The Coface Economic Publication

panorama

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Automotive and equipment industry in Romania

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1. FOREWORD

Coface Romania continues the series of studies dedicated to the most important sectors of the Romanian economy with the presentation of the automotive and equipment industry, an area characterized not only by the significant impact that it currently has in the economy, but also the opportunities that might be offered, as will be seen from the analysis of the financial and legal situation and commercial risk of the companies operating in this sector.

According to the financial statements published by the Ministry of Finance, 5,471 companies considered active at the end of 2011 operated in the automotive and equipment[1] industry and generated a total turnover of 66 BEUR and 255,032 jobs, with a share of over 6.5% in turnover and number of employees, in relation to the entire economy.

2. SUMMARY

The analysis of the aggregate financial indicators positioned companies that operate within automotive and equipment industry as a true model to counter the financial crisis effects through an efficient business management; the main trends observed (sector-wide) are:

- A positive situation of the sector, indicated by an increase in turnover (20%) and number of employees (7%) in 2011 compared to the previous year is confirmed by the evolution of the company's profitability, which is a major strength of this industry and one of the elements that have contributed to improve its financial position during the period.

- After 2 consecutive years in which there were net losses that reached 550 MRON at the end of 2009, companies succeeded in 2010 a true revival by getting a positive net profit of 881 MRON. Thus, 2011 marks the strengthen of this evolution through a spectacular growth in net profit (61.5%), up to 1.42 BRON.

- These developments are all noticeable. Due to the detailed analysis of turnover and profit, we can see that sector-wide outstanding results were obtained by the contribution of all-size companies, that operate in all 5 divisions of activity considered.

- The growth of 11.15 BEUR in turnover in 2011 compared to 2010 was possible due to small and medium enterprises (1.36 BRON cumulative growth). We are also observing that business in 2011 was profitable in all the 5 divisions of the sector, which registered a cumulative net profit between 6% (33 Division) and 30% (29 Division).

- The perspective of receivables' evolution related to changes in turnover (detailed in the 5th section of the study), indicates that 55% of active companies within automotive and equipment industry presented a low or medium risk of insolvency, 31% registered risk increasing and only 14% are facing high risks. A similar distribution was registered at the risk level of the firms analyzed individually by Coface in 2012.

- The positive and constant evolution of the most important 100 companies of the sector in 2012 (cumulative increase of over 6% of the turnover on 31.12.2012) creates grounds for future developments of the entire sector.

[1]Represented by merging the sectors with the following NACE divisions: 27, 28, 29, 30, 33

The favorable positioning of the sector in terms of financial position could be partially affected by the recent trends observed in payment behavior of companies, as results from the evaluation of payment discipline[2] in the 6th section of the study:

- 14% of the companies in the sector registered overdue debts at March 31, 2013 state budgets. Mean outstanding debt per company in the sector (963 KRON, up 50% from year-end 2012) is significantly influenced by the top 5 largest companies' debt outstanding (top 5 debtors) which generates no less than 51% of the total debt.

- Correlating this evolution of debt average with 35% reduction in the number of companies that have overdue debts from 31.03.2013 to 31.12.2012, we can draw the main trend in the sector: while most taxpayers (86%) pay their debts on time, what amplifies the problems of repaying the state budget's debts is the large taxpayers recognized as debtors who continue to accumulate receivables and deteriorate the situation of the entire sector.

- Reducing the number of companies with payment delays due to increased average value of debts to the state budget is in line with the general trend of the market, given that the Coface's studies published in 2013 mentioned an increased incidence of liquidity problems among medium and large companies.

- The analysis of the number of payment incidents within debt instruments in 2006 - 2013 indicates the existence of two difficult moments in terms of companies' payment discipline: in 2006 (when there was registered a maximum number of incidents in the sector - over 1,000) and in 2009 (when the financial crisis caused a tripling of the incidents' number over the previous year); the magnitude of these two "shocks" reduced gradually over the next two years (respectively 2007 - 2008 and 2010 - 2011).

- The recent evolution (2012 and H1 2013) shows a new trend of deterioration in the sector's payment behavior and the most worrying aspect is that during the first half of 2013, there were registered 411 payment incidents. A similar trend in the second half of the year would lead to a new and even more difficult time when the annual number of incidents registered in 2009 could be exceeded due to the financial crisis.

Analyzing the legal situation of the companies in terms of commercial litigation (court trials) and the impact of their insolvencies, highlighted in the 7th section of the study, we noticed:

- At the end of the first half of 2013 1,412 firms (26% of total) were involved as debtors in different cases regarding: insolvency, payment summoning or payment ordinance, 281 of which are registered in court in more than five such cases.

- The acceptance rate of insolvency applications within the court, filed against companies in this sector increased up to 20%.

- The automotive and equipment industry shall not be placed among the first sectors in terms of insolvencies, due to its 15th ranking in the top 23 sectors with a numerical share below 1% in the total number of insolvencies registered nationwide (in line with the numerical share of firms operating in this sector compared to all Romanian active companies).

- The financial indicators of the insolvent companies in this sector values are much weaker than those calculated for all the insolvent firms in Romania, which shows that if this industry the insolvency proceeding has

[2]Based on the analysis of unpaid debts to the state budget and verifying CIP payment incidents

largely fulfilled its role of "selection" between companies from an economic and financial point of view. These facts predominantly affected the companies that faced serious imbalances amid financial mismanagement and affected less the firms that showed only a high sensitivity due to internal and external shocks.

3. OVERVIEW OF AUTOMOTIVE AND EQUIPMENT INDUSTRY

In order to describe the automotive and equipment industry, we took into consideration only the active companies[3] and we have merged the sector with the following NACE divisions:

- 27 - Manufacture of electrical equipment;
- 28 - Manufacture of machinery and equipment;
- 29 - Manufacture of motor vehicles, trailers and semi-trailers;
- 30 - Manufacture of other transport equipment;
- 33 - Repair and installation of machinery and equipment.

Based on these divisions it resulted a total universe of 5,471 companies in this sector, classified by size as follows in the table below.

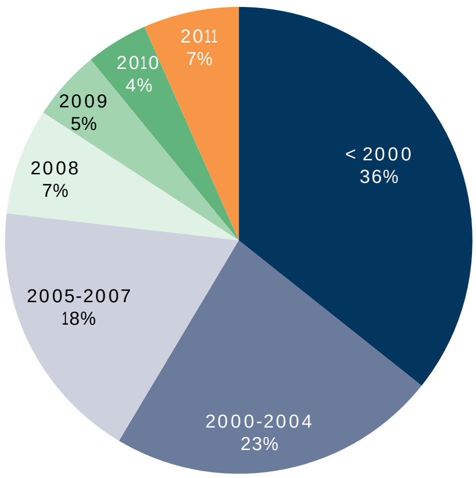
Although the majority share in the micro-enterprises segment is obvious (73.22%), the correlation of this data with the results of previous studies conducted by Coface Romania[4] and dedicated to micro-enterprises indicates that the automotive and equipment industry does not belong to the favorite areas of this companies' segment, which registered a superior share (89.79%) regarding the total number of firms nationwide vs. sector-wide.

Size class	No. of companies	Share in the total no. of companies	Criteria for classification
Micro-enterprises	4.006	73,22%	Up to 9 employees, turnover or total assets under 2 MEUR
Small enterprises	934	17,07%	10 - 49 employees, turnover or total assets under 10 MEUR
Middle enterprises	353	6,45%	50 - 249 employees, turnover under 50 MEUR or total assets under 43 MEUR
Large enterprises	129	2,36%	250 - 999 employees
Very large enterprises	49	0,90%	Over 1.000 employees
TOTAL	**5.471**	**100%**	

[3]By submitting their financial statements for 2011 within Ministry of Finance

[4]"Study on Romanian micro-enterprises", analysis conducted by Coface Romania in March 2013

Numerical distribution of the firms by founding year



Based on the numerical distribution of active firms within the industry of automotive and equipment by founding year, we appreciate that this market sector is undoubtedly a sweep one. 59% of the companies were founded before 2005 and therefore have more than 8 years' experience in their field. These companies have also the most important economic and social role in the whole industry, because they generate:

- 84% of the jobs in the sector;
- 85% of the sectoral turnover and total assets;
- 81% of the receivables total value and 82% of the total debts;
- Over 89% of the total equity.

4. MARKET STRUCTURE AND SECTORAL REPRESENTATIVE INDICATORS

Using financial data published by the Ministry of Finance, Coface Romania calculated the structure and the key financial performance indicators regarding all the Romanian companies that submitted their annual financial statements. Other factors involved in the analysis were: criteria aggregation within the industry, companies' size class, founding year etc.

The analysis of financial indicators within the recent companies' activity from the automotive and equipment industry gives us important information about the status and position of this sector within the entire Romanian economy:

- The number of active companies in the sector stabilized in 2010 - 2011, but 2011 registered a minor decrease of only 1.49% compare to 2010 and a reduction of 11.44%, which was 7 times higher compared to 2008.
- 25% of the companies considered active at the end of 2011 (1,359 compared to the total no. of 5,471 companies) is no longer economically relevant (the turnover was declared as 0). Thus, the sector registered a 4% reduction of the active companies compared to 2010.
- The total turnover generated by the companies in this sector in 2011 amounted 66.07 BRON, with 20% more compared to 2010, which corresponds to a share of 6.58% within the total turnover generated in 2011 by all the Romanian active companies.
- Although, in absolute terms, the increase in turnover of 11.15 BEUR in 2011 compared to 2010, was mostly generated by the companies with a turnover of 100 MEUR (which succeeded a cumulative growth in turnover of 9.91 BRON), we should notice the contribution of small and medium sized companies in the positive evolution of this industry (+0.54 BRON, and respectively +0.82 BRON). The only segment of companies that has experienced lower turnover is the one with a turnover between 50 - 100 MEUR (which registered an aggregate reduction of 0.12 BRON).
- At the end of 2011, there were declared 255,032 employees within the automotive and equipment industry (6.56% of the 3.89

million employees declared within the entire economy), a 7% increase compared to the number of existing employees at the end of the previous year (238,980 employees).

- The positive evolution of the automotive and equipment sector indicated by an increase in turnover and number of employees is strengthened by the analysis of profitability over the last four years, which positions the industry as a true model to counteract the financial crisis by an effective risk management.

- Thus, after 2 consecutive years in which there were net losses that had reached 550 MRON at the end of 2009, the companies in the sector have succeeded in 2010 a real turnaround in terms of profitability by getting a net positive result of 881 MRON, as 2011 marks the consolidation of these positive developments through a spectacular growth in net profit (61.5%), up to 1.42 BRON.

- This trend is especially notable due to the analysis of net profit at the end of 2011 (fiscal year) and can be seen within all five business divisions, which remarkably contributed to this result, being profitable and registering a cumulative net profit between 6% (33 Division 33) and 30% (29 Division).

- The distribution of the number of companies (based on the detailed categories) indicates a majority share of those with a turnover below 500 KEUR (82.27% for the sector). This distribution is mainly determined by the low caliber of active companies within 33 Division, while for three of the other divisions (27, 28 and 29), the percentage of firms with turnover below the threshold is below the sectoral average.

Turnover category	27 Division	28 Division	29 Division	30 Division	33 Division	TOTAL SECTOR	
						No. of companies	Share in total
No activity	22,93%	24,06%	21,22%	32,24%	24,89%	1,359	24,84%
0 - 100 KEUR	30,80%	35,61%	28,78%	32,06%	54,33%	2,255	41,22%
100 - 500 KEUR	18,09%	18,06%	14,29%	18,72%	13,96%	887	16,21%
500 - 1000 KEUR	8,01%	7,40%	5,31%	4,85%	3,08%	293	5,36%
1 - 5 MEUR	12,98%	10,15%	13,67%	6,41%	2,79%	416	7,60%
5 - 10 MEUR	2,21%	2,43%	3,47%	1,21%	0,28%	84	1,54%
10 - 50 MEUR	3,45%	1,79%	7,96%	3,81%	0,66%	128	2,34%
50 - 100 MEUR	0,55%	0,38%	2,04%	0,35%	0,00%	22	0,40%
Over 100 MEUR	0,97%	0,13%	3,27%	0,35%	0,00%	27	0,49%
TOTAL	100%	100%	100%	100%	100%	5.471	100%

Using the Herfindahl-Hirschman[5] index for assessing the level of market concentration within the 5 divisions of the automotive and equipment industry, we noticed:

- Two divisions that operate in the manufacture of transport equipment (29 and 30) show the largest index of market concentration in the sector (and correspond to the moderate level of concentration in the market). This is somehow predictable, because in these areas activate the leading companies in terms of turnover that generate impressive market shares.

- These two divisions have experienced a different pattern, but the level of market concentration, for example in the 29 Division registered in 2010 a maximum of the HH index (within the limit transition to a market with a high concentration level), which then reduced based on companies' development activities that have managed to offset the influence of the main players on the market. Meanwhile, 30 Division of the HH index permanent increases in 2008 - 2011, due to the permanent strengthening of the position of the most important companies.

- The level of concentration of markets for electrical equipment (Division 27) and automotive and equipment with general or specific destinations (Division 28) remains low (although HH indices have similar values in the two areas mainly increasing values registered during 2008 - 2011), which is explained by the wide range of products made in these industries and the higher number of major players on the market.

- The lowest level of concentration in the sector, the strong decrease from the previous year, is found in the division 33 (Repair and installation of automotive and equipment), indicating a market with a high level of competition in the context of corporate absence of very largest in this field (none of the companies operating in this division is not listed in the top 50 companies in the sector by turnover).

Market concentration indicator (HHI)	2011	2010	2009	2008	Market concentration degree
27 Division	421	371	347	333	Concentration level LOW
28 Division	376	408	279	218	Concentration level LOW
29 Division	1.374	1.742	1.595	1.489	Concentration level MODERATE
30 Division	1.123	1.033	684	647	Concentration level MODERATE
33 Division	191	550	517	450	Concentration level LOW

[5] $HHI = \sum_{k=1}^{n} (MS_k * 100)^2$;
$where\ MS_k\ represent\ the\ market\ share\ held\ by\ the\ company\ K.$

HHI Index must be explained as follows:
- Values below 1.000 indicates a market with a low concentration level;
- Values between 1.000 and 1.800 indicates a market with a moderate concentration level
- Values over 1.800 indicates a market with a high concentration level;

5. FINANCIAL SITUATION OF THE COMPANIES IN THE SECTOR

The main issues arising from the analysis of financial ratios of each of the five divisions of activity included in the automotive and equipment industry is high homogeneity of the aggregate financial position of these divisions, few differences appear only point to indicators:

- All the five divisions registered a moderate gearing (below 70%) and adequate capitalization. Only companies in the manufacture of other transport equipment (Division 30) have a share of debt in total assets higher than the average sectoral and respective capitalization below 30%.
- Indicators of companies in the electrical equipment (division 27) registered the best values in the industry in terms of low level of debt and adequate capitalization is noticeable also concern these companies to maintain a good level of profitability (over 3%) and timely collection of receivables.
- The average length Receivable (DSO) is unsatisfactory values if activity divisions 28 and 30 (100 days), while very high value (147 days) of this indicator is an important risk factor for stability financial companies performing maintenance and installation of automotive and equipment (division 33), especially in the context of their reduced size (turnover averaged just 1.13 MRON). In a largely indirect DSO is correlated with firm size, being somewhat a result of their bargaining power.
- Profitability (calculated as net profit share in total turnover) is a major strength of this industry and one of the elements that have contributed to improving the financial position of the sector in 2010 - 2011, contributed to this positive situation all five fields, one of which is distinguished division 30 which registered a net profit rate of over 4%.
- As will be seen later in the study, while positions related to the CPP analyzed companies registered a very good trend, the balance hide some challenges that may increase, especially in terms of liquidity and funding structure.

Indicator	Sector A-E 2011	Sector A-E 2010
Indebtedness rate	59,20%	58,73%
Capitalization rate	37,14%	38,22%
Net profit rate	2,15%	1,60%
DSO (days)	77	84

Activity division	No. of companies	Average turnover	Indebtedness rate	Capitalization rate	Net profit rate	DSO	Average employees no.
27 Division	724	14.886.601	53,83%	43,32%	3,27%	90	51
28 Division	1.567	6.205.656	55,66%	41,38%	3,36%	111	34
29 Division	490	76.430.443	58,63%	37,47%	1,13%	53	230
30 Division	577	9.940.760	69,47%	26,21%	4,11%	123	55
33 Division	2.113	1.128.764	59,81%	35,18%	3,51%	147	10
TOTAL	5.471	12.077.129	59,20%	37,14%	2,15%	77	47

Positive situation profitability indicators of the sector in the 2010 - 2011 period can be observed from the analysis of the results obtained by companies that submitted financial statements for both years (4,757 firms), from this point of view standing out the following trends:

- Migration sections of profitability: the percentage of firms that incurred losses in 2010 and passed tax in 2011 (11.25% of total) is higher than that of firms that profit in 2010 and passed the loss in 2011 (9.48%).

- The effect of improving financial performance is registered not only in terms of number of companies, but also the size of firms, size companies that have passed tax (10.08 MRON) is much higher than that registered firms loss (4.17 MRON).

- Polarization in terms of profitability by grouping the two categories of firms "usual losers" and “usual winners” so that 41% of profitable companies in 2011 were able to achieve increases of over 100% of profit from 2010, while for 38% of companies with losses in 2011, the value of those losses was at least double the previous year.

- Increased consistency across the sector net profit registered in 2011 compared to 2010 is generated almost exclusively by these companies 'common profit". Only 28% of firms with losses at the end of 2010 managed to return to profit in 2011, while 57% continued to have losses, and 15% were relevant economic activities conducted during 2011.

- Increase by 34% the rate of net profit (net profit / turnover) in 2011 compared to 2010 was due not only to an increase in turnover (+20%), but also business efficiency through careful management of expenses who grew up in a lower rate of income obtained during this period (-6%).

Profit / Loss 2010	Profit / Loss 2011				
	No. of companies	Loss	Profit	Zero/ No activity	Total
	Loss	22,72%	11,25%	5,80%	39,77%
	Profit	9,48%	41,79%	0,92%	52,20%
	Zero/ No activity	0,71%	0,34%	6,98%	8,03%
	Total	32,92%	53,37%	13,71%	100,00%

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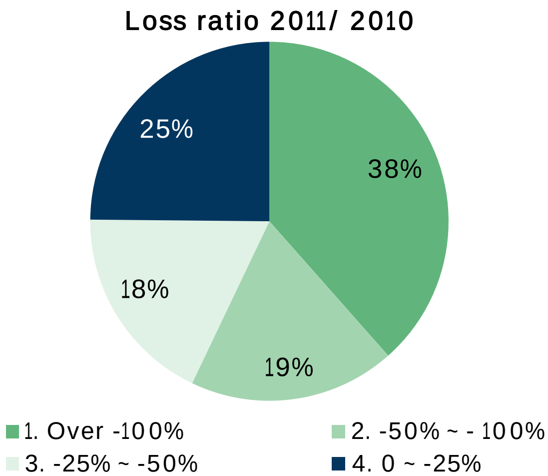
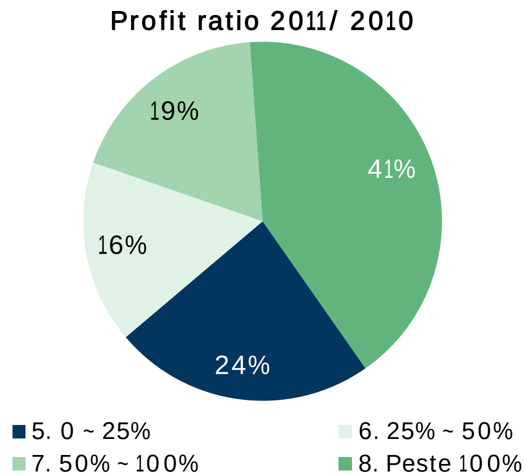




Another tool for evaluating financial performance and corporate management is the analysis of how they manage commercial credit risk.

Due to the impact it may have on the financial situation and even to retain the business, as proper management of the commercial credit risk should represent one of the major priorities of any company, especially in the post-crisis when financial soundness many business partners suffers.

	Turnover decrease	Turnover increase
Debts decrease	**III rd Quadrant - Medium to high risk** ▪ 31% of total analyzed companies ▪ Average turnover of 2,7 MRON ▪ Average elasticity of 1,05 ▪ DSO of 138 days ▪ Indebtedness rate in turnover of 91% ▪ Net profit rate of 3,84% ▪ Indebtedness rate of 63%	**I st Quadrant - Low risk** ▪ 22% of total analyzed companies ▪ Average turnover of 13,7 MRON ▪ Average elasticity of -1,03 ▪ DSO of 77 days ▪ Indebtedness rate in turnover of 208% ▪ Net profit rate of 4,55% ▪ Indebtedness rate of 49%
Debts increase	**IV th Quadrant - High risk** ▪ 14% of total analyzed companies ▪ Average turnover of 4,9 MRON ▪ Average elasticity of -1,18 ▪ DSO of 194 days ▪ Indebtedness rate in turnover of 98% ▪ Net profit rate of 2,43% ▪ Indebtedness rate of 57%	**II nd Quadrant - Medium risk** ▪ 33% of total analyzed companies ▪ Average turnover of 30,6 MRON ▪ Average elasticity of 1,32 ▪ DSO of 125 days ▪ Indebtedness rate in turnover of 226% ▪ Net profit rate of 2,89% ▪ Indebtedness rate of 60%

Assessing how firms in automotive and equipment industry have given commercial credit risk in difficult economic conditions of the last year was made by analyzing variation claims as a result of the change in turnover, given the same time and the evolution of the average receivable for companies in the sector and for all active firms nationwide.

From this analysis were eliminated companies that have been seen in turnover or claims outside the range of variation (-500%, 500%), mainly due to base effect. Also were considered only companies that have developed effective activity (turnover greater than zero) and elasticity's rates[6] were calculated for the period 2010 - 2011, based on financial statements submitted to the Ministry of Finance.

The results were summarized in the four quadrants of the table:

- Companies in quadrant I and IV showed a negative elasticity of claims against the change in turnover (the two variables have evolved in opposite directions).
- Companies in quadrant II and III showed a positive elasticity of claims against the change in turnover (the two variables have evolved in the same direction).

It distinguishes four categories of companies in terms of how they manage the credit risk management in 2010 - 2011:

- **Companies from the Ist[7] quadrant -** shows the lowest level of risk, due to good management of commercial credit risk, which ensure a good pace of collection of trade receivables (mean duration 77 days). Amid increasing turnover, these companies have succeeded to reduce its debts, recording an elasticity of -1.03 (turnover increase by 1%, claims fell by 1.03%). Positive situation of the companies grouped in this quadrant is confirmed by the values of good financial performance indicators, so that these companies can cover their debts by turnover at a rate of 208%, had the lowest level of indebtedness (49%) and the highest rate of net profit (4.55% of turnover).
- **Companies from the IInd quadrant -** have a medium risk level, a focus on commercial development and maximizing turnover, as also confirmed by the high caliber of these companies (turnover averaged over 30 MRON). Support sales by assuming a greater degree of risk in the management of trade credit policy is reflected in faster growth of receivables due to increased turnover, elasticity is 1.32 (turnover increase by 1%, claims increased by 1.32%). Although risky, this development policy has proved successful over the period analyzed, allowing companies in this quadrant maintaining a very good level of debt coverage (226%) and a low level of indebtedness (60%), the main threat from the relatively high receivable (125 days).
- **Companies from the IIIrd quadrant** - have a medium to high level of risk, due to lower sales amid the absence of appropriate policies for credit risk management and an overly cautious approach to the market. In the context of declining turnover, these companies have been able to reduce their debts faster, recording an elasticity of 1.05 (lower turnover by 1%, claims fell by 1.05%). Reduced caliber of the companies grouped in this quadrant but make them vulnerable to less favorable economic situation, the main risks are determined by the long duration of collection of receivables (138 days) and the inability to cover the debts by turnover.

[6]Changes in debts value (percentage increase) due to the change in turnover by 1 percentage point

[7]Due to strong individual influence on aggregate indicators, we excluded the first two largest companies in relation to their net profits/ losses

- **Companies from the IVth quadrant** - shows a high level of risk because of poor management of commercial credit risk. Amid declining turnover, these companies have registered claims increasing the elasticity of -1.18 (lower turnover by 1%, receivables increased by 1.18%). Because of this evolution, the average debt collection is 194 days, this level slightly higher than that registered in the first three quadrants Group companies are likely to affect their future financial equilibrium irreversibly, given that these companies are unable to cover its debts by turnover.

Numerical weights of firms in the four quadrants indicate approximately balanced distribution in terms of credit risk management, so that 55% of active companies in automotive and equipment industry shows a low or medium risk of insolvency, 31% risk register growing and only 14% faced high risk.

Encouraging for the situation of the sector and its future prospects and distribution of turnover is generated by companies analyzed, no less than 90% of this (36 of 40 BRON) is generated by firms in quadrants I and II (the low-risk and environment), while high-risk firms (quadrant IV) account for only 5% (2 BRON) in total.

Top Players Analysis

In order to complete the picture of the financial situation of the automotive & equipment sector, this section aims to analyze detailed financial indicators of the leading 100 companies in the industry (sorted by turnover in 2011).

Although, from a numerical point of view, these 100 companies accounted for only 1.8% of the total number of firms, but their economic and social impact is major due to their high share in the patrimonial structure and significant influence on the sector financial results.

Taking into account the data from the most recent financial statements of these companies (31.12.2012)[8] we can draw several important directions of evolution as follows:

- Aggregate turnover of the largest 100 companies in the industrial sector increased last year by 6% to 52.9 BRON, there are therefore prerequisites for storage sector development tendency manifested in previous years.
- The increase in turnover was achieved in terms of slower growth in the number of employees (+2.5%), confirming the concern of leading companies to improve productivity by adopting the latest industrial technologies.
- Although the first 10 players there were no dramatic changes (only two companies made it into the Top 10, while in the previous year had occupied positions in the top 20), is referred to this in the top 100 by turnover in 2012 a total of 15 companies that are not among the top 100 players in relation to their turnover in 2011, confirming both dynamic aspect sector and development opportunities existing.

[8]Published by MFP in July 2013

Indicator	Top 100 aggregated value	Top 100 share in total sector
FIXED ASSETS - TOTAL	17.567.944.452	58,77%
CURRENT ASSETS - TOTAL	17.717.853.817	61,82%
STOCKS - Total	4.821.516.958	57,33%
LIABILITIES - Total	8.287.359.767	58,70%
CASH AND BANK ACCOUNTSI	4.131.991.213	76,46%
Total assets	35.382.448.024	60,16%
WORKING CAPITAL	8.408.057.375	63,92%
Total expenses	21.593.725.170	62,02%
EQUITY - TOTAL	12.496.689.146	57,21%
Net turnover	49.645.820.904	75,14%
TOTAL REVENUES	52.403.121.628	74,22%
TOTAL LIABILITIES	51.136.435.508	74,54%
Net profit	890.078.665	62,54%
Number of employees	133.069	52,18%

Detailed financial analysis of indicators and their evolution over the past five years in the representative sample that forms the core of this industry automotive and equipment allows the following conclusions:

- Increased economic activity the most representative companies resulted in an additional necessary capital has been blocked in inventories and receivables, which have helped boost sales.

- In contrast, much of the additional debt incurred in the short term and was directed to support of investments in fixed assets. This financing decision does not respect the principle of financing maturity, which implies that permanent allocations must be financed through permanent resources. This is one of the main reasons that caused the significant increase in working capital deficit of -395 MRON to -3.2 BRON.

- Orientation of the sample companies to short-term financing is also confirmed by the constant high (at around 80%) that have short-term debt in total debt. This can be beneficial in terms of cost of financing (risk premium is directly proportional to the maturity of banks' exposure), but can be problematic in terms of appropriate liquidity, especially when they are used to cover long-term needs.

- Efficiency of the largest players of this industry may influence the profitability indicators sectoral situation, which has a major share in both the severe losses registered by the sector in 2008 - 2009, and in return spectacular profits from 2010 to 2011.

- The gross structure of the largest companies between 2008 - 2012 shows that problems occurred were not operational nature (operating result was positive throughout the period) but were generated exclusively by significant financial losses have decreased or even canceled positive results obtained from the basic activity, amid increasing marginal borrowing and orientation maturity of short-term financing which puts pressure on debt service.

- The average length Receivable remained low throughout the period and is below the industry average, which shows the application of effective policies these companies' trade receivables management and disposal of additional pressure on liquidity.

- Companies but do not show the same promptness and in terms of obligations to pay third parties, the average payment of debts registered very high (up to 5 months).

- Thus, these companies optimize their conversion cycle of money, but supported by extending deadlines for making payments. Despite this liquidity pressures are evident, given that the share of short-term debt in total debt grew in 2012.

- Also, amid persistent liquidity pressures, there are some signs of a poor quality of earnings. The annual growth rate of claims is two times faster than the advance turnover, which may indicate that the expansion of the monetary base has representative companies increasingly precarious.

Indicator	2012	2011	2010	2009	2008
Indebtedness rate	64,40%	61,03%	61,46%	59,80%	62,37%
Capitalization rate	32,44%	35,32%	35,41%	37,07%	34,95%
Working capital (WC)[9]	-3.253.990.412	-395.551.499	408.905.480	-1.205.692.638	-748.460.812
WC / Fixed Assets	-16,05%	-2,25%	2,73%	-8,31%	-5,76%
Necessary working capital[10]	-6.120.872.651	-3.809.144.638	-3.075.092.473	-3.123.600.561	-2.622.554.690
Net cash[11]	2.866.882.239	3.413.593.139	3.483.997.953	1.917.907.923	1.874.093.878
LTL[12]/Total Liabilities	82,81%	78,35%	78,16%	81,33%	79,84%
Current liquidity[13]	0,90	1,05	1,09	0,97	0,99
Immediate liquidity[14]	0,64	0,76	0,78	0,66	0,58
Net profit rate	0,83%	1,79%	2,29%	-1,32%	-2,02%
Operating profit share[15]	1,67	1,42	1,48	-3,23	-1,42
Operating profit rate[16]	2,58%	3,62%	4,35%	1,98%	1,99%
ROA[17]	1,12%	2,52%	2,98%	-1,52%	-2,32%
ROE[18]	3,44%	7,12%	8,40%	-4,09%	-6,63%
DSO	63,62	60,09	64,68	70,66	59,74
Stocks rotation period (DIH)	36,69	34,96	41,21	46,64	64,59
Payment obligations period (DPO)	141,96	122,68	132,88	152,88	156,31
Cash conversion cycle (CCC)[19]	-41,65	-27,62	-26,99	-35,59	-31,98

[9] Equity + Long term liabilities - Fixed Assets
[10] Liabilities + Stocks - Short term liabilities
[11] Working Capital - Necessary Working capital
[12] Long term liabilities (below 1 year)
[13] Current Assets / Short term liabilities
[14] (Current Assets - Stocks) / STL
[15] Operating profit / Gross profit
[16] Operating profit / Turnover
[17] Net profit / Total Assets
[18] Net profit / Equity
[19] DSO + DIH - DPO

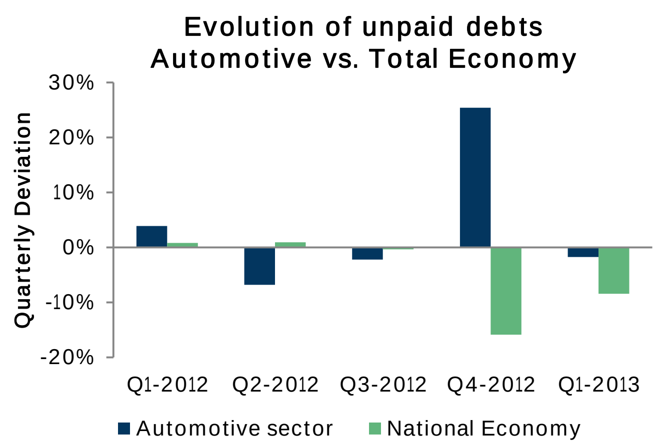
6. COMPANIES' PAYMENT BEHAVIOR, UNPAID DEBTS AND PAYMENT INCIDENTS

Assessment payment behavior at the sectoral level is an essential component analysis and assessment of the situation that sector, especially in the current context of deteriorating overall payment discipline because persistent liquidity constraints for companies as a result of tightening credit conditions offered banks and maintaining a high level of trade receivables collection period by firms.

In order to estimate the payment behavior of companies in the automotive and equipment covered by this study, Coface Romania has followed two main directions, namely analysis:

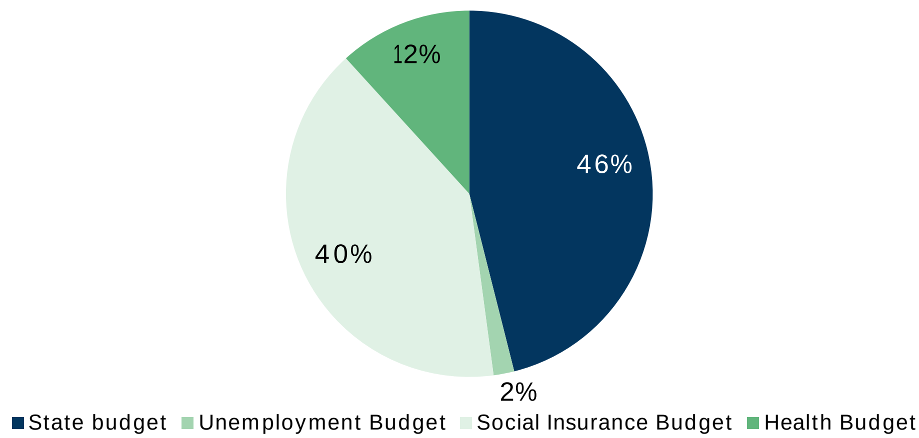
Status of outstanding debts registered in state budgets:

- According to published quarterly by the National Agency for Fiscal Administration (NAFA), a total of 791 companies from industry automotive and equipment registered at 31.03.2013 total debts worth 762.1 MRON, declining by 2% compared the end of 2012, but up 12% (83 MRON) than debts registered on 31.03.2012.
- Although the share of outstanding claims of the automotive and equipment in total outstanding debt in the economy is at the peak of the last 10 periods reported by NAFA (3.93% to 3.67% from 31/03/2013 to end of 2012 and 2.63% at 31.12.2012), the value of this index remains lower share in terms of turnover (6.58% of the total in the economy).
- The analysis of quarterly debt to last period indicate an evolution of outstanding debts incurred by companies in industry automotive and equipment different from that found in the entire economy, such as the end of 2012 total sector increased by 25% compared to the first quarter earlier (while the total debt in the economy was reduced by 16%) and reduction of 2% in the first quarter of the year is below the registered overall (-8%).

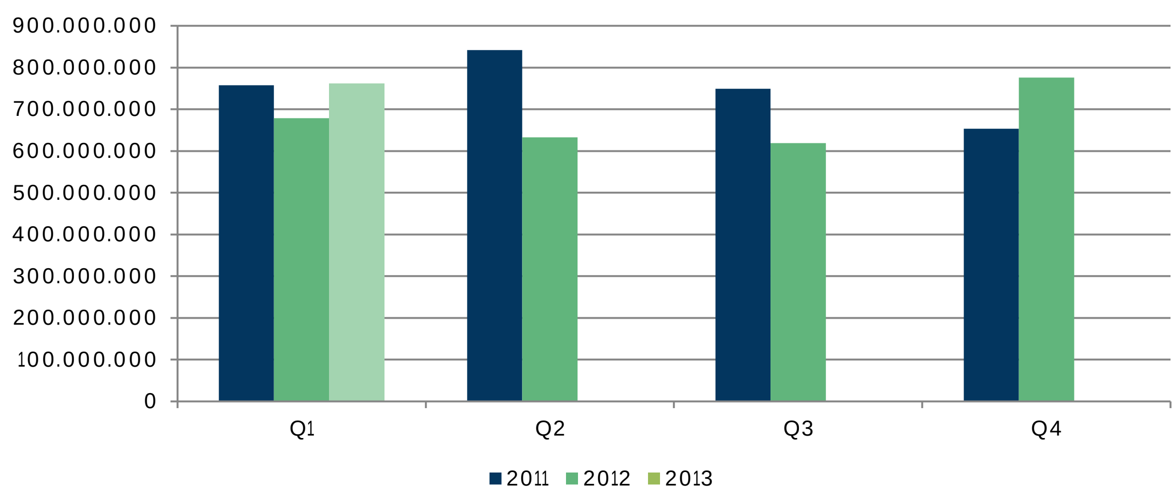


Source: ANAF, Coface data

Unpaid debts by budget category on 31.03.2013

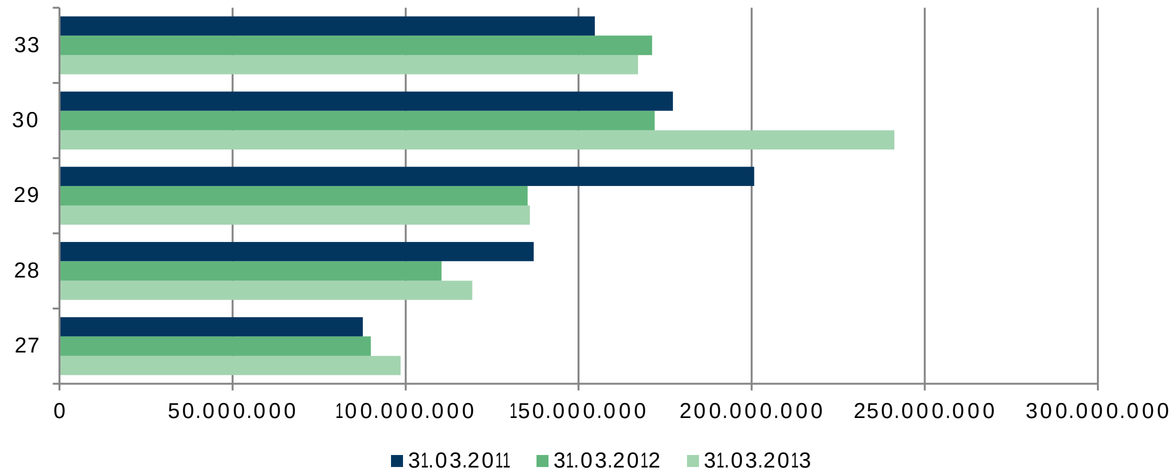


Quarterly evolution of unpaid debts to the state budget



Source: ANAF, Coface data

Evolution of unpaid debts by Automotive sector's divisions



Source: ANAF, Coface data

Extending the analysis of information on overdue debts according to various criteria (type of budget, the division sector etc.), we presented additional conclusions on the situation of the sector, thus:

- The largest part of the total debt outstanding at 31.03.2013 is due to state budget (46%) and the Social Insurance Budget (40%), thus recording the lowest share of debts to the State than the existing national (58%), but higher in terms of the Social Insurance Budget (31% globally).
- Payment of the unemployment insurance fund is made with the greatest promptness of corporate taxpayers, only 2% of the total arrears representing this type of contribution, both in the services sector, and the entire economy.
- Increasing the outstanding claims of the automotive and equipment to 31.03.2013 from the same period last year was driven largely by the manufacturing industry and other means of transport (Division 30) which registered an increase in this range 40% of debt outstanding, with the largest share in total outstanding obligations of the sector (32% at 31/03/2013)
- In the other four divisions of the sector, there is a differential evolution in range, so that two of them (27 and 28) were also registered increases of 9%, respectively. 8% of the volume of outstanding debt. In division 29, the total outstanding debt remained virtually constant, while the only area where we managed to reduce the arrears (2.4%) was the activity classified in division 33 (Repair and installation of automotive and equipment).
- The average outstanding debt per company in the sector to 31/03/2013 (963 KRON, up 50% from year-end 2012), the major influence of the top 5 largest companies debt outstanding (top 5 debtors) generating not less than 51% of the total debt situation significantly deteriorates the entire sector and payment behavior of this industry.
- Adjusting average outstanding debt per company on 31.02.2013 to the exclusion of the 5 largest debtors can be seen that although this is reduced almost in half (475 KRON), its value is more than 4 times higher

than the average level national (107 KRON per company) and 42% higher than the average debt (also adjusted) registered by companies in the sector at the end of 2012.

- Correlating this evolution debt per company average of 35% reduction in the number of companies that have outstanding debts from 31.12.2012 to 31.03.2013 can detach the main trend in the sector, namely that while most companies contributing sector (86%) pay their debts on time, it amplifies problems repaying the State budgets of large taxpayers recognized as debtors who continue to accumulate debt and deteriorating situation of the sector in this regard

Checking incidents debit payment instruments registered at CIP[20]

Since the occurrence of incidents payment by debit instruments (promissory notes, checks or drafts refused to pay) often signals the serious liquidity of the company that issued these instruments, sweep and careful interpretation of this information is a mandatory step in assessing payment behavior at both individual companies and aggregated at the sectoral level.

To analyze incidents payments industry automotive and equipment were used data from the CIP checks conducted by Coface Romania by Department of Business Information and Evaluation Companies, to evaluate the financial solvency and the degree of risk trading companies to request business partners or internal needs of trade credit insurance service.

Thus, during 2012 and the first half of 2013 were screened at a number of CIP 900 companies in the automotive and equipment industry, the representativeness of the sample with **95% of the industry as a share in turnover** and including both the major players in the sector, and SMB companies verified upon request Coface partners in order to conclude commercial transactions.

[20] Payment Incidents Register (CIP) of BNR

coface

Following these tests, the CIP were obtained synthetic data and detailed history of incidents payment debt instruments of companies for the last 8 years (2006 - 2013), processing and analysis of these data provides the following conclusions regarding payment behavior of companies in the sector:

- 16% of the companies surveyed (146 of 900) appear to CIP registered at least one incident of payment in 2006 - 2013
- The 146 firms registered with CIP incidents have generated a total of 5,015 incidents (check links and notes refused to pay), the total amount being refused 126.3 MRON.
- Extrapolating[21] the total amounts rejected for the sample of 900 firms CIP checked the entire universe of firms in the automotive and equipment industry as a result over the past eight years (2006 - 2013) in this sector has refused to pay the debt instruments a total of 132.9 MRON.
- Although numerical share of firms in total firms incidents checked CIP is smaller by about 13% for firms in the automotive and equipment industry than in the entire universe of firms audited by Coface, the average number of incidents per company analyzed sector (34) is higher by almost similar percentage of the average number of incidents per company calculated across all firms surveyed (30).
- In terms of average amount refused to pay if debt instruments issued by companies in the electric automotive and equipment, CIP synthetic data show that this is 34% lower than the average amount of payment to all the companies checked CIP by Coface (25 KRON vs. 38 KRON), the deviation being more pronounced (-46%) when check sites than in promissory notes.

Element	Sector A-E[22] (1)	Total Coface[23] (2)	Share / Deviation (+/-) (1) / (2)
No. of companies verified within CIP	900	46.485	1,94%
No. of companies with CIP incidents	146	8.657	1,69%
Share of the companies with payment incidents	16,22%	18,62%	-12,89%
Total no. of payment incidents	5.015	265.169	1,89%
Average amount to be paid (check)	26.188	49.007	-47%
Average amount to be paid (PN)	25.491	38.528	-34%
Average amount to be paid (TOTAL)	25.533	38.994	-35%
Average retention amount (check)	26.000	48.597	-46%
Average retention amount (PN)	25.135	37.906	-34%
Average retention amount (TOTAL)	25.187	38.384	-34%

[21] Based on the share of representative companies analyzed by Coface in relation to the total turnover of the sector
[22] Represent the total no. of companies analyzed by Coface that operates in A-E industry (Automotive and Equipment)
[23] Represent the total no. companies analyzed by Coface and verified within CIP

- Analysis of the number of payment incidents in the period 2006 - 2013 indicates the existence of two difficult moments in the evolution of this sector in terms of companies' payment discipline, namely in 2006 (when it reached the maximum number of incidents in the sector - more than 1,000) and 2009 (when the financial crisis caused a tripling of the number of incidents over the previous year), each of the two " shocks " are gradually absorbed over the next two years (2007 - 2008 and 2010 - 2011 respectively).

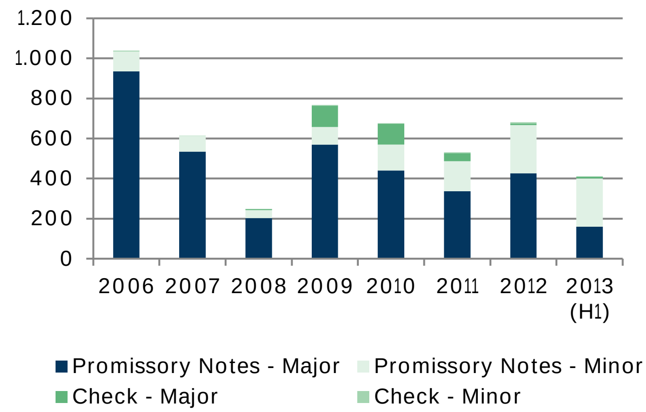
- Evolution of the recent (2012 and first half of 2013) show a new trend of deterioration in payment behavior in the sector, the most worrying aspect is that during the first six months of this year there were 411 incidents of payment, and a similar trend in the second half of the year would lead to a new and even overcome difficult time annual number of incidents registered in 2009 in the financial crisis.

- Distribution payment incidents by size of firms indicate a special situation of this sector compared to the existing in other fields analyzed by Coface (where micro segment generates the bulk of the total number of refusals to pay - to 70%), so that more than one third of these incidents come from large and very large companies operating in the automotive and equipment industry, the percentage was even higher (40%) in CIP incidents registered in the last 18 months.

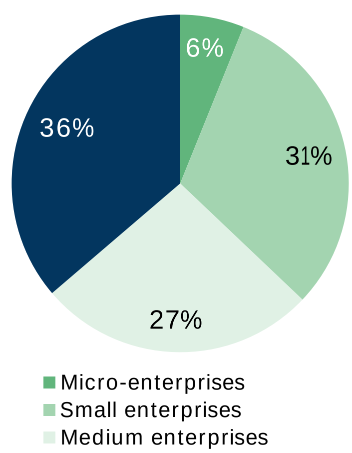
- Note also that the distribution of numerical weights payment incidents per category of company is similar to the share value of the amounts refused to pay the company each segment separately.

- Even if the number of large and very large companies that pay records these incidents is low (only 24), the high number of incidents and their high value indicates deterioration in payment behavior of these companies. Thus, 24 of the 178 large and very large active companies in this industry records in the last 8 years (range interrogated for each company at the time of check) a total of 1,928 of chips totaling 55 MRON, about 41% of the total value of the 900 companies in the sector verified.

Payment incidents by tools' payment category



Distribution of payment incidents in 2006 - 2013 by firms' category



Source: CIP, Coface data

7. COMPANIES' LEGAL STATUS AND INSOLVENCIES' IMPACT

This section of the study focuses on identifying the current legal status of the companies in the automotive and equipment industry, using information on state firms and insolvency procedures published by the online portal of the NORC[24] about the situation in the court files released by the Ministry of Justice and the Courts Portal.

Corroborating the official status of the firm in the Register of Commerce Founded industry companies included in automotive and equipment, we can analyze the sectoral dynamics in terms of establishment of new firms and exit of operation, showing that:

- Of the 5,471 companies registered with NACE mainly in the sector and who submitted the financial statements at 31.12.2011, a total of 1,231 companies (22.5% of the total) are not in operation at the end of July 2013, being themselves be in various stages of insolvency proceedings, winding-up or dissolution, either temporary interruption of activity.
- An unusual and disturbing aspect for the evolution of the sector can be seen by analyzing the distribution companies have ceased or interrupted work according to their founding year, which shows that the outputs of the operation did not affect the inherent difficulties facing young companies early years activity, but rather companies that already had accumulated significant experience in business (average age market companies become inactive is 6 years and 37% of them having even more than 12 years of activity).
- The number of companies that have ceased operations in the period 2012 - 2013 (1231) is almost equal to that of newly established firms between 2008 to 2011 (1267), this dynamic being set aside in part the beneficial contribution to the development of new firms the capacity regeneration sector and erosion thereof from the economic point of view.
- These trends become more apparent by comparing the size of firms out of operation at the newly established firms, with which to observe the negative impact of the decommissioning of a large number of companies over the past two years, which largely cancels the contribution brought by companies "young" established in the period 2008 - 2011.

Division of activity	NO. OF COMPANIES		TURNOVER		NO. OF EMPLOYEES	
	Founded	Disappeared	Founded	Disappeared	Founded	Disappeared
27 Division	109	143	296,303,061	83,464,949	1,732	1,054
28 Division	217	375	333,871,812	405,637,517	1,736	6,917
29 Division	85	91	607,082,076	71,739,063	6,501	1,142
30 Division	201	182	174,128,353	215,479,291	2,008	2,424
33 Division	655	440	361,815,653	398,585,667	2,223	3,947
TOTAL SECTOR	**1,267**	**1,231**	**1.773.200.955**	**1.174.906.487**	**14,200**	**15,484**
SECTOR BALANCE	**36**		**598,294,468**		**-1,284**	

[24] National Trade Register Office

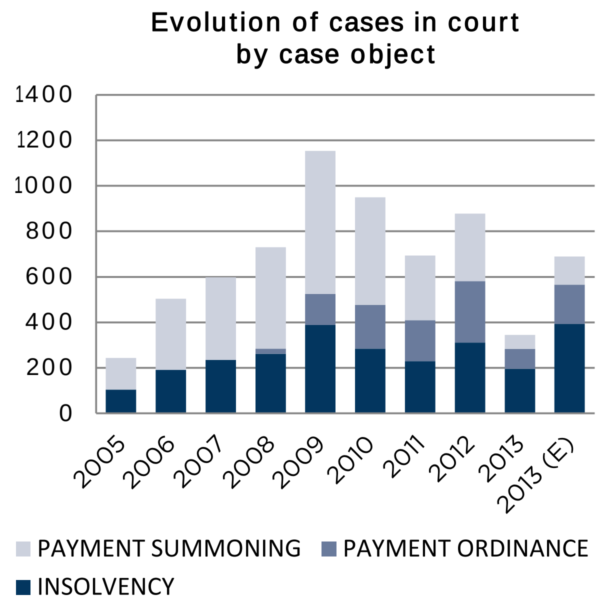
- Thus, out of operation in the period 2012 - 2013 of the 1,231 companies in the sector may entail the disappearance of not less than 15,484 jobs, while the contribution of the newly established companies amounted only to 14,200 seats work, thus registering a net decrease in the number of employees in the sector with 1,284 people.

- Turnover Lost at sectoral level by the disappearance of 1,231 companies cancel two-thirds of the total turnover of 1,77 BRON generated by newly established firms, in terms of this indicator, the left with a positive balance of just 598.3 MRON.

- Analyzing separately the dynamics of each of the five divisions of activity in the automotive and equipment industry, we can easily see that imbalances in the sector throughout the operation of a large number of companies would have been much higher without the impact strong positive newly emerging companies in the division 29 (Manufacture of motor vehicles), which generated a turnover of over 607 MRON and 6,501 jobs, offsetting the negative result of the dynamics of such outputs - inputs of companies registered in divisions 28, 30 and 33 (aggregate loss of 7,321 jobs and 150 MRON turnover).

Another direction of comprehensive analysis to identify the current legal situation of companies in the automotive and equipment industry is the verification of their involvement in commercial litigation (court cases) direct and profound impact on commercial risk and even to retain the business.

This verification is important, most likely due to the general deterioration in the current context of the payment discipline, considering the growing number of debtors applying for various types of legal actions to recover their amounts.



Source: Courts' Portal, MJ, Coface data

For this analysis, Coface Romania verified and processed data files in court sector firms appear in automotive and equipment as a borrower, and the object file is the cause of insolvency, CCJ or payment ordinance, that is exactly those procedures mentioned above as having a potentially negative impact on firms.

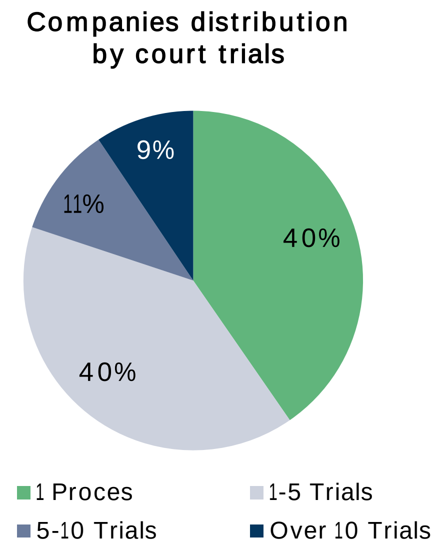
By grouping the data by Year (opening) file and object case can get an overview of legal proceedings involving companies with commercial impact of machines and equipment, as follows:

- At the end of the first half of 2013, companies in the sector were involved as a debtor in 6,094 cases involving the above mentioned cases opened during 2005 - 2013.

- From the point of view of opening the file, it is observed that the absolute maximum was reached in 2009, when the economic crisis has caused lenders to use increasingly more court proceedings (including applications for insolvency) as a means of pressure on creditors, this year opening is not less than

1,154 cases targeting companies in the automotive and equipment.

- Over the next two years (2010 - 2011), the number of newly registered cases fell steadily, especially on lower number of demands for payment and insolvency procedures required by lenders who began to find that in many cases the procedure insolvency and liquidation of the debtor does not necessarily lead to the recovery and flow.
- This trend of reducing the number of commercial disputes involving companies in the industry but also maintained during 2012, when there were 27% more cases than in 2011, in the context of the increasing number of requests for insolvency and ordinances of payment.
- CCJ type of procedure is most commonly used by lenders (49% of cases), followed by the application of insolvency (36%), while the payment ordinance was used in only 15% of cases.
- Correlating the 2,203 cases registered in the portal Courts as covering insolvency applications with 443 firms in the sector for which BPI[25] information appeared in the opening of the insolvency procedure, we can calculate the rate of acceptance by the court of insolvency applications 20% in this sector.
- Following distribution of court cases between the companies in the automotive and equipment industry, we see that a total of 1,412 firms (i.e. 26% of total assets in companies in the sector in late 2011) are involved as a debtor in the least one record of insolvency, subpoena or order of payment.
- Divide the firms registered with processes related to commercial litigation categories of number of cases, we observe that the sector is a group of 281 companies (20% of those cases in court) that occur more than 5 cases registered, which shows that this group of companies is "specialized" in paying contractual obligations and to recover debts, their creditors must use consistently and frequently in court



Source: Courts' Portal, MJ, Coface data

[25]Bulletin of Insolvency Proceedings published by NORC

Impact on the insolvencies of automotive and equipment industry

According to data extracted from the periodic review of insolvencies prepared and published by Coface[26], distribution companies became insolvent in the most important sectors (made by Coface declared based on NACE codes of companies in the financial statements submitted for 2011) do not place machine industry and equipment among sectors "Cheer" in terms of number of company insolvencies, it occupies position 15 of a total of 23 sectors.

This positioning of the automotive and equipment sector takes place in a context where for the third consecutive year the top ten sectors that registered the highest number of insolvent firms remains unchanged, it is noticeable also an increase in the concentration for first 3-5 sectors.

The main issues noted by comparative analysis of the situation in the sector and insolvencies in Romanian economy as a whole are:

- The share of automotive and equipment industry in total insolvencies nationwide and ranks consistently remains low at around 1%, with a tendency to slight reduction in the last year amid rapid growth of insolvencies in other sectors.
- The number of insolvencies per 1,000 active companies (calculated as [no. Insolvency / Nr. Active companies] * 1000) registered in the sector is below the national average, against the backdrop of the sector both reduced the number of insolvent companies, and the firms considered active.

Insolvent companies indicators	Sector A-E	Total Insolvencies Romania
Number of insolvencies per 1.000 active companies	68	82
Capitalization rate	13%	36%
Indebtedness rate	86%	57%
Profit rate/ loss ratio	-8%	-14%
DSO (days)	357	145
Average turnover (MRON)	3,99	

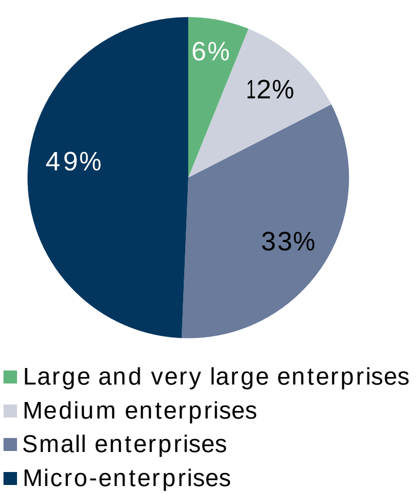
[26] „The analysis of Romanian insolvent companies'', quarterly study realized by Coface based on the data published by the Bulletin of Insolvency Proceedings

Comparing financial ratios of companies in the automotive and equipment industry insolvent with those of all insolvent companies nationwide, we observe certain features of the sector analyzed as follows:

- Most financial indicators taken into account in the case of companies in the sector register values much smaller than those calculated in all insolvent firms in Romania, which shows that if this field activity insolvency procedure fulfilled the role of "selection" in terms view economic and financial companies, predominantly affecting companies that have come to serious imbalances amid financial mismanagement.

- The average duration of debt collection companies in the sector reached insolvent is very high (almost a year) and is placed well above the damaged anyway indicator at the national level, indicating that one of the specific factors that may cause insolvencies appearance of this sector is the difficulty cashing term trade receivables.

The share of insolvent companies in the sector



Source: ONRC, BPI, Coface data

Very large and large enterprises	Medium enterprises
▪ 6% of total companies ▪ Generating 64% of turnover ▪ Generating 45% of total debts ▪ DSO of 290 days ▪ Capitalization rate of 28% ▪ Indebtedness rate of 71% ▪ Average turnover of 41,8 MRON ▪ Loss ratio of -3% ▪ Average number of employees - 579	▪ 12% din total companies ▪ Generating 19% of turnover ▪ Generating 24% of total debts ▪ DSO of 534 days ▪ Capitalization rate of 23% ▪ Indebtedness rate of 77% ▪ Average turnover of 6,6 MRON ▪ Profit rate of 11% ▪ Average number of employees - 105
Micro-enterprises	**Small enterprises**
▪ 49% of total companies ▪ Generating 4% of turnover ▪ Generating 11% of total debts ▪ DSO of 531 days ▪ Capitalization rate of -110% ▪ Indebtedness rate of 208% ▪ Average turnover of 0,3 MRON ▪ Loss ratio of -40% ▪ Average number of employees - 3	▪ 33% din total companies ▪ Generating 13% of turnover ▪ Generating 19% of total debts ▪ DSO of 372 days ▪ Capitalization rate of -22% ▪ Indebtedness rate of 120% ▪ Average turnover of 1,6 MRON ▪ Loss ratio of -44% ▪ Average number of employees - 19

Analyzing the distribution of insolvencies by size category of firms note the following:

- Although most insolvent companies in the sector belong to the SME category (94%), the share of small enterprises in total insolvencies (49%) is lower in the case of automotive and equipment industry compared to other sectors covered by Coface (where they generally hold weights of up to 75%).

- Despite the numerical majority share, micro and small enterprises have a contribution totaling only 17% of the total turnover of the companies that became insolvent and shows the damage the financial ratios (gearing extremely high losses of 40% and, 44% of turnover and degree of negative capitalization).

- A particular situation can be observed among medium-sized enterprises, whose financial indicators show a moderate gearing and positive profitability, in this case the occurrence of insolvency is determined almost exclusively by the inability of commercial debt collection segment excelling by the longer receivables collection period (534 days).

- Although present in small numbers in all insolvent firms in the sector (6%), large and very large enterprises generates the highest turnover and the more debt, the losses and financing incapacity activity through timely collection of receivables affecting irreversible the capacity of commercial obligations of these companies impact the economically and socially.

8. COFACE SECTORAL RISK ANALYSIS

This section presents data on commercial risk evaluations of the companies within the automotive and equipment industry, based on Coface credit assessment model (@rating score) for the Central and Eastern Europe countries, whose main features are:

- Indicates the company's probability of default analyzed for the next 12 months.
- Condenses all relevant variables for a company's case in a single risk indicator expressed on a scale from 0 (insolvency in progress) to 10 (minimum insolvency risk) and each class is correlated with a specific probability of insolvency.
- Uses econometric models calibrated differently for each country, combining financial variables (turnover's evolution, fixed assets, equity, liquidity ratios, solvency, profitability etc.) with qualitative ones (company's form of organization, sectoral activity, information about shareholders, associated companies, payment behavior, debt collection cases etc.).
- Differentiates SMEs by large and very large companies.

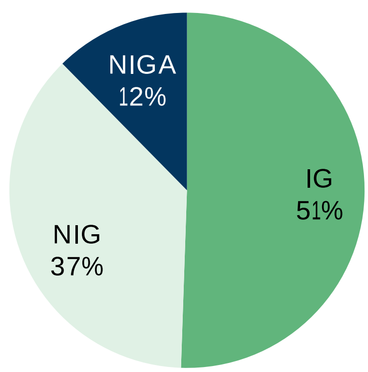
The final score (@rating score) is obtained as a linear combination of the two scores, the financial one with a share of 0.7 and the quality one of 0.3. Depending on the value of this assessment realized by Coface, companies fall into one of these three main groups of risk:

- **@rating score of 1-3 (NIGA - Non Investment Grade Aggravated):** for companies in this group is not recommended investment, credit insurance or credit granting. For this reason, the maximum recommended cover for these companies will always be zero.
- **@rating score of 4-5 (NGA - Non Investment Grade):** for companies listed in this group, the investment is not recommended, but they may be the subject of credit insurance or credit grant (with caution).
- **@rating score of 6-10 (IG - Investment Grade):** for companies listed in this group, there should be considered minimum risks. There is always cover recommended for this risk class.

In 2012, at the request of its business partners or based on the direct monitoring of its insurance division, Coface Romania individually analyzed **a total of 841 companies within the automotive and equipment industry**, with a total turnover of **43.5 BRON (10.3 BEUR)**, corresponding to a share of **66% of the aggregate turnover of the entire sector.**

The distribution of the companies analyzed by Coface confirms the results and trends found in the section regarding the credit risk management (5th section of this study), so that half of the companies operating in this sector show a decreased risk of insolvency (IG group), 37% - medium risk (NIG), while only 12% of them are at high risk (group NIGA).

Companies distribution analyzed by Coface in 2012 by class of risk



Of the 841 companies analyzed individually by Coface sector during 2012, a total of 504 companies were analyzed and in 2011, representing about 55% of the aggregate turnover of the firms active in the entire sector. Analyzing how these companies have migrated from one risk class to another during the two-year note the following:

- 177 firms were classified in the same risk class, representing approximately 35% of the analyzed companies.
- 130 firms were classified in a class with a higher insolvency risk, representing about 26% of the analyzed companies.
- 197 firms were classified in a class with a lower insolvency risk, representing approximately 39% of the analyzed companies.

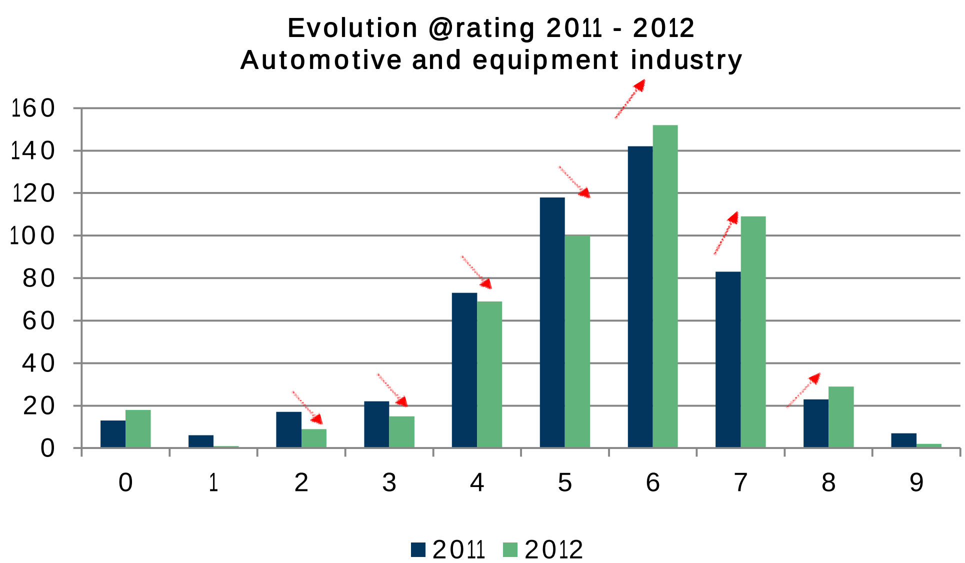
Interpreting these results correlated with firm size, we observe not only the number of firms with positive (decreased risk) is more than 50% higher than those that have seen an increase in risk, but there are encouraging growth trend soundness of companies with major impact on the whole sector, as total turnover of companies with positive (12.9 BRON) is higher than those registered a weaker assessment of the risk level (11.6 MRON).

At the detailed level of risk classes, the main trend that can be observed by comparing the distribution of ratings in 2012 compared to 2011 is to reduce the number of companies at risk of insolvency high (grades 2 - 3) and above average (grades 4 - 5) and their migration in the low risk group IG (in grades 6 - 8), automotive and equipment, and relegating it from this point of view one of the few fields that have experienced a favorable outcome in the difficult economic environment of the last years.

	No. of companies	Average turnover MRON
Total of analyzed companies in 2011 & 2012	504	71,73

Which represents 55% of turnover for all the active companies in the sector where:

Identical @rating	177	66,01
Downgrade 1 class	83	38,93
Downgrade 2 classes	29	258,52
Downgrade over 2 classes	18	47,72
Upgrade 1 class	122	52,71
Upgrade 2 classes	55	75,05
Upgrade over 2 classes	20	116,16



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