

Minutes dd. August 12, 2005 No. -

**QUARTERLY REPORT**

Joint-Stock Company VSMPO-AVISMA Corporation

Issuer code: 

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For the II<sup>nd</sup> quarter of 2005Issuer location: 1, Parkovaya St., Verkhnyaya Salda, Sverdlovsk Region,  
Russia, 624760Postal address: 1, Parkovaya St., Verkhnyaya Salda, Sverdlovsk Region, Russia,  
624760Information contained in this Quarterly Report is subject to disclosure under the laws  
of the Russian Federation on securities

Acting Director General

Date August 12, 2005

\_\_\_\_\_  
Signature N.K. Melnikhov

Chief Accountant

Date August 12, 2005

\_\_\_\_\_  
Signature T.V. Novosadova

Place for Seal

Contact: Tatyana Petrovna Shayakhmetova  
Leading Economist for Financial Work

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## Introduction

### Full and abbreviated issuer's corporate name:

Joint-Stock Company VSMPO-AVISMA Corporation (JSC VSMPO-AVISMA Corporation)

### Issuer's Location:

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

Postal address: 1, Parkovaya St., Verkhnyaya Salda, Sverdlovsk Region, Russia, 624760

Issuer's contact telephone numbers:

Telephone: (34345) 2-13-60, 5-20-05

Fax: (34345) 2-47-36, 5-20-05

E-mail address: [Shayahmetova@vsm-po.ru](mailto:Shayahmetova@vsm-po.ru)

Web-site(s) where the full text of the quarterly report is available: [www.vsm-po.ru](http://www.vsm-po.ru)

### Basic Information on Securities placed by the Issuer:

#### *Shares in circulation:*

Category: ordinary

Type of securities: registered uncertificated

Number of securities: 10625600

Par value of one security of the issue: 1 ruble

State registration number 1-01-30202-D dd. November 11, 2004.

#### *Shares in the allocation stage:*

1. Category: ordinary

Type of securities: registered uncertificated

Number of securities: 971130

Par value of one security of the issue: 1 ruble

State registration number 1-01-30202-D-003D dd. November 11, 2004.

Allocation method of securities: conversion

Securities allocation date: the date of introduction of the record on termination of activities of Joint-Stock Company Titanium & Magnesium Works "AVISMA" (the date of reorganization of Joint-Stock Company Titanium & Magnesium Works "AVISMA") into the Uniform Public Register of Legal Entities is considered to be the date of allocation of securities of the additional issue (the date of conversion).

2. Category: ordinary

Type of securities: registered uncertificated

Number of securities: 368555

Par value of one security of the issue: 1 ruble

State registration number 1-01-30202-D-004D dd. November 11, 2004.

Allocation method of securities: conversion

Securities allocation date: the date of introduction of the record on termination of activities of Joint-Stock Company Titanium & Magnesium Works "AVISMA" (the date of reorganization of Joint-Stock Company Titanium & Magnesium Works "AVISMA") into the Uniform Public Register of Legal Entities is considered to be the date of allocation of securities of the additional issue (the date of conversion).

The present quarterly report contains assessments and forecasts produced by the Authorized Controls of the issuer concerning future events and/or actions, prospects for the development of the economic sector in which the issuer conducts its primary activities, and the performance results of the issuer including the issuer's plans and the probability of certain events and of certain actions. Investors should not fully rely on the assessments and forecasts of the issuer's Controls because actual performance results of the issuer in the future can differ from the forecasts for various reasons. The acquisition of the issuer's securities is connected with the risks described in the present quarterly report.

**I. Brief information on persons included in the Issuer’s Control Authorities, on issuer’s bank accounts, auditor, appraiser and financial consultant as well as on other persons who have signed this Quarterly Report**

**1.1. Persons included in Issuer’s Control Authorities**

**Board of Directors:**

Bresht, Vyacheslav Iosifovich, b.1953  
 Kelly, Dennis, b. 1946  
 Monahan, John, b. 1945  
 Melnikov, Nikolai Konstantinovich, b.1955  
 Tsarkov, Oleg Igorevich, b. 1966  
 Besedin, Vasily Alexandrovich, b. 1953  
 Tetyukhin, Vladislav Valentinovich, b. 1932

**Issuer’s Sole Executive Body:** Director General  
 Tetyukhin, Vladislav Valentinovich, b. 1932

**No joint executive body is provided by the By-Laws.**

**1.2. Issuer’s Bank Accounts**

Type of Account	Account Number	Credit Organization	Location of the Credit Organization
1	2	3	4
Settlement a/c Current a/c, USD Current a/c, EUR	40702810100120001055 40702840800130001056 40702978700020001057	Joint-Stock Company “Ural Commercial Foreign Trade Bank” JSC “UVTB” INN 6608000044 BIK 046577780 Corr. acc. 30101810300000000780	4B, Chebyshev St., Ekaterinburg, 620062
Settlement a/c	40702810100001125300	Closed Joint-Stock Company “MDM-Bank-Ural” CJSC “MDM-Bank-Ural” INN 6608007402 BIK 046577870 Corr. acc. 30101810100000000870	68, Vostochnaya St., Ekaterinburg, 620075

1	2	3	4
Settlement a/c Current a/c, USD Current a/c, EUR	40702810400010004247 40702840000010004248 40702978500010221859	Closed Joint-Stock Company INTERNATIONAL MOSCOW BANK CJSC "MMB" INN 7710030411 BIK 044583545 Corr. acc. 30101810300000000545	9, Prechistsenskaya Embankment, Mos- cow, 119034
Settlement a/c Current a/c, USD Current a/c, EUR	40702810602800000042 40702840600000000018 40702978728000000480	Joint-Stock Company "Foreign Trade Bank" JSC "Vneshtorgbank" INN 7702070139 BIK 046577952 Corr. acc. 30101810400000000952	16, Stepan Razin St., Ekaterinburg, 620142
Settlement a/c Settlement a/c Settlement a/c Settlement a/c Current a/c, USD Current a/c, EUR	40702810116150100055 40702810116150100123 40703810216150100035 40702810216150100463 40702840516150100007 40702978116150100007	Ural Bank of Sberbank of Russia, Verkhnyaya Salda Branch No. 7169 INN 7707083893 BIK 046577674 Corr. acc. 30101810500000000674	5, K. Marx St., Verkhnyaya Salda, 624760
Current a/c, USD	40702840216030100223	Ural Bank of Sberbank of Russia INN 7707083893 BIK 046577674 Corr. acc. 30101810500000000674	11, Moskovskaya St., Ekaterinburg, 620014

1	2	3	4
Settlement a/c Current a/c, USD Current a/c, EUR	40702810200700916014 40702840000700916006 40702978600700916022	Closed Joint-Stock Company CB CITIBANK INN 7710401987 BIK 044525202 Corr. acc. 30101810300000000202	8-10, Gashek St., Moscow, 125047
Settlement a/c Current a/c, USD Current a/c, EUR	40702810100020009977 40702840400020009977 40702978000020009977	Closed Joint-Stock Company Commercial and Investment Bank "Calion Rusbank", Mos- cow Affiliate INN 7831000612 BIK 044583843 Corr. acc. 30101810400000000843	1, building 6, Bolshoi Zlatous- tovsky Pereulok, Moscow, 101000

### 1.3. Issuer's Auditor

1.3.1. Full and abbreviated corporate names:

Closed Joint-Stock Company "Analytic Express"

CJSC "Analytic Express"

Location: 3, building 2, Gazetny Per., Moscow, 103918

Telephone: (095) 229-8484,

Fax: (095) 229-3832

E-mail address: [analitik@iet.ru](mailto:analitik@iet.ru)

License No. for audit activities: E 005434

Date of issue: based on RF Ministry Order No. 387, dated 9.12.2003

Validity of the license: 5 years

Authority which issued the aforesaid license: the Ministry of Finance of the Russian Federation

Fiscal years for which the auditor has carried independent audits of accounting practices and the financial reports of the issuer: since 1994.

There are no factors which can affect the auditor's independence from the issuer.

Procedure for appointing the auditor of the issuer: general meeting of shareholders appoints the auditor of the issuer.

Work performed by the auditor within the framework of special auditor tasks:

- development of a new chart of book keeping accounts of JSC VSMPO-AVISMA Corporation at the required level of analytic work for drawing up financial reports and tax returns;
- implementation of the developed chart of book keeping accounts in the company;
- documentary issue of the results of development work as an appendix to the order on the accounting policy at JSC VSMPO-AVISMA Corporation.

Vested interests relating the auditor (officials of the auditor) to the issuer (officials of the issuer), none:

- there are no participatory shares of the auditor (officials of the auditor) in the registered capital of the issuer;



- no loan funds have been given by the issuer to the auditor (officials of the auditor);
- there are no close business relations (participation in promotion of products (services) of the issuer, participation in joint enterprise activities, etc.), as well as there are no blood relations;
- officials of the issuer being simultaneously officials of the auditor, none.

The auditor's commission is determined by the Board of Directors.

Payment for the auditor services is made as follows:

50% of the fee shall be transferred to the settlement account within 30 days from the date of the beginning of work, the remaining amount of 50% of the cost of work shall be transferred to the settlement account of the auditor within three days after signing the acceptance/transfer report of the auditor's conclusion and the auditor's written report. There are no deferred or overdue payments for the services provided by the auditor.

1.3.2. Full and abbreviated corporate names:

Closed Joint-Stock Company "Price WaterHouse Coopers Audit"

CJSC "Price WaterHouse Coopers Audit"

Location: 52, building 5, Kosmodamianskaya Embankment, Moscow, 113054

Telephone: (095) 967-60-00

Fax: (095) 967-60-01

E-mail address: [pwc.russia@ru.pwc.com](mailto:pwc.russia@ru.pwc.com)

License No. for audit activities: E 000376

Date of issue: based on RF Ministry Order No. 98, dated 20.05.2002

Validity of the license: 5 years

Authority which issued the aforesaid license: the Ministry of Finance of the Russian Federation

Fiscal years for which the auditor has carried independent audits of accounting practices and the financial reports of the issuer: since 2003.

There are no factors which can affect the auditor's independence from the issuer.

Procedure for appointing the auditor of the issuer: conducted via tender.

Work performed by the auditor within the framework of special auditor tasks:

Consulting in taxation issues (including customs fees and off-budget payments) and accounting per GAAP standards.

The auditor's commission is determined per concluded contracts.

Payment for auditor services is made as follows:

The invoices are issued on a monthly basis accompanied by brief description of the operations performed with the report on acceptance of services drawn up.

## 1.4. Issuer's Appraiser

Full and abbreviated corporate names:

**Limited Liability Company "ROSEXPERTISE"**

**(ROSEXPERTISE, LLC)**

Location: 11, Masha Poryivaeva St., Moscow, Russia, 107078

License No. 000140 dated 17.08.2001.

Expiry date of the license: 16.08.2004.

Authority which issued the license: the Privity Ministry of the Russian Federation

Subject of the Agreement: appraisal of the market value of JSC VSMPO shares for subsequent redemption of the stock by JSC VSMPO determined by the Appraiser without accounting for any changes resulted from the Company's actions which entailed accrual of the right of demand for the appraisal and redemption of the stock.

Appraisal services cost: the Customer shall pay 50% of Appraiser's fee within 5 working days from the date of signing of the agreement by the parties, after signing of services acceptance report the Customer shall pay remaining 50% of Appraiser's services cost within 3 working days.

### **1.5. Issuer's Consultants**

There is no financial consultant in the securities market providing corresponding services to the issuer based on the contract as well as other persons providing consulting services to the issuer related with emission of securities and who have signed the quarterly report and the last registered offering circular of securities being in circulation.

### **1.6. Other Persons who signed the Quarterly Report**

There are no other persons who signed this Quarterly Report and not stated in the previous items of this section.

## **II. Basic Information on Issuer's Financial and Economic Status**

### ***2.1. Issuer's Financial and Economic Figures***

Index	Recommended Calculation Method	2000	2001	2002	2002 in 2003 methodology	2003	2004	2005 as of 1.07
Issuer's net asset value, ths. rub.	According to the procedure established by the Ministry of Finance of the Russian Federation an/or the Federal Executive Authority of Securities Market for joint-stock companies and if Joint-Stock Investment Fund is considered to be the issuer - then in accordance with the procedure established by the Federal Executive Authority of Securities Market.	2 957 739	4 023 284	5 248 116	5 615 354	6 894 976	8 377 043	9 491 849
Ration of total borrowed funds to capital and reserves, %	(Long-term liabilities at the end of the reporting period + short-term liabilities at the end of the reporting period) / (Capital and reserves at the end of the reporting period) *100	52.2	41.2	44.6	44.6	45.9	48.1	57.3
Ratio of total short-term liabilities to capital and reserves, %	(Short-term liabilities at the end of the reporting period) / (Capital and reserves at the end of the reporting period)*100	52.0	41.2	44.6	44.6	45.8	47.9	57.1
Debt payment cover, ths. rub.	(Net profit for the reporting period + depreciation for the reporting period - Dividends) / (Liabilities having been repayable in the reporting period + interests having been repayable in the reporting period)	0.58	0.88	0.60	0.60	0.13	0.41	0.24
Overdue debts, %	(Net profit for the reporting period + depreciation for the reporting period) / (Liabilities repayable in the reporting period + interests repayable in the reporting period) * 100	39.4	39.8	13.9	13.9	4.0	0.07	0.06
Turnover of accounts receivable, times	(Proceeds)/(Accounts receivable at the end of the reporting period – backlog of the participants (founders) in terms of contribution to the registered capital at the end of the reporting period)	9.1	8.0	5.2	5.2	1.1	4.6	2.4
Proportion of dividends in profit, %	(Ordinary share dividends based on the results of the complete fiscal							15.6

	year)/(Net profit based on the results of the complete fiscal year – preferred share dividends based on the results of the complete fiscal year) * 100							
Efficiency of labour, ths. rub./man	(Proceeds)/(average number of employees (workers) on pay-roll)	344.9	497.6	589.9	589.9	549.4	691.9	428.6
Depreciation to proceeds amount, %	(Depreciation)/(Proceeds) * 100	2.4	1.7	2.2	1.8	1.8	1.9	2.0

## 2.2. Issuer's Market Capitalization

Provided is information on the market capitalization of the issuer over the last 5 complete financial years including the data on market capitalization as of the final date of each fiscal year and as of the final date of the last complete reporting period.

### **As of 01.01.2001:**

Weighted average price/share \$ 8,90

Market capitalization of the issuer \$ 105`073`471

Description of the method used for estimating issuer's market capitalization: cost estimation of issuer's net assets.

### **As of 01.01.2002:**

Weighted average price/share \$ 11,31

Market capitalization of the issuer \$ 133`525`950

Description of the method used for estimating issuer's market capitalization: cost estimation of issuer's net assets.

### **As of 01.01.2003:**

Weighted average price/share \$ 15,54

Market capitalization of the issuer \$ 165`121`824

Description of the method used for estimating issuer's market capitalization: cost estimation of issuer's net assets.

### **As of 01.01.2004:**

Weighted average price/share \$ 28,46

Market capitalization of the issuer \$ 302`404`576

Description of the method used for estimating issuer's market capitalization:

market capitalization is estimated as a product of the number of shares of the corresponding category (type) by the weighted average price per one share of this category (type) calculated for 10 largest transactions accomplished through the dealer in the securities market for three months preceding the month which is considered to be the end of the last reporting quarter. According to noncommercial partnership "RTS Stock Exchange".

### **As of 01.01.2005:**

Weighted average cost/share \$ 108,02

Market capitalization of the issuer \$ 1`147`777`312

Description of the method used for estimating issuer's market capitalization:

market capitalization is estimated as a product of the number of shares of the corresponding category (type) by the weighted average price per one share of this category (type) calculated for 10 largest transactions accomplished through the dealer in the securities market in the month preceding the month which is considered to be the end of the last reporting quarter. According to noncommercial partnership "RTS Stock Exchange".

### **As of 01.07.2005:**

Weighted average cost/share \$ 107,07

Market capitalization of the issuer \$ 1`137`682`992

Description of the method used for estimating issuer's market capitalization:

market capitalization is estimated as a product of the number of shares of the corresponding category (type) by the weighted average price per one share of this category (type) calculated for 10 largest transactions accomplished through the dealer in the securities market in the month preceding the month which is considered to be the end of the last reporting quarter. According to noncommercial partnership "RTS Stock Exchange".

## **2.3. Issuer's Liabilities**

### **2.3.1. Accounts Payable**

A/P Designation	Units	Due Date	
		up to one year	over a year
Accounts payable to suppliers and contractors	ths. rub.	405 949	X
including past-due	ths. rub.	317407	X
Accounts payable to company's personnel	ths. rub.	2 537	X
including past-due	ths. rub.	-	X
Accounts payable to the budget and state off-budget funds	ths. rub.	447 836	X
including past-due	ths. rub.		X
Credits	ths. rub.	2 701 433	X
including past-due	ths. rub.	-	X
Loans, total	ths. rub.	-	X
including past-due	ths. rub.	-	X
including funded loans	ths. rub.	-	X
including past-due funded loans	ths. rub.	-	X
Other accounts payable	ths. rub.	1 545 578	X
including past-due	ths. rub.	-	X
Total, rub.	ths. rub.	5 103 333	X
including past-due, total	ths. rub.	317407	X

Creditors the debt to each of which equals not less than 10 % of the total debt:  
No aforesaid creditors.

### **2.3.2. Issuer's Credit Background**

The information contained in this section is not presented as the total principal debt to each of the credit contracts and loan contracts equals less than 10 % of the issuer's net assets value.

### **2.3.3. Issuer's Obligations from the Security Provided to the Thirds Parties**

There are no obligations of the issuer from the security provided to the third parts.

### **2.3.4. Other Obligations**

There are not other obligations.

## **2.4. Objectives of issue and intended usage of funds raised by placing emission securities**

**Sequential number of the share issue: 3**

Category: ordinary

Type of securities: registered uncertificated

Number of securities in the issue: 3`492`000

Par value of one security of the issue: 1 rub.

Allocation method: public subscription  
Allocation period: from 10.06.1998. to 10.06.1998.

The price of allocation is determined on the basis of two ordinary registered shares of joint-stock company Titanium & Magnesium Works "AVISMA" located in Berezniki, Perm Region, Russia for nine ordinary registered shares of the issuer.

Objectives of issue and intended usage of the funds: increase of the registered capital.

## **2.5. Risks connected with acquisition of placed emission securities**

The analysis of the risk factors connected with acquisition of the placed emission securities is detailed below, in particular:

Branch risks,  
Country and regional risks,  
Financial risks,  
Legal risks,  
Risks connected with issuer's activities.

### **2.5.1. Branch Risks**

The companies of the aerospace industry, power engineering, chemical engineering, oil and gas recovery, nonconventional consumers, mainly, manufacturers of sports goods, etc are considered to be the major consumers of VSMPO-AVISMA Corporation titanium products. Each of the aforesaid industries has its own tendencies of development and therefore it is reasonable to review them separately.

About 65 percent of the output is intended for the aerospace industry, and therefore the state of this sector of the Russian and global economy has a substantial influence on the technological and economic indices of the Company. The aerospace sector of the world market features a cyclic nature of development within the period of about 4 years, and the world titanium market demonstrates a similar pattern of development. Though, it should be noted that during the recent years these markets have been affected by the Asian financial crisis of 1998 and terrorist attacks on September 11, 2001 in the USA. Nevertheless, the long-term perspective is constant growth of titanium consumption in this sector of the world economy, and no alternative replacement for titanium alloys is expected in the foreseeable future.

Currently power engineering, for the most part, nuclear power engineering is a sufficiently large consumer of titanium alloys, mainly used for heat-exchange systems, particularly those employed in nuclear power plants using sea water. There is a large potential demand for titanium alloys in power plants being developed which use the sea water temperature difference on the surface and in the depths of the world ocean.

Chemical industry employs unique anticorrosive properties of titanium alloys and is now a stable and perspective consumer of these materials with their steadily growing consumption in this sector.

During the recent years prospecting of energy resources (oil, gas, gas condensate) has been aiming at the sea shelf. Titanium alloys are practically an ideal structural material for offshore drilling and extracting platforms, riser pipes and pipeline systems since titanium and its alloys have absolute corrosion resistance to sea water.

Over the last five to seven years a significant volume of low-grade titanium alloys (up to five thousand tpy) has been used for golf club heads manufacture. Even if the substitution to titanium alloys is found in this area in the near future, there are some significant potential markets for titanium alloys to be used for production of goods for sports and recreation: bicycles, hiking and climbing equipment, manual tools, etc.

On the whole, industrial development does not assume any reduction in the use of titanium alloys considering minimal risks.

Moreover, in 2005 the trend of sharp increase in demand for titanium alloys as well as the significant growth of their output in the whole world has been noted. It was caused by complete overcoming of consequences of terrorist attack on September 11, 2001 in the USA and the increase in aircraft produc-

tion volumes by global producers. Simultaneously, titanium alloy industrial application market began growing, especially in power engineering, mainly, in South-East Asia (China, India). This tendency will continue in 2005 and 2006: conventional aerospace customers' orders have sharply grown, titanium mill products prices increased 3-4 times for the last year. Due to reduction of titanium scrap shortage and increase of titanium semi-finished products output and some reduction of the requirement for ferrotitanium for the purpose of structural and stainless steel manufacture, the prices for ferrotitanium has dropped more than two times for the last quarter and equal USD \$13-15/kg of titanium in ferrotitanium with the unprecedented jump in prices up to USD \$35/kg of titanium in ferrotitanium having been withdrawn. It should be noted that this reduced price has not reached the many years' level of USD \$5-7/kg of titanium in ferrotitanium so far.

Hence, titanium market shows unprecedented revival.

Titanium does not stand out in the general range of metals from the point of view of fluctuations of world prices for raw materials and energy resources. In terms of prevalence in the nature, titanium occupies the fourth place among structural materials (after aluminum, magnesium and iron), and considerable raw material stocks have been discovered. Considering, therefore, that in the world only approximately 5% of the extracted raw material (the rest of the output is used for pigment dye manufacture on the basis of titanium dioxide) is used for metal titanium manufacture, then risks associated with the shortage of raw material and increase in prices for it are virtually missing. It should be noted that for the first half of 2005 significant increase in prices for alloying elements being included in titanium alloys, mainly, vanadium (increased 6-7 times) and molybdenum (increased 3 times) has been observed. It significantly affected the level of costs and prices for titanium ingot, mill products and product prices specified in LTAs are required to be repeatedly reviewed considering dynamics of alloying element price modification.

Risks associated with decisions of foreign countries regarding imposition of protecting duties, country quotas on imports exist in the USA only, which consumes less than 50% of titanium exports. Moreover, judging by the recent years' experience, the initiatives of the competitors of VSMPO-AVISMA Corporation in the US demanding introduction of such protective measures have not been supported by the US industry. However, unfortunately, for political reasons (election campaign), on September 7, 2004, George Bush, the President of the United States, signed an Order on withdrawal of GSP treatment for Russian wrought titanium. This means that in 2005 an import duty from 5, 5 % (die forging) and up to 15% (bar, sheet, plate, tube) will be imposed on VSMPO-AVISMA Corporation products. This decision won't produce any significant impact on VSMPO-AVISMA Corporation business in the US, as most of the products are supplied to the aerospace companies (Boeing, Pratt & Whitney, Perryman, Dynamet, TECT), which export the majority of their products. Therefore, they can make up for the import duty using TIB system and other support alternatives without changing prices for VSMPO-AVISMA Corporation products.

### ***2.5.2. Country and Regional Risks***

**Political (within Russia) risks** associated with collaborating with VSMPO-AVISMA Corporation are minimal for the following reasons:

- the Corporation is the main supplier of metallurgical semi-finished titanium and aluminum alloy products for aircraft and rocket production and the key economic sectors of the Russian Federation, and therefore it is supported by the regional and federal authorities irrespective of their political orientation;

- the Corporation exports about 80 % of its products for use in high tech industries, which is considered and supported at the regional and federal levels as disposal of the raw material orientation of exports of the Russian Federation;

- the Corporation is one of the largest exporters in Sverdlovsk Region, a major taxpayer in the region, not to mention the town of Verkhnyaya Salda, and it is therefore supported by the regional and municipal authorities;

- in the rating compiled by Russian industrial analysts based on the performance results for 2004, VSMPO-AVISMA Group occupies the 121<sup>st</sup> place among 400 enterprises of the Russian Federa-



tion in terms of production volumes, at that VSMPO occupies the 30<sup>th</sup> place and AVISMA – the 96<sup>th</sup> place among 200 enterprises of the Russian Federation in terms of capitalization.

- for the abovementioned reasons, there is no risk of company de-privatization. Introduction of the "golden" share owned by the government, which is discussed in the Mass Media, has no legislative basis in the Russian Federation so far.

**Political (international) risks** associated with collaborating with VSMPO-AVISMA Corporation are minimal for the following reasons:

- the Russian Federation implements the balanced foreign policy aimed at creating a multi-polar world, including the concept of mutually beneficial, restriction-free trade with all the countries which do not violate the By-Laws of the United Nations, and therefore VSMPO-AVISMA Corporation as a Russian company is not subject to any discrimination in its export activities;

- the Corporation has had long-term and developing relations with such leading aerospace companies around the world as Boeing, EADS, Rolls Royce, Pratt & Whitney, Snecma, General Electric and others, which ensures support for the Company on behalf of government agencies and a positive image in all the countries. Huge international corporations EADS and Boeing being the major customers of VSMPO-AVISMA Corporation, have to lobby its interests both in the Russian Federation and in many other countries of the world;

- the Corporation is fully integrated into the world economy and meets the generally accepted international standards with regard to its performance indicators.

**Production risks:**

a) The raw-material base: titanium sponge manufacture is geographically close to melting facilities (at a distance of about 600 km); there is railway communication and motorways which ensure regular delivery of raw materials in contrast to the supply of titanium sponge, for example, to the US from Japan or Kazakhstan. Besides, starting from July 1, 2005 a merger of VSMPO and AVISMA into the integrated corporation was effected ensuring stable supplies of basic raw materials to VSMPO. Due to titanium sponge shortage VSMPO intends to make large investments in development of titanium sponge production at AVISMA with the annual growth of 7-8 %. Negotiations in regard to mining and delivery of ilmenite from India are held and various alternatives of supplying vanadium and molybdenum raw materials at stable prices to the Corporation are worked out in order to reduce dependence of the Corporation on deliveries of titanium raw materials from the Ukraine;

b) Process capabilities: for each type of product the Corporation has several versions of manufacture, for example, ingot forging can be done using forging hammers, forging presses or a radial forging machine ensuring fulfillment of orders even in case of overloading of separate pieces of equipment or their emergency shutdown.

c) Reserve production capacities: existing equipment is 40-70% loaded, which allows orders to be executed or changed towards the increase in the volumes within minimum terms.

d) Raw material processing effectiveness: the Corporation unlike the majority of titanium companies around the world is an integrated Supplier manufacturing all types of metallurgical semi-finished products from titanium alloys from raw ore materials. It allows VSMPO-AVISMA Corporation to control lead times, pricing and to be completely responsible for the quality of its products.

e) Production diversification: the Corporation has at its disposal tooling, repair, power (water, steam, compressed air) and machine-building facilities, all types of inspection and tests, which ensures independence from subcontractors and a possibility to provide the Customers not only with rolled metal products of all types but also simple finished equipment from titanium alloys (heat-exchangers, containers, fans, pumps etc.). Currently, the Corporation establishes machining facility for rough machining of die forgings, and in the future – for manufacture of finished parts designated for aircraft components and assemblies. This will allow the end users to reduce the number of subcontractors and lead times.

Besides, except for titanium products, the Corporation processes and in the future plans to expand its production capacities for manufacture of metallurgical semi-finished products from aluminium and magnesium alloys, high strength steels and heat-resistant nickel-base alloys. This will allow Customers to

reduce the number of subcontractors and production certifications costs. Moreover, the reputation of VSMPO-AVISMA Corporation as a supplier of a number of complete value-added products from different materials will be significantly enhanced.

#### **Human resources risks:**

a) The Corporation is fully staffed because it is located in a small town where there are no other large enterprises; it is a mono-company town (meeting the concept of "plant-town"); in contrast to the US and the western countries, for economic reasons there is no staff migration in Russia, and the tradition is to live settled in one place.

b) There is no problem with regard to staff rotation for age reasons because the staff average age at the Corporation is 40 years, and the demographic situation in the town of Verkhnyaya Salda allows the company to compensate for staff retiring.

c) There is no problem with regard to employing trained workers and technical staff because there is a technical lyseum and a technical aero-metallurgical) college in the town, most of the graduates of which are paced in jobs at the Corporation.

d) There is no problem with regard to employing engineering staff because there is Urals State Engineering University Affiliate in the town of Verkhnyaya Salda; the school leavers are sent to universities located in other cities getting education at the expense of the Corporation and being committed to work for it as well as graduates of the leading universities of the Russian Federation are invited for work at the Corporation. As of July 1, 2005 the Corporation employs 656 young specialists (at the age of under 30) having higher engineering background.

e) From the point of view of staffing stability, it should be noted that in the Urals, where the Corporation is located, there are family traditions of working at the same enterprise and there is a significant number of dynasties with several generations of the same family working at the Company.

f) Problems with regard to the strikes and labour disputes, in contrast to, for example, TIMET, RMI, Aubert Duval and others, which came across with such difficulties in 2000-2004 resulting in detrimental consequences for their Customers are excluded for the following main reasons:

- there is a trade union at the Corporation with which the Collective Agreement, being reviewed on a regular basis, has been concluded, and no conflicts have ever happened when entering into the Agreement;

- the wage level is much higher than the average wages within the Russian Federation and Sverdlovsk Region;

- constant increase of the average wage is ensured leaving behind the rate of inflation in the Russian Federation raising the standard of living of the employees;

- a social policy aimed at supporting of low-income groups of the population, including pensioners, former employees of the Company is pursued;

- highly qualified health services for employees and pensioners are provided by the Corporation: there is the out-patient department, the diagnostic medical center where all the employees of the Company are annually examined, three health rehabilitation centers for employees and pensioners, and there are health facilities in the workshops: gyms with the necessary equipment for sports and recreations, saunas;

- social sphere facilities included into fixed assets are maintained, funded and developed: Center of Culture, sports facilities, libraries, country holiday centers for children during vacations as well as for employees and pensioners etc.

#### **Natural conditions:**

VSMPO and AVISMA have their facilities located on the border between Europe and Asia where natural (atmospheric, seismic, geological) disasters such as storms, typhoons, tornadoes, earthquakes, floods, etc., in contrast to titanium companies in the US and Japan, are excluded.

The Corporation is well provided with stable energy resources at present and in the near future, including:

- Sverdlovsk Region is abundant in electric power and no problems with regard to its generation arise;
- the Corporation is located in the area of the main Russian gas pipelines, close to their origin (gas sources), and therefore no problems with regard to ensuring the required gas pressure in the inlet of the Company's system and the required gas consumption volume arise;
- the Corporation has at its disposal its own plants in order to provide production facilities with heat, steam, compressed air, drinking and process water and experiences no problems with regard to these energy resources;
- government authorities establishes sufficient restrictions for the Corporation for consumption of drinking and process water, discharge of contaminated water and air (after cleaning to applicable sanitary standards) into aquatic and air environment and disposition of solid industrial wastes in the special waste burial area.

### ***2.5.3. Financial Risks***

The activities of any export-oriented Russian company are associated with financial risks.

**The main financial risks are as follows: market risks and currency risks.**

Currency risks arise when involving sources of funds using foreign currencies. The rate of exchange is affected by the trends of economic development of the country and political situation starting from changes in the currency regulation policy to the extent of social tension.

The currency risk involves two components:

- Risks associated with changes in the exchange rate;
- Conversion risk.

**Currency risks** are present in all the operations involving foreign currency because the company cannot affect these processes, and the only way out is to protect its interests by identifying risks in time and limit their potential consequences and losses.

It should be noted that for excluding **market risks** managers of the Company keep track of trends of price modification in the world market as unawareness of the market situation leads to amplification of the market risk factor and implicit losses.

There is, of course, an inflation risk. The company implements a significant production and financial cycle bringing to inflationary profit and, therefore, experts draw up a business plan allowing for inevitable inflation.

Financial stability of VSMPO-AVISMA Corporation is at a high level, which is proved to be true based on the following facts:

- the company, in contrast to other comparable firms, for example, TIMET, is profitable, profitability of the sales as of 1.01.2005 equals 16.5 %;
- as of 01.01.2005 accounts receivable of the Corporation exceed accounts payable 6.9 times;
- the Corporation has shown the ability to survive in critical conditions of economic recession: having been a closed enterprise operating for the defense complex of the former USSR, it then experienced a 40-fold fall in volumes of orders, and over 12 years it turned into an outstanding player in the world titanium market strengthening its positions every year;
- there are no unfriendly companies among the shareholders of the Corporation, and, therefore, the management of the company has an opportunity to plan the strategy and tactics of Company's development in the interests of its customers.

## **2.5.4. Legal Risks**

Legal risks associated with the changes in:

- Currency regulation
- Taxation legislation
- Customs control and duty regulations
- Currently there are no requirements for licensing of the issuer's primary activity.

## **2.5.5. Risks connected with issuer's activities**

The issuer has not been involved in litigations which could significantly affect and interfere with the issuer's economic activities or which would infringe on the interests of the third parties.

## **III. Detailed Information on the Issuer**

### **3.1. Issuers' Establishment and Development History**

#### **3.1.1. Issuer's Corporate Name**

Issuer's full and abbreviated corporate name:

Joint Stock Company VSMPO-AVISMA Corporation (JSC VSMPO-AVISMA Corporation)

Previous full and abbreviated corporate name of the issuer:

1. Joint Stock Company Verkhnyaya Salda Metallurgical Production Association (JSC VSMPO)

Legal entity state registration number: 162 II-VI

State registration date: 18.02.1993.

Name of the authority that effected state registration: Municipal Formation Administration "Verkhnyaya Salda District".

The date of and the grounds for changing the name of the issuer: Resolution of the general meeting of shareholders dd. 14.06.1996 and Resolution of the Head of Verkhnyaya Salda administration No. 250-d dd. 26.06.1996.

2. Joint Stock Company Verkhnyaya Salda Metallurgical Production Association (JSC VSMPO)

Legal entity state registration number: 162 II-VI

State registration date: 18.02.1993.

Name of the authority that effected state registration: Municipal Formation Administration "Verkhnyaya Salda District".

The date of and the grounds for changing the name of the issuer: Resolution of the general meeting of shareholders dd. 28.12.2004. Certificate of the record in the Uniform Public Register of Legal Entities issued on January 24, 2005 under state registration number 2056600360254.

#### **3.1.2. Information on Issuer's State Registration**

Legal entity state registration number: 162 II-VI

State registration number: 18.02.1993.

Name of the authority that effected state registration: Head of Administration of Verkhnyaya Salda, Sverdlovsk Region.

Basic state registration number of the legal entity: 1026600784011

Name of the registration authority (in accordance with the data indicated in the certificate of the record on the legal entity registered till July 1, 2002 in the Uniform Public Register of Legal Entities): Regional Surveillance Authority # 3 of the Ministry of Taxation of RF for Sverdlovsk Region.

Record date: 11.07.2002.

### **3.1.3. Issuer's Establishment and Development**

Date of issuer's establishment: 18.02.1993.

The date till which the issuer will exist: the issuer has been established for an indefinite term

#### **Brief history of issuer's establishment and development:**

The predecessor factory of VSMPO was built in 1933 near Moscow; it was the first manufacturer of aluminum parts for engines and aircraft in the Soviet Union. During World War II the factory was evacuated to Verkhnyaya Salda in Sverdlovsk Region.

In 1957, the first titanium ingot was melted, and in 1958 full-scale production of primary titanium started. From 1957 to 1990 VSMPO substantially increased the output since during that period the Company was the only supplier of titanium for Soviet aerospace and military industry.

In 1991 the output of titanium ingots melted at VSMPO was exceeded by 50 % compared to that in the US, Europe and Japan taken together.

At the beginning of nineties, in connection with reduction of the military budget and sharp reduction in demand for domestic aircraft from civil aviation, domestic demand for titanium reduced 20-30 times and for aluminium - 5-6 times, which drove the Company to the verge of bankruptcy.

The desire to maintain the facility, which, in fact, was the only "bread-winner" of the town with the population of 55,000 people having qualified scientific and engineering potential, VSMPO new management made a strategic decision to get down to diversification and produce not only titanium for military applications in the domestic market but also for export.

The settled task was complicated by the fact that the composition of titanium alloys made abroad differed from that used in the Russian aircraft industry.

New technologies were mastered enabling production of titanium products of the quality required by the foreign customers.

Capacities were reconstructed and new areas were constructed, mainly, for finishing and inspection operations.

As a result, from 1993 to 1997 export deliveries increased 6 times.

The major element of the strategy of entering foreign markets was the program of certification of Company's products by potential foreign customers.

The Company also invested funds in upgrading of its manufacturing processes, specifically in the quality inspection system. The quality of VSMPO-AVISMA Corporation products is confirmed by more than 120 quality certificates including certificates granted by the largest aircraft building companies and their suppliers.

Today more than 68 % of the Company's titanium products are exported, mainly, for aerospace applications in the US and Europe.

At present the Company is working on increasing the share of such products with high added value in the total output as thin titanium sheet, welded thin-walled titanium pipe, die forging.

Moreover, nonconventional production facilities designated for construction business, manufacture of disks, utensils, heat-exchanging titanium equipment and gas scrubbing systems were established.

This allowed the Company to maintain the personnel potential, most of engineering staff, design engineers, process engineers and workers who are in charge for the town since it is a mono-company town as well as maintain all its industrial potential, production capacities, provide proper operating condition and moreover, to bring them to a higher level of technological and qualitative requirements.

#### **Major objectives:**

- Manufacture of products meeting Customers' requirements and expectations, corresponding international and national standards and compulsory requirements of surveillance authorities.
- Enhancement of products competitiveness in foreign markets.

**VSMPO-AVISMA Corporation mission** is to ensure viability of the Company, maintain titanium industry of Russia and be integrated into the world economy.

### ***3.1.4. Contact Information***

Location: 1, Parkovaya St., Verkhnyaya Salda, Sverdlovsk Region, Russia  
Current Issue's Executive Body Location: 1, Parkovaya St., Verkhnyaya Salda, Sverdlovsk Region, Russia  
Postal address: 1, Parkovaya St., Verkhnyaya Salda, Sverdlovsk Region, Russia, 624760  
Contact telephones, e-mail address:  
Telephone: (34345) 2-13-60, 5-20-05  
Fax: (34345) 2-47-36, 5-20-05  
E-mail address: Shayahmetova@vsmpo.ru  
Web-site address: www.vsmo.ru

### ***3.1.5. Taxpayer Identification Number***

INN 6607000556

### ***3.1.6. Issuer's Affiliates and Representative Offices***

Name: VSMPO Affiliate  
Established: November 22, 2004  
Location: 12, Parkovaya St., Verkhnyaya Salda, Sverdlovsk Region, Russia  
CEO: Melnikov, Nikolay Konstantinovich

Name: AVISMA Affiliate  
Established: November 22, 2004  
Location: 29, Zagorodnaya St., Bereznikiy, Perm Region, Russia  
CEO: Tankeev, Vladimir Petrovich

## ***3.2. Primary Economic Activities***

### ***3.2.1. Industrial Sector of the Issuer***

Codes of the main industrial activities in accordance with OKVED:

27.45  
27.53  
28.12  
28.22.1  
28.75.12  
45.21.1  
55.51  
51.70

### ***3.2.2. Primary Economic Activities***

The main type of economic activity of the Company is titanium alloy products manufacture. Detailed information is given in para. 3.2.3

	2000	2001	2002	2003	2004	Q 2, 2005
Cost of titanium products sales, ths. rub.	3480655	6019441	6656904	6731795	8484272	2521747
including exports, ths. rub.	2571894	4805518	4491934	4138730	5780606	1772726
Share of titanium product exports in total titanium products output, ths. rub., %	73.9	79.8	67.5	61.5	68.1	70.3
Share of titanium products exports by regions, ths. rub., %						
USA	43.5	38.4	23.4	32.2	39.96	43.10
Germany	23.3	20	21.2	15.2	18.01	19.62
Japan	6.1	11.7	21.7	15.9	9.55	4.18
France	10.5	10.2	7.2	1.6	0.02	
UK	No data			4.6	6.01	7.48
Taiwan				5.9	6.75	17.06
Switzerland				20.1	17.58	
Canada						5.58

The factor of seasonal prevalence in the activities of the Company manifests itself only in the specific character of capital repair work involving maintenance of process equipment in operating condition as well as modernization, reconstruction and updating of production facilities with most of workload falling on summer and autumn periods.

### ***3.2.3. Basic Types of Products (operations, services)***

Company's primary type of activity is titanium alloy products manufacture.

At the same time, the Corporation is a multidiscipline enterprise being engaged in various activities listed in para. 4 of the Company By-Laws.

Development of the Company is planned in two directions:

- upgrading existing production processes for the purpose of improving quality and reducing specific material, financial and energy expenses when manufacturing products;
- establishing new production facilities with high value processing of metallurgical raw materials involved.

As for titanium mill products, manufacture of which is considered to be the major operation of the issuer, it is intended that the trend aimed at increasing the output be maintained:

- as for exports – due to increased deliveries of mill products for aerospace applications.
- as for the domestic market – due to extending the scope of application of titanium mill products, primarily, in thermal power engineering.

Index	2000	2001	2002	2003	2004	Q 2, 2005
Titanium products output, total, tn	10248	15036	15286	15887.3	20114	5107
Share of proceeds from titanium products in total proceeds, %	75.3	81.9	75.9	80.2	80.95	68.90

The general structure of the issuer's cost is described.

Cost Item	Reporting Period
Raw and other materials, %	Separate accounting for cost by types of product (operations, services) is not stipulated by Accounting Policy of the Company
Purchased components, semi-finished products, %	
Production operations and services performed by contractors, %	
Fuel, %	
Power, %	
Salaries, %	
Interest on credits, %	
Rent, %	
Deductions for social needs, %	
Fixed assets depreciation, %	
Tax included in production cost, %	
Other costs (to be explained), % : - intangible assets amortization, % - remuneration for innovation, % - compulsory insurance payments, % - representation expenses, % - other, %	
Total: production costs and costs of products (operations, services) sale (cost), %	
For information: proceeds from products (operations, services) sale, %	



### **3.2.4. Raw Materials and Issuer's Suppliers**

Issuer's suppliers which account for not less than 10 percent of all the supplies of inventories and their shares in total supplies as of 1.01.05.

Russian suppliers:

- Joint Stock Company Titanium & Magnesium Works "AVISMA", Bereznyki, Perm region – 40,0 % - \$5.0/kg in 2004, \$4.0/kg in the 1<sup>st</sup> half, 2005.

- Joint Stock Company Russian Aluminum Management "RUSAL", Moscow – 4,1 %, prices per ton in USD without VAT %  
2034 in 2004, 2646 in the 1<sup>st</sup> half, 2005.

- DP Volnogorsk State Metallurgical Works – 2.18 % , prices per ton in USD without VAT %  
\$99 in 2004, \$130 in the 1<sup>st</sup> half, 2005.

#### **Imports**

The issuer has no suppliers which account for not less than 10 percent of all supplies of inventories and their shares in total supplies as of 1.07.05.

### **3.2.5. Issuer's Sales Markets of Products (operations, services)**

Sales markets of basic (titanium) products are given in para. 3.2.2

There are no consumers the turnover with which accounts for not less than 10 % of the total proceeds from sales of products (operations, services) of the issuer.

### **3.2.6. Information on Issuer's Licenses**

Number: TB 6476

Date of issue: 13.09.2002

Expiry date: 13.09.2007

Issuing Authority: RF Ministry of Press

Type of activity: telecasting

Number: 63-KA-1535

Date of issue: 23.11.2000

Expiry date: 23.11.2005

Issuing Authority: Ural Department of State Technical Surveillance of Russia

Type of activity: training of staff in the main trades for metallurgical industries and works

Number: 63-PM-000410

Date of issue: 06.02.2004

Expiry date: 06.02.2009

Issuing Authority: Ural Department of State Technical Surveillance of Russia

Type of activity: mine surveys (monitoring the state of mining leases and justification of their boundaries; mining graphic documentation maintenance; registration and justification of volumes of mine workings)

Number: 63-KA-1462  
Date of issue: 13.08.2001  
Expiry date: 13.08.2006  
Issuing Authority: Ural Department of State Technical Surveillance of Russia  
Type of activity: training of executive staff, specialists and workers for gas equipment

Number: 10509/910009  
Date of issue: 14.03.2003  
Expiry date: 14.03.2006  
Issuing Authority: Nizhny Tagil Customs  
Type of activity: Temporary Storage Warehouse establishment

Number: 10509/0027  
Date of issue: 23.10.2002  
Expiry date: 23.10.2005  
Issuing Authority: Nizhny Tagil Customs  
Type of activity: Temporary Storage Warehouse establishment

Number: CT-68  
Date of issue: 18.01.2002  
Expiry date: 18.01.2007  
Issuing Authority: Ural Department of State Technical Surveillance of Russia  
Type of activity: installation of gas control stations and units, gas pipes and gas equipment of industrial, agricultural enterprises and facilities providing maintenance services for public and residential buildings

Number: 63-PR-1174  
Date of issue: 4.09.2000  
Expiry date: 4.09.2005  
Issuing Authority: Ural Department of State Technical Surveillance of Russia  
Type of activity: design of metallurgical facilities and objects

Number: B 813989  
Date of issue: 16.08.2001  
Expiry date: 16.08.2006  
Issuing Authority: Sverdlovsk Regional Public Health Licensing and Accreditation Commission  
Type of activity: pharmaceutical activity

Number: 63-EK-1532  
Date of issue: 23.11.2000  
Expiry date: 23.11.2005  
Issuing Authority: Ural Department of State Technical Surveillance of Russia  
Type of activity: manufacture of ferroalloys, special steels, alloys of nonferrous metals, sheet and bar, pipe

Number: 63-PT-1534  
Date of issue: 23.11.2000  
Expiry date: 23.11.2005  
Issuing Authority: Ural Department of State Technical Surveillance of Russia  
Type of activity: repair of metallurgical units and equipment of metallurgical facilities and objects

Number: 63-MT-1533  
Date of issue: 23.11.2000  
Expiry date: 23.11.2005  
Issuing Authority: Ural Department of State Technical Surveillance of Russia  
Type of activity: installation (commissioning) of metallurgical units and equipment of metallurgical facilities and objects

Number: 63-EK-874  
Date of issue: 21.07.2000  
Expiry date: 21.07.2005  
Issuing Authority: Ural Department of State Technical Surveillance of Russia  
Type of activity: development of deposits, extraction of minerals by the open-pit method  
Number: CBE No. 01256  
Date of issue: 23.09.2002  
Expiry date: 1.07.2027  
Issuing Authority: Central Department for Natural Resources and Environmental Protection of the Ministry of Natural Resources of Russia for Sverdlovsk Region  
Type of activity: the right to use subsurface resources  
Number: CBE No. 00330  
Date of issue: 11.03.2002  
Expiry date: 11.03.2007  
Issuing Authority: Natural Resources Department for the Urals Region  
Type of activity: water use  
Number: D 378805  
Date of issue: 28.07.2003  
Expiry date: 27.06.2008  
Issuing Authority: RF Ministry of Power Engineering  
Type of activity: storage of oil, gas and products of their processing  
Number: PPC-63-00047  
Date of issue: 7.07.2003  
Expiry date: 7.07.2008  
Issuing Authority: Ural Department of State Technical Surveillance of Russia  
Type of activity: Authorization for manufacture and use of high pressure vessels and devices of austenitic and carbon steels, titanium and aluminum alloys in accordance with the attached list  
Number: series REA-R No. 0118  
Date of issue: 18.06.2003  
Expiry date: 31.12.2005  
Issuing Authority: Rosenergoatom Concern  
Type of activity: Certificate of accreditation and record in the Register of Potential Suppliers of Rosenergoatom Concern

Number: UO-11-101-0774  
Date of issue: 20.08.2002  
Expiry date: 1.10.2006  
Type of activity: Material and Technical Supplies Department of State Nuclear Surveillance of the Russian Federation  
Type of activity: design of equipment for nuclear plants

Number: UO-12-115-0787  
Date of issue: 12.09.2002  
Expiry date: 20.09.2007  
Issuing Authority: Material and Technical Supplies Department of State Nuclear Surveillance of the Russian Federation  
Type of activity: manufacture of equipment for structures, facilities, plants incorporating nuclear materials intended for production, recycling, transportation of nuclear fuel and nuclear materials

Number: 63-CT-68  
Date of issue: 18.01.2002  
Expiry date: 18.01.2007  
Issuing Authority: Ural Department of State Technical Surveillance of Russia  
Type of activity: construction of gas control stations (units), gas pipes and gas equipment of industrial, agricultural enterprises and facilities providing maintenance services for public and residential buildings

Number: UO-12-101-0786

Number: 12.09.2002

Expiry date: 20.09.2007

Issuing Authority: Material and Technical Supplies Department of State Nuclear Surveillance of the Russian Federation

Type of activity: manufacture of equipment for nuclear plants

Number: A 118095

Date of issue: 18.01.2002

Expiry date: 18.01.2007

Issuing Authority: Ural Department of State Technical Surveillance of Russia

Type of activity: construction of gas control stations (units), gas pipes and gas equipment of industrial, agricultural enterprises and facilities providing maintenance services for residential buildings

Number: CBE 01114

Date of issue: 07.09.2001

Expiry date: 31.12.2005

Issuing Authority: Uralgeocom

Type of activity: the right to develop the area of Ozerskoye peat deposit

Number: 63-EKH-000543(ZHKH)

Date of issue: 14.05.2004

Expiry date: 14.05.2009

Issuing Authority: State Technical Surveillance Department of Russia

Type of activity: operation of chemically hazardous production objects

Number: 63-EB-000542(ZKHMC)

Date of issue: 14.05.2004

Expiry date: 14.05.2009

Issuing Authority: State Technical Surveillance Department of Russia

Type of activity: operation of explosive production objects

Number: UO-12-106-0450/01

Date of issue: 04.05.2001

Expiry date: 01.05.2007

Issuing Authority: Material and Technical Supplies Department of State Nuclear Surveillance of the Russian Federation

Type of activity: manufacture of equipment for structures and facilities incorporating industrial nuclear reactors subject to terms and conditions of the present license

### ***3.2.7. Issuer's Joint Activities***

The issuer does not conduct joint activities with other organizations.

The issuer has no subsidiary companies established using investments from third parties.

### ***3.3. Future Prospects***

#### **MELTING**

Aspiring to keep the positions occupied in the global aerospace complex and to increase competitiveness in the market of titanium for aircraft engine application as well as to supply premium quality metal to the Russian market, VSMPO-AVISMA Corporation installs capacities for melting titanium alloy ingots of premium quality by construction of the plasma-arc melting area using the cold-hearth furnace. At present, commissioning works are carried out.

The automated system of monitoring and control of titanium ingot melting processes has been installed on the basis of Allen-Bradley equipment for 14 vacuum-arc furnaces.

Further on, it is planned to re-equip monitoring and control systems of the melting process for 3 to 5 vacuum-arc furnaces annually.

The purpose of this project is to increase the metal yield when re-melting composite alloys, to ensure reproducibility of the process as well as to increase of explosion safety.

For the purpose of ensuring reliable quality of charge materials VSMPO-AVISMA Corporation has concluded a contract for manufacture and delivery of two magnetic and X-ray units for chips inspection. Significant growth of the Company's own manufacture of alloying materials with their range expanded is planned. Pre-project review is performed.

## **SHEET ROLLING**

With the mill products entering the world market, marketing surveys settled the following objectives for the Company's specialists with regard to manufacture of competitive products:

- Export plate and sheet from 6A1 – 4Y alloy for aerospace application,
- CP titanium sheet and strip from 0.5 to 2.0 mm in thickness for welded tubes and PFHE.

The significant amount of work has been carried out and investments have been made for implementation of the tasks. Most of the new foreign auxiliary equipment for grinding and cutting of coil has already been installed and put into operation.

Premium quality strip is considered to be an urgent subject for the Company because production facilities for thin-walled welded tube manufacture are significantly expanded. To develop sheet-rolling production it is planned to reconstruct the following industrial areas:

- reconstruction of "2000" hot-rolling mill;
- installation of strip profile adjustment and control system;
- installation of "Duo" dressing mill based on one of the existing mills (e.g. "Bliss-2") for dressing of coil up to 1300 mm in width with the following additional equipment mounted: decoiler, rewinder, coil accumulator.

To increase the output of flat mill products heating furnaces are designed and constructed: for slab and metal rolling as well as for annealing.

Sheet etching unit No. 2 is designed; it will allow to increase the volume of etching of sheet and plate by 25%.

Contracts for delivery of special foreign equipment for grinding and cutting of sheet products have been concluded.

## **PRESS-FORGING**

Due to the increase of the orders for delivery of premium quality die forgings, VSMPO-AVISMA Corporation has significantly reconstructed the main and auxiliary facilities, including repairs and upgrading of the presses; electric furnaces for long billets heating with the automatic control system incorporated ensuring the required accuracy of heating have been put into operation.

A number of immersion ultrasonic inspection units for machined titanium alloy bar and billet with the length up to 5000 mm have been constructed and put into operation, including the 4-th multizone ultrasonic inspection unit in the world. Advanced instrumentation and test machines have been purchased for metallurgical quality inspection of finished products.

The control system of 6000 ton forging press have been overhauled and upgraded.

Furnace areas have been re-equipped with electric heating furnaces replaced by gas ones and 8 state-of-the-art gas furnaces have been installed.

The rolling mill was purchased and installed in order to master new types of products – rolled rings from titanium and aluminium alloys and Inconels. The ring rolling mill was upgraded that allowed to increase the output at the expense of mastering shaped ring production.

Press for straightening of ring products was put into operation.

Ingot and billet forging area based on 2000 ton hydraulic press equipped with manipulators, furnaces and auxiliary equipment was established.

Finished product release area was organized.

A number of die forgings for leading aircraft building companies was mastered. In the near future the priority will be given to this type of work. To develop forging production:

- overhaul and modernization of control system of 3 000 ton forging press is planned;
- works for shaping area construction (forging per sketch) based on 1500 ton forging press to be equipped with gas furnaces, forging and handling manipulators started;
- abrasive grinding area of forged billets is constructed;
- works aimed at die forging machining expansion are carried out. The contracts for delivery of machines have been concluded; installation and commissioning are conducted, the first line of new rough machining facility for titanium alloy die forgings has been put into operation.

## **TUBE PRODUCTION**

Currently, the Corporation has implemented the 2<sup>nd</sup> stage of the project for manufacturing titanium alloy and stainless steel welded pipes from 10 to 40 mm in diameter. Four tube welding lines are in operation.

Another four tube-welding lines being installed and put into operation have been purchased for the purpose of increasing the output of tubes and expanding the range of products from 30 to 114 mm in diameter.

## **NONCONVENTIONAL GOODS**

- Manufacture of stainless steel kitchen utensils with the heat-distributing "sandwich" base.

In 1991 stainless steel household and kitchen tableware production was mastered.

In order to successfully compete with similar products manufactured by both Russian and foreign companies it is required that "sandwich"-bottom tableware be manufactured. Process Engineering and Design Departments have carried out research and design works required for manufacture of new products. For implementation of the project the following equipment has been purchased and installed:

- base straightening unit;
- base soldering equipment;
- base machining equipment;
- reconstruction of "8P1et" grinding machines.

Further manufacture of stainless steel kitchen tableware is planned to be expanded with additional equipment to be purchased.

- Manufacture of die forged wheel discs from aluminium alloys.

In order to develop this production trend, expand the range of products and increase the output, special-purpose machines for turning and milling are purchased.

The rolling machine for wheel disc production by rolling has been purchased and is under installation and commissioning.

- Manufacture of titanium and stainless steel products for power engineering and oil-gas chemical industry.

In order to develop this production trend, expand the range of products and increase the output, special-purpose equipment including testing equipment is planned to be purchased.

## **QUALITY INSPECTION**

In accordance with VSMPO-AVISMA Corporation Quality and Certification Program and the requirements of the audit organizations, inspection instrumentation for product quality testing is planned to be purchased in order to enhance reliability of inspection operations as well as to replace physically worn out and obsolete equipment.

Blue etching and fluorescent inspection areas have been established, and the contract for purchasing advanced ultrasonic inspection unit for disks has been concluded.

### **3.4. Issuer's Participation in Industrial, Bank and Financial Groups, Holdings, Concerns and Associations**

The issuer does not participate in any industrial, bank, financial groups, holdings, concerns and associations.

### **3.5. Issuer's Subsidiaries and Subordinate Companies**

Full and abbreviated corporate name:

#### **TIRUS HOLDING Limited Liability Company (TIRUS HOLDING LLC)**

Location: 18, Viktor Ambartsumyan St., Ap. 8, Yerevan, Armenia

Postal address: 18, Viktor Ambartsumyan St., Ap. 8, Yerevan, Armenia, 375033

Grounds for acknowledging the company as a subsidiary: dominant participation in the registered capital

Issuer's participatory share in the registered capital of the subsidiary: 100%

Proportion of ordinary shares of the subsidiary which belong to the issuer: 100%

Subsidiary's participatory share in the issuer's registered capital: 0

Proportion of ordinary shares of the issuer, which belong to the subsidiary: 0

Description of the primary business of the Company: holding activities.

Description of the role of such company in the issuer's activity: holding activities.

#### **Board of Directors (Supervisory Board):**

BoD of the Company is not stipulated by the By-Laws.

#### **Joint Executive Body (management board, directory):**

Joint Executive Body is not stipulated by the By-Laws.

#### **Person acting as Sole Executive Body:**

Retanova, Ludmila Anatolievna, b. 1964

Participatory share of Mrs. Retanova in the issuer's registered capital: 0

Proportion of ordinary shares of the issuer, which belong to Mrs. Retanova: 0

Full and abbreviated corporate name:

#### **Tirshop Limited Liability Company (Tirshop LLC)**

Location: 36, Engels St., Verkhnyaya Salda, Sverdlovsk Region, Russia.

Postal address: 36, Engels St., Verkhnyaya Salda, Sverdlovsk Region, Russia, 624760

Grounds for acknowledging the company as a subsidiary: dominant participation in the registered capital

Issuer's participatory share in the registered capital of the subsidiary: 70%

Issuer's participatory share in the registered capital of the subsidiary: 70%

Subsidiary's participatory share in the issuer's registered capital: 0

Proportion of ordinary shares of the issuer, which belong to the subsidiary: 0

Description of the primary business of the Company: retail and wholesale of consumer goods.

Description of the role of such company in the issuer's activity: retail and wholesale of consumer goods.

#### **Board of Directors (Supervisory Board):**

BoD of the Company is not stipulated by the By-Laws.

#### **Joint Executive Body (management board, directory):**

Joint Executive Body is not stipulated by the By-Laws.

#### **Person acting as Sole Executive Body:**

Golovanova, Tatyana Nickolaevna, b. 1954

Participatory share of Mrs. Golovanova in the issuer's registered capital: 0

Proportion of ordinary shares of the issuer, which belong to Mrs. Golovanova: 0

Full and abbreviated corporate name:

**Closed Joint Stock Company Trade Company “Titan”  
(CJSC Trade Company “Titan”)**

Location: 61, Engels St., Verkhnyaya Salda, Sverdlovsk Region, Russia.

Postal address: 61, Engels St., Verkhnyaya Salda, Sverdlovsk Region, Russia, 624760

Grounds for acknowledging the company as a subsidiary: dominant participation in the registered capital

Issuer’s participatory share in the registered capital of the subsidiary: 70%

Proportion of ordinary shares of the subsidiary which belong to the issuer: 70%

Subsidiary’s participatory share in the issuer’s registered capital: 0

Proportion of ordinary shares of the issuer, which belong to the subsidiary: 0

Proportion of ordinary shares of the issuer, which belong to the subsidiary: retail sale of goods

Description of the role of such company in issuer's activity: verification of competitiveness of consumer goods manufactured by the issuer in the local market.

**Board of Directors** (Supervisory Board):

Chernova, Galina Vladimirovna, b. 1959

Participatory share of Mrs. Chernova in the issuer’s registered capital: 0

Proportion of ordinary shares of the issuer, which belong to Mrs. Chernova: 0

Panteleeva, Tatyana Maximovna, b. 1960

Participatory share of Mrs. Panteleeva in the issuer’s registered capital: 0

Proportion of ordinary shares of the issuer, which belong to Mrs. Panteleeva: 0

**Joint Executive Body** (management board, directory):

Joint Executive Body is not stipulated by the By-Laws.

**Person acting as Sole Executive Body:**

Chernova, Galina Vladimirovna, b. 1959

Participatory share of Mrs. Chernova in the issuer’s registered capital: 0

Proportion of ordinary shares of the issuer, which belong to Mrs. Chernova: 0

Full and abbreviated corporate name:

**JSC Titanium & Magnesium Works “AVISMA”  
(JSC “AVISMA”)**

Location: Berezniki, Perm Region, Russia.

Postal address: Berezniki, Perm Region, Russia, 618421

Grounds for acknowledging the company as a subsidiary: dominant participation in the registered capital

Issuer’s participatory share in the registered capital of the subsidiary: 56,65%

Proportion of ordinary shares of the subsidiary which belong to the issuer: 75,53%

Subsidiary’s participatory share in the issuer’s registered capital: 0

Proportion of ordinary shares of the issuer, which belong to the subsidiary: 0

Description of the primary business of the Company: manufacture of other nonferrous metals.

Description of the role of such company in issuer's activity: provide issuer’s titanium semi-finished products with basic raw materials (titanium sponge).

**Board of Directors** (Supervisory Board):

Besedin, Vasily Alexandrovich (chairman of BoD), b. 1953

Participatory share of Mr. Besedin in the issuer’s registered capital: 0

Proportion of ordinary shares of the issuer, which belong to Mr. Besedin: 0

Sementsov, Alexander Vladimirovich, b. 1966

Participatory share of Mr. Sementsov in the issuer’s registered capital: 0.0017

Proportion of ordinary shares of the issuer, which belong to Mr. Sementsov: 0.0017



Korkin, Nickolai Pavlovich, b. 1950  
Participatory share of Mr. Korkin in the issuer's registered capital: 0  
Proportion of ordinary shares of the issuer, which belong to Mr. Korkin: 0

Triphonov, Victor Ivanovich, b. 1950  
Participatory share of Mr. Triphonov in the issuer's registered capital: 0  
Proportion of ordinary shares of the issuer, which belong to Mr. Triphonov: 0

Shalaev, Mikhail Nickolaevich, b. 1954  
Participatory share of Mr. Shalaev in the issuer's registered capital: 0  
Proportion of ordinary shares of the issuer, which belong to Mr. Shalaev: 0

Tsarkov, Oleg Igorevich, b. 1966  
Participatory share of Mr. Tsarkov in the issuer's registered capital: 0  
Proportion of ordinary shares of the issuer, which belong to Mr. Tsarkov: 0

Tetyukhin, Vladislav Valentinovich, b. 1932  
Participatory share of Mr. Tetyukhin in the issuer's registered capital: 0  
Proportion of ordinary shares of the issuer, which belong to Mr. Tetyukhin: 0

**Joint Executive Body** (management board, directory):

Tetyukhin, Vladislav Valentinovich, b. 1932  
Participatory share of Mr. Tetyukhin in the issuer's registered capital: 0  
Proportion of ordinary shares of the issuer, which belong to Mr. Tetyukhin: 0

Tankeev, Vladimir Petrovich, b. 1938  
Participatory share of Mr. Tankeev in the issuer's registered capital: 0  
Proportion of ordinary shares of the issuer, which belong to Mr. Tankeev: 0

Styrnikov, Yury Nickolaevich, b. 1952  
Participatory share of Mr. Styrnikov in the issuer's registered capital: 0  
Proportion of ordinary shares of the issuer, which belong to Mr. Styrnikov: 0

Ovchinnikov, Sergey Evgenievich, b. 1952  
Participatory share of Mr. Ovchinnikov in the issuer's registered capital: 0  
Proportion of ordinary shares of the issuer, which belong to Mr. Ovchinnikov: 0

Sizikov, Igor Anatolievich, b. 1964  
Participatory share of Mr. Sizikov in the issuer's registered capital: 0  
Proportion of ordinary shares of the issuer, which belong to Mr. Sizikov: 0

Bragina, Elena Gennadievna, b. 1959  
Participatory share of Mrs. Bragina in the issuer's registered capital: 0  
Proportion of ordinary shares of the issuer, which belong to Mrs. Bragina: 0

Vydrina, Lyubov Valentinovna, b. 1950  
Participatory share of Mrs. Vydrina in the issuer's registered capital: 0  
Proportion of ordinary shares of the issuer, which belong to Mrs. Vydrina: 0

Gorban, Vyacheslav Ivanovich, b. 1954  
Participatory share of Mr. Gorban in the issuer's registered capital: 0  
Proportion of ordinary shares of the issuer, which belong to Mr. Gorban: 0

Efimov, Alexander Vasilievich, b. 1953  
Participatory share of Mr. Efimov in the issuer's registered capital: 0  
Proportion of ordinary shares of the issuer, which belong to Mr. Efimov: 0

Potekha, Sergey Ivanovich, b. 1953

Participatory share of Mr. Potekha in the issuer's registered capital: 0

Proportion of ordinary shares of the issuer, which belong to Mr. Potekha: 0

Philippova, Tatyana Gennadievna, b. 1963

Participatory share of Mrs. Philippova: 0

Proportion of ordinary shares of the issuer, which belong to Mrs. Philippova: 0

Sannikov, Dmitry Yurievich, b. 1976

Participatory share of Mr. Sannikov in the issuer's registered capital: 0

Proportion of ordinary shares of the issuer, which belong to Mr. Sannikov: 0

Kashkarov, Igor Alexandrovich, b. 1966

Participatory share of Mr. Kashkarov in the issuer's registered capital: 0

Proportion of ordinary shares of the issuer, which belong to Mr. Kashkarov: 0

Nickulin, Pavel Alexeevich, b. 1938

Participatory share of Mr. Nickulin in the issuer's registered capital: 0

Proportion of ordinary shares of the issuer, which belong to Mr. Nickulin: 0

Vasiliev, Gennady Pavlovich, b. 1951

Participatory share of Mr. Vasiliev in the issuer's registered capital: 0

Proportion of ordinary shares of the issuer, which belong to Mr. Vasiliev: 0

Agalakov, Vadim Vladimirovich, b. 1956

Participatory share of Mr. Agalakov in the issuer's registered capital: 0

Proportion of ordinary shares of the issuer, which belong to Mr. Agalakov: 0

Rymkevich, Dmitry Anatolievich, b. 1968

Participatory share of Mr. Rymkevich in the issuer's registered capital: 0

Proportion of ordinary shares of the issuer, which belong to Mr. Rymkevich: 0

**Person acting as Sole Executive Body:**

Tetyukhin, Vladislav Valentinovich, b. 1932

Participatory share of Mr. Tetyukhin in the issuer's registered capital: 0

Proportion of ordinary shares of the issuer, which belong to Mr. Tetyukhin: 0

Full and abbreviated corporate name:

**Joint Stock Company "Ural" (JSC "Ural")**

Location: 1, Parkovaya St., Verkhnyaya Salda, Sverdlovsk Region, Russia

Postal address: 1, Parkovaya St., Verkhnyaya Salda, Sverdlovsk Region, Russia, 624760

Grounds for acknowledging the company as a subsidiary: dominant participation in the registered capital

Issuer's participatory share in the registered capital of the subsidiary: 51%

Proportion of ordinary shares of the subsidiary which belong to the issuer: 51%

Subsidiary's participatory share in the issuer's registered capital: 0

Proportion of ordinary shares of the issuer, which belong to the subsidiary: 0

Description of the primary business of the Company: manufacture of tableware and kitchen utensils as well as small-size parts of consumer goods for main production shops.

Description of the role of such company in the issuer's activity: involvement of previously established fixed assets and personnel.

**Board of Directors (Supervisory Board):**

Shagovaleev, Vladimir Alexeevich, b. 1950

Participatory share of Mr. Shagovaleev in the issuer's registered capital: 0  
Proportion of ordinary shares of the issuer, which belong to Mr. Shagovaleev: 0

Lomko, Alexey Petrovich, b. 1976  
Participatory share of Mr. Lomko in the issuer's registered capital: 0  
Proportion of ordinary shares of the issuer, which belong to Mr. Lomko: 0

Semenov, Alexander Evgenievich,  
Participatory share of Mr. Semenov in the issuer's registered capital: 0.0046  
Proportion of ordinary shares of the issuer, which belong to Mr. Semenov: 0.0046

Odinokhikh, Victor Vasilievich (chairman of BoD), b. 1949  
Participatory share of Mr. Odinokhikh in the issuer's registered capital: 0  
Proportion of ordinary shares of the issuer, which belong to Mr. Odinokhikh: 0

Shashkina, Nadezhda Nickolaevna, b. 1974  
Participatory share of Mrs. Shashkina in the issuer's registered capital: 0  
Proportion of ordinary shares of the issuer, which belong to Mrs. Shashkina: 0

**Joint Executive Body** (management board, directory):  
Joint Executive Body is not stipulated by the By-Laws.

**Person acting as Sole Executive Body:**  
Shagovaleev, Vladimir Alexeevich, b. 1950  
Participatory share of Mr. Shagovaleev in the issuer's registered capital: 0  
Proportion of ordinary shares of the issuer, which belong to Mr. Shagovaleev: 0

Full and abbreviated corporate name:

**Closed Joint Stock Company Medical Insurance Company "Tirus-Medservice")  
(CJSC MSK "Tirus-Medservice")**

Location: 105, Molodezhny Poselok St., Verkhnyaya Salda, Sverdlovsk Region, Russia  
Postal address: 105, Molodezhny Poselok St., Verkhnyaya Salda, Sverdlovsk Region, Russia, 624760  
Grounds for acknowledging the company as dependent: the issuer owns more than twenty percent of the voting shares

Issuer's participatory share in the registered capital of the subordinate company: 31.4%  
Proportion of ordinary shares of the subordinate company which belong to the issuer: 31.4%  
Subordinate company's participatory share in the issuer's registered capital: 0  
Proportion of ordinary shares of the issuer, which belong to the subordinate company: 0

Description of the primary business of the Company: activities in the field of compulsory social security.  
Description of the role of such company in the issuer's activity: social support of the issuer's employees, for the most part, medical insurance.

**Board of Directors** (Supervisory Board):  
BoD of the Company is not stipulated by the By-Laws.

**Joint Executive Body** (management board, directory):  
Joint Executive Body is not stipulated by the By-Laws.

**Person acting as Sole Executive Body:**  
Oks, Igor Mikhailovich, b. 1953  
Participatory share of Mr. Oks in the issuer's registered capital: less than 0.0001  
Proportion of ordinary shares of the issuer, which belong to Mr. Oks: less than 0.0001

Full and abbreviated corporate name:

**Joint Stock Company “Technolog” (JSC “Technolog”)**

Location: 24/1, Onezhskaya St., Moscow, Russia.

Postal address: 24/1, Onezhskaya St., Moscow, Russia, 125413

Grounds for acknowledging the company as a subsidiary: dominant participation in the registered capital

Issuer's participatory share in the registered capital of the subsidiary: 50.07%

Proportion of ordinary shares of the subsidiary which belong to the issuer: 50.07%

Subsidiary's participatory share in the issuer's registered capital: 0

Proportion of ordinary shares of the issuer, which belong to the subsidiary: 0

Description of the primary business of the Company: 33.10.1(code to OKVED)

Description of the role of such company in the issuer's activity: establishment of the service center.

**Board of Directors** (Supervisory Board):

Gorbunova, Marina Yurievna, b. 1963

Participatory share of Mrs. Gorbunova in the issuer's registered capital: 0

Proportion of ordinary shares of the issuer, which belong to Mrs. Gorbunova: 0

Zvereva, Marina Victorovna, b. 1961

Participatory share of Mrs. Zvereva in the issuer's registered capital: 0.0001

Proportion of ordinary shares of the issuer, which belong to Mrs. Zvereva: 0.0001

Kosarev, Alexander Leonidovich, b. 1948

Participatory share of Mr. Kosarev in the issuer's registered capital: 0

Proportion of ordinary shares of the issuer, which belong to Mr. Kosarev: 0

Liokumovich, Anatoly Khatskelevich, b. 1943

Participatory share of Mr. Liokumovich in the issuer's registered capital: 0

Proportion of ordinary shares of the issuer, which belong to Mr. Liokumovich: 0

Marokhin, Sergey Mikhailovich, b. 1958

Participatory share of Mr. Marokhin in the issuer's registered capital: 0

Proportion of ordinary shares of the issuer, which belong to Mr. Marokhin: 0

Tikhomirov, Mikhail Philippovich, b. 1947

Participatory share of Mr. Tikhomirov in the issuer's registered capital: 0

Proportion of ordinary shares of the issuer, which belong to Mr. Tikhomirov: 0

Sidorenko, Pavel Vladimirovich, b. 1963

Participatory share of Mr. Sidorenko in the issuer's registered capital: 0

Proportion of ordinary shares of the issuer, which belong to Mr. Sidorenko: 0

Shemyakhin, Anatoly Gavrilovich, b. 1953

Participatory share of Mr. Shemyakhin in the issuer's registered capital: 0

Proportion of ordinary shares of the issuer, which belong to Mr. Shemyakhin: 0

Lebedev, Andrey Borisovich, b. 1956

Participatory share of Mr. Lebedev in the issuer's registered capital: 0

Proportion of ordinary shares of the issuer, which belong to Mr. Lebedev: 0

**Joint Executive Body** (management board, directory):

Joint Executive Body is not stipulated by the By-Laws.

**Person acting as Sole Executive Body:**

Yakimovich, Valery Evgenievich, b. 1954

Participatory share of Mr. Yakimovich in the issuer's registered capital: 0

Proportion of ordinary shares of the issuer, which belong to Mr. Yakimovich: 0

**3.6. Composition, Structure and Value of Issuer's Fixed Assets  
Information on Plans of Acquisition, Replacement, Retirement of Fixed Assets as well as  
on all the Facts of Fixed Assets Encumbrance**

**3.6.1. Fixed Assets**

Seq. #	Group of Fixed Assets	Full Cost before Revaluation, rub.	Depreciated Cost (less depreciation) before Revaluation, rub.	Date of Revaluation	Full Cost after Revaluation, rub.	Depreciated Cost (less depreciation) after Revaluation, rub.
1	All short life assets with the useful life from year 1 to 2 years inclusive	11 567	-	-	-	-
2	Assets with the useful life over 2 years to 3 years inclusive	4 528 085	2 309 201	-	-	-
3	Assets with the useful life over 3 years to 5 years inclusive	245 555 781	114 817 310	-	-	-
4	Assets with the useful life over 5 years to 7 years inclusive	290 437 987	186 657 878	-	-	-
5	Assets with the useful life over 7 years to 10 years inclusive	1 449 944 031	612 482 344	-	-	-
6	Assets with the useful life over 10 years to 15 years inclusive	1 290 324 375	399 843 015	-	-	-
7	Assets with the useful life over 15 years to 20 years inclusive	1 058 621 537	525 101 998	-	-	-
8	Assets with the useful life over 20 years to 25 years inclusive	110 735 759	21 840 729	-	-	-
9	Assets with the useful life over 25 years to 30 years inclusive	116 333 766	20 596 045	-	-	-

10	Assets with the useful life over 30 years	895 838 530	598 915 121	-	-	-
Total, rub.:		5 462 332 418	2 482 563 641			

The issuer has no plans of acquisition, replacement, and retirement of the fixed assets the cost of which equals 10 % and more of the total fixed assets cost.

Balance sheet value of the issuer's fixed assets in pawn as of 01.07.2005: 1`478`422`923,16 rub.  
 Depreciated cost of the issuer's fixed assets in pawn as of 01.07.2005: 998`904`095,19 rub.

Balance sheet value of the issuer's fixed assets under lease as of 01.07.2005: 87`573`608,02 rub.  
 Depreciated cost of the issuer's fixed assets under lease as of 01.07.2005: 54`692`548,14 rub.

## **IV. Financial and Economic Activities Information**

### ***4.1. Financial and Economic Performance Results***

#### 4.1.1. Profit and Loss

Index	Recommended Calculation Method	2000	2001	2002	2002 in 2003 methodology	2003	2004	As of 1.07.2005	Notes
Proceeds, ths. rub.	Total proceeds from sale of goods, products, operations, services	4624299	7346341	8768747	8768747	8369550	10571946	6635332	
Gross profit, ths. rub.	Proceeds (proceeds from sales) – cost of goods, products, operations, services sold (less trade and administration costs)	2056973	3276869	3865790	3865790	3146119	3194553	2622559	
Net profit (retained profit (uncovered loss), ths. rub.	Profit (loss) from ordinary operations + extraordinary income – extraordinary expenses	833963	1480061	1390330	1390330	1279415	1600767	1423447	
Return on assets, %	Net profit/balance sheet value of assets	18.53	24.81	17.12	17.1	12.7	12.90	9.53	Features financial stability, i.e. efficiency of usage of funds belonging to the owners of the company as well as borrowed funds.
Return on equity, %	Net profit/(capital and reserves – earmarked funds and receipts + deferred income – own shares repurchased from shareholders)	28.2	37.5	24.8	24.8	18.6	19.11	15.00	Shows profit on every ruble of own funds invested
Profit margin, %	Profit from sales /net sales (proceeds from sales)	29.3	32.2	32.3	33.81	23.01	16.54	26.66	Shows profit on every unit of sales

Total uncovered loss as of the reporting date, ths. rub.	Uncovered loss for previous years + uncovered loss for the reporting year	0	0	0	0	0	0		
Ratio of uncovered loss as of the reporting date to balance currency, %	Total uncovered loss as of the reporting date/balance-sheet value of assets (balance currency)	0	0	0	0	0			
Net profit ratio, %	Net profit/proceeds*100	1.468	2.196	1.866	2.099	15.866	15.142	21.453	
Return on equity	Proceeds/(balance-sheet value of assets – current liabilities)	1.468	2.196	1.866	2.099	2.505	2.630	1.322	



#### ***4.1.2. Factors which impacted on the change in proceeds from sales of goods, products, operations and services and the profit (loss) from primary activities***

As for the increase in proceeds:

- in 1999, the sharp increase in the dollar exchange rate in August 1998 had a 2.3-fold effect, the export share in the total sales equals 62.1 %;

- in 2001, the beginning on a 4-year cycle of growth of demand for titanium products in the aerospace market (titanium output for export increased 1.6 times compared to 2000) interrupted in September 2001 by the terrorist attack in the USA.

- in 2003, a decrease in proceeds by 4.5 % compared to 2002, the effect of the consequences of the terrorist attack in the US in September 2001 as well as the negative effect of the decrease in the dollar exchange rate (exports amount to 60 % of total sales).

- in 2004, the proceeds increased by 26.3 % including the increase in export sales by 42.6%, mainly for value added products.



## 4.2. Issuer's Liquidity, Adequacy of the Capital and Current Assets

Index	Recommended Calculation Method	2000	2001	2002	2002 in 2003 methodology	2003	2004	2 Q, 2005	Notes
Own current assets, ths. rub.	Capital and reserves (less own shares repurchased from shareholders) – earmarked funds and receipts + deferred income – fixed assets – long-term accounts receivable	1497156	2199482	3500698	3500698	3170722	4061210	4994449	
Own funds self-sufficiency ratio	Capital and reserves (less own shares repurchased from shareholders) – earmarked funds and receipts + deferred income/fixed assets + current assets	0.684	0.657	0.662	0.691	0.691	0.675	0.636	Shows the share of own capital in assets and features the extent of financial independence from creditors. Shall not fall below 0.5-:-0.6
Fixed assets ratio	Fixed assets + long-term accounts receivable/capital and reserves (less own shares repurchased from shareholders) - earmarked funds and receipts + deferred income	0.494	0.443	0.377	0.377	0.540	0.515	0.4748	Recommended value <= 0.9
Current liquidity ratio	Current assets - long-term accounts receivable/current liabilities (less deferred income)	1.976	2.425	2.397	2.397	2.009	2.018	1.927	Standard ratio not less than 2
Quick liquidity ratio	(Current assets - reserves - VAT on acquisitions - long-term accounts receivable)/current liabilities (less deferred income)	0.400	0.709	0.967	0.967	0.612	0.591	0.563	Optimum value = 0.8-:-1.0



### 4.3. Size, Structure and Adequacy of the Capital and Current Assets

#### 4.3.1. Size and Structure of the Capital and Current Assets

*in ths. rub.*

	2000	2001	2002	2002 in 2003 methodology	2003	2004	2 Q, 2005
Registered capital	11 806	11 806	10 626	10 626	10 626	10 626	10 626
Total cost of issuer's shares repurchased by the issuer for subsequent resale (transfer) with indication of percentage of such shares in placed shares (registered capital) of issuer, %	0	10	0	0	0	2 056	2 056
Size of issuer's reserve capital formed at the expense of deductions from issuer's profit	624	624	624	624	624	624	624
Size of issuer's paid-in surplus reflecting increase in the value of assets resulting from revaluation and difference between the sale price (allocation price) and par value of shares of the company due to sale of shares at the price exceeding par value	1 379 647	1 359 991	1 359 991	1 359 991	1 359 991	1 359 991	1 359 991
Size of issuer's retained net profit	1 565 662	2 853 588	4 243 918	4 243 918	5 523 333	7 007 255	8 122 588
Social sphere funds	0	0	0			0	0
Size of issuer's earmarked funds including total funds allocated for special purpose actions, funds received from other organizations and persons, budget funds, etc.	42	92	0			0	0
Issuer's total capital	2 957 781	4 226 101	5 615 159	5 615 159	6 894 574	8 376 440	9 491 773
Reserves	2 251 699	2 781 023	3 215 343	3 215 343	3 888 810	5 055 928	6 670 807
VAT on acquisitions	172 323	202 785	367 238	367 238	517 178	664 201	715 278
Accounts receivable (due in more than 12 months after the reporting date)	0	0	0	0	0	0	0
Accounts receivable (due within 12 months after the reporting date)	509 627	912 935	1 693 415	1 693 415	1 724 344	2 296 611	2 762 942

Short-term financial investments	26 407	279 885	712 579	712 579	175 827	36	206 468
Cash	80 009	40 341	17 809	17 809	32 122	74 787	78 226
Other current assets	0	0	0	0	0	0	0
Total working capital	3 040 065	4 216 969	6 006 384	6 006 384	6 338 281	8 091 563	10 433 721

### 4.3.2. Issuer's Financial Investments

The amount of all issuer's financial investments as of 01.07.2005: 1`031`929`188 rub.

The list of financial investments which constitute 10 and more percent of all its total financial investments at the final date of the reporting quarter:

Type of securities: ordinary registered uncertificated shares.

Full and abbreviated name of the issuer of securities: Joint Stock Company "Tekhnolog" (JSC "Technolog")

Location: 24/1, Onezhskaya St., Moscow, 125413

Information on issues of securities of this category (type) owned by the issuer:

Date of State Registration of the Issue	State Registration Number of the Issue	Authority which executed State Registration of the Issue
14.07.2003	1-02-03611-A	Regional Division of Russian Federal Securities Commission in the Central Federal District

Par value/security: 2 rub.

Number of securities owned by the issuer: 2`272`825 pcs.

Total par value of securities owned by the issuer: 4`545`650 rub.

Total balance sheet value of financial investment: 833`149`460,25 rub.

Total par value of securities.

Dividends have not been announced.

Information on reserves generated for securities devaluation: reserves for securities devaluation have not been generated.

Accounting standards (regulations) in accordance with which the issuer has made estimations described in this section of the quarterly report: financial investments are accounted for on Balance Account 58 by the company in accordance with Accounting Regulations 19/02 "Financial Investment Accounting" based on Order No. 126h dated 10.12.2002 issued by the Russian Federation Ministry of Finance.

### 4.3.3. Issuer's Intangible Assets

No.	Intangible Assets Group	Full Cost, rub.	Accrued Amortization, rub.	Accrued Amortization for 1Q, 2005
1	Right to invention	2`524`380	1`499`901	74`045
2	Right to trademark	1`500	1`050	123

The issuer submits information on its intangible assets in accordance with Accounting Regulations 14/2000 based on Order No. 91h dated 16.10.2000 issued by the Russian Federation Ministry of Finance.

#### 4.4. Issuer's Policy and Expenses for Scientific and Engineering Development associated with Licenses and Patents, New Developments and Researches

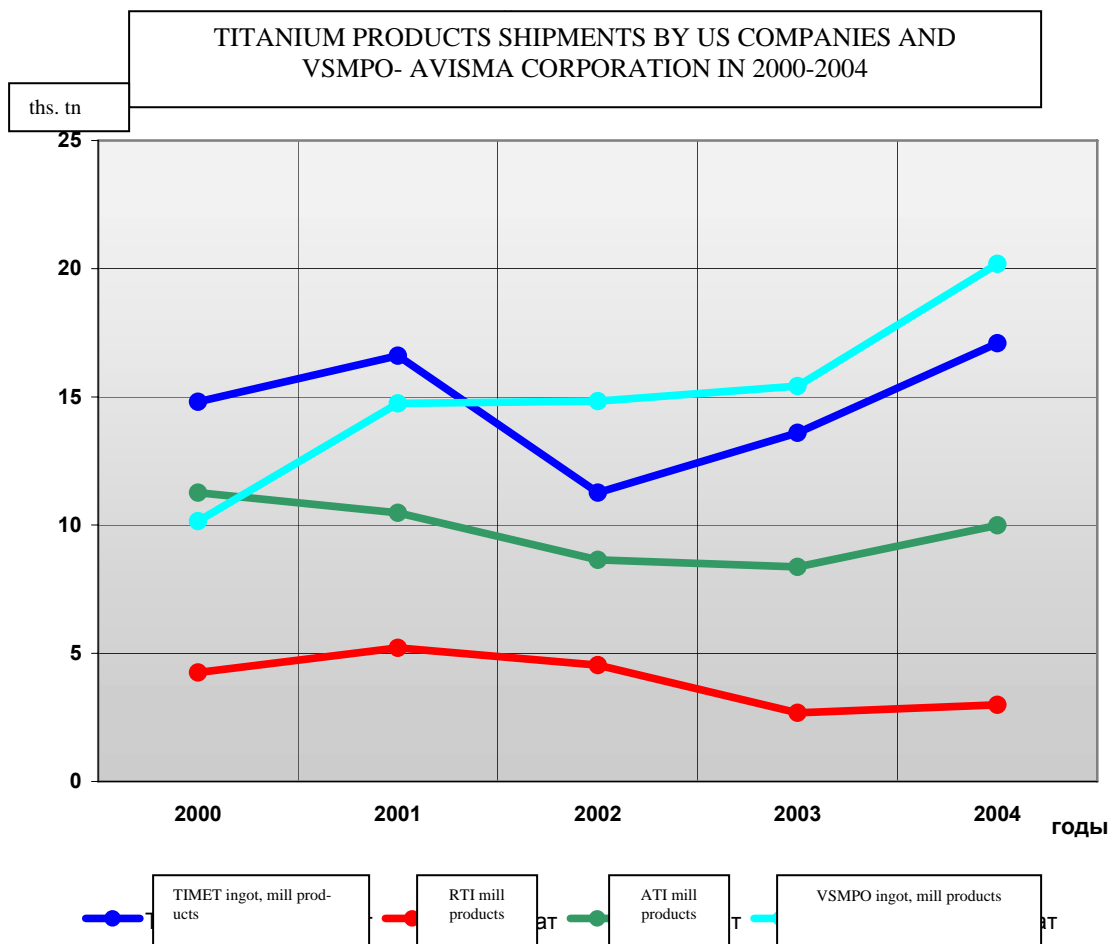
As of 01.07.2005 the books account for intangible assets in the amount of 2'525'880 rub. including:

- trademarks - 1'500 rub.
- the right to inventions and industrial prototypes - 2'524'380 rub.

#### 4.5 Overview of Development Trends in Issuer's Primary Activities

About 65 % of products manufactured by VSMPO-AVISMA Corporation is intended for aerospace applications, therefore, the condition of this sector of the Russian and world economy significantly affects technical and economic indices of the Company. The aerospace sector of the world market features a cyclic nature of 4-year development; the global market develops in the similar way. Actually, it should be noted that Asian financial crisis in 1998 and the terrorist attack on 11 September, 2001 in the USA affected the condition of these markets.

Hence, world's leading titanium manufactures have recently faced serious difficulties in products sales annually losing 15-25% of the output (Fig. 1, Table 1).



Source: Companies' reports



**Table 1. Basic Indices of Timet, RTI, ATI and VSMPO-AVISMA Corporation in 2000-2004**

Indices, Companies	Units	Years				
		2000	2001	2002	2003	2004
Sales	\$ mln.					
Timet		426,8	486,9	366,5	385,3	501,8
RTI		249,4	285,9	270,9	195,0	214,6
ATI, total		2460,4	2128,0	1907,8	1937,4	2733,0
Titanium mill products (estimated)		320,0	290,0	240,0	230,0	290,0
VSMPO-AVISMA		163,0	247,7	275,5	268,1	362,9
Net profit (loss)	\$ mln.					
Timet		(38,9)	(41,8)	(111,5)	(13,1)	39,9
RTI		6,7	12,1	15,1	4,7	(2,8)
ATI		132,5	(25,2)	(65,8)	(314,6)	19,8
VSMPO-AVISMA		29,6	50,6	45,3	41,5	55,7
Titanium products shipment	ths. tn					
Timet, total		14,81	16,60	11,26	13,60	17,09
Mill products		11,37	12,18	8,86	8,88	11,73
Ingot, slab		3,47	4,41	2,40	4,72	5,36
RTI, mill products		4,26	5,22	4,54	2,68	3,00
ATI, mill products		11,26	10,48	8,65	8,37	9,99
VSMPO-AVISMA, total		10,15	14,74	14,83	15,42	20,18
Mill products		6,35	9,68	9,72	10,47	12,67
Ingot, slab		3,80	5,06	5,11	4,95	7,51
Average product price	\$/kg					
Timet, total (calculated price)		25,15	25,73	27,80	24,78	26,22
Mill products		28,70	29,80	31,40	31,50	32,05
Ingot, slab		13,65	14,50	14,50	12,15	13,45
RTI, mill products		34,65	29,48	33,33	35,13	30,81
ATI, mill products		23,94	25,77	26,06	25,33	27,18
Average product price, export, total		13,51	14,81	13016	12,15	13,01
Mill products		18,30	18,50	16,64	15,07	16,47
Ingot, slab		7,78	9,38	8,63	7,80	8,59
Domestic market		11,93	13,96	17,90	20,75	23,77

Sources: Companies' reports

Unlike its major competitors the Corporation features stable growth of the output and hence, stable increase of profit ensuring the possibility of reconstruction and development of its production facilities.

The main advantages of the Company in comparison with the competitors:

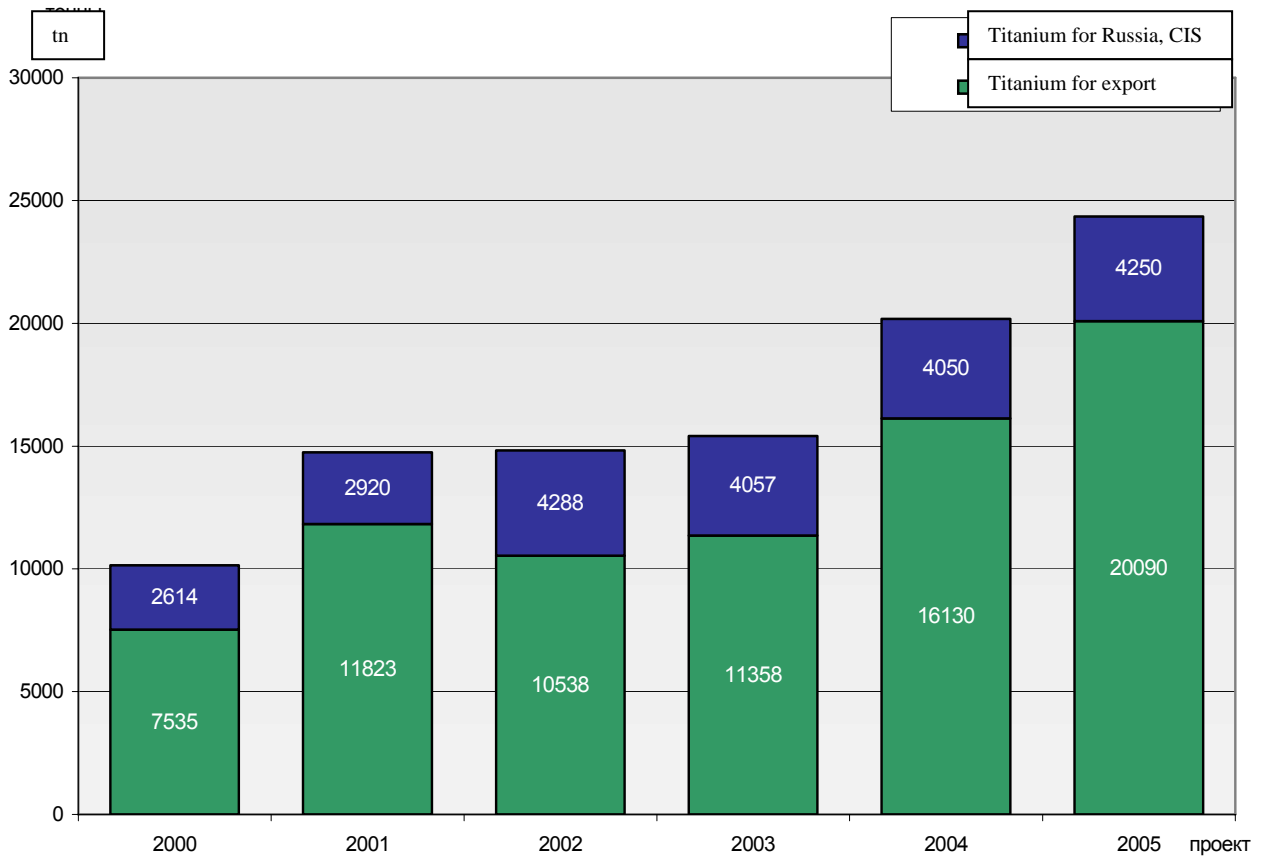
- existence of VSMPO-AVISMA Corporation ensuring the complete production cycle starting from ore materials to metallurgical semi-finished and finished products for machine building (heat-exchanging equipment and containers);
- diversification allowing to transfer resources from the titanium sector for the purpose of manufacturing other types of products: aluminum, steel, ferrotitanium, and consumer goods (Table 2).

**Table 2. Structure of Types of Products shipped by VSMPO-AVISMA Corporation**

Type of Products	Years				
	2000	2001	2002	2003	2004
	%				
Titanium products	81,0	84,7	82,1	82,7	80,7
Aluminum products	4,3	4,6	5,5	5,7	4,1
Non-conventional aluminum products	5,4	3,1	3,2	3,4	2,8
Steel	3,2	2,9	2,6	2,4	2,6
Ferrotitanium	3,9	2,8	4,7	3,2	5,6
Non-conventional products	0,5	0,3	0,3	0,4	0,6
Other marketable products	1,7	1,6	1,6	2,2	3,6
Total	100,0	100,0	100,0	100,0	100,0

Source: Companies' Reports

**Fig. 2 TITANIUM PRODUCTS SHIPPED BY VSMPO-AVISMA CORPORATION TO DOMESTIC AND FOREIGN MARKETS**



- VSMPO-AVISMA Corporation is an integrated manufacturer of titanium semi-finished products, and in contrast to its competitors the Company fulfills all manufacturing processes as well as inspection and tests on its own (without involving contractors);
- implementation of the program aimed at increasing the share of value-added products (die forging, welded pipe, sheet) instead of supplying ingot and slab consolidates VSMPO rating in the global titanium market.

## **V. Details on Persons included in the Issuer's Control Authorities, Financial and Economic Activities Control Authorities and Brief Information on Issuer's Employees**

### **5.1. Structure and Powers of Issuer's Control Authorities**

#### **Company's Control Authorities are:**

- General meeting of shareholders;
- Board of Directors;
- Sole executive body (Director General)

The powers of the general meeting of shareholders (participants) shall be in accordance with the By-Laws (statutory documents):

#### **Solution of the following issues is included into the competence of the general meeting of shareholders:**

- introduction of changes and amendments into the By-Laws of the Company or approval a new revision of the By-Laws (except for cases stipulated by paras. 2-5 of Article 12 of the Federal Law on "Joint Stock Companies");
- reorganization of the Company;
- liquidation of the company, appointment of the liquidation committee and approval of interim and final liquidation balance sheets;
- determination of the numerical membership of the Board of Directors, election of members thereto and early termination of their authorities;
- election of the sole executive body;
- early termination of the authorities of the sole executive body;
- determination of numerical membership of the Auditing Committee, election of the Auditing Committee and early termination of its authorities;
- approval of the Company's auditor;
- determination of the number, par value, category (type) of declared shares and the rights granted by these shares;
- increase of the registered capital of the Company by means of increasing the par value of shares;
- increase of the registered capital of the Company by means of allocating additional shares in cases stipulated by the Federal Law and the Company By-Laws;
- increase of the registered capital of the Company by means of allocating additional shares within the number and categories (types) of the declared shares at the expense of the Company's assets provided placing of additional shares is performed by allocating them among the shareholders, if the Board of Directors fails to make the unanimous decision on this issue;
- decrease of the registered capital of the Company by means of reducing the par value of shares, purchasing part of shares by the Company for the purpose of reduction of their total number as well as redeeming shares having been acquired or repurchased by the Company (shares being at the Company's disposal);
- approval of annual reports, annual financial reports, including profit and loss reports (profit and loss accounts) of the Company as well as distribution of profit including payment (declaration) of dividends, and losses of the Company based on the results of the financial year;
- determination of the procedure for general meetings of shareholders;
- split and consolidation of shares;
- decision making in regard to approval of transactions in cases stipulated by Article 83 of the Federal Law on "Joint Stock Companies";

- decision making in regard to approval of major transactions in cases stipulated by para. 2 of Article 79 of the Federal Law on "Joint Stock Companies";
- decision making in regard to approval of major transactions in cases stipulated by para. 3 of Article 79 of the Federal Law on "Joint Stock Companies";
- decision making in regard to participation in holding companies, financial & industrial groups, associations and other associations of commercial organizations;
- approval of internal documents regulating the activities of the Company's Authorities;
- decision making in regard to remuneration and (or) compensation of expenses of the Auditing Committee associated with execution of its obligations during the effective period; determination of the size of such remuneration and compensation;
- decision making in regard to remuneration and (or) compensation of expenses of members of the Board of Directors associated with execution of the obligations of members of the Board of Directors; determination of the size of such remuneration or compensation;
- decision making in regard to reimbursement, at the expense of the Company, of the expenses on preparation and holding the extra general meeting of shareholders incurred by persons and authorities who initiated such general meeting of shareholders;
- determination of the list of additional documents to be mandatorily kept at the Company;
- other issues attributed by the Federal Law to the competence of the general meeting of shareholders.

The general meeting of shareholders has no right to review and take decisions on the issues not attributed to its competence based on the Federal Law and the By-Laws.

The general meeting of shareholders has no right to take decisions on issues not included into the agenda of the general meeting of shareholders as well as to change the agenda.

**Competence of the Board of Directors** shall be in accordance with the By-Laws:

the Board of Directors shall carry out general managements of Company's activities except for taking decisions on issues attributed by the Federal Law and the By-Laws to the competence of the general meeting of shareholders.

The following issues shall be attributed to the competence of the Board of Directors:

- determination of priority trends of the Company's business;
- convocation of the annual general or extra meeting of shareholders except for cases stipulated by para. 8 of Article 55 of the Federal Law on "Joint Stock Companies";
- approval of the agenda of the general meeting of shareholders;
- determination of the date of drawing up the list of persons having the right to take part in the general meeting of shareholders and other issues attributed to the competence of the Board of Directors in accordance with provisions of Article VII of the Federal Law on "Joint Stock Companies" and connected with preparation and holding the general meeting of shareholders;
- preliminary approval of annual reports of the Company;
- increase of the registered capital of the Company by means of allocating additional shares within the number and categories (types) of declared shares at the expense of the Company's assets provided placing of additional shares is performed by allocating them among the shareholders;
- increase of the registered capital of the Company by means of allocating additional shares within the number and categories (types) of declared shares by open subscription to ordinary shares in the amount of 25 % and less of the previously placed ordinary shares;
- increase of the registered capital of the Company by means of allocating additional shares within the number and categories (types) of declared shares by open subscription to preferred shares;
- allocation of additional shares at the expense of the Company's assets provided placing of additional shares is performed by allocating them among the shareholders;
- allocation of debentures not convertible into shares and other emission securities not convertible into shares;
- approval of the decision on the issue of securities, the offering circular, the report on the results of the issue of securities, introduction changes and amendments thereof;
- determination of the price (pecuniary valuation) of the property, the price of allocation and repurchase of emission securities in cases stipulated by the Federal Law on "Joint Stock Companies";

- acquisition of the shares placed by the Company in accordance with para. 2 of Article 72 of the Federal Law on "Joint Stock Companies";
- acquisition of debentures placed by the Company and other securities in cases stipulated by the Federal Law on "Joint Stock Companies";
- approval of the report on shares acquisition results purchased in accordance with para. 1 of Article 72 of the Federal Law on "Joint Stock Companies";
- recommendations to the general meeting of shareholders in regard to the amount of remuneration and compensations to be paid to the members of the Auditing Committee of the Company;
- determination of the amount of payment for the services of the Auditor of the Company;
- recommendations to the general meeting of shareholders in regard to the amount of dividends on shares of all categories and the procedure for payment thereof;
- recommendations to the general meeting of shareholders in regard to the procedure for distribution of profits and losses of the Company based on the results of the financial year;
- use of the reserve and other funds of the Company;
- approval of internal documents of the Company except for internal documents regulating activities of Company's Authorities to be approved by the resolution of the general meeting of shareholders as well as other internal documents of the Company approval of which is attributed by the By-Laws to the competence of the sole executive body of the Company, introduction of changes and amendments into these documents;
- establishment and liquidation of affiliates, opening and closing down of representative offices of the Company, approval of provisions for affiliates and representative offices, introduction of changes and amendments thereto; appointment of managers of affiliates and representative offices and termination of their authorities;
- introduction of changes associated with establishment of affiliates, opening of representative offices and their liquidation into the Company By-Laws;
- approval of major transactions in cases stipulated by Article X of the Federal Law on "Joint Stock Companies";
- approval of transactions stipulated by Article XI of the Federal Law on "Joint Stock Companies";
- approval of the registrar of the Company and contract terms therewith as well as termination of the contract therewith;
- decision making in regard to auditing financial and economic activities of the Company at any time;
- appointment of the person authorized to sign the contract on behalf of the Company having the sole executive body;
- determination of the list of additional documents to be mandatorily kept at the Company;
- approval of the contract by the person acting as a sole executive body of the Company;
- decision making in regard to termination of authorities of the sole executive body of the Company;
- other issues stipulated by the Federal Law on "Joint Stock Companies" and the By-Laws.

Issues attributed to the competence of the Board of Directors can not be submitted for decision making to the executive body of the Company.

**The competence of the sole and joint executive bodies of the issuer** shall be in accordance with its By-Laws (statutory documents):

Management of current activities of the Company shall be carried out by the Director General (the sole executive body of the Company).

The sole executive body shall report to the general meeting of shareholders and the Board of Directors.

All the issues of management of current activities of the Company except for the issues attributed to the exclusive competence of the general meeting of shareholders and the Board of Directors **shall be attributed to the competence of the Director General.**

The Director General shall arrange implementation of decisions of the general meetings of shareholders and the Board of Directors.

The Director General shall act without power of attorney on behalf of the Company. He shall:

- perform management of activities of the Company;
- have the right of first signature in financial documents;
- dispose of the assets of the Company for ensuring its current activities within the limits established by the By-Laws;
- represent the interests of the Company both within the Russian Federation and outside including foreign countries;
- approve staffing lists, conclude labour contracts with employees of the Company, apply incentives to them and impose penalties thereon;
- handle transactions on behalf of the Company except for the cases stipulated by the Federal Law on "Joint Stock Companies" and the By-Laws of the Company;
- issue powers of attorney on behalf of the Company;
- open accounts of the Company in the banks;
- organize book-keeping and reporting in the Company;
- issue orders and give instructions which are mandatory for execution by all employees of the Company;
- fulfill other functions required for achieving the objectives of the Company's activities and ensuring its standard operation in accordance with the current law and the By-Laws except for the functions attributed by the Federal Law on "Joint Stock Companies" and the By-Laws to other Control Authorities of the Company.

The Director-General shall be elected by the general meeting of shareholders for a term of 4 years.

The issuer has no code of corporate conduct (management) or any similar document.

For the last reporting period the following changes have been introduced into the By-Laws of JSC VSMPO-AVISMA Corporation:

Para. 15.8 of the Company By-Laws to be changed. It shall be revised as follows:

15.8. The Director General is personally responsible for:

- arrangement of state secret information protection, privacy conditions in the Company;
- ensuring the access to the state secret information in accordance with the current law of the Russian Federation for the foreign citizens, persons having dual citizenship and persons without any citizenship being the shareholders of the Company.

The full text of the current issue of the issuer's By-Laws and internal documents regulating activities of the Company's control authorities is provided for the open access in the Internet at web-site [www.vsmpto.ru](http://www.vsmpto.ru).

## 5.2. Persons included in Issuer's Control Authorities

### Board of Directors:

**Chairman:** Bresht, Vyacheslav Iosifovich, b.1953.

Members of the Board of Directors:

**Bresht, Vyacheslav Iosifovich, b.1953.**

Education: higher vocational

Titles for the last 5 years:

Term: 2000

Title: consultant of the Director General of JSC VSMPO

Term: 2000 – 2002

Title: Deputy Director General, Foreign Trade Activities, JSC VSMPO

Term: 2002 – June 2004

Title: Deputy Director General, Marketing and Sales, JSC VSMPO

Term: June 2004 till present time

Title: Chairman of the Board of Directors

Share in the issuer's registered capital: none

Shares in subsidiary/subordinate companies of the issuer: none

There is no blood relation with other persons being included in the issuer's control authorities and/or financial & economic activities control authorities.

**Melnikov, Nikolai Konstantinovich, b. 1955**

Education: higher vocational

Titles for the last 5 years:

Term: 1999 – 2001

Title: Deputy Production Director, JSC VSMPO

Term: 2001 - 2003

Term: 2004 till present time

Title: Deputy Director General, Production Planning and Control, JSC VSMPO

Share in the issuer's registered capital: none

Shares in subsidiary/subordinate companies of the issuer: none

There is no blood relation with other persons being included in the issuer's control authorities and/or financial & economic activities control authorities.

**Besedin, Vasily Alexandrovich, b. 1953**

Education: higher

Titles for the last 5 years:

Term: 2000 – 2001

Title: Deputy Production Director – Production Department Manager, JSC AVISMA

Term: 2001 till present time

Title: Director of Maintenance, Reconstruction and Repairs, JSC AVISMA

Share in the issuer's registered capital: none

Shares in subsidiary/subordinate companies of the issuer: none

There is no blood relation with other persons being included in the issuer's control authorities and/or financial & economic activities control authorities.

**Tsarkov, Oleg Igorevich, b. 1966**

Education: higher

Titles for the last 5 years:

Term: 2000 – 2003

Title: Executive Director of Investment and Banking Activities, CJSC Financial Broker "Troika Dialog"

Term: 2003-2004

Title: Project Financing Director, CJSC Renova

Term: 2004 till present time

Title: The head of the Representative Office of "CM Renova Limited" in RF

Share in the issuer's registered capital: none

Shares in subsidiary/subordinate companies of the issuer: none

There is no blood relation with other persons being included in the issuer's control authorities and/or financial & economic activities control authorities.

**Tetyukhin, Vladislav Valentinovich, b. 1932**

Education: higher vocational

Titles for the last 5 years:

Term: 2000-2005

Title: JSC VSMPO Director General

Term: 2005 till present time

Title: Director General of JSC VSMPO-AVISMA Corporation

Term: 1999 – 2000

Title: Deputy Director General, Corporate Development, JSC Siberian and Urals Aluminium Company

Term: 2000 till present time

Title: Director General of JSC AVISMA

Share in the issuer's registered capital: none

Shares in subsidiary/subordinate companies of the issuer: none

There is no blood relation with other persons being included in the issuer's control authorities and/or financial & economic activities control authorities.

**Dennis Kelly**, b. 1946

Education: Seton Hall University, Accounting Faculty

Titles for the last 5 years:

Term: 2000-2002

Title: Vice President, Strategic Planning, Metallurgist Group, New York

Term: 2003 till present time

Title: Vice President, Finance, Tirus US Company

Share in the issuer's registered capital: none

Shares in subsidiary/subordinate companies of the issuer: none

There is no blood relation with other persons being included in the issuer's control authorities and/or financial & economic activities control authorities.

**John Monahan**, b. 1945

Education: San Francisco College, Economy and History

Titles for the last 5 years:

Term: 2000

Title: Vice President, Sales and Marketing, Timet Company

Term: 2000 till present time

Title: President, Tirus US Company

Share in the issuer's registered capital: none

Shares in subsidiary/subordinate companies of the issuer: none

There is no blood relation with other persons being included in the issuer's control authorities and/or financial & economic activities control authorities.

**Sole Executive Body:**

**Tetyukhin, Vladislav Valentinovich**, b. 1932.

### **5.3. Remuneration, Benefits and/or Fee Expenses of Issuer's Control Authority**

Total income of all the members of the Board of Directors for 2004: 4'221'896,37 rub.

In accordance with Regulations on the Board of Directors, remuneration for 2005 shall be determined and paid to the members of the Board of Directors based on the resolution of the general meeting of shareholders in accordance with the Company performance results for the year; moreover, in 2005, salaries of the members of the Board of Directors who are full-time staff employees of JSC VSMPO-AVISMA Corporation shall be paid according to the staffing list of JSC VSMPO-AVISMA Corporation.

### **5.4. Structure and Competence of Auditing Bodies of Financial and Economic Activities**

Financial, economic and legal activities of the Company shall be audited by the Auditing Committee.

Any shareholder or any person nominated by the shareholder can become a member of the Auditing Committee.

The members of the Auditing Committee of the Company can not concurrently be the members of the Board of Directors or the executive bodies of the Company.

The Auditing Committee shall be elected at the annual general meeting of shareholders for 1 year-period consisting of at least three persons.

The Auditing Committee shall elect a chairman and a secretary of the Auditing Committee from its members.



Verification (audit) of financial and economic activities of the Company is carried out on the basis of the Company performance results for the year as well as at any time at the initiative of the Auditing Committee, resolution of the general meeting of shareholders, the Board of Directors of the Company or upon request of the shareholder (shareholders) of the Company holding in aggregate not less than 10 percent of voting shares of the Company.

The following is attributed to the competence of the Auditing Committee:

- verification of financial documentation of the Company, accounting reports, statements of the committee of property inventory taking and comparison of the abovementioned documents with prime book keeping records;
- review of accounting, taxation, management and statistical books for accuracy and comprehensiveness;
- review of financial status of the Company, its solvency, liquidity of assets, ratio of own funds to borrowed ones, net assets and the registered capital, identification of potential for improving economic status of the Company, development of recommendations for control authorities of the Company;
  - verification of timeliness and accuracy of payments made to suppliers of products and services, payments to the budget and off-budget funds, charges and payments of dividends, interests on debentures, repayment of other obligations;
- confirmation of data adequacy included in annual reports of the Company, annual accounts, profit and loss statements (profit and loss accounts), profit allocation, reporting documentation for tax and statistical agencies, state management authorities;
- verification of validity of Director General actions for conclusion of contracts on behalf of the Company;
- verification of validity of decisions taken by the Board of Directors, the Director General, the Liquidation Committee and their compliance to the By-Laws and resolutions of the general meeting of shareholders;
- review of resolutions of the general meeting of shareholders for their compliance to the law and By-Laws.

The Auditing Committee has the right to:

- request personal explanation from the members of the Board of Directors, employees of the Company including any officials on the issues attributed to the competence of the Auditing Committee;
- bring to the attention of the control authorities the issue in regard to the responsibility of the employees of the Company including officials in case of violation of the By-Laws, provisions, regulations and instructions approved by the Company;
- contract specialists who are not full-time employees of the Company for fulfillment of the activities.

Upon request of the Auditing Committee persons occupying positions in the control authorities of the Company shall submit financial and economic documentation of the Company.

The Auditing Committee has the right to request convocation of extra general meeting of shareholders according to the procedure stipulated by the By-Laws.

Based on the audit of financial and economic activities of the Company the Auditing Committee draws up a conclusion including:

- confirmation of data adequacy included in the reports and other financial documents of the Company;
- information on facts of violation of the procedure for accounting and presentation of financial reports stipulated by the legal acts of the Russian Federation as well as the legal acts of the Russian Federation when performing financial and economic activities.

## **5.5. Members of Auditing Bodies of Issuer's Financial and Economic Activities**

**Named membership of the Auditing Committee** for auditing financial and economic activities:

**Ryzhova, Tatyana Eliseyevna**, b.1950.

Education: secondary vocational

Titles for the last 5 years:

Term: 2000 till present time

Title: Auditing Committee Chairman

Share in the issuer's registered capital: none

Shares in subsidiary/subordinate companies of the issuer: none

There is no blood relation with other persons being included in the issuer's control authorities and/or financial & economic activities control authorities.

**Kharlampieva, Lydia Kuzminichna**, b. 1937.

Education: higher vocational

Titles for the last 5 years:

Term: 2000 – 2002

Title: auditor

Term: 2002 till present time

Title: Deputy Chairman, Auditing Committee

Share in the issuer's registered capital: none

Shares in subsidiary/subordinate companies of the issuer: none

There is no blood relation with other persons being included in the issuer's control authorities and/or financial & economic activities control authorities.

**Nikiforova, Vera Vasilievna**, b. 1937

Education: secondary vocational

Titles for the last 5 years:

Term: 2000 till present time

Title: auditor

Share in the issuer's registered capital: none

Shares in subsidiary/subordinate companies of the issuer: none

There is no blood relation with other persons being included in the issuer's control authorities and/or financial & economic activities control authorities.

**Pryanichnikova, Nadezhda Ivanovna**, b. 1950.

Education: secondary vocational

Titles for the last 5 years:

Term: 2000 – 2002

Title: accountant, Shop 16

Term: 2002 till present time

Title: auditor, Financial and Economic Issues

Share in the issuer's registered capital: none

Shares in subsidiary/subordinate companies of the issuer: none

There is no blood relation with other persons being included in the issuer's control authorities and/or financial & economic activities control authorities.

## **5.6. Remuneration, Benefits and/or Fee Expenses of Issuer's Auditing Body of Financial and Economic Activities**

Total income of all the members of the Auditing Committee for 2004: 883`661,21 rub.

Provision for Activities of the Auditing Committee of JSC VSMPO stipulates the payment of remuneration and compensations to the members of the Auditing Committee. Based on the resolution of the general meeting of shareholders remuneration and (or) compensation of expenses associated with execution of functions of members of the Auditing Committee can be paid to the members of the Auditing Committee when fulfilling their obligations. The total amount of such remuneration and compensations shall be determined according to the resolution of the general meeting of shareholders. Based on

the resolution of annual general meeting of shareholders of JSC VSMPO-AVISMA Corporation dated 10.06.2005 for the last complete financial year the sum of remuneration in the amount of 100 000 rub. to be paid to the members of the Auditing Committee based on performance results for 2004 shall be approved.

The members of the Auditing Committee working on a full-time basis receive remuneration as salaries according to the procedure effective for the employees of the Company.

### **5.7. Number of Issuer's Employees and General Data on Employees' Education and Changes in Number of Employees**

Index	Units	Reporting Period
Average number of employees, persons on payroll	man	15 477
Funds spent for remuneration of labour, ths. rub.	ths. rub.	512 007
Funds spent for social purposes, ths. rub.	ths. rub.	125 515
Total funds spent, ths. rub.	ths. rub.	637 527

Trade Union Body was established by the Issuer's staff (employees): Primary Trade Union Organization of Russian Aircraft Industry Toilers Union of JSC VSMPO-AVISMA Corporation.

### **5.8. Any Issuer's Obligations to the Staff (Employees) associated with their Contribution to the Issuer's Registered Capital**

There are no agreements or obligations concerning the capability of contribution of the issuer's staff (employees) to the registered capital.

## **VI. Issuer's Participants (Shareholders) and Transactions of Issuer's Interest**

### **6.1. Total Number of Issuer's Shareholders (Participants)**

The number of persons registered in the Shareholders' Register as of the final date of the reporting quarter is 2 583 including 11 nominal holders.

### **6.2. Issuer's Shareholders who hold not less than 5 percent of its Registered Capital or not less than 5 percent of its Ordinary Shares.**

**Shareholders who hold not less than 20 percent of the Registered Capital or not less than 20 percent of Ordinary Shares**

Full and abbreviated name of the nominal holder of the issuer:

**Closed Joint Stock Company “Depository and Clearing Company” (CJSC “D&CC”)**

Location: 31, Building B, Shabolovka St., Moscow, 115162

Certifying document: registration certificate 623.296 issued by Moscow Registration Chamber on 20.10.1993

Share in the issuer’s registered capital: 80,2248.

Proportion of issuer’s ordinary shares held: 80,2248.

Full and abbreviated name of the nominal holder of the issuer:

**Closed Joint Stock Company ING BANK (Eurasia) (CJSC ING BANK (Eurasia))**

Location: 31, Krasnaya Presnya St., Moscow, 123022

Certifying document: certificate of registration in EGRUL No. 1027739329375 issued on 07.10.2002 by Regional Surveillance Authority of the Ministry of Taxes and Duties of Russia No. 39 within Moscow

Share in the issuer’s registered capital: 6,3285.

Proportion of issuer’s ordinary shares held: 6,3285.

Full and abbreviated name of the nominal holder of the issuer:

**Closed Joint Stock Company “Citybank” Commercial Bank (CJSC “Citybank”)**

Location: 8-10, Gashek St., Moscow, 125047.

Certifying document: certificate of registration in EGRUL No. 1027700431296 issued on 14.11.2002 by Regional Surveillance Authority of the Ministry of Taxes and Duties of Russia No. 39 within Moscow

Share in the issuer’s registered capital: 5,8906.

Proportion of issuer’s ordinary shares held: 5,8906.

### **6.3. Participatory Share of the State or Municipal Formation in the Issuer’s Registered Capital. Special Right (“Golden Share”)**

The State (municipal formation) has no share in the issuer’s registered capital.

Special right (“golden share”) to participation of the Russian Federation, subjects of the Russian Federation, municipal formations in management of the issuer – Joint Stock Company is not stipulated.

### **6.4. Limitations of Participation in the Issuer’s Registered Capital**

There are no limitations of the number of shares belonging to a shareholder and/or their total par value, and/or maximum number of votes given to a shareholder.

There are no limitations for the share of participation of foreign persons in the issuer’s registered capital.

### **6.5. Changes in the Membership and the Share of Participation of Issuer’s Shareholders who hold not less than 5 percent of its Registered Capital or not less than 5 percent of its Ordinary Shares**

The date of drawing up the list of persons having the right to attend the general meeting of shareholders (participants) of the issuer: **23.04.2001.**

Full and abbreviated corporate name: Closed Joint Stock Company “Soyuz VS” (CJSC “Soyuz VS”)

Share in the issuer’s registered capital: 38,6098

Proportion of ordinary shares held: 38,6098

Full and abbreviated corporate name: Joint Stock Company "Avitrans" (JSC "Avitrans")  
Share in the issuer's registered capital: 8,1922  
Proportion of ordinary shares held: 8,1922

Full and abbreviated corporate name: OBA Enterprises Limited  
Share in the issuer's registered capital: 15,5  
Proportion of ordinary shares held: 15,5

The date of drawing up the list of persons having the right to attend the general meeting of shareholders (participants) of the issuer: **09.04.2002.**

Full and abbreviated corporate name: Closed Joint Stock Company "Soyuz VS" (CJCS "Soyuz VS")  
Share in the issuer's registered capital: 38,6110  
Proportion of ordinary shares held: 38,6110

Full and abbreviated corporate name: OBA Enterprises Limited  
Share in the issuer's registered capital: 17,6037  
Proportion of ordinary shares held: 17,6037

Full and abbreviated corporate name: Nikitas Brokerage Limited  
Share in the issuer's registered capital: 14,1312  
Proportion of ordinary shares held: 14,1312

The date of drawing up the list of persons having the right to attend the general meeting of shareholders (participants) of the issuer: **10.04.2003.**

Full and abbreviated corporate name: Closed Joint Stock Company "Soyuz VS" (CJCS "Soyuz VS")  
Share in the issuer's registered capital: 42,9003  
Proportion of ordinary shares held: 42,9003

Full and abbreviated corporate name: Nikitas Brokerage Limited  
Share in the issuer's registered capital: 13,1082  
Proportion of ordinary shares held: 13,1082

Full and abbreviated corporate name: Joint Stock Company Titanium-Magnesium Works "AVISMA" (JSC "AVISMA")  
Share in the issuer's registered capital: 17,7025  
Proportion of ordinary shares held: 17,7025

The date of drawing up the list of persons having the right to attend the general meeting of shareholders (participants) of the issuer: **05.12.2003.**

Full and abbreviated corporate name: Closed Joint Stock Company "Soyuz VS" (CJCS "Soyuz VS")  
Share in the issuer's registered capital: 8,1595  
Proportion of ordinary shares held: 8,1595

Full and abbreviated corporate name: Limited Liability Company "RENOVA-INVESTMENT" (RENOVA-INVESTMENT LLC)  
Share in the issuer's registered capital: 5,5941  
Proportion of ordinary shares held: 5,5941

Full and abbreviated corporate name: Colbridge Limited  
Share in the issuer's registered capital: 20,0000  
Proportion of ordinary shares held: 20,0000

Full and abbreviated corporate name: Colgrove Limited  
Share in the issuer's registered capital: 6,3526  
Proportion of ordinary shares held: 6,3526

Full and abbreviated corporate name: Finecroft Limited  
Share in the issuer's registered capital: 11,2499  
Proportion of ordinary shares held: 11,2499

Full and abbreviated corporate name: Maxbay Limited  
Share in the issuer's registered capital: 6,3517  
Proportion of ordinary shares held: 6,3517

Full and abbreviated corporate name: Rockcastle Enterprises Limited  
Share in the issuer's registered capital: 5,0812  
Proportion of ordinary shares held: 5,0812

Full and abbreviated corporate name: Winfair Limited  
Share in the issuer's registered capital: 10,4888  
Proportion of ordinary shares held: 10,4888

The date of drawing up the list of persons having the right to attend the general meeting of shareholders (participants) of the issuer: **29.03.2004.**

Full and abbreviated corporate name: Deplex Limited  
Share in the issuer's registered capital: 20,0000  
Proportion of ordinary shares held: 20,0000

Full and abbreviated corporate name: Finebond Limited  
Share in the issuer's registered capital: 20,0000  
Proportion of ordinary shares held: 20,0000

Full and abbreviated corporate name: Osengo Investments limited  
Share in the issuer's registered capital: 12,0164  
Proportion of ordinary shares held: 12,0164

Full and abbreviated corporate name: Coldsteam Limited  
Share in the issuer's registered capital: 10,0134  
Proportion of ordinary shares held: 10,0134

Full and abbreviated corporate name: Multibrook Ltd  
Share in the issuer's registered capital: 10,0134  
Proportion of ordinary shares held: 10,0134

The date of drawing up the list of persons having the right to attend the general meeting of shareholders (participants) of the issuer: **05.08.2004.**

Full and abbreviated corporate name: Deplex Limited  
Share in the issuer's registered capital: 20,0000  
Proportion of ordinary shares held: 20,0000

Full and abbreviated corporate name: Finebond Limited  
Share in the issuer's registered capital: 20,0000  
Proportion of ordinary shares held: 20,0000

Full and abbreviated corporate name: Osengo Investments limited  
Share in the issuer's registered capital: 12,0206  
Proportion of ordinary shares held: 12,0206

Full and abbreviated corporate name: Coldsteam Limited  
Share in the issuer's registered capital: 10,0134  
Proportion of ordinary shares held: 10,0134

Full and abbreviated corporate name: Multibrook Ltd  
Share in the issuer's registered capital: 10,0134  
Proportion of ordinary shares held: 10,0134

The date of drawing up the list of persons having the right to attend the general meeting of shareholders (participants) of the issuer: **22.11.2004**.

Full and abbreviated corporate name: Deplex Limited  
Share in the issuer's registered capital: 20,0000  
Proportion of ordinary shares held: 20,0000

Full and abbreviated corporate name: Finebond Limited  
Share in the issuer's registered capital: 20,0000  
Proportion of ordinary shares held: 20,0000

Full and abbreviated corporate name: Osengo Investments limited  
Share in the issuer's registered capital: 12,0206  
Proportion of ordinary shares held: 12,0206

Full and abbreviated corporate name: Coldsteam Limited  
Share in the issuer's registered capital: 10,0134  
Proportion of ordinary shares held: 10,0134

Full and abbreviated corporate name: Multibrook Ltd  
Share in the issuer's registered capital: 10,0134  
Proportion of ordinary shares held: 10,0134

The date of drawing up the list of persons having the right to attend the general meeting of shareholders (participants) of the issuer: **28.04.2005**.

Full and abbreviated corporate name: Deplex Limited  
Share in the issuer's registered capital: 20,0000  
Proportion of ordinary shares held: 20,0000

Full and abbreviated corporate name: Finebond Limited  
Share in the issuer's registered capital: 20,0000  
Proportion of ordinary shares held: 20,0000

Full and abbreviated corporate name: Osengo Investments limited  
Share in the issuer's registered capital: 12,0206  
Proportion of ordinary shares held: 12,0206

Full and abbreviated corporate name: Coldsteam Limited  
Share in the issuer's registered capital: 10,0134  
Proportion of ordinary shares held: 10,0134

Full and abbreviated corporate name: Multibrook Ltd  
Share in the issuer's registered capital: 10,0134  
Proportion of ordinary shares held: 10,0134

## **6.6. Transactions of Issuer's Interest**

There are no transactions of issuer's interest based on the results of the last reporting quarter.

## 6.7. Accounts Receivable

Accounts Receivable	Units	Due Date		
		up to one year	over a year	
Accounts Receivable of Buyers and Customers	ths. rub.	957 449	X	
including overdue	ths. rub.	661060	X	
Accounts Receivable in terms of bills receivable	ths. rub.	According to Order No. 67n dd. 22.07.2003 issued by RF Ministry of Finance "Forms of Accounts of Companies", starting from 2003 this information is not included into the accounts.	X	
including overdue	ths. rub.		X	
Accounts Receivable of participants (founders) in terms of contributions to the registered capital	ths. rub.		X	
including overdue	ths. rub.		X	
Accounts Receivable in terms of prepayments made	ths. rub.		X	
including overdue	ths. rub.		X	
including overdue	ths. rub.		X	
Other accounts receivable	ths. rub.		X	
including overdue	ths. rub.		X	
Total	ths. rub.		2 762 942	X
including total overdue	ths. rub.		661 060	X

## VII. Financial Reports of the Issuer and Other Financial Information

### 7.1. Annual Financial Reports of the Issuer

Annual financial reports of the issuer for the last complete financial year is included in the quarterly report for the first quarter.

### 7.2. Quarterly Financial Reports of the Issuer for the Last Complete Reporting Quarter

Quarterly financial reports of the issuer for the reporting quarter are drawn up in accordance with the requirements of the laws of the Russian Federation.

The following is included in the quarterly financial reports of the issuer:

- a) Balance Sheet – Form No. 1
- b) Profit and Loss Statement – Form No. 2

### BALANCE SHEET

As of July 1, 2005

Company: JSC VSMPO-AVISMA Corporation

Taxpayer identification number

Type of activity: metallurgical production

Legal & organizational form / form of ownership: Joint stock

Form No. 1 to OKUD

Date (year, month, day)

to OKPO

INN

to OKVED

to KOPF/OKFS

Codes		
710001		
07510017		
6607000556		
27.45		
47/34		



company

Units: ths. rub.

Location (address)

Verkhnyaya Salda, Sverdlovsk Region

to OKEI

384

<b>ASSETS</b>	<b>Index Code</b>	<b>At the beginning of the reporting period</b>	<b>At the end of the reporting period</b>
1	2	3	4
<b>I. NON-CURRENT ASSETS</b>			
Intangible assets	110	1 087	1 025
Fixed assets	120	2 245 965	2 483 823
Construction-in-progress	130	1 035 802	980 554
Profitable investments in material assets	135	0	0
Long-term financial investments	140	1 032 910	1 031 929
Deferred tax assets	145	69	69
Other non-current assets	150	0	0
<b>TOTAL, Section I</b>	<b>190</b>	<b>4 315 833</b>	<b>4 497 400</b>
<b>II. CURRENT ASSETS</b>			
<b>Inventory</b> including:	210	5 055 928	6 670 807
Raw and other materials and similar assets	211	1 329 029	1 918 102
Livestock for breeding and fattening	212	0	0
Incomplete production expenses	213	1 202 189	1 586 772
Finished products and goods for resale	214	1 049 653	1 191 138
Shipped products	215	1 462 704	2 017 898
Deferred charges	216	12 353	28 897
Other inventories and expenses	217	0	0
Value added tax on assets acquired	220	664 201	715 278
Accounts Receivable (payments due in more than 12 months after the reporting date) including:	230	0	0
Buyers and customers	231	0	0
Accounts Receivable (payments due for 12 months after the reporting date) including:	240	2 296 611	2 762 942
Buyers and customers	241	804 673	957 449
Short-term financial investments	250	36	206 468
Funds	260	74 787	78 226
Other current assets	270	0	0
<b>TOTAL, Section II</b>	<b>290</b>	<b>8 091 563</b>	<b>10 433 721</b>
<b>BALANCE</b>	<b>300</b>	<b>12 407 396</b>	<b>14 931 121</b>

<b>LIABILITIES</b>	<b>Index Code</b>	<b>At the beginning of the reporting period</b>	<b>At the end of the reporting period</b>
1	2	3	4
<b>III. CAPITAL AND RESERVES</b>			
Registered Capital	410	10 626	10 626
Own shares repurchased from shareholders	411	2 056	2 056
Additional capital	420	1 359 991	1 359 991
Reserve capital including:	430	624	624
Reserves formed in accordance with the law	431	624	624
Reserves formed in accordance with statutory documentation	432	0	0
Retained profits (outstanding loss)	470	7 007 255	8 122 588
including retained profits for the reporting year	471	0	1 423 447
<b>TOTAL, Section III</b>	490	8 376 440	9 491 773
<b>IV. LONG-TERM LIABILITIES</b>			
Loans and credits	510	0	0
Deferred tax liabilities	515	20 957	24 183
Other long-term liabilities	520	0	0
<b>TOTAL, Section IV</b>	590	20 957	24 183
<b>V. CURRENT LIABILITIES</b>			
Loans and credits (66)	610	1 811 324	2 677 250
Accounts Payable including:	620	2 147 363	2 401 900
suppliers and contractors	621	629 247	405 949
payroll	622	1 982	2 537
state off-budget funds	623	23 421	9 623
taxes and duties	624	415 164	438 213
other creditors	625	1 077 549	1 545 578
Debts to participants (founders) in terms of income payment	630	709	86 935
Deferred income	640	603	76
Forthcoming expenses reserve	650	50 000	249 004
Other current liabilities	660	0	0
<b>TOTAL, Section V</b>	690	4 009 999	5 415 165
<b>BALANCE</b>	700	12 407 396	14 931 121

**INFORMATION ON ASSETS ACCOUNTED FOR IN OFF BALANCE SHEET ACCOUNTS**

Index	Index Code	At the beginning of the reporting period	At the end of the reporting period
1	2	3	4
Leased fixed assets	910	22 388	31 547
including under leasing agreements	911	21 931	31 090
Tangible assets accepted for accountable storage	920	5	70
Goods taken on commission	930	0	0
Debts of insolvent debtors written into losses	940	141 011	139 568
Security for liabilities and payments received	950	0	0
Security for liabilities and payments granted	960	2 430 937	2 622 402
Housing resources depreciation	970	0	0
Depreciation of outside improvement objects and other similar objects	980	0	0
Intangible assets received for usage	990	0	0
Other	1000	276 093	284 200

**PROFIT AND LOSS STATEMENT**

	Form No. 2 to OKUD	Codes
As of July 1, 2005	Date (year, month, day)	710002
Company: JSC VSMPO-AVISMA Corporation	to OKPO	7510017
Taxpayer identification number	INN	6607000556
Type of activity: metallurgical production	to OKVED	27.45
Legal & organizational form / form of ownership: Joint Stock Company	to KOPF/OKFS	47/34
Units: ths. rub.	to OKEI	384
Location (address)	Verkhnyaya Salda, Sverdlovsk Region	

Index	Code	For the reporting period	For the same period of the previous year
Designation	Code	3	4
1	2	3	4
<b>Income and expenses for ordinary types of activities</b>			
Proceeds (net) from sales of goods, products, operations, services (less value added tax, excises and similar payments)	10	6 635 332	5 049 513
Cost of goods, products, operations, services sold	20	4 012 773	3 610 440
Gross profit	29	2 622 559	1 439 073
Sales expenses	30	188 903	121 913
Administrative expenses	40	664 873	574 495

Profit (loss) from sales	50	1 768 783	742 665
<b>Other income and expenses</b>			
Interest receivable	60	21	165
Interest payable	70	68 078	44 902
Income from participation in other organizations	80	0	0
Other operating income	90	4 788 629	3 055 248
Other operating expenses	100	5 011 699	3 140 925
Off-sale income	120	777 027	433 843
Off-sale expenses	130	328 138	212 983
<b>Profit (loss) before tax</b>	140	1 926 545	833 111
Deferred tax assets	141	0	0
Deferred tax liabilities	142	3 226	4 553
Current profit tax	150	499 872	223 193
<b>Net profit (loss) for the reporting period</b>	190	1 423 447	605 365
For reference. Permanent tax liabilities (assets)	200	40 728	27 799
Base profit (loss) per share		0	0
Diluted profit (loss) per share		0	0

#### BREAKDOWN OF SPECIFIC PROFIT AND LOSS ITEMS

Index		For the reporting period		For the same period of the previous year	
Designation	Code	Profit	Loss	Profit	Loss
1	2	3	4	5	6
Fines, penalty fees and forfeits acknowledged or for which court (arbitration court) resolutions on recovery thereof received	210	0	251	11	671
Profit (loss) for previous years	220	187 582	50 351	46 672	16 475
Compensation for losses caused by failure to meet or improper fulfillment of obligations	230	1 064	0	0	80
Exchange differences for operations with foreign currency involved	240	67 433	121 462	68 870	48 634
Allocation to estimated reserves	250	x	0	x	0
Writing-off accounts receivable and payable for which action limitation period has expired	260	6 571	537	6	9 657

### 7.3. Consolidated Financial Reports of the Issuer for the Last Complete Financial Year

Consolidated financial reports of the issuer for the last complete financial year is drawn up in accordance with the requirements of the law of the Russian Federation.

#### BALANCE SHEET

(consolidated)

As of December 31, 2004	Form No. to OKUD	710001
Company: JSC VSMPO-AVISMA Corporation	Date (year, month, day)	
Taxpayer identification number	to OKPO	07510017
Type of activity: metallurgical production	INN	6607000556
Legal & organizational form / form of ownership: Joint Stock Company	to OKVED	27.45
Units: ths. rub.	to KOPF/OKFS	47/34
Location (address)	to OKEI	384
	Verkhnyaya Salda, Sverdlovsk Region	

ASSETS	Index Code	At the beginning of the reporting period	At the end of the reporting period
1	2	3	4
<b>I. NON-CURRENT ASSETS</b>			
Intangible assets	110	33 521	85 506
Fixed assets	120	2 718 496	3 343 031
Construction-in-progress	130	927 694	1 181 459
Profitable investments in material assets	135	0	0
Long-term financial investments	140	1 106 702	1 249 536
Deferred tax assets	145	2 759	5 568
Other non-current assets	150	0	0
<b>TOTAL, Section I</b>	<b>190</b>	<b>4 789 172</b>	<b>5 865 100</b>
<b>II. CURRENT ASSETS</b>			
<b>Inventory</b>	<b>210</b>	<b>4 172 641</b>	<b>5 399 085</b>
including:			
Raw and other materials and similar assets	211	1 051 285	1 481 106
Livestock for breeding and fattening	212	0	0
Incomplete production expenses	213	1 212 859	1 353 992
Finished products and goods for resale	214	935 150	1 064 422
Shipped products	215	944 258	1 462 704
Deferred charges	216	24 525	36 861
Other inventories and expenses	217	4 564	0
Value added tax on assets acquired	220	622 908	771 038
Accounts Receivable (payments due in more than 12			

months after the reporting date) including:	230	0	0
Buyers and customers	231	0	0
Accounts Receivable (payments due for 12 months after the reporting date) including:	240	2 131 422	2 742 916
Buyers and customers	241	915 458	1 103 223
Short-term financial investments	250	177 873	254
Funds	260	38 705	83 759
Other current assets	270	0	0
<b>TOTAL, Section II</b>	290	7 143 560	8 997 052
<b>BALANCE</b>	300	11 932 732	14 862 152

<b>LIABILITIES</b>	<b>Index Code</b>	<b>At the beginning of the reporting period</b>	<b>At the end of the reporting period</b>
1	2	3	4
<b>III. CAPITAL AND RESERVES</b>			
Registered Capital	410	10 667	10 682
Own shares repurchased from shareholders	411	0	9 752
Additional capital	420	2 236 252	2 540 146
Reserve capital including:	430	649	658
Reserves formed in accordance with the law	431	649	658
Reserves formed in accordance with statutory documentation	432	0	0
Retained profits (outstanding loss)	470	6 067 205	7 981 037
<b>TOTAL, Section III</b>	490	8 314 773	10 522 771
<b>IV. LONG-TERM LIABILITIES</b>			
Loans and credits	510	0	0
Deferred tax liabilities	515	22 957	43 278
Other long-term liabilities	520	0	0
<b>TOTAL, Section IV</b>	590	22 957	43 278
<b>V. CURRENT LIABILITIES</b>			
Loans and credits (66)	610	2 073 965	2 091 145
Accounts Payable including:	620	1 468 963	2 101 913
suppliers and contractors	621	439 355	478 815
payroll	622	19 037	31 022
state off-budget funds	623	49 421	30 050
taxes and duties	624	379 984	478 498
other creditors	625	581 165	1 083 528

Debts to participants (founders) in terms of income payment	630	232	1 123
Deferred income	640	812	920
Forthcoming expenses reserve	650	51 030	101 002
Other current liabilities	660	0	0
<b>TOTAL, Section V</b>	690	3 595 002	4 296 103
<b>BALANCE</b>	700	11 932 732	14 862 152

#### INFORMATION ON ASSETS ACCOUNTED FOR IN OFF BALANCE SHEET ACCOUNTS

Index	Index Code	At the beginning of the reporting period	At the end of the reporting period
1	2	3	4
Leased fixed assets	910	22 603	76 525
including under leasing agreements	911	1 620	43 269
Tangible assets accepted for accountable storage	920	16 297	40 650
Goods taken on commission	930	0	73 768
Debts of insolvent debtors written into losses	940	28 189	142 829
Security for liabilities and payments received	950	0	0
Security for liabilities and payments granted	960	750 754	2 841 405
Housing resources depreciation	970	5 937	8 135
Depreciation of outside improvement objects and other similar objects	980	0	0
Intangible assets received for usage	990	0	0
Other	1 000	40 754	276 093

## PROFIT AND LOSS STATEMENT

(consolidated)

	Form No. 2 to OKUD	Codes
As of December 31, 2004	Date (year, month, day)	710002
Company: JSC VSMPO-AVISMA Corporation	to OKPO	7510017
Taxpayer identification number	INN	6607000556
Type of activity: metallurgical production	to OKVED	27.45
Legal & organizational form / form of ownership: Joint Stock Company	to KOPF/OKFS	47/34
Units: ths. rub.	to OKEI	384
Location (address)	Verkhnyaya Salda, Sverdlovsk Region	

Index		For the reporting period	For the same period of the previous year
Designation	Code		
1	2	3	4
<b>Income and expenses for ordinary types of activities</b>			
Proceeds (net) from sales of goods, products, operations, services (less value added tax, excises and similar payments)	10	12 429 545	9 430 239
Cost of goods, products, operations, services sold	20	8 689 177	6 068 901
Gross Profit	29	3 740 368	3 361 338
Sales expenses	30	374 528	251 257
Administrative expenses	40	1 303 108	1 013 296
Profit (loss) from sales	50	2 062 732	2 096 785
<b>Other income and expenses</b>			
Interest receivable	60	1 885	35 007
Interest payable	70	93 481	110 572
Income from participation in other organizations	80	216	298
Other operating income	90	7 460 852	5 458 467
Other operating expenses	100	7 686 178	5 738 265
Off-sale income	120	1 262 150	521 004
Off-sale expenses	130	534 767	440 893
<b>Profit (loss) before tax</b>	140	2 473 409	1 821 831
Deferred tax assets	141	932	1 352
Deferred tax liabilities	142	12 577	17 442
Current profit tax	150	666 800	485 231
Penalties	151	959	12
Profit tax for previous years	152	146	670
<b>Net profit (loss) for the reporting period</b>	190	1 793 859	1 319 828



For reference. Permanent tax liabilities (assets)	200	84 827	64 080
Base profit (loss) per share		0	0
Diluted profit (loss) per share		0	0

#### BREAKDOWN OF SPECIFIC PROFIT AND LOSS ITEMS

Index		For the reporting period		For the same period of the previous year	
Designation	Code	Profit	Loss	Profit	Loss
1	2	3	4	5	6
Fines, penalty fees and forfeits acknowledged or for which court (arbitration court) resolutions on recovery thereof received	210	1 017	4 440	74	2 015
Profit (loss) for previous years	220	129 936	33 332	204 187	20 460
Compensation for losses caused by failure to meet or improper fulfillment of obligations	230	25	434	42	73
Exchange differences for operations with foreign currency involved	240	197 116	112 511	124 354	68 785
Allocation to estimated reserves	250	X	0	X	-
Writing-off accounts receivable and payable for which action limitation period has expired	260	5 063	20 143	13 917	22 678

#### 7.4. Issuer's Accounting Policy

Accounting policy for the purpose of accounting and tax registration put into effect based on Order No. 54 dated February 1, 2005 is in force in the Company.

For the purpose of accounting the major items of the accounting policy are as follows:

- the following is attributed to fixed assets: buildings, structures, operating and power machines and equipment, measuring and control gages and devices, computer facilities, vehicles, tooling, production inventory and household equipment and appliances, longstanding plantations, internal roads and other corresponding objects;
- the Company includes apartments owned by the Company in the fixed assets based on the ownership except for the cases when the apartments are purchased for resale or transfer for repayment of any liabilities (in this case apartments are taken on discount as goods). Regardless of the fact of using apartments for renting purposes their transfer to the profitable investments is not carried out;
- revaluation of fixed assets objects is not performed;
- amounts of accrued depreciation for the objects of fixed assets are reflected in accounting by means of accumulation of corresponding sums on account 02 "Fixed Assets Depreciation". Charged amount of fixed assets depreciation is reflected in the accounting for the credit of account 02 "Fixed Assets Depreciation" in correspondence with accounts of accounting of production expenses and sales costs. As for the fixed assets given in rent or for free use, depreciation shall be charged for account 91 "Other in-

come and Expenses”;

- depreciation shall be charged on a monthly basis by the linear method;
- incomplete construction is reflected in accounting and reports for actual expenses related thereof;
- the following objects can be attributed to intangible assets: intellectual property objects (exclusive right to the results of intellectual activities); exclusive right of the patent holder to the invention, industrial prototype, utility model; exclusive copyright to computer software, data bases; property right owner or other right owner to topologies of integrated circuits; exclusive right of the owner to the trademark and service designation, the name of goods origin location; exclusive right of the patent holder to selection achievements;
- works associated with scientific (research), scientific and technical activities and experimental developments stipulated by the Federal Law No. 127-FZ on “Science and State Scientific & Technical Policy” dated 23.08.96 are attributed to research works;
- expenses for research and engineering works are accounted separately on the individual sub-account to account 08 “Investments in non-current assets”;
- the following assets are attributed to inventories: used as raw and other materials etc. when manufacturing products designated for sale (operations, services); designated for sale including finished products and goods; used for administrative needs of the Company;
- taking inventories on discount to balance account 10 “Materials” to be carried out based on the actual cost generated prior to the date of their actual receipt at the warehouse;
- transport and stocking expenses (T&SE) of the Company are taken on discount by attributing T&SEs to a separate sub-account to account “Materials”;
- writing-off of T&SEs by separate types or groups of materials is carried out in proportion to the accounting cost of materials based on the ratio of the amount of balance of T&SEs at the beginning of the month (reporting period) and current T&SEs for the month (reporting period) to the amount of balance of materials at the beginning of the month (reporting period) and materials supplied during the month (reporting period) at the accounting cost;
- financial investments are investments of the Company’s funds in registered (stock) capitals of other companies, securities, joint activities, loans given to other companies for the purpose of taking part in profit allocation, dividends, interests or other income.

VAT in accordance with the accounting policy shall be calculated based on the proceeds for the payment date. Income and expenses for profit tax calculation are determined by the charging method in accordance with Tax Code provisions.

## 7.5. Total Exports and Exports Share in Total Sales

Index	2002	2003	2004	2 Q, 2005
<b>I. Income and expenses for ordinary types of activities</b>				
1. Proceeds (net) from sales of goods, products, operations and services (less VAT, excises and similar compulsory payments), ths. rub.	8 768 747	8369550	10 571 946	6 635 332
including				
2. Proceeds (net) from export goods, ths. rub.	4 885 681	4510042	6431529	3 151 971
3. Share of income from export products in total sales, %	55.7	53.9	60.84	47.50

## **7.6. Issuer's Real Assets Cost and Significant Changes in the Issuer's Assets since the Final Date of the Last Complete Financial Year**

Total cost of real assets as of 01.07.2005: 1`453`692`030,27 rub.

Accrued depreciation: 723`199`405,51 rub.

Evaluation of the real assets for 12 months has not been carried out by the final date of the reporting quarter.

## **7.7. Participation of the Issuer in Proceedings in cases when such Participation could have a Significant Effect on Financial and Economic Activities of the Issuer**

The issuer has not taken part in any proceedings which could have a significant effect on financial and economic activities of the issuer.

## **VIII. Additional Information on the Issuer and Emission Securities Placed**

### **8.1. Additional Information on the Issuer**

#### ***8.1.1. Size and Structure of the Issuer's Registered Capital***

**Size of the registered capital as of 01.07.2005: 10`625`600 rub.**

Breakdown of the issuer's registered capital by categories of shares:

Ordinary shares: 10`625`600 pcs.

Total par value: 10`625`600 rub.

Share in the registered capital: 100%

Preferred shares: none

Total par value: none

Share in the registered capital: none

#### ***8.1.2. Changes in the Size of the Registered Capital of the Issuer***

**Size of the issuer's registered capital as of 01.01.1998: 4`157`004 rub.**

Breakdown of the issuer's registered capital by categories of shares:

Ordinary shares: 4`157`004 pcs.

Total par value: 4`157`004 rub.

Share in the registered capital: 100%

Preferred shares: none

Total par value: none

Share in the registered capital: none

**Size of the issuer's registered capital as of 06.04.1998: 8`314`008 rub.**

Breakdown of the issuer's registered capital by categories of shares:

Ordinary shares: 8`314`008 pcs.

Total par value: 8`314`008 rub.

Share in the registered capital: 100%

Preferred shares: none

Total par value: none

Share in the registered capital: none

The name of the issuer's control body which took the decision on changing the size of the registered capital: general meeting of shareholders

The date and the number of the minutes of the general meeting of shareholders at which the resolution on changing the size of the registered capital was adopted: without No., dated 16.01.1998

**Size of the issuer's registered capital as of 22.05.1998: 11`806`008 rub.**

Breakdown of the issuer's registered capital by categories of shares:

Ordinary shares: 11`806`008 pcs.

Total par value: 11`806`008 rub.

Share in the registered capital: 100%

Preferred shares: none

Total par value: none

Share in the registered capital: none

The name of the issuer's control body which took the decision on changing the size of the registered capital: general meeting of shareholders

The date and the number of the minutes of the general meeting of shareholders at which the resolution on changing the size of the registered capital was adopted: without No., dated 23.04.1998.

**Size of the issuer's registered capital as of 12.07.2002: 10`625`600 rub.**

Breakdown of the issuer's registered capital by categories of shares:

Ordinary shares: 10`625`600 pcs.

Total par value: 10`625`600 rub.

Share in the registered capital: 100%

Preferred shares: none

Total par value: none

Share in the registered capital: none

The name of the issuer's control body which took the decision on changing the size of the registered capital: general meeting of shareholders

The date and the number of the minutes of the general meeting of shareholders at which the resolution on changing the size of the registered capital was adopted: without No., dated 24.05.2002.

***8.1.3. Formation and Use of the Reserve Fund and other Funds of the Issuer***

Name of the fund: reserve fund

Size of the fund established by the statutory documents: the Company shall establish the reserve fund in the amount of 25 % of the Company's registered capital in accordance with para. 20.2. of current Revision of By-Laws.

**Size of the fund as of 01.07.2005: 623`551 rub.**

Size of the fund in % of the registered capital: 5.9

***8.1.4. Procedure for Calling and Holding of the General Meeting of the Superior Control Authority of the Issuer***

Name of the superior control authority of the issuer: **general meeting of shareholders**

Procedure for notification of shareholders of the general meeting of the superior control authority of the issuer:

At least 20 day notice of the general meeting of shareholders and 30 day notice of the general meeting of shareholders along with the agenda including the issue on reorganization shall be submitted before the date of the meeting.

Within the aforesaid dates the notice of the general meeting of shareholders shall be published in the Novator as well as within the aforesaid dates the notice of the general meeting of shareholders shall be forwarded to each person enumerated in the list of persons entitled to participation in the general meeting of shareholders by the registered letter or handed over to each of the specified persons against the signature.

The company has the right to additionally notify shareholders of the general meeting of shareholders via mass media (TV, radio) as well as via Internet.

Persons (authorities) having the right to call (require) an extra meeting of the superior control authority:

The extra general meeting of shareholders is carried out in accordance with the decision of the Board of Directors based on its own initiative, the requirement of the Auditing Committee, Company's auditor as well as shareholders (a shareholder) holding not less than 10 % of the voting shares of the Company as of the date of such requirement.

The convocation of the extra general meeting of shareholders upon request of the Auditing Committee, Company's auditor or shareholders (a shareholder) holding not less than 10 % of the voting shares of the Company shall be carried out by the Board of Directors.

The procedure for establishing the date of the meeting of the superior control authority of the issuer:

The company shall hold the annual general meeting of shareholders every year within the dates which are not earlier than 2 months and not later than 6 months after completion of the financial year.

The convocation of the annual and extra general meetings of shareholders except for the cases stipulated by para. 8 of Article 55 of the Federal Law on "Joint Stock Companies" is attributed to the competence of the Board of Directors.

Persons having the right to make proposals to the agenda of the meeting of the superior control authority of the issuer as well as the procedure for introduction of such proposals:

Shareholders (a shareholder) holding together not less than 2 percent of the voting shares of the Company have the right to introduce items into the agenda of the annual general meeting of shareholders.

Such proposals shall be submitted to the Company not later than 30 days after the end of the financial year.

The proposal for introduction of items into the agenda of the general meeting of shareholders shall include the statement of each item proposed.

The proposal for introduction of items into the agenda of the general meeting of shareholders can include the statement of the resolution for each item proposed.

Proposals for introduction of items into the agenda of the general meeting of shareholders and nomination of candidates shall be made in the written form including the name (designation) of the shareholders (a shareholder) who presented them, the number and the category (type) of shares held by them and shall be signed by the shareholders (a shareholder).

The Board of Directors shall review the proposals submitted and take a decision on introduction them into the agenda of the general meeting of shareholders or on refusal to include them into the specified agenda not later than 5 days after completion of dates of proposals for the agenda of the annual general meeting to be submitted to the Company in accordance with the By-Laws and nomination of the candidates to the Board of Directors and the Auditing Committee as well as a candidate for the post of the Director General.

The item proposed by the shareholders (a shareholder) is subject to inclusion into the agenda of a general meeting of shareholders as well as nominated candidates are subject to inclusion into the list of nominees for voting for elections to the relevant authority of the Company, except for cases when:

- shareholders (a shareholder) fail to meet the deadlines, established by the By-Laws, for introduction of items into the agenda and nomination of candidates for the annual general meeting of shareholders;
- shareholders (a shareholder) fail to meet the deadlines, established by the By-Laws, for nominating candidates for election as members of the Board of Directors at the extra general meeting of shareholders;
- shareholders (a shareholder) are not considered to be holders of the number of voting shares of the Company in accordance with paras. 1 and 2 of Article 53 of the Federal Law on "Joint Stock Companies";
- the proposal does not meet the requirements stated in paras. 3 and 4 of Article 53 of the Federal Law on "Joint Stock Companies" and the requirements of the By-Laws based thereof;

- the item proposed for introduction into the agenda of the general meeting of shareholders is not attributed to its competence by the law and the By-Laws and (or) does not meet the requirements of the Federal Law on “Joint Stock Companies” and other legal acts of the Russian Federation.

The justified decision of the Board of Directors in regard to the refusal to introduce the proposed item into the agenda of the general meeting of shareholders or a candidate into the list of nominees for voting for elections to the corresponding authority of the Company shall be forwarded to shareholders (a shareholder) who introduced the item or nominated the candidate not later than 3 days of the date of its receipt.

The Board of Directors has no right to make changes in the statements of items proposed for introduction into the agenda of the general meeting of shareholders and statements of resolutions related to such items.

In addition to the items proposed by shareholders for introduction into the agenda of the general meeting of shareholders as well as in case of lack of such proposal and lack of or insufficient number of candidates nominated by shareholders for forming the corresponding authority, the Board of Directors is entitled to include the items in the agenda of the general meeting of shareholders or candidates in the list of nominees at its discretion.

Persons who have the right to get acquainted with the information (documents) submitted for preparation and holding the meeting of the superior control authority of the issuer as well as the procedure for getting acquainted with such information (documents):

In accordance with the Federal Law on “Joint Stock Companies”, the above-mentioned is related to the persons having the right to participation in the general meeting of shareholders.

The list of persons having the right to participation in the general meeting of shareholders shall be drawn up on the basis of data of the register of Company’s shareholders.

The procedure for getting acquainted with information submitted for preparation of the meeting of shareholders – at the location of the executive bodies of the Company; during the general meeting of shareholders at the place where it is held; in other places specified in the notice of the general meeting of shareholders; upon shareholder’s request during not more than five days at that the payment for copies can not exceed their cost; in the office of the sole executive body.

### ***8.1.5. Commercial Organizations in which the Issuer holds not less than 5 percent of the Registered (stock) Capital (share fund) or not less than 5 percent of Ordinary Shares***

#### **“TIRUS HOLDING” Limited Liability Company (TIRUS HOLDING LLC)**

Location: 18, Viktor Ambartsumyan St., ap. 8, Yerevan, Armenia, 375033  
 Participatory share of the issuer in the registered capital of the subsidiary: 100%  
 Proportions of ordinary shares of the subsidiary which belong to the issuer: 100%  
 Participatory share of the subsidiary in the issuer’s registered capital: 0  
 Proportions of ordinary shares of the issuer which belong to the subsidiary: 0

Full and abbreviated corporate name:

#### **“Tirshop” Limited Liability Company (JSC “Tirshop”)**

Location: 36, Engels St., Verkhnyaya Salda, Sverdlovsk Region, Russia, 624760  
 Participatory share of the issuer in the registered capital of the subsidiary: 70%  
 Proportions of ordinary shares of the subsidiary which belong to the issuer: 70%  
 Participatory share of the subsidiary in the issuer’s registered capital: 0  
 Proportions of ordinary shares of the issuer which belong to the subsidiary: 0

Full and abbreviated corporate name:

#### **Closed Joint Stock Company Trade Company “Titan” (CJSC Trade Company “Titan”)**

Location: 61, Engels St., Verkhnyaya Salda, Sverdlovsk Region, Russia, 624760  
 Participatory share of the issuer in the registered capital of the subsidiary: 70%  
 Proportions of ordinary shares of the subsidiary which belong to the issuer: 70%  
 Participatory share of the subsidiary in the issuer’s registered capital: 0  
 Proportions of ordinary shares of the issuer which belong to the subsidiary: 0

Full and abbreviated corporate name:

**Joint Stock Company Titanium & Magnesium Works “AVISMA” (JSC “AVISMA”)**

Location: 1, Zagorodnaya St., Berezniki, Perm Region, Russia, 618421

Participatory share of the issuer in the registered capital of the subsidiary: 56,65%

Proportions of ordinary shares of the subsidiary which belong to the issuer: 75,53%

Participatory share of the subsidiary in the issuer’s registered capital: 0

Proportions of ordinary shares of the issuer which belong to the subsidiary: 0

Full and abbreviated corporate name:

**Joint Stock Company “Ural” (JSC “Ural”)**

Location: 1, Parkovaya St., Verkhnyaya Salda, Sverdlovsk Region, Russia, 624760

Participatory share of the issuer in the registered capital of the subsidiary: 51%

Proportions of ordinary shares of the subsidiary which belong to the issuer: 51%

Participatory share of the subsidiary in the issuer’s registered capital: 0

Proportions of ordinary shares of the issuer which belong to the subsidiary: 0

Full and abbreviated corporate name:

**Closed Joint Stock Company Medical Insurance Company “Tirus-Medservice” (CJSC MIC “Tirus-Medservice”)**

Location: 105, Molodezhny Poselok, Verkhnyaya Salda, Sverdlovsk Region, Russia, 624760

Participatory share of the issuer in the registered capital of the subsidiary: 31,4%

Proportions of ordinary shares of the subsidiary which belong to the issuer: 31,4%

Participatory share of the subsidiary in the issuer’s registered capital: 0

Proportions of ordinary shares of the issuer which belong to the subsidiary: 0

Full and abbreviated corporate name:

**Limited Liability Company Insurance Company “Salda-ASKO” (Insurance Company “Salda-ASKO” LLC)**

Location: 71 A, Engels St., Verkhnyaya Salda, Sverdlovsk Region, Russia, 624760

Participatory share of the issuer in the registered capital of the subsidiary: 14%

Proportions of ordinary shares of the subsidiary which belong to the issuer: 14%

Participatory share of the subsidiary in the issuer’s registered capital: 0

Proportions of ordinary shares of the issuer which belong to the subsidiary: 0

Full and abbreviated corporate name:

**Joint Stock Company “Technolog” (JSC “Technolog”)**

Location: 24/1, Onezhskaya St., Moscow, Russia, 125413

Participatory share of the issuer in the registered capital of the subsidiary: 50,06%

Proportions of ordinary shares of the subsidiary which belong to the issuer: 50,06%

Participatory share of the subsidiary in the issuer’s registered capital: 0

Proportions of ordinary shares of the issuer which belong to the subsidiary: 0

### ***8.1.6. Essential Transactions effected by the Issuer***

Essential transactions effected by the Issuer, the size of liabilities under which equals 10 % and more of the balance sheet value of the issuer’s assets according to its financial reports for the last complete reporting period preceding the date of such transactions have not been registered.

### ***8.1.7. Credit Ratings of the Issuer***

No credit rating (ratings) has been given to the issuer and/or issuer’s securities.

## 8.2. Categories (types) of Issuer's Shares

### *Cancelled issues of shares:*

State registration number of the first issue: 62-1P-189

State registration date: 28.04.1993. The issue is cancelled.

State registration number of the second issue: 1-02-30202-D

State registration date: 6.04.1998. The issue is cancelled.

State registration number of the third issue: 1-03-30202-D

State registration date: 22.05.1998. The issue is cancelled.

### *Shares in circulation:*

Category of shares: ordinary

Par value of each share: 1 ruble

Number of shares in circulation: 10`625`600

Number of shares accounted for in the issuer's balance sheet: 970

State registration number of the fourth issue: 1-01-30202-D

State registration date: 11.11.2004.

### *Shares in the allocation stage:*

Category: ordinary

Type of securities: registered uncertificated

Number of securities: 971130

Par value of one security of the issue: 1 ruble

State registration number: 1-01-30202-D-003D dd. November 11, 2004.

Allocation method of securities: conversion

Securities allocation date: the date of introduction of the record on termination of activities of Joint Stock Company Titanium & Magnesium Works "AVISMA" (the date of reorganization of Joint Stock Company Titanium & Magnesium Works "AVISMA") into the Uniform Public Register of Legal Entities is considered to be the date of allocation of securities of the additional issue (the date of conversion).

Procedure for allocation of securities: 1 (One) ordinary registered share of JSC "AVISMA" is converted into 2 (two) ordinary registered shares of JSC VSMPO (i.e. 0.5 (zero point five) of the ordinary registered share of JSC "AVISMA" is converted into 1 (one) ordinary registered share of JSC VSMPO). At the date of introduction of the record on termination of activities of Joint Stock Company "AVISMA" into the Uniform Public Register of Legal Entities allocated shares of JSC "AVISMA", except for the shares having been held by the shareholders who claimed the requirement for repurchasing of shares in accordance with Articles 75 and 76 of the Federal Law on "Joint Stock Companies" and repurchase of shares from which is carried out as well as shares belonging to JSC "AVISMA" or JSC VSMPO shall be converted according to the following procedure – one ordinary registered share of JSC "AVISMA" at the par value of 20 kopecks shall be converted into two ordinary registered shares of JSC VSMPO at the par value of 1 (one) ruble (i.e. 0.5 (zero point five) of the ordinary registered share of JSC "AVISMA" to be converted into 1 (one) ordinary registered share of JSC VSMPO). Since the date of reorganization of JSC "AVISMA" all the allocated preferred registered shares of JSC "AVISMA" are paid off and every holder of these shares of JSC "AVISMA" forfeits all the rights to shares of JSC "AVISMA" as well as all the rights given by the shares of JSC "AVISMA", except for the right to get ordinary registered shares of JSC VSMPO in the course of conversion or request that JSC VSMPO pay the sum of money to be payable in the course of repurchasing of shares in regard to which the requirement for repurchasing was claimed in accordance with Articles 75 and 76 of the Federal Law on "Joint Stock Companies". All ordinary registered shares of JSC "AVISMA" allocated by the date of reorganization of JSC "AVISMA" and for which the requirement for repurchasing was claimed in accordance with Articles 75 and 76 of the Federal Law on "Joint Stock Companies" shall not be converted into ordinary registered shares of JSC VSMPO, except for the case when considering the limitation of the amount of funds in-



tended for repurchasing of shares from shareholders, stated in para. 5 of Article 76 of the Federal Law on "Joint Stock Companies", shares are subject to repurchasing from shareholders in proportion to the claimed requirements. In the abovementioned case shares of JSC "AVISMA" failed to be repurchased from shareholders of JSC "AVISMA" due to the limitation, stated in para. 5 of Article 76 of the Federal Law on "Joint Stock Companies", starting from the date of reorganization of JSC "AVISMA" shall be converted into ordinary registered shares of JSC VSMPO. Shares of JSC "AVISMA" repurchased from shareholders of JSC "AVISMA" who exercised its right to require repurchasing of the shares belonging to them by the Company, shall be paid off, they are not subject to conversion into shares of JSC VSMPO, shares of JSC "AVISMA" belonging to JSC VSMPO as of the date of reorganization as well as shares of JSC "AVISMA" belonging to JSC "AVISMA" as of the date of reorganization shall be paid off. Shares of JSC "AVISMA" during their conversion into additional shares of JSC VSMPO shall be paid off. Allocation of additional shares of JSC VSMPO by conversion of shares of JSC "AVISMA" into them shall be carried out by placing additional shares of JSC VSMPO to personal accounts in the register of holders of registered securities of JSC VSMPO as well as deposit accounts in depositaries at the date of reorganization based on the data of the register of shareholders as of that date.

Category: ordinary

Type of securities: registered uncertificated

Number of securities: 368555

Par value of one security of the issue: 1 ruble

State registration number: 1-01-30202-D-004D dd. November 11, 2004.

Allocation method of securities: conversion

Securities allocation date: the date of introduction of the record on termination of activities of Joint Stock Company Titanium & Magnesium Works "AVISMA" (the date of reorganization of Joint Stock Company Titanium & Magnesium Works "AVISMA") into the Uniform Public Register of Legal Entities is considered to be the date of allocation of securities of the additional issue (the date of conversion).

Procedure for allocation of securities: 1 (one) preferred registered share of JSC "AVISMA" shall be converted into 1 (one) ordinary registered share of JSC VSMPO. At the date of introduction of the record on termination of activities of Joint Stock Company "AVISMA" into the Uniform Public Register of Legal Entities allocated shares of JSC "AVISMA", except for the shares having been held by the shareholders who claimed the requirement for repurchasing of shares in accordance with Articles 75 and 76 of the Federal Law on "Joint Stock Companies" and repurchase of shares from which is carried out as well as the shares belonging to JSC "AVISMA" or JSC VSMPO shall be converted according to the following procedure – one preferred registered share of JSC "AVISMA" at the par value of 20 kopecks shall be converted into one ordinary registered share of JSC VSMPO. Since the date of reorganization of JSC "AVISMA" all the allocated preferred registered shares of JSC "AVISMA" shall be paid off and every holder of these shares of JSC "AVISMA" forfeits all the rights to shares of JSC "AVISMA" as well as all the rights given by the shares of JSC "AVISMA", except for the right to get ordinary registered shares of JSC VSMPO in the course of conversion or request that JSC VSMPO pay the sum of money to be payable in the course of repurchasing of shares in regard to which the requirement for repurchasing was claimed in accordance with Articles 75 and 76 of the Federal Law on "Joint Stock Companies". All preferred registered shares of JSC "AVISMA" allocated by the date of reorganization of JSC "AVISMA" and for which the requirement for repurchasing was claimed in accordance with Articles 75 and 76 of the Federal Law on "Joint Stock Companies" shall not be converted into ordinary registered shares of JSC VSMPO, except for the case when considering the limitation of the amount of funds intended for repurchasing of shares from shareholders, stated in para. 5 of Article 76 of the Federal Law on "Joint Stock Companies", shares are subject to repurchasing from shareholders in proportion to the claimed requirements. In the abovementioned case shares of JSC "AVISMA" failed to be repurchased from shareholders of JSC "AVISMA" due to the limitation stated in para. 5 of Article 76 of the Federal Law on "Joint Stock Companies", starting from the date of reorganization of JSC "AVISMA" shall be converted into ordinary registered shares of JSC VSMPO. Shares of JSC "AVISMA" repurchased from shareholders of JSC "AVISMA" who exercised the right to require repurchasing of the shares belonging to them by the Company, shall be paid off, they are not subject to conversion into shares of JSC VSMPO, shares of JSC "AVISMA" belonging to JSC VSMPO as of the date of reorgani-

zation as well as shares of JSC "AVISMA" belonging to JSC "AVISMA" as of the date of reorganization shall be paid off. Shares of JSC "AVISMA" during their conversion into additional shares of JSC VSMPO shall be paid off. Allocation of additional shares of JSC VSMPO by conversion of shares of JSC "AVISMA" into them shall be carried out by placing additional shares of JSC VSMPO to personal accounts in the register of holders of registered securities of JSC VSMPO as well as deposit accounts in depositories at the date of reorganization based on the data of the register of shareholders as of that date.

The Company has the right to place, in addition to already placed shares, the following categories of shares (declared shares):

preferred shares in the amount of 2`500`000 (two million five hundred thousand) pcs. at the par value of 1 rub. per share.

**Declared preferred shares shall give the following rights:**

the right to annual receipt of the dividend in the amount of 2.25 of the share par value;  
preferential right compared to ordinary shares to receive accrued but not paid dividends;  
preferential right to receive the portion of the assets cost (liquidation value) on preferred shares which remained after liquidation of the Company.

The Company has the right to place, in addition to placed shares, 1 339 685 (one million three hundred thirty nine thousand six hundred and eighty five) ordinary registered shares at the par value of 1 ruble per share (declared shares).

**Rights granted to the holders by shares:**

General rights of holders of shares of all categories (types):

- to dispose the shares belonging to them without the consent of other shareholders and the Company according to the procedure stipulated by the By-Laws;
- the shareholders of the Company who voted against or did not take part in voting with regard to the issue on allocation by closed subscription of shares and emission securities convertible into shares have the priority right to purchase additional shares and emission securities convertible into shares placed by means of closed subscription in the amount proportional to the number of shares of this category (type) belonging to them.

This right shall not apply to allocation of shares and other emission securities convertible into shares carried out by means of closed subscription only among shareholders, if, at that, shareholders have the possibility to purchase the integer number of allocated shares and other emission securities convertible into shares in proportion to the number of shares of the corresponding category (type) belonging to them.

- to receive the part of net profit (dividends) subject to distribution among the shareholders according to the procedure stipulated by the law and the By-Laws depending on the category (type) of shares belonging to him;
- to receive the part of the assets of the Company (liquidation quota) which remained after liquidation of the Company in proportion to the number of shares of the corresponding category (type) held by him;
- to have the access to the documents of the Company according to the procedure stipulated by the law and the By-Laws, and to receive copies thereof at a charge;
- to delegate all or some of the rights granted by the share of the corresponding category (type) to the representative (representatives) based on power of attorney;
- to exercise other rights stipulated by the law of the Russian Federation, the By-Laws as well as resolutions of the general meeting of shareholders made within its competence.

**Ordinary shares:**

Each ordinary share of the Company has the similar par value and grants shareholders – their owners - the same scope of rights.

Ordinary shares of the Company are considered to be voting shares with regard to all issues within the competence of the general meeting.

Shareholders – the owners of the ordinary shares of the Company – can, according to the Federal Law on “Joint-Stock Companies”, participate in general meetings of shareholders with the vote in regard to all the issues within its competence.

Shareholders – the owners of the ordinary shares - have the right to receive dividends but only after the holders of preferred shares, the size of dividends for which is specified in the By-Laws of the Company.

Shareholders – the owners of the ordinary shares - participate in allocation of assets in case of liquidation of the Company in the third priority after payments on shares which should be redeemed in the first place, after payment of accumulated but unpaid dividends on preferred shares and part of the cost of the assets (liquidation value) which remained after liquidation of the Company on preferred shares (second priority).

**Preferred shares:**

Preferred shares of the Company of the same type have the similar par value and grants shareholders – the owners - the same scope of rights.

Shareholders – owners of the preferred shares - have the right to take part in general meetings of the Company without the vote, except for cases stipulated by the current law of the Russian Federation and the By-Laws.

A shareholder – the owner of the preferred shares - participates in the general meeting of shareholders with the vote when solving the issues on reorganization of the Company.

A shareholder – the owner of the preferred shares – has the preferential right compared to the holders of ordinary shares in regard to receipt of:

- dividends in amounts and according to the procedure stipulated by the current By-Laws;
- accrued but not paid dividends upon liquidation of the Company;
- part of the cost of the Company’s assets (liquidation value) remaining upon its liquidation.

The size of annual dividend on one preferred share is determined at a rate of 9 par values of one preferred share.

**Voting shares:**

A voting share is a share giving the shareholder – its owner – the vote either with regard to all the issues within the competence of the general meeting or individual issues stipulated by the Federal Law.

A share gives the vote with regard to all issues within the competence of the general meeting if it is:

- a fully paid up ordinary share except for shares being at the Company’s disposal;
- a preferred share the amount of the dividend on which is determined in the By-Laws starting from the meeting following the annual general meeting at which, irrespective of the reasons therefore, no decision on payment of dividends or the decision on incomplete payment of the dividends on preferred shares was made. The right of shareholders – owners of preferred shares - to participate in the general meeting of shareholders with the vote is terminated from the date of payment of dividends on specified shares to full extent.

The preferred share of any type gives the vote when solving the issue on reorganization and liquidation of the Company.

The preferred share of the specific type gives the vote when solving the issue on introduction of changes and amendments into the By-Laws limiting the rights of shareholders – the owners of preferred shares of this type - including cases of determination or increase of the amount of the dividend and (or) determination or increase of the liquidation value paid on preferred shares of the preceding priority as well as granting the shareholders – owners of the preferred shares - another type of advantages in the order of priority for payment of dividend and (or) the liquidation value of shares.

Shares voting on all the issues being within the competence of the general meeting of shareholders grant their owners the following rights:

- to take part in attendee or absentee voting at general meetings with regard to all issues within its competence;
- to nominate candidates and to elect them to Company's authorities according to the procedure and under conditions established by the law and the By-Laws;
- to introduce proposals into the agenda of the annual general meeting of shareholders according to the procedure and under conditions established by the law and the By-Laws;
- to elect the working bodies of the meeting in cases stipulated by the By-Laws;
- to require convocation of the extra general meeting of shareholders, the audit of the financial and economic activities of the Company by the Auditing Committee of the Company according to the procedure and under conditions established by the law and the By-Laws;
- to require repurchasing of all or a portion of shares belonging to them by the Company according to the procedure and in cases stipulated by the Federal Law on "Joint Stock Companies";
- to require convocation of the meeting of the Board of Directors according to the procedure and under conditions stipulated by the By-Laws.

Preferred shares voting only in regard to specific issues being within the competence of the general meeting of shareholders give the rights to their owner:

- to take part in attendee or absentee voting at general meetings only when solving individual issues;
- to require that the Company repurchase all or a portion of the shares belonging to them in cases established by the Federal Law.

### **8.3. Previous Issues of Emission Securities except for Issuer's Shares**

No issues of issuer's emission securities except for its shares have been made.

#### ***8.3.1. Issues of Securities Redeemed (cancelled)***

#### ***8.3.2. Issues of Securities in Circulation***

#### ***8.3.3. Issues regarding which the Issuer's Obligations of Securities have been not Discharged (Default)***

### **8.4. Person (persons) who provided Security for Debentures of the Issue**

No debentures have been issued.

### **8.5. Terms and Conditions for Discharge of Obligations for Debentures of the Issue**

No debentures have been issued.

## **8.6. Organizations keeping Records of Rights to Issuer's Emission Securities**

Full and abbreviated corporate name:

**Open Joint Stock Company "Central Moscow Depository" (JSC "CMD")**

**Location: 3, Orlikov per., building B, Moscow, Russia, 107078**

Postal Address: 34, Bolshaya Pochtovaya St., building 8, Moscow, Russia, 105082

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

Validity of the license: not limited

Authority which issued the aforesaid license: Federal Securities Commission of the Russian Federation

*No centralized custody of the issuer's emission securities has been accomplished in the reporting quarter.*

## **8.7. Legislation regulating Import and Export of the Capital which can affect the Payment of Dividends, Interest and other Payments to Non-Residents**

- Civil Code of the Russian Federation
- Law of the Russian Federation No. 3615-1 on "Currency Regulation and Currency Control" dated 09.10.1992
- Resolution of the Government of the Russian Federation No. 699 dated 24.09.2002 on "Procedure for Issuing Authorizations to Residents for Prolongation of Payment for the Period of more than 90 Days with regard to Export of Goods (Operations, Services, Intellectual Activity Results)".
- Instruction of the Central Bank of the Russian Federation and the State Customs Committee of the Russian Federation No. 91-I and No.01-11/28644 dated 04.10.2000 on "Procedure for Currency Control of Justification of Imported Goods Payment to Residents"
- Instruction of the Central Bank of the Russian Federation and the State Customs Committee of the Russian Federation No.86-I and No.01-23/26541 dated 13.10.1999 on "Procedure for Currency Control of Receipt of Proceeds from Export of Goods in the Russian Federation"

## **8.8. Taxation of Income for Issuer's Emission Securities placed and being placed**

The procedure and conditions of taxation of physical persons (both who are taxable residents of the Russian Federation and who are not but who receive income from sources in the Russian Federation) on income as dividends and interests received from the issuer of securities, and income from realization of shares and other securities of the issuer in the Russian Federation or outside are determined by Article 214.1 of the Tax Code of the Russian Federation.

The rates of corresponding taxes are determined by Article 224 of the Tax Code of the Russian Federation.

The procedure and conditions of taxation of legal persons (both Russian and foreign organizations conducting their activities in the Russian Federation through permanent representative offices and/or receiving income from sources in the Russian Federation) on profit calculated allowing for income received by the organization from realization of securities is determined by Article 275 of the Tax Code of the Russian Federation.

The rates of corresponding taxes are determined by Article 284 of the Tax Code of the Russian Federation.

## 8.9. Declared (accrued) and paid Dividends on Shares and Income from Issuer's Debentures

Information on declared and paid dividends in 2003.

Index	Total Dividends Declared	Declared Dividends per Share	Date of General Meeting of Shareholders	Decision of the Annual General Meeting of Shareholders on Payment of share dividends	Date of Payment of Declared Dividends	Form of Payment of Declared Share Dividends	Reporting Period for which Dividends to be Paid
Ordinary Shares	116845157 rub.	11.00	May, 14 2004	Minutes dated June 2, 2004	Not later than 60 days from decision made by the general meeting of shareholders	In money terms	2003

Information on declared and paid dividends in 2004

Index	Total Dividends Declared	Declared Dividends per Share	Date of General Meeting of Shareholders	Decision of the Annual General Meeting of Shareholders on Payment of share dividends	Date of Payment of Declared Dividends	Form of Payment of Declared Share Dividends	Reporting Period for which Dividends to be Paid
Ordinary shares	308114270 rub.	29.00	June 10, 2005	Minutes dated June 17, 2005	Not later than 60 days from decision made by the general meeting of shareholders	In money terms	2004

## 8.10. Other Information

There is no other information about the issuer and its securities.