P R E S S R E L E A S E

Bucharest, 2nd September 2015

57% DECREASE OF ROMANIAN INSOLVENCIES IN THE FIRST HALF OF 2015

- **Textiles, Construction and HORECA represent the insolvencies podium**
- **The territorial distribution shows decreases in all regions**
- **Top 5 critical mistakes in investment & cash flow management**

Coface Romania conducted a new study on the Romanian insolvencies' evolution, taking into consideration the newly opened cases registered within the Bulletin of Insolvency Proceedings for January - June 2015.

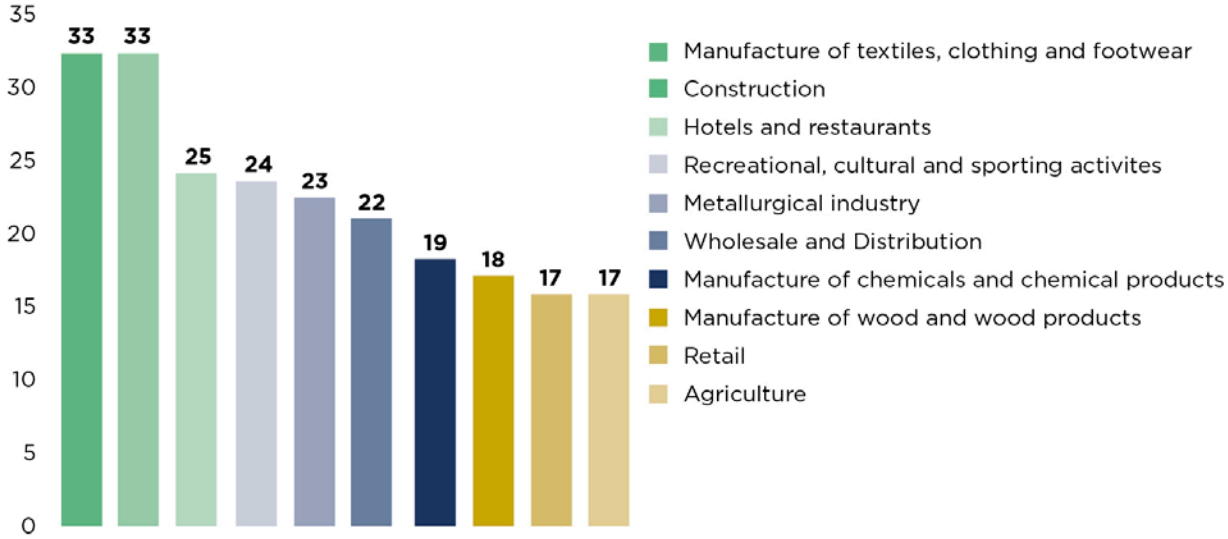
Coface's analysis indicates that during the first semester of this year 5,524 new insolvencies were registered, down by 57% compared to the same period of 2014 when 12.862 new insolvencies were opened.

Textiles, Construction and HORECA represent the insolvencies podium

Considering the sectoral distribution, we noticed a surprise of the first position represented by Manufacture of textile products, clothing & footwear. Constructions, HORECA, Recreational, cultural & sports activities and Metallurgy remain in top five sectors with the highest level of insolvencies reported at 1,000 active companies.

The top 10 sectors that registered the highest value for this indicator are listed in the chart below.

TOP 10 INSOLVENCY CASES BY INDUSTRY SECTOR FOR THE 1ST SEMESTER OF 2015 - EXPRESSED AT 1,000 ACTIVE ENTERPRISES



Source: IBP, MPF, Data analyzed by Coface

Despite the strong decrease of the insolvencies, the contraction is relevant only statistically, because the propagated negative impact within the economy is greater. Thus:

- Approximately 98% of the contraction is due to the decrease of the insolvencies within companies with turnover below EUR 100 K. At the same time, the decrease is also due to a significant basic effect (compared to a historical record registered in the previous year).
- Romania continues to register insolvencies expressed at 1,000 active companies four times higher than the average registered at regional level, with 45 insolvencies per 1,000 active companies, holding the leading position from this point of view. At the same time, the number of insolvency proceedings initiated in the first six months of the current year by companies with a turnover above EUR 1 M is 329, a level similar to 2014 figures.
- Thus, although the number of newly initiated insolvencies in the first half of the current year halved, the financial impact generated within the economy (estimated based on the value of debts not covered by assets) is +163% higher, and the social impact (estimated by the number of jobs that might be lost) is +9% higher.

The territorial distribution shows decreases in all regions

The territorial distribution of cases of insolvency in the first half of 2015 has undergone significant changes with the situation in the same period last year. The number of insolvencies declined in the analyzed period in all areas of the country. The element of surprise is the number of insolvencies in Bucharest, which drops by -49%. The first position is occupied by the NW, with a decrease of -52%.

Top 5 critical mistakes in investment & cash flow management

For the first time within Insolvency Study, Coface analyzed top most important five mistakes concerning the investment and cash flow management, which determined the insolvencies rate.

By analyzing the detailed financial statements of the companies that became insolvent in the first six months of the current year, we noticed:

1. The defective working capital
   - Almost six companies out of ten used short-term available resources in order to finance long-term investments, and two thirds of the remaining four companies registered a pace of expenditure conversion into payments faster than the pace of revenues collection.
2. The low quality of revenues
   - Four out of ten insolvent companies registered significant profits, but more than two thirds registered an extremely bad situation of available liquidities.
3. The insufficient operational return for the cost of contracted debts
   - Four out of ten insolvent companies registered operational profit, but their level was only sufficient to strictly cover the costs with interests related to contracted debts.
4. Inefficient investments
   - Almost half of the companies which became insolvent in the first 6 months of the current year registered significant investments, but more than two thirds

reported decreasing revenues or profits.

5. Rate of investments lower than the financing cost of loans contracted in order to support such investments.

"*By analyzing the insolvencies evolution, we noticed an unprecedented paradox in Romania: although the number of insolvency proceedings opened in the first half of this year halved, compared to the same period of last year, the financial impact propagated within the economy is +163% higher and the number of jobs that might be lost is +9% higher. Thus, we can say that the record insolvencies decrease remains at a statistical level and has no connection with the evolution of private companies' payment behavior, given that the latter deteriorates. The value of the payment instruments not covered increased by 62% in the first half of the year, while their mean value is RON 132 K, almost ten times higher than the level registered before the crisis of RON 14 K, in 2008*.", concluded Iancu Guda, Services Director & Senior Economist, Coface Romania.

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About Coface

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