



2009/2010

Creditreform Annual Report

Moderate growth in turnover in crisis year 2009

Despite the recession and the resultant decline in business activity in Germany, Creditreform was able to increase its domestic turnover in 2009 to EUR 481 million (2008: EUR 472 million). In relation to the traditional core services of the Creditreform Group, this divides up as follows:

- Commercial reports: EUR 257 million (2008: EUR 248 million)
- Receivables management (including factoring): EUR 193 million (2008: EUR 184 million)
- The central service companies operating under the umbrella of Creditreform AG (such as CEG Creditreform Consumer GmbH, Creditreform Rating AG, microm and bedirect): EUR 31 million (2008: EUR 40 million). This followed internal regrouping of IT service-provider Ecofis. On a going-concern basis, revenues remained virtually unchanged.

When the Creditreform Group's international business is included, turnover in FY 2009 rose to EUR 533 million, as compared with EUR 520 million the year before.

Altogether, some 4,000 people work for Creditreform in Germany – in 130 business offices (the local Vereine Creditreform) and at the organization's headquarters in Neuss. In Europe as a whole, the Creditreform Group has 4,500 employees, serving 165,000 members and customers. In Germany alone, Creditreform – via its various service areas – acts on behalf of 125,000 companies.

15.5 million commercial reports

Last year, Creditreform issued 15.5 million commercial reports on German business companies (2008: 14.9 million). This year-on-year rise is evidence that the economic crisis has heightened the risk awareness of business firms. To prevent bad

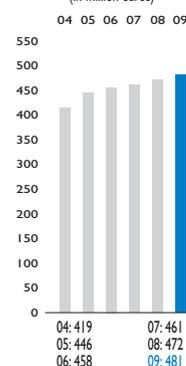
debts and thus declining revenues, they are paying more attention to the safety of their business transactions – and here, commercial reports are a great help. In response to the growing needs of the business community for security, Creditreform is currently introducing a new generation of commercial reports. Among their characteristic features: the range of different formats geared to specific needs and risk levels, and the use of an even larger database. Thanks to these product innovations, Creditreform is strengthening its market and quality leadership in the German business information market.

There has also been a rise in the number of reports on private individuals issued by subsidiary CEG Creditreform Consumer GmbH. Last year, the total reached 21.6 million, after 17.3 million in 2008. At present, the CEG database contains more than 73 million consumer-related data sets on 53 million individuals. The information is derived from credit and trade transactions, but also from debtors' lists, insolvency registers and the Creditreform Group's own dunning and debt collection proceedings.

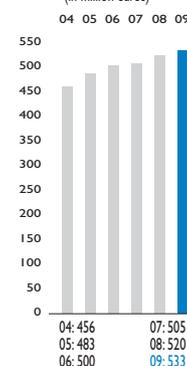
1.5 new debt collection orders

The development of our debt collection activities also reflects the impact of the economic crisis. In 2009, Creditreform – one of the biggest German debt collection companies – was entrusted with 1.5 million new debt collection cases. More than ever before, businesses which are intensifying their working capital management regard unsettled invoices as a source of untapped liquidity. Here, Creditreform supports its members with a seamless debt recovery service, with all the process steps – dunning, debt recovery, judicial default summons, enforcement and monitoring – coming from a single source. For reasons of cost-effectiveness and process efficiency, it is important to concentrate systematically on those receivables which offer a good chance of being recovered. So at an early

**Turnover development
Creditreform Germany**
(in million euros)



**Turnover development
Creditreform International**
(in million euros)



stage, Creditreform cross-checks the credit-standing of the debtors concerned against the up-to-date information in its own databases.

As a specialized form of debt collection, factoring – the regular sale of receivables from the supply of goods and services in exchange for immediate receipt of the sales price – continues to gain in significance. In view of the restrictive lending policies of banks, German SMEs in particular are increasingly obliged to turn to such alternative forms of obtaining finance. Last year, Crefo Factoring, a company in the Creditreform Group, lifted the volume of bought-in receivables to EUR 782 million (prior year: EUR 765 million). To a growing extent, those who purchase goods and services demand lengthy payment targets or seek an improvement in their present terms of payment. In many business sectors, this development creates liquidity problems and a higher risk of payment defaults. Factoring enables such risks to be passed onto the factoring company, which bears the entire risk associated with the bought-in receivables. Factoring also enables firms to offer longer payment targets without increasing their own risks, and in the present situation this represents a substantial competitive advantage.

New-generation commercial reports permit prudent credit decisions

In the present phase of incipient economic recovery, it remains important for German firms to determine the default risks associated with the provision of goods and services. Interest in this respect focuses on the creditworthiness of both new and existing customers. With the products in its new generation of commercial reports, Creditreform offers members and clients solutions geared to even more efficient and assured credit decisions.

Solutions aligned to different information requirements

The spectrum of the new-generation reports makes it easier for a German business firm to acquire precisely the information it needs. This is Creditreform's response to the different requirements of its clients. As well as products aligned to credit decisions in the mid-range and high risk areas, the portfolio also includes formats designed to facilitate swift assessment of a customer's credit-standing in areas where the risks involved are lower.

> Needs-conformant solutions for different client requirements

In the first phase of launching, three online products have been introduced. These differ from one another considerably in respect of the volume of data provided and the depth of information: the new-style Creditreform Commercial Report, the Creditreform Compact Report and the Creditreform Brief Company Report. To protect against medium or high risks, the full Commercial Report should be used; in the case of relatively low risks, the Compact Report or Brief Company Report may well be sufficient. In addition, there is the Creditreform Company Info Compact, an information product that does not contain any credit-standing appraisal.

The key innovations and benefits, with the Creditreform Commercial Report as an example

The new reports can draw on a much broader basis of data than before. This is shown by a glance at the contents of the new Creditreform Commercial Report.



These go beyond what has been provided by the full report up to now. Highly significant in this respect are, for instance, the more than 90 million payment experiences from the Customer Accounts Register Germany, Creditreform's payment experiences pool, where firms can share information on the payment conduct of their customers. Also available are 3.5 million financial statements relating to one million business firms. Other new features: information on the probability of a customer defaulting, on its participating interests and the functions of those concerned, and on the customer's status and history.

New balance-sheet analyses in Phase 2 of launch

Creditreform has made use of the wave of disclosures in the field of financial statements in Germany to develop new-style balance-sheet analyses offering varying depths of information. The basis for these products is the Creditreform balance-sheet database, which currently contains 3.5 million financial statements relating to one million firms. In the new products, the published balance-sheet data is structured, presented in an easily intelligible way, set in historical context and interpreted. This process of enhan-

cing the publicly available financial information is vital: it increases processability, user-friendliness and orientation to practical needs. The central quality feature of the new analyses is the determination of balance-sheet creditworthiness.

Fields of application for balance-sheet analyses

The Creditreform Balance-sheet Compact Analysis exemplifies the suitability of the new products for a wide range of applications. The central focus is establishing a sound basis for the credit appraisal prior to granting trade credit, and on credit-standing assessment prior to granting small loans, which is essential to meet the demands of Basel II. At the same time, this product facilitates thorough balance-sheet analysis within the framework of strategic supplier and accounts receivable management. It also helps in the banking sector in preparing discussions with new customers. The product can also be used to appraise the economic situation of a business partner or of one's own firm.

Quality of the business information

A great deal of the data processed in the new business information products is registered, structured and constantly updated by the some 1,000 researchers in the 130 Creditreform offices nationwide. This ongoing regional research work is of great importance for the quality of the business information provided by Creditreform. The new generation of reports will help to strengthen Creditreform's market and quality leadership in the German business information sector. Today, 125,000 German companies place their trust in the reliability of Creditreform data and call up more than 15.5 million commercial reports a year.

Creditreform Rating AG first German rating agency to gain BaFin recognition

In 2009, Creditreform Rating AG became the first German rating agency to gain official recognition as a rating agency for bank supervisory risk weighting in accordance with the Solvency Regulation (SolvV) and Basel II. Recognition is

> Development of an independent German and European rating culture

granted by the official regulator BaFin (Bundesanstalt für Finanzdienstleistungsaufsicht).

What at first sight may appear to be no more than a formal regulatory act in fact represents an important step in establishing an independent German and European rating culture. This is something from which SMEs can also benefit when they seek financing. Legal stipulations such as SolvV and Basel II lay down that before granting a loan, credit institutions must determine the precise degree of default risk involved and the factor for the capital backing of such risks. In respect of its own risk management, any bank using a Creditreform rating can point out this fact to the supervisory authorities and thus show that it cooperates with a recognized rating agency. This will also have positive consequences for business firms which obtain a Creditreform rating.

Growing demands on risk management at financial institutions

The aftermath of the economic and financial crisis, with the resultant changes in the financing environment for SMEs, gives recognition by BaFin particular significance. In combination with low equity ratios and the present still challenging economic conditions, difficulties in obtaining third-party capital increase the risks of default. In turn, this steps up the

demands made on risk management at banks. In this connection, the credit status of potential borrowers plays a decisive role. A recent evaluation of the Creditreform database provides clear



evidence that default risks have increased in the wake of the recession and the now more difficult financing conditions. The creditworthiness of business firms has deteriorated on a broad front. A close look at the year-on-year changes within the different credit-standing classes reveals a marked increase in the number of firms in the weaker risk categories.

Restoring the trust lost during the crisis calls for additional transparency. Against this background, a rating carried out by Creditreform Rating AG can play an important role by forming a central instrument in frank financial communication between business companies and banks. One further application for rating is in commission business: the Creditreform rating can also be used in connection with the issuing of corporate bonds and debentures by banks.

Focus on quality

Although the act of official recognition by BaFin relates to business company rating carried out by Creditreform Rating AG, the significance of this recognition goes much further. After all, rating by Creditreform Rating AG is one of the many products of the Credit-

> Commercial reports and credit appraisals: Creditreform is market and quality leader in Germany

reform Group based on the same key foundations which determine the quality of all our products:

- The Creditreform credit-standing index as the core element in our commercial reports; for 25 years now, this has permitted the direct appraisal of a customer's creditworthiness and the relevant risk of default
- The wealth of information available in the Creditreform databases on companies, business sectors and private individuals
- Our know-how and ongoing quality control in the analysis and assessment of the information obtained by our research
- Our close links with local business thanks to the 130 Vereine Creditreform nationwide
- The experience of around 1,000 researchers

These are the quality features which help to make Creditreform the market leader for business information and credit-standing appraisals in Germany.

Safer business with Crefo WKV

In 2009, Creditreform and credit insurer Atradius teamed up to offer debt loss insurance geared especially to small and medium-sized enterprises. Crefo WKV (trade credit insurance) closes a gap in the Creditreform spectrum of services offered exclusively to its members.

For SMEs, securing liquidity in times of crisis while maintaining their present form of financing creates a particular challenge.



This generates increased demand for supplier credit. Even though it is generally assumed that banks represent the key source of ready credit for businesses, trade credit actually plays a far more important role. At present, trade credit makes up around twelve percent of the balance-sheet totals of German incorporated companies, with the figure rising as high as 18 percent in the case of small and mid-range firms. By way of contrast: short-term liabilities to banks represent only 4.3 percent of the total.

Protecting against bad debts

The growing trend towards granting lengthy payment targets increases the risk of delayed payment or even default. This makes protection against bad debts more and more important. Even just a few such cases can cause substantial financial damage and get firms into a

difficult situation, despite full order books and good earnings.

Whereas nowadays practically every large company in Germany has insurance against bad debts, fewer than one in three of all SMEs have such cover. So there is a need for flexible and practicable concepts to meet the requirements of smaller firms and to enable them to protect themselves on affordable terms. Here, an appropriate solution is a com-

bination of debt loss insurance and commercial report.

Focus on SMEs

The cooperation product Crefo WKV combines the core competencies of Creditreform and Atradius and is aligned

> Combination of debt loss insurance and commercial report

to small and mid-range Creditreform members with annual sales revenues of up to EUR 10 million. The insurance policy was developed in collaboration with company owners and meets the need of SMEs for comprehensive protection against debt losses caused by important customers, while at the same time using improved furnishing of collateral to lower the refinancing costs.

With Crefo WKV, policy-holders cover the biggest and most important proportion of their receivables via the credit insurer Atradius. In the event of even just

> Crefo WKV combines the core competencies of Creditreform and Atradius

delayed payment, compensation is granted for 90 percent of the outstanding claim. The other receivables are monitored with the help of Creditreform credit checks. SMEs also benefit from the debt collection services provided by Creditreform with all its on-the-spot contacts. As a result, firms can obtain the level of insurance cover they require, and do so on the basis of attractive premiums.

Benefits in consultations with banks

This cooperation between a credit agency and debt collection service-provider like Creditreform and a credit insurer like Atradius also strengthens the negotiating position of SMEs in consultations with their principal bank. The fact that it has protected the largest proportion of its receivables and can rely on professionals to check and monitor the solvency of its customers puts company owners in a position of strength when it comes to obtaining more favourable terms for loans.

Market transparency through balance-sheet disclosure

The German Law on Electronic Commercial and Company Registers (EHUG), which came into force in January 2007, obliges all companies with the legal form of an AG, GmbH or GmbH & Co. KG, together with all cooperative associations, to publish their annual financial statements in the electronic Bundesanzeiger (Federal Gazette). This has laid the groundwork for creating a central organ for business-relevant publications, and this enjoys a high degree of acceptance among market players. It enables shareholders and partners, employees, business associates,

> The EHUG has triggered a disclosure wave in Germany

business information services and credit insurers, and the general public, to obtain reliable information on the annual financial data of business companies swiftly and free of charge. Today, 94 percent of all the German companies under an obligation to do so disclose their financial statements in this way. This information in the electronic Federal Gazette is called up 82,000 times a day, which is a very clear indication of the scale of interest and demand.

Micro-enterprises to be excluded from disclosure obligations

Now, though, what has been achieved through the EHUG is being called into question. In March 2010, the European Parliament approved the European Commission's proposal to exclude very small firms ("micro-enterprises") from the obligation to draw up and publish annual financial statements if they meet two of the following three criteria: they have no more than an average of ten employees, annual sales revenues of under EUR 1 million, and a balance-sheet total of at most EUR 500,000. However, the proposal still has to be approved by the EU member states.

An analysis of payroll numbers in 15 European countries shows that over 82 percent of all incorporated firms have only ten or fewer employees. It can be assumed that more than 75 percent of capital companies in Europe meet all the EU Commission's criteria and thus qualify as micro-enterprises which could be excluded from the disclosure obligations. But the discontinuation of published annual financial statements from such firms would represent a serious backwards step compared with the level of market transparency that has now been achieved in Europe.

Far-reaching consequences

Reducing the number of firms subject to disclosure obligations casts doubt on the whole point of the present regulations. It would make it impossible to pursue the goal of creating binding minimum conditions for the companies competing against one another in the EU domestic market and it would infringe the right of third parties – such as banks, business partners or employees – to obtain relevant information. In fact, another way would have to be found to enable such stakeholders to acquire the facts and figures they need. Otherwise, such very small firms could have problems in raising capital. After all, for investors and lenders, the significance of transparency has grown considerably, not least against the background of the financial crisis.

Financing problems on the horizon

Micro-enterprises are risk-prone anyway, and now, if the disclosure obligation is discontinued, the resultant loss of transparency will create a substantial competitive drawback for them. In view of their poor capital base, many SMEs already have financing problems, which they then bridge by drawing on trade credit. But such credit is based entirely on the goodwill and trust of their business partners, which up to now could

	31.12.2008	31.12.2009
Bilanz		
Aktiva		
	EUR	EUR
	272.661,00	221.216,00
	268.411,00	216.000,00
	4.250,00	5.216,00
	752.672,79	752.672,79
	359.544,74	359.544,74
	231.553,62	231.553,62
	4.140,16	4.140,16
	161.474,43	161.474,43
	1.025.233,79	1.025.233,79
Passiva		
	619.250,00	619.250,00
	51.129,00	51.129,00
	462.610,00	462.610,00
	105.480,00	105.480,00
	29.000,00	29.000,00
	376.000,00	376.000,00
	376.000,00	376.000,00

obtain information on the financial situation of the SME concerned by checking its financial statements for the past few years. The amendment approved by the European Parliament threatens to deny them an important source of relevant information.

For these reasons, Creditreform takes a critical view of the European Parlia-

> Lack of information creates difficulties in obtaining trade credit

ment's decision and advises against adopting it in German law, since this would pose a threat to the level of market transparency which the disclosure obligation has helped to achieve.

Amendment to German Data Protection Act does not affect debt collection business or DRD (Customer Accounts Register Germany)

On April 1, 2010, the amendment to the Federal Data Protection Act (BDSG) came into force. The amendment is intended to strengthen the rights of consumers regarding the transmission to credit agencies of data relating to overdue and unpaid invoices. To this end, the conditions governing the transmission of such data were tightened. In this connection it is important to point out that credit checks and solvency appraisals are key instruments in reducing credit risks and avoiding ill-judged financial decisions, but for this to function efficiently, such appraisals must contain up-to-date information on delayed payments and non-payment.

The immediate forwarding to credit agencies of data on private individuals, tradespeople, sole proprietors, professionals and freelancers regarding unsettled claims is now permissible only if there is a legally binding or provisionally enforceable judgement or other instrument of indebtedness or an uncontested claim against a debtor's estate. The same applies if a debtor has explicitly acknowledged a claim or if the relevant contractual relationship can be cancelled without notice on the grounds of tardy payment.

Data transmission in accordance with Section 28a BDSG

Section 28a of the amended act lays down that if these conditions do not apply, further precisely defined prerequisites have to be met before the data can be passed on to a credit agency. For instance, at least two written reminders must have been sent out since the due date. At the same time, a period of four weeks must elapse between the first reminder and the subsequent transmission of the data. The claim must also be uncontested. And the debtor concerned must have been informed in good time – but not before the first overdue notice – about the impending data transmission.

No impact on debt collection or the Customer Accounts Register Germany

The provisions of Section 28a of the amended Data Protection Act do not affect Creditreform's debt collection business, since these provisions apply only to the forwarding of debt recovery



data to credit agencies. This means that unsettled claims can, as before, be sent to the Creditreform debt collection specialists as soon as payment becomes due.

Nor do the stipulations laid down in Section 28a of the BDSG affect the Creditreform payment experiences pool, the Customer Accounts Register Germany (DRD). This is because the amendment governs only the transmission to credit agencies of personal data relating to a specific claim that has not been settled after the due date. The focus of the DRD, though, is not the isolated notification of individual negative data regarding specific debts; instead it is the general payment conduct of a company or an individual business-person. The ongoing payment experiences data reported by the participants in the pool

is used to create a comprehensive payment profile. Another aspect is that most of the payment experience data processed in the DRD is positive, whereas the amended Section 28a refers specifically to negative data.

An additional factor is that the legislator's aim in amending the relevant section of the law was to prevent negative payment experience data relating exclusively to consumers from being given an over-hasty negative assessment by a credit agency. The DRD, however, is geared not to consumer data but to payment experience information from the commercial sector, where the existence of a functional office organization is essential and where a sole proprietor or tradesperson has to be in a position to deal with invoices promptly. Anyone who does not ensure this does not qualify for protection under this law and must fully accept the consequences of his or her late payment.

Creditreform fears increase in number of debt defaults

Creditreform is concerned that the BDSG amendment could impact negatively on payment conduct and lead to an increase in the number of bad debts. In particular the four-week ban on data transmission has the character of a tem-

> DRD geared to payment experiences data in the commercial sector

porary gag. The period gives fraudulent debtors, despite their inability to pay, the chance to obtain further credit or to conclude agreements which will inevitably lead to default damage for their contractual partners.

Creditreform: Professional partner for safe business worldwide

Creditreform stands for business information, receivables management and marketing services. 130 independent business offices in Germany, organized in the umbrella association Verband der Vereine Creditreform e.V., serve around 125,000 member companies of all sizes and from all sectors. The spectrum on offer ranges from the creditworthiness-based selection and approaching of new customers and the provision of credit-status data on business firms and private individuals through to complete system platforms for company-internal risk management and sophisticated receivables management tools. Each individual service, applied at the appropriate point

in the customer relations chain, is aimed at preventing payment defaults or minimizing their impact.

In the field of business information, the Creditreform spectrum is broadly subdivided into commercial reports on business entities and credit checks on private individuals. The latter are compiled with the help of a database containing some 73 million consumer-related data sets on almost 53 million individuals. In the area of business information, Creditreform provides all the requisite data on the credit-standing and financial structure of business customers, together with facts and figures relating to their business

environment – from ordinary commercial register entries through to complex corporate ratings. In the sphere of receivables management, Creditreform offers a full service for recovering outstanding claims: from handling commercial dunning and accompanying judicial default summons proceedings through to the long-term monitoring of titled receivables. In the field of marketing services, Creditreform provides solutions for updating existing stocks of addresses and appraising these with regard to the default risk. Another option on offer is the creditworthiness-based selecting and approaching of potential new customers.

Imprint

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