ParktelUSA

Distribution | Logistics | Fulfillment

ACCOUNTS RECEIVABLES POLICY

Contents

OBJECTIVE

Maximize the return on investment; define the behavior and attitude of customers with respect to the agreed conditions of sale; know the optimal level of credit that the company can grant according to its particular financial management needs.

PROCEDURE

- All Credit operations must be secured with an approved Line of Credit (LOC) granted by an Insurance Company.
    - COFACE as preferred credit insurance company.

- In extraordinary cases when credit is refused by the Insurance Company it might be granted under internal risk, should this event happen, credit must be objectively granted with the proper analysis. **(ANNEX A)**
    - Working Capital financial management.
        - Portfolio ratio to net working capital.
        - Portfolio ratio to current assets.
        - Portfolio ratio to net sales.

- In regard to Internal Risk Business Partners a monthly review of the entire baseline must be performed and necessary steps should be taken in order to obtain an Insured Line of Credit with applicable credit insurance company.

- Credit Terms and Conditions **(ANNEX A)**
    - Period during which the credit is extended, the discount if it exists for cash payment, the discount for prompt payment and the type of credit instrument.

**Be especially careful with seasonal or cyclical periods.*

- Minimize the level of accounts receivable in portfolio days. **(ANNEX A)**
    - Average term of accounts receivable (in days or months).
    - Turnover of accounts receivable when there are variations in sales.

- Manage credit with agile procedures and competitive terms. **(ANNEX A)**
  - Customer Profile => Conduct
  - Business situation => Ability to pay, Capital, Collateral.
  - Industry situation => Conditions

- Avoid overdue portfolio by keeping accounts receivable up to date. **(ANNEX A)**
  - Weekly Portfolio control
  - Credit Policies
  - Collection Policies

- Monitor the exposure of accounts receivable to inflation and the devaluation of the currency in which they were generated.
  - The management of the company must decide the action to follow, assessing the cost of a high portfolio, measuring inflation against the immediate recovery with the indexes.

ANNEX A

Portfolio to Net Working Capital Ratio
Net Accounts Receivable / Net Working Capital
**The result represents the dependence that net working capital has on net receivables (accounts receivable excluding VAT).*

Portfolio ratio to current assets
Net Accounts Receivable / Current Assets
**The result represents the importance that the level of accounts receivable has in the total invested assets.*

Portfolio ratio to net credit sales
Net Accounts Receivable / Net Sales
**The result represents the percentage of annual sales that are pending to be settled by customers.*

Credit Period

- Financial cost increasing portfolio days and decreasing turnover.
- Comparison against the competition to ensure the correct participation in the market.
- Factors to consider: size of the client, amount of the account, cost of administration, type of product, risk, etc.

Cash discounts

- Incentives that affect the margin with a positive impact on the working capital of the company.
- It is important and relevant to evaluate the effects on the margin against the increase in working capital, a detailed analysis must be carried out to determine the best option according to the objectives of the company and the requirements of the shareholders.
- The discount must take as a reference the cost of money in the market.

Average term of accounts receivable in days or months

- Portfolio ratio to net credit sales * days in the year = **portfolio days**.
- Portfolio ratio to net credit sales * months in the year = **portfolio months.**

Accounts receivable rotation when there are variations in sales

- Procedure: subtract from the accounts receivable the total of the net sale of the last month, which represents 30 days on average, and so on until leaving a residue that must be divided by the sales of the month and multiplied by 30 (days on average monthly) to obtain the number of days it represents.

**Changes in the ratio may indicate changes in credit policies, changes in collection capacity, or a combination of both.*

Customer Profile => Conduct

- Reputation.- Qualitative measure.
- Payment experience.
- Knowledge of the client.

Business Situation => Ability to Pay

Subjective judgment regarding the client's willingness to pay the requested credit.

- Information to be evaluated: historical operation (trends in sales and profits), ability to generate cash flows.

Business Situation => Capital

Analysis regarding the soundness of the client's financial structure, evaluating the congruence of the resources requested with its main turn.

- *Factors to evaluate:* Analyze your economic cycle, analyze your debt and capital resources, analyze the profitability of both investment and equity.

Business Situation => Collateral

Amount of the goods offered by the customer as collateral for the credit granted, may be constituted with the guarantees of the good itself or with other goods given as collateral as security of payment of the requested credit.

- *Factors to consider:* alternative sources of payment, insurance contracting.

Industry situation => Conditions
Define what the applicant's capacity will be within the given country and industry. Payment terms based on the current business situation and general economic trends in the country.
Obtain credit information from applicants (Dun & Bradstreet, Inc, Credit Exchange Agencies, Financial Statements of the last two years, Business Chambers of the specific sector, Bank Verification, Commercial Verification, Credit Bureau, etc.)

- *Factors to consider*: sectoral risk, competitive advantages, technological level, degree of influence.

Portfolio control

- Weekly A/R aging report.
- Implement the collection of default interest.
- Use automated systems to manage the portfolio.
- Analysis and evaluation of financing (Factoring).

Credit Policies
Customers should be classified based on credit analysis:

- **Good Client.-** The one who usually pays on the agreed date.
- **Regular Client.-** One who from time to time pays their invoices outside the agreed date but within a reasonable period.
- **Bad Client.-** One who frequently pays his bills outside the agreed date, does not give notice regarding the reasons for the delay, and generally does not fulfill what he promises.
- **Doubtful Client.-** One who by his background cannot be classified as good, regular or bad.
- **New Client.-** One who has not carried out operations with the company.

For a quantitative evaluation that allows us to identify customers according to their credit analysis and thus be able to control it we must calculate the percentage of probable loss:

RISK	% PROBABLE LOSS
Good customers	From 0% to 10%
Regular customers	From 10.1% to 20%
Bad and dubious customers	20.1% or more

If the profit margin on sales of a company is 20% (data to exemplify) and produces at a lower level of its installed capacity, its credit policy could be:

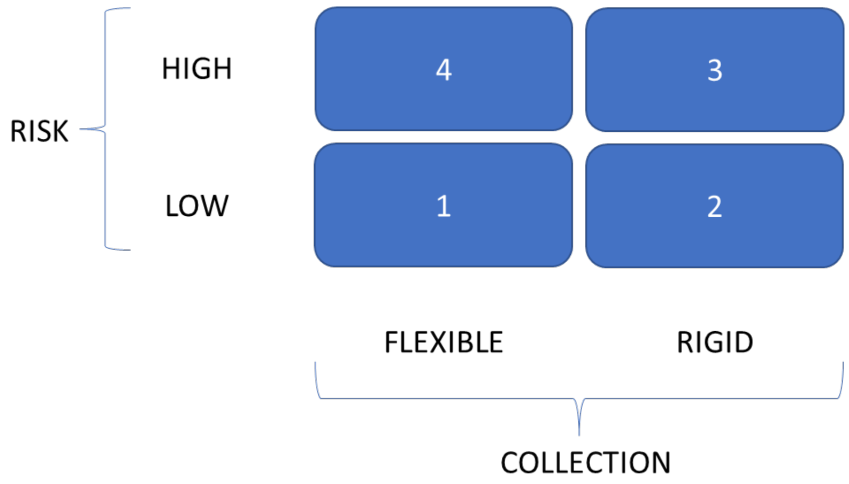
1) For good customers, sales on credit will be made on a regular basis.
2) For regular customers, sales will be made, being charged when delivering the goods.
3) For bad and doubtful customers, sales will be made only with advance payments, or with a policy guaranteeing the payment of the credit.

****NOTE: In addition to the percentage of probable loss, the MUSV of each client must also be calculated to determine the level of financial risk and not only of behavior.**

Collection Policies

- Monitoring of outstanding balances (Balances Aging).
- Calculation of the average portfolio term (for the purposes of the credit risk quadrant matrix, four relevant groups are considered: 1 - 30 , 31 - 60, 61 - 90, 91 - 120+)
- PPC = % 1 - 30 * average days first group (15 days) + % 31 - 60 * average days second group (45 days) + % 61 - 90 * average days third group (75 days) + % 91 - 120+ * average days fourth group (105 days); the result shows the average collection days.

CREDIT RISK QUADRANT



Quadrant 1 (1 -30). Low risk, collection flexible.
Strategies: phone, emails.

Quadrant 2 (31 – 60) Low risk, rigid collection.
Strategies: personal visits, temporary account blocking, delivery blocking.

Quadrant 3 (61 – 90) High risk, rigid collection.
Strategies: credit cancellation, definitive account block.

Quadrant 4 (91 – 120+) High risk, flexible collection.
Strategies: application of credit insurance, judicial processes, adjudications.