Payment risks Autumn 2006:
A diverse picture across Europe

European Payment Index - Autumn 2006 - Follow-up Report

Payment risks in Europe - Autumn 2006

Countries show individual risk development: Eight of thirteen countries surveyed show lower risks compared to Spring 2006, four countries show higher risks and in one country payment risks remained unchanged.

Payment Index

	2004		2005		2006	
	Spring	Autumn	Spring	Autumn	Spring	Autumn
Finland	123	124	121	126	125	126
Scotland	---	146	141	142	---	139
Switzerland	148	145	149	150	146	140
England/ Wales	154*	148*	149	151	152*	148
Latvia	157	153	153	150	155	149
Belgium	162	161	155	157	161	154
Germany	*156*	*155*	*154*	*158*	*155*	*154*
Italy	*152*	*150*	*158*	*156*	*153*	*155*
Poland	*161*	*162*	*158*	*160*	*162*	*156*
Lithuania	167	161	163	161	159	159
Spain	166	164	163	161	161	160
Hungary	156	159	155	154	158	162
Portugal	191	186	184	188	183	184

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 or visit www.europeanpayment.com.

Eight of the thirteen countries surveyed in Autumn 2006 show lower payment risks compared to the previous reporting period. The most pleasing developments are shown by Switzerland, Latvia and Belgium. Lithuania's situation remains unchanged and at a high level. Finland, Italy, Hungary and Poland show an increase whilst Hungary suffers from the most negative development.

Finland

Finland still has the lowest risks however has a negative trend. Payment delay indeed decreased by 10% compared to Spring 2006 but it remains above the average of the last three years. The payment loss rate has risen towards the upper level of the acceptable fluctuation margin 2004-2006 of 0.5%-1%.

Scotland

Scotland and the Republic of Ireland show the lowest payment risks outside of the European Nordic region. In addition Scotland also shows a continuing positive risk trend which looks set to continue. According to the businesses surveyed, 31% forecast a further positive development whilst a minority of 7% are concerned about a reversal in the trend. The majority (62%) anticipate no significant change during the next 12 months.

Switzerland

Payment practices in Switzerland improved significantly during Autumn 2006. Payment delay reduced to 12.6 days (previous year: 14.8 days), the lowest delay since Spring 2002. All three customer groups (private individuals, businesses and public authorities) contribute to this positive trend. Also payment losses decreased. The loss rate reduced from 2% (previous year) to 1.5%.

England/Wales
Like Switzerland England and Wales also show a positive development after peaking during the previous survey period. The companies surveyed are even more optimistic that the trend will continue than last Spring. The number of companies forecasting a positive risk trend increased from 7% (Spring 2006) to 22% whilst the number of pessimistic forecasts slightly reduced from 23% (Spring 2006) to 20%. Despite this positive trend the consequences of the existing payment risk situation are unchanged and far reaching: 9.3% of the businesses questioned are seriously concerned about their future existence and 72% of the companies are suffering from a liquidity squeeze. 28% even state that they are suffering a serious lack of liquidity.

Latvia
Latvia shows the lowest payment risks in the Baltic and CEE region and in the international payment risk comparison ranks before countries such as Germany, Italy, Belgium and The Netherlands. During Spring 2006 payment risks show a positive trend. The major problem in Latvia is the high payment loss rate, which is close to 3%. As with all other countries in the Baltic and CEE region the consequences, for the time being however, are partly offset by the dynamic forces of their economy. This is both a blessing and a curse as the necessary steps are not being implemented, merely postponed.

Belgium
The overall payment risks decreased to their lowest level since measurement began in 2004. The positive development is primarily a consequence of a lower payment loss rate (Spring 2004: 2.9%, Autumn 2006: 2.3%) and more prompt payments by businesses. Compared to the previous period also public authorities paid slightly more promptly (Spring 2006: 75.1 days, Autumn 2006: 74.8 days). However this seems to be just a seasonal effect; the financial department of the government recently sent a directive to all other government departments, asking them to delay paying suppliers until February 2007. With this measure the government can improve this year's budget by postponing all payments to next year's budget. The same technique was applied last year, but only in December. Intrum Justitia advises all suppliers to check their deliveries to Belgian public authorities, especially if the organization belongs to the government. If their customer is a government department, then Intrum Justitia highly recommends that suppliers calculate any possible negative consequences to avoid getting into a liquidity squeeze.

Germany
The assessment of the overall payment risks in Germany shows a decrease; however this is only based on a further positive risk trend in the business sector (B2B), whilst the B2C sector remains unchanged as a negative trend. Private individuals are not - or not yet - benefiting from the positive consequences of the existing economic growth, whilst the new government regulations regarding the labour market show negative impacts. Based on the existing facts and figures the number of business insolvencies will further decrease during the first semester 2007 whilst the number of private insolvencies will increase further.

Italy
Payment risks increased compared to Spring 2006, reaching the upper region of the fluctuation margin for 2004 - 2006. In Italy the risk of getting into serious liquidity troubles caused by late or non-payments increased and is unchanged above the European average. The payment loss rate increased significantly, a trend which must be watched seriously especially as the number of long overdue receivables (older than 120 days) significantly increased since Spring 2004. Despite this fact the overall average of payment delay decreased for the second time in series, after a strong increase between Spring 2004 and Autumn 2005. The positive effect is a consequence primarily of more prompt payment by private individuals whilst businesses paid just slightly more promptly and public authorities paid even later than before.

Poland
Payment risks significantly reduced during Autumn 2006 on the lowest level since starting measurement in Spring 2004 but still above the European average. Payment losses reduced to 2.7% reaching the lower border of the fluctuation margin 2004-2006 (2.7%-3.2%). The payment delay also reduced after a peak during Autumn 2005 for the second time in the series. All three customer groups (private individuals, businesses and public authorities) contributed to the positive change.

Lithuania
Payment risks remained unchanged compared to the previous reporting period, but on a significant lower level compared to Spring 2004. Despite this positive change payment risks are still far above the European average. As in all countries of the Baltic and CEE region Lithuanian companies are also suffering from too high payment losses (Autumn 2006: 3.2%; fluctuation margin 2004-2006: 3.1%-3.6%).

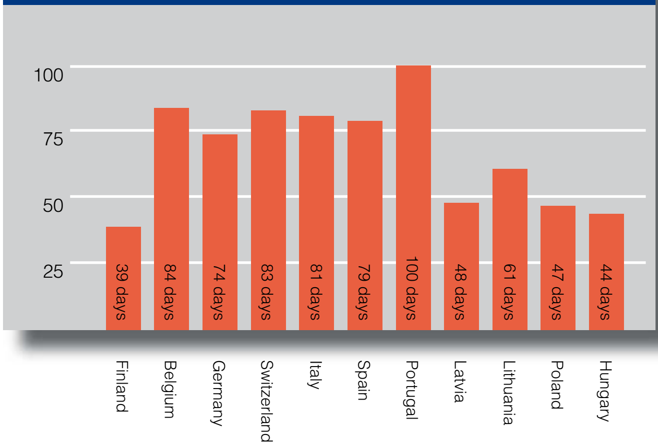
Spain
Payment risks show a slight but sustained positive trend. The positive risk development is primarily based on a reduced payment loss rate (2.4% compared to 3.2% during Spring 2004) whilst payment delay shows an increase. Payment delay increased by 2.7 days during the last three years to 16.4 days.

Hungary
Payment risks increased further during Autumn 2006, reaching a significantly higher risk level than in Spring 2004. It is alarming to see that not only payment risks are too high, but that they are continuously increasing; a trend solely among those new EU member states who are part of Intrum Justitia's payment risk research. All other economies (Czech Republic, Poland, Estonia, Latvia and Lithuania) show positive risk development compared to Autumn 2004. Payment delay increased from 14.8 days (Spring 2006) up to 16.8 days and payment losses also increased, continuing the negative trend (Spring 2004: 2.3%; Autumn 2006: 2.9%).

Portugal
Payment risks slightly increased compared to Spring 2006 but remains clearly below Spring 2004 levels. Despite this positive trend, Portugal shows still the highest risks in Europe. The reasons for the lower risks compared to Spring 2004 are primarily based on lower payment losses (Autumn 2006: 2.6%, Spring 2004: 3.2%), whilst payment delay remains almost unchanged at the highest level in Europe (Spring 2004: 38.4 days, Autumn 2006: 38.3 days).

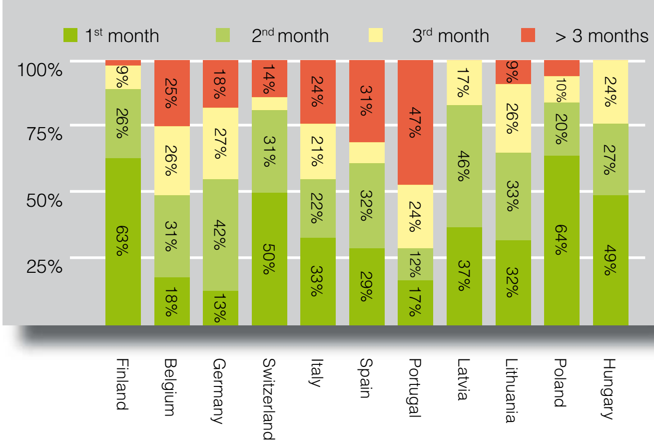
Credit Management in Practice

Days of suspension of delivery after due date



Graph 1: Point of time when delivery is suspended after due date (average)

Suspension of delivery: time-based spread



Graph 2: Number of companies (distributed by percentage) regarding suspension of delivery against invoice (month after due date)

According to those companies surveyed who use suspension of delivery as a credit control tactic, the decision to do so is most frequently part of the executive board's scope of authorities (59% of companies using suspension of delivery). In 37% of the companies the decision is made by the financial department and in 19% by the sales department. Just 11% of the companies use an IT-based solution to control this. In 26% of the companies there are at least two different organisational units involved in the decision making process.

The larger a company the more the decision-making power is delegated from the executive board to the finance department. In companies with up to 50 employees the decision to suspend delivery is made in 69% of the companies by the executive board; in companies with more than 250 employees the share of the executive board is only 30% and consequently the share of the finance department is increased.

The experiences regarding delivery suspension are ambivalent. 22% of the companies state that the customer relationship has improved after a suspension, whilst 24% state the relationship has deteriorated. However just 3% of the businesses indicate that customer turnover increased after resumption of delivery, compared to turnover before suspension, whilst 28% noticed a reduction. The majority (69%) state that customer turnover did not significantly change.

Despite the rather negative consequences 29% of the companies surveyed declared that they have used this measurement more often during the last two years than previously.

The most frequent criterion for suspensions is the duration of payment delay (63%), followed by the amount of unpaid invoices (61%) and the defaulters' creditworthiness (46%). Other criteria are only seldom used (total of all other criteria: 11%), however the decision to suspend delivery is mostly based on at least two of the above-mentioned criteria.

A suspension is made after 76 days in average after due date, however with a wide range between the shortest (1 day) and the longest time period (360 days). 24% of the suppliers suspend delivery against invoice during the first month after due date, 32% during the second month, 23% during the third month and the remaining 21% wait at least three months before they act (see graphs).

All data provided are the average of all countries surveyed. The individual country values may deviate significantly from the average values. For the individual country values please refer to the country reports available on www.europeanpayment.com or send an e-mail to marketing.epi@intrum.com.

Optimise your operational profit
Intrum Justitia gives you the opportunity to compare key operational figures for your company with average market values and Best Practice values. The **tailor-made report** calculates the individual risks for the company and presents comparisons of payment history of customers, the age structure of outstanding receivables as well as payment losses. Furthermore, potential improvement opportunities (capital commitment, profit optimisation) are identified and calculated. The European Payment Benchmark is available free of charge on **www.europeanpayment.com**.

intrum justitia

Intrum Justitia - Marcusplatsen 1A - Sickla (Stockholm) - Sweden
E-Mail: marketing.epi@intrum.com - Internet: www.intrum.com - www.europeanpayment.com