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Trade Line

coface

YOUR TRADE RISKS, UNDER CONTROL.

how and why

Coface has been supporting the development of international trade for 60 years. Should you be involved with or interested in foreign trade, international investment, or credit matters and insurance, Coface supports and informs you with up-to-date analysis.

Every quarter in France, Coface distributes a magazine to its clients and all French economic players, to inform them of developments in international trade techniques and assess the upgrading and downgrading of country and sector risks worldwide. This magazine also enables Coface to present the tools it offers companies so that they can develop their trade receivables in a secure framework.

As we are sure that some of the articles published in the magazine will be of interest to you and your own existing or prospective clients, partners, corporate institutions and press contacts, each quarter we will be pleased to provide you with a selection in English of key articles from the latest French Assexport that is likely to make worthwhile reading for you.

Here, in this Coface's first English language issue of the magazine - named Trade Line - you will find a focus report on Germany, an article on changes in the bad debt situation in China, a description of the Coface @rating service and a worldwide overview of sector risks.

We trust that these regular dispatches will constitute a useful communication tool and help you in both strengthening awareness of international trade matters and building sales in your own market.

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:
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GERMANY:
Economic revival

The football World Cup finished on the 9 July in Berlin. Germany welcomed one and a half million visitors and fifteen thousand journalists from all over the world. The country fell into a kind of euphoria comparable to the rebound in economic confidence seen in the last few months.

In April, the IFO Business Climate Index, measuring the morale of heads of business, reached its highest level since 1991, the prosperous year that followed reunification. Nearly simultaneously, household confidence reached its highest level in five years. But, caution is advised. Household confidence is linked to circumstance rather than a far off future where scepticism remains the order of the day. Moreover, unemployment fell only slightly and national consumption remains quite sluggish. According to Benoît Claire, President of the Coface Deutschland Executive Board, the time has not yet come to ring in "the end of the alert for businesses, from a risk point of view". We will start there, then address the different aspects of the German economy and the perspectives it offers to the expectations of French exporters.

The Dome,
the German parliament, Berlin.

RISKS REMAIN DESPITE A REVIVAL IN GROWTH

2006 is shaping up to be a decisive year for Germany. Growth forecasts are markedly better than in previous years. At last, and for the first time for a number of years, the country's economy could actually meet European stability pact criteria. Nevertheless, even if the growth engine were to genuinely start up again, this would not mean that the alarm bells would stop ringing for businesses in terms of risk.

By **Benoît Claire,** Coface Deutschland
Executive Committee Chairman

Lately, we have observed an encouraging change in terms of credit management procedures implemented by German businesses, under the impetus, since 2004, of the Basel II Accord that has tightened prudential banking regulations. Companies have suddenly been forced to focus more effort on their credit ratings, risk management and financing strategies; issues that previously were often reduced simply to bank lending conditions. The spotlight is now on alternative financing, a trend that Coface Deutschland was able to foresee. The fact that our Coface Finanz factoring company is enjoying strong growth is not just a matter of chance.

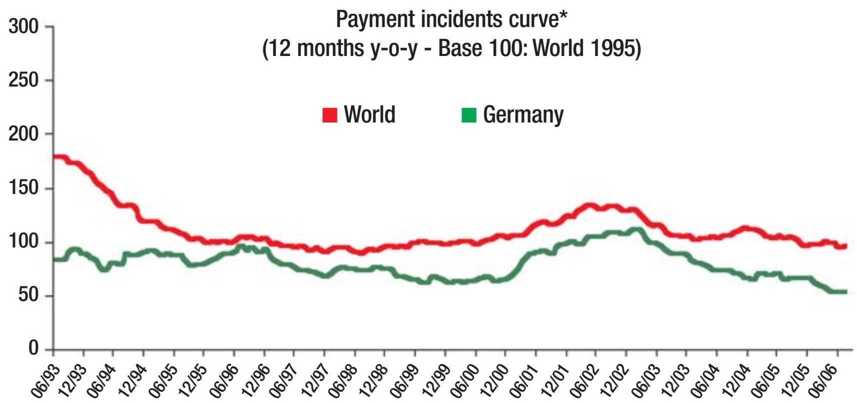
In fact, we have diversified the range of products available to offer customised solutions in the field of receivables management.

In our view, each company is a special case with specific needs in terms of risk and receivables management. This is particularly true for SMEs which already export their products or which are seeking to get an export activity off the ground. As totally or partially specialised businesses, they need tailored solutions. Over the past few years insurers and financial services providers have been confronted with a contradictory situation: on the one hand, businesses have had an increasing need for securitisation and alternative financing but, on the other hand, there has been a high risk of severe losses. This situation has caused credit insurers, along the same lines as banks, to adopt a somewhat restrictive stance in terms of both accepting new credit contracts and arbitrages on existing contracts. Profitability took precedence – and still does – over credit production volumes.

Even if, as we all hope, the pace of German economic growth continues to pick up, it will in no way change this principle. Neither banks nor insurers or other financial services providers will alter their strategy. For this reason, it is both necessary and probable that we will see a continuation in the changes initiated by businesses in the credit management domain.

In these circumstances, only those businesses with a good rating will have ready access to third party capital or hedging facilities. This implies professional risk management practices. When all is said and done, the German economy needs to achieve the same objective as that defined by Coface Deutschland as part of its own strategy, that is - growth combined with quality.

MEETING SPECIFIC NEEDS WITH CUSTOMISED SOLUTIONS



Source Coface

** Payment default indices reflect the payment-incident trend on commercial transactions payable in the short-term worldwide across a broad range of economic sectors.*

OVERVIEW OF THE GERMAN ECONOMY

By **Dominique Fruchter,**
Coface Country Risk Expert

STRENGTHS

- The competitiveness of manufacturing exports, notably due to wage restraint and innovation, is contributing to the formation of current account surpluses.
- The joint and participative business management style, with the involvement of all players concerned, makes restructuring easier, even if consultations sometimes slow the process somewhat.
- The reforms contained in the Agenda 2010 programme aimed, amongst other aspects, at increasing labour market flexibility and balancing the corporate accounts, should continue.
- Germany is benefiting from the European Union entry of its trading partners in Central and Eastern Europe.

WEAKNESSES

- Public finances show deep structural deficits. The confusion between Bund, Länder and municipalities as regards decision-making and funding in no way helps to restore budget balance.
- The eastern region of the country is struggling to catch up despite aid packages whose effectiveness leaves much to be desired.
- Mittelstand businesses are seeking a new financing model that the banking sector is only providing in dribs and drabs.
- The ageing population is a burden on growth and represents a major challenge for the social security system.
- There are shortcomings in childcare facilities and higher education, while public investment cuts are harming research and infrastructures.

ECONOMIC OUTLOOK

The high level of business confidence is due to the boom in exports. Household confidence is linked partially to the change in government and Chancellor Merkel's positive image. However, for the time being, it has yet to translate into a recovery in consumption.

ON THE ROAD TO STABILISATION

The pick-up in the German economy is being confirmed. Exports are profiting from an improvement in the European economic outlook – a solid driving force behind business activity – and are continuing to improve. Be that as it may, their contribution to growth is not increasing, due to price rises on imported materials and semi-finished products used in their manufacture.

Capital expenditure on the part of manufacturing and service businesses continues to increase due to the combined effects of profits generated and very high output capacity utilisation fuelled by foreign orders. A halt in the decline in investment is even expected in the building sector.

In an ongoing favourable monetary environment, household spending could show some signs of life from June onwards under the combined impacts of unemployment levelling off, the World Cup being held in Germany and the bringing forward of certain purchases prior to the rise in VAT planned for 1 January 2007. However, the sum of these factors is unlikely to kick start private consumption which, despite a few wage concessions obtained after recent industrial action in the manufacturing and public services sectors, remains penalised by low disposable income growth. In addition, worries about the future are encouraging saving.

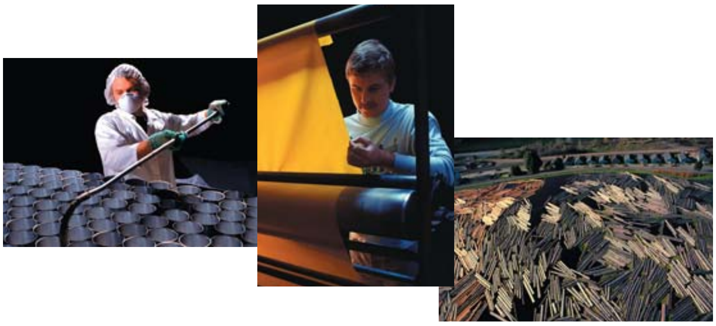
The economic policy decisions scheduled for 2007 (VAT rate increases, pension and healthcare system funding reforms) will contribute to public deficit reductions, but will weigh heavy on consumption. Moreover, exports should slow as a consequence of the downturn in worldwide investment and the expected appreciation of the euro.

All in all, 2007 growth should be somewhat modest but the national economy should be on the road to stabilisation.

BUSINESSES

Despite timid growth, **corporate financial soundness is improving.**

Despite somewhat lacklustre economic growth, business solvency has returned to satisfactory levels. Moreover, the Coface payment incident index has returned to a good level. The number of bankruptcies is waning (-12% first half 2006) with margins being restored due to relocations, wage restraint and a rationalisation of manufacturing resources. The upturn is significant for exporting business or those which have manufacturing bases located abroad. It is less so for those confined to the domestic market, as they are suffering from sluggish public and private consumption.



SECTORS

Demand is pointing in the right direction, notably for exports, but it does not totally make up for the negative impacts of higher energy costs and intermediate products price rises.

PAPER / PRINTING

Paper industry output continues to increase under the positive effects of the surge in exports to Eastern and Central Europe and the modest recovery in domestic demand. Nevertheless, the slack nature of domestic demand does not allow for any price increases to offset the unfavourable impacts of rising materials, electricity and transport prices on company profits.
Accordingly, despite a modest increase in activity and a slight drop in labour costs, profitability will remain insufficient.
The printing sector appears to have bottomed out, even if the price of paper is set to rise and an increasing volume of work is being carried out in book printing works in Eastern Europe. Indeed, the sector is benefiting from a slight increase in advertising spending that accounts for two thirds of its activity. In addition, there have been major investments in the sector to rationalise and modernise production facilities.

CHEMICALS

German chemical output rose sharply in 2005, taking advantage of the rise in demand from European and emerging countries. However, the industry only managed to pass on part of the raw materials, energy and transport cost rises to its customers. The basic chemicals segment, thanks to high demand and fully-utilised output capacities, was able to maintain its margins via price increases from the second half of the year onwards. In contrast, the fine and specialty chemicals segment was hit harder, due to an ongoing decline in demand. In this context, in order to maximise profitability, businesses continued with their restructuring programmes to adapt their production capacities, focus on a limited number of activities and conquer dynamic emerging markets.
Whereas activity should slow in the basic chemicals segment, fine and specialty chemicals should accelerate and finally allow part of their cost increases to be passed on to the market. Parachemicals (detergents, washing powder and soap etc.) and paints will continue to produce mediocre results.

MECHANICAL ENGINEERING

In 2005, activity was boosted by a surge in export orders (Russia, China, Near East, Eastern Europe). In particular, equipment manufacturers in the agriculture, forestry, energy generation, mining and construction sectors, as well as in machine tool manufacturing, benefited from the trend. Textile machinery and leather-working machinery manufacturers also turned in solid performances, thanks to healthy demand from Italy, the USA, China and Turkey. This year, the sector will profit from the recovery in exports to European countries as well as that of domestic investment. However, increases in materials prices will continue to hold back profitability.

TEXTILE

In 2005, Germany suffered less than Southern European countries from the quota changes, as the majority of businesses had already relocated manufacturing of their mass-produced articles. In addition, half of the sector produces technical textiles, which represent a far less competitive market. The 4% decline in clothing and 1% decline in textiles were particularly evident in the production of pullovers, leather clothing and underwear. Furthermore, the boom in workwear and non-woven fabrics was not enough to reverse the trend.

This year, the garment retailing sector will continue to suffer from lifeless consumption. Therefore, we will continue to see the disappearance of independent specialised retailers in favour of major foreign chains and a few local players (such as Gerry Weber) who have control over the entire production chain from creative design to retailing.

DOWNTURN IN THE NUMBER OF BANKRUPTCIES

SUPERMARKET/HYPERMARKET RETAILING

Stagnant consumption and the German consumer's quest for the cheapest product block any increase in turnover. Moreover, increased spending on housing, energy and healthcare works against growth in traditional purchases. Another problem: the sector suffers from structural handicaps, such as an excessive number of retail outlets. To escape from this difficult climate, those involved are increasingly turning towards foreign markets. In food retailing, the success of hard-discounters over the past few years is without precedent. Their double-digit turnover growth has been achieved at the expense of traditional retailers. Currently, hard discount outlets account for 40% of food sales, but the pace of growth is slowing noticeably. Some are even experiencing a decline in their non-food turnover.

AUTOMOTIVE

In 2005, activity in this sector benefited from the solid increase in exports (+4.5%), notably in utility vehicles (+11%). This performance offset the far less dynamic domestic market. Rising fuel prices provided a clear boost to diesel-powered vehicle sales, particularly for "clean" versions for which the German manufacturers enjoy a comfortable technological advance over their competitors. However, rising metal and plastic prices weighed heavily on sector profitability.

Yet again, the automotive industry should achieve volume growth, due to the need to renew the German vehicle population. Indeed, new registrations of passenger and utility vehicles increased by 5% and 16% respectively during the first quarter of 2006. Another favourable element: the rise in VAT scheduled for 2007 will incite consumers to purchase passenger vehicles before the end of the year. However, we will still look to exports for the main source of automotive industry growth, thanks to the German manufacturers' robust performances across Western Europe and in Japan. ■

Main economic indicators

in %	2002	2003	2004	2005	2006(f)	2007(f)
Economic growth	0,1	-0,1	1,1	1,0	1,7	1,3
Consumption (change)	-0,5	0,0	0,2	0,1	0,6	0,3
Investment (change)	-6,6	0,2	0,0	4,0	6,0	4,5
Inflation	1,3	1,0	1,6	2,0	1,6	2,1
Unemployment rate	8,2	9,1	10,1	11,7	11,1	10,8
Short-term interest rate	3,3	2,3	2,2	2,0	2,5	3,0
Public balance / GDP	-3,5	-3,8	-3,7	-3,5	-3,2	-2,2
Public debt / GDP	62,8	65,3	65,0	67,0	69,0	68,0
Exports (change)	4,1	2,3	8,3	6,3	7,7	5,3
Imports (change)	-1,6	5,0	6,1	5,1	7,1	4,4
Current account balance / GDP	2,1	2,3	3,7	4,2	4,3	4,9

(f = forecast)

CHINA:

CONGRATULATIONS ON GROWTH, BUT WATCH OUT FOR PAYMENT DEFAULT

This survey, conducted at the end of 2005 by the Coface China regional platform, collated answers from 272 businesses registered in continental China. 80% of these businesses are joint ventures or 100% foreign-owned businesses with a perfect understanding of the concept and importance of credit risk management. The purpose of this survey was to gain an in-depth understanding of credit risk management for businesses located in continental China. We present a few extracts from the survey below.

Unpaid/dishonoured bills on the increase

1. The risk of unpaid invoices for businesses operating in China is on the increase. The situation of unpaid invoices associated with inter-business transactions with credit terms (short term credit up to 6/12 months) worsened in 2005. Almost 35% (versus 17% in 2004) of businesses questioned declared that they have suffered payment defaults representing over 2% of their total sales in 2005.

2. Almost 68% of businesses questioned consider that payment defaults are mainly due to their clients' financial difficulties. 21% of businesses attribute the majority of payment defaults to fraud and lack of honesty on the part of certain clients who do not respect their financial commitments. In addition, a lack of management transparency and rigour are factors often mentioned.

3. Margins are tending to decline due to the price war and rising manufacturing costs (energy, raw materials, wages), notably in certain sectors such as mobile telephones or household appliances. The risks of non-payment are increasing accordingly.

4. To protect themselves, 59% of businesses questioned consider they need information provided by specialised agencies. In addition they increasingly use various receivables management tools such as credit insurance, factoring and have recourse to debt collection agencies.

Transactions with credit terms remain predominant

1. 74% of businesses questioned grant credit to their clients.

2. 32% of businesses questioned achieve over 75% of their sales in China via transactions with credit terms.

3. 50% of businesses questioned achieve over 50% of their turnover in the form of sales with credit terms.

4. Businesses established with foreign investment (fully-owned foreign businesses and joint ventures) are highly dependent on transactions with credit terms for conducting their activities in China. 37% of them achieve over 75% of their domestic sales in China on the basis of such open accounts in order to expand their market share in China.

5. To develop their business and increase their market share, medium-sized businesses (global turnover between 51 and 500 million RMB) are more aggressive. 48% of them achieve over 75% of their sales via credit payments.

Care required in the face of inappropriate commercial behaviour in China

1. 70% of businesses involved in sales with credit terms declare having granted such terms due to increased competition.
2. 31% of businesses questioned have agreed to grant or increase their sales with credit terms to reduce the financial pressure exercised on clients in difficulty.
3. According to Xavier Farcot from the Coface China regional platform, "This practice proves to be very alarming as it does not help the client over the long term and increases the risk of payment defaults. What is even more worrying is that some businesses grant long-term payment conditions with the sole aim of satisfying their clients. This practice turns out to be dangerous as it leads to inappropriate commercial behaviour. A safer approach would be to grant short-term credit conditions and then progressively increase the credit term on the basis of sound solvency information".

Private, local-capital businesses are the "riskiest"

1. 77% of persons questioned consider that private businesses are "riskier" in terms of payment default than State enterprises, joint ventures and foreign companies.
2. Generally, private businesses operate with limited capital resources. They experience difficulties in obtaining bank financing. Their financial situation is further weakened by insufficient internal credit control capabilities when they themselves grant payment terms to their clients. These payment conditions lead to higher risks of payment default for private businesses.
3. At the end of the day, State enterprises do actually honour their financial commitments.
4. Joint ventures and fully-owned foreign companies often benefit from more solid financial situations, thanks to support from their parent companies. Therefore, their payment behaviour is more satisfactory and they have easier access to bank credit.

Coface in China Since 2003, Coface has been the technical partner and re-insurer of Ping An Property & Casualty for its domestic credit insurance offering.

In 2005, Ping An and Coface covered 12 billion Renminbi of sales (annualised total) in the credit insurance market in China and, achieved a 60% increase in activity compared with 2004.

« We are very optimistic in respect of this market's growth potential », states Richard Burton, the executive director of Coface's Greater China Regional Platform. *« By building on our expertise in the domestic credit insurance market in China, Coface and Ping An are well prepared to accompany local and foreign businesses on the continental Chinese market in their development and their receivable management requirements including, in the future, offering export credit insurance when this market opens up to private sector players »*.

For further information regarding this study, please contact:

Xavier Farcot,
Coface China regional platform

E-mail :
xavier_farcot@coface.com

Sector risk overview

Coface's sector @rating measures the average level of non-payment risk associated with companies in each economic sector (see appendix). A rating reflects not only the analysis of the sector's economic outlook and average company financial situation, but also, and most importantly, payment behaviour of companies in the sector, which Coface tracks through its database of 50 million companies. This rating therefore acts as an advanced indicator of the health of companies in the different economic sectors.

Sector @rating

Coface Sector @ratings measure the average level of non-payment risk associated with companies in particular sectors. They reflect the influence of the economic outlook and average company financial situation on payment behaviour in a particular industry. To determine Sector @ratings, Coface combines three types of measurements:

- sector vulnerability, including the impact of market outlook, price levels and production costs on corporate solvency;
- company financial strength, based on Coface's company rating database, in terms of the ability to cope with economic downturns;
- short-term payment behaviour as reflected by Coface databases.

According to Coface, the average risk associated with the main economic sectors has improved moderately.

Coface has upgraded the chemical sector rating (from B+ to A-) and the paper sector rating (A-, placed on positive watchlist). The building and public works sector rating remains unchanged despite diverging regional trends.

Severe tensions in financial markets marked this second quarter, with interest rate increases in the United States spurring sharp declines in stock market and raw material prices this past May and June. Those tensions should nonetheless have limited impact on the various economic sectors with world demand remaining strong, buoyed largely by China's dynamism as well as by strengthening demand in Japan and to a lesser extent, Europe. Meanwhile, the possibility of a gradual slowdown in the United States still holds. Although rising interest rates will contribute to reducing household demand, particularly in the property sector, a collapse seems very unlikely barring a major shock.

While companies in most countries will of course have to contend with higher financing costs, many of them now enjoy ample liquidity and good sales prospects. However, the pressure on their margins should persist with the spectacular drop in some raw material prices finally giving way to a partial recovery late June. Economic actors will thus still have to deal with high oil and commodity prices. Dynamic world demand could nonetheless give them greater leeway in passing cost increases on in their prices.

Main changes in sector risk

In this context, the average risk associated with the main economic sectors has improved moderately, due to the upgrading of the chemical sector rating (with the world and Europe ratings improving from B+ to A-) and placement of paper sector rating A- on positive watch (amid the positive watchlisting of two regional ratings: Europe B+, and North America A-).

Those two sectors continue to benefit from dynamic Asian demand with economic conditions improving in Europe. Restructuring, and particularly reduction of surplus production capacity, should moreover allow European companies to cope more effectively with continued high production costs.

The contrasting regional trends that have been experienced in the building and public works sector should be noted. Although the construction sector rating (B-) has been stable, its components have undergone changes, with the United States downgraded from A to A- and the ratings for Japan and Central Europe upgraded respectively from C+ to B- and from B+ to A-).

■ Chemicals sector: a buoyant market despite high production costs

World rating upgraded from B+ to A-

This upgrading is the result of improved sales prospects in Europe (with the sector's regional rating upgraded from B+ to A-) and continued strong demand elsewhere in the world. That buoyant demand should partially offset the unfavourable impact of continuing high hydrocarbon prices on the financial situation of sector companies, particularly in the downstream industry. Despite adjustments, however, basic chemicals will continue to outperform fine and specialty chemicals thanks to greater facility in passing on cost increases in their sales prices. Large European and American chemical groups will continue to relocate to emerging markets with growth potential (especially Asia) or indeed with extensive raw material resources (in the Near and Middle East).

CHEMICALS	World	North America	Japan	Western Europe	Central Europe	Asia (ex. Japan and near & Middle East)	Latin America	Middle East	CIS
April 06	B+	A-	A	B+	B+	A	B+	A+	A-
July 06	A-	A-	A	A-	B+	A	B+	A+	A-

■ Paper sector: growing demand from emerging countries; restructurations beginning to reap benefits

World rating (A-) placed on positive watchlist.

Fuelled by demand growth in emerging countries, wood pulp prices have been gradually rising although at a slower pace than for other intermediate products. That trend should continue in coming months. In Europe, the sector (B+ rating positive watchlisted) should register an upturn despite persistent overcapacity (although being reduced) affecting company margins. In North America (A- rating positive watchlisted), production delocalization, particularly in South America, along with the production capacity rationalization started several years ago should make it possible for sector companies to increase prices and thereby strengthen their financial situations. Meanwhile, emerging countries with a wood industry have been developing new papermaking capacity thus fostering the emergence of large integrated groups.

PAPER	World	North America	Japan	Western Europe	Central Europe	Asia (ex. Japan and near & Middle East)	Latin America
April 06	A-	A-	A	B+	A-	A	A-
July 06	A-	A-	A	B+	A-	A	A-

Building and public works sector: varying trends from region to region

World rating for this sector unchanged (B-), but downgraded in North America and upgraded in Central and Eastern Europe and Japan

In North America (downgraded from A to A-), rising interest rates and dynamic public and private investment caused a shift in the business focus from residential to non-residential construction that ultimately resulted in an overall downturn due to the unequal size of the segments. In Western Europe (rated A-), beyond national disparities, although the non-residential segment's revival amid improved economic conditions has been coupled with firmness in residential construction, the latter segment could finally weaken under the effect of rising interest rates. In Central and Eastern Europe (upgraded from B+ to A-), infrastructure spending has benefited substantially from EU support. In Japan (upgrade from C+ to B-), a possible stabilization buoyed by construction has been taking shape. Overall, the financial situation of sector companies has been very dependent on the dynamism of the particular segments (housing, offices, infrastructure) and countries where they operate. Although companies operating in the more dynamic regions have had little difficulty passing on high material and property costs, those costs have had a great affect on the margins and solvency of companies operating in less buoyant markets.

BUILDING & PUBLIC WORKS	World	North America	Japan	Western Europe	Central Europe	Asia (ex. Japan and near & Middle East)	Latin America	Middle East	CIS
April 06	B-	A	C+	A-	B+	A	B	A	A-
July 06	B-	A-	B-	A-	A-	A	B	A	A-

SECTOR @RATING METHODOLOGY

The sectoral analysis is available and regularly up dated on www.cofacerating.com, in the item "check our country ratings and payment experience". Their consultation is access free. The companies analysed are based in 151 countries.

Sector @rating measures the average level of non-payment risk associated with companies in each economic sector. A rating reflects the influence of the economic outlook and average company financial situation on payment behaviour in short-term commercial transactions in a particular sector.

In determining Sector @ratings, Coface assesses three critical parameters:

- **Economic trend and outlook** in the sector, as reflected by market prospects, price levels, inventories, order books and production costs.
- **Corporate financial situation** in the sector reflecting the capability of companies to cope with economic downturns or prosper on upturns.
- **Payment experience** on short-term transactions as reflected by Coface databases.

Coface establishes Sector @ratings on ten notches - *ranging from A+ for the lowest risk to D for the highest* - based on the following definitions:

A+	In a favourable sectoral economic environment coupled
A	with a generally robust company financial situation,
A-	payment experience is satisfactory with low average default probability.
B+	In an essentially favourable economic environment nonetheless not safe
B	from short-term deterioration with negative repercussions on the company financial situation,
B-	payment behaviour is generally correct and default probability acceptable.
C+	In a very uncertain sectoral environment combined
C	with a very vulnerable company financial situation,
C-	payment behaviour is poor with disturbing default probability.
D	In a very unfavourable economic environment, a deteriorated company financial situation is responsible for generally deplorable payment behaviour with high default probability.

THE GLOBAL @RATING SOLUTION

The global @rating solution bridges the gap between the various Coface business lines. It is integrated into all the insurance and service offerings. A unique rating system of insurable trade debt spanning the entire globe, it is the essential aid for credit managers called on to make quick and reliable assessments of credit risks. Credit ratings may be consulted at *www.coface.com* and on the various national websites like *www.coface.de*.

In 2006, Coface continued to invest in credit risk assessment and rating techniques, a sphere in which Coface's excellence is epitomised by the @rating solution.

An approval procedure is under way with the Portuguese and French Banking Commission concerning the @rating Score service.

The approval of the European Commission is also being sought within the framework of the work being done by ECAIs (External Credit Assessment Institutions), to which Coface actively contributes.

The same procedure will be rolled out for other European countries.

The measurement of corporate credit risks is vitally important not only for routine purposes (determination of the maximum amount of bank, supplier or market credit to be extended to the company concerned), but also in response to the emerging needs created by new instruments like receivables securitisation and by the new capital adequacy rules applicable to banks (McDonough ratio). Given the prevailing uncertainty surrounding the accuracy of corporate accounts, companies and banks are in even greater need of universal credit assessment tools that offer reliability and worldwide compatibility.

@rating is awarded on the basis of four elements: a credit opinion, a score, a country rating and a sector rating.


@RATING CREDIT OPINION

The @rating Credit Opinion sets recommended credit limits for individual companies using a straightforward scale (@ = €20,000, @@ = €50,000, @@@ = €100,000, etc.). The recommended credit limit, corresponding to the business-to-business customer credit risk, can be insured by Coface under a credit insurance policy. The service, which covers 50 million companies worldwide (including all French companies), is backed by Coface's dual expertise in credit and marketing information and credit insurance.

@RATING SCORE

Developed in France in collaboration with Coface Services, the @rating Score measures the probability of a company defaulting over a one-year time frame. The score is based on a comprehensive analysis of large corporations and SMEs. It is a particularly useful indicator for companies of all sizes, as well as for financial institutions looking to develop a rating system that complies with the new international banking regulations. The @rating Score, which covers France's 5 million active companies, was rolled out in Germany, Greece and Portugal during 2004, and in Austria in 2005. 2006 has seen deployment in eight Central European countries: Bulgaria, Croatia, Hungary, Poland, the Czech Republic, Romania, Slovakia and Slovenia.

COUNTRY @RATING

Country @rating provides up-to-date ratings on 152 countries using a spectrum of indicators incorporating geopolitical or governance risks, economic vulnerability, the risk of a foreign-currency liquidity crisis, the severity of external indebtedness, and the financial vulnerability of the state and of the banking system. An overall rating is assigned to each of the countries covered, split between seven risk classes. Like rating agencies, Country @rating ranks countries on seven risk levels: countries rated A1 to A4 are classified as investment grade and those rated B, C and D as below investment grade.

Economic liberalization has led to a boom in BtoB trade, with 70 per cent of accounts being settled by short-term instruments. It is therefore vital to assess the risk associated with such transactions. Country @rating addresses this need by evaluating the extent to which a firm's financial commitments in a given country are influenced by that country's economic, financial and political prospects. Log on to www.cofacerating.com to access country @rating, the supplement to company @rating.

A1	The steady political and economic environment has positive effects on an already good payment record of companies. Very weak default probability.
A2	Default probability is still weak even in the case when one country's political and economic environment or the payment record of companies is not as good as in A1-rated countries.
A3	Adverse political or economic circumstances may lead to a worsening payment record that is already lower than the previous categories, although the probability of a payment default is still low.
A4	An already patchy payment record could be further worsened by a deteriorating political and economic environment. Nevertheless, the probability of a default is still acceptable.
B	An unsteady political and economic environment is likely to affect further an already poor payment record.
C	A very unsteady political and economic environment could deteriorate an already bad payment record.
D	The high risk profile of a country's economic and political environment will further worsen a generally very bad payment record.

AMEEM PLATFORM
(AFRICA, MIDDLE EAST AND EASTERN MEDITERRANEAN)

In January 2005, Coface created a new regional platform called AMEEM covering 28 countries in 3 continents.

Because of the size of the area containing these countries, the platform remains based in Paris.

By creating this new platform, Coface aims to achieve the following goals:

- optimise investments already programmed by re-structuring and improving management,
- develop new business opportunities by increasing our local presence and marketing efforts, accelerating project take-up for deals that have the most potential,
- strengthen Coface's offer with International Programme Policies,
- satisfy clients' needs for credit information and debt collection.

Coface is directly present in 10 countries in this region, where it offers credit insurance, company information and receivables management. It is also able to issue policies in Algeria, Dubai, Cyprus, Egypt, Israel, Malta and Turkey.

AFRICA	MIDDLE EAST	EASTERN MEDITERRANEAN
Algeria	Saoudi Arabia	Cyprus
Benin	Bahrain	Greece
Burkina Faso	Egypt	Israel
Cameroon	United Arab Emirates	Malta
Côte d'Ivoire	Iran	Turkey
Mali	Jordan	
Maroc	Kuwait	
Senegal	Lebanon	
Togo	Oman	
Tunisia	Qatar	
	Syria	
	Yemen	

coface AMEEM

For any further information, please contact in:

Algeria

Coface Algeria Services
62 Chemin Mohammed Drareni
Hydra
16035 Alger
ALGERIA
Tel: 06 23 61 02 57

E-mail :
jean-marc_pons@coface.com

Turkey

Coface Turkey
Ortaklar Cad.
Bahceler Sok.n°18/3 Mecidiyekoy
Istanbul
TURKEY
Tel: 90 212 211 1777

E-mail :
Belkis_alpergun@coface.com

Israel

Coface BDI
11 Ben Gurion Street
51260 Beni-Brak
ISRAEL
Tel: 972 3 577 0333

E-mail :
amnon_altman@bdi.co.il

West Africa

Coface West Africa
Imm. BICEC – 4e étage
BP 18342
Douala
CAMEROON
Tel: 237 342 51 53

E-mail :
hoeblich@aol.com

Coface Ameem Platform
12, cours Michelet
- La Défense 10 -
92800 Puteaux
France
Tel : 33 1 49 02 11 40

E-mail :
coface_ameem@coface.com