

TGC



TGC-1
BRIEF DATA
2006



LETTER TO SHAREHOLDERS

Dear Shareholders,

The reforms in the Russian power industry are reaching completion. Radical changes have taken place in the industry: regional power companies have been split off by kinds of business; new power and capacity market structures have been successfully formed; clear and transparent market rules have been adopted along with regulations determining the functioning of the industry upon completion of the reforms.

The year 2006 has seen the reorganization of power generating companies in Russia and development of their strategic outlook aimed at improving performance and encouraging investments. As a part of this process, TGC-1 has gone through a number of development stages during the last year, thus laying a solid basis for future growth of our company. TGC-1 has set out and adopted its strategy, financial model and investment program up to 2015. The merger of St. Petersburg, Kola and Karelia generating assets has been completed in November. TGC-1 shares started trading on the Russian stock market, and the current capitalization of the company has exceeded RUR 100 billion.

The past year has provided the company with the opportunity to fully test the ability to operate under the new power market conditions, and I see this as one of the most important results that the year has brought. The commencement of a competitive market of electricity in Russia is considered to be one of the most significant results of the industry reforms by the experts. There are market mechanisms that are seen as the determining factors of the Russian power industry in the near future and thus there is no doubt that the power companies' services will be in great demand. According to forecasts of the Russian Ministry of Economic Development, the GDP growth is likely to be around 6%, the growth of industrial production – up to 4.5%. These figures imply that the average annual increase in electricity consumption will be within 5%, and that is the challenge that the power industry is expected to address.

According to the program of RAO UES of Russia the country will get more than 40 thousand MW of new capacities in the coming 4-5 years. 180 MW have already been added to the unified energy system in May 2006, when TGC-1 has commissioned the first unit of the Pravobereznaya CHPP in Saint-Petersburg, which is the first completed construction in the List of to-be-commissioned priority power objects of the holding. And this is only the beginning – the TGC-1 investment program, approved by the Board of Directors in the past year, provides for about twenty other generating assets of the company to be reconstructed or newly commissioned in the coming decade, with the total estimated reconstruction and construction costs of more than RUR 130 billion. Financing is planned to be mainly provided through own and borrowed funds as well as funds raised with additional shares issue.

In this respect, it is a major challenge for us to introduce and comply with the best international and Russian corporate governance practices and standards in order to provide the maximum transparency of the company, achieve high performance of the management system and, as a result, increase the confidence of potential investors. The power sector of the North-West region has good traditions and unique experience in addressing these tasks, including owing to the long-term interactions with foreign strategic investors. Since first days of its work, TGC-1 has been strictly following the principles of transparency and publicity of its business, social responsibility and corporate stability. It should be noted that TGC-1 was one of the first territorial generating companies to receive a high corporate governance rating from Standard & Poor's, as compared to the general level of ratings awarded to the Russian power generating companies – CGS-5.0 according to the international scale and CGS-5.3 according to the Russian scale. I am confident that a well balanced system of interactions between shareholders, directors and the company management will facilitate future active and sound participation of all related parties in discussing and making decisions on the company's strategy.

As a chairman of the board of directors and on behalf of the shareholders, I would like to express appreciation to the managers of TGC-1 who have provided for the successful establishment of the company, its formation, as well as steady performance of the production facilities in 2006 in the course of changes in the company's management. Present day requirements, the way the economy is growing and priorities in power sector development set new goals for the power sector as a whole and TGC-1 as its part. No doubt that the management of the power generating complex, being actively supported by us, is fully capable of achieving the set goals with a high level of professional expertise and competence, making the company one of the most promising in Russia.

I wish you all success and prosperity!

Alexander Chikunov
Chairman of the Board of Directors of JSC "TGC-1"



Dear Shareholders,

No doubt that the past year 2006 will stand apart in the history of TGC-1 development. It has become the first full calendar year of company's operations. In the past year TGC-1 has got the status of a unified production complex and a full-fledged joint-stock company, by having completed by November 1, 2006 all the corporate procedures launched in connection with the reforming of the energy system of the North-West of Russia. From now on, the generating assets and heating grids previously owned by Lenenergo, Kolenergo and Karelenergo and operated by our company on a lease basis has become the property of JSC "TGC-1" since October 1, 2005. Thus, today is the first time we reckon up the results of the Company's production, business and financial activity for twelve months.

Heat deliveries in 2006 totaled 22 190 thousand GCal. Electricity output – 23 242.4 million kW/h. The autumn-winter peak of 2005-2006 has seen the maximum electricity consumption ever recorded in Saint-Petersburg of about 4.3 thousand MW, which is objectively not the limit. The region is constantly growing and developing and thus prevention of possible shortages in power supplies becomes our main objective.

In 2006, the company has allocated more than RUR 5 billion to repairs, reconstruction and new construction. We have launched large-scale investment projects. In May, we put into operation the first generating unit at Pravobereznaya CHPP-5, which is practically a brand new power plant. Such large projects have not been implemented in Saint-Petersburg for the past several years. Many of the equipment control systems, environment protection units and automated facilities installed here have no analogues in Russia yet.

Along with this we are currently reconstructing several hydroelectric power plants, and are finishing the commissioning work at a new turbine unit at Avtovskaya CHPP-15. Almost all preparation works have been completed in order to start implementation of reconstruction projects for Pervomayskaya CHPP-14, Vasileostrovskaya CHPP-7, Central CHPP and cascades of Vuoksinskiye, Pazskiye and Nivskiye HEPPs. Besides that, the preparation to construction of a coal-fired combined heat and power plant in Murmansk and expansion of the existing plant in Kirovsk (Leningrad Region) by building two new coal-fired power generating units are underway.

Historically, the region has a very complex engineering systems infrastructure. However, I am confident that, keeping up the pace we currently have, will enable us to create a new modern infrastructure in the nearest future. The continuous constructive dialogue with administration of the regions of TGC-1 operation serves the pledge of this confidence. This dialogue is based on the mutual understanding of the challenges we face and the methods to address them. We have already moved from formal arrangements to implementation of concrete joint projects. Reconstruction of a power plant on the Valaam Island – one of the centers of Orthodoxy, started in 2006 and being carried out by TGC-1 in close cooperation with the Government of the Republic of Karelia under the aegis of the Administration of the President of the Russian Federation is a viable example of such cooperation. In July 2006, the Governor of Saint Petersburg Ms.Valentina Matvienko and the Chairman of the Board of RAO "UES of Russia", Mr. Anatoliy Chubais signed an Agreement on taking priority actions aimed at construction and reconstruction of power engineering facilities in Saint Petersburg. Pursuant to this agreement and in accordance with the company's development strategy, TGC-1 experts have elaborated a program of large-scale renovation of generating facilities in Saint-Petersburg. Similar documents are being prepared to be signed by the heads of other regions. We believe that the coordination of the company's plans with the development plans of Russian Federation constituent regions will allow us to fully implement our projects, which are initially based on the observance of a reasonable balance of interests of the company' shareholders and investors on the one hand, and of that of state and society – on the other hand.

TGC-1 refurbishment program up to the year 2015 provides for 3 549 MW increase in the company's installed electric capacity and 2 348 GCal/h increase in its installed heat capacity. This is the objective set for the company by the shareholders and society. This objective is not an easy one to reach, but a responsible and a feasible one. This is a challenge we are going to tackle with all the efforts and responsibility.

With all this in mind, it is a high priority for TGC-1 today to raise large-scale financial resources in order to provide radical modernization of the power sector, utilizing the state-of-the-art technologies. This, in turn, will stand for the value of the company, create a basis for economic growth and social development of the North-West region, provide for the environmental safety and guarantee the security of energy supply for future generations.

The Company, together with the entire power industry of the country, enters a new stage of its history – the stage of renovation.

We know what shall we do, and have proved that we are able to do this. And what we need to feel strong is your understanding and confidence in our abilities.

Valeriy Rodin
General Director of JSC "TGC-1"



SIGNIFICANT EVENTS

February

The international rating agency Standard & Poor's awarded TGC-1 a corporate governance score of "5.0" according to the international scale ("5.3" according to the Russian scale).

March

The Board of Directors approved Company's Development Strategy for the period from 2006 to 2015 and the Annual procurement program of JSC "TGC-1" for 2006.

May

TGC-1 put into operation the new electric power plant in Saint-Petersburg – Pravoberezhnaya CHPP-5. The Company's first AGM elected a new Board of Directors, approved the Annual Report 2005 and appointed PricewaterhouseCoopers as auditors.

June

The Board of Directors approved TGC-1 Investment Program for the period from 2006 to 2010.

July

TGC-1 shareholders resolved to restructure the Company by adjoining to it JSC "Petersburg Generating Company", JSC "Kola Generating Company", JSC "Karelerenergoeneratsiya", and JSC "Apatity CHPP". Shareholders resolved to increase the capital stock of JSC "TGC-1" by disposing additional Company's shares by means of conversion of the adjoining Companies' shares to TGC-1 shares. Also it was decided to increase the capital stock of JSC "TGC-1" by disposing additional Company's shares by means of private offering of TGC-1 shares to JSC "Murmansk CHPP" shareholders.

The governor of St.Petersburg Valentina Matvienko and RAO "UES of Russia" CEO Anatoly Chubais signed an Agreement on Realization of Prior Arrangements on Construction and Modernization of Electric Power Facilities in St.Petersburg.

September

Valery Rodin was elected General Director of TGC-1.

The construction of a new diesel power plant at Valaam Island was set up.

October

The concept of the TGC-1 Annual Report voted the best in 2005.

November

On November 1, 2006 the merger of JSC "Kola Generating Company", JSC "Petersburg Generating Company", JSC "Karelerenergoeneratsiya" and JSC "Apatity CHPP" was completed to create a unified operating company.

December

Within the framework of the Kyoto protocol TGC-1 initiated activity for the inventory of greenhouse gas emissions.

Ordinary shares of JSC "TGC-1" admitted to trading on the RTS Exchange Market.

TGC-1 IN FIGURES

Financial Figures (RAS)

➤ Sales	20 502.7 mln RUR
➤ Operating profit	325.3 mln RUR
➤ Net profit	598.2 mln RUR
➤ Total assets	41 047.6 mln RUR
➤ Shareholder's equity	29 955.7 mln RUR
➤ Investments	3 598.5 mln RUR

Operational Figures

➤ Installed capacity	6 248.4 MW*
➤ Installed heat capacity	14 735.0 GCal*h
➤ Electricity generation	23 242.4 mln kWh
➤ Electricity deliveries	23 527.1 mln kWh**
➤ Heat deliveries	22 190.0 thousand GCal**
➤ Staff	8 490 people

* Including JSC "Murmansk CHPP" (12 MW)

** Including purchased power energy



ELECTRICITY AND HEAT ENERGY GENERATION

In 2006 TGC-1 facilities consisting of 13 CHPPs*, 40 HEPPs and 1 DEPP, generated 23 244 400 thousand kWh of electricity. Electricity deliveries in 2006 amounted to 23 527 136 thousand kWh and heat deliveries to 22 190.0 thousand GCal.

* Excluding JSC "Murmansk CHPP"

TARIFFS

Electricity (production)

		Tariff from 01.01.2006, kopeck/kW·h	Tariff from 01.01.2007, kopeck/kW·h	Growth, %
1.	Nevsky Branch	59.61	60.82	2.0 %
2.	Karelia Branch	36.69	38.25	4.3 %
3.	Kola Branch *	19.86	20.89	5.2 %
4.	Apatity CHPP**	154.85	128.95	(16.7) %

* Apatity CHPP was included to Kola Branch at 01.11.06 that is why its tariffs are presented separately.

** Apatity CHPP electricity tariff decrease results from costs repartition of electricity and heat energy.

Heat (production, transmission and sale)

		Tariff from 01.01.2006, RUR/GKal	Tariff from 01.01.2007, RUR/GKal	Growth, %
1.	Nevsky Branch			
	Saint Petersburg	421.20	475.1	12.8 %
	Leningrad Oblast	577.20	703.5	21.9 %
2.	Karelia Branch	279.80	327.1	16.9 %
3.	Kola Branch	681.00	805.0	18.2 %
4.	Apatity CHPP	477.00	549.1	15.1 %



GENERATING CAPACITIES OF JSC “TGC-1”

In 2006 the installed capacity of TGC-1 power plants was 6 236.4 MW (6 248.4 including JSC “Murmansk CHPP”) and the operational capacity was 3 453.1 MW. TGC-1 coefficient of the installed capacity efficiency totaled 55%, including 68% of HEPP and 45% of CHPP.

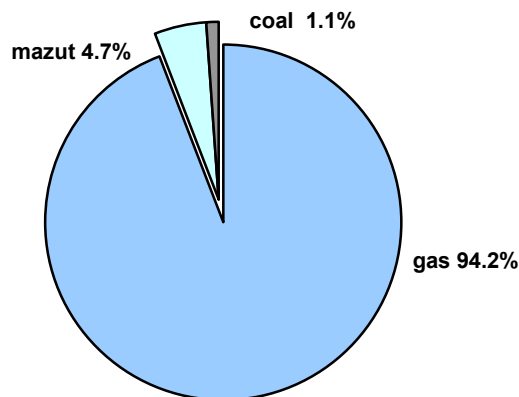
HEAT NETWORK

The total length of TGC-1 heat networks is 844.5 km, with an additional 101.6 km of JSC “Murmansk CHPP” in terms of single pipe calculations.

FUEL BALANCE

Natural gas is the principal fuel used by TGC-1’s power plants, which also use the alternative fuel types - mazut and coal. In 2006 the share of gas in the fuel mix was 94.2 %, mazut 4.7% and that of coal 1.1 %*.

Fuel Mix



INVESTMENTS

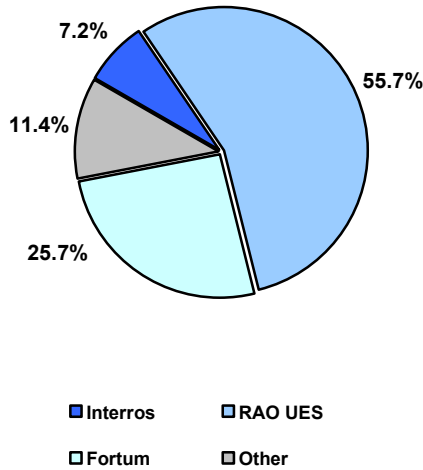
The investment program in 2006 comprised the renovation and technical re-equipment of power units in St. Petersburg and Leningrad Oblast, Murmansk Oblast, the Republic of Karelia and also new construction works.

The total amount of financing allocated to the investment program in 2006 was 3 598.5m RUR, made up of: 3 344.8m RUR in Nevsky Branch, and 103.4m and 150.3m RUR in Karelsky and Kolsky Branches respectively.

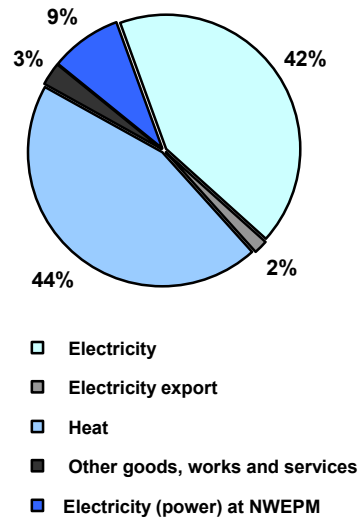
* Including Apatity CHPP figures for the period from November 1, 2006 to December 31, 2006.



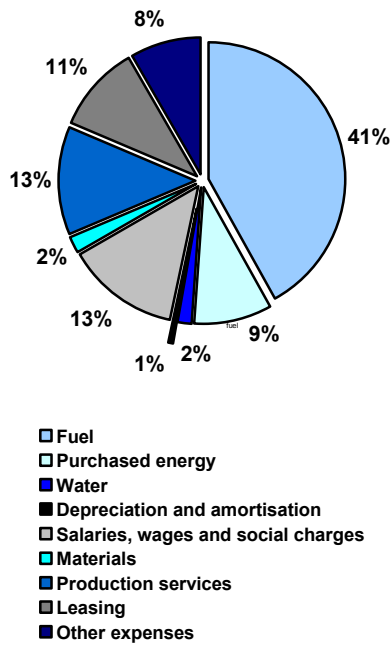
Share capital structure



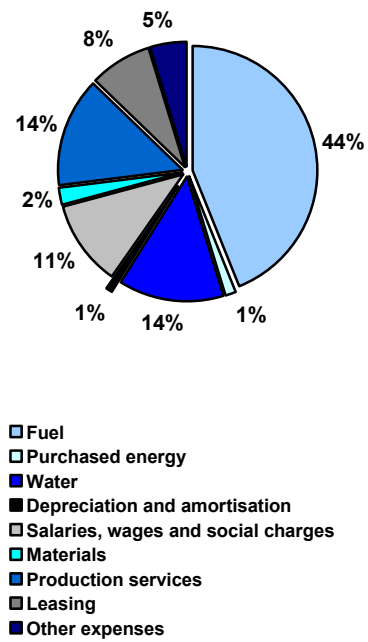
Sales, %



Electricity operating expenses, %



Heat operating expenses, %





BALANCE SHEET (RAS)

RUR thousand

ASSETS	01.01.2006	31.12.2006
I. NON-CURRENT ASSETS		
Intangible assets	-	-
Fixed assets, including:	2 911	30 096 921
land	-	21 691
buildings, machinery and equipment, facilities	2 686	29 954 561
other types of fixed assets	225	120 669
construction in progress	1 376	2 645 620
Long-term financial investments, including:	-	1 338 839
subsidiaries	-	68 542
other companies	-	1 159 257
long-term loans	-	45 273
other long-term financial investments	-	65 767
TOTAL non-current assets	4 287	34 081 380
II. CURRENT ASSETS		
Inventories	142 071	2 146 406
Value added tax on purchased tangibles	285 852	329 994
Accounts receivable, payments for which are expected in more than 12 months	-	74 957
Accounts receivable, payments for which are expected within 12 months, including:	3 927 483	3 764 893
buyers and customers	2 899 869	2 006 205
advances paid	10 434	277 604
other receivables	1 017 180	1 481 084
short-term financial investments	6 900	5 599
cash and cash equivalents	233 218	644 378
TOTAL current assets	4 595 524	6 966 227
TOTAL ASSETS	4 599 811	41 047 607
SHAREHOLDER'S EQUITY AND LIABILITIES	01.01.2006	31.12.2006
III. SHAREHOLDER'S EQUITY		
Authorized share capital:	10 000	29 022 225
in preferred shares	-	-
in ordinary shares	10 000	29 022 225
Capital surplus	-	16 525 711
Capital reserves	-	6 786
Retained profit	-	-
Retained profit of prior periods	587 314	484 701
Losses of prior periods	-	(16 681 906)
Retained profit of the reporting period	-	598 158
Losses of the reporting period	-	-
TOTAL shareholder's equity	597 314	29 955 675
IV. LONG-TERM LIABILITIES		
Loans and credits	-	1 734 825
Deferred tax liability	35	952 573
Other long-term liabilities	-	-
TOTAL LONG-TERM LIABILITIES	35	2 687 398
V. SHORT-TERM LIABILITIES		
Loans and credits, including:	300 086	4 671 704
bank credits	300 086	4 671 704
loans	-	-
Accounts payable, including:	3 702 376	3 695 571
suppliers and contractors	1 448 865	1 976 789
notes payable	-	-
wages payable to staff	4 738	21 073
payables to state and off-budget funds	31 069	25 971
charges to budget	344 559	216 352
advances received	588 113	1 189 971
other payables	1 285 032	265 415
Payables to participants (founding parties)	-	37 049
Deferred income	-	210
TOTAL short-term liabilities	4 002 462	8 404 534
TOTAL SHAREHOLDER'S EQUITY AND LIABILITIES	4 599 811	41 047 607



Reference note on inventories reported in off-balance accounts

ASSETS	RUR thousand	
	01.01.06	31.12.06
Leased fixed assets, including:	23 884 194	14 487
leasing	-	-
Inventory holdings accepted for safekeeping	93 961	10 472
Materials accepted for processing	-	-
Goods accepted on commission	-	-
Equipment accepted for installation	-	-
Receivables from insolvent debtors, written-off to loss	-	133 997
Security of liabilities and payments received	-	-
Security of liabilities and payments issued	-	2 647 894
Wear of fixed assets	-	756
Wear of improvements and other similar objects	-	-
Registered high-security forms	1	496
Leased out fixed assets	32 526	-
State-owned tangibles	-	-
Intangible assets received for usage	-	-

INCOME STATEMENT (RAS)

Index	RUR thousand	
	2006	2005
Profit and loss from ordinary activities		
Revenues	20 502 716	5 449 974
Electricity	8 994 585	2 798 964
Heat	9 152 401	2 572 104
Other products, works and services	566 759	78 906
Electricity (power) at NWEPM	1 788 971	-
Cost of goods sold	(20 177 368)	(4 697 430)
Electricity	(8 128 534)	(2 216 015)
Heat	(9 883 195)	(2 443 508)
Other products, works and services	(186 638)	(37 907)
Electricity (power) at NWEPM	(1 979 001)	-
Gross profit	325 348	752 544
Other profit and expenses		
Interest income	932	-
Interest expenses	(98 203)	(2 675)
Other organizations participation income	8 154	-
Other income	4 209 364	108 039
Other expenses	(3 719 201)	(73 167)
Pre-tax profit	726 394	784 741
Deferred tax assets	-	-
Deferred tax liability	(145 899)	(35)
Current profit tax	-	(197 392)
Other similar mandatory payments	17 663	-
Profit tax and other similar mandatory payments	(128 236)	(197 427)
Profit after tax	598 158	587 314
Net profit	598 158	587 314



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