



European Payment Index - Autumn 2005 - Follow-up Report

Payment risks in Europe - Autumn 2005

11 out of 17 countries surveyed show lower payment risks compared to Spring 2004 • Companies in all countries show a significant potential to reduce their payment risks

Payment Index

	2004		2005	
	Spring	Autumn	Spring	Autumn
Finland	123	124	121	126
Ireland	143	147	140	139
France	146	149	143	148
Latvia	157	153	153	150
Switzerland	148	145	149	150
UK	154	148	148	150
(England)	(--)	(148)	(149)	(151)
(Wales)	(--)	(147)	(144)	(147)
(Scotland)	(--)	(146)	(141)	(142)
Estonia	157	159	152	151
Netherlands	153	155	152	153
Hungary	156	159	155	154
Italy	152	150	158	156
Belgium	162	161	155	157
Germany	156	155	157	158
Poland	161	162	158	160
Lithuania	167	161	163	161
Spain	166	164	163	161
Czech Rep.	176	175	174	171
Portugal	191	186	184	188

Compared to the Spring 2004-report 11 out of 17 countries show lower payment risks, whilst 5 countries (Finland, France, Switzerland, Italy and Germany) show an increase. Payment risks in the Netherlands are unchanged.

France, Italy and Germany - three out of the four most important economies in EU25 - show a negative trend. The Gross Domestic Product (GDP) of these three countries is equal to 51% of the EU25-GDP. United Kingdom, the second largest economy in the EU25, shows lower payment risks compared to Spring 2004, however an increase compared to Autumn 2004 and Spring 2005.

Suppliers in all countries surveyed show a significant need to reduce the existing payment risks, in particular in Portugal, the Czech Republic, Spain, Lithuania and Poland.

Trend of selected risk indicators:

Payment delay and duration

The average payment delay of all 17 countries increased from 16.4 days (Spring 2004) on 17.3 days. As a consequence payment duration increased to 61.2 days.

Payment loss

Payment loss slightly reduced from 2% (Spring 2004) to 1.9%. Finland, France, Ireland and Switzerland show an increase, the payment loss of the Netherlands is unchanged whilst all other countries show a decrease. Despite the increase suppliers in Finland and Ireland together with suppliers in Italy suffer from the lowest payment loss rates. Estonia, Lithuania, the Czech Republic and Portugal show the highest values (above 3%).

Trend in payment risks

The majority of the companies questioned forecast no significant change in payment risks during the next six months, whilst 1 out of 4 companies fears a negative trend change towards higher risks. Only 10% anticipate a further positive trend. Companies in the Baltic countries (Estonia, Latvia and Lithuania) are the most optimistic whilst suppliers in Portugal, Germany, Switzerland and in the Netherlands forecast the most pessimistic trends.

100	No payment risks, ie payments are made in cash, on time (or in advance) and without any credit
101-124	Preventive actions - measures to secure the current situation are needed
125-149	Need to take action
150-174	Strong need to take action
175 - 199	Major need to take action
over 200	Urgent need to take action

For additional information about the different countries please refer to the corresponding country reports which are published in local languages. Please ask your contact person at Intrum Justitia.

Credit Management in practice

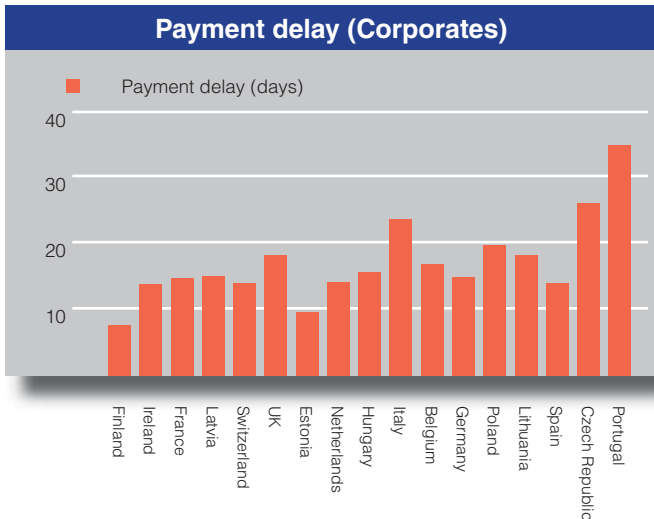


Fig. 1: Average payment delay (days) of customer group 'Corporates' in each country

Payment uncertainties are cited as the major obstacles in international trade¹ and are one of the principal reasons for business insolvencies – irrespective of whether a company is locally, nationally or internationally active. Based on this it could be assumed that Credit Management – i.e. the transformation process of turnover to actual cash inflow – is one of the most developed core processes in all companies. The reality however shows another picture: in far too many companies the reminder process shows an important need for improvement. This is the conclusion drawn from the analysis of the reminder process of those companies participating in the EP Index Autumn 2005-survey.

In figures 2 to 6 the use of the individual components of the classical reminder process in each country are compared. Furthermore all components are examined for their effectiveness. As a basis for examination the payment delay of the customer group 'Corporates' is used (see fig. 1).

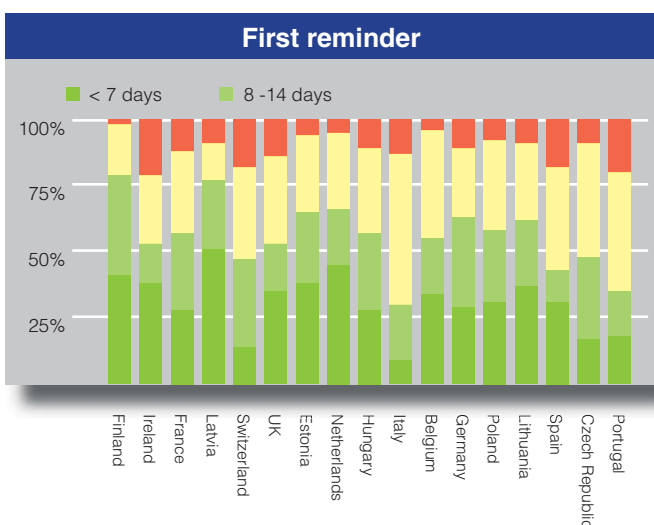


Fig. 2: Number of days after due date, when the first reminder is sent out

In Finland in more than three quarters of all cases suppliers remind within 2 weeks after due date, whilst in Italy suppliers only one in three cases remind within the same period. In most cases Italian

companies wait one month after due date before they send their first reminder.

In general, in countries where the first reminder is sent shortly after due date show a "below average" payment delay whilst those countries in which reminders are sent after more than two weeks after due date show an "above average" payment delay.

Apart from psychological causes there are also purely practical reasons for this: receivables may be lost or sent to a wrong address, administration and bookkeeping errors, etc.

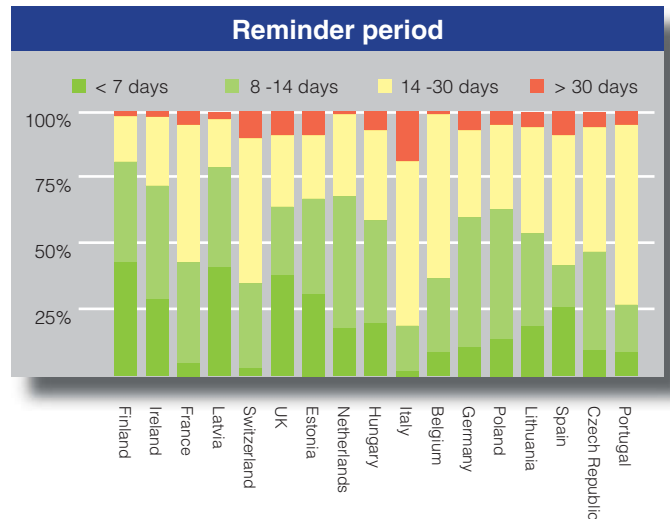


Fig. 3: Time period between reminders

A similarly high correlation with payment delay is shown by time period between reminders. The same principles apply here: in those countries where corporates remind after a short period, the payment delay is below the average and in those countries, where corporates remind with long periods between reminders, payment delay is above the average.

In Finland and Latvia four out of five companies send reminders within 2 weeks, whilst in Portugal only one out of three and in Italy just one out of five companies remind as frequently.

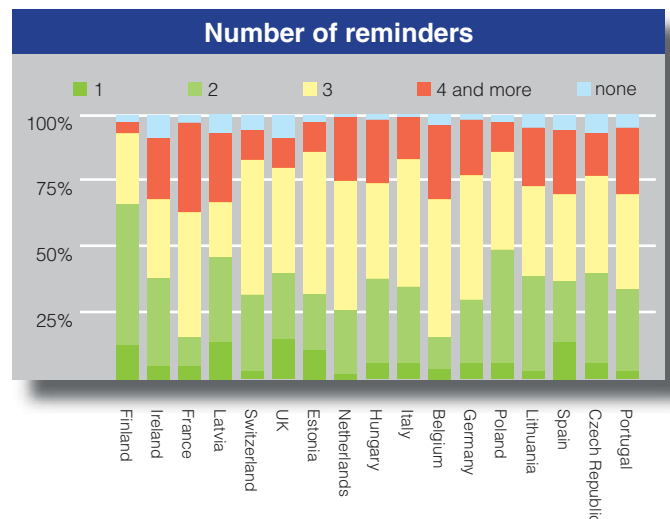


Fig. 4: Number of reminders before commencing legal action

¹⁾ Source: European Payment Index - Spring 2004, page 8, Intrum Justitia AB, Stockholm, Sweden

Suppliers in Portugal, France and Belgium send the highest number of reminders before commencing legal action. In France more than 80% of the suppliers send out at least three reminders. Belgian companies apply a similar practice.

The number of written reminders shows no significant effect on payment delay. However an indirect effect is noticeable when viewed in combination with the time period between reminders: countries with an above the average long reminder period (number of reminders x time period between reminders) show a significantly longer payment delay than others.

On the other hand there is no correlation between the number of reminders and lower payment loss rates. Based on these facts it is to be assumed that more than two reminders is not worth the effort.

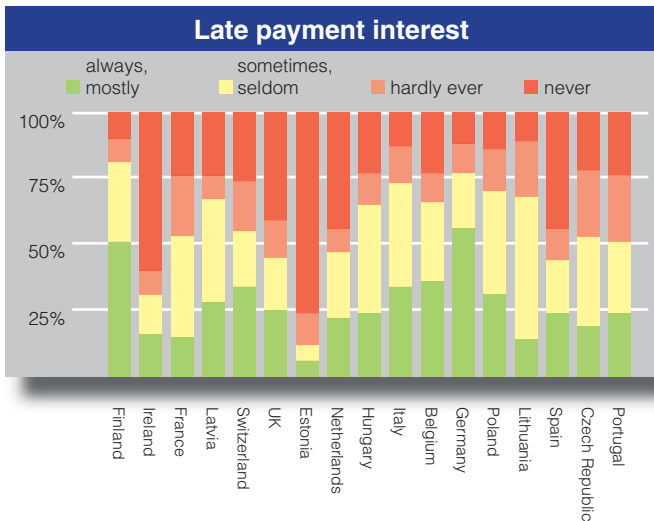


Fig. 5: Frequency of charge of late payment interest on overdue receivables

Due to a fair pricing strategy from the view of customers and also due to a philosophy of profit optimisation from the view of shareholders, one would assume that costs which are caused by bad payers are also charged back to bad payers. The reality however is different. And even in Finland there is a significant need to improve the existing practice regarding their current pricing strategies.

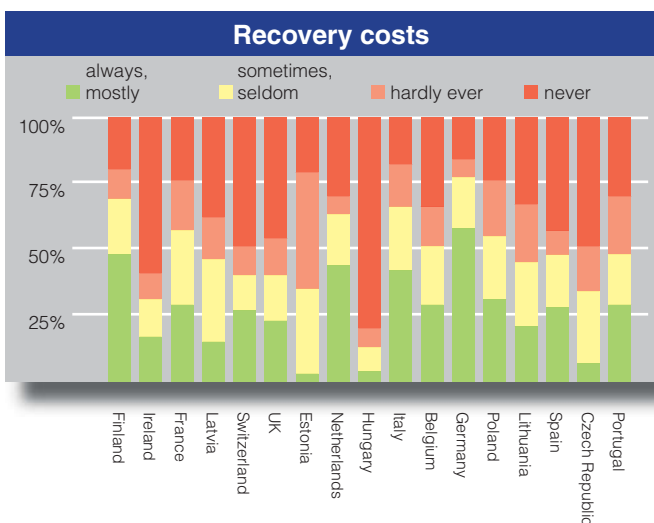


Fig. 6: Frequency of charge of recovery costs on overdue receivables

On the other hand although charging of additional costs on late payment is often referred to, this fact cannot be proven in practice from the results of the Autumn 2005 survey. However as this statement may be surprising at first glance, the explanation may be found in the practical use of these "guidance tools". In order to exercise an incentive for punctual payment, both late payment interest and recovery costs must be

- a noticeable increase from the original price
- effective from the first day after due date
- consistently called in.

A proforma charge on the third or fourth reminder, which is written off automatically after payment of the principal debt, loses its original effect very rapidly. However this is common practice in most of the surveyed countries, where late payment interest and recovery costs are frequently charged.



Fig. 7: Assessment of effectiveness of legal actions by companies questioned

How often suppliers commence legal actions when receivables are still unpaid at the end of the reminder process does not correlate directly in the international comparison to either payment delay or to payment loss rate.

At first sight this may be surprising once again. The explanation for this lies in the different effectiveness of the courts in the surveyed countries. In those countries where the effectiveness is assessed by the companies questioned as high, a significant positive effect on payment delay is shown.

Intrum Justitia surveys companies across Europe twice a year for information on payment risks and customers' payment behaviour. The survey is conducted in writing. The questionnaire is divided into two sections: the first comprises questions with fixed definitions, while the second contains questions related to credit management.

These results are only an extract from the complete study. We would be pleased to provide you with more extensive information.

