

## **Report of the Internal Auditing Committee of VSMPO – AVISMA Corporation on the Company's Annual Report and Financial Statements for 2006**

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

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

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

In our opinion, the Balance Sheet as at January 1, 2007 with the grand total of *28315891 thousand rubles* and the annual financial statements are free of material misstatements and were prepared in conformity with the existing law governing preparation of financial statements and disclosure of the information.

VSMPO – AVISMA Corporation achieved the following results in 2006:

- Sales revenue – *28364389 thousand rubles*;
- Sales profit – *9197415 thousand rubles*;
- Other expenses exceeded other income by *1077853 thousand rubles*;
- Profit before taxes – *8119562 thousand rubles*;
- Profit tax – *2246653 thousand rubles (27.67 %)*;
- Profit remaining at the disposal of the Company was *5859925 thousand rubles*, which was 1.85 higher than net profit for 2005.

Net assets exceeded the authorized capital several times.

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

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

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

On an ongoing basis the Auditing Committee controlled the accounts receivable and accounts payable, financial investments, need for borrowings and timely repayment of short-term and long-term borrowings and interest; budget and off-budget payments of taxes and other compulsory payments, inventories, income and expenses of the budget, use of the profit

remaining at the Company's disposal for welfare payments and maintenance of social objects in conformity with the budget.

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

Chairman of the Internal Auditing Committee

T.E. Ryzhova

Members of the Internal Auditing Committee:

A.Yu. Bodrikov  
N.M. Zabolotskaya  
N.I. Pryanichnikova  
O.B. Ouglov