



2010/2011

Creditreform Annual Report

Creditreform keeps growing

In 2010 – in line with the recovery in the German economy – Creditreform stepped up its domestic turnover to EUR 489 million (2009: EUR 481 million). In relation to the traditional core services of the Creditreform Group, this divides up as follows:

- Commercial reports: EUR 262 million (2009: EUR 257 million)
- Receivables management (including factoring): EUR 200 million (2009: EUR 193 million)
- The central service companies operating under the umbrella of Creditreform AG (bedirect GmbH & Co. KG, CEG Creditreform Consumer GmbH, CPM Creditreform Portfolio Management GmbH, Creditreform Rating AG, IMMO-CHECK GmbH and microm Micromarketing-Systeme und Consult GmbH): EUR 27 million (2009: EUR 31 million).

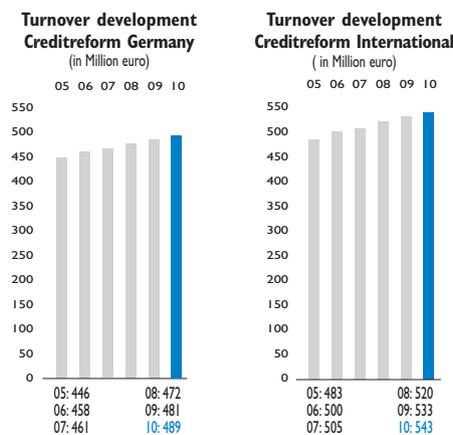
When the Creditreform Group's international business is included, total turnover rose from EUR 533 million in 2009 to EUR 543 million in 2010. This reflects in particular the gratifying development in the fields of international commercial reports and international debt collection. Since the beginning of 2011, Creditreform is also represented with its own subsidiary in Turkey. This means that the Group is now active via subsidiaries in 22 countries.

New-generation commercial reports and the new credit-standing index Bonitätsindex^{2.0}

Last year, Creditreform issued 16.0 million commercial reports on German companies (2009: 15.5 million). In today's world, identifying business potential on the one hand and business risks within the framework of risk management on the other is of vital importance. The recent economic crisis has intensified the associated interest, since the granting of supplier credits has become increasingly risky, with greater numbers of defaults and poorer payment

conduct. Even though the crisis is now over, firms still have to do everything they can to protect themselves, by identifying, evaluating and managing the risks involved in business transactions of any kind. This is why commercial reports in their various formats form an essential element in risk management for virtually all established companies, whether they are engaged in manufacturing, commerce, B2B, B2C or financial services. For countless small and medium-sized firms, they provide indispensable help in obtaining security for goods and services and keeping an eye on the solvency of important business partners.

Another reason for the increase in the number of commercial reports issued on



business firms is that since the beginning of 2010, Creditreform has gradually been introducing a new generation of such reports. One decisive success factor is the range of business information products tailored to different needs and to varying levels of business risk. In the framework of the launching of the new-generation products, Creditreform has been integrating its new credit-standing index, the Bonitätsindex^{2.0}, which provides an even better predictive capability than before. These product innovations have helped to strengthen Creditreform's market and quality leadership in the field of business information services in Germany.

More reports on private individuals

There has also been a further increase in the number of report on private individual issued by subsidiary CEG Creditreform Consumer GmbH – from 21.6 million in 2009 to 22.5 million last year. The CEG database currently contains more than 79 million consumer-related data sets on 61 million individuals. The information is derived from credit and trade transactions, debtors' lists, insolvency registers and the Creditreform Group's own dunning and debt collections proceedings.

Combating unpaid invoices

In the field of receivables management, Creditreform provides an all-round service to handle outstanding claims. It assists its members all the way from initial dunning to actual debt collection, via judicial default summons proceedings and enforcement to long-term monitoring. Specialized offers in this field include factoring and the purchase of non-performing claims. In 2010, Creditreform – one of the largest German debt collection companies – was entrusted with almost 1.5 million new cases.

Crefo Factoring – another company in the Creditreform Group – last year raised the volume of bought-in receivables by more than 22 percent to EUR 956 million (prior year: EUR 782 million). With factoring, the client sells large parts of its receivables to Crefo Factoring, thus mobilizing a great deal of the liquidity contained its open accounts. Crefo Factoring also assumes responsibility for the associated default risk.

Improved credit assessment for credit risk management

Creditreform has refined the methods used for calculating its credit-standing index, the foremost instrument in Germany for appraising the credit-worthiness of business companies. At the same time, it has broadened the basis of the information on which the index draws. The objective was to achieve a further improvement in the predictive quality of the index for the benefit of users in business firms and credit institutes. The resultant new credit-standing index, known as the Bonitätsindex^{2.0}, makes it possible to distinguish even more accurately than before between potentially profitable and potentially loss-making business transactions and business partners. Additional guidance is provided by a precise indication of the default probability of the company under review.

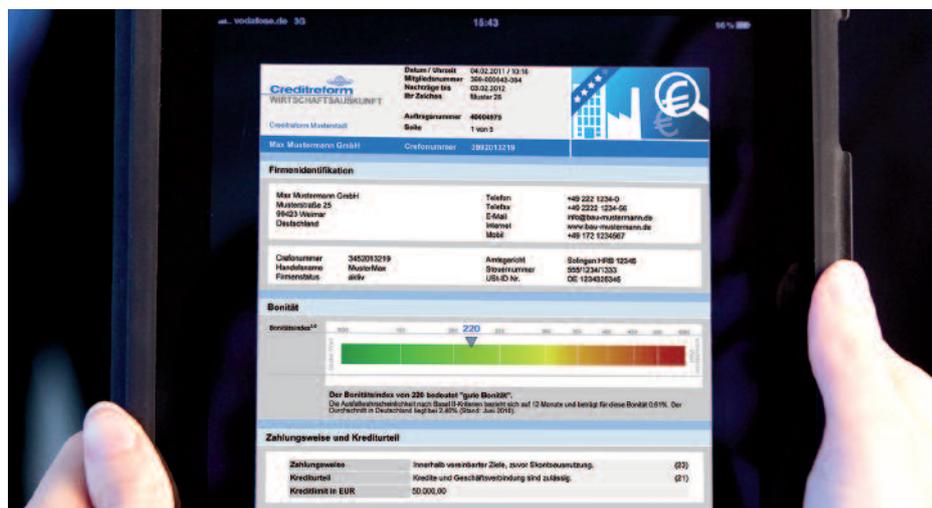
The predictive capability of the new system can be quantified by means of a simple example using data from 2010. In the case of almost 70 percent of those firms which filed for insolvency in the course of the year, the Bonitätsindex^{2.0} had highlighted their situation as much as six months earlier by rating their credit-standing as weak (a Bonitätsindex^{2.0} score of 300 or worse). One month before the actual insolvency, almost 94 percent of the firms concerned were identified by flagging a weak credit-standing score. The process of integrating the Bonitätsindex^{2.0} into the various Creditreform business information and report products has been underway since February 2011.

Broad range of applications

The spectrum of applications for the Bonitätsindex^{2.0} – and thus for commercial reports overall – is very broad. It extends right across the various phases of all customer relations. In marketing and sales, for instance, it helps to identify potential customers of good credit-standing. In the case of new business relations, the information which is provided on the current primary data, the business address and the authorized representatives of the firm under review helps the Creditreform member to get a broad

basic picture of the potential new business partner. Then the data given on default probability and the recommended credit limit facilitate the formulation of terms of payment in line with the assessed risk. In business relations with existing customers, commercial reports have an early warning function thanks to the monitoring process, since risk-relevant changes in the credit-standing of customers (or suppliers) are

strict rules. The second much expanded source of information is formed by annual financial statements. Thanks to the "disclosure wave" in Germany, there are now millions of such statements available. The information they contain is registered in structured form in the Creditreform balance sheet database. After careful analysis, it can be used for assessing credit-standing. At present, the database contains nearly 4.4 million annual



notified automatically. Finally, the data contained in the commercial report can be used in internal receivables management processes for aligning individual dunning and debt collection measures precisely to each separate debtor.

Broader basis of data and changes in assessing default probabilities

The data basis for calculating the new Bonitätsindex^{2.0} has been considerably expanded. This was possible because especially in the past few years, the volume of information which can be drawn on has grown substantially. In this connection, two sources deserve particular mention. First there is the Debitorenregister Deutschland – the Accounts Receivable Register Germany – with its vast collection of almost 90 million payment experiences, stored in a way that permits great selectivity. After systematic evaluation, this data is channelled into the credit appraisal of business firms in line with

financial statements from over one million business enterprises.

The new Bonitätsindex^{2.0} takes account of structural changes in the German economy and also of changes in the default probability in certain business sectors or by entities of a certain legal form. In the case of enterprises in the field of light industry/trade, for instance, the probability of default has increased sharply in recent years. For companies incorporated as a GmbH & Co. KG, however, it has decreased.

A considerable range of additional information relevant to a firm's credit-worthiness is incorporated into the calculation of the index. This includes such features as the way a firm has been developing, its turnover, legal form, orders situation and capital resources. The use of state-of-the-art statistical methods and models, combined with extensive quality assurance checks, all help to guarantee the accuracy of any credit appraisal.

Commercial report portfolio tailored to requirements

Since the beginning of 2010, Creditreform has been launching a new generation of commercial reports. As a result, the range on offer now includes new corporate credit-standing appraisal formats, more business information products without credit status assessment and various balance-sheet analyses offering various depths of evaluation. Our Comparative Balance-Sheet Analysis, for example, permits a precise comparison of business firms on the basis of key balance sheet ratios. As an adjunct to the commercial report, we have also launched Creditre-

New-generation commercial reports for assured credit decisions

form Monitoring, which flags up any changes with a bearing on the credit-standing of the subject of a commercial report.

On a yearly average, Creditreform notes a significant change in the credit status of more than 40 percent of active firms. The business partners of the firms concerned need to be aware of such changes to enable them to respond appropriately. This is ensured by the fact that access to a Creditreform commercial report carries, as standard, a 12-month entitlement to supplementary data. During the 12 months, the client is automatically informed of any changes relevant to the creditworthiness of the subject of the accessed commercial report. However, in the case of regularly supplied clients, strategic suppliers, leasing and factoring deals, or continuous obligations under rental, leasing or loan agreements, a 12-month update entitlement is often not enough to keep abreast of a business partner's financial situation.

These are cases for Creditreform Monitoring, which provides update reports on

any events or developments with a bearing on creditworthiness. Every development triggering an update is explicitly identified, selected from a list of 86 defined events. The product variant Monitoring Plus offers the additional security of an annual review of the business monitored.

Comparative Balance-Sheet Analysis for financial benchmarking

Anyone seeking to position a business successfully in the market needs to be able to evaluate its progress, and this calls for detailed information about the immediate competitive environment and a clear picture of the firm's own strengths and weaknesses. The best way to identify these is to draw comparisons with other firms of a similar size or with a similar sectoral affiliation or product portfolio. Creditreform Comparative Balance-Sheet Analysis is currently unique in the German business information market: it is the only

product developed to help firms interpret the innumerable performance indicators and produce findings that can be used immediately. The basis for the product is the Creditreform balance-sheet database, which contains around 4.4 million balance sheets relating to more than a million firms.

Starting with a model of the firm for analysis, a comparative group of up to 50 other firms can be formed. Benchmarking can then be used to rate the model's balance sheet ratios against the comparative group and the industry in which the firm operates. The ratios for the comparative group are shown over time and in comparison with one another. Trend analysis of the ratios permits a detailed assessment of strengths and weaknesses. Comparative Balance-Sheet Analysis is a useful tool for competitive analysis, strength/weakness evaluation, and the formulation of recommendations for action in strategy development and management consulting. It also has applications in credit management and in the assessment of strategic suppliers and business partners.

Creditreform presents free app

CrefoMobile, the new Creditreform app, enables business information to be retrieved and downloaded on an iPhone or iPad. With the new app, Creditreform adds yet another interface for access to its information products. Creditreform members can use the app to access full versions of the licensed information products Commercial Report, Compact Report, Company Profiles and Interdependence Data. Unrestricted access is also available to a free version of Interdependence Data offering less comprehensive information.



Active receivables management for more liquidity

In the period up to 2012, German SMEs will need around EUR 60 billion for the procurement of additional raw materials, supplies and capital goods. That is revealed by a joint study carried out by Roland Berger Strategy Consultants and the business information organization Creditreform. But where will firms find the money which they now urgently need – both to finance the upswing and fill the many gaps in capital resources created during the economic crisis?

The answer to this question – at least in part – is within the firms themselves. The magic words are 'working capital management', meaning optimization of inventories, accounts receivable and liabilities. It is one of the setscrews that management today can turn to release locked-up liquidity for internal financing. According to the study referred to above, untapped liquidity reserves across the economy as a whole run to around EUR 123 billion. Trade receivables account for nearly 40 percent of that total.

Because an enterprise's own solvency is significantly affected by the payment conduct of its customers, SMEs will in the future have to focus even more sharply on receivables and liability management. Essentially, this means realizing receivables as quickly as possible and agreeing reasonable early settlement discounts or long payment deadlines on good terms for accounts payable. A systematic review of operations here can free up considerable liquidity.

Receivables management as part of a systematic credit management system

Systematic credit management helps reduce the risk of default on receivables. At the same time, the tests applied ahead of any business deal improve the quality of



outstanding debts – and thus the prospects of their realization. If accounts remain unpaid despite all internal receivables management efforts, an external collection service such as Creditreform should be engaged. The older a claim becomes, the more unfavourable are the chances of it being realized. At the same time, recovery costs increase. Studies show that after they have sent their third dunning letter, creditors register only few successes in recovering outstanding moneys. So it is important not to miss the point where receivables should be handed to Creditreform for collection. The company that heeds this advice also benefits from what is known as the escalation effect, because the involvement of an external agency regularly results in debtors paying more promptly and thus reduces the company's average receivable collection period (DSO). This applies particularly where debts are collected via Creditreform, because debtors know that an unpaid bill can impact directly on the credit-standing assessment in their commercial report.

Concentrated expertise in collection

As one of the largest German collection companies, Creditreform draws on decades of experience in managing outstanding debts and debtors. 70,000 clients across all sectors of the economy entrust Creditreform with their unpaid bills – a vote of confidence that no other German

collection service can match. One salient feature of Creditreform debt collection is the automatic inclusion of credit status data in the collection process. This provides an early indication of the probability of a receivable being realized.

Factoring: Gaining liquidity – transferring risks

Factoring – the regular sale of trade receivables in exchange for immediate payment – is a special form of receivables management. The client sells large amounts of its receivables to one of the Crefo

Crefo Factoring: Leading service provider for small and mid-range firms

Factoring companies, thus mobilizing a great deal of the liquidity contained in its open accounts. At the same time, the default risk associated with the receivables is transferred to the factor. So factoring offers a firm the opportunity to finance future growth - irrespective of the availability of credit from banks or the payment morale of its customers.

Crefo Factoring is a nationwide network of 17 regional companies. Active in the factoring market since 1999, the group is one of the leading providers for SMEs with turnovers up to EUR 6 million. The product range includes all standard factoring services.

Creditreform opens subsidiary in Turkey

Creditreform, European market leader in the field of business information and receivables management services, is now also represented in Turkey via a subsidiary of its own. This means that the Group now has subsidiaries in 22 countries – 21 of them in Europe. The other one is China.

One key reason for incorporating Turkey into the Creditreform network is the rapid growth of cross-border business between Turkish and German firms. Since 2005, for instance, the number of requests by German partners for information on Turkish companies has risen by more than 60 percent. In those countries where Creditreform does not have an organization of its own, it collaborates with the leading local providers of business information services.

Even though the market for business information in Turkey is still at an early stage of development, the country's growth as an economic power means that it offers enormous potential. The commercial reports issued by Creditreform Turkey are based on systematically structured data. Reports can be provided in Turkish, English and German. Business register data has already been collected on 1.5 million Turkish firms and this data is being used to create the first online system in Turkey which allows members to obtain information on Turkish business enterprises, in Turkish if required. One prime objective at present is to make commercial reports on Turkish business enterprises available

The growth market of Turkey offers enormous potential for Creditreform

online to clients in Germany and other countries via an interface. Other priorities are promoting the online sale of commercial reports in the home market, developing the debt collection area and



making the name of Creditreform better known in Turkey.

Growth in business information and debt collection

In 2010, Germany stepped up the value of its exports by a substantial margin. They rose by 18.5 percent to EUR 951.9 billion, thus demonstrating that German exporters are picking up from their pre-crisis performance. This development was accompanied by a significant increase in Creditreform's international business. The number of international commercial reports issued has risen by over 25 percent since 2005. This double-digit increase not only reflects the recent export boom, it is also an indication of the prudence and farsightedness in particular of smaller firms interested in earning money outside the German borders.

In Germany, 70 percent of all invoices are settled within 30 days. The figure for Austria and Switzerland is also a respectable

67 percent. However, when goods or services are supplied to firms in Spain and Italy, only 25 percent of all invoices are paid punctually within a month. To reduce their risk of suffering from payment defaults, most companies in Germany (89.7 percent) rely on business information

Commercial reports on 24 million companies in 24 countries available online

services. Two thirds of all companies also pursue rapid and systematic dunning. Trade credit insurance is mentioned only in fifth place, by 49.5 percent, as a favoured method of avoiding payment defaults in export transactions.

Via a central portal at www.creditreform.de, Creditreform members have online access to more than 24 million commercial reports on business enterprises in a total of 24 European countries. Steadily increasing the online availability of international commercial reports is one key prerequisite for strengthening Creditreform's successful overall international alignment.

The number of debt collection cases entrusted to Creditreform has increased by almost 60 percent since 2005. In cross-border business, member firms benefit from Creditreform's decades of experience in international debt recovery. Creditreform knows the specifics of the business and legal framework of the countries concerned in relation to enforcing claims and is familiar with the given structures. In addition, by obtaining an international commercial report on a tardy customer, a creditor can judge at an early stage – even before a debt collection case is opened – whether or not the customer will be in a position to pay its debts.

Creditreform Rating AG No. 1 in SME bond rating

Creditreform Rating AG is a leading player in the evaluation of SME bond issuers, a rapidly growing market segment in which the company excelled even before its certification as a European rating agency. Bond issuance is seen by a growing number of SMEs as an alternative to the classical option of taking out a bank loan. On the investor side, too, SME bonds are increasingly popular. German exchanges have recognized the trend towards SME bonds and have created – or are in the

Agency of choice

The majority of SMEs issuing bonds on one of the above exchanges have chosen to be rated by Creditreform Rating AG. Officially recognized in 2009 as a rating agency for prudential risk weighting purposes pursuant to the Solvency Regulation (SolvV) and Basel II, Creditreform meets all the quality standards for company and bond rating.

structures and the plausibility of the business model. Factors such as a good level of orders with sufficient buffers to cushion possible fluctuations in the future also naturally play an important role. The rating process itself similarly meets the regulatory requirements of Basel II. The individual rating classes are based on default probabilities, allowing Creditreform Rating AG ratings to be compared with the ratings of other agencies. For example, a BBB rating means that the enterprise in question has an anticipated one percent default probability over a period of three years.

Creditreform Rating AG has years of experience and expertise in SME insolvency research, and this is channelled into the rating system and into actual ratings. So, in the course of the rating process, Creditreform is better equipped to judge SME creditworthiness than rating agencies that do not have access to the same wealth of detailed information about the backbone of the German economy. Ratings are used by companies to address their investors, banks, funds, suppliers and insurers.

SME segment expected to remain a growth sector in the future

The more SMEs that enter the bond market, the more important external rating will become. This applies all the more since ratings are not just issued for bonds. Companies issuing promissory notes are also well advised to obtain a rating from an independent organization.



process of creating – special market segments. Back in May 2010, the Stuttgart exchange launched the SME segment Bondm;

May 2011: Certification as a European rating agency

in November, Düsseldorf followed suit with its mittelstandsmarkt. Bond-issuing companies undertake to adopt a policy of transparency and disclosure towards investors that is more stringent than the normal rules governing over-the-counter trading. The requirements are comparable to those that need to be observed by publicly listed companies. In many cases, firms are expected to have an external rating, and sometimes a minimum specification is laid down.

Specialist in SME rating

Apart from rating bonds, Creditreform Rating AG also rates enterprises, mortgage-backed loans and structured loan or receivables portfolios. What makes Creditreform Rating AG unique, however, is the fact that it specializes in rating SMEs.

Creditreform Rating AG: Specialist for SME ratings

Additional SME-specific factors are weighted according to their significance for the firm's success and taken into account in the rating score. These factors particularly include clearly developed strategies for the future, clear internal

Creditreform: Professional partner for safe business worldwide

Founded as a Credit Agency in Mainz, Germany in 1879, Creditreform has grown to now serve over 163,000 members from 177 offices across Europe and China as one of the leading international providers of Business Information and Receivables Management services. Creditreform provi-

des today a comprehensive spectrum of integrated Credit Risk Management solutions and services worldwide and provides members with more than 16 million commercial reports a year and assists members to realize billions in outstanding debts.

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