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Trade Line

2008 Coface Country Risk Conference

coface
YOUR TRADE RISKS, UNDER CONTROL.

how and why

Forecasters generally seem to follow each other like sheep. When one forecasts growth of 2%, another predicts 1.8%, and a third opts for 2.2%. This year, it is different: some estimates are as much as three times as high as others.

Why? Because no one knows exactly where the threshold effect lies, from which the American property crisis will bring down the world economy.

Amidst this climate of uncertainty, Coface can be nothing short of proud of the discipline it has displayed. Jérôme Cazes, Coface's CEO, stresses that the company has never attempted to separate themselves from the risks it covers via off-balance sheet practices. Numerous financial organisations are unable to say the same, and it is the lack of responsibility shown by some of these organisations that has created the financial tensions we are seeing today - the consequences of which were discussed at the Country Risk Conference. Given the fact that 1,200 participants were in attendance, differing viewpoints often emerged. Coface, however, favoured a mid-point hypothesis. Whatever the circumstances, in view of the threats facing the world as a whole, it is becoming increasingly necessary to improve our tools. We have included a breakdown of this issue in the Trade Receivables section. All this is part of an increasing internationalisation of our business lines, which encompasses essential issues in terms of human relations, organisation and communication.

If you would like to obtain further risk information, country by country or sector by sector, subscribe to our free information bulletin "@rating News Letter"

To subscribe, go to the following web address: www.cofacerating.com/home/newsletter.html

2008: under the sign of financial and geopolitical tensions

Three conclusions

By **Jérôme Cazes**,
Coface CEO.

Jérôme Cazes shares with Trade Line readers his initial conclusions drawn from the financial crisis, with regard to both Coface and the world economy in general. He also outlined these conclusions at the 2008 Coface Country Risk Conference.

Looking at both our own situation and that of our 120,000 clients (which sub-contract the management of their risks to us) throughout the world, we can see three consequences.

Firstly, we expect to see a rise in the number of bankruptcies and payment defaults in 2008. This represents approximately 10% in our "optimistic" hypothesis, which does not forecast a recession in the United States. It represents around 20% in our "pessimistic" hypothesis, however the scenario envisages a recession in the United States. Whatever the circumstances, the situation is better for companies at present than it was in 2001. We are therefore excluding a repetition of the credit crisis of 2001, which caused a 30% increase in the number of payment defaults.

Secondly, we are going to raise the risk price by approximately 10% in our premiums for new contracts. This nevertheless represents a relatively modest adjustment in relation to the one implemented by the banks, whose spreads have tripled since the crisis.

The third consequence is that we are forecasting a rise in demand for our credit-insurance, company information, company rating and factoring proposals, but a fall in demand for securitisations and unsecured loans.

As far as the economy is concerned on a worldwide scale, Coface has observed two important aspects with regard to the consequences of this crisis.

Firstly, in our capacity as a credit-insurer, we are only covering the risks that we know, and we are retaining these risks.

Our position may have seemed somewhat outdated, considering that the most expert and solid players in the economy were discarding their risks to other, less expert and less solid players. Nevertheless, the crisis has shown that we were right.

Indeed, what have we been hearing over the last few years from certain governors of Central Banks or leading economists? That a market economy is stronger when it spreads its risks over as many players as possible. And we have seen the number of innovative initiatives multiply in this area…e.g. property loans for private clients with variable interest rates, after two numbing years of fixed rates at "clearance" prices; or so-called "monetary" investments with mysterious content and high commissions; and even securitisations with even more mysterious content, and with even higher commissions.

The crisis has shown that this idea of spreading out the risks is false and can even be dangerous.

Since the 19th century, our market economies have progressed by concentrating financial risks in the balance sheets of specialists, banks and insurers, and the expertise, assets and liabilities of these specialists were all controlled. The result was 200 years of successful specialisation. But then, over the last ten years, we have done the exact opposite.

The control bodies have hailed the creation of financial vehicles with the sole, dedicated objective of removing risks from banks' balance sheets (whilst retaining part of their revenues) as a fantastic innovation.

The current collapse has reinforced the concept of specialisation, which credit-insurers believe is the right way.

Coface is also a rating agency. We rate the payment default risk for over 50 million companies throughout the world. Furthermore, we were awarded the status of "Basle 2 rating agency" by the French Banking Commission in 2007 and we are currently in the middle of discussions with other countries to extend this acknowledgement.

We only rate risks that we would be prepared to cover. At a time when shedding one's responsibilities seem to be the norm, this promise also seems to be somewhat out of date!

The crisis, however, has brought to light the extreme fragility of the other model, i.e. that of the major Anglo-Saxon rating agencies.

How is it that all these financial vehicles with their abstruse content have so quickly found so many clients? Because they have donned the increasingly familiar robes of the agencies' triple A rating, which has become synonymous with "zero risk"! By attributing a triple A rating to a risk that has been known for the last 100 years, such as a major American company, and the same triple A rating to another risk, conversely in this case unknown and difficult to understand, such as an ABS CDO*, for example, the two risks are miraculously made identical. A financial vehicle, however, can by no stretch of the imagination be compared to a joint-stock company. It has no shareholders, no management, no history, and no one really considers themselves responsible for it.

It is only the dynamic players, such as banks or rating agencies, which have implemented this shift (that is nothing more than a play on semantics). And logically so. What is much less logical (not in the slightest bit logical at all in fact) is that the control bodies, and notably the American organisations, have allowed them to do this. They have even (for a good while now) been asking their rating agencies to carry out a royal public service mission, i.e. to nominate the investments that regulated fund managers are authorised to acquire. They have consequently been providing these agencies with the power to print money, as the triple A rating generates huge value for the beneficiary. And they have also allowed these agencies to extend this miraculous power to cover any asset, without any control whatsoever. This approach could indeed be compared to the Law system in force under the French Regency in the 18th century, with the multiplication of its "assignats" (banknotes used during the French Revolution). The level of inflation is the same, as there are now only 5 "genuine" triple A rated companies in the United States, whereas there are 5,000 triple A rated financial vehicles!

At Coface, we only rate companies; and we strongly suggest that all the agencies do the same.

The cost of all this will run in to billions of euros, but above all will weaken the principal driving force behind a market economy, i.e. the consensus with regard to the rules, such as rating, prices, and the equity of the regulations.

www.coface.com

(*) ABS: Asset Backed Securities
CDO: Collateralised Debt Obligations

2008: under the sign of financial and geopolitical tensions

Country Risk Conference

By **Christine Altuzarra**,
Coface Analyst - Department of Country Risk and Economic Studies.

On January 22 of this year, the 12th Coface Country Risk Conference was held in Paris, amidst a turbulent current news environment. The day before, a violent storm hit the Asian and European stock exchanges, and New York plunged into a downward spiral the following morning. On the same day, the Federal Reserve lowered its rate by 0.75 basis points. The 'headlines' were awash with the risks of a recession and world crisis. Recession or no recession in the United States? This was the question. And where does China lie in all this? What were the risks for the Middle East, India and Pakistan?

Would Russia return to the forefront of the international stage with its energy giving arms ? The following report goes round the world in a day.

François David,
Chairman of Coface

At the very start of the conference, **François David**, the Chairman of Coface, put forward a mid-range hypothesis for American growth, refusing to follow the lead of either the pessimists or the optimists.

He declared that there would clearly be an extended slowdown in the American activity in 2008, but a full-on recession (i.e. two consecutive quarters of decline) should be avoided.

On a worldwide scale, growth in 2008 would be weaker than in 2007, but the expansion of the domestic markets in China, India and several other large emerging countries should soften the blow. Despite a tightening of credit, the European economy should see less of a slowdown than the United States.

In recession or not recession?

Nouriel Roubini (Chairman of RGE Monitor and Professor of Economics and International Business at the Stern School of Business University of NewYork) is firmly on the side of the pessimists. Alluding to the commonly-used metaphor that *"when the United States sneezes, the rest of the world catches a cold"*, he declared: *"Today, the United States are not going to suffer from a slight chill, they are going to go down with a severe case of pneumonia".* The 1,200 participants at the conference were somewhat shaken by this message and were found little reason to be consoled when Mr Roubini went on to stress that the world economic slowdown would release the inflationary pressures. It is no longer a question of a "soft landing". The American economy has already crash-landed with the explosion of the property bubble. Considering that the amount of property coming onto the market is expected to increase yet further and the value of their housing is likely to fall, households will no longer be able to *"use their housing as a cash point".* And in the aftermath of the euphoria created by the "richness effect", there is now a feeling of impoverishment reinforced by the fall in stock prices.

Nouriel Roubini

The property loan and mortgage restrictions already in place will extend to consumer loans. 70% of growth, however, is dependent on the frenetic spending of households, which are now *"tired of buying".* The credit and liquidity crisis brought about by the level of mistrust displayed by the banks will lead to the risk of a systemic financial crisis, i.e. property bubbles throughout the world will start to deflate and investors will become increasingly averse to taking risks. The lowering of the Fed rates will only limit the scale and the duration of the recession.

Alexandre Adler,
Adviser to the Figaro Management

The microeconomic "decoupling" of Europe

Michala Marcussen (Director of Economic Research and Strategy at Société Générale Asset Management) provided a touch of hope with her insight, following the rather black picture painted by Nouriel Roubini. The European economies, she said, are not condemned to be a disappointment, despite the fact that the *"hopes of a macroeconomic decoupling with the American economy seem to be vanishing".*
Credit terms, not just for big companies but also for small businesses and individuals, will become more restrictive, the construction sector will see a slowdown and the strong Euro will handicap exports, but the restructuring initiatives implemented by European companies and their increasingly marked positioning in the dynamic markets of the emerging zones suggest a microeconomic "decoupling". With regard to the reforms to be initiated by governments, Michala Marcussen drew attention to the fact that… *"Germany, which up until now has been a driving force behind growth in Europe, seems less inclined to continue with its reforms, with the project for a minimum salary. This is clearly good news for households but not for company competitiveness".* However, according to Michala Marcussen, France is implementing a reform programme for the labour market, pensions, universities, distribution and the banking sector, which is likely to generate some momentum for companies.

Michala Marcussen

Patrick Artus

What will be the next bubble?

Patrick Artus (Director of Research and Studies at Natixis) replied to the question: *"Have the markets become uncontrollable?"* by listing the bad financial practices that have led to this serious banking crisis.

The search by investors for high-yield assets, combined with the liquidity excess, is creating successive bubbles. Fearing that the more flexible monetary policy adopted by the Federal Reserve could lead to the creation of new bubbles (in raw materials, the emerging markets and new technologies - where the fabric has been streamlined?...), Patrick Artus advocates the *"necessary return to a reasonable valuation of risks and a demand for acceptable yields".*

This approach was underlined by **Emmanuel Babeau** (Deputy General Manager in charge of Finances at Pernod Ricard) and **Christian Labeyrie** (Financial director for the Vinci group), who are delighted to have made acquisitions over the last two years in good conditions, without having to resort to major debt. It is now much more complicated to set up credit lines or gain access to financing in order to carry out external growth operations or major investments. The companies that have aimed for a two-digit return on investment and are today too heavily in debt are likely to be a target for corporate raiders if stock prices fall. Emmanuel Babeau confirms that a financial director must be able to resist the trumpeting of investment companies. On the question of sovereign funds, hedge funds and private equity players - examined by **Jean-Hervé Lorenzi** (Professor at the Paris-Dauphine University and Chairman of the "Cercle des Economistes" - circle of economists-) - the two financial directors seem to show a fair degree of restraint. They consider that, overall, these structures maintain close links and a good level of dialogue with company managers.

Emmanuel Babeau

Christian Labeyrie

Jean-Hervé Lorenzi

Manu Baskaran

China-India: An irresistible expansion

Will the emerging countries continue to spur the world economy in 2008? **Manu Bhaskaran** (Centennial Group Singapore) provides a positive response. In spite of their structural handicaps, China and India are continuing to expand, forcing the other economies to adjust and the prices of raw materials to soar. *"This is the price that has to be paid if the world economy is to be more resilient".* Mr Bhaskaran considers, however, that these two giants remain vulnerable.

In China, amidst a background of environmental emergencies and demographic challenges, tensions are increasing between the agricultural world and the well-off classes in the big towns. A lack of labourers is gradually starting to be felt with the consequence of an increase in salaries and a rise in inflation. Speculative acquisitions of capital are intensifying, influenced by the gradually rising yuan, and this overheating is impacting company margins and their profitability. India is suffering from the coalition in power formed by ten parties, which is hindering reform. The serious ageing of the airport and road infrastructures is broadening the gap between the countryside and the towns. The rupee remains strong as a result of the influx of capital, which is having a negative impact on local companies, although these companies are nevertheless increasing their presence in the foreign markets. The birth rate is falling as a result of the improvements made to the quality of life and the level of instruction. It nevertheless remains sufficiently high enough to maintain a young labour force.

The political tensions between these two giants are likely to increase, but fortunately, they will both be careful to avoid a conflict.

"The co-operation that they could implement within the IMF or the World Bank should in fact make it possible to avoid any confrontation with regard to the monopolising of resources".

China in Latin America and Africa: A partner or competitor?

China's manoeuvring in Latin America and Africa in order to ensure the regular supply of agricultural and staple products and energy is now clearly visible. Is this a threat for the economies of these two major zones? **Javier Santiso** (Part-time director, Development centre, Head Economist, OECD) replies that, on the contrary, it is a godsend for Latin America. By stimulating Latin American exports (with the exception of Mexico and Central America, which remain closely linked with North America), China represents *"an outlet for huge quantities of local products".* Better still, it *"becomes a positive and tangible support for flows of capital"*, participating in the modernisation of local infrastructures and investing in the powerful manufacturing industries of certain countries. A disadvantage, however, is that product specialisation has recently increased in the region; Javier Santiso warns that: *"it will nevertheless be necessary to avoid becoming too dependent on a few products that will cause problems in the long-term".* Fortunately, numerous countries in the zone have already been diversifying for several years now the geographical outlets for their exports, which are gradually becoming more balanced between the United States, Europe, Asia and the other Latin American countries. With regard to the role of China in Africa, **Chris Alden** (Senior Lecturer in International Relations at the London School of Economics) paints a rather mixed picture. The trading boom essentially relies on the export of oil. Yes, China has the capacity to meet Africa's requirements by proposing a complete range of services (donations, loans, low-cost credit lines, budgetary support, etc), and training the local labour force, but it is weakening the development model, producing manufacturing goods at lower costs than those operated locally and by creating new bases on this continent. Its increasing presence is now visible in all the countries, well behind Europe but rapidly catching up. *"In this context, the African governments should remain vigilant, despite the seductive efforts made by China, if they are going to continue to look for the diversification of their foreign partners".*

Javier Santiso

Chris Alden

The Middle-East, Russia and Pakistan: Political tensions and the energy lever

Walter Posch

The Conference concluded by examining the major geopolitical issues. **Walter Posch** (Senior Research Fellow at the European Union Institute for Security Studies) analysed the current threats to the prosperity of the Gulf countries. The region is like a barrel of gun-powder, and it is not out of the question that a lit fuse, which could originate anywhere, causes widespread havoc. Given the current situation, however, the threat primarily comes from Iran which could destabilise this zone by playing the "Shiite card", despite the fact that this represents a weak asset. A blocking of the strait of Hormuz is only conceivable in the event of an American-Israeli attack, which is *"less probable since the report submitted by the American secret services, i.e. Iran should remain in its state of semi-isolation".*

Russia has forced its way back to the forefront of the international stage, brandishing the energy lever. Is Europe in a position to suffer from this threat? **Nikolay Petrov** (Scholar-in-residence at Carnegie Endowment for International Peace, Moscow Center) stresses that it is in this post-Soviet zone that the risks of a confrontation are at their highest. The energy prices invoiced by Gazprom are heavily subsidised in the Russian domestic market. In fact they can be up to ten times lower than the prices that the same company invoices to entities in the ex-Republics, which have turned their back on Russia. Moreover, in view of the power of Gazprom, the other gas producers, such as Uzbekistan or Turkmenistan, are forced to propose prices that are below the market rate. Its standpoint is a strong one, as these two countries use the Russian gas pipelines to transport their gas. And even if the prices are regularly revised upwards, the commercial partners of the Russian giant are looking for ways to get round this dependence. This leaves Pakistan, where catastrophes seem to be on the horizon. **Christophe Jaffrelot** (Director of the CERI) believes that the period following the legislative elections could be a turbulent one. He thinks, however, that it will more be a case of a bumpy ride as opposed to a devastating storm.

Nikolay Petrov

Christophe Jaffrelot

2008: under the sign of financial and geopolitical tensions

The new Coface rating on the business environment

By **Olivier Oechslin**,
Senior economist - Department of Country Risk and Economic Studies.

Coface has been present in the company rating sector for several years now through its @rating brand, and has become a world player in this market, and one of the few rating agencies to evaluate country, sector and company risks, together with, since the beginning of 2008, the business environment. Assexport outlines this new rating for you.

Why has Coface created a new business environment rating?

When assessing a country risk, the essential factor to be taken into account is generally the global liquidity and solvency of a country. Coface has always had the specific characteristic of focusing its risk assessment around its microeconomic experience. As a result, in addition to macro-financial and political prospects, company payment behaviour is one of the factors taken into account in the Coface country and sector @ratings. Nevertheless, in order to improve the company credit risk approach, Coface was keen to place greater emphasis on the business environment. Indeed, in order to assess a credit risk, it is also important to know if the companies' accounts provide an accurate reflection of their financial situation and if, in the event of a payment default, the local legal system will ensure a fair and efficient settlement. By making a new business environment rating available to everyone, Coface will be sharing its experience of the different business climates in every country throughout the world. This rating is based on its world network and its experience in terms of risk subscription, business information and receivables management.

How is this rating arrived at?

The aim of this rating is to evaluate the global quality of the business environment in a given country. More specifically, it measures whether the accounts of a company are reliable and available, whether the legal system guarantees fair and efficient protection for creditors and whether the country's institutions represent a favourable environment for inter-company transactions.

As is the case with the country @rating, the ratings incorporate 7 levels, i.e. A1, A2, A3, A4, B, C and D (in increasing order of risk). This rating consists of two modules:

1/ The core of the new rating is based around Coface's experience in **the quality of information available on companies and the legal protection of creditors.** The module is constructed on the basis of questionnaire answers provided by all Coface's entities throughout the world.

2/ This rating based on Coface's experience is then completed **with a module on the quality of the institutional environment.** This module evaluates the quality of the institutions, the strengths and weaknesses of which may have an impact on companies, i.e. the efficiency of

public services (government, education, health, infrastructures, etc), the quality of the regulations, respect for the law and the degree of corruption. It is calculated on the basis of external data. These indices are generally compiled using data gathered from company surveys.
This new business environment rating will now be one of the components of the country @rating, alongside the macroeconomic and political data, and Coface's payment experience.

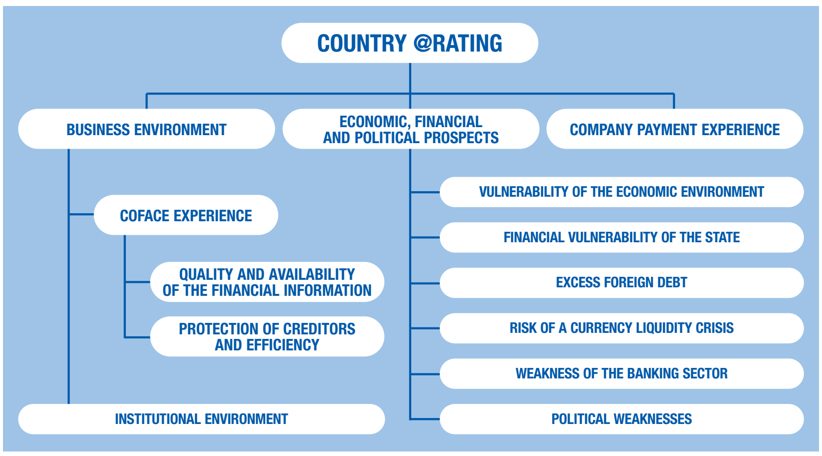
Yves Zlotowski, *Head of the Coface Country Risk and Economic Studies Department,* presented the new business environment rating at the recent Conference.

Where can one find the business environment ratings?

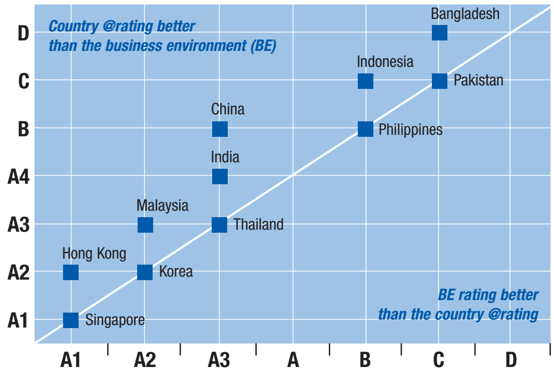
Go to the website cofacerating.fr, then click on "country in the world", Newsletter of December, 2007.

A comparison of the business environment (BE) rating and country @rating: using emerging Asia as an example

In Asia, the business environment (BE) in certain countries is unable to match the quality of the economic development and, above all, the financial situation, which has become very comfortable. As a result, the country @rating is often better than the business environment rating. Indeed, the latter may not be that good (poor application of the law, obstructing the recovery of receivables, lack of transparency in company accounts, widespread corruption, etc). Some countries with a very high country rating, such as Hong Kong (A1) and Malaysia (A2) even have a business environment rating a whole category below, i.e. A2 and A3 respectively. Despite the fact that both the legal system and the recovery of receivables are highly efficient, the



Business environment (BE)



difficulty encountered in obtaining information on businesses represents a major weakness.
India has been attributed a very satisfactory business environment rating for an emerging country (A4), but it is also a step below the country @rating, with the latter (A3) justified by its very strong growth, dynamic and solid companies and a very healthy financial situation. With regard to the business environment, financial information is available for large companies, but not for smaller companies. The legal environment is very satisfactory for an emerging country, which is a very valuable asset, but procedures are lengthy. Infrastructure deficiencies remain the biggest weaknesses for companies.

China has the biggest gap between the Coface country @rating (A3) and its business environment rating (B). There is a shortage in the amount of financial information available and it is often opaque. The reliability of accounts is in certain cases very average. The legal environment does not offer much protection for foreign creditors. The infrastructures, however, are relatively satisfactory and the labour force relatively well trained.
In Indonesia and Vietnam, the business environment rating (C) is also a class below the country @rating (B). In Indonesia, accounts are rarely available and, when they are, there are doubts over their reliability. Furthermore, there are still widespread corruption problems and the legal system remains slow and costly.
In Vietnam, company accounts are more widely available but the legal system and regulations are still below and hardly capable of sorting out disputes between economic players. The poor quality of the governance consequently remains the weak point of these two countries.
Globally, ten years after the Asian crisis, we can see that whilst the macroeconomic fundamentals have seen a significant improvement, the microeconomic reforms have not been so successful. ■

Innovations

A company's Trade Receivables represent all the 30-day and 60-day credits (and sometimes longer) that it grants as part of its commercial relations with other companies, either on its own territory or abroad. How could trade receivables management be optimised? Numerous companies, of all sizes, are asking themselves the same question throughout the entire world.

Coface, in its capacity as a risk analysis expert, assists companies in the control, management, protection and financing of their commercial debts, through four business lines… Company information, which enables companies to evaluate the financial situation of their commercial partners and their capacity to honour commitments. Credit insurance protects companies against possible client bankruptcy risks. Trade Receivables management, which offers companies a debt collection service, in order to recover any sums due. And Factoring, which enables companies to finance their commercial receivables by transferring them to a named third-party "factor", who is in charge of carrying out the recovery process. In this issue, Trade Line focuses on two initiatives that Coface has recently implemented: a new product, Globalliance Finance, combining the financing of companies' debt with the more traditional guarantee via credit-insurance; and Easy Number, a universal system for finding and identifying companies throughout the world. These two initiatives, together with all the guarantee services that they encompass, have been introduced in answer to the requirements expressed by the clients of Coface during their regular meetings. We list here the comments of companies interviewed during a meeting organised in December last year in Nantes, with nearly 200 of the region's companies.

A modular product: Globalliance Finance

Coface is innovating in the factoring market, by offering companies a complete guarantee for their receivables, together with access to financing, via the Globalliance Finance range.

A MODULAR INSURANCE PROPOSAL

As part of its Trade Receivables development strategy, Coface is launching two complete, all-country factoring solutions, working closely alongside Natixis Factor: **"Globalliance Finance Intégrale"** (Globalliance Integral Finance) and **"Globalliance Finance Liberté"** (Globalliance Finance Liberty). The principal characteristic of these products is that they offer, in addition to a cash-flow advance, a total receivables guarantee. The two solutions differentiate themselves through the proposed management profiles.

"Globalliance Finance Intégrale" is aimed at companies that wish for a complete outsourcing solution (i.e. "full factoring") for the management of their Trade Receivables.
"Globalliance Finance Liberté", however, targets clients that prefer to remain in control of their commercial relationships.

Coface is consequently adding to its proposal by offering companies, in addition to its usual company information/marketing, trade receivables management and credit insurance services, a complete factoring offering, either via Globaliance Finance or via its subsidiary Cofacrédit, for solely an export approach.

A new service: EasyNumber®

Eric Vaingnedroye, Coface Information Systems Director: *"We have created a universal system for finding and identifying companies, which has been made into an open system available to all companies".*

Coface and Creditreform (the German leader in credit management services) are launching a universal system for finding and identifying companies throughout the entire world, i.e. EasyNumber®. At the end of 2007, the two founders already had more than 40 million "Easyfied" companies in their database. The commercial launch has just been initiated. It will continue during the first half of 2008.

Trade Line interviewed Eric Vaingnedroye.

Trade Line (TL): Could you explain why Coface has got involved in a project of this type and what are the main characteristics?

Eric Vaingnedroye, Coface Information Systems Director

Eric Vaingnedroye (EV): Two reasons motivated our decision. One is based around our own requirements, and the other is linked to other companies' requirements.

As you know, Coface has four business lines for the management of companies' Trade Receivables, i.e. credit insurance, factoring, company information and trade receivables management. In order to develop these business lines, we have to manage databases carrying information on tens of millions of companies throughout the world. It is vital to be able to identify these companies in order to guarantee fluid exchanges between our business lines, the 65 countries where we have a presence and the 110,000 companies that entrust us with their Trade Receivables. As there is no open worldwide company identification system (i.e. freely accessible to all operators) we decided to build one internally, initially for our own needs.

AN OPEN SYSTEM

This requirement was clearly shared by the multinationals and, more generally, all companies working with the portfolios of large clients.

These companies encounter three problems: they have numerous databases that communicate poorly with each other (without a unique identification number); numerous data are listed twice; and many are incorrectly identified.

In order to construct this unique identification number, we joined forces with Creditreform and created a universal system for finding and identifying companies. We are making this system open and accessible to all companies, a complete directory with worldwide cover and one that is continuously being updated.

The project is very ambitious. We have placed it at the core of restructuring our information systems, launched in 2005. Once finished, this restructuring initiative will provide us with a new architecture, to which our subsidiaries/partners will be linked.

TL: Have you tested this new system?

EV: We began by testing this system on information companies and professional organisations in the market. On June 29 last year, we organised a conference in Brussels that attracted professionals from all over the world, from Europe to Japan: Business information companies as well as software manufacturers, such as Oracle and Selligent, which have already integrated EasyNumber® into their own systems. It goes without saying that we are implementing this new numbering system into the countries where both Coface and Creditreform are present. Furthermore, our shareholder Natixis has begun to install it in its files and is organising meetings with other banks.

The commercial launch has recently been initiated. The service is globally managed by EasyNumber Company (ENC), a company owned by Coface and Creditreform. It will be distributed worldwide by our partners. ENC will notably be responsible for introducing an audit right for users, who will therefore be able to check that the invoiced price is indeed indexed to the costs borne by the new entity.

TL: How does one access the different services offered? Is the information really reliable?

EV: EasyNumber® is accessible on line or via "web services" technology, which can be used with an existing application. It is relatively easy to build applications with and around this service. The system is independent of the existing national numbering systems, as it does not have a country code. It consequently removes the problem of national borders, and when a company changes country, it does not change its EasyNumber®.

The updating of this worldwide directory represents an ongoing challenge and is an essential process for the reliability and quality of the information we centralise and offer to our users. In conjunction with our partners, we have implemented input processes, making it possible to send modifications to existing identification data for a given company. This is what we call the 'monitoring' process.

TL: Why is it an open system and does this project have any equivalents?

EV: It's a strategic decision. We would like EasyNumber® to become a reference system, used by as many companies as possible. Several gaps still need to be filled. Examples:

• In France: we have the SIREN number. This is an extremely useful directory but it does not include associations, whereas there are 500,000 associations in France.

• For the last 10 years, a public approach has been in operation with a view to linking the different trade registers in existence within Europe. This project only covers Europe, however.

• Certain companies use the DUNS Number, by D&B, the American leader in company information. This service is a fairly rigid proprietary system, and it is subject to various access constraints and very strict usage regulations.

TL: What will the cost be?

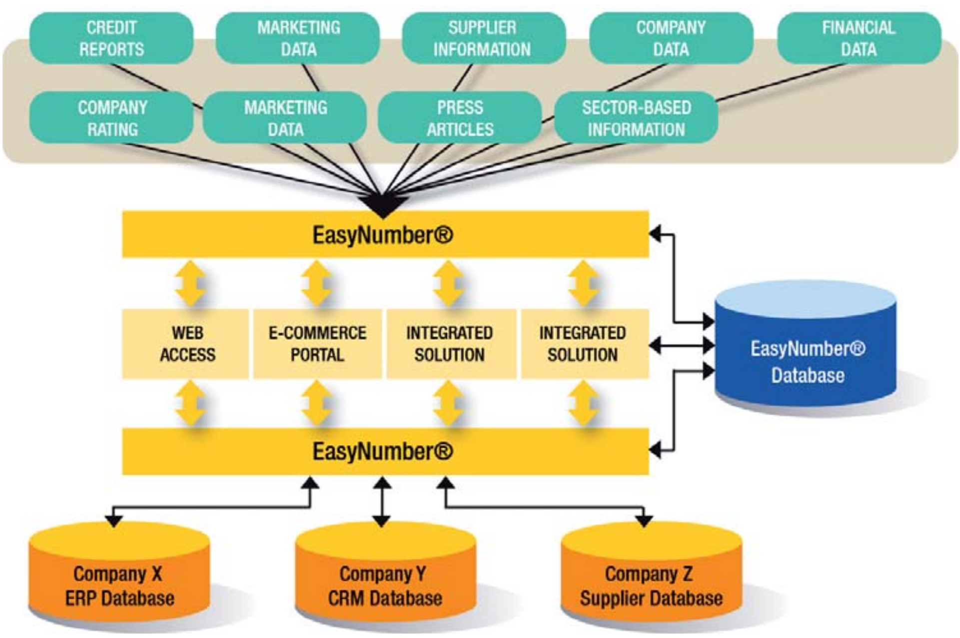
EV: Our objective is to offer the best company search and identification service at the best possible cost (a few dozen Euro centimes). This price will cover our internal production costs and will be audited by a committee of users.

TL: How can you guarantee the longevity of the system?

EV: There must indeed be a guarantee of longevity for companies that use the system. As we saw earlier, it is the system that Coface uses and is therefore hardly likely to disappear, as Coface itself is very unlikely to disappear!

Serious investments have already been made and our partnership with Creditreform is also synonymous with professionalism and continuity over time.

How EasyNumber® works



TL: What type of companies are interested in EasyNumber® and which departments within a company are likely to be most interested in this project?

EV: Potentially, all companies. All company departments (management, finances, accounting, sales, marketing, etc.) have databases for their clients, prospective clients or suppliers, and are consequently confronted with the same problems… i.e. identifying a commercial partner in a unique and uniform manner. EasyNumber® provides them with an ideal solution, bringing all these players under the umbrella of a universal number. ■

The rising solvency levels of Russian companies

By **Andrey Kolyagin**,
Managing Director of NRA Coface-ARB.

In conjunction with the Association of Russian Banks, Coface created the "Coface Credit Rating" (CCR) system in 2005 to help banks, insurance companies and public organisations in possession of portfolios of major risks, to evaluate the solvency level of Russian SMEs (small and medium-sized companies). This remains problematic, especially for regional companies. The CCR makes it possible to evaluate the capacity of a Russian SME to respect its short-term financial commitments (12-month score), together with the impact of any additional debt on its payment behaviour. Thanks to this tool, a bank, for example, can determine the range of risk that it should take when granting a loan to an SME. For Trade Line's readers interested in the Russian market, Andrey Kolyagin, Managing Director of NRA Coface-ARB, reminds us of the services offered and provides information on three sectors of the Russian economy: the digital camera market, the wood pulp and paper industry, and leases.

RISK EVALUATION

Ask your Russian client to be rated and assess your risk

Professional "tool" for assessment of solvency of Russian companies of different size, including medium and small business, was introduced in Russia. It is a solicited credit rating which is produced upon request of Russian companies based on the standards and technology of Coface - one of the international leaders in credit risk assessment and management. Coface rating agency in Russia can form the credit rating for any interested Russian company from any sector. The notation of Coface Credit Rating with comments to it gives to exporters, banks and investors good vision of the credit risk level. In the same time for Russian companies the rating is an efficient way of their visibility and recognition by partners.

The process of rating formation includes visits of analysts to the companies and evaluation of the sector of activities of Russian clients. It gives the possibility to prepare notes on some sectors of the Russian market for partners providing information in different countries to companies and banks in order to facilitate their business in Russia.

Notes on sectors of the Russian market

Digital Cameras Market

More than 90% of the Russian camera market is selling digital cameras. Since 2004 the size of the market has been growing at a fast pace and now the sales volume constitutes about 4 mil. cameras a year (about USD 1 bill.). In 2008 one can expect a further growth in demand for cameras, though the growth rates will be going down and will be most likely closer to 15-20%.

Today the biggest part of the Russian camera market is taken up by Canon, Nikon, Olympus, Samsung and Sony products. Rekam and Casio also make up a noticeable share of the market. However, there is no single leader.

The level of competition among camera distributors is rising together with the market growth, and those companies which are not taking steps today to promote their products in the regions with a great potential are risking to loose competitive advantages. That may affect their credit worthiness because of the decrease in the profitability of camera sales (today it is about 10%).

The number of sufficiently stable distributors of digital cameras is about 15 companies, and almost 70% of retail trade is made by home electronics stores and cellular communication departments. Only 5-10% of the products are marketed in specialized shops for photographic equipment.

In general, the market may be characterized as stable and promising with low market credit risks. But risks related to fast obsolescence of equipment should be taken into account.

The major part of credit risks in the process of the product delivery to Russia is related to the state of business of importers and distributors, the opportunity to obtain and to assess information of their credit worthiness.

Pulp and Paper Industry

Russia possesses more than 20% of the world's forests, but the share of the Russian pulp and paper industry in the world market does not exceed 3%. Nevertheless, the Russian market shows a huge growth in demand for paper and cardboard, the production of which in Russia is significantly lower compared to its demand. Therefore, the sale of these products in Russia is still of great interest to exporters while the risks of a decline in the demand for imported products are very low.

However, this demand is coupled with a growing interest from business circles and the state, which raises the credit risks of exporters related to competition and possible changes in the market regulation.

The state is becoming more active in this industry, creating conditions to develop national production companies and restricting the export of timber and import of processed products. Thus, in 2007 the export duties for timber rose up to 20%, in 2008 it is expected to reach 25% and in 2009 up to 80%.

Giving impetus to the national producers of processed goods, in 2007 the state abolished export duties for some types of pulp and paper products. Besides, in the same year the new Forestry Code was adopted that might have a significant impact on the growth of the industrial output and the increase in long-term investments in this sector.

Even though the pulp and paper industry is growing (in 2006 the growth rate was 100%) the production level is still low, which can be largely explained by the depreciation of the key assets (up to 70%) and the current under-development of road infrastructure.

Leasing

In 2007 Russia witnessed a rapid growth of the leasing services market. One can expect that in 2007 the cumulative portfolio of leasing companies in comparison to 2006 may increase by 2.5-3 times and will exceed USD 60 bill.

The major part in the volumes of leasing services is on railroad and engineering machines, motor transport, aero mechanics, power-generating, metallurgic, machine-building and telecommunications equipment. One can also expect a rise in supply of and demand for agricultural machines, packaging equipment, equipment for food industry and printing production.

Leasing supplies have been largely financed by borrowed funds. The share of leasing companies' internal resources in the structure of supply financing is about 10%. Difficulties in attracting borrowed funds are most badly felt by leasing companies which do not have direct links to credit institutions. There are also difficulties with the regulation of the leasing market, in particular regarding the procedure of VAT compensation to leasing companies.

With the growth of the leasing market the competition among leasing companies is growing, which paves the way for a market consolidation. Therefore, the activities of leasing clients in Russia may be to a large extent successful, but due to the lack of transparency of this sector companies interested in leasing should choose their partners carefully and assess their credit worthiness.

COFACE signs a partnership agreement in Hungary

At the end of December 2007, Coface and the Hungarian export credit agency MEHIB (Magyar Exporthitel Biztosito) signed a major partnership agreement for the credit-insurance market in Hungary. The sale of MEHIB's private activity to Coface Hungary, a branch of Coface Austria (the leader in the Austrian credit-insurance market) represents on-going transactions of over €800 million, and this activity is the biggest component of the partnership agreement.

"This agreement in Hungary once again confirms our development strategy through our CreditAlliance partners network, which gives our members (without in any way changing their individual character) access to Coface's know-how in terms of databases, computer systems and rating expertise", stresses Jérôme Cazes, Coface's CEO. *"Thanks to CreditAlliance, we were the first player in the credit-insurance market to focus on proximity with the client".*

www.coface-arb.ru

Internationalisation issues

There are several important issues at stake when internationalising a company: human relations (recruitment, management of talent, training, etc.), employee opportunities, but also organisation and communication issues. Trade Line shares with you Coface's experience in this area.

Coface is a company that moves in an international environment

By **Cécile Courtois**,
from Coface International and Marketing Department.

International development over the last 15 years and prospects

Coface was founded in 1946 as a company specialising in export credit insurance, and managing both its own products as well public procedures guarantees. In 1988, it began its "business line" diversification process, by acquiring capital in the company Coface SCRL (a company information and trade receivables management firm). In 1992, Coface initiated its international expansion strategy. It created a direct base in the United Kingdom, acquired a stake in La Viscontea in Italy and created CreditAlliance in parallel, a worldwide network open initially to credit insurers and subsequently to services companies (company information and trade receivables management). This network initially consisted of six Coface entities and six external partners, but its expansion was extremely rapid. 5 years later. It already had 24 members and its growth was exponential, reaching 95 members at the beginning of 2008. The strategic objectives of this network were as follows: firstly, a better evaluation of risks, thanks to a direct local presence or via partners, making it possible to provide a direct service for international clients in the countries where they were based; secondly, the capacity to offer a local service and solutions for the subsidiaries of Coface's clients. Finally, the CreditAlliance network represented both an individual and collective advantage for its members, as they were able to pool costs and share expertise, which in turn benefited their clients.

This brief historical synthesis retraces to a certain extent the history of Coface, which has expanded abroad as the network has broadened. Today, it guarantees its clients a proximity service in 95 countries (representing more than 80% of world trade), thanks to a direct presence in 100 countries (6,700 employees spread throughout 160 towns) and its partners within the CreditAlliance network. Coface has also taken up the challenge of implementing its four business lines. As a result, the vast majority of the countries in which it is present offers at least the credit insurance and company information business lines.

And in the future, Coface is not planning to leave it there. The company's objective is to become the leading worldwide platform for outsourcing solutions and Trade Receivables management by 2015, and to operate a network with a direct presence in over 80 countries by 2010, so as to continue assisting its clients.

COFACE strenghtens its export risk cover proposal in Middle-East, Africa and Asia

On the 9th of January last, Coface announced the signing of a partnership agreement with the Islamic Company of Insurance and Export Credits (ICIEC), thereby strengthening its export risk cover proposal, by broadening it to incorporate the 35 country members of the ICIEC. The ICIEC is a multilateral investment and export credit insurance company founded in 1994 and based in Djeddah (Saudi Arabia).

It is owned by thirty-four governments from the Middle-East, Africa and Asia, and by the Islamic Bank of Development. This agreement will enable Coface to progressively implement an export credit solution for its clients in those ICIEC member countries where it does not yet have a base.

Coface already has a direct presence in 8 of these 35 countries and an indirect presence in 15 of them through its CreditAlliance member partners. Bahrain is the first country in which the agreement signed with the ICIEC has been sealed through the issuing of a policy.

(1) France, Germany, Austria, United States, Italy and the United Kingdom.

(2) Greater China, North-East Asia, Asia-South Pacific, Latin America, Central Europe, The Iberian Peninsula, Belgium, Switzerland, South Africa, Middle-East Africa, Eastern Mediterranean, Holland, Northern Europe, Canada.

The international organisation

Coface's international organisation is underpinned by:

- an Executive Committee, incorporating the group's principal entities,
- Country Managers or regional platforms,
- Function and activity/business line managers with the power to act on behalf of the entire group.

The 65 countries where the group currently has a presence are broken down into 19 Platforms, 6 of which are directly under the Coface General Management(1) . The remaining 13 are controlled by the Marketing and International Department (CMID)(2). Each Platform reports to a "Supervisory Board", whose role is to help boost development and ensure that objectives are attained.

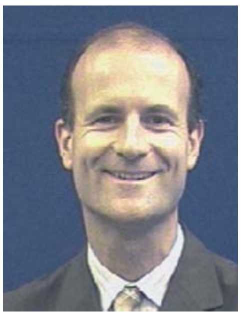
The entire staff also benefits from training programmes designed and implemented by "Coface University" (see below), an international college that represents an essential tool for standardising knowledge and services. In addition to training, the platforms receive support and advice from the Centres of Excellence, defining the production standards and processes by business line. The 13 Platforms controlled by the CMID specifically benefit from the support of expert teams, and notably in the areas of proposal, finances and information systems. A dedicated service is also responsible for coordinating the projects initiated by the Platforms, which frequently involve the intervention of several technical Departments and Centres of Excellence. This is especially the case in the event of complex projects and during acquisitions or entity creations. Finally, the department also has a general CreditAlliance office.

Communication abroad

Working abroad primary means integrating the environmental and cultural differences linked to the geographical location involved, and more specifically the different working days and time zone. This involves adopting several basic reflexes, i.e. communicating with Asia in the morning, Latin America in the afternoon and the Near and Middle-East before Thursday…

It obviously means working in English and choosing the most suitable medium, i.e. E-mail, telephone, conference call or video-conference call, for the purpose of organising remote meetings for defusing difficult situations or maintaining a pleasant and efficient working relationship between the teams. Periodical visits or seminars held in the region itself or at the company headquarters are also an essential component. Working abroad means taking into account the size and organisation of the structure one is dealing with, because the management of priorities is not handled in the same way in a recently created subsidiary of three people as it is in an entity with three hundred employees! Finally, it involves taking into account any cultural differences, the entity's daily environment and the quality of the country's infrastructures. Breakdowns in electrical or electronic networks occur more frequently in Africa than in Asia, etc.

The most important issue for the CMID is consequently the upstream preparation, in order to involve the entities in the different decision-making processes and the life of the network as much as possible. This stage is essential, and subsequently facilitates staff training and recruitment initiatives.



Internationalisation issues from a training perspective

By **Philippe Alcher**,
Coface University.

Training creates a web of contact between individuals and teams, and it facilitates communication between different units, which is particularly important abroad. The "major training classics", i.e. identifying requirements, designing, organising, transferring knowledge and practices, integrating, etc… are taking on a new dimension.

We have isolated a certain number of situations encountered by a company going through the internationalisation process. For each situation, we give our opinion on the key contribution made by training:

- **A remedy for loneliness:**

Employees of subsidiaries based elsewhere in the world may feel isolated, if not sufficiently looked after by the head office.

- **Training provides opportunities** to test the waters within the Group, pick up strategic messages and discuss various issues, thereby **improving team cohesion and integration**.

• Cultural mixing of staff:
The differences between employees from different backgrounds can, in certain cases, create misunderstandings and hinder projects.

◆ Training creates **a meeting point** and **a friendly atmosphere**, where team values can be emphasised. There is no shortage of opportunities to mix professional cultures, social origins and national cultures. Some are formal (courses), whilst others are informal (meals, visits, etc…). All help with the mixing process.

• A different perspective:
Technological developments are accelerating and economic pressures are increasing. Taking a step back and communicating with others is consequently becoming more and more important.

◆ **Training creates a neutral, positive and innovative environment.** During training, frenetic day-to-day life is put on hold, restraints are lifted, pre-conceived misconceptions removed (especially national ones), and one sees company life from a different perspective, i.e. one **analyses, puts things into perspective and takes part in group projects**.

• Competitive advantage:
Individual expertise, experience and skills form the basis of a company's competitive advantage. It is very important therefore that a company knows how to give training.

◆ For Garvin (Harvard Business Revue June/July 1993), **a company that knows how to give training** is notably capable of transferring knowledge and creating a company spirit, i.e. the sense of a company project.

◆ The aim of training is to **transfer knowledge** and it also favours **the transfer of experience**. Efficient trainers are able to communicate the key aspects of **their experience in the field** and above all any **conclusions** that they have drawn. Thanks to this **transfer of Best Practices**, the employee and the company improve their **performance**, gain a lead on and set themselves apart from the competition. This is especially important, for example, during negotiation phases.

◆ A company's **competitive advantage** is linked to its **reactivity**. When a new product or computer tool is introduced, training ensures that it is made the most of with regard to employees and/or clients, prescribers and partners.

◆ Training is **a competitive tool**, especially when a company is developing abroad or there are new positions to be won.

• Internal benchmarking:
Entities throughout the world do not always have the same level of information as certain others or the head office.

◆ Training is an instrument for sharing knowledge and contributes, amongst other things, to teaching and circulating the internal processes (e.g. production standards). This makes it possible to standardise practices and to prevent entities from re-inventing organisation approaches.

• Looking abroad:
The company is aiming to install its industrial model in the local entities, implement a global development strategy and to structure its group.

◆ Training is in known territory for providing (with clarity and an educational approach) **landmarks and a structured and informative environment for action…** it contributes to bringing together and animating teams around a project and to informing with regard to the company's international strategy.

coface UNIVERSITY

Training initiatives have always been an integral part of Coface's development on an international level. In 2007, Coface created a new tool in the form of the Coface University. The idea behind this project is to develop and share knowledge concerning business lines and products, for employees both in France and abroad.

Coface University's objectives are as follows:

• To train staff in the 4 business lines of the Trade Receivables Line, i.e. Credit-insurance, Company Information, Trade Receivables management and Factoring.

• To pass on transversal know-how… so that staff are aware of Coface's overall role in the management of companies' Trade Receivables and its complete proposal.

• To facilitate the transmission of knowledge within the "Trade Receivables Line"

• To assist entities with training.

The tools:
• Tailor-made training
• Specific training for new recruits
• A catalogue of training courses
• Product seminars
• Top Executive Education
• A training standard
• A training documentary site
• Partnerships.

• **Successful expatriation:**
An expatriate who is a winner in his market will be modest and will know how to listen to and understand his local partners. This is not necessarily innate and cannot be improved.

◆ Working abroad needs preparation. Training an employee who is moving abroad (and his spouse) in the different aspects of the new cultural environment awaiting them is a necessary decision and investment in order to ensure that they adapt successfully to the new country and business environments, and to avoid any premature returns.

• **Career optimisation:**
All Human Resources departments abroad have the same nightmare, called **turnover**. Once recruited, employees will rapidly look at career opportunities elsewhere.

◆ Training comes to the aid of HR managers in the sense that it helps bind employees together and keep them at the company, federate structures, standardise working methods, and create stepping stones and mobility approaches within the company itself.

◆ **Offering a new employee a structured training and integration path gives off a strong signal:** the company is investing in the recruit and is giving him the resources to optimise his performance. He is clearly being taken into consideration.

Integration course

Attending an integration course when one is a new recruit is a unique opportunity for becoming part of the company's human and technical environment.

The course includes: the business line approach, products and clients, the company's development strategy, values, standards, organisation and systems.

And to a lesser degree, the networking approach. New employees like nothing better than to create an internal network.

An integration training course is an excellent way of accelerating relationships. A new team of recruits and a new professional network is created, and a sense of solidarity is forged, which can last a whole lifetime.

Internationalisation issues from a training perspective

By **Olivier Humbert**,
Deputy Director of Human Resources.

In order to accompany Coface's future development challenges, the HR departments are currently aiming to optimise their contribution to the performance of the different activities.

This initially involves the implementing of an efficient recruitment strategy in order to attract the most highly skilled staff so as to attain Coface's objectives.

With the development of a strong image as an employer, Coface is increasing its capacity to attract and hold on to the talent necessary for its development. English, essential for an international company, is becoming the common language and a minimum level is required for the recruitment of managers in each entity.

Managing talents, promoting international mobility and developing skills are also key factors.

Mobility is fundamental in the life of the international network and requires a certain degree of flexibility. In order to increase the amount of mobility throughout the world, an international careers committee meets twice a year. Moreover, we introduced an initiative in 2007 entitled "MOVE", via which employees can exchange positions. Each employee can also find out about and apply for the different proposals listed on the international intranet. Our international mobility representatives assist the applicants and the local HR managers.

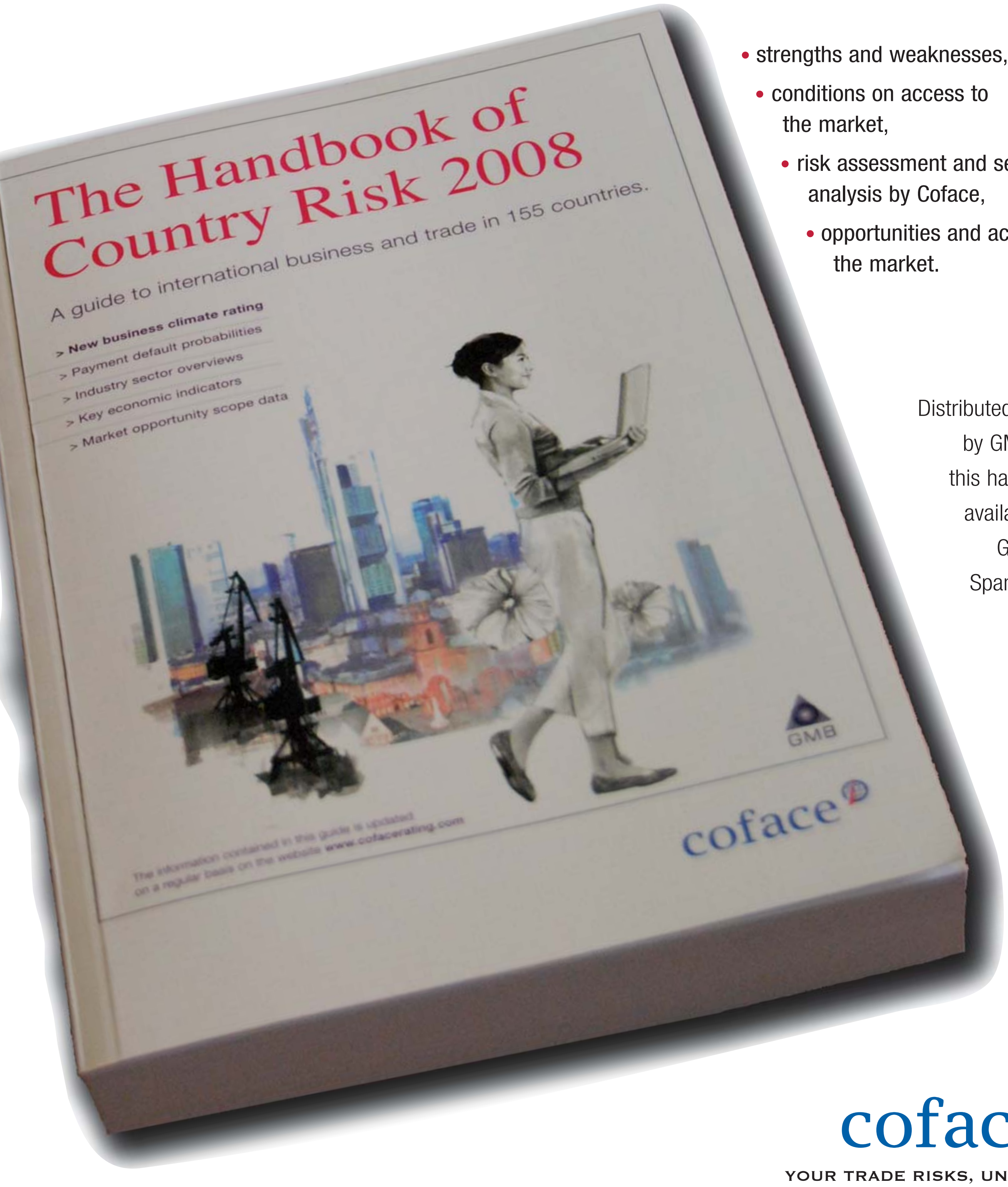
An efficient salary policy is also necessary for attracting talent and generating loyalty in employees, and we must maintain our level of performance with a suitable global training programme.

The possibility of acquiring new skills and broadening one's experience, at an international level, prepares our employees for their future managerial responsibilities. Coface is implementing standards at an international level, such as the behaviour code, Coface values and corporate commitments. ■

The Handbook of Country Risk 2008:

A reference book for all players on the international market

Coface edits this book in conjunction with GMB publishing, this book provides the information necessary to understand the stakes, pinpoint opportunities, and evaluate the situation, country by country. This work contains detailed analysis of 155 countries of both industrialized and emerging countries, accompanied by maps and graphs. Each country is treated under the following headings:



- strengths and weaknesses,
- conditions on access to the market,
- risk assessment and sector analysis by Coface,
- opportunities and access to the market.

Distributed in bookshops by GMB Publishing, this handbook is also available in French, German, Italian, Spanish, Japanese and Chinese.

coface

YOUR TRADE RISKS, UNDER CONTROL.