

**Report**  
**of the Auditing Committee of PSC VSMPO-AVISMA Corporation**  
**on the reliability of data, contained in the Company's Annual Report,**  
**Accounting Balance Sheet, Profit and Loss Statement for 2007.**

Documentary audit of financial and economic activities of PSC VSMPO-AVISMA Corporation for the period from 01 of January till 31 of December, 2007, was conducted by the members of the Auditing Committee: T.E. Ryzhova, A.A. Golovushkin, N.M. Zabolotskaya, N.I. Pryanichnikova, A.F. Tanaev, O.B. Uglov, L.K. Yakovleva, in accordance with the Charter approved by the general shareholders meeting of PSC VSMPO-AVISMA on February 28, 2007.

According to the audit results we can announce the following information:

In the course of financial and economic activities of PSC VSMPO-AVISMA no facts were revealed that could be interpreted as imperfections in existing system of the Company internal control.

The audit of the Financial Statements for 2007 was carried out in order to check whether the Company satisfied the requirements of Federal Law No. 129-FZ dated 21.11.1996 On Accounting (with amendments and supplements), Tax Code of the Russian Federation No. 146-FZ dated 31.07.1998, No. 117-F dated 05.08.2000 (with amendments), Statement No. 34-N dated 29.07.1998 on Book keeping and Financial Statements in the Russian Federation (with amendments and supplements).

The results of the audit showed that financial and economic operations of PSC VSMPO-AVISMA were carried on in all significant positions in compliance with the legal acts in force of the Russian Federation.

In opinion of the Auditing Committee, the Balance Sheet as at January 1, 2008 with the grand total of 41597026 thousand rubles and the annual financial statements are proved, i.e. prepared in such a way that to provide in all sufficient aspects disclosure of assets and liabilities of PSC VSMPO-AVISMA Corporation and the financial results of the Company for 2007.

In accordance with the results of the Company activities for 2007 we achieved: Sales profit – 9521727 thousand rubles and balance of other incomes and expenses with excess of expenses over income – 510992 thousand rubles, profit before taxes were recorded in the amount of 9010735 thousand rubles.

Profit remaining at the disposal of the Company (net profit) was 6216338 thousand rubles that was 356413 thousand rubles higher than profit for 2006.

Net assets for financial year reported on were increased by 10671243 thousand rubles, they exceeded the authorized capital many times.

In the year under review the Auditing Committee received no orders from the general shareholders meeting and the Board of Directors or requests from the shareholders having more than 10 % of the Company's voting shares in order to conduct an audit (inspection).

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

- documentary audit of the material specifications for electrical installation work during overhaul repair of the etching area in the Shop 35, performed by subcontractor JSC “TPK Tissa”;
- sampling inspections of ensuring the protection of products from titanium and stainless steel in Shops 38 and 39, transferring of give and take titanium and its alloys to JSC “AVISMA-machinostroitel”, transferring of nichrome wire in the Shop 35 and warehouse No. 67 of Shop 49;
- sampling inspections of ensuring safety of material assets in Shops 31, 35, 37, 39, 40 and in warehouses Nos. 63, 64;

- documentary audit of reliability of metal scrap control and accounting during disassembling of pigment dioxide unit in the Shop 32;
- sampling inspection of correctness and reasonableness of works and services performed by subsidiary companies JSC “AVISMA-TechnoEkspert”, JSC “Analitik-A”, JSC “AVISMA-MetrATek” per the agreed prices with AVISMA sister company;
- auditing of keeping of established payment procedure with regards to material assets and services to be purchased using available funds by Shops 44, 59 and 85;
- inspection of usage and writing off material assets, keeping of labor code by the employees of the Shop 60;
- audit of metal record keeping, usage of charge materials in the Shop 31 and their recognition in Accounting Balance Sheet;
- inspection of health facilities, Medical Establishment “Tirus”, within the period from 01.01.2006 till 01.12.2007 for implementations and financing of agreements between VSMPO and Medical Establishment “Tirus”.
  
- Auditing of reliability of data in the reports, balance sheets, profit and loss statements according to the results of work in 2006, for nine (9) months of 2007 and according to the results of work for 2007 of twenty seven (27) subsidiary companies, carried out by the subsidiary companies’ Auditing Committees, the chairmen in which are the chairmen of the Auditing Committee of PSC VSMPO-AVISMA.

On an ongoing basis the Auditing Committee of PSC VSMPO-AVISMA controlled the following in 2007 year:

- status of accounts receivable of Suppliers and Customers;
- financial investments of the Company;
- need for borrowings and timely repayment of short-term and long-term borrowings;
- budget and off-budget payments of taxes and other compulsory payments;
- inventories of central warehouses and storage facilities of subdivisions (shops);
- generation of income and expenses of the budget;
- use of profit remaining at the Company’s disposal for welfare payments and maintenance of social objects in conformity with the budget.

During the fiscal year the audits of disposable funds and financial credit documents in the central cash department of VSMPO and AVISMA, also in the business units of AVISMA and subsidiary companies of VSMPO were carried out. The shortage in the amount of 606,68 rubles and surplus fund in the amount of 695,16 rubles were revealed.

As concerning the audit results of material assets safety in the warehouses and in other subdivisions of the Company individual facts of shortages in the total amount of 222,4 thousand rubles and surplus funds in the total amount of 2002,5 thousand rubles were identified; in accordance with the sampling inspections of real amounts of the accounts receivable and accounts payable the facts of existence of unreal accounts receivable in the total amount of 1534,5 thousand rubles were established. Besides, the facts of unreasonable overcharge of materials and equipment by individual subcontractors in the specifications and (or) certificates by increasing of their quantity and (or) price in the total amount of 1553,9 thousand rubles were revealed.

By these audits (inspections) and performed control of business transactions the deficiencies and violations were identified in the control of flow and accounting of material assets, financial assets, reasonableness of costs connected with acquisition of property and services of commercial and non-commercial value, and in the recording of accounts payable and accounts

receivable in the amount of 7014 thousand rubles. According to the results of the internal audit service the costs in the amount of 21013 thousand rubles were excluded as unreasonable.

Executive management of the Company took measures against elimination of revealed violations and their prevention.

Based on the conducted audits and inspections and ongoing control of the key accounts, the Auditing Committee confirms that the figures which are necessary for faithful and comprehensive representation of financial results of the Company activity and some changes in the financial position of the Company are included into Financial Statements and the Annual Report.

Chairman of the Auditing Committee:

T.E. Ryzhova

Members of the Auditing Committee:

A.A. Golovushkin  
N.M. Zabolotskaya  
N.I. Pryanichnikova  
A.F. Tanaev  
O.B. Uglov  
L.K. Yakovleva