



NATIONAL FACTORING
COMPANY

BOOK OF RECORDS

2004
ANNUAL REPORT

CONTENTS

FOREWORD

2

RECORD START

8

RECORD GROWTH

9

RECORD STRATEGY

12

RECORD NUMBER

16

RECORD RELIABILITY

17

RECORD INNOVATIONS

18

P.S.

19

ENCLOSURES

20

FOREWORD



"Many years back, when we started factoring business, we had grandiose plans and strong belief that this " thing" will work. Then we celebrated our first contract signed, first factoring - related payment made and the first ten debtors registered. Today, when our clients number in hundreds and debtors in thousands and when the volume of financing amounts to mlns, we can both rejoice and be proud of ourselves as we have become leaders in factoring in Russia, have initiated forming of this new sector in the national economy and we are respected in the world business community. At the same time, we have set new standards: to make the "thing " work" is not enough for us, our goal is to reach the highest level of service, which national and foreign factoring companies will emulate."

Mikhail Treyvish
Chairman of the Board
of NFC "Uralsib-NIKoil" (LLC)



"The urge to succeed is an inseparable characteristic of each entrepreneur. Seeing how, first, tens and then hundreds of our clients show high sales volumes, we can claim with satisfaction that factoring is one of the key elements, which has contributed to the success. We are pleased to observe the local companies of our clients turning into regional ones. We are proud that our services helped the regional companies to enter new markets and to become federal companies. We appreciate and support those who believe in their own capabilities, who know how to make their business prosperous, and who, by doing so, increase the common wealth of Russia. We are grateful to our Clients, with whom, together, we were growing all these years. We hope their success will set an example for our prospective Partners."

Roman Ogonkov
First Vice Chairman of the Board
of NFC "Uralsib-NIKoil" (LLC)



"For me, the word "factoring " is inseparably connected with the people, I know. They have created the whole industry and, in the course of time, have become my family. They are striking, fantastic, more than ambitious personalities. Everything started at the time, when the term "factoring" was perceived with much apprehension by the majority of our counterparties in Russia. Today, thanks to creativity and enormous potential of our team the service is not only widely acceptable, but is in great demand in the Russian market. Since 1999, our team, has made an all-out effort to develop and form a firm basis for National Factoring Company which was set up in 2004."

Ella Skaletskaya
Vice Chairman of the Board
of NFC "Uralsib-NIKoil" (LLC)



"Working in factoring from the very first years of its existence, I am proud of the fact that our company has become the first, who lent a helping hand to the clients in the crisis time, who introduced the system of accounts receivable management, and who, first among the factors, provided credit risk coverage to its clients, opening new possibilities of factoring to the clients and a new page in the history of factoring business in Russia."

Stanislav Pushtorskiy
Vice Chairman of the Board
of NFC "Uralsib-NIKoil" (LLC)



"For a number of years factoring remains one of the most mobile business in the world. Our company has been constantly improving and updating its product range in order to immediately react to the changes in the market. Such work, on the one hand, upkeepes our drive and, on the other hand, gives profound professional satisfaction."

Anton Musatov
Head of Clients Service
of NFC "Uralsib-NIKoil" (LLC)



HIGHEST AND LOWEST GDP

According to the World Bank (206 countries surveyed) the highest GDP per capita was posted in Luxemburg (44340 US dollars)
Liechtenstein was in the second and Switzerland in the third place.
The lowest GDP was in Ethiopia (100 US dollars).

The results of economic development in Russia in 2004, on the whole, can be assessed as positive. With favourable economic situation in the world and economic stability inside the country, over the period of 1998-2004, Russia reached record levels in a number of industrial sectors.
According to the estimates, in 2004, GDP increased by 7,1% compared with 2003¹. The rate of growth in industrial production over the same period was recorded as 6,1%, with industries producing end-products accounting for most of the rise.
As to the primary products sector, its contribution to the industrial production growth compared with 2003, has declined and amounted to 26%.

FOOD INDUSTRY

In 2004, the industry posted a 104% growth compared with 2003.
The foodstuffs and alcohol suppliers traditionally form a client base of National Factoring Company: in 2004 their share stood at 31%.
Specific commercial relations between the suppliers and super- and -hypermarkets was one of the factors behind the increased demand for factoring: it is not infrequently, when deferral of payment, which suppliers receive through factoring service secures inclusion of their products into the product range of major retail shops.
In 2004, there was a two-fold increase in the food industry companies which used National Factoring Company service².



¹ Here and further, unless otherwise stipulated, the Federal Statistics Service (ROSSTAT) information is used.

² Here and further, unless otherwise stipulated, the 1999 statistical data are provided (including the charts) in the aggregated form for NIKoil IBG Bank and NFC "Uralsib- NIKoil".

METALLURGY AND METALWORKING

In 2004, ferrous metallurgy posted a 5% growth, as compared with the 2003 output, the rate of increase in non-ferrous metallurgy was 103,6%.

The shortage of funds to upgrade the present technology and equipment is one of the factors which hampers more rapid development of the industry.

However, our clients successfully resolve the problem through factoring service provided by us. With working capital financing, they can employ in most of the cases their limited credit facilities to re-equip the plants and to extend production range.

In 2004, the metallurgy enterprises took on the leadership among the National Factoring Company clients in terms of their assigned receivables. The increase was 215% compared with the 1999-2003 period.



CHEMISTRY, PETROCHEMICAL AND HOUSEHOLD CHEMICAL GOODS

In 2004, the chemistry and petrochemical production increased by 107,4% compared with 2003. The favourable market situation outside Russia, commissioning of new production facilities and higher demand for chemical products inside the country contributed to the growth. Better foreign market conditions in the former Soviet republics and abroad boost export, that, in turn, brings about higher demand for factoring on the part of chemical goods suppliers.

BUILDING MATERIALS

The year 2004 saw a 105,3% percent growth in the building industry output, with rate of return on sales of goods, work and services reaching 11,1%. The increase of 9,5 percentage points, compared with the 2003 indicator, resulted in a higher demand for factoring from the suppliers, with charges being included in their production costs.



WOODWORKING AND FURNITURE INDUSTRY

In 2004, the timber, woodworking, pulp and paper industry growth was put at 103% compared with 2003. There was an increase in the foreign exchange earnings derived from the timber and paper industry export. In terms of export factoring service, the timber industry has a great potential as, providing a ready supply of cash, it helps harvesting companies to timely pay export duties and cover transport costs up to the border of an importer's country.



APPAREL AND TEXTILES

In 2004, the industry output declined by 7.5% compared with the 2003 production level, that can be attributed to a high degree to the market saturation with the goods of "gray" import and of the national "shadow economy" production. Under the circumstances, the Russian producers are making every effort to use competitive advantages in order to promote sales. One of them is long payment deferrals. In 2004 the industry accounted for 95% of the total National Factoring Company turnover for the period of 1999-2003.



CONSUMER GOODS MARKES

Higher real disposable income of the people created conditions for positive changes in the consumption patterns. In 2004, sales of nonfoods grew more dynamically and exceeded the level of 2003 by 14,3%. As a result the share of nonfoods in the total turnover increased up to 54,4%.

Household appliances

Sales of household appliances increased, on average, by 17 percent. In 2004, the trend towards geographical expansion of business of the major computer and home appliances suppliers through newly set up franchise companies and more extensive dealer networks continued. As a result the companies increased the use of factoring for their needs. In 2004, the turnover relating to the suppliers of home appliances increased by 71 mln, totaling approximately 177,5 mln. US dollars. The increase in the turnover compared with the 1999-2003 period came to 254%

Computers and parts

The growth in sales of computers and parts was 23% compared with 2003. Last year, National Factoring Company increased its number of clients, which include IT equipment, parts and wires suppliers. The client portfolio increased four times, with the 2004 turnover reaching 60 mln US dollars.

Auto spares

There was an increase in consumption of cars, which brought about higher demand for spares. This raised more interest for alternative sources of liquidity-which suppliers maintain at an adequate level- in particular, to factoring. The volume of receivables assigned by the spare parts suppliers increased two times as against the total turnover over the 1999-2003 year period.



On the whole, the Russian enterprises - related turnover grew, payment discipline improved, nonpayment of debt as of 1 October 2004 decreased by 3,1% compared with 2003, with the share of arrears in the total volume of receivables going down from 21,7 to 17,8%.

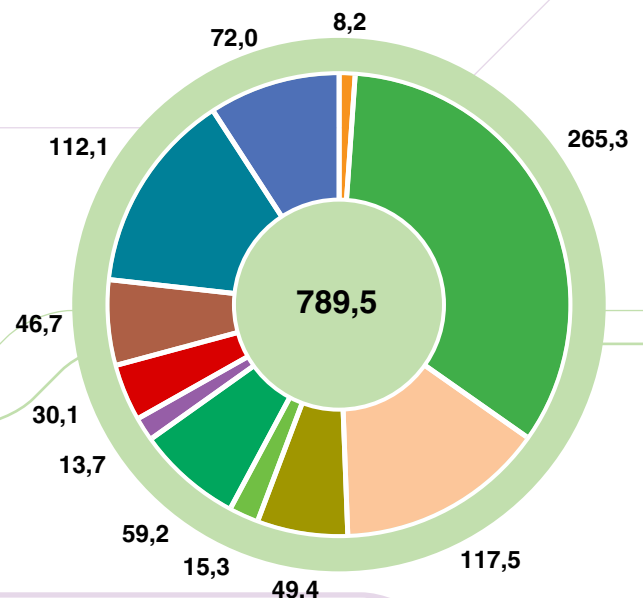
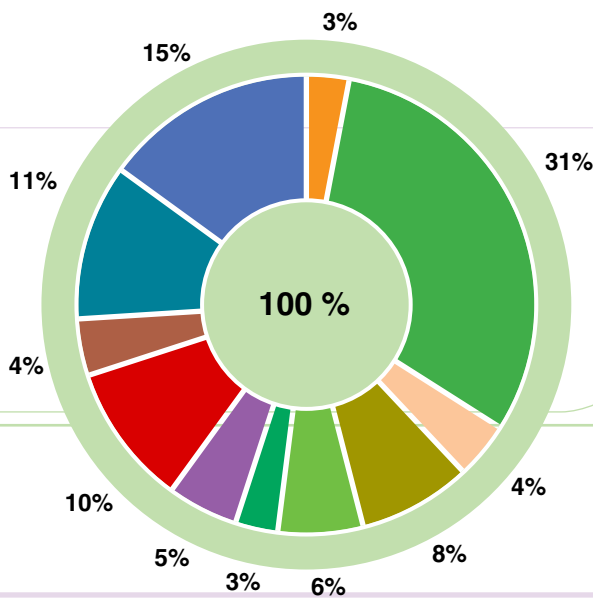
The total volume of receivables assigned to the Russian factoring companies amounted to 2,2 mln dollars, resulting in the 195 % market increase. The market's turnover as to the end of 2004 was estimated at 3 bln US dollars. The share of factoring service in GDP came to 0,5% (in 2002 - 0,1%)³.












³ "Expert RA" Rating Agency- "Factoring in Russia" (Issue 1).

With factoring becoming a self-sustaining industry of the Russian economy and its increased role in business activity of the enterprises, there is every reason to believe, that in the near future the Russian market of factoring service will develop at the same rapid pace. Moreover, various sources assess the market potential at the rate of 40 - 50 bln. US dollars. The forecast is based on the growing demand for the service, connected with credit risks coverage and management of receivables.

INDUSTRIES SHARE IN THE NATIONAL FACTORING COMPANY CLIENT PORTFOLIO IN 2004 (% FROM TOTAL NUMBER OF NEW CLIENTS)

NATIONAL FACTORING COMPANY TURNOVER BY INDUSTRY IN 2004 (MLN US DOLLARS)



-  Auto Spares
-  Foodstuffs, incl. alcohol
-  Electric Household Appliances
-  Chemistry, petrochemical products, household chemical goods
-  Haberdashery, apparel, textiles
-  Computers and parts
-  Timber, woodworking, incl. furniture production
-  Metallurgy and metalworking
-  Perfumery and cosmetics
-  Construction and finishing products
-  Others

First professional Factoring Company in Russia.

THE FASTEST LAND SPEED

On 15 October 1997, "Trast SSC" driven by Andy Green (Great Britain) set a speed record of 1227, 985 km/h in the distance of 1 mile in Black Rock (Nevada, USA). The car is equipped with 2 jet engines "Rolls-Royce Spey - 202".



THE MOST POWERFUL OUTBURST IN THE SUN

On 2 April 2001 at 21:51 Greenwich time, the greatest outburst in the Sun occurred. As a result of the collision of electricity-charged particles with the atmosphere of Earth, the polar radiance was formed.

RECORD START

The year 2004 has played a decisive role in the development of factoring as a new and important industry of the Russian economy. Last year we succeeded in introducing ourselves as fully-fledged specialized factoring company. The setting up of the company on the basis of Factoring Service Business Direction (FS BD) within NIKoil IBG Bank started as early as in 2003. Over the accounting period, the bulk of the clients left FS BD to become clients of the specialized factoring company - National Factoring Company, which has a banking license for operations.

National Factoring Company is rated as the first and, so far, the single Russian company, specializing in factoring. In 2004, the company offered its clients a complete range of factoring services, which are unique in the domestic market. The services include: financing of supplies, with payment deferred, risk management including assessment of debtors' financial position and credit and liquidity risk coverage, as well as management of receivables.

Having acquired the status of an independent company, National Factoring Company can now concentrate its efforts on the development and improvement of all components of factoring. They, if only used together, can bring commercial results to the clients as well as contribute to a sharp rise in goods and services sales. It is this feature that differs factoring from the traditional range of services, provided by the universal commercial banks, and turns it into the XXI century business.

In 2004, National Factoring Company had a staff of 177 people, out of which 73 worked in the regions. We succeeded in implementing the programme aimed at upgrading professional level of the employees. The programme included on-the-job training in the central office' key departments, seminars, training courses in the leading Western factoring companies for the company personnel and special educational events, organized by international factoring organizations.

THE BRIGHTEST STAR CONSTELLATION

The brightest star constellation Pleiades, which includes 500 separate stars in the cosmic space of about 20 light-years is in the distance of 380 light-years from Earth. The size of the brightest star is 2,87(the size of the Sun is 26,5).

RECORD GROWTH

The results of the company's functioning as an independent business were immediately apparent. In 2004, the company's turnover increased 2 times compared with 2003 and amounted to 114% of the total turnover for the period of 1999-2003⁴. There was a 1,5 times increase in the client portfolio. The share of new clients of National Factoring Company amounted to 65% of the total number of the company's clients since the start of factoring service operations within NIKoil IBG Bank. The profit of the company was put at 13,7 mln. US dollars.

The profit has exceeded the 2003 level by 1,5 and amounted to 91% of the total turnover of the factoring business for the previous 5 years.

THE TALLEST MAN IN THE WORLD

Robert Vadlow, who died in 1940, was the tallest man in the world. His height was 2,72 m.

With close competitors lagging behind in the finance provided - 585 673 thousand US dollars in absolute figures, in the number of clients - 434 companies, and in the annual growth, which is 2,1 times higher, National Factoring Company has become undisputed leader in the factoring industry.

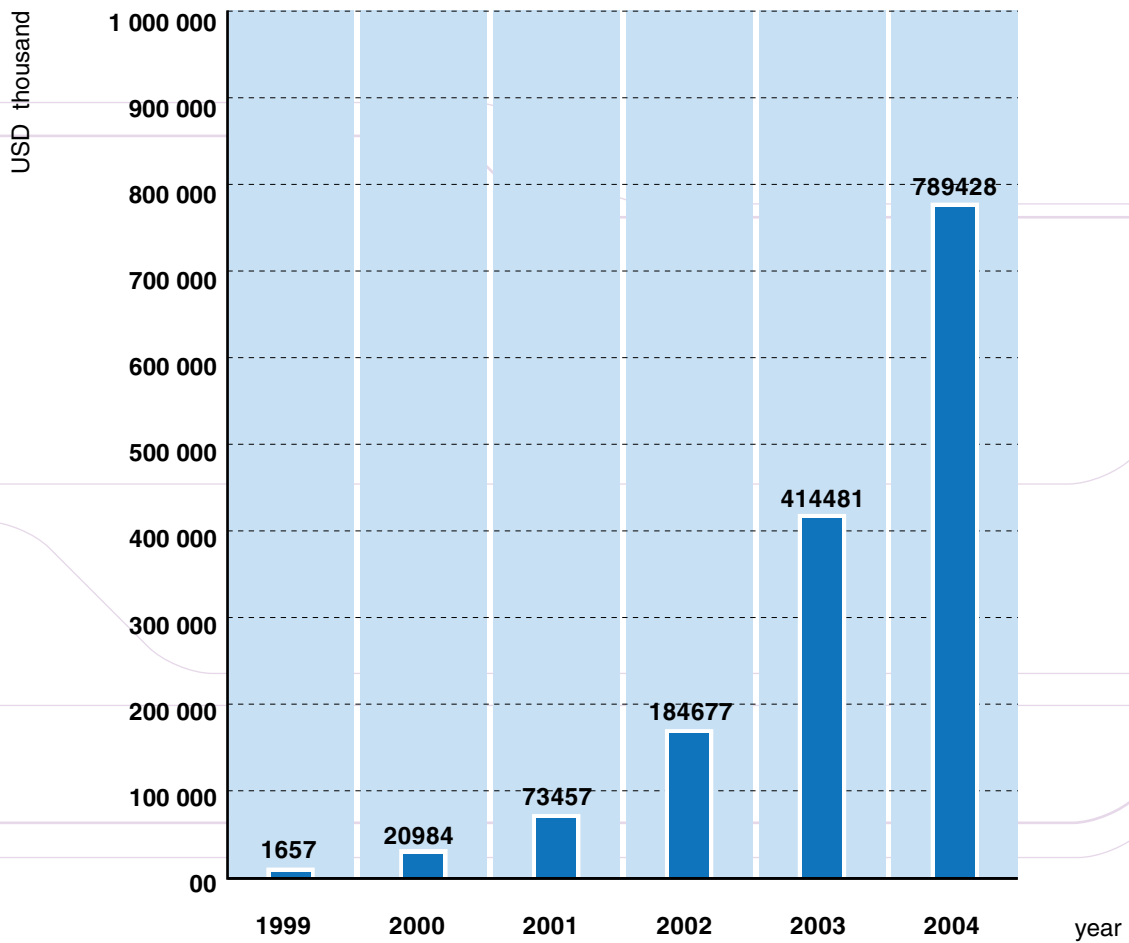
⁴ Over the period of 1999-2003 - development of factoring as Business Direction of NIKoil IBG Bank; 2004 together with NIKoil IBG Bank.



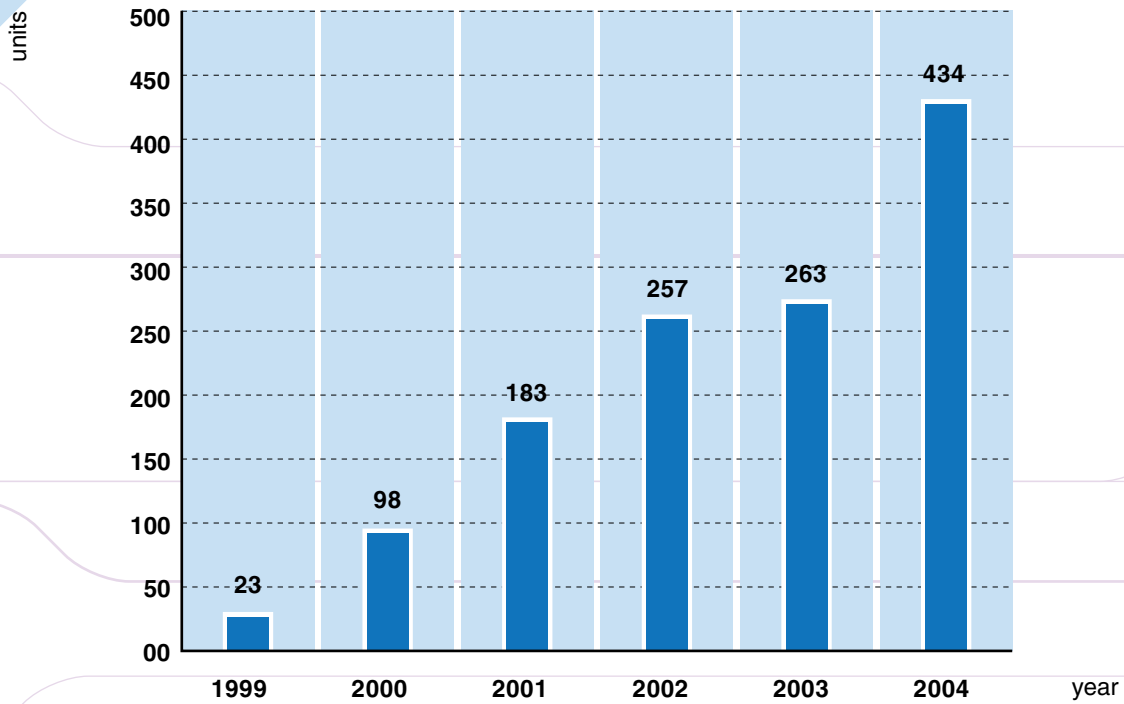
THE BIGGEST NUMBER OF TURNS ON THE FRONT WHEEL

Marty Kuoppola (Finland) made 95 uninterrupted turns balancing on the front wheel of his BMX free style bicycle.

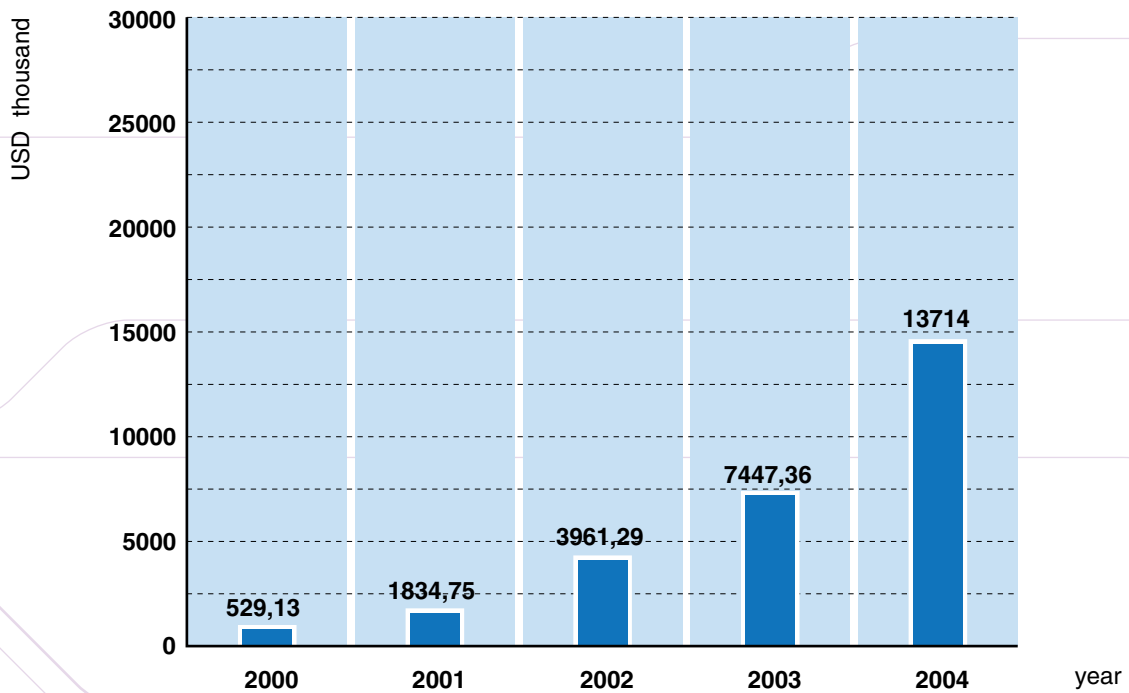
NATIONAL FACTORING COMPANY TURNOVER



NUMBER OF ACTIVELY WORKING CLIENTS OF NATIONAL FACTORING COMPANY



NATIONAL FACTORING COMPANY INCOME



RECORD STRATEGY

REGIONAL DEVELOPMENT

In 2004, National Factoring Company surpassed other factoring suppliers by a number of regional outlets. By 2004, it provided factoring services in 13 major cities and regions of Russia, including: Moscow, Kazan, Nizhny Novgorod, Ekaterinburg, Tyumen, Chelyabinsk, Novosibirsk, Saratov, Ufa, Saint-Petersburg, Perm, Krasnoyarsk, Voronezh.

The year 2004 saw the start of operations in four cities more, notably in Rostov-on-Don, Samara, Murmansk and Omsk, and in the respective regions.

THE LARGEST COUNTRY IN THE WORLD

Russia occupies 11,5% of the surface of the Earth

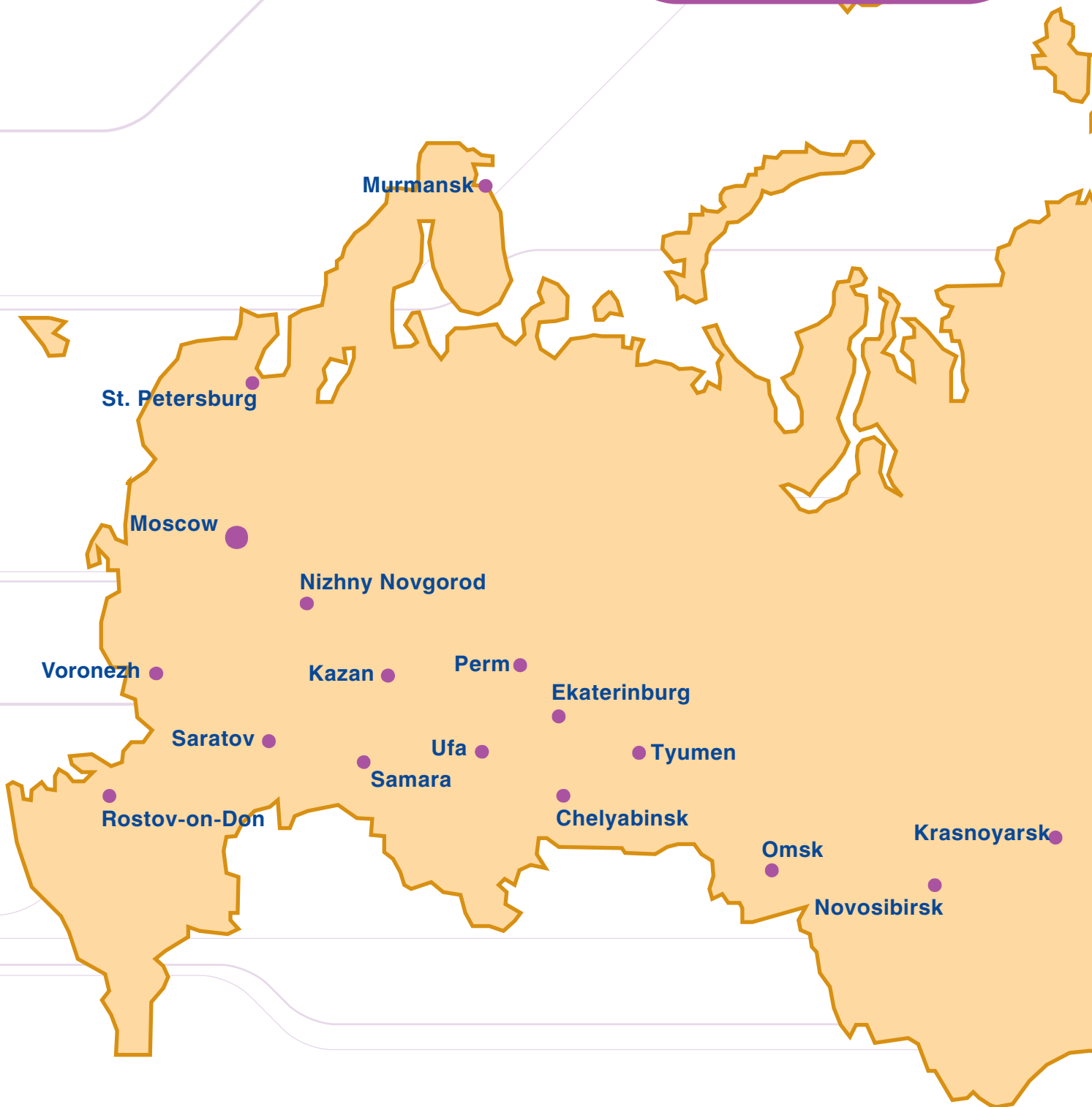
The opening of new sales outlets came along with the creation of the efficient system of regional factoring management, intended to ensure the highest single standards of service, irrespective of the place, in which it is provided; professional upgrading of the employees; formation and introduction of the transparent motivation system, and higher profits made on factoring in the regions.

Compared with 2003, the regional business rose by 80% in 2004, with a two-fold increase in the client base. As result, by the end of 2004 we managed to create the regional factoring network, which united 16 Russian cities and provided 60% of the company income.

National Factoring Company has become the first national company, providing a full range of services of world standard in most of the regions of the Russian Federation.



REGIONAL FACTORING NETWORK (2004)





THE SPEEDIEST ASCENT TO EVEREST

The speediest ascent to Everest on 21 May 2000 Sherp Babu Chichri, a Nepal citizen made the speediest climb of the Everest (8848 meters high) for 16 hours 56 minutes and spent there 21 hours without oxygen.

INTERNATIONAL BUSINESS

In 2004, National Factoring Company upgraded its position and role on the international factoring arena.

In October 2004, Mr. M.I. Trevish, Chairman of the Board of National Factoring Company was put on the Board of Directors of the reputable international factoring association International Factoring Group⁵.

Mr. M.I. Trevish also became head of the newly established East European Chapter of IFG, which sees lobbying interests and raising professional level of the Eastern European factoring companies as one of its main objectives.

The fact that a representative of the country with a transition economy has become a member of the Board sets a precedent in the history of the group. It convincingly proves that the quality of business and management of National Factoring Company meets the highest world standards.

The second outstanding event of 2004 was the National Factoring Company's entry to another world-renowned international factoring association-Factors Chain International⁶. Thus, NFC has become one of a few factoring companies in the world, who are members of both major international factoring associations.

Compared with 2003, the import-related factoring service provided by National Factoring Company grew by 52%⁷, with a profit margin amounting to 71%. The year 2004 marked the beginning of direct import contracts between National Factoring Company and foreign suppliers of goods and services. Import-related factoring presented a viable alternative to credit risks covering through protection of foreign suppliers of goods and services from the risks of non-payment. The Russian importers, in turn, were given an opportunity to import products on a deferred payment basis.

During the accounting period, there was a growth in demand for export-related factoring. In order to streamline export servicing procedure we worked out and introduced a system of express consideration of applications, which brought about considerable reduction in the time lag, which occurs before export deliveries are financed.



⁵ International Factoring Group (IFG) is the first factoring association, which started its activity in 1960 and today has more than 60 companies in 40 countries as its members. IFG is striving to unite factoring companies from different countries of the world and to ensure that they have technical means to carry out factoring operations all over the world (www.ifgroup.com).

⁶ Factors Chain International (FCI) is a major international factoring association. It is a global network, which unites 195 companies in 59 countries in the world. The FCI objective is to promote international trade through the development of factoring and other financial instruments, used in international trade (www.factors-chain.com).

⁷ Including JV "Uralsib-Moldfactor" and NIKoil IBG Bank.

In 2004, the East European Factoring Association⁸ continued performing its functions. EEFA was set up in 2001 with active participation and support on the part of NIKoil IBG Bank. Mr.M.I. Treyvish, Chairman of the Board of Directors has permanently been at the head of the Association ever since.



A regular international conference under the auspices of EEFA was held in Vilnius. It was convened within the framework of the campaign aimed at stimulating the development of factoring in the territory of CIS and East European International Expansion countries. More than 60 delegates from all over the world visited the conference.

THE BIGGEST EXPORT INDUSTRY

The leading export industry is tourist industry.

In 1999 the host countries made profits on tourism equal to 555 bln. US dollars.

INTERNATIONAL EXPANSION

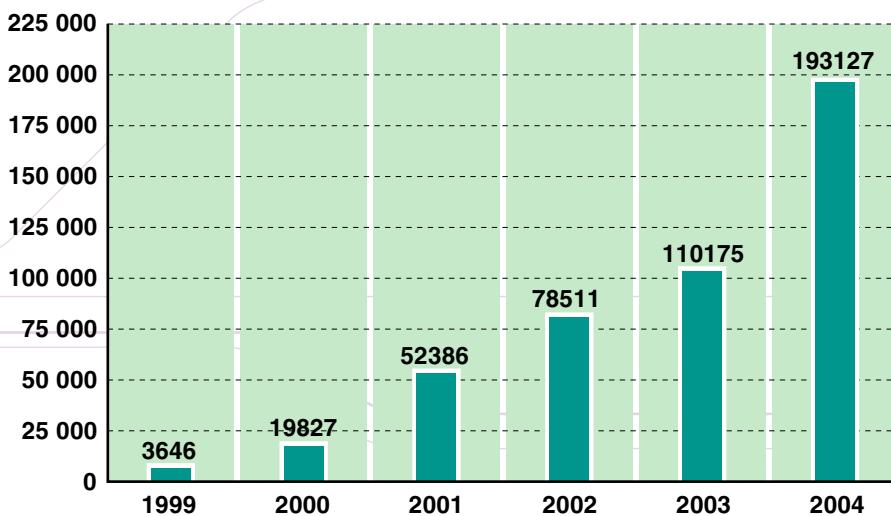
Further advance of factoring to the CIS countries was posted in 2004. In September of the accounting year, the first Moldavian and Russian factoring company JV "Uralsib-Moldfactor" was registered.

The business relations between National Factoring Company and the associated JV are conducted on the three-way service basis with NFC being in charge of financing. Initially, the company specialized in export factoring: the turnover for the first few months since the start of operations exceeded 100 thousand dollars. In the near future, the company plans to increase its product range through introduction of such services as import and domestic factoring. The project implementation will draw on the success in creating the regional factoring network.



With a higher status achieved in the international market in 2004, NFC came closer to its main strategic goal, i.e. to become the best Eastern European factoring company and one of the leading factoring companies in the world.

NUMBER OF FACTORING ASSIGNED INVOICES (1999-2004)



⁸ East European Factoring Association was set up with the view of stimulating factoring development in the territory of the CIS and Eastern Europe countries and it unites the leading regional institutions, engaged in factoring (www.eefa.ru).



THE BIGGEST MONEY RETURN

In May 1994, Howard Jenkins (USA), a 31-year roofer found out that the sum of 88 mln US dollars was transferred to his account by mistake. Though he withdrew 4 mln honesty prevailed and he returned the rest of the sum in full.

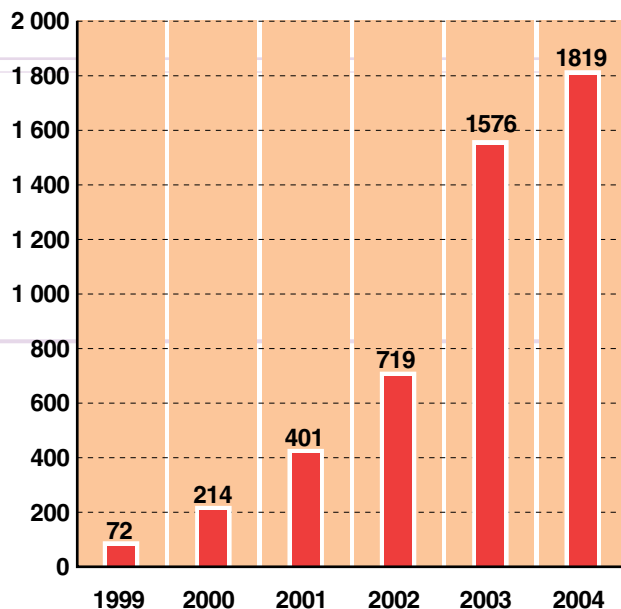
RECORD NUMBER

In 2004, the annual turnover per client amounted to 1,8 mln. US dollars, exceeding 25 times the results of 1999, when first clients turned to NIKoil IBG Bank for service.

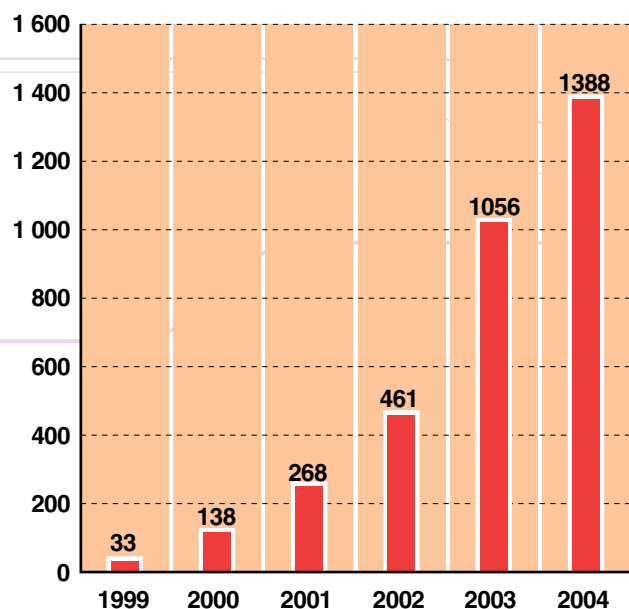
The increase in the turnover is largely explained by the fact that the clients' volume of sales went up after they started using our factoring service. Successful development of factoring is inseparable from the clients' business expansion: the income earned by a factoring company is directly linked to the turnover of its clients' companies. The average annual growth per client was 130% as against a similar indicator in 2003 and above four thousand percent compared with 1999.

In 2004, more than approximately 200 thousand invoices to 14,6 thousand debtors were financed.

**AVERAGE ANNUAL TURNOVER PER CLIENT
(THOUSAND USD)**



**AVERAGE ANNUAL FINANCING TURNOVER
PER CLIENT (THOUSAND USD)**



The growth in the turnover along with the increased number of clients is due to a marked improvement in the terms, we offer to our clients and the quality of service. While five years ago we could only deal on standard terms, in 2004, we introduced a customer-oriented service, which takes full account of the specific needs of each client.

In 2004, National Factoring Company offered better terms in the market as to the time of payment deferral, the beginning thereof and the volume of funds paid.

THE LARGEST LOCK

Sheyh Zabir Ikbal (Pakistan) has constructed the largest in the world working lock. The size of the key to the lock is 67,3 39,6 12,4 ., the lock weights 96,3 kg.



RECORD RELIABILITY

THE SYSTEM OF THE COMPANY'S RISK MANAGEMENT IS BASED ON THE FOLLOWING PRINCIPLES:

1. Identification of risks, incurred in the course of factoring service provision, with planned and extraordinary clients and debtors monitoring. With this view National Factoring Company carries out extraordinary checks of financial and shipping documents, made by the clients. In addition, every day control over payments is exercised by the automated programme module, which is part of the internal IT system.

The debtors monitoring suggests revision of the limits set for each debtor, after the fixed period of validity expires. When revising the limits, we take into account the clients advice, new up-dated information on debtors, as well as the adequacy of the limits set before.

Extraordinary checks imply every-day monitoring of payment discipline and suspension of financing in case of a recurrence of long delays in payments. All the information on receivables as well as the factor recommendations for the limits of deliveries allowed for each debtor is provided to the clients on a regular basis. Bad debts collection is carried out with due regard to the clients' advice.

2. New client risk rating. A package of client risk rating methods includes collecting and analyzing information on a prospective client and working out special conditions of factoring service.

3. Checking debtors, proposed as factoring service prospects and setting credit limits for them. Our company worked out the procedure of credit limits placing on the basis of international risk management practice used in the factoring industry.

Checking debtors standing is an integral part of the factoring product line, which National Factoring Company offers. The use of the company's research into risk management gives our clients an opportunity to increase several times the safety of on-going trade operations and to minimize risks, when the company enters new markets and takes on new clients.

With risk prevention mechanisms effectively combined, regularly updated and supplemented, the company managed to make its business highly reliable.

RECORD INNOVATIONS

A unique System of Automation of Factoring Operations (SAFO) forms a basis for factoring business of our company. The system was developed in 1999 and has been constantly improved ever since.

Apart from automation of major internal business processes the system serves as a basis for special programme modules, providing clients with all the necessary information.

- Initially, the information was provided to the client in the "off- line" mode by means of the "client's module". The periodic updating of the information at the client's end was agreed upon beforehand, and, as a rule, the updating took place not less than once a day through e-mail messages.

- In 2001, full information was already provided to the client on line. The "e-factoring" system was the first system of this kind, designed in Russia, which surpassed a number of similar foreign systems in terms of functioning and convenience.



The system user has immediate access to all available information, required for managerial decision making, irrespective of the time and place. The use of the information system makes it unnecessary for the client to have a special department for the receivables management or to keep additional software to serve this purpose. "e-factoring" is visual and simple in use.

THE SHORTEST INSTRUCTION FOR COMPUTER OPERATION

An instruction containing 6 pictures and 36 words is enclosed with PC "Apple iMac".

The importance of the SAFO for internal risk management is difficult to overestimate. The system provides all the necessary information to monitor payment and deferral procedures. The System also maintains the CRM⁹ module, as well as managerial accounting and coordination of operation of the 16 regional outlets



FIRST SOFTWARE

The first software was launched on 21st June 1948 on the machine "Baby". The programme included 17 commands and allowed to raise number 2 to the power 18.

In 2004, the experts of the IT Department of National Factoring Company started testing a new product of the company named "Electronic factoring". This product has no analogues in Russia. The introduction of the product will help to present factoring documentation in secured electronic form, to reduce drastically the time between the delivery of the goods and financing provision, as well as to save up means and time for regular delivery of the documents.

⁹ CRM (module)-Client Relationship Management.

Summing up the results of the National Factoring Company activity in 2004, it is necessary to note, that the year proved to be a turning point both for our company and for the Russian factoring industry as a whole. Since 1999, when national factoring business made a start, we believed that the factoring business will fully flourish, only if it is carried out by independent professional companies and if it is not influenced by universal commercial banks.

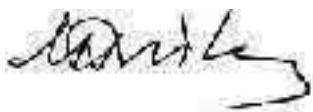
Our National Factoring Company is originally oriented to factoring and not to any other business. Our team, a priori, consists of like-minded professionals. No wonder all disputes and discussions revolve around the question as to how to make our service more convenient and accessible to the client. Starting of our independent activity in the market in 2004, we turned out to be more mobile and efficient than universal commercial banks, for whom factoring is only one service among many in their portfolio of services.

Using the possibility of developing this business, bearing in mind exclusive interests of factoring, and not competing with product line of the universal commercial banks, we have managed to become one of the most rapidly growing companies in Russia.

Focusing our attention on the development of non-financial services within the framework of factoring activity, including management of receivables, risk - management (cum. credit risk coverage) improving their quality to the utmost, we became aware of great demand for this service from potential clients. In 2004, we began offering such service as guarantee of receivables payment, which protects clients from exposure to bad debts. We plan to further develop this business, adding to our factoring product line new services, which are intended to contribute to the business growth and reduce the losses incurred by the clients.

It should be noted, that the year of 2004 saw a turnaround in the perception of factoring as exclusively non-collateral business. Financially sound companies, which have access to credit resources, form the bulk of our clients. The market realized that factoring should be treated as real mechanism to be used to boost demand. This can be explained by increase in financing along with higher volume of sales, finance provision after each delivery, as well as by the fact that there are no time limits for financing. The cumulative effect from factoring is stronger thanks to the non-financial services mentioned above. They are such services as risk management, information service and other services, unfamiliar to a common creditor.

In 2004, our company completed creation of factoring - a new industry of the national economy. Having acquired the status of the first independent factoring company in Russia, National Factoring Company made a giant step to leadership both in Eastern Europe and in the world. One may think that our goals are too ambitious, but our team is used to striving for and attaining fantastic results. The best proof of the right direction, in which we go, is the performance of the company during the first year of its independent professional activity.

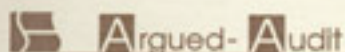


Mikhail Treyvish

**Chairman of the Board of Commercial bank
National Factoring Company "Uralsib- NIKoil"
(Limited Liability Company)
President of East European Factoring Association
Member of the Board of Directors of International Factors Group**

ENCLOSURE 1

REPORT OF THE INDEPENDENT AUDITORS



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125212, Moscow, Russia
Tel.: +7095 4520983
Fax: +7095 4520983
www.argued.ru

Report of the independent auditors

To the participants and the Council of Directors of Commercial Bank «National Factoring Company «Uralsib-NIKoil (Limited Liability Company)

We have audited the accompanying balance sheet of Commercial Bank «National Factoring Company «Uralsib-NIKoil (Limited Liability Company) (then "the Bank") as of 31 December 2004 and related statements of income, cash flows and changes in net assets attributable to participants, for the year then ended. These financial statements set out on pages 2 to 21 are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit includes examining, on test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statements presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Bank as of 31 December 2004, and of the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards

We draw attention to the Note 11 to financial statements that detail significant levels of transactions with companies controlled by the Bank's related parties.

A handwritten signature in blue ink that reads 'Argued-Audit'.

Moscow
30 June 2005

NFC "Uralsib-NIKoil" (LLC)
 FINANCIAL STATEMENTS AS OF 31 DECEMBER 2004 AND FOR THE YEAR THEN ENDED
 (thousand Russian Rubles)¹⁰

STATEMENT OF INCOME

		Starting activity to 31 December
	2004	2003
Interest and similar income on factoring operations	130 476	0
Interest and similar income on other activities	19 794	179
Interest and similar expense incurred with related parties	(8 611)	
Interest and similar expense incurred with non-related parties	(64)	
Net interest margin	141 595	179
Impairment loss on interest-earning assets	(81 741)	0
Net interest margin corrected to impairment loss on interest earning assets	59 854	179
Staff costs	(38 319)	(32)
Operating expenses	(18 198)	(13)
Profit before taxation	3 337	134
Taxation	(1 122)	(35)
Increase in net assets attributable to participants	2 215	99

¹⁰ The presented data doesn't include financial indicators, shown within Financial Corporation "Uralsib".

NFC "Uralsib-NIKoil" (LLC)
 FINANCIAL STATEMENTS AS OF 31 DECEMBER 2004 AND FOR THE YEAR THEN ENDED
 (thousand Russian Rubles)¹⁰

BALANCE SHEET

	as of 31 December	
	2004	2003
Assets:		
Cash and correspondent account with Central Bank of Russia	12 435	300 136
Mandatory reserves with Central Bank of Russia	55 251	-
Nostro accounts with banks - related parties	832 217	155 998
Factoring receivables, net	2 806 576	-
Other assets	17 425	-
Total assets	3 723 904	456 134
Liabilities:		
Funds attracted from related parties	2 193 732	-
Factoring liabilities	43 509	-
Other liabilities	28 349	35
Total liabilities	2 265 590	35
Net assets attributable to participants	1 458 314	456 099

¹⁰ The presented data doesn't include financial indicators, shown within Financial Corporation "Uralsib".

NFC "Uralsib-NIKoil" (LLC)
FINANCIAL STATEMENTS AS OF 31 DECEMBER 2004 AND FOR THE YEAR THEN ENDED
(thousand Russian Rubles)¹⁰

STATEMENT OF CHANGES IN NET ASSETS ATTRIBUTABLE TO PARTICIPANTS

	0
17 June 2003	456 000
Proceeds from participants	99
Increase in net assets attributable to participants	
	456 099
31 December 2003	1 000 000
Proceeds from participants	2 215
Increase in net assets attributable to participants	
	1 458 314
31 December 2004	

¹⁰ The presented data doesn't include financial indicators, shown within Financial Corporation "Uralsib".

NFC "Uralsib-NIKoil" (LLC)
 FINANCIAL STATEMENTS AS OF 31 DECEMBER 2004 AND FOR THE YEAR THEN ENDED
 (thousand Russian Rubles)¹⁰

CASH FLOW STATEMENT

	2004
Cash flows from operating activities	
Interest and similar income received	115 811
Interest and similar expenses paid	(4 930)
Staff costs paid	(30 224)
Operating expenses paid	(16 863)
Income taxes paid	(2 456)
Cash flows from operating profits before changes in operating assets and liabilities	61 338
Changes in operating assets and liabilities	
Increase in mandatory balances with Central Bank RF	(55 251)
Net increase in factoring receivables	(2 853 858)
Net increase in funds attracted from related parties	2 189 987
Net increase in factoring liabilities	43 509
Net changes in other assets and other liabilities	4 860
Cash inflows from operating activities	(609 415)
Cash flows from investment activity	
Purchase of equipment	(2 055)
Cash outflows from investing activities	(2 055)
Cash flows from financing activities	
Proceeds from participants	1 000 000
Exchange loss on cash and cash equivalents	(12)
Net increase in cash and cash equivalents	388 518
Cash and cash equivalents at 31 December 2003	456 134
Cash and cash equivalents at 31 December 2004	844 652

¹⁰ The presented data doesn't include financial indicators, shown within Financial Corporation "Uralsib".

REPORT OF INDEPENDENT AUDITORS



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REPORT OF INDEPENDENT AUDITORS

To the Participants and Board of Directors of Commercial Bank "National Factoring Company "Uralsib-NIKoil" (Limited Liability Company) –

We have audited the accompanying balance sheet of Commercial Bank "National Factoring Company "Uralsib-NIKoil" (Limited Liability Company) (the "Bank") as of June 30, 2005, and the related statements of income, changes in net assets attributable to participants, and cash flow for the six month period then ended. These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements for the year ended December 31, 2004, were audited by other auditors whose report dated June 30, 2005, included an explanatory paragraph with respect to significant transactions with related parties.

We conducted our audit in accordance with International Standards on Auditing. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Bank as of June 30, 2005, and the results of its operations and its cash flows for the six month period then ended in accordance with International Financial Reporting Standards.

Without qualifying our opinion, we draw attention to Note 15, which discloses significant transactions with related parties, in particular with regard to financing operations.

Ernst & Young Vnesheaudit

August 1, 2005

NFC "Uralsib-NIKoil" (LLC)
 FINANCIAL STATEMENTS AS OF 30 JUNE 2005
 (thousand Russian Rubles)

August 1, 2005
STATEMENTS OF INCOME

	Six months ended June 30,	
	2005	2004
Interest income		
Factoring	380,316	4,958
Loans	152	6,532
Due from credit institutions	34	819
	380,502	12,309
Interest expense		
Deposits	5,360	-
Due to credit institutions	23,195	-
Other	11	-
	28,566	-
Net interest income	351,936	12,309
Impairment of interest earning assets	110,088	19,057
Net interest income after impairment	241,848	(6,748)
Fee and commission income less expense	(223)	-
Translation gains less losses from foreign currency	(397)	1
Foreign exchange gains less losses	(9)	1
Other income	144	10
Non interest income (loss)	(485)	12
Salaries and employment benefits	59,332	1,249
Administrative and operating expenses	41,252	3,210
Depreciation	363	8
Non interest expense	100,947	4,467
Income (loss) before income tax expense	140,416	(11,203)
Income tax expense (benefit)	35,124	(2,074)
Net income (loss)	105,292	(9,129)

NFC "Uralsib-NIKoil" (LLC)
 FINANCIAL STATEMENTS AS OF 30 JUNE 2005
 (thousand Russian Rubles)

BALANCE SHEETS

	June 30, 2005	December 31, 2004
Assets		
Cash and cash equivalents	438,874	844,652
Obligatory reserve with the Central Bank of Russia	132,365	55,251
Factoring advances	3,462,047	2,806,576
Tax assets	13,137	12,564
Other assets	8,922	4,861
Total assets	4,055,345	3,723,904
Liabilities		
Amounts due to credit institutions	2,347,633	1,487,167
Settlements with clients on factoring	69,595	43,510
Time deposits of clients	46,579	705,553
Tax liabilities	14,080	11,230
Other liabilities	13,852	18,130
Total liabilities excluding net assets attributable to participants	2,491,739	2,265,590
Net assets attributable to participants		
Statutory fund	1,456,000	1,456,000
Retained earnings	107,606	2,314
Total net assets attributable to participants	1,563,606	1,458,314
Total liabilities	4,055,345	3,723,904
Financial commitments and contingencies	16,017	24,435

NFC "Uralsib-NIKoil" (LLC)
 FINANCIAL STATEMENTS AS OF 30 JUNE 2005
 (thousand Russian Rubles)

STATEMENTS OF CHANGES IN NET ASSETS ATTRIBUTABLE TO PARTICIPANTS

	Statutory fund	Retained earnings (accumulated deficit)	Net assets attributable to participants
December 31, 2003	456 000	99	456 099
Net income (loss)	-	(9 129)	(9 129)
June 30, 2004	456 000	(9 030)	446 970
Contribution from participants	1 000 000	-	1 000 000
Net income	-	11 344	11 344
December 31, 2004	1 456 000	2 314	1 458 314
Net income	-	105 292	105 292
June 30, 2005	1 456 000	107 606	1 563 606

NFC "Uralsib-NIKoil" (LLC)
 FINANCIAL STATEMENTS AS OF 30 JUNE 2005
 (thousand Russian Rubles)

CASH FLOW STATEMENTS

	Six months ended June 30,	
	2005 .	2004 .
Cash flows from operating activities		
Interest, fees and commissions received	359 657	9 870
Interest, fees and commissions paid	(29 432)	-
Realized gains less losses in foreign currencies	(9)	1
Other operating income	144	10
Salaries and employment benefits	(67 348)	(1 249)
Administrative and operating expenses	(40 109)	(2 664)
Cash flows from operating activities before changes in operating assets and liabilities	222 903	5 968
Net (increase) decrease in operating assets		
Obligatory reserve with the Central Bank of Russia	(77 114)	(4 506)
Factoring advances	(745 065)	(380 091)
Other assets	(2 917)	(842)
Net increase (decrease) in operating liabilities		
Amounts due to credit institutions	859 806	-
Settlements with clients on factoring	26 085	4 155
Time deposits of clients	(657 737)	-
Other liabilities	3 595	112
Net cash flows from operating activities before income taxes	(370 444)	(375 204)
Corporate income tax paid	(32 847)	(494)
Net cash flows from operating activities	(403 291)	(375 698)
Cash flows from investing activities		
Purchases of property and equipment	(1 487)	(935)
Net cash flows from investing activities	(1 487)	(935)
Cash flows from financing activities		
Debt securities issued	(1 000)	-
Net cash flows from financing activities	(1 000)	-
Net change in cash and cash equivalents	(405 778)	(376 633)
Cash and cash equivalents, beginning	844 652	456 134
Cash and cash equivalents, ending	438 874	79 501

DETAILS

Commercial bank
National Factoring Company
(Limited Liability Company)

NFC "Uralsib-NIKoil" (LLC)

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Correspondent account 30101810300000000736

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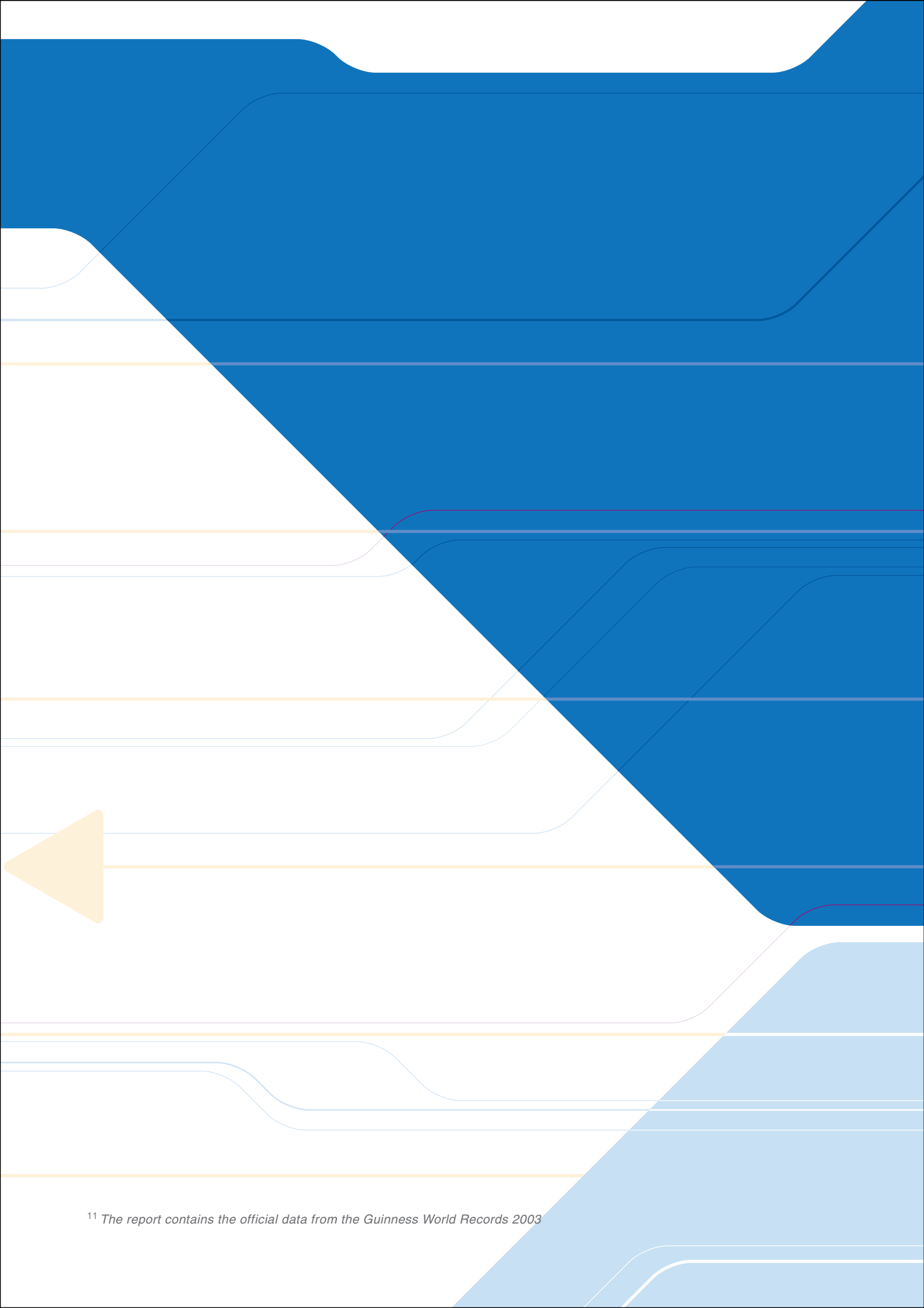
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¹¹ The report contains the official data from the Guinness World Records 2003



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