

LETTER FROM CHAIRMAN OF THE BOARD OF DIRECTORS TO SHAREHOLDERS

Dear Shareholders,

The year 2007 has become not only a period of successful and efficient operations of JSC «TGC-1», but also a significant benchmark laying the stable basis for future power system development.

In May 2007 Murmanskaya CHPP became a subsidiary of TGC-1, thus, finalizing the Company's target structure formation, as TGC-1 has eventually become the largest power generation complex within the North-West region of Russia. In June the Chairman of the Board of RAO «UES of Russia» Anatoly Chubais and the Governor of Leningrad Oblast Valery Serdyukov signed an Agreement on Development of Leningrad Oblast Power System. A similar Agreement was signed between RAO «UES of Russia» and Government of Murmansk Oblast in November, and later in December Anatoly Chubais and Valentina Matvienko, the Governor of St. Petersburg signed the Act confirming the increase of investments for development of the power system of the Northern capital, amending the Agreement between RAO «UES of Russia» and the Government of St. Petersburg entered into in July 2006. Each of these documents is a guarantee of the regional authorities' interest in development and modernization of power capacities. So Investment Programme, which is estimated to be over 150 billion rubles, will be executed.

As a fine tradition, I should state that during the previous year the management of TGC-1 managed to fully implement the shareholders' tasks as to the achieved production and financial results. The corporate management level is stably high which is proved, in particular, by the Company's high rates issued by the authorized rating agencies. According to Standard & Poor's, having increased in 2007 its corporate management rating up to 5+ (5.5 according to the Russian National Scale), TGC-1 holds the first place among Russian generating companies as for the information transparency rating.

But the main event for TGC-1 in 2007 was surely a successful additional emission. The price of TGC-1 securities placement, with consideration of net debts, amounted to \$710 per 1 kW of installed electric capacity, which exceeds the similar figures

of territorial generating companies that have been through the additional shares placement earlier. Thus, the Company not only received the funds required for implementation of the Investment Programme priority projects, but also got a new strategic shareholder whose participation should positively influence the Company's current operations and further development perspectives. The fact that the securities of the additional share issue were acquired by the institution representing interests of JSC «Gazprom» is of crucial importance for the Company as for the fuel supplies and the position within the region. However, it is not less important, that our international strategic shareholder Fortum Power and Heat Oy has kept its blocking stake in TGC-1 equity capital.

Dear colleagues, it is the last time today that I address to you as a representative of the management of RAO «UES of Russia». The coming future after the Holding reorganization completion, which will be finalized by mid 2008, makes the power companies get fully prepared for their independent operation in the new market-based power industry. Nevertheless, I am sure, that this expected full change of operational environment will not become any kind of a stress for our Company. TGC-1 management has well proved that the power system possesses sufficient technical and managerial resources to keep up the sustainability during the crucial period of change in the industry.

I invite you to share this confidence with me.

Wishing you prosperity and blistering pace of development!



Alexander Chikunov

LETTER FROM GENERAL DIRECTOR TO SHAREHOLDERS

Dear Shareholders,

If I were asked today to give a one word summary of the previous year results, then this word would be «construction». I do not only mean any specific objects. The year 2007 will go down in the history of TGC-1 as a year when the Company to the full extent started establishment of new, efficient and up-to-date power industry of the region.

Construction of the new power unit of Pervomayskaya CHPP-14 has been started.

Agreements for full replacement of hydro units of Vuoksinskiye HEPPs Cascade, as well as construction of the new power unit of Yuzhnaya CHPP-22 and project designing of the new power unit of Severnaya CHPP-21 have been entered into.

First stage of reconstruction of HEPP-3 of Nivskiye HEPPs Cascade, construction of the steam boiler house of Pravoberezhnaya CHPP-5, power boiler of Vasileostrovskaya CHPP-7 and diesel power plant on Valaam Island have been completed.

New turbine unit of Avtovskaya CHPP-15 has been commissioned.

Over 50 km of heating grids have been relayed, which is twice as much as during the two previous years of the Company's operation.

The Company has reached agreements with authorities of the Republic of Karelia and Murmansk Oblast to expand Petrozavodskaya CHPP and construct Murmanskaya CHPP-2.

In order to improve the efficiency, transparency and consistency of the new construction the Company's structure has been significantly changed in 2007, with a view to optimizing the investment management processes.

Without any doubt, one of the key factors that defined the realization prospects of our plans and favored implementation of the Shareholders' tasks was the issue of TGC-1 additional shares, carried out during the previous year. I would like to extend our deep appreciation to the management of RAO «UES of Russia» for their support in preparation and holding of the emission, as well as to Fortum Power and Heat Oy for their confidence, which resulted in keeping up the scope of their participation in our Company's equity capital.

I would like to stress that the main volume of additionally issued shares was acquired by the institution representing the interests of JSC «Gazprom», which is as important as the financial results of the shares placement. Furthermore, preparation to the additional shares issue helped us to assess the Company in a more complex, consistent and objective manner and, thus, to lay the basis for future production efficiency improvement.

I think that our absolute success to date is that we managed to keep up positive trends in our production operations, despite considerable changes in the Company's management structure and equity capital as well as large increase of investments – from 3.5 up to 15 billion rubles.

Electricity output in 2007 amounted to 26,063m kW-h, which is a 12.1% increase as compared to 2006. The repair and maintenance programme has been implemented in the required scope, which enabled us to pass the autumn and winter peaks without serious equipment failures. A number of measures have been taken to retain the highly qualified staff, especially workers, at the plants.

It is clear that not all power professionals can have a chance to witness the new plants commissioning. And only few can be a part of such massive scale events that we start today. I am really happy for all of us, those who worked and keep up working with us during this important construction period. I warmly welcome new shareholders who supported us at this very significant moment for the power system of the region. I truly believe that we will maintain our common understanding of the objectives and reach out for the Company's tasks.



Valery Rodin

LETTER FROM PRESIDENT OF FORTUM POWER AND HEAT OY TO SHAREHOLDERS

Dear Partners, Colleagues,

It is a great honour for me to address you on behalf of Fortum Power and Heat Oy, the second major shareholder of JSC «TGC-1».

Last year we took part in the additional issue of TGC-1 shares and managed to keep our stake at the level of slightly over 25%. It is very important for us to participate in TGC-1 share capital of and to continue our partnership relations with it. Fortum representatives are active members of the Company's Board of Directors and productively cooperate with its management, and we give a high esteem to the development of TGC-1 corporate management and its general performance.

The year 2007 enabled us to extend the cooperation between our companies furthermore to the area of environmental protection. It is important for every country in the world to protect environment. Unfortunately, climate change is among the most urgent issues of the global agenda and, due to the fact that most greenhouse gases are emitted in the atmosphere in the course of power generation and utilisation, the power industry must play a vital role in the process of improving the environmental conditions.

The Board of Directors of TGC-1 approved the environmental policy of the Company, and we agreed to cooperate with regard to the implementation of the Kyoto protocol mechanisms in Russia. The massive preparations we made in 2007 allowed us to sign a

Russia's largest agreement on the purchase of CO₂ emission reduction units (ERUs) in the beginning of 2008. The ERUs Fortum is going to buy from TGC-1 will be received from carrying out the joint implementation projects, including the reconstruction of the hydropower plants in Leningrad Oblast, expansion and reconstruction of several CHPPs in Saint-Petersburg, as well as improvement of energy saving technologies in the heating grids. Through applying the Kyoto protocol mechanisms the Company will be able not only to raise additional financing, but also to make environmental issues a part of its Investment Programme.

TGC-1 has a lot of work ahead due to the coming of a new majority shareholder, separation from JSC RAO «UES of Russia» and implementation of a large Investment Programme. Nevertheless, we are sure that the Company is well prepared to accomplish all these new objectives and will successfully achieve the targeted goals in 2008.

Thank you for the fruitful cooperation we had in 2007, and let's keep on working with the same positive attitude in the future!

A handwritten signature in black ink, appearing to read "Tapio Kuula".

Tapio Kuula

SIGNIFICANT EVENTS

January

The new TGC-1 Board of Directors is elected.
 TGC-1 shares started trading on RTS and MICEX.

February

The Federal Service for Financial Markets of the Russian Federation registered TGC-1 bond issue.

March

TGC-1 bonds placement is finished. The first bond coupon rate was set as 7.75% per year.

TGC-1 Board of Directors approved the Company's participation in foundation of Khibinskaya Heating Company. According to the Board's decision TGC-1 will hold a 50% stake in the new entity.

FSFM has registered additional issue and Prospectus for TGC-1 ordinary shares placed via closed subscription among the shareholders of Murmanskaya CHPP.

April

TGC-1 Extraordinary General Meeting was held. The shareholders have resolved to increase the capital stock of TGC-1 by additional Company's shares placement by means of public subscription. The funds are aimed at the Investment Programme realization.

There was made an entry on foundation of JSC «Khibinskaya Heating Company» in Unified State Register of Legal Entities.

May

TGC-1 General Director and Power Machines General Director signed a contract for refurbishment of Vuoksinskiye HEPPs Cascade.

TGC-1 shares started trading on RTS stock exchange as «B» listed securities.

TGC-1 received the highest corporate governance score (CGS) rating among Russian power industry companies from Standard & Poor's. Standard & Poor's raised the CGS of TGC-1 from CGS-5 to CGS-5+ (from CGS-5.3 to CGS-5.5 according to the Russian National Scale).

The exchange of the additional share issue of TGC-1 for the shares of Murmanskaya CHPP, which had formerly belonged to mainly RAO «UES of Russia» and Interros, is completed. TGC-1 became owner of 84.06% of JSC «Murmanskaya CHPP» equity capital.

June

TGC-1 Annual General Meeting was held. The shareholders resolved to approve the Annual Report, annual financial statements and pay dividends under the Company's ordinary shares on results of 2006 and on results of the 1st quarter 2007.

TGC-1 published the first consolidated financial results 2006 in accordance with the IFRS.

The Chairman of the Board of RAO «UES of Russia» Anatoly Chubais and the Governor of Leningrad Oblast Valery Serdyukov signed an Agreement on Cooperation of Leningrad Oblast and RAO «UES of Russia» on top-priority procedures with a view to ensuring reliable power supply in the region. TGC-1 investments in implementation of the projects included in the Agreement will be about 6.5 billion rubles.

July

The Federal Financial Markets Service of the Russian Federation registered additional issue and Prospectus of ordinary shares of JSC «TGC-1» by means of public subscription.

Valery Rodin, General Director of JSC «TGC-1», Sergey Katanandov, Governor of the Republic of Karelia and Victor Maslyakov, Governor of Petrozavodsk signed an Agreement «On cooperation between the Government of the Republic of Karelia, Administration of Petrozavodsk, and JSC «TGC-1» for development of the heat supply system of Petrozavodsk». Within the framework of this Agreement, the Company undertakes to invest over 7.5 billion rubles into development of the heat supply system of the Republic of Karelia.

August

The last of four turbines was put into operation after reconstruction at HEPP-3 of Nivsky Cascade. Reconstruction of Niva HEPP-3 is the first investment project completed by JSC «TGC-1» in Murmansk region.

September

TGC-1 Board of Directors set the allocation price at 0.035 rubles per one share of additional issue of ordinary shares. Quantity of placed shares was set as 925,714,285,714 pieces.

JSC «TGC-1» started construction of a new power unit at Pervomayskaya CHPP-14 in St. Petersburg.

October

The allocation of additional issue of TGC-1 ordinary shares is finished. TGC-1 has allocated 925,714,285,713 and 3/7 shares to the amount of 32.4 billion rubles, including 680,279,520,000 shares acquired by Russian Energy Projects.

TGC-1 Extraordinary General Meeting was held. The shareholders decided to approve TGC-1 reorganization in the form of JSC «TGC-1 Holding» affiliation to it and decided to increase the capital stock of the Company by allocation of TGC-1 additional ordinary shares in number of 4,056,160,466 at the price of RUR0.01 per share.

November

Rating agency Standard & Poor's has appropriated TGC-1 the highest rating of information transparency among all generating companies of Russia.

The Governor of Murmansk Oblast Yury Yevdokimov and the Chairman of the Board of RAO «UES of Russia» Anatoly Chubais signed an Agreement on Cooperation in Development of Power Sector in Murmansk Oblast. In accordance with this document TGC-1 will invest over 46 billion rubles in development of generating capacities.

December

Trade of ordinary shares of TGC-1 has begun on the B quoting list of the MICEX Stock Exchange.

Following the results of additional share issue under the Investment Programme financing the changes to the TGC-1 Charter were registered. The equity capital of TGC-1 has been increased up to 38.5 billion rubles.

A new turbine unit of 30 MW was put into operation at Avtovskaya CHPP-15 of TGC-1.

A new steam boiler BLZ-160-100 GM with output of 160 tons of steam per hour was commissioned at Vasileostrovskaya CHPP-7.

The Governor of the St. Petersburg City Valentina Matvienko and Chairman of the Board of RAO «UES of Russia» Anatoly Chubais have signed a Protocol «On amendments to the Agreement dated 27 July 2006» according to which TGC-1 investments in development of a power supply system of St. Petersburg will increase by more than 14.5 billion rubles and will make almost 54 billion rubles.

TGC-1 Heating Grids completed reconstruction of the main part of Nalichnaya heat mains – one of the key objects within the Heating Grids Reconstruction Programme for 2007.



TGC-1 IN FIGURES

Operational Figures

Installed electric capacity, MW	6,278.4
Installed heat capacity, GCal/h	14,754.0
Electricity generation, m kW·h	26,063.5
Electricity useful output*, m kW·h	28,212.4
Heat generation, thousand GCal	24,349.7
Heat useful output*, thousand GCal	23,509.9
Employees	9,009

* Including purchased power energy

The total amount of electricity generation by power stations of the Company as compared to 2006 has increased by 12.1%, the heat generation volume has increased by 5.9%.

Financial Figures (RAS)

Sales, m RUR	26,194.6
Operating profit, m RUR	851.0
Pre-tax profit, m RUR	440.6
Net profit, m RUR	124.1
Total assets, m RUR	75,494.9
Shareholder's equity, m RUR	62,456.9
Investments**, m RUR	12,350.6

** excluding VAT

The total profit of the Company as compared to 2006 has increased by 27.76%.

PRODUCTION COMPLEX

TGC-1 operates 55 electric power plants in four regions of Russia – the City of St. Petersburg, the Republic of Karelia, Leningrad Oblast and Murmansk Oblast. The share of hydro-electric generation is 46% of the total TGC-1 capacity, which is an important competitive advantage of the Company. 75% of hydro generation is concentrated in the Republic of Karelia and Murmansk Oblast.

Following the results of the TGC-1 Investment Programme realization in 2007 the Company's total installed capacity parameters have changed. Owing to the new turbine unit commissioning at Avtovskaya CHPP-15 the installed electric capacity of TGC-1 including Murmanskaya CHPP today comes to 6,278.4 MW, the installed heat capacity is 14,754 GCal/h.

Utilization factor of maximum capacity

	Capacity 2007, %
Nevsky Branch	64.7
Karelsky Branch	58.8
Kolsky Branch	55.3
TGC-1 including:	60.9
CHPP	55.6
HEPP	67.2
Murmanskaya CHPP	35.8

FUEL MIX

	Fuel	2007, %
Nevsky Branch	Gas	97.82
	Fuel oil	2.15
	Coal	0.02
Karelsky Branch	Gas	99.36
	Fuel oil	0.37
	Diesel	0.27
Kolsky Branch	Fuel oil	0.22
	Coal	99.78
TGC-1	Gas	93.71
	Fuel oil	1.95
	Coal	4.32
	Diesel	0.02
Murmanskaya CHPP	Fuel oil	100.00
TGC-1 including Murmanskaya CHPP	Gas	88.50
	Fuel oil	7.40
	Coal	4.10

TARIFFS

Since 2006 Federal Tariffs Service approves electricity tariffs for every plant. Heat tariffs are approved by regional regulating authorities for different groups of customers.

The average calculated tariffs for 2007 and 2008:

Electricity

	Tariff as of 01.01.2007, kopeck/kW·h	Tariff as of 01.01.2008, kopeck/kW·h	Growth, %
Nevsky Branch	60.82	68.11	12.0
Karelsky Branch	38.25	43.27	13.1
Kolsky Branch	26.92	29.24	8.6
TGC-1	47.66	54.37	14.1
Murmanskaya CHPP	253.00	265.00	4.7

Electricity and heat tariffs were raised in order to provide sustainable and reliable power supply to consumers, and with regard to the fuel prices increase and inflationary development.

Heat

	Tariff as of 01.01.2007, RUR/GCal	Tariff as of 01.01.2008, RUR/GCal	Growth, %
Nevsky Branch	478.26	540.26	13.0
Saint Petersburg	475.09	536.09	12.8
Leningrad Oblast	621.62	724.28	16.5
Karelsky Branch	327.10	401.97	22.9
Kolsky Branch	553.07	642.00	16.1
TGC-1	472.16	536.24	13.6
Murmanskaya CHPP	805.00	969.36	20.4

INVESTMENTS

In 2007 funding of the Investment Programme amounted to RUR12,350m (VAT exclusive), total works provided and equipment supplied in accordance with JSC «TGC-1» Investment Programme amounted to RUR7,844m (VAT exclusive), including: RUR6,445m for Nevsky Branch, RUR427m and RUR566m for Karelsky and Kolsky Branches correspondingly.

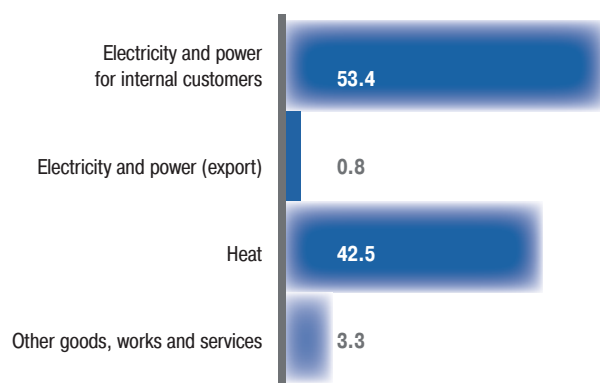
Total funding scope exceeded the total works and services provided due to the beginning of implementation of large-scale investment projects, i.e. contracts conclusion for turn-key construction of new power units.

HEAT NETWORK

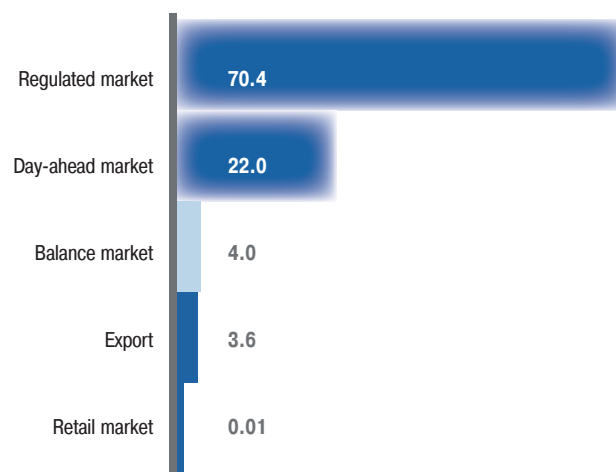
The total length of JSC «TGC-1» heat networks is 834.7 km, with an additional 101.6 km of JSC «Murmanskaya CHPP» in terms of single pipe calculations.

PERFORMANCE HIGHLIGHTS

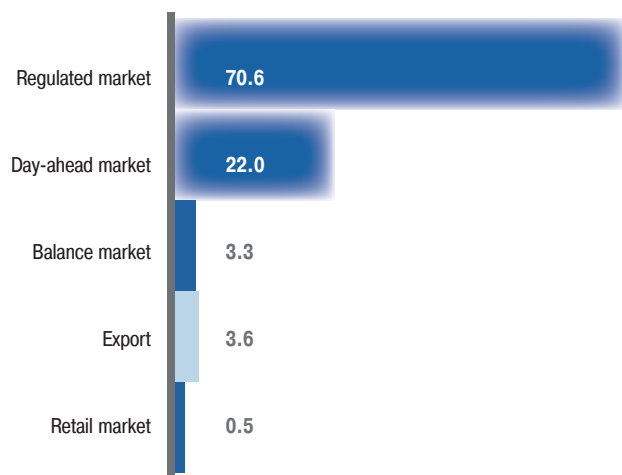
Sales, %



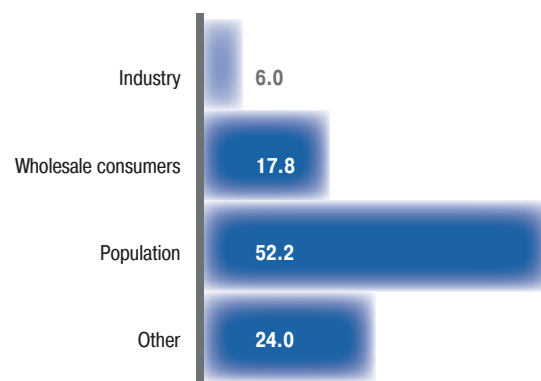
Electricity sold, %



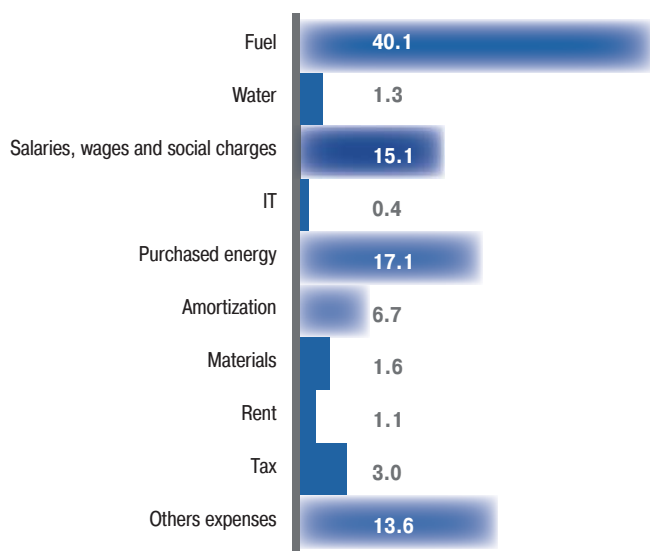
ELECTRICITY REVENUES, %



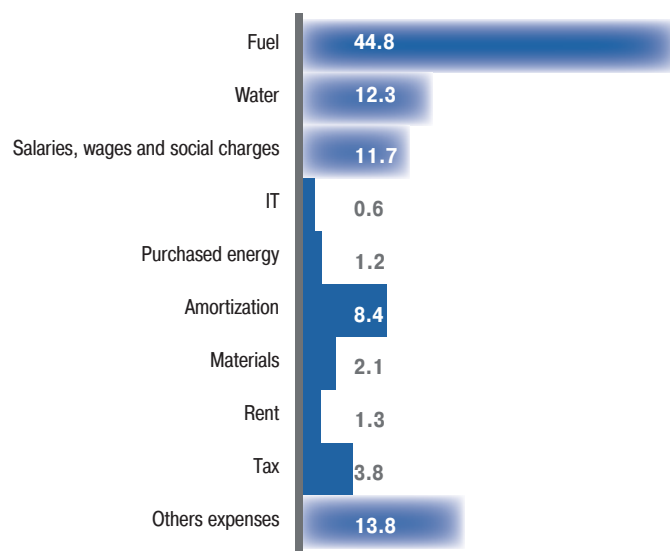
HEAT REVENUES, %



ELECTRICITY OPERATING EXPENSES, %

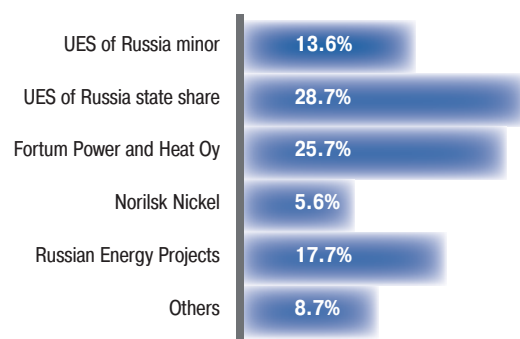


HEAT OPERATING EXPENSES, %



SHARE CAPITAL STRUCTURE

TGC-1 share capital is RUR38,509,597,502.054 divided into 3,850,959,750,205 and 3/7 ordinary shares with a par value of RUR0.01. TGC-1 shares are traded on the MICEX and RTS stock exchanges as «B» listed securities.



BALANCE SHEET (RAS)

RUR thousand

ASSETS	01.01.2007	31.12.2007
I. NON-CURRENT ASSETS		
Intangible assets	-	-
Fixed assets, including:	30,096,921	33,430,525
land	21,691	21,691
buildings, machinery and equipment, facilities	29,954,561	33,111,320
other types of fixed assets	120,669	297,514
construction in progress	2,645,620	5,228,720
Income yielding investments into tangible assets	-	194
Long-term financial investments, including:	1,338,839	1,710,061
subsidiaries	68,542	372,972
associated companies	-	20,000
other companies	1,159,257	269,026
long-term loans	45,273	845,273
other long-term financial investments	65,767	202,790
Other non-current assets	-	101,591
TOTAL non-current assets	34,081,380	40,471,091
II. CURRENT ASSETS		
Inventories	2,146,406	2,277,255
Value added tax on purchased tangibles	329,994	207,945
Accounts receivable, payments for which are expected in more than 12 months	74,957	1,456,712
Accounts receivable, payments for which are expected within 12 months, including:	3,764,893	11,118,211
buyers and customers	2,006,205	2,848,734
advances paid	277,604	6,841,980
other receivables	1,481,084	1,427,497
short-term financial investments	5,599	17,956,356
cash and cash equivalents	644,378	2,007,360
TOTAL current assets	6,966,227	35,023,839
TOTAL ASSETS	41,047,607	75,494,930
SHAREHOLDER'S EQUITY AND LIABILITIES	01.01.2007	31.12.2007
III. SHAREHOLDER'S EQUITY		
Authorized share capital:	29,022,225	38,509,598
in preferred shares	-	-
in ordinary shares	29,022,225	38,509,598
Paid up shares from shareholders	-	(20,558)
Capital surplus	16,525,711	39,795,293
Capital reserves	6,786	36,694
Retained profit	-	-
Retained profit of prior periods	1,082,859	766,689
Losses of prior periods	(16,681,906)	(16,671,906)
Retained profit of the reporting period	-	41,094
Losses of the reporting period	-	-
TOTAL shareholder's equity	29,955,675	62,456,904
IV. LONG-TERM LIABILITIES		
Loans and credits	1,734,825	5,192,349
Deferred tax liability	952,573	1,267,727
Other long-term liabilities	-	-
TOTAL LONG-TERM LIABILITIES	2,687,398	6,460,076
V. SHORT-TERM LIABILITIES		
Loans and credits, including:	4,671,704	828,466
bank credits	4,671,704	742,663
loans	-	85,803
Accounts payable, including:	3,695,571	5,748,405
suppliers and contractors	1,976,789	3,888,246
notes payable	-	-
wages payable to staff	21,073	16,836
payables to state and off-budget funds	25,971	31,820
charges to budget	216,352	199,096
advances received	1,189,971	1,396,213
other payables	265,415	216,194
Payables to participants (founding parties)	37,049	903
Deferred income	210	176
TOTAL short-term liabilities	8,404,534	65,77,950
TOTAL SHAREHOLDER'S EQUITY AND LIABILITIES	41,047,607	75,494,930

Reference note on inventories reported in off-balance accounts

RUR thousand

ASSETS	01.01.2007	31.12.2007
Leased fixed assets, including:	14,487	15,485
leasing	–	–
Inventory holdings accepted for safekeeping	10,472	452,183
Materials accepted for processing	–	–
Goods accepted on commission	–	–
Equipment accepted for installation	–	–
Receivables from insolvent debtors, written-off to loss	133,997	144,351
Security of liabilities and payments received	–	5,363,783
Security of liabilities and payments issued	480,550	283,554
Wear of fixed assets	756	746
Wear of improvements and other similar objects	–	–
Registered high-security forms	496	484
Leased out fixed assets	–	–
State-owned tangibles	–	–
Intangible assets received for usage	–	–

Income statement (RAS)

RUR thousand

Index	2007	2006
Profit and loss from ordinary activities		
Revenues	26,194,579	20,502,716
Electricity and power for internal customers	13,988,154	10,456,812
Electricity and power (export)	213,717	326,744
Heat	11,121,966	9,152,401
Other products, works and services	870,742	566,759
Cost of goods sold	(25,343,553)	(20,177,368)
Electricity and power for internal customers	(13,252,760)	(10,012,339)
Electricity and power (export)	(81,024)	(95,196)
Heat	(11,803,915)	(9,883,195)
Other products, works and services	(205,854)	(186,638)
Gross profit	851,026	325,348
Profit (loss) from sales	851,026	325,348
Other profit and expenses		
Interest income	347,091	932
Interest expenses	(366,784)	(98,203)
Other organizations participation income	1,430	8,154
Other income	1,373,356	4,209,364
Other expenses	(1,765,466)	(3,719,201)
Pre-tax profit	440,653	726,394
Deferred tax assets	–	–
Deferred tax liability	(315,355)	(145,899)
Current profit tax	–	–
Other similar mandatory payments	(1,176)	17,663
Profit tax and other similar mandatory payments	(316,531)	(128,236)
Profit after tax	124,122	598,158
Net profit	124,122	598,158

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