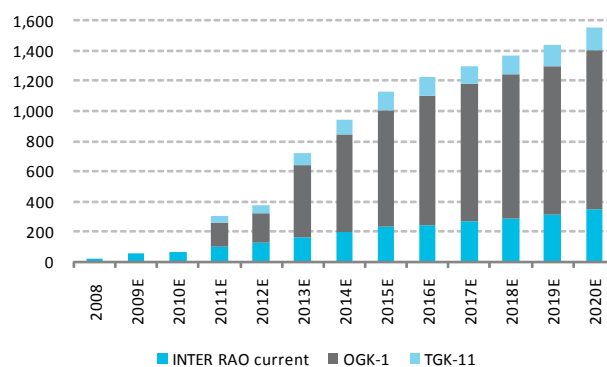
INTER RAO Russian generation assets electricity output breakdown, GWh


Source: OTKRITIE estimates

Acquisition of OGK-1 and TGK-11 will drive financials. The acquisition of OGK-1 and TGK-11 will allow INTER RAO to boost the revenues and operating income of its Russian generation business. Revenues will show a staggering 2009-2015 CAGR of 57%, while EBIT will have a CAGR of 64% during the same period. INTER RAO's currently owned Severo-Zapadnaya CHPP, Kaliningradskaya CHPP-2 and Sochinskaya TPP have an average capacity utilization rate of above 70%, which is the upper range compared to Russian peers. OGK-1 also has an above-average utilization rate of 59%.

INTER RAO Russian generation assets Revenues breakdown, \$bn


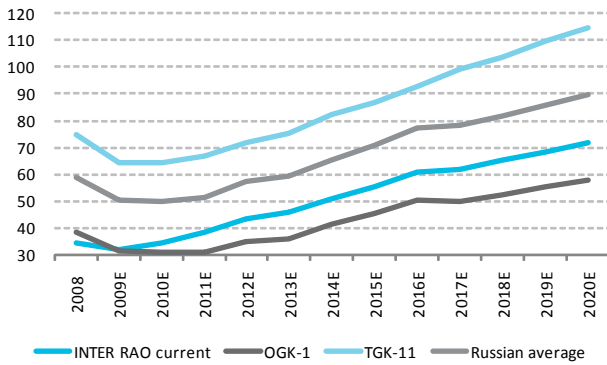
Source: OTKRITIE estimates

INTER RAO Russian generation assets operating income breakdown, \$m


Source: OTKRITIE estimates

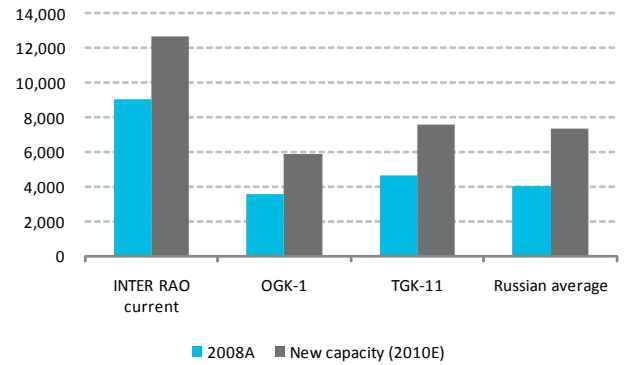
Lower costs and higher tariffs vs. Russian peers. INTER RAO currently operates one of the most efficient generation plants in Russia in terms of fuel consumption. The same can be said about OGK-1's generation plants. This allows INTER RAO's Russian generation assets to have much lower operating costs per MWh of electricity output than the industry average. In 2009 we forecast opex to be slightly higher than \$31.5/MWh on average for OGK-1 and the company's existing Russian assets. This implies a huge discount to the average \$50/MWh unit cost for all remaining Russian generators with a high share of natural gas in their fuel mix. We believe that INTER RAO will make use of its low-cost advantage in the future. Moreover, INTER RAO enjoys higher capacity tariffs for most of its Russian generation assets vs. the Russian peer average (see figure below).

Average operating costs/electricity output of INTER RAO's generation assets vs. the Russian peers average, \$/MWh



Source: OTKRITIE estimates

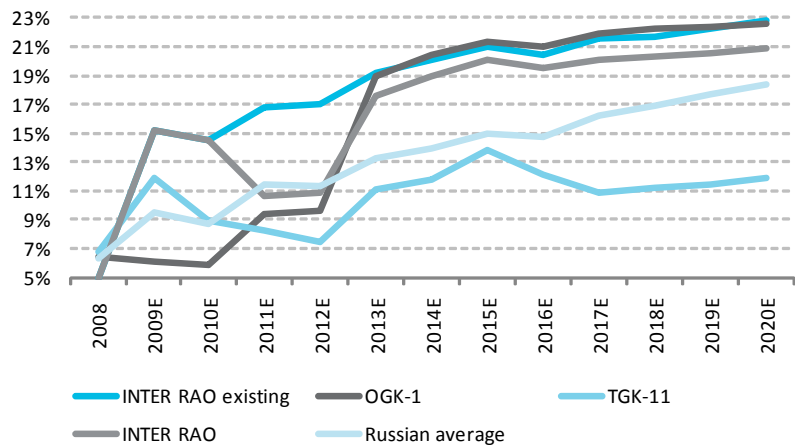
INTER RAO capacity tariffs for Russian generation assets, \$/MW/month



Source: Federal Tariff Service, INTER RAO, OTKRITIE estimates

Superior profitability in Russia. Low costs and higher capacity tariffs allow INTER RAO to reap the advantage of superior profitability of its Russian generation business. According to our estimates, OGK-1's and TGK-11's operating margins are lower than those of INTER RAO's currently owned assets (8% vs. 15%, respectively). However, by 2012 the liberalization of the Russian electricity market will allow OGK-1 to utilize its high-efficiency advantage and raise its operating margin to the level of INTER RAO's existing capacities. We forecast the operating margin of INTER RAO's Russian generation business to increase from 5% in 2008 to almost 18% in 2013.

INTER RAO Russian generation operating margin comparison with Russian peers, %

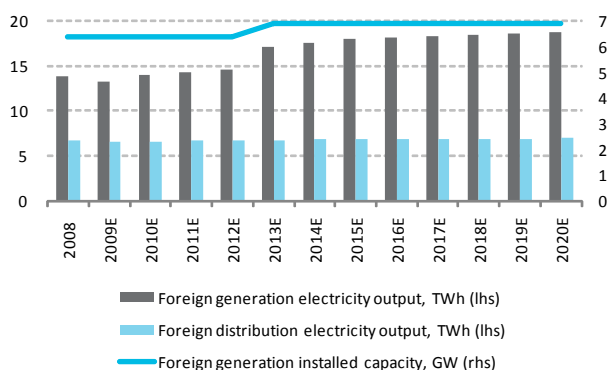


Source: OTKRITIE estimates

Foreign generation and distribution assets

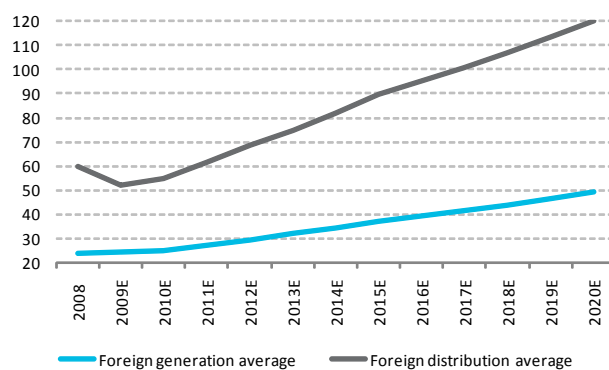
Steadily growing business. INTER RAO operates (or will soon commence operating) 6.4 GW of generation capacity in Georgia, Armenia, Moldova, Kazakhstan and Tajikistan, and also controls distribution grid assets in Armenia and Georgia with a total annual electricity output of 6.7TWh. We expect both of these businesses to experience steady growth in the future: electricity generation will increase from the current 13.3TWh to 18 TWh in 2015, while distribution will grow to reach 6.9TWh during the same period. We expect a steady inflationary-driven growth of the average realized electricity price for both the generation and distribution segments, as the economy of these countries start to recover, in our view. Distribution tariffs will experience faster growth due to favorable regulation.

INTER RAO foreign generation and distribution assets operating indicators



Source: INTER RAO, OTKRITIE estimates

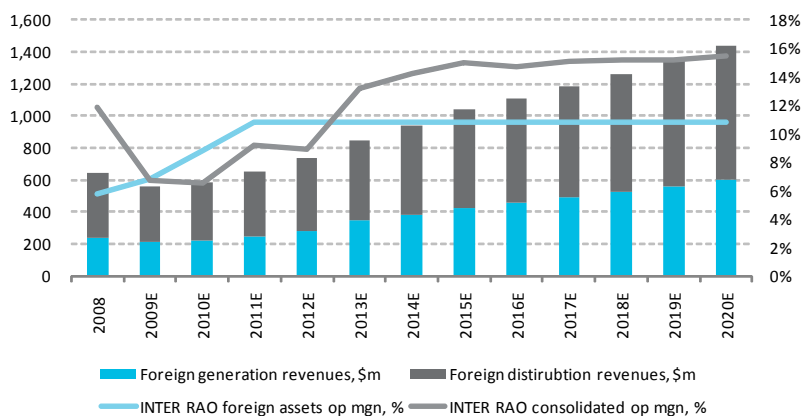
Average realized electricity price of INTER RAO's foreign subsidiaries, \$/MWh



Source: OTKRITIE estimates

Profitability to increase in the next two years. We derive our estimates of INTER RAO's foreign generation and distribution assets' financials based on prices and volume projections. After a 13% drop in 2009 due to the economic downturn and EUR appreciation, the total Revenues of foreign assets will start to climb and will have increased 68% by 2014. The largest effect on the operating income will come from Moldavskaya TPP, which finished 2008 with a loss, but currently is improving its performance and should reach a 12% operating margin in 2011. All together, INTER RAO's foreign assets segment will increase operating margin from 7% in 2009E to 11% in 2014, which would be lower than the company's overall margin of almost 14%.

INTER RAO foreign generation and distribution financial forecasts



Source: INTER RAO, OTKRITIE estimates

Electricity import/export operations

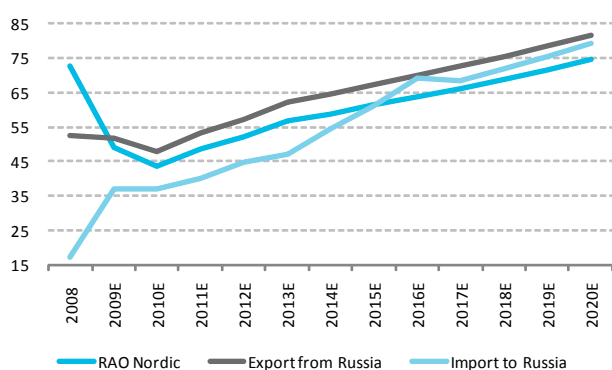
Unique opportunity to play price discrepancies across different markets. INTER RAO offers a unique opportunity to invest in electricity trading business, which represents a significant part of the company's revenues and EBITDA. The company buys electricity in Russia and sells it in Eastern European and CIS countries, namely Finland, Kazakhstan, Belorussia, Lithuania, and Latvia. At the same time, INTER RAO also engages in the electricity import business, purchasing electricity in Kazakhstan, Georgia, Azerbaijan and Lithuania and selling it on the wholesale electricity market in Russia. Below are our projections of INTER RAO's trading realized electricity prices on the Finnish Nord Pool market (which operates through INTER RAO's subsidiary RAO Nordic), and Russian import/export prices. Russian domestic electricity prices are driven mainly by liberalization of the domestic electricity wholesale market, while for outside Russia we assume a trend similar to Nord Pool futures contracts. We use the company's own indication of its average import and export prices in 2008 and 2009.

Russian exports poised for growth. Currently INTER RAO exports 19.8 TWh of electricity from Russia with more than half, or 10.1 TWh, going to Finland (and Nord Pool exchange through RAO Nordic) and the rest split among other countries. The Finnish border currently has a 1,460MW capacity of the cross-border electricity transmission line, and the remaining directions have a cumulative transmission capacity of about 2.5 GW. We believe that in the future the main source of electricity trading business growth for INTER RAO will be its non-Finland export directions. According to information circulated by the press, INTER RAO is currently considering the following projects aimed at increasing export volumes:

- Connection of its 2.5 GW Moldavskaya TPP to the European power system, making it possible to boost the plant's capacity utilization from the current 11% to 40% in 2011.
- Construction of a 600-1,000MW electricity transmission line from the Kaliningrad region to Germany along the route of the proposed Nord Stream gas pipeline, to export electricity from 2.4GW Baltiyskaya NPP (under construction, first unit to be commissioned in 2016).
- Signing long-term agreements with Latvenergo operating in Latvia (through INTER RAO's subsidiary ERC) to guarantee direct electricity supplies with up to 800MW of transmission capacity.

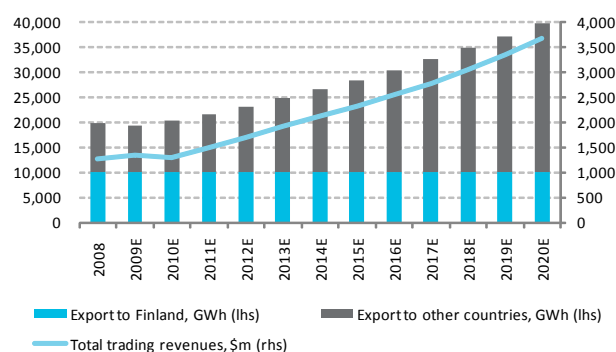
We are more conservative regarding the electricity export volumes forecasts than the company: INTER RAO expects to reach a total of 40 TWh of exports by as early as 2015, while we expect exports to amount to 30 TWh in 2015 and reach the level of 40 TWh by 2020. We assume a constant volume of electricity import to Russia, as it is a less profitable business, in our view.

INTER RAO trading business: average realized electricity price, \$/MWh



Source: Bloomberg, INTER RAO, OTKRITIE forecasts

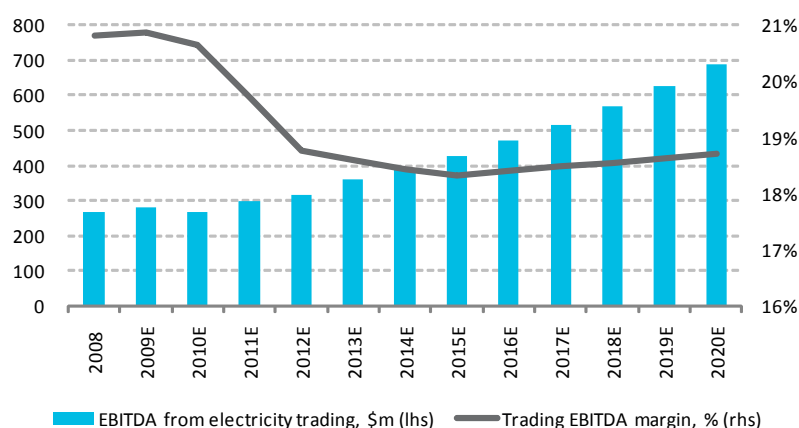
INTER RAO electricity trading business: volumes and revenues



Source: INTER RAO, OTKRITIE estimates

Conservative profitability projections. Our projections of the profitability of INTER RAO's electricity trading business are underpinned by historical data and the assumption that its EBITDA margin will deteriorate by a total of 3 ppt. in the next five years from 21% in 2008 to 18% in 2014. The main reason for a decline in trading EBITDA margin is the decreasing discount of the Russian wholesale electricity price vs. the European level. According to our forecasts, INTER RAO's EBITDA from trading operations will more than double during the 2009-2018 period and will amount to \$567m in 2018.

INTER RAO trading business profitability projections

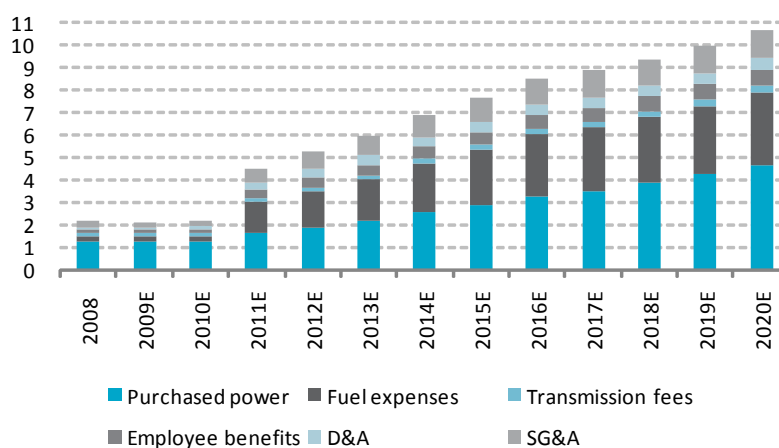


Source: INTER RAO, OTKRITIE estimates

Costs analysis

Purchased power and fuel are the largest expense. In 2008 INTER RAO's consolidated operating costs amounted to \$2.1 bn, the largest share of which (\$1.26bn, 58% of total) was purchased power and another \$260m went for SG&A (12%). However, we estimate that INTER RAO's operating cost structure will change following the acquisition of OGK-1 and TGK-11 in the end of 2010. We assume that 2011 will be the first year when the P&L statements of all INTER RAO's existing assets and those of OGK-1 and TGK-11 are consolidated on a pro-forma basis. Therefore, INTER RAO's 2011E operating costs will amount to \$4.5bn, with 36% or \$1.64bn going for purchased power, while 30% or \$1.35bn

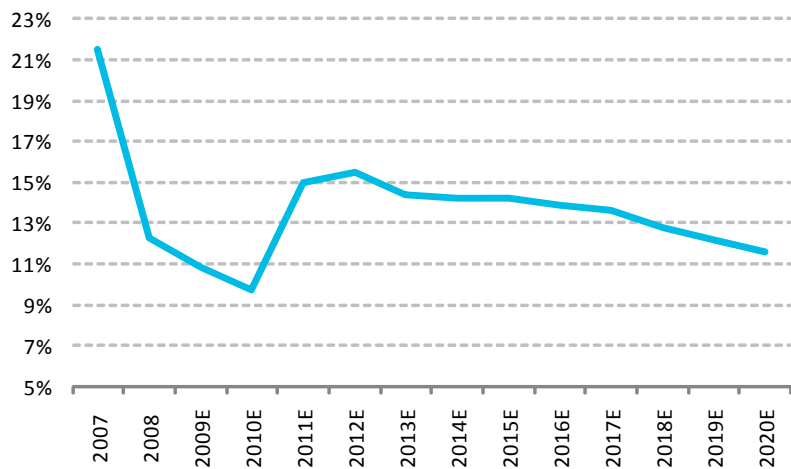
INTER RAO operating costs evolution, \$bn



Source: OTKRITIE estimates

Good overhead management allows synergies with OGK-1 and TGK-11. INTER RAO's historical performance indicates that the company has been successful in managing its overhead costs: SG&A expenses have declined from representing 21.5% of INTER RAO's operating expenses in 2007 to only 12% in 2008. We believe that INTER RAO will continue to reduce the share of SG&A in its cost structure, i.e. to 11% in 2009 and 10% in 2010. On the other hand, OGK-1 and TGK-11 have been historically less successful in managing their overhead: for OGK-1 the ratio of SG&A to total costs was 18% in 2008, and for TGK-11 it was 28%, which boosts INTER RAO's pro-forma SG&A share to 15% in 2011. We see potential synergies arising from the consolidation of OGK-1 and TGK-11, as INTER RAO will be able to reduce overhead at these companies, in our view. We project a gradual reduction of the share of SG&A in costs for INTER RAO, reaching 12% by 2020.

INTER RAO's SG&A costs as a percentage of total operating costs

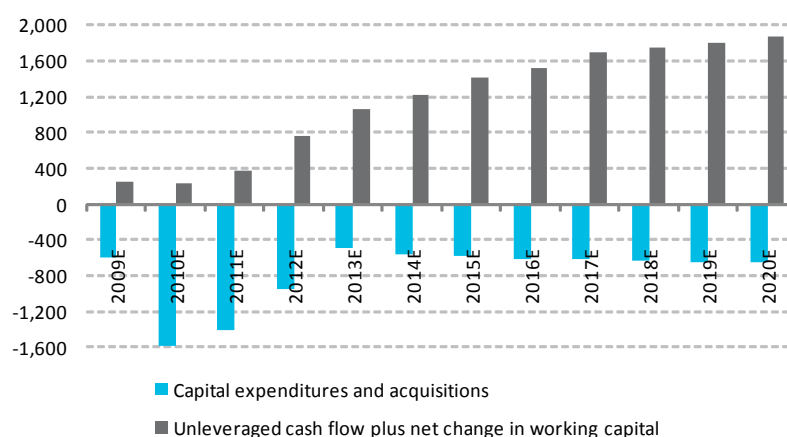


Source: OTKRITIE estimates

Investment program

Ambitious expansion plans to pressure short-term cash flows. INTER RAO plans to construct a total of 5GW of new capacity at its Russian and foreign generation assets during 2009-2013. The total amount of capital expenditures for INTER RAO during this period is \$4.1bn, and the company will also spend \$1.1bn to purchase 100% stakes in OGK-1 and TGK-11 in 2010. INTER RAO will construct 855MW at its existing generation assets in Russia, 525MW at its foreign generation assets (Ekibastuzskaya GRES-2) and the remaining 3.6GW will be constructed by OGK-1 and TGK-11, as these companies will still need to implement a large part of the investment program that was developed by RAO UES in 2007.

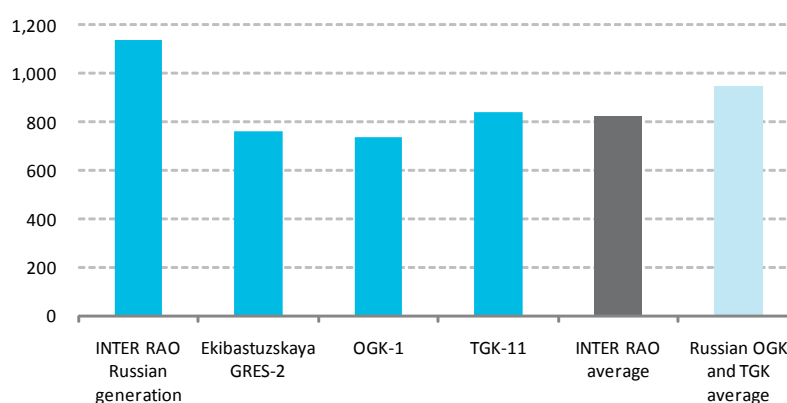
INTER RAO investment program and cash generation, \$m



Source: OTKRITIE estimates

Construction costs below the industry average. The size of INTER RAO's investment program implies an average construction cost on the level of \$819/kW. This includes an average \$1,139/kW cost for new power units at Kaliningradskaya CHPP-2, Ivanovskie CCP and Sochinskaya CHPP, which is higher than average, because power plants represent the most advanced generation assets in Russia. The average cost for INTER RAO's other investment projects is \$779/kW, and we consider this figure as fundamentally justified. Russian OGK and TGK construction costs average \$948/kW, according to our estimates.

INTER RAO 2009-2013 investment program: average construction costs, \$/kW

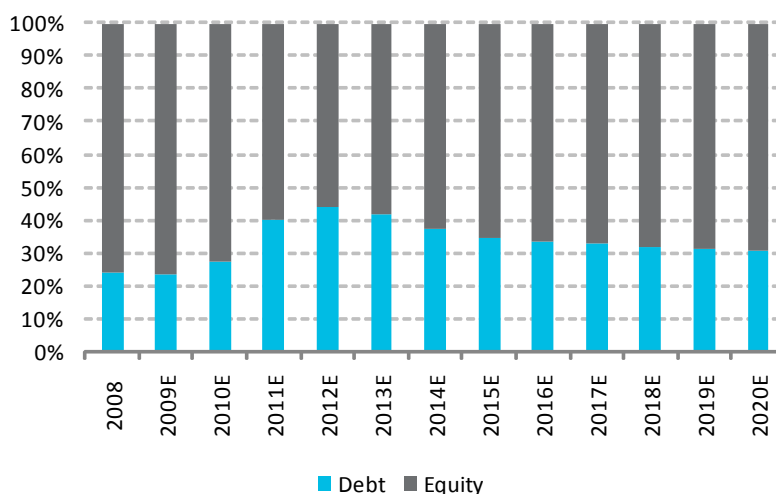


Source: Company data, OTKRITIE estimates

Capital structure

Aggressive growth requires aggressive borrowing. Currently INTER RAO is relatively low leveraged, and we forecast its year-end 2009 debt/equity ratio in the range of 23/77. INTER RAO's aggressive expansion strategy will be financed mostly through debt, according to the company. Management indicated that during the active expansion period the goal is to have the company's debt/equity ratio at approximately 40/60. We assume that in the long-term the company will revert to a 30/70 debt to equity ratio. The figure below shows our projections of INTER RAO's capital structure in the future.

INTER RAO's capital structure evolution



Source: OTKRITIE estimates

KEY ASSUMPTIONS AND FORECASTS

Inflation and exchange rates forecasts similar to Russian. INTER RAO's main foreign assets are situated in Georgia, Armenia, Moldova and Kazakhstan – former Soviet Union countries situated in similar regions and having similar economies. Thus, we use our Russian CPI projections to forecast the inflation rates in these countries: 13% in 2009, 10% in 2010 and 6% starting from 2011. Similarly, we expect that the exchange rates of the local currencies, namely, the Georgian Lari, the Armenian Dram and Transnistria's PMR rubles will move in stride with the Russian ruble: after weakening 21% against the euro in 2009 we expect a further 3% decline in 2010 and gradual strengthening afterwards. We expect Kazakhstan's tenge to fluctuate according to the USD/EUR exchange rate dynamics: firming 17% in 2009 followed by 2% and weakening 8% in 2010 and 2011, respectively.

Russian macroeconomic forecast													
	2008	2009E	2010E	2011E	2012E	2013E	2014E	2015E	2016E	2017E	2018E	2019E	2020E
GDP, YoY %	5.6%	-7.4%	2.0%	4.0%	5.0%	6.5%	4.5%	4.5%	4.5%	4.5%	4.5%	4.5%	4.5%
Nominal GDP, \$ bn	1,679	1,276	1,339	1,525	1,796	2,102	2,268	2,446	2,556	2,671	2,791	2,917	3,048
Industrial Output, YoY %	2.1%	-10.0%	3.0%	3.0%	3.5%	3.5%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%
CPI, YoY %	13.3%	13.0%	11.0%	8.0%	7.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%
PPI - Industry only, YoY %	17.0%	0.0%	9.0%	9.0%	9.0%	9.0%	9.0%	9.0%	9.0%	9.0%	9.0%	9.0%	9.0%
Personal income per capita p.a., \$	641	516	530	607	708	817	915	1,025	1,148	1,285	1,440	1,613	1,806
RUR/USD exchange rate, end of period	29.4	35.0	36.1	34.4	33.5	32.6	32	31	31	31	31	31	31
RUR/USD exchange rate, average for the period	24.8	33.3	35.6	35.2	33.9	33.0	32	31	31	31	31	31	31
RUR/EUR exchange rate, end of period	41.4	44.8	47.0	44.7	43.5	42.4	41.6	40.3	40.3	40.3	40.3	40.3	40.3
RUR/EUR exchange rate, average for the period	36.4	44.6	45.9	45.8	44.1	43.0	41.6	40.3	40.3	40.3	40.3	40.3	40.3
USD/EUR exchange rate	1.41	1.35	1.30	1.30	1.30	1.30	1.30	1.30	1.30	1.30	1.30	1.30	1.30
World Economy Real growth rate, %	3.9%	-1.3%	2.5%	4.3%	4.8%	4.9%	4.9%	4.9%	4.9%	4.9%	4.9%	4.9%	4.9%
incl. G7 economies growth rate, %	1.2%	-3.8%	2.0%	2.7%	3.1%	2.9%	2.9%	2.9%	2.9%	2.9%	2.9%	2.9%	2.9%
incl. Emerging Markets economies growth rate, %	6.9%	1.6%	4.0%	6.1%	6.7%	6.8%	6.8%	6.8%	6.8%	6.8%	6.8%	6.8%	6.8%
LIBOR rate, %		0.9%	1.6%	1.8%	2.2%	2.6%	2.9%	3.1%	3.3%	3.5%	3.6%	3.7%	3.9%

Source: OTKRITIE estimates

Electricity demand dynamics will also be similar to Russian. We forecast electricity demand in CIS countries to change according to Russian demand: following a 6% drop in 2009 we expect slow growth of 0.4% in 2010 and more than 2% growth p.a. afterwards.

Electricity tariffs outside Russia are inflationary-driven. We use our models of the Russian generation companies (OGKs and TGKs) to forecast the electricity output prices inside Russia for INTER RAO's Russia-based generation assets. Our forecasts include the wholesale electricity market liberalization schedule, a low regulated tariff growth assumption in 2010 and are mainly based on future fuel price dynamics. INTER RAO's foreign generation and distribution assets operate mostly under regulated tariffs. We base our tariff forecasts on the 2009 tariffs and assume conservative inflationary-driven growth.

Main model assumptions

	2009E	2010E	2011E	2012E	2013E	2014E	2015E	2016E	2017E	2018E	2019E	2020E
CPI in Georgia (in GEL terms), %	13.0%	11.0%	8.0%	7.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%
CPI in Armenia (in AMD terms), %	13.0%	11.0%	8.0%	7.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%
CPI in Moldova (in PMR terms), %	13.0%	11.0%	8.0%	7.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%
CPI in Kazakhstan (in KZT terms), %	13.0%	11.0%	8.0%	7.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%
RUR/EUR exchange rate change y-o-y, %	-18.3%	-2.8%	0.1%	3.9%	2.7%	3.2%	3.2%	0.0%	0.0%	0.0%	0.0%	0.0%
GEL/EUR exchange rate change y-o-y, %	-18.3%	-2.8%	0.1%	3.9%	2.7%	3.2%	3.2%	0.0%	0.0%	0.0%	0.0%	0.0%
AMD/EUR exchange rate change y-o-y, %	-18.3%	-2.8%	0.1%	3.9%	2.7%	3.2%	3.2%	0.0%	0.0%	0.0%	0.0%	0.0%
MDL/EUR exchange rate change y-o-y, %	-18.3%	-2.8%	0.1%	3.9%	2.7%	3.2%	3.2%	0.0%	0.0%	0.0%	0.0%	0.0%
PMR/EUR exchange rate change y-o-y, %	-18.3%	-2.8%	0.1%	3.9%	2.7%	3.2%	3.2%	0.0%	0.0%	0.0%	0.0%	0.0%
KZT/EUR exchange rate change y-o-y, %	17.4%	-3.7%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Electricity demand change y-o-y in Russia, %	-6.0%	0.4%	2.0%	2.6%	2.7%	2.8%	3.2%	1.0%	1.0%	1.0%	1.0%	1.0%
Electricity demand change y-o-y in Georgia, %	-6.0%	0.4%	2.0%	2.6%	2.7%	2.8%	3.2%	1.0%	1.0%	1.0%	1.0%	1.0%
Electricity demand change y-o-y in Armenia, %	-6.0%	0.4%	2.0%	2.6%	2.7%	2.8%	3.2%	1.0%	1.0%	1.0%	1.0%	1.0%
Electricity demand change y-o-y in Moldova, %	-6.0%	0.4%	2.0%	2.6%	2.7%	2.8%	3.2%	1.0%	1.0%	1.0%	1.0%	1.0%
Electricity demand change y-o-y in Kazakhstan, %	-6.0%	0.4%	2.0%	2.6%	2.7%	2.8%	3.2%	1.0%	1.0%	1.0%	1.0%	1.0%
Heat demand change y-o-y in Russia, %	-1.2%	0.1%	0.4%	0.5%	0.5%	0.6%	0.7%	0.2%	0.2%	0.2%	0.2%	0.2%
Average heat output tariff growth in Russia (in RUR terms), %	14.0%	7.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%
Average electricity output tariff growth in Russia (in RUR terms), %	16.7%	8.1%	8.9%	6.7%	2.8%	10.9%	8.3%	12.3%	0.0%	5.0%	5.2%	5.2%
Average capacity tariff growth in Russia (in RUR terms), %	18.4%	11.2%	10.4%	11.4%	11.6%	10.7%	8.4%	6.9%	7.3%	7.1%	7.0%	6.9%
Russian generation average operating margin, %	9.8%	9.3%	11.6%	11.9%	14.2%	15.0%	16.0%	15.4%	16.5%	16.7%	17.3%	17.8%

Source: OTKRITIE estimates

Profitability in 2009 will drop due to the crisis. We expect the profitability of most of INTER RAO's businesses to drop by 2 ppt. in 2009 vs. 2008 level due to the ongoing crisis. However, we factor into our forecasts a quick recovery to the pre-crisis levels in 2010.

OGK-1 and TGK-11 consolidation in 2010. We assume that INTER RAO will fully consolidate OGK-1 and TGK-11 on an operating level at the end of 2010. Therefore we add our existing DCF models of OGK-1 and TGK-11 to INTER RAO's existing assets model to construct consolidated pro-forma financials. The effects of consolidation will be evident on the balance sheet level already in 2010, and on the P&L level in 2011. We forecast INTER RAO's fixed assets (PP&E) to increase from \$2.2bn in 2009E to \$6.5bn in 2011E, while its revenues will more than double from \$2.3bn in 2009E to \$5bn in 2011E and EBITDA will increase from \$278m in 2009E to \$841m in 2011E.

At the moment, we do not factor any other acquisitions except for OGK-1 and TGK-11 into our INTER RAO model.

FINANCIAL FORECASTS

INTER RAO: Financial forecasts													
	2008	2009E	2010E	2011E	2012E	2013E	2014E	2015E	2016E	2017E	2018E	2019E	2020E
INCOME STATEMENT, \$ M													
Revenues	2,354	2,266	2,231	4,814	5,549	6,417	7,454	8,304	9,063	9,365	9,740	10,167	10,752
Depreciation	(126)	(119)	(146)	(306)	(378)	(416)	(421)	(431)	(440)	(452)	(463)	(474)	(485)
OPERATING PROFIT	280	153	146	442	494	846	1,060	1,244	1,335	1,410	1,475	1,543	1,658
Net interest expense	(69)	(59)	(18)	(181)	(353)	(427)	(410)	(373)	(354)	(353)	(339)	(333)	(327)
Non-operating expenses	8	7	7	16	18	21	24	27	30	30	32	33	35
PRETAX PROFIT	219	101	135	277	160	440	674	897	1,010	1,088	1,168	1,243	1,366
Taxes	(96)	(20)	(27)	(55)	(32)	(88)	(135)	(179)	(202)	(218)	(234)	(249)	(273)
Minority interest	13	8	11	22	13	35	54	72	81	87	93	99	109
NET PROFIT	110	73	97	199	115	317	485	646	727	783	841	895	983
EBITDA	406	272	292	747	872	1,261	1,481	1,674	1,776	1,862	1,938	2,017	2,142
MARGIN ANALYSIS													
Operating margin,	11.9%	6.8%	6.5%	9.2%	8.9%	13.2%	14.2%	15.0%	14.7%	15.1%	15.1%	15.2%	15.4%
EBITDA margin	17.3%	12.0%	13.1%	15.5%	15.7%	19.7%	19.9%	20.2%	19.6%	19.9%	19.9%	19.8%	19.9%
Net margin	4.7%	3.2%	4.4%	4.1%	2.1%	4.9%	6.5%	7.8%	8.0%	8.4%	8.6%	8.8%	9.1%
BALANCE SHEET, \$ M													
Cash & marketable securities	386	992	238	340	328	490	495	503	518	657	715	777	831
Current assets	870	1,473	1,010	1,674	1,872	2,295	2,615	2,875	3,120	3,342	3,500	3,678	3,901
PP&E	1,770	2,167	4,629	5,728	6,303	6,384	6,526	6,672	6,842	7,011	7,179	7,347	7,514
Goodwill and other	1,293	1,860	1,411	2,287	2,547	3,045	3,451	3,785	4,095	4,345	4,536	4,752	5,026
TOTAL ASSETS	3,063	4,027	6,040	8,015	8,850	9,429	9,978	10,457	10,936	11,356	11,715	12,100	12,541
Current liabilities	244	233	387	653	784	947	1,141	1,326	1,511	1,648	1,794	1,950	2,131
S-T Debt	287	275	655	1,305	1,565	1,565	1,435	1,370	1,370	1,370	1,370	1,370	1,370
L-T Debt	340	567	806	1,456	1,716	1,716	1,586	1,521	1,521	1,521	1,521	1,521	1,521
Other L-T liabilities	204	190	326	514	570	635	710	775	828	849	875	905	946
Shareholders funds	1,988	2,763	3,866	4,088	4,215	4,567	5,106	5,465	5,707	5,968	6,155	6,354	6,573
TOTAL LIABILITIES & EQUITY	3,063	4,027	6,040	8,015	8,850	9,429	9,978	10,457	10,936	11,356	11,715	12,100	12,541
NET DEBT	241	(151)	1,222	2,421	2,953	2,791	2,526	2,388	2,373	2,233	2,175	2,113	2,060
CASH FLOW STATEMENT, \$ M													
Net change in working capital	112	(6)	(30)	(321)	(85)	(109)	(131)	(76)	(57)	48	39	31	2
Provisions and write-offs	12	0	0	0	0	0	0	0	0	0	0	0	0
Other	41	7	7	16	18	21	24	27	30	30	32	33	35
Operating cashflow	545	253	242	386	774	1,086	1,239	1,446	1,546	1,722	1,775	1,832	1,907
Investing cashflow	(456)	(588)	(1,591)	(1,405)	(953)	(498)	(563)	(576)	(610)	(621)	(631)	(642)	(652)
Capex	(287)	(588)	(495)	(1,405)	(953)	(498)	(563)	(576)	(610)	(621)	(631)	(642)	(652)
Disposals (acquisitions)	(188)	0	(1,097)	0	0	0	0	0	0	0	0	0	0
Financing cashflow	163	958	632	1,119	167	(427)	(670)	(862)	(920)	(962)	(1,086)	(1,129)	(1,201)
Equity	74	776	0	0	0	0	0	(359)	(566)	(609)	(747)	(795)	(874)
Debt	102	182	632	1,119	167	(427)	(670)	(503)	(354)	(353)	(339)	(333)	(327)
Other	(14)	0	0	0	0	0	0	0	0	0	0	0	0
NET CHANGE IN CASH	201	623	(717)	101	(12)	162	6	8	15	140	58	62	54
CASH AT THE END OF THE PERIOD	386	992	238	340	328	490	495	503	518	657	715	777	831

Source: OTKRITIE estimates

APPENDIX: COMPANY OVERVIEW

The decision to create a business entity for the purpose of consolidating energy generation and sales on foreign markets was first announced in 1996. The Board of Directors of then utility monopoly RAO UES of Russia voted to incorporate Inter RAO in August of that year. The perspective market for the company lay not only in the Commonwealth of Independent States (CIS) but also in Scandinavia, China and other states bordering on Russia.

Established in 1996, Inter RAO started operations only in 2000. At the time, it was more known among investors simply as Sochinskaya TPP (under construction until its commissioning in 2004). In 2001 the first deliveries of electricity across the border took place. In 2002 the business expanded into international energy sales and the company started operating power generation in Russia by leasing Irikliinskaya power plant.

Large investments into foreign assets started in 2003 with US\$350m paid for holdings in Georgia. More acquisitions followed in Finland (2004), Kazakhstan, Tajikistan and Moldova (2005), Armenia (2006), Lithuania (2008).

So far, 2009 has been an important year for INTER RAO, as the company has managed not only to have OGK-1 placed under its management, but is also on track to gain control over TGK-11. In addition, the company started supplying electric power to Belorussia, resumed exports to China, signed an agreement to build a 600 MW CHP in Cuba and acquired a 50% stake of Kambartinskaya HPP JV in Kyrgyzstan.

Generation in Russia

The total Russian-based generating capacity owned by the company is 1,863 MW, producing 8,142 mln kWh of electricity and 1,037,000 Gcal of heat in 2008. The plants are some of the most advanced and efficient gas-fired in Russia (heat rate of 260-270 goe/kWh is below the industry average of 300-350 goe/kWh).

Kaliningradskaya CHPP-2

- installed electric 450 MW and heat capacity 325 Gcal/h, gas-fired;
- total electricity output in 2008 was 2,689m kWh;
- provides power and heat using combined-cycle plants;
- construction is under way of the second power-generating unit of 450 MW. Commissioning is scheduled for December 2010.

Severo-Zapadnaya CHPP

- installed electric 900 MW and heat capacity 700 Gcal/h, gas-fired;
- total electricity output in 2008 was 4,366m kWh;
- gas-fired plant based in St. Petersburg;
- generates electricity and heat using combined-cycle units;
- one of the most technologically advanced in Russia.

Ivanovskiye CCP

- installed electric capacity of 325 MW, gas-fired;
- total electricity output in 2008 was 653m kWh;
- gas-fired plant based in close proximity to cross-borders or the attractive Moscow region.

Sochinskaya TPP

- installed electric capacity 78MW, gas-fired;
- total electricity output in 2008 was 434m kWh;
- a federal level thermal power plant based in the Krasnodar Territory;
- two CHP units (78MW) commissioned in December 2004 ;
- plans to add a third unit to expand total capacity to 160 MW.

Generation Abroad

Non-Russian generating assets under INTER RAO's management and control add up to 5,715 MW of installed capacity, producing 12,937m kWh of electricity (without Sangtudinskaya HPP, it produced 1,142m kWh).

MOLDOVA**Moldavskaya TPP**

- installed electric capacity 2,520 MW;
- total electricity output in 2008 was 2,631m kWh;
- can burn three types of fuel: gas, fuel oil, and coal;
- located near the Ukrainian border, convenient to supply electric power; to the residents of Moldova, Bulgaria and the southern areas of Ukraine;
- one of the largest thermal PPs in Eastern Europe with export potential to UCTE zone.

KAZAHSTAN**Ekibastuzskaya GRES-2**

- installed electric capacity 1,000 MW;
- total electricity output in 2008 was 6,199m kWh;
- generates about 8% of the total electricity generated in Kazakhstan;
- original project was to build 8 units of 500 MW each, only two were commissioned;
- since 2008 works are underway to build and commission the third unit which will increase installed capacity by 50%;
- burns cheap local coal producing competitively priced electricity partially imported in Russia.

GEORGIA**Mtkvari Energy LLC (Mtkvari TPP)**

- installed electric capacity 600 MW;
- total electricity output in 2008 was 503m kWh;
- heat generating monopoly in Georgia;
- one of the most cost-efficient gas-fired PPs in Georgia (Tbilisi);
- sells electricity to Telasi (distribution subsidiary of INTER RAO).

Khramhesi-1 and Khramhesi-2 HPPs

- installed electric capacity 220 MW;
- total electricity output in 2008 was 565m kWh;
- under management control of INTER RAO UES;
- all electric power generated is distributed by Telasi (distribution subsidiary of INTER RAO UES).

ARMENIA**Armenian Nuclear Power Plant**

- installed electric capacity 815 MW but one unit is shut down;
- total electricity output in 2008 was 2,462m kWh;
- generates approximately 40% to 50% of total Armenian electricity;
- under trust management since 2003 with agreement extended in December 2008 for 5 years;
- the only operating nuclear station in the region.

Sevano-Hrazdansky cascade (7 HPPs) on the Razdan River

- Installed electric capacity 560 MW;
- total electricity output in 2008 was 577m kWh;
- accounts for more than 10% of total generation of Armenia;
- is operated by CJSC International Power Corporation. (subsidiary of INTER RAO);
- sells electricity to ENA (distribution company, subsidiary of INTER RAO).

Distribution assets in Armenia and Georgia

Telasi

- power distribution company based in Georgia;
- owns mid- and low-voltage electrical grids in Tbilisi and neighboring territories;
- the only supplier of electric power to more than 410,000 consumers.

CJSC Electric Networks of Armenia

- monopoly in distribution and sales of electricity in Armenia with a RAB (return on asset base) of 17%;
- provides transmission and distribution of electric power throughout Armenia;
- services more than 900, 000 customers;
- licensed to export electric power to neighboring countries.

Retail sales in Russia

Oryol branch of INTER RAO UES

- default supplier of electric power in the retail market of the Oryol territory in central Russia;
- services 200,000 customers by supplying 28% of the territory's total energy consumption.

Omsk branch of INTER RAO UES

- default supplier of electric power in the retail market of the Omsk territory in Siberian part of Russia;
- electricity output of 6.3 bn kWh in 2008 by supplying 69% of the territory's total energy consumption.

Electricity trading

RAO Nordic Oy

- set up as a subsidiary of INTER RAO in Finland in 2002;
- member of the Nord Pool Scandinavian exchange;
- distributes electric power in the Scandinavian power market both through the Nord Pool exchange and under bilateral contracts;
- trades in the financial sector of the Nord Pool exchange;
- main partner in the Finland market is Fortum Corporation.

Energijos realizacijos centras (ERC)

- Lithuanian subsidiary of RAO NORDIC Oy (subsidiary of INTER RAO);
- plays an active role in power trading in Lithuania and Latvia,
- supplies electric power to the Republic of Belarus and the Russian Federation.

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Analysts' criteria of stock investment rating valuation

BUY	Expected absolute return to 12-month target price exceeds 20%
HOLD	Expected absolute return to 12-month target price remains within the range of -20% and +20%
SELL	Expected absolute return to 12-month target price exceeds -20%

«\$» DENOTES US DOLLAR
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