

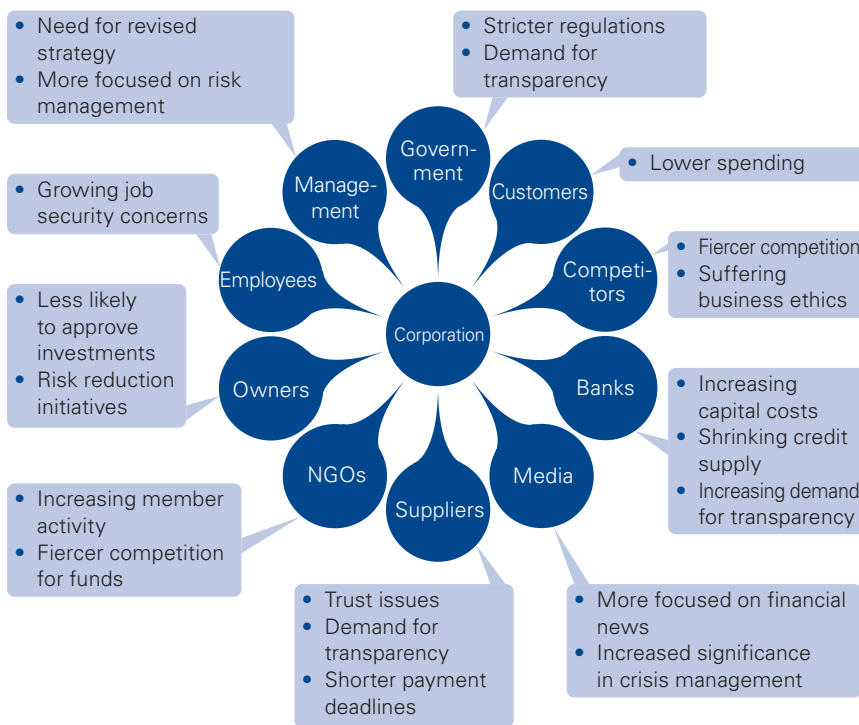
# KPMG's response to the financial crisis

ADVISORY

## Facts and events

More than 1 trillion USD in losses and write downs to date at financial institutions • Erosion of more than 28 trillion USD in equity values globally • Government rescue packages totalling over 2 trillion USD • State guarantees of interbank lending and personal savings in the EU • US and EU governments take significant stakes in major banks • Central banks lend huge amounts to financial institutions and corporates • Interbank lending suffers as trust issues emerge • Central banks decrease interest rates by several basis points • Financial crisis affects real economy, as well • Recession in the US and the United Kingdom, even this year • Recession in Latvia already in 2008, with last quarter seeing a GDP drop of 4.5%. Further GDP decreases forecasted for 2009. IMF Loan being set up to cover items not covered by the budget deficit.

## Changes in stakeholder behaviour due to the financial crisis



## What not to do

- **Cancel investments in progress:** In order to be successful, companies must take chances and learn to deal with failure. Recessions push managers to be more conservative. They must fight this.
- **Lay off a significant number of employees:** Cutting back on people – particularly smart, high-priced people – cuts costs in the short term. But talent is the single most important key in the success of the company.
- **Continue business as usual, ignoring changes in the business environment:** Underestimating the impact of the financial crisis on business is a potential threat. The effects on the company can take time, managers must pay attention to early warning indicators.
- **Cut back on product development and innovation:** When turning defensive, top managers downplay innovation and prioritize systems management and squeezing costs. The entire organization follows. It is extremely hard to reverse this.

- **Overemphasise command & control management:** The need for fast decision-making when profit suddenly drops often signals a return to command-and-control management, which alienates creative employees and stops the evolution of corporate organization toward a flat, collaborative open-source model.

**What to do**

- Revise short and medium term financing and business strategies
- Cut costs and enhance operational effectiveness
- Diversify supply chains
- Strengthen relationships with government, banks, corporate partners and media
- Review cash generation practices
- Improve internal communication
- Enhance reporting systems with warning indicators
- Maintain customer trust
- Revise risk assessment and risk management techniques
- Retain smart and experienced employees
- Optimize financial risk
- Find alternative financing methods
- Turn crisis into opportunity and think big

**Proposed KPMG advisory services**

Focus area	Our solutions	Realized benefits
Governance	Improvement of corporate policies, Revision of reporting systems, Regulatory compliance, IT Advisory, "Early warning" and monitoring system	Increased transparency and stronger controls
Operational and financial restructuring	Profit and loss impact assessment, Working capital cycle review, Funding source analysis, Crisis cash management, Lender advisory, Turnaround plan development	Avoidance of bankruptcy, sustainable course of business
Profitability & cost management	Cost audit, Cost optimization, Business process efficiency optimisation, Outsourcing strategy and support, Tax efficiency and employee tax planning	Lower operating costs
Growth opportunities	Strategy revision & development, Change management, Project management	Better growth potential
Funding & liquidity	Liquidity risk management, Collateral management, Revision of treasury governance and structure, Credit portfolio management, Credit risk management	Better access to capital
Risk management	Supply chain optimization, Sourcing, Regulatory compliance, Customer/supplier valuation and policy development, Risk assessment	Reduced risk
Staff & remuneration	Tax efficient remuneration strategy and planning, Low cost recognition schemes, Talent management/retention strategy, Internal communication plan	Key talented employees saved
Brand	Outside/media communication plan	Enhanced brand reputation

**KPMG's approach – Situation assessment**

**Business leaders need to assess their company's situation in order to be able to respond accordingly.**

	Distressed	Stressed	At Risk	Robust
Key indicators	<ul style="list-style-type: none"> <li>• Liquidity tight</li> <li>• Additional funding required</li> <li>• Lack of sources of financing</li> <li>• In breach of banking covenants</li> <li>• Credit insurance cover withdrawn</li> <li>• Management changes</li> <li>• Refinancing</li> </ul>	<ul style="list-style-type: none"> <li>• Industry significantly impacted by financial crisis</li> <li>• Cash flow and operating performance concerns</li> <li>• Concerns re banking covenants</li> <li>• Refinancing due shortly</li> <li>• Unable to shore up balance sheet with equity injection</li> <li>• Concerns over solvency of customers and suppliers</li> </ul>	<ul style="list-style-type: none"> <li>• Currently profitable but deterioration of performance has started or is expected</li> <li>• Position weak but previously masked by robust economy</li> <li>• Long term financing in place but possible concerns re future covenants</li> <li>• Refinancing due in next 6-18 months</li> <li>• Leveraged deals done in past years</li> </ul>	<ul style="list-style-type: none"> <li>• Profitable currently and in foreseeable future</li> <li>• Strong and stable position</li> <li>• Economic cycle resistant industry</li> <li>• No cash flow or working capital concerns</li> <li>• Substantial cash resources enable rapid acquisitions</li> <li>• Long term financing in place</li> <li>• No concerns over breaching of covenants in future</li> </ul>
Key current issue	Stabilisation and survival	Maintaining or retaining control of destiny	Preparing to respond to a recessionary environment	Seeking to maximise competitive advantage to exploit opportunity

**Contact us**

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