fair pay magazine

1•2005

THEME

The consequences of credit tightening in the EU

PROFILE

Tailor-made concepts are proving a success in Scandinavia

FOCUS

Sandvik encourages better payers

Four experts:

Credit card debt is increasing the need for CMS

editor's letter

Name: Anders Antonsson
Title: Director of Corporate Communications

Should the person who buys a product or service be the one who pays for it or should the cost ultimately be shared by other customers, or perhaps taxpayers in general? While the answer may seem obvious, there are in fact a number of countries discussing proposals that would make future prices to some extent dependent on the companies and individuals that don't want to pay for what they have purchased.

In recent years debt levels have climbed in every European country – among both companies and private citizens – and there are no signs that this trend is likely to abate soon. Higher debt means more people with payment problems. It doesn't seem, however, that everyone understands this. Only a small percentage of European companies hire professionals to manage their receivables. The majority try other solutions and in the process lose valuable cash flow. They are also being forced to write off overdue receivables. This impacts the value of their companies and can lead to bankruptcies, with the resulting costs borne by individuals and society.

The media loves stories where a big bill is mistakenly sent to the wrong person or in the wrong amount. This is understandable, but it sometimes seems that an administrative error receives disproportionate attention in relation to the problems it causes. How many headlines do you see about people who can't pay their bills or companies that are being forced to write off growing bad debt losses? These stories are usually buried in annual reports and statistics.

The Fair Pay philosophy is about conscientiously managing receivables, not chasing after every last euro at any price. But we can't deny the fact that all of us will have to pay a higher price in the future because of those who, for whatever reason, don't pay back their loans or pay for the products and services they use.

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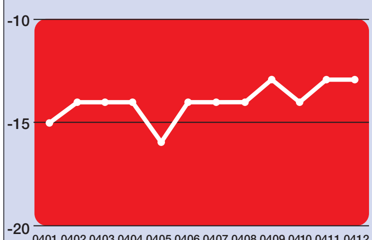
fair pay magazine #01, March 2005 **Publisher** Intrum Justitia AB, ISSN 1652-5620 **Editor-in-chief** Anders Antonsson **Co-writers** Leif Hallberg and Marina Lahti **Production** RHR CorporateCommunication **Printer** OnPaper **Subscription** info@intrum.com **Change of address** Shareholders in Intrum Justitia AB should advise their account-operating institutes. All other parties should contact the editorial desk. **Editorial desk** Fair Pay Magazine, SE-105 24 Stockholm, Sweden, info@intrum.com **Phone** +46 8 546 10 200 **Telefax** +46 8 546 10 211 **Cover** Consumers continue to borrow to spend. Final editing of this issue: February 4, 2005. The next issue of Fair Pay Magazine will be distributed in June 2005.

IN BRIEF

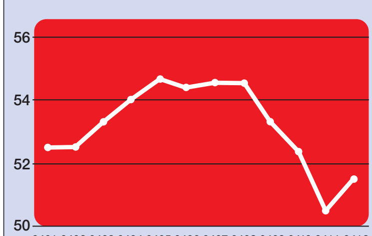
Credit card debt adding to British bankruptcies

A survey by the accounting firm Grant Thornton in September 2004 shows that Northern Ireland and London have had the largest increases in personal bankruptcies in the UK, with 67 percent in Northern Ireland and 52 percent in London. The survey shows a clear connection between personal bankruptcies and the average credit card debt per household, which at the time amounted to 2,300 pounds in the UK as a whole and 2,861 pounds in London.



Stable consumer confidence

Other than a temporary dip to –16 in May, the euro zone's Consumer Confidence Index remained steady at –14 before rising to –13 in November and December.



PMI rebounds after 5 months

For the first time in five months, PMI, the euro zone's Purchasing Managers' Index, has risen. After falling from 52.4 in October to 50.4 in November, the index rebounded to 51.4 in December. The euro zone as a whole also had lower expectations (50.9), which was surpassed by the December figure of 51.4.

A figure of over 50 indicates expansion, while below 50 indicates contraction.

Sources: Sveriges Riksbank, TT, Dagens Industri, Dagens Nyheter, Fincial Times, ITV News, AFX News, Agance France Presse, Deutsche Welle, etc.

Germany's national debt clock keeps ticking

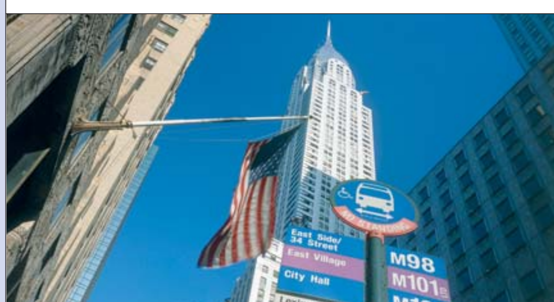
BERLIN On fashionable Friedrichstrasse, where designer boutiques compete for space with imposing edifices of government, a digital clock keeps track of Germany's national debt. Thirteen red digits, rising steadily, count the euros.

The last six numbers are almost impossible to read. That's how quickly they flash by to keep up with the millions in growing debt.

The numbers grab the attention of locals and tourists alike, who stop for a look. No one is laughing, certainly not the Germans.

"Our debt clock shows everyone what a catastrophically high level of debt we have, and just how fast it is growing," says Karl Heinz Däke, leader of the taxpayer group Bund det Steuerzähler, which sponsors the clock.

Every second Germany's national debt climbs 2,186 euro, approximately what the average German earns in a month. When the clock was installed last summer, the debt stood at 1,361,959,273,128 euro. It's already up to about 1.4 trillion!



Americans dream of a debt-free future

USA Most Americans dream of a debt-free future, but few plan for one, according to a survey in January 2005 by LendingTree.com. The majority of those who are most concerned about their debts don't have the will, or a plan, to do something about it. What they are planning for instead is more big purchases, which will only worsen their situation.

"When it comes to breaking the debt cycle, most Americans have good intentions. What they lack is tools, support and knowledge of how to handle their debts wisely," says Ed Powell at Lending Tree.com.

Nearly 80 percent of participants in the survey believe that their future will be completely free of debt. But few of them are planning how to make their dream a reality.

Of the respondents who say that they are willing to work off their debts in 2005, 38 percent are unsure how they are going to do it.

Household debts make Swedes more sensitive to interest rates

SWEDEN According to the Swedish Riksbank's stability report in December, household debt is on the rise in Sweden, and is now up to 120 percent of disposable income.

Debt is expected to continue to grow, despite rising incomes, spurred on by low interest rates and an active housing market.

At less than 4 percent, interest expense still accounts for a relatively small percentage of disposable income. Changes in the value of their assets and liabilities in relation to income are making households sensitive to fluctuations in interest rates and prices, however. With households increasingly borrowing at variable interest rates, a decline in housing prices could significantly affect their wealth.

"If rates rise and housing prices fall, it would have a greater impact than before on consumer buying power and, thus, on spending and savings," the Riksbank writes in its report.

%

Experts

What will future Credit Management Services (CMS) look like?
And how are future consumers and debtors expected to behave? Fair Pay magazine brought together a panel of four industry pundits to debate these and other questions.

speculate on the future of CMS

How will consumer and debtors behave in the years ahead?

Dirk Hudig, FIPRA *(Finsbury International Policy & Regulatory Advisors):* With low inflation, low interest rates and a low cost of living, people are generally less prudent. Thus, consumer debt will continue to increase.

Another trend is a demographic one, where we see that older people are more risk averse. We might see what is happening in Japan happen in Europe, too: older people save more money.

Stephen Lea, psychologist specialized in economic behavior, University of Exeter: Over a decade I expect consumers, except those with the lowest incomes or most marginalized, to become more sophisticated about credit matters. As a result, some of the worst bargains among credit vehicles will be squeezed out.

In the UK, key young middle class consumers will become more practised in credit use after having borrowed to finance higher education. So far, experience suggests that this will lead them to make more routine use of credit.

Nick Wilson, professor of Credit Management Research at Leeds University: In my experience in the UK market, there has been a very substantial increase in household debts over the past two years. Individuals are likely to have more debts.

Apart from low interest rates, another factor that has contributed to increased borrowing is the confidence people feel towards the considerable increase in housing prices over the past few years.

Hans Lindqvist, deputy managing director, Intrum Justitia Sweden: From a Swedish point of view, consumer debt will increase, because interest rates are low at the moment and private loans are very high. When interest rates eventually go up, people who have borrowed too much money will have problems paying their loans.

As far as businesses are concerned, they are generally profitable and we do not see any short-term problems.

Stephen Lea: I suspect that the credit market is more advanced in the UK in terms of the use of credit cards and bank borrowing than most other European countries. Germany, the Netherlands and the Scandinavian countries will move more towards the situation we have in the UK over the next decade.

»With low inflation, low interest rates and a low cost of living, people are generally less prudent. «

Dirk Hudig, FIPRA (Finsbury International Policy & Regulatory Advisors)

»Intelligence and outsourcing of sales ledger services are growing in demand, though from a modest level.«

Hans Lindqvist, Deputy Managing Director, Intrum Justitia Sweden

Hans Lindqvist: We can see the same trend in Sweden. The use of credit cards is increasing due to very low interest rates.

Nick Wilson: In the past year people have taken extra mortgages to alleviate financial pressure. Lenders offering different products to different segments of the market at different interest rates have facilitated increased borrowing. Consequently, individuals tend to have multiple debts spread across a larger number of products and lenders than before. Should economic conditions change, we will see considerably more households in financial difficulty.

Do you think there will be an increased need for collection services?

Stephen Lea: Over the next decade I would expect some increase in legislation protecting consumers from illegitimate debt collection tactics – and more bad publicity for firms that employ them. This will create an opportunity for specialist firms offering a responsible, diplomatic collection service at the consumer level. Only the largest operations, such as governments, are likely to be able to do as well in-house.

Nick Wilson: Because of the segmentation of the market and the more complex profile of debtors, there is a need for more specialist collection operations. Overall, we have certainly seen a trend in passing on debt management to internal or external debt collection agents.

Dirk Hudig: As credit becomes more acceptable and more people take on debt as a normal part of life, demand will definitely increase. There is a very good role for collection specialists in professionalizing a function that is vital to the overall economy. It also removes the stigma attached to debt collection, which is based on images of large men knocking on the doors of debtors and demanding payment.

How will collection services change?

Hans Lindqvist: Intelligence and outsourcing of sales ledger services are growing in demand, though from a modest level. Before, only small companies asked for these kinds of services, but now we see that more large companies want them, too. The driving force behind this is how well the services are packaged. Cost effectiveness and easy access to information are what's important.

Dirk Hudig: Know-how on debt restructuring, and how to do it professionally, will be a competitive issue among collection agencies. They are going to have to figure out how to extract value from things that companies are finding too difficult to handle. Managing dispute settlement will be another area for collection companies.

Stephen Lea: An interesting argument for collection services is that consumers usually owe more than one supplier. A collection service that can aggregate debts from several clients, and pursue them together, would have substantial advantages. Although it is not clear that commercial confidentiality or privacy rules would permit such an approach.

Something like this is already growing in the UK, starting from the consumer side, though the firms offering it are often criticized by consumer interest groups.

Nick Wilson: Collection agencies are being asked to take on debts from different sources and probably have more information about individual customers. The key to success in collections is to use that information to understand the behavior of the customer to build scoring or automated systems. Also to look at the costs involved in collection versus the returns.

What about CMS outsourcing?

Stephen Lea: It is almost certain to happen, although it still has some years to run before it will be used to a major degree.

Dirk Hudig: There will be probably a growing understanding that some aspects are better outsourced. Avoiding the time and hassle involved when dealing with collection issues may be attractive and lead to further outsourcing.

Hans Lindqvist: The outsourcing trend is growing in Sweden. About 80 to 90 percent of companies with large volumes of debt collection cases are outsourcing them today. It is also because of the scoring systems and knowledge needed to be efficient in collecting money.

Is CMS outsourcing in the public sector a growing trend in the Nordic countries and the UK?

Dirk Hudig: In some countries this might be politically difficult, and I do not think there is a general trend in this direction.

Nick Wilson: As far as I see it, the biggest collection area is taxes. Last year the U.S. Internal Revenue Service started

»Over the next decade I would expect some increase in legislation protecting consumers from illegitimate debt collection tactics.«

Stephen Lea, psychologist specialized in economic behavior, University of Exeter

to outsource some of its collections to debt collectors, and it may be a possibility in the UK as well.

Hans Lindqvist: One reason it is on the increase in the Nordic countries is the problem of growing costs in the public sector. But it remains a political issue, and it will take a long time before there is a real breakthrough.

Stephen Lea: It is a highly political issue but is likely to continue. Another alternative would be the development of a pan-governmental credit management service. The Treasury's Financial Management Service in the U.S. is an example.

Do you expect any major developments in receivables management in the next three to five years?

Hans Lindqvist: In the Nordic region, payments are being made faster than ever before. In addition, e-commerce and direct debit payments are growing.

Stephen Lea: There has been increased use of online payment services linked to credit cards, direct bank transfers and direct debits. UK utilities have used this to considerable advantage, and I expect others to follow suit.

Dirk Hudig: The EU directive on late payments set down a statutory level of interest after 30 days. Unfortunately, implementation of the directive has yet to have a major impact.

The European Commission is therefore undertaking a review in 2005, which will hopefully lead to a more effective framework for enforcing payment. This will build on new competencies the Commission has gained in civil justice, having recently proposed a regulation creating a European Order for Payment Procedure.

Nick Wilson: We have done a lot of research on the late payment act in the UK, introduced three years ago, and my view is that this has been quite ineffective. It is a policy designed to help small firms, but it has probably made things worse in the long term. Smaller firms are not in a position to charge interest in the way bigger companies are. The big companies also have bargaining power and they just extend their credit period. Rather than 30 days, they extend it to 60 days and pay on time.

Can governmental authorities, the EU or consumer watchdogs affect European collection management in coming years?

Stephen Lea: They can only if the media takes an interest. In the UK, some important changes in attitudes to and knowledge of credit vehicles have been driven by persistent media attention – for example, the now widespread view that borrowing on store cards is not a sensible option. Media attention can be enough to drive regulation or change the marketing climate for financial products.

Hans Lindqvist: Yes, government authorities have affected credit management in Sweden, especially through summary proceedings.

Dirk Hudig: Regarding consumers, a draft directive on consumer credit is currently being debated in the European Parliament and the EU Council. The draft text has been very controversial and the subject of intense lobbying from financial institutions and companies, as well as consumer organizations.

The directive aims to create a single market for consumer credit and harmonize consumer protection across Europe. This would create significant advantages for expanding the market, but also some disadvantages, in particular concerning information requirements on invoices.

Nick Wilson: I do not really think that regulation would have much of an impact. I believe that there are other key factors such as information, transparency in terms of the products available and interest rates charged, and education in debt management. However, any regulation that increases information and transparency would be meaningful.

»In the past year people have taken extra mortgages to alleviate financial pressure.«

Nick Wilson, Professor of »Credit Management Research«, Leeds University

Sandvik – encouraging bet

For some time Sweden-based engineering group Sandvik has been working actively to reduce its accounts receivable. So far the average payment time has been cut from 83 days to 68 due to an increased focus on efficient credit management.

Per-Olof Duvhammar, credit controller at Sandvik.

Sandvik has typically been good at creating growth and profit margins. On the other hand, it has not put as much energy into managing the cash flow generated by its accounts receivable. A new project, TIC (Time Is Capital), was introduced two years ago by group management to remedy this imbalance.

"We saw a great potential for improvement, since the areas of payment terms and efficient credit management had not really been nurtured," says Per-Olof Duvhammar, the company's credit controller.

Sandvik's objective is to reduce operating capital to one quarter of the group's total invoicing, and accounts receivable make up the main part of operating capital.

"Our TIC team visits our worldwide operations, reviewing the current credit management process to see what they can improve together with the local management," he explains. "By being more proactive, we can cut out several steps in credit management. For example, we can reduce



ter payment terms

the number of payment reminders or not wait as long to employ collection services."

Another way to strengthen the payment behavior, Duvhammar says, is to keep its agreements as "clean" as possible. The slightest error on the part of the company is sometimes used as an argument by the customer not to pay.

"Our new group credit policy, which is part of an effort to manage accounts receivable more efficiently, states that we won't offer credit after 30 days of non-payment. After 45 days we stop deliveries, and after 60 days we'll use collection services, provided we have a clean deal," he says.

But with operations in around 130 countries with widely different payment cultures, Sandvik has to adapt partly to its various markets. For example, Duvhammar mentions that in many countries it's not fully acceptable to charge interest on overdue payments. In some markets, such an action can even be perceived as hostile. Besides, payment by the due date is not always adhered to in every part of the world, and there are great differences in this respect.

"We intend to introduce some form of standardized payment terms for every single market," he says. "We'll make some exceptions, but we definitely want to avoid any extra discounts through our payment terms."

Duvhammar says that Sandvik spreads its customer risk and has no commitments that could adversely affect its balance sheet.

"We have lost relatively few customers. During the past year, they accounted for about SEK 40 million on a turnover of SEK 50 billion. The most important thing is to reduce tied-up capital. If we do, it will almost automatically mean fewer lost customers."

He adds that it is crucial to follow ethical practices when halting deliveries: "It mustn't be done in a ruthless, inconsistent or unlawful way, jeopardizing the business of companies. And we'd get a bad reputation by acting too harshly. We always try to 'play fairly,' and we want to be predictable and logical in our customer relations."

As to outsourcing its invoicing or credit management, Duvhammar says that Sandvik is not at the right point at the moment. But he believes it may be an attractive option in the future.

"We might want to outsource some of our credit services down the road if conditions are right," he concludes.

SANDVIK Sandvik is a high-technology engineering group with advanced products and a world-leading position in selected areas. Represented in 130 countries, its operations span the globe. The group has 37,000 employees and annual sales of approximately SEK 50 billion.

Will European companies, especially small and medium-sized firms, face tighter credit when the new Basel II rules take effect in early 2006? Reservations were expressed by bankers, economists and business representatives at a seminar in Brussels arranged by the Centre for European Policy Studies (CEPS) together with Intrum Justitia in November of last year.

Banks' new credit rules:

Tougher times for small businesses?

The new Basel Capital Accord (Basel II) and Capital Adequacy Directive (CAD III) have raised concerns that higher capital fees will slow lending, especially to small and medium-sized enterprises (SMEs). The new rules may also worsen the effects of payment delays that are already complicating life for SMEs. A lack of liquidity due to late payments can create uncertainty about their creditworthiness and limit access to credit.

Among those in attendance were Karel Lannoo (left), CEO of CEPS, and, seated beside him, Fred von Dewall, Chief Economist and General Manager of ING Group, the seminar's opening speaker.

These and other critical aspects, including cash flow problems caused by late payment habits in Europe, were discussed at a roundtable conference held in Brussels in November of last year.

Fred von Dewall, Chief Economist and General Manager at ING Group, opened by raising the main challenges facing banks.

The new Basel II/CAD III structure represents a significant improvement over the cautious banking rules currently in effect – a "better answer," as he described it, to the complex issues facing today's financial markets. Large banks have already developed new techniques to improve risk assessments and management so that they can stay more competitive and keep loan losses under control.

Von Dewall was sure that the spirit of the new rules will be understood by the industry and result in sounder banking practices that strengthen the efficiency of capital and credit flows without necessarily affecting risk willingness.

With regard to loans to SMEs, he suggested that the more favorable treatment afforded retailers in Basel II/CAD III, together with a special formula for SME loans, would be enough to adjust for possible distortions due to the smaller scale and transparency of these companies. Such measures should facilitate SME financing, he noted, making more resources available and lowering prices.

Focus on how banks see SMEs, von Dewall suggested. Late payment habits by customers can be a very serious threat to them, with late and erratic collections easily affecting their creditworthiness.

Other speakers, such as Sven Matthiessen from Deutscher Sparkassen and Professor Heinrich von Liechtenstein from IESE Business School, analyzed the effects of the risk-sensitive pricing introduced by Basel II and the important role of innovative financing.

Sven Matthiessen underlined the importance of SMEs to Europe's economy. He reminded the panel that SMEs are still highly dependent on bank loans for their financing, despite that financial markets have broadened and expanded in recent years.

Small companies must be given the opportunity to fully understand and adapt to the new credit evaluation process, he said, in part to take advantage of the new structure and in part to avoid having the new rules further weaken their relationships with banks. Matthiessen encouraged banks to be clearer and show their business customers how creditworthiness affects their credit terms.

Professor von Lichtenstein called for innovative thinking and alternative forms of financing for SMEs. Citing recent research, he noted that loan requirements for small companies remain tough, with banks demanding collateral to reduce their exposure risk; if such security is not available, they deny the loan. There is a risk that the "cautious" new Basel II rules will make financing even more difficult for SMEs and limit their access to "day-to-day" financing, he warned.

Intrum Justitia's Leif Hallberg and Stefan Schär turned the discussion to trends in late payments in Europe. Both stressed the need for better enforcement of the 2002 directive on late payments at the EU and national levels.

Leif Hallberg, Public Affairs Director, pointed out that about one billion invoices are paid late each year in Europe, which causes considerable problems, especially for SMEs. The bankruptcies and lost jobs that result – and which were cited by Intrum Justitia back in 1997 – led the EU Commission to draft the directive on combating late payment in commercial transactions. The directive, which entered into force in August 2002, establishes fixed payment terms, including the period within which an invoice must be paid (30 days) and a statutory penalty interest rate of 7 percent above the European Central Bank's rate.

Unfortunately the practical application of this initiative has been patchy, so that European companies, especially SMEs, are still being hurt by late payments. This is clearly indicated in a survey conducted by Intrum Justitia in early 2004, where more than 9,000 companies in 22 European countries mentioned payment uncertainties as the main obstacle to cross-border trade.

Late payments and the new, more risk-sensitive credit structure can cause a vicious cycle that constricts SMEs' access to financing. A lack of credit could then strike back, worsening an already bad payment situation, Leif Hallberg warned.

Stefan Schär, Public Relations and Marketing Officer of Intrum Justitia Switzerland, noted that the average late payment has paradoxically increased by two days since the 1997 survey in spite of the EU directive. In the Nordic countries, invoices are usually late by just a week. In other European countries, late payments average between two and three weeks, with the exception of Portugal, where payments are late by an average of up to five weeks.

Juan Antonio Salazar Romero of the EU Commission stressed the importance of the upcoming review of the late payment directive. We shouldn't be too hasty in drawing pessimistic conclusions on its impact, he suggested. The directive was the first ambitious attempt, without decrees, to harmonize rules that still fall, in a strict sense, under the auspices of the national legal systems. In a way, the legislation is still under revision, he explained.

The review, which is scheduled to begin in 2005, will provide more practical detail and hopefully the basis for a revision process, noted Salazar Romero.

What credit tightening could mean

Three important conclusions were reached during the roundtable conference arranged by CEPS and Intrum Justitia in Brussels:

1. Banks' creditworthiness according to the new Basel II rules will be a key factor for future lending.
2. Late payments directly and indirectly undermine the financial position of SMEs, creating imbalances in cash flows and negatively affecting credit ratings.
3. The EU directive on late payment in commercial transactions requires an expedited revision, including ideas for more effective implementation.

Norwegian course on export payments and collateral

NORWAY Intrum Justitia International is holding a course in Oslo and Bergen in April/May 2005 on export payments and collateral. The course is being offered cooperatively with the credit information service Creditinform and state-owned Innovation Norway.
Topics will include:

- Cross-border sales: What are the risks?
- Commercial risk
- How to obtain financial information on your customer
- Reporting obligations and corporate reports in various countries
- Payments and collateral in international trade
- The role of lenders
- Practical tips on sales contracts

Intrum Justitia's Annual Report 2004

The Intrum Justitia Group's annual report will be published in April. Please contact the information department to receive a printed copy: Intrum Justitia AB, Attn: Marina Lahti, SE-105 24 Stockholm, Sweden, telephone +46 8 546 10 00 or info@intrum.com.

The Annual General Meeting of Intrum Justitia AB will be held at 4:00 pm (CET) on Wednesday, April 27 at Södra Paviljongen, Vasagatan 1, Stockholm, near the Central Station. A notice and other information will be made available prior to the meeting at www.intrum.com.

Authorities in Sweden and Scotland rely on Intrum Justitia

SWEDEN CSN, the Swedish authority that handles financial aid for students, has asked Intrum Justitia for help to collect on overdue student loans from 26,000 of its 60,000 debtors who live abroad. CSN hired Intrum Justitia after receiving sharp criticism from the National Audit Office for being too lenient about claims outside the country.

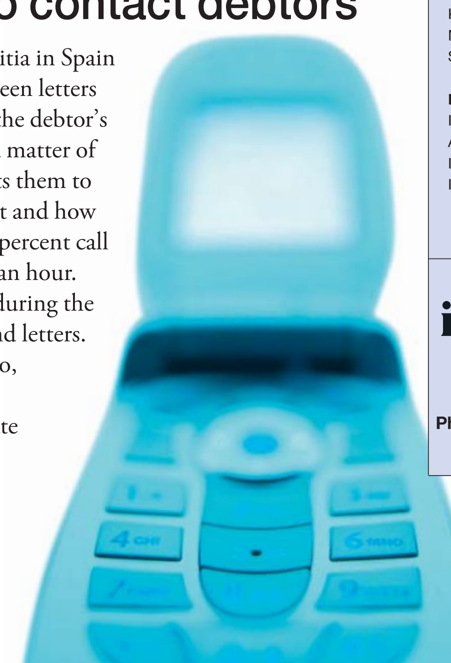
"We had not given enough priority to foreign repayment of student loans. They were simply too hard to collect on," says Magnus Forss, press officer at the Swedish National Board of Student Aid (CSN).

Swedish authorities aren't the only ones turning to Intrum Justitia. Stirling Park has been working for several years with Scottish government agencies that realize the advantages of using an experienced credit management company to collect on overdue payments.

SMS – an effective way to contact debtors

SPAIN Reaching debtors isn't always easy. Intrum Justitia in Spain has added a new twist to the collection process. Between letters and telephone calls, it sends a text message (SMS) to the debtor's mobile phone. The message asks them to call about a matter of personal interest. This catches their attention and gets them to call back. A collection agent can then discuss the debt and how they can pay. Of those who have received an SMS, 53 percent call back within a half hour and up to 69 percent within an hour. Twenty-six percent also reach a payment agreement during the initial conversation, saving the cost of further calls and letters.

One of Intrum Justitia's clients, Antonio Melgarejo, commented, "At Renault Financial Services, we have noticed that SMS isn't too aggressive and we appreciate the efficiency."



QUICK FACTS

Intrum Justitia is Europe's leading Credit Management Services (CMS) group. Its objective is to measurably improve clients' cash flows and long-term profitability by offering effective services and high quality in relation to both clients and debtors in each local market. **Intrum Justitia's** services cover the entire CMS chain, from credit information via invoicing and reminder management to debt surveillance and collection of written-off receivables. The Group has more than 90,000 clients, revenues of SEK 2.9 billion and around 2,900 employees in 21 European countries. The company was founded in 1923 in Sweden and has been listed on the O-list of Stockholmsbörsen, the Stockholm Exchange, since June 2002. The head office is located in Nacka, outside Stockholm, Sweden. President and CEO: Jan Roxendal. For more information on the Intrum Justitia Group, visit **www.intrum.com**

Intrum Justitia Group	2004	2003
Revenues, SEK M	2,849	2,865
Operating profit (EBITA), SEK M	431.4	428.1
Cash flow from operating activities, SEK M	481.1	301.8
Collection cases in stock, million	11.6	10.6
Total collection value, SEK billion	79.4	79.3
Average number of employees	2,945	2,870

For definitions, see www.intrum.com

Analysts who cover Intrum Justitia
ABG Sundal Collier – Espen Bruu Syversen
Carnegie – Charlotte Widmark
Cazenove – Gorm Thomassen
Enskilda Securities – Monika Elling
Handelsbanken – Henrik Talborn
Kaupthing – Lars Frick
Morgan Stanley – C. Jimenez, E. R. De Figueiredo
Standard & Poor's – Stefan Andersson

Financial report dates 2005	
Interim report, January–March	April 27
Annual General Meeting	April 27
Interim report, January–June	August 17
Interim report, January–September	October 26

intrum justitia

Intrum Justitia AB
SE-105 24 Stockholm, Sweden
Phone: +46 8 546 10 200, fax: +46 8 546 10 211
www.intrum.com, info@intrum.com

Every year European companies fail to reclaim a portion of the VAT they have paid in other countries. To help them recover this forgotten tax, Intrum Justitia has developed VAT Refund.

A forgotten tax

Companies that buy goods and services in other countries can obtain a refund on the foreign value-added tax (VAT). Before they close their books, they should check their foreign invoices from the previous year. If they have paid taxable invoices or other charges within the EU, they have the right to a refund.

To get your money back, you have to fill in the correct forms in each country, which some people find tricky. That's why Intrum Justitia in 1987 created VAT Refund, which has since grown to become an important credit management service. More than 2,000 companies of various sizes in twenty countries currently utilize Intrum Justitia's expertise in this area.

According to Kari Rahko, who manages VAT Refund, Intrum Justitia's geographic base in 21 countries is perfectly suited for this type of service. It can also serve as an agent to handle international refunds for groups with operations in a number of countries.

Even small companies that do business abroad can benefit from reviewing their VAT routines. Jörgen Nelson, CFO of Plus Licens AB, a licensing company with operations mainly in the Nordic countries and Eastern Europe, agrees: "We were positively surprised that Intrum Justitia could help us to reclaim VAT in Poland."

In 2004 Intrum Justitia filed over 6,000 VAT refund applications in 26 countries. Most were EU member states, although requests were also submitted in Canada, Switzerland, the Faroe Islands, Iceland and Norway.

VAT Refund is a win-win proposition for the client, Kari Rahko explains: "The customer pays a low fixed cost plus a variable portion based on the recovered amount. VAT varies by country, but usually falls in the range of 15 to 25%. Among common expenses where VAT refunds are permitted are trade show admissions, hotel charges, business entertainment and training. VAT on goods purchased and delivered in the same country, the further processing of goods, and services purchased and consumed in a different country are also eligible for refunds."

What is value-added tax – and how do I get it back?

The main purpose of VAT refunds is to achieve competitive neutrality between domestic and foreign companies.

Since the VAT system was made mandatory in the EU in 1967, member states have gradually coordinated their systems through various directives. When a new country is added to the community, it, too, must comply with the directives. However, member states are free to decide how to achieve the intent of the directive. This means that the rules on what may be refunded and how it is done will vary.

Value-added tax, which is a consumption tax, applies to most products and services. VAT is an indirect tax paid by the consumer in connection with a purchase. It is generally charged in the country in which the product is sold or consumed.

The deduction right prevents double taxation. When calculating the VAT that has to be paid to the state, taxpaying companies may deduct the tax included in the price of a product or service purchased for business purposes.

Applications for VAT refunds must be submitted separately to the tax authorities in each country. They may be filed 1-4 times a year for periods of at least three months. Since the application period for the previous calendar year expires on June 30, we recommend that you contact Intrum Justitia before the end of April to ensure a refund.

To learn more about VAT Refunds, please e-mail vatrefund@fi.intrum.com.

The Scandinavian countries share a similar demand for Intrum Justitia's services. With similar cultures, values and languages, the Sweden, Norway & Denmark region can be treated as a single unit. Client segmentation and custom-designed industry concepts have been a source of success.

Scandinavian conce

In recent years Intrum Justitia has generated strong growth and rising profits in the Scandinavian region. Lennart Laurén, Managing Director of Intrum Justitia Sweden and head of regional operations, says that the main reason for this success is that clients have been divided into different segments.

Lennart Laurén, Managing Director of Intrum Justitia Sweden AB and Regional Manager for Sweden, Norway & Denmark. Originally employed in 1998 as Deputy MD, he has served as MD since 1999.

Age: 47

Family: Married with three children.

Interests: Horseback riding, skiing, boating and tennis.

"And naturally the fact that we have committed and skilled employees," he adds.

This, in turn, has facilitated sales and improved service for clients.

"The most important thing for our clients isn't the price they pay but how much capital they get back thanks to our services," he says. "Every comparative study we've participated in suggests that no one is better than we are at making sure clients get their capital back."

Intrum Justitia's Scandinavian companies work closely together. They benefit from being able to help each other, which also benefits their clients, according to Laurén: "We also have similar client structures. Sweden has a few more energy companies as clients, since that's where we launched our electricity concept first. The fact that we have a large client base in all three countries gives us a stable platform to stand on, compared with being dependent on a couple of large clients."

In Sweden alone Intrum Justitia handles around one

FACTS ABOUT THE REGION

SWEDEN Intrum Justitia was founded in Sweden in 1923 and has long been the market leader. In recent years the industry has consolidated into larger, focused units.

NORWAY Operations were established in 1982 in a market distinguished by a high percentage of outsourcing.

DENMARK Since 1977 Intrum Justitia has been one of the largest collection companies in a market less highly developed than Sweden and Norway, in part due to a monopoly by lawyers.

MD Intrum Justitia Sweden: Lennart Laurén.
Acting MD Intrum Justitia Norway: Gerhard Larsen.
MD Intrum Justitia Denmark: Gregers Kofoed-Hansen.

SEKM	2004	2003
Revenues	732.1	729.3
Operating profit (EBITA)	148.2	166.7
Operating margin, %	20.2	22.9
No. of employees	462	462

pt for client contacts

million collection cases. This is in addition to more than one and a half million long-term cases where the company is monitoring written-off receivables.

"Our large number of collection cases makes us the leader in the market," Laurén says.

He also notes that in Scandinavia Intrum Justitia has been able to build up unique information banks with the help of scoring techniques, which determine which collection measures will produce the best results.

"Our scoring techniques help to decide how we can best handle different categories of debtors," he explains. "Because we have so many cases, we can obtain reliable information on which to base our scoring. This means that we can predict for clients when they will be paid."

Another important reason why Intrum Justitia has succeeded in the market is consistency in the way it handles different cases, according to Laurén. "The debtor usually learns that we are very consistent in our routines, and because of this our clients get paid faster. In the process, we reduce credit risks while freeing up capital and creating interest gains for our clients."

In the Scandinavian countries, demand for collection services from the public sector is on the rise. Intrum Justitia is taking advantage of this by developing a special concept, since these services differ somewhat from what the private sector demands.

"Municipalities and counties are facing tougher political demands when it comes to managing their receivables, and we offer, among other things, seminars designed just for them," Laurén explains.

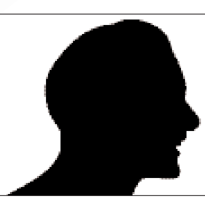
In another recent trend, companies are asking Intrum Justitia to handle their entire invoicing process, so it is planning to expand this service in Scandinavia in 2005.

"Our clients want to focus on their core businesses. In addition to sales ledger services, we can help them with credit decisions. This is an area where no one can compete with us right now."

Sender:
Intrum Justitia AB
SE-105 24 Stockholm
Sweden

commentary

People like us



Commentary: Dr. Guy Wise
Profession: Professional printer and publisher of *Now & Again*

Now & Again offers unsolicited opinions on traditional values.

"Hi!"

There I was, discreetly slinking into my favorite pub, when who do I see sitting there but my brother and his girlfriend Ericha, the collection lady, who, as I had learned, works with credit administration and is more angel than enforcer.

"Come and sit with us. You've met Ericha, and this is her friend from work, Sue Ellen."

"That's really your name, Sue Ellen?" I asked.

"Sure is," she replied.

Sue Ellen wasn't exactly what you'd call a shrinking violet, and if her handshake was any indication she would have no problem handling a wood axe.

Suddenly everything became clear to me.

Ericha had crushed all my prejudices about debt collectors. She had convinced me that she worked by telephone and letter and actually helped people with payment problems.

I'm sure she did. She was the good cop. But of course there is a yin for every yang. Or in this case, a bad cop for every good one.

"So you're the one who goes to the homes of people who owe money, turn them upside down and shake out whatever you can get from their pockets, right?" I asked.

"Sure, that sounds profitable," said Sue Ellen, with more than a touch of sarcasm.

"If you're lucky, you might find enough for a bus ride, but hardly enough to pay my salary. I guess you're one of those who think our job is about revenge and punishment. But it's not. We only collect the money that rightfully belongs to someone else, and the best way to do that is by helping people get their finances in order."

"But getting someone to file for bankruptcy certainly isn't a help!"

"You're right. That's why we don't. A bankruptcy will definitely cut off the flow of money. It shuts off the faucet. We want to keep it open, even if it just drips slowly. Believe it or not, we usually feel sorry for the people who find themselves in situations where they can't pay their debts. Most of them are normal, honest people who've had some bad luck. People like us."

Maybe it was the beer, but suddenly I realized how stupid I must have sounded. How prejudiced I had been. These two girls had an important job to do.

I wanted to apologize in some way, so I handed the waitress my credit card and turned to the girls: "Sorry. It might not have seemed so, but I'm actually on your side. But I still feel people should be more responsible, and I don't appreciate when they try to hide from their financial obligations. Let me buy this round as a goodwill gesture."

Just then the waitress returned and said, "I'm sorry, but your card was rejected. Apparently there wasn't enough to cover in your account."