



corporation

VSMPO

AVISMA

2006 | Annual REPORT

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BRIEF DESCRIPTION OF VSMPO-AVISMA CORPORATION



Public Stock Company VSMPO-AVISMA Corporation (hereinafter the “Corporation”, the “Company” or “VSMPO-AVISMA”) is the world's largest producer of melted titanium products and titanium mill products. The Corporation also produces magnesium metal as well as aluminum extrusions, specialty steel and nickel-based superalloy mill products. The Corporation is a part of the international aerospace industry. VSMPO-AVISMA is major strategic supplier to this industry. The Corporation enjoys business relationships with approximately 300 customers, including the world's leading aircraft producers, in 48 countries worldwide.

The two main production operations are AVISMA and VSMPO.

The VSMPO operations are in Verkhnyaya Salda in the Sverdlovsk region.

VSMPO's main products are titanium ingots, billets, slabs, large forgings, disc forgings, rolled rings, sections, seamless and welded tubing, and other products. The aluminum division of VSMPO produces ingots and, extrusions, as well as cold-worked tubing and tubing for nuclear applications. Also, VSMPO produces ferrotitanium, one of the most commonly used ferroalloys in the production of specialty steels.

The AVISMA operations are located in Berezniki in the Perm region.

AVISMA is a chemical and metallurgical company, which produces titanium sponge, as well as magnesium and its alloys. Titanium sponge produced by AVISMA is used at VSMPO in the production of titanium metal. Chemical products generated as by-products during titanium sponge and magnesium production are used for various applications in the metallurgical and agricultural industries, deacidification of acid waste water, and catalytic reactions.

Public Stock Company VSMPO AVISMA Corporation was formed on July 1, 2005 as a result of merger of AVISMA into VSMPO. Creation of one vertically integrated entity enabled the Company to become more competitive in the international high-tech aerospace market.

The Company's major domestic customers include OAO UMPO (Ufa), Irkut Corporation (Irkutsk), Perm Motors (Perm), Votkinsky Zavod (Votkinsk), Aviastar (Ulyanovsk), VASO (Voronezh), OAO Kaluga Turbine Plant (Kaluga), FGUP MMPP Salut (Moscow), Kiev Aviation Plant “Aviant” (Kiev), and OAO Motor Sich (Zaporozhye).

The major international customers include Boeing, EADS/Airbus, Embraer, SNECMA, and Rolls Royce.

COMPANY INFORMATION

Full company name

Public stock company "VSMPO-AVISMA Corporation"

Short company name

"VSMPO-AVISMA Corporation"

Legal Address

1 Parkovaya St., Verkhnyaya Salda, Sverdlovsk Reg., Russia

Postal address

1 Parkovaya St., Verkhnyaya Salda, Sverdlovsk Reg., 624760 Russia

Tel.: +7(34345)20271

Fax: +7(34345)24736

E-mail: vsmpo@vsmpo.ru

Web-site:

<http://www.vsmpo.ru>

Registrar of securities of VSMPO-AVISMA Corporation

Open Joint Stock Company Moscow Central Depository (MCD)

Legal Address

3/B Orlikov Pereulok, Moscow, 107078 Russia

Postal address

34/8 Bolshaya Pochtovaya St., Moscow, 105082 Russia

License No. 10-000-1-00255 dated 13.09.2002

License Term: no expiry date

Issuing authority: Russian Federal Commission for the Securities Market

Full company name of the Company's affiliate

AVISMA Affiliate of Public Stock Company VSMPO-AVISMA Corporation

Short company name

AVISMA

Legal Address

29 Zagorodnaya St., Berezniki, Perm Reg., Russia

Postal address

29 Zagorodnaya St., Berezniki, Perm Reg., 618421 Russia

Tel.: +7(34242)93666

Fax: +7(34242)93999

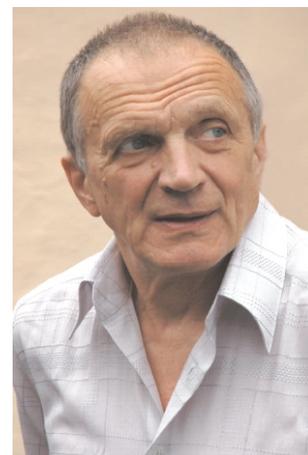
E-mail: avisma@avisma.ru

<http://www.avisma.ru>

LETTER TO SHAREHOLDERS



Sergey Chemezov
Chairman



Vladislav Tetyukhin
General Director

Dear Sirs,

2006 was a very successful year for our Company - it was the year of meeting goals and objectives.

Consolidated revenues were 28 364 mln. rubles. Costs per product sold were 6.8% lower than 2005 which contributed to the increased production profitability and net profit. In 2006, net profit was 5 860 mln. rubles, 20.7% of sales. Even though the macroeconomic factors deteriorated resulting in increases in energy and transportation costs, and higher raw material and ancillary material costs, the Company's results improved. Output of titanium products increased 15% up to 24 000 MT.

Net profit growth resulted not only from the significant increase in production volumes, but also from our technical efforts and investments in renovation and expansion projects and the steps we took to improve efficiency during the year.

In 2006, the investments made were 2 239 mln. rubles compared to 1 455 mln. rubles in 2005.

We continued to transfer non-core assets out of the Company in 2006 and formed eight subsidiary companies. This was a very important process because it enabled the Company to optimize the costs of the core production operations and improve performance without cutting jobs, an extremely important social responsibility of the Company.

We devoted considerable attention to the environmental protection in 2006. This resulted in environmental improvement in the cities where our production plants are located. We seek opportunities to have the great bulk of our production wastes recycled and sold instead of being just sent to the waste disposal sites. The ecological policy pursued by the Company was recognized at the conference "New Priorities of the National Ecological Policy in the Real Sector of the Economy" where AVISMA was awarded as the 2006 Russian Environmental Leader.

We achieved considerable results in 2006 thank to the commitment and dedication of our team of top-notch employees and managers that assure the quality of our product and contribute to the further development of the Company.

We are pleased to observe the growing demand from Russian and CIS customers and we would like to assure them that we will remain committed to their requirements in the future. As for our international customers, we will continue to be a strategic partner that is closely linked to their achieving their current and future production needs. We value the long-term agreements we have with our key strategic customers.

In general, we believe the trends of 2006 will continue into 2007. We plan to increase the output of titanium products by 13-15%.

We will implement our development programs focused on meeting the demands for titanium from the key Russian industries and our international strategic partners. The Company participates in a number of promising projects, such as the Russian regional jet aircraft Sukhoi SuperJet-100 and the Boeing 787 Dreamliner. We will work with Airbus on the A350 project and we will continue our work with them on the A380 project. Also, we will continue working with Embraer, Snecma, Rolls Royce, and our other key customers.

We continue to work strenuously to develop our production of engineered products for heat exchanging equipment, equipment for power engineering and for the needs of the mechanical engineering and oil and gas industries. Also, we are increasing the output of higher-value-added products. This is an important strategic initiative that will make us a more important strategic partner with our key customers, improve the profitability of the products we produce and provide future opportunities for our employees. Today VSMPO-AVISMA is not just a Russian titanium producer but an important supplier for the world's growing needs for titanium. Therefore, our primary objective will be to produce unique products of high quality and in desired quantities to meet the current and future needs of both our domestic and international customers.

The success of our customers will result in our success. Therefore, we will continue to improve the quality of our products and services and broaden the titanium applications we supply as we move ahead into the XXI century.

Chairman
VSMPO-AVISMA Corporation
S.V. Chemezov

General Director
VSMPO-AVISMA Corporation
V.V. Tetyukhin

MOST IMPORTANT EVENTS OF THE YEAR

March

■ The Company formed 8 subsidiary companies (divisions of VSMPO) as part of the program for improvement of management efficiency, optimization of production costs and increase in productivity.

May

■ The Company signed a long-term agreement (2007-2011) with EADS (Airbus) to supply titanium alloys.

June

- The company signed a long-term agreement (2007-2011) with Embraer (Brazil) to supply titanium mill products.
- The general meeting of shareholders elected Vladislav Tetyukhin General Director of the Company.

August

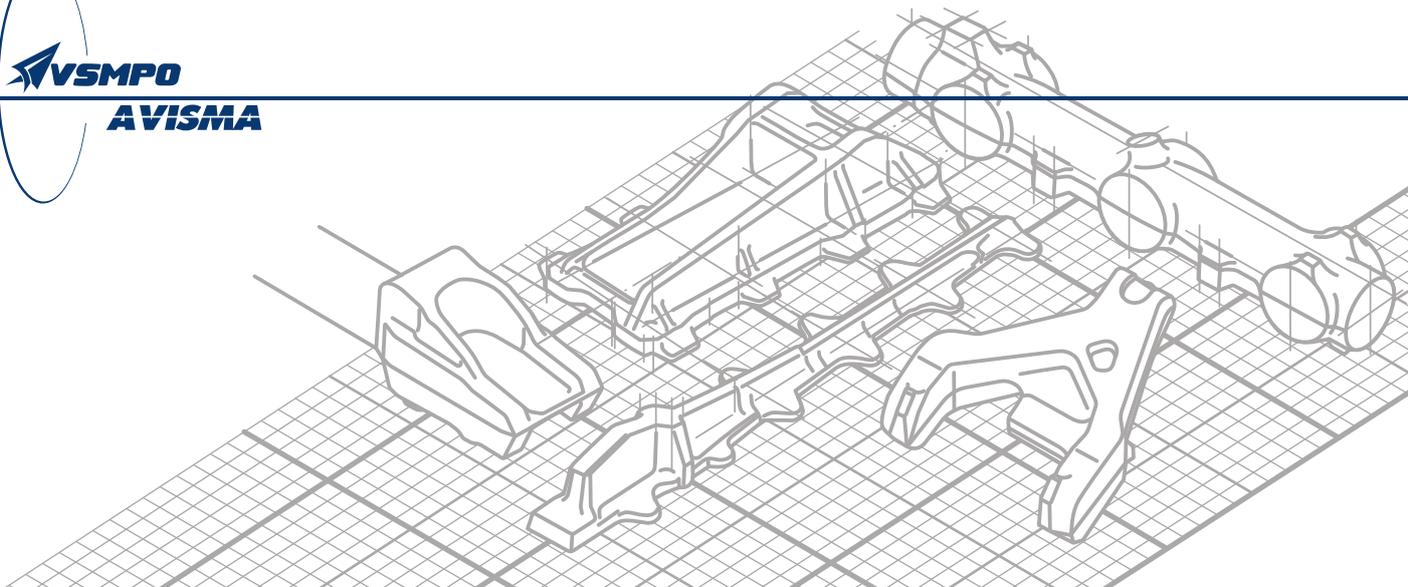
- The Company signed a framework agreement with Boeing (USA) for a joint venture engaged in rough machining of forgings for the 787 project. Managers of VSMPO-AVISMA and Boeing met with President Putin as part of the official reception.
- The Company developed about 50 types of titanium forgings for the Boeing 787 project which were then produced and delivered to Boeing and its subcontractors.

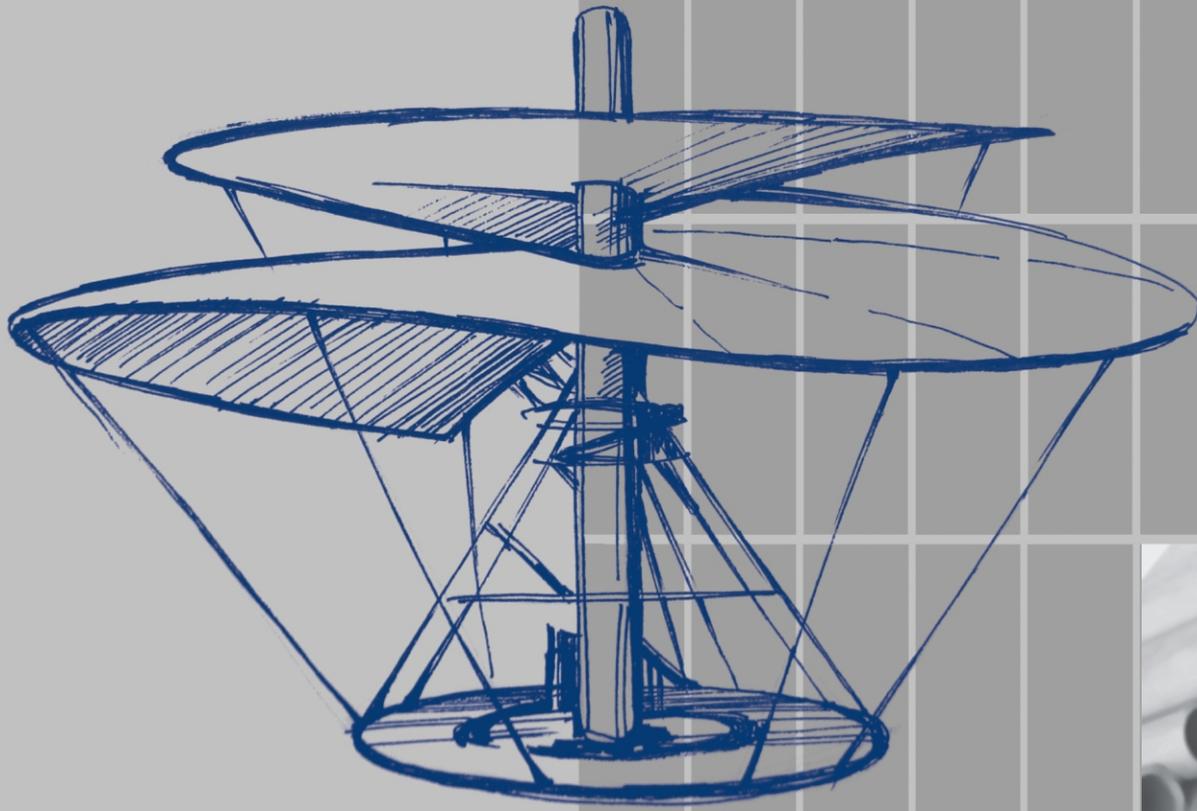
October

■ The Company signed a long-term agreement (2007-2011) with Rolls Royce to supply titanium mill products.

November

- The extraordinary meeting of shareholders elected the new Board of Directors. Sergey Chemezov was elected Chairman of the Board.
- The Company signed a long-term agreement (2007-2011) with Rolls Royce (Europe) to supply titanium alloys.
- The Company developed and produced three HP compressor discs for IAE (Europe) V-2500 engine project.
- The Company won a tender and signed a large contract (2007-2008) to supply titanium welded tubes to Sidem (France) for a desalination project in Saudi Arabia.





1

KEY

OPERATING RESULTS



1.1 KEY FINANCIAL RESULTS

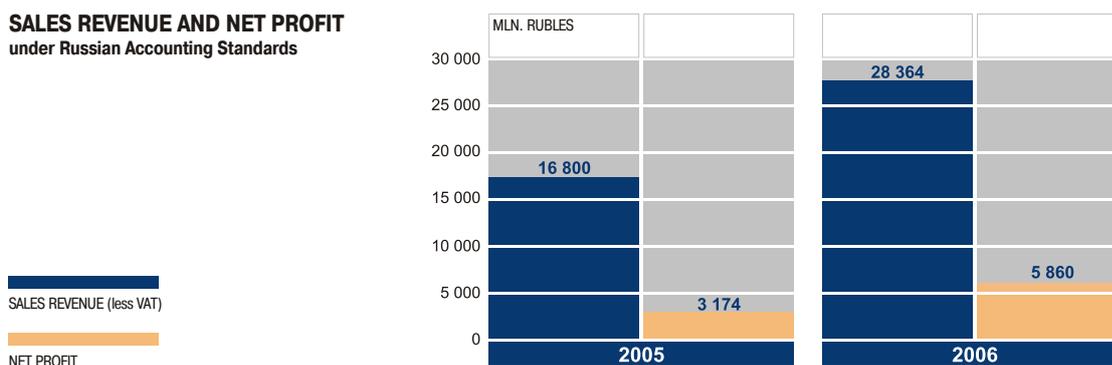
DESCRIPTION	UOM	2004*	2005**	2006	VARIANCE (2006 vs. 2005)	GROWTH RATE, %
Sales revenue (less VAT)	Mln. rubles	10 572	16 800	28 364	11 564	168.8%
Costs per ruble of product sold	Kopecks	83	73	68	-5	93.2%
Sales profit	Mln. rubles	1 749	4 609	9 197	4 588	199.5%
Profit before taxes	Mln. rubles	3 195	4 369	8 120	3 750	185.9%
Net profit	Mln. rubles	1 601	3 174	5 860	2 686	184.6%
Grand total	Mln. rubles	12 407	20 447	28 316	7 869	138.5%
Capital investments	Mln. rubles	371	1 455	2 239	784	153.9%

* - 2004 results represent VSMPO only as VSMPO and AVISMA were separate legal entities till July 1, 2005.

** - Since July 1, 2005 AVISMA has been reorganized in the form of merger to VSMPO-AVISMA Corporation, therefore 2005 results represent AVISMA's results only for the second half of 2005.

Total sales in monetary terms were 28 364 mln. rubles in 2006, an increase of 168.8% compared to that achieved in 2005. Export shipments were 73% of sales. Sales of titanium products accounted for the largest share in the sales revenue and totaled 78%, a 10.5% increase from 2005.

SALES REVENUE AND NET PROFIT under Russian Accounting Standards



The Company's sales and profits have increased over those reported in the prior year. This increase in demand for our products and the increase in profitability are the forces driving us to implement renovation and development programs. Net profit was 5 860 mln. rubles in 2006, which was 1.84 times higher than in 2005.

Below is the reconciliation of the rate of changes in the Company's assets with the changes in its financial results for the period under review. This shows that the optimum ratio - the "golden rule of economics" - is being maintained, i.e. the Company's activity is efficient:

$$Cp = 199.5\% > Cr = 168.8\% > Ca = 138.5\% > 100\%,$$

where Cp - rate of change in sales profit, % (form No.2, page 050),

Cr - rate of change in sales revenue, % (form No.2, page 010),

Ca - rate of change in assets (property), % (form No.1, page 300).

1. Profit increases more rapidly than sales revenue which shows the relative reduction of production and distribution costs.
2. Compared to the increase in the economic potential (property), sales revenue increases more rapidly than the Company's assets (property), i.e. the Company's resources are used more efficiently.
3. The economic potential (property) increased compared to the previous year.

DESCRIPTION	UOM	2005	2006	VARIANCE	GROWTH RATE, %
Number of common shares		11 529 538			
Share price at year end	US\$	176	294	118	167.0%
US dollar exchange rate at year end	rubles	28.78	26.33	-2.45	91.5%
Share price at year end*	rubles	5 059	7 743	2 683	153.1%
Dividend per share	rubles	37.88	50.83**	13.05	134.2%

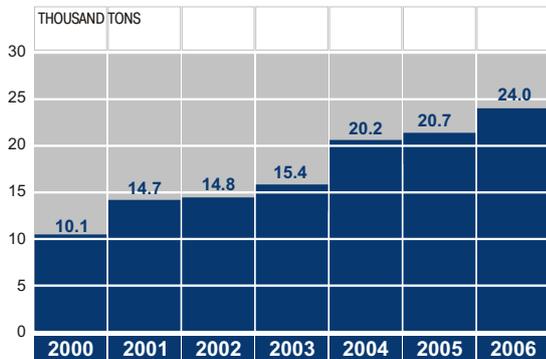
* - Weighted average share price based on the RTS results.

** - The amount of dividend recommended by the Board of Directors to the annual general shareholders' meeting for approval.

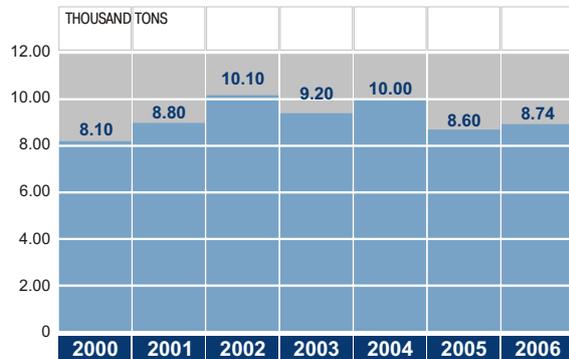
VSMPO-AVISMA Corporation pays dividends on its shares annually. The dividend amount is determined by the Company based on the net profit, calculated in accordance with the accounting policy maintained by the Company. Dividend per share grew 134.2% in 2006 compared to 2005.

1.2 KEY PRODUCTION RESULTS

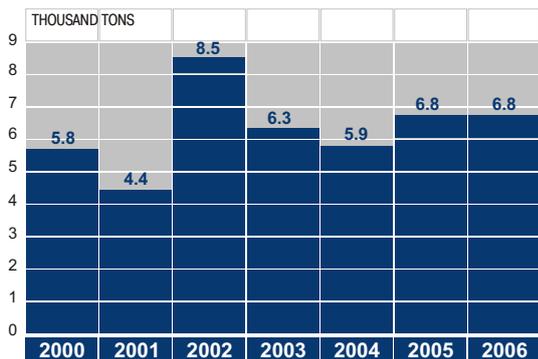
TITANIUM PRODUCTS OUTPUT
VSMPO



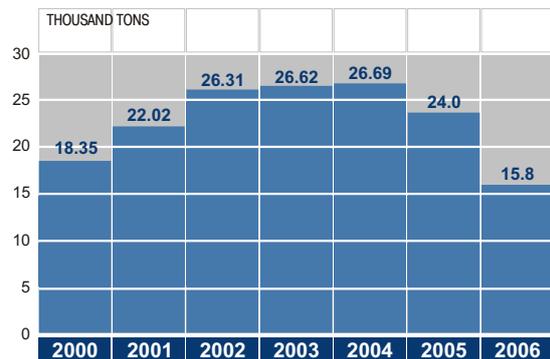
ALUMINUM SEMI-PRODUCTS OUTPUT
VSMPO



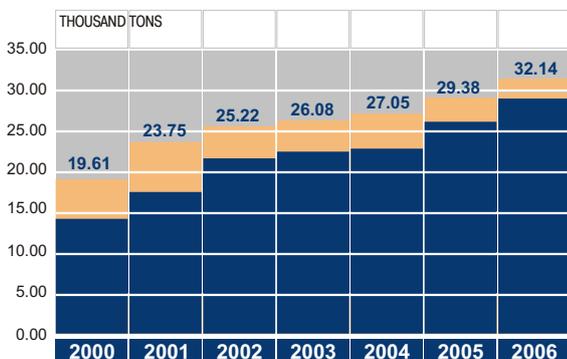
FERROTITANIUM OUTPUT
VSMPO



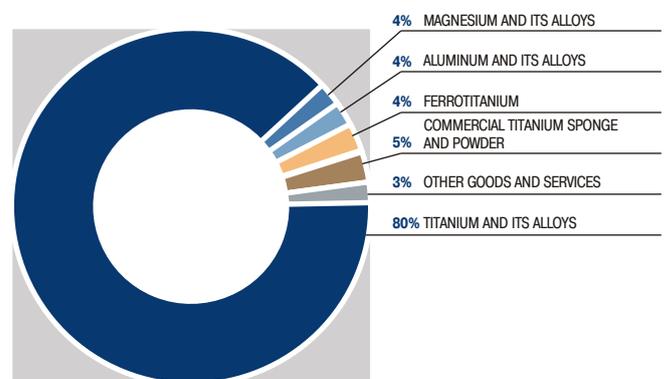
COMMERCIAL MAGNESIUM OUTPUT
AVISMA



TITANIUM SPONGE OUTPUT
AVISMA



SALES REVENUE STRUCTURE BY PRODUCTS
VSMPO-AVISMA



TITANIUM SPONGE TRANSFERRED TO VSMPO FOR PROCESSING

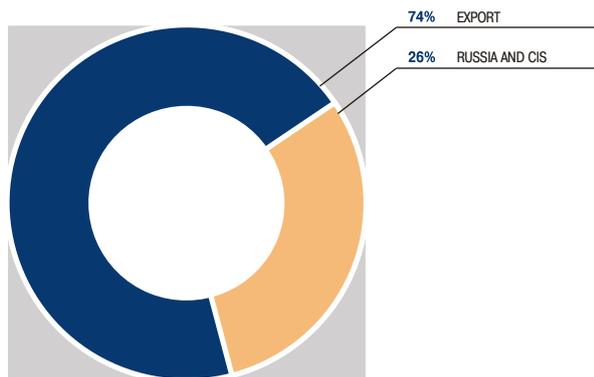
TITANIUM SPONGE SOLD

1.3 MARKETS AND SALES INFORMATION

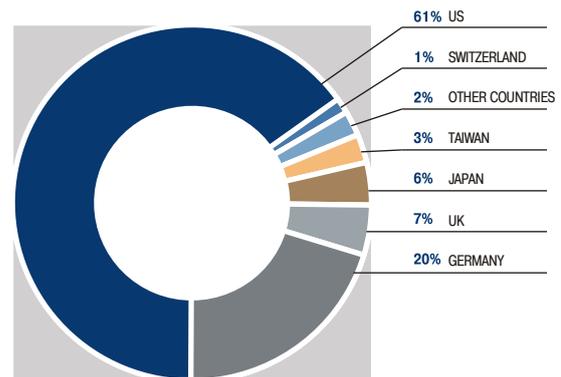
SALES OF TITANIUM PRODUCTS, MLN. RUBLES

MARKET	2005	2006	GROWTH RATE, %
Export shipments	8 083	16 438	203.4%
Domestic shipments	3 251	5 683	174.8%
Total shipments	11 334	22 121	195.2%

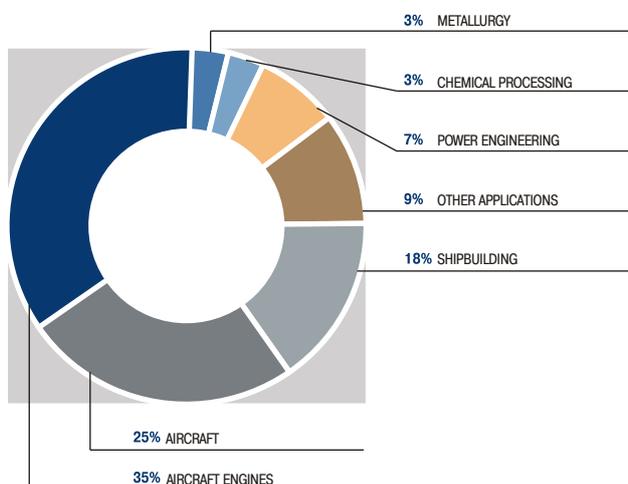
SHIPMENTS OF TITANIUM PRODUCTS IN 2006



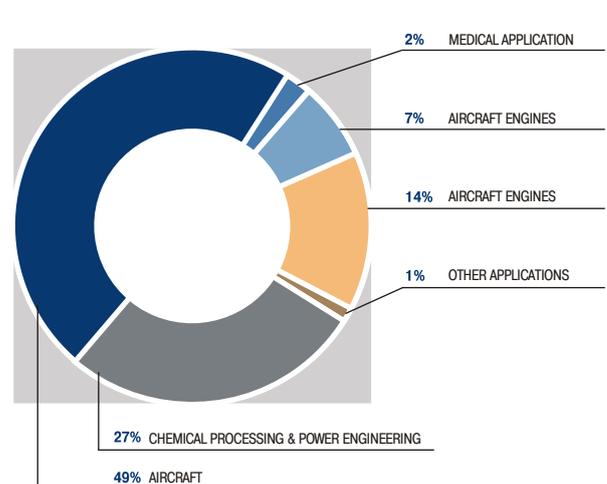
EXPORT SHIPMENTS OF TITANIUM PRODUCTS BY COUNTRY



DOMESTIC (RUSSIA AND CIS) SHIPMENTS OF TITANIUM PRODUCTS BY APPLICATION



EXPORT SHIPMENTS OF TITANIUM PRODUCTS BY APPLICATION



SHIPMENTS OF TITANIUM PRODUCTS BY APPLICATION
 (domestic and export)

APPLICATION	2005		2006	
	MT	% OF SHIPMENTS	MT	% OF SHIPMENTS
Aircraft	8 520	41.1	10 187	42.4
Aircraft engines	3 040	14.7	4 487	18.7
Total aerospace	11 560	55.8	14 674	61.1
Chemical processing, oil and gas, power engineering	4 740	22.9	5 323	22.2
Shipbuilding	1 260	6.1	987	4.1
Sporting goods	1 800	8.7	1 364	5.7
Medical applications	880	4.2	431	1.8
Other applications	486	2.3	1 221	5.1
Total shipments	20 726	100%	24 000	100%

Key characteristics of titanium are its lightweight, its strength, its corrosion resistance and its aesthetics

In aircraft construction, titanium is mostly used for the load-bearing elements of the airframes:

- of commercial aircraft, including long-haul passenger and cargo aircraft, regional aircraft;
- space vehicles.

In aircraft jet engine construction, titanium alloys are primarily used to make engine blades, discs, fan rings and LP compressors.

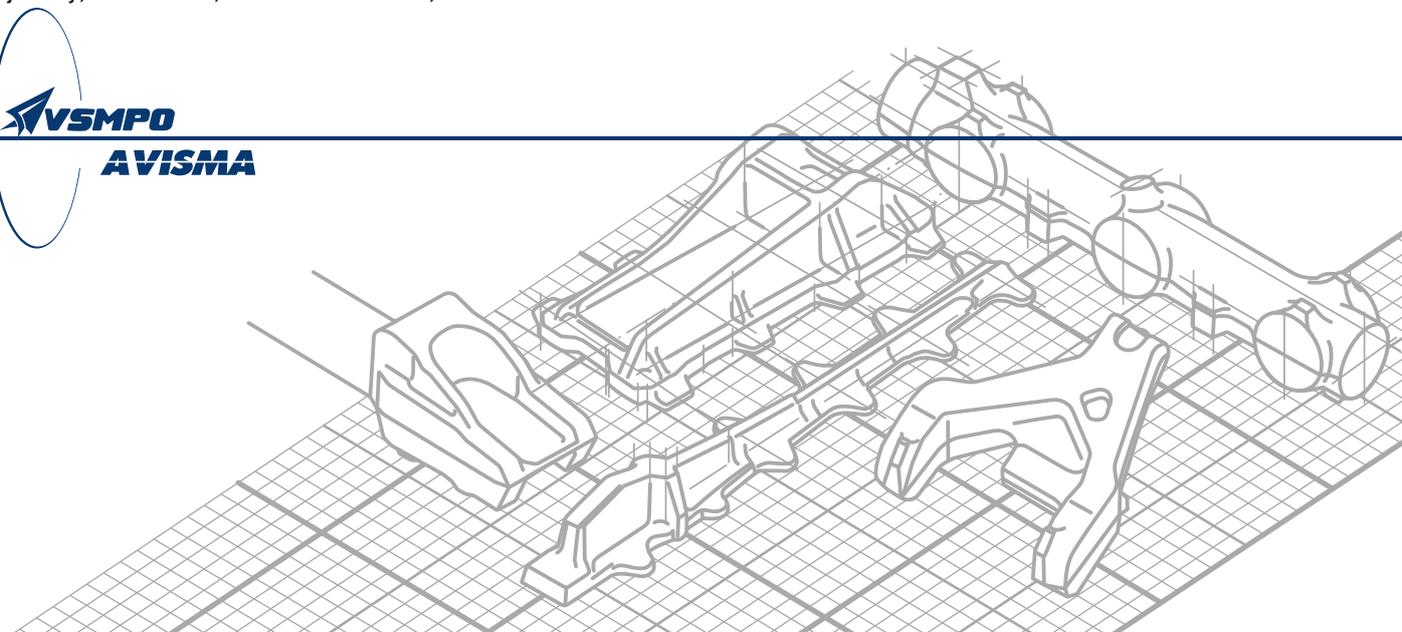
In the power engineering, oil and gas and chemical process industries, titanium is used to make parts that operate in corrosive environments, heat exchangers and condensing units used at power and desalination plants, etc.

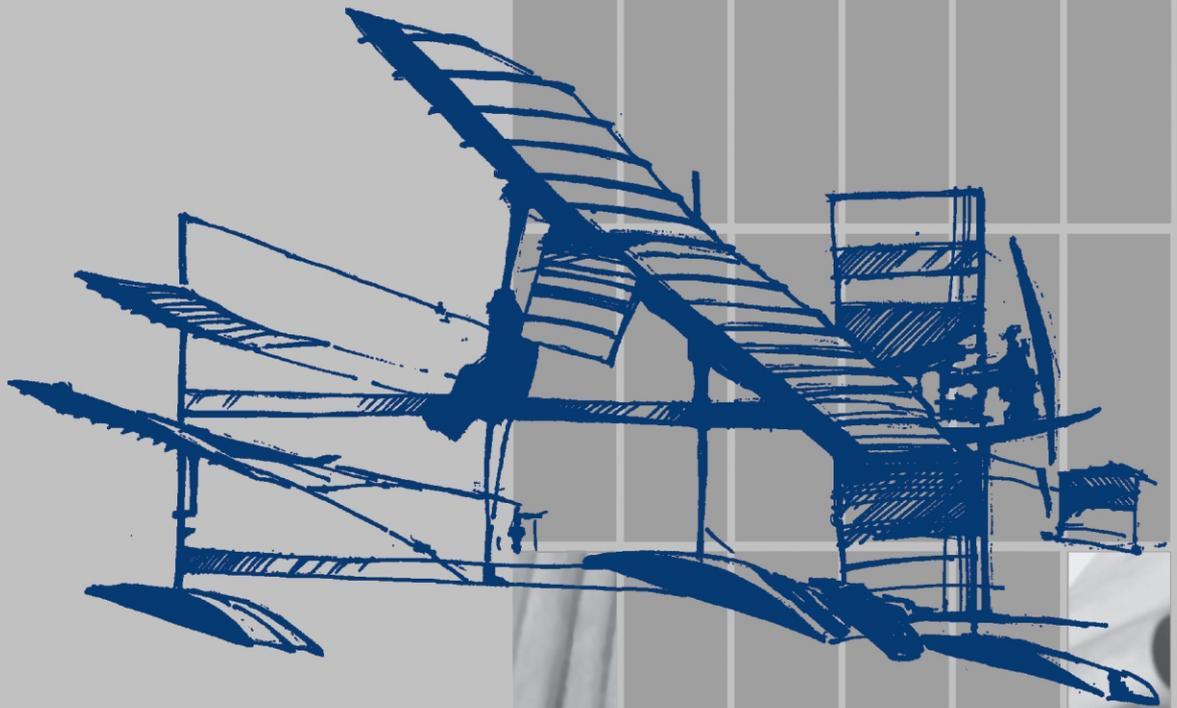
In shipbuilding, titanium is used to produce ship hulls, piping for sea water intake systems, armor, etc.

In sporting goods, titanium is used to make golf clubs, bicycle frames and in various racquet and stick components.

In the medical industry, titanium is used mostly for making orthopedic implants because titanium is light and compatible with the human body.

Other titanium applications include consumer goods, such as eyeglass frames, watchcases and wrist bands, jewelry, kitchenware, decorative elements, etc.





2

MAJOR

▶▶ **PERFORMANCE RESULTS IN
DIFFERENT TYPES OF ACTIVITIES**

2.1 POSITION IN THE INDUSTRY

The world titanium market is cyclical depending on the world economy and the activity level of the primary consumer of titanium products - the commercial aviation market. The world commercial aviation industry experienced a significant reduction in passenger demand from 1998-2002 as a result of the economic downturn in the countries of the Southeast Asia and the terrorist attack in the USA in September 2001. Aircraft build rates declined and the demand for titanium fell. A slight recovery was noted in 2003 while subsequent years have benefited from higher aircraft build rates and the development of new model airplanes that consume larger amounts of titanium.

The table below shows shipments of titanium mill products to individual countries and the whole world for the period of 2002-2006.

WORLD SHIPMENTS OF TITANIUM MILL PRODUCTS

COUNTRY	YEAR SHIPMENTS, TONS				
	2002	2003	2004	2005	2006*
USA	16 200	15 700	19 300	23 800	30 000
Japan	14 480	13 840	17 390	18 150	17 320
Europe	5 500	5 500	6 800	7 800	8 000
Russia	10 500	11 100	13 300	16 000	19 800
China	4 150	4 830	7 740	10 000	11 000
Other countries**	300	400	700	800	900
Total	51 130	51 370	65 230	76 550	87 020

* - preliminary results

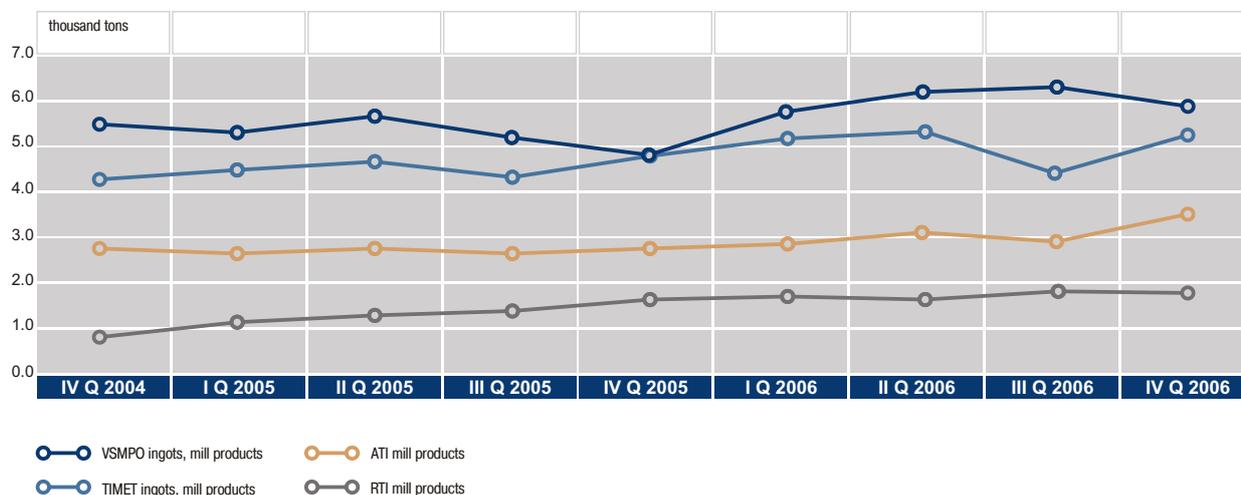
** - Ukraine, India

Sources: USGS; JTS; materials of ITA Annual Conferences; corporation estimates

Development prospect evaluation of the world titanium market is given in Section 6.1 of this report.

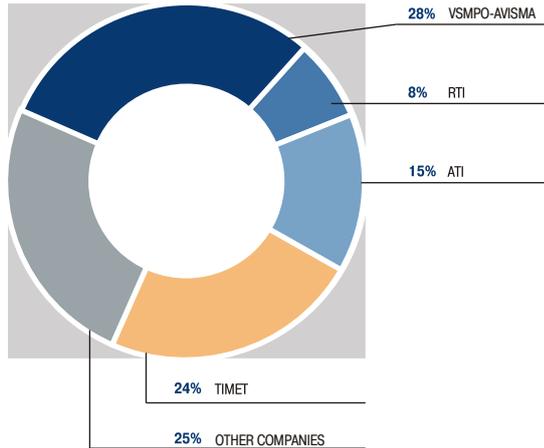
SHIPMENT OF VSMPO-AVISMA TITANIUM SEMI-PRODUCTS

as compared to the largest USA companies



**VSMPO-AVISMA
SHARE IN MANUFACTURE
OF TITANIUM SEMI-PRODUCTS**

as compared to the largest USA companies, %

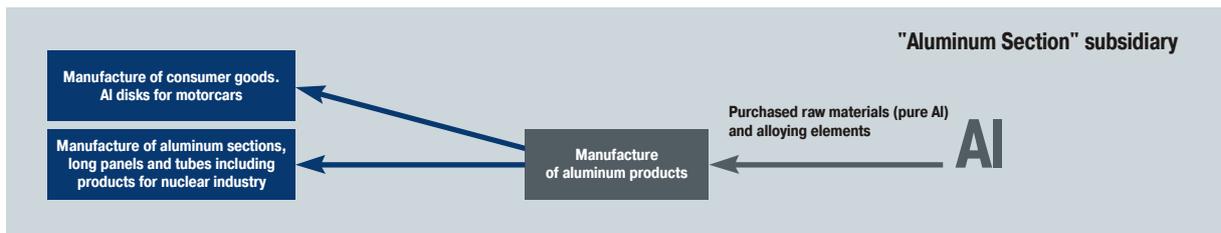
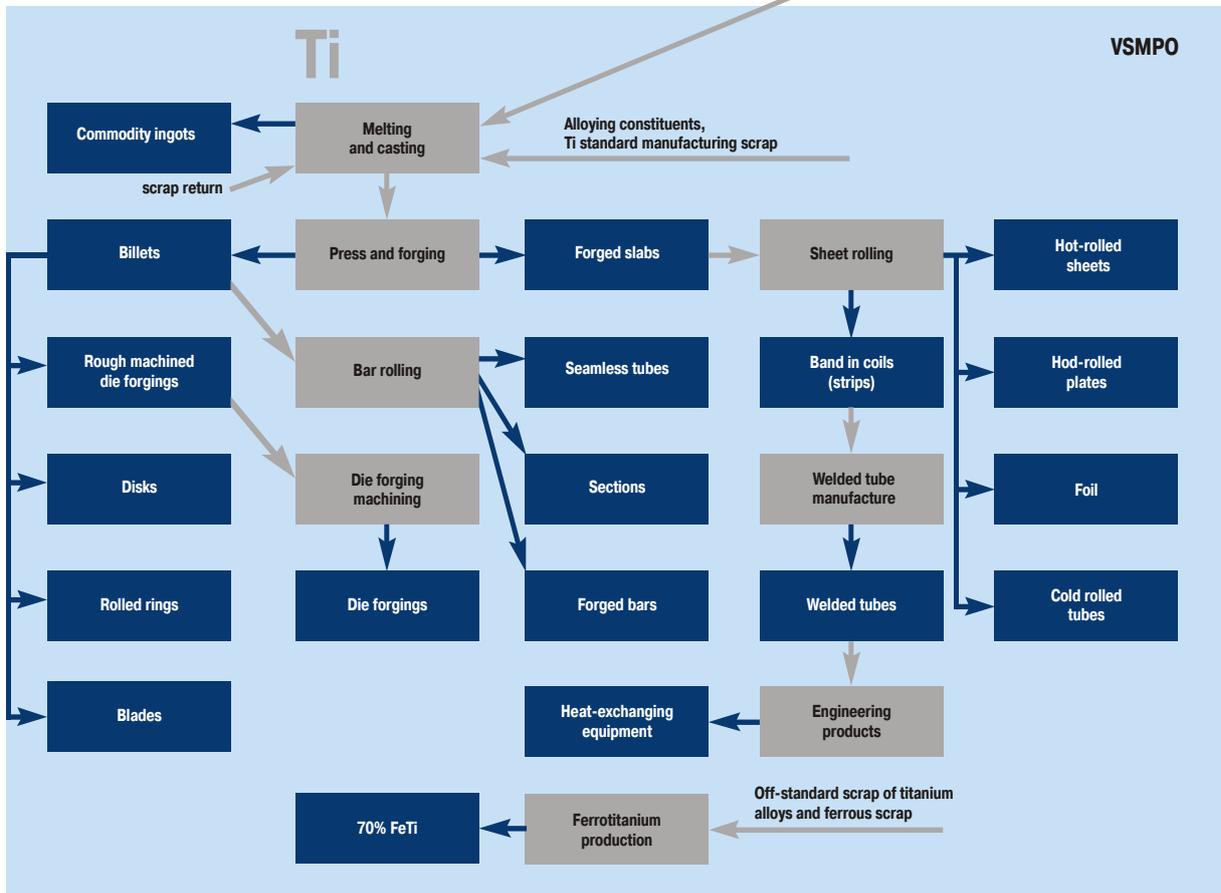
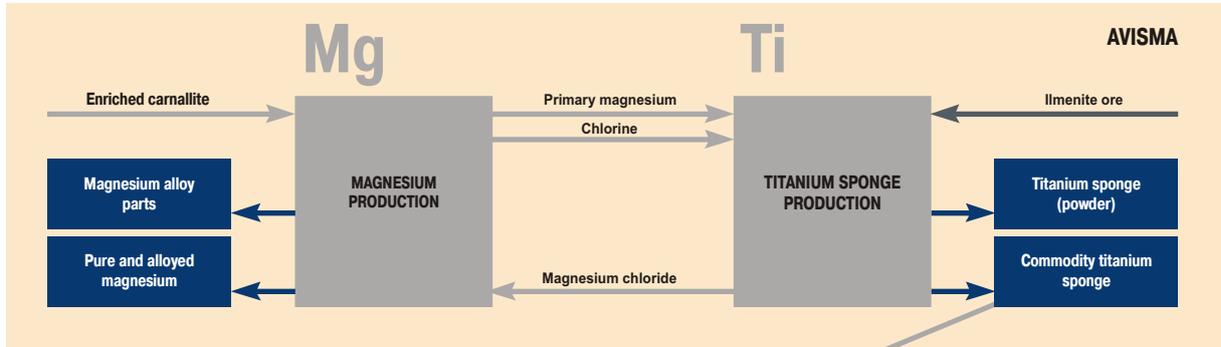


**COMPARATIVE TITANIUM PRODUCT MIX
OF THE MANUFACTURING COMPANIES**

PRODUCT	VSMPO-AVISMA	Allegheny Technologies	Timet	RTI International Metals
Ingots	+	+	+	+
Billets	+	+	+	+
Slabs	+	+	+	+
Hot-rolled plates	+	+	+	+
Hot-rolled sheets	+	+	+	+
Cold rolled sheets	+		+	
Band, foil	+	+	+	
Welded tubes	+		+	+
Large die forgings	+			
Disks	+			
Rolled rings	+			
Sections	+			+
Seamless tubes	+		+	
Rolled bars	+	+	+	
Blades	+			
Rough machined die forgings	+			+

VSMPO-AVISMA is a world leader in the production of titanium products and titanium sponge. The development strategy adopted five years ago has allowed the company to increase its' product output 2.5 times from the year 2000. Today, VSMPO-AVISMA Corporation is a world leader when comparing the volume of products produced and sales revenue growth. However, it still lags behind Timet when comparing total sales revenue. The ability to maintain product quality at higher output levels and provide the required input sponge needed for growing customer needs demonstrates VSMPO-AVISMA's capability to be a secure supplier for future customer contracts. A major advantage we have over our competitors is our ability to produce sufficient quantities of titanium sponge at AVISMA which meet the technical specifications of our customers so we can offer a complete package of products and meet the needs of the aircraft and engine building companies. In addition to the aerospace companies, VSMPO-AVISMA manufactures titanium products for a large variety of industries and applications. A wide range of titanium products targeted for different industries adds stability and reduces our dependence on the cycles of any one industry.

2.2 MANUFACTURING FLOW-CHART



PRODUCTS
 PRODUCTION UNITS

2.3 PRIORITY ACTIVITY AREAS

TITANIUM

TITANIUM SPONGE AND TITANIUM POWDERS

Titanium sponge is produced by AVISMA. Based on the 2006 results total output of titanium sponge increased by 9.4% as compared to 2005. The increase in sponge output occurred as a result of our use of larger volume reduction vessels. During 2006, we gradually shifted sponge production from equipment with a capacity of 4.0 tons per cycle to equipment with a capacity of 4.8 tons per cycle. By the end of 2006, processes carried out in the 4.8 ton/cycle equipment accounted for 82% of production capacity. About 29 124 tons (or 90.6%) was shipped to VSMPO for further processing and manufacture of titanium and titanium alloy metal products. Titanium sponge and titanium powders were also exported (UK, Germany, USA, Spain, Japan, India) and shipped to other Russian consumers.

In general, shipments of titanium sponge in 2006 increased by 2 766 tons (9.4%), as compared to 2005. Shipments of commodity grade titanium sponge to external consumers accounted for 3 020 tons. Revenue from commodity grade titanium sponge sales decreased as a result of the strengthening of the Russian ruble and an increase in the lower sales value grades of sponge as a percentage of the total of commodity grade titanium sponge.

TITANIUM PRODUCTS

Titanium products account for 78% of the Corporation's sales. The majority of these products are exported - 74% of total titanium product output.

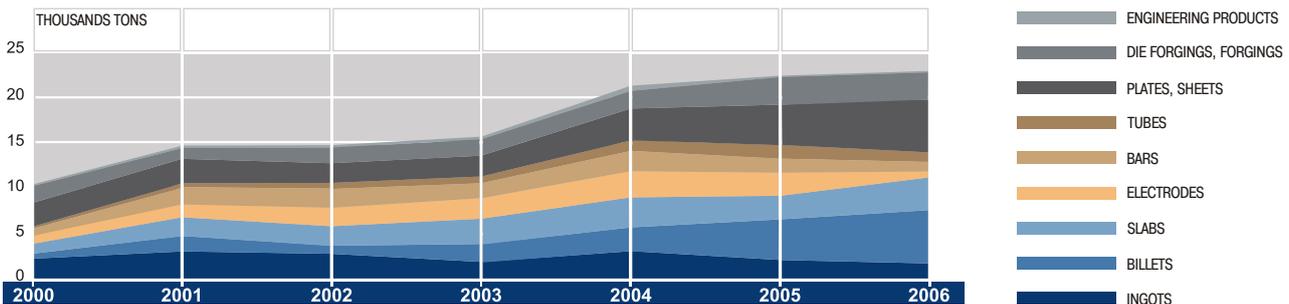
In 2006, export shipments of titanium mill products significantly increased. The share of titanium mill products in physical terms accounted for 90.4% in 2006 compared to 88.6% in 2005.

Shipments of titanium products to the domestic market increased by 41.3% including: shipment of bars and billets - by 18.8%; sheets and plates - by 30.2%; and die forgings and forgings - by 57.9%. The Corporation has made a significant breakthrough in the manufacture and shipment of titanium tubes - shipments to Russian consumers increased 4 times.

One of the Corporation's activities is the manufacture of power and capacity equipment from titanium alloys and steel. In 2006, the sales of such products accounted for 1.3% of product sales. Sales revenue in 2006 from these products increased 1.8 times as compared to the previous year. The Company produces titanium alloy heat exchange and column equipment as well as pipe modular systems that can be installed in the shells of the existing equipment. Along with titanium, the bi-metallic material, titanium-steel, is used.

Recently, there is a growing interest in titanium products such as flanges, fittings, adapters that are used in nuclear power plants and on oil-producing platforms. VSMPO-AVISMA is the only company in Russia that can produce such titanium items for these promising business needs.

TRENDS OF VSMPO-AVISMA TITANIUM PRODUCT MANUFACTURE



FERROTITANIUM

Ferrotitanium is produced from scrap titanium. VSMPO production and quality inspection procedures result in ferrotitanium with high titanium content - 70%FeTi. This product is used in the metallurgical industry of the Russian Federation and in the countries of Western Europe. Ferrotitanium is primarily used for steel deoxidation and for alloying.

Ferrotitanium output increased in 2006 by 0.7%. Export sales accounted for 99.4% of total ferrotitanium sales. In 2006 due to the drop in the world ferrotitanium market, the ferrotitanium's share of the total Company's sales dropped to 4% (2005 - 13%).

ALUMINUM AND ITS ALLOYS

Aluminum products share of the total Corporation's sales in 2006 remained at the level of 2005 and accounted for 4%.

VSMPO-AVISMA produces large aluminum alloy extruded panels and sections used for manufacture of aircraft bodies. The level of orders for aluminum products from domestic aircraft-building companies and companies of other CIS countries in 2006 was low. In 2006 approximately 27% of aluminum alloy production items were exported, including 64% of sections and panels and 36% of forgings and bars.

Along with the aircraft building industry, other traditional customers of aluminum products include: Gazprom which uses aluminum tubes in gas-pumping stations; the Ministry of Nuclear Power Engineering which has been receiving special articles from aluminum alloys of SAV type for many years; and Uralvagonzavod that places orders for tank wheel forgings.

Significant aluminum plate orders are fulfilled in cooperation with Kamensk-Uralsk Metallurgical Plant. the VSMPO-AVISMA's unique equipment for heat treatment, stretching and ultrasonic inspection of plates is utilized since our partner-company does not have such equipment.

VSMPO-AVISMA produces consumer goods: aluminum sections for widow frame construction; hothouse sections; and die forged aluminum wheel disks. Sales of structural sections accounted for 24.2%; wheel disks - 61.5%; and hothouse sections - 13.5% of the total output and sales of consumer goods.

MAGNESIUM

Magnesium is used in the production process for titanium sponge. In addition, AVISMA produces commodity magnesium and alloys for sale to others. In 2006, output of magnesium and its alloys totaled 15 805 tons (66% of the level of 2005). Shipments of 18 188 tons remained at the same level as 2005 as we reduced inventory in our warehouse.

Shipments to US consumers dropped significantly due to the introduction of antidumping duty in the USA on AVISMA magnesium of 21.71%. Having lost the American market due to a high antidumping duty, Chinese producers shifted their sales to the European market. Thus the European market became even more challenging for AVISMA. The Chinese continue to expand their markets for magnesium and are now supplying the Russian market. All these factors contributed to the drop in magnesium output at AVISMA. In addition to the unfavorable situation in the world magnesium market, the drop in magnesium production was caused by an accident which took place at the end of 2006 at JSC Uralkaliy - one of the suppliers of basic raw materials - enriched carnallite. This accident resulted in a reduction in the availability of the raw materials we need to produce magnesium. As a result of all these factors, magnesium sales revenues decreased 17.7% in 2006.

With the continuing growth of titanium sponge production and the decrease in production of commodity magnesium our objectives will be:

- supply the requirements for titanium sponge production with primary magnesium and from the refining of revert magnesium chloride;
- reduce the costs of magnesium production;
- value-added processing of primary magnesium and manufacture of new product types.

2.4 FUNCTIONING OF THE QUALITY MANAGEMENT SYSTEM

The Quality Management System (QMS), certified for compliance with the requirements of the international standards ISO 9001:2000, AS/EN 9100 (with regard to aerospace product manufacture) and ISO 14001 (Environmental Management System), is implemented and successfully functions at PSC VSMPO-AVISMA Corporation.

The competitiveness of any company, regardless of the form of its ownership and size, for the most part depends on the quality of its products and competitiveness of the price for the products with the proposed quality, i.e. on the extent to which the products meet the Customer's requirements.

The efficiency of the VSMPO-AVISMA's Quality Management System has been repeatedly confirmed by independent certification agencies and customer audits. Certification history by the second and third parties is shown in diagram and table at page 20.

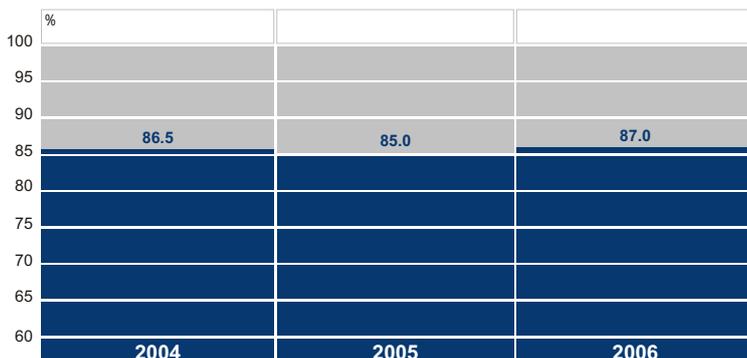
As of 01.01.2007 the Company holds 299 current approval certificates for primary manufacture, including 21 - for Quality System, 97 - for processes, 181 - for products.

The number of companies requesting that VSMPO-AVISMA work with them has increased significantly over the past several years. As a result of our experience working with numerous customers, our ability to demonstrate that our procedures meet customer requirements and can be verified by their audits has improved. In 2006, 60 QMS, process and product internal audits were held at the Corporation, 9 audits less than 2005. Each year the confidence of our customers in our products and our production processes grows and the number of companies interested in having us work with them increases.

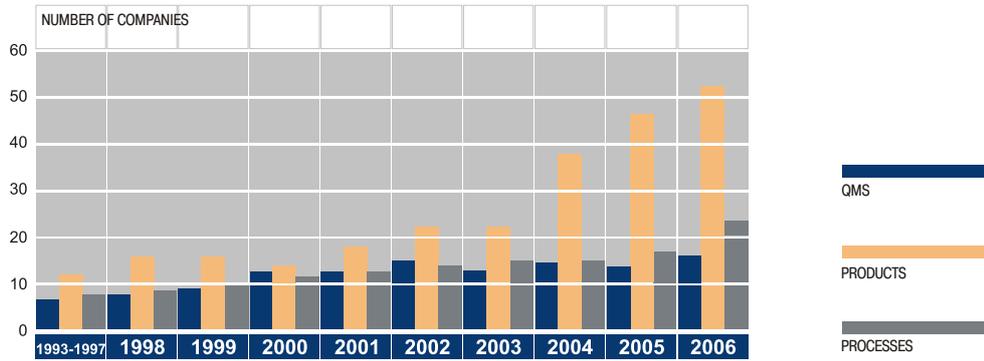
In 2006:

- QMS certification as per AS/EN 9100, GOST R ISO 9001 was maintained;
- certification/recertification audit of VSMPO-AVISMA Environmental Management System was implemented in order to establish compliance with the requirements of ISO 14001;
- QMS certification audit for compliance with ISO 9001 was held with regard to light alloy wheel disk manufacture for pneumatic tires;
- 3 076 people received training in Quality procedures;
- internal audit procedure was changed: the audits evaluate the production process implementation and compliance with the process documentation requirements;
- according to the Internal Audit Program 17 (2005 - 6) scheduled internal QMS and production process audits were held in VSMPO shops and 20 (2005 - 18) internal audits - in AVISMA;
- automated Control System of Normative and Engineering Documentation was established (NEDACS);
- VSMPO-AVISMA was awarded diplomas and commemorative medals based on the results of the "Russian Quality Leader" and "All-Russian Grade (III Millennium). High-Quality Mark of the XXI Century" contests.

LEVEL OF PSC VSMPO-AVISMA CUSTOMER SATISFACTION



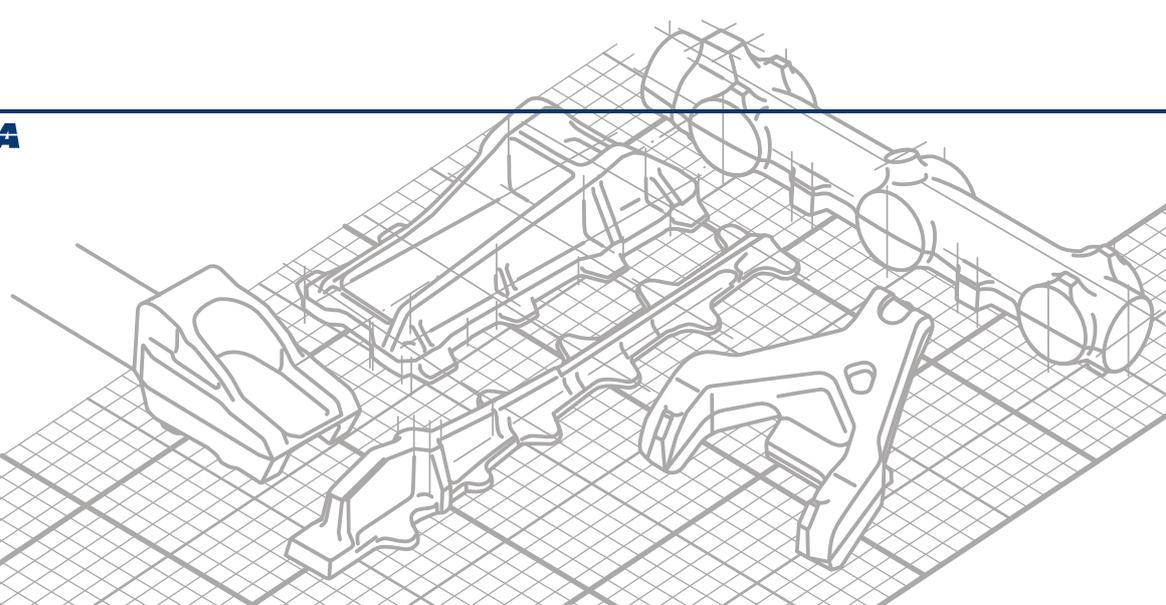
CERTIFICATION HISTORY

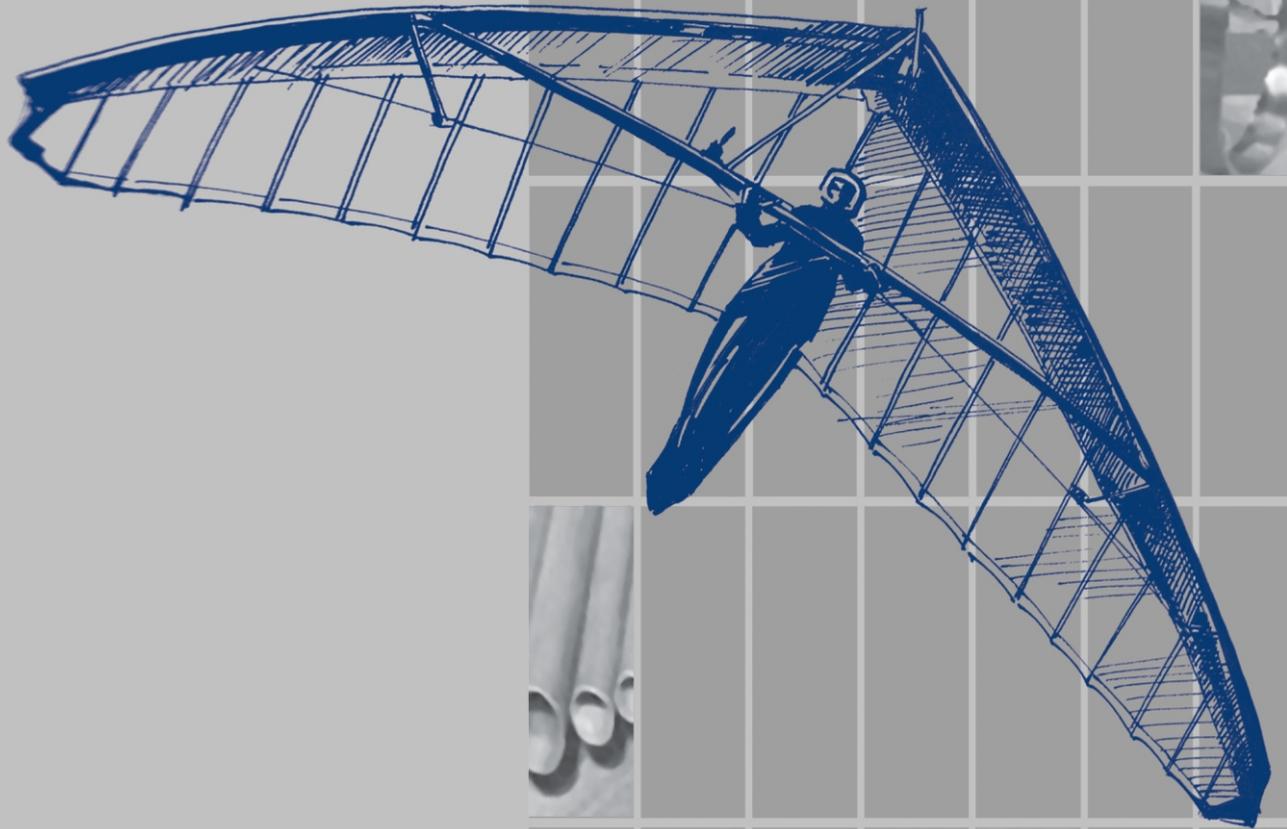


	QMS	Products	Processes
AEROSPATIALE			
Airbus UK			
ASME			
Astrium			
AUBERT&DUVAL-FORTECH			
BÆ Systems			
BF Goodrich			
Boeing			
Bombardier			
Cessna			
GmbH			
Dassault Aviation			
Douglas Aircraft Co			
Dynamet			
Fine Tubes Ltd			
General Electric			
Goodrich			
Hamilton Sundstrand			
Honeywell			
IHI			
Mettis Aerospace			
Messier Dowty			

	QMS	Products	Processes
Mitsubishi			
MTU			
Nadcap			
Otto Fuchs			
Pratt&Whitney, USA			
Pratt&Whitney, Canada			
Rolls Royce			
Shults Steel Company			
Snecma			
Toshiba			
TUV			
Westland Helicopters Limited			
VNIIS			
Gosatmnadzor, Ekaterinburg			
JSC Aviastar SP, Uljanovsk			
MAK. Aviation Register			
NP STs NASTHOL, Moscow			
NP YuUrTO, Miass			
OS PROMMASH, Moscow			
OS Uralttestserifikat, Ekaterinburg			
OS SMVP, Moscow			
Russian Marine Register of Navigation			
FGU TsGSEN			

In 2006, VSMPO-AVISMA Corporation maintained a stable, high level and efficient performance Quality Management System.





3

MODERNIZATION,

DEVELOPMENT, INNOVATIONS

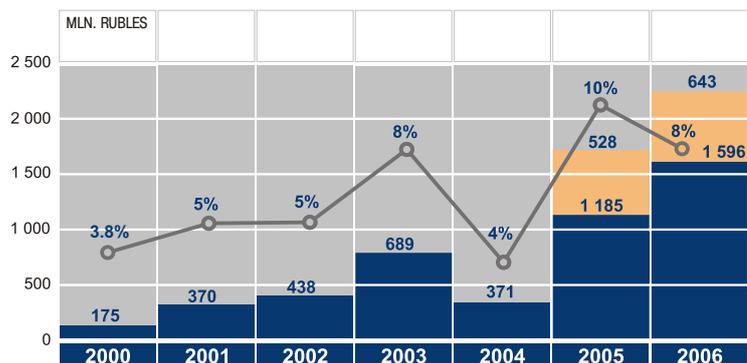


MODERNIZATION, DEVELOPMENT, INNOVATIONS

Since 2000, the Company has been making regular investments and systematically upgrading and developing its' manufacture capabilities to improve profitability. Production capacity increases, product mix expansions and value-added processing of products have been implemented to ensure the Corporation's competitiveness.

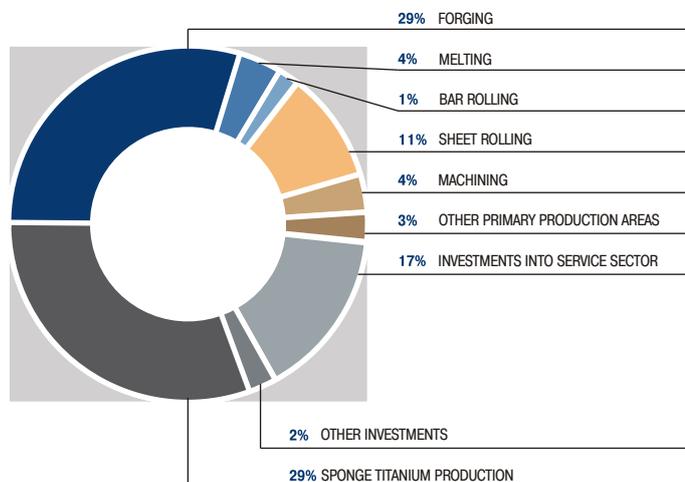
Investments in 2006 totaled 2 239 mln. rubles.

VSMPO-AVISMA INVESTMENTS IN MANUFACTURING MODERNIZATION AND DEVELOPMENT

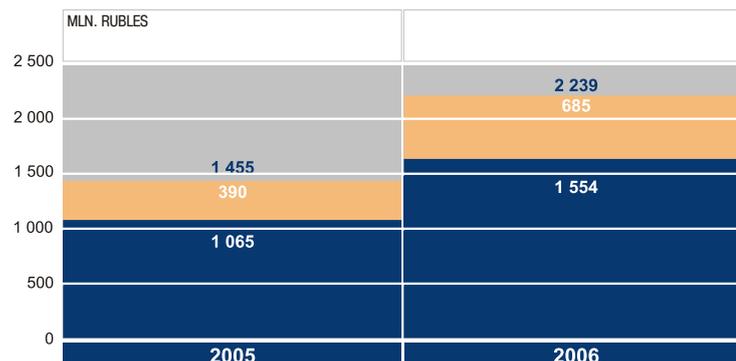


The information for the periods prior to 2005 represents the investments of VSMPO only, as AVISMA and VSMPO were separate legal entities till July 1, 2005.

COMPOSITION OF INVESTMENTS INTO MANUFACTURING MODERNIZATION AND DEVELOPMENT IN 2006



INVESTMENT FINANCING SOURCES IN 2005-2006



TITANIUM SPONGE PRODUCTION

The main objective of production modernization at AVISMA is to increase titanium sponge output to 44 thousands tons by 2011. In 2006, sponge output was increased by 3.5 thousand tons due to installation of 7 additional reduction furnaces and 4 separation furnaces, and process intensification of reduction and vacuum separation in current production.

At each stage of the process, production work on development and modernization was carried out.

Modular ore stock was arranged in the melting shop and limit consumption rates were determined for ilmenite ore concentrate of Lanka Mineral Sands LTD (Sri-Lanka).

Development work continued on the process automation of the ore concentrate melting in the ore-smelting furnaces.

Work was carried out on reconstruction of chemical water treatment facility for introduction of the evaporating cooling system for the ore-smelting furnace roof in order to increase the furnace roof life time and heat carrier utilization time.

To increase life time of steel molds for titanium slag casting, rectangular molds are being replaced by round ones.

Based on test results, production capacity of ball mills was increased from 3.2 t/hour to 5 t/hour.

To produce intermediate raw materials (titaniferrous charge materials) of higher quality for chlorination process, a volumetric method of technical salt proportioning was replaced at the second titanium slag crushing unit by weighting method.

To increase life time of chutes and tapping zones of ore-smelting furnaces, new materials - periclase-carbonaceous items - were introduced.

A project plan for an ore-coal briquette manufacturing area was developed. This project will reduce the loss of raw materials and energy consumption while reducing environmental contaminants in the course of ore melting in ore-smelting furnaces.

Test work on the following issues continued in the chemical and metallurgical shop:

- operating scheme for the condensation system with an alternative coolant in order to increase heat exchanger life;
- replacement of the water-sprayed heat exchanger with a double-pipe heat exchanger using technical titanium tetrachloride as coolant;
- implementation of the automatic proportioning of charge material supply into the chlorinator for more stable operation of chlorinating units.

Work is underway in the metallurgical shop to build up additional titanium sponge production capacity in the existing facility estimated to produce 9.5 thousand tons a year.

A project plan was completed and equipment is being manufactured for modernization of NAO-242 press No. 1 to ensure there is sufficient capacity for processing the increased output of the titanium sponge.

A project plan was developed and an agreement was signed for manufacture of a shearing press to replace the worn-out press. A straightening unit for integral implements (retorts and lids for reduction and separation units) is being installed, which will allow us to improve the cycling of this equipment.

The major modernization project in magnesium processing is adding capacities for magnesium chloride processing in order to increase titanium sponge titanium production. Equipment modernization is continuing, and a water cooled electrolytic cell for 230 kA current intensity is under development.

BEVO-2K double cathode electrolytic cell for 170kA current intensity and a single-row electrolytic cell EVA with small interelectrode distance for 170kA current intensity were developed and are undergoing testing.

The following projects are underway to increase the life of the electrolytic cells:

- increase the cathode operability;
- protection of anodes in electrolytic cells with upper anode input from oxidation;
- process development of graphite-aluminum welding and weld testing in production conditions using production units. Improvements to the external and internal power systems for increased titanium sponge production.

MELTING AND CASTING

VSMPO is increasing capacities for production of titanium ingots and die forged titanium slabs. A new melting facility, which will ensure production of titanium alloy ingots and semi-products that meet customer requirements for aircraft and rotor quality materials, is being evaluated.

The following major actions were implemented in 2006:

- the scull furnace production area for manufacture of 4-6 ton weight titanium alloy ingots of aircraft and rotor quality and a room for storage of charge materials were completed;
- an X-ray inspection unit for chips was manufactured and an X-ray inspection unit for master alloys was installed;
- 3 vacuum-arc furnaces were refurbished and commissioned. EB furnaces were upgraded in order to increase the capability to remelt scrap material. New melting pot and crucible designs were developed for existing scull furnace. The furnaces were also reconstructed to increase their performance.

The following equipment was purchased and installed: four planning machines for slabs, a turning lathe for ingots melted in scull furnaces, chip crushing units, and a machine for milling identification numbers onto ingots.

SHEET ROLLING

Customer requirements for tighter production specifications and quality requirements are constantly growing. Our customers want us to expand our flat product mix. Upgrading and refurbishment of the existing equipment and commissioning of the new process lines are under way. The goal is to provide a modern sheet rolling facility using special-purpose high-performance equipment with advanced processes capabilities.

In 2006, sheet rolling projects included:

- in order to increase output, production areas are being designed and constructed for slab rolling and annealing;
- to improve the metal quality a thickness gauge was fabricated and installed at a hot-rolling mill and guillotine shears were installed in the hot-rolling line;
- continuous abrasive grinding machines, sheet etching unit and ultrasonic inspection area are under construction. A shot-blasting unit of new design was installed;
- construction and commissioning of the sheet annealing and straightening unit in the planishing mill line allowed for increased output of thin pack-rolled sheets;
- to reduce a production cycle of sheet and plate treatment a plate thermal cutting unit was purchased and installed;
- construction of the spot stock cut-up area consisting of band saws and a water-jet cutting unit was started.

PRESS FORGING

Due to an increase in orders for delivery of high quality die forgings the Corporation is performing a great amount of work to reconstruct both major and ancillary equipment, including press repair and upgrading, commissioning of stock heating furnace with automated systems, which ensure the required heating accuracy. The manufacturing process for a number of die forgings for international aerospace customers was adjusted. This work remains a high priority item for the Corporation in the near term.

For further development of the press forging facility the following actions were taken in 2006:

- billet and forging capacity were increased by utilization of the 1 500 ton forging press to produce shaped stocks for die forging manufacture and optimize the work of 3 000 ton press;
- transport manipulators with lifting capacity of 1 to 8 tons were procured and new gas furnaces for presses 106 and 206 (6 000 ton force) were installed. This allows us to produce billets with a length of up to 5 000 mm;
- construction of the die forging heat treatment area was started;
- work was started on a facility design for hydraulic presses with the force of 6 000 tons and 2 500 tons with forging manipulators and gas heating furnaces.

A heating furnace was installed and the second four-die forging block was procured.

DIE FORGING MACHINING

A die forging machining shop was created. The goal of the project is to increase manufacturing efficiency by expanding production capabilities while maintaining product quality. Project benefits include additional earnings and process scrap that can be remelted thus increasing VSMPO melting capacity.

In 2006 the following actions were implemented:

- the die forging machining area consisting of 12 machines was set up and a turning lathe was commissioned. Two coordinate-measuring machines were purchased and installed. Work on the production flow and sequence of operations for batch production of hydraulic cylinder and truck beam rough machined die forgings for B787 which would be delivered to Messier-Dowty (France) is being finalized;
- a Joint Venture with Boeing for rough machining was announced. The Joint Venture should provide the machined parts to Boeing at a lower cost while simplifying the Boeing procurement process. VSMPO will benefit from the access to new titanium processing techniques and equipment. An additional benefit for VSMPO will be the ability to recover and utilize the machining chips as input for melting additional ingots.

BAR ROLLING

To increase output of rolled bars, including bars meeting rotor quality specifications, and to ensure product quality is maintained, a re-equipment of the bar rolling facility is under way. It will include reconstruction of the existing equipment and the addition of new equipment for optimization of the major rolling equipment. The following actions were taken:

- the construction of a straightening facility for bars with the diameter of 20-50 mm and two heating furnaces for a radial screw rolling mill was completed;
- an automated control system was implemented for a radial screw rolling mill to ensure set temperature and deformation parameters of rolling with data collection on a real time basis.

TUBE MANUFACTURE

Currently the 3rd stage of the project for manufacturing 10-40 mm diameter welded titanium tubes is being implemented. One of the tube welding lines was completed and a straightening unit for thin walled tubes was put into service.

MANUFACTURE OF CONSUMER PRODUCTS

In 1991, the manufacture of household goods and kitchen utensils from stainless steel was started at the company. To compete successfully with other domestic as well as foreign manufactures, we need to produce utensils with a “sandwich” type bottom, made of layers of different metals. The process and design departments carried out development work required for manufacture of these new products. The required equipment was procured and installed. Further expansion of the kitchen utensils, manufactured from stainless steel, product line is planned.

VSMPO sells die forged wheel disk produced from aluminum alloys. Special-purpose equipments was purchased including polishing and shot blasting units and a turning lathe with a vertical rotation axis to improve efficiency.

We upgraded our production capabilities for titanium and stainless steel products for the power industry and the oil, gas and chemical industries in order to both expand the product mix we offer and increase capacity. Special-purpose equipment including inspection equipment was purchased.

RESEARCH AND DEVELOPMENT

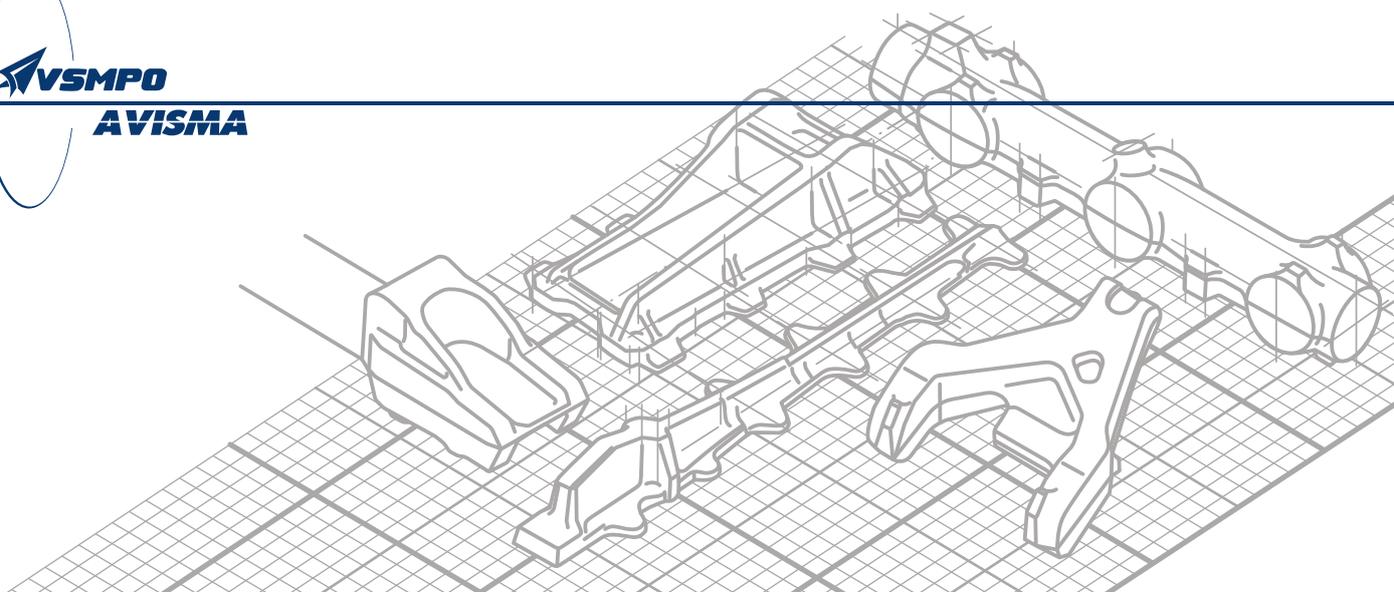
In 2006, 132 research and development projects were carried out at AVISMA. The total cost of this work totaled about 90 mln. rubles.

19 patents were received for new designs. 6 patents and 144 innovation proposals were introduced into production with the total benefit of 10 200 thousand rubles.

52 inventions and 506 innovation proposals were introduced into production at VSMPO.

Their implementation will generate benefits of 98 930 thousand rubles.

Currently the Corporation owns 240 RF patents and 8 foreign patents.





4

DEVELOPMENT

STRATEGY



4.1 MAJOR MACROECONOMICAL ASPECTS, MARKET ANALYSIS

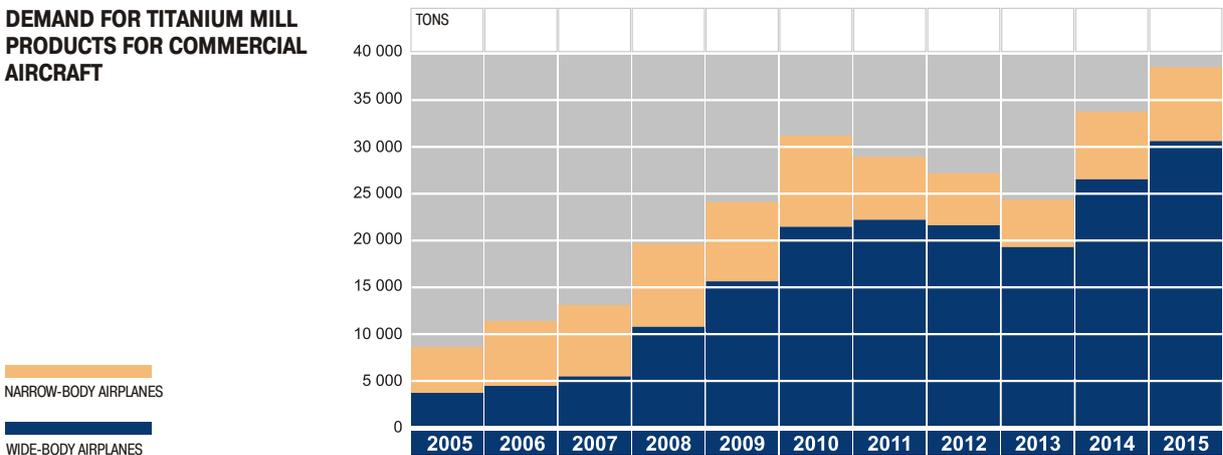
According to the International Monetary Fund evaluation (semiannual IMF report, September 2006), the world economy is steadily developing and the next few years will be characterized by the most rapid global expansion since the 1970s. The demands for metals continue to grow. Prices for major nonferrous metals surpassed average historical figures and, according to experts, the cycle of price increases is not over yet.

A similar trend is observed in the world titanium market, as reported by participants at the Annual Conference held by the International Titanium Association (ITA) in October 2006. Representatives of all the world's leading titanium producing companies, and companies consuming titanium mill products in major market segments, took part in the conference. The general conclusion was that the demand for titanium will continue to grow at an unprecedented rate and will increase approximately twofold during the forthcoming decade.

The largest titanium consumer has traditionally been the commercial aircraft industry, consuming about 40% of the world output of titanium mill products. High-strength titanium alloys, due to their unique strength and weight characteristics, became commonly used in aircraft body and vital component structures. The high heat resistance of other titanium alloys made them irreplaceable in aircraft engine components.

As the economies of the developing countries of Southeast Asia grew, the need and demand for commercial air traffic between East and West also grew. As a result of this increase in long distance travel, the percentage share forecast for long haul wide body airliners produced by Boeing and Airbus in the next ten years is expected to increase from 22% to 40% of the total aircraft output, an increase of 1.9 times. Despite prices for aircraft fuel, which remain high, passenger traffic is increasing by 5-6% annually and the level of orders for new Boeing and Airbus commercial aircraft, received in 2005 and 2006, is significantly higher than the record level of 1989, when 1 500 airliners were ordered. To meet a demand for more economical and efficient aircraft, Airbus and Boeing have developed and have started production of new models of wide body commercial aircraft having lightweight designs due to use of light and high strength composite materials combined with titanium alloys. The content of titanium alloys in the airframe structure has increased from about 5% in the last generation of aircraft to 15-20% - in some new models. As a result, the expected demand for titanium mill products from the world commercial aircraft building industry by 2015 shall increase 3 times as compared to the level of 2005 as shown in the diagram below.

DEMAND FOR TITANIUM MILL PRODUCTS FOR COMMERCIAL AIRCRAFT



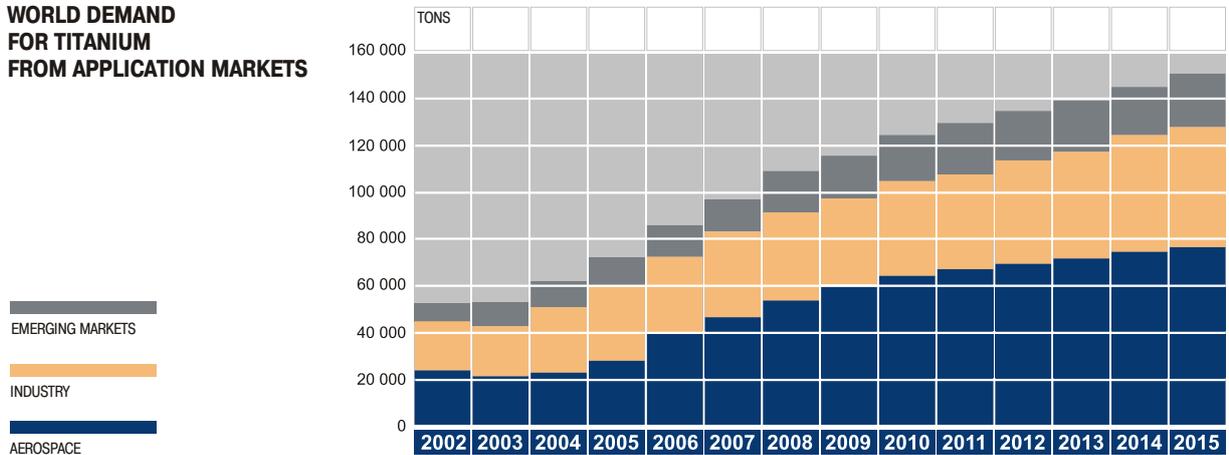
About 50% of world titanium consumption is by the industrial segment of the titanium market, where it is preferred in applications requiring high corrosion resistance in conjunction with good strength properties. Increase in titanium demand in the industrial segment depends directly on the world GDP growth. In recent years, demand in this segment of the titanium market has increased as the economies of China, India and countries of the Middle East have rapidly grown. Construction of chemical plants, power plants and sea water desalination plants require titanium. Interest in the use of alternative power sources has increased as many companies and countries plan for potential shortages and sharply higher prices for hydrocarbon based energy sources. In many countries, construction of nuclear power stations, where titanium is used in the heat exchangers, has resumed. Industrial application for titanium mill products is expected to grow 1.5-1.6 times by 2015.

Titanium application in new and developing market segments is growing. Titanium alloys in medicine are used in implant production due to the low weight and ideal biological compatibility of titanium with human body tissue. Annually, the consumption of titanium alloys in this area is growing by 5-8% and this should continue as life expectancy increases. Good prospects exist for growth in titanium consumption in the oil and gas industry as offshore drilling is gradually moving to deeper areas of the oceans. Some growth is observed in titanium applications for manufacture of motorcar and motorcycle components such as exhaust pipes, valves, and springs. Titanium demand remains stable in the manufacture of consumer and sports goods. The increase in consumption of titanium mill products in developing markets and applications through 2015 is estimated at about 1.5 times.

In the military sector of the market, consumption of titanium mill products is expected to significantly increase due first to implementation by the USA of large scale programs for the fifth generation fighters. In addition to military aviation, titanium application increases in the manufacture of land and marine military equipment is expected. Volumes of titanium mill products for this market segment are expected to increase about 1.8 times.

The diagram shows the forecasted dynamics of titanium mill product demand growth in the world.

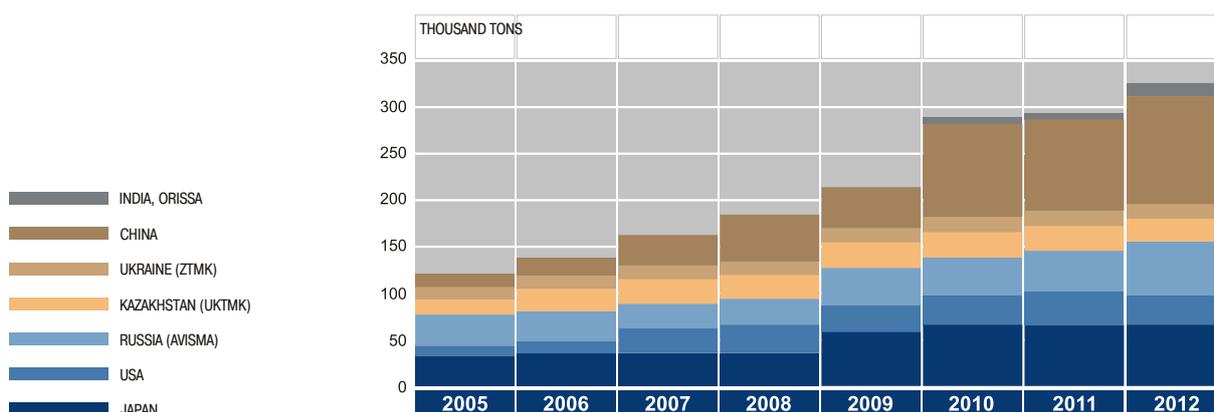
WORLD DEMAND FOR TITANIUM FROM APPLICATION MARKETS



The sharp increase in titanium mill product demand exceeds world titanium sponge production capacities. Currently, the companies that produce sponge are expanding their sponge manufacturing capacities. In response to the forecast for continued and growing demand for titanium, significant investments are being made now by many companies for sponge capacity increased ingot manufacturing and additional processing of titanium mill products. The investments in expansion planned by the titanium producers for the next few years and announced to date, exceed US\$ 4 bln.

The tensest situation in the world titanium industry is the availability of raw materials for titanium ingot manufacture. Currently all facilities for sponge manufacturing are working at full capacity. Previously mothballed capacities of Timet and ATI plants in the USA have been recommissioned. A number of companies made decisions to construct new facilities for production of titanium sponge. Plants for sponge production are being constructed by Sumitomo Titanium and Toho Titanium in Japan, ATI and Timet in the USA, and several plants are being constructed and commissioned in China.

FORECAST OF TITANIUM SPONGE PRODUCTION CAPACITIES



By 2012, total world capacities shall reach a level of 340 thousand tons of sponge per year as compared to the current level of 134 thousand tons in 2006. However, demand for sponge for ingot manufacture is expected to overtake supply within the next few years. It needs to be noted that a significant portion of new expected capacity is from Chinese companies and the quality of the sponge produced by them will take some time to achieve required quality levels for aerospace applications.

A shortage of sponge for titanium ingot manufacture may be significantly offset by increasing scrap in the charge materials. This has been taken into account when forecasting new melting capacities for the titanium industry. By 2010, the total world melting capacity is expected to increase from 239 thousand tons of ingots in 2006 to 327 thousand tons in 2010. This forecast assumes that cold hearth furnace capacities will increase from 25 to 31%.

4.2 STRATEGIC DEVELOPMENT TRENDS

When developing the strategy and setting business priorities VSMPO-AVISMA follows accurate information on the market situation and its trends. When making decisions the Corporation management pursues the following fundamental approaches:

- feasibility and economic efficiency;
- development of industrial capacities capable of meeting customer requirements under fluctuating market conditions;
- creation of a stable vertically-integrated facility from the processing of raw materials up to finished products/components;
- parity risk distribution;
- constant efforts on developing state-of-the-art materials and processes, creating competitive advantages, for the customers.

THE MAIN STRATEGIC GOAL OF AVISMA FOR 2007:

Overall development of production capacities and power system in order to increase titanium sponge output to 44 thousand tons by 2011.

OTHER STRATEGIC GOAL OF VSMPO FOR 2007:

- Continue 13-15% increase in titanium product output.
- Production development plan will be implemented primarily subject to meeting the titanium alloy demand from leading Russian industries. At the world cooperation level one of the perspective activity lines of the Corporation in 2007 will be joint work with Boeing. Also new work related to our company participation in the project A350 - new Airbus aircraft - will begin.

Today we are intensively developing engineering manufacture. Manufacture of heat exchanging equipment for power industry, engineering and oil and gas production as well as output increase of value-added titanium products represent future prospects of the Company and we shall pursue them in the nearest future.

4.3 MAJOR RISK FACTORS

Discussed below are the major risk factors which may affect the Corporation business.

Stated risks may have significant effect on production activities, sales, profit, assets and liquidity of VSMPO-AVISMA. All estimates and forecasts expressed in the annual report shall be considered in the context with these risks. In addition, some risks which currently are not considered to be significant may become so in the future.

MARKET

In general, the industry trends do not imply any decrease in consumption of titanium products. Moreover, a trend of rapid increases in demand for titanium alloys and significant growth in its production throughout the world was noted in 2006. The growth results from complete recovery from the aftermath of 9/11/2001 and increases in aircraft build rates by all global aircraft manufacturers. At the same time, the titanium alloy industrial market began to grow at an increasing rate, primarily in the power engineering sector. Conventional aerospace customers' orders have increased dramatically and spot prices for titanium mill products have increased 3-4 times during 2005. This tendency continued in 2006 and is expected to continue in 2007.

Prices for titanium products produced by the Corporation, as well as the world demand level, depend to a great extent on the world economic growth. A number of factors affecting titanium product prices are beyond the Company's control; these factors include the following:

- economic and political status in the world and certain regions;
- demand and supplies in the world, certain regions and expected demand;
- application of new processes;
- approved regulations and actions of the Russian and foreign states on market regulation including determination of protective actions;
- exchange rates;
- inflation and interest rates.

Possible significant drop in demand and prices for titanium products may result in lower profitability or unprofitability of production activity and may have adverse effect on financial position of the Corporation.

PRODUCTION

Typical hazards associated with metallurgy industry include fire and explosion risk, risk of production suspension caused by power supply loss, risk of production equipment damage.

Fire and explosion risk is typical of titanium sponge and titanium products production, including thermometallurgical processes, electrolytic process, chlorination, distillation and purification processes, and vacuum-arc and heating furnaces, rolling mills and metal working machines. Specific features of the produced materials are high reactivity of magnesium and titanium, mostly as hot metal and at water contact.

Titanium sponge manufacturing process and melting process depend to a great extent on power supply source. Power interruption over 4-8 hours can result in solidification of the molten bath in the magnesium electrolytic cells and then result in a shutdown of magnesium, chlorine and titanium sponge production.

To decrease emergency risk, the Company takes various actions to control and minimize the existing risks. The Corporation implements the plans for upgrading of primary capacities. One of the main upgrading actions is to improve automated control systems of primary production equipment which ensures manufacture of products of higher quality and higher safety of operating the process lines.

In order to ensure stable power supply for titanium sponge production the actions as planned are taken to improve the internal and external power supply network in AVISMA site.

Raw material supplies. Titanium sponge is produced at AVISMA and is raw material for manufacture of titanium products at VSMPO. Titanium is extracted from ilmenite ore by multi-step process including titanium chlorination plus metal reduction using magnesium. Magnesium is produced by electrolytic process of molten carnallite ore. Both lines of main processes are interdependent. In October 2006, carnallite supplies were suspended because of the accidental flooding of mine fields BKRU-1 of JSC Uralkaliy, Berezniki. The Corporation aims at arranging supplies of all the types of raw materials from alternative sources.

However, provided commercially reasonable expenses the Corporation can become unable to overcome troubles associated with emergencies at power sources and communication lines, yielding/damage of buildings and facilities, and railway and road traffic accidents.

INDUSTRIAL REGULATION

The Corporation activities are governed by labor and social legislation. Change in the laws primarily with regard to tax and insurance payments related to social and retirement insurance may affect the Company financial results.

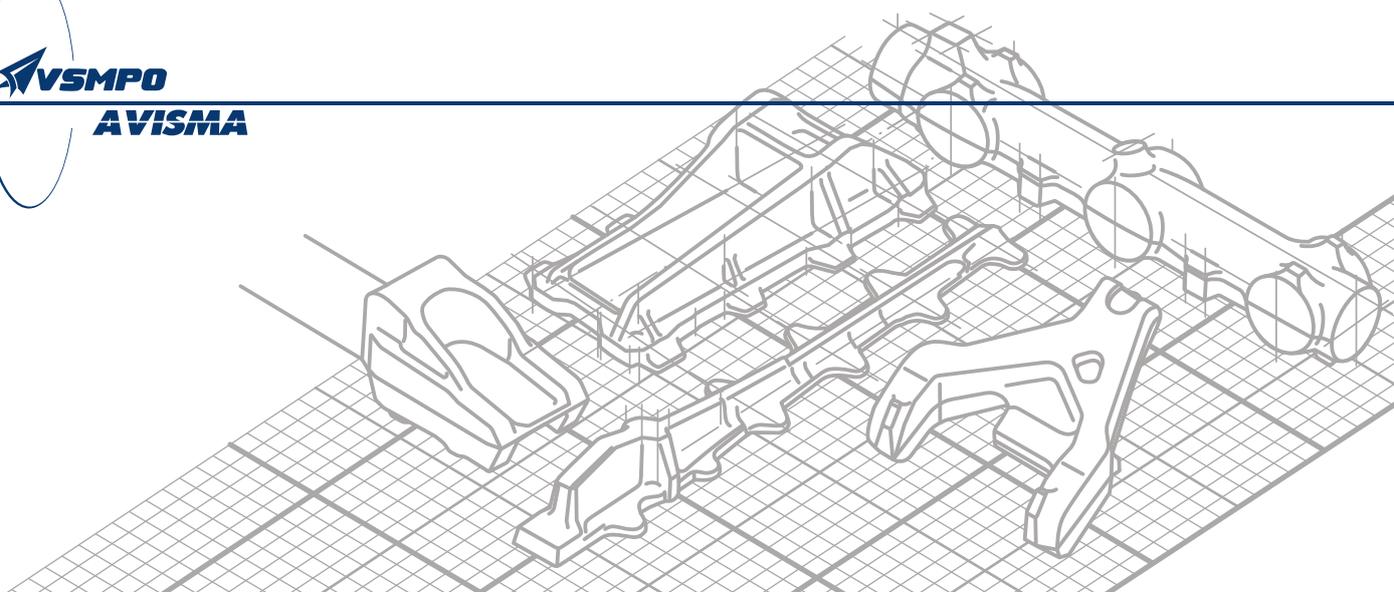
LOCAL CURRENCY EXCHANGE RATE AND REGULATIONS

Most sales of the Corporation are in US dollars. The majority of expenses are in the Russian Federation rubles. Therefore, changes in local currency (ruble) to the US dollar exchange rates influence the Corporation's financial standing. Limited capabilities of the Corporation in currency conversion or rollover may cause impossibility of entering into the required business transactions (or rise in its prices), what may have significant adverse effect on the Company's activity.

INSURANCE PROGRAM

The Corporation maintains the full property insurance program, including machine insurance from breakdown and insurance against production suspension. This program has been successfully functioning since 2002. Insurable property includes the Company fixed assets and inventories. AVISMA (Berezniki, Perm region) property is insured for overall replacement value and VSMPO (Verkhnyaya Salda, Sverdlovsk region) property - for actual value. Losses resulting from production suspension are also insured.

In 2006, a coinsurance contract was signed with Insurance JSC Ingosstrakh and JSC SK Soglasie. Insurance was obtained through the participation of the international insurance broker Marsh. One of the conditions of coinsurance contract signing was mandatory availability of the optimal reinsurance program, comprising leading insurance organizations nonresident of the RF as major reinsurers. For the signed contract the share of risks reinsured abroad is dominant.





5

SOCIAL

RESPONSIBILITY



Uniting thousands of employees in one team, the Corporation conscientiously assumes responsibility for their future, working conditions, social safety net and environment.

Doing business with responsibility for VSMPO-AVISMA means:

- increasing environmental and social protection in the areas where the Company operates;
- creating the most favorable conditions to encourage people's professional and personal growth.

5.1 ENVIRONMENTAL PROTECTION

The Company carries out its activities in accordance with the requirements of Russian Federation environmental legislation. Acting in accordance with their environmental policies, AVISMA and VSMPO staff intends to continuously improve indices of environmental effectiveness.

In 2006, the Company carried out its environmental activities in the following areas:

- stage-by-stage reduction of pollutants discharged into air;
- gradual reduction of volumes of polluted waste water discharged into water;
- construction of containment areas for separated wastes and increased involvement in production recycling, in order to reduce pressure on the environment.

AVISMA

The recertification audit for the Environmental Management System (EMS) was performed in 2006; the certificate with an expiration date of April 7, 2007 was granted by TUV NORD CERT GmbH & Co. KG. ESM process functioning was reviewed on a quarterly basis; workers and specialists were trained in quality management system requirements during the course of 2006.

In order to implement AVISMA environmental policy, significant environmental activity aspects were identified, based on which the Program for environmental goals achievement for 2006-2008 was developed and is currently being implemented.

No emergencies and unauthorized pollution of the environment occurred at the facility in 2006.

Environmental action plans were developed by each AVISMA operation for maximum permissible emissions and maximum permissible discharge. All planned actions were performed, and all environmental goals set were achieved.

Adverse environmental effects decreased significantly in 2006. Total environmental damage equaled RR 6.85 mln., with specific environmental damage decreasing from 0.13 to 0.08 kopecks per ruble of products made.

In order to further decrease adverse environmental effects, environmental programs with a total cost of RR 58.5 mln. were carried out in 2006.

RESULTS OF MAJOR ENVIRONMENTAL ACTIVITIES FOR 2006

The total gross discharge of pollutants into air equaled 1 339.997 tons, while the maximum permissible discharge norm is 3 664.439 tons. Dust and gas cleaning (scrubber) units caught 35.6 thousand tons of pollutants in the course of the year. 1 214 air analyses were carried out in the AVISMA sanitary protection area and in the town of Berezniki.

The total gross discharge of pollutants into water equaled 152.2 thousand tons, which is 44.3 thousand tons less than in 2005. In 2006, 29.7 thousand tons of pollutants were caught in treatment plants and transported to the landfill.

The amount of waste products sent to landfill decreased from 49.6 thousand tons to 36.7 thousand tons, and the amount of waste products recycled into production increased from 152 thousand tons to 206 thousand tons.

The current operating expenses for environmental units equaled RR 246.5 mln. in 2006. (2005 - RR 274.6 mln.), with RR 101.6 mln. spent for overhaul of environmental units (2005 - RR 76.4 mln.).

ENVIRONMENTAL COOPERATION

AVISMA proposed two actions for participation in the regional special integrated program "Environmental Protection in Perm region" for 2006-2010. It is planning to spend more than RR 27.28 mln. of its own funds.

In 2006, 3 audits were carried out by government oversight bodies (environmental prosecution office, Rostehnadzor (Russian Federal Technical Oversight Agency), Rosprirodnadzor (Russian Federal Natural Recourses Oversight Agency)). 10 orders were received, 5 of them have been satisfied and implementation of 5 orders is in process and under control.

The municipal department for operational environmental control carried out 23 audits for gas cleaning (scrubbing) equipment of the facility. No malfunctions were revealed.

ENVIRONMENTAL EDUCATION

AVISMA obtained the title of «Russian Leader in Environmental Activities - 2006» during the second all-Russia conference "New priorities of the national environmental policy in the real sector of the economy". V.P. Tankeev, Executive Director of AVISMA, was awarded a medal "Russian Environmental Shield" for advances in environmental protection and environmental security assurance in Russia. The conference steering committee graded AVISMA work on major wastes recycling very high, pointing out significant investments in cleaning process for industrial wastes and noting its modern environmental management system.

In 2006, AVISMA performance was recognized by a note of thanks on behalf of the municipal administration for active participation in the campaign "Clean Air" in the territory of Berezniki.

Three persons were trained to work professionally with hazardous wastes in health protection.

The drawing and essay competition "Environment of our town" was carried out jointly with the AVISMA youth organization in 4 nursery schools and in 3 secondary schools. The objectives of the project were to expand preschool and school children's knowledge of environmental problems of the town, support children's creative work and motivate senior schoolchildren to search for causes of town environmental problems and measures to eliminate them.

VSMPO

A certification audit for the VSMPO Environmental Management System was conducted for compliance with the international standard ISO 14001-2004 by TUV Rheinland InterCert in 2006. Certificate No. 75 1 10 0264 with an expiration date of February 13, 2010 was granted.

In order to implement VSMPO environmental policy, a program for environmental management was developed and is currently being implemented.

No emergencies and unauthorized pollution of the environment occurred at the facility in 2006.

Payment for adverse environmental impact equaled RR 2.76 thousand in 2006.

In order to decrease further adverse environmental impact, the "Medium-term environmental program for 2004-2006" was implemented in full at VSMPO. Environmental actions with a cost of RR 23.14 mln were carried out in 2006.

RESULTS OF MAJOR ENVIRONMENTAL ACTIVITIES FOR 2006

The total gross discharge of pollutants into the air equaled 1 279.195 tons, while the established limit of maximum permissible discharge rate was 1 908.387 tons. Dust and gas cleaning (scrubber) units caught 2 116.000 tons of pollutants in the course of the year. 6 996 air analyses were carried out in the VSMPO sanitary protection area and in the town of Verkhnyaya Salda.

The total gross discharge of pollutants into water in 2006 was 14.8 thousand m³ less and equaled 18.299 mln. m³/year, while the established limit of maximum permissible discharge was 18.919 mln. m³/year. The amount of pollutants discharged with wastewater equaled 7 083.160 tons, while the established limit of maximum permissible discharge rate was 21 074.078 tons in 2006.

In 2006, 96.5 thousand tons of production and consumption wastes were generated at the facility. Out of the amount of generated and received wastes, 60.8 thousand tons (61.7%) were used internally, 23.5 thousand tons (23.8%) were passed over to outside agencies, 16.14 thousand tons (16.3%) were allocated within the area of the facility (the established standard rate of permissible allocation is 18.082 thousand tons).

The current expenses for operating environmental units equaled RR 168.8 mln. in 2006. (2005 - RR 147.4 mln.), RR 12.34 mln. were spent for overhaul of environmental units (2005 - RR 16.97 mln.).

ENVIRONMENTAL COOPERATION

4 audits were carried out by government oversight bodies (environmental prosecution office - 2 audits, Rostekhnadzor (Russian Federal Technical Oversight Agency), LA&TMC in Ural Federal District) in 2006. 24 orders were received, 13 of them have been satisfied and implementation of 11 orders is in process and under control.

ENVIRONMENTAL EDUCATION

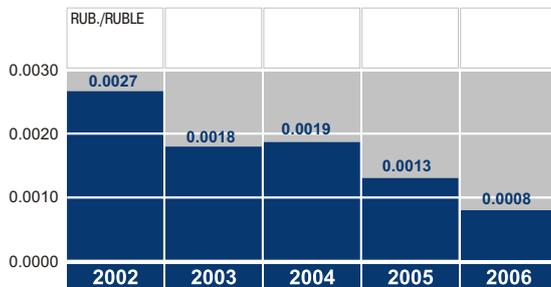
VSMPO participated in the international forum "Economics and Environment", in Ekaterinburg.

In 2006, 77 persons were trained to work with hazardous wastes. EMS training and advanced training of specialists from the environmental service was also accomplished.

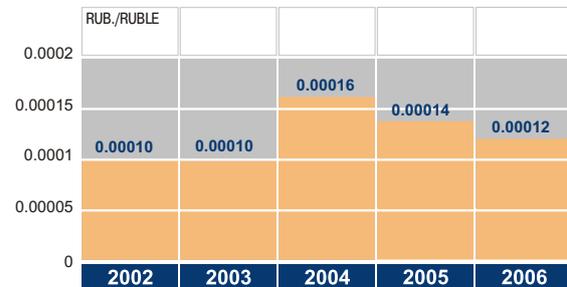
In order to meet the commitments established in the environmental policy and to engage employees in active participation in solving environmental issues, a contest related to environmental protection was held at VSMPO on May 5-25, 2006. The contest included the following categories: environmental equipment operation, production and consumption waste handling, information for the employees and posters on environmental issues. Nineteen facility departments participated in the contest and 53 posters on environmental issues were presented.

SPECIFIC ENVIRONMENTAL DAMAGE HISTORY*

AVISMA



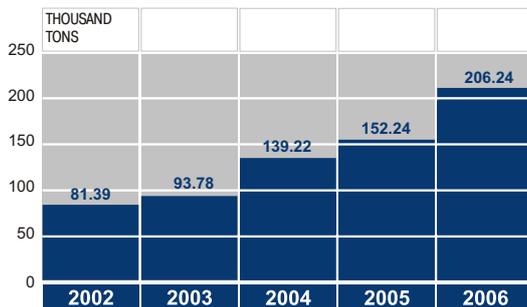
VSMPO



* Defined as payment for adverse environmental effect per unit of products made in terms of value

WASTES RECYCLING HISTORY

AVISMA

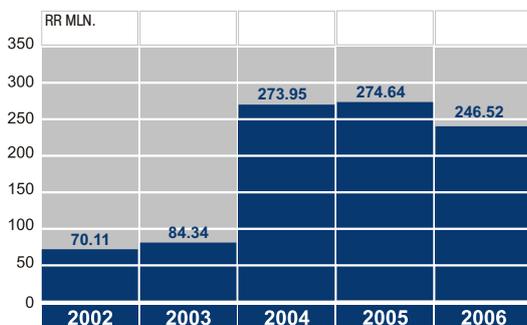


VSMPO



CURRENT ENVIRONMENTAL ACTIVITY INVESTMENTS MOVEMENT

AVISMA



VSMPO



5.2 INDUSTRIAL SAFETY AND LABOUR PROTECTION

Labour protection and industrial safety activity of PSC VSMPO-AVISMA Corporation management is based on the principles of employees' life preservation and health maintenance.

A part of the Company's production facilities belong to the category of hazardous production facilities according to Federal Act No. 116-FZ "Hazardous Production Facilities Industrial Safety Act" dd. July 21, 1997.

Hazardous production facilities are included in the state register of hazardous production facilities and insured in accordance with legislation requirements. Operating licenses for hazardous production facilities have been obtained.

A standards system of labour protection and industrial safety is in effect at VSMPO and AVISMA. It includes 44 standards and regulations.

Labour protection and industrial safety is taken into account in the Company's current investment plans, overhaul plans and personnel training plan.

In accordance with the Integrated labour protection plan (AVISMA) and Labour protection agreement (AVISMA and VSMPO), the Company carries out its activity in the following ways:

PREVENTIVE ACTIONS

Preventive actions are carried out in compliance with the current normative documentation for labour protection and industrial safety, and are focused on providing the Company's employees with safe labour conditions and production risk reduction; prevention of accidents, industrial diseases, emergencies and malfunctions at production sites. In 2006, 27 comprehensive surveys, 108 target audits and 159 operational audits were carried out. Effectiveness of "Provision on procedure for issuance of warning labor protection and industrial safety tickets" (AVISMA) was monitored.

VSMPO and AVISMA shops developed shop emergency response plans. Training alerts (drills) were routinely conducted in the shops during the course of the year. During training alerts (drills) the Company's emergency services' actions are practiced. 315 training alerts (drills) were exercised in 2006.

In 2006, 25 labour protection stands were acquired and installed in shop rooms for labour protection, production sanitary and industrial safety training information was provided to facility employees (VSMPO). Normative documents and posters were acquired for the departments and labour protection and industrial safety information stands were ordered and made for all the shops. 15 bulletins were issued (AVISMA).

INDUSTRIAL SAFETY EVALUATION

In accordance with Rostehnadzor (Russian Federal Technical Oversight Agency) requirements the following types of evaluation are carried out on a routine basis:

- evaluation of technical devices, buildings and structures with expired standard operation time;
- evaluation of design documentation for hazardous production facilities construction and reconstruction.

The new declaration of safe industrial practices was evaluated with a conclusion issued by Russian Federation Ministry of Emergencies, which contained results of the comprehensive analysis of social and environmental risks (AVISMA).

MANAGERS AND SPECIALISTS QUALIFICATION

Based on the results for 2006, 3 684 engineering employees were tested for knowledge of labour protection issues and safety rules (964 - AVISMA, 2 720 - VSMPO).

WORKING PLACES QUALIFICATION

Working places were tested and qualified for working conditions compliance at VSMPO for the third time, and work on improvement of working conditions at working places was carried out on a routine basis. 502 working places with 1 235 people were qualified in 2006. 2 720 working places with 5 508 people were qualified at AVISMA.

DOCUMENTATION

In 2006, 16 normative documents were newly developed and revised in order to optimize work on safe labour conditions and industrial safety of hazardous production facilities (AVISMA).

PERIODIC HEALTH EXAMINATION

Periodic health examinations were performed throughout a year in compliance with the Company's schedule. 18 473 persons passed professional health examinations. Efforts to employ persons having contraindication to their occupation were carried out in the course of the year.

CATERING SERVICE

In accordance with internal normative documentation, dairy products are provided to the employees; but special diet is also arranged.

HAZARDS EFFECT REDUCTION AND LABOUR CONDITIONS IMPROVEMENT

12 technical actions according to the Labour protection agreement were carried out during 2006. 1 546 employees including 574 women had their labour conditions improved (VSMPO). 20 actions according to the Labour protection agreement were carried out. 876 employees including 131 women had their labour conditions improved (AVISMA).

New types of personal protective equipment are continuously implemented for testing at production sites.

INVESTMENTS

Labour protection - 92 actions to the amount of RR 196.890 thousand.

Industrial safety - 105 actions to the amount of RR 92.453 thousand.

ACTUAL RESULTS

The rate of industrial injuries for the last few years even in the context of production volume increases remains stable and is within 2.4-2.5 (VSMPO), 1.2 (AVISMA) per 1 000 employees.

5.3 PERSONNEL

The Company's personnel policy consists of a system of rules, norms and principles that regulate all significant aspects of work by personnel aimed at efficient use of human resources in the achievement of the Company's targeted goals.

The major directions of PSC VSMPO-AVISMA Corporation personnel policy are as follows:

- selection and assignment of personnel;
- achievement and support of professional and optimal personnel level;
- personnel education;
- personnel encouragement and motivation.

In 2006, the number of the Company employees was 20 828 persons (AVISMA - 5 658, VSMPO - 15 170). In 2006, the average age of the Company's employees was 39 years old, the average work experience of the Company employees was 13 years. Personnel turnover is characterized as stable. In 2006, the Company personnel turnover equaled 4.79%.

Personnel selection is aimed at the qualification of every employee for performing duties of a particular profession or position, and reasonable, efficient assignment of employees consistent with their job knowledge. For this purpose long-term contractual relations with basic vocational and higher education institutions and the Employment Service are maintained, and methods for preliminary psychological testing of candidates for blue-collar jobs are also applied.

Professional and economic training of personnel is organized in accordance with STP 13-127-2002 "Quality Management System. Professional and economic training of personnel. General provisions" (AVISMA) and STP 6.2 - 078 "Personnel Training and Advanced Training" (VSMPO), which are aimed mainly at personnel technical and professional knowledge improvement in various training forms, and advanced training. Annually 8 500 workers and 3 700 managers and specialists, 54% of all personnel, take courses and improve their skills.

High emphasis is placed on organizing practical training for students of higher education institutions, technical colleges, and vocational schools. In 2006, 1 900 students received practical training in the Company's operations. Annually more than RR 78 mln. are allocated for personnel training and continuing education. Currently 138 persons study in higher education institutions under trilateral contracts to become specialists required by the Company.

21 specialists with academic degrees, including 1 Doctor of Science and 20 Candidates of Science, work in the Company.

Annually the reserve of management personnel of all levels is built up in the Company. Thus, the management personnel reserve for 2007 consists of 1 647 persons. One of the major competitive advantages of the Company is its skilled and effective personnel. Therefore, it is necessary to educate personnel on a continuous basis, which not only enables the Company to achieve high-level economic results but also to create a favorable climate within the team and promote employees' interest in work.

The personnel reserve build-up and training system is one of the tools that enable the Company to form a lasting team with a high level of internal development and to ensure efficient solutions to current and potential problems.

Thus, in 2006 a new mechanism for build-up and training of personnel reserve for nomination was proposed at VSMPO. The main innovative aspect is that the candidate should be trained for some function level but not for a particular function. Accordingly, 4 management levels were formed. In addition, there are two reserve levels, short-term reserve level and long-term reserve level. For this particular purpose, groups of skilled and promising employees, who are capable to perform management duties currently or in the nearest future (1-5 years), were formed. It is possible for an employee to nominate himself/herself for reserve.

EMPLOYEES' ENCOURAGEMENT AND MOTIVATION OPTIMIZATION ACTIVITY

After VSMPO and AVISMA merged into one Company, they kept their conventional salary systems.

The salary and material encouragement system is improved on a continuous basis ensuring consideration and evaluation of employees' work results against salary levels. In the course of 2006, internal regulations were in effect at VSMPO and AVISMA aimed at achieving the tasks set for Company employees with due consideration for varying external conditions.

In 2006, AVISMA effected the following payments:

- personal premium for high professional qualification and personal contribution to manufacturing results;
- bonus paid to the key employees of the Company's departments, who contributed the most to the departments' work results;
- employees' encouragement for proposals concerning production efficiency improvement, participation in major innovative projects, assistance in efficiency improvement proposal implementation, mentoring;
- material bonus paid to the most successful and skilled shop foremen, whose teams obtained constantly high production indicators in 2006;
- premiums paid to the employees having academic degrees.

The best employees of the Company are rewarded with the following Company awards: "The Best Young Employee", "The Best Workman", "The Best Mentor", "Award for Achievements Benefiting the Company", "The Honorable Veteran of the Company". Honour Recognition Boards are updated at VSMPO and AVISMA for professional holidays.

In 2006 AVISMA Personnel Department won the Second All-Russia Contest "The best Russian Personnel Department - 2006".

PRODUCTION RATE HISTORY FOR 2005-2006

DESCRIPTION	UNIT OF MEASURE	2005	2006	GROWTH INDEX, %
Personnel on the payroll	Persons	18 846	20 828	110.5%
Sales revenue	RR thousand	16 800 410	28 364 389	168.8%
Production rate, yearly	RR thousand/persons	891	1 362	152.9%
Salary	RR/month	11 563	14 155	122.4%

INFORMATION OF PERSONNEL

A personnel information system has been established. It includes newspapers "Metallurg", "Novator", AVISMA TV broadcast, VSMPO TV broadcast, corporate magazine "VSMPO-AVISMA Bulletin", and briefings of employees with facility management. Providing actual information about strategic and immediate tasks to the employees of the Company ensures constructive management-employee dialogue.

Based on the results for 2006, AVISMA TV won the all-Russia contest "The Best Corporate Media". The contest is held by Russian Corporate Media Association as part of the international conference "Role of communications and corporate mass media in strategic company management".

The AVISMA PR service won an award in the Ural contest "White Wing 2006" in the category "The best commercial project" for achievements in public relations. In May 2006, more than 30 journalists representing Russian, American and European leading business publications visited the Company facilities.

The Company has functioned as an integrated organization for two years. The current task is to establish a common corporate culture. For this purpose corporate festivals were held at AVISMA and VSMPO during 2006 and a new tradition called "Company Day" was established. AVISMA and VSMPO youth organizations held shared events. Thus, young employees organized the athletic marathon "Challenge Cup".

THE COMPANY'S YOUTH ORGANIZATIONS

9 500 persons, who are under 35 years old, work in the Company. Two public youth organizations were established, in order to encourage development and realization of young employees' professional and creative potential within the framework of the Company's strategic goals. 3 200 young employees have joined these youth organizations. Primary youth groups have been established in each shop that work actively with young people.

The main spheres of the Company youth organizations' activity are:

- production and economics;
- science and technology;
- civil and patriotic sphere;
- social sphere;
- leisure and recreation;
- sports recreation;
- communication and organization.

PERFORMANCE OF COMMITMENTS TO LABOUR CONTRACTS IN 2006

The Labour contract is the most important document in regulating relations between the employer and employees in high-priority social issues.

AVISMA and VSMPO Labour contracts were signed, in order to create favourable performance conditions for employees and ensure work stability and efficiency. They are aimed at improvement of employees' social protection and establishment of the parties' shared obligations for meeting the requirements of labour legislation and Labour contracts.

Major programs are:

- social support for families with children;
- social support for non-working retired persons;
- work with young people;
- social support for persons injured due to accidents at production sites and from industrial diseases;
- medical care;
- social services;
- housing improvement;
- bonuses and benefits for employees and their family members.

5.4 SOCIAL POLICY AND CHARITY

The Company's social responsibility philosophy is based on mutually beneficial satisfaction of interests of the Company and society. The Company's social policy is oriented primarily to the Company's employees and their families, and thereby it is transmitted to the surrounding community. Social activity is supported based on the belief that, if every company irrespective of its size establishes efficient support systems for employees and their families, it will result in significant social welfare improvement in general.

Social activity is systematized and noted for continuation over a period of years.

Accepting the responsibility for creating worthy conditions of life and work for the Company's employees and their families, VSMPO and AVISMA undertake initiative actions in almost all social policy fields:

CARE OF EMPLOYEES' HEALTH

Care of employees' and their family members' health is a social policy area of high priority among many other social policy areas, which is imposed by a specific character of activities at VSMPO and AVISMA facilities. The corporate health care system enables an individual approach to evaluation of employees' health status. An annual total health examination enables the Company to evaluate the health status of every employee and assign preventive treatment, medical treatment or rehabilitation based on examination results. Material resources and cooperation with medical institutions located in Berezniki, Verkhnyaya Salda and surrounding areas within the framework of the voluntary health insurance contract make it possible to obtain all types of medical care. In 2006, the Company actively participated in implementation of the national project "Health" through additional medical examinations performed.

Purposeful outreach activities, employees' group participation in payment for sanatorium-and-spa treatment, and other material resources contribute to a more considerate attitude of each employee toward his/her health. Sanatorium-and-spa treatment for employees and their families is financed in accordance with labour contract norms and is based on group participation using financial resources of the Company, employees and national health insurance.

Systematic health and treatment activities give positive results: sickness rates and time of sick leaves have been reduced.

HEALTH IMPROVEMENT AND RECREATION

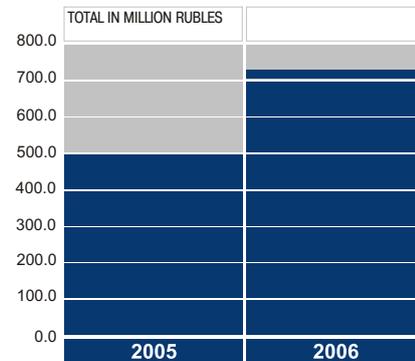
In order to exercise and support a healthy life-style, PSC VSMPO-AVISMA Corporation develops and implements health programs for the Company's employees. The Company's objectives related to human resources maintenance consist of working life extension for men and women, health parameters improvement for potential human resources and promotion of a healthy life-style. Physical education and sports is an important tool for employees' health promotion.

The Company has:

2 recreation centres, 2 stadiums, 3 sports and health improvement facilities, 1 sports centre.

In the course of the year, it is a tradition to hold a sports tournament based on 14 (AVISMA) and 11 (VSMPO) competitive events. In 2006, 5 000 people participated in the competitions. Health Days are declared on a regular basis; health groups function in the shops.

VSMPO-AVISMA SOCIAL EXPENSES



CULTURE AND LEISURE ACTIVITIES

The approach to development of culture and leisure activity in PSC VSMPO-AVISMA Corporation social policy is based on an understanding that at the present time the cultural level is considered to be the most important factor in social progress and society stability. Economic efficiency depends directly on the people's cultural level, and the production process is affected by the culture and education level of its participants.

In order to organize leisure activity for the towns' populations and the Company's guests and hold cultural events on a commercial basis, subsidiaries "VSMPO Culture and Art Centre" and "Metallurgists' Palace of Culture and Art" (AVISMA) were established. They consist of 2 Palaces of Culture, 3 clubs and a dancing hall. Currently, the Palace of Culture named after G.D. Agarkov (VSMPO) is the major culture and leisure centre in Verkhnyaya Salda.

At AVISMA the most active initiator of all corporate events is the staff of the Metallurgists' Palace of Culture and Art. Therefore much attention is paid to making employees recognize their participation in the Company's achievements; fostering honour and respect of employees who achieve outstanding success, and veterans; upbringing youth in the spirit of commitment to traditions; and establishing a new corporate philosophy.

CHILD CARE

Health maintenance and improvement for the Company's employees' children, preventive treatment of childhood diseases, creation of conditions for children's full rest and occupation during holidays enable the Company to solve a set of problems related to the upbringing of children and create a positive mood for employees, which results in a significant response in the employees' labour activity. Investments in children's recreation and education demonstrate care of the Company's future employees, its personnel reserve. The Company finances maintenance of nursery schools in Berezniki and Verkhnyaya Salda.

During holidays children's health improvement and recreation is organized mainly at 3 children health improvement camps, sports and military sports camps, and 4 day camps. The Company and trade union committees organize children's rest not only at the Company's camps. Annually much work is done at other Russian health improvement camps and health resorts of various types.

Over many years the Company has made a considerable effort to maintain and develop work with children and teenagers. Major common objectives were to improve children's health, educate them spiritually and culturally, acquaint them with characteristics of the professions, make them feel proud of their parents and create conditions that contribute to an efficient educational process.

SOCIAL SUPPORT FOR NON-WORKING RETIRED PERSONS - THE COMPANY'S VETERANS

Aging of the population makes it necessary to take measures aimed both at improvement of social protection for aged people and creation of conditions for their active participation in social life.

Veterans receive various payments in accordance with the labour contract provisions. In addition, the Company finances social action organizations - The Council of Veterans.

VSMPO and AVISMA Councils of Veterans organize social, culture and leisure, sports and health activities with aged people. 10 588 retired persons were registered in AVISMA and VSMPO Councils of Veterans as of January 1, 2007.

CHARITY

STRATEGIC CHARITY - VSMPO PARTICIPATION IN THE PROGRAM "WORLD PRODUCTION - TOWN OF TODAY"

In 2006, the Program "World production - Town of today" was launched within the Verkhnyaya Salda municipal district. The Program is intended for the period 2006-2012. The objective is to establish European social standards in a small country town to ensure Russian global leadership in one of the most valuable sectors of world economics.

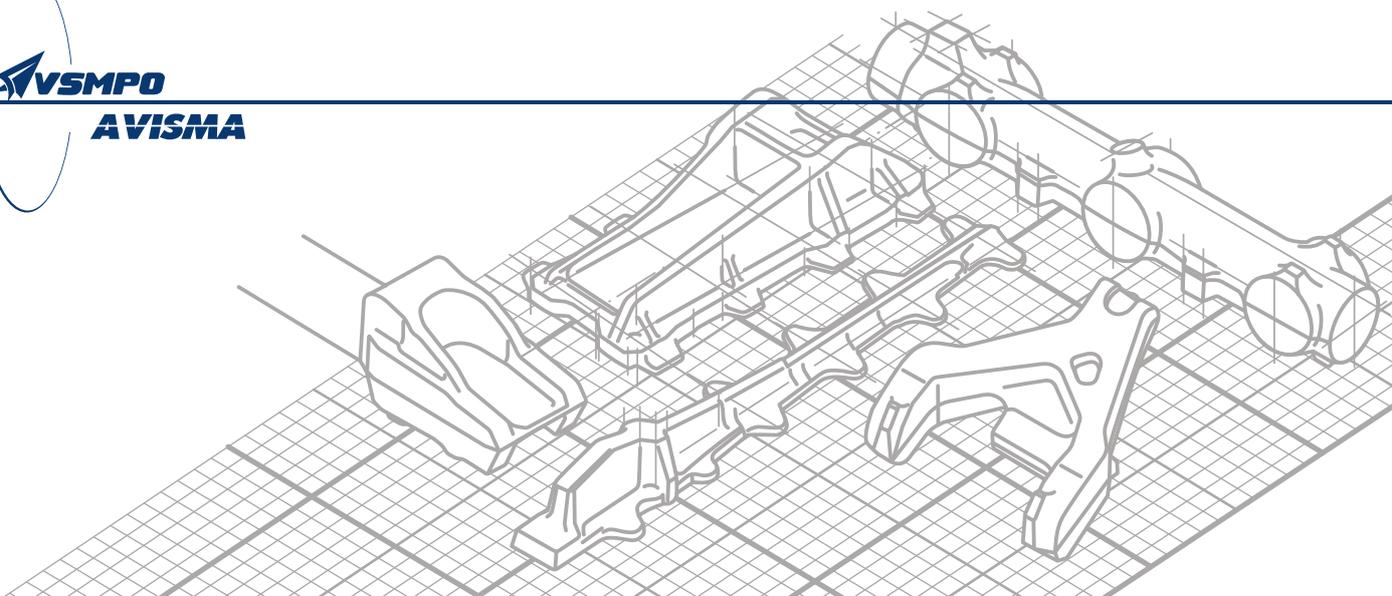
PSC VSMPO-AVISMA Corporation investments are aimed at stable development of the VSMPO production zone, which, in its turn, guarantees economic plans implementation, particularly, production volume increases. The Program "World production - Town of today" includes 5 target programs:

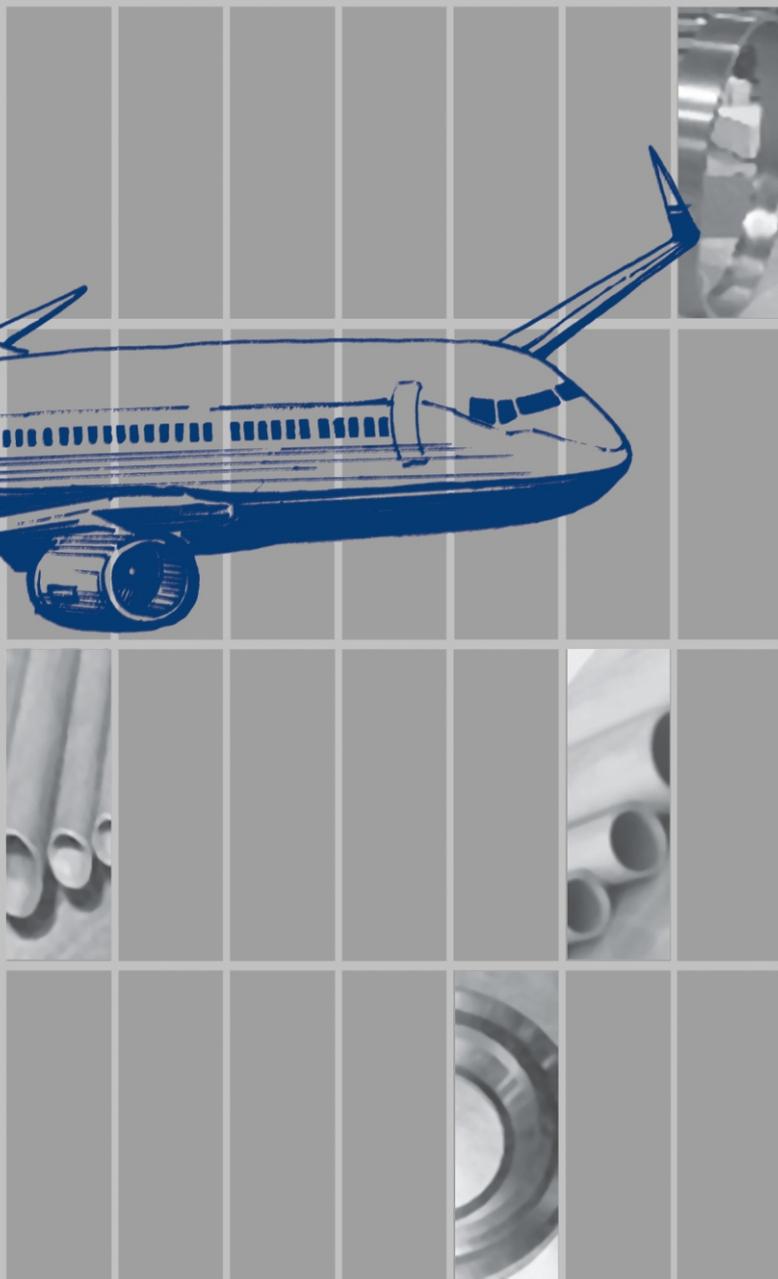
- "Future potential of the town, the Urals, Russia" - program for educational system development;
- Program for health system development;
- "House building" - program for provision of housing for the municipal district population;
- Program "Physical education and sports in the town of today";
- Program "Cultural environment in the town of today".

TRADITIONAL CHARITY

Charity is a means to establish and develop communication with the relevant environment. The Company's charity is aimed mainly at promotion of childhood protection, support of education, science, culture, art and sports activities.

In 2006, among many other projects, implementation of social and voluntary projects "We need every child" and "Support of socially important institutions and social action organizations" (VSMPO) was in progress. Traditionally, the municipal social project contest and various municipal sports and cultural events are supported in Berezniki (AVISMA).





6

CORPORATE

MANAGEMENT



6.1 SECURITIES MARKET

CAPITALIZATION

As at 31.12.2006 the weighted average price per share of VSMPO-AVISMA Corporation was \$294.046; the market capitalization of VSMPO-AVISMA Corporation was \$ 3 390 214 531.

The market price of a share was determined in accordance with the Procedure of Calculation of the Market Price of Issue Securities and Investment Shares of Investment Share Funds approved by Regulation No. 03-52/ps dated 24.12.2003 of the Federal Commission for the Securities Market (registered in the Ministry of Justice of the Russian Federation as of 23.01.2004, registration No. 5480). The market capitalization is calculated as the product of the number of the shares of relevant category (type) by the weighted average price per share of such category (type) taken from 10 the most material transactions made through the exchange at the securities market during 3 months preceding the month in which the last reporting quarter is closed. Source - Russian Trading System Stock Exchange.

STOCK EXCHANGE

The shares of VSMPO-AVISMA Corporation are included in the listings of the following stock exchanges:

1. OAO Russian Trading System Stock Exchange (www.rts.ru). Ticker symbol of the classical market included in the listing B - VSMO. Ticker symbol of the exchange market included in the listing B - VSMOG.
2. ZAO MICEX Stock Exchange (www.micex.com). Ticker symbol included in the listing B - VSMO.

PRICE BEHAVIOR AT RTS

VSMPO-AVISMA Corporation

For the period from 11.01.2005 through 29.12.2006:

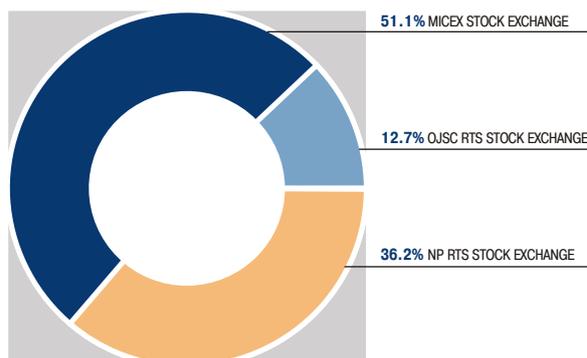
Trading volume - 619 086 521 rubles

Trading volumes - 137 634 shares

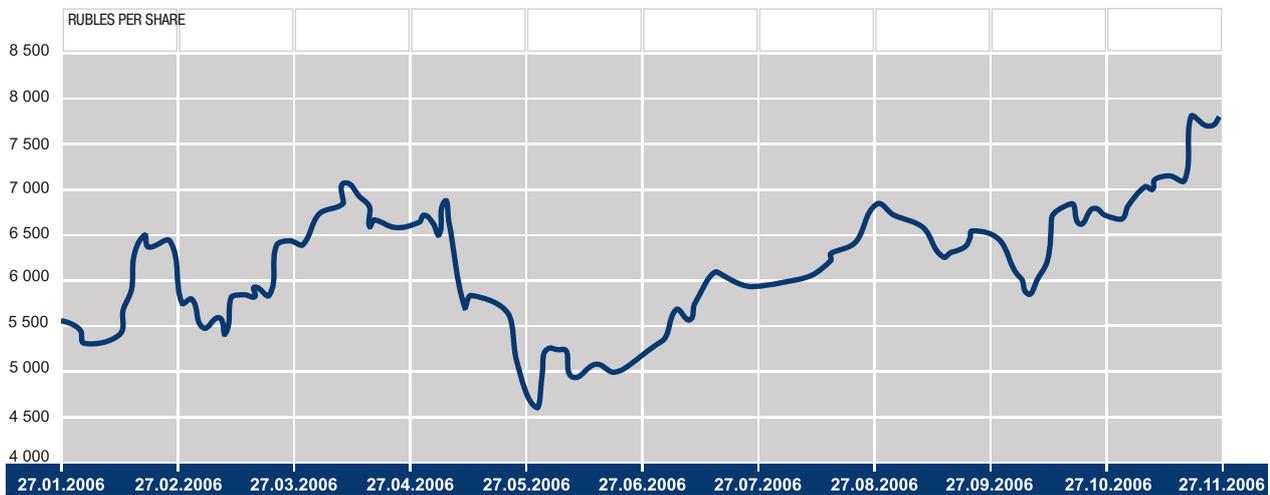
Number of transactions - 2 388

TRADING VOLUME

MLN. \$



WEIGHTED-AVERAGE PRICE PER SHARE OF VSMPO-AVISMA AT RTS, 2006



Source: RTS Trading Results, www.scrin.ru

VSMPO-AVISMA shares (VSMO) are included in the index RTS-2 of the stock exchange. There were significant fluctuations of VSMPO-AVISMA quotations during the year. Increases and decreases primarily resulted from important events affecting the Company and external macroeconomic factors. The lowest quotation was early in June and amounted to 4 631 rubles per share. The weighted average share price at the year end was 7 743 rubles per share according to RTS Stock Exchange.

The Corporation has implemented an efficient dividend policy in order to secure the rights and interest of its shareholders, i.e. it determines the optimum ratio of funds to be paid as dividends and to be invested in production, thus generating shareholders' current income and increasing share market price and liquidity. The share market price grew 153.1% from the beginning of the year.

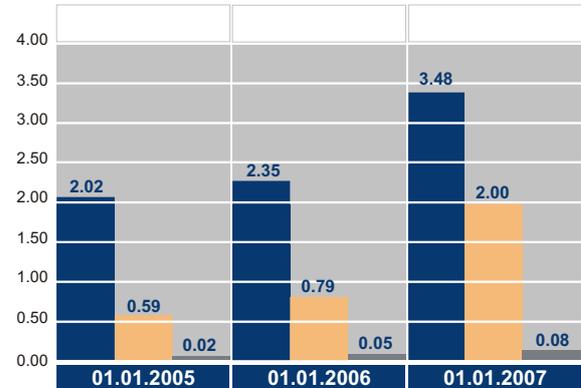
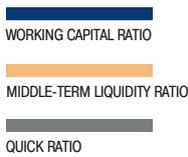
Index RTS-2 is the main indicator of the "second echelon" shares.

Index RTS-2 is calculated based on 69 most liquid common and privileged shares except for the "blue chips". The list of the instruments which is used to calculate index RTS-2 consists of the shares selected by the RTS Information Committee based on capitalization, liquidity and expert evaluation. The list is revised quarterly. The index is calculated on-line with each change in a share price.

6.2 FINANCIAL RATIOS AND INDICATORS

The Corporation is characterized by stability and growth of all its financial figures.

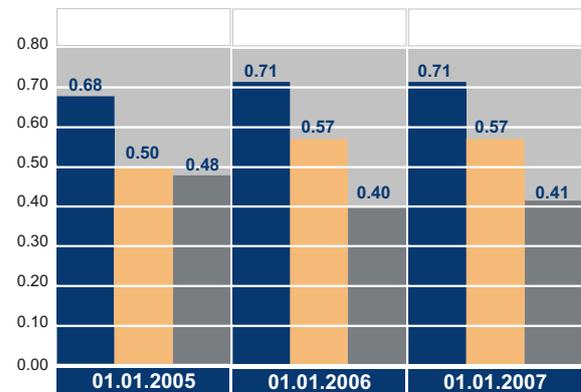
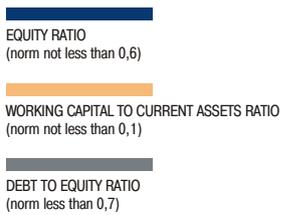
LIQUIDITY



Purchasers and holders of the shares evaluate the Company's financial stability based on the working capital ratio. It shows total liquidity of the assets, how many rubles of current assets are per 1 ruble of current liabilities, and what part of the credit obligations and payments can be settled if all current assets are converted to cash. This is the main indicator of the Company's solvency.

During the period under review this indicator showed an increasing trend and grew 48.1% in 2006. At the end of the period the working capital ratio was 3.48 while the standard was 2. If the Company had 2 rubles 5 kopecks of property value per 1 ruble of credits taken, then the amount reached up to 3 rubles 48 kopecks.

FINANCIAL STABILITY



The analysis of financial stability shows that the Company has a strength reserve resulting from a sufficient level of equity. The Company's working capital allows it to effectively conduct its business and settle its liabilities on a timely basis.

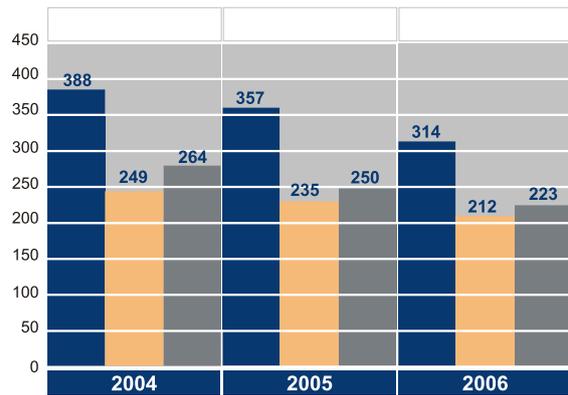
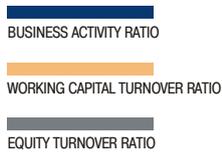
PROFITABILITY RATIOS



Profitability is characterized by the Company in terms of return on capital employed. Return on capital is the amount of net profit per ruble of capital contributed to the Company. Return on equity is the amount of net profit per ruble of the Company's equity, i.e. it characterizes the Company's efficiency from the perspective of its owners.

The Company's profitability ratios are increasingly improving. 2006 results showed high returns on capital.

BUSINESS ACTIVITY RATIOS



The analysis of turnover allows one to evaluate the efficiency of asset management and its impact on the Company's financial position.

Business activity ratios characterize the rate of turnover of total assets, i.e. the efficient use of all available resources regardless of their sources. They show how many times the production and turnover cycle which generates the profit is completed and to what extent it depends on process factors. At the end of the period under review the turnover of all assets was 1.16 which corresponded to a period of turnover of all assets of 314 days. The turnover cycle decreased 43 days during the period under review.

The working capital turnover ratio characterizes the turnover rate of the Company's material and financial resources for the period under review and how much revenue is taken from each type of asset. For current assets the turnover period was 212 days which was 23 days shorter than that of 2005.

The equity turnover rate shows the rate of turnover of invested equity capital or activity of investment which the shareholders risk. The period of equity turnover was 223 days in 2006, which was 27 days shorter than that of 2005.

NET ASSET VALUE



The Company's net assets are increasingly growing which shows the growth of stability. In 2006 the value of the Company's net assets increased 37.1%. Net assets exceeded the shareholders' equity and additional capital by three times.

6.3 MAJOR SHAREHOLDERS (ABOVE 5% OF SHAREHOLDERS EQUITY)

As at the date of record of the persons entitled to participate in the general shareholders meeting of VSMPO-AVISMA Corporation - September 9, 2006, the following shareholders hold not less than 5% of the shareholders equity or not less than 5% of common shares:

Full and short company name: COLDSTEAM LIMITED

Share of capital of VSMPO-AVISMA Corporation: 9,9541%
Common shares: 9,9541%

Full and short company name: DEPLEX LIMITED

Share of capital of VSMPO-AVISMA Corporation: 18,9420%
Common shares: 18,9420%

Full and short company name: FINEBOND LIMITED

Share of capital of VSMPO-AVISMA Corporation: 18,9420%
Common shares: 18,9420%

Full and short company name: MULTIBROOK LTD

Share of capital of VSMPO-AVISMA Corporation: 9,9541%
Common shares: 9,9541%

Full and short company name: RENAISSANCE SECURITIES (CYPRUS) LIMITED

Share of capital of VSMPO-AVISMA Corporation: 12,1299%
Common shares: 12,1299%

6.4 BOARD OF DIRECTORS, changes in the board of directors, GENERAL DIRECTOR

Board of Directors elected by the extraordinary shareholders meeting on November 07, 2006:



CHEMEZOV, SERGEY VIKTOROVICH, b. 1952

Education: higher, Doctor of Economics.

Places of employment and positions for the last 5 years:

Director General, FGUP Rosoboronexport, Moscow.

Positions held in control authorities of other legal entities for the last five years:

Member of Board of Directors, JSC KAMAZ;
Member of Board of Directors, JSC Kazan Optical Mechanical Plant;
Member of Board of Directors, JSC Research and Production Corporation "Irkut";
Chairman of Board of Directors, JSC OPK "Oboronprom";
Member of Board of Directors, JSC Group Company PVO "Almaz-Antey";
Member of Board of Directors, JSC Aviation Holding Company "Sukhoi";
Member of Board of Directors, JSC AVTOVAZ.

Share in the registered capital of VSMPO-AVISMA Corporation: none.

Shares in subsidiary/related companies of VSMPO-AVISMA Corporation: none.



ALESHIN, ALEXEY VLADISLAVOVICH, b. 1959

Education: higher, candidate of legal sciences.

Places of employment and positions for the last 5 years:

Deputy Director General, FGUP Rosoboronexport, Moscow.

Positions held in control authorities of other legal entities for the last five years:

2000 till present time: member of the Board of Directors of JSC AKB "MIB";
2002-2003: member of the Board of Directors of JSC Interstate Aircraft Building Company "Illushin";
2002-2003: member of the Board of Directors of JSC Moscow Helicopter Plant named after M.L. Mil;
2002-2003: member of the Board of Directors of JSC Baltic Ship Building Plant "Yantar";
2003 till present time: member of the Board of Directors of JSC OPK "Oboronprom";
2005 till present time: member of the Supervisory Board of Joint Pension Fund.

Share in the registered capital of VSMPO-AVISMA Corporation: none.

Shares in subsidiary/related companies of VSMPO-AVISMA Corporation: none.

**SHELKOV, MIKHAIL EVGENIEVICH**, b. 1968**Education:** higher.**Places of employment and positions for the last 5 years:**

Director General, JSC OboronImpex, Moscow.

Positions held in control authorities of other legal entities for the last five years:

2006 till present time: Chairman of Board of Directors, Sibintek.

Share in the registered capital of VSMPO-AVISMA Corporation: none.**Shares in subsidiary/related companies of VSMPO-AVISMA Corporation:** none.**VOEVODIN, MIKHAIL VIKTOROVICH**, b. 1975**Education:** higher.**Places of employment and positions for the last 5 years:**

03.2002: specialist of Finance Department, JSC OboronImpex, Moscow;

12.2002: manager of Finance Department, JSC OboronImpex, Moscow;

04.2003: manager of Finance and Commercial Project Department, JSC OboronImpex, Moscow;

12.2004: Deputy Director General, JSC OboronImpex, Moscow;

03.2005 till present time: Senior Deputy Director General and CEO, JSC OboronImpex, Moscow.

Positions held in control authorities of other legal entities for the last five years: none.**Share in the registered capital of VSMPO-AVISMA Corporation:** none.**Shares in subsidiary/related companies of VSMPO-AVISMA Corporation:** none.**TETYUKHIN, VLADISLAV VALENTINOVICH**, b. 1932**Education:** higher, Doctor of Engineering.**Places of employment and positions for the last 5 years:**

1992 till present time: Director General of VSMPO-AVISMA Corporation, Verkhnyaya Salda, Sverdlovsk Region.

Positions held in control authorities of other legal entities for the last five years:

1998-2005: Director General of JSC AVISMA, Berezniki, Perm Region, member of Board of Directors of JSC AVISMA;

2000 till present time: Director General of Aviatrans, Berezniki, Perm Region.

Share in the registered capital of VSMPO-AVISMA Corporation: none.**Shares in subsidiary/related companies of VSMPO-AVISMA Corporation:** none.**MELNIKOV, NIKOLAI KONSTANTINOVICH**, b. 1955**Education:** higher.**Places of employment and positions for the last 5 years:**

2001-2004: Production Planning and Control Director, JSC VSMPO;

2004 till present time: Deputy Director General, Production Planning and Control, VSMPO-AVISMA Corporation; member of Board of Directors of VSMPO-AVISMA Corporation.

Positions held in control authorities of other legal entities for the last five years: none.**Share in the registered capital of VSMPO-AVISMA Corporation:** none.**Shares in subsidiary/related companies of VSMPO-AVISMA Corporation:** none.



BESEDIN, VASILY ALEXANDROVICH, b. 1953

Education: higher.

Places of employment and positions for the last 5 years:

1999-2001: Deputy Production Director, Manager of Production Department, JSC AVISMA, Berezniki, Perm Region;

2003-June 2005: Chairman of Board of Directors of JSC AVISMA, Berezniki, Perm Region;

2001-June 2005: Director of Maintenance, Reconstruction and Repair, AVISMA, Berezniki, Perm Region;

July 2005 till present time: Director of Maintenance, Reconstruction and Repair, AVISMA affiliate of VSMPO-AVISMA Corporation, Berezniki, Perm Region.

Positions held in control authorities of other legal entities for the last five years:

2001 till present time: Chairman of the Board of Directors, CJSC AVISMA-Les, Berezniki, Perm Region;

2005-2006: Chairman of the Board of Directors, AVISMA-Machinostroitel LLC, Berezniki, Perm Region;

2005 till present time: Chairman of the Board of Directors, AVISMA-Spetsremont LLC, Berezniki, Perm Region;

2005 till present time: Chairman of the Board of Directors, AVISMA-Story LLC, Berezniki, Perm Region;

2005-2006: Chairman of the Board of Directors, AVISMA-TechnoExpert LLC, Berezniki, Perm Region;

2003-2005: Member of the Board of Directors, JSC PermAES, Perm.

Share in the registered capital of VSMPO-AVISMA Corporation: none.

Shares in subsidiary/related companies of VSMPO-AVISMA Corporation: none.

PREVIOUS BOARD OF DIRECTORS

Prior to election of the Board of Directors referred to above the following persons constituted the Board of Directors of VSMPO-AVISMA Corporation:

Vasily Besedin, b. 1953

Viatcheslav Brecht, b. 1953

Dennis Kelly, b. 1946

Nikolai Melnikov, b. 1955

John Monahan, b. 1945

Pavel Rizanenko, b. 1975

Vladislav Tetyukhin, b. 1932

SOLE EXECUTIVE BODY OF VSMPO-AVISMA CORPORATION - GENERAL DIRECTOR

TETYUKHIN, VLADISLAV VALENTINOVICH, b. 1932

Share in the registered capital of VSMPO-AVISMA Corporation: none.

Shares in subsidiary/related companies of VSMPO-AVISMA Corporation: none.

COMPENSATION PAID TO BOARD MEMBERS

The annual general shareholders meeting passed a resolution on June 28, 2006 to pay compensation to the members of the Board of Directors based on 2005 performance in the total amount of 840 000 rubles.

6.5 SHAREHOLDERS EQUITY

The shareholders equity of VSMPO-AVISMA Corporation as at January 1, 2007 was 11 529 538 rubles. It is divided into 11 529 538 common shares with par value of 1 ruble.

6.6 PAYMENT OF DECLARED (ACCRUED) DIVIDENDS

Below is the information on the dividends of VSMPO-AVISMA Corporation declared and paid for 2005:

DESCRIPTION	
Total declared dividends	436 738 899.44 rubles
Declared dividend per common share	37.88 rubles
Date of annual general shareholders meeting	June 28, 2006
Resolution of the annual general shareholders meeting to pay dividends on shares	Meeting Minutes as of June 29, 2006
Period of payment of declared dividends	Not later than 60 days from the resolution date
Form of payment of declared dividends	Cash
Reporting period for which dividends were paid	2005
Total dividends paid	431 935 431 rubles
Total dividends unpaid	4 803 468* rubles

*Incorrect, incomplete or outdated information on the shareholders' bank details showed in the questionnaires of the registered shareholders; failure to appear of the shareholders that chose to receive dividends in cash through the pay-office of VSMPO-AVISMA Corporation.

6.7 PROFIT DISTRIBUTION

DISTRIBUTION OF PROFIT FOR 2006 VSMPO-AVISMA CORPORATION ('000 RUBLES)	
Net profit for 2006	5 859 925
Distributed to:	
Consumption fund	880 580
Dividends for 2006 (10%)	585 993
Dividend per common share, rubles	50.83
Increase in reserve capital	2 215
Financing of capital investments for 2007	4 388 155
Compensation to the Board of Directors based on 2006 performance results	2 450
Compensation to the Auditing Committee based on 2006 performance results	532

6.8 ASSETS MANAGEMENT AND IMPROVEMENT OF THE CORPORATE STRUCTURE

In 2006 the Company continued to transfer non-core assets out of the Company in order to manage production more efficiently and optimize costs of core production. VSMPO formed 8 subsidiaries:

VSMPO-Spetsodezhda-Lyuks - working clothes;

VSMPO-Avtotrans - motor transport;

VSMPO-Elektro - electric power distribution and operability assurance in power plants and power supply network;

VSMPO-Montazh - construction of buildings and structures of Level II;

AP VSMPO - aluminum mill products;

VSMPO-Mebel - furniture;

VSMPO Instrument and VSMPO KPI - tool making.

Therefore, since 2005 there have been 22 subsidiaries formed and the Corporation is their strategic partner.

6.9 INFORMATION ON MAJOR SUBSIDIARIES

MULTIBRANCH PRODUCTION

NAME	DATE OF STATE REGISTRATION	DESCRIPTION
AVISMA-Les Berezniki, Perm region, Russia	21.04.1995	logging, processing and selling of timber, production of converted timber, production of consumer goods, manufacture of building units and structures, repair of civic, public and production buildings, fabrication of furniture
Spetsodezhda Berezniki, Perm region, Russia	25.04.1995	tailoring of overalls, uniform, hats and other types of clothes; tailoring of working clothes and overalls for special purposes; restoration, dry-cleaning and washing of special and working clothes
Solid Berezniki, Perm region, Russia	06.10.2000	brokerage business, technical and economic service, all kinds of foreign economic activity per the statute-established order, advertising
AVISMA-Spetsremont Berezniki, Perm region, Russia	05.08.2005	fitting and assembling activities; repair of metal structures, hoisting devices, crane tracks, pressure vessels; setting and lining activities, anticorrosive protection of structures and equipment, repair of electric devices and cable systems, maintenance of energy lines, including natural gas lines, process piping, including categorical piping

NAME	DATE OF STATE REGISTRATION	DESCRIPTION
Analitik-A Berezniki, Perm region, Russia	09.08.2005	services of chemical analysis of various materials, emissions and discharges of harmful substances into environment; services of determination of chemical and physical factors of environment; services of repair of chemical analysis equipment
AVISMA-Mashinostroitel Berezniki, Perm region, Russia	10.08.2005	manufacture of ancillary equipment, including boiler equipment; manufacture of various metal structures, parts and units of machine-building applications, repair of pumps and compressors, casting of steel, cast-iron and non-ferrous metals, potential machining of castings, application of anticorrosive protection to hardware
AVISMA-TekhnExpert Berezniki, Perm region, Russia	10.08.2005	making an evaluation of industrial safety of technical facilities used at hazardous production objects; inspection of the equipment and materials by NDT methods; examination of the documentation in terms of risk analysis of hazardous production objects; diagnostics, examination of units and equipment for metallurgical and coke and by-product process facilities including NDT methods; technical diagnostics and expert survey of lifting structures with the used standard life with reporting on capability and conditions of further operations issued; technical examination of boiler inspection objects and lifting structures in cases stipulated by Safety Regulations; contractual development and implementation of project, research and survey works
AVISMA-MetrATek Berezniki, Perm region, Russia	10.08.2005	standardization and metrology business (instrument verification and calibration); services of installation, repair and maintenance of control equipment; engineering design; plumbing and heating installations in buildings and erections; mounting of other engineering systems (fire and intruder alarm systems) and process control devices; services of installation, repair and maintenance of television and radio-transmitters; general construction activities of laying of local communication and power lines, including interrelated auxiliary activities; services of mounting, repair and maintenance of devices and tools for measurement, inspection and other purposes; services of installation of office equipment; maintenance and repair of office machines and computing machinery
VSMPO-LESTA Verkhnyaya Salda, Sverdlovsk region, Russia	03.10.2005	manufacture of wooden building structures and joinery
VSMPO-Energomontazh Verkhnyaya Salda, Sverdlovsk region, Russia	28.12.2005	manufacture of furnaces and furnace burners; fabrication, assembly, repair and maintenance of industrial refrigerating and ventilating equipment, equipment of general application, machines, pumps and compressors. Construction works; assembly of engineering equipment; manufacture of steel tubes and fittings, construction and other metallic products, tanks and other vessels
VSMPO-RMZ Verkhnyaya Salda, Sverdlovsk region, Russia	28.12.2005	fabrication, repair, strengthening of spare parts and assemblies for furnaces, press - forging, metal cutting, sheet-rolling equipment and motor transport. Repair of vacuum devices, metal cutting and other equipment. Repair, fabrication and assembly of average-size metal structures; fabrication of rubber and polyurethane items. Services for machining of commodity goods and semis from titanium, aluminum and steel alloys
VSMPO Spetsodezhda-Lyuks Verkhnyaya Salda, Sverdlovsk region, Russia	03.02.2006	tailoring of overalls, uniform, hats and other types of clothes; tailoring of working clothes and overalls for special purposes; restoration, dry-cleaning and washing of special and working clothes

TRANSPORTATION AND LOGISTICS

NAME	DATE OF STATE REGISTRATION	DESCRIPTION
Avtostoyanka Berezniki, Perm region, Russia	22.01.2004	services of autotransport storage and safe-keeping, vehicle repair, other kinds of activity
AVISMA-TransAvto Berezniki, Perm region, Russia	10.08.2005	transportation business; services of motor vehicle maintenance and repair; land improvement; fencing; green planting (tillage, lawn-making, planting of trees and bushes, flower bed making); road base and carpet making
VSMPO-Avtotrans Verkhnyaya Salda, Sverdlovsk region, Russia	27.02.2006	freight motor transportation

DISTRIBUTION

NAME	DATE OF STATE REGISTRATION	DESCRIPTION
VSMPO-TIRUS, GmbH, Germany	14.04.1999	ensuring timely local shipments to satisfy customers' needs. Additional services, such as cutting of plate, sheet, bar and billet into mults, heat treating, precision grinding and machining to customers' specifications
VSMPO-TIRUS, Ltd UK	06.08.1999	ensuring timely local shipments to satisfy customers' needs. Additional services, such as cutting of plate, sheet, bar and billet into mults, heat treating, precision grinding and machining to customers' specifications
VSMPO-Tirus, U.S., Inc, USA	06.04.2000	ensuring timely local shipments to satisfy customers' needs. Additional services, such as cutting of plate, sheet, bar and billet into mults, heat treating, precision grinding and machining to customers' specifications
Carl Edblom. Titan AB, Sweden	15.08.2000	marketing of seamless tubes from titanium and its alloys in the world market beyond the CIS
Titan Dnepr (related) Ukraine	26.06.2001	wholesale and retail trade, agency activity related to marketing of different goods, consulting services for commercial business and management issues
UNITI LLC, USA (related)	28.04.2003	<p>Joint venture formed by two leading titanium producers, a US-based company Allegheny Technologies Incorporated (ATI) and VSMPO-AVISMA Corporation, for production and marketing of CP titanium products for non-aerospace applications. Uniti services the following markets: power-engineering, desalination units, chemical and oil industries, paper-and-pulp industry, construction, automotive and transportation sectors, consumer goods and electronics. Products made by the joint venture are not used for commercial aircraft, defense or medical applications. The head office of the joint venture is in Pittsburgh, PA.</p> <p>Uniti supplies CP titanium products, such as plate, sheet, coil/strip, welded tube, seamless tube, bar, billet. Products are made under conversion agreements with ATI and VSMPO-AVISMA Corporation according to which the partners provide production capacities both in Russia and the US (involved are production plants of VSMPO-AVISMA Corporation in Verkhnyaya Salda and Berezniki, ATI's facilities in Houston, PA, Washington, PA, Vandergrift, PA, Monroe, NC, Richburg, SC, Albany, OR, Richland, WA.</p>

ENERGY

NAME	DATE OF STATE REGISTRATION	DESCRIPTION
PermAES (related) Perm, Russia	14.04.2003	purchase and sale of electric energy (power) in the federal wholesale and retail markets of electric power; commercial, brokerage business of providing services as commission agent, proxy and agent, as well as fulfilling functions of the purchaser and supplier in electric energy (power) selling operations in the federal and retail markets of electric power, other types of activity that are not prohibited by law
VSMPO-Elektro Verkhnyaya Salda, Sverdlovsk region, Russia	20.03.2006	electric power distribution and operability assurance in power plants and power supply network

CONSTRUCTION

NAME	DATE OF STATE REGISTRATION	DESCRIPTION
AVISMA-Stroy Berezniki, Perm region, Russia	10.08.2005	construction of buildings and erections, preparation of construction area, plumbing and heating installations in buildings and erections, finishing, production of concrete, mineral white and cement items, production of metal structural unit and item, processing of metals and application of coating to metals, treatment of hardware using main engineering processes
VSMPO-Stroitel (UKS)" Verkhnyaya Salda, Sverdlovsk region, Russia	03.10.2005	construction of dwelling, social and cultural objects, industrial construction, reconstruction, re-equipment and overhauls of buildings and premises, trade and purchasing, agency activities
VSMPO-Montazh Verkhnyaya Salda, Sverdlovsk region, Russia	15.03.2006	construction of buildings and structures of Level II; provision of raw materials, materials, equipment, tools, etc

MARKETING AND SALES

NAME	DATE OF STATE REGISTRATION	DESCRIPTION
Trade Company Titan Verkhnyaya Salda, Sverdlovsk region, Russia	02.04.1992	verification of competitiveness of consumer goods manufactured by the issuer in the local market
Tirshop Verkhnyaya Salda, Sverdlovsk region, Russia	30.06.1999	retail and wholesale of consumer goods
Trading House Tirus Verkhnyaya Salda, Sverdlovsk region, Russia	03.12.2003	wholesale distributors' services for a diverse product mix

ADDITIONAL PRODUCTION

NAME	DATE OF STATE REGISTRATION	DESCRIPTION
Shag-1 Zhukovsky, Moscow region, Russia	13.12.1991	state of the art production of orthopedic footwear as well as footwear of any other applications and types, sale of footwear
Ural Verkhnyaya Salda, Sverdlovsk region, Russia	28.06.1992	manufacture of tableware and kitchen utensils as well as small-size parts of consumer goods for main production shops
VSMPO-AVISMA Tube Works (related) Ukraine	13.07.2001	tube manufacture
VSMPO-Posuda Verkhnyaya Salda, Sverdlovsk region, Russia	25.10.2005	manufacture of metal flatware from steel, aluminum, and titanium alloys as well as stainless steel cookware with heat-distributing and retaining bottoms, manufacture of table, kitchen and other household items, finished metal products, finishing of metals and application of coatings to metals, wholesale, retail trade, research and development, related operations with capital assets, advertising, foreign economic activities
AP VSMPO Verkhnyaya Salda, Sverdlovsk region, Russia	17.01.2006	aluminum mill products
VSMPO-Instrument Verkhnyaya Salda, Sverdlovsk region, Russia	13.02.2006	tool making
VSMPO-KPI Verkhnyaya Salda, Sverdlovsk region, Russia	13.02.2006	tool making
VSMPO-Mebel Verkhnyaya Salda, Sverdlovsk region, Russia	03.02.2006	furniture fabrication
NF&M International, Inc. ("NF&M"), USA (related)	31.01.2003	rendering of services related to metal sales and conversion of customers' material. Certificates for rotor grade metal manufacturing received from the leading engine-building companies allow NF&M to produce material for critical applications. Besides conventional round section items, NF&M also produces rectangular billet and stock per specification 01 1-49-6990-547713

SERVICES

NAME	DATE OF STATE REGISTRATION	DESCRIPTION
Medical insurance company Tirus-Medservice Verkhnyaya Salda, Sverdlovsk region, Russia	May 1992	activities in the field of compulsory social security
Stolovaya Sportivnaya Berezniki, Perm region, Russia	14.12.1992	production and sale of cooked and confectionary foods, meat dishes, cold snacks, sale of both in-house and outsourced products and foods
Culture and Sport Center Metallurg Berezniki, Perm region, Russia	07.06.2002	services of sports organization and popularization, arrangement of physical training and sports exercises, cultural services; recreational services
DKIT Metallurg Berezniki, Perm region, Russia	23.06.2003	cultural services, services for organization of performances, recreational services, catering services, other kinds of activity
AVISMA-Catering Facility Berezniki, Perm region, Russia	10.08.2005	rendering of catering services
Meridian Berezniki, Perm region, Russia	07.10.2005	demonstration of films, entertainment, foreign economic, production, economic, advertising, trade and purchasing activities

OTHER

NAME	DATE OF STATE REGISTRATION	DESCRIPTION
Insurance Company Tirus Verkhnyaya Salda, Sverdlovsk region, Russia (related)	14.02.1992	life and property insurance, including liability insurance
Avitrans Berezniki, Perm region, Russia	24.09.1997	property leasing, execution of sales contracts, brokerage business
VSMPO FUNDING CORPORATION, USA (related)	08.04.2003	other business activity

6.10 CODE OF CORPORATE GOVERNANCE (FEDERAL COMMISSION FOR THE SECURITIES MARKET)

GENERAL SHAREHOLDERS MEETING

	PROVISIONS OF THE CORPORATE GOVERNANCE CODE	OBSERVED/NOT OBSERVED	NOTES
1	Notice of the general shareholders meeting must be given not later than 30 days before the meeting, independent of the agenda items, unless otherwise provided by law.	Observed	Item 13.4.1 of the Company's Charter
2	The shareholders should be able to familiarize themselves with the list of persons authorized to participate in a general shareholders meeting from the moment of notice and until a general shareholders meeting held in person is over, or, in the case of a general shareholders meeting held by means of absentee ballots, until the last date for submitting voting ballots.		According to para 4.12 of the Provisions for the general shareholders meeting
3	General shareholders meeting-related information should be communicated to the shareholders by electronic telecommunication means, including on the Internet.	Observed	
4	The shareholders should be able to call general shareholders meetings and propose agenda items without producing any documents as evidence of their rights to shares, when such rights are recorded in the share register. When the rights to shares are recorded in a deposit account, a current statement of the account should be regarded as ample proof of the shareholder's right to the shares.	Observed	
5	The company's charter or internal regulations should contain a requirement for the mandatory presence of the director general, members of executive bodies, board of directors, audit commission and the company's auditor at the general shareholders meeting.	Observed	Para 5.2 Provisions for the general shareholders meeting Para 5.4 of the Provisions for the board of directors Para 3.2 of the Provisions for auditing committee
6	Candidates to the board of directors, director general, executive bodies, audit commission and the company's auditor should be required to attend a general shareholders meeting when the agenda includes formation of the above bodies of the company.	Not observed	
7	The company's internal regulations should describe the procedure for registering participants of a general shareholders meeting.	Observed	Article 8 of the Provisions for the general shareholders meeting

BOARD OF DIRECTORS OF THE COMPANY

	PROVISIONS OF THE CORPORATE GOVERNANCE CODE	OBSERVED/NOT OBSERVED	NOTES
8	The company's charter should grant the board of directors the authority to approve its annual financial and business plan.	Observed	Para 14.1.3 of the Company's Charter
9	Availability of the internal risk management procedure approved by the board of directors.	Not observed	
10	The company's charter should grant the board of directors the right to suspend the authority of director general appointed by the general shareholders meeting.	Election of general director is in the competence of the board of directors	
11	The company's charter should grant the board of directors the authority to set forth the requirements for qualification and compensations to director general, members of the managerial board and heads of major divisions of the company.	Observed	Para 14.1.3 of the Company's Charter
12	The company's charter should grant the board of directors the authority to approve the terms and conditions of employment contracts with director general and members of the managerial board.	Observed	Para 14.1.3 of the Company's Charter
13	The company's charter or internal regulations should contain the requirement that when approving the terms and conditions of employment contracts with the director general and members of the managerial board, the votes of such members of the board of directors occupying the position of the director general and members of the managerial board should not be counted.	Not observed	
14	The board of directors should include at least 3 independent directors, meeting the requirements of the Corporate Governance Code.	Observed	
15	The board of directors should not include persons who have committed economic crimes or crimes against the government, public bodies or bodies of local self-government, or the persons who have records of administrative offenses, primarily in such areas as entrepreneurial operations, finance, taxes and duties, or stock market operations.	Observed	

BOARD OF DIRECTORS OF THE COMPANY

	PROVISIONS OF THE CORPORATE GOVERNANCE CODE	OBSERVED/NOT OBSERVED	NOTES
16	The board of directors should not include persons who are members of the board of directors, the director general, a member of a management body or an employee of a competitor of the company.	Observed	
17	The company's charter should contain a requirement for election of members of the board of directors by cumulative voting.	Observed	Item 14.2.1 of the Company's Charter
18	The company's internal regulations should obligate the members of the board of directors to refrain from actions that may result or may potentially result in a conflict between their own interests and the interests of the company and, if such conflict of interests exists or arises, they must disclose it to the board of directors.	Not observed	
19	The company's internal regulations should obligate the members of the board of directors to notify the board of directors in writing on their intention to enter into transactions, in particular involving securities of the company or its subsidiary (controlled) companies, and disclose information about previous transactions with such securities.	Observed	
20	The company's internal regulations should contain the requirement that meetings of the board of directors should be conducted at least once every six weeks.	Not observed	
21	During the reporting year covered in the company's annual report, meetings of the board of directors should be conducted at least once every six weeks.	Not observed	
22	The company's internal regulations should contain procedures for conducting meetings of the board of directors.	Observed	Article 10 of the Provisions for the board of directors
23	The company's internal regulations should contain the requirement that the company's transactions with a value equal to, or in excess of, 10 percent of the total value of company's assets (except when the company customarily engages in such transactions in the ordinary course of its business) should be approved by the board of directors of the company.	Not observed	
24	The company's internal regulations should grant the members of the board of directors the authority to request from members of executive bodies and officers of the company all information they need to properly discharge their duties; and should provide penalties for failure to do so.	Observed	
25	Establishment of the strategic planning committee of the board of directors, or imposing such duties to another committee (except for the audit committee or the human resources and compensation committee).	Not observed	
26	Establishment of the audit committee of the board of directors, which is to develop recommendations for the board of directors on selection of an independent audit organization and interact with the audit commission of the company and the independent audit organization of the company.	Observed	
27	The audit committee should include only independent and non-executive directors.	Not observed	
28	The audit committee should be headed by an independent director.	Observed	
29	The company's internal regulations should grant the members of the audit committee access to all the documents and information of the company, provided they do not disclose any confidential information.	Observed	Article 14 of the Provisions for the audit committee of the board of directors
30	Establishment of a human resources and compensation committee of the board of directors, which is to define eligibility criteria applicable to candidates for the position of member of the board of directors and develop the company's compensation policy.	Not observed	
31	The head of the human resources and compensation committee should be an independent director.	Not observed	
32	The human resources and compensation committee should consist of those members of the board of directors who do not hold official positions with the company.	Not observed	
33	Establishment of the risk management committee of the board of directors, or imposing such duties on another committee (except for the audit committee or the human resources and compensation committee).	Not observed	
34	Establishment of the corporate conflicts resolution committee of the board of directors, or imposing such duties on another committee (except for the audit committee or the human resources and compensation committee).	Not observed	
35	The corporate conflicts resolution committee should consist of those members of the board of directors who do not hold official positions with the company.	Not observed	

Annual REPORT

36	The corporate conflicts resolution committee should be headed by an independent director.	Not observed	
37	Availability of the company's internal regulations approved by the board of directors and describing the procedure for establishment and operations of the board of directors' committees.	Observed	Article 13 of the Provisions for the board of directors
38	The company's charter should describe the procedure for quorum determination at the meetings of the board of directors and ensure adequate representation of independent directors at the meetings of the board of directors.	Not observed	

EXECUTIVE BODIES OF THE COMPANY

	PROVISIONS OF THE CORPORATE GOVERNANCE CODE	OBSERVED/NOT OBSERVED	NOTES
39	Establishment of the collegial executive body (managerial board) of the company.	Not observed	
40	The company's charter or internal regulations should contain a mandatory requirement that the managerial board should approve any real estate transactions and loans of the company, provided that the company does not customarily engage in such transactions in the ordinary course of its business.	Not observed	
41	The company's internal regulations should describe the procedure for approval of transactions that are beyond the scope of the financial and business plan of the company.	Observed	Para 14.1.3 of the Company's Charter
42	The executive bodies of the company should not include individuals who are members, officers or employees of legal entities competing with the company.	Observed	
43	The executive bodies of the company should not include persons who have committed economic crimes or crimes against the government, public bodies or bodies of local self-government, or persons who have a record of administrative offences, primarily in such areas as entrepreneurial operations, finance, taxes and duties, stock market operation. If the functions of the sole executive body of the company are delegated to a managing organization (manager), then the director general and members of the managerial board of such managing organization (or manager) should meet the eligibility criteria for director general and members of the managerial board of the company.	Observed	
44	The company's charter or internal regulations should prohibit the managing organization (manager) from carrying out similar functions at a rival company or having any connection with the company apart from carrying out the functions of the managing organization (manager).	Not observed	
45	The company's internal regulations should oblige the executive bodies to refrain from actions that will result or may potentially result in a conflict between their interests and the interests of the company and, should any such conflict arise, they should immediately notify the board of directors accordingly.	Not observed	
46	The company's charter or internal regulations should set forth eligibility criteria for the managing organization (manager).	Not observed	
47	The executive bodies of the company should report their performance results to the board of directors on a monthly basis.	Not observed	
48	Agreements between the company and its director general (managing organization, manager) and members of its managerial board should impose a liability for the breach of their obligation to refrain from disclosure of confidential and insider information.	Observed	

CORPORATE SECRETARY OF THE COMPANY

	PROVISIONS OF THE CORPORATE GOVERNANCE CODE	OBSERVED/NOT OBSERVED	NOTES
49	Appointment (election) of a special officer (the secretary of the company) whose sole objective should be to ensure that corporate bodies and officers comply with procedural requirements safeguarding the rights and interests of the company's shareholders.	Not observed	
50	The company's charter or internal regulations should describe the procedure for appointment (election) of the secretary of the company and his/her responsibilities.	Not observed	
51	The company's charter or internal regulations should set forth eligibility criteria for the secretary of the company.	Not observed	

MAJOR CORPORATE ACTIONS

	PROVISIONS OF THE CORPORATE GOVERNANCE CODE	OBSERVED/NOT OBSERVED	NOTES
52	The company's charter or internal regulations should require that major transactions be approved prior to their consummation.	Observed	
53	Major transactions should be executed with the participation of independent assessors.	Not observed	
54	The company's charter should stipulate that at the time of acquisition of significant equity stakes (takeover), the company should refrain from actions that are aimed at protecting the interests of executive bodies (members of such bodies) and members of the board of directors, that may result in weakening the position of shareholders. In any event, pending the expiration of the acquisition period, the board of directors should refrain from issuing additional shares, convertible shares or securities that otherwise entitle their holders to purchase shares of the company, even if such issuance is authorized by the charter of the company.	Not observed	
55	The company's charter should require that the board of directors invite an independent assessor to determine the current market value of the company's shares and how it could be affected by the takeover.	Not observed	
56	The company's charter should not relieve the entity taking over the company of the responsibility to offer to buy out shareholders' common stock (or issuer's shares convertible into common stock).	Observed	
57	The company's charter or internal regulations should require that an independent assessor be used for determination of the conversion value of shares after the reorganization.	Not observed	

DISCLOSURE OF INFORMATION

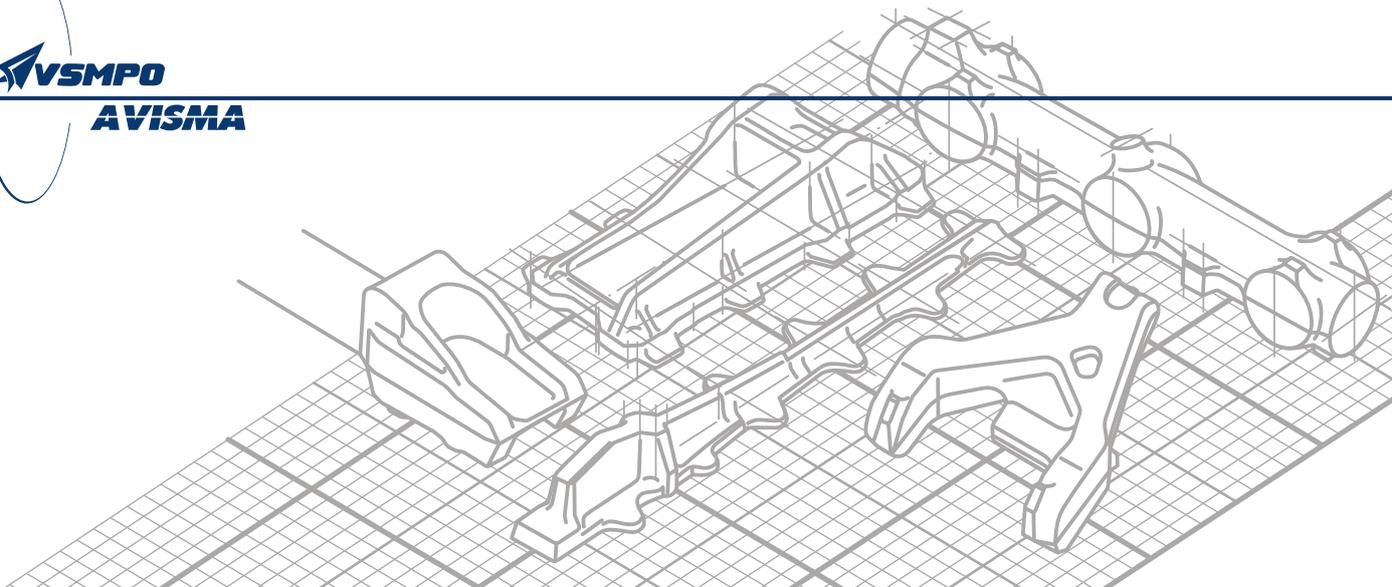
	PROVISIONS OF THE CORPORATE GOVERNANCE CODE	OBSERVED/NOT OBSERVED	NOTES
58	Availability of the internal company document approved by the board of directors setting forth rules of and approaches to disclosure of information by the company (Regulation on Information Policy).	Not observed	
59	The company's internal regulations should require disclosure of information about the reasons for issuance of new shares and the persons purchasing new shares, including those who intend to purchase a large percentage of shares, and whether senior executives of the company will purchase such shares offered for sale.	Not observed	
60	The company's internal regulations should contain a list of information, documents and materials to be furnished to the shareholders to enable them to make decisions regarding issues brought up at a general shareholders meeting.	Observed	Para 13.4.2 of the Company's Charter
61	Availability of the company's website and disclosure of information about the company through the site.	Observed	
62	The company's internal regulations should require it to disclose information about the company's transactions with its officials in accordance with the charter, and about transactions between the company and entities in which the company's senior executives directly or indirectly own 20 percent or more of the shares or which are otherwise subject to the influence of such executives.	Not observed	
63	The company's internal regulations should require it to disclose information on all transactions of the company which may affect the market price of the company's shares.	Not observed	
64	Availability of the internal company document approved by the board of directors setting forth rules of handling the significant information about a company's operations, shares and other securities of the company and transactions therewith, which is not available to the public and disclosure of which may substantially affect the market value of shares and other securities of the company.	Observed	

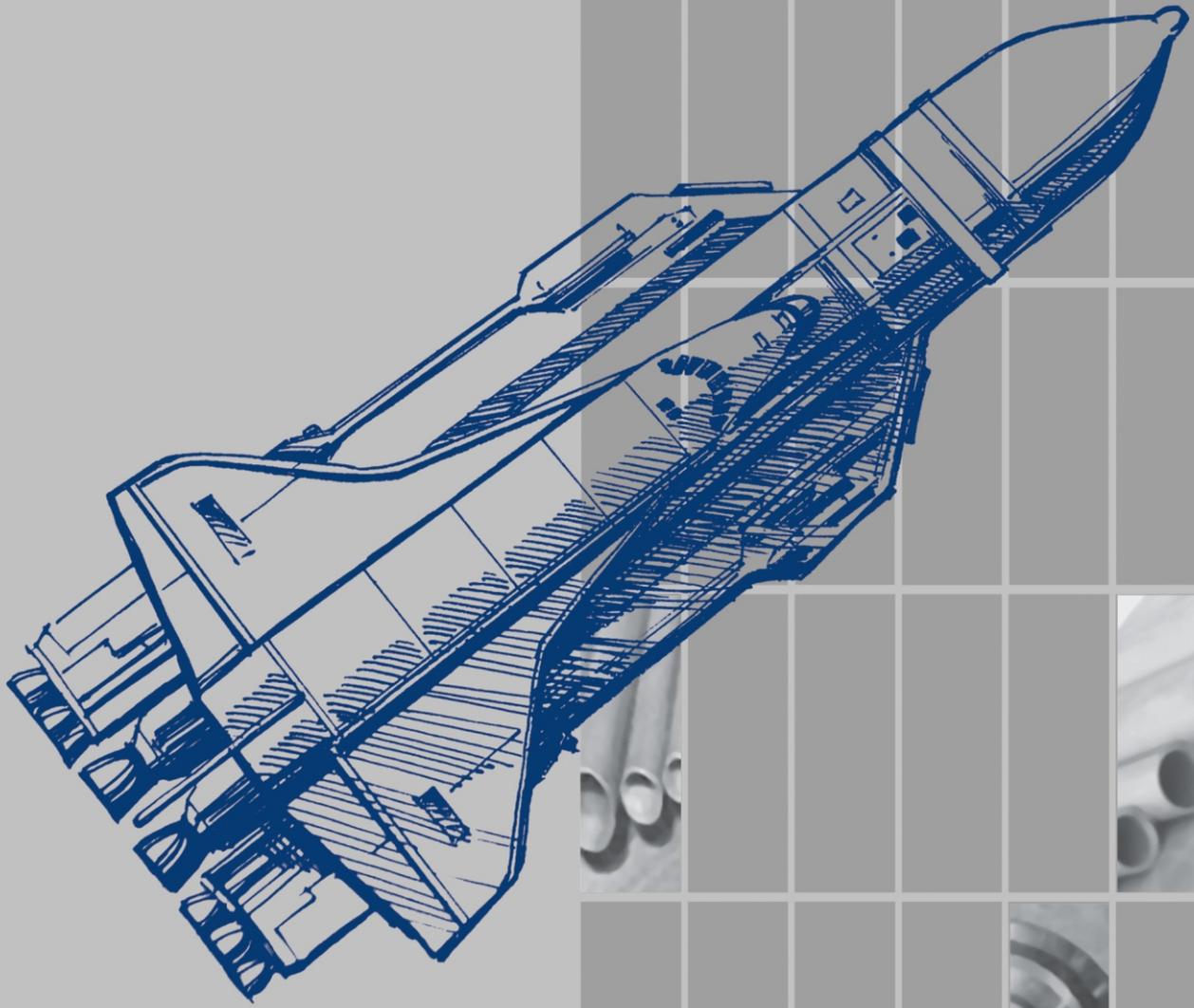
SUPERVISION OF FINANCIAL AND BUSINESS OPERATIONS

	PROVISIONS OF THE CORPORATE GOVERNANCE CODE	OBSERVED/NOT OBSERVED	NOTES
65	Availability of the internal company document approved by the board of directors setting forth the procedures for supervision of the financial and business operations of the company.	Observed	
66	Establishment of a special structural subdivision of the company responsible for ongoing internal supervision (control and audit service).	Observed	
67	The company's internal regulations should require that the structure and composition of the control and audit service of the company are approved by the board of directors.	Not observed	
68	The control and audit service of the company should not include persons who have committed economic crimes or crimes against the government, public bodies or bodies of local self-government, or persons who have a record of administrative offenses, particularly in such areas as entrepreneurial operations, finance, taxes and duties, and stock markets.	Observed	
69	The control and audit service of the company should not include members of the executive bodies of the company or persons being the participants, director general, members of the governing bodies or employees of a legal entity competing with the company.	Observed	
70	The company's internal regulations should stipulate the period of time for presentation to the control and audit service of the documents and materials for assessment of the financial and economic operations of the company, as well as responsibility of officials and employees of the company for failure to present same within such period.	Observed	
71	The company's internal regulations should require the control and audit service to report information on errors and violations discovered during business operations to the audit committee, or, in cases where there is no such committee, to the board of directors of the company.	Observed	
72	The company's charter should require preliminary evaluation of non-standard operations falling outside the scope of the financial and business plan by the control and audit service of the company.	Not observed	
73	The internal documents of the company should set forth a procedure for approval of non-standard operations by the board of directors of the company.	Observed	
74	Availability of the internal company document approved by the board of directors setting forth the procedure of auditing the financial and business activity of the company by the audit commission.	Observed	
75	The audit committee should evaluate the opinion of the independent audit organization (auditor) before it is presented to the shareholders at a general shareholders meeting.	Observed	

DIVIDENDS

	PROVISIONS OF THE CORPORATE GOVERNANCE CODE	OBSERVED/NOT OBSERVED	NOTES
76	Availability of the internal company document approved by the board of directors governing the latter in deciding dividends (Regulations on Dividend Policy).	Observed	
77	The Regulations on Dividend Policy should provide procedures for determining the minimal portion of net profit of the company directed for payment of dividends, and circumstances under which dividends are not paid or paid only partially on preferred stock with respect to which the amount of dividends is provided by the Company's charter.	Observed	
78	The company should publish its dividend policy and all amendments to it in a periodic publication authorized by the company's charter to announce general shareholders meetings, as well as on the company's Website, provided the latter exists.	Observed	





7

FINANCIAL STATEMENTS



7.1 ANNUAL FINANCIAL STATEMENTS

BALANCE SHEET PSC VSMPO-AVISMA Corporation

Form 1 per OKUD - 710001

Date (year, month, date) - as at December 31, 2006

Company PSC "VSMPO-AVISMA Corporation" per OKPO - 07510017

Taxpayer Identification Number - INN - 6607000556

Type of Activity - Metallurgy - per OKVED - 27.45

Legal Form / Form of Ownership - joint-stock company - per OKOPF/ OKFS - 47/34

Unit: 000'RR /mln RR (Cross out as appropriate) - per OKEI - 384

Location (Address) - Verkhnyaya Salda, Sverdlovsk Region

ASSETS	LINE	AT BEGINNING OF PERIOD	AT END OF PERIOD
I. NON-CURRENT ASSETS			
Intangible assets	110	1 038	1 974
Property, plant and equipment	120	4 543 705	5 877 234
Construction in progress	130	1 743 163	2 137 284
Profitable investments in tangible assets	135	0	15 093
Long-term financial investments	140	620 428	890 444
Deferred tax assets	145	3 467	8 888
Other non-current assets	150	0	9 580
TOTAL non-current assets	190	6 911 801	8 940 497
II. CURRENT ASSETS			
Inventories	210	8 074 779	7 466 526
including: raw materials, materials and other similar assets	211	2 387 694	3 497 842
live stock	212	0	0
WIP costs	213	1 737 661	1 967 610
finished goods and goods for resale	214	1 643 308	1 841 835
goods shipped	215	2 205 182	3 324
deferred expenses	216	100 934	155 915
other inventories and costs	217	0	0
VAT on acquired assets	220	884 735	751 216
accounts receivable (amounts falling due over 12 months from the reporting date)	230	0	0
including: trade accounts receivable	231	0	0
Accounts receivable (amounts falling due within 12 months from the reporting date)	240	4 279 421	10 717 300
including: trade accounts receivable	241	1 886 609	6 289 245
Short-term financial investments	250	87 117	490
Cash	260	208 771	439 862
Other current assets	270	0	0
TOTAL CURRENT ASSETS	290	13 534 823	19 375 394
BALANCE	300	20 446 624	28 315 891

The Company's financial statements were prepared in accordance with the accounting regulations of the Russian Federation, in particular in accordance with the Federal Law On Accounting; Statement approved by Order No. 34n dated 29.07.98 of the Ministry of Finance of the Russian Federation Bookkeeping and Financial Statements; Order No. 67n dated 22.07.03 On Forms of Financial Statements issued by the Ministry of Finance of the Russian Federation; and rules of bookkeeping.

LIABILITIES	LINE	AT BEGINNING OF PERIOD	AT END OF PERIOD
III. CAPITAL AND RESERVES			
Shareholders' Equity	410	11 530	11 530
Treasury stock	411	0	0
Additional capital	420	6 373 457	6 373 457
Reserve capital	430	668	668
including: legal reserves	431	668	668
statutory reserves	432	0	0
Retained earnings (uncovered loss)	470	8 223 661	13 646 846
TOTAL CAPITAL AND RESERVES	490	14 609 316	20 032 501
IV. NON-CURRENT LIABILITIES			
Borrowings and loans	510	0	2 615 264
Deferred tax liabilities	515	77 065	95 538
Other non-current liabilities	520	967	253
TOTAL NON-CURRENT LIABILITIES	590	78 032	2 711 055
V. CURRENT LIABILITIES			
Borrowings and loans	610	3 369 438	2 543 728
Accounts payable	620	2 242 998	2 805 132
including: trade accounts payable	621	494 638	544 357
payables to employees	622	37 033	47 224
payables to state extra-budgetary funds	623	29 210	44 269
taxes payable	624	401 836	333 940
other creditors	625	1 280 281	1 835 342
Dividends payable	630	2 664	7 100
Deferred income	640	5 157	5 143
Reserves for future expenses	650	139 019	211 232
Other current liabilities	660	0	0
TOTAL CURRENT LIABILITIES	690	5 759 276	5 572 335
BALANCE	700	20 446 624	28 315 891

OFF-BALANCE SHEET ITEMS

ITEM	LINE	AT BEGINNING OF PERIOD	AT END OF PERIOD
Property, plant and equipment rented	910	352 343	385 067
including leased	911	297 442	305 884
Material assets in safe keeping	920	29 983	31 066
Goods accepted for commission	930	248	0
Bad debts writen off	940	141 215	119 222
Collaterals received	950	0	0
Collaterals given	960	2 251 469	1 496 221
Depreciation of residential real estate	970	10 892	11 058
Depreciation of infrastructure, landscape and road constructions	980	0	0
Intangible assets received for use	990	0	0
Goods accepted for processing	1000	0	59 091
Other	1000	302 866	1 495 204

Form 2 per OKJD - 710002

Date (year, month, date) - as at December 31, 2006

Unit: 000'RR - per OKEI - 384

PROFIT & LOSS ACCOUNT

ITEM	LINE	REPORTING PERIOD	YEAR-AGO PERIOD
INCOME AND EXPENSES ON ORDINARY ACTIVITIES			
Net revenue from sales of goods, products, operations and services (less VAT, excise taxes and similar payments)	10	28 364 389	16 800 410
Cost of goods, products, operations, and services sold	20	-16 212 747	-10 057 562
Gross profit	29	12 151 642	6 742 848
Selling expenses	30	-743 789	-524 040
Administrative expenses	40	-2 210 438	-1 609 688
Sales profit (loss)	50	9 197 415	4 609 120
OTHER INCOME AND EXPENSES			
Interest receivable	60	1 923	363
Interest payable	70	-294 630	-187 196
Earnings from other entities	80	0	374
Other income	90	14 576 804	11 968 083
Other expenses	100	-15 361 950	-12 021 578
PROFIT (LOSS) BEFORE TAX	140	8 119 562	4 369 166
Deferred tax assets	141	5 489	3 398
Deferred tax liabilities	142	-18 473	-56 107
Current profit tax	150	-2 067 332	-1 142 320
Profit tax of prior years	151	-179 321	0
Net Profit (Loss) of the Reporting Year	190	5 859 925	3 174 137
FOR REFERENCE			
Fixed tax liabilities (assets)	200	310 942	146 429
Basic profit (loss) per share		0	0
Diluted profit (loss) per share		0	0

BREAKDOWN OF SEPARATE P & L ITEMS

ITEM	LINE	CURRENT YEAR		PREVIOUS YEAR	
		PROFIT	LOSS	PROFIT	LOSS
Penalties and fines recognised or enforced by court (arbitration court)	210	1 038	2 762	945	2 710
Profit (loss) of prior years	220	365 295	105 164	281 937	153 598
Compensation for losses incurred due to default or improper fulfillment of obligations	230	5 398	434 881	2 230	206
Foreign exchange gain / loss	240	450 596	484 551	138 349	213 079
Valuation allowance	250	-	0	-	0
Write-off of accounts receivable and payable with the expired limitation period	260	25 294	10 830	6 973	1 382

STATEMENT ON CAPITAL CHANGE

I. CAPITAL CHANGE	LINE	AUTHORIZED CAPITAL	ADDITIONAL CAPITAL	RESERVE CAPITAL	RETAINED EARNINGS (uncovered loss)	TOTAL
Balance as of December 31 of the year preceding the previous one	10	10 626	1 359 991	624	7 007 255	8 378 496
2005 (previous year) Changes in accounting policy	11	x	x	x	0	0
Revaluation of fixed assets	12	x	0	x	0	0
Balance as of January 1 of the previous year	20	10 626	1 359 991	624	7 007 255	8 378 496
Revaluation of foreign exchange	23	x	0	x	x	0
Net profit	25	x	x	x	3 174 137	3 174 137
Dividends	26	x	x	x	-308 114	-308 114
Reserve allocation	30	x	x	0	0	0
Capital increase due to:						
additional issue of shares	41	0	x	x	x	0
increase in par value of shares	42	0	x	x	x	0
legal entity reorganization	43	905	5 013 466	44	0	5 014 415
Capital decrease due to:						
decrease in par value of shares	51	0	x	x	x	0
decrease in number of shares	52	-1	x	x	x	-1
legal entity reorganization	53	0	0	x	-1 649 617	-1 649 617
Balance as of December 31 of the previous year	60	11 530	6 373 457	668	8 223 661	14 609 316
2006 (reporting year) Changes in accounting policy	61	x	x	x	0	0
Revaluation of fixed assets	62	x		x	0	0
Balance as of January 1 of the reporting year	100	11 530	6 373 457	668	8 223 661	14 609 316
Revaluation of foreign exchange	103	x	0	x	x	0
Net profit	105	x	x	x	5 859 925	5 859 925
Dividends	106	x	x	x	-436 740	-436 740
Reserve allocation	110	x	x	0	0	0
Capital increase due to:						
additional issue of shares	121	0	x	x	x	0
increase in par value of shares	122	0	x	x	x	0
legal entity reorganization	123	0	0	0	x	0
Capital decrease due to:						
decrease in par value of shares	131	0	x	x	x	0
decrease in number of shares	132	0	x	x	x	0
legal entity reorganization	133	0	0	x	0	0
Balance as of December 31 of the reporting year	140	11 530	6 373 457	668	13 646 846	20 032 501

II. RESERVES		LINE	BALANCE	RECEIVED	USED	BALANCE
Legal reserves:						
reserve fund	reserve description					
for the previous year			624	44	0	668
for the reporting year			668	0	0	668
	reserve description					
for the previous year			0	0	0	0
for the reporting year			0	0	0	0
Statutory reserves:						
	reserve description					
for the previous year			0	0	0	0
for the reporting year			0	0	0	0
	reserve description					
for the previous year			0	0	0	0
for the reporting year			0	0	0	0
Valuation reserves:						
bad debt allowance						
for the previous year			0	0	0	0
for the reporting year			0	0	0	0
Collateral for Central bank deposit						
for the previous year			0	0	0	0
for the reporting year			0	0	0	0
	reserve description					
for the previous year			0	0	0	0
for the reporting year			0	0	0	0
Future expenses reserve:						
future vacation pay	reserve description					
for the previous year			0	373 324	-373 324	0
for the reporting year			0	468 262	-468 262	0
reserve for fixed assets repair	reserve description					
for the previous year			50 000	970 972	-881 953	139 019
for the reporting year			139 019	1 218 222	-1 146 009	211 232

FOR REFERENCE	LINE	REPORTING YEAR OPENING BALANCE		REPORTING YEAR CLOSING BALANCE	
		BUDGET		OFF-BUDGET FUNDS	
		REPORTING YEAR	PREVIOUS YEAR	REPORTING YEAR	PREVIOUS YEAR
Net assets	200	14 614 473		20 037 644	
Received for: expenses for ordinary activities – total,	210	0	0	0	0
R&D financing		0	0	0	0
other purposes		0	0	0	0
Capital investments in non-current assets	220	0	0	0	0
including:		0	0	0	0

CASH FLOW STATEMENT

ITEM	LINE	REPORTING PERIOD	YEAR-AGO PERIOD
Cash Balance - Beginning of Period	10	235 137	74 787
Cash Flow from Operating Activities			
Cash from buyers and customers	20	24 968 010	17 444 509
Cash from foreign currency transactions	30	11 732 669	9 977 244
Other income	50	1 425 708	991 874
Cash for :			
payments to acquire goods, operations, services, raw materials and other current assets	150	-7 709 814	-6 424 292
advances given to suppliers and contractors	155	-8 855 961	-8 260 389
currency purchase	156	-73 689	-57 327
currency sale	157	-14 173 694	-9 990 523
payment for labor	160	-2 226 415	-1 994 828
imprests	165	-102 267	-92 238
payments of dividends and interest	170	-716 256	-295 981
taxes payable	180	-2 208 840	-1 420 201
payables to extra-budgetary funds	185	-1 063 201	-471 646
other expenses	190	-617 562	-437 874
Net Cash Provided by Operating Activities	200	378 688	-1 031 672
Cash Flow from Investing Activities			
Revenue from sale of property and equipment and other non-current assets	210	3 204	589
Revenue from sale of securities and other financial investments	220	0	846 548
Dividends received	230	0	2 029
Interest received	240	1 926	307
Earnings from payment of loans given to other entities	250	3 775	160
Acquisition of subsidiaries	280	-20 472	-68 481
Acquisitions of property and equipment, profitable investments in tangible assets, intangible assets	290	-2 020 409	-1 007 231
Acquisitions of securities and other financial investments	300	-98 050	-49 659
Loans given to other entities	310	-3 600	-300
Net Cash Provided by Investing Activities	340	-2 133 626	-276 038
Cash Flow from Financing Activities			
Proceeds from stock issuance or other securities	350	0	0
Coverage of losses	355	0	0
Earnings from loans and borrowings given by other entities	360	9 854 781	7 105 691
Purchase of own shares	365	0	0
Payment of loans and borrowings (interest-free)	390	-7 808 399	-5 612 354
Payment of financial lease	400	-86 229	-25 277
Net Cash Provided by Financing Activities	410	1 960 153	1 468 060
Net Increase (Decrease) in Cash and Cash Equivalents	420	205 215	160 350
Cash Balance – End of Period	430	440 352	235 137
Change in the exchange rate against Russian Rouble	440		

Line 430 (column 4) equals to form 1 (column 3) line 260 (less acc 57 for RR 60000K) plus line 250 (less acc 58 for RR 751K)

Form 5 per OKUD - 710005

Date (year, month, date) - for financial year 2006

Unit: 000'RR - per OKEI - 384

INTANGIBLE ASSETS

ITEM	LINE	AT BEGINNING OF REPORTING PERIOD	RECEIVED	DISPOSED	AT END OF REPORTING PERIOD
Intellectual property (exclusive rights for intellectual property)	10	2 159	1 295	0	3 454
including:					
of the patent holder for an invention, industrial design, utility model	11	2 159	1 275	0	3 434
of possessor of the right for computer programs, data bases	12	0	0	0	0
of possessor of the right for integrated circuit layout	13	0	0	0	0
of owner of the trade mark and service mark, appellation of goods origin	14	0	20	0	20
of holder of the selection patent	15	0	0	0	0
Organizational expenses	20	0	0	0	0
Goodwill	30	0	0	0	0
Other	40	80	0	-80	0
	LINE	AT BEGINNING OF REPORTING PERIOD	AT END OF REPORTING PERIOD		
Depreciation of intangible assets - total	50	1 201	1 480		
including: other	51	0	0		

PROPERTY, PLANT AND EQUIPMENT

ITEM	LINE	AT BEGINNING OF REPORTING PERIOD	RECEIVED	DISPOSED	AT END OF REPORTING PERIOD
Buildings	110	1 512 504	212 706	-92 520	1 632 690
Constructions and transfer devices	111	981 797	55 606	-30 984	1 006 419
Machinery and equipment	112	5 391 335	1 705 209	-300 486	6 796 058
Transport vehicles	113	175 316	50 935	-10 562	215 689
Fixtures	114	299 862	61 959	-59 297	302 524
Workstock	115	0	0	0	0
Productive livestock	116	0	0	0	0
Perennial plants	117	905	0	0	905
Other types of PPE	118	593 232	390 708	-190 531	793 409
Land and natural resources	119	98 661	429	0	99 090
Capital investments for land reclamation	120	0	0	0	0
Total	130	9 053 612	2 477 552	-684 380	10 846 784
	LINE	AT BEGINNING OF REPORTING PERIOD	AT END OF REPORTING PERIOD		
Depreciation of property, plant and equipment-total	140	4 509 907	4 969 550		
including: buildings and constructions	141	1 259 124	1 285 949		
machinery, equipment, transport vehicles	142	2 992 301	3 372 486		
other	143	258 482	311 115		
Property, plant and equipment leased out - total	150	386 495	684 014		
including: buildings	151	147 577	229 291		
constructions	152	4 679	81 106		
machinery, equipment, transport vehicles	153	211 474	355 192		
other	154	22 765	18 425		
Property, plant and equipment mothballed	155	124 998	261 082		
Property, plant and equipment rented-total	160	352 343	385 067		
including: leased	161	297 442	305 884		
Real property accepted for usage and being under state registration	165	95 992	200 298		

FOR REFERENCE	LINE	AT BEGINNING OF REPORTING PERIOD	AT END OF REPORTING PERIOD
PPE revaluation surplus:	170	0	0
historical (replacement) value	171	0	0
depreciation	172	0	0
Change in PPE value resulting from completion, retrofit, rebuild, partial liquidation	180	778 822	907 453

PROFITABLE INVESTMENTS IN TANGIBLE ASSETS

ITEM	LINE	AT BEGINNING OF REPORTING PERIOD	RECEIVED	DISPOSED	AT END OF REPORTING PERIOD
Property for lease	210	0	0	0	0
Property provided under hiring contract	220	0	0	0	0
Other	230	0	16 278	0	16 278
Total	240	0	16 278	0	16 278
	LINE	AT BEGINNING OF REPORTING PERIOD	AT END OF REPORTING PERIOD		
Depreciation of profitable investments in tangible assets	250	0	1 185		

R&D EXPENSES

ACTIVITY	LINE	AT BEGINNING OF PERIOD	RECEIVED	WRITTEN OFF	AT END OF PERIOD
Total including:	310	0	10 949	-1 369	9 580

FOR REFERENCE	LINE	AT BEGINNING OF PERIOD			AT END OF PERIOD
Amount of expenses on unaccomplished R&D activities	320	46 510			53 341
		REPORTING PERIOD			YEAR-AGO PERIOD
Amount of expenses on R&D that did not produce positive results applied to non-sale expenses	330	13 342			0

EXPENSES ON RESOURCE DEVELOPMENT

ITEM	LINE	BALANCE AT BEGINNING OF PERIOD	RECEIVED	WRITTEN OFF	BALANCE AT END OF PERIOD
Expenses on resource development-total including:	410	0	0	0	0

FOR REFERENCE	LINE	AT BEGINNING OF PERIOD			AT END OF PERIOD
Expenses on subsurface portions, unaccomplished search and evaluation of deposits, reconnaissance and (or) hydrogeological investigations and other similar activities	420	0			0
		AT BEGINNING OF PERIOD			AT END OF PERIOD
Expenses on resource development applied during the reporting period to non-operating costs as ineffective	430	0			0

FINANCIAL INVESTMENTS

ITEM	LINE	LONG-TERM		SHORT-TERM	
		AT BEGINNING OF PERIOD	AT END OF PERIOD	AT BEGINNING OF PERIOD	AT END OF PERIOD
Contributions to shareholders' (reserve) capital of other entities-total	510	583 988	785 960	0	0
including subsidiaries and related companies	511	573 630	775 746	0	0
State and municipal securities	515	0	0	0	0
Other entities' securities-total	520	35 840	103 884	306	0
including debt securities (bonds, notes)	521	35 810	103 854	306	0
Loans given	525	0	0	175	0
Deposits	530	0	0	86 636	490
Other	535	600	600	0	0
TOTAL	540	620 428	890 444	87 117	490
Financial investments out of the total amount with the fair market value:					
Contributions to shareholders' (reserve) capital of other entities-total		0	0	0	0
including subsidiaries and related companies		0	0	0	0
State and municipal securities		0	0	0	0
Other entities' securities-total		0	0	0	0
including debt securities (bonds, notes)		0	0	0	0
Other		0	0	0	0
TOTAL		0	0	0	0
FOR REFERENCE					
For financial investments with the fair market value - change in value due to valuation adjustment		0	0	0	0
For debt securities the difference between the historical value and nominal value is applied to the financial result of the reporting period		0	0	0	0

EXPENSES ON ORDINARY ACTIVITIES (BY COST ELEMENT)

ITEM	LINE	REPORTING PERIOD	PRIOR PERIOD
Material expenses	710	9 380 968	8 823 709
Wage expense	720	2 857 705	2 302 819
Social security expenses	730	730 406	587 316
Depreciation	740	529 159	341 052
Other expenses	750	845 142	1 988 607
Total by cost element	760	14 343 380	14 043 503
Change in inventory (increase [+], decrease [-]); WIP	765	227 126	199 075
in deferred expenses	766	54 981	31 742
in reserves for future expenses	767	72 213	-75 436

GOVERNMENT AID

ITEM	LINE	REPORTING PERIOD	PRIOR PERIOD		
Budgetary funds received in the reporting period - total including:	910	0	0		
	LINE	AT BEGINNING OF REPORTING PERIOD	RECEIVED DURING REPORTING PERIOD	RETURNED DURING REPORTING PERIOD	AT END OF REPORTING PERIOD
Budgetary credits - total including:	920	0	0	0	0

ACCOUNTS RECEIVABLE AND PAYABLE

ITEM	LINE	BALANCE AT BEGINNING OF REPORTING PERIOD	BALANCE AT END OF REPORTING PERIOD
ACCOUNTS RECEIVABLE:			
short-term - total	610	4 279 421	10 717 300
including: trade accounts receivable	611	1 886 609	6 289 245
advances given	612	1 068 965	2 370 350
other	613	1 323 847	2 057 705
long-term - total	620	0	0
including: trade accounts receivable	621	0	0
advances given	622	0	0
other	623	0	0
TOTAL	630	4 279 421	10 717 300
ACCOUNTS PAYABLE:			
short-term - total	640	5 612 436	5 348 860
including: trade accounts payable	641	494 638	544 357
advances received	642	630 194	1 319 806
taxes payable	643	401 836	333 940
loans	644	3 369 438	2 543 728
borrowings	645	0	0
other	646	716 330	607 029
long-term - total	650	78 032	2 711 055
including: loans	654	0	2 615 264
borrowings	655	0	0
deferred tax liabilities	656	77 065	95 538
other non-current liabilities	657	967	253
TOTAL	660	5 690 468	8 059 915

COLLATERALS

ITEM	LINE	AT BEGINNING OF PERIOD	AT END OF PERIOD
Received - total	810	0	0
including: notes	811	0	0
Pledged property	820	0	0
out of which: PPE	821	0	0
securities and other financial investments	822	0	0
other	823	0	0
Given - total	830	2 279 469	1 496 221
including: notes	831	28 000	0
Pledged property	840	2 234 844	1 370 746
out of which: PPE	841	1 115 205	1 045 746
securities and other financial investments	842	0	0
other	843	0	0

General Director VSMPO-AVISMA Corporation



V.V. Tetyukhin

Chief Accountant VSMPO-AVISMA Corporation



D.Yu. Sannikov

REPORT OF THE AUDITING COMMITTEE

The Auditing Committee, namely T.E. Ryzhova, A.Yu. Bodrikov, N.M. Zabolotskaya, N.I. Pryanichnikova, O.B. Ouglov, have audited the financial and economic activities of VSMPO-AVISMA Corporation for the period from January 1, 2006 through December 31, 2006 in accordance with the Charter approved by the general shareholders meeting on June 10, 2005 as amended.

The audit of financial and economic activities of VSMPO-AVISMA Corporation revealed no facts that could be interpreted as weaknesses in the existing system of internal control.

As part of the audit of the financial statements for 2006 we checked whether the Company observed the requirements of Federal Law No. 129 - FZ dated 21.11.1996 On Accounting, Tax Code of the Russian Federation (Part I as of 31.07.1998 and Part II as of 05.08.2000 as amended), Statement approved by Order No. 34n dated 29.07.98 of the Ministry of Finance of the Russian Federation Bookkeeping and Financial Statements, Statement No. 4/99 Forms of Financial Statements approved by Order 67n dated 22.07.03 of the Ministry of Finance of the Russian Federation.

In our opinion, the Balance Sheet as at January 1, 2007 with the grand total of 28 315 891 thousand rubles and the annual financial statements are free of material misstatements and were prepared in conformity with the existing law governing preparation of financial statements and disclosure of the information.

VSMPO-AVISMA Corporation achieved the following results in 2006:

- sales revenue - 28 364 389 thousand rubles;
- sales profit - 9 197 415 thousand rubles;
- other expenses exceeded other income by 1 077 853 thousand rubles;
- profit before taxes - 8 119 562 thousand rubles;
- profit tax - 2 246 653 thousand rubles (27.67%);
- profit remaining at the disposal of the Company was 5 859 925 thousand rubles, which was 1.85 higher than net profit for 2005.

Net assets exceeded the capital value several times.

During the period under review the Auditing Committee received no decisions of the general shareholders meeting or Board of Directors or requests from the shareholders having at least 10% of the Company's voting shares to conduct an audit.

On the initiative of the Auditing Committee the following scheduled and unscheduled audits have been carried out:

- performance under the contract with ZAO TekhArtKom (Chelyabinsk) to produce tooling for VSMPO production facilities;
- whether office equipment in use corresponds to that of recorded;
- cash transactions of the finance department;
- use of funds for mobile phone services;
- settlement of payment obligations with outside constructors recorded in the audit report for 2004;
- use of charge materials by the melting production facility and recognition in the accounts;
- use of the Company's residential properties;
- stock-take of sponge titanium at AVISMA.

On an ongoing basis the Auditing Committee controlled the accounts receivable and accounts payable, financial investments, need for borrowings and timely repayment of short-term and long-term borrowings and interest; budget and off-budget payments of taxes and other compulsory payments, inventories, income and expenses of the budget, use of the profit remaining at the Company's disposal for welfare payments and maintenance of social objects in conformity with the budget.

Based on the conducted audits and ongoing control of the key accounts, the Auditing Committee believes that the statements presented by the Company are in conformity with the requirements for materiality and comparability of the results. The amounts given in the statements present in detail and fairly the financial position of the Company.

Chairman of the Auditing Committee **T.E. Ryzhova**

Members of the Auditing Committee: **A.Yu. Bodrikov, N.M. Zabolotskaya, N.I. Pryanichnikova, O.B. Ouglov**

REPORT OF INDEPENDENT AUDITOR

AUDIT REPORT ON FINANCIAL STATEMENTS FOR 2006 OF VSMPO-AVISMA CORPORATION

March 27, 2006 Ref. No. L55 - 07

Addressee: VSMPO-AVISMA Corporation

Auditor:

Name: Closed Joint Stock Company Analitik Express. Legal address: 3/2 Gazetny Per., Moscow, 103918. State registration: certificate of state registration No. 539688 dated 24.12.1993, certificate of entry to the Uniform Public Register of Legal Persons series 77 No. 004301111 dated July 22, 2002, registration No. 1027700047451.

License for conducting audits: No. E 005434, issued by the Ministry of Finance of the Russian Federation in accordance with Order No. 387 dated December 9, 2003 (license term - five years).

Audited company:

Name: Public Stock Company VSMPO-AVISMA Corporation

Legal address: 1 Parkovaya St., Verkhnyaya Salda, Sverdlovsk Reg.

State registration:

Certificate of state registration No. 162 dated February 18, 1993,

Certificate of entry to the Uniform Public Register of Legal Persons series 66 No.002624651 dated July 11, 2002, registration No. 1026600784011.

We have audited the accompanying financial statements of VSMPO-AVISMA Corporation for the period from January 1 through December 31, 2006. The financial statements include:

- balance sheet;
- profit and loss account;
- supplements to the balance sheet and profit and loss account;
- notes to the financial statements.

These financial statements are the responsibility of the executive body of VSMPO-AVISMA Corporation. Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Federal Law No. 119-FZ dated August 7, 2001 On Accounting, Federal Auditing Standards approved by the government regulation No. 696 dated September 23, 2002 as amended, and internal standards. We plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles and methods used and significant estimates made by the management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion. We did not observe the stock-taking as at December 31, 2006 as we were not included in the stock-taking committee or provided with the stock-taking results. In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of VSMPO-AVISMA Corporation as at December 31, 2006 and the results of its operations for the period from January 1 through December 31, 2006, except for adjustments, if any, which would have been made if we had conducted an audit of the inventories.

General Director ZAO Analitik Express **Yu.G. Gritsun**

Auditor's qualification certificate No. K003059, issued on April 14, 2003 by the Ministry of Finance of the Russian Federation with no expiry date.

Leading Auditor ZAO Analitik Express **A.A. Postelnikov**

Auditor's qualification certificate No. K 003226, issued on April 14, 2003 by the Ministry of Finance of the Russian Federation with no expiry date.

- NED ACS** ■ Normative and Engineering Documentation Automated Control System
- EMS** ■ Environmental Management System
- EMS** ■ Environmental Control System
- LA&TMC** ■ Laboratory Analysis and Technical Metrology Center
- ATI** ■ (Allegheny Technologies Incorporated) - American Corporation, one of the largest producers of titanium sponge and products from titanium and special alloys
- EADS** ■ (European Aeronautic Defense and Space Company) - the largest European aerospace corporation
- Embraer** ■ (Empresa Brasileira de Aeronáutica) - Brazilian aircraft building company, one of the leaders in the world market of regional commercial aircrafts
- Boeing** ■ (The Boeing Company) - American company, one of the world largest manufacturers of aircraft, space and military equipment
- IAE** ■ (International Aircraft Engines) - international consortium for manufacture of aircraft engines
- ITA** ■ International Titanium Association
- General Electric Aircraft Engines** ■ American company producing aircraft engines
- JTS** ■ (Japan Titanium Survey) - Titanium Information Service, Japan
- Pratt&Whitney** ■ American company manufacturing aircraft engines
- Rolls Royce** ■ European company manufacturing motorcars and aircraft engines
- RTI** ■ (RTI International Metals) - American company, one of the largest manufacturers of titanium products in the world
- Sidem** ■ French company manufacturing desalination equipment
- SNECMA** ■ French company manufacturing aircraft engines
- Timet** ■ (Titanium Metals Corp) - American titanium company
- USGS** ■ United States Geological Survey
- Sumitomo Titanium Corp.** ■ the largest Japanese manufacturer of titanium sponge
- Toho Titanium Co.Ltd.** ■ one of the leading Japanese producers of titanium sponge

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