

corporation



AVISMA

ANNUAL REPORT

2007)



VSMPO-AVISMA Corporation

in figures 2007

NET PROFIT **6 216** mln. rubles

GROWTH RATE TO 2006 **106%**

TITANIUM PRODUCTS OUTPUT **27.4** thousand tons

GROWTH RATE TO 2006 **115%**

THE ONLY RUSSIAN INTEGRATED TITANIUM PRODUCER

THE WORLD LEADER

IN TITANIUM PRODUCTION:
INGOTS AND ALL KINDS
OF TITANIUM ALLOY SEMI-PRODUCTS
(24.5% OF THE WORLD TITANIUM OUTPUT)

Ranks № 102 BY SALES VOLUME AND

№ 42 BY MARKET VALUE (CAPITALIZATION)

AMONG 400 LARGEST COMPANIES OF RUSSIA (EXPERT 400, RESULTS OF 2007)

296 CERTIFICATES OF APPROVAL, INCLUDING THOSE AWARDED TO QMS,
PROCESSES AND PRODUCTS

«GOLD QUALITY CERTIFICATE»

- INTERNATIONAL AWARD OF GLOBAL QUALITY PROMOTION (GQP) PROGRAM

«RUSSIAN LEADER IN ENVIRONMENTAL ACTIVITIES - 2007»

THE NUMBER OF THE CORPORATION'S EMPLOYEES **21 096** PEOPLE

LABOR EFFICIENCY **1 453** THOUSAND RUBLES PER PERSON.

GROWTH RATE TO 2006 **106.7%**

corporation



AVISMA

...CENTER, POINT

- basis, globe, starting point, integrity, eternity, power,
stability and renovation, perpetual motion, energy...



1) THE CORPORATION

BRIEF DESCRIPTION

Public Stock Company VSMPO - AVISMA Corporation

(hereinafter the “Corporation”,
the “Company” or “VSMPO - AVISMA”)

IS ONE OF THE LEADING TITANIUM PRODUCERS IN THE WORLD.

VSMPO-AVISMA Corporation is the world's largest producer of titanium products - ingots and all kinds of titanium alloy 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 a 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.

VSMPO-AVISMA Corporation, a single vertically integrated company, is a leader in the global market for high-tech aviation materials.

VSMPO-AVISMA Corporation's headquarters, melting and mill product operations are located at its VSMPO division in Verkhnyaya Salda in the Sverdlovsk region. The Corporation's major activity is manufacturing of titanium products: 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.

AVISMA is a division of VSMPO-AVISMA Corporation (hereinafter “AVISMA”) located in Berezniki in the Perm region.

AVISMA's major activity is chemical and metallurgical production, primarily titanium sponge. The company also has facilities for producing chlorine and magnesium that are further used in the process of separating titanium from titanium-containing raw material. Magnesium, in excess of that needed for titanium sponge production, represents the main by-product of the titanium sponge production, and is used to make commercial magnesium metal, magnesium alloys and magnesium die-castings. Titanium sponge produced by AVISMA is used at VSMPO in the production of titanium metal. Chemical products generated as other by-products of the titanium sponge production are used for various applications in the metallurgical and agricultural industries, neutralization of acid waste water, and catalytic reactions.

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, Rolls Royce, SAFRAN, Pratt&Whitney and others.

COMPANY INFORMATION

- **Full company name**
Открытое акционерное общество «Корпорация ВСМПО-АВИСМА»
Public stock company "VSMPO-AVISMA Corporation"
- **Short company name**
ОАО «Корпорация ВСМПО-АВИСМА»
«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: vsmo@vsmo.ru**
- **www.vsmo.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 г.**
License Term: no expiry date
Issuing authority: Russian Federal Commission for the Securities Market
- **Full company name of the Company's branch:**
AVISMA Division of Public Stock Company VSMPO AVISMA Corporation
- **Short 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**
- **www.avisma.ru**

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THE HISTORY OF THE TITANIUM INDUSTRY

Titanium became an industrial product in the U.S.
at the end of 1940's - beginning of 1950's.

The titanium production process is based on the Kroll method (magnesium reduction of titanium tetrachloride). Titanium metallurgy is quite complicated. Due to its unique features - high specific strength, heat and corrosion resistance, non-magnetic, relatively low density (1.7 times lower than that of steel), high melting temperature (~1700°C), ability to process using equipment readily available in other metals industries, and accessibility of titanium-containing ores - titanium metal is an attractive structural material. There are numerous applications in aerospace, marine construction, chemical and energy process equipment, medicine etc. The competition to achieve substantial advantages in military aviation and rocket and missile engineering drove the development of titanium production.

In the Soviet Union, the first serious research in this field started at the beginning of the 1950s in Giredmet (the State Institute of Rare Metals) and at the Institute of Metallurgy named after A.N.Boykov, in VIAM and Prometey. Pilot production units for titanium sponge and ingots were located in the Moscow region and in the Ukraine.

Commercial production of titanium sponge followed in Zaporozhie (Zaporozhie Titanium-Magnesium Plant, Ukraine, capacity 15 Kt/year), in Berezniki (Berezniki Titanium-Magnesium Works, Perm Region, capacity 38-40 Kt/year), and in Ust-Kamenogorsk (Ust-Kamenogorsk Titanium-Magnesium Works, Kazakhstan, capacity 38-40 Kt/year).

In February 1957, in Verkhnyaya Salda, the first titanium ingot weighing 4 kg was cast, the start of commercial titanium metal production in Russia.

The decision was made to launch large-scale production of titanium metal products - ingots, plates, sheets, billets, tubing, bars and forgings - in Verkhnyaya Salda, Sverdlovsk Region. Conversion of the existing plants and construction of new plants for titanium processing - melt shops, forging and mill product shops, and other auxiliary facilities were started at the premises of Verkhnyaya Salda Metal Processing Plant in the domain of the USSR Ministry of Aircraft Industry.

MILESTONES OF THE CORPORATION'S HISTORY

- 1933** - Plant № 95 started-up and was the major supplier of aluminum and aluminum alloy semi-products for the developing Soviet aircraft industry.
- 1941** - Relocation of Plant № 95 to Verkhnyaya Salda, Sverdlovsk region and construction of the existing production facilities.
- 1943** - The first magnesium metal was produced at the Berezniki Magnesium Plant, Perm region.
- 1957** - The First titanium ingot was melted at VSMPO.
- 1960** - The first titanium sponge was produced at AVISMA.
- 1960 - 1990** - Large scale development of titanium production at VSMPO and AVISMA.
- 1992** - Implementation of the strategic plan for the integration into the world economy started.
- 1998** - VSMPO and AVISMA became the core of a group of companies linked by a single production chain from raw material production through to the end product.
- 2003** - The international network of Tirus distribution companies was established.
- 2005** - A controlling interest in ZAO SETAB (tubing plant in Nikopol, Ukraine) was obtained by purchasing their shares.
- 2005** - After the merger, VSMPO and AVISMA became VSMPO-AVISMA Corporation.
- 2007** - The Joint Venture "Ural Boeing Manufacturing" for machining titanium forgings was established by the Corporation and by Boeing.

THE FOUNDATION OF OUR COMPETITIVENESS

The Corporation's strength is based on the following competitive advantages:

- THE CORPORATION IS A VERTICALLY INTEGRATED PRODUCER OF TITANIUM PRODUCTS FROM RAW MATERIALS TO FINISHED PRODUCTS.

- WE MARKET OUR PRODUCTS THROUGH OUR TIRUS DISTRIBUTION OFFICES IN THE US AND EUROPE.

- TODAY, THE CORPORATION IS THE SUPPLIER OF THE WIDE RANGE OF TITANIUM PRODUCTS, INCLUDING THE WORLD'S LARGEST TITANIUM FORGINGS.

- THE CORPORATION HAS LONG-TERM AGREEMENTS WITH ITS LARGEST CUSTOMERS WHO ARE THE LEADERS IN THEIR FIELDS.

- WE REGULARLY INVEST IN THE DEVELOPMENT AND EXPANSION OF OUR PRODUCTION CAPACITIES WITH THE FOCUS BEING PRODUCTION OF HIGHER VALUE-ADDED PRODUCTS.

- THE CORPORATION OWNS PATENTS AND KNOW-HOW, AND CONDUCTS EXTENSIVE RESEARCH TO OFFER MORE EFFICIENT ALLOYS AND PROCESSES TO OUR CUSTOMERS.

OUR MISSION

THE MAXIMUM SATISFACTION OF THE DEMANDS
OF OUR DOMESTIC AND INTERNATIONAL CUSTOMERS

FOR HIGH-QUALITY AND PRICE-COMPETITIVE PRODUCTS,

MADE FROM TITANIUM AND ALUMINUM ALLOYS

AND OTHER MATERIALS, FOR APPLICATION IN

**AEROSPACE,
SHIPBUILDING,** SUBSEA PIPELINES,

POWER ENGINEERING, TRANSPORTATION,

MINERALS EXTRACTION, CHEMICAL ENGINEERING,

AIR AND WATER TREATMENT,

MEDICINE, SPORTS AND LEISURE GOODS.

COMPANY VISION

WE WANT TO POSITION OURSELVES AS

**A PROFESSIONAL,
INNOVATIVE
AND HIGH-TECHNOLOGY
COMPANY**

ORIENTED TO COMPLETE CUSTOMER SATISFACTION,

RANKING AMONG **THE THREE LEADING COMPANIES** in our industry in the WORLD,

AND HAVING AT LEAST A 33% SHARE OF THE

GLOBAL TITANIUM ITEMS MARKET.

VSMPO-AVISMA CORPORATION

ON THE WORLD'S MAP

- 1 PSC VSMPO-AVISMA Corporation
- titanium products manufacturing
- 2 AVISMA division of VSMPO-AVISMA Corporation
- titanium sponge production
- 3 JV Ural Boeing Manufacturing
- machining of titanium forgings
- 4 VSMPO-AVISMA Tube Works, Ukraine ZAO
- tube manufacturing
- 5 Titan Scandinavia, Sweden
- distribution unit
- 6 VSMPO TIRUS, GmbH, Germany
- distribution unit
- 7 TIRUS INTERNATIONAL SA, Switzerland
- distribution unit
- 8 VSMPO TIRUS, Limited, the U.K.
- distribution unit
- 9 NF&M International, Inc., the U.S.A.
- Processing billets and section units
- 10 UNITI LLC, CLJA (JV with ATI)
- CP titanium supplies
- 11 VSMPO-Tirus, U.S., Inc, the U.S.A.
- distribution unit



PSC VSMPO-AVISMA Corporation

JV Ural Boeing Manufacturing



AVISMA division
of VSMPO-AVISMA Corporation



VSMPO-AVISMA Tube Works, Ukraine ZAO



corporation

VSMPO

AVISMA

...A STAR
- a leader followed by, manager, law, wisdom,
knowledge, power...

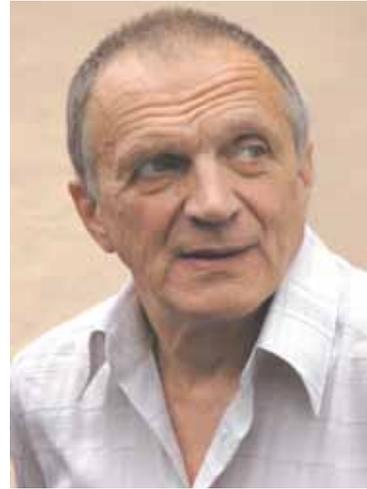


2) LETTER OF THE CHAIRMAN AND THE GENERAL DIRECTOR

LETTER TO SHAREHOLDERS



S. V. Chemezov



V. V. Tetyukhin

Dear Fellow Shareholders,

During 2007, the whole team of the Corporation's employees worked on implementation of the investment program needed to meet the company's strategic development goals for 2007-2012. The main objectives of the plan are: (1) to reach the production level of 46-47 thousand tons a year of titanium products, i.e. 1.7 times higher the level of 2007, (2) to secure 33-35% share of the world's titanium market, (3) to achieve sufficient level of profitability, (4) to maintain a leadership position in environmental activities, (5) to achieve technological improvements in our products and our production processes, (6) to conduct our operations ever mindful of the safety of our employees and our neighbors, and (7) to continue to comply with all international quality standards and meet customer requirements for the products we supply.

In 2007, VSMPO-AVISMA increased the output of titanium products by 14.1%. In 2008, AVISMA plans to increase the output of titanium sponge by 5.8% and titanium products by 14.8%.

In their recent market forecasts, the aircraft companies announced the growth in aircraft construction through 2015, including mostly new models of aircraft containing high level of composite materials (40-45%) and titanium (up to 10-14% of the plane weight). The Boeing 787 and the Airbus A350 are examples of the new higher titanium consuming models of aircraft. Demand for titanium in power engineering, oil and gas industries, jet engine construction, medicine, and sports goods, is growing. It may be said with certainty that the XXI century is the beginning of massive application for titanium in a variety of high-tech global industries.

With that trend in mind, all of our competitors have begun intensively developing capacity expansions programs. The world producers are expanding their capacities for titanium sponge, ingot melting and mill product production. Competition will be very intense; however, we are prepared for that. The decisions and actions we are taking today to add new titanium capacities is especially important. Our strategic goal is to make finished and semi-finished titanium parts and products for our customers. At the same time, we will strengthen and expand the sources of raw materials for our titanium alloy production.

Today, we are proud that our Company has the largest share in the world's titanium production accounting for 27-29% of the global output. We will continue developing our business to be competitive and to strengthen our position internationally, though it will be more challenging with every year.

In 2007, we laid the groundwork for 2008 and for the next years for the implementation of our strategic programs. We are firmly committed to the implementation of our investment program. Every day our plans become the reality. Today, we are intensively investing in the modernization and creation of new production capabilities. We are committed to grow, to preserve our competitive advantages, and to satisfy our customers' needs. We will continue to be the supplier of a minimum 30-40% of titanium products required by our global strategic partners, and also, we will meet all the needs of our domestic and CIS customers for high quality and innovative products. We have considered the growing demands of the Russian market and have included them in our production plans for the next years. We have great commitments from our customers, and we cannot fail.

Consolidated revenues for 2007, were 30 656 mln. rubles. Capital investments were 4 417 mln. rubles, or 97% greater than the 2006 level. In 2007, the net profit growth rate was 106%, but it was lower than in 2006. There were a number of external factors that resulted in this lower profit. Our development plans require significant investments which are funded both from internal cash generation and from external borrowings. Thus we make interest payments on the external borrowings and lose the opportunity to earn interest on the internal cash we generate. Increases in energy and other inputs (18% up) was another factor that kept the profit growth down. These factors were taken into consideration by the Company's management for the strategic program implementation. To offset the impact of higher costs, we are working on a project that will secure our own raw material sources for titanium alloy production. We are also implementing other projects which are intended to connect our production facilities to cheaper energy sources. During 2007, we constructed our own transmission lines to connect to the federal grid. We are developing cost-reduction system for all stages of production, improving budget management system and introducing some elements of Lean production by efficient employment of internal resources and increasing labor efficiency.

We devoted considerable attention to the protection of the environment. There is continuous and methodical work carried out with regard to this issue at both production sites taking into account their specifics. The ecological policy pursued by the Company was recognized at the third All-Russia conference "New Priorities of the National Ecological Policy in the Real Sector of the Economy" where the AVISMA Division of VSMPO-AVISMA was awarded as the 2007 Russian Environmental Leader.

In addition to the investments in capacity expansion and modernization, the Company annually makes significant investments in social programs. In general, the social expenditures will be commensurate with the standards of high social responsibility to the employees and the sites where the Company operates.

Chairman
VSMPO-AVISMA Corporation
S. V. Chemezov

General Director
VSMPO-AVISMA Corporation
V. V. Tetyukhin

corporation



AVISMA

...A WHEEL

- time, continuous development, history,
power, fate, time wheel, life cycle, transition, changes...



3) EVENTS OF THE YEAR

EVENTS OF THE YEAR

JANUARY

The Finance management structure was changed at VSMPO-AVISMA. The purpose of the reorganization was to implement the Corporation's economic strategy, and was primarily aimed at improving the finance management system, tax planning and treasury functions.

FEBRUARY

VSMPO-AVISMA Corporation celebrated the 50th anniversary of the melting of the first titanium ingot in Russia. On 17 February, 1957 the first titanium ingot weighing over four kilos was melt in Verkhnyaya Salda. Vladislav Tetyukhin, our current General Director, was among the participants at that first melting process.

The scientific conference devoted to the 50th anniversary of the first ingot melt was hold at Verkhnyaya Salda.

The AVISMA Division had a precertification audit of the magnesium production. The Die-casting unit was audited for compliance to ISO/MEK 62-2000. As a result, the commission confirmed that the AVISMA Division's quality management system complies to ISO/TS 16949:2000 and is prepared for certification. TUV Nord Cert. was the auditing company.

MARCH

The Company signed a long-term agreement with Dassault (France) the largest producer of civil business-class jet aircraft.

APRIL

The Board of Directors approved the concept set forth in "Strategic Development Program of VSMPO-AVISMA in 2007-2012" for achieving the following targets:

- increase in titanium sponge output at the AVISMA Division to 44 000 tons by 2012 secured by reliable energy supply;
- increase in total output of titanium products (titanium parts, ingots, mill products and others) to 46 000 tons by 2012.

Michael Metz, having 20 years commercial experience in the titanium industry including three years with VSMPO-Tirus US, succeeded John Monahan as the President of VSMPO-Tirus US.

VSMPO-Tirus US is the affiliated company of VSMPO-AVISMA and markets the Corporation's products in North America.

MAY

The Board of Directors of VSMPO-AVISMA Corporation approved a decision to implement an enterprise resource planning (ERP) system based on SAP software.

With implementation of the SAP ERP information system, both production

plants of the Corporation VSMPO and AVISMA, should be in a position to manage their economic and production functions effectively and efficiently, and they should obtain reliable, accurate, timely and objective information for accounting and reporting.

VSMPO-AVISMA Corporation was named among the 50 largest Russian companies by capitalization. In the rating prepared by Rosbusinessconsulting, the Company ranked 41st as at April 2007. The Company's capitalization was \$ 3.4 bln. as at April 2007.

JUNE

PricewaterhouseCoopers completed the audit of the consolidated financial statements of VSMPO-AVISMA Corporation for 2005 prepared in accordance with the accounting principles generally accepted in the U.S.A. According to the audited financials for 2005, the net profit of VSMPO-AVISMA under US GAAP increased to \$74.61 million, or by 48.4%, as compared to 2004.

JULY

Tirus International SA was incorporated as a 100% subsidiary of VSMPO-AVISMA Corporation. The office of the new subsidiary is located in Lausanne, Switzerland.

Tirus International SA will perform planning and provide hands-on coordination for most of the activities of the Tirus distribution subsidiaries of VSMPO-AVISMA in the international markets. The main tasks to accomplish are ensuring flexible responses to changes in the various markets, prompt redirection of flows of products, management of inventories at the foreign warehouses of the Group, as well as direct distribution of the Corporation's products in the regions not currently serviced by a VSMPO-Tirus distribution company.

AUGUST

During MAKS-2007 Air Show, the representatives of Boeing and VSMPO-AVISMA Corporation signed an agreement to establish the Joint Venture - Ural Boeing Manufacturing (UBM). Gary A. Baker was named as the JV General Director /CEO. UBM will machine titanium die forgings starting in the second half of 2008.

VSMPO-AVISMA Corporation and Pratt & Whitney Canada signed a long-term framework agreement on cooperation. The agreement defines relations between the two companies for a period of 10 years and is an important step in the integration of the Russian aircraft material producers into the world market.

VSMPO-AVISMA signed an agreement for Aircraft Product Liability insurance for one year. This insurance covers VSMPO-AVISMA for liabilities arising from an aircraft loss. It also includes grounding liability which would cover costs

should inspections of aircraft be required after an aircraft loss. The liability coverage is required by the Company's major contractors Boeing, EADS, Embraer and others as a requirement of their long-term purchase agreements with VSMPO-AVISMA.

SEPTEMBER

VSMPO-AVISMA Corporation acquired a 33% participatory interest in the registered capital of the Ore Mining Company "Ural Gold" LLC. The Ore Mining Company, "Ural Gold" LLC, Verkhnyaya Pyshma, Sverdlovsk Region, is engaged in geological exploration of mineral deposits, surveying, mining and processing of ferrous and non-ferrous metal ores. One of the major participants of "Ural Gold" LLC is the JSC «Ural Mining Metallurgical Company» (OAO "Uralskaya Gorno-Metallurgical Company»). Thus, VSMPO-AVISMA will participate in the project on development of molybdenum ore deposits to secure molybdenum supplies for increased production of titanium alloys.

The auction for the sale of the license for geological survey, exploration and molybdenum ore mining at Yuzhno-Shameisk Ore Deposit was won by the Ore Mining Company "Ural Gold" LLC (OOO «Gornorudnaya Company Uralskoe Zoloto»). License No. CBE 02416 TP was registered on October 19, 2007. Category C2 molybdenum ore reserves are estimated at 53.2 mln tons, the estimated molybdenum content is 42.6 K tons.

NOVEMBER

At the end of November, the JV Ural Boeing Manufacturing (UBM) held the first meeting of the Board of Directors to appoint the Company's officers and approve internal regulatory documentation. Wall Clyde Wendell was appointed as the Production Director of the JV.

DECEMBER

Boeing and VSMPO-AVISMA Corporation signed the contract for titanium products supply till 2015. In Moscow, the Director General of the State-Owned Corporation "Rostekhnologii" and Chairman of the Board of Directors of VSMPO-AVISMA Corporation Sergey Chemezov, the Director General of VSMPO-AVISMA Corporation Vladislav Tetyukhin, the USA Ambassador Extraordinary and Plenipotentiary in Russia William Berns and the President of Boeing-Russia/CIS Sergey Kravchenko took part in the ceremony to sign the five-year contract for titanium products supply between Boeing and VSMPO-AVISMA Corporation, Russia.

According to the Contract terms, deliveries of titanium products, including billets, bars, sheets and plates will start in early 2011 and continue till 2015, inclusively. Supplied products will be used in all models of Boeing commercial airplanes.

PricewaterhouseCoopers completed the audit of the consolidated financial statements of VSMPO-AVISMA Corporation for 2006 prepared in accordance with the accounting principles generally accepted in the U.S.A. In 2006, the Corporation earned a record level of profit, \$204.01 million, which is \$129.40 million higher than that earned in 2005. Favorable market conditions and major increases in production contributed to the considerable increase in the profit in 2006.

EVENTS AFTER THE REPORTING DATE (2008)

JANUARY

Renaissance Insurance insured VSMPO-AVISMA property. The Corporation maintains a full property insurance program, including insurance which would cover major equipment breakdowns and insurance against production suspension. This program has been successfully functioning since 2002. Insurable property includes the Company's fixed assets and inventories. Losses resulting from production suspension are also insured. Coverage is for more than \$1.5 billion.

FEBRUARY

VSMPO-AVISMA Corporation announced that it has entered into a new, long-term titanium supply agreement with SAFRAN and its Snecma, Turbomeca, Messier-Dowty, Microturbo and Techspace Aero operating units. The agreement, effective as of January 1, 2008, provides for VSMPO-AVISMA Corporation to supply titanium plates, bars and billets to Snecma and other SAFRAN Group companies for manufacturing aircraft engines and equipment. According to the agreement, VSMPO-AVISMA Corporation will continue to be a major supplier of titanium to SAFRAN.

MARCH

VSMPO-AVISMA Corporation plans to issue audited Consolidated Financial Statements for 2007 under IFRS during the Third Quarter of 2008. The decision to prepare audited Consolidated Financial Statements for 2007 in accordance with IFRS standards was made by the Board of Directors. PriceWaterhouseCoopers was appointed by the Board as the auditor of the Corporation's Consolidated Financial Statements.

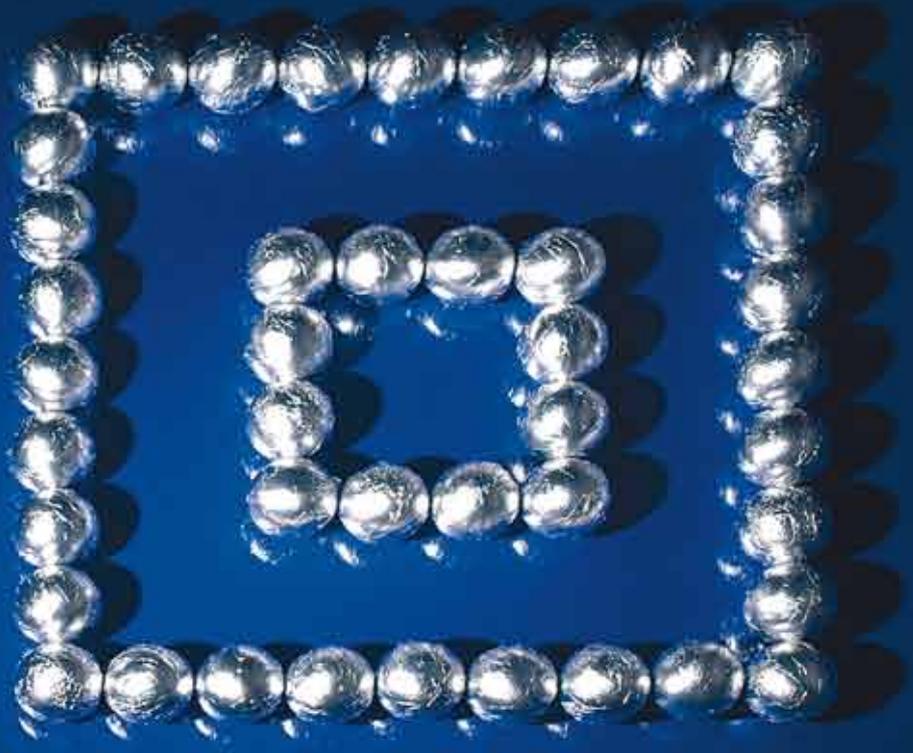
corporation



AVISMA

...A SQUARE

- the natural life, static nature, foundation, honesty, sincerity,
morality, stability, the basis of the universe and life organization...

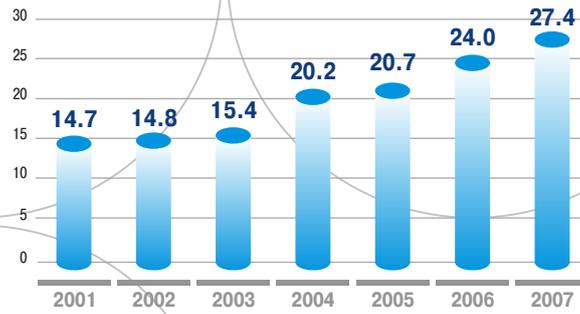


4) KEY OPERATING RESULTS

4.1) KEY PRODUCTION RESULTS

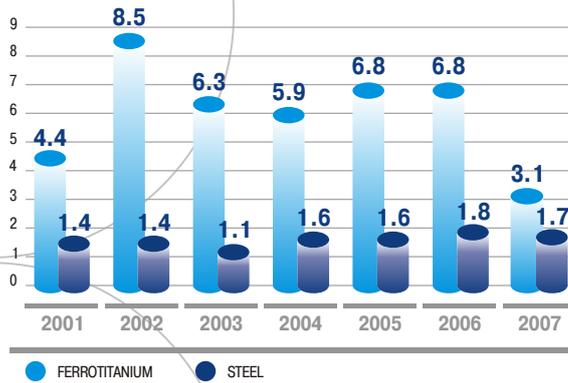
TITANIUM PRODUCTS OUTPUT

VSMPO
(THOUS. TONS)



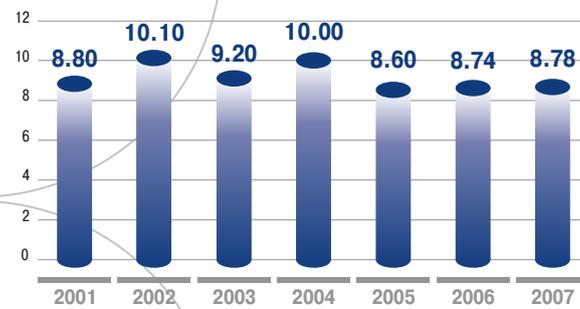
FERROTITANIUM AND STEEL OUTPUT

VSMPO
(THOUS. TONS)

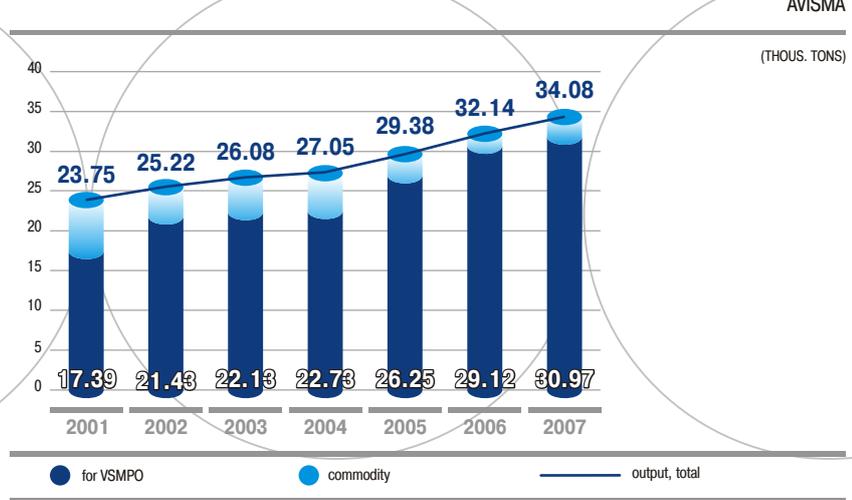


ALUMINUM SEMI-PRODUCTS OUTPUT

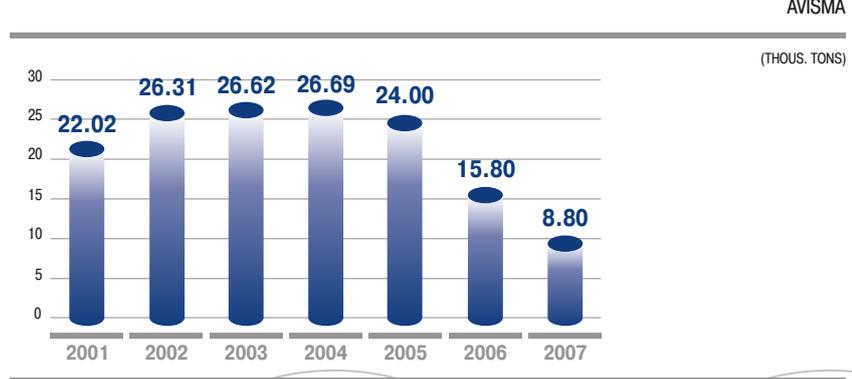
VSMPO
(THOUS. TONS)



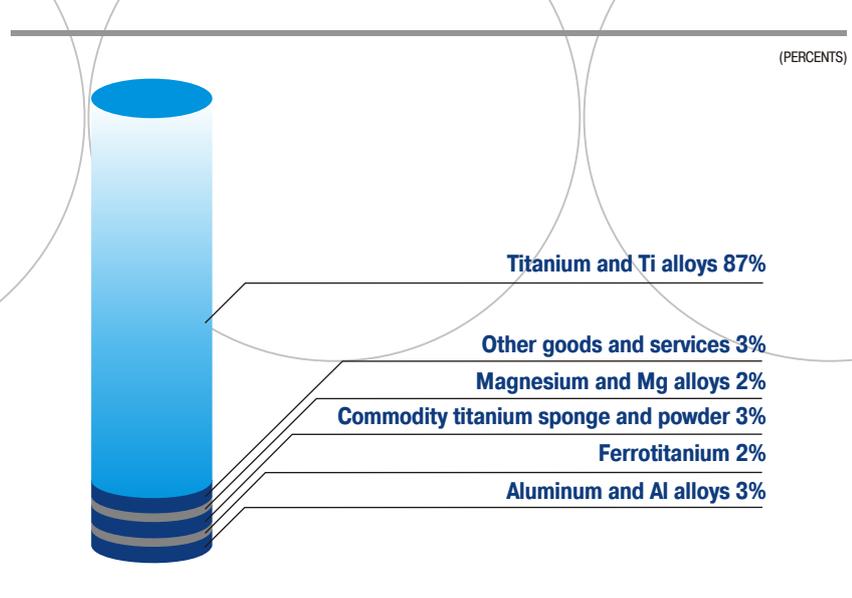
TITANIUM SPONGE OUTPUT



COMMODITY MAGNESIUM OUTPUT



**SALES REVENUE BY PRODUCTS
VSMPO-AVISMA, 2007**

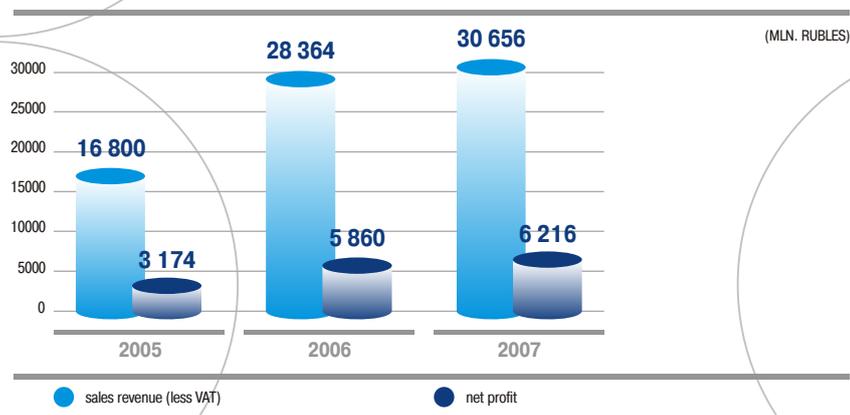


4.2) KEY FINANCIAL RESULTS

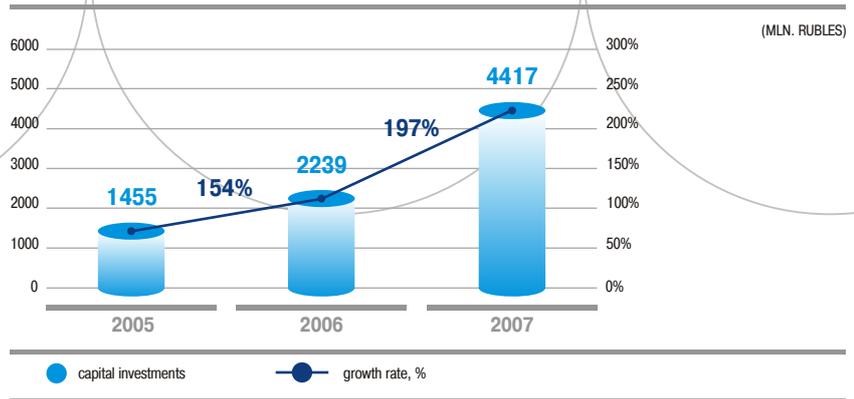
DESCRIPTION	UOM	2005	2006	2007
Sales revenue (less VAT)	mln. rubles	16 800	28 364	30 656
Costs per ruble of product sold	kopecks	73	68	69
Sales profit	mln. rubles	4 609	9 197	9 522
Profit before taxes	mln. rubles	4 369	8 120	9 011
Net profit	mln. rubles	3 174	5 860	6 216
Total assets	mln. rubles	20 447	28 316	41 597
Capital investments	mln. rubles	1 455	2 239	4 417

Note: AVISMA was acquired as of July 1, 2005, therefore 2005 results represent AVISMA's results only for the second half of 2005.

SALES REVENUE AND NET PROFIT as per russian accounting standards



CAPITAL INVESTMENTS as per russian accounting standards



corporation

VSMPO

AVISMA

...THE SUN
- continuous prosperity, welfare, fertility, enlightenment,
vitality, nourishment and growth, creativity and wisdom...



5)

PERFORMANCE RESULTS

IN DIFFERENT TYPES OF ACTIVITIES

5.1) FINANCIAL RESULTS ANALYSIS

Sales revenue (according to P&L) increased by **2 291 861** thous. rubles, or **8.1%** as compared to 2006.

The cost of goods sold (line 020, P&L) increased by 1 536 095 thous. rubles, or 9.5%.

SALES REVENUE IN DIFFERENT TYPES OF ACTIVITIE

PRODUCTS	2006		2007	
	Monthly average thous. rub.	Share, %	Monthly average thous. rub.	Share, %
Titanium	1 843 427	78.0	2 211 455	86.6
Aluminum	50 005	2.1	44 369	1.7
Aluminum consumer goods	23 924	1.0	21 161	0.8
Steel	9 350	0.4	17 081	0.7
Ferrotitanium	167 446	7.0	42 272	1.6
AVISMA				
Titanium sponge	60 945	2,6	49 736	1.9
Pure magnesium and alloys	84 206	3,6	58 428	2.3
Titanium powder	45 003	1,9	24 428	1.0
Other products	79 393	3,4	85 758	3.4
TOTAL:	2 363 699	100	2 554 688	100

Sales of titanium products accounted for the largest share in sales revenue and totaled 86.6%, an increase of 8.6% as compared to 2006.

Sales revenue in monetary terms was 8.1% up, where steel sales had the largest percentage increase of 82.7%. Titanium products sales revenue in monetary terms increased 20.0% as compared to the previous year.

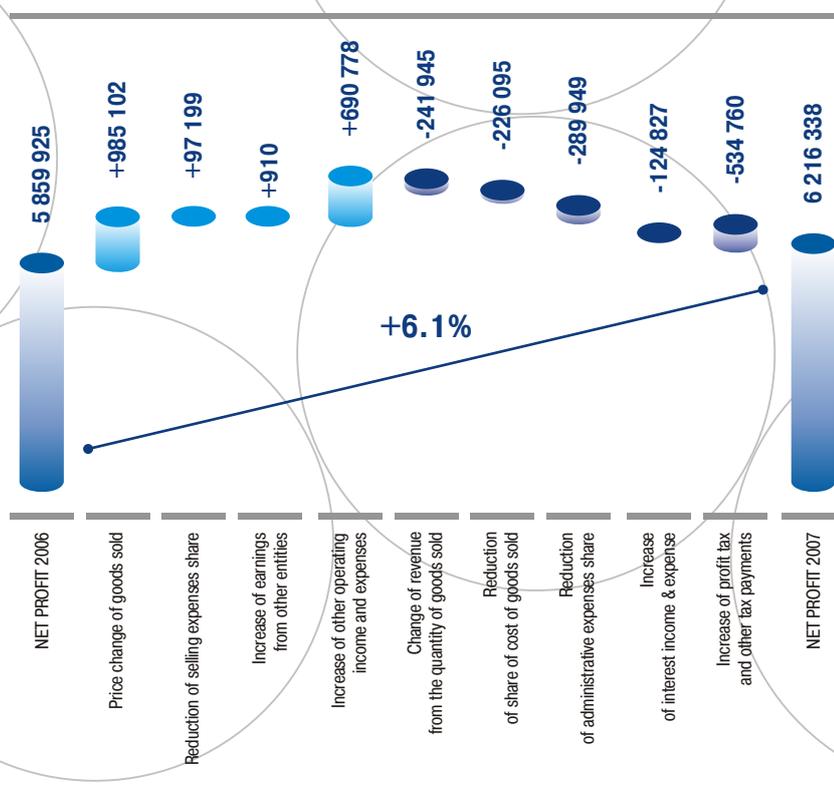
ITEM	Line	2006, thous. rubles	2007, thous. rubles	Change, thous. rubles	Change, %	% to revenue in 2006	% to revenue in 2007	Change, %
Income and expenses on ordinary activities								
Net revenue from sales of goods, products, operations and services (less VAT, excise taxes and similar payments)	10	28 364 389	30 656 250	+2 291 861	8.1	100	100	
Cost of goods, products, operations and services sold	20	16 212 747	17 748 842	+1 536 095	9.5	57	58	+1
Gross profit	29	12 151 642	12 907 408	+755 766	6.2	43	42	-1
Selling expenses	30	743 789	706 689	-37 100	-5.0	3	2	-1
Administrative expenses	40	2 210 438	2 678 992	+468 554	21.2	8	9	+1
Sales profit (loss)	50	9 197 415	9 521 727	+324 312	3.5	32	31	-1
Other income and expenses								
Interest income	60	1 923	67 840	+65 917	3 427.8	0	0	0
Interest expense	70	294 630	485 374	+190 744	64.7	1	2	+1
Earnings from other entities	80		910	+910	0		0	0
Other income	90	14 576 804	18 987 787	+4 410 983	30.3	51	62	+11
Other expenses	100	15 361 950	19 082 155	+3 720 205	24.2	54	62	+8
Other non-operating income	120							
Other non-operating expenses	130							
Profit (loss) before tax	140	8 119 562	9 010 735	+891 173	+11	29	29	0
Deferred tax assets	141	5 489	960	-4 529	-82.5	0	0	0
Deferred tax liabilities	142	18 473	155 846	137 373	743.6	0	1	+1
Current profit tax	150	2 246 653	2 128 600	-118 053	-5.3	8	7	-1
Penalties	151		146 596	+146 596	0		0	0
Profit tax of prior years	152		364 315	+364 315	0		0	0
Net Profit (Loss) of the Reporting Year	190	5 859 925	6 216 338	+356 413	6.1	21	20	-1

Sales profit in the reporting year was 324 312 thous. rubles, an increase of 3.5%. The growth rate of sales profit was 2.3 times lower than that of sales revenue. For the net profit analysis the factors having impact on sales profit, hence on net profit of the reporting period, are summarized.

SUMMARY TABLE OF FACTORS IMPACT ON NET PROFIT OF THE REPORTING PERIOD

FACTORS	Amount, thous. rub.
Quantity of goods, works and services sold	-241 945
Price change of goods sold	+985 102
Cost of goods, works and services sold	-226 095
Selling expenses	+97 199
Administrative expenses	-289 949
TOTAL IMPACT ON SALES PROFIT	+324 312
Interest income	+65 917
Interest expense	-190 744
Interest income & expense	-124 827
Earnings from other entities	+910
Other operating income	+4 410 983
Other operating expenses	-3 720 205
Other operating income & expenses	+690 778
Profit tax	-534 760
TOTAL IMPACT ON NET PROFIT	+356 413

IMPACT ON NET PROFIT



Price change of goods sold has the largest positive effect on sales profit that resulted in sales profit increase of 985 102 thousand rubles. Other operating income and expenses increase (11% and 8% accordingly) resulted in sales profit increase by 690 778 thous. rubles. The impact of volume of goods sold on sales profit was negative, i.e. the amount of sales profit decreased by 241 945 thousand rubles as a result of the increased revenue of the reporting period in comparable prices.

The cost of the reporting period increased by 1 536 095 thous. rubles. Cost/sales revenue factor was 1.0% up that resulted in 226 095 thous. rubles drop of the amount of sales profit. Reduction of selling expenses by 31 100 thousand rubles, or 0.1%, in 2007 had positive impact and increased the amount of sales profit by 97 199 thous. rubles. The increase in administrative expenses by 468 554 thous. rubles, or 1.0%, resulted in the reduction of the amount of profit by 289 949 thous. rubles. Other indicators of operating activities were insignificant for the profit, however, their effect on the amount of profit was defined.

EARNINGS PER SHARE

Joint-Stock Company discloses the information on earnings per share as two figures - basic earnings (losses) per share that represents the part of earnings of the reporting period due to the shareholders as owners of common shares, and earnings per share that represent potential drop of basic earnings (increase of loss) per share in the next accounting period (diluted earnings (loss) per share).

EARNINGS PER SHARE CALCULATION

	2006	2007
Net profit of the reporting year, thous. rubles	5 859 925	6 216 338
Dividends per preferred share, thous. rubles		
Basic earnings, thous. rubles		
Weighted-average number of common shares in circulation, thous. psc.	11 530	11 530
Basic earnings per share, rub.	508.23	539.14
Diluted earnings (when preferred shares were converted into common shares), thous. rubles	5 859 925	6 216 338
Total number of shares, thous. pieces.		
Diluted earnings per share, kopecks	508.23	539.14

As there are no preferred shares, basic earnings per share are equal to diluted earnings per share.

NET ASSETS OF THE COMPANY

ITEM	01.01.2007	01.01.2008
Net assets (thous. rubles)	20 037 644	25 661 475
Shareholder's equity (thous. rubles)	11 530	11 530
Reserve capital (thous. rubles)	668	2 882
Net assets to equity ratio, %	173 787.0	222 562.7

FINANCIAL ANALYSIS OF THE COMPANY

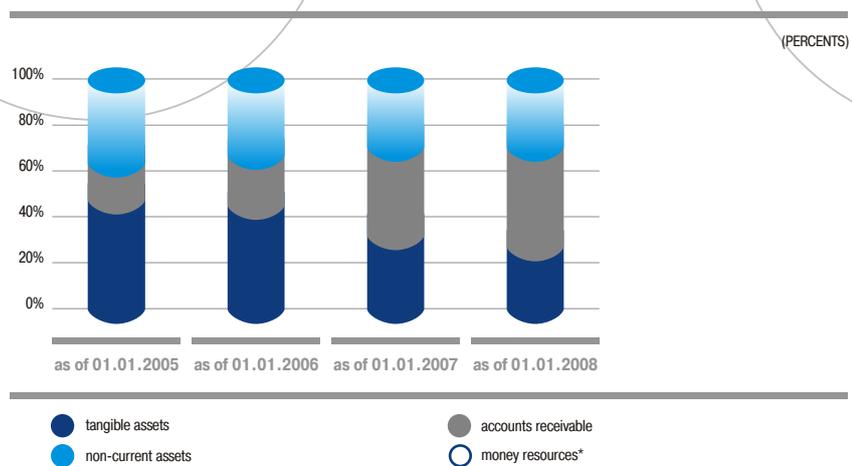
The analysis of the total assets and liabilities structure allows us to make some important conclusions to use in everyday Company's activity, and also to make managerial decisions for the future.

ASSETS STRUCTURE AND THEIR SOURCES

ASSETS

In 2007, the total property value increased by 13 281 135 thous. rubles, or 46.9% up, including the increase of non-current assets by 3 823 930 thous. rubles and current assets by 9 457 205 thous. rubles.

ASSETS STRUCTURE



* - the share of money resources is: 0.6% as of 01.01.2005, 1.4% as of 01.01.2006, 1.5% as of 01.01.2007 and 2.6% as of 01.01.2008.

Therefore, the bulk of property increased largely due to increased current assets. That is demonstrated by the changes in the property structure. Thus, the beginning of the account period showed larger share (31.6%) of long-term assets, while at the year end their share reduced to 30.7%, and the share of current assets increased accordingly. Steady increasing of the Company's non-current assets in absolute terms primarily due to increase of property, plant and equipment items and construction in progress is an indicator of growing investments in these assets. Moreover, the investments in current assets are greater than those in long-term assets in the reporting year.

Accounts receivable accounted for the largest share in current assets as at 01.01.2008 with 60.1% payments falling due within 12 months after the account date, which was 55.3% as at 01.01.2007 accordingly. In value terms the increase of accounts receivable was 61.6% in 2007.

LIABILITIES

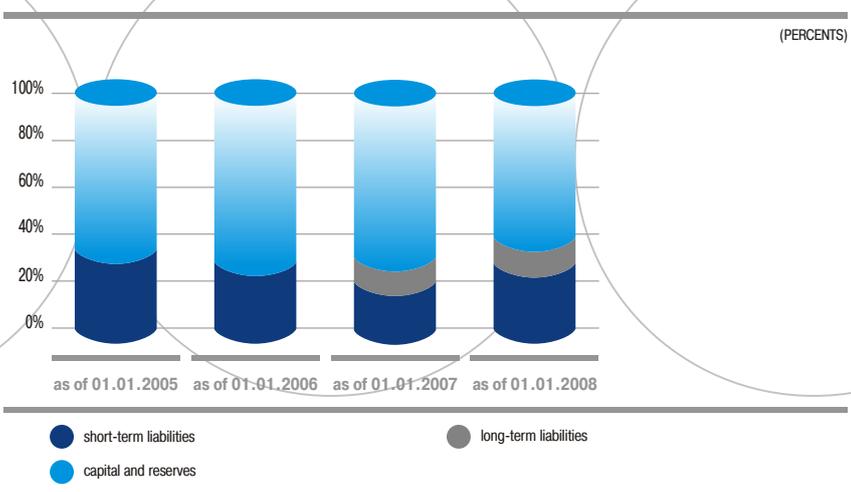
The Liabilities analysis shows an additional inflow of 13 281 135 thous. rubles that includes increased short-term borrowings of 6 094 976 thous. rubles, long-term loans of 1 558 797 thous. rubles and equity growth by 5 627 362 thous. rubles. In other words, the Company's activities in increased financing was 42.4% provided by shareholder's equity, 11.7% by long-term loans, and 45.9% by short-term borrowings.

Equity is a major financial indicator of the Company's financial stability. Retained profit had the largest share in equity and reached 75.1% at the year end, which is 7.0% higher than that indicator at the beginning of the year.

However, the share of equity decreased from 70.7% to 61.7%. The share of equity in total liabilities dropped 9.0%. Long-term liabilities increased by 0.5% (from 10.1% to 10.6%), while short-term liabilities increased by 8.6% (from 19.1% to 27.7%) that basically is attributed to the significant growth of short-term credits and loans increased from 47.0% to 72.2%.

The amount of equity in turnover increased by 1 799 901 thous. rubles, or 16.2% as compared to the beginning of the year. That indicator represents 31.0% at year end, 8.2% lower than at the beginning of the year.

LIABILITIES STRUCTURE



RATIO ANALYSIS

LIQUIDITY ANALYSIS

INDICATOR	UOM	Standard	01.01.2006	01.01.2007	01.01.2008	Change	Change, %
Working Capital Ratio	times	1-2	2.35	3.58	2.50	-1.08	-30
Quick Ratio	times	>0.7-0.8	0.80	2.06	1.60	-0.46	-22
Cash Asset Ratio	times	>0.2	0.05	0.08	0.10	0.02	25
Net Working Capital (NWC)	thous. rub.		7 780 704	13 803 059	17 325 022	3 521 963	26
Change of Working Capital Ratio			0.33	1.23	-1.08		
Change of Investment Capital			1.57	1.4	1.3		
Change of Fixed Assets			-0.65	-0.35	-0.69		
Change of Current Liabilities			-0.59	0.08	-1.59		

The analysis of liquidity evaluates the Company's solvency, i.e. the Company's ability to settle its liabilities in full and on time.

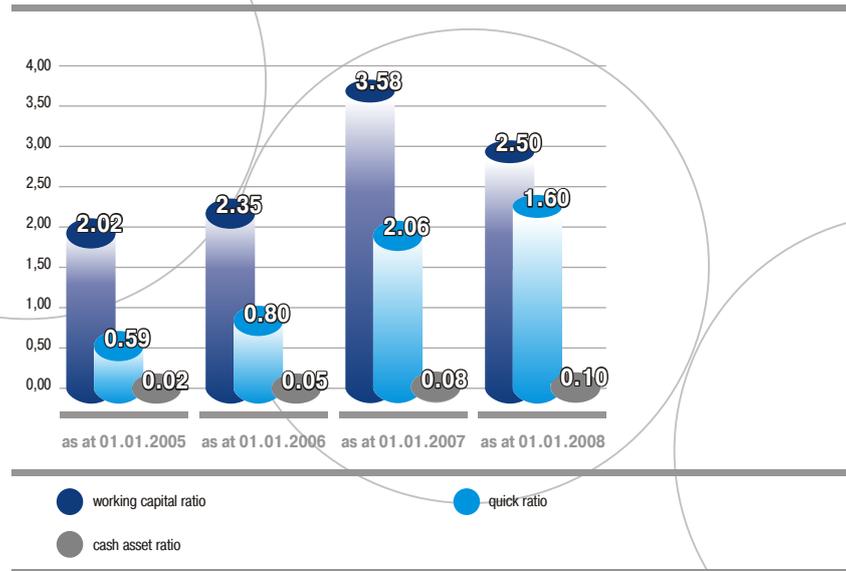
Positive and increasing net working capital is the major indicator of the Company's liquidity and financial solvency. The figure of net working capital shows what part of current assets is financed by investor's capital shareholder's equity - and long-term liabilities.

At the end of the reporting period, the Company's net working capital was 17 325 022 thousand rubles, and increased by 3 521 963 thousand rubles (25.5%) during the period. The net working capital to total assets ratio is determined to evaluate financing of current assets by the equity. In the reporting period the net working capital to the Company's total assets ratio reduced 7.1% and came to 41.6%.

To evaluate the actual figure of NWC with regard to its adequacy for the company in current operating conditions the NWC amount is calculated. The figure of sufficient (required) NWC is the total of inventories and work in progress. At the end of the period of review the figure of sufficient NWC of the Company is 7 757 883 thous. rubles. At the end of the period

of review the actual figure of NWC was above the required figure which is the positive indication of the Company's current assets financing by equity.

LIQUIDITY



WORKING CAPITAL RATIO evaluates in general the liquidity of assets, shows 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 a decreasing trend and dropped to 30% in 2007. At the end of the period the working capital ratio was 2.50 while the standard was 2. While at the beginning of the year the Company had 3 rubles 58 kopecks of property value per 1 ruble of credits taken, then the figure dropped to 2 rubles 50 kopecks. This indicator means that for every ruble of the Company's short-term liabilities there are 2 rubles of liquid assets. Though the indicator is lower, the Company continues to be solvent.

QUICK RATIO indicates the extent to which the Company can pay its current liabilities provided its accounts receivable are settled on a timely basis. The standard for this indicator is about 0.7-0.8. In the reporting period that indicator was 22% lower and was 1.60 at the year end. While at the beginning of the year the Company had 2 rubles 6 kopecks of medium liquidity assets per 1 ruble of liabilities, then the figure dropped to 1 rubles 60 kopecks by the year end.

CASH ASSET RATIO shows to what extent the company can pay its short-term liabilities immediately. That is the strictest criteria of solvency. While at the beginning of the year the Company was able to pay off 8% of its short-term liabilities, by the year end it was able to pay 10% of short-term liabilities.

FINANCIAL STABILITY ANALYSIS

INDICATOR	UOM	Standard	01.01.2006	01.01.2007	01.01.2008
Equity Ratio	times	>0.5-0.6	0.71	0.71	0.62
Margin of financial safety	times	>=0.7	0.72	0.8	0.72
Net working capital to equity ratio	times	0.2-0.5	0.53	0.55	0.50
Working capital to current assets ratio	times	Min 0.1	0.57	0.57	0.45
Dept to equity ratio	times	<0.7	0.40	0.41	0.62

EQUITY RATIO shows the level of the Company's independence from loans and capability to use borrowed funds to enhance the efficiency of business. The table shows the equity ratio of the accounting period was 0.62 while the standard was above 0.5. During the reporting year the net working capital accounted for 62% of the total amount of financing sources. High equity ratio is an indicator of the Company's financial stability, positive structure of financial sources and low financial risks for the Company's creditors. However, running business in the conditions of severe competition and inflation requires the Company to borrow funds.

Equity ratio analysis is added with the calculation of the margin of financial safety that shows the assets financed by safe sources. The margin of financial safety of the reporting period was 0.72 which is close to the standard.

NET WORKING CAPITAL TO EQUITY RATIO shows what part of equity is used for the current assets financing as the most flexible assets. The higher the ratio, the more flexible (hence, more stable) is the company from the point of the capital adjustment to the market fluctuations. At the end of the account period the net working capital to equity ratio was 0.50. During the period the ratio reduced 9% as compared to that indicator of the prior year. The standard for that indicator is 0.2 - 0.5, i.e. the actual figure for the year corresponded to the standard.

WORKING CAPITAL TO CURRENT ASSETS RATIO shows availability of working capital for the Company's financial stability. For the account period the ratio was 0.45. The lower level of the ratio is 0.1, and the higher the ratio (about 0.5), the better is the financial stability of the Company; therefore the Company has more opportunities to be financially independent.

DEPT TO EQUITY RATIO shows the amount of the company's debt per 1 ruble of equity in its assets. The reporting period showed 51.2% increase of the ratio. By the year end the ratio was 0.62. The ratio increase indicates the Company's growing dependence on debt capital, however, the ratio was lower than the standard that is below 0.7.

PROFITABILITY ANALYSIS

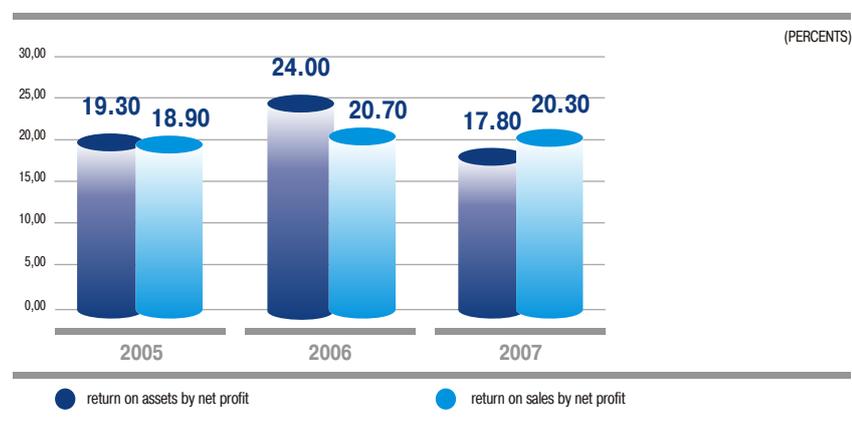
Below the analysis results are reviewed based on financial ratios that indicate the efficiency of the funds application.

INCOME INDICATORS

INDICATOR	2006	2007	Change	Growth rate, %
Income, thous. rubles	42 948 605	49 713 747	6 765 142	115.8
Expenses, thous. rubles	37 088 680	43 497 409	6 408 729	117.3
Net profit (loss), thous. rubles	5 859 925	6 216 338	356 413	106.1
Annual average value of assets, thous. rubles	24 381 258	34 956 459	10 575 201	143.4
Sales revenue, thous. rubles	28 364 389	30 656 250	2 291 861	108.1
Return on Assets, %	24.0	17.8	-6.2	74.2
Return on Sales, %	20.7	20.3	-0.4	98.1
Sales revenue in 1 ruble of income	0.66	0.62	-0.04	93.9
Income per 1 ruble of assets	1.76	1.42	-0.34	80.7
Income per 1 ruble of expenses	1.16	1.14	-0.02	98.3

Table shows practically equal growth rates of income and expenses. The Company's profitability indicators are quite high. However, return on sales lowered from 20.7% to 20.3% and return on assets lowered from 24% to 17.8%.

PROFITABILITY RATIOS



ANALYSIS OF FACTORS IMPACT ON CHANGE OF RETURN ON ASSETS

INDICATOR	Symbol	UOM	2006	2007	Change	Growth rate, %
Return on Assets	f	%	24.0%	17.8%	-6.2%	74.2
Return on Sales	x	%	20.7%	20.3%	-0.4%	98.1
Current Assets Turnover	y		1.72	1.27	-0.45	73.8
Working Capital Ratio	z		3.58	2.50	-1.08	69.8
Short-term liabilities to working capital ratio	q		0.53	0.55	0.02	103.7
Net working capital to equity ratio	m		0.55	0.50	-0.05	90.9
Equity to Total Assets	n		0.71	0.62	-0.09	87.3
Working capital to current assets ratio	l		0.57	0.45	-0.12	78.9

Based on the table data and after calculation the factors (x,y,z,q,m,n) impact on the change of return on assets (-6.2%), we found the major factors:

$$\begin{aligned} \Delta f(y) &= -6.18\% \\ \Delta f(q) &= +0.76\% \\ \Delta f(m) &= +0.39\% \end{aligned}$$

Calculations show 6.2% decrease of return on assets mainly due to lower turnover of current assets (-6.18%).

Fundamental and related analysis of income and expenses as the main tools of the Company's financial results allows us to get a comprehensive picture of the primary indicators showing the Company's financial reliability and stability in the current and prior years.

For a full assessment of the Company's stable (unstable) performance in the reporting year as compared to the previous year a number of growth (reduction) factors of income and expenses as well as other financial ratios are chosen:

1. Factor of growth (reduction) of the income on assets 0.807.
2. Factor of growth (reduction) of return on assets: 0.742.
3. Factor of growth (reduction) of return on sales: 0.981.
4. Factor of growth (reduction) of working capital ratio: 0.718.
5. Factor of growth (reduction) of equity ratio: 0.873.
6. Factor of growth (reduction) of working capital to current assets ratio: 0.789.
7. Factor of growth (reduction) of current assets turnover: 0.738.
8. Factor of growth (reduction) of income per 1 ruble of expenses: 0.983.

Based on the data, full evaluation of the Company's financial stability is calculated by geometric average:

$$FSI = \sqrt[8]{0.807 * 0.742 * 0.981 * 0.718 * 0.873 * 0.789 * 0.738 * 0.983} = 82\%$$

That means that the Company's financial stability index (FSI) was 18% lower in 2007 as compared to the prior year.

5.2) **MARKETING AND SALES**

TITANIUM MARKET OUTLOOK

After recovering from the effects on world air traffic of September-11 and the SARS outbreak, **the world titanium market resumed its long-term growth trend.**

The world titanium market is cyclical depending on the world economic conditions which influence demands for industrial applications and the activity level of the primary consumer of titanium products the commercial aviation market that accounts for 40% of titanium consumption.

The last several years have shown stable growth in air traffic and profits for the airlines. The number of orders for new long-haul aircraft booked by Boeing and Airbus reached historical records in 2005, 2006 and 2007 with 2057, 1868 and 2754 aircraft a year respectively. The increase in the planes ordered is primarily due to two factors. First, the airlines are facing a shortage of current model aircraft as a result of cancelling and postponing orders during the last cyclical industry downturn period. Second, in the current conditions of increasing prices for fuel, air carriers place orders for new efficient aircraft models like Boeing's B787 and Airbus's A380 and A350 to lower their operating costs. According to the forecast, the peak of new aircraft orders has been reached, and the demand will return to a normal state in 2008. The output of long-haul passenger aircraft, as reported by Airline Monitor, will reach the maximum level in 2010 and will then decrease in 2011-2013. However, our estimation is that the demand for titanium mill products from the commercial aircraft industry will continue to increase as the share of new model airliners containing more titanium parts will grow result in more titanium requirements.

The next decade will see a growing demand for titanium mill products from the military aircraft sector. Growth of titanium consumption in this sector of the western market is driven by recently started manufacturing of the 5th generation military vehicles. In Russia, titanium mill products consumption will grow as aircraft are produced to supply the Air Forces and for export of Su-35 and Su-34 fighters. The planned production of a domestic 5th generation multi-functional fighter in 2012 will provide additional demand for titanium.

Industrial grade titanium represents about 40% of the world consumption of titanium mill products. The high level of demand in this sector is driven by rapid growth in the economies of China and India. These

countries are experiencing intense construction needs for new industrial plants and power stations. Titanium consumption for desalination units is growing in the Middle East countries due to the growing global shortage of fresh water. The forecast for titanium consumption for oil and gas offshore platforms is also good. Gas liquefaction plant construction is another potential growth titanium application. Construction of one conventional plant for natural gas liquefaction requires about 250 tons of titanium mill products.

Interest in the use of alternative power sources such as nuclear power has increased as many companies and countries plan for potential shortages and sharply higher prices for hydrocarbon based energy sources. In 2007, construction of 29 generating sets for nuclear power was in progress in 11 countries, 6 power stations more than in the prior year. Every 1000 MW (approx. one set) of nuclear power station requires 300-500 tons of titanium plates and welded tubes.

Demand continues to grow for application requiring titanium for medical needs. Currently, the annual consumption in this industry is above 2000 tons of titanium mill products and it is growing at 5-8% a year.

Significant consumption of titanium mill products with some trend to grow is observed in applications for the automotive industry, military engineering and in the manufacture of consumer and sports goods, primarily for golf clubs.

According to the forecast, by 2012 the world demand for titanium mill products should increase twofold over the level of 2005. The growing demand exceeds world titanium sponge production and melting capacities. The recent shortages of titanium resulted in sharp increases in titanium product prices. In turn, this growth in profits allowed the producers to launch enormous investment programs for production capacities expansion. The investments in expansion planned by the titanium producers for 2006-2010 and announced to date, exceed US \$6 bln. About 70% of the investments are for increasing titanium sponge capacities.

Favorable trends in the world titanium market encouraged the Chinese producers. As recently reported from China, about 20 new titanium sponge production plants have been constructed there, and construction of another 20 plants is in progress. The total capacities of the plants significantly exceed the titanium sponge demand of the Chinese industry. Output from these plants will initially be targeted for the export market. Due to lower sponge quality from the new plants, their product will mostly be supplied to the steel and ferroalloys industries.

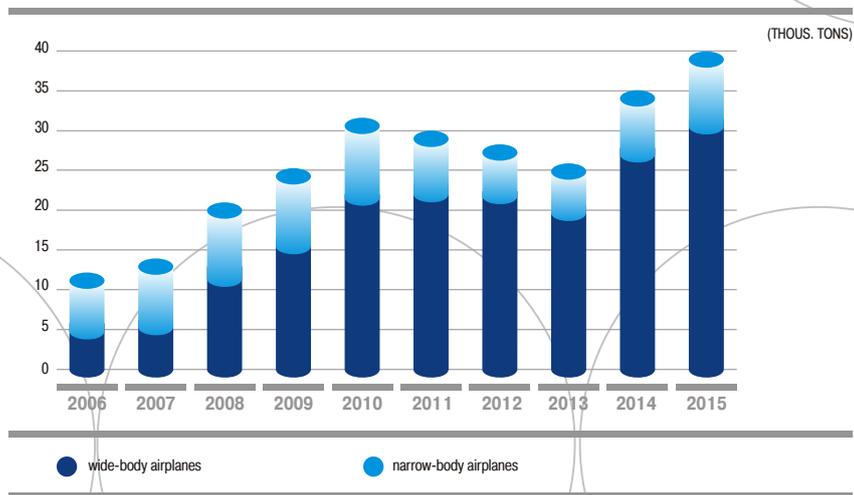
However, we eventually expect that the most competitive Chinese producers of titanium sponge will survive the start-up phase and will achieve the required level of quality. We expect that Chinese titanium sponge will ultimately gain a solid share of the world titanium market.

As a result of the new capacities being commissioned, the total world sponge capacity shall reach 300 thousand tons by 2012, twofold increase from the 2006 level.

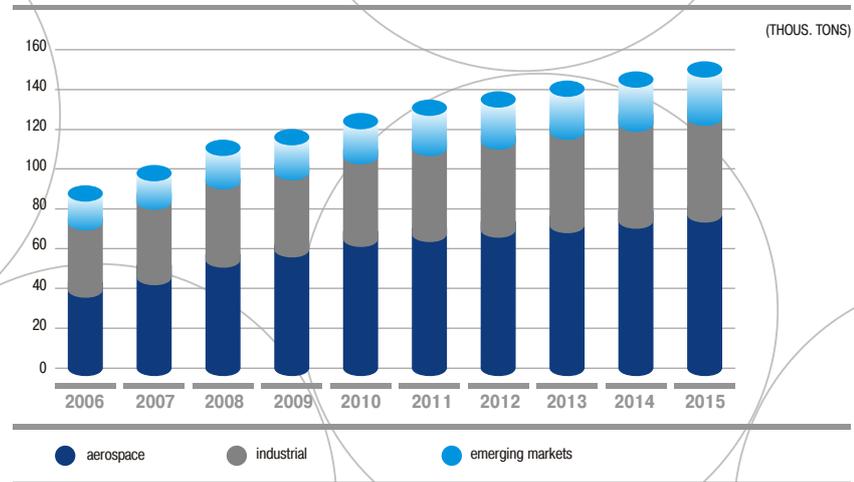
As a result of the new investments, the total world melting capacity shall increase 1.5 times. This forecast assumes that cold hearth furnace capacities will increase to recycle more titanium scrap. Significant investments are also being made for equipment to manufacture titanium alloy mill products.

According to the industry evaluations, the tense situation in titanium supply will continue until the new capacities start-up. The period of relative market balance expected in 2010-2012 will be followed by another period of rapid growth in demand for titanium due to the increased number of orders for commercial aircraft and projected production of new model regional airliners with higher content of composites and titanium.

DEMAND FOR TITANIUM MILL PRODUCTS FOR COMMERCIAL AIRCRAFT



WORLD DEMAND FOR TITANIUM FROM APPLICATION MARKETS



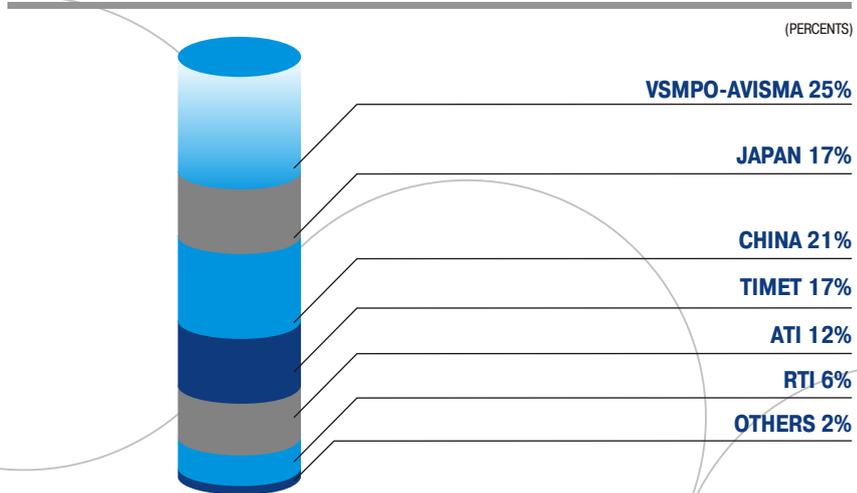
POSITION IN THE INDUSTRY

VSMPO-AVISMA is a world leader in the production of titanium products and titanium sponge. We compete primarily with American companies that have been the traditional suppliers to all the Western airframe and aircraft jet engine producers.

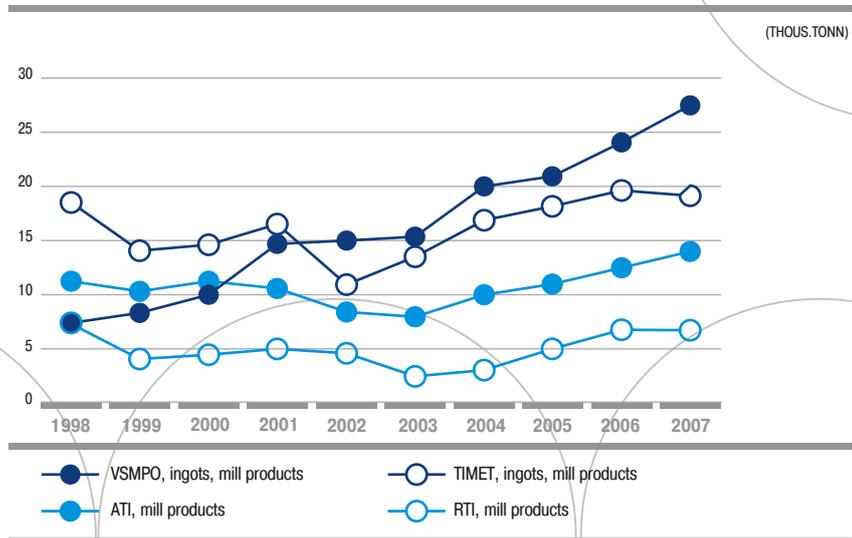
Currently all facilities for sponge production are working at full capacity. Previously mothballed capacities at Timet and ATI plants in the USA have been recommissioned. A number of companies have made decisions to construct new facilities for production of titanium sponge. Plants for sponge production are being constructed by Sumitomo Titanium and Toho Titanium in Japan, ATI, RTI and Timet in the USA, and several plants are being constructed and commissioned in China.

While the current Timet sponge plant is operating at full capacity, construction of the new Timet sponge plant was suspended however based on their belief that sponge supply and demand are or will be in balance at the global level. At AVISMA, the investment program "Titanium 44+" is underway focused on 44 000 tons of sponge output by 2011. The program implementation involves shifting to a higher capacity reduction vessels (from 4.0 to 4.8 tons per cycle) in the existing plant, and also additional sponge capacities in the new facility that is under construction now. Further increase in the mill products output will be achieved by the increased recycling of titanium scrap, improved yield and by consuming titanium sponge purchased from other producers as an excess of titanium sponge is expected.

VSMPO-AVISMA SHARE IN MANUFACTURING TITANIUM SEMI-PRODUCTS, 2007



SHIPMENTS OF VSMPO-AVISMA TITANIUM SEMI-PRODUCTS AS COMPARED TO THE LARGEST U.S. COMPANIES



Titanium pricing is another important factor that has an impact on the Company's position in the industry. High titanium prices restrain further expansion of titanium applications. There are about two dozen pilot projects for titanium production processes. At the end of 2007, Toho Titanium and Osaka Titanium announced that the new sponge production process they have been developing since 2005 will be implemented in an industrial-scale unit by 2010.

This process should provide a 30% cost reduction for sponge production. If the Japanese companies' plans are implemented, the competition for cheaper sponge will get new impetus. VSMPO-AVISMA is implementing a number of actions aimed at the reduction of product costs. A JV with Boeing was established for rough machining of titanium forgings supplied to that company. The JV is located next to the VSMPO manufacturing premises. This will allow us to recycle titanium scrap generated during parts machining. Modernization of the technological process for titanium sponge production continues at AVISMA and is aimed at minimization of losses and reducing the percentage of off-grade product.

The cost of ingot melting is a significant factor of competitiveness among the titanium producers. Introduction of titanium alloys melting in cold health furnaces for critical applications allows a reduction in the number of ingot melts required in vacuum-arc furnaces. Documentation for an improved design for that kind melting furnace has been developed. The fabrication of the new furnace is in progress now.

Another significant advantage of the Company is its forging capacities. The Company is able to make unique forgings from titanium alloys for the aircraft industry, and is now able to manufacture machined forgings as the next step.

SALES MARKETS, INFORMATION ON SHIPMENTS

Titanium products accounted for 87% of the total Company's sales. Titanium semi-products export sales share is 63.5%, and that of domestic sales is 36.5%.

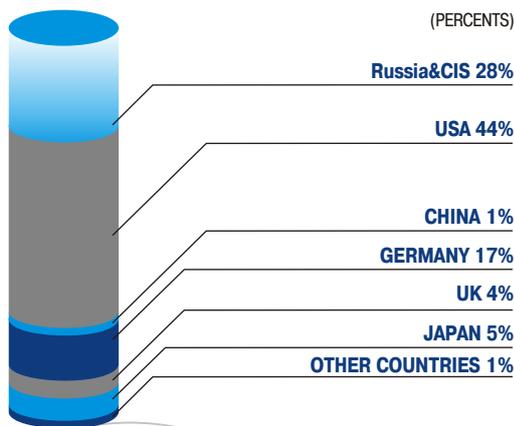
TITANIUM PRODUCTS SHIPMENTS, TONS

MARKET	2006	2007	Growth rate, %
Export	16 438	16 861	102.5
Domestic	5 683	9 676	170.3
Total Shipments	22 121	26 537	120.0

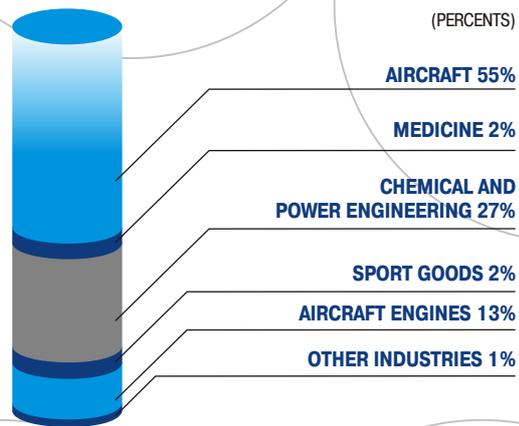
EXPORT

In 2007, export shipments of titanium products in physical terms increased 2.5%. Shipments of titanium mill products and die forgings to Boeing and Airbus increased due to increasing output of civil aircraft. Moreover, shipments of forgings for aircraft in 2007 surpassed the level of the prior year by 21%. The figure for shipments of CP titanium mill products to the chemical and power engineering industries increased as well. The Company has seen lower orders for titanium mill products for sports and leisure application as the business shifts to China due to cheaper labor and the availability of titanium sponge, ingots and mill products there.

TITANIUM PRODUCTS SHIPMENTS BY COUNTRIES (TONS), 2007



TITANIUM PRODUCTS EXPORT SHIPMENTS BY APPLICATION (TONS), 2007

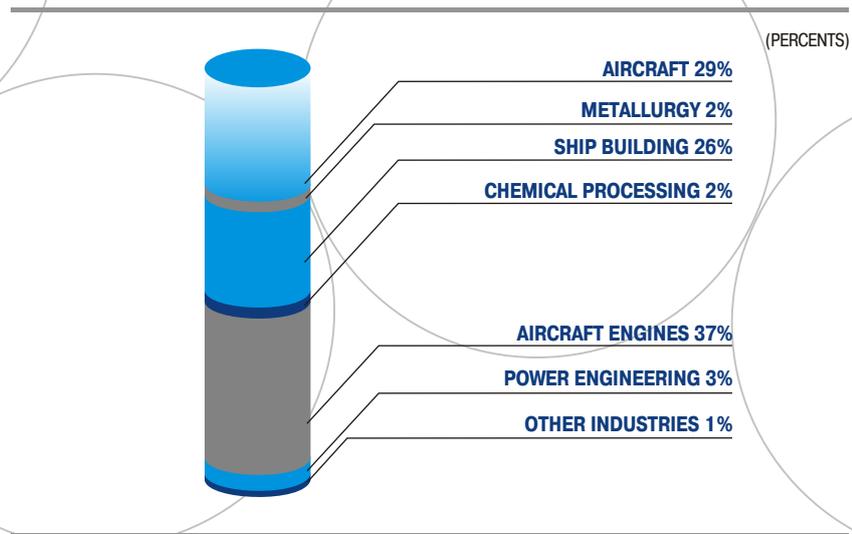


DOMESTIC MARKET-RUSSIA AND CIS

Shipments of titanium products to the domestic markets of Russia and CIS were 36.5% higher than the level of 2006. The growth in consumption was mostly due to increases in orders from the aviation industry with the supplies increased 67% in 2006 and 58% in 2007. Civil aircraft industry has seen some growth of Tu-204 output. Delivery of Russian-Ukrainian An-148 aircraft will start in 2008. Shipments of titanium mill products for a new civil airplane Superjet-100 are increasing with the expected series production of that aircraft in 2009. High demand on titanium from military aviation sector is explained by the historical record of "Su" series aircraft export deliveries.

Aircraft engine construction includes titanium application for engine blades, discs, fan rings and LP compressors, and fittings. Domestic shipments of the products were made for the projects underway in Russia.

TITANIUM PRODUCTS SALES TO DOMESTIC CUSTOMERS, RUSSIA AND CIS (TONS), 2007



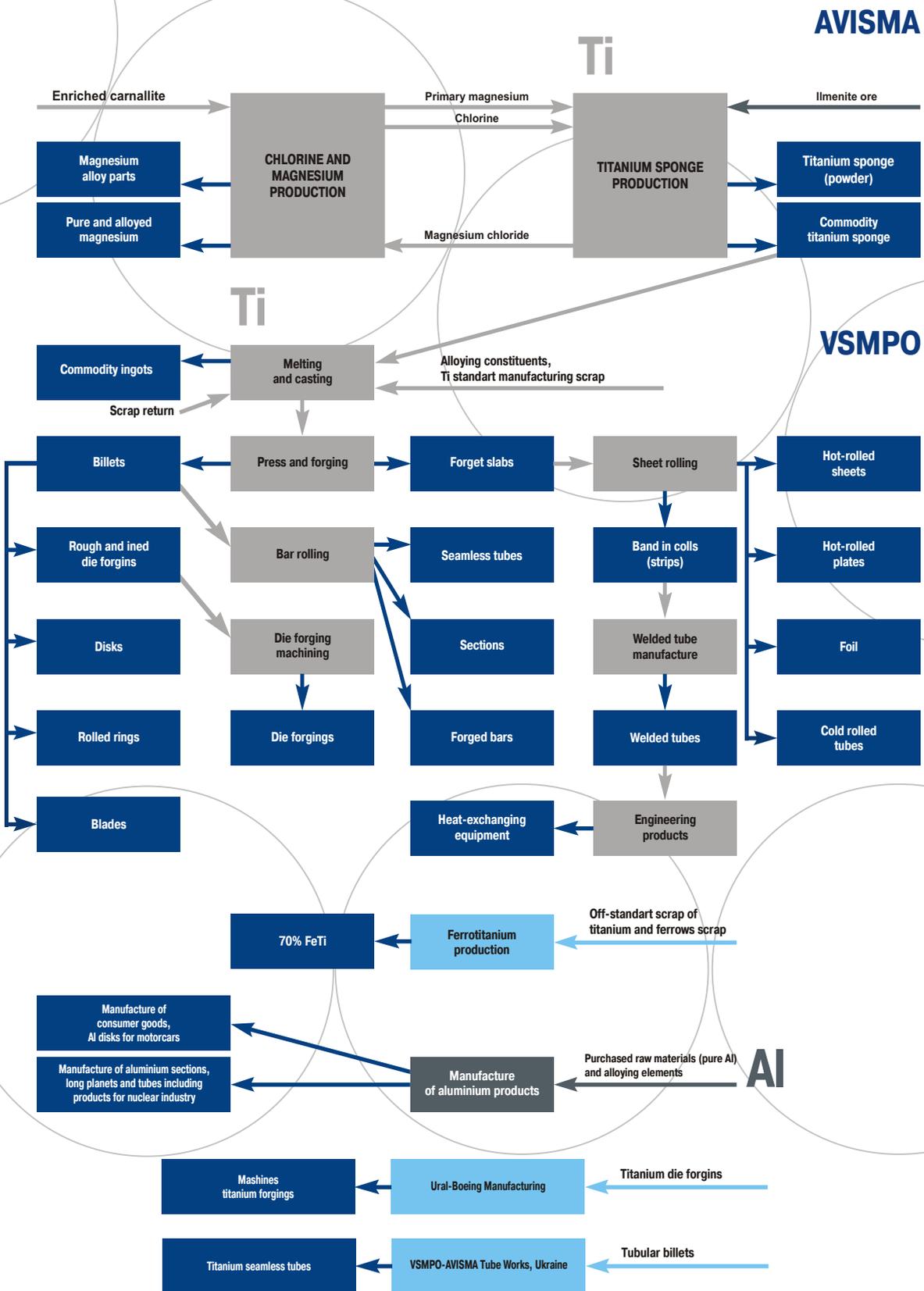
In 2007, shipments of titanium products to the shipbuilding industry doubled. The industry has launched a long-term development program with the focus on strategic ship building. Titanium alloys are a key structural material for submarines hulls, and also for power systems for the vessels.

In 2007, the manufacture of power and capacity equipment from titanium alloys and steel was growing. There is an interest in titanium products such as flanges, fittings, adapters that are used in nuclear power plants and on oil-producing platforms. The shipments for the above applications amounted to 142 tons.

CONCLUSIONS

- The world titanium market experiences continuous and stable growth.
- The Corporation has stable position in the global titanium market.
- It is vital for the Company: to further develop titanium production with the focus on higher value-added products; to increase and preserve the gained share of the world titanium market titanium; and to succeed in spite of the threats we are facing as a result of the expansion of the Chinese titanium producers.

5.3) MANUFACTURING FLOW-CHART



5.4) PRIORITY ACTIVITY AREAS

VSMPO-AVISMA Corporation **is the world leader** in terms of titanium output.

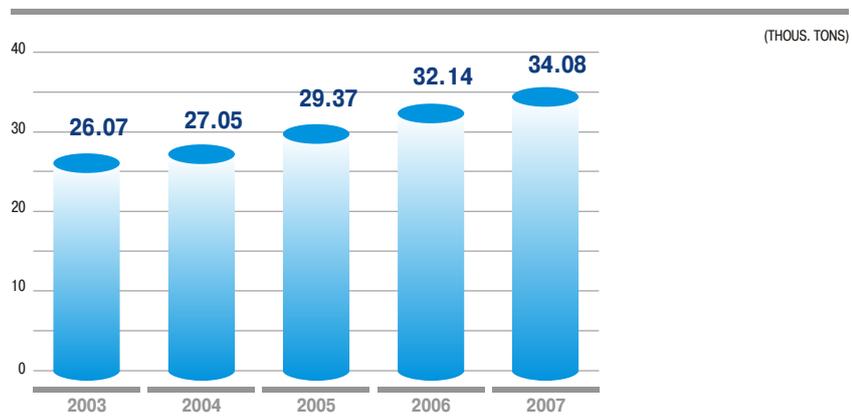
The Company produces ingots, billets, slabs, large die forgings, disks, rolled rings, sections, tubes of multiple diameter, bars, blades, hot-rolled sheets and plates, cold-rolled sheets, and stripes.

TITANIUM SPONGE AND TITANIUM POWDER

Titanium sponge is produced by the AVISMA Division. Based on the 2007 results, total output of sponge was 34 080 tons, including 30 975 tons, or 91%, which was shipped to VSMPO.

In general, shipments of titanium sponge increased by 1 935 tons (6%) as compared to 2006. Titanium sponge and titanium powders were also exported (UK, Germany, USA, Spain, Japan, India) and shipped to other Russian consumers. In 2008, we expect to increase further titanium sponge output and shipments to a level of 36 000 tons.

TITANIUM SPONGE AND TITANIUM POWDER OUTPUT, 2003-2007



TITANIUM PRODUCTS

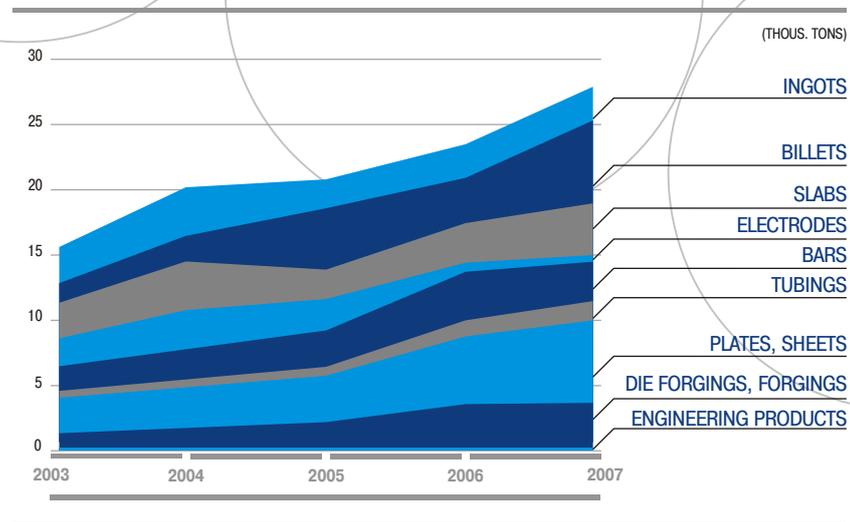
In 2007, shipments of titanium mill products increased by 17.6% as compared to 2006.

Export shipments of titanium mill products were 10.8% higher than the level of the prior year. Shipments of titanium products to the domestic market increased by 39.4% including: shipment of bars and billets - by 72%; sheets and plates by 57%; and die forgings and forgings by 32.6%.

One of the Corporation's activities is the manufacture of power and capacity equipment from titanium alloys and steel. 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 has been a growing interest in titanium products 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.

TITANIUM PRODUCTION, VSMPO-AVISMA



OTHER PRODUCTIONS

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

In 2007, ferrotitanium output decreased in physical terms more than 2.2 times. Export sales accounted for 92% of total ferrotitanium sales. In 2007, due to the drop in the world ferrotitanium market, ferrotitanium's share of the total Company's sales dropped to 2% (2006 - 4%).

ALUMINUM. VSMPO-AVISMA produces large aluminum alloy extruded panels and sections used for the manufacture of aircraft bodies. The level of orders for aluminum products from domestic aircraft construction companies and companies in other CIS countries in 2007 was low. In 2007, aluminum alloy products were exported and shipped to the domestic market. The share of aluminum sales in the total Company's sales was 3% in 2007.

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 the SAV type for many years; and Uralvagonzavod that places orders for tank wheel forgings.

VSMPO-AVISMA produces consumer goods: aluminum sections for widow frame construction; greenhouse sections; and die forged aluminum wheel disks. Sales of consumer goods account for 32% of total aluminum sales.

MAGNESIUM (along with chlorine) is used in the production process for titanium sponge at AVISMA. In addition, from magnesium in excess of that needed for titanium sponge production, AVISMA produces smaller quantities of commodity magnesium and alloys, and magnesium die-castings for sale to others. The planned reduction in magnesium production was expedited by an accident which took place at the mine of AVISMA's major supplier of the raw material for magnesium process. In 2007, the output of magnesium products was 8770 tons, while shipments of commodity magnesium were 11 926 tons. 2007 shipments included stocks produced in the prior year. With the continuing growth of titanium sponge production and the reduction in the production of commodity magnesium our objectives will be:

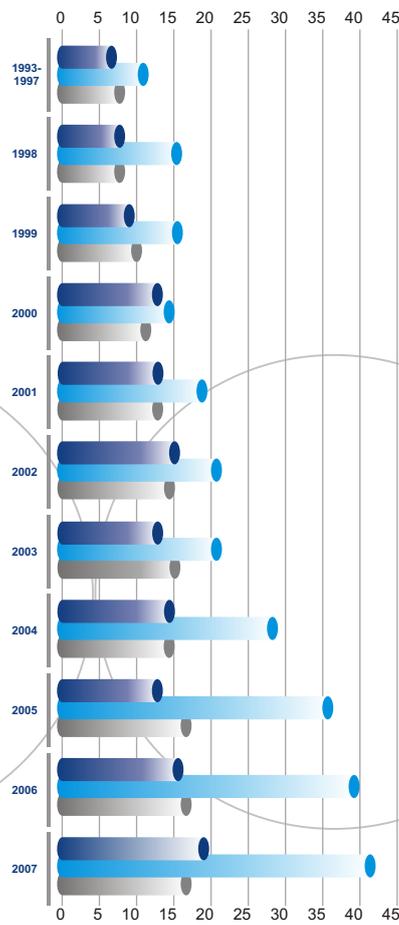
- supply the requirements for titanium sponge production with primary magnesium and from the refining of revert magnesium chloride;
- reduce the costs of magnesium production;
- value-added processing of primary magnesium and manufacture of new product types;
- reconstruction of the electrolysis cells for magnesium chloride input that involves introduction of cells with higher efficiency.

In 2007, commodity magnesium sales accounted for just 2% of the total Company's sales revenue.

5.5) FUNCTIONING OF THE QUALITY MANAGEMENT SYSTEM

VSMPO-AVISMA's primary objective for 2006-2007 was continuous improvement of the manufacturing of competitive high-quality and higher value-added products meeting customers' demands and expectations, international and national standards, legislative and mandatory requirements. To meet this goal, the Company continued to maintain and develop the Quality Management System in 2007. The efficiency of the VSMPO-AVISMA's Quality Management System has been repeatedly confirmed by independent certification agencies and customer audits. As of 01.01.2008 the Company holds 296 current approval certificates for primary manufacture, including 22 for Quality System, 91 for processes, and 183 for products. Each year the number of the customer's approvals for the products and processes grows thus demonstrating the stability of the Company's production processes and QMS.

CERTIFICATION HISTORY



NUMBER OF APPROVALS (as of January 31, 2008)
 for Quality System - 20
 for products - 175
 for processes - 91
 total - 286

	QUALITY SYSTEM	PRODUCTS	PROCESSES
AEROSPATIALE			
Airbus UK			
Astrium			
AUBERT & DUVAL-FORTECH			
BAe Systems			
BF Goodrich			
Boeing			
Boher Schmiedetechnik			
Bombardier			
Cessna			
Daimler-Benz Aerospace Airbus			
Dassault Aviation			
Douglas Aircraft Co			
Dynamet			
Fine Tubes Ltd			
FGUP OMO named after Baranov, Omsk			
FGU TsGSEN			
General Electric			
GKN Aerospace			
Goodrich			
Gosatombnadzor, Ekaterinburg			
Hamilton Sundstrand			
Honeywell			
JSC Aviakor - Aircraft works, Samara			
JSC VASO, Voronezh			
IHI			
Korean Air			
MAK, Aviation Register			
Mettis Aerospace			
Messier Dowty			
Mitsubishi			
MTU			
NPO «Saturn»			
NP STs NASTHOL, Moscow			
NP YuUrTO, Miass			
OS MADIFOND, Moscow			
OS PROMMASH, Moscow			
OS Uraltestsertifikat, Ekaterinburg			
Otto Fuchs			
Pratt & Whitney, USA			
Pratt & Whitney, Canada			
PRI (Nadcap)			
Rolls Royce			
Russian Marine Register of Navigation			
Spirit Aerosystems			
Snecma			
Toshiba			
TUV			
VILS, Moscow			
VNIIS			
Westland Helicopters Ltd			
ZAO «Aviastar - SP», Ulyanovsk			

CERTIFICATION RESULTS IN 2007

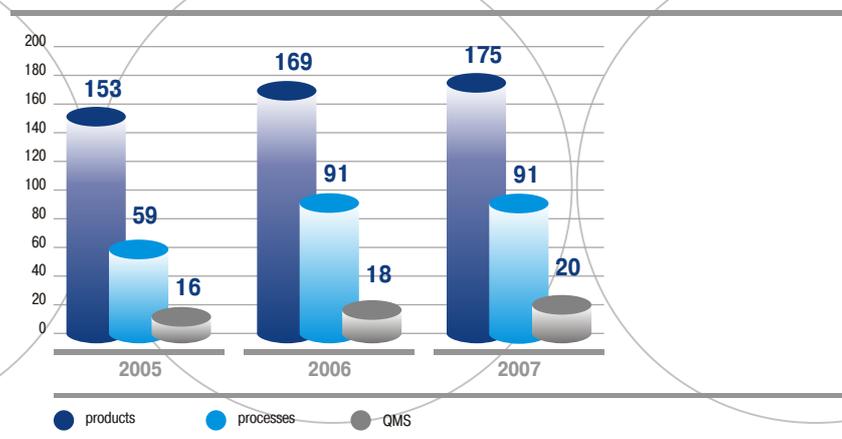
- QMS recertification audit as per AS/EN 9100, GOST R ISO 9001 was held.
- Supervisory audits of VSMPO/AVISMA Environmental Management System (EMS) for compliance with the requirements of ISO 14001, and of QMS for compliance with ISO 9001 with regard to light alloy wheel disk manufacture for pneumatic tires were held.
- “Nadcap” supervisory audit of the heat treatment process, material testing to expand accreditation area (tensile test at elevated temperatures added) was conducted by PRI.
- Supervisory audit of AVISMA QMS for compliance with ISO 9001:2000 was held by TUV NORD CERT.
- The first certification audit of AVISMA magnesium die-casting production for application in car industry was held for compliance with ISO/TS 16949:2002.

EXTERNAL AUDITS RESULTS

In 2007, 58 customer's audits (II party) and 12 certification audits (III party) were held. The corrective actions were developed and implemented as a follow-up of the external audits.

During 2007, VSMPO-AVISMA continued to work on product quality improvement. This resulted in the customers having better satisfaction with the product quality.

CERTIFICATION OF PRODUCTS, PROCESSES AND QMS



INTERNAL AUDITS RESULTS

In 2007, internal audits of all production units and departments of the Company subjected to QMS certification were held. The internal audit procedure requires auditing one kind of product, and during one procedure several divisions involved in the production of one kind of product were audited. There were 16 internal audits held, including 4 extraordinary audits. The corrective actions were developed and implemented as a follow-up of the internal audits. Since 2005, VSMPO-AVISMA's internal audits are process-based and cover both QMS and EMS.

QMS CONTINUOUS IMPROVEMENT

To achieve the primary objective for 2007, the comprehensive reconstruction of the current productions, creation of new productions and introduction of new advanced processes was followed by re-equipment of the control and test center. The technical knowledge in the declared field was confirmed by the participation in the international round-robin tests organized by CENTECH laboratory (France). New tests were mastered: sheet materials superplasticity tests, and tensile test at elevated temperatures that was authorized by PRI under Nadcap program.

VSMPO-AVISMA and Analitic-A subsidiary developed the plan of actions to introduce the U.S. aerospace quality system requirements (NADCAP). The upgraded version of ARM Metrolog system for more effective control of instruments calibration and testing performance was introduced at the workshops and facilities of the subsidiary companies.

Targets in quality to be achieved by VSMPO-AVISMA in 2008 were set.

AS AN ACKNOWLEDGEMENT OF THE CORPORATION'S QMS EFFICIENCY

VSMPO-AVISMA was awarded the "Gold Quality Certificate" established by the Global Quality Promotion program.

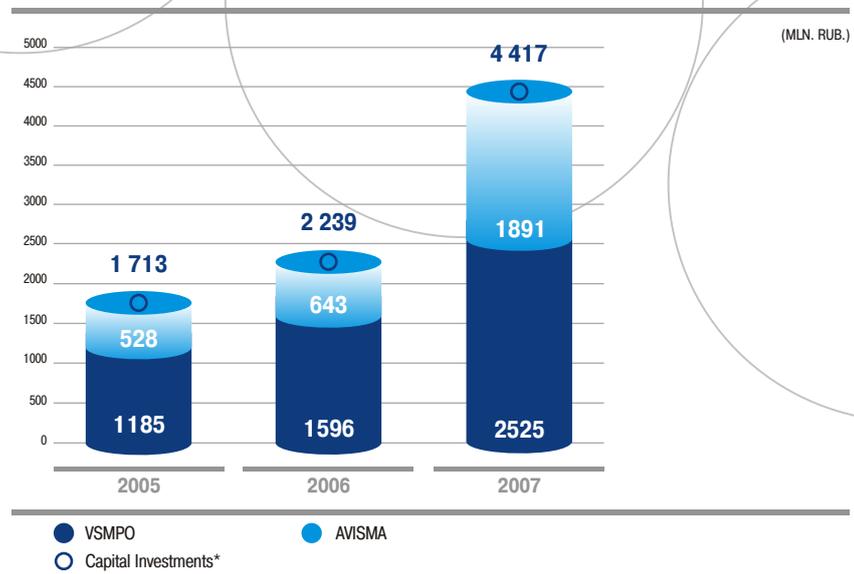
5.6) MODERNIZATION, DEVELOPMENT, INNOVATIONS

Investments in research and scientific resources development are of primary importance as the Company is able to evaluate and adjust to the market fluctuations and thus to enhance the Company's competitiveness.

In 2007 the Company's performance was based **on the investment plan for Long-Term Development in 2006-2012.**

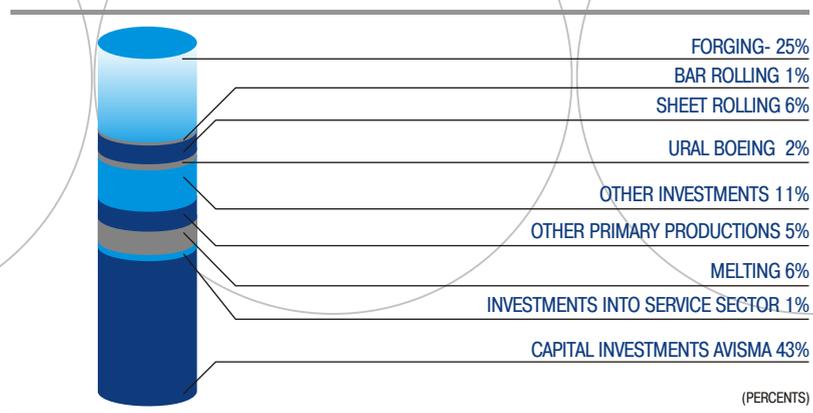
The plan was being implemented at VSMPO-AVISMA.

INVESTMENTS IN VSMPO-AVISMA DEVELOPMENT



* - money resources invested (financials data)
- VSMPO and AVISMA consolidated financials data (under Russian Accounting Standards)

INVESTMENTS INTO PRODUCTION MODERNIZATION AND DEVELOPMENT



AVISMA

The AVISMA Division plans to increase titanium sponge output to 44 thousands tons by 2011 and to secure magnesium chloride production and processing. The investment program for 2007 was 2 bln. 407 mln. rubles, while the actual figure of investments made was 1 bln. 891 mln. rubles. The plan performance was 81%. The investment budget at AVISMA included 50 facilities including new construction, and facilities subject to reconstruction and modernization.

TITANIUM SPONGE AND TITANIUM POWDER PRODUCTION

Works for titanium sponge expansion were completed. The production totally shifted to 4.8 ton reduction vessels per cycle. The existing building reconstruction was started for the production of an additional 10 thousand tons of sponge.

The designing stage of water cooled electrolysis cells for 230 kA current intensity has been completed. In response to the production need for increased magnesium chloride recycling, additional series of BEN-90 electrolysis cells was introduced. The first group of electrolysis cells was under construction.

The development of fluorophlogopite production. Fluorophlogopite refractory parts are used in electrolysis cells of improved output to increase the life of the cells. In 2007, agreements were made on equipment fabrication and installation, designing and construction works for the premises, reconstruction were in progress, and installation of basic technological equipment was started.

A lot of work was done regarding the project for external power supply to AVISMA. Design works for the "Kosmos" power substation and transmission lines were completed. Main equipment was procured for "Kosmos" substation. The construction site was prepared and the main equipment installation was started. An agreement was signed to connect to the federal grid of EES at "Severnaya" substation. Reconstruction of AVISMA internal powers system was underway to supply electricity to new electrolysis cells of 230 kA current intensity and also to transmit electricity from "Kosmos" substation to internal transmission facilities of the plant.

The activities aimed at the creation of purchased chlorine storage facility including chlorine gasification unit and gas transport line were started to secure chlorine supply to titanium sponge production in the conditions of limited supply of carnalite as the source of chlorine. In 2007 a contractor capable and authorized to design the facilities for chlorine was selected. The estimation of the Company's need for liquid chlorine was made in the situation of carnalite supply termination from Uralkaliy. Geological examination of the construction site was carried out. In December 2007 the project was prepared and submitted for approval. The work was carried out for selecting the supplier of specialized custom-made equipment, the fabrication dates were agreed and the discussion of the agreement terms and conditions was started.

VSMPO-AVISMA Corporation

By 2012, the Company plans to produce 46 thousand tons of titanium products a year.

The investment plan performance was 2 bln. 525 mln. rubles, or 74% in 2007.

MELTING AND CASTING

VSMPO is increasing capacities for production of titanium ingots. On the basis of the existing facilities the Corporation needs to create 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.

The following major actions were implemented in 2007: works continued at the skull furnace production area, 4 vacuum-arc furnaces were refurbished and commissioned and 4 furnaces were upgraded. Two presses for electrodes pressing were modernized, and two chip crushing units were commissioned. A site was arranged for electrodes welding. The equipment required for the production was purchased and commissioned.

SHEET ROLLING

To adapt the production to the customer requirements for quality, product mix and quantities, the 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 2007, sheet rolling projects included:

- project works commenced for modernization and reconstruction of warm rolling unit and hot-rolling 2000 unit finishing stand. Project works for the sheet annealing and straightening lines were completed. An order was placed on the equipment fabrication;
- 4 furnaces for stock creep-annealing were built and commissioned;
- sheet etching unit was constructed;
- two ultrasonic inspection areas were created.

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 2007:

- construction of new forgings units on the basis of hydraulic presses with the force of 6 000 tons and 2 500 tons was started;
- designing of the forging unit on the basis of 4 000 ton press was in progress;
- slab forging area on the basis of the press with the force 6 000 tons was created and started up at KUMZ (Kamensk-Uralski Metallurgical Plant);
- modernization of slab die forging area on the basis of 30 000 ton press was in progress including replacement of heating furnaces;
- LUM-inspection area came into service, and disks ultrasonic inspection area was expanded.

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 2007 the following actions were implemented:

- commissioning of the truck beam rough machining area consisting of 6 palletized machines, 7 turning lathes, and 6 horizontal milling machining centers was started;
- a training class of operators for NC machines was organized;
- a grinding unit was commissioned;
- the lathes were put into service and new ones were ordered for fabrication, includes multiple-spindle milling machine.

JV “URAL BOEING MANUFACTURING”

The Joint Venture “Ural Boeing Manufacturing” for rough machining of forgings 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, and also secured long-term agreements for delivery of machined parts from titanium alloys.

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 straightening facility for bars was started up; adjustage treatment area was set up;
- the unit for extrusions surface treatment was designed, fabricated and put into service;
- bar heat treatment area was reconstructed, and annealing furnaces were made.

TUBE MANUFACTURE

In 2007 the 3rd stage of the project for manufacturing 10-40 mm diameter welded titanium tubes has been implemented. One of the tube welding lines was put into operation. Additional equipment was procured (ultrasonic testing units, probolog, induction annealing and others).

TOOLS FABRICATION

Tools fabrication is an important and integral part of the titanium production development. Designing and engineering base of the plant allows us to conduct engineering development, and also to fabricate the whole range of tools (melting, rolling, forging, pressing and cutting tools, devices and accessories) applied for the manufacturing of products from titanium alloys. Increased titanium production capacities require increasing of tool fabrication capacities. In 2007, special equipment was procured and put into service that will ensure tool fabrication increase.

RESEARCH AND DEVELOPMENT PATENTS AND LICENSES

In 2007, there were 33 RF patents and 4 foreign patents on intellectual property received. 76 inventions and useful models, and 645 innovation proposals were introduced into production with the total benefit of 787 968.1 rubles. As of January 1, 2008, the Company owns 467 RF patents RF and 12 foreign patents on inventions and trade marks.

corporation



AVISMA

...A SPIRAL -
goal, endeavor, progress, efficiency, power,
the pace of living, continuation, turn of life, the law of evolution...



6) **DEVELOPMENT STRATEGY** for 2006-2012

6.1) CURRENT SITUATION

The period 2006 to 2012 shows **growing demand for titanium products** both in the RF and worldwide due to the continuation of growth of aircraft construction and aircraft models with increasing shares of composite materials **and titanium alloys.**

An increase in the nuclear power engineering share of the total energy generating structure, as well as development of power and chemical equipment, and bone implant application growth favors demand increases for titanium products.

The forecast is that titanium consumption shall at least double, and our estimation is that 2006 annual consumption of 75-80 thousand tons shall grow to 140-150 thousand tons a year within the next six years.

The leading aircraft and aircraft engine construction companies are looking for alternative suppliers in the U.S., Japan, China, India and the CIS countries (Kazakhstan and Ukraine) to secure titanium supply in the period of increased demand for titanium.

It is fundamental for the customer when choosing the major supplier that the producer is a vertically integrated company: titanium-contained ore titanium sponge ingots all kinds of semi-products, die forgings rough machining or finished products.

It is vital for the Corporation to at least double its production output within a short time-period (2006-2012), and also to enhance vertical integration to a maximum level. Moreover, the Company shall make every effort to produce machined parts ready for application. That will ensure the Company's competitiveness and secure solid position in the world titanium business by 2012 and on.

That postulate defines the Corporation's strategy with regard to technical, production and personnel issues for the said period.

THE CORPORATION'S STRATEGIC GOALS

	2007	2011
Titanium sponge	34 thousand tons	44 thousand tons
Titanium products (marketable product from titanium alloys)	27.4 thousand tons	up to 46 thousand tons by 2012
Added value (for reference)	1	1.5 - 2.0
Sales volume	1.27 bln. \$	2.5 - 3.0 bln. \$

QUALITY

The Corporation's technical and production development is mainly focused on titanium products supply for the aerospace, ship-building, power engineering, machine-building, medicine and other industries where high quality material and high personnel responsibility are the key requirements. That is important due to the specifics of titanium application for aircraft parts and in power generating units where low quality can end up in disaster. Therefore, the world aircraft industry consumes titanium products that were produced in compliance with all international and aviation standards. Currently, there are just four approved suppliers for aircraft engine application in the world, and VSMPO-AVISMA is one of them. Therefore, it is extremely important to increase production output, to improve quality management system and quality control at all stages of the production.

PRODUCTION OF VALUE-ADDED PRODUCTS

It is an important task for the Company to maximize the production of higher value-added products, and continuously improve their quality, and also to provide more services to the customers. The target is to supply titanium near-finished parts ready for assembling. This is the direction where major American and European titanium consumers are looking for the suppliers.

RESEARCH & DEVELOPMENT

It is important to conduct research & development works so that we can offer more efficient alloys and products to the customers who will be able to improve the performance characteristics of the end products, to increase their life time and to reduce costs. The producer's advantages are his own patents and know-how. All designing and R&D resources of VSMPO and AVISMA are concentrated to implement the tasks. It is necessary to involve other Russian design and scientific research institutions in the creation of specialized R&D consortium. The consortium task shall be titanium technologies development, and also fundamental research and adoption of titanium alloys and their production processes.

COSTS REDUCTION

It is necessary to continuously reduce costs and losses to preserve and strengthen the competitive position at the market.

RAW MATERIALS

It is important to increase vertical integration of the production up to the ore sources of major alloying elements such as vanadium and molybdenum, and also to establish strong links with alternative suppliers of ilmenite, rutile and slag.

With regard to titanium sponge production it involves outsourcing of at least two independent chlorine and/or carnalite suppliers to prevent any negative effects of natural disasters and other force-majeure on titanium sponge production at Berezniki site. It also includes creation of the most efficient and backed-up energy supply systems at AVISMA and VSMPO.

PERSONNEL

Creation of optimal development and life conditions for the Company's employees is one of the major conditions of the strategic goals implementation.

THE COMPANY WILL IMPLEMENT THE ABOVE GOALS THROUGH:

- Continuous modernization and development of new productions;
 - Construction of new production facilities;
 - Development of more efficient production processes and products;
 - Establishing stable and alternative raw material sources;
 - Improvement and development of engineering services and personnel in general;
 - Fundamental improvement of life quality in the towns of Verkhnyaya Salda and Berezniki to encourage the personnel to settle and grow there.
- Creation of special economic zone (industrial "Titanium Valley").

6.2) MAJOR RISKS FACTORS

Discussed below are **the major risk factors** which may affect **the Corporation business,** and production activities, sales and **financial condition** of the Company.

All estimates and forecasts expressed in the annual report shall be considered in the context of these risks and uncertainties. The actual Company's performance may differ from the forecast as a result of factors that involve risks of the world titanium market fluctuations, including cyclical development and high level of competition of the said market. Change of the economic situation, laws and governmental regulations, currency fluctuations, as well as other factors may significantly change the Company's performance results in future.

MARKET

1. The Corporation supplies about 65% of the products to civil aircraft sector, therefore it greatly depends on the demand of that industry. The cyclical development of civil aircraft sector is an important factor that has an impact on the Company's performance.

2. The significant part of the Company's revenue comes from sales under long-terms agreements. In case the Company is not able to maintain long-term relations with the major customers in his sector, the sales may significantly drop. Currently, the Company has long-term agreements with major customers, Boeing, Airbus, Rolls-Royce, SAFRAN, Messier Dowty, Embraer, Eurocopter, Dassault, Pratt&Whitney.

3. The world titanium market has a high level of competition which set tight requirements for the competitiveness of the Corporation's products.

4. The average selling prices of titanium products dramatically increased during the last two years as a result of sharp increase in demand that exceeded capacities and expansion rates in the industry. If titanium prices stay at such record high levels, new and potential markets for titanium may reduce as titanium application may become too expensive for many producers. Moreover, the producers who currently use titanium in their products may seek alternative materials to replace titanium in the existing applications

5. The Corporation has a limited number of raw materials suppliers for titanium sponge production. There is also reliance on alloying elements suppliers, and as a result the Company depends in general on third parties with regard to supplies of the significant part of the raw materials.

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.

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.

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.

CURRENCY EXCHANGE RATE FLUCTUATIONS

The Corporation is subject to the risks of currency exchange rate fluctuations when it makes non-ruble procurements of materials, equipment, and services, and makes non-ruble sales and takes loans.

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.

In general, we believe we can forecast the majority of risks for the Company's business, and can manage the risks by prompt adjustments of tactical actions to neutralize the risks and minimize losses.

corporation



AVISMA

...A GOAL

- link, ties, service, unity, dignity, support,
interrelations, fate, generations link...



7) SOCIAL RESPONSIBILITY

7.1) ENVIRONMENTAL PROTECTION

The Corporation's management realizes the extent of the potential impact made by the Company's operations on the environment, and the **importance** of the environmental protection.

Taking into account the Company's environmental policy, and acting in accordance with the requirements of the Russian Federation environmental legislation, the management and all the staff of the Company take all necessary measures to protect the environment by:

- 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;
- 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;
- planning and implementation of actions aimed at reduction of adverse environmental impact of pollutants resulted from VSMPO-AVISMA operations;
- rational use of energy, water and natural gas;
- metal scrap recycling in the production processes;
- reduction of emergency occurrence risk, and their negative environmental impact;
- systematic training of the Corporation personnel on environment protection issues, improvement of their environmental consciousness and awareness;
- expansive cooperation with the interested organizations and community in the field of environmental protection;
- systematic analysis of the Environmental Management System existing at VSMPO-AVISMA for the purpose of continuous improvement.

RECERTIFICATION

In 2007, supervisory audits of Environmental Management System of VSMPO and AVISMA were held by TUV Rheinland InterCert and TUV NordCert for compliance with ISO 14001:2004.

IMPLEMENTATION OF ECOLOGICAL PROGRAMS

The AVISMA Division, as a chemical and metallurgical enterprise, generates wastes different from VSMPO by class of hazard. Therefore, the amount of environment protection expenditures at VSMPO and AVISMA is substantially different.

ACTIONS IMPLEMENTED IN 2007 UNDER THE PROGRAM “MEDIUM-TERM ENVIRONMENTAL PROGRAM OF VSMPO FOR 2007-2010”

TARGETS	ACTION
Reduction of hydrochloric, sulphuric and nitric acid discharge	Installation of exhaust system including absorbing filter from contact tanks for used pickling solutions
Pollutants trapping improvement	Scrubber modernization at the plants №20, №35, №36, №38
Termination of unclean wastewater discharge in Barnevka river	Project design for storm-water discharge at the site “A”
Cleaning improvement	Capital repair of aerotank №9 of sewage disposal facilities
Disposal of 42 tons of wastes of 1 class of hazard	Transfer for disposal of polychlorinated biphenyl-contained equipment
Disposal of 926 tons of wastes of 2 class of hazard	Transfer for disposal of exhausted alkaline melt

ACTIONS IMPLEMENTED IN 2007 UNDER THE PROGRAM “ECOLOGICAL ACTIONS PROGRAM OF AVISMA FOR 2006-2008”

TARGETS	ACTION
To reduce the discharge of wastes in industrial discharge channel of Berezniki to 6000 tons a year	Reconstruction of wastes neutralization and settlement facility
To reduce the discharge of pollutants with wastewater in Tolych river to 11000 tons a year	Development and expert evaluation of the project for wastes landfill improvement
To reduce the production wastes disposal at the dump of Ivaka quarry to 5000 tons a year	Modernization of the screening unit for lime stone wastes at Ivaka quarry

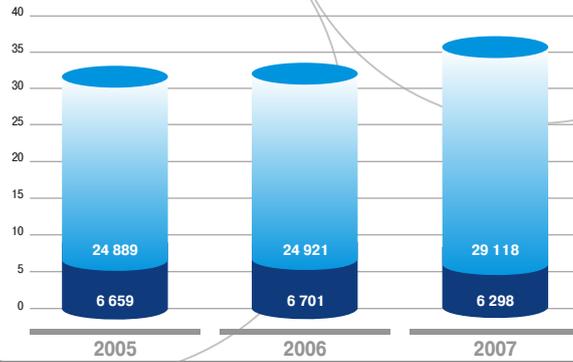
The works aimed at reduction of pollutants discharge with wastewater into industrial discharge channel and Tolych river will be continued in 2008.

In 2007, there were no accidents that entailed environment pollution and unauthorized discharge of pollutants at AVISMA.

QUANTITATIVE INDICATORS OF IMPACT ON THE ENVIRONMENT

WATER CONSUMPTION

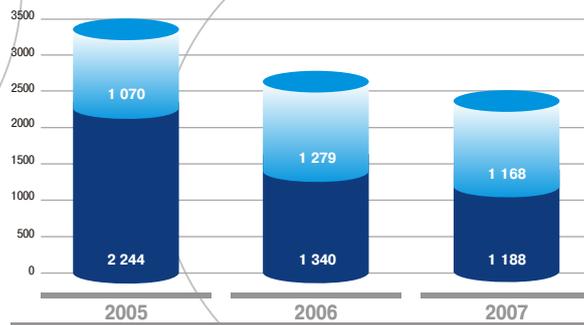
(MLN. CUBIC METERS)



● AVISMA ● VSMPO

AIR POLLUTIONS

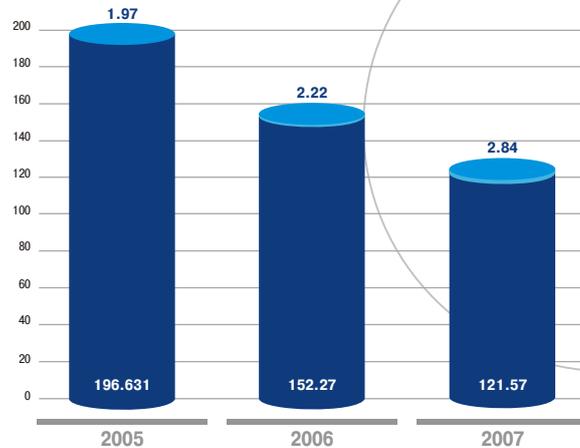
(TONS/YEAR)



● AVISMA ● VSMPO

POLLUTANTS DISCHARGE WITH WASTEWATER

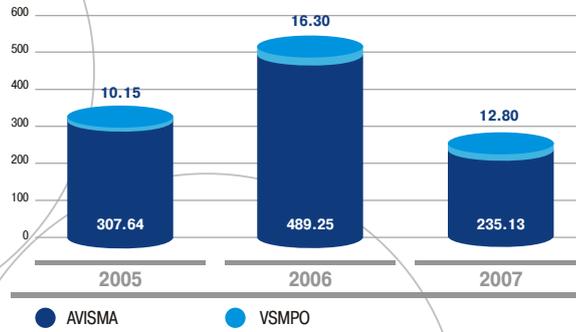
(THOUS. TONS)



● AVISMA ● VSMPO

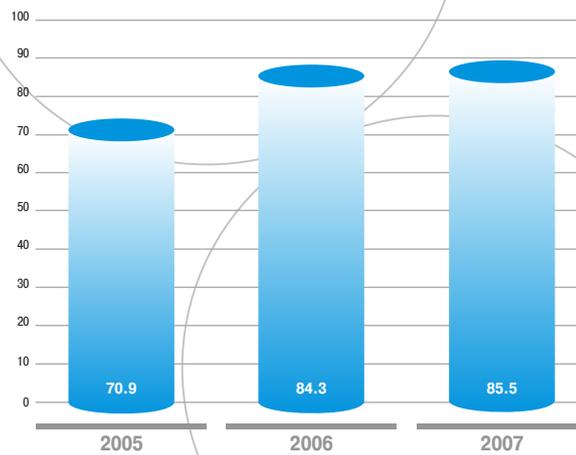
WASTES DISPOSAL

(THOUS. TONS)



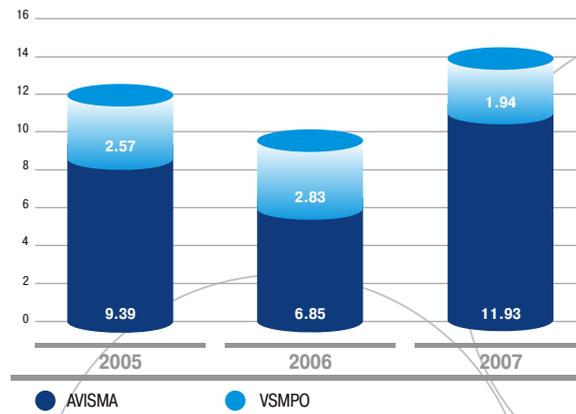
WASTES RECYCLING

(PERCENTS)



PAYMENTS FOR ADVERSE ENVIRONMENTAL IMPACT

(MLN. RUB.)



ENVIRONMENTAL COOPERATION

In 2007, 2 audits were carried out by government oversight bodies (environmental prosecution office, Rostehnadzor (Russian Federal Technical Oversight Agency), LA&TMC in Ural Federal District) at VSMPO. 2 audits were carried out by government oversight bodies (Rosпотребнадзор, Rosselkhozнадзор) at AVISMA. 11 orders were received, 7 of them have been satisfied and implementation of 4 orders is in process and under control.

In the period of unfavorable weather conditions the department of routine environment control of Berezniki city took 22 measurements at AVISMA gas-scrubbers and found no deviations from the maximum permissible discharge norms.

ENVIRONMENTAL EDUCATION

VSMPO-AVISMA continued EMS training and 2 193 person were trained. 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 is regularly held by the Company. The contest included the following categories: environmental equipment operation, production and consumption waste handling, information for the employees and posters on environmental issues. The Corporation organized the contest game devoted to the day of environment protection in the sponsored schools and pre-schools.

EMS EFFICIENCY

Within the public program of business recognition for active environment protection and rational use of national resources VSMPO and AVISMA were named the "Russian Leader in Environmental Activities 2007" at the third all-Russia conference "New priorities of the national environmental policy in the real sector of the economy".

VSMPO was recognized as the winner in the nomination "Achievements in Wastes Recycling" and "Environmental Management System at the Production Enterprise" in the competition "Environmental Safety 2007" held by MTV TEN for the Urals region. In March 2007, the Company was nominated in the competition "100 Best Companies of Russia. Ecology and Environmental Management", and was awarded a medal "The Ecologist 2007"

In 2007, AVISMA was named "The Leader of Environmental Protection 2007" during the rating organized by public organization on independent environmental assessment "NESPI".

7.2) PERSONNEL

The Company's personnel policy is

a reasonable combination of the processes for personnel replenishment and preservation that is able to ensure achievement of the Company's goals

at high professional level.

The personnel policy also involves maintenance of optimal personnel level and its professional and social development.

The strategy of the personnel management development is an integral part of VSMPO-AVISMA general strategy, and it contributes to financial stability, profitability and continuous improvement of the Corporation. The strategy of the personnel management development is focused on achievement of the Company's objectives, strengthening its competitiveness, and work efficiency improvement.

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

- selection and assignment of personnel;
- personnel professional adaptation;
- personnel qualification and rating;
- upgrading and maintenance of the personnel for management reserve;
- personnel education;
- labor management;
- personnel encouragement and motivation.

The number of the Corporation's employees is 21 096 persons.

PERSONNEL STRUCTURE

INDICATOR	2005	2006	2007
Average age	38 лет	39 лет	40 лет
Average work experience	11 лет	11 лет	12 лет
Men	62%	62%	57%
Women	38%	38%	43%

PERSONNEL TURNOVER

2003	2004	2005	2006	2007
3.7%	4%	4.6%	4.6%	6.4%

The personnel turnover is stable.

PERSONNEL SELECTION

The Company's policy in personnel selection is aimed at 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 the internal standards of the Corporation, which are aimed mainly at personnel technical and professional knowledge improvement in various training forms, and advanced training.

DESCRIPTION	2007	% of total number of employees
Advanced training for managers and specialists	4 247	20%
Refresher courses, training and second vocational education for workers	1 536	7%
Advanced training for workers	2 545	12%
Higher education of future specialists	849	4%
Practical training	1 884	9%

THE RESERVE OF MANAGEMENT PERSONNEL

One of the major competitive advantages of the Company is its skilled and effective personnel. 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.

EMPLOYEES' ENCOURAGEMENT AND MOTIVATION OPTIMIZATION ACTIVITY

In the course of 2006, the labor pay system at VSMPO-AVISMA included personal premium and bonuses aimed at motivation of the Company's employees to achieve the Company's goals. The salary and material encouragement system is improved on a continuous basis ensuring consideration and evaluation of employees' work results against salary levels.

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 2007 AVISMA Personnel Department won the Third All-Russia Contest "The Best Russian Personnel Department 2007".

INDICATOR	2006	2007	Growth rate, %
Personnel on the payroll	20 828	21 096	101.3
Production rate, RR thousand per person	1 362	1 453	106.7
Salary and wages, rubles	14 155	16 792	118.6

In 2007, the average salary and wages at VSMPO-AVISMA was 16 792 rubles, 18.6% higher the level of 2006.

Production rate is continuously improving at the company. Production rate indicator for 2007 was 1 453 thousand rubles per person, 6.7% up as of the prior year. Labor efficiency growth is one of the major contributors in output increase.

INFORMATION OF PERSONNEL

A personnel information system has been established and is successfully developing. It includes newspapers “Metallurg”, “Novator”, AVISMA TV broadcast, VSMPO TV broadcast, corporate magazine “VSMPO-AVISMA Bulletin”, the Corporation's website www.vsm-po.ru that provide actual information about strategic and immediate tasks to the employees of the Company. Briefings of employees with facility management ensure constructive management-employee dialogue.

THE COMPANY'S YOUTH ORGANIZATIONS

3 472 young employees, who are under 35 years old, have joined the youth organization, and they represent 16% of the total number of employees. The major goals of the youth organization is encouraging development and realization of young employees' professional and creative potential within the framework of the Company's strategic goals. Primary youth groups have been established in each shop that work actively with young people. VSMPO-AVISMA management provides every support to the youth organization development.

7.3) INDUSTRIAL SAFETY AND LABOUR PROTECTION

**Life preservation and health maintenance of the
Company's employees and environment protection
is the priority task for the Company**
with regard to industrial safety and labor protection.

The Company's management is committed to reduce the level of injuries, accidents and professional diseases by improvement of labor conditions and enhancing labor safety. Labor protection and industrial safety is taken into account in the Company's current investment plans, overhaul plans and personnel training plan.

PRODUCTION FACILITIES

A part of the Company's production facilities belongs to the category of hazardous production facilities according to the 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.

STANDARDS

There is the system of standards on labor protection, industrial and environmental safety introduced at the Company that covers all issues of management in labor protection and industrial and environmental safety. In addition to the standards, there are regulations and procedures in place that define work in the field of labor protection and industrial safety. The system of standards is revised annually.

PREVENTIVE ACTIONS

In 2007, preventive actions for labor protection and industrial safety were focused on further improvement of safe labor conditions and production risk reduction.

As a results of preventive actions 448 target audits operational audits were carried out.

VSMPO and AVISMA shops developed shop emergency response plans. 159 training alerts (drills) were exercised in 2007.

TRAINING AND EVALUATION

In 2007, the training and evaluation of the Company's managers and specialists on labor protection and industrial safety was carried out.

WORKING PLACES QUALIFICATION

Working places were tested and qualified for working conditions compliance for the third time, and work on improvement of working conditions at working places was carried out on a routine basis.

PERIODIC HEALTH EXAMINATION

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

In 2007, the schedule of period health examination of the employees who works in hazardous and harmful conditions was fulfilled.

HAZARDS EFFECT REDUCTION AND LABOR CONDITIONS IMPROVEMENT

Take-off data of harmful production factors taken at the working places in 2007 showed that the hazardous and harmful affect on the employees labor conditions continued to be significant. With this regard the

Company carried out the work that included:

- technical actions according to the Labor protection agreement;
- repairs of production facilities in order to maintain their safety, and to improve sanitary conditions and accommodation space for the employees;
- procurement of certified personal protective equipment for the employees;
- additional potable water supply to the working places of increased heat liberation;
- providing dairy products to the employees according to the list approved on 04 Oct., 2006;
- bottle water supply to the workers.

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 - 3.54 per 1 000 employees.

7.4) SOCIAL POLICY AND CHARITY

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:**

PERFORMANCE OF COMMITMENTS TO LABOR CONTRACTS

The Labor contract is the major tool to implement the policy of social partnership where mutual agreements achieved by the Company's management and the trade union are specified: on labor payment, obligations to provide extra support for families and children, social benefits and guarantees, labor protection and industrial safety. Implementation of the social partnership principles supports every party of the Labor contract in its pursuit of efficient labor and decent life.

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.

MEDICAL TREATMENT, HEALTH IMPROVEMENT AND RECREATION

To preserve the employees' health, to reduce sickness rate and sick leaves rate, and to increase working age, the company implements the programs "Medicine and Health", "Health-Improvement Nutrition", "Health and Recreation" and "Health".

The Company's efforts in this sphere and implementation of social programs result in improvement of labor efficiency as they create conditions for health recovery, prevention and diagnostic of diseases, and adequate treatment of the Company's employees.

PROVISION OF HOUSING

Improvement of housing for the Company's employees helps to resolve the problem of the personnel deficit. In 2007, the Company started to build the housing complex of 7 046 sq. m. The Company has a list of employees who need housing, and hopes to resolve the most difficult social problems of today. In 2007, the Company made interest-free loans for housing purchases including those for the young employees. 66 apartments were bought in the new house to improve the housing conditions of the employees.

HEALTH IMPROVEMENT AND RECREATION

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.

It is a tradition of the employees to hold sports tournaments in different sports: skiing, swimming, football, volleyball, basketball, tennis, athletics and others.

CULTURE AND LEISURE ACTIVITIES

The efficiency of efforts in the culture and leisure activity is demonstrated by improvement of the Company employees' values and their cultural level.

SOCIAL INFRASTRUCTURE (main facilities)

- «TIRUS» MEDICAL CENTER (Verkhnyaya Salda)
- AVISMA MEDICAL CENTER (Berezniki)
- VSMPO CATERING SERVICE (Verkhnyaya Salda)
- AVISMA CATERING SERVICE (Berezniki)
- SANATORIUM ((Berezniki)
- «TIRUS» RECREATION CENTER (Verkhnyaya Salda)
- «TURIST» RECREATION CENTER (Verkhnyaya Salda)
- WEEKEND RECREATION CENTER (Berezniki)
- «SOSNOVKA» RECREATION CENTER (Verkhnyaya Salda)
- CHILDREN'S HEALTH IMPROVEMENT CAMP (Berezniki)
- CHILDREN'S HEALTH IMPROVEMENT CAMP (Verkhnyaya Salda)
- VSMPO SPORTS CLUB (Verkhnyaya Salda)
- «METALLURGIST» SPORTS CLUB (Berezniki)
- WORKSHOPS FITNESS ROOMS (Verkhnyaya Salda, Berezniki)
- KIDS SPORTS CLUBS (Berezniki)
- PALACE OF CULTURE (Verkhnyaya Salda)
- «METALLURGIST» PALACE OF CULTURE (Berezniki)
- PRE-SCHOOLS (Berezniki)

STRATEGIC CHARITY

VSMPO participation in the Program “World production - Town of today” is the strategic charity.

This Program is a long-term plan of actions initiated by the Company and the local government of Verkhnyaya Salda to implement social programs within the national projects set as the first priority. The Company's investments are aimed at stable development of the VSMPO production zone, which, in its turn, guarantees economic plans implementation by 2012.

The Program includes the following target programs:

- “Future potential of the town, the Urals, Russia” program for educational system development;
- program “Physical education and sports in the town of today”;
- program “Cultural environment in the town of today”.

TRADITIONAL CHARITY

The Company's charity is aimed at promotion of childhood protection, support of education, science, culture, art and sports activities.

In 2007, the project “We need every child” and “Support of socially important institutions and social action organizations” was in progress.

corporation

VSMPO

AVISMA

...ARROWS
- cooperation, fertility, result, connection...



8) CORPORATE MANAGEMENT

8.1) SECURITIES MARKET

As at 31.12.2007 the weighted average price per share of VSMPO-AVISMA Corporation was **\$ 314.42;**

the market capitalization of VSMPO AVISMA Corporation was **\$ 3 625 117 338.**

Note: 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 weighted average price per share was determined as at the last day of trading in Quarter 4 2007 on 12.28.2007 - at MICEX Stock Exchange.

Starting 14 August, 2007 MICEX Stock Exchange has began to publish the new index - MICEX M&M (MICEX Metals and Mining Index) for stocks of metallurgical and mining companies. VSMPO-AVISMA quotations are included in the index MICEX M&M. This is price index weighted by market capitalization (free-float) of the most liquid stocks of the Russian issuers in the corresponding sector of industry.

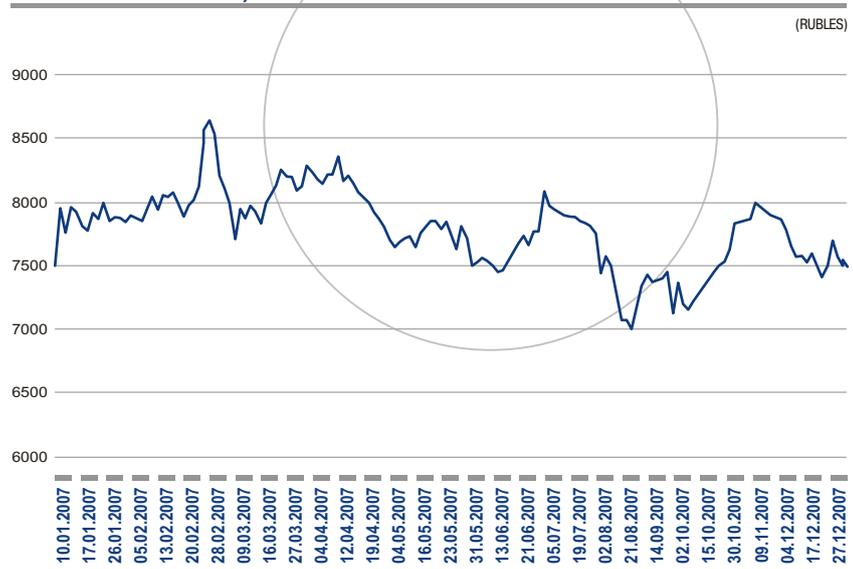
Stock Exchange

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.

For the period from 01.09.2005 through 12.28.2007:
Trading volume - USD 17 984 774
Trading volumes - 58 944 shares
Number of transactions - 273

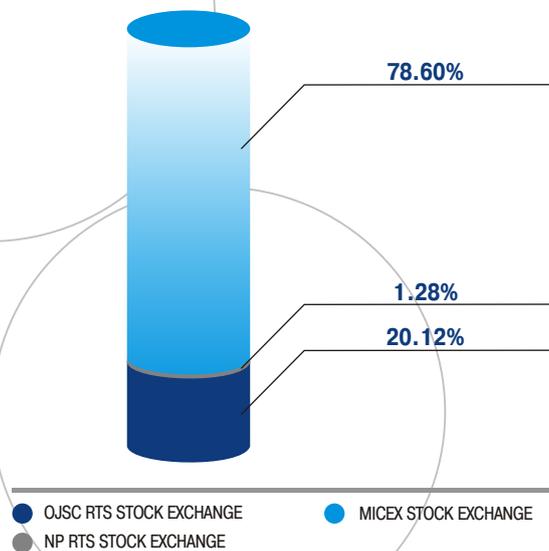
PRICE BEHAVIOR AT RTS, VSMPO-AVISMA SHARES



Source - Russian Trading System Stock Exchange for VSMO.

VSMPO-AVISMA SHARES TRADING

(mln. \$)



Source: www.scrin.ru

8.2) 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 - May 21, 2007, the following shareholders held 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 the Issuer: 9,9541%

Common shares: 9,9541%

Full and short company name: **Deplex Limited**

Share of capital of the Issuer: 18,9420%

Common shares: 18,9420%

Full and short company name: **Finebond Limited**

Share of capital of the Issuer: 18,9420%

Common shares: 18,9420%

Full and short company name: **Multibrook Ltd**

Share of capital of the Issuer: 9,9541%

Common shares: 9,9541%

Full and short company name:

Renaissance Securities (Cyprus) Limited

Share of capital of the Issuer: 12,1299%

Common shares: 12,1299%

8.3) Board of Directors, changes in the board of directors, General Director, shares **OF THE BOARD MEMBERS** and of the General Director in the registered capital in 2007, information on transactions with the Company's shares (if any), compensation paid to the board members.

Board of Directors elected by VSMPO-AVISMA shareholders meeting
on June 28, 2007:



CHEMEZOV, SERGEY VIKTOROVICH, b. 1952

Chairman.

Education: higher, Doctor of Economics.

Places of employment and positions for the last 5 years:

Before 2008 - Director General, FGUP Rosoboronexport, Moscow;
2008 till present time Director General, Rostechologies.

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

Deputy chairman.

Education: higher, candidate of legal sciences.

Places of employment and positions for the last 5 years:

Before 2008 - Deputy Director General, FGUP Rosoboronexport, Moscow;
2008 till present time First Deputy Director General, Rostechologies.

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

Deputy chairman.

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:

2004 till 06.23.2005: Chairman of the Supervisory Board of Joint Pension Fund, Moscow;

2006 till 11.21.2007: Chairman of Board of Directors, Sibintek;

2007 till present time: member of the Board of Directors, Peter Hamborough Mining;

2007 till present time: member of the Board of Directors, Industrial Energy Company, Moscow.

Share in the registered capital of VSMPO AVISMA Corporation: none.**Shares in subsidiary/related companies of VSMPO AVISMA Corporation:** none.**BESEUDIN, VASILY ALEXANDROVICH**, b. 1953

(left the board of directors from 15 Feb, 2008)

Education: higher.**Places of employment and positions for the last 5 years:**

2003 - June 2005: Director of Maintenance, Reconstruction and Repair, AVISMA, Berezniki, Perm Region;

July 2005 - February 2008: Director of Maintenance, Reconstruction and Repair, AVISMA affiliate of VSMPO-AVISMA Corporation, Berezniki, Perm Region;

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

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

2003 - February 2008: 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 - February 2008: Chairman of the Board of Directors, AVISMA-Spetsremont LLC, Berezniki, Perm Region;

2005 - February 2008: 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: Position: 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.**VOEVODIN, MIKHAIL VIKTOROVICH**, b. 1975**Education:** higher**Places of employment and positions for the last 5 years:**

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.



MELNIKOV, NIKOLAI KONSTANTINOVICH, b. 1955

Education: higher

Places of employment and positions for the last 5 years:

2003 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.



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.

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 THE BOARD MEMBERS

The annual general shareholders meeting passed a resolution on June 28, 2007 to pay compensation to the members of the Board of Directors based on 2006 performance in the total amount of 2 450 000 rubles.

8.4) SHAREHOLDERS EQUITY

The shareholders equity as at January 1, 2008 was
11`529`538 rubles.

It is divided into 11`529`538 common shares with par value of 1 ruble.

8.5) PAYMENT OF DECLARED ACCRUED DIVIDENDS

Below is the information on the dividends of **VSMPO-AVISMA Corporation** declared and paid for 2006:

DESCRIPTION	
Total declared dividends, rubles	586 046 416.5
Declared dividend per common share, rubles	50,83
Date of annual general shareholders meeting	28 June 2007
Resolution of the annual general shareholders meeting to pay dividends on shares	Meeting Minutes as of July 12, 2007
Period of payment of declared dividends	Nor later than the end of the corresponding fiscal year
Form of payment of declared dividends	Cash
Reporting period for which dividends were paid	2006
Total dividends paid	584 448 662,26
Total dividends unpaid	1 597 754.31* rubles

* Incorrect, incomplete or outdated information on the shareholders' bank details showed in the questionnaires of the registered shareholders; incorrect, incomplete or outdated information on the shareholders' postal address 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.

8.6) PROFIT DISTRIBUTION

DISTRIBUTION OF PROFIT FOR VSMPO-AVISMA FOR 2007	000 rubles
Net profit for 2007	6 216 338
Distributed to:	
Consumption fund	975 651
Dividends for 2007 (10%)	621 673
Financing of capital investments for 2007	4 612 176
Compensation to the Board of Directors based on 2007 performance results	6 216
Compensation to the Auditing Committee based on 2007 performance results	622

8.7) ASSETS MANAGEMENT AND IMPROVEMENT OF THE CORPORATE STRUCTURE

In 2007

three subsidiaries were formed:

TIRUS INTERNATIONAL SA (Switzerland) - commercial activity;

GRIFOLDO (Cyprus) - commercial activity;

Ural Boeing Manufacturing - machining of forgings.

Therefore, as of 31.12.2007 there are 51 subsidiaries formed into 8 units.

8.8) INFORMATION ON MAJOR SUBSIDIARIES

MULTIBRANCH PRODUCTION

NAME	share, %	date of state registration	DESCRIPTION
AVISMA-Mashinostroitel Berezniki, Perm region, Russia	100%	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-Spetsremont Berezniki, Perm region, Russia	100%	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
AVISMA-MetrATek Berezniki, Perm region, Russia	100%	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
Analitik-A Berezniki, Perm region, Russia	100%	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-TekhnExpert Berezniki, Perm region, Russia	100%	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

NAME	share, %	date of state registration	DESCRIPTION
AVISMA-Les Berezniki, Perm region, Russia	51%	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	100%	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	100%	06.10.2000	brokerage business, technical and economic service, all kinds of foreign economic activity per the statute-established order, advertising
VSMPO-LESTA Verkhnyaya Salda, Sverdlovsk region, Russia	100%	03.10.2005	manufacture of wooden building structures and joinery
VSMPO-Energomontazh Verkhnyaya Salda, Sverdlovsk region, Russia	100%	28.12.2005	manufacture of furnaces and furnace burners; fabrication, assembly, repair and maintenance of industrial refrigeration 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	100%	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	100%	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
VSMPO-Elektro Verkhnyaya Salda, Sverdlovsk region, Russia	100%	20.03.2006	electric power distribution and operability assurance in power plants and power supply network

TRANSPORTATION AND ENERGY

NAME	share, %	date of state registration	DESCRIPTION
AVISMA-TransAvto Berezniki, Perm region, Russia	100%	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

NAME	share, %	date of state registration	DESCRIPTION
Avtostoyanka Berezniki, Perm region, Russia	100%	22.01.2004	services of autotransport storage and safe-keeping, vehicle repair, other kinds of activity
VSMPO-Avtotrans Verkhnyaya Salda, Sverdlovsk region, Russia	100%	27.02.2006	freight motor transportation

DISTRIBUTION

NAME	share, %	date of state registration	DESCRIPTION
VSMPO-Tirus, GmbH, Germany	100%	14.04.1999	ensuring timely local shipments to satisfy customers' needs. Additional services, such as cutting of plate, sheet, bar and billet into mulds, heat treating, precision grinding and machining to customers' specifications
VSMPO Tirus Limited, UK	100%	06.08.1999	ensuring timely local shipments to satisfy customers' needs. Additional services, such as cutting of plate, sheet, bar and billet into mulds, heat treating, precision grinding and machining to customers' specifications
VSMPO-TIRUS, U.S., INC, USA	100%	06.04.2000	ensuring timely local shipments to satisfy customers' needs. Additional services, such as cutting of plate, sheet, bar and billet into mulds, heat treating, precision grinding and machining to customers' specifications
VSMPO Titan Scandinavia, Sweden	100%	15.08.2000	marketing of seamless tubes from titanium and its alloys in the world market beyond the CIS
Titan Dnepr, Ukraine	100%	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	50%*	28.04.2003	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. 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.

NAME	share, %	date of state registration	DESCRIPTION
Tirus International SA, Switzerland	100%	13.07.2007	ensuring flexible response to the changes of the condition of various markets, prompt redirection of flows of commodities, management of ending inventories at the foreign warehouses of the Group, as well as direct distribution of the Corporation's products in the European region.
GRIFOLDO, Cyprus	100%	04.02.2007	commercial activity

* - VSMPO-AVISMA participation share via relation to VSMPO FUNDING CORPORATION

CONSTRUCTION

NAME	share, %	date of state registration	DESCRIPTION
AVISMA-Stroy Berezniki, Perm region, Russia	100%	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	100%	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	100%	15.03.2006	construction of buildings and structures of Level II; provision of raw materials, materials, equipment, tools, etc

MARKETING AND SALES

NAME	share, %	date of state registration	DESCRIPTION
Trade Company Titan Verkhnyaya Salda, Sverdlovsk region, Russia	70%	02.04.1992	verification of competitiveness of consumer goods manufactured by the issuer in the local market.
Tirshop Verkhnyaya Salda, Sverdlovsk region, Russia	70%	30.06.1999	retail and wholesale of consumer goods
Trading House Tirus Verkhnyaya Salda, Sverdlovsk region, Russia	100%	03.12.2003	wholesale distributors' services for a diverse product mix.

ADDITIONAL PRODUCTION

NAME	share, %	date of state registration	DESCRIPTION
VSMPO-AVISMA Tube Works Ukraine	50.1%	13.07.2001	tube manufacture
Ural-Boeing Manufacturing	50%	26.07.2007	machining of forgings
Uralskoje Zoloto Ore-Mining Company	33%	19.12.2005	extraction and enrichment of copper ore
NF&M International, Inc., USA	100%*	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 011-49-6990-547713
AP VSMPO Verkhnyaya Salda, Sverdlovsk region, Russia	100%	17.01.2006	aluminum mill products
Shag-1 Zhukovsky, Moscow region, Russia	51.2%	13.12.1991	state of the art production of orthopedic footwear as well as footwear of any other applications and types, sale of footwear
VSMPO-Posuda Verkhnyaya Salda, Sverdlovsk region, Russia	47%	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
VSMPO-Mebel Verkhnyaya Salda, Sverdlovsk region, Russia	100%	03.02.2006	furniture fabrication
VSMPO-Instrument Verkhnyaya Salda, Sverdlovsk region, Russia	100%	13.02.2006	tool making
VSMPO-KPI Verkhnyaya Salda, Sverdlovsk region, Russia	100%	13.02.2006	tool making
Ural Verkhnyaya Salda, Sverdlovsk region, Russia	51%	28.06.2002	manufacture of tableware and kitchen utensils as well as small-size parts of consumer goods for main production shops

* - VSMPO-AVISMA participation share via relation to VSMPO-Tirus, U.S., Inc.

SERVICES

NAME	share, %	date of state registration	DESCRIPTION
Culture and Sport Center Metallurg Berezniki, Perm region, Russia	100%	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	100%	23.06.2003	cultural services, services for organization of performances, recreational services, catering services, other kinds of activity
Meridian Berezniki, Perm region, Russia	100%	07.10.2005	demonstration of films, entertainment, foreign economic, production, economic, advertising, trade and purchasing activities
Stolovaya Sportivnaya Berezniki, Perm region, Russia	99,8%	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
AVISMA-Catering Facility Berezniki, Perm region, Russia	100%	10.08.2005	rendering of catering services

OTHER

NAME	share, %	date of state registration	DESCRIPTION
Insurance Company Tirus Verkhnyaya Salda, Sverdlovsk region, Russia (зависимое)	74.9%*	26.02.1992	life and property insurance, including liability insurance
Avitrans Berezniki, Perm region, Russia	100%	24.09.1997	property leasing, execution of sales contracts, brokerage business
Medical insurance company Tirus-Medservice Verkhnyaya Salda, Sverdlovsk region, Russia	80.4%	10.11.2002	activities in the field of compulsory social security
Titan Interstate Association	19.05%	22.05.1995	commercial activity, research in metallurgy engineering, "Titan" magazine publication, holding of international conferences, round tables and seminars on vital issues, presentations, www.titan-association.com website maintaining, consulting related to the activity of Titan Interstate association.
VSMPO FUNDING CORPORATION, USA	100%**	08.04.2003	other business activity

*19,9% - VSMPO-AVISMA participation share 55% - VSMPO-AVISMA participation share via relation to Avitrans OOO

** - VSMPO-AVISMA participation share via relation to VSMPO-Tirus, U.S., Inc.

8.9) CODE OF CORPORATE GOVERNANCE (Federal Commission for the Securities Market)

In 2006-2007 VSMPO-AVISMA improved the corporate governance following the recommendations of the Federal Commission for the Securities Market to observe the Code of Corporate Governance approved by the RF Government.

Particularly, since October 2005 the notice of the general shareholders meeting is given 30 days before the meeting, and the general shareholders meeting-related information is published at VSMPO-AVISMA website.

In February 2007 the new revisions of the Charter, the Company's Provisions on General Shareholders Meeting, on Board of Directors, on General Director, on Audit Commission were adopted.

Those documents improved shareholders opportunities to get the information of the Company, and increased the power and the rights of the Board members that enhanced their role in the Company's activities.

In 2006-2007 more attention was given to the supervision of financial and business operations of VSMPO-AVISMA. The Board of Directors approved the regulations of internal supervision of financial and business operations. The service of routine auditing and supervision works on a regular basis.

GENERAL SHAREHOLDERS MEETING

	CODE OF CORPORATE GOVERNANCE	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 par a 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	

	CODE OF CORPORATE GOVERNANCE	OBSERVED/ NOT OBSERVED	NOTES
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

	CODE OF CORPORATE GOVERNANCE	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 14.1.3.5 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.	Appointment of general director is referred to the Board matters	
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	

	CODE OF CORPORATE GOVERNANCE	OBSERVED/ NOT OBSERVED	NOTES
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	
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	

	CODE OF CORPORATE GOVERNANCE	OBSERVED/ NOT OBSERVED	NOTES
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).	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	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	
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

	CODE OF CORPORATE GOVERNANCE	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 14.3.1 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

	CODE OF CORPORATE GOVERNANCE	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

	CODE OF CORPORATE GOVERNANCE	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

	CODE OF CORPORATE GOVERNANCE	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	Observed	

SUPERVISION OF FINANCIAL AND BUSINESS OPERATIONS

	CODE OF CORPORATE GOVERNANCE	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	Observed	
66	Establishment of a special structural subdivision of the company responsible for ongoing internal supervision (control and audit service).	Observed	

	CODE OF CORPORATE GOVERNANCE	OBSERVED/ NOT OBSERVED	NOTES
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

CODE OF CORPORATE GOVERNANCE	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	

corporation

VSMPO

AVISMA

...TRIANGLES

- fertility, start and result, balance, completion, truth,
what has been and what will be, unity, power, strength...



9) FINANCIAL STATEMENTS

9.1) ANNUAL FINANCIAL STATEMENTS

BALANCE SHEET

Form No.1 per OKUD - **0710001**
 Date (year, month, day) - **as at December 31, 2007**
 Company VSMPO-AVISMA Corporation - per OKPO - **07510017**
 Taxpayer Identification Number - TIN - **6607000556**
 Type of Activity - Other Nonferrous Metals Production - per OKVED - **27.45.00**
 Legal Form/Form of Ownership - Public Stock Company - per OKOPF/OKFS - **47/34**
 Unit: 000'RR - per OKEI - **384**
 Location (Address) - 624760, 1 Parkovaya St., Verkhnyaya Salda, Sverdlovsk Region

ASSETS	LINE	AT BEGINNING OF PERIOD	AT END OF PERIOD
I. NON-CURRENT ASSETS			
Intangible assets	110	1 974	5 274
Property, plant and equipment	120	5 877 234	6 850 368
Construction in progress	130	2 137 284	4 323 544
Profitable investments in tangible assets	135	15 093	256 776
Long-term financial investments	140	890 444	1 283 325
Deferred tax assets	145	8 888	9 848
Other non-current assets	150	9 580	35 292
TOTAL NON-CURRENT ASSETS	190	8 940 497	12 764 427
II. CURRENT ASSETS			
Inventories	210	7 466 526	9 465 989
including: raw materials, materials and other similar assets	211	3 497 842	5 096 274
live stock	212	0	0
WIP costs	213	1 967 610	2 661 609
finished goods and goods for resale	214	1 841 835	1 536 496
goods shipped	215	3 324	1 382
deferred expenses	216	155 915	170 228
other inventories and costs	217	0	0
VAT on acquired assets	220	751 216	919 745
Accounts receivable (amounts falling due over 12 months from the reporting date)	230	0	23 175
including trade accounts receivable	231	0	47
Accounts receivable (amounts falling due within 12 months from the reporting date)	240	10 717 300	17 318 008
including trade accounts receivable	241	6 289 245	8 635 320
Short-term financial investments	250	0	727 545
Cash	260	440 352	378 137
Other current assets	270	0	0
TOTAL CURRENT ASSETS	290	19 375 394	28 832 599
BALANCE	300	28 315 891	41 597 026

The Company's financial statements were prepared
in accordance with
the accounting regulations
of the Russian Federation.

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	2 882
including: legal reserves	431	668	2 882
statutory reserves	432	0	0
Retained earnings (uncovered loss)	470	13 646 846	19 271 994
TOTAL CAPITAL AND RESERVES	490	20 032 501	25 659 863
IV. NON-CURRENT LIABILITIES			
Borrowings and loans	510	2 615 264	4 067 628
Deferred tax liabilities	515	95 538	251 384
Other non-current liabilities	520	159 987	110 574
TOTAL NON-CURRENT LIABILITIES	590	2 870 789	4 429 586
V. CURRENT LIABILITIES			
Borrowings and loans	610	2 543 728	8 309 181
Accounts payable	620	2 645 398	2 609 108
Including: trade accounts payable	621	544 357	892 181
Payables to employees	622	47 224	57 485
Payables to state extra-budgetary funds	623	44 269	59 811
Taxes payable	624	174 206	439 918
Other creditors	625	1 835 342	1 159 713
Dividends payable	630	7 100	432 877
Deferred income	640	5 143	1 612
Reserves for future expenses	650	211 232	154 799
Other current liabilities	660	0	0
TOTAL CURRENT LIABILITIES	690	5 412 601	11 507 577
BALANCE	700	28 315 891	41 597 026

OFF-BALANCE SHEET ITEMS

ITEM	LINE	AT BEGINNING OF PERIOD	AT END OF PERIOD
Property, plant and equipment rented	910	385 067	507 201
including leased	911	305 884	430 651
Material assets in safe keeping	920	90 157	815 907
Goods accepted for commission	930	0	0
Bad debts written off	940	119 222	48 590
Collaterals received	950	0	0
Collaterals given	960	1 496 221	4 329 598
Depreciation of residential real estate	970	11 058	2 329
Depreciation of infrastructure, landscape and road constructions	980	0	0
Intangible assets received for use	990	0	0
Property, plant and equipment handed over to operating management	1000	0	88 512

PROFIT AND LOSS ACCOUNT

Form No. 2 per OKUD - 0710002
Date (year, month, day) - as of 31 December 2007
Unit: 000'RR - per OKEI - 384

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)	010	30 656 250	28 364 389
Cost of goods, products, operations, and services sold	020	(17 748 842)	(16 212 747)
Gross profit	029	12 907 408	12 151 642
Selling expenses	030	(706 689)	(743 789)
Administrative expenses	040	(2 678 992)	(2 210 438)
Sales profit (loss)	050	9 521 727	9 197 415
OTHER INCOME AND EXPENSES			
Interest receivable	060	67 840	1 923
Interest payable	070	(485 374)	(294 630)
Earnings from other entities	080	910	0
Other income	090	18 987 787	14 576 804
Other expenses	100	(19 082 155)	(15 361 950)
PROFIT (LOSS) BEFORE TAX	140	9 010 735	8 119 562
Deferred tax assets	141	960	5 489
Deferred tax liabilities	142	(155 846)	(18 473)
Current profit tax	150	(2 128 600)	(2 246 653)
Penal sanctions	151	(146 596)	0
Profit tax prior years	152	(364 315)	0
Net Profit (Loss) of the Reporting Year	190	6 216 338	5 859 925
FOR REFERENCE			
Fixed tax liabilities (assets)	200	120 910	310 942
Basic profit (loss) per share		0	0
Diluted profit (loss) per share		0	0

BREAKDOWN OF SEPARATE P & L ITEMS

ITEM	LINE	REPORTING PERIOD		YEAR-AGO PERIOD	
		PROFIT	LOSS	PROFIT	LOSS
Penalties and fines recognized or enforced by court (arbitration court)		58 962	12 320	1 038	2 762
Profit (loss) of prior years		53 001	195 180	365 295	105 164
Compensation for losses incurred due to default or improper fulfillment of obligations		1 194	2 156	5 398	434 881
Foreign exchange gain / loss		702 326	758 225	450 596	484 551
Valuation allowance		x	0	x	0
Write-off of accounts receivable and payable with the expired limitation period		685	8 008	25 294	10 830

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

Form No. 3 per OKUD - 0710003
Date (year, month, day) - as of 1 January 2008
Unit: 000'RR per OKEI - 384

I. CHANGES IN CAPITAL	LINE	SHAREHOLDERS' EQUITY	ADDITIONAL CAPITAL	RESERVE CAPITAL	RETAINED EARNINGS (Uncovered Loss)	TOTAL
Balance at December 31 of the year preceding to the prior year		11 530	6 373 457	668	8 223 661	14 609 316
2006 (prior year) Changes in accounting policy		x	x	x	0	0
Revaluation of the property, plant and equipment		x	0	x	0	0
Balance at January 1 of the prior year		11 530	6 373 457	668	8 223 661	14 609 316
Recalculation of foreign currencies		x	0	x	x	0
Net profit		x	x	x	5 859 925	5 859 925
Dividends		x	x	x	(436 740)	(436 740)
Allocations to reserve fund		x	x	0	0	0
Increase in capital due to:						
additional issue of shares		0	x	x	x	0
increase in par value of shares		0	x	x	x	0
reorganization of legal entity		0	x	x	0	0
Decrease in capital due to:						
decrease in par value of shares		0	x	x	x	0
decrease of number of shares		0	x	x	x	0
reorganization of legal entity		0	x	x	0	0
Balance at December 31 of the prior year		11 530	6 373 457	668	13 646 846	20 032 501
2007 (reporting year) Changes in accounting policy		x	x	x	0	0
Revaluation of the property, plant and equipment		x	0	x	0	0
Balance at January 1 of the reporting year	100	11 530	6 373 457	668	13 646 846	20 032 501
Recalculation of foreign currencies		x	0	x	x	0
Net profit		x	x	x	6 216 338	6 216 338
Dividends		x	x	x	(585 994)	(585 994)
Allocations to reserve fund	110	x	x	2 214	(2 214)	0
Increase in capital due to:						
additional issue of shares	121	0	x	x	x	0
increase in par value of shares	122	0	x	x	x	0
reorganization of legal entity	123	0	x	x	0	0
Payment of remuneration to members of the Board of Directors		0	0	0	2 450	2 450
Payment of remuneration to members of the Internal Auditing Committee		0	0	0	532	532
Decrease in capital due to:						
decrease in par value of shares	131	0	x	x	x	0
decrease of number of shares	132	0	x	x	x	0
reorganization of legal entity	133	0	x	x	0	0
Balance at December 31 of the reporting year	140	11 530	6 373 457	2 882	19 271 994	25 659 863

II. RESERVES		LINE	BALANCE	RECEIVED	UTILIZED	BALANCE
Legal Reserves:						
Reserve fund	reserve name		0	0	0	0
	prior year figures		668	0	0	668
	reporting year figures		668	2 214	0	2 882
Statutory Reserves:						
	reserve name		0	0	0	0
	prior year figures		0	0	0	0
	reporting year figures		0	0	0	0
Valuation Reserves:						
	reserve name		0	0	0	0
	prior year figures		0	0	0	0
	reporting year figures		0	0	0	0
Reserves for Future Expenses:						
Reserve for future vacation pay	reserve name		0	0	0	0
	prior year figures		0	468 262	(468 262)	0
	reporting year figures		0	0	0	0
Reserve for repair of property, plant and equipment	reserve name		0	0	0	0
	prior year figures		139 019	1 218 222	(1 146 009)	211 232
	reporting year figures		211 232	1 539 273	(1 595 706)	154 799

REFERENCE DATA	LINE	BALANCE AT BEGINNING OF PERIOD		BALANCE AT END OF PERIOD	
		FROM BUDGET		FROM NON-BUDGETARY FUNDS	
		REPORTING YEAR	PRIOR YEAR	REPORTING YEAR	PRIOR YEAR
Net assets	200	20 037 644		25 661 475	
Received at: expenses on ordinary activities - total,	210	0	0	0	0
including: capital expenditures for non-current assets,	220	0	0	0	0
including:					

CASH FLOW STATEMENT

Form No. 4 per OKUD - 0710004
Date (year, month, day) - as of 31 December 2007
Unit: 000'RR per OKEI - 384

ITEM	LINE	REPORTING PERIOD	YEAR-AGO PERIOD
Cash Balance - Beginning of Period		440 352	235 137
Cash Flow from Operating Activities			
Cash from buyers and customers		30 469 145	24 968 010
Cash from foreign currency transactions		15 546 776	11 732 669
Other income		2 113 453	1 425 708
Cash for :		50 813 247	37 747 699
Payments to acquire goods, operations, services, raw materials and other current assets	150	(13 826 502)	(7 709 814)
Payment for labor	160	(2 992 872)	(2 226 415)
Payments of dividends and interest	170	(632 615)	(716 256)
Taxes payable	180	(2 139 345)	(2 208 840)
Payables to extra-budgetary funds		(527 168)	(1 063 201)
Currency purchase		(140 415)	(73 689)
Currency sale		(16 546 590)	(14 173 694)
Imprests		(79 930)	(102 267)
Advances given to suppliers and contractors		(13 566 892)	(8 855 961)
Other expenses		(360 918)	(617 562)
Net Cash Provided by Operating Activities		(2 683 873)	378 688
Cash Flow from Investing Activities			
Revenue from sale of property and equipment and other non-current assets	210	8 264	3 204
Revenue from sale of securities and other financial investments	220	0	0
Dividends received	230	910	0
Interest received	240	1 272	1 926
Earnings from payment of loans given to other entities	250	699 590	3 775
Acquisition of subsidiaries	280	(29 238)	(20 472)
Acquisitions of property and equipment, profitable investments in tangible assets, intangible assets	290	(3 574 918)	(2 020 409)
Acquisitions of securities and other financial investments	300	(175 634)	(98 050)
Loans given to other entities	310	(1 580 758)	(3 600)
Net Cash Provided by Investing Activities	340	(4 650 512)	(2 133 626)
Cash Flow from Financing Activities			
Proceeds from stock issuance or other securities		0	0
Earnings from loans and borrowings given by other entities		19 047 523	9 854 781
Payment of loans and borrowings (interest-free)		(11 486 956)	(7 808 399)
Payment of financial lease		(178 385)	(86 229)
Net Cash Provided by Financing Activities		7 382 182	1 960 153
Net Increase (Decrease) in Cash and Cash Equivalents		47 797	205 215
Cash Balance - End of Period		488 149	440 352
Change in the exchange rate against Russian Ruble		0	0

SUPPLEMENT TO THE BALANCE SHEET

Form No. 5 per OKUD - 0710005
Date (year, month, day) - as of 31 December 2007
Unit: 000'RR per OKEI - 384

INTANGIBLE ASSETS

ITEM	LINE	AT BEGINNING OF PERIOD	RECEIVED	DISPOSED	AT END OF PERIOD
Intellectual property (exclusive rights for intellectual property)	010	3 454	3 786	0	7 240
including :					
of the patent holder for an invention, industrial design, utility model	011	3 434	3 743	0	7 177
of possessor of the right for computer programs, data bases	012	0	43	0	43
of possessor of the right for integrated circuit layout	013	0	0	0	0
of owner of the trade mark and service mark, appellation of goods origin	014	20	0	0	20
of holder of the selection patent	015	0	0	0	0
Organizational expenses	020	0	0	0	0
Goodwill	030	0	0	0	0
Other	040	0	0	0	0
ITEM	LINE	AT BEGINNING OF PERIOD	AT END OF PERIOD		
Depreciation of intangible assets, total	050				
including:		1 480	1 966		

PROPERTY, PLANT AND EQUIPMENT

ITEM	LINE	AT BEGINNING OF PERIOD	Received	Disposed	AT END OF PERIOD
Buildings		1 632 690	80 474	(89 254)	1 623 910
Constructions and transfer devices		1 006 419	71 989	(58 427)	1 019 981
Machinery and equipment		6 796 058	1 710 536	(338 360)	8 168 234
Transport vehicles		215 689	37 069	(71 892)	180 866
Fixtures		302 524	153 830	(16 158)	440 196
Workstock		0	0	0	0
Productive livestock		0	0	0	0
Perennial plants		905	0	0	905
Other types of PPE		793 409	435 906	(468 105)	761 210
Land and natural resources		99 090	(9 092)	0	89 998
Capital investments for land reclamation		0	0	0	0
Total		10 846 784	2 480 712	(1 042 196)	12 285 300
ITEM	LINE	AT BEGINNING OF PERIOD	AT END OF PERIOD		
Depreciation of property, plant and equipment-total	140	4 969 550	5 434 932		
including: buildings and constructions		1 285 949	1 291 132		
machinery, equipment, transport vehicles		3 372 486	3 780 316		
other		311 115	363 484		
Property, plant and equipment leased out - total		684 014	699 324		
including: buildings		229 291	240 235		
constructions		81 106	26 175		
machinery, equipment, transport vehicles		355 192	415 990		
other		18 425	16 924		
Property, plant and equipment mothballed		261 082	435 152		
Property, plant and equipment rented-total		385 067	507 201		
including: leased		305 884	430 651		
Real property accepted for usage and being under state registration		200 298	96 305		

FOR REFERENCE	LINE	AT BEGINNING OF REPORTING YEAR	AT BEGINNING OF PRIOR YEAR
Property, plant and equipment revaluation surplus:			
historical (replacement) value	171	0	0
depreciation	172	0	0
Change in PPE value resulting from completion, retrofit, rebuild, partial liquidation		1 079 411	1 277 954

PROFITABLE INVESTMENTS IN TANGIBLE ASSETS

ITEM	LINE	AT BEGINNING OF PERIOD	RECEIVED	DISPOSED	AT END OF PERIOD
Property for lease		0	0	0	0
Property provided under hiring contracts		0	0	0	0
Other		16 278	507 347	(113 012)	410 613
Total		16 278	507 347	(113 012)	410 613
	LINE	AT BEGINNING OF PERIOD	AT END OF PERIOD		
Depreciation of profitable investments in tangible assets		1 185	153 837		

RESEARCH AND DEVELOPMENT EXPENSES

ITEM	LINE	AT BEGINNING OF PERIOD	RECEIVED	WRITTEN OFF	AT END OF PERIOD
Total	310	9 580	2 570	(7 292)	4 858
FOR REFERENCE	LINE	AT BEGINNING OF PERIOD			AT END OF PERIOD
Amount of expenses on unaccomplished R&D	320	53 341			61 666
		REPORTING PERIOD			YEAR-AGO PERIOD
Amount of expenses on R&D that did not produce positive results applied to non-operating expenses		14 512			13 342

EXPENSES ON RESOURCE DEVELOPMENT

ITEM	LINE	BALANCE AT BEGINNING OF PERIOD	RECEIVED	WRITTEN OFF	BALANCE AT END OF PERIOD
Expenses on resource development-total	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		0			0
		AT BEGINNING OF PERIOD			YEAR-AGO PERIOD
Expenses on resource development applied during the reporting period to non-operating costs as ineffective		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	785 960	805 166	0	0
including subsidiaries and related companies	511	775 746	705 162	0	0
State and municipal securities	515	0	0	0	0
Other entities' securities-total	520	103 884	24 054	0	0
including debt securities (bonds, notes)	521	103 854	24 024	0	0
Loans given	525	0	454 105	0	371 754
Deposits	530	0	0	0	112 422
Other	535	600	0	0	243 369
TOTAL	540	890 444	1 283 325	0	727 545
Financial investments with the fair market value out of the total amount:					
Contributions to shareholders' (reserve) capital of other entities-total	550	0	0	0	0
including subsidiaries and related companies	551	0	0	0	0
State and municipal securities	555	0	0	0	0
Other entities' securities-total	560	0	0	0	0
including debt securities (bonds, notes)	561	0	0	0	0
Other	565	0	0	0	0
TOTAL	570	0	0	0	0
FOR REFERENCE					
For financial investments with the fair market value - change in value due to valuation adjustment	580	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	590	0	0	0	0

ACCOUNTS RECEIVABLE AND PAYABLE

ITEM	LINE	BALANCE AT BEGINNING OF PERIOD	BALANCE AT END OF PERIOD
ACCOUNTS RECEIVABLE:			
short-term - total		10 717 300	17 318 008
including: trade accounts receivable		6 289 245	8 635 320
advances given		2 370 350	4 375 797
other		2 057 705	4 306 891
long-term - total		0	23 175
including: trade accounts receivable		0	47
advances given		0	0
other		0	23 128
TOTAL		10 717 300	17 341 183
ACCOUNTS PAYABLE:			
short-term - total		5 189 126	10 918 289
including: trade accounts payable		544 357	892 181
advances received		1 319 806	625 230
taxes payable		174 206	439 918
loans		2 543 728	8 309 181
borrowings		0	0
other		607 029	651 779
long-term - total		2 775 251	4 178 202
including: loans		2 615 264	4 067 628
borrowings		0	0
Other non-current liabilities		159 987	110 574
TOTAL		7 964 377	15 096 491

EXPENSES ON ORDINARY ACTIVITIES (BY COST ELEMENT)

ITEM	LINE	FOR THE ACCOUNTING YEAR	FOR THE PRIOR YEAR
Material expenses	710	14 969 794	9 380 968
Wage expenses	720	4 020 094	2 857 705
Social security expenses	730	1 032 572	730 406
Depreciation	740	856 449	529 159
Other expenses	750	1 126 928	845 142
Total by cost element	760	22 005 837	14 343 380
Change in inventory increase[+], decrease [-]; WIP	765	665 343	227 126
in deferred expenses	766	28 579	54 981
in reserves for future expenses	767	(56 433)	72 213

COLLATERALS

ITEM	LINE	FOR THE ACCOUNTING YEAR	FOR THE PRIOR YEAR
Received total		0	0
including: notes		0	0
Pledged property		0	0
out of which: property, plant and equipment		0	0
securities and other financial investments		0	0
other		0	0
Given - total		1 496 221	4 329 598
including: notes		0	0
Pledged property		1 370 746	3 106 348
out of which: property, plant and equipment		1 045 746	1 380 663
securities and other financial investments		0	0
other		0	0

GOVERNMENT ASSISTANCE

ITEM	LINE	ACCOUNTING PERIOD	SIMILAR PERIOD OF THE PRIOR YEAR		
Budgetary funds received during the reporting year - total	910	0	0		
	LINE	AT BEGINNING OF PERIOD	RECEIVED DURING REPORTING PERIOD	RETURNED DURING REPORTING PERIOD	AT END OF PERIOD
Budgetary loans - total	920	0	0	0	0

General Director

Chief Accountant

V.V.TETYUKHIN

D.Y. SANNIKOV

9.2) REPORT OF THE AUDITING COMMITTEE OF VSMPO-AVISMA CORPORATION on reliability of the information in the Annual Report, Balance Sheet and Profit & Loss Statement for 2007

The Auditing Committee, namely T.E. Ryzhova, A.A.Golovoushkin, N.M. Zabolotskaya, N.I. Pryanichnikova, A.F.Tanaev, O.B. Ouglov, L.K.Yakovleva have audited the financial and economic activities of VSMPO- AVISMA Corporation for the period from January 1, 2007 through December 31, 2007 in accordance with the Charter approved by the general shareholders meeting on February 28, 2007.

The audit results are as follows:

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 2007 we checked whether the Company observed the requirements of Federal Law No. 129 FZ dated 21.11.1996 On Accounting (as amended), Tax Code of the Russian Federation No. 146-FZ dated 31.07.1998, No. 117-F dated 05.08.2000 (as amended), Regulation No. 34n dated 29.07.98 on Bookkeeping and Financial Statements of the RF (as amended).

The audit results proved that financial and economic activities of VSMPO-AVISMA Corporation were performed in conformity with the existing legal acts of the RF.

In our opinion, the Balance Sheet as at January 1, 2008 with the total assets of 41 597 026 thousand rubles and the annual financial statements are free of material misstatements and were prepared so that to reflect all material aspects of assets and liabilities of VSMPO-AVISMA Corporation and its financial results for 2007.

According to the results of activities of VSMPO-AVISMA Corporation in 2007, with sales revenue of 9 521 727 thousand rubles, and other expenses exceeded other income by 510 992 thousand rubles, profit before taxes amounted to 9 010 735 thousand rubles.

Profit remaining at the disposal of the Company (net profit) was 6 216 338 thousand rubles, which was 356 413 thousand rubles higher than net profit for 2006.

In the reporting financial year net assets increased 10 671 243 thousand rubles and 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:

- verification of specifications for the materials for electric works performed by TPK Tissa OOO subcontractor during capital repair of pickling unit in workshop № 35;
- sampling inspection of safeguarding of titanium and stainless steel items in workshops 38, 39, material flow of titanium processed on a toll basis by AVISMA-Mashinostroitel OOO, and of nichrome wire in workshop № 35 and storehouse № 67;
- sampling inspection of materials safeguarding in workshops №№ 31, 35, 37, 39 and 40, and in storehouses №№ 63, 64;
- verification of reliable accounting and control of metal scrap obtained from pigment dioxide unit dismantling in workshop № 32;
- sampling verification of works and services provided by AVISMA-TechnoExpert OOO, Analitic-A OOO, and AVISMA-MetrATek OOO subsidiaries to justify prices agreed with AVISMA;
- verification of payments made in cash for the materials and services purchased by workshops №№ 44, 59, 85;
- verification of materials usage and write-off in workshop № 60;
- audit of charge materials usage by the melting production facility and recognition in the accounts;
- audit of performance and financing of agreements between VSMPO and "Tirus" medical center in the period 01.01.2006 through 12.01.2007;
- audit of reliability of financial statements for 2006, 9 months of 2007 and for the year of 2007 prepared by twenty seven subsidiaries of the Corporation, performed by the Auditing Committees of the subsidiaries where Chairmen are the members of the Auditing Committee of VSMPO-AVISMA Corporation.

On an ongoing basis the Auditing Committee controlled:

- the accounts receivable and accounts payable;
- 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;
- 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.

During the financial year the reconciliations of cash and notes in the cashier's offices of VSMPO and AVISMA were conducted. Cash shortage of 606.68 rubles and overage of 695.16 rubles were revealed.

The audits of materials safety in storehouses and other divisions of the Company revealed shortages of 222.4 thousand rubles, and overages of 2002.5 thousand rubles. Sample verifications of accounts receivable & payable revealed unreal accounts receivable of 1 534.5 thousand rubles. Besides, evidences of unreasonable overpricing of materials and equipment in specifications and/or reports of some subcontractors were revealed to the total amount of 1 553.9 thousand rubles.

Conducted audits revealed weaknesses and infringements in control and accounting of materials flow, funds, validity of expenses on property and services purchased, and reflection of accounts receivable & payable that totaled 7 014 thousand rubles. As a result of the audits, expenses totaled 21 013 thousand rubles were excluded as unwarranted.

The Corporation's executive management took actions to eliminate infringements and prevent them in future.

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
Members of the Auditing Committee:

T.E. Ryzhova
A.A. Golovoushkin
N.M. Zabolotskaya
N.I. Pryanichnikova
A.F. Tanaev
O.B. Ouglov
L.K. Yakovleva

9.3) AUDIT FIRM'S CERTIFICATE

Audit firm's certificate to the Executive Body / the Shareholders of VSMPO-AVISMA Corporation on Financial Statements for the Year 2007

We have audited the attached financial statements of VSMPO-AVISMA Corporation (drawn up on 16.03.2008) for the year 2007. These financial statements were prepared by the executive body of VSMPO-AVISMA Corporation based on principles and methods of accounting and preparation of financial statements determined by the Regulatory Legal Acts of the Russian Federation.

The financial statements of VSMPO-AVISMA Corporation include:

- balance Sheet;
- profit and Loss Account;
- supplements to the Balance Sheet and the Profit and Loss Account;
- explanatory Note.

The executive body of VSMPO-AVISMA Corporation is responsible for preparation of the financial statements. Our responsibility is to offer an opinion on reliability of the financial statements in all material aspects and compliance of accounting maintenance procedure to the Russian Federation legislation based on the conducted audit.

We conducted the audit in compliance with:

- the Federal Law of the Russian Federation dd. 07.08.2001 No.119-FZ "On Audit Activities";
- the federal regulations (standards) of audit activities;
- the internal regulations (standards) of audit activities of NP Institute of Professional Auditors (MSA) in the part which does not contradict to the federal regulations (standards) of audit activities;
- the regulations (standards) of audit activities of Baker Tilly Rusaudit, LLC; normative acts of the Ministry of Finance of the Russian Federation and
- based on the Contract No.1588/2007A dd.16.07.2007 concluded with VSMPO-AVISMA Corporation.

The audit was planned and conducted in such a way as to get reasonable assurance that the attached financial statements do not contain any material misstatements. The audit was conducted on a sample basis and included examination by testing of the evidence confirming index numbers in

the financial statements and representation therein of information on financial and economic activities, assessment of accounting principles and methods, regulations on preparation of financial statements, consideration of basic accounting estimates obtained by the management of the audited entity as well as assessment of financial statements presentation. We believe that the conducted audit gives the reasonable cause to offer our opinion on reliability of the attached statements and compliance of accounting maintenance procedure to the Russian Federation legislation.

We have not got enough documentary evidence of the data on capital surplus formation procedure of the Company including with regard to asset items revaluation as well as influence of non-write-off amounts of asset revaluation when they are disposed of on the value of retained earnings.

Besides, we are not confident in the reality of settlement of recovered (according to information given in Section 2.16 of the Explanatory Note to the financial statements for the year 2007) sums of accounts receivable in the amount of 586.026 ths. rubles and accounts payable in the amount of 151.334 thous. rubles.

On our opinion, except the facts indicated in the previous paragraphs of the present certificate, the financial statements for the year 2007 are reliable, i.e. they were prepared in such a way as to provide in all material aspects the reflection of assets and liabilities of VSMPO-AVISMA Corporation as of 31.12.2007 and financial results of its activities for the period from January 1, 2007 to December 31, 2007 included in accordance to the requirements of the Federal Law No.129-FZ "On Accounting" dd. 21.11.96.

Moscow, March 21, 2008

Baker Tilly Rusaudit, LLC
Director General

E.V. Samoylov

(Auditor Qualification Certificate No.K017948 dd. 05.08.2004 (Report No.94 dd. 28.06.2001) (issued for unlimited period of time)

Review Manager

O.V. Pavlov

(Auditor Qualification Certificate No.K004263 dd. 05.06.2003 (Report No.168 dd. 05.06.2003) (issued for unlimited period of time)

corporation

VSMPO

AVISMA

...INFINITY

- space, consistency, unity, supremacy, perfection, eternal life,
universe, the sign of time, the harmony of forces and thoughts, perceptual motion...



10) GLOSSARY

10.1) GLOSSARY

GLOSSARY OF MAJOR TERMS AND ABBREVIATIONS

- EMS** ● Environmental Management System
- ECS** ● 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 airspace 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
- SAFRAN/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

corporation

 **VSMPO**

AVISMA

10 - IS THE NUMBER
OF SPACE,
CREATION,
UNIVERSAL LAW,
ORDER,
INTEGRITY,
RETURN TO CONSOLIDATION,
PERFECTION,
THE UNITY OF PARTS