



Creditreform Latvija SIA
credit management survey

**TRADE CREDIT AND PAYMENT
DELAYS IN COMMERCIAL
TRANSACTIONS AMONG
BUSINESS ENTITIES IN LATVIA
IN 2008.**

RESULTS OF SURVEY

February 2009

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INTRODUCTION

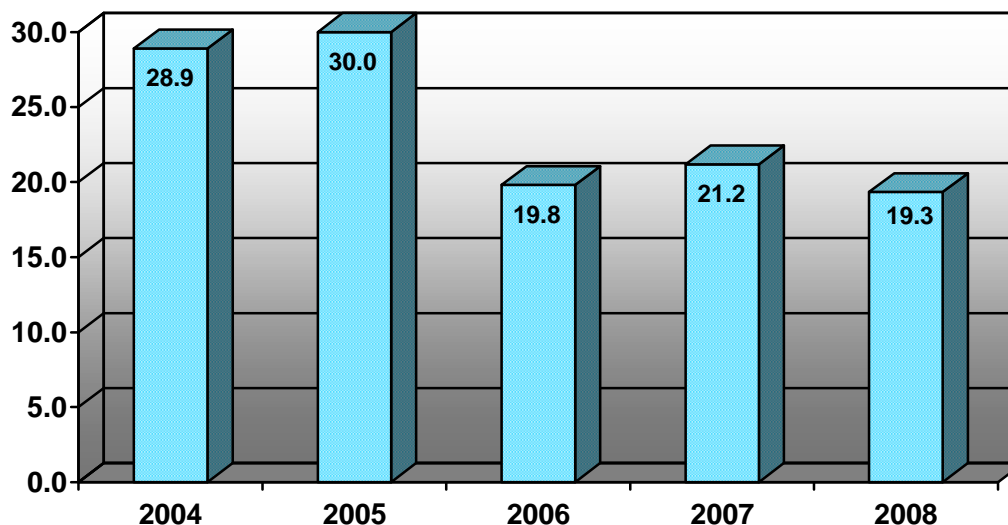
Creditreform Latvija SIA already the eleventh year has made a survey on the conditions of sale and payment delays changes trends in commercial transactions among business entities in the domestic market. The aim of this survey is to evaluate the terms of payment transactions between entities in Latvia, to find out how in companies are organized the credit management, what are the problems with the bill payment delays and how they are resolved.

The survey was conducted randomly business sectors in which goods and services sales to post-paid is essential. Thank you to all who took part of this survey. This year's survey results are based on 260 respondents.

BUSINESS ENVIRONMENT DETERIORATING AND GROWING RAPIDLY FINANCIAL RISKS

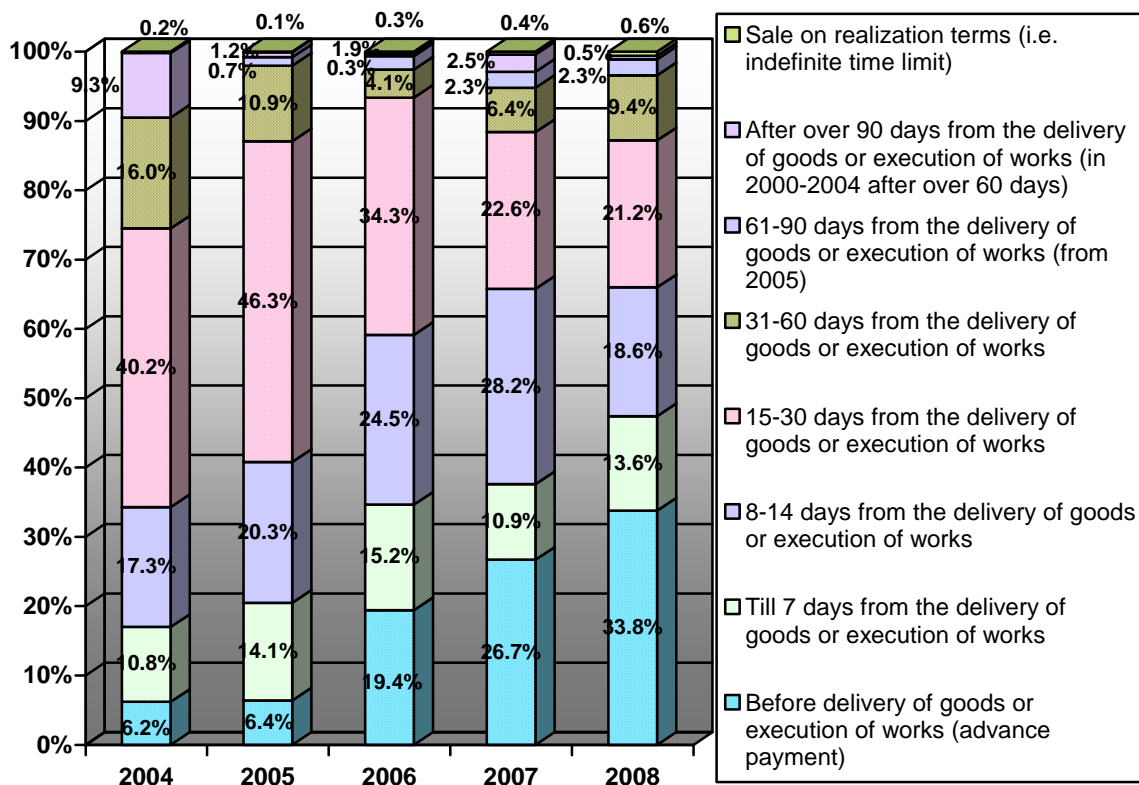
Last year the second half, by result of economic overheating, began its rapid decline. More and more companies got into financial difficulties, developed a chain of debt between the companies, resulting in a rapid increase of financial risks, as well as the number of insolvent and liquidated companies. Consequently, the business persons in their sales transactions have become much more cautious and determined much shorter limits for payment transactions.

Picture 1: Average contractual payment terms in Latvia in 2004-2008



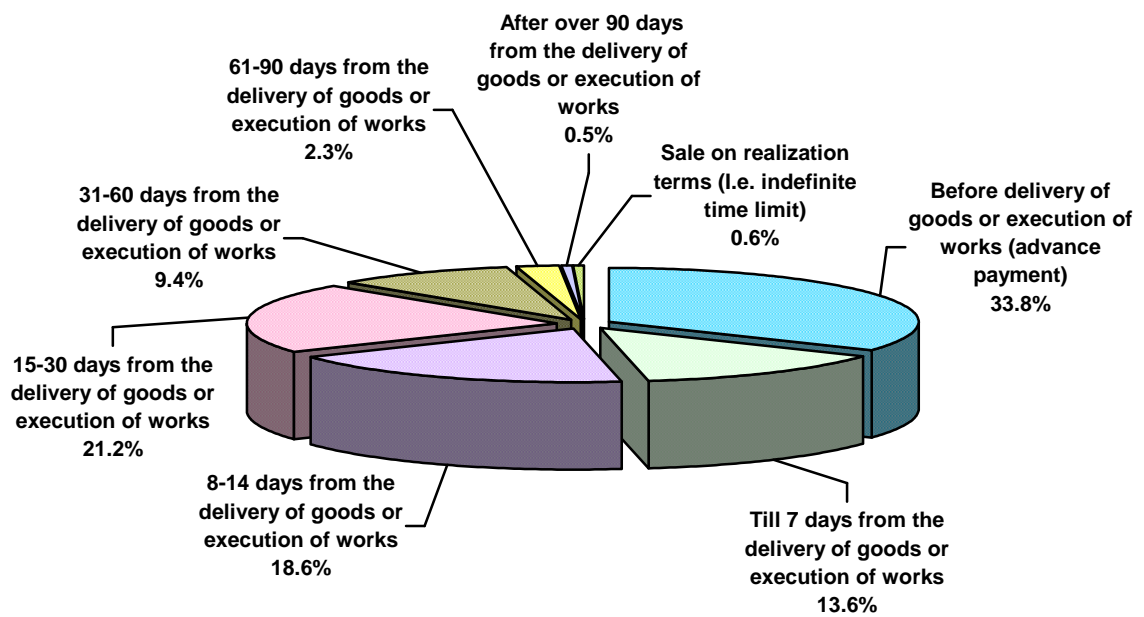
In days from delivery of goods or execution of works

In 2008, the average contractual transaction payment term was 19.3 days from delivery of goods or execution of works, which is about two days shorter than in 2007. This is the lowest index since 2000, when the due date was determined an average of 17.4 days.

Picture 2: Contractual payment terms in Latvia in 2004-2008

Despite the substantial aggravation of competition in various markets, business persons concluded commercial agreements with its customers determine more and more stringent rules for selling. Last year, 33.8% of the surveyed respondents in the contracts of delivering of goods or execution of works requiring payment in advance, when the previous year only 26.7%. In practice, a very small proportion of contracts in which the deferred payment term is determined by more than 90 days from the delivery of goods or execution of works (0.5%). Moreover, traditionally, is still sufficiently large proportion - 21.2% of contracts, which provided the deferred payment term in the interval of 15-30 days, although slightly less than the previous year (22.6%). Expected that this year because of the bank lending restrictions and uncertainty in the markets, contractual payment terms will continue to decline.

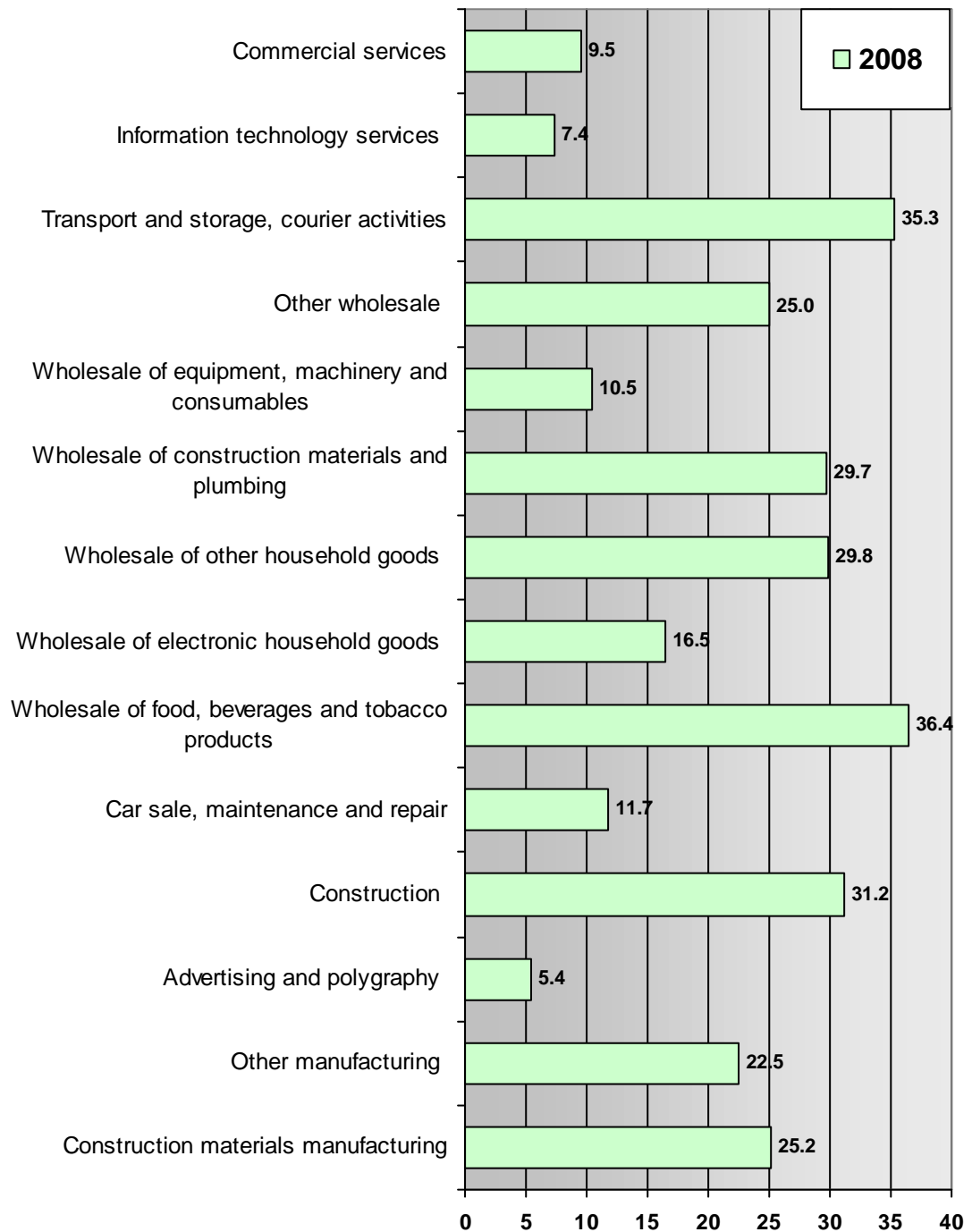
Picture 3: Contractual payment terms in Latvia in 2008



In business sectors the longest contractual payment terms in 2008 determined the wholesale of food, beverages and tobacco sector companies - 36.4 days and the transportation and storage, courier activities sector companies - 35.3 days, followed by the construction sector companies - 31.2 days.

Shortest payment terms in 2008 for agreements with customers were determined advertising and polygraphy industry companies - 5.4 days, information technology services sector companies - 7.4 days, commercial services sector companies - 9.5 days, as well as wholesale of equipment, machinery and consumables sector companies - 10.5 days.

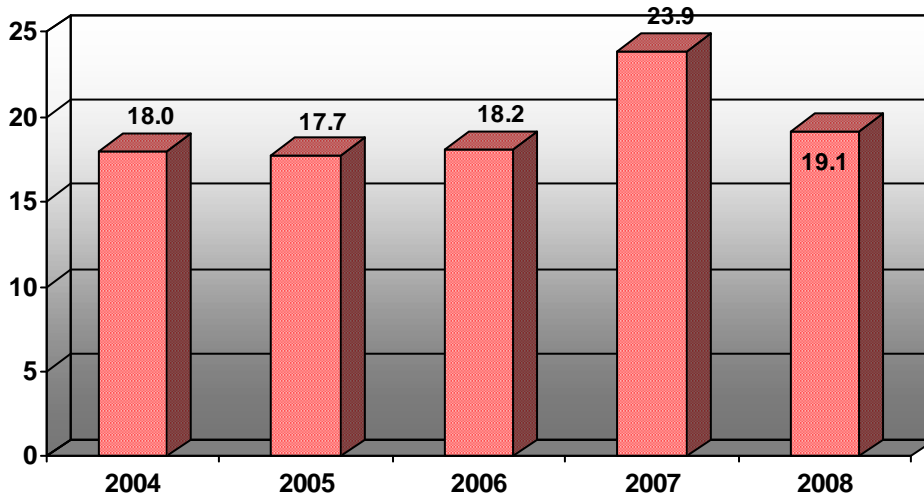
Picture 4: Average contractual payment terms in individual business sectors in 2008 (in days from delivery of goods or execution of works)



MONITORING OF PAYMENT PERFORMANCE BECOME MORE EFFICIENTLY

Consequently, stricter monitoring of payments performance, average payment delays last year also dropped to 19.1 days, or about 4.8 days less than in 2007.

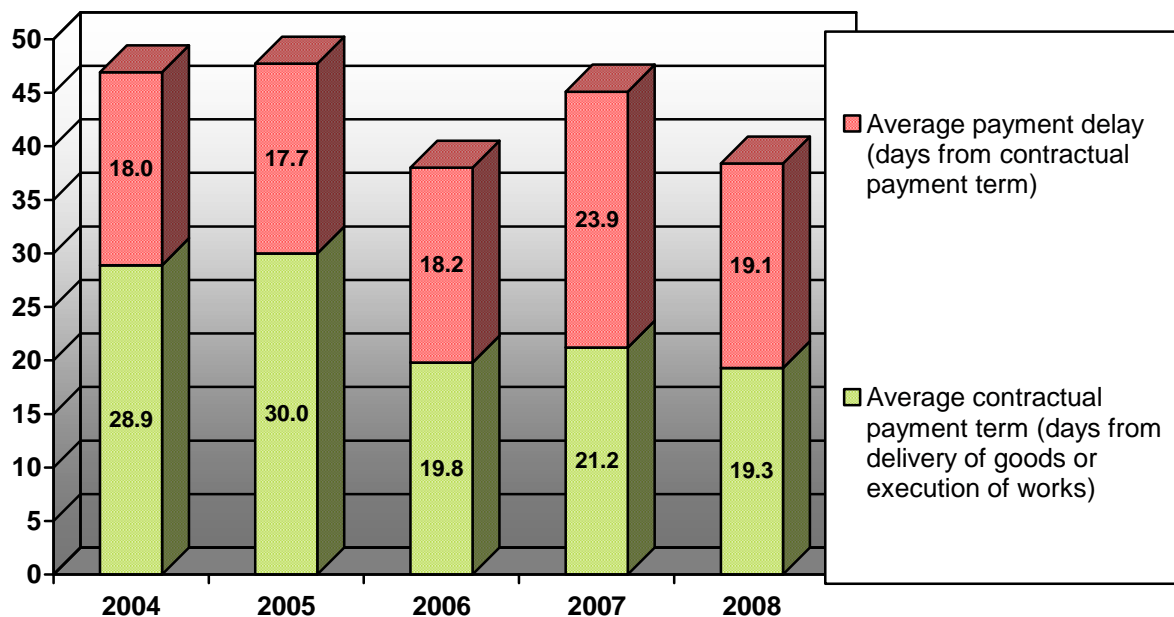
Picture 5: Average payment delays in Latvia in 2004-2008



In days from contractual term of payment

Overall, the accelerated movement of the amount receivable (totalize the average contractual payment term and the average payment delay) and last year was on average 38.4 days after the delivery of goods or execution of works, which is about 6.7 days faster than the previous year (45.1 days).

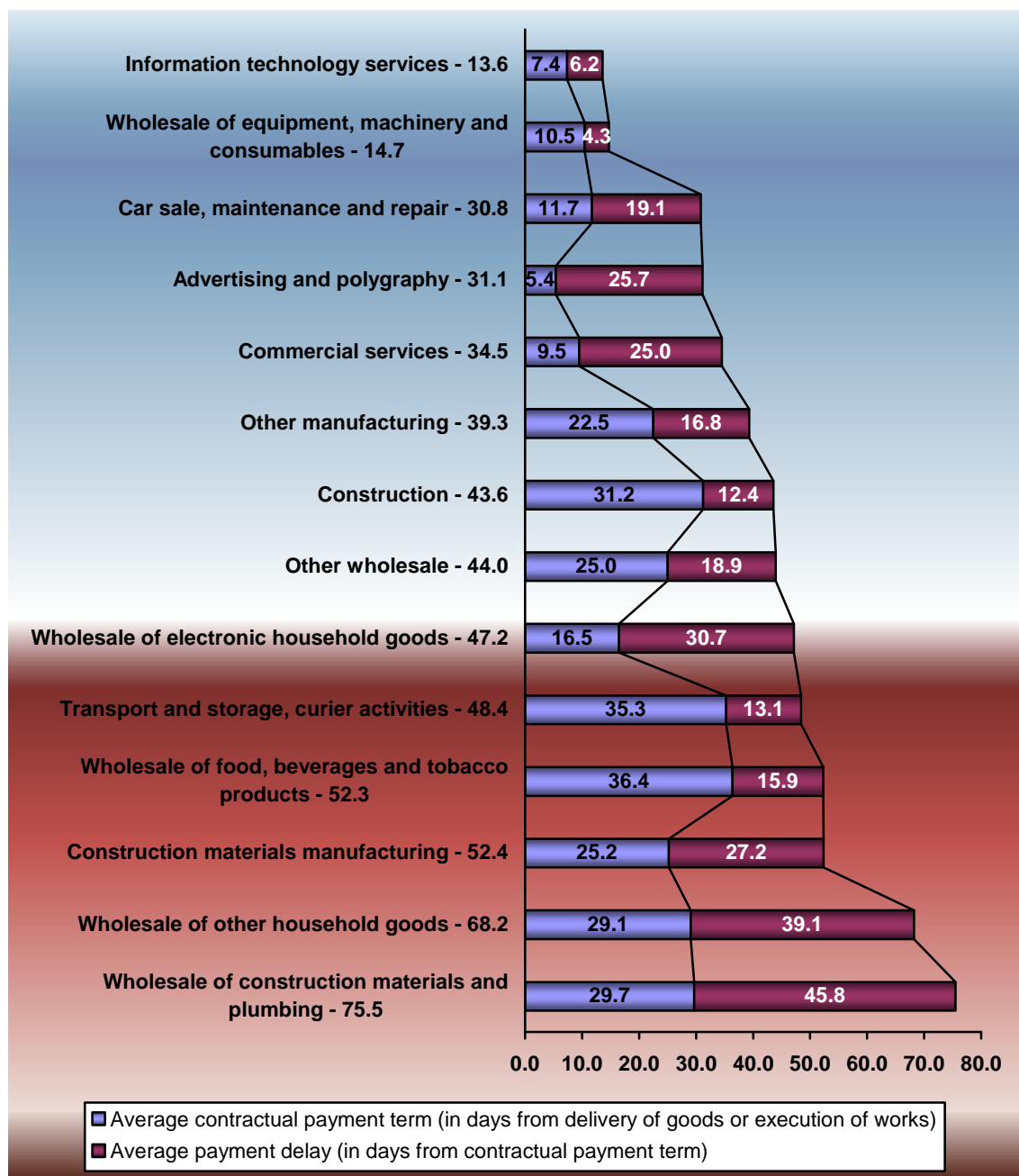
Picture 6: Average payment terms and delays in Latvia in 2004-2008



Looking at the total amounts receivable movement in the individual business sectors, in 2008 paid for the goods or services were wait the longest to the wholesale of construction materials and plumbing sector companies - 75.5 days, wholesale of other household goods sector companies - 68.2 days, and constructon materials manufacturing sector companies - 52.4 days.

Fastest pay for the goods or services in 2008, received the information technology services sector companies - 13.6 days, the wholesale of equipment, machinery and consumables sector companies - 14.7 days, and car sales, maintenance and repair sector companies - 30.8 days.

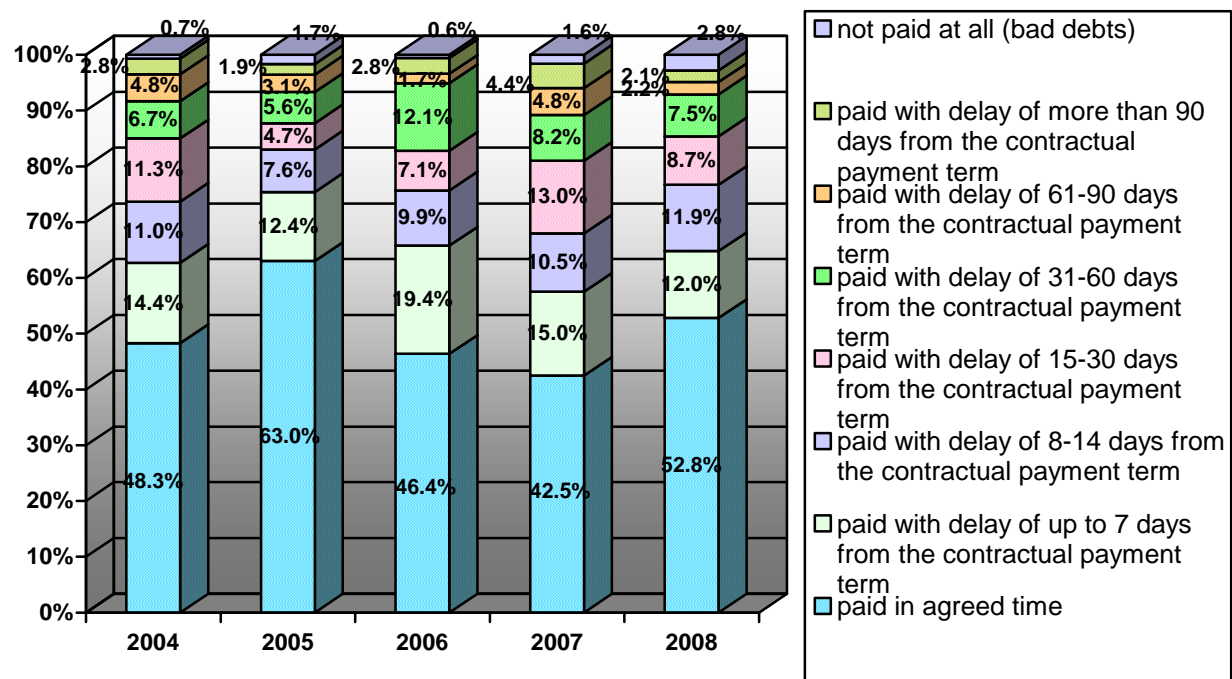
Picture 7: Average amounts receivable movement in the individual business sectors in 2008.g. (in days from delivery of goods or execution of works)



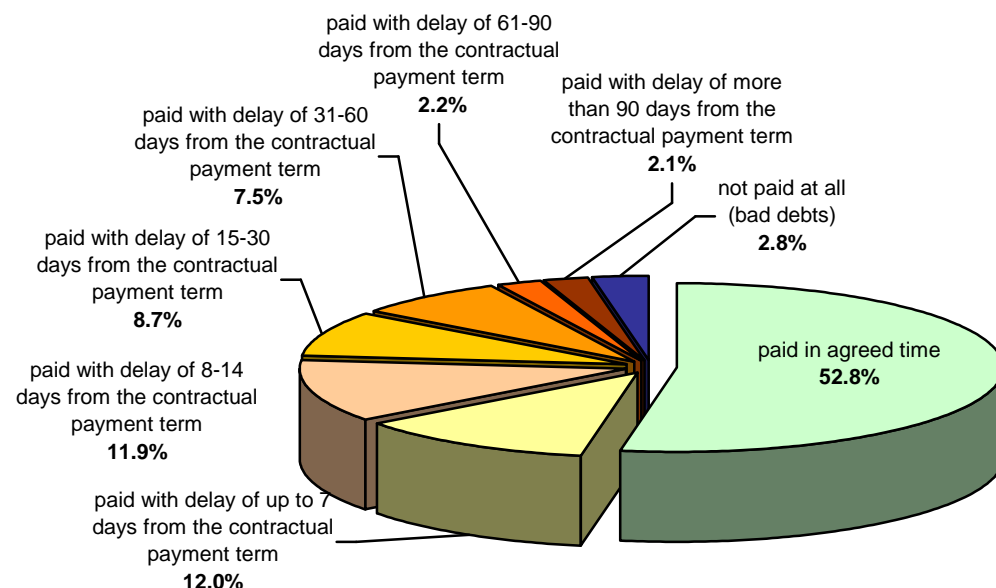
Although last year the total delayed payment amount in the commercial transactions of business entities is quite a significant decrease from 57.5% to 47.2%, however, become more so-called doubtful or at all outstanding debts. In addition, important to note that the total delayed payment amount decrease, as well as the movement acceleration of debts, mainly achieved by the large proportion of prepayment (advance payment), which is included in the calculation of the total amount of paid invoices. An important role has been increasing the efficiency of the payment monitoring. At the same time, attention to linking the rapidly growing bad or at all outstanding debts, which last year still accounted for a relatively small portion - 2.8% of the total bill amount, but that figure this year, there is a clear tendency to grow rapidly and is already the beginning of February, according to our experts to draw up estimates of around 5%. This has been confirmed by the rapidly rising the number of debt cases in the leading debt collection firms, as well as the number of insolvent companies. As shown by data collected by the Insolvency Register, this year in January was declared 148 insolvent companies.

Survey results show that last year, most payments were delayed in the interval from 8 to 60 days, where includes 59.5% of all late payments.

Picture 8: Payment delays in Latvia in 2004-2008



Picture 9: Payment delays in Latvia in 2008



As shown the survey, the longest payment was delayed in the wholesale of construction materials and plumbing industry companies (45.8 days), the wholesale of other household goods (39.1 days) and the wholesale of electronic household goods industry (30.7 days).

Delayed payment fastest were paid in sectors such as wholesaling to equipment, machinery and consumables (4.3 days), information technology services companies (6.2 days) and the construction sector (12.4 days).

Picture 10: Average payment delays in individual business sectors in 2008 (in days from contractual payment term)



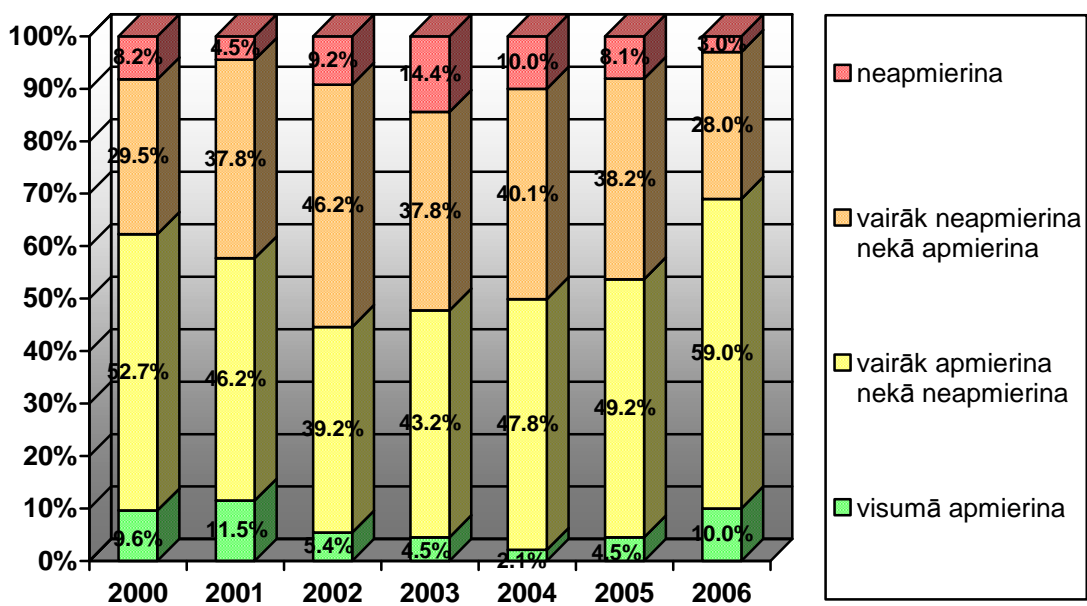
Wholesale of other household goods business sector, only 12.1% of invoices paid in agreed time, advertising and polygraphy industry - 28.0%, but wholesale of food, beverages and tobacco products sector companies - 35.2%.

The greatest losses last year suffered a wholesale of construction materials and plumbing sector companies, because of all the invoices were not paid at all 11.3%, followed by wholesale of electronic household goods sector companies by 4.3% in unpaid invoices, and car sales, maintenance and repair sector companies by 3.8% in unpaid invoices.

BUSINESS PERSONS TO CUSTOMERS REGARDING PAYMENT DISCIPLINE IS MORE DEMANDING

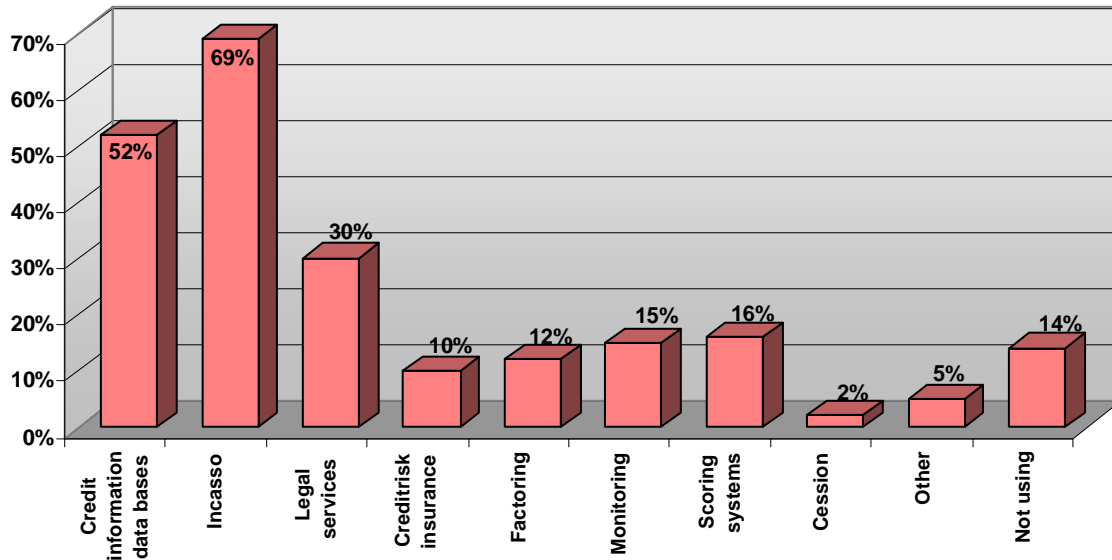
The survey shows that deepen the economic and financial crisis in the country, business persons are forced in the center of business activities as a priority to nominate sufficient liquidity assurance. It largely explained that despite the total improvement of payment discipline last year, more than half - 56.8% of respondents, however, are unsatisfied or rather unsatisfied than satisfied with their customers payment discipline. The dissatisfaction of the year, even increased by 17.7% points. The crisis led to pay particular attention to effective cash flow management.

Picture 11: Satisfaction with customers' payment discipline in 2004-2008



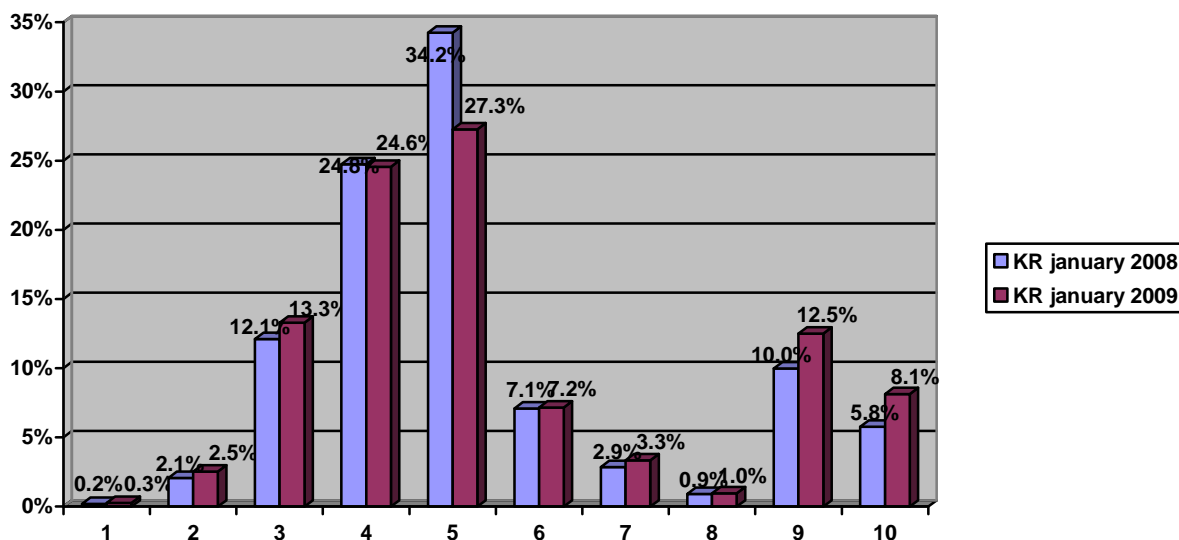
ENLARGING OUTSOURCING IN DELAYED PAYMENT PROBLEM SOLVING

Picture 12: *The use of professional services in order to solve delayed payment problems in enterprises in 2009*



As has been with the company solvency rating system - CrefoScore predicted a large number of companies who have previously worked without equity financed by the current assets, but have been largely financed from bank credit lines, customer advances or deferred payment of suppliers, became insolvent, or were forced to stay their activities. Debts and their consequences affect any of the national economy and unemployment. Analyzing the situation of the late payments and corporate actions, probably quite accurately diagnose the company's environmental problems and trends. The survey shows that twice increased their number of companies that prior to closing the transaction, using CrefoScore satisfied that the client live up to their commitments (16%). Still widely used outsourcing delayed payment problem solving. Most are used inkasso (debt collection) services (69%) and credit history data bases (52%).

Picture 13: Percentage breakdown of Latvian Commercial Register enterprises in CrefoScore risk classes in January 2008 and in January 2009



Most of the Commercial Register enterprises in this year, and also last year was in the fifth CrefoScore-risk class (medium solvency assessment), but this year in this class number of companies have fallen by 6.98% points. The most substantial changes during the year is the large increase in the ninth and tenth CrefoScore risk classes (cooperation with these companies is not recommended), by 2:52% and 2:37% points.

Short description of corporate solvency calculation system

Creditreform specialists in collaboration with the German company Creditreform Risk Management has developed a special mathematical model CrefoScore, which is automatic on-line credit-risk evaluation system www.crediweb.lv site. Its main ingredient is the Score - especially index calculated by the score of 100 - 600, and it indicates the probability with which the company next 12 months to live up to their financial commitments. More easily and faster perception - created 10 CrefoScore risk classes from one to ten, where the first to eighth class presented the status of the company. While in the ninth risk class enterprise comes when during the year has registered a significant payment delayed fact, but the tenth - when a company is insolvent, or runs its reorganization or liquidation proceedings. To arrive at this index is to evaluate not only the most recent financial information on companies, but also its credit history, a large number of structural data (number of employees, company age, legal form, etc.), business sector risk indicators, as well as information on insolvency, reorganization, liquidation, judicial protection and bankruptcy proceedings. CrefoScore is updated every day for all the companies included in the Commercial Register of Latvia. CrefoScore not evaluate in companies that are less than half of the year, banks, insurance companies and companies that deal with financial asset management.

Using in publications, a reference to the SIA Creditreform Latvija is mandatory.