

Panorama

coface

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Insolvencies Study in Romania in 2012



TABLE OF CONTENTS

/ 02 Summary

/ 03 Sector and temporal distribution of insolvent companies

/ 07 Preliminary analysis of the sectors with the most insolvent companies in 2012

Insolvent companies under Coface magnifying glass

- / 09
- Coface @rating methodology
 - Correlation between sectoral @rating and the top insolvencies
 - Individual analysis of the biggest insolvencies in 2012

/ 15 Financial and social dimension of insolvent companies

/ 18 Evolution of insolvent companies

/ 19 Territorial distribution of insolvent companies

/ 20 Methodology remarks

1. Summary

Based on the preliminary data published by the BIP (Bulletin of Insolvency Proceedings), in 2012 the insolvency proceeding was opened for a total number of 23,665 companies, higher by 10% as to the same period of the previous year. Considering the delays regarding the registration of insolvency proceedings with BIP, which may vary between one and four weeks, and the retroactive modifications operated in the BIP system, Coface estimates number of newly opened insolvency proceedings in 2012 may vary between 25,000 – 25,500. Thus, the real increase of insolvencies as compared to 2011 may vary between 17%-18%.

Coface Romania analyzed at an individual level, during 2012, at the business partners' request or to monitor the direct exposures within the insurance division, 30,484 companies, with a total turnover of RON 557,032 million, representing 56% of the turnover of all the active companies at a national level. Based on these figures and weighting the risk classes for each individually analyzed company with the related turnover, the sector rating calculated by Coface may be obtained, which indicates the payment discipline within such sector. Comparing the data series for 2012, we notice a significant positive correlation between the Coface sector risk and the number of insolvent companies, by reference to 1,000 active companies in such sector. Thus, an increased insolvency risk calculated by Coface for a certain sector is correlated to a high number of insolvencies for 1,000 active companies in such sector. Additional information related to this aspect can be found in section 4 **"Insolvent companies under Coface magnifying glass"**.

For the third consecutive year, the first ten sectors registering the highest number of insolvent companies remain unchanged, given the fact that an increase of the concentration degree for the first three-five sectors is noticed.

85% of the companies which became insolvent in 2012 are micro enterprises, but they only represent 12% of the consolidated turnover, 15% of the number of employees and 16% of the cumulated value of debts. They register the highest level of DSO, of the net loss, of the indebtedness degree, and of own negative capitals.

Thus, an increase of the financial caliber of insolvent companies in 2012 is noticed, as compared to the same period of the previous year, which determined the increase of the turnover related to insolvent companies as compared to the previous year, but at the same time, the decrease of the rate of loss, indebtedness and collection duration of receivables, on the average. This is due to the profile of medium, large and very large companies which record better financial indicators than the values corresponding to small enterprises.

Comparing the dynamics of financial indicators for the companies which became insolvent in 2012 to that registered by the companies which became insolvent in the same period of the previous year, we notice that the 2012 insolvencies are related to companies with a higher vulnerability degree, which had less significant internal and external shocks as compared to those in the previous years. Despite this, the number of companies which became insolvent is rising constantly.

Thus, on the background of erosion of the companies' sustainability because of the effects of the financial crisis in the last three years, of the high financing constraints and of the deterioration of the payment discipline at the level of the entire economy, the companies represent a higher vulnerability degree to the exposure to internal or external shocks, liquidity pressures increasing.

2. Sector and temporal distribution of insolvent companies

Coface Romania made a new study on the evolution of the number of bankruptcies in Romania, this time taking into account the cases newly registered with the Bulletin of Insolvency Proceedings in the January –December 2012 period.¹

Table 1. Monthly evolution of newly opened insolvencies over the last 3 years

| Month | 2010 | 2011 | 2012* | 2012 (E) |
|-------------------------|---------------|---------------|---------------|---------------|
| January | 1,897 | 1,709 | 2,136 | 2,136 |
| February | 1,903 | 1,849 | 2,398 | 2,398 |
| March | 1,887 | 2,160 | 2,530 | 2,530 |
| April | 1,506 | 1,847 | 2,367 | 2,367 |
| May | 1,544 | 2,097 | 2,431 | 2,431 |
| June | 1,880 | 2,127 | 2,381 | 2,381 |
| July | 852 | 811 | 1,353 | 1,353 |
| August | 575 | 658 | 1,004 | 1,004 |
| September | 2,021 | 2,061 | 2,404 | 2,404 |
| October | 1,932 | 2,202 | 2,479 | 2,635 |
| November | 2,222 | 2,379 | 1,777 | 1,933 |
| December | 1,431 | 1,599 | 405 | 1,742 |
| Total | 19,650 | 21,499 | 23,665 | 25,314 |
| Annual deviation | | 9.41% | 10.07% | 17.75% |

2012 * based on the preliminary data available with the BIP at the beginning of January 2013

2012(E) Coface estimation for the total level of insolvencies opened in 2012

Source: BIP

Coface analysis, made based on the preliminary data available with the Bulletin of Insolvency Proceedings at the beginning of January 2013 reveals that in 2012 the insolvency proceeding was opened for 23,665 companies, 10% more as compared to the same period of the previous year (when 21,499 new insolvencies were registered) and 20% more as compared to the same period of 2010 (when 19,650 new insolvencies were registered). **These are preliminary data, and the final figures shall be confirmed until the end of the first quarter of the current year.** The publication with BIP of the newly opened insolvency proceedings can be postponed for one to four weeks, there being also retroactive modifications regarding the terms of insolvency proceedings that may be up to 3 months, retroactively. Thus, based on the noticed historical deviations with a monthly frequency for the last year, after its own calculations, Coface estimates that the real number of insolvency proceedings newly opened in 2012 may vary between 25,000 – 25,500. Thus, the real increase of insolvencies as compared to 2011 may vary between 17%-18%.

We notice the generalized increase of the newly opened insolvencies for all the months in the analyzed period, the only exception being November, when less insolvencies were opened as compared to the same month of the previous year. Hereinafter we will correlate the data provided by BIP with the financial statements submitted by the companies which became insolvent with MPF (Ministry of Public Finance) in order to understand the structural elements which caused the cessation of these companies' activity.

¹ See the Methodological specifications, pg. 19

By comparing the data provided by BIP with the ones published by MPF we can notice a gradual increase of the transparency degree recorded by the companies which became insolvent. Thus, if less than 40% of the companies which became insolvent in 2010 and in 2011 submitted the financial statements with the MPF, this indicator increased to almost 47% for the companies which became insolvent in the current year. Despite this fact, the increase occurs especially due to smaller companies (micro enterprises).

Table 2. Insolvent companies – financial statements

| | |
|---|---------------|
| 2012 total insolvencies (current figures) | 23,665 |
| of which submitted statements to the MPF | 11,008 |
| Percentage | 46.52% |
| 2011 total insolvencies | 21,499 |
| of which submitted statements to the MPF | 8,153 |
| Percentage | 37.92% |
| 2010 total insolvencies | 19,650 |
| of which submitted statements to the MPF | 7,902 |
| Percentage | 40.21% |

Source : MPF, BIP

Based on the financial statements submitted in the year proceeding the year of becoming insolvent and depending on the main object of activity indicated by the NACE code, Coface distributed the companies which became insolvent on the grid of the most important 23 activity sectors, the figures being presented in the table below.

Table 3. Sector distribution of insolvencies of the last two years

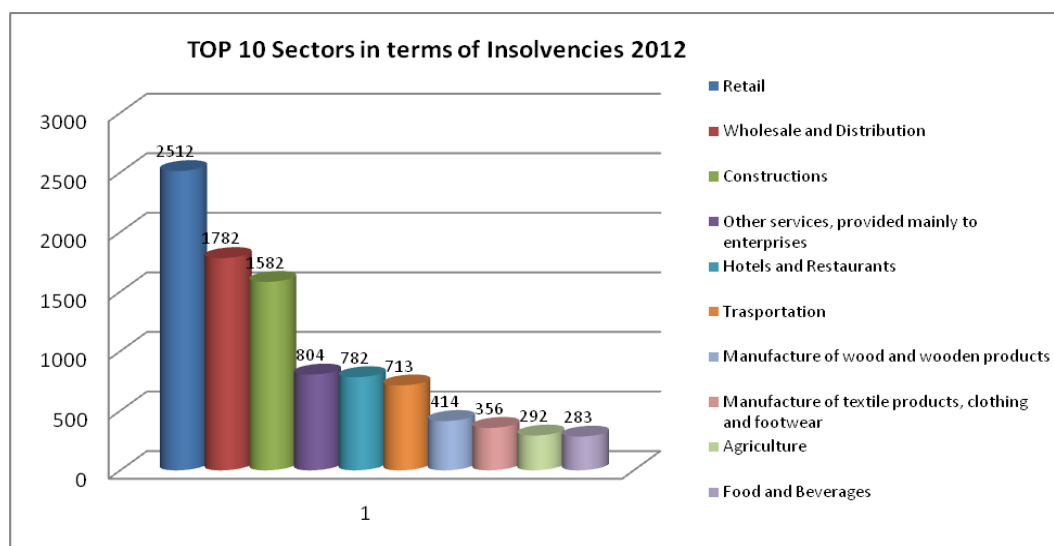
| Sector of activity | 2012 | 2012% | 2011 | 2011% |
|---|---------------|--------|--------------|--------|
| Retail | 2,512 | 22.82% | 1,547 | 19,19% |
| Wholesale and distribution | 1,782 | 16.19% | 1,316 | 16,32% |
| Constructions | 1,582 | 14.37% | 1,262 | 15,65% |
| Other services, provided mainly to enterprises | 804 | 7.30% | 597 | 7,41% |
| Hotels and restaurants | 782 | 7.10% | 527 | 6,54% |
| Transportation | 713 | 6.48% | 567 | 7,03% |
| Manufacture of wood and wooden products | 414 | 3.76% | 385 | 4,78% |
| Manufacture of textile products, clothing and footwear | 356 | 3.23% | 276 | 3,42% |
| Agriculture | 292 | 2.65% | 245 | 3,04% |
| Food and beverage industry | 283 | 2.57% | 214 | 2,65% |
| Metallurgic industry | 246 | 2.23% | 211 | 2,62% |
| Real estate transactions | 231 | 2.10% | 167 | 2,07% |
| Other personal services | 177 | 1.61% | 123 | 1,53% |
| IT | 137 | 1.24% | 98 | 1,22% |
| Manufacture of machinery and equipment | 131 | 1.19% | 98 | 1,22% |
| Financial brokering | 124 | 1.13% | 71 | 0,88% |
| Recreational, cultural and sports activities | 115 | 1.04% | 89 | 1,10% |
| Manufacturing chemicals | 95 | 0.86% | 89 | 1,10% |
| Sewage and waste disposal, sanitation & similar activities | 81 | 0.74% | 44 | 0,55% |
| Health care and social security | 47 | 0.43% | 25 | 0,31% |
| Extractive industry | 44 | 0.40% | 38 | 0,47% |
| Post and telecommunications | 41 | 0.37% | 51 | 0,63% |
| Manufacture and provision of electrical and thermal energy, water and gas | 19 | 0.17% | 22 | 0,27% |
| Total | 11,008 | | 8,062 | |

* Only for the companies which submitted their financial statements to the MPF in the year preceding the insolvency year

Source : BIP, MPF

Even if we do not possess all the information regarding the main activity for all the companies which became insolvent during the analyzed period, there are two reasons based on which we estimate that the sector distribution at the level of the entire portfolio is similar to the one analyzed for the sample above namely:

- The weight of the sample is significant from a statistic point of view for both years
- The weights of the sector distribution within the sample register values similar to those of the distribution at the entire portfolio level, which were registered in the studies made by Coface for the last three.²



Source: BIP, MPF

For the third consecutive year, the first ten sectors registering the highest number of insolvent companies remain unchanged, the only modifications being in terms of order in the top list, but with variations of one, maximum two positions. Thus, if in 2010 the retail trade registered a number of insolvencies comparable to the Wholesale Trade and Distribution sector, this sector stood out in the last two years, registering 2,512 newly opened insolvencies in the first nine months of the current year.

By analyzing the evolution of insolvency cases over the last 5 years, we notice a tendency of consolidating the degree of concentration of volumes in the first 3, respectively 5 sectors. Thus, the weight of the first 3 sectors which registered most of the insolvency files on the dockets in absolute figures varied in the last 5 years between 50%-54%, and the first 5 sectors between 65% - 70%.

Eliminating the sectors which registered significant deviations because of the negative or positive base effect, the highest increases of insolvencies newly opened in 2012 as compared to the same period of the previous year were registered in the following sectors: Retail (+62%), Real Estate Transactions (+38%), Hotels and Restaurants (+48%), Other services, provided mainly to enterprises (+35%) and Transportation (+25%). The only sectors which registered decreases of insolvencies in 2012 as compared to the previous year are: Post and Telecommunications (-19%) and the Manufacture and provision of electrical and thermal energy, water and gas (-14%).

² Analyzing the last 3-5 years, we notice the constant trend of distributing the companies which became insolvent in the most important 10 sectors (such practically remaining unchanged), this factor having a structural nature and being significantly influenced by the sectoral distribution of active companies at the level of the entire economy

3. Preliminary analysis of the sectors with the most insolvencies in 2012

The 10 sectors which were analyzed total 86% of the total insolvencies opened in 2012, i.e. 81% of the total companies active at a national level.

| Indicator | Retail | Wholesale and distribution | Constructions | Other services, provided mainly to enterprises | Hotels and restaurants | Transportation | Manufacture of wood and wooden products | Manufacture of textile products, clothing and footwear | Agriculture | Food and beverage industry |
|--|----------------|----------------------------|---------------|--|-----------------------------|----------------|---|--|----------------------------|----------------------------|
| 2012 total insolvencies [1] | 5,399 | 3,831 | 3,401 | 1,728 | 1,681 | 1,533 | 890 | 765 | 628 | 608 |
| Total companies [2] | 129,167 | 83,511 | 62,864 | 77,007 | 31,967 | 37,855 | 18,017 | 8,897 | 19,295 | 10,408 |
| Total active companies [3] | 63,976 | 45,855 | 27,500 | 33,760 | 15,121 | 16,030 | 9,403 | 8,859 | 10,476 | 7,786 |
| 2012 insolvencies for 1,000 active companies [4] | 84.39 | 83.55 | 123.67 | 51.18 | 111.17 | 95.63 | 94.65 | 86.35 | 59.95 | 78.09 |
| Insolvency average turnover (MRON) [5] | 1.5 | 4.1 | 2.4 | 0.8 | 0.5 | 1.2 | 0.9 | 1.3 | 1.7 | 2.6 |
| Average turnover of active companies [6] | 1.3 | 4.3 | 1.9 | 0.6 | 0.5 | 1.6 | 2.1 | 2.6 | 2.3 | 5.6 |
| Number of companies registering profit [7] | 41,316 32% | 34,049 41% | 22,547 36% | 34,188 44% | 9,304 29% | 14,238 38% | 7,583 42% | 3,768 42% | 9,957 52% | 3,725 36% |
| Number of companies registering a loss [8] | 59,402 46% | 34,257 41% | 26,800 43% | 28,977 38% | 16,662 52% | 17,741 47% | 7,055 39% | 3,425 38% | 6,358 33% | 4,864 47% |
| Ins. profit/loss rate [10] | -35% | -6% | -20% | -1% | -59% | -10% | -30% | -15% | -40% | -32% |
| Nat profit/loss rate [11] | -1.33% | 1.10% | -3.53% | 3.97% | -6.45% | -0.86% | 0.39% | 2.92% | 4.52% | 0.20% |
| Insolvent companies' indebtedness level [9] | 146.68% | 95.43% | 89.16% | 101.48% | 147.21% | 119.50% | 118.24% | 112.53% | 99.96% | 133.75% |
| Indebtedness degree at a national level [12] | 83.07% | 76.47% | 79.41% | 65.48% | 73.19% | 57.99% | 69.48% | 61.58% | 65.13% | 66.60% |
| DSO for insolvent companies (No. of Days) [13] | 102.74 | 155.05 | 267.55 | 328.54 | 104.44 | 142.75 | 171.87 | 93.96 | 196.78 | 99.80 |
| DSO for the companies active at a national level [14] | 49.82 | 89.07 | 191.34 | 170.10 | 86.69 | 113.69 | 94.03 | 103.51 | 121.74 | 82.93 |
| DIH for insolvent companies [15] | 59.34 | 60.37 | 112.51 | 38.78 | 53.87 | 53.43 | 106.01 | 132.52 | 117.45 | 58.78 |
| DIH for the companies active at a national level [16] | 55.74 | 48.92 | 83.21 | 22.27 | 37.00 | 14.30 | 62.99 | 66.50 | 84.44 | 51.85 |
| Capitalization for insolvent companies [17] | -52.22% | 2.04% | 7.84% | -8.21% | -49.29% | -20.21% | -20.14% | -13.42% | -6.24% | -42.17% |
| Capitalization for the companies active at a national level [18] | 15.39% | 22.06% | 17.07% | 29.92% | 23.52% | 24.73% | 28.01% | 37.11% | 26.63% | 28.79% |

- [1] by extrapolating the sector weights in Table 3.
- [2] the number of companies which submitted their financial statements to the MPF for the activity performed in 2011.
- [3] the number of companies which submitted their financial statements to the MPF for the activity performed in 2011 and having a 2011 turnover higher than KRON 50.
- [4] = [1] * 1.000 / [3]. From this perspective, the following sectors are not in the TOP 10 sectors with insolvencies for 1,000 active companies: The food and beverage industry; Agriculture; Other services, provided mainly to enterprises. These are replaced by: Real estate transactions (111.64 insolvencies for 1,000 active companies); Recreational, cultural and sports activities (105.11 insolvencies for 1,000 active companies); Metallurgic industry (89.68 insolvencies for 1,000 active companies).
- [5] The average turnover for the insolvent companies in such sector. Only the insolvent companies which submitted the financial statements in the year preceding the opening of the insolvency proceeding and which declared a turnover higher than zero were taken into account. The sectors where the average turnover of insolvent companies is higher than the average turnover registered at a national sector level were marked in red.
- [6] The amounts are expressed in MRON; by dividing the total turnover at a sector level by the number of firms (the companies with the zero turnover were eliminated).
- [7] The number of companies which registered a profit in 2011 from the total companies registered in such sector (absolute and percentage value).
- [8] The number of companies which registered a loss in 2011 from the total companies registered in such sector (absolute and percentage value).
- [9] The indebtedness level calculated for the insolvent companies in 2012, calculated through the following formula: Total Debts / Total Assets, based on the 2011 financial data. The insolvent companies in the sector with the highest indebtedness level and the highest deviation as to the sector average registered at a national level were highlighted.
- [10] The Profit/Loss Rate calculated for the insolvent companies in 2012, using the following formula: Net Profit or Loss /Turnover, based on the 2011 financial data. The insolvent companies with the highest loss rate were highlighted.
- [11] The Profit/Loss Rate for all the active companies at a national level in such sector, through the following formula: Net Profit or Loss /Turnover, based on the 2011 financial data.
- [12] The indebtedness level calculated for all the active companies at a national level in such sector, through the following formula: Total Debts / Total Assets, based on the 2011 financial data.
- [13] DSO (Days of Sales Outstanding, or the average duration of receivables collection) is measured in number of days and represents the average duration of receivables collection. The indicator is calculated for the insolvent companies in 2012, through the following formula: (Receivables / Turnover)*360, based on the 2011 financial data. The insolvent companies from the sector with the highest DSO and the highest deviation as to the sector average registered at a national level were highlighted.
- [14] DSO calculated for all the active companies at a national level in such sector, through the following formula: (Receivables / Turnover)*360, based on the 2011 financial data
- [15] DIH (Days of Inventory on Hand, or the Average duration of stock rotation) is measured in number of days and measures the stock turnover rhythm. The indicator is calculated for the 2021 insolvent companies, through the following formula: (Stocks/Turnover)*360, based on the 2011 financial data. The insolvent companies in the sector with the highest DIH, and the highest deviation as to the sector average registered at a national level were highlighted.
- [16] DIH calculated for all the active companies at a national level in such sector, through the following formula: (Stocks/Turnover)*360, based on the 2011 financial data
- [17] The capitalization degree calculated for the insolvent companies in 2012, using the following formula: Equity /Total Assets, based on the 2011 financial data. The insolvent companies with the lowest capitalization degree were highlighted.
- [18] Capitalization degree calculated for all the companies active at a national level in such sector, through the following formula: Equity /Total Assets, based on the 2011 financial data.

4. Insolvent companies under Coface magnifying glass

As a supplier of integrated services for the management of the credit risk, Coface Romania constantly supports the important role which the proactive knowledge of business partners' financial statements plays in managing risks within commercial transactions. Over 60,000 companies became insolvent in the last 3 years, the solvency of many companies was strongly affected and industries which reported significant increases before 2008 subsequently operated severe negative adjustments. If before the crisis the main objective of many corporations was a quantitative one, marked by the increase of the market share and the competitors' surpass, the current context is defined by a very different reality. In this new context, the knowledge of the evolution of the financial situation of the main business partners is no longer an option, but becomes imperiously necessary.

This section correlates the figures regarding the insolvencies newly opened in 2012 to the sector analyses made by Coface, the latter being obtained by consolidating the @ratings for the companies in such sectors and which were analyzed at an individual level by Coface Romania.

4.1 Summary description of the Coface @rating methodology

The calculation of the probability that the analyzed subject company enters into payment incapacity for the following 12 months involves the use of 218 soft variables (regarding the payment behavior and the company's description) and 299 financial variables. The results obtained through the two variable categories are subsequently consolidated to generate a single risk indicative. Examples from among the used variables:

- Qualitative (Soft): the company's registration date, the organization form, the location, the development, the performed activity (the appurtenance to the sector for evaluating the systemic risk), information on shareholders and the relations with other companies, information on the payment behavior, the existence of collection cases (access and interconnection to/with the database of the collection department within the company, which provides us with information on the payment behavior of investigated companies) etc.
- Financial: calculated based on the available financial data (both dynamics of balance sheet indicators, the absolute values, and the calculated indices), for instance: the dynamics of the turnover, of fixed assets, of equity, and of their components, the liquidity, solvency, profitability or activity indicators.

The final score (the company's @rating) is obtained as a linear combination of the two scores, the financial one having a weight of 0.7, and the qualitative one of 0.3. **The Coface @rating score also benefits from the information obtained by the Commercial Credit Insurance Department within Coface, which provides the company's analysts with additional information on the investigated companies.**

The classification in risk classes of the @rating scoring:

| Debt collection/ insolvency proceedings in progress | Very high risk | | | Risk above average | | Low risk | | | | |
|--|----------------|---|---|-----------------------|---|----------|---|---|---|----|
| | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 |
| 0 | | | | | | | | | | |

@rating scoring: 1-3 (NIGA – Non Investment Grade Aggravated)

For the companies in this risk class (NIGA) the investment, the commercial credit assurance or the commercial credit granting are not recommended. For this reason, the maximum value of the exposure recommended on such companies shall always be zero.

Generally, the companies in this risk class (NIGA) have a decreasing (abrupt) evolution, for several years in a row, a risky payment behavior (very recent payment incidents, they are in a banking interdiction, have overdue debts registered in the Coface database), negative or very low equity (< 5% of the total assets), very low liquidity, are very small or there is negative information coming on the part of the Commercial Credit Insurance division.

@Rating 4-5 scoring (NIG – Non Investment Grade)

For the companies classified in this risk category, the investment is not recommended, but they can be subject to commercial credit insurance or a commercial credit (with precaution).

The companies with a @rating 4 and 5 scoring have both negative and positive aspects: a decreasing trend, but a good financial structure; debts to the budget, old incidents, recent positively closed collection cases (the company paid the debt), negative equity, but a good evolution on the Profit and Loss Account.

@Rating 6-10 scoring (IG – Investment Grade)

For the companies in this class, the risk is considered to be low. There shall always be a commercial exposure recommended for the scorings in this risk class.

4.2 Correlation between the sector @rating and the top insolvencies at the sector level

Coface Romania analyzed at an individual level in 2012, at the business partners' request or for monitoring the direct exposures within the Commercial Credit Insurance division a number of 30,484 companies, with a total turnover of MRON 557,032, representing 56% of the turnover of all the active companies at a national level.

Weighting the risk classes for each individually analyzed company with the related turnover, we obtain the consolidated rating at a sector level, with lower values indicating a higher insolvency risk.

We notice that by sorting the activity sectors in a decreasing order of the insolvency risk determined by Coface we obtain a classification of the most risky sectors, similar to that obtained through the top insolvencies for 1,000 active companies, between these two classifications existing a significant correlation (according to the regression results from page 11).

For instance, the most risky 6 sectors determined through the Coface sector @risk are: Real Estate Transactions (4.09); Recreational, Cultural and Sports Activities (4.09); Hotels and Restaurants (4.10); Transportation (4.29); Metallurgic Industry (4.50); Constructions (4.52). The same sectors are on top of the insolvencies reported for 1,000 active companies in such sector. The only sectors where the position indicated by the Coface sector risk as compared to the number of insolvencies for 1,000 active companies is different by more than 3 levels are: Other Services, Provided Mainly to Enterprises, Agriculture, Health Care and Social Security and IT. For these last four sectors, the cumulated turnover for the companies individually analyzed by Coface is noticed to represent a weight below 33% of the total turnover of the active companies at a national level in such sector. Thus, the deviation can be caused by the relatively low relevance degree which the sample of the companies individually analyzed by Coface has on the entire sector at a national level.

Regression Statistics – the data series are: the variable dependence of the decreasing sector classification by top insolvencies for 1,000 active companies; the variable independence of the decreasing Coface sector @rating sector classification

| | |
|-------------------|-------------|
| R Multiple | 0.759881423 |
| R Square | 0.577419777 |
| Adjusted R Square | 0.557296909 |
| Standard Error | 4.512686803 |
| Observations | 23 |

Regression Statistics – the data series are: the variable dependence of the number of insolvencies for 1,000 active companies in such sector; the variable independence of the Coface sector @rating

| | |
|-------------------|-------------|
| R Multiple | 0.685450455 |
| R Square | 0.469842327 |
| Adjusted R Square | 0.444596723 |
| Standard Error | 18.64959581 |
| Observations | 23 |

Table 4. Top sectors depending on the Coface sector @rating and the number of insolvencies for 1,000 active companies

| Sector of activity | 2012 top sector @rating | 2012 consolidated sector @rating | Top insolvencies for 1,000 active companies | Insolvencies for 1,000 active* companies | Total turnover of companies individually analyzed by Coface in 2012 (MIL RON) | Total turnover at a national level (MIL RON) | % (Turnover of companies analyzed by Coface / Turnover at a national level) |
|---|-------------------------|----------------------------------|---|--|---|--|---|
| Real estate transactions | 1 | 4.09 | 2 | 111.64 | 2,440.65 | 8,959.89 | 27.24% |
| Recreational, cultural and sports activities | 2 | 4.09 | 4 | 105.11 | 2,698.96 | 9,027.44 | 29.90% |
| Hotels and restaurants | 3 | 4.10 | 3 | 111.17 | 3,988.85 | 12,777.83 | 31.22% |
| Transportation | 4 | 4.29 | 5 | 95.63 | 27,407.75 | 47,738.40 | 57.41% |
| Metallurgic industry | 5 | 4.50 | 7 | 89.68 | 26,102.22 | 47,599.51 | 54.84% |
| Constructions | 6 | 4.52 | 1 | 123.67 | 34,780.64 | 73,520.02 | 47.31% |
| Other services, provided mainly to enterprises | 7 | 4.52 | 20 | 51.18 | 10,801.52 | 35,921.96 | 30.07% |
| Retail | 8 | 4.57 | 9 | 84.39 | 53,623.89 | 121,456.10 | 44.15% |
| Food and beverage industry | 9 | 4.58 | 11 | 78.09 | 30,413.59 | 42,606.10 | 71.38% |
| Wholesale and distribution | 10 | 4.60 | 10 | 83.55 | 126,508.59 | 259,572.10 | 48.74% |
| Extractive industry | 11 | 4.71 | 12 | 77.87 | 21,398.95 | 27,495.06 | 77.83% |
| Manufacture of wood and wooden products | 12 | 4.72 | 6 | 94.65 | 19,333.32 | 27,252.88 | 70.94% |
| Agriculture | 13 | 4.76 | 18 | 59.95 | 21,054.29 | 30,766.12 | 68.43% |
| Manufacture of textile products, clothing and footwear | 14 | 4.82 | 8 | 86.35 | 11,863.74 | 17,122.05 | 69.29% |
| Manufacturing chemicals | 15 | 4.85 | 13 | 74.70 | 41,231.86 | 47,431.57 | 86.93% |
| Other personal services | 16 | 4.86 | 19 | 59.41 | 1,284.00 | 5,144.95 | 24.96% |
| Financial brokering | 17 | 4.87 | 15 | 68.37 | 3,440.72 | 4,117.57 | 83.56% |
| IT | 18 | 4.87 | 22 | 38.85 | 7,110.48 | 21,427.19 | 33.18% |
| Health care and social security | 19 | 4.88 | 23 | 20.02 | 1,918.79 | 4,800.27 | 39.97% |
| Post and telecommunications | 20 | 4.92 | 21 | 45.91 | 8,793.41 | 18,154.87 | 48.44% |
| Manufacture and provision of electrical and thermal energy, water and gas | 21 | 5.00 | 17 | 60.56 | 50,173.03 | 59,448.07 | 84.40% |
| Sewage and waste disposal, sanitation and similar activities | 22 | 5.03 | 14 | 73.70 | 6,621.78 | 13,822.66 | 47.91% |
| Manufacture of machinery and equipment | 23 | 5.19 | 16 | 64.98 | 44,041.62 | 67,330.49 | 65.41% |
| Total | | | | | 557,032 | 1,003,493 | 56% |

*obtained by eliminating the companies with a 2011 annual turnover below KRON 50

4.3. Individual analysis of the biggest insolvencies in 2012 by Coface

From the 23,665 newly opened insolvencies in 2012, detailed financial information could be identified for 11,008 companies, as they submitted the financial statements to the MPF for the activity performed in 2011. From the 11,008 companies, 486 companies registered a turnover higher than MEUR 1 in 2011.

From the 486 companies, 212 were found as being individually analyzed by Coface in 2012, and 152 in 2011. The distribution of such companies by Coface class risks further to the credit analyses made in 2011 and 2012 confirm the high insolvency risk estimated by Coface before such companies actually became insolvent.

Thus:

- Further to the individual analysis made in 2011 for the 152 companies and based on the consolidated risk calculated by Coface, such companies were classified at the lower margin of the NIG class, the average rating being 3.39. Such rating indicates an insolvency risk above the average level for the next 12 months, which was confirmed in 2012.
- Further to the individual analysis made in 2012 for the 212 firms and based on the consolidated risk calculated by Coface, such companies were classified at the lower margin of the NIGA class, the average rating being 1.29. Over 80% of them were analyzed in 2012, but before the first insolvency mention with BIP. Such rating indicates a very high insolvency risk for the next 12 months.

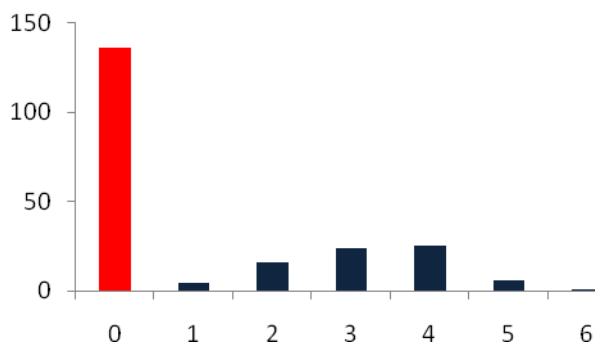
Table 5 – 2012 Coface @rating

| 2012 @rating_ | Number of companies | Total turnover MEUR |
|----------------------------|---------------------|---------------------|
| 0 | 136 | 862.97 |
| 1 | 4 | 12.05 |
| 2 | 16 | 61.35 |
| 3 | 24 | 194.97 |
| 4 | 25 | 236.18 |
| 5 | 6 | 24.09 |
| 6 | 1 | 2.12 |
| Not verified | 274 | 1,819.66 |
| Grand Total | 486 | 3,213.40 |
| 2012 average rating | | 1.29 |

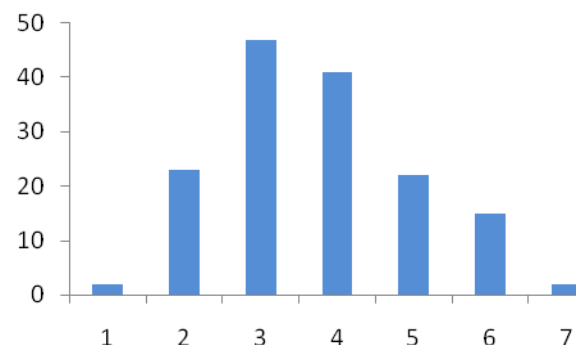
Table 6 – 2011 Coface @rating

| @rating_2011 | Number of companies | Total turnover MEUR |
|----------------------------|---------------------|---------------------|
| 1 | 2 | 8.97 |
| 2 | 23 | 115.10 |
| 3 | 47 | 504.33 |
| 4 | 41 | 245.09 |
| 5 | 22 | 58.41 |
| 6 | 15 | 46.10 |
| 7 | 2 | 3.12 |
| Not verified | 334 | 2,232.28 |
| Grand Total | 486 | 3,213.40 |
| 2011 average rating | | 3.39 |

2012 @rating



2011 @rating



5. Financial and social dimension of insolvent companies

This section analyzed the companies for which the insolvency proceeding was opened in the last three years, based on the financial statements submitted to the MPF one year before the insolvency started³. The classification of enterprises by size categories was performed in compliance with the provisions of Law no. 346/2004 on the encouragement of the setting up and development of small and medium enterprises, as subsequently amended and supplemented, which sets forth the criteria of including the companies in these categories. Thus:

- **Micro-enterprises** - have up to 9 employees and make a net annual turnover or own total assets of up to EUR 2 million, lei equivalent
- **Small enterprises** - have between 10 and 49 employees and make a net annual turnover or own total assets of up to EUR 10 million, lei equivalent
- **Medium enterprises** - have between 50 and 249 employees and make a net annual turnover of up to EUR 50 million, lei equivalent or own total assets which do not exceed the lei equivalent of EUR 43 million
- **Large enterprises** – have between 250 and 999 employees
- **Very large enterprises** - have over 1,000 employees

For the companies which have maximum 249 employees, exceeding one of the inclusion criteria triggers the registration of the company in the next category of size.

Based on the financial information submitted to the MPF for the activity performed in the year preceding the entry into insolvency, we notice the following:

- The average value of the turnover made by the companies which became insolvent in 2012 as a result of the activity performed in the year preceding the entry into insolvency, is 12% higher than that of the companies which became insolvent in 2011.
- The social dimension of the companies which became insolvent in 2012 is similar to that of the insolvent companies of the previous year, they registering on the average 8.24 employees.
- Even if, from a numeric point of view, the weight of medium, large and very large enterprises only represented 3%-4% of the total companies which became insolvent in the last 3 years, the weight of the turnover registered by them in the total increased significantly, from 46% in 2010 and 44% in 2011 to 64% in 2012.
- The same trend can also be noticed for the weight of debts depending on the size category of insolvent companies. Thus, the weight of the debts registered by medium, large and very large enterprises increased constantly in the last three years, from 38% in 2010, to 41% in 2011 and 54% in 2012.
- In exchange, the average of the debts registered by the 2012 insolvent companies was stabilized at MRON 2.3 /company, a level comparable to that registered by insolvent companies in the last two years.
- Despite this fact, the 2012 insolvent companies registered debts higher by 53% than the turnover, a lower level registered by the companies which became insolvent in the previous year, for which the value of debts was almost double as compared to that of the turnover. It is exclusively due to the medium, large and very large companies having a higher weight for the insolvent companies in 2012.
- The companies which became insolvent in 2012 registered a net loss of -15 % of the turnover, a lower level as compared to that registered by the insolvent companies of the previous year, for which the net loss was -17%.
- The companies which became insolvent in 2012 registered an indebtedness degree⁴ of 61% from the total assets, a lower level as compared to that registered by the insolvent companies in the previous year, for which the average indebtedness was 112%.
- The companies which became insolvent in 2012 registered an average receivable collection duration of 145 days, a lower level as compared to that registered by the insolvent companies in the same period of the previous year, for which the average DSO was 196 days.

Thus, an increase of the financial caliber of the companies which became insolvent in 2012 is noticed, as compared to the same period of the previous year, which determined the increase of the turnover and of the debts of insolvent companies, but at the same time also the decrease of the rate of loss, indebtedness and average receivable collection duration. This is due to the profile of medium, large and very large companies which record better financial indicators than the values corresponding to small enterprises.

The conclusions drawn from the analysis of the sample of insolvent companies in the current year are confirmed by the

³ For instance, the companies for which the procedure was opened in 2012 were analyzed based on the financial statements submitted to the MPF for the activity performed in 2011.

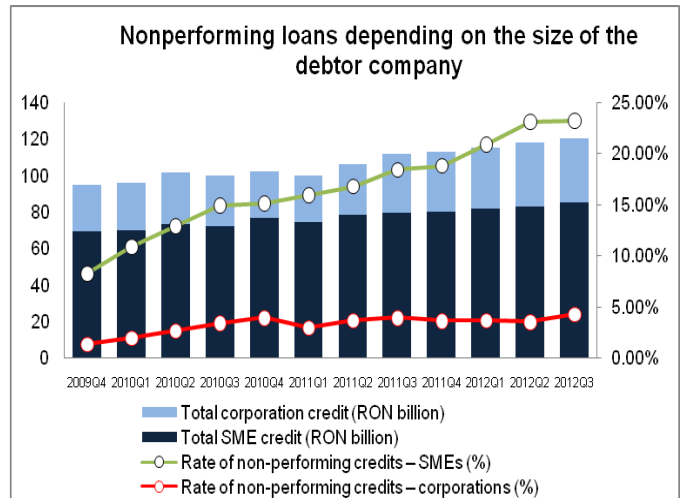
⁴ Total Debts compared to Total Assets

trends noticed at a national level.

Thus, according to the stability report published by the NBR in July 2012, the companies' analysis by the size criterion indicates that small and medium enterprises registered an increasing credit risk (the rate of non-performing credits in the case of SMEs was 23.2% in July 2012, as compared to 15.1% in December 2010, while in the case of corporations the rate of non-performing credits was 4.3% in July 2012).

The increase of the risk for SME occurred due to:

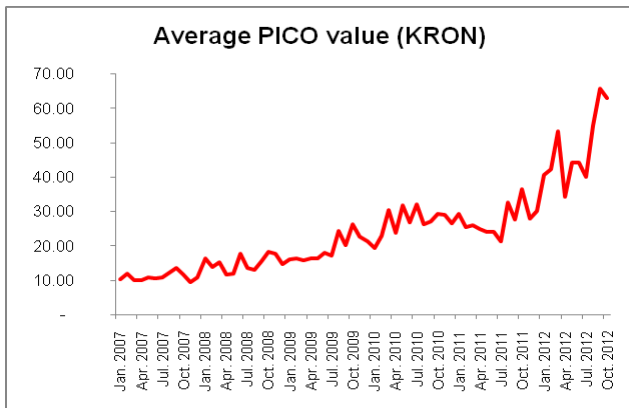
- A subunit rate of coverage of expenses related to profit interests (0.8 in December 2011⁵);
- The cash flows generated from the base activity decreasing by 7.3% (December 2011 as compared to December 2010), the diminishment of the gross profit margin.



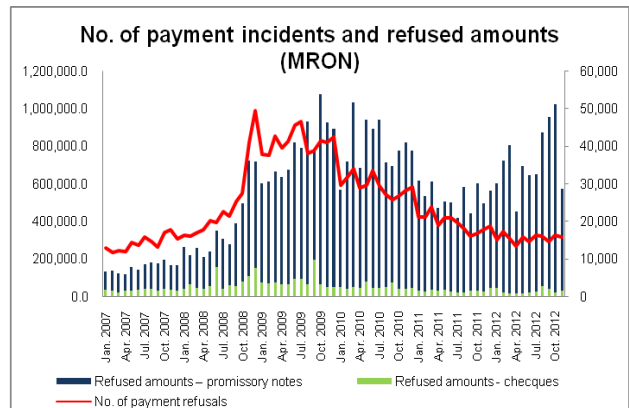
Source: NBR, Stability Report, Data processed by Coface

Also, according to the data published by the PICO⁶, the amounts refused for payment with debit instruments in the first 11 months of 2012 totally amounted to RON 8 billion, higher by + 38%% as compared to the same period of the previous year. The increase of the amounts refused for payment was significant in the second half of 2012, given that the advance of payment incidents in the January-June 2012 period as compared to the same period of the previous year was 21.27%. Given that the number of the payment incidents registered in the first 11 months of 2012 decreased by -21% as compared to the same period last year, the average value of payment incidents increased in the analyzed period by 75%. Thus, the average of the payment incidents registered in 2012 was RON 47.2 K, as compared to the level registered in the previous year, i.e. RON 26.9 K.

In line with the extension of the period for collecting receivables from economy, the tendency may indicate a deterioration of the payment behavior regarding the observance of debit instruments which might cause companies to require the partial or full payment in advance in order to protect themselves against the commercial credit risk.



Source: NBR, PICO, data processed by Coface



Source: NBR, PICO, data processed by Coface

⁵ According to MF and NBR

⁶ Payment Incident Central Office

6. Evolution in time of insolvent companies

This section analyzed the consolidated financial statements for the last four complete financial years related to the companies which became insolvent in 2012. Thus, from the total companies which became insolvent in 2012, 6,494 companies submitted the financial statements in the last 4 years⁷, they representing 25% as a numeric weight, but over 80% weight from the consolidated turnover of insolvent companies in 2012. Analyzing the evolution of financial indicators in the last four years, we notice several structural causes which led to pressures on cash and the entry of the analyzed companies in payment incapacity. Thus:

- The 2011 year marked a contraction of the consolidated turnover of -16% as compared to 2010, the highest decrease being registered by micro enterprises, *i.e.* -40%. Please note that the companies which became insolvent in 2012 registered annual decreases of the turnover in all the analyzed 4 years.
- The net consolidated loss increased in 2011 to RON 1.9 million, by 156% as compared to the level registered in the previous year, *i.e.* MRON 750.
- On the background of the losses accumulated in the last years, and given a poor support on the part of shareholders, the medium, small enterprises and the micro enterprises registered negative equity in 2011.
- The indebtedness degree for the analyzed companies also increased to 57% in 2011, as compared to the 50% level registered in 2010.
- The average duration of receivables collection registered at a consolidated level in 2011 was 145 days, continuing the upward evolution in the last four years. Please note the negative subunit elasticity of receivables depending on the turnover dynamics in the 2010-2011 period. Thus, the consolidated turnover decreased by -17% while the receivables increased by +6%. The largest increase of the duration for collecting receivables was recorded again by micro-enterprises and small companies, 237 days respectively.

Comparing the dynamics of financial indicators for the companies which became insolvent in 2012 to that registered by the companies which became insolvent in the previous years, we notice that the 2012 insolvencies are related to certain companies with a higher vulnerability degree, which had less significant internal and external shocks as compared to those in the previous years. Thus, as we can notice in the table below, the companies which became insolvent in 2012 registered lower contractions of the turnover, a lower indebtedness degree, a lower loss rate and a lower DSO. Despite this, the number of companies which became insolvent is rising constantly.

Table 7 – Comparison of financial indicators for the insolvencies in the last three years

| Indicator | 2012 | 2011 | 2010 |
|--|---------|---------|---------|
| Number of companies which became insolvent, of which: | 23,665 | 21,499 | 19,650 |
| - they submitted the financial statements in the previous year | 11,008 | 8,153 | 7,902 |
| - they submitted the financial statements in the last 4 years | 6,194 | 6,650 | 7,468 |
| Decrease of the turnover as compared to the previous year | -17.00% | -24.00% | -32.00% |
| Indebtedness degree | 57.00% | 112.00% | 97.00% |
| Net profit/loss rate | -14.00% | -18.00% | -17.00% |
| DSO | 145 | 182 | 185 |
| Degree of debt coverage through the turnover | 66% | 53% | 55% |
| Capitalization degree | 36% | -14% | -2% |

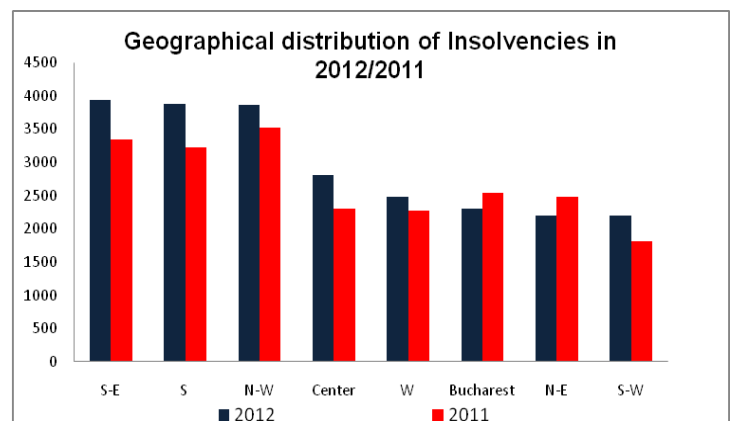
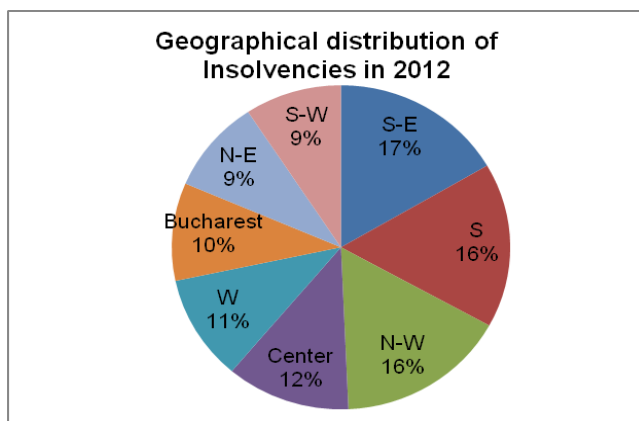
⁷ Related to the activity performed in 2008, 2009, 2010, 2011

7. Territorial distribution of insolvent companies

The territorial distribution of insolvency cases in 2012 had, in line with the similar variations in the past for this indicator, important modifications as compared to the situation existing in the same period of the previous year. Thus, the most affected three areas from the point of view of the number of insolvencies registered in the current year were S-E, S, and N-W, they concentrating approximately half of the total insolvencies registered in the analyzed period, and two digit increases (+17% , +20%, +10%) as compared to the same period of the previous year.

The only areas in which the number of insolvencies registered in the current year decreased as compared to the same period of the previous year are in Bucharest and N-E, which registered a decrease of -9.44%, and -10.96%.

| Area | 2012 | 2012 weight | 2011 | 2010 | Variation 2012/2011 |
|--------------|---------------|----------------|---------------|---------------|---------------------|
| S-E | 3,931 | 16.61% | 3,346 | 3,208 | 17.48% |
| S | 3,877 | 16.38% | 3,228 | 2,468 | 20.11% |
| N-W | 3,858 | 16.30% | 3,524 | 3,491 | 9.48% |
| Center | 2,813 | 11.89% | 2,305 | 2,289 | 22.04% |
| W | 2,486 | 10.50% | 2,265 | 2,127 | 9.76% |
| Bucharest | 2,303 | 9.73% | 2,543 | 2,006 | -9.44% |
| N-E | 2,202 | 9.30% | 2,473 | 2,221 | -10.96% |
| S-W | 2,195 | 9.28% | 1,815 | 1,840 | 20.94% |
| Total | 23,665 | 100.00% | 21,499 | 19,650 | 10.07% |



8. Methodology remarks

- This study considered the insolvencies newly opened in each of the analyzed periods (years: 2010, 2011, 2012), based on the data published by the BIP (Bulletin of Insolvency Proceedings). For instance, all the companies with insolvency proceedings opened in the January-December 2011 period (according to BIP) and not registered as operating as at January 15, 2013⁸ (according to the National Office of the Register of Commerce) were deemed as newly opened insolvencies in 2011.
- The analysis of financial indicators for the companies taken into account was exclusively based upon the financial statements submitted to the MPF in the analyzed period, based on the data processed by Coface.

⁸ Only the companies falling under the incidence of law 85/2006, having as their status: bankruptcy, insolvency or de-registered (according to the National Office of the Register of Commerce) were considered. The companies falling under the incidence of law 359/2004 or 31/1990, and the companies still in reorganization as at January 15, 2013 were not considered.



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