



ANNUAL REPORT

JOINT STOCK COMPANY
«TERRITORIAL GENERATING COMPANY №1»

by the results of 2005



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1. LETTER TO SHAREHOLDERS

Dear Shareholders,

The reform of the Russian energy sector reached its final stage in the year 2005 that has expired. The global reform that is going on in the sector has been in full swing in the North-West of the country.

On the 1st of January 2005 a split of Karelergo took place, followed by Lenenergo and Kolenergo on the 1st of October, and their generating facilities have become the generation base of our TGC.

The first meeting of TGC-1 Board of Directors was held on April 7, 2005 and on May 23, 2005 an Extraordinary General Meeting of the Shareholders approved the key documents governing the Company's management system. TGC-1 started its operation as a single company on the 1st of October 2005, having leased the generating assets of Lenenergo, Kolenergo and Karelergogeneratsiya. Altogether, over the whole of 2005, more than 20 meeting of the Board of Directors were held. We affirmed the organizational structure of the company, the principles of the company's accounting policy, the standards for business-planning and insurance protection, regulations on investment activity and technological policy. Besides, the concept of the first TGC-1 Development Strategy for 2006-2010 was adopted. Furthermore, over this whole period the Board of Directors ensured direct participation of company's shareholders in the company's work. The company has formed Committees for Reliability, Auditing, Business-Strategy, Personnel and Remuneration and adopted their operation principles. These Committees include representatives of all groups of the shareholders, the company's management team, and independent experts.

Summing up the results of TGC-1 first year of operation, we can say with certainty that the company has had a good start. The company management has been able to successfully complete all tasks set by the shareholders. The company's net profit for 2005 was RUR 587 mln.

The main goal for the company in 2006 will be to connect regional generating companies to TGC-1 and to enter the stock market with a single share of the company. Such objectives are being achieved not only by TGC-1. About 20 generating companies that were established as a result of the reforms in the Russian energy sector have begun their operation. And the chances of these companies in the market will depend on their management teams ability to use advantages and to minimize risks. TGC-1 has a strong group of shareholders, a balanced structure of generating assets, excellent personnel, and great opportunities for inter-governmental trade. This gives TGC-1 an adequate potential for the company to become a leader in the Russian energy sector. The path to the top, more likely than not, won't be an easy one. But the harder this path, the worthier our good results.

Wishing you every success and prosperity!

A.V. Chikunov,

Chairman of the Board of Directors of JSC TGC-1

Dear Shareholders,

Today we are not just summing up results for a certain period of time. We are opening a new page in the history of the North-West of Russia. Power engineers of St. Petersburg, Karelia and the Trans-Polar Region started the year 2005 as members of three different companies and finished the year within a single, inter-regional energy company – TGC-1.

TGC-1 was founded in March 2005, and started operation on the 1st of October. Our company is comparatively young, but at the same time it has inherited the traditions of more than a century of the history of Russian energy production. Today TGC-1 already has its own chronicle and its own results. We managed to implement all necessary corporate procedures and to complete a significant work in the field of organization and human resources within the established time, and this has allowed us to start our production work in complete accordance with the company plans. A management team has been formed, responsibility centers have been defined, and information flows have been set between the head office and branch offices. Today I can say for sure that we have managed to make a multi-regional structure that is ready to become one of the leading energy companies in Russia. This will be done thanks both to production resources and the company's traditions of corporate governance that have been formed in the recent years, and first of all thanks to the unique experience of power engineers in Russia's North-West.

The year 2005 was most of all a period of preparation for a new stage in the company's work. A strong base for development and improvement has been created. I think that TGC-1 is completely ready today to operate under the new conditions of the Russian energy resources market and to expand to international and European markets. The energy company's first results are real proof of this. TGC-1's revenue for the three months of operation was about RUR 5.5 bln. The company completely fulfilled the tasks it was given in 2005 by its shareholders and secured a stable position in the energy sector. The company has excellent prospects to strengthen its positions even more in the future. Furthermore, TGC-1 has formed its basic development philosophy, which will become the basis for the Company Strategy for the next decade. The energy produced by TGC-1 will be more and more in demand with each passing year. This is secured by the significant share of hydroelectric generation, most of which is based in Karelia and the Kola Peninsula, by the opportunities to sell electricity to Finland and Norway, which border on Russia, by the stable demand for heat, and by the rapid overall economic growth rates in the entities of the Russian Federation where TGC-1 is operating. This is a serious stimulus for the dynamic development of the company through the commissioning of new energy-generating capacities and the upgrading of certain plants and the energy system as a whole.

As soon as in 2006 the company will launch a new unit of CHPP-5 (Combined Heat and Power Plant-5) in St. Petersburg. This will be one of the first practical examples of our opportunities. The new plant will demonstrate how TGC-1 is successfully replacing outdated plants by using the company's own resources and its investment potential. By 2015 we are planning to increase TGC-1 installed electric capacity by 1,841 MW, and heat capacity by 1,648 GCal/h.

I am sure that the path we have chosen will ensure stability for the North-West Power Group, and that our investment in the company will bring profit!

A.N. Likhachev,

General Director of JSC TGC-1

2. COMPANY OVERVIEW

Company Mission

Consolidating the strength of Russia's power engineering from the Baltic Sea to the Barents Sea, TGC-1 serves as a bridge between Northern Europe and Russia. By integrating capital and technology, it will generate energy, form a new market value needed for shareholders, Company employees, customers and the society as a whole.

Geographic Location

JSC TGC-1 comprises generating companies from the Baltic Sea to the Barents Sea. The company specializes in electricity generation and heat production, delivery and sales.

Today the Power Group operates in the territories of four entities of the Russian Federation – St. Petersburg, Leningrad Oblast, the Republic of Karelia and Murmansk Oblast. Due to its geographical proximity to Finland, Norway and the Baltic States TGC-1 benefits from the vast opportunities of cross-border power sales and has an advantage over other generating companies of Russia.

History

On July 4 (16), 1886 Russian Emperor Alexander the 3rd signed the Articles of Electric Lighting Company 1886 founded by Karl Siemens. This date is considered to be the foundation date of St. Petersburg power system - the first power system in Russia.

Between 1897-1898, three major power plants were established in the capital of the Russian Empire. The Electric Lighting Company 1886 built a power plant on Obvodny Canal; the Helios Company of Cologne built a power plant in Novgorodskaya Street, and Belgian S.A. built a power plant on Fontanka River Embankment.

In 1907 the Tramvaynaya power plant was constructed to provide power for electric trams in the city.

On December 16(29), 1917 the power plant of Electric Lighting Company 1886 was nationalized and became the first Russian state-owned power plant. Later three other central power plants became state property. The Association of State-owned Power Plants was the first company which united the power plants of Petrograd in 1919. In 1922 it was transformed into a Petrotok Trust. In 1924 it was renamed into Electrotok and on August 10, 1932 the trust was reformed into the District Power Office Lenenergo.

On October 8, 1922 the Krasniy Oktyabr thermal power plant (nowadays CHPP-5 Combined Heat and Power Plant-5) was launched. On December 19, 1926, the opening ceremony of the Lenin Volkhovskaya hydro power plant took place. It was the first plant of the State Plan for Electrification of Russia.

During the blockade Leningrad power engineers carried out a unique operation of laying a power transmission line in the form of an electric cable at the bottom of the Ladoga Lake from the Volkhovskaya hydro power plant, which was in the Soviet territory, to the city besieged by the German fascists.

September 23, 1942 went down in the history of the Second World War as the Day of Breaking the Power Blockade of Leningrad.

On February 8, 1978 Yuzhnaya CHPP (Combined Heat and Power Plant) was put into operation.

On December 22, 1992 the Open Joint-Stock Power Engineering and Electrification Company JSC Lenenergo was founded on the basis of the Lenenergo Production Association for Power Engineering and Electrification.

On January 22, 1993 the Company was registered by the Registration Chamber of the St. Petersburg Mayor's Office. In July 2000 Lenenergo was one of the first Russian companies to adopt the Memorandum of Corporate Governance. In 2001 with the profit of RUR 1,005 mln., JSC Lenenergo became able to pay dividends to its shareholders for the first time after many years. The same year Lenenergo launched the ADR program in New-York.

On April 22, 2004 JSC RAO UES of Russia, JSC Lenenergo, the Administration of St. Petersburg and the Government of Leningrad Oblast signed an agreement of cooperation in restructuring the electricity complex of the city and the region. The Agreement was signed by Anatoly B. Chubais, Chairman of the Management Board of JSC RAO UES of Russia, Andrey N. Likhachev, General Director of JSC Lenenergo, Valentina I. Matviyenko, Governor of St. Petersburg, and Valery P. Serdyukov, Governor of Leningrad Oblast.

On July 29, 2004 Lenenergo Board of Directors carried a resolution to commence the restructuring of the Company and divide it by types of its activity. The process of restructuring was given a high priority in the company's profile.

On October 1, 2005 JSC Petersburg Generating Company, JSC Petersburg Sales Company and JSC North-Western Power Managing Company split off from JSC Lenenergo. The Nevsky branch of JSC TGC-1 was set up on the basis of JSC Petersburg Generating Company.

June 30, 1934 went down in the history of Kola Peninsula as the date when electrification of the Trans-Polar Region started with the launch of the first hydro unit of the Nivskaya hydroelectric power plant-2. Within two decades after that, another two power plants were built there. One of them, the unique underground Nivskaya hydroelectric power plant-3 became the first of its kind in the USSR. Its turbine room is situated 75 meters beneath the surface.

The second power plant was the Nizhnetulomskaya hydroelectric power plant (HEPP) built in 1937 according to the State Plan for Electrification of Russia. In 1940 Nivskaya HEPP-2 and Nizhnetulomskaya HEPP were connected by a power transmission line, 110 kV, which was the main line for Kola power system up to 1960. The after-war construction involved both an industrial boom and the use of Northern hydro resources. Between the 1950s and the late 1960s five hydroelectric power stations of the Pazsky cascade were built and between the 1970s and mid 1980s four stations of the Serebryansky cascade were erected.

In 1968 the first and so far the only Russia's pilot tidal power station, Kislogubskaya was put into operation in the Kola power system on the shore of the Barents Sea. Throughout its history the power station served as a research base for studying the issues of using maritime tide energy. In 1994 the Kislogubskaya tidal power plant suspended electricity generation. Nevertheless, in 2001 JSC Power Facilities Research Institute (NIIES) of RAO UES of Russia developed a fundamentally new hydro unit for the tidal station. The pilot plant had been manufactured at FGUP PO Sevmash (the town of Severodvinsk, Arkhangelsk Oblast) and at the end of October it was delivered to the Kislaya Bay. After successful testing the new equipment was put into operation.

On October 1, 2005 five new power companies that had been split off from JSC Kolenergo were officially registered by the state authorities and started their operating activities. JSC Kola Generating Company, JSC Kola Main Grid, JSC Kola Sales Company, JSC Murmansk Combined Heat and Power Plant and JSC Apatity Combined Heat and Power Plant were set up in Murmansk Oblast. The Kola branch of JSC TGC-1 was established on the basis of JSC Kola Generating Company.

The Kondopozhskaya hydroelectric power plant was the first power company in Karelia. It started power generation in 1929. Since then the construction of hydroelectric power plants was continuously developing and now such plants are located in the basins of rivers Suna, Vyg, Kovda and Kem. There are some small hydroelectric power stations in Western Karelia.

The cascade of Vygskiye hydroelectric power plants was formed after the power plants of Middle Karelia were put into operation: Matkozhnenskaya HEPP (1953), Ondskaya (1956), Vygostrovskaya (1961), Belomorskaya (1962) and Palakorgskaya HEPP (1966). The Cascade of Sunskiye hydroelectric power plants was created after the Palyeozerskaya HEPP was launched on the Suna river in 1954.

To manage the operation of the cascades and power grid companies, the Karelia Regional Power Association Karelenergo was founded in 1956 on the basis of Kondopozhsky power complex.

In 1967 Putkinskaya HEPP began its operation. It was a starting point of using the Kem river power resources. Today there are Poduzhenskaya HEPP (1971), Yushkozerksaya HEPP (1981) and Krivoporozhskaya HEPP (1991) operating at the Kem river.

By 1957 three isolated power regions had been formed in Karelia: the South-Karelian, Middle-Karelian and Near-Ladoga areas.

In 1974 the first stage of the Petrozavodsk Combined Heat and Power Plant was put into operation, today it provides heat to 85% of housing in Petrozavodsk.

In 1988 the Karelian Production Group for Energy and Electrification (PE E&E Karelenergo) was established on the basis of the Karelian Regional Power Association.

In April 1993 PE (production enterprise) E&E Karelenergo was transformed into joint stock company for energy and electrification Karelenergo – a subsidiary of RAO UES of Russia.

According to the plan of the Russian power system reform, four new power companies that had been split off from JSC Karelenergo were officially registered by the state and started their operating activities.

JSC Karelenergo was split by types of activity on December 31, 2004. As a result, JSC Karelenergogeneratsiya, JSC Managing Company Karelenergo, JSC Karelian Sales Company and JSC Karelian Main Grid were established. The Karelian branch of JSC TGC-1 was created based on JSC Karelenergogeneratsiya.

On November 26, 2004 the Board of Directors of JSC RAO UES of Russia approved the establishment of TGC-1 on the basis of the plan of leasing the generating assets of the promoters by joint-stock companies Lenenergo, Kolenergo and Karelenergogeneratsiya. On March 25, 2005 TGC-1 was officially registered by the Interdistrict Inspectorate of the Federal Tax Service in St. Petersburg.

On October 1, 2005 JSC TGC-1 started its operating activity.

Company Structure

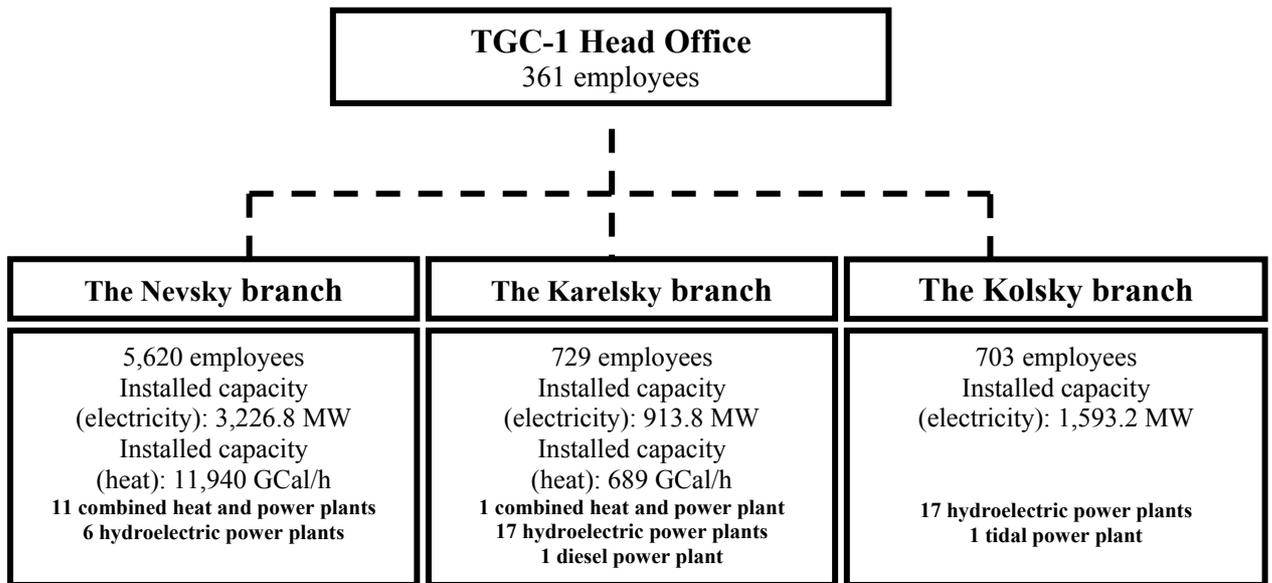
JSC TGC-1 comprises 54 power plants with the total installed capacity of 5,734 MW.* The share of hydroelectric generation is about 50% of the total TGC-1 capacity, which is an important competitive advantage of the company. 75 % of hydro generation is concentrated in Karelia and Murmansk regions. Environmentally friendly gas is the main type of fuel used by thermal power plants of JSC TGC-1. The amount of costly and environmentally unfriendly fuel oil does not exceed 3.7% in the fuel mix.

* Excluding Murmansk and Apatity Combined Heat and Power Plants

The company generates, transmits and sells heat in St. Petersburg, Leningrad Oblast (Kirovsk) and Petrozavodsk. The bulk falls on St. Petersburg (about 90%). Along with power plants the production complex of JSC TGC-1 includes heat networks with the total length exceeding 800 km and pipes up to 1,400 mm in diameter.

JSC TGC-1 consists of three regional branches:

1. the Nevsky branch (St. Petersburg and Leningrad Oblast)
2. the Kolsky branch (Murmansk Oblast)
3. the Karelsky branch (the Republic of Karelia)



3. PERFORMANCE HIGHLIGHTS

Production Figures

	2005 *	2006 **
Installed capacity, MW	5,733.8	5,944.8
Electricity generation, mln. kWh	24,172.7	23,182.4
Electricity useful output, mln. kWh	22,711.1	21,711.4
Heat useful output, thous. GCal	22,603.4	23,908.0

* Consolidated data for 2005, according to the production figures of power plants that joined TGC-1 since 01.10.05.

** Forecast in accordance with the Production Program.

Key Financial Figures

	2005 *	2006 **
Sales, mln RUR	5,450	20,439
Operating profit, mln RUR	753	1,333
Net profit (loss), mln RUR	587	539
Total assets, mln RUR	4,600	39,779
Equity capital, mln RUR	597	30,431
Investments, mln RUR	598	3,603

* The figures are given for the 4th quarter of 2005 since 01.10.05 - the beginning of JSC TGC-1 operation

** Forecast in accordance with the Business Plan

4. SIGNIFICANT EVENTS

March

On March 25, 2005 JSC TGC-1 was registered by the Interdistrict Inspectorate of the Federal Tax Service of Russia in St. Petersburg.

April

In April the first meeting of the Board of Directors of TGC-1 took place. Alexander Chikunov was elected the Chairman of the Board of Directors of TGC-1. Alexander Chikunov is a member of the Management Board of JSC RAO UES of Russia and Head of RAO UES Center for Restructuring Management. Tapio Kuula, President of Fortum Power and Heat Oy, was elected Deputy Chairman of the Board of Directors of TGC-1.

General Director of TGC-1 Andrey Likhachev participated in the 8th Russian Economic Forum in London (UK) where he made a speech and, among other things, presented some background information on the establishment of TGC-1.

May

The organization chart of the Company and the Provisions on the Procedure of Convening and Holding Meetings of the Board of Directors were approved by a meeting of the Board of Directors of TGC-1.

Andrey Likhachev, General Director of JSC TGC-1, became a laureate of the 2004 Best Manager Prize and was awarded with a diploma in the nomination "For Merits". The Prize was instituted by the European Science and Education Development Foundation and St. Petersburg Management and Economics Institute (MEI).

July

At a meeting of the Board of Directors of TGC-1 the management team of the company was commissioned to work out the Concept of TGC-1 Corporate Development Strategy for the years 2006-2010. The Provisions on the Audit Committee of the Board of Directors of JSC TGC-1 were adopted.

August

The Provisions on the Committee for Personnel and Remunerations of the Board of Directors of JSC TGC-1 were approved by a regular Meeting of the Board of Directors of JSC TGC-1.

September

An extraordinary meeting of the shareholders of JSC TGC-1 approved an agency agreement on implementing the investment program by JSC Kolenergo between JSC Kolenergo and JSC TGC-1 and a similar agreement between JSC TGC-1 and JSC Karelernergogeneratsiya.

"PricewaterhouseCoopers" was approved as the auditor of JSC TGC-1.

October

On October 1 JSC TGC-1 began its operation activities.

The Board of Directors of RAO UES of Russia took a decision to hand over for asset management by JSC TGC-1 the shares of the restructured sales companies JSC Lenenergo, JSC Karelernergo and JSC Kolenergo.

November

General Director of JSC TGC-1 Andrey Likhachev was awarded for extensive corporate operational activities in the power market.

A meeting of the Board of Directors approved the Unified Financial Group Plc (UFG) as the investment bank for determining the coefficients for converting the shares of JSC Petersburg Generating Company, JSC Kola Generating Company and JSC Karenergogeneratsiya into shares of JSC TGC-1.

Members of the Board of Directors were re-elected by an extraordinary meeting of the shareholders of JSC TGC-1.

December

A “Week of TGC-1” was held at higher educational institutions of the North-Western region of the RF.

For five days managers of the Company delivered lectures at different educational institutions of the region. The program was aimed not at only acquainting students with the energy industry, its present and future, but also at attracting new young and promising employees to the company.

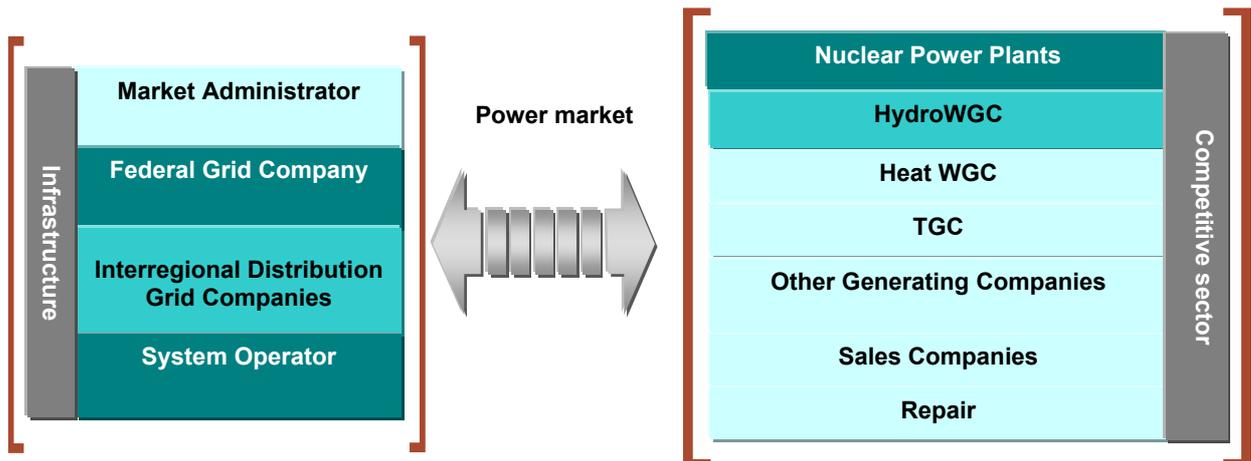
At a regular meeting of the TGC-1 Board of Directors held by the newly elected members for the first time, members of the Board Committees were elected and the Corporate Business Plan for 2006 was approved.

5. COMPANY RESTRUCTURING

The main objective of the reform in the power industry in Russia is to improve the efficiency of the companies' performance and to create conditions for their development through attracting investments.

The reform implies a division of original monopoly companies and the formation of competitive companies from them, which will specialize in separate activities.

Power Industry Target Structure



Territorial generating companies (TGC) are companies of the wholesale electric power market and retail electric and heat power markets founded on the basis of the regional generation companies spun off the AO-energo companies and united by the territorial principle.

Consolidated Scheme of TGC-1 Restructuring

Step 1. JSC TGC-1 is founded by JSC Lenenergo, JSC Kolenergo and JSC Karelenergogeneratsiya.

Step 2. In October 2005 JSC Petersburg Generating Company, JSC Kola Generating Company and JSC Karelenergogeneratsiya that were split in the course of the restructuring lease out assets to JSC TGC-1.

Step 3. In November 2006 the regional generating companies are incorporated into JSC TGC-1.

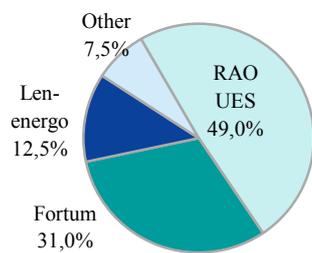
The restructuring plan provides for splitting off from the promoter companies such regional generating companies (RGC) as JSC Petersburg Generating Company, JSC Kola Generating Company and JSC Karelenergogeneratsiya and leasing out the generating assets of the regional companies to TGC-1.

The final stage of the restructuring is reorganization of TGC-1 and the regional generating companies (RGC) in the form of affiliation of RGC with TGC-1 with a transition to unified shares.

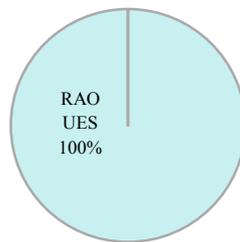
Until the affiliation is completed TGC-1 will use the scheme of generating assets lease.

Share Capital Structure

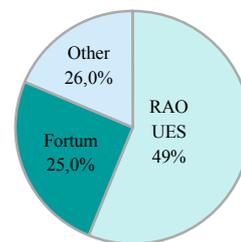
Petersburg GC



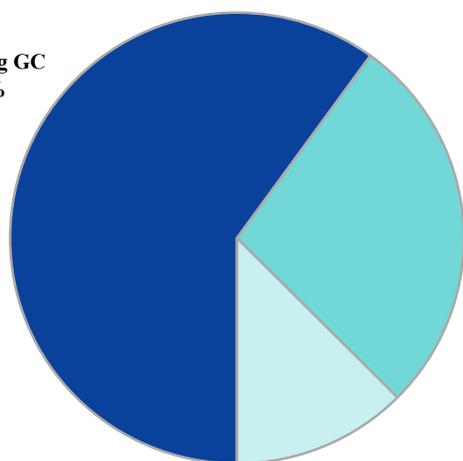
Karenergogeneratsiya



Kola GC



Petersburg GC
63,0%



Kola GC
25,0%

Karenergogeneratsiya
12,0%

TGC-1 Restructuring Plan

	2005
Joint meeting of the Boards of Directors of JSC Kolenergo, JSC Karelergogeneratsiya and JSC Lenenergo dedicated to the start of the AO-energo reform	March
Statutory meeting of JSC TGC-1	March
State registration of JSC TGC-1	March
State registration of the regional generating companies (RGC) – JSC Petersburg Generating Company and JSC Kola Generating Company*	October
Leasing of RGC's generating assets to JSC TGC-1 and the beginning of the operational activity of the Company	October
Tender for the selection of an investment bank and an appraiser	November
Meetings of RGC and TGC-1 Board of Directors dedicated to the approval of the investment bank and the appraiser	November
Start of shares value calculation process for the calculation of the coefficients for converting RGC's shares into TGC-1 shares	December
	2006
Investment bank's conclusion on the coefficients for converting RGC's shares into TGC-1 shares	April
State registration of PGC and KGC prospectuses and beginning of share floating on Stock Exchange RTS	May
Approval of the coefficients for converting RGC's shares into TGC-1 shares by the Board of Directors of RAO UES of Russia	May
Meetings of RGC and TGC-1 Board of Directors dedicated to recommendations to the Extraordinary General Shareholders Meeting (EGSM) to approve the agreements of RGC affiliation with TGC-1	June
EGSM of RGC and TGC-1 dedicated to the restructuring of TGC-1 in the form of RGC affiliation with TGC-1	July
Meeting of JSC TGC-1 (RGC) Board of Directors on convocation of EGSM of RGC and JSC TGC-1 dedicated to approving the decision on additional issue shares and TGC-1 prospectus	August
State registration of TGC-1 prospectus in Federal Financial Markets Service	October
Joint EGSM of JSC TGC-1 and RGC on making alterations in and additions to the articles of association of JSC TGC-1 connected with the reorganization in form of affiliation.	October
Making an entry on termination of RGC activities as a result of their affiliation with TGC-1 in the Unified State Register of Legal Persons	November
Conversion of RGC shares into TGC-1 additional issue shares	November
Start of JSC Territorial Generating Company No. 1 shares floating on the Russian stock exchanges	December

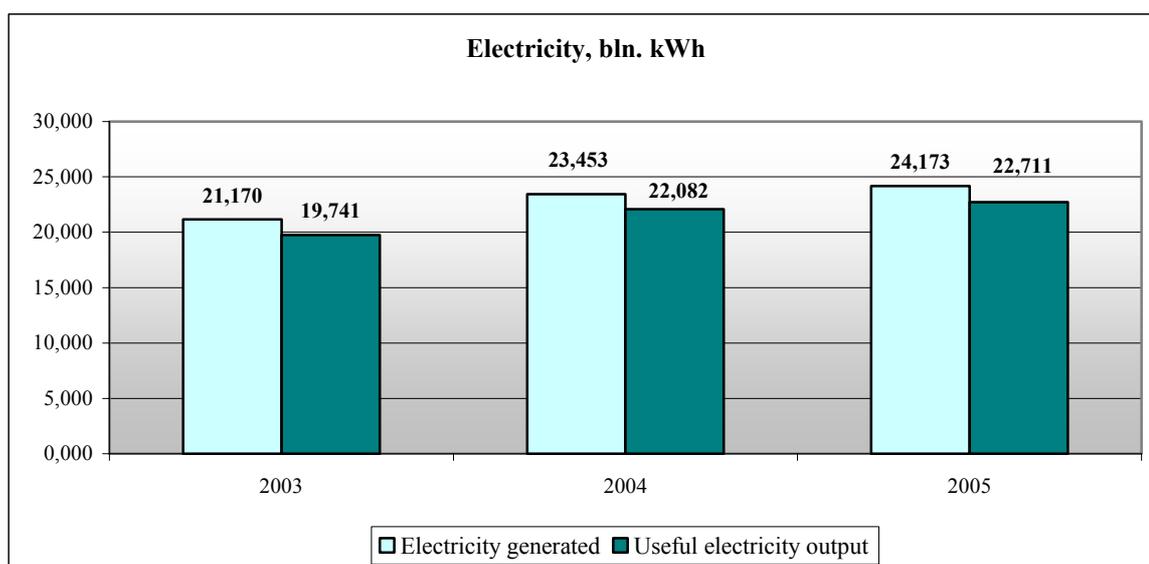
* - JSC Karelergogeneratsiya was spun off in January 2005

6. OPERATING ACTIVITIES

Electricity Generation

In 2005 TGC-1 facilities consisting of 12 combined heat and power plants (10 CHPP)*, 9 cascades of HEPP (hydroelectric power plants), 2 HEPPs and 1 DEPP, generated 24,172,700 thous. kWh of electricity, which is 3% higher than the same figure** of the previous year. Useful output of electricity at TGC-1 electric power plants grew by 2.8% and made 22,711,101 thous. kWh. An analysis of electricity consumption in the regions of TGC-1 activity revealed a stable increase of this index over the recent years.

In the last quarter of 2005 (JSC TGC-1 started its operational activity on October 1, 2005) the amount of electricity generated was 6,306.1 mln. kWh, at the same time the useful output made 5,858.5 mln. kWh.

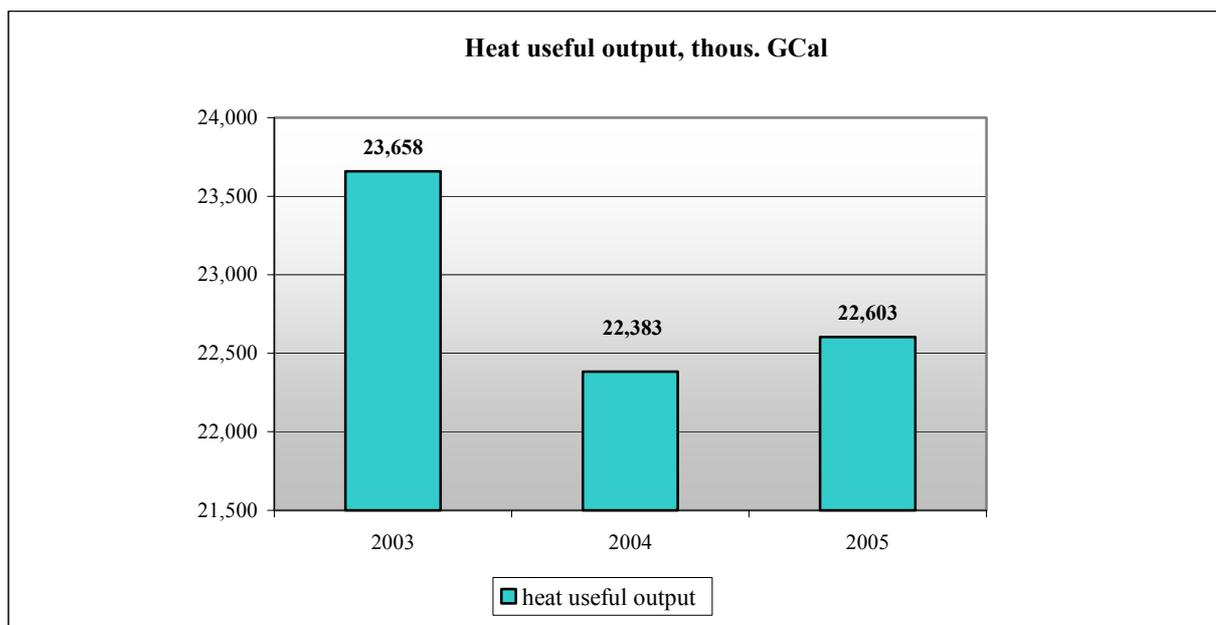


Heat Generation

JSC TGC-1 supplies heat to 55% of heat energy consumers in St. Petersburg, to 5% in Leningrad Oblast and 13% in the Republic of Karelia. In 2005 23,548,906 GCal were provided from collectors of the electric power plants, which is 1.1% more than in 2004. Heat useful output grew up by 1% vs. previous year and made 22,603,447 GCal, 7,055.6 thous. GCal having been provided in the fourth quarter of 2005.

* Three power plants – PP-1, PP-2 and PP-3 belong to the Central CHPP (St. Petersburg)

** The total figure for power plants and hydro-electric complexes that became a part of JSC TGC-1 since 01.10.05



Generating Capacities of JSC TGC-1

In 2005 the installed capacity of TGC-1 power plants was 5,733.8 MW, and the operational capacity made 3,100.8 MW. TGC-1 coefficient of the installed capacity efficiency totaled 54%, including 60.2% of HEPP and 48% of CHPP.

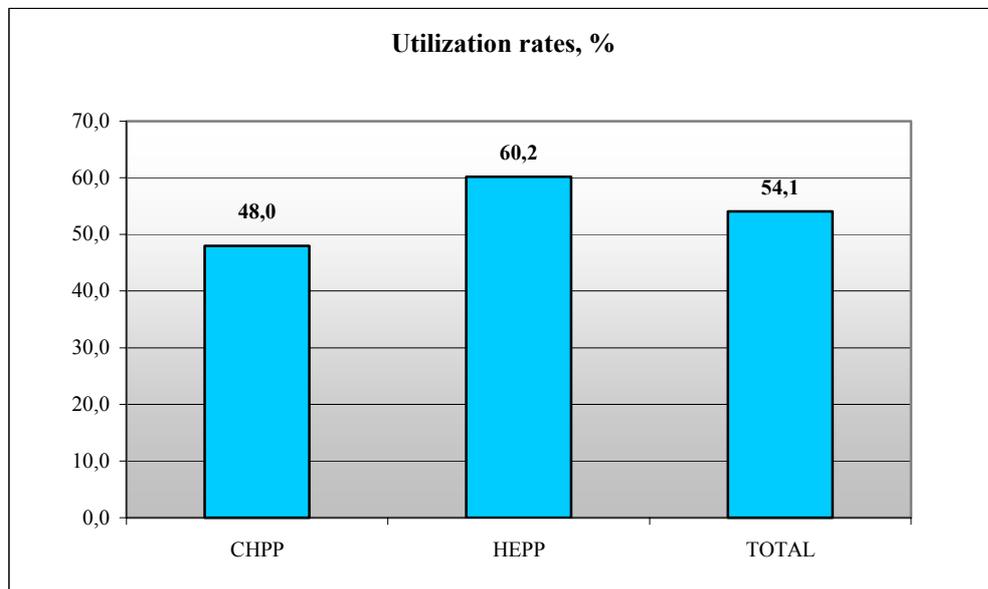
Power Plant	Electricity MW	Heat GCal/h	Year of putting into operation the last turbine*	Electricity generation thousand kWh**
The Nevsky branch				
Central CHPP	78.5	1,414	1950	139,336
Pravoberezhnaya CHPP-5	64	1,172	1930	64,264
Vasileostrovskaya CHPP-7	85	1,084	1964	172,359
Dubrovskaya CHPP-8	192	185	1958	106,265
Pervomaiskaya CHPP-14	330	1,773	1962	261,512
Avtovskaya CHPP-15	291	1,814	2000	383,686
Vyborgskaya CHPP-17	255	1,060	1969	381,842
Severnaya CHPP-21	500	1,188	1983	753,696
Yuzhnaya CHPP-22	800	2,250	1998	922,800
Volkhovskaya HEPP-6	83	-	1996	38,676
Cascade of Svirskiye HEPP	259	-	2003	220,911
Cascade of Vuoksa HEPP	164.3	-	1947	288,960
Narvskaya HEPP-13	125	-	1955	129,383
Total	3,226.8	11,947		3,863,689
The Karelsky branch				
Cascade of Sunskiye HEPP	62.8	-	1954	45,982
Cascade of Vygskiye HEPP	240	-	1967	295,507
Cascade of Kemskiye HEPP	330	-	1991	174,862
Petrozavodskaya CHPP	281	689	1999	292,295
Total	913.8	689		808,646
The Kolsky branch				
Cascade of Nivskiye HEPP	569.5	-	2003	674,532

Power Plant	Electricity MW	Heat GCal/h	Year of putting into operation the last turbine*	Electricity generation thousand kWh**
Cascade of Pazskiye HEPP	187.9	-	1970	303,050
Cascade of Tulomskiye HEPP	324.4	-	1994	305,492
Cascade Of Serebryanskiye HEPP	511.4	-	2003	350,682
Total	1,593.20	-		1,633,756
Total for JSC TGC-1	5,733.8	12,636**		6,306,091

* - for the Balaam DPP of Petrozavodskaya CHPP, the year of putting into operation the last diesel-generators is stated

** - the data is given for the 4th quarter of 2005

*** - incl. RK-19



Transmission Structure

JSC TGC-1 supplies heat to retail consumers, including industrial, commercial, municipal enterprises and individuals and also supplies heat to wholesale resellers. Total length of heat networks of JSC TGC- 1 amounts to 806.4 km in terms of one pipe calculations.

The Nevsky branch of JSC TGC-1 The enterprise has 785.6 km of backbone heat networks 200 to 1400 mm in diameter in terms of one pipe calculations.

The Karelsky branch of JSC TGC-1 The total length of heat networks of the Karelsky branch of JSC TGC-1 is 20.8 km in terms of one pipe calculations.

The Kolsky branch of JSC TGC-1 has no heat networks.

Structure of the Fuel Consumption

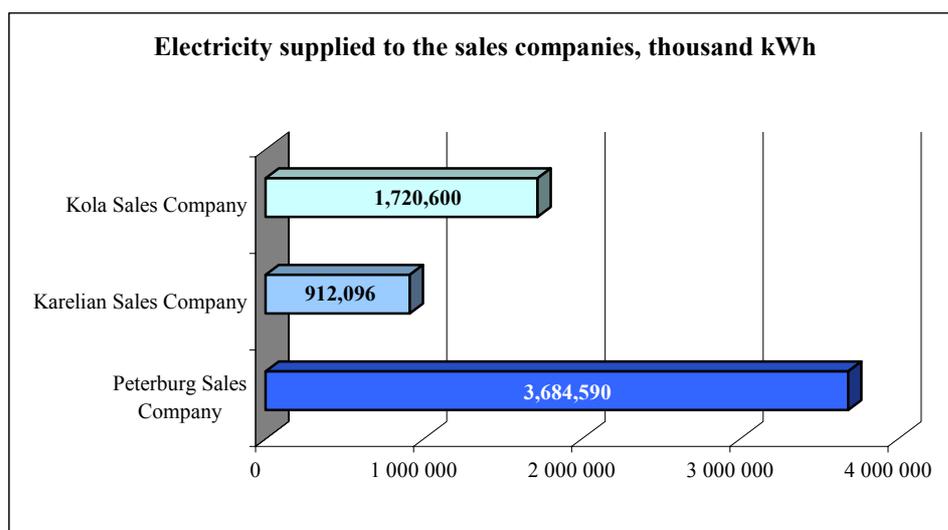
Economically effective and environmentally friendly natural gas is the major kind of fuel used by the power plants of TGC-1. The share of gas in the fuel mix of the Company in 2005 made 96.2 %, and that of mazut 3.7%. The share of mazut used mainly as a reserve fuel grew by 2.3% vs. 2004, which is accounted for by the cold winter and the growing heat consumption trend in 2005.

7. ENERGY SALES

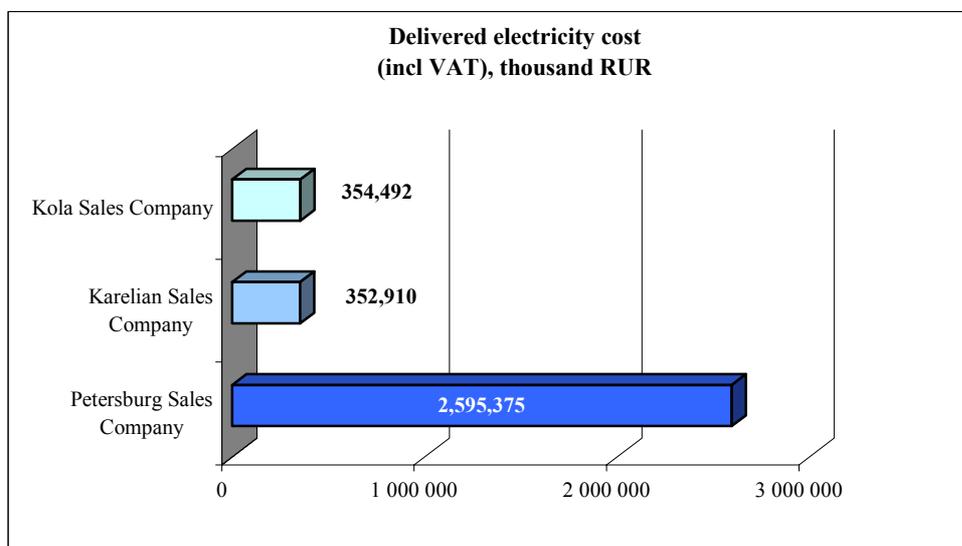
ELECTRICITY

In 2005 JSC TGC-1 provided electricity to JSC Petersburg Sales Company, JSC Karelian Sales Company and JSC Kola Sales Company. Within the existing contracts electricity was exported by the sales companies. However, from January 1, 2006 the Company is planning to carry out electricity export on its own.

The amount of electricity delivered to the sales companies in the fourth quarter of 2005 made 6,317,286 thous. kWh, 59% having been supplied to the Petersburg Sales Company, 27% and 14% supplied to Kola and Karelian Sales Companies respectively.



In the fourth quarter of 2005 TGC-1 sold electricity worth of RUR 3,302.8 mln (VAT included), the payment realization having amounted to RUR 2,088.7 mln, and accounts receivable from the sales companies as of 01.01.06 to RUR 1,214 mln. The structure of payment for the provided electricity was cash funds to the amount of 96.2% and clearing to the amount of 3.8%.

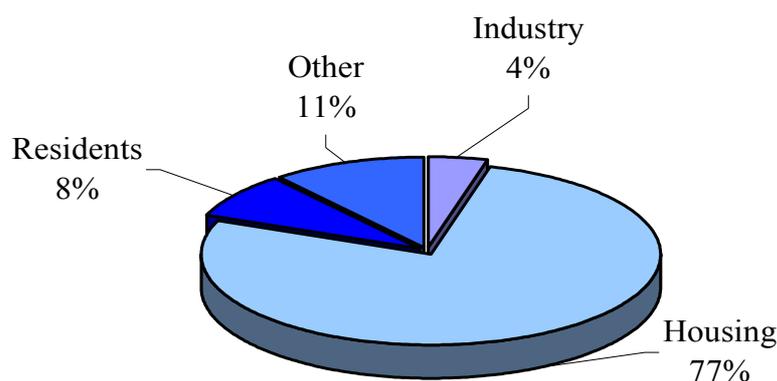


The share of electricity generated by TGC-1 power plants in 2005 made 92.6% of the total amount of own supplies of electricity to the sales companies. In the fourth quarter of 2005, within the frameworks of the existing contracts, the Company purchased electricity to the amount of 467,260,815 kWh and sold it for a total amount of RUR 246,758 thousand.

HEAT

JSC TGC-1 useful heat output in the fourth quarter of 2005 made 7,055.6 thousand. GCal. The bulk of heat within the structure of TGC-1 was consumed by the Nevsky branch (92%). The largest share in the structure of useful heat output (85% all in all) traditionally belongs to municipal housing utilities and the population (house-building cooperatives, associations of housing owners and the private sector). Industry takes only 4% of useful heat output. Other consumers take another 11% .

Heat useful output in the 4th quarter of 2005



In the fourth quarter of 2005 the actual amount of heat sales was RUR 3,035 mln, and the level of payment realization was only RUR 1,488 mln, or 49% of the actual amount of sales. However, the payments for the consumed heat were effected only in money, and this is undoubtedly a positive factor. The total amount of accounts payable for heat as of 01.01.06 was RUR 1,547 mln. With the beginning of the heating period there is an increase in the accounts payable for heat increase, which is connected with the seasonal nature of heat consumption during the year and irregular payment for central heating services by the population.

Tariff Policy

Since October 1, 2005 the following rates have been established for JSC TGC-1 and its constituent parts – the Nevsky, Karelsky, and Kolsky branches:

Electricity (generation)

Tariff		Rate since 01.10.2005, kop/kWh	Rate since 01.10.2006, kop/kWh	Growth, %
1.	Nevsky branch			
1.1.	Saint-Petersburg	71,592	72,150	0.8%
1.2.	Leningrad Oblast	41,899	43,040	2.7%
2.	Karelsky branch	32,790	37,820	15.3%
3.	Kolsky branch	17,460	19,865	13.8%

Heat (generation, delivery and sales)

Tariff		Rate since 01.10.2005, RUR/GCal	Rate since 01.10.2006, RUR/GCal	Growth, %
1.	Nevsky branch			
1.1.	Saint-Petersburg	374.50	421.20	12.5%
1.2.	Leningrad Oblast	492.32	577.20	17.2%
2.	Karelsky branch	249.80	279.80	12%
3.	Kolsky branch	593.40	681	14.8%

Electricity and heat rates were increased for the purposes of ensuring stable operation of JSC TGC-1 with regard to steady delivery of power to consumers and implementation of the investment program for development and renovation of power equipment, taking into account the following factors:

- increased fuel prices;
- introduction of a fee for the services of the System Operator JSC SO-CDU UES as a part of costs incurred by generating companies;
- inflation processes.

8. INVESTMENTS

The basic trends of investments program implementation in 2005 were renovation and technical reequipment of power units in St. Petersburg and Leningrad Oblast, Murmansk Oblast and the Republic of Karelia.

The investment program was financed through amortized deductions of the regional generating companies and own funds of the Company.

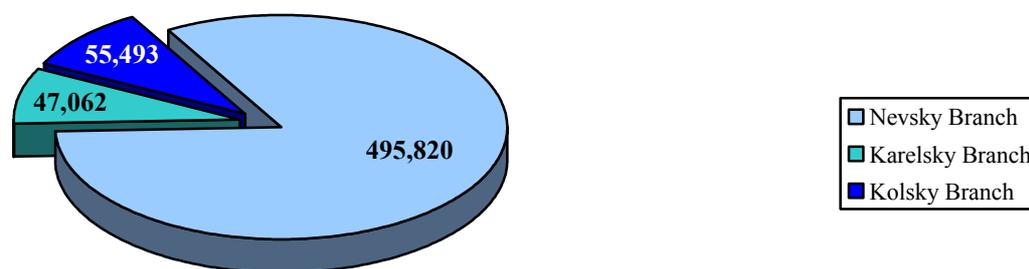
In 2005 the investments were allocated to the generation units and heat networks.

In accordance with the program of technical reequipment and renovation (TRR) the reconstruction work was carried out in the following major areas:

- introduction of new technologies;
- improvement of equipment reliability and cost effectiveness;
- renovation of outdated equipment.

The total amount of financing allocated for the JSC TGC-1 investment program in 2005 amounted to RUR 598,375 thousand¹.

Capital investments structure by branches, thous. RUR



In Saint Petersburg the construction of a power unit start-up complex with the capacity of 180 MW continued in 2005 at HEPP-5. The start-up complex will be put into operation in the 1st half of 2006. 3.35 km of heating mains have been built and renovated. 416 large-diameter spherical shutoff valves have been installed instead of obsolete and completely worn gate valves on the piping of heat networks.

In the Karelian region, the turbine hall ceiling and the hydraulic measurement system have been renovated at Putkinskaya HEPP. Speed controllers of hydraulic units have been renovated.

Automatic process control system of hydraulic units No.1 and No.2 have been renovated at Krivoporozhskaya HEPP. Replacement of steam pipelines for RROU and BROU, arrangement of the GDS metering station device and modernization of technological alarm and protection schemes have been carried out at Petrozavodskaya CHPP.

¹ excl. VAT

In Murmansk Oblast renovation of hydraulic unit No.2 with the capacity of 68.3 MW has been completed with replacement of the runner vane seal assembly at Serebryanskaya-1 HEPP-15. A new transformer has been installed instead of the completely worn transformer group with the capacity of 20 MW at Nivskaya HEPP-2. Turbine No.3 at Nivskaya HEPP-3 is being renovated.

Investment Plans for the Years to Come

Summary investments of TGC-1 in generation units for 2006 – 2015

	Total , mln USD	Electricity, MW			Heat, GCal/h		
		Commissioning	Decommissioning	Balance	Commissioning	Decommissioning	Balance
CHPP	2,509	2,300	715	1,585	3,820	1,737	2,083
HEPP	467	598	342	256			
Heat supply network	1,130						
Total *	4,614	2,898	1,057	1,841	3,820	1,737	2,083

*- Taking into account other reliability improvement operations

By 2015 the installed capacity of JSC TGC-1 power plants will be increased by 1,841 MW and 2,083 GCal/h.

Implementation of the TGC-1 investment program will require investments amounting to at least 4.6 bln US dollars for 2006 – 2015. The investment program of the Company will be implemented both at the expense of attracted funds and own capital.

9. INNOVATIVE TECHNOLOGIES

An important factor in achieving the goals that provide a reliable energy supply to the consumers of JSC TGC-1 is the introduction of new equipment and modern operating procedures directed at improving the efficiency and reliability of operations. In 2005, in the framework of implementing the measures of the technical re-equipment and units replacement program, an extensive set of actions was taken to install new equipment.

At present JSC TGC-1 has planned and partially carried out activities to prepare a number of projects providing for installation of new equipment, contributing to the provision of advanced heat and electric workloads of Saint-Petersburg and Leningrad Oblast, as well as project connected with the development of the heat and electric power output plan.

The Company is carrying out actions aimed at improving the methods of heat and electricity generation and the reliability of primary and secondary equipment of hydro- and electric power plants as well as ensuring control over the machines and their elements condition in order to prevent any breakdowns that might have a negative influence both on the energy supply of a single region and on the whole system of energy supply.

Engineering

The major direction of the technical policy of JSC TGC-1 is a stage-by-stage modernization of equipment while continuing energy generation. Maintenance units of the company do their best to use machines and materials meeting modern technical requirements for repairs and renovation of the basic equipment (especially that of the heat networks).

Thus, factors significantly reducing the reliability of the heat supply system include a combination of obsolete and worn hydro insulation of underground heating mains with high moisture of soils. During major repairs and renovation of pipelines it is common now to replace the aroma-foamed concrete collar by the foamed polyurethane waterproofing compound (FPU). The major advantages are its complete watertightness that is retained in case of minor soil shifts, and its ability to withstand the internal pressure of up to 8 atmospheres. I.e., the waterproof material both protects the pipes from external exposure and prevents leakage of the heat carrier in case of an internal break of a pipeline. FPU-protected pipes have been used for the recent two years in the renovation of heating mains. They are equipped with a remote control system allowing the monitoring of pipes condition without digging the soil.

Wedge stop valves that used to be installed at hot-water systems and functioned as a rather complicated system of gate valves is being replaced by globe valves. In 2004 - 2005 about 700 globe valves with the diameter of up to 1,000 mm were installed on heating mains and collectors of CHPP.

Altogether, the application of new technologies prolongs the operation life of pipelines from 15 to 30 years and significantly improves their efficiency as well as the operation. One of the promising areas in renovation of heat networks is the use of electrochemical protection complexes for mains laid in underflooded and silted soils.

Information Technologies

In 2005 information technologies of JSC TGC-1 developed in the following areas:

- Creating an automated system of energy directory and documentation (ASEDD) at generating plants.
- Modernization of teleautomatics and communication systems to meet the requirements of the first stage participation in the balancing segment of the wholesale electricity market.
- Creating local area networks and telephone distributing networks at various divisions of JSC TGC-1
- Transferring automated working station (WKS) of the local network of the central office (1, Marsovo Pole) to the backbone network.
- Development of Internet technologies
- Organization of digital channels of communication
- Renovation and engineering provision of operation premises and of the equipment of communication centers at generating plants.
- Introduction of information systems based on the computing resources of the Data Processing Center (DPC) of JSC TGC-1.

The official website www.tgk1.ru has been operating since October 2005.

The following major projects in the field of information technologies were implemented in 2005:

1. Creating the automated system of energy directory and documentation (ASEDD) at generating plants, including the Nevsky Branch at CHPP-5, CHPP-17, CHPP-21, CHPP-22;
2. Modernization of teleautomatics and communication systems to meet the requirements of the first stage of participation in the balancing segment of wholesale electricity market, including connecting 16 objects in the Nevsky Branch;
3. Creating local area networks and telephone distributing networks at CHPP-7, CHPP-5, CHPP-17 with their connection to a unified data transmission network;
4. Transferring the Central Office network users (1, Marsovo Pole) to the optical backbone network;
5. Development and commissioning of the first part of the automated system GIS of the of St. Petersburg Heat Network;
6. Connection of new users;
7. Implementation of the second part of the corporate information resources control system based on the Tivoli software by IBM;
8. Continued work on the equipment of generating plants with systems of automatic registration of controllers' conversations (19 objects);
9. The systems of uninterrupted power supply were upgraded at 98 objects;
10. Resumption of the development and implementation of the Isida record keeping management automated control system.

10. CORPORATE GOVERNANCE

Corporate Governance Practice

The Board of Directors and the management team manage the Company in full compliance with the principles stipulated in Corporate Governance Code recommended by Federal Financial Markets Service including the strict protection of shareholders' and investors' rights, transparency and availability of information.

Guaranteeing corporate governance principles

In 2005 the Company's management performed actions aimed at protection of shareholders' and investors' rights. The Company's management and shareholders prepared and submitted for approval by the Board of Directors and the General Meetings of the Shareholders over fifteen documents regulating the activities of managerial and control bodies of JSC TGC-1, including:

- Articles of Association of the Company
- Provisions on the Procedure of Preparing and Holding the General Meeting of the Shareholders
- Provisions on the Procedure of Convoking and Holding Meetings of the Board of Directors
- Provision on the Management Board
- Provisions on the Auditing Committee
- Provisions on Branches and the Representative Office of the Company.

Measures for efficient distribution of information about the Company were taken. The Board of Directors approved the Provisions on the Information Policy of JSC TGC-1. An official website was created to publish information on activities of the Company and its managerial bodies in compliance with the current legislation.

To improve mutual understanding between the Company's management and potential foreign shareholders and investors, accounting practices in compliance with the international standards of financial reporting have been introduced. It is planned that a complete set of financial reporting for 2006 according to the international standards will be prepared and validated by an independent international auditor.

To improve the operation efficiency of the Board of Directors of JSC TGC-1, the following committees of the Board of Directors have been created and started their work upon decisions of the Board of Directors:

- Business Strategy Committee;
- Auditing Committee;
- Human Resources and Remuneration Committee;
- Reliability Committee;
- Committee for Purchasing of Goods, Works and Services.

The Committees of the Board of Directors include both members of the Board of Directors and representatives of other shareholders. In 2005 the Committees held 14 meetings where issues of organizational, financial and economic activity of JSC TGC-1 to be considered by the Board of Directors were discussed.

In 2005 regular meetings of management representatives with mass media, analysts and heads of major Russian and foreign investment companies and other financial institutions were held.

Corporate Governance Rating

The international rating agency Standard & Poor's made an evaluation of the quality of TGC-1 corporate governance and awarded the Company a corporate governance rating of "5" according to the international scale ("5.3" according to the Russian scale).

The general Corporate Governance Rating for TGC-1 is the result of appraisal by four analysis components according to the international and Russian scales with the gradation from 1 to 10:

- Ownership structure and spillover externality — 5+/ 5.7
- Shareholder rights and relations with financially related parties — 5+/ 5.7
- Financial transparency, information disclosure and audit — 4 / 4.3
- Structure and efficiency of the Board of Directors — 5 / 5.2

According to Standard & Poor's the positive principles of TGC-1 corporate governance practice are:

- **Ownership structure.** Both of the Company's major shareholders – RAO UES of Russia and Fortum Oy are interested in securing the rights of shareholders and in the positive development of the restructuring process. They do not have any significant conflict of interests;
- **Structure of the Board of Directors.** A well-balanced structure of the Board of Directors, which reflects the shareholders' structure, enables representatives of the Company's shareholders to take active part in making strategic decisions;
- **Control over Company restructuring.** The Board of Directors, as well as the Strategy and Restructuring Committee of RAO UES of Russia, exercise control over the principal decisions related to the Company restructuring;
- **Independent audit.** TGC-1 cooperates with one of the major independent international auditing companies.
- **Ensuring high performance through applying a management motivation system**

Auditing and internal financial control

The Auditing Committee and an independent auditor elected by the Annual General Meeting of the Shareholders carry out internal and external audit

Auditing Committee

The current members of the Auditing Committee were elected on May 27, 2005.

Full Name	Position
Irja Vekkilä	Mergers and Acquisitions Vice-President of Fortum Oy
Dmitry Alexandrovich Kuskov	Investment Manager, JSC Interros Holding Company
Larisa Borisovna Myagkova	Member of the Auditing Committee of JSC TGC-1
Sergey Borisovich Sidorov	Head of Internal Audit Department of the Corporate Center of JSC RAO UES of Russia
Igor Ivanovich Uzgorov	Head of the Financial and Economic Activities Audit Department of Business Unit No.1 of JSC RAO UES of Russia

In 2005 no remuneration was paid to the members of the Auditing Committee.

Board of Directors

The current members of the Board of Directors were elected on November 16, 2005.

Alexander Vasilyevich Chikunov	Managing Director of JSC RAO UES of Russia Business Unit No. 1 Chairman of JSC TGC-1 Board of Directors
Tapio Kuula	Managing Director of Fortum Power and Heat Oy Deputy Chairman of JSC TGC-1 Board of Directors
Dmitry Sergeyeovich Akhanov	Head of the Center for AO-energo Restructuring Projects Implementation JSC RAO UES of Russia
Irina Vadimovna Grave	Head of the Representative Office of Fortum Power and Heat Oy in St.Petersburg, Vice President of the Representative Office
Ilyas Shamilevich Zagretidinov	Deputy Managing Director, Executive Director of Business Unit No. 1 of JSC RAO UES of Russia
Kari Kautinen	Vice-president of Fortum Power and Heat Oy Representative Office in St.Petersburg
Anton Igorevich Klekovkin	Investment Director of JSC Interros Holding Company
Andrey Nikolayevich Likhachev	General Director of JSC TGC-1, General Director of JSC Karelennergogeneratsiya General Director of JSC Kola Generating Company General Director of JSC Petersburg Generating Company
Maria Nikolayevna Pichugina	Deputy Managing Director – Executive Director of Business Unit No. 1 of JSC RAO UES of Russia
Lubov Pavlovna Sovershayeva	Deputy Plenipotentiary of the President of the Russian Federation in the North-West Federal District
David Herne	Managing Director of Halcyon Advisors, Chairman of the Strategy & Reform Committee of the Board of Directors of JSC RAO UES of Russia

Key Management

Andrey Nikolayevich Likhachev (1965), General Director

Since 1991 has been in executive management positions in the regional and then in the Saint-Petersburg City Administration. Since 1998 he was the Vice-Governor and the Chairman of the City Property Management Committee (KUGI) of the Saint-Petersburg Administration. Since December 1999 he has been the General Director of JSC Lenenergo and on 17.03.2005 he was appointed General Director of JSC TGC-1 by the decision of the Founding members meeting.

Dmitry Nikolayevich Kirin
(1966), First Deputy General Director

Has been in executive positions in major building and construction companies of the city. Since 1999 he has been the First Deputy General Director of JSC Lenenergo and since October 2005 the First Deputy General Director of JSC TGC-1.

Vladislav Grigoryevich Kuzminov
(1969), First Deputy General Director

Before joining JSC TGC-1 he worked for the holding Bankirsky Dom Saint-Petersburg and for the Sankt-Peterburgsky Mezhsbankovskiy Alliance, since 1999 he has been in executive positions in JSC Lenenergo. In October 2005 he moved to the position of the First Deputy General Director of JSC TGC-1. He is the General Director of JSC North-Western Power Managing Company.

Dmitry Sergeyevich Shakhanov
(1961), Deputy General Director

Former First Deputy Head of the North and North-Western RUBOP (District Organized Crime Unit) of the MVD (Ministry of Internal Affairs) of the RF. Later worked for the Central Audit Administration of the President of the RF, then as the Security and Economic Safety Manager of JSC Electrosila. From 1999 till 2005 has been the Deputy General Director in charge of Security and Economic Safety of JSC Lenenergo. In JSC TGC-1 he is responsible for security and personnel policy issues.

Alexander Nikolayevich Piskaryov
(1963), Deputy General Director

Former Deputy Chairman of the Legal Committee of the Saint-Petersburg Governor's Office. His legal practice also includes working as a legal advisor of the Petrazovodsk District Council of People's Deputies and Head of the Legal Department of the Petrazavodsk Administration. Since 1999 he has been the Deputy General Director of JSC Lenenergo. In 2005 took the position of the Deputy General Director and Chief Legal Officer of JSC TGC-1.

Dmitry Yuryevich Flerov
(1967), Deputy General Director

Former Deputy General Director for Energy Sales – Director of the Energy Sales Department of JSC Kolenergo, Deputy General Director for Energy Sales of the Sevzapenergo Representative Office of RAO UES of Russia. Since 2001 he worked as the Deputy General Director of JSC Lenenergo. In 2006 he joined TGC-1.

Alexander Viktorovich Lurye
(1963), Deputy General Director

Responsible for property-related issues of the Company. Since September 2001 till joining TGC-1 he was the Deputy General Director of JSC Lenenergo; and before that the First Deputy Chairman of the Property Management Committee (KUGI) of the Saint-Petersburg Administration.

Valery Anatolyevich Goncharov
(1963), Deputy General Director, Chief Economics and Finance Officer

Worked in the Administration of the President of the RF; former Deputy Regional Development Minister of the RF. In 2005 joined JSC Lenenergo. In the same year took the position of Deputy General Director, Chief Economics and Finance Officer in JSC TGC-1.

**Sergey Dmitriyevich Laputko
(1948), Chief Engineer**

Advanced from the position of engine operator to that of chief engineer. In 1998 was appointed the Director of CHPP-5 of JSC Lenenergo. Since 2000 he has been the Chief Engineer of JSC Lenenergo and since 2005 the Chief Engineer of JSC TGC-1.

**Mikhail Igorevich Zavorovsky
(1971), General Director, JSC Petersburg Sales Company**

Took several executive positions in JSC Petrolelectrosbyt. Since 2004 he was the Managing Director of the Sales Company of JSC Lenenergo and since 2005 the General Director of JSC Petersburg Generating Company.

**Andrey Nikolayevich Filippov
(1959), Director, the Nevsky Branch, JSC TGC-1**

Before joining JSC TGC-1 he worked as the Operations Manager for CHP plants of JSC Lenenergo. Started his career as steam turbine operator at CHPP-15. After that advanced through the positions of a deputy chief engineer, chief engineer, director of the CHPP-15 and Deputy Chief Engineer of JSC Lenenergo.

**Alexander Gennadyevich Antipov
(1953), Director, the Kolsky Branch, JSC TGC-1**

Before joining JSC TGC-1 in 2005 worked for JSC Kolenergo, where he advanced through a number of positions from the Head of the Hydro Engineering Service to the Chief Engineer.

**Valery Vladimirovich Belov
(1972), Director, the Karelsky Branch, JSC TGC-1**

Former Deputy Chief Engineer of JSC Karelenergo, then the First Deputy General Director and Chief Engineer of JSC Karelenergogeneratsiya; in 2005 he was appointed the Director of the Karelsky branch.

**Raisa V. Stanishevskaya
(1959), Chief Accountant**

Since 1994 worked for JSC Lenenergo; advanced through a number of positions – from a specialist to the Deputy Chief Accountant. In 2005 she was appointed the Chief Accountant of JSC TGC-1.

Management Board

The current members of the Management Board were elected on July 20, 2005.

Andrey Nikolayevich Likhachev
General Director of JSC TGC-1
Chairman of the Management Board

Kirin Dmitry Nikolayevich
First Deputy General Director of JSC TGC-1

Vladislav Grigoryevich Kuzminov
First Deputy General Director of JSC TGC-1

Dmitry Sergeyevich Shakhanov
Deputy General Director of JSC TGC-1

Alexander Nikolayevich Piskaryov
Deputy General Director of JSC TGC-1

Alexander Viktorovich Lurye
Deputy General Director of JSC TGC-1

Valery Anatolyevich Goncharov
Deputy General Director, Economics and Finance of JSC TGC-1

Sergey Dmitriyevich Laputko
Chief Engineer of JSC TGC-1

Mikhail Igorevich Zavorovsky
Head of Trading and Marketing Department of JSC TGC-1

Andrey Nikolayevich Filippov
Director of the Nevsky Branch of JSC TGC-1

Alexander Gennadyevich Antipov
Director of the Kolsky Branch of JSC TGC-1

Valery Vladimirovich Belov
Director of the Karelsky Branch of JSC TGC-1

Information on Remuneration and Reimbursement Paid to the General Director and the Members of the Board of Directors

The total amount of remuneration and reimbursement paid to the General Director and the members of the Board of Directors in 2005 was RUR 2,461,108.

11. HUMAN RESOURCES

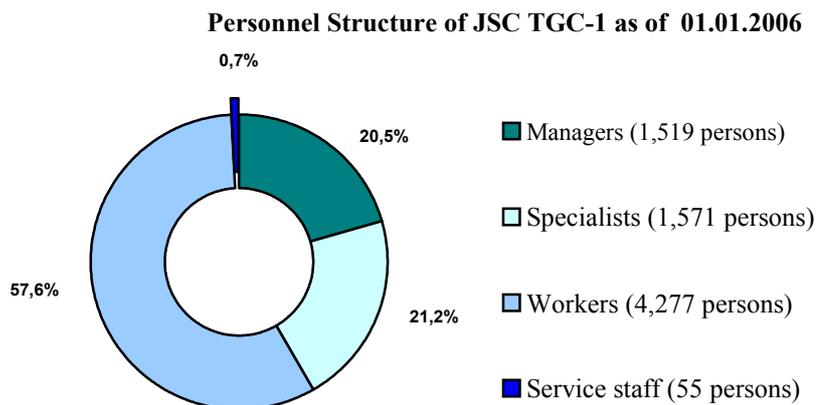
Key Principles of the Personnel Policy:

The following key principles are in the basis of the personnel management system of JSC TGC-1:

- creating conditions for employees professional and personal advance, highly efficient labour motivation programs development;
- personnel recruitment, positioning and promotion according to professional, business, moral and psychological qualities based on competitive choice and objective assessment of personal activity;
- improving the living standard of the employees and their families, creating a system of social-labor rights and guarantees that would improve the position of TGC-1 employees, form the corporate awareness and strengthen attractiveness of belonging to the corporation;
- planned personnel management on the basis of setting targets in every management sphere, which are constituents of the general personnel development plan.

Staff of the Company

The total number of the Company's staff as of the end of 2005 was 7,422 people.



Remuneration of Labor, Social Benefits and Guarantees

The fundamental principle of the existing system of labor remuneration and the Company's personnel stimulation is the dependence of the salary of each worker on his/her qualification, difficulty of the work he/she performs, quantity and quality of the labor expended. The average salary at JSC TGC-1 in the fourth quarter of 2005 was RUR 18,919.

The major activities in the field of improving the system of labour remuneration and motivation in 2005 were:

- preparatory work for making contracts of voluntary medical insurance for the personnel of the Nevsky branch with Rosgosstrah North-West Ltd and the Karelsky and the Kolsky branches with ISC ROSNO in 2006;

- introduction of new insurance programs: insurance of expenses for dentists' services, insurance of urgent medical expenses for the stay of Russian citizens at a distance of more than 500 km from the place of residence in the Russian Federation, insurance of workers going abroad;
- social pays to employees and pensioners of the Company;
- compensations for electricity and heat used by employees and pensioners of the Company in their homes;
- increasing the amounts of welfare of an employee in excess of the amounts set by the law.

Personnel Development System

Personnel development in JSC TGC-1 is a consistent and systematic employees' development system aimed at achieving the Company's objectives by means of extending and enhancing professional skills competence, training in new qualifications and increasing motivation. Personnel development is a process of personnel preparation for accomplishment of new work tasks, taking up new positions and achieving new goals. Personnel development process ensures the possibility to use the maximum potential of the employees.

Personnel development in JSC TGC-1 in 2005 was carried out in the following areas:

- Retraining, new and second profession training, improving the skills of the management, specialists and workers

On the whole, 645 employees of JSC TGC-1 underwent professional training in 2005, including:

Managers	263
Specialists	203
Workers	179

The total expenses amounted to RUR 3,252 thousand.

- Work with young specialists

JSC TGC-1 actively interacts with the institutions of higher education in employing young specialists; moreover, a Council of Young Specialists operates in the Company.

- Personnel professional qualities assessment for sustainable professional advance

12. CORPORATE SOCIAL RESPONSIBILITY

OUR SOCIAL MISSION AND TASKS

JSC TGC-1 is a multi-regional company, which is aware of its responsibility to the state and the society. The management of the Company is convinced that long-term high economical and social results are only possible in case of a reasonable balance of the interests of our shareholders, the state, employees, suppliers, consumers, public institutes and other parties affected by our activities. We are sure that a wealthy society is more favorable for business development. The management and employees of TGC-1 attach much importance to the social policy aimed at supporting charity projects implemented by the state and non-profit organizations locally and regionally.

The company objectives are: to provide assistance in scientific and educational development; support and organization of cultural and art events, sport competitions; and charity actions. In the framework of its social policy, the Company intends to cooperate with non-profit organizations dealing with the development and implementation of effective social, environmental and cultural programs. Besides, TGC-1 will operate in a close contact with commercial companies, public organizations and individuals wishing to take the initiative in the social sphere of the North-Western region.

Key Points of Social Activity:

- social programs for employees and their families
- measures for improvement of labor conditions, safety and health conditions
- development of staff's potential
- social programs for the underprivileged
- social programs for children and young people
- nature protection and resources saving
- charity aid to non-profit and religious organizations
- sponsoring sport organizations; cultural, scientific and educational institutions

SOCIAL PROGRAMS OF JSC TGC-1

Support of Children, Young People and School Education

- *Young Talents* – support of gifted children from low-income families (together with the Children Protection Foundation);
- implementing a new curriculum module “*Power Industry. Basics of Safe and Economic Energy Consumption*” into the Life Safety course at secondary schools (rewarded with the National PR prize “*Serebryanny Luchnik*” (*Silver Ray*) on January, 25, 2006);
- continuing traditional competitions in arts, literature and photography dedicated to power industry;
- support of orphan homes and charity funds in regions;
- annual graffiti show “*For the Light and Clean City*”.

Projects Implemented Jointly with Higher Educational Institutions and Secondary Schools:

- holding competitions of graduation theses at higher educational institutions;
- implementing the system of grants and scholarships;
- “*Open Doors Days*” for school children and students of power engineering higher schools;
- practical training for students of regional power engineering higher schools;

- olympiads and competitions of scientific-research works with subsequent publication best researches on the web-site of the company;
- holding a *Week of TGC-1* in power engineering higher schools.

Conservation of Cultural and Historical Heritage:

- TGC-1 is a constant partner of the State Academic Mariinsky Theatre;
- participation in the work of the Kronshtadt Historical Heritage Foundation;
- support of the Russian National Glory Centre;
- assistance in creating an I.A. Brodskiy monument;
- support in the restoration of the G.O. Graftio monument;
- support in the construction of the Church of Christ the Savior (in Srednyaya Rogatka);
- city festival organization: September, 23 – Leningrad Power Blockade Breakage.

Support of Sports:

- support of the Saint-Petersburg Track and Field Federation;
- cooperation with the “Dynamo” basketball club.

ENVIRONMENT PROTECTION

For a power industry company oriented towards a long-term and successful development, the environment protection and environmental safety of the technologies used for power generation are of the utmost importance.

Following the principles of rational use of energy resources and reducing the harmful substances discharge, TGC-1 aims to make its contribution to solving the common task of ensuring an ecological balance in the region.

The Company’s operational activity is accompanied by research and design for environment protection, power and resources savings and reduction of industrial impact caused by CHPP, HEPP and Heat Network operations. Emergency action plans to deal with possible pollution of water reservoirs with oil products have been worked out for all enterprises.

A significant advantage of the Company in terms of environment protection is a large share of hydroelectric power plants in the generating mix. Most of TGC-1 heat and power plants are fueled with environmentally safe gas. The share of gas in the Company's fuel mix was 96.2% in 2005.

In 2005 a number of environmental measures were taken in order to protect the air and water basins.

In the Nevsky branch the major score of works was carried out at Pravoberezhnaya CHPP-5 as a part of the renovation works and installation of a new power unit with the capacity of 180 MW:

- construction of the technical waste purification installation with the capacity of 25 m³/h;
- construction of the circular system of technical water supply 6,300 m³/day;
- renovation of the sewerage system.

The Karelsky Branch carried out the following major activities:

- major repairs of the cooling tower at Petrozavodskaya CHPP which allows to decrease moisture entrainment;
- replacement of rubber seals on the blades of the working wheels of the hydraulic units of Ondskaya HEPP and Matkonezhskaya HEPP.
- working out the Rules of Water Resources Use in the Shuya and the Yanis-Yoki Rivers in accordance with the requirements of the water protection regulations.

The Kolsky Branch is implementing a score of nature protection actions planned up to 2008, including:

- renovation of purification facilities of Nivsky HEPP Cascade;
- renovation of waste purification facilities of Pazskiy HEPP Cascade, including HEPP-6 in the settlement of Rayakosky.

In 2005 JSC TGC-1 planned to spend 324.4 mln. RUR for environment protection activities. 573. 9 mln. RUR were actually spent.

In accordance with the environmental policy and its implementation concept adopted by JSC RAO UES of Russia in December 2005, in 2006–2008 the Company is to resolve a number of high-priority tasks of ensuring reliable and environmentally safe heat and electricity generation, including:

- obtaining a certificate of compliance with the ISO-14000 standard;
- developing a standard of environmental policy;
- organizing a course of training in the field of environmental management (ISO-14000) in JSC TGC-1 or specialized organizations;
- working out a plan of nature protection actions for the Nevsky, Kolsky and Karelsky branches, including:
 - using modern gas-vapor technologies, reducing nitrogen oxide discharge, building purification facilities at thermal power plants;
 - renovation of purification facilities at HEPP;
 - organizing regular monitoring of waste waters quality;
 - arranging a fish way at HEPP-26 Ignoila.

13. ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Basic Principles of the Accounting Policy of JSC Territorial Generating Company No. 1 for 2005

The accounting policy adopted by JSC TGC-1 as a set of accounting principles, organization rules and implementation practices was worked out for the purpose of providing complete, unbiased, reliable and operational financial and management information in its reporting statements, taking into account organizational and industry-specific peculiarities.

The accounting and tax records practices selected by JSC TGC-1 are approved by a respective order of the General Director and are consistently applied from the date of Company registration. JSC TGC-1 keeps its accounting books in accordance with the Law of November 21, 1996 No. 129-FZ "On Accounting", the Regulations on Keeping Accounting Books and Financial Statements in the RF, approved by the Order of the RF Ministry of Finance of July 29, 1998 No. 34n and the working Chart of Accounts developed based on the Chart of Accounts of Financial and Economic Activity and the Instructions on its application approved by the Order of the RF Ministry of Finance of October 31, 2000 No. 94n, taking into account the industry-specific and organizational peculiarities listed in the Order of JSC RAO UES of Russia No. 761 of 30.12.2004 "On Accounting Policy of RAO UES of Russia for 2005".

To ensure that accounting and tax records statements of the Company are drawn up in a timely manner, the General Director issues a respective order as to the procedure and schedule of operational workflow.

Accounting and tax records of property (except for fixed assets), liabilities, and economic operations are maintained in roubles with kopecks without rounding. Fixed assets are recorded in roubles. Odds that arise are reported in financial results.

To reflect the cost of assets and liabilities expressed in a foreign currency in accounting and tax records, it is first recalculated into roubles according to the requirements of Accounting Regulations PBU 3/2000.

Property and liabilities inventory is carried out in compliance with the Guidelines for Inventory of Property and Financial Liabilities, approved by the Order of the RF Ministry of Finance as of 13.06.95. No. 49. The inventory procedure is established by an Order of the Chairman of the Company's Management Board. Inventory of assets, including those acquired under contracts of lease, is carried out at the local level by branches and divisions.

External accounts and reports of the Company are made up according to the procedure and within the time set forth in respective enactments on accounting. Accounting statements of the Company are drawn up by the Central Accounts Department based on summarized information on property, liabilities and operating performance and considering information provided by accounts offices of divisions. Annual accounting statements of the Company are considered and approved by general meetings of shareholders and delivered within the time and to the addresses stated in clause 15 of the Federal Law of November 21, 1996 No. 129-FZ "On Accounting". Approved annual accounting statements of the Company are published no later than June 1 of the year that follows the year under report. A reporting figure is disclosed, provided its value is relevant. A figure is deemed relevant, if its non-disclosure might affect economical decisions of interested users, made by them on the basis of the reporting information. As for relevance level, it is established as five percent to the total value of the corresponding section of the reporting form.

Fixed Assets

Fixed assets are reported according to their original cost. The cost of relevant modernizations and improvements is added to the object's cost. Interests on credits and loans are capitalized. Maintenance and minor repair costs are charged to expenses as incurred. Depreciation of fixed assets is done according to the straight-line method based on the period of use of these objects.

Accounts Receivable and Advances Paid

Accounts receivable are reported subject to the value-added tax to be paid to the budget after collecting the corresponding accounts receivable. Receivables from customers and buyers and other kinds of accounts receivable are adjusted by the amount of the reserve for cutting down the cost of such receivables. Such a doubtful debt reserve is created when there is an objective proof of the impossibility for the Company to collect all due amounts in accordance with the original conditions of repayment.

Value Added Tax Due for Refund and Payment

The VAT attributed to proceeds from sales is payable to taxation authorities as payments for provided services are effected. Incoming VAT is set off against the VAT charged on sales proceeds, as is paid by suppliers.

Accounts Payable and Charges

Accounts payable to suppliers and other payables are reported according within the amounts of the source documents accepted for accounting purposes and the value of accrued liabilities, pursuant to payment documents. Accounts payable for non-invoiced deliveries are reported within the amount of received valuables, which is determined based on the price and conditions set forth in respective contracts.

Inventories

Accounting of inventories is done pursuant to the Accounting Regulations "Reporting on Inventories" PBU 5/01 approved by the Order of the Ministry of Finance of Russia of 09.09.2001 No.44n.

Inventories are accepted for accounting purposes against their actual cost. The actual value of inventories purchased subject to payment is subdivided into the accounting price of inventories and deviations from the cost of such inventories. As for the accounting cost, it is the delivery price under respective contracts concluded with suppliers. Evaluation of inventories received under non-invoiced supplies is done based on the price and conditions set forth in respective contracts.

Distribution of General Expenses

General expenses of JSC TGC-1 are reported in account 26 "General Expenses". They are distributed in the reporting period by types of products in direct proportion to direct costs.

Distribution and Disposition of Profit

Disposal of Company's profit retained by it after the calculation of the profit tax and similar mandatory payments, including penalties for nonobservance of taxation rules, is to be approved by the General Meeting of the Shareholders.

Financials

Profit and Loss Statement for 2005

Index	RUR thousand For the reporting period
Proceeds from sales:	5,449,974
<i>of electricity to domestic consumers</i>	2,798,964
<i>heat</i>	2,572,104
Cost value of sold goods, products, works and services:	(4, 697,430)
<i>electricity to domestic consumers</i>	(2,216,015)
<i>heat</i>	(2,443,508)
Profit (loss) from sales	752,544
Interest receivable	-
Interest payable	(2,675)
Profit from participation in other organizations	-
Other operating profit	22,300
Other operating expenses	(21,239)
Off-sale profit	85,739
Off-sale expenses	(51,928)
Profit (loss) before taxation	784,741
Deferred tax assets	-
Deferred tax liability	(35)
Current profit tax	(197,392)
Other similar mandatory payments	-
Profit tax and other similar payments	(197,427)
Profit (loss) from ordinary activity	587,314
Extraordinary profit	-
Extraordinary expenses	-
Net profit (retained profit (loss) of the reporting period)	587,314
FOR REFERENCE ONLY	
Fixed tax liabilities (assets)	9,089

Proceeds

Proceeds of TGC-1 as of the end of the year 2005 totaled RUR 5,450 million, of which proceeds from electricity sales to domestic consumers amounted to RUR 2,799 million or 51% of the total proceeds, and proceeds from heat sales – RUR 2,572 million or 47%. Gross margin on electricity sales totals 26.3%, and that on heat sales – 5.2%.

Cost Value

Cost value of primary products	Electricity	SEC	Heat	SHC	Total	SEH
Fuel	1,038,728	47%	1,091,094	45%	2,129,822	46%
Purchased power	228,169	10%	33 585	1%	261,754	6%
Materials	64,090	3%	88,505	4%	152,595	3%
Production services	183,747	8%	253,747	10%	437,494	9%
Remuneration of labour and contributions to social funds	198,830	9%	274,574	11%	473,404	10%
Lease	273,419	12%	255,243	10%	528,662	11%
Other costs	229,032	10%	446,759	18%	675,791	15%
Total	2,216,015	100%	2,443,507	100%	4,659,523	100%

SEC – share in electricity cost structure (%);
SHC – share in heat cost structure (%);
SEH – share in electricity and heat cost (%).

The shares of fuel in the cost structure of electricity and heat are almost the same – 46% on average. In total, the largest shares are those of fuels costs (46%), lease costs (11%), remuneration of labour (10%), and other costs (15%).

Purchased electricity totals 10% of the electricity cost. The share of electricity cost in the total cost amounts to 47% and that of heat – 52%. The cost value of other sold goods, products, works and services of production and non-production nature totals RUR 37,907 thousand or 1% of the total cost value.

Profit

Sales profit totaled RUR 753 million.

Profit before taxes totaled RUR 785 million. Profit tax totaled RUR 197 million.

Net profit totaled RUR 587 million. Return on equity (ROE) is 98.3%. It is high due to the moderate equity percentage in the structure of liabilities and due to the fact that 98.3% of it consist of the profit gained in 2005. It is return on assets (ROA) that adequately reflects the profitability of the business of TGC-1 and totals 12.7%. ROTA (profit before taxes to total assets) totals 17%.

Distribution of Profit

In 2005 the profit of the Company totaled RUR 587,314 thousand. A decision on the distribution of the profit for 2005 will be adopted at the Annual Shareholders Meeting of JSC TGC-1, that will be held on May 31, 2006.

Forecasted distribution of profit:

1. RUR 250,000 thousand are expected to be allocated for payment of dividends.
2. Reserve fund – RUR 500 thousand (the Company is forming a Reserve Fund to the amount of 5 percent of the authorized capital)
3. RUR 336,814 thousand will remain in the turnover of the Company to ensure production development and other similar arrangements for purchasing (creating) new tangibles or forming other assets.

Analysis of Financial Performance

RUR thousand

2005 BALANCE SHEET	As of the end of the reporting year, RUR thousand
ASSETS	
I. NONCURRENT ASSETS	
Fixed assets	2,911
Construction in progress	1,376
TOTAL for section I	4,287
II. CURRENT ASSETS	
Inventories	142,071
Value added tax on purchased tangibles	285,852
Accounts receivable within 12 months after the reporting date	3,927,483
Short-term financial investments	6,900
Monetary funds	233,218
TOTAL for section II	4,595,524
Balance	4,599,811
LIABILITIES	For the end of the reporting period
III. CAPITAL AND RESERVES	
Authorized capital	10,000
Retained profit (uncovered loss)	587,314
TOTAL for section III	597,314
IV. LONG-TERM LIABILITIES	
Loans and credits	-
Deferred tax liabilities	35
TOTAL for section IV	35
V. SHORT-TERM LIABILITIES	
Loans and credits	300,086
Accounts payable	3,702,376
TOTAL for section V	4,002,462
BALANCE	4,599,811

Asset Profile

Current and Noncurrent Assets

The share of noncurrent assets in total assets amounts to less than 0.1%, while the off-balance account "Leased Fixed Assets" includes assets with the value of RUR 23.8 billion, which is 5.2 times more than the total assets. This reflects the fact that in 2005 TGC-1 used leased generating assets to perform its operating activity. After the process of joining is completed, the noncurrent assets of TGC-1 will considerably grow.

Current assets of the Company totaled RUR 4,595 million or 99.9% of the total cost of assets as of the end of 2005. The largest share (85.5%) in the structure of current assets is that of short-term accounts receivable. Shares of the items "VAT on Purchased Tangibles", "Monetary Funds", and "Inventories" total 6.2%, 5.1%, and 3.1% respectively.

Liquidity Analysis

<i>Ratio</i>	<i>Value</i>	<i>Recommended value</i>
Cash asset ratio	0.06	0.2 – 0.5
Quick assets ratio	1.04	>1
Current liquidity ratio	1.15	1 – 2

The liquidity analysis shows that the majority of ratios comply with the recommended values, which, in turn, is the evidence of the efficiency of assets structure. An exception is the cash asset ratio, which shows that the share of short-term liabilities, that can be covered at the expense of cash assets and their equivalents, is too small. However, this shortage is made up by the fact that short-term liabilities are fully covered by current assets.

Structure of Liabilities

The equity to total assets ratio (0.13) shows that a considerable part of total liabilities are commitments ((87%). At the same time, there are almost no long-term liabilities (only deferred tax liabilities which total RUR 35 thousand) in the liabilities structure of the Company.

Equity Capital

As of the end of 2005, the authorized capital of TGC-1, consisting of ordinary shares only, totaled RUR 10 million. The bulk of the equity capital consists of retained profit – RUR 587 million.

Short-Term Commitments

Short-term liabilities	Value (RUR thousand)	Share in short-term liabilities (%)
Loans and credits	300,086	7.5%
Accounts payable	3,702,376	92.5%
including:		
suppliers and contractors	1,448,865	36.2%
wages payable to staff	4,738	0.1%
payables to state and off-budget funds	31,069	0.8%
payables of taxes and dues	344,559	8.6%
advances received	588,113	14.7%
other payables	1,285,032	32.1%
TOTAL for section V	4,002,462	100.0%

A considerable part of short-term liabilities are accounts payable – RUR 3,702 million (92.5%), which is mainly represented by payables to: suppliers and contractors (36.2%), other payables (32.1%), and advances received (14.7%).

Forecast of Key Financials for 2006

<i>Index</i>	<i>for 2005 (4th quarter)</i>	<i>forecast for 2006</i>
Proceeds from sales of products (services), RUR million	5,450	20,439
Cost value of products (services), RUR million	4,697	19,106
Gross profit, total RUR million	753	1,333
Net profit, RUR million	587	539
Return on equity (ROE), %	98.33%	3.75%
EBITDA, RUR million	753	1,718

The forecast reflects the figures that will be achieved after PGC, Kola GC, and Karelnenergogeneratsiya join JSC TGC-1.

Information about the Auditor

Full Auditor's name	PricewaterhouseCoopers Audit Plc.
General Audit License No.	E000376 of 20.05.2002
Location	115054, Russia, Moscow, Kosmodamianskaya nab., d.52, str. 5
Telephone / Fax	(495) 967-60-00 / (495) 967-60-01

Remuneration to the auditor for the auditing services according to contract No. MOS-ABAS-JAM-551/TGK1-05 of 12.05.05 totaled 2 million 714 thousand, VAT included.

14. AUDIT REPORT

on Statutory financial (accounting) reports

To the shareholders of joint stock company "Territorial Generating Company №1"

1. We have audited the attached Statutory financial (accounting) reports of Joint Stock Company "Territorial Generating Company №1" (hereinafter - the Company) for the period from March 25 up to December 31, 2005. Statutory financial (accounting) reports of the Company consist of Balance Sheet, Profit and Loss Account, Flow of Equity and Funds Report, Cash Flow Statement, Supplement to the Balance Sheet, Explanatory Notes (hereinafter all the reports together are called "Statutory financial (accounting) reports"). The Statutory financial (accounting) reports were prepared by the management of the Company in accordance with the legislation of Russian Federation applicable to Statutory financial (accounting) reports. Such Statutory financial (accounting) reports differ to a significant extent from those prepared in accordance with International Financial Reporting Standards.
2. Preparation of the Statutory financial (accounting) reports is the responsibility of management of the Company. Our responsibility as auditors is to express our opinion in all material respects on these Statutory financial (accounting) reports and on whether the accounting is conducted in accordance with the Russian legislation based on our audit.
3. We conducted our audit in accordance with The Federal Law "On auditing activity", Federal Auditing Standards, International Standards on Auditing and our internal standards.
4. Our audit was planned and performed to obtain reasonable assurance about whether the Statutory financial (accounting) reports are free of material misstatement. The audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the Statutory financial (accounting) reports, assessing compliance with accounting principles, techniques and rules of Statutory financial (accounting) reports preparation, evaluating significant estimates made by the management of the Company and the overall Statutory financial (accounting) reports presentation. We believe that our audit provides a reasonable basis for our opinion on these Statutory financial (accounting) reports and on whether the accounting is conducted in accordance with the Russian legislation.
5. In our opinion the Statutory financial (accounting) reports of the Company attached to this report have been properly prepared to present, in all material respects, the financial position of the Company as of December 31, 2005 and financial results of its operations for the period from March 25 up to December 31, 2005 in accordance with the legislation of Russian Federation applicable for Statutory financial (accounting) reports.

04 April 2006

Director of ZAO

A.S. Ivanov

Statutory auditor
Certificate No K010584
for general audit
termless

A.B. Kalmykova

15. SUMMARIZED ACCOUNTS UNDER RUSSIAN ACCOUNTING STANDARDS

Balance Sheet

thousand RUR.

ASSETS	01.01.2005	31.12.2005
I. NONCURRENT ASSETS		
Intangible assets	-	-
Fixed assets, including:	-	2,911
land and nature management objects	-	-
buildings, machinery and equipment, facilities	-	2,686
other types of fixed assets	-	225
Construction in progress	-	1,376
Long-term financial investments	-	-
Deferred tax assets	-	-
Other noncurrent assets	-	-
TOTAL noncurrent assets	-	4,287
II. CURRENT ASSETS		
Inventories	-	142,071
Value added tax on purchased tangibles	-	285,852
Accounts receivable, payments for which are expected in more than 12 months	-	3,927,483
Accounts receivable, payments for which are expected within 12 month, including:	-	2,899,869
Buyers and customers	-	-
bills receivable	-	-
receivables from subsidiary and affiliated companies	-	-
advances paid	-	10,434
other receivables	-	1,017,180
Short-term financial investments	-	6,900
Cash and cash equivalents	-	233,218
TOTAL current assets	-	4,595,524
TOTAL ASSETS	-	4,599,811

SHAREHOLDER'S EQUITY AND LIABILITIES	31.12.2004	31.12.2005
III. SHAREHOLDER'S EQUITY		
Authorized share capital	-	10,000
<i>in preferred shares</i>	-	-
<i>in ordinary shares</i>	-	10,000
Capital surplus	-	-
Capital reserves	-	-
Retained profit (outstanding loss)	-	587,314
Retained profit of past years	-	-
Outstanding loss of past years	-	-
Retained profit of the reporting year	-	587,314
Outstanding loss of the reporting year	-	-
TOTAL shareholder's equity	-	597,314
IV. LONG-TERM DEBT		
TOTAL long-term debt	-	35
V. SHORT-TERM LIABILITIES		
Loans and credits, including	-	300,086
bank credits	-	300,086
Loans	-	-
Accounts payable, including:	-	3,702,376
suppliers and contractors	-	1,448,865
bills payable	-	-
wages payable to staff	-	4,738
payables to state and off-budget funds	-	31,069
current payables to budget	-	344,559
advances received	-	588,113
other payables	-	1,285,032
Payables to participants (founding parties) related to distribution of gains	-	-
Deferred income	-	-
TOTAL short-term liabilities	-	4,002,462
TOTAL SHAREHOLDER'S EQUITY AND LIABILITIES	-	4,599,811

Reference note on inventories reported in off-balance accounts

ASSETS	31.12.04	31.12.05
Leased fixed assets	-	23,884,194
including leasing	-	-
Inventory holdings accepted for safekeeping	-	93,961
Materials accepted for processing	-	-
Goods accepted on commission	-	-
Equipment accepted for installation	-	-
Receivables from insolvent debtors, written-off to loss	-	-
Security of liabilities and payments received	-	-
Security of liabilities and payments issued	-	-
Wear of fixed assets	-	-
Wear of improvements and other similar objects	-	-
Registered high-security forms	-	1
Leased out fixed assets	-	-
State-owned tangibles	-	-
Intangible assets received for usage	-	-

Income Statement

thousand RUR.

Index	2004	2005
1. Profit and loss from ordinary activities		
Revenues	-	5,449,974
<i>Electricity</i>	-	2,798,964
<i>Heat</i>	-	2,572,104
<i>Other</i>	-	78,906
Cost value of goods sold	-	(4,697,430)
<i>Electricity</i>	-	(2,216,015)
<i>Heat</i>	-	(2,443,508)
<i>Other</i>	-	(37,907)
Profit (loss) from sales	-	752,544
II. Operating profit and expenses		
Interest income	-	-
Interest expenses	-	(2,675)
Other financial items gain	-	-
Other operating income	-	22,300
Other operating expenses	-	(21,239)
III. Non-operating income and expenses		
Other non-operating income	-	85,739
Other non-operating expenses	-	(51,928)
Pre tax profit	-	784,741
Deferred tax assets	-	-
Deferred tax liability	-	(35)
Current profit tax	-	(197,392)
Other similar mandatory payments	-	-
Profit tax and other similar mandatory payments	-	(197,427)
Profit after tax	-	587,314
IV. Exceptional income and expenses		
Exceptional income	-	-
Exceptional expenses	-	-
Net profit	-	587,314

Cash Flow Statement

thousand RUR.

Index	For the reporting period	For the same period of the last year
Cash balance as of the beginning of the reporting year	-	-
Cash flow under operating activities		
Funds received from buyers and customers	3,668,345	-
Receipts from purchased foreign currency	-	-
Emergency receipts	-	-
Receipts from the internal company's account	469,935	-
Other profit (receipts)	881,937	-
Cash assets allocated for:		
payments for purchased goods, works, services, feedstock, and other current assets	(3,563,434)	-
payment of wages	(348,356)	-
payment of dividends and interest	-	-
payment of taxes and dues	(127,158)	-
emergency payments	-	-
transfers between accounts inside the company	(469,935)	-
payments for social needs	(70,132)	-
other expenses (payments)	(509,032)	-
Net cash from operating activities	(67,830)	-
Cash flow under investment activities		
Proceeds from sale of fixed assets objects and other noncurrent assets	-	-
Proceeds from sales of securities and other financial investments	-	-
Dividends received	-	-
Interest received	-	-
Receipts from repayment of loans granted to other organizations	-	-
Other receipts	-	-
Acquisition of subsidiary companies	-	-
Acquisition of fixed assets objects, earning investments and intangible assets	(6,373)	-
Purchase of securities and other financial investments	-	-
Loans granted to other organizations	-	-
Other expenses	(3)	-
Net cash from investment activities	(6,376)	-
Cash flow under financial activities		
Receipts from issue of shares or other equity securities	10,000	-
Receipts from loans and credits granted by other organizations	300,000	-
Receipts from targeted financing	8	-
Other profit	-	-
Repayment of loans and credits (interest free)	-	-
Payment of finance lease liabilities	-	-
Other expenses	(2,589)	-
Net cash from financial activities	307,419	-
Net increase (decrease) in cash assets and their equivalents	233,213	-
Cash assets balance as of the end of the reporting period	233,213	-
Influence of fluctuations in foreign currency exchange rate to RUR	-	-

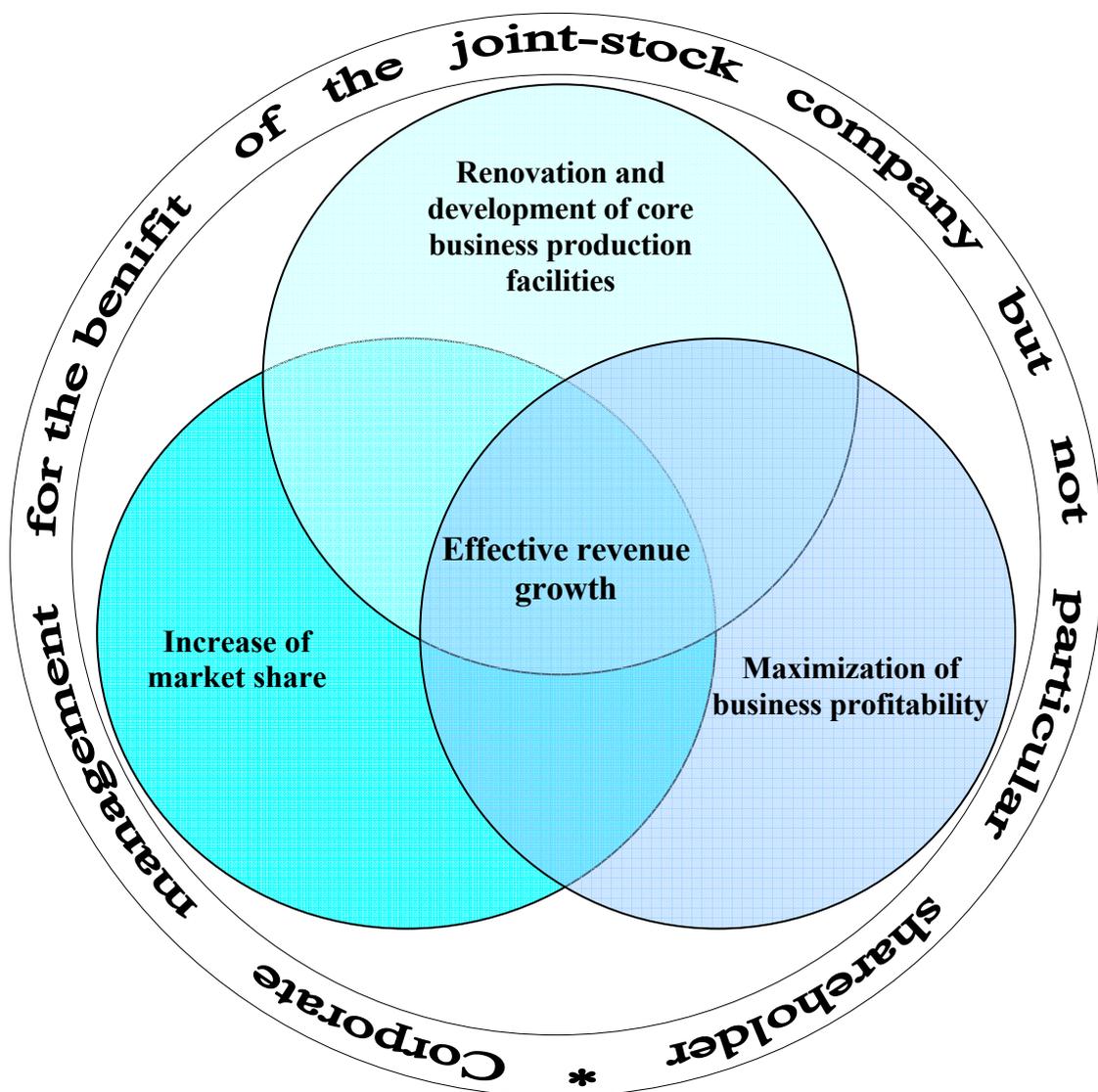
16. STRATEGIC OBJECTIVES AND DEVELOPMENT PROSPECTS OF THE COMPANY

The key goal of implementing the development strategy of JSC TGC-1 is to increase the company's effective earnings maximizing the growth of the company's market value.

Strategic Objectives

- Increase of market share
- Renovation and development of production facilities
- Maximization of business profitability

Integration of the Strategic Tasks and Objectives



Increase of Market Share

Heat Market

Heat market is the strategic market of JSC TGC-1 in Russia. Further expansion of heating operation mode of CHPP of the Nevsky branch and Petrozavodskaya CHPP of the Karelsky branch will result in increase of combined electricity generation by using the “free capacities” of heat stations.

Taking into account the peculiarities of heat delivery technology, the Company will exert efforts to make an agreement for grid management with the St.Petersburg SUE (State Unitary Enterprise) FEC (Fuel and Energy Complex). Such agreement will help to achieve a synergetic effect from combination of two heat business entities and, as a result, to minimize the growth of heat rates.

Export

Export is one of the most promising areas for the Company as it will make it possible for JSC TGC-1 to get an actual economic result compared to the activity in the electricity wholesale market. Export activity may become a basis for financing the generating capacities involved in the export activity and create a source for updating of other capacities.

Taking into account the current and future network restrictions, JSC TGC-1 may come up with an initiative of attracting investors to projects of building “export” electricity grids, which will make it possible to increase the scope of cross-border trade.

Updating and Development of Production Facilities

The fast growing demand for heat in Saint-Petersburg and the current condition of the capital assets of the company require a comprehensive investment program to be implemented, which will allow TGC-1 to provide reliable performance of the existing equipment and to install the required additional capacities. The program implementation will require at least USD 4.6 bln. of investment in the period from 2006 up to 2015, which will be attracted both from company’s own funds and borrowed funds.

The Major Tasks of the Company’s Investment Policy:

- Replacment of aging heat and electric capacities of the Company
- Securing the existing and projected heat and electric demand in the region
- Ensuring reliability of production and energy supply at the operated generating facilities
- Increasing the operation efficiency of the Company’s production facilities
- Utilization of the Company’s export potential

Maximization of Business Profitability

The Company's production program is a direct consequence of the market operations and execution of the investment program. Within the frameworks of this program it is significant to optimise the power plants' loads based on the integrated management of TGC-1 branches' capacities. It is planned to lay special emphasis on the utilisation of innovative Tidal Power Plants, HEPP as well as the additional loading of CHPPs at the wholesale electricity market in the the 2nd and 3rd quarters of the year through competitive condensation production.

Major Characteristics of TGC-1 Development Strategy

Index	2006	2010	2015
Receipts, mln. RUR.	20,439	31,327	43,647
Net profit, mln. RUR.	539	3,699	5,493
Net profit rate	3%	12%	13%
EBITDA rate	14%	25%	28%
ROTA	2%	4%	5%
ROE	2%	5%	7%
Leverage	0,24	0,15	0,32
Electricity useful output, mln. kWh	21,711	23,043	26,308
Heat useful output, thous. GCal	23,908	24,955	26,728

17. INFORMATION FOR SHAREHOLDERS

Annual Meeting

Annual General Meeting of the Shareholders of JSC TGC-1 will be held on May 31, 2006.
Venue: 1, Marsovo Pole, St. Petersburg

Contacts

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Bank requisites of JSC TGC-1

Taxpayer Identification Number 7841312071

Settlement account number: 40702810718010000017

with Petrogradsky branch of JSC Industry and Construction Bank of St.Petersburg

Correspondent account 30101810200000000791, BIK 044030791, OKPO code 76201586,
OKOGU 41002, OKATO 40298561000, OGRN 1057810153400

Website www.tgc1.ru

Company's Registrar

JSC Central Moscow Depository	
License No.	10-000-1-00255
Location	34 Bolshaya Pochtovaya str., build. 8, Moscow 105082, Russia
Phone / Fax	+7 (495) 221-13-33 / (495) 221-13-83
E-mail	mcdepo@dol.ru

Auditing Company

"PricewaterhouseCoopers Audit" Plc.	
License for general audit No.	E000376 of 20.05.2002
Location	52 Kosmodamianskaya nab., build. 5, Moscow 115054, Russia
Phone / Fax	+7 (495) 967-60-00 / (495) 967-60-01