

JSC «TGC-1» CORPORATE SOCIAL REPORT

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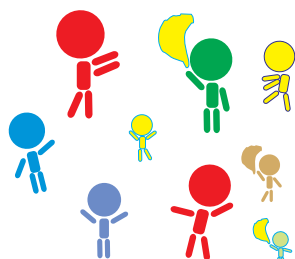


2006





THIS IS
THE SOCIAL REPORT



THESE ARE PEOPLE
THAT BUILT UP
THE SOCIAL REPORT



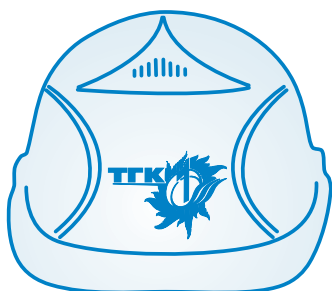
THIS IS A CHILDREN
SUMMER CAMP «LUCH»
THAT VISITED PEOPLE
THAT BUILT UP THE SOCIAL REPORT



THESE ARE CHILDREN
OF POWER ENGINEERS
THAT SPEND HOLIDAYS IN A CHILDREN
SUMMER CAMP «LUCH»
THAT VISITED PEOPLE THAT BUILT
UP THE SOCIAL REPORT



THIS IS A THING
THAT CAN BE USED IN MANY
EXTRAORDINARY WAYS BY CHILDREN
OF POWER ENGINEERS THAT SPEND
HOLIDAYS IN A CHILDREN SUMMER CAMP
«LUCH» THAT VISITED PEOPLE THAT BUILT
UP THE SOCIAL REPORT



THIS IS A HELMET
THAT IS ALSO A USUAL THING THAT CAN
BE USED IN MANY EXTRAORDINARY WAYS
BY CHILDREN OF POWER ENGINEERS THAT
SPEND HOLIDAYS IN A CHILDREN SUMMER
CAMP «LUCH» THAT VISITED PEOPLE
THAT BUILT UP THE SOCIAL REPORT

DEAR FRIENDS,



Let us introduce the report on our Company's performance in the area of corporate social responsibility and sustainability.

This is in fact TGC-1's first experience in corporate social reporting. The Company sprung up on Russia's energy map just a little more than a year ago, by incorporating power generating companies of St. Petersburg, the Republic of Karelia, Leningrad Oblast and Murmansk Oblast. Though TGC-1's formation as of a single shareholding Company was completed much later - on November 1, 2006.

Despite the corporate changes we made throughout last year I am sure that over 8,000 people in the North-West power sector are proud to be employees of TGC-1. The reason for pride is that we are the largest producer of electricity and heat in Russia's North-West region, and our heritage includes almost one-century experience and knowledge of our predecessors. In 2006 TGC-1 celebrated three different milestones: 120-th anniversary of St. Petersburg power system, 75-th anniversary of Kola power system, and 70-th anniversary of Karelian system. Also, the history of the power systems in Russia's North-West started right with power generation.

Summing up the results of the year 2006, the first calendar year of our Company's existence, I may say that this year was an establishment period for us, a time of forming strategies and developing our principles of corporate management, a period for resolving staff matters as well as social matters connected with transition.

Our Company has made every effort for our performance in 2006 to be transparent and clear to a wide spectrum of society. The publication of our social report serves this goal. This report was prepared on the basis of the Sustainability Reporting Guidelines GRI G3. We worked hard so that the data in this report would be optimal in terms of their quantity and quality for public interest group.

We hope that the results presented for 2006 will be able to visually show our desire to meet the interests and expectations of all related parties, and support an ongoing dialogue.

Along with that we always use the same principle both in our everyday work and when planning our future activity: the main challenge for the power industry was, is, and will be to give people light and heat.

Valery Rodin

A handwritten signature in blue ink, appearing to read 'Valery Rodin'. The signature is stylized and written in a cursive-like font.

General Director

A bouquet of purple and white flowers is arranged in a white helmet-shaped container. The flowers include purple bell-shaped flowers and white daisies with yellow centers. The helmet has the letters 'TFK' printed on its side. The background is dark, making the flowers and the white helmet stand out. There are also some water droplets at the top of the image.

ENERGY HELMET IS

THE BEST HELMET EVER



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This Report is executed in accordance with the new standards of Global Initiative for Social Reporting GRI G3.

For additional information, as well as for e-version, please, visit our website www.tgc1.ru



HELMET

IS A PROPER

SHAPE!



INFORMATION ABOUT THE COMPANY

Company in Brief

Joint Stock Company «TGC-1» is the leading producer and supplier of electricity and heat in the North-West region of Russia, and the third largest generating Company in Russia in terms of installed capacity.

JSC «TGC-1» owns and runs 55 power plants within four regions of the Russian Federation – St. Petersburg, the Republic of Karelia, Leningrad Oblast and Murmansk Oblast. The Company's generating assets include power plants of various types (heat, hydroelectric, diesel and combined). Along with that TGC-1 is the only territorial generating Company in Russia at which 46% of total generating capacity is made up of HEPPs.

The installed electric power capacity of TGC-1 (including the subsidiary Murmansk CHPP) amounts to 6,248.4 MW, while total heat capacity is 14,735 GCal/h. The Company accounts for 38% of the installed electric power capacity of the North-West region of Russia, and over 2.8% of installed capacities of all Russian power plants. The power plants of TGC-1 produce about 2.4% of total electricity generation in Russia. The Company supplies electricity mainly to domestic wholesale market, and partly exports to Finland and Norway.

TGC-1's asset structure also includes heating grids with a total length exceeding 940 km.

The Company is a strategic heat supplier in St. Petersburg, Petrozavodsk, Murmansk, the cities of Kirovsk in Leningrad Oblast and Apatity in Murmansk Oblast.

The state registration of TGC-1 took place on March 25, 2005. The Company started its operating activity on October 1, 2005.

On November 1, 2006 (following completion of the accession of JSC «Petersburg Generating Company», JSC «Kola Generating Company», JSC «Apatity CHPP» and JSC «Karelenenergogeneratsiya») the interregional power group TGC-1 operates as a unified Joint Stock Company. Since May 16, 2007 JSC «TGC-1» shares started trading on the RTS stock exchange as «B» listed securities.

The key shareholders (as of July 1, 2007):

- RAO «UES of Russia» (55.7 %),
- Fortum (25,7%)
- Interros (7, 2%)
- Other (11, 4%)

JSC «TGC-1» structure is represented by the Management and three Branches: Nevsky, Karelsky and Kolsky. The Company's HQ is located in St. Petersburg. The total workforce of TGC-1 as of December 31, 2006 amounted to 8,490 employees.

Key Performance Figures and Financials for 2006

Performance Figures

Item	2006
Installed capacity, MW*	6,248.4
Electricity generation, mln. kWh	23,242.4
Electricity useful output, mln. kWh*	23,527.1
Heat useful output, thousand GCal**	22,190.0

* Including JSC «Murmansk CHPP» (12 MW).

** Including purchased power .

Item	2006
Sales, mln. RUR	20,502.7
Operational profit, mln. RUR	325.3
Net profit (loss), mln. RUR	598.2
Total assets, mln. RUR	41,047.6
Equity, mln. RUR	29,955.7
Investments, mln. RUR	3,598.5

Data provided represent consolidated information on the Company's three branches, and do not include JSC «Murmansk CHPP».

Key Objectives

- Retaining the Company's positions as an economically stable and dynamically-developing business;
- Efficient implementation of the Strategy for accelerated fixed assets renewal, taking into consideration the necessity to create conditions for stable functioning and social and economic development of the regions in which TGC-1 operates;
- Efficient operation in the new power and capacity market;
- Raising funds for investment projects implementation, including debt and share capital markets;
- Optimization of the corporate governance system, including non-financial risks management;
- Ensuring the balance of interests of the communities related to TGC-1's activity;
- Keeping social stability of the Company and improving employees' skills and life quality;
- Supporting continuous social dialogue for efficient solutions to the issues related to social and economic development of Russian regions and the whole country;
- Development of the community's spiritual and intellectual potential.





HELMET IS UNEXPECTEDLY
IMPORTANT THING



THE COMPANY'S RESPONSIBILITIES TO THE COMMUNITY

Our Company believes that faster development, improved financial performance, up-to-date facilities and production base can be achieved only through recognition and awareness of a close tie between interests of the state and the society.

Our social mission is to satisfy the rapidly growing demand of the population and economy for electricity and heat.

Our values are: ensuring steady and affordable supply of electricity and heat to every consumer; providing efficient use of energy and fuel; protecting safety and health of employees; minimizing adverse impacts on the environment. We endeavour to eliminate any risk of causing a hazard to lives or prevent an environmental disaster.

We implement these values in our business practice and stick to the principles of openness and transparency in relation to all our actions that might have an impact on the society and we seek to develop a dialogue with a wide range of related parties.

We are convinced that social responsibility should not be an «accessory» to a business. It is an essential part of our operating activity.





HELMET IS A PERFECT

DESIGN



THE COMPANY'S CORPORATE SOCIAL RESPONSIBILITY PRINCIPLES

Being fully aware of the responsibility to the state and society, TGC-1 believes that long-term economic and social performance can be achieved only by balancing the interests of shareholders, state, staff, suppliers, consumers, public institutions and other parties involved in our operations.

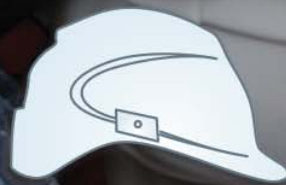
TGC-1's approach to corporate social responsibility is based on the responsibility to:

- **bona fide consumers** in relation to supplying electricity and heat in the required amount and quality at reasonable prices;
- **shareholders** in relation to preserving stability in the Company's corporate governance;
- **employees** in relation to the observance of employees' rights, ensuring labour safety, opening up opportunities for personal and professional development;
- **partners, suppliers and contractors** in relation to the fulfillment of undertaken commitments and compliance with ethical business practices;
- **the population of regions and local communities** within the Company's operational area in relation to timely and accurate tax payments, provision of workplaces, and support for civil initiatives and other forms of involvement into the economic and social development of the regions;
- **the community as a whole** and to future generations in relation to the contribution to favourable life conditions, minimization of negative environmental impact, as well as assistance in improving the efficiency and safety of energy consumption and resource savings;
- **representatives of all interested groups** in relation to the improvement of the transparency of efforts the Company takes in making decisions through forecasting and non-financial risk management.



HELMET FILLS

WITH CONTENT



FULFILMENT OF THE COMPANY'S RESPONSIBILITIES TO THE COMMUNITY

Steady and Reliable Supply of Electricity and Heat

Supplying the required amount of electricity and heat of the required quality at reasonable prices

TGC-1 enjoys an advantageous geographical position, which in many respects determines its status and importance. The Company supplies almost 50 per cent of the heat consumed by the second region in Russia in terms of economical value and political significance, most of which being used by the population. Moreover, working in northern latitudes, the Company encounters sufficiently severe weather conditions, which, to some extent, are balanced by the composition of production facilities it operates (generating units of hydroelectric power plants are less exposed to adverse effects of the northern climate as compared to equipment of cogeneration plants) and export trade opportunities.

Asset Structure

JSC «TGC-1» generating assets include 55 power plants located in St. Petersburg, the Republic of Karelia, Leningrad Oblast and Murmansk Oblast.

Power plant	Electricity, MW	Heat, GCal/h	Commissioning of the last turbine
Nevsky Branch			
Central CHPP	78.5	1,414	1950
Pravoberezhnaya CHPP-5	244	1,432	2006
Vasileostrovskaya CHPP-7	85	1,084	1964
Dubrovskaya CHPP-8	192	185	1958
Pervomayskaya CHPP-14	330	1,773	1962
Avtovskaya CHPP-15	291	1,814	2000
Vyborgskaya CHPP-17	255	1,060	1969
Severnaya CHPP-21	500	1,188	1983
Yuzhnaya CHPP-22	800	2,250	1998
Volkhovskaya HEPP-6	83	-	1996
Cascade of Svirskiye HEPPs	259	-	2003
Cascade of Vuoksa HEPPs	164.3	-	1947
Narvskaya HEPP-13	125	-	1955
Total for Nevsky Branch	3,406.80	12,200	
Karelsky Branch			
Petrozavodsk CHPP	281	689	1999
Cascade of Vygskiye HEPPs	240	-	1967
Cascade of Kemskiye HEPPs	330	-	1991
Cascade of Sunskiye HEPPs	50,6	-	1954
Group of mini-HEPPs	12,3	-	1947
Total for Karelsky Branch	913.60	689	
Kolsky Branch			
Cascade of Nivskiye HEPPs	569.5	-	2005
Cascade of Pazskiye HEPPs	187.9	-	1970
Cascade of Tulomskiye HEPPs	324.0	-	1994
Cascade of Serebryanskiye HEPPs	511.4	-	2003
Apatity CHPP	323.0	735	1963
Total for Kolsky Branch	1 915.80	735	
Total for TGC-1	6,236.4	13,624	
Murmansk CHPP	12.0	1,111	1963
Total, including JSC Murmansk CHPP	6,248.4	14,735	

The transport infrastructure of TGC-1 is made up of heating grids with a total length of 940 km, 794.7 km (200 to 1,400 mm pipelines) of which are reported in the balance sheet of the Heating Network enterprise of Nevsky Branch, 20.3 km are owned by Karelsky Branch, 29.5 km belong to Kolsky Branch and 101.6 km are run by Murmansk CHPP.

The efficiency ratio for installed capacity usage in TGC-1 generally is estimated to be 55%, including 68% for HEPPs and 45% for CHPPs.

A critical factor which affects the Company's performance is the considerable depreciation of its generating plants and heat networks facilities. Thereby, one of TGC-1's key obligations is reconstruction and technical re-equipment of the Company's production facilities.

Future Development

According to forecasts of Ministry of Economic Development and Trade of Russia (MEDT of Russia), GDP may increase by about 6% annually on average. Industrial production in Russia is expected, according to said estimates of MEDT, to grow in 2007 by 4.2% and by 4.5% in 2008. Average annual electricity consumption growth rate may total up to 5%.

Electricity consumption in Saint-Petersburg and the surrounding region is expected to increase by up to 7% per year, in the Republic of Karelia – up to 5% annually, and in Murmansk Oblast – up to 3% per year. In the autumn-winter period 2005-2006, St. Petersburg, the second largest city of Russia, has shown the historical maximum rate of electricity consumption, being about 4.3 thousand MW. The estimate of heat demand in the region shows that the annual average consumption of heat over the next 10 years may exceed 3.5%.

TGC-1 passed a series of stages in 2006 which became a solid basis for future development. The Company Strategy and investment program up to 2015 were approved.

As specified in JSC «TGC-1» Development Strategy, implementation of the investment program will form the basis for economic growth and social development of the North-West region, secure reduction of negative environmental impact, and meet increasing demand for energy.

The investment program provides financing of construction and reconstruction of power generation units in four constituents of the Russian Federation in which JSC «TGC-1» operates. Furthermore, the Company plans to hold a large scale reconstruction of heat networks in St. Petersburg.

JSC «TGC-1» will invest over 130 billion rubles for implementation of the investment projects up to 2015.

JSC «TGC-1» installed electricity capacity will increase by 3,549 MW as a result of implementation of the Company's investment program for 2006-2015, while installed heat capacity will increase by 2,348 GCal/h.

Consolidated volume of new capacities to be commissioned

	Electricity, MW		Heat, GCal/h	
	Commissioning	Growth	Commissioning	Growth
By 2015	4,793	3,549	4,475	2,348

The main targets of TGC-1 policy related to technical re-equipment and reconstruction of power plants are as follows:

- economically justified replacement of worn-out and inefficient equipment;
- activities for reasonable usage of fuel and power resources;
- implementation of rational nature management.

In 2006, the Company spent a total of RUR 1,891.5 mln for technical re-equipment and reconstruction of fixed assets, as well as RUR 1,707 mln for construction of new objects.

The total scope of investments in 2006 amounted to RUR 3,598.5 mln, including RUR 3,344.8 mln for Nevsky Branch, RUR 150.3 mln for Kolsky Branch, and RUR 103.4 mln for Karelsky Branch.

Investments into new construction and reconstruction of power plants amounted to RUR 1,907.6 mln (53% of investments), while funds for reconstruction of heat grids amounted to RUR 1,443.5 mln (40% of investments).

In 2006, the first generating unit of Pravoberezhnaya CHPP-5 with a capacity of 180 MW was commissioned in Saint-Petersburg. Most of the control systems, environmental protection technologies and the automation level which were applied at the new CHPP have no analogues in Russia. Commissioning of a new turbine unit at Avtovskaya CHPP-15 is now being completed. Projects for reconstruction of Pervomayskaya CHPP-14, Vasileostrovskaya CHPP-7 and Central CHPP are almost ready for execution. The Company also started overall reconstruction of the hydro assets in Leningrad Oblast and the heat networks complex of St. Petersburg.

In Kolsky Branch, the turbine at hydroelectric generating unit No. 3 in HEPP-3 with a capacity of 38.5 MW was renovated, while outdoor switchgear of 150 kV was reconstructed at HEPP-16. Much work was done at HEPP-7; considerable efforts were also taken to prepare hydroelectric generating unit No. 1 at HEPP-3 to renovation, to replace out-of-date equipment at plants and to carry out design and survey works at HEPP-5 and HEPP-13.

The waste water treatment unit was installed and surge suppression devices were replaced at Putkinskaya HEPP in Karelsky Branch. The excitation system was updated at the Matkozhnenskaya HEPP. Large work was done at Ondskaya HEPP. Works for reconstruction of pipelines at Petrozavodsk CHPP were completed, while equipment for construction of Diesel Power Plant at Valaam Island was supplied. The control system at the Paleozerskaya HEPP was put into operation.

Investment program implementation will not only ensure the Company's values sustaining but, according to the experts, it will as well enable the North-West region development. It fully relates to TGC-1's operation in both electricity and heat markets.

Interactions With Consumers

In 2006 electricity deliveries by TGC-1 totaled 23,527,136 thous kWh, heat deliveries – 22,190,026 GCal.

Almost entire volume of electricity produced by TGC-1 sold in the Federal wholesale electric power market. One of the key results of the year is that the Company had an opportunity to assess its capabilities to operate under new power market conditions. On September 1, 2006, the new regulations of the wholesale electric power (capacity) market were put into force by a decree of the Government of the Russian Federation. In accordance with the regulations the Company sold 14.5% of the electricity it generated in the free sector of the wholesale market, and 1.9% on the balancing market. However, the majority of JSC «TGC-1» supplies are still made to the regulated sector of the wholesale market.

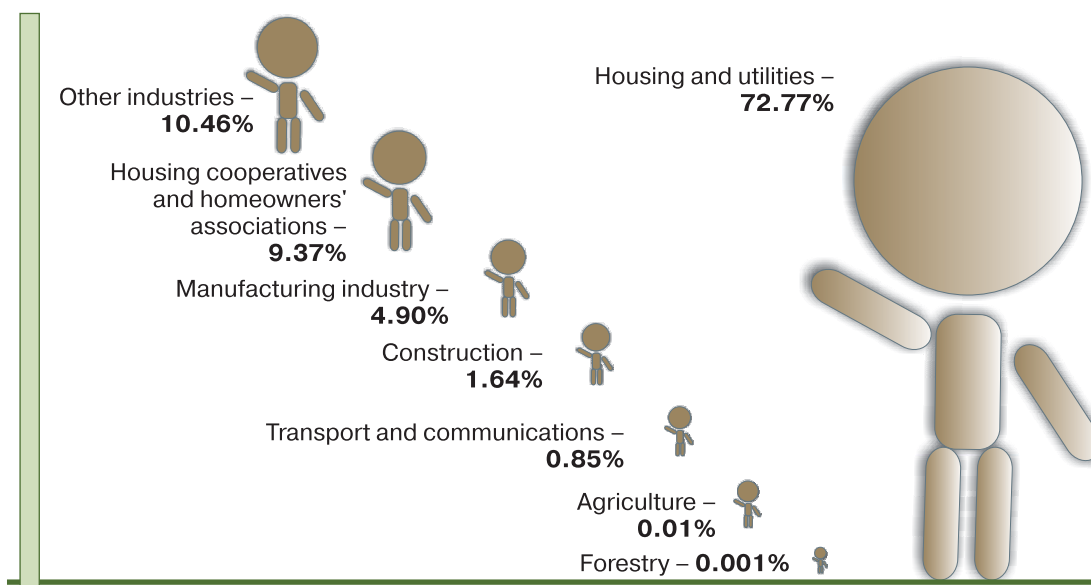
Electricity sales in 2006



Heat supplied by TGC-1 is mainly delivered to the general population. The share of retail consumers in heat deliveries is 46.8%. The next group of large heat consumers includes wholesale resellers, which account for 22.4% of total heat deliveries.

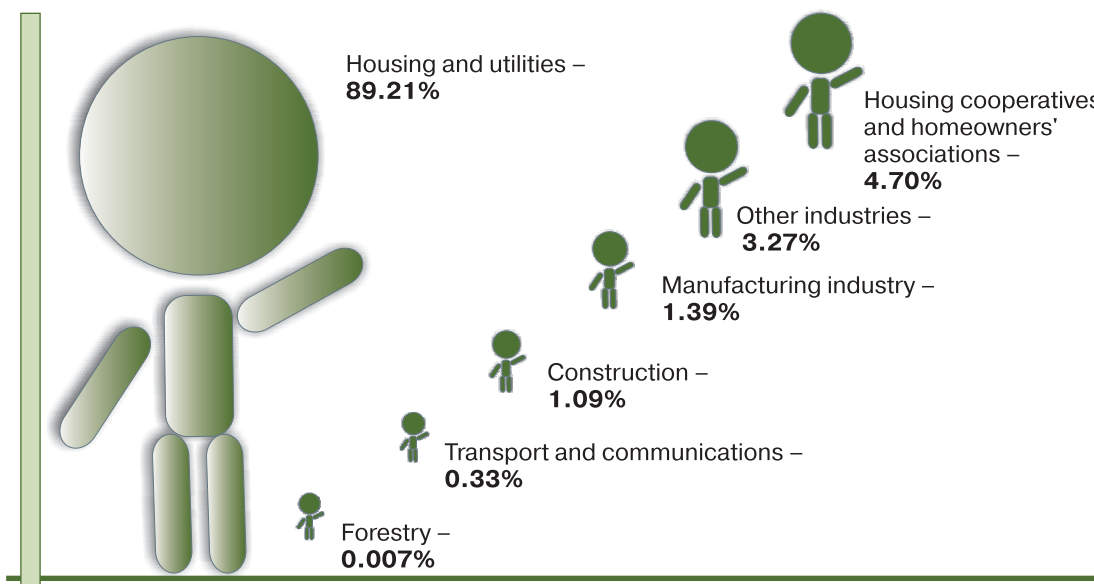
Saint-Petersburg's market accounts for the largest part of heat sales by the Company. Nevsky Branch trades 91.1% of total heat deliveries, Karelsky Branch – 7.6% and Kolsky Branch markets – about 1.3%.

Structure of heat deliveries for twelve months of the year 2006



In 2006, consumers paid for heat only in currency units. Revenue from heat sales to own consumers totaled RUR 9,152,401 thous. in 2006. Accounts receivable at the end of the year 2006 totaled RUR 1,599,505.2 thous. Utilities and retail consumers account for the largest part of accounts receivable (89.2%), followed by private sector consumers (4.7%).

Accounts receivable for heat as of 31.12. 2006 r.



B In those cases when consumers are reluctant to pay for consumed energy and condemn any solutions within the contracts they signed, the Company reserves the right to sue them in court.

To motivate the complete execution of contractual obligations by the consumers for the year 2006 results the Company held the competition «Golden support» among bonafide heat consumers in the nomination «Industrial companies, housing agencies and small-scale business».

Tariff Policy

Tariff rates in the regulated sector of the wholesale electric power market and tariff rates for heat power delivered by TGC-1 are state regulated:

- Electricity – by the Federal Tariff Service;
- Heat – by the regional regulating bodies by consumer groups.

The following tariff rates were in force for JSC «TGC-1» branches in 2006:

Electricity

		From 01.01.2006, kop./kWh	From 01.01.2007, kop./kWh	Growth, %
1.	Nevsky Branch	59.61	60.82	2.0 %
2.	Karelsky Branch	36.69	38.25	4.3 %
3.	Kolsky Branch*	19.86	20.89	5.2 %
4.	Apatity CHPP**	154.85	128.95	- 16.7 %

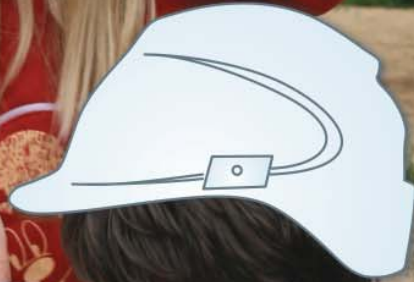
* Apatity CHPP joined Kolsky Branch on 01.11.06, therefore its tariff rates are shown separately.

** Reduction of electricity tariff rates for Apatity CHPP is due to cost re-distribution among electric and heat power.

Heat

		From 01.01.2006, RUR/GCal	From 01.01.2007, RUR/GCal	Growth, %
1.	Nevsky Branch			
	St. Petersburg	421.20	475.1	12.8 %
	Leningrad Oblast	577.20	703.5	21.9 %
2.	Karelsky Branch	279.80	327.1	16.9 %
3.	Kolsky Branch	681.00	805.0	18.2 %
4.	Apatity CHPP	477.0	549.1	15.1 %

Electricity and heat tariff rates increased in order to ensure stable operations of JSC «TGC-1» at providing reliable power supplies to consumers, and for implementing the investment program for power equipment development and retrofit. These tariffs were also set based on the growth in fuel costs and inflation rates. The plan for industry liberalization, as approved by the Government of the Russian Federation, suggests eliminate state regulation in the electric power market by 2011. Changes in tariff policy related to operations starting in new market conditions shall not result in a reduction of the living standards of the general population. The state will control the electricity tariff rates for the general population until at least 2015. Meanwhile, switching the tariff policy of to a market basis is only possible after implementation of state subsidies for poor people. Furthermore, in order to reduce risks related to tariff regulation, JSC «TGC-1» is going to follow a balanced financial policy, and thus one of its key tools is implementation of programs for reducing production costs. Moreover, power engineering specialists use a fully-responsible approach to forecasting social consequences of the tariff rate growth by engaging analysis by the leading scientific agencies.



HELMET MULTIPLIES

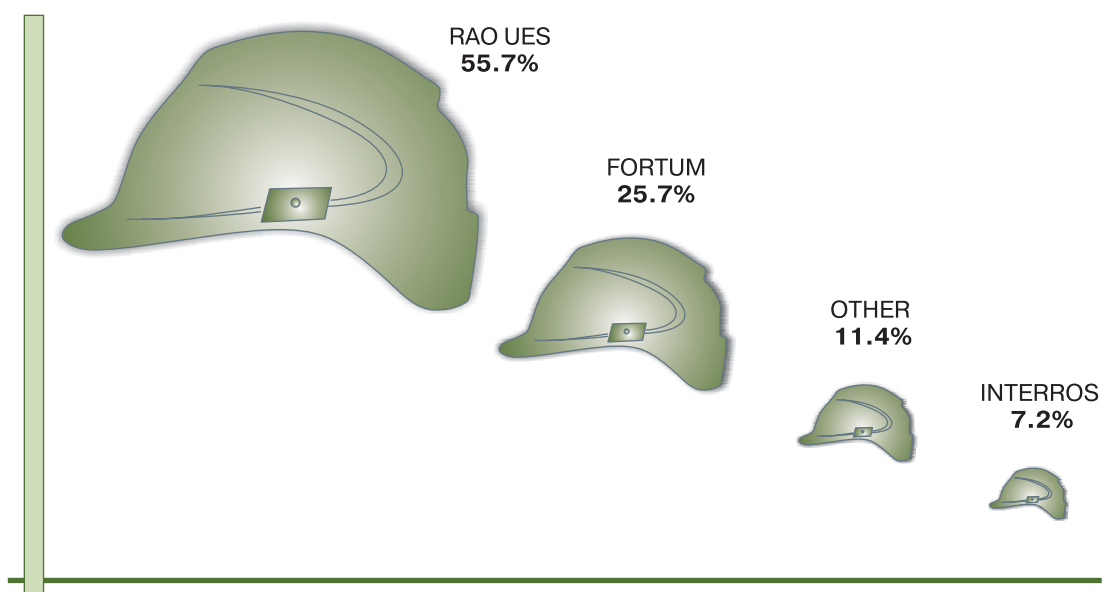
OUR POTENTIAL

CORPORATE GOVERNANCE IMPROVEMENT

Company management stability support

Share capital of JSC «TGC-1» as of March 15, 2007 amounted to RUR 29,022,224,950.57, and was divided into 2,902,222,495,057 ordinary registered shares with a nominal of RUR 0.01 each.

Share capital structure



Shareholders structure

Registered entities, including:	9,301
Legal entities – residents	60
Legal entities – non-residents	8
Individuals	9,188

The Board of Directors and management of JSC «TGC-1» govern the Company in full compliance with the guidelines of Corporate Code of Conduct (FCSM Code), recommended by the FCSM of the Russian Federation, including strict protection of shareholders and investors rights, as well as information transparency.

Common registered shares of JSC «TGC-1» were admitted for circulation to the RTS Stock exchange since December 27, 2006 and since January 9, 2007 – in the Classical market of JSC «RTS» (ticker in the Stock exchange – TGKAG; ticker in the Classic market – TGKA). The Company's shares are included in the section of the List «Securities admitted for circulation but not included in quotation lists». Acceptance of JSC «TGC-1» shares to be traded will help to ensure interim security liquidity, required for listing procedure to be included in the Quotation list «B» in the second quarter 2007. The Company's current capitalization as of the start of the year 2007 was about RUR100 bln.

Corporate Governance Structure

- **General Shareholders Meeting** is the supreme management body of JSC «TGC-1» through which shareholders exercise their right to take part in the Company's management;
- **Board of Directors** is a management body of the JSC «TGC-1» responsible for development of the Company's strategy, overall governance of the Company and control over the activity of its executive bodies. In 2006, the Board of Directors of TGC-1 consisted of 11 members: 4 representatives of JSC RAO «UES of Russia», 3 representatives of Fortum Power and Heat Oy, the General Director of the Company, a regional representative, a representative of INTERROS, and a representative of Halcyon Advisors. Remuneration paid to the members of the Board of Directors totaled RUR 6,228,829 in 2006.

For the purpose of improving the efficiency of decision-making in the Company, four **committees** are running at the **Board of Directors**:

- business strategy committee,
- audit committee,
- remuneration and human resources committee,
- reliability committee.

The membership of the committees, comprised of shareholders' representatives, management's and regional authorities' representatives, is subject to approval by the Board of Directors. In 2006, 19 meetings of the committees were held to discuss organizational matters, issues relating to financial and business operations of TGC-1, which were then submitted for consideration by the Board of Directors. Shareholders' representatives work in the committees by order and at the expense of the shareholders. Only independent members of the committees are repaid for costs they incur in relation to participation in committee's meeting.

- **The Company's Management Board and General Director** are the management bodies of the Company, which govern its current activities and implement the strategy established by the Board of Directors and the General Shareholders Meeting. Remuneration to members of the Management Board is paid in accordance with the Rules of stimulating remuneration to top managers of JSC «TGC-1». No remuneration to members of the Management Board was paid in 2006.
- **Auditing Committee** is the supervisory body controlling the Company's financial and economic activities, accountable directly to the General Shareholders Meeting.

Principles of Corporate Governance

- **Fairness.** JSC «TGC-1» undertakes to protect shareholders' rights and ensure an equal attitude to all shareholders.
- **Legality.** JSC «TGC-1» operates in full compliance with the current laws of the Russian Federation, and well-known international legal regulations and international contracts of the Russian Federation.
- **Transparency.** While publishing information on itself, TGC-1 does not limit it to data, which is subject to disclosure in accordance with applicable Russian regulations and rules, but provides additional information, which ensures a high level of transparency of the Company's operations.
- **Responsibility.** JSC «TGC-1» accepts the rights of all interested parties, provided by effective laws, and is eager to cooperate with them for its further development and financial stability.

One of the most efficient tools for disclosing full information on the Company's activity to all interested community groups is a corporate web-site. Documentation ensuring efficient functioning of the corporate governance system, results of JSC «TGC-1» operations, information on key projects, and plans and development perspectives are all available at **www.tgc1.ru**.

In 2006, TGC-1 implemented a number of programs and arrangements to improve the corporate governance system and transparency of the Company. Among many other events, the Company held regular meetings with analysts of investment companies and banks in order to consult with them on matters of concern to the investor community. Also, new accounting practices compliant with the international accounting standards were adopted, and 2006 became the first year when the Company prepared its financial statements in accordance with IAS. In 2006 a significant work has been performed in regard to the enhancement of information awareness of North-West region community on the Company's activities. Thus, 41 press-conferences with JSC «TGC-1» executives participation have been held. The Company's Press Relations have prepared 274 press-releases in total. There were 1,968 issues, covering the Company's activities, published in the regional mass-media.

As a result of these efforts, Standard & Poor's gave TGC-1 the highest corporate governance rating among all the TGCs/WGCs (CGR-5 by the international scale, CGR-5,3 by the Russian scale).

Positive Factors of the Corporate Governance Practices

Ownership structure. The two largest shareholders of the Company – RAO «UES of Russia» and Fortum Oy – are interested in upholding the rights of every TGC-1's shareholder. Being aware of the dominating position RAO UES takes in decision-making as a majority shareholder, the Company endeavours to build strong and collaborative relationships with minority shareholders.

Members of the Board of Directors. A balanced list of the Board of Directors, reflecting the structure of the shareholders which helps to ensure active participation of all shareholders' representatives in discussion of strategic decisions.

Independent auditing. JSC «TGC-1» engages international independent auditing companies for analysis of its activities.

Objectives for 2007

Ensure market value growth

- Inclusion of JSC «TGC-1» securities on the «B» quotation lists of Russian stock exchanges and increasing the liquidity of the Company's shares;
- Improvement of investor cooperation quality and efficiency.

Corporate governance optimization

- Implementation of a corporate social reporting system and non-financial risks management;
- Improvement of the Company's corporate governance rating;
- Conduct of a reputation audit in order to identify the groups and organizations taking interest in TGC-1's operations, and to determine to what extent their expectations match the goals of the Company's management and staff;
- Development of a reputation management strategy for TGC-1.

HELMET IS THE TOP



OF A HIGH LEVEL DESIGN



PERSONNEL POLICY

Meeting employees' labour rights, ensuring labour safety, and supporting employees' professional and personal development

One of the major strategic objectives of TGC-1 is continuous improvement of the Company's leading positions in Russian and European power markets, which is impossible without high human resources potential since human resources are a key production element. Human resources management development strategy is an integral part of TGC-1 overall strategy, which contributes to financial and economic stability, profitability and dynamic development of the Company.

Staff Characteristics

On December 31, 2006, the Company employed 8,490 persons. The workforce in the whole system grew in the past year by 1,068 employees, while production staff increased by 1,136 persons.

**Dynamics of JSC «TGC-1» workforce
for the 4th quarter of 2005 – 2006,
including production staff**

	Headcounts, persons			
	As of 31.12.2005		As of 31.12.2006	
	Total	Production staff	Total	Production staff
JSC «TGC-1» management	337	337	374	374
Administrative and Service Company	92	10	21	11
Nevsky Branch	5,579	5,484	5,684	5,585
Karelsky Branch	716	716	904	904
Kolsky Branch	698	698	1,507	1,507
TOTAL SYSTEM	7,422	7,245	8,490	8,381

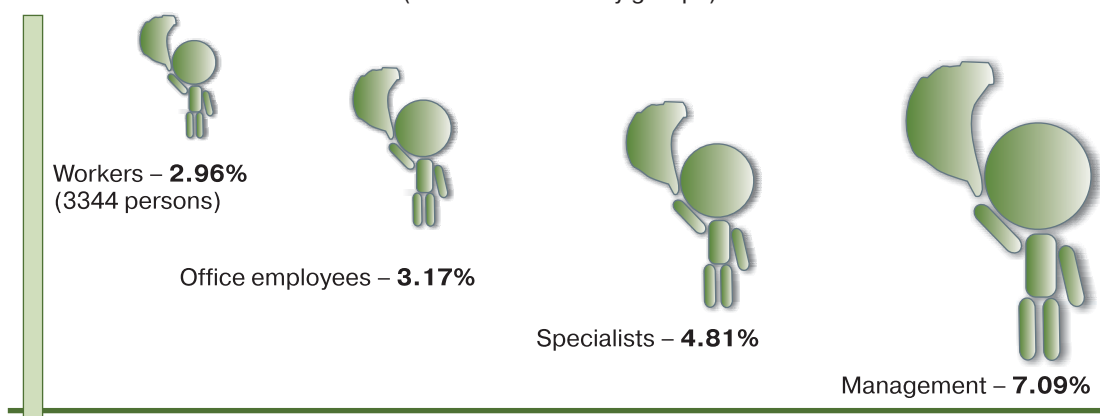
The increase in staff was due to:

- Acquisition of Apatity CHPP, Kolsky Branch – 713 employees;
- Recruitment of repair staff in Kolsky Branch – 77 employees, and in Karelsky Branch – 157 persons;
- Recruitment of 26 new employees at the new generating unit of Pravoberezhnaya CHPP – 5.

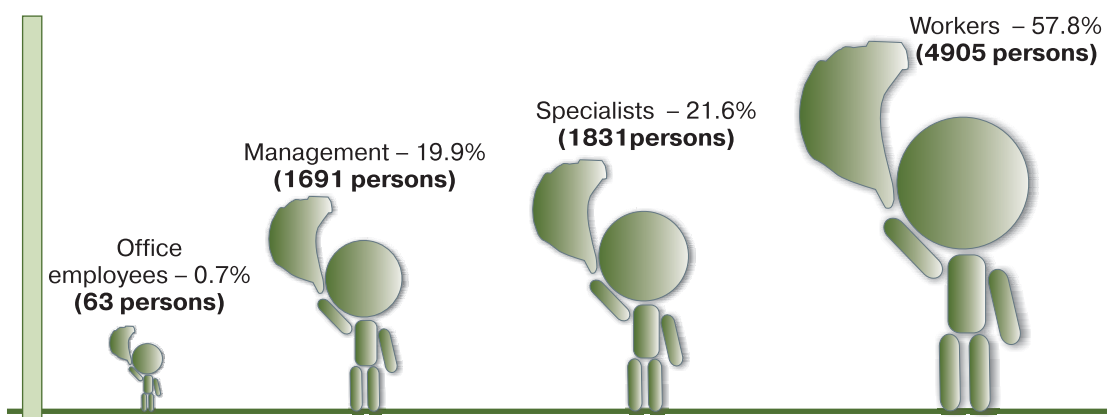
Over 2006, 2.96% of managers, 4.81% of engineering staff, 3.17% of office employees and 7.09% of workers were dismissed due to poor performance or some other reason.

Data on manpower turnover at JSC «TGC-1»

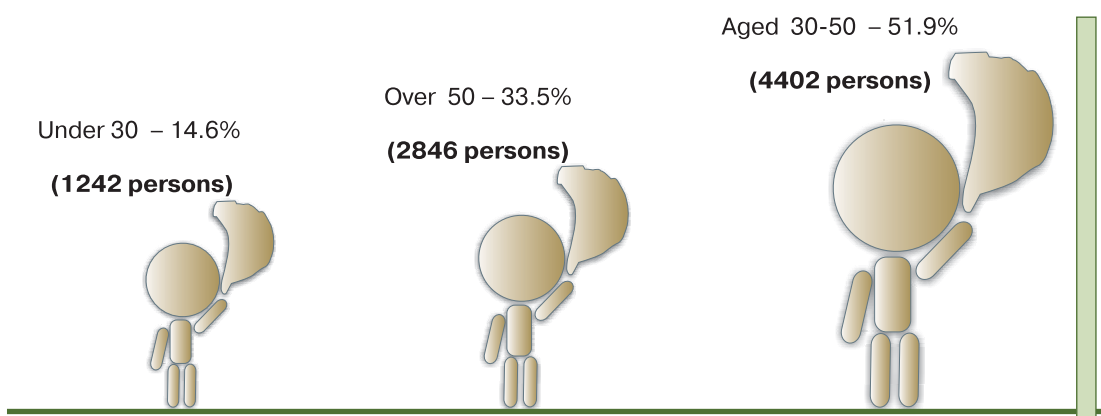
Amount of employees dismissed without any reasonable excuse
(in % to total staff by groups)



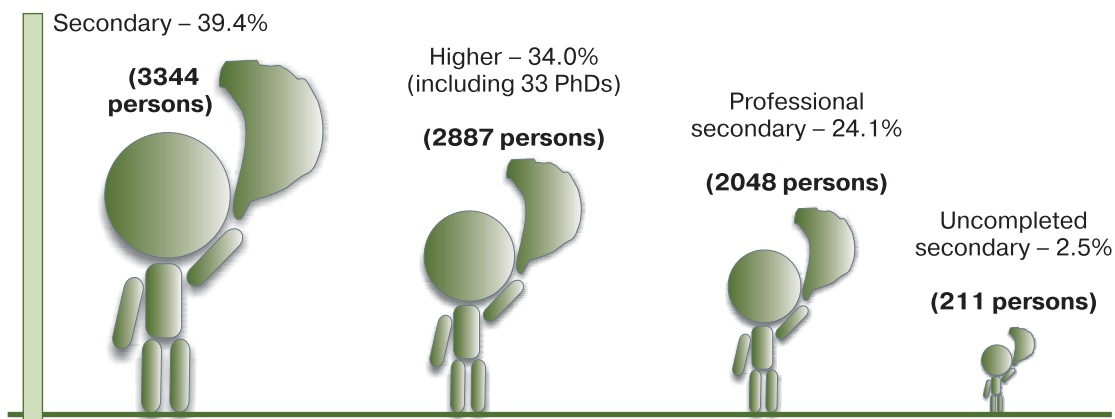
Structure of JSC «TGC-1» staff as of December 31, 2006



Age structure of JSC «TGC-1» as of December 31, 2006



Qualitative structure of JSC «TGC-1» staff as of December 31, 2006



Workforce social makeup

Item, units	Value
Share of women in total staff, %	35.9
Share of women in total staff with annual salary over 360 thous. RUR, %	4.3
Share of disabled people in total staff, %	0.7
Share of working pensioners, %	11.1
Share of young employees aged under 30, %	14.6

Salaries and Emoluments

During the year 2006 the wages indexation of JSC «TGC-1» employees increased in accordance with consumer price growth in the region under the Collective Agreement of JSC «TGC-1».

From January 1, 2006 tariff rates and salary rates of the employees of TGC-1's management, as well as Nevsky Branch and Administrative and Servicing Company were increased by 3%, while in Kolsky and Karelsky Branches salaries were increased by 2.1%; from April 1 the wages of TGC-1 employees were increased by 5%; from October 1, the wages of employees of TGC-1 managers, the Nevsky Branch, and the Administrative and Servicing Company were increased by 3%, while in Kolsky Branch they were increased by 3.7% and in Karelsky Branch by 3.56%.

The average salary rate in JSC «TGC-1» in 2006 amounted to RUR 22,955, which is 21.3% more than in the fourth quarter 2005.

Staff Motivation, Social Privileges and Security

JSC «TGC-1» sees its human resources as its key asset. The Company provides any possible opportunities for its employees to show their personal qualities and professional skills. In March 2006 a new Collective Agreement of TGC-1 for 2006-2007 was signed.

In 2006 a number of actions were taken to improve the pay and incentive system:

- Employment Agreements were entered into with all TGC-1's employees in accordance with the Labour Code of the RF.
- The salaries of specific power plants groups were increased and a bonus payment total of 10% of salary rate was established to operators (shift employees) based on marketing studies of wages in St. Petersburg for specific positions and specializations, and further comparative analysis with wages in the Company.
- Regulations on procedure for additional remuneration to JSC «TGC-1» employees for key efficiency parameters achievement was developed and approved. The branches' employees were paid bonus payment for the second and third quarter 2006 according to these Regulations.

To support future pensioners in terms of their pension rate increase, in 2006 TGC-1 entered into an agreement with «Private Retirement Power Engineering Fund».

The set of social guarantees provided to JSC «TGC-1» employees includes securing employees with a voluntary health insurance program. To ensure safe employment and to protect health of the staff, TGC-1 entered into an agreement with ZAO «Medventure». Also, in 2006, agreements for voluntary health insurance of Nevsky Branch employees were entered into with OOO «Rosgosstrakh North-West», for Karelsky and Kolsky Branches' employees - with ROSNO insurance company. The agreements include a considerably extended scope of medical services to be provided as compared to previous agreements by adding new insurance programs. Apart from regular health insurance related to treatment in medical clinics, examination and treatment in hospitals, and emergency medical assistance and rehabilitation treatment, the following new insurance programs were added:

- dental service insurance;
- emergency medical insurance for Russian citizens at a distance over 500 km from their permanent residence within the Russian Federation;
- insurance of employees going abroad.

Social payments to JSC «TGC-1» employees and pensioners, cultural and sport events cost, deductions to the trade union for social needs and remuneration paid to trade union chairmen amounted to RUR 110,697.9 thousand in 2006. Compensation paid for electricity and heat for employees amounted to RUR 30,461 thousand in 2006, and RUR 6,434.5 thousand for pensioners. RUR 350 compensation is provided to employees of Nevsky Branch and management of JSC «TGC-1». Karelsky Branch's employees and pensioners are entitled to a fifty-percent discount on electricity and heat, but no more than RUR 500 per month.

In 2006 a big step was made to equalize social privileges and guarantees provided to employees and pensioners of various branches within JSC «TGC-1»: in Kolsky Branch compensation for electricity and heat to pensioners was established (these social privileges had been missing) while compensation for heat and electricity to the current employees was increased by 50%.

The Company's employees get a lumpsum stimulating payments to their wages in the amount of the salary rate as of the date of leaving on vacation. In 2006 these payments amounted to RUR 53,361.9 thousand. JSC «TGC-1» provides material support exceeding amounts established by laws for child birth, marriage, and funerals of close relatives. In 2006 the Company spent RUR 2, 906.9 thous. on allowance to employees in relation to said events.

TGC-1 provides benefits to families with children: it pays daycare fees and costs of sending a child to a recreation camps to families in which income per family member does not exceed the base salary of a first-class worker. To employees having children aged under 1.5 and 1.5–3 monthly child care allowance is paid. In 2006 the above payments amounted to RUR 1,031.5 thousand.

TGC-1's employees may also get the Company's support in case of difficult material situations (as a result of Acts of God, fire, theft, etc.). Allowances to employees totaled RUR 1,332.3 thousand in 2006.

According to the social program adopted by TGC-1, the Company arranges for treatment of its employees at a health resort and provides employees and members of their families with summer recreational opportunities.

JSC «TGC-1» allocated 56 tours for health treatment in 2006.

682 employees of the Company spent their leave in health resorts of Leningrad Oblast, Karelia and the Krasnodar region as per the health-improvement recreation program.

JSC «TGC-1» employees' children (621 persons) got an opportunity to pass their summer holidays in the children's recreation camp «Grenada» (Azov sea), «Luch» (Leningrad Oblast) and «Forest Fairy-tale» (the Republic of Karelia).

Being the successor to Lenenergo, Kolenergo and Karelenerogo, TGC-1 carries out the obligations these companies assigned in relation to assistance and support to veterans and retirees, of which 1,257 are supported by Nevsky Branch, 323 by Karelsky Branch and 313 by Kolsky Branch. With assistance from the Veterans' Council, some of these aid programs were considerably extended.

Nevsky Branch provided the following financial aid to non-working pensioners in 2006:

- on the occasion of the Victory Day and Power Engineer Day, a total of RUR1,217.5 thousand;
- on the anniversary occasions, a total of RUR 516.7 thousand.

Karelsky Branch provides quarterly material support to retired pensioners in accordance with the Regulations on material support to retired pensioners. In 2006, total payments amounted to 4,689.5 thousand RUR.

In 2006 Kolsky Branch paid the following material support to pensioners:

- on the occasion of Victory Day, the 70th anniversary of the Kola Power system, and Aged Person's Day, a total of RUR 350.7 thousand;
- individual material support total of RUR 60 thousand.

In 2006 JSC «TGC-1» allocated funds for employee remuneration on occasion of the Power Engineer Day. Also the women staff was remunerated on the occasion of Women's Day on March 8th.

It is very important for employee stimulation to reward employees for professional achievements, and give awards and titles.

In 2006 a total of 22 employees of the Company received awards and titles from the Ministry of Energy of the Russian Federation, while 48 employees received awards and titles from RAO «UES of Russia», and 30 employees – diplomas and thanks from the Governors of St. Petersburg and Leningrad Oblast and the Energy Committee of St. Petersburg Government.

A total of 117 employees of JSC «TGC-1» received the plaque «TGC-1 – 20 years of employment in power system». A total of 199 employees received the plaque «TGC-1 – 10 years of employment in power system». A total of 73 employees got diplomas of JSC «TGC-1».

Safety

JSC «TGC-1» is continuously working to improve labour environment and occupational safety in order to optimize health and survival safety of the Company's staff. The Company does so with certified individual protection devices and tools for safe work provision, as well as medical support of the production process.

JSC «TGC-1» actions for labour protection:

- ensuring working environment to all employees in accordance with applicable occupational safety regulations;
- allocating funds for improvement of labour environment and sanitary and health-improving arrangements;
- providing compulsory social insurance for JSC «TGC-1» employees against accidents and professional diseases in accordance with requirements of the applicable laws of the Russian Federation;
- production control, including by means of laboratory testing and studies, of sanitary rules compliance and sanitary (preventive) activities;
- training on occupational safety, safety arrangements and precautions, as well as on-the-job training.

The Company's objectives for safety improvement are:

- corrective works to prevent production injuries in accordance with analysis of injuries from previous years;
- optimization of the training system and pre-attestation training of labour protection specialists; employees dispatching for training and pre-attestation training;
- ensuring provision of preparation arrangements before the start of repair activities and the autumn-winter maximum electricity consumption period in order to increase staff readiness for operations in emergency situations (advanced training, instructions on actions in case of emergency situations, training on simulators, analysis of situations which used to result in accidents, equipping emergency groups with the required tools, equipping employees with protection means, etc.);
- safety executives stimulating.

**Information on training of managerial staff,
engineering staff and employees working
at TGC-1's facilities**

№	Training	Plan	Actual	Act/Plan percent
1.	Administrative training (exercises)	17	17	100
2.	Tactics training	34	34	100
3.	Complex training	4	3	75
4.	On-site training	16	16	100
5.	Managerial staff training (total persons) including:			
	Civil Defense Academy	5	5	100
	Institute (Academy) of Skills Improvement in Civil Defense and Emergency Training centers	22	22	100
6.	Training for the managing bodies' employees authorized to resolve tasks related to emergency prevention and elimination, persons	10	10	100
7.	Off-state emergency groups training, persons	1,233	1,201	97.4
Total		1,341	1,308	97.5

**Information on training of managerial staff,
specialists and employees working at TGC-1's facilities**

Trained groups	Total	Training center, civil defense courses	In structural divisions
Heads for civil defense, deputy heads for civil defense, head of the emergency center	91	11	80
Heads of the off-staff emergency group	175	46	129
Members of the off-staff emergency group	1,058	35	1,023
Heads of civil defense training	249	91	158
Employee, not included into the off-staff emergency group	7,180	7	7,173
Total	8,753	190	8,563

**Provision of individual protective means to personnel working
in areas exposed to possible hazards**

Staff provision with individual protection means and status changes for the year (% to the demand) in the areas:				
Chemical contamination / including with release time up to 10 min			Radioactive contamination / including with release time up to 10 min	
Gas-masks	Additional cartridge DPG-3	Antidotes from AHOV	Respirators	Radioprotectors
100/-	71/-	Her/-	72/-	100/-

JSC «TGC-1» provides continuous environmental monitoring and control, analysis of the impact of negative factors on employees' health in day-to-day activities, monitoring of power equipment operation by the industrial safety control department, labour protection and safety department, chemical shops and operators (61 divisions, 380 persons).

Supporting Employees' Potential Development

Development of JSC «TGC-1» staff includes employee (re)training and skills improvement, and execution of programs for cooperation with reserves and young employees by holding various corporate activities and professional skills competitions.

Objectives of staff training:

- Make the skills of employees of the power system comply with changes of production conditions and requirements;
- Prepare employees to occupy new positions;
- Resolve R&D and economic tasks;
- Extend studies and practical mastering of up-to-date scientific progress, techniques, technologies, up-to-date enterprise control methods and work organization in the specific work domain.

A total of 3,995 employees of the Company passed professional training, including skills improvement, a master's degree, or second specialization achievement in 2006.

In accordance with the «Regulations for cooperation with personnel reserves», the Company provided continuous works for revision of the reserve resources and their training in 2006.

Reserve resources training is carried out according to a complex program and includes management, economics, human resources management and other topics required for further career and management activities.

JSC «TGC-1» practices the following reserve employees training methods:

- periodic personnel appraisal;
- training by directions recommended after the appraisal;
- training for leadership positions in accordance with the activity the employee is engaged in;
- professional training;
- training for engineering staff and reserve managers abroad under programs developed specially for TGC-1;
- training at courses on «Efficient Management Technologies»;
- exchange of experience;
- conduct of seminars and trainings;
- training under the President's Program.

In order to retain young prospective specialists and help them to adapt to the new environment, a Council of Young Specialists was established in the Company in November 2005. Its major objectives are assisting skills development, speeding up professional and social adaptation and improvement of the corporate spirit of young employees, and supporting initiatives encouraging young employees to stay within the Company.

JSC «TGC-1» also emphasizes sport development. The Company's employees participate in internal and all-Russian competitions.

JSC «TGC-1» employees took part in various competitions in 2006, including:

- The all-Russian competition «Ski track of Russia»;
- The all-Russian competition «Nations' cross race»;
- The cross race «Siniavino heights»;
- Winter sports competition of JSC RAO «UES of Russia» (within the team of the North-West region) – Fourth place;
- All-Russian Minpromenergo competition in mini-football – Third place;
- St. Petersburg competition in mini-football, volleyball, basketball. Volleyball – first place. Basketball – Fourth place;
- Summer sports competition for power industry employees of the North-West region – Third place;
- Interregional competition in mini-football for Inter awards;
- Volleyball games in Kingissep – First place.

JSC «TGC-1» also held competitions among subdivisions and personal competitions in chess, ping-pong, slalom and volleyball.

JSC «TGC-1» allocates about RUR 2.5 mln per annum for sports development.

Taking into account the fact that it is impossible to achieve any strategic objectives without resource support, JSC «TGC-1» believes that one of its key tasks is to develop a uniform information space within the Company. The most efficient method to inform employees at present is the corporate newspaper «Energy of the North-West» published by TGC-1 from the very beginning of its operations. The particular hardcopy newspaper format is the most convenient and easy-to-use to most employees, compared to other internal communication means. «Energy of the North-West» is distributed to all subdivisions of TGC-1, informing employees on new allocations, changes in by-laws, resolutions of managerial bodies, and other significant events, sport, cultural and celebratory events planned and held by the Company. The newspaper includes such regular articles as «Let me introduce myself», «Everyday life of the power system», «Chronicle», «Sport» and interviews with the Company employees – from management to workers. Feedback between the editors and employees is also established.

TGC-1 started implementation of Intranet technologies in 2006. An intracorporate portal is being developed and will include a knowledge database and sections for data exchange among the employees.

Young Professionals Recruiting

Educational activity plays a key role in the social field and is aimed at development of good human resources for the power industry and, at the same time, assistance to young people in their occupational choice. To encourage young specialists with great potential to work for JSC «TGC-1», a program for cooperation with higher educational institutions and vocational schools was set up in 2006. The program is still efficiently executed. The Program members get an opportunity to receive training in TGC-1's Administration or in production subdivisions. In total, 521 students received practical training, pre-graduation or freshman training in the Company in 2006.

In July 2006 the Company held the third annual competition for the best graduation project among students of St. Petersburg and Petrozavodsk institutes and universities. A dedicated monthly S.A. Kazarov's grant was established to encourage internal students specialized in power engineering, showing good success in educational and scientific activities, and power department lecturers, looking for a creative approach to the educational process. Traditional meetings of the power complex management with students are held within the Program «TGC-1 is Open Company». Furthermore, regular tours to the Power Engineering Museum of St. Petersburg, the Company's HEPPs and CHPPs are arranged.





HELMET GIVES
YOU SHELTER
AND PEACE

ENSURING DEVELOPMENT OF THE ECONOMY AND SOCIAL DOMAIN OF THE NORTH-WEST REGION

Tax deductions, supporting civil initiatives and other forms of the Company's participation in social and economic development of the Federal subjects

JSC «TGC-1» operates within four constituents of the Russian Federation – St. Petersburg, Leningrad Oblast and Murmansk Oblast, the Republic of Karelia. The population of these regions together is over 8.7 million people. By providing electricity and heat to large industrial plants and housing facilities the Company is equally responsible for the development of each constituent of the Russian Federation. Therefore, TGC-1 considers it necessary to maintain a continuous dialogue which contributes to resolving burning issues related to social and economic development of the regions it operates in, and in the state as a whole. This dialogue means interest shown by all parties. The reliability of the power system closely depends on the community involvement in power industry issues solution since social stability itself depends to a large extent on stable operation of the power complex.

Cooperation with Local Authorities

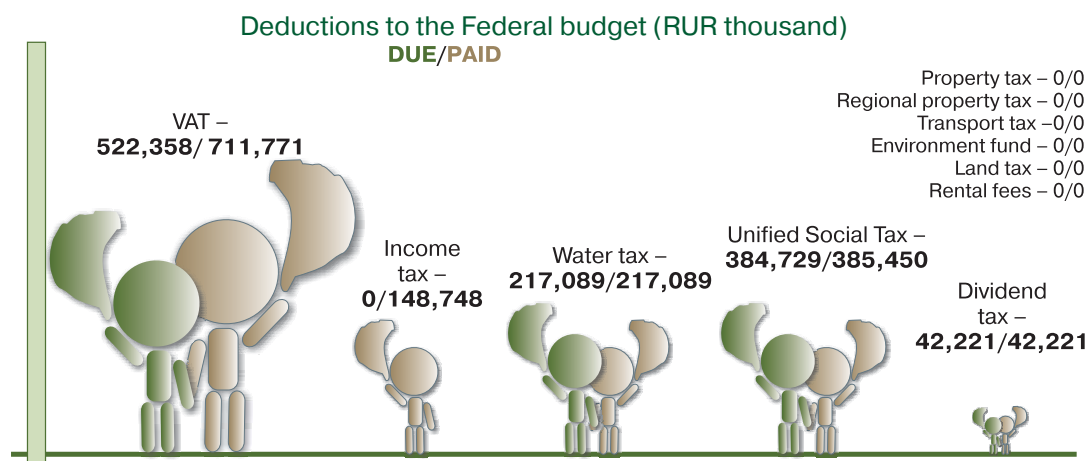
Representatives of local authorities have always been among members of the Company's Board of Directors starting from establishment of the system of JSC «TGC-1». Development of new capacities commissioning programs and perspective schedules of heating grids development is provided on the basis and in accordance with regional and municipal plans (general development plans, land usage and construction regulations) which helps TGC-1 to take into account all issues related to housing infrastructure development.

In 2006, the Agreement on implementation of first-priority activities for (re)construction of power industry objects in St. Petersburg was entered into between Valentina Matvienko, Governor of St. Petersburg, and Anatoly Chubais, Chairman of the Management Board of JSC RAO «UES of Russia». Within the framework of this Agreement JSC «TGC-1» experts developed, based on the Company's development strategy, the program of St. Petersburg power capacities technical re-equipment and expansion. The total cost of projects for TGC-1, as per the Agreement, for the period up to 2015, is estimated to be RUR 65 bln. 805 mln. It is planned to sign similar agreements with governors of other regions.

TGC-1's high-priority investment projects include the construction of a new diesel-engine power plant which will provide reliable power supply to one of the Russian Orthodox sacred places: the temple complex on Valaam Island. The Company is constructing the new power plant in cooperation with the Government of the Republic of Karelia, with assistance from the RF President's Administration. Power plant commissioning is scheduled for the end of 2007.

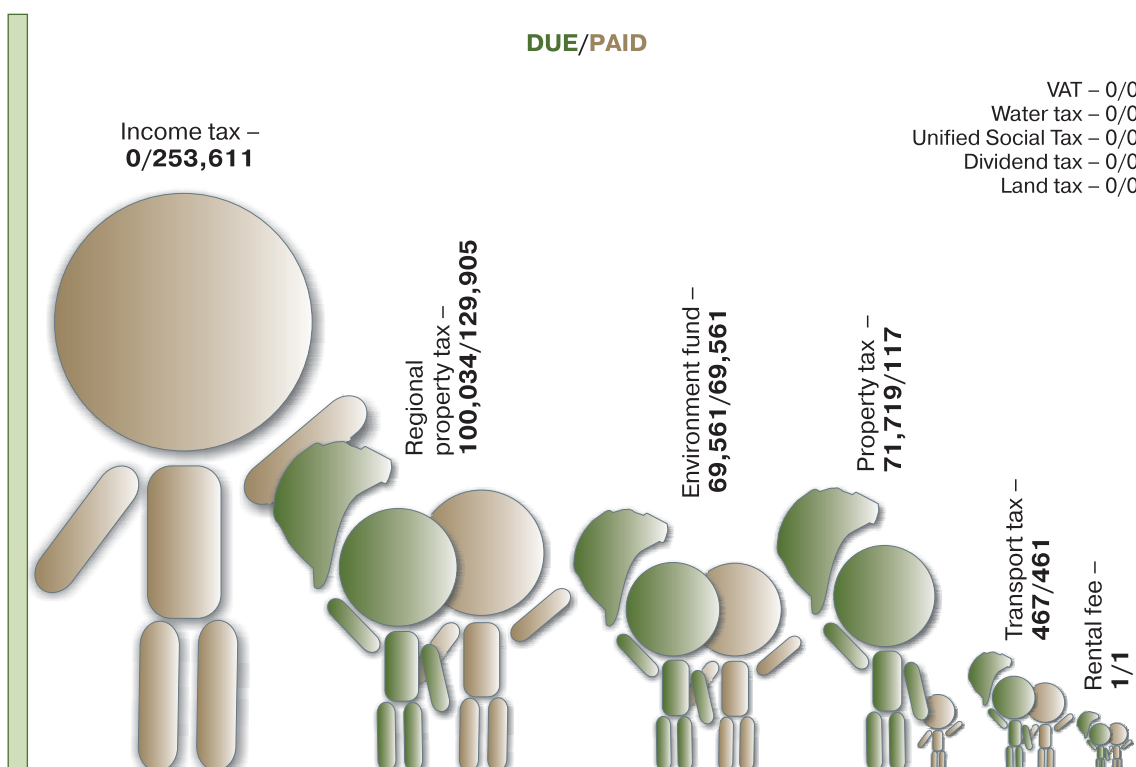
Deductions to Budgets

TGC-1 is one of the major taxpayers in the region regarding deductions to budgets of all levels, and provides a large amount of working places. Out of 8,490 employees of the Company, over 1,000 employees are occupied in Murmansk Oblast, and over 1,500 – in Karelia.



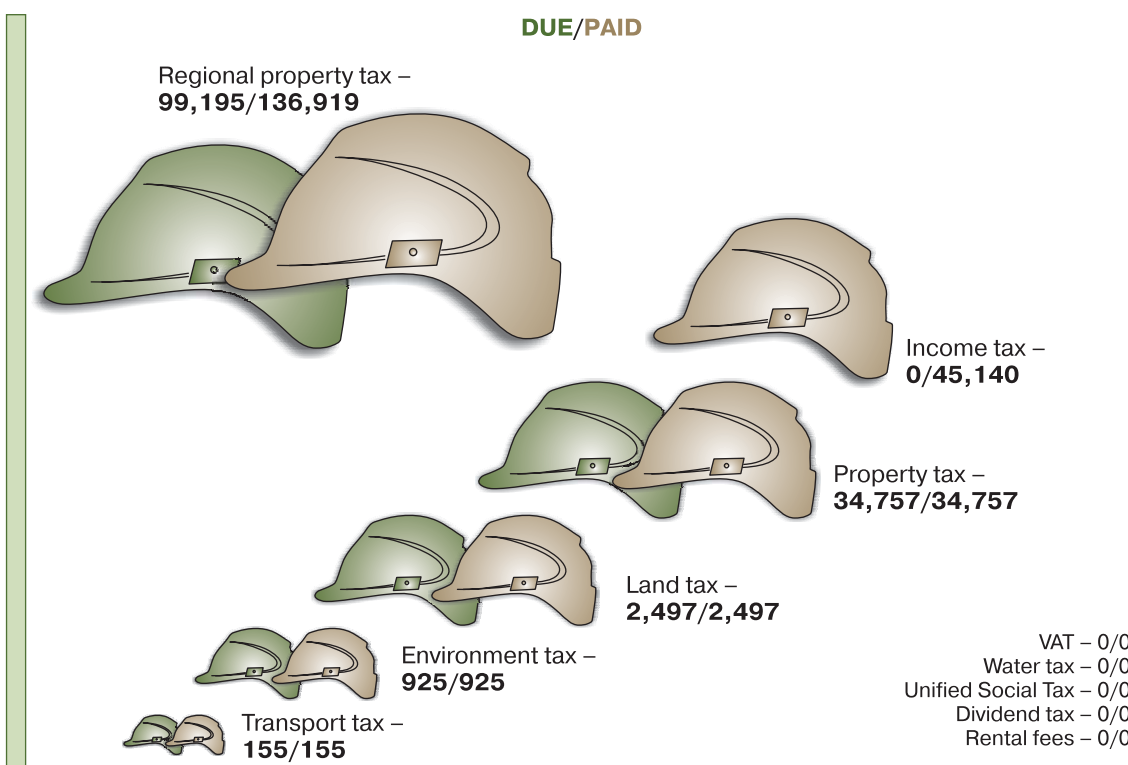
In 2006 TGC-1 was due to pay to the Federal budget taxes and dues of RUR 1,166,397 thous.; actual payments totaled RUR 1,505,279 thous.

Deductions to the budget of St. Petersburg (RUR thousand)



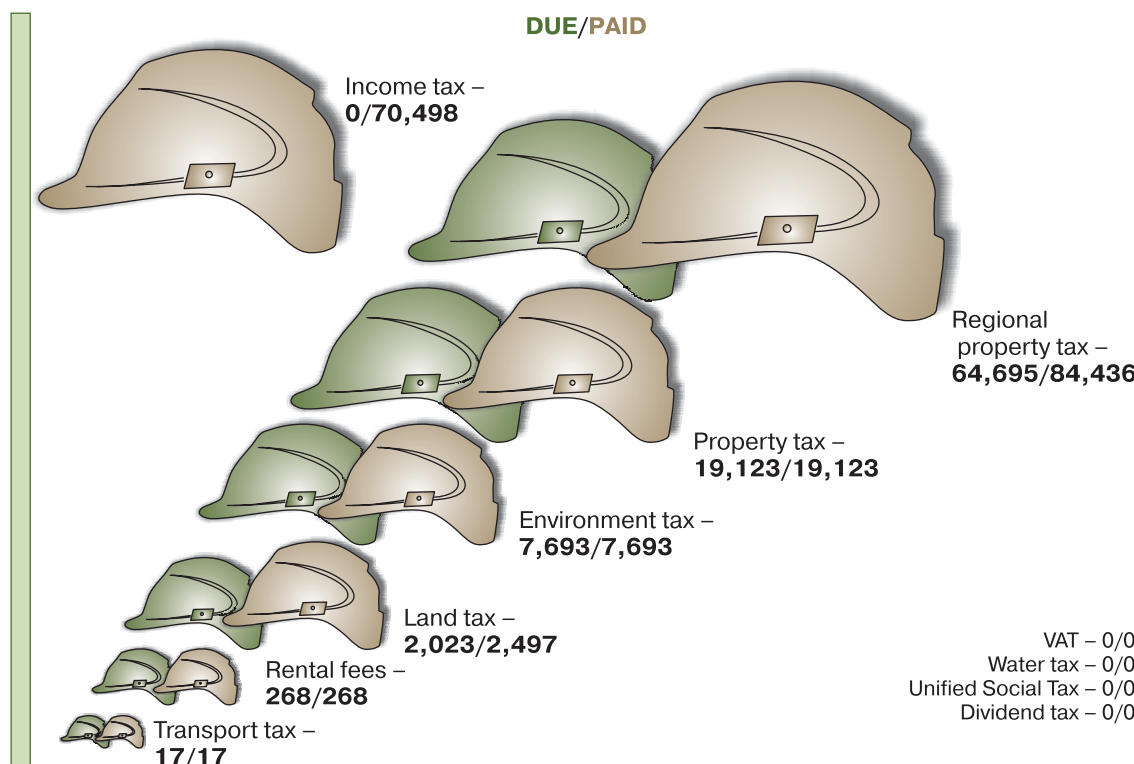
In 2006 TGC-1 was due to pay to the budget of Saint-Petersburg taxes and dues of RUR 171,753 thous.; actual payments totaled RUR 383,633 thous.

Deductions to the budget of Murmansk Oblast (RUR thousand)



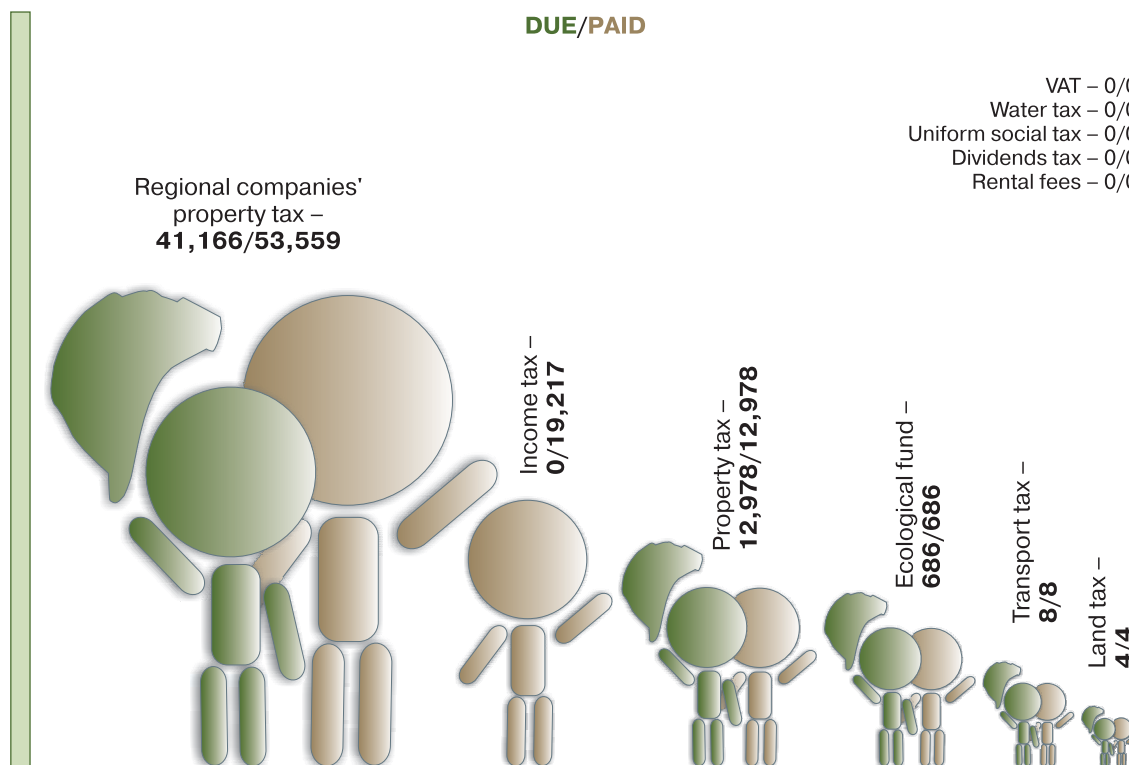
In 2006 TGC-1 was due to pay to the budget of Murmansk Oblast taxes and dues of RUR 133,952 thous.; actual payments totaled RUR 216,816 thous.

Deductions to the budget of Leningrad Oblast (RUR thousand)



In 2006 TGC-1 was due to pay to the budget of Leningrad Oblast taxes and dues of RUR 83,718 thous.; actual payments totaled RUR 173,957 thous.

Deductions to the budget of the Republic of Karelia (RUR thousand)



In 2006 TGC-1 was due to pay to the budget of Karelia taxes and dues of RUR 54,144 thous.; actual payments totaled RUR 85,754 thous.

In its operations, JSC «TGC-1» tries to do its best to keep a balance of state and community interests on the one hand, and shareholders and investors interests on the other hand. The Russian power industry is specific since it is controlled by the state – it is the state that establishes electricity and heat tariff rates and makes key solutions on industry reform. Power companies, the state, and the community must coordinate their activities to ensure an available and reliable power supply. The Company traditionally holds meetings with heads of local administrations and governing bodies (both federal and local), fuel and equipment suppliers, consumers, investors, and community representatives.

Contribution to the Spiritual and Intellectual Development of the Regions

JSC «TGC-1» pursues the following goals in developing corporate stability and social responsibility programs: to provide support to research and education, assist in arranging cultural and art events, sporting events, and encourage charitable contributions.

The Company cooperates with non-profit organizations in preparing and implementing efficient social, environmental and cultural programs.

The Company also maintains ongoing contact with profit-making organizations, non-profit organizations and individuals willing to implement initiatives in the public sector.

It's worth mentioning that from the very beginning of its operations TGC-1 has made a special emphasis on charitable and sponsor activities in the regions where it carries out its business. In doing this it concentrates on the following priority areas:

- programs for support of socially disadvantaged people;
- childhood and adolescence support programs;
- charitable help to various non-profit and religious organizations;
- assistance to sports organizations, cultural, science and educational institutions.

Charitable donations made by JSC «TGC-1» in 2006 totaled RUR 40 million, with each portion of this money being given for a particular purpose. The following organizations were chosen as priority recipients of contributions:

- culture and heritage support non-profit organizations (ROF SUNSN Centre of National Glory, NOFB Directorate for Charitable Programs Starko, the Mariinsky Theatre, World-Wide Club of Petersburgers, St. Petersburg State University Orchestra, Heritage Fund Kronstadt),
- state security bodies (St. Petersburg and Leningrad Oblast Department of the Federal Security Service of Russia, St. Petersburg and Leningrad Oblast Fire Safety Fund),
- educational and sports institutions (Dynamo St. Petersburg Basketball Team Support Fund, St. Petersburg Athletics Federation, St. Petersburg Energy Vocational School, Classical Education Support Foundation Anabasy, St. Petersburg Polytechnic University, St. Petersburg State Technical University of Vegetable Polymers),
- religious foundations (Immaculate Heart Educational and Charitable Foundation, St. Sergiy of Radonezh church parish on the Moscow highway).

Apart from support to various foundations and non-profit organizations TGC-1 also has its own public initiatives and projects.

TGC-1's Social Programs

Children, Youth and School Support:

- «Talented Children» Program supporting talented children from low-income families (in cooperation with the Child Protection Foundation);
- introduction of a new curriculum module, «Energy Saving and Energy Consumption Safety», to the secondary school Life Safety Fundamentals course in those regions where TGC-1 carries out operations;
- maintaining traditional competitions of art works, essays and photos devoted to energy-related issues;
- support to orphanages and foundations in the regions where TGC-1 operates;
- joint projects with universities, institutes and colleges;
- arrangement of competitions of qualification papers in universities and institutes;
- introduction of a system of grants and extra incentives to students and lecturers;
- Open Days for schoolchildren and students of power industry related educational institutions;
- enabling students or power industry related educational institutions located in the regions to get hands-on executives with students of power industry related universities and institutions.

One of the most important TGC-1's long-term projects is the «Energy Saving and Energy Consumption Safety» curriculum module, which is being introduced within the Life Safety Fundamentals school course. This program was prepared by power industry representatives in cooperation with experts from the St. Petersburg Post-Graduate Pedagogical Education Academy and with assistance from OOO «Helios-Media». In practice, the project covers a wide range of issues, including the setting up and teaching of the new discipline, preparation of teacher's materials, introduction of the relevant nomination to the program of city school competitions in Life Safety Fundamentals, and providing guided tours for schoolchildren to facilities of JSC «TGC-1». It is planned first to introduce the new program in Murmansk Oblast and the Republic of Karelia, and after that to apply this experience and get approval of the program at the national level. The value of the new module in the school curriculum was confirmed by teachers of Life Safety Fundamentals in the course of an all-Russia meeting held by the Russia's Ministry of Education in 2006. The necessity for the preparation of this program is that, though the Life Safety Fundamentals course has been taught in secondary schools during the recent ten years, no attention has been paid in the junior school and in the senior school within the framework of this course, even to the simplest safety measures that should be taken when using electricity.

In 2006 the project «Introduction to the Life Safety Fundamentals Secondary School Course of the Energy Saving and Energy Consumption Safety Curriculum Module», prepared under the initiative of TGC-1, got the Silver Archer National Prize award in the public relations nomination.

A responsibly run business in the modern community means support by business of initiatives from other organizations. TGC-1 is a member of:

- St. Petersburg Union of Entrepreneurs and Industrialists (Employers);
- St. Petersburg and Leningrad Oblast Trade and Industry Chambers;
- National Council on Corporate Governance (NSKU);
- Russian Public Relations Association (RASO);
- Association of Investor Relations Professionals;
- All-Russia Association of Power Industry Employers (RaEI association).

JSC «TGC-1» supports the non-profit partnership Innovations in the Power Industry.

In 2006 General Director of JSC «TGC-1» was a member of the World-Wide Club of Petersburgers.

In 2006 General Director of JSC «TGC-1» was awarded a certificate of honour from the Board of Trustees of the Russia National Glory Centre «The Service of the Country: Events and Names».

HELMET PROTECTS



MINIMIZING ENVIRONMENTAL IMPACT

Improving life conditions, minimizing the adverse impact on the environment and contributing to more efficient, safe and reduced power consumption

General Guidelines for the Environmental Policy

As a Company committed to long-term success and development, TGC-1 sees the improvement of the environmental friendliness of the technologies it uses as a priority issue. Production activities within the power industry go hand-in-hand with research and development in order to protect the environment, save energy and resources, reduce the impact CHPPs, HEPPs and heating networks have on the environment.

In its environment protection activities TGC-1 adheres to the following principles:

- strict compliance with environmental regulations;
- ongoing improvement of environmental measures;
- prevention of adverse effects on the environment.

For the purpose of reducing the adverse impact on the environment, the Company annually prepares and carries out programs of environment protection measures, installs special environment protection equipment in its subdivisions. Through the scheduled repair and renovation of fixed assets the Company expects to increase the input-output ratio of heat and electricity generation facilities as well as to reduce fuel consumption rates, emissions of air and water pollutants.

The main fuel that is used in electricity and heat generation at TGC-1's power plants is natural gas, which is economically efficient and environmentally friendly. The share of gas in the fuel consumed by JSC «TGC-1» reaches up to 96 % on average. Moreover, the volume of gas the Company can consume is subject to strict limitation. Gas is supplied in two ways – within the limit set in the region (at regulated prices) and over the limit. In 2006, the volume of limit-based gas supplies totaled 4,340.7 mln m³. Fuel oil accounts for not more than 4% of the fuel balance. Due to a high price it cannot ensure adequate efficiency: fuel oil usage causes a two-time rise in electricity production costs as compared to gas. The key benefit of TGC-1 is that about half of its generating assets are hydroelectric power plants. HEPPs use the power of water to produce electricity, which substantially reduces the cost of production. Energy generated by hydroelectric power plants is also the most environmentally friendly kind of industrial energy resources at the current stage of development.

Bearing this in mind, JSC «TGC-1» development program for 2006 – 2015 provides for the implementation of several investment projects relating to power production on hydroelectric facilities (construction of new facilities and renovation of existing plants). As for the renovation and construction of CHPPs, it is planned to use gas/fuel oil equipment to the maximum extent. Also, preparations are being made to the construction of a coal-fired cogeneration electric power plant in Murmansk and expansion of the existing cogeneration plant by adding two new solid fuel fired generating units in Kirovsk, Leningrad Oblast.

Environmental experts of JSC «TGC-1» work in line with the requirements of Federal Act dated January 10, 2002, No. 7-FA, «On Environment Protection», Russian Federation Act dated May 05, 1999, No. 86-FA, «On Atmospheric Air», Russian Federation Act dated June 24, 1998, No. 89-FA, «On Production and Consumption Wastes», the Russian Federation Water Code and other applicable regulations, environmental rules and standards.

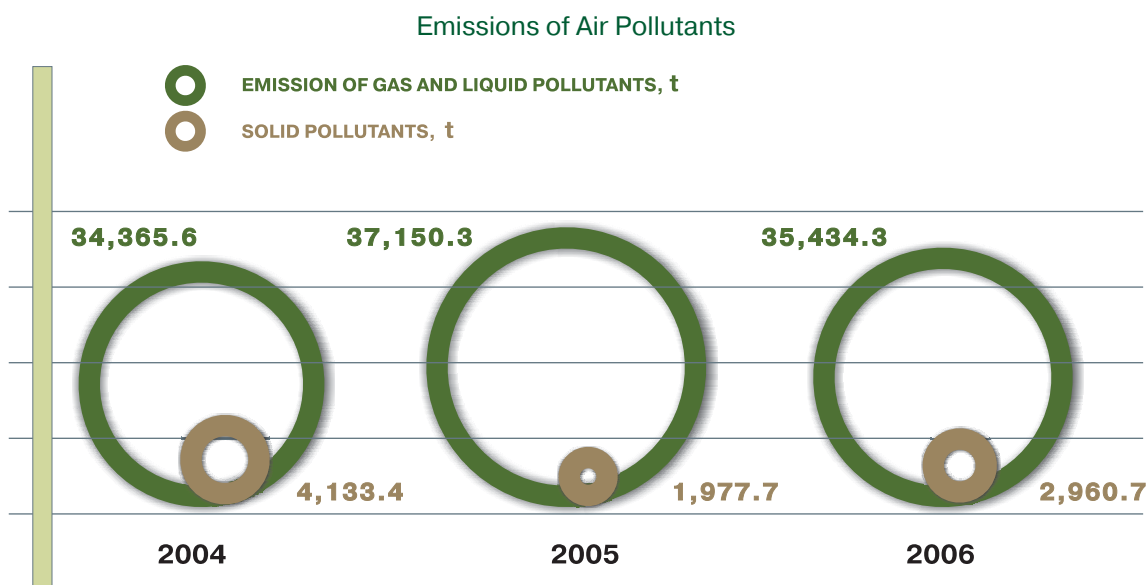
In using environmental management technologies and approaches TGC-1:

- builds and renovates water and air treatment facilities;
- installs combustion gas recirculation systems;
- installs metering units at water intake facilities and waste water disposal facilities on surface sources;
- builds and renovates circulating water systems;
- renovates places for storage of solid consumption and production wastes.

Environmental costs of TGC-1 totaled RUR 528.3 million in 2006. And the total amount of investments into environment protection measures in 2006 is estimated at RUR 108.5 million.

Air Protection

In 2006, as compared to 2005, the share of air pollution emissions reduced by 1.9%. In 2006, major repair and performance tuning was performed (including the combustion mode) at twelve boiler units (15 % of the installed capacity), which resulted in an increase of the input-output ratio of the boilers by 0.8% on average and reduction of NOx level in combustion gases by 5%. The impact from the reduction of the total air pollution emissions totaled 5.8%. Also, an Ep-670 boiler unit with an improved combustion mode was commissioned at generating unit No. 1 of Pravoberezhnaya CHPP-5. The concentration of NOx in combustion gases of the new generating unit is three times lower than in the old equipment installed at CHPP-5.



Implementation of Kyoto protocol

Under the Development Strategy adopted in the Company, a range of investment projects are planned to be carried out on the basis of the joint implementation scheme, with funds received from the sale of emission reduction units in accordance with Clause 6 of Kyoto Protocol being used as investments for the projects. According to preliminary estimates, by implementing the projects the Company will reduce the volume of greenhouse gases emission by 5.5. million t CO₂ over the period from 2008 to 2012.

At present time the following Kyoto mechanisms are implemented:

- greenhouse gases emissions are assessed and recorded,
- the greenhouse gases information and analysis system is being deployed,
- the documentation that is required to carry out joint implementation projects is being prepared in accordance with the requirements of Clause 6 of Kyoto protocol.

Protection and Rational Use of Water Resources

In 2006, TGC-1 carried out a range of measures with regard to the protection and rational use of surface waters.

Circulating delivery water supply and water treatment facilities were commissioned at generating unit No. 1 at Pravoberezhnaya CHPP-5, Nevsky Branch. The following results were achieved:

- ceasing of heat pollution of the Neva river;
- ceasing of discharge of non-treated waste waters.

The environmental effect from the implementation of these measures at Pravoberezhnaya CHPP-5 is such that it is expected to put an end to discharging waste waters into surface waters. Now waste waters total 4,150 thousand m³ per year, including 3,500 thousand m³ per year of partially clean waters and 650 thousand m³ per year of polluted waters. The charge for the pollutants emissions for CHPP -5 amounted to about RUR 400 thousand per year.

The deployment of a circulating water supply system is believed also to reduce the intake of process waters from the river by approximately 4,250 thousand m³ per year. The water intake costs incurred by CHPP-5 (water tax) are about RUR 1,900 thousand per year.

Thus, total savings from the implementation of these measures will be RUR 2,300 thousand per year.

The following environment protection measures were taken in 2006 in Karelsky Branch in order to reduce the adverse impact on water bodies:

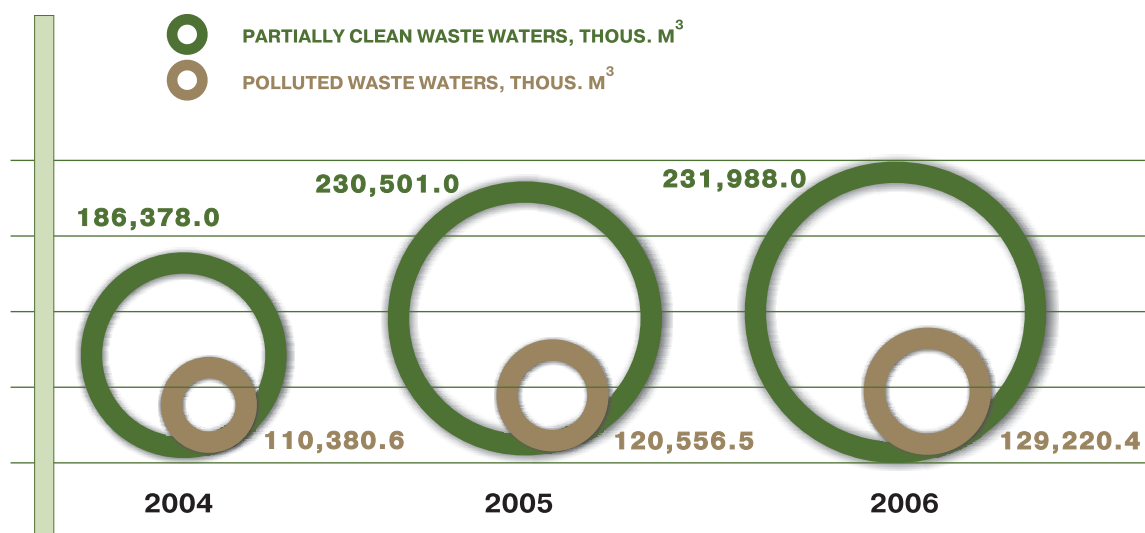
- container-type water treatment facilities were purchased and installed to provide biological treatment of consumption waste waters at Krivoporozhskaya HEPP, Cascade of Kemskiye HEPPs;
- an oil pumping unit was purchased and installed at Belomorskaya HEPP, Cascade of Vygskiye HEPPs.

In Kolsky Branch the runner of generating unit No. 1 of Niva HEPP-3, Cascade of Nivskiye HEPPs, was replaced. This replacement prevented leakage of oil into the Niva River and ensures safe operations at standard loads and in emergency situations.

Murmansk CHPP is renovating its water treatment facilities, which will reduce the risk of discharging non-treated waste waters with oil products and slats of heavy metals.

At present time polluted waste waters account for not more than 30% of the total volume of waste waters discharged into surface water bodies. The effect of the environment protection measures taken by TGC-1 can also be evidenced through the reduced pollutants emissions while the production grows and, as a result, the volume of waste waters discharged is growing as well.

Discharge of Waste Waters into Surface Water Bodies



Land Protection and Conservation

In 2006 the Company prepared a financial feasibility study of renovation project for Pervomayskaya CHPP-14 of Nevsky Branch. It was decided to give up using coal as the fuel. As a result, an ash-disposal area will cease to be used; instead, remediation of contaminated soil is planned to be performed.

Setting up an Environmental Management System and Preparing an Environmental Program

In accordance with the Environmental Policy and the Policy Implementation Strategy approved by the JSC RAO «UES of Russia» Board on December 05, 2005, JSC «TGC-1» is setting up an environmental management system under GOST ISO 14000, encouraging the Company's management and employees involved in decision-making to show a better and deeper understanding of environmental and social responsibility issues.

The environmental management system will allow the Company to:

- reduce the adverse effects on the environment;
- increase the Company's capitalization level by providing a steady and environmentally friendly and safe production;
- improve the competitive ability of the electricity as a commodity in the national and foreign markets.

Also, on June 20, 2006, the Company's Board of Directors approved a program of implementing in JSC «TGC-1» the JSC RAO «UES of Russia» Environmental Policy, which provides for preparation by TGC-1 of its own environment protection policy, conduct of an environmental audit of the Company, certifying the Company for compliance with corporate and international environmental management standards and implementation of a long-term plan of nature protection measures.

In 2006-2008 it is planned to invest into environment protection measures RUR 53.8 million.

Environmental actions to be taken in achieving the target figures set in the JSC RAO «UES of Russia» Environmental Policy are expected to result in a reduction of adverse effects on some components of the environment. The most substantial of them are:

- the construction of a circulating process water supply system at Pervomayskaya CHPP-14 of Nevsky Branch;
- the construction of water treatment facilities for consumption, production and fuel-oil-contaminated waste waters at the heat and electric power plants of Nevsky Branch, hydroelectric power plants of Nevsky and Kolsky Branches;
- the installation on the steam boilers of Murmansk CHPP of improved steam-mechanic atomizers with an acoustic enclosure.

By 2011 implementation of measures according to TGC-1's plan will allow for the target figures set with regard to the environmental issues, including:

- reduction of emissions of pollutants by 2% to 16%, depending on the pollutant type;
- reduction of greenhouse gases emissions by 10% at the expense of using high-efficiency low-emission steam-gas units in heat and electricity generation as compared to equivalent volume produced at existing facilities;
- increase of water consumption in circulating water supply systems by 40%;
- reduction of pollutants discharged into surface waters by 9% .

Emergency Prevention

In 2006, the Company had the following priorities in relation to prevention of natural or man-caused emergencies:

- prevention of man-caused emergencies, prevention of death of personnel, population, reduction of material loss suffered from breakdowns, disasters and natural calamities that might occur, fire prevention;
- compliance with the current federal laws and regulations on civil defense matters, prevention and elimination of emergency situations, industrial, fire and environmental safety measures;

- improvement of local legal framework for facilities within the Unified State System of Emergency Prevention and Elimination Measures (RSChS);
- ensuring that administrative bodies are well-prepared and ready to promptly take all necessary measures, that adequate means and resources are ready and can be used in preventing or eliminating emergency conditions;
- preparing civil defense officers and specialists of RSChS to act in emergency conditions caused by a natural or man-caused disaster or over a so-called «special» period;
- increasing the reliability and stability of power facilities of TGC-1 and their ability to operate in emergency conditions caused by a natural or man-caused disaster or over a so-called «special» period;
- provision of practical and methodological assistance to branches and subdivisions of TGC-1 in relation to compliance with guidelines on civil defense issues and protection of the enterprise and its territory from emergency conditions caused by natural calamities or man-caused disasters;
- provision of relevant communication and alarm system, a system capable of communicating instructions on how to behave and what measures to take in case there is a risk of or upon the occurrence of emergency conditions, as well as in war time.

Financing of Emergency Prevention and Elimination Measures, RUR million

Line of activity, plan	Federal budget		Regional budget		Local budgets		Organizations' funds		Funds from other sources	
	plan	actual	plan	actual	plan	actual	plan	actual	plan	actual
Emergency prevention	–	–	–	–	–	–	RUR 19,614 mln.	RUR 19,614 mln.	–	–
Reduction of damage caused by emergency event	–	–	–	–	–	–	–	–	–	–
Emergency elimination	–	–	–	–	–	–	–	–	–	–
TOTAL:	–	–	–	–	–	–	RUR 19,614 mln.	RUR 19,614 mln.	–	–

Insurance is the main measure to be taken in reducing and compensating damages that may be caused by the occurrence of an emergency event at hazardous facilities. JSC «TGC-1» gets insurance for its property, hazardous production facilities, civil liability, protects its staff using accident insurance and medical insurance. The Company cooperates with the largest underwriters, including JSC «SOGAZ», ZAO «Spasskiye Vorota», SAC «Energogarant», JSC «Alfastrakhovaniye» and others. Self-insurance is provided by way of accumulating reserves of fuels, spare parts, materials and by taking reliability improvement measures.

HELMET IS AN ABSOLUTELY
STEADY OBJECT



NON-FINANCIAL RISK MANAGEMENT

Informed Decision-Making through Forecasting and Financial Risk Management

At present time the power industry is exposed to considerable pressure from consumers, competitors, investors, minority shareholders and other interested parties. Active management of all uncertainty factors, including socio-political ones, enhances and complements the existing practice of management of traditional technical and technological risks. Relying on the corporate social responsibility principles, in its development strategy and current operations JSC «TGC-1» takes into consideration both financial and economic risks and potential non-financial risks to the maximum extent possible. In doing this, the Company believes that ongoing efforts to optimize non-financial risks that TGC-1 is making from the early days of its existence are fundamental to success.

The approach to identification and management of risks in the energy system is based on the current international and Russia's experience in risk management and an analysis of the efficiency of social programs as non-financial risk optimization instruments. Within this framework, damages or benefits caused by the occurrence of a risk condition are measured not only by the direct impact they may have on the profit/costs and share prices, but by the effect they may produce on the image, reputation and human resources of the Company, which are seen as the key intangible assets, as well as on the overall social and political condition in the regions where the Company conducts operations or in the country as a whole.

In 2006 TGC-1 began working on a non-financial risk monitoring and management system, which is designed to:

- ensure compliance with the principles of good corporate governance practice;
- prevent the occurrence of risk events that might impede the achievement by the Company of its strategic goals;
- establish tight relations with key stakeholders of the Company as the main information source for the optimization of particular non-financial risks;
- ensure that every new opportunity to increase the capitalization of the Company or make it more attractive to investors is appropriately used.

A risk is defined as the possibility of the occurrence of an event adversely affecting the Company. TGC-1 sees the following as major risks that may affect its current operations:

- industry-wide risks;
- production hazards risks;
- governmental regulation risks;
- corporate risks;
- environmental risks;
- fuel-related risks;
- social risks;
- reputation risks;

as well as other hazards conditioned by the behaviour of key related parties representing the business and social environment of the Company.

According to the performed analysis of those areas where non-financial risks may occur and affect the Company, the following groups of related parties were identified:

- shareholders;
- stockholders;
- regulating governmental bodies;
- the Russian Federation public authorities, regional and local authorities;
- employees;
- consumers;
- investors (strategic and portfolio investors);
- equipment and fuel manufacturers and suppliers;
- lending agencies;
- competitors;
- business and professional associations;
- non-profit organizations;
- mass-media.

The Company conducts a survey of the shareholders' opinion and contacts with them through a dialogue, negotiations, meetings, surveys, public hearings and other means of communication facilitating interaction and making it more efficient.

Industry Risks

From the perspective of the industry the Company operates in, the most critical within a medium-term framework is the risk for the power sector to become unable to perform its infrastructure functions to the full extent. Seventeen regions in Russia are running out of reserves for supporting steady and efficient power supply. On the initiative of the Government of the Russian Federation, RAO «UES of Russia» and power companies, including JSC «TGC-1», a range of measures to prevent power shortages were developed, with replacement of retiring and inefficient equipment and meeting of future demand seen as the key measures. On November 30, 2006 the Government of the Russian Federation approved the proposal of the Russian Ministry of Power Industry, Ministry of Economic Development, Ministry of Finance, Federal Antimonopoly Service (FAS) and Federal Tariffs Service (FTS) to take the projection that electricity generation will grow to the level of 1,426 billion kWh as a base case scenario until 2015, bearing in mind a scenario in which electricity production will increase up to 1,600 billion kWh over the same period. According to RAO «UES of Russia» program, over the years to come, it is planned to commission about 41,000 MW of new capacities. TGC-1's investment program provides for an increase of the Company's electricity generation capacities by 3,611 MW, while heat capacities are planned to be increased by 2,445 GCal/h.

In implementing their investment plans, power companies mainly rely on market mechanisms introduced in the power sector. According to the industry liberalization plan, approved by Russian Government, state regulation in the electricity market will cease to be applied in 2011. The state, however, will continue regulating tariffs at which to trade electricity to retail consumers as long as 2015. Electricity and heat prices (tariffs) in the Russian market are regulated by the Federal Tariffs Service and regional regulating bodies. The changes in the tariff policy must not cause lower living standards, being the instruments necessary for governmental bodies to manage risks in relation to pricing in the power industry, including targeted programs of social support.

In order to reduce the impact from tariff regulation JSC «TGC-1», in its turn, intends to adopt a balanced financial policy, using production cost reduction programs as the major instrument. Also, the Company takes a highly conscientious approach towards forecasting of the impact a growth in rates may have by involving leading research institutes, including the Higher School of Economics and the Independent Institute of Social Policy, in analytical work. According to recent studies:

- as the income of the population is growing, while the gap between the richest and the poorest is continuing to widen, low tariffs for everybody have lost their meaning as an instrument of social policy;
- low tariffs for everybody ceased to meet the social justice principles: the gap between the income of 10% of the richest and 10% of the poorest people is 14-15 times. Bearing in mind the overall improvement of the ability to pay among the population, substantial increase in the government funding of the social security system and government's plans to make the budget still more socially-oriented, one comes to the conclusion that the share of electricity and heat charges in proportion to the income of the population will remain at an acceptable level, from the social policy perspective, if the rate ceases to be set according to the «inflation minus» principle.

JSC «TGC-1» not only deploys power-saving technologies in its own activity, but takes measures to improve the efficiency of energy consumption by end consumers. At present time TGC-1, in cooperation with Helios-Media, is introducing the «Energy Saving and Energy Consumption Safety» curriculum module within the Life Safety Fundamentals school course.

Production Hazards

JSC «TGC-1» is exposed to the following production-related risks:

- the risk of exposure to heavy (maximum acceptable) loads;
- the risk of exposure to a sudden increase of consumption and load over the allowed limit;
- other equipment-related risks.

The probability for these risks to occur is affected by such factors as wear and tear of equipment (about 70%), operating it under maximum allowed load, as well as the chance of a mistake being made by the operating staff.

Among the measures JSC «TGC-1» is taking to eliminate these risks the main are close control over technical condition of existing equipment, improvement of its reliability, renovation of existing generating assets and construction of new facilities, as well as overall refurbishment of fixed assets. The Company places great emphasis on the quality of documentation and control over compliance with the requirements set out therein.

As for technical re-equipment and reconstruction of TGC-1's power facilities, the Company's policy priorities for 2005-2009 are:

- measures for rational use of fuel and energy resources;
- economically feasible replacement of out-of-date, worn-out equipment;
- deployment of rational environment management technologies.

In upgrading and reconstructing power plants, the main factor that shapes the Company's technical policy is the necessity to replace equipment by more efficient one while continuing to produce energy. The Company places special emphasis on keeping reserve sources of heat fully operational and improving their efficiency. In developing re-equipment and reconstruction plans for hydroelectric power plants, the key issue is to replace out-of-date and worn-out equipment of various kinds and manufacturers with new equipment of the same type.

The Company pays special attention to the hazards arising from the condition of heating networks. St. Petersburg heat supply system was one of the first power-and-heat supply systems to deploy in Russia. This means that the heat supply infrastructure in the city has some distinctive features. For example, more than half of the heating networks are networks with expired service life dates, which may lead to defects and breakdowns of heating networks.

The number of breakdowns and defects in 2006:

- no breakdowns of heating networks were reported;
- 1,356 defects registered, of which 43 were qualified as heating network incidents.

Timeline for defects elimination in heating networks:

- defects in heating networks were repaired within the standard timeframe (not more than eighteen hours during the heating period when heat supply is limited in three or more apartment houses);
- reduction of defect elimination timelines is one of the Company's priority task.

The number of those who suffered from defects in heating networks:

- in Nevsky Branch's heating networks five incidents which caused damage to third parties were reported in 2006. 25 persons were injured or suffered damage. All of them got help from the Company.

In Karelsky and Kolsky Branches, no breakdowns or defects in heating networks were reported in 2006.

Being aware of the current situation, TGC-1's management pays much attention to renovation of heating networks. The Company has prepared and is implementing a targeted repair and reconstruction program for heating networks. In planning major repairs and renovation of networks the Company uses a purpose-designed software and hardware suite that makes it possible to identify those parts of pipelines that are least reliable. In repairing heating networks, the Company applies up-to-date technologies which considerably improve the reliability and efficiency of pipelines, facilitate maintenance of them, increase their service life and enable ongoing remote monitoring of the condition of a pipe. In 2006 30 km of heat supply pipelines, reported in the TGC-1's balance sheet, were involved in repair and renovation; this figure is expected to increase up to 50 km in 2007. The Company plans to speed up the reconstruction of heating mains by repairing not less than 40 km of pipelines every year.

JSC «TGC-1» conducted maximum temperature (130 °C) tests on the heating networks in St. Petersburg in October 2006, which made it possible to check whether the heat supply system was able to work under critical load. During the preparation to the tests and during the tests themselves, a wide range of mass-media were involved in order to keep the population properly informed. The Company placed social-oriented promos to 9 large open-air video displays installed along the main city roads and broadcasted on the leading TV channels, including Russia or STO. Print media, news agencies, radio stations were also involved in the campaign. Announcements with information on the tests' timeline and explanations on how to behave in an emergency event, a breakdown in heating networks, were made in schools and other educational organizations. It should be noted, that the Company informs public of these and related issues on a regular basis.

In managing non-financial risks TGC-1 gives much attention to the task of setting up a comprehensive safety system in accordance with applicable rules, regulations and standards and with due consideration of the international and home experience in this field. Every segment of the safety system is built on the basis of up-to-date software and hardware tools. Over 2006, six industrial accidents occurred in JSC «TGC-1», of which one case was a severe accident.

Number of Accidents

Subdivisions of JSC «TGC-1»	2006
Nevsky Branch	5
Pervomayskaya CHPP	1
Motor transport division	1
Cascade of Svirskiye HEPPs	1
Pravoberezhnaya CHPP	1 s
Yuzhnaya CHPP	1
Kolsky Branch	1
Cascade of Pazskiye HEPPs	0
Cascade of Nivskiye HEPPs	0
Cascade of Tulomskiye HEPPs	1
Apatity CHPP	0
Karelsky Branch	0
Petrazavodsk CHPP	0
Total for JSC «TGC-1»	6[1 s]
JSC Murmansk CHPP	1 s

Notes: 1 – a light accident at work;
 1 s – a severe accident at work.

Distribution of Accidents by Event Types (Hazards)

Falling from a height, including on solid surface – 66%
Injuries caused by high-temperature – 17%
Injuries caused by moving objects – 17%

To reduce the likelihood of emergencies caused by a mistake of the operating staff, the employees of the operations departments get training, retraining and pass a qualifying assessment; exercises and trainings are held; automatic process control systems are being deployed.

To reduce and compensate damages, insurance and self-insurance are used.

Another production risk is that at present time it is impossible to avoid adverse effects of power plants on the environment. In order to minimize them, JSC «TGC-1» adopted an environmental policy that is based on strict compliance with the environmental regulations and is aimed at continuously reducing the impact on the environment by means of renovating facilities, applying more efficient technological processes and up-to-day environment protection technologies.

It is an important advantage of the Company that hydroelectric power plants – the most environmentally friendly source of electricity – account for a large share of the Company's generating facilities. Another factor is that the Company's heat power plants are mostly gas-fired plants, that is, they use pollution-free and cost-beneficial natural gas to generate heat and electricity. The share of gas in the fuel

balance of JSC «TGC-1» averages to 96 %, while fuel oil accounts for about 3.7% .

However, the extensive use of gas in the Company entails some new risks associated with the availability of adequate volumes of gas. To prevent these risks, TGC-1 is working on fuel balance diversification projects. At present time, the Company considers the possibility of constructing a coal-fired heat power plant in Murmansk and reconstructing the heat power plant in Kirovsk, Leningrad Oblast, with conversion to a solid fuel fed power plant.

Also, to prevent the risks of low quality design solutions, overpriced or low quality works performed or services provided by third parties, the Company:

- conducts an analysis of power facilities construction and renovation costs in order to reduce them;
- prefers open tender procedures.

In 2006 TGC-1 held 556 open tenders for supply contracts, of which 424 were held in Nevsky Branch, 73 in Kolsky Branch and 59 in Karelsky Branch.

Equity Risks

The equity risk management policies adopted in TGC-1 are directed at improving the quality of corporate governance, ensuring that management's decisions are transparent for all groups of shareholders and can be controlled by them, safeguarding shareholders' rights, as well as at developing a dialogue between shareholders, investors, management and the public, including with regard to generating facilities construction and renovation issues. TGC-1 has shareholders both from Russia and from abroad. And with its Board of Directors in which each group of shareholders is represented, the Company enables representatives of all groups of shareholders to actively participate in discussions on strategic choices and decisions.

THE WORK THE COMPANY HAS ALREADY MADE IN OPTIMIZING
NON-FINANCIAL RISKS IS A GUARANTEE OF SUCCESS.

JSC «TGC-1» Governing Documents

- JSC «TGC-1» Charter
- JSC «TGC-1» Development Strategy
- JSC «TGC-1» Investment Program
- JSC «TGC-1» Collective Agreement
- «On the Implementation of JSC «TGC-1» Development Strategy» Order
- «On the Measures on Reorganization of JSC «TGC-1» in the form of Merging» Order
- «On Approval of the «Guidelines on Planning and Accounting of Revenues and Costs by Main Operations of JSC «TGC-1» Branches» Order
- «On Approval of Standard Forms of Repair and Construction Agreements, Delivery Agreements, Lease Agreements» Order
- «On Approval of JSC «TGC-1» Collective Agreement Permanent Commission Membership» Order
- «On Preparation of the Annual Comprehensive Procurement Program for 2007» Instruction
- «On Establishment of a Council of Young Specialists» Order
- «On Compulsory Retirement Insurance of JSC «TGC-1» Employees» Order
- «On Approval of the Membership of and Provisions on JSC «TGC-1» Operation Stability Improvement Committee» Order
- Guidelines for JSC «TGC-1» General Shareholders Meeting Procedure
- Guidelines for JSC «TGC-1» Board of Directors Meeting Procedure
- Regulations on JSC «TGC-1» Management Board
- Regulations on JSC «TGC-1» Audit Committee
- Regulations on JSC «TGC-1» Information Policy
- Provisions on Remuneration of JSC «TGC-1» Audit Commission Members
- Provisions on Remuneration of JSC «TGC-1» Board of Directors Members
- Provisions on Nevsky Branch of JSC «TGC-1»
- Provisions on Karelsky Branch of JSC «TGC-1»
- Provisions on Kolsky Branch of JSC «TGC-1»
- Provisions on JSC «TGC-1» Representative Office in Moscow.

HELMET IS NOT JUST
AN ORDINARY THING



SOCIAL EVENTS CALENDAR

January 12, 2006 //

JSC «TGC-1» Board of Directors decided to approve the membership of TGC-1 in the All-Russia Industry-Wide Association of Power Sector Employers and accession to the Russian Federation Trade Union Agreement for 2005-2006.

January 25, 2006 //

TGC-1's project «Introduction to the Life Safety Fundamentals Secondary School Course of the Energy Saving and Energy Consumption Safety Curriculum Module» got the Silver Archer National Prize award in public relations.

February 18, 2006 //

The results of the competition of school essays under the title «Power Engineer is a highly responsible job» among 3-9 year pupils in secondary schools of St. Petersburg, the Republic of Karelia, Leningrad Oblast and Murmansk Oblast were announced. The winners were awarded with competition diplomas and prizes.

February 19, 2006 //

In the run-up to the Fatherland Defender's Day a concert under the title «Russian Romance» was organized with assistance from JSC «TGC-1».

February 21, 2006 //

The international rating agency Standard & Poor's assigned to JSC «TGC-1» a corporate governance rating (CGR) (CGR-5 — according to the international scale, CGR-5,3 — according to the Russian scale).

March 3, 2006 //

The Board of Directors approved the Company's Development Strategy for the period from 2006 to 2015.

March 7, 2006 //

The winners of the art competition «My Dearest Person», devoted to women employed in the power sector, were awarded in the St. Petersburg Museum of Power Industry. The competition was held among the children of JSC «TGC-1» employees.

March 9, 2006 //

Ondskaya HEPP of Karelsky Branch of TGC-1 has celebrated its fiftieth anniversary.

March 27, 2006 //

TGC-1's Collective Agreement for 2006-2007 was signed.

April 20, 2006 //

JSC «TGC-1» and the Charitable Foundation «Protection of Children» held a fair of art works made by children studying in the Ceramics Workshop at the Daycare Center for Rehabilitation of Neglected Children.

April-May, 2006 //

Under the program «TGC-1 to Children», the children fostered by Saint-Petersburg Charitable Foundation «Protection of Children» visited performances in the Mariinsky Theatre: April 6, 2006 – Don Quixote ballet, April 15, 2006 – a recital by the prize-winner of international competitions Vasily Gerello, May 7 – Giselle ballet and May 14, 2006 - The Nutcracker ballet.

May 6, 2006 //

JSC «TGC-1» employees joined the all-Russia campaign «St. George Ribbon» devoted to the annual celebration of the Victory in the Great Patriotic War.

May 15, 2006 //

As part of the preparations to the launching of new Pravoberezhnaya CHPP-5, seniors from secondary schools of Krasnogvardeisky and Nevsky districts of the City of St. Petersburg who won the biology and chemistry school competitions visited the plant. The employees of the plant gave them a tour around the new power generating unit, showed the brand-new equipment installed and explained them how the CHPP is operating. The children established an apple orchard on the territory of the plant and this became the central part of the event. On the same day, the guests of the plant took part in the start of the motor rally St. Petersburg – Murmansk – Petrazavodsk – St. Petersburg devoted to the celebrated in 2006 anniversaries of power systems which laid the basis for TGC-1 – 70th anniversary of Kola power system, 75th anniversary of Karelia power system and 120th anniversary of St. Petersburg and Leningrad Oblast power system. The participants of the rally delivered a message from the current employees of TGC-1 addressed to power sector employees of 2106 to the oldest power generating facilities.

May 20, 2006 //

A ceremony of commissioning the new power generating unit at Pravoberezhnaya CHPP of JSC «TGC-1» was held. The ceremony was attended by heads of the St. Petersburg city administration, legislative assembly, top managers of RAO «UES of Russia» and representative of federal ministries and departments. It was pointed out that most of the environment protection technologies applied on the new plant met the up-to-date environmental standards and requirements and there were no similar solutions anywhere in Russia.

May 26, 2006 //

Kola power system celebrated the 70th anniversary. In the course of celebrations, the first of the three anniversary containers with a message from the current employees of TGC-1 to those who will work in the Company in the year 2106 was laid at Nizhnetulomskaya HEPP (Murmansk).

May 26, 2006 //

An agreement between Murmansk Oblast administration, JSC «TGC-1» and JSC «FosAgro» on upgrading and reconstruction of the heat supply system in the Apatity-Kirovsk area in Murmansk Oblast was entered into.

June 1, 2006 //

An exhibition of the art works of the winners of the arranged by TGC-1 drawing competition among children under the title «Light and Warmth of Your Home» was opened in the building of the new power generating unit of Pravoberezhnaya CHPP. The exhibition is devoted to the International Children's Day.

June 11, 2006 //

Children fostered by the «Protection of Children» Charitable Foundation visited the graduation performance of students of the Vaganova Ballet Academy of Russia.

June 15, 2006 //

JSC «TGC-1» took part in the «New Technologies in the Power Sector» exhibition held within the X Petersburg Economic Forum.

June 16, 2006 //

The power system of the Republic of Karelia celebrated its 75th anniversary. In the course of celebrations, a «Garden of Powermen» was established in Petrazavodsk and the second of the three containers with a message from the current employees of TGC-1 to those people who will work in the power sector in the year 2106 was laid in it.

June 20, 2006 //

The Company's Board of Directors approved the program of implementation in JSC «TGC-1» of the environmental policy adopted by JSC RAO «UES of Russia».

June 29, 2006 //

A solemn ceremony of the consecration of bells for the bell tower of the St. Trinity church in Ivangorod (Leningrad Oblast) was held as part of actions the Russian National Glory Centre takes together with JSC «TGC-1» to perpetuate the memory of Alexander Schtigliz, baronet.

July 13, 2006 //

An exhibition of art photos by Denis Tsapin, TGC-1's employee, was opened in the Company's HQ building. The exhibition bore the title «The World of Antarctica».

July 16, 2006 //

The power system of St. Petersburg, which was the first power system in Russia, celebrated its 120th anniversary. The celebration of the anniversary was held, with support from the State Russian Museum, in the Summer Garden in St. Petersburg. At Pravoberezhnaya CHPP, the last of the third anniversary containers with a message from the current employees of TGC-1 to those who will work in the power sector in the year 2106 was laid.

July 20, 2006 //

The first stone was laid in the foundation of a new diesel power plant on the Valaam Island, in the vicinity of the Savior Transfiguration Valaam Monastery. The future construction site was consecrated by the Father Superior of the monastery Pankraty, the bishop of the Trinity parish. Participants of the ceremony pointed out in their speeches the significance of the plant for one of the main Orthodox sacred places in Russia.

July 27, 2006 //

Valentina Matvienko, the Governor of St. Petersburg, and Anatoly Chubais, the Chairman of JSC RAO «UES of Russia» Management Board, have entered into an agreement on the implementation of top-priority measures to construct and renovate power generating facilities in St. Petersburg.

September 26, 2006 //

An exhibition of photos presented by employees of the Company to the corporate competition of photos held under the title «Energy of the North-West» was opened in TGC-1's HQ building. In total, the organizers of the exhibition received 200 artworks.

October 2006 //

During the school holidays JSC «TGC-1» arranged for children from low-income families fostered by the «Protection of Children» Charitable Foundation to visit the operas Lucia di Lammermoor, Falstaff and Le nozze di Figaro in the Mariinsky Theatre.

October 3, 2006 //

The 75th anniversary of the creation of the first independent heating network maintenance enterprise in the history of Russia's power sector, which is now the Heating Network of Nevsky Branch of JSC «TGC-1».

November 1, 2006 //

JSC «TGC-1» completed the merger of its assets and formation of a uniform operating Company.

November 3, 2006 //

RAO «UES of Russia» held a seminar in the head office of JSC «TGC-1». It was devoted to the deployment of quality management systems in Russian power generating companies.

November 16, 2006 //

JSC «TGC-1» subdivisions and the power system as a whole were given certificates attesting that they were well-prepared to the autumn-winter peak demand.

November 17, 2006 //

A ceremony to announce and award the winners of the «Energy of the North-West» competitions of photos was held in the Administration of JSC «TGC-1».

November 24, 2006 //

An exhibition of posters made by children was opened in the head office of TGC-1. The exhibition included works chosen during a competition held by the Company under the title «We choose light, warmth and clean air» as part of the education program on environmental issues.

December 21, 2006 //

50 years ago Avtovskaya CHPP-15 (St. Petersburg) was commissioned.

December 22, 2006 //

A ceremony to announce and award the winners of the competition among children for the best poster and slogan bearing the title «We choose light, warmth and clean air» took place at Pravoberezhnaya CHPP of JSC «TGC-1». The winners were awarded with diplomas and prizes.

December 22, 2006 //

The Power Sector Employee's Day. A ceremony to announce and award the best employees of JSC «TGC-1» and a concert took place in the Octyabrsky Grand Concert Hall.

December 26, 2006 //

JSC «TGC-1» held the second annual charitable action «The Brightest Fir-tree» in the regions in which it operates. The Company's representatives installed New-Year's fir-trees, decorated with toys and garlands, in a number of orphanages and hospitals in Murmansk, Petrazavodsk, Volkhov (Leningrad Oblast).

December 26, 2006 //

Volkhovskaya HEPP of JSC «TGC-1» (Leningrad Oblast) – the pioneer of the GOELRO plan – celebrated the 80th anniversary of its commissioning.

December 27, 2006 //

A charitable fair of ceramics made by children fostered by the Daycare Centre for Rehabilitation of Neglected Children «Angliysky, 19» was held at the Administration of JSC «TGC-1». It was timed to the New-Year and Christmas celebrations.

THE COMPANY'S AWARDS

JSC «TGC-1» won the following awards in 2006:

- The annual report of JSC «TGC-1» became the winner of the competition of annual reports of public joint-stock companies in the Krasnodar region and was awarded with a prize in the «Best Annual Report Concept» nomination.
- The annual report of JSC «TGC-1» became a finalist of the competition for the PR Proba-2006 prize in public relations in the «Corporate Publication of the Year» nomination.
- In the course of the 3d competition of annual reports and web sites of power sector companies the Power Market magazine called the web site of JSC «TGC-1» the best site among those nominated for the «Disclosure of Information to Investors at a Web Site» prize.
- The web site of JSC «TGC-1» took the first place in the «Best Issuer's Site Navigation and Design» nomination at the eleventh national competition of annual reports and web sites.

GLOSSARY

ABBREVIATIONS

os	Ordinary stock
AO-energo	A joint-stock Company working in the power sector
ps	Preferred stock
ATS	Administrator of Trading System of the Wholesale Electricity Market
NPS	Nuclear Power Station
GTU (GTPP)	Gas-turbine unit (gas-turbine power plant)
HEPP	Hydroelectric power plant
SDC	Subsidiaries and dependent companies
DPP	Diesel Power Plant
UES of Russia	Unified Energy System of Russia
H&CS	Housing and communal services
KPI	Key Performance Indicators
PTL	Power transmission lines
IGM	Investment Guaranteeing Mechanism
BPGC	Backbone Power Grid Companies
IPG	Interconnected Power Grids
IDPG	Interconnected Distribution Power Grids
WGC	Wholesale generating Company
IDA	Integrated (Regional) Dispatch Administrations
AWP	Autumn-winter period
WRS	Wholesale resellers
FOREM	Federal Wholesale Electricity (Capacity) Market
IES	Integrated Energy Systems
CCGT	Combined-cycle gas turbine
TDPP	Tidal Power Plant
IDA	Integrated (Regional) Dispatch Administrations
RGC	Regional Generating Companies
RGC	Regional Grid Companies
RS of FOREM	Regulated Sector of the Federal Wholesale Electricity (Capacity) Market
SO-CDU UES of Russia	System Operator – Central Dispatch Administration of the Unified Energy System of Russia
FTS of OREE	Free Trade Sector of the Wholesale Electricity (Capacity) Market
TGC	Territorial Generating Company
TPP	Thermal Power Plant
CHPP	Combined heat and power plant
FGC	Federal Grid Company
FTS	Federal Tariffs Service
FEC	Federal Energy Commission

MEASUREMENT UNITS

GCal	Gigacalorie – heat measurement unit
GCal/h	Gigacalorie per hour – heat capacity measurement unit
Hz	Hertz – current frequency
kV	Kilovolt – voltage measurement unit
kVA	Kilovolt Ampere – total capacity measurement unit
kWh	Kilowatt-hour – electricity production measurement unit
kW	Electric capacity measurement unit
MW	Megawatt – electricity measurement unit
t/h	Tons per hour – steam output measurement unit
tcf	Ton of conventional fuel

TERMS AND DEFINITIONS

Subscription (participation fee)	An amount of payment for the services provided in connection with the organization of the functioning and in connection with the development of the Unified Energy System of Russia
Breakdown	Destruction of constructions and/or devices operated on a hazardous production facility; uncontrollable explosion and/or emission of harmful substances. A breakdown of heating grids is a damage of a backbone pipeline during the heating season which causes a 36-hour or a longer interruption in heat supply to consumers
Budgeting	A management system that includes elements of financial planning, budget formation and the monitoring of compliance therewith
Wholesale Electricity Market Generating Companies (WGCs)	Generating companies established on the basis of power plants in accordance with the Guidelines on Reorganization of the Russian Power Sector approved by regulation of the Government of the Russian Federation dated June 11, 2001, No. 526, the Russian Federation Government order dated September 01, 2003, No. 1254-r (as revised in the Russian Federation Government order dated October 25, 2004, No. 367-r)
Defect	1. Every case of non-compliance of a product with the applicable requirements. 2. Non-compliance of the value of a parameter or product condition characteristic with the applicable requirements. A repair defect is, in the first place, a departure of the product condition parameter value from the pre-defined range, which is based on the outage and «limit condition» criteria, caused by the wearing and aging of the product. (The Regulations on Technical Maintenance and Repair of Equipment, Buildings and Constructions of Power Plants and Grids SO 34.04.181-2003)
Deficit Energy Systems with Insufficient Generation	Power Supply entities. Energy enterprises whose own electricity production is below the level of consumption in their respective regions
Integrated National (all-Russia) Electric Power Grid	A system of electric grids and other related facilities owned by or operated under any right other than the right of ownership in accordance with federal laws by participants of the power sector and providing steady supply of power to consumers, functioning of the wholesale market, as well as enabling parallel operation of the Russia's electric power system and energy systems of other states
Unified Energy System of Russia	Economically interrelated technological (technical) business entities sharing the same system of forecasting, planning and coordination and the same system of operational dispatching of generation. Transmission and distribution of energy of a certain predetermined quality that are integrated into one operational complex, with a view to securing a steady and efficient supply of power to consumers
Completion of reorganization	A Company is considered fully reorganized, except those cases when reorganization takes the form of merging, from the date of state registration of the newly established legal entities. If a Company is reorganized through merging with another Company, the former of those two companies is considered reorganized from the date of entering into the Unified State Register of Legal Entities of an entry on the termination by the merged Company of its operations
Energy Systems with Excessive Generation	Power Supply entities whose own electricity generation exceeds the level of consumption in their respective regions
Incident	A failure or damage of technical devices operated at a hazardous production facility, departure from the technological process mode, violation of the provisions of the Federal Law «On Industrial Safety of Hazardous Production Facilities», other federal laws, Russian Federation regulations and rules, as well as technical regulations setting out the rules of working at a hazardous production facility (if they do not have signs of a breakdown). An incident in a heating network is damage to heating network equipment. (Instructions on Investigation and Accounting of Violations of Technological Conditions in Operating Energy Systems, Power Plants, Boilers, Electric and Heating Grids. RD 153-34.0-20.801-00)
Prescribed frequency of electric current	AF qualitative factor in the operation of power systems (UES) with maintenance of the frequency of electric current within the range of 49,8-50,2 Hz
Equipment	A set of mechanisms, machinery, devices and facilities integrated into a common technological scheme
Wholesale Electricity (Capacity) Market	A sector where a specific commodity – electricity (capacity) – is circulating in the Unified Energy System of Russia within the bounds of the common economical space of the Russian Federation and which consists of large producers and buyers of electric power having the status of a wholesale market member and conducting their operations in accordance with the wholesale market rules that, under the Federal Law «On the Power Sector», are subject to approval by the Government of the Russian Federation. The criteria against which to classify electric power producers and buyers as large producers and buyers are determined by the Government of the Russian Federation
Cross-subsidizing	Covering the losses resulting from low tariffs established for one group of consumers (general population, consumers financed from budgetary funds of various levels, etc.) at the expense of another group of consumers who pay higher tariffs
Electricity useful output	Electricity released from buses plus purchased electricity of other owners minus electricity consumed for production and in-house needs of the power producer minus losses of electricity on nodes located in the near vicinity of plants
Distribution grid companies	Public joint-stock companies established as a result of reorganizing AO-energos on the basis of electric grid facilities which do not belong to the national (all-Russian) electric power grid
Regional generating companies (RGC)	Public joint-stock companies established as a result of reorganizing AO-energos on the basis of generating assets that are not added to WGCs
Regulated sector of the wholesale electricity market	A part of the wholesale market in which electricity and capacity are traded at the tariffs set by the federal government body responsible for regulation of natural monopolies in accordance with the procedure set forth in the Federal Law «On State Regulation of Heat and Electricity Tariffs in the Russian Federation»
Repair and maintenance Company in the electric power sector	An entity which mainly deals with research, development and designing and/or repair and technical maintenance of equipment, buildings and constructions providing production, transmission, distribution and sale of electric power and heat, as well as dispatching control
Free Trading Sector	A sector in which some part of electricity is traded through conclusion and execution of two-party sales contracts and through selection of price quotations from buyers and sellers at free (non-regulated) prices
Deviations Sector	A system of relations within the wholesale electricity market regulated sector among the wholesale market participants relevant to the electricity turnover in the volumes corresponding to deviations of hourly volumes of the actual electricity production (consumption) from the hourly planned production (consumption) volumes
Average output tariff	An average price at which electricity and heat is supplied to a consumer
Electricity and heat tariffs	A system of price rates used to effect payments for electricity and heat
Territorial generating companies (TGC)	Public joint-stock companies established in the course of interregional integration of generating assets of AO-energos (Regional Generating Companies), except generating assets to be added to WGCs
Installed capacity	The maximum active electric output at which the power facility can operate in a sustainable way without any overload in accordance with the equipment passport
Power zone	An area on which electricity (capacity) is supplied (traded) to consumers attached to relevant power-supply organizations
Power enterprises/ power companies	Companies/ enterprises that generate electricity and heat
Power sales	Operations in the electricity trade sector of the market

COMPLIANCE OF THE SOCIAL REPORT WITH THE GRI SUSTAINABILITY REPORTING GUIDELINES

In preparing the social report JSC «TGC-1» was guided by the principles set out in the Global Reporting Initiative (GRI) G3 Sustainability Reporting Guidelines, including:

Openness

The principle of openness and transparency of the Company's activities is seen as essential by JSC «TGC-1».

Verifiability

The social report of JSC «TGC-1» for 2006 was submitted to representatives of non-profit organizations for verification.

Relevance

Whether certain information is included in the social report or it is ignored in it depends on its relevance to the public which is interested in TGC-1's operations.

Coverage of related parties

JSC «TGC-1» is guided by the intention to identify the groups and organizations that are interested in the Company's activities and to take their expectations and interest into account in improving its work.

Completeness

JSC «TGC-1» endeavours to report information to the maximum extent possible. The Report reflects data on every region where TGC-1 is represented: St. Petersburg, Leningrad Oblast and Murmansk Oblast and the Republic of Karelia. Although the Company completed the formation of an integrated production system on November 1, 2006, this Report provides information for the entire calendar year 2006, and in some sections it even goes back to the fourth quarter of the year 2005, which allows it to give a more detailed account of the achieved results.

Balance

The Social Report reflects both positive and negative sides of the Company's activity in 2006.

Comparability

JSC «TGC-1» sought to present information in a consistent and uniform manner, so that every party interested in the Company's activity could compare the reported data.

Accuracy

In preparing the Social Report, the Company tried to achieve the appropriate level of information disclosure.

Timeliness

JSC «TGC-1» set itself the task to enable the parties interested in the Company's activity to simultaneously get access both to the financial statements and social reporting of the Company.

Clarity

In preparing the Social Report, JSC «TGC-1» sought to make information represented in the Report clear, easy-to-understand and comprehensible for each interested party. The Report does not contain excessive details that may make it too difficult to read and understand.

Reliability

The Company guarantees the quality and correctness of the information provided in the Social Report, which is achieved by maintaining close control over the collection, recording, composition, analysis and disclosure of data.

Reporting framework

The Report implicitly comes over the energy consumption issues as TGC-1 is a producer of electricity and heat.

AUDITING CONCLUSION



REFERENCE

To «The report on the activity of JSC «TGC-1» in the area of social responsibility and corporate stability for the year 2006»

St. Petersburg

July 6, 2007

«The report on the activity of JSC «TGC-1» in the area of social responsibility and corporate stability for the year 2006» (hereinafter referred to as the Report) represents the scale document, reflecting all the trends of the social policy of JSC «TGC-1».

The Report, undoubtedly, solves the main purpose – clearly demonstrates all the interested parties and groups, either inside JSC «TGC-1», or outside the Company, social priorities of business development and high social responsibility level of the Company.

It's possible to state the benefits of the Report:

- reflection of the fundamental viewpoint of the officials of JSC «TGC-1» on the necessity of socially responsible business development;
- correspondence of the Report with new standards of the Global Initiative for Social Responsibility GRI G3;
- wide panorama of all the sides of activity of JSC «TGC-1»;
- large quantity of specific information, illustrating the activity of JSC «TGC-1» in the area of the social policy;
- reflection in the Report of the social policy of the Company either regarding the Russian society as a whole, or concerning the employees;
- completeness of description of participation of the Company in the socially responsible policy;
- enough detailed elaboration of the social policy information of the Company coerced in the Report on the whole and separate social programs.

Alongside with that, it is necessary to state the disadvantage of the Report.

The main disadvantage of the Report is large quantity of technical and economical information washing out the accents, designated in the speech of Valeriy Rodin – General Director of JSC «TGC-1».

The expediency of presenting this or that information in the Report and the method of its presentation should be stated by the answer to the question how the detailed information discloses peculiarities of JSC «TGC-1» social policy. The answer to this question should be stated in the Report, anticipating exposition of any information of technical and economical nature.

As an example of such approach it's possible to take into consideration the paragraph «Reliability of power and heat supply», which in its present form presents the Report on the results of the economical activity.

It's important to clearly emphasize the special role of the fuel and energy complex for life of the population in Russia's North-West on the whole in the beginning of the paragraph, minding geographic, climatic and other peculiarities of the region. Then, apparently, it would have been necessary to emphasize a number of social problems exiting in the North-West region which can be solved due to the efforts of the companies of the energy complex. Technical and economic information should have been presented in the context of solving social purposes of the region.

Generally, taking into consideration the first experience in creation of such Reports, it is significant to underline the large amount of work successfully done by the authors and I would like to wish them to eliminate the drawbacks while making the next year Report.

Vi. Socratilin

Chief Executive
of CJSC «Decision: consulting and market research»



THE REFERENCE TO THE SOCIAL REPORT OF JSC «TGC-1»

The Social Report of JSC «TGC-1» is presented for discussion

JSC «TGC-1» is a leading generator and supplier of electricity and heat in the North-West region of Russia, as well as the third territorial generating Company in the country in terms of the installed capacity. The generating assets of the Company include electric power plants of different types (heat, hydro, diesel, combined) in four subjects of the RF – St. Petersburg, the Republic of Karelia, Leningrad Oblast and Murmansk Oblast regions. The heating networks of the length of 940 km are also included into the Company's assets structure. The installed electric capacity of the Company is 6,248.4 MW, heat – 14,735 GCal/h. The generated electricity is delivered, primarily, to the domestic wholesale market, as well as partially exported to Finland and Norway.

JSC «TGC-1» is a strategic supplier of heat in St. Petersburg, Petrozavodsk, Murmansk, and Kirovsk of Leningrad Oblast and Apatity of Murmansk Oblast.

The main shareholders: RAO «UES of Russia» (55, 7 %), concern «Fortum» (25, 5%), «Interros» (7, 4%).

TGC-1 is one of the first companies, which began to provide the social report in accordance with the Standard of the Global Initiative for Social Reporting – GRI G3, covering almost 160 indicators of sustainable development. The socially significant activity is described in the report of TGC-1.

The presented report is the first Social Report from the beginning of the operating activities of JSC «TGC-1» and contains the results of the Company's activities for 2006.

TGC-1 admits in its Social Report, that the social mission of the Company is to supply with electricity and heat the growing needs of the population and economy.

Reliability and availability of electricity and heat supply, the effective usage of fuel, security and health of the employees, minimization of dangerous influence on the environment are the guiding principles of the Company. These principles in particular are integrated by the Company into business practice, at the same time the principles of openness and transparency accompany all the activities. The social responsibility of the Company is an integral part of its main activity.

The main trend of scientific and technical policy of TGC-1 is determined by the main strategic aim of the Company — to become one of technical and business leaders in the field of generation.

The technical breakthrough is formation of the effective innovation policy, and creation of intellectual and faultless system of generation in the environment of developing electricity market. Generation is a complex with the following characteristics:

- ecological cleanness and security for the society;
- high reliability and quality of electricity;
- high level of information technologies used in regime management;
- flexibility of integration of separate sources of energy and systems;
- sufficient technical provision with equipment and the level of the personnel preparation in the field of operation;
- usage of the equipment with the minimum specific damageability of the types of the electrical equipment;
- sufficient level of investments for technical re-equipment;
- not using of old methods and principles of procurement and construction of generation objects;
- increase of the level of monitoring implementation and diagnostics of the equipment condition;
- constant upgrade of the repairs technologies.

Formation of the electricity market, on the one hand, and significant physical and moral wear and tear of the equipment, on the other hand, are two main reasons which demand precise attention.

The social responsibility of the Company means devotion of the Company to the steady development of social, economic, ecological and humanitarian spheres of life of the society.

The Company underlines in the Social Report the realization of the state and society responsibility, as achievement of long-term high economical and social results is possible only on the basis of rational balancing of the shareholders, state, employees, suppliers, consumers, social institutions and others interests – all being influenced by the activity of JSC «TGC-1».

The corporate social responsibility of TGC-1 is concretized in the responsibility of the Company for:

- conscientious consumers supplying with electricity and heat of the needed volume and quality;
- employees for working laws loyalty, labour protection, assistance of their professional and personal potential disclosing; for creation of the adequate conditions of work;
- partners for sign on the dotted line;
- suppliers and contractors for observance of the principles of business, including creation of transparent system of purchase;
- the population of the region of activity for the contribution to creation of favorable life conditions, working placed provision and minimization of the damage to the environment;
- the society as a whole and the local communities on the territory of the Company for conscientious discharging of tax, support of civil initiative and other forms of participation in social and economic development at regional and local levels;
- the future generations for minimization of negative influence on the environment, which foresees assistance to increase of power efficiency and resource saving.

The main task is increase of the ecological cleanness of the technologies being used. The production activity of the energy complex is obligatory followed by research-and-development and project works for provision of environment protection, electricity and resource saving, decrease of man-caused load from the activity of CHPP, HEPP and the Heat network on the environment. TGC-1 ecological policy provide for the ecological auditing of the Company and certification for correspondence to the corporate standard of the ecological management.

The environmental policy of TGC-1 is based on the following principles:

- rigorous observance of nature protective legislation;
- continuous improvement of ecological indicators;
- prevention of negative impact on the environment.

TGC-1 system of ecological management is formed in accordance with GOST ISO 14000, which is aimed to increase ecological and social responsibility of the Company on all the levels of decision making.

Introduction of the ecological management system allows to:

- reduce negative impact on the environment;
- increase capitalization of the Company due to provision of the reliable and ecologically safe production;
- increase power competitiveness at international and domestic market.

New technologies for rational nature management are being constantly implemented at TGC-1 enterprises:

- construction and reconstruction of the recirculation system of technical water supply;
- construction and reconstruction of sewage disposal plants;
- reconstruction of the nets of utility – domestic and storm water sewer directed to elimination of discharge of unrefined drainage to the surface sources;
- technical re-equipment and reconstruction of sewage disposal plants of mazut drainage;
- mounting of metering at water supply points and drainage facilities;

- implementation of innovative technologies of biorecultivation of spoiled lands;
- reconstruction of the areas of temporary location of solid domestic and factory wastes;
- reconstruction of the system of recirculation of smoke fumes;
- technical re-equipment and reconstruction of electrostatic cleaners;
- implementation of systems of automatic monitoring of drainage.

Within the bounds of the approved development strategy of the Company, the realization of several investment projects with attracting funds from selling of the units of reduced emissions is also foreseen in accordance with Cl. 6 of the Kyoto Protocol.

Thus, the presented Report, despite it's a nonfinancial document, plays a vital role in development of the indivisible management approach that determines the positive contribution in provision of sustainable development of the Company as well as reduction of the huge amount of nonfinancial risks. Openness of the Company in discussion of its problems and perspectives improves the reputation and allows to develop contacts with interested parties. Furthermore, the social report allows the Company to look unprejudiced at the risks and benefits, which stimulates the further development of the Company's business without doubt and allows to coordinate economical and social components influencing the business.

The presented Report is made on the sufficiently high level, the report is authentic, the social purposes of the Company are presented in the report. Thus such a report can become a ground and a constituent of the strategy and tactics of the management. It's recommended to focus attention on the peculiarities of the social development, connected with the region where the Company operates the and the challenges of reforming the power industry of Russia.

G.P. Judina



Member of the sub-faculty ENET PEIPK

OPINION

on the Social Report of JSC «TGC-1» summarising the results for 2006

The presented Report includes all relevant sections reflecting every socially significant aspect of the TGC-1 activities and provides adequate and sufficient information on the Company's characteristics.

Each section contains detailed and well-structured information on the Company's operations. Every key event and fact is reviewed and analysed with regard to its impact on the social life. According to the analysis results, the Company's goals for 2007 were set as to ensure effective communications between the Company and the society. So, the core elements of the Company's mechanism for management of non-financial risks are being shaped.

The Report provides accurate and reliable data enabling an impartial analysis and unbiased assessment of the report. The results of such an impartial analysis match the position of the Company set forth in the report.

The most urgent social aspects of the Company's activity, which include:

- stimulating the development of the economical and social sectors in the North-West region;
- minimizing the environmental impact, –

are covered at the maximum level of detail and analysis, with the Company's long-range plans which are also described in detail. Thus, the priorities of the Company and the social priorities match together.

Taken as a whole, the report gives an account of TGC-1 as a socially-oriented Company.

E.N. Lisitsky



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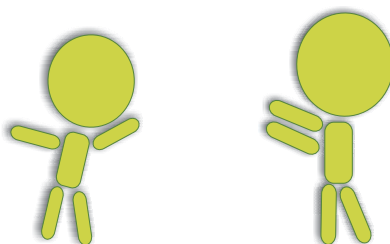
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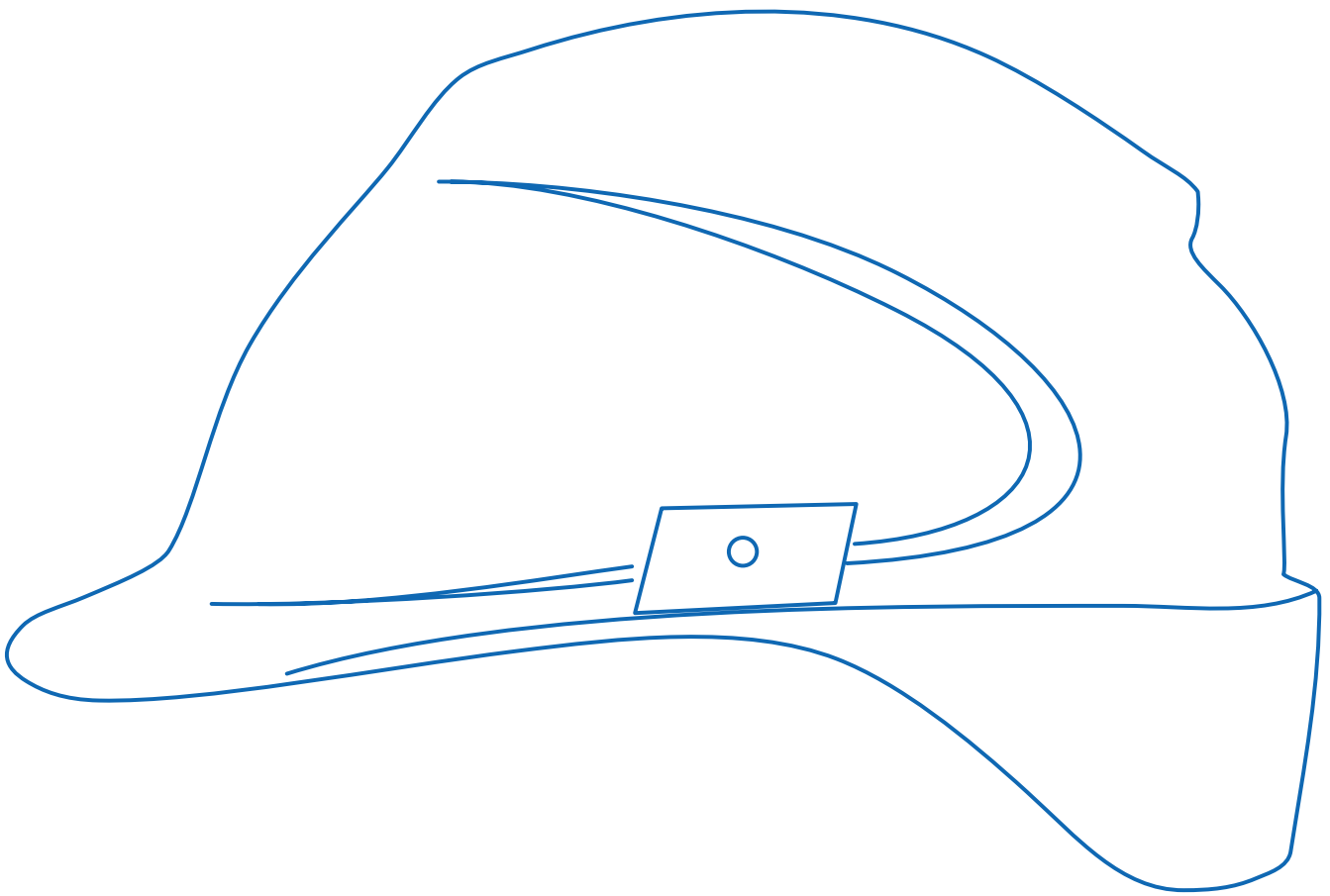
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