‘Payment practices in Europe’

EOS four-nation survey 2007

With head and heart in finance

‘Payment practices in Europe’ EOS four-nation survey 2007

Dear Reader,

You see before you the results of the first EOS four-nation ‘Payment practices in Europe’ survey conducted in 2007. In collaboration with Ipsos, an independent market research institute, EOS asked 645 companies about their payment practices.

Two hundred companies in each of three countries – Greece, Poland and Russia – and 45 companies in Romania answered questions to do with their own payment experience, the economic development of their country and the general subject areas of risk and receivables management.

The 2007 EOS four-nation ‘Payment practices in Europe’ survey provides information for companies with an international focus – information that is vital when expanding into new markets, for instance.

As a provider of financial services in 21 countries worldwide, the EOS Group believes it has a duty to keep its partners and other interested parties regularly supplied with market information. The companies in the EOS Group, of which there are over 37, have been operating successfully in the areas of information, arrears and receivables management for many years. EOS is one of the leading European providers and is one of the few global players in this field.

We would like to thank all the companies that took part in the 2007 EOS four-nation ‘Payment practices in Europe’ survey.

Yours sincerely,

Hans-Werner Scherer

Hans-Werner Scherer
Chairman of the Board of Directors, EOS Group

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Management summary

At the end of 2007, in conjunction with Ipsos, an independent market research institute, the EOS Group asked a total of 645 companies in four European countries about payment practices in their markets.

Greece

Relaxed payment terms

In Greece, outstanding receivables account for 25% of total sales on average. More than a quarter of the companies surveyed say that the average receivables amount per debtor is higher than EUR 10,000. Since the Greeks also grant long payment deadlines (105 days), this means that there can be cash flow problems in other places (see page 6). In future, only a few companies expect to see an improvement, while 35% expect payment practices to worsen (see page 6).

Poland

Sticking to payment deadlines pays off

On average, 9% of invoices in Poland were paid on time. At 10% of total sales, outstanding receivables are low compared with the outstanding receivables of companies in Russia, Greece and Romania. Late payments in Poland are usually received within 37 days of the payment deadline (see page 8). More than two-thirds of Polish companies employ their own credit manager, while 75% work with external service providers (see page 9).

Romania

Checks on existing clients

Nearly 90% of Romanian companies check the credit standing of clients before transacting business with them. Companies rarely employ in-house experts for credit management or use external debt-collection companies (see page 10).

Russia

Fewer credit checks

Despite a high proportion of new clients, just under half of Russian companies on average do not check the credit standing of potential clients before transacting business with them. This means that they are at risk of bad debt losses (see page 12). More than half of all companies in Russia employ credit management experts. On average, less than a fifth make use of outsourcing (see page 13).

You can consult the results of the EOS survey online at:
www.eos-solutions.com/surveys

Varying growth rates

All four countries are dynamic: Poland, Greece, Russia and Romania are all currently registering growth rates of between 4 and 7%. Significant growth drivers are high levels of investment and private consumption. However, the four economies differ historically, culturally and economically. Some of the national differences in payment practices, as highlighted in this 'Payment practices in Europe' survey, are also significant.

The results of the survey provide pointers for companies active in these countries in terms of credit and receivables management. For example, payment deadlines differ widely between the four countries studied. While payment deadlines granted by Polish companies are generally 32 days, it is 36 days in Romania, 78 days in Russia and 105 days in Greece. It is against this background that we need to consider the proportion of payments made on time. 68% of Greek customers pay on time – but then they have 3.5 months on average to do so. According to our survey, 67% of customers in Romania also pay on time. This is a high proportion, particularly when one considers that the average payment deadline in Romania is 36 days.

	Greece	Poland	Romania	Russia
Av. % new clients	16%	12%	14%	20%
Av. % outstanding receivables	25%	10%	15%	12%
Av. receivables amount (in EUR 1,000)	majority 10	majority 5	majority 5	majority 5
Av. agreed payment deadline	105 days	32 days	36 days	78 days
% of receivables paid on time	68%	9%	67%	84%
Av. % bad debts	2.5%	2.6%	2.1%	2.0%, retail: 3.5%
Future trend in payment practices	worsening	improving	improving	improving
Future trend in numbers of · personal bankruptcies · company insolvencies	 · increasing · increasing	 · not sure · same or decreasing	 · increasing · same or increasing	 · same · same
In-house receivables management department	39%	67%	20%	58%
Use of external service providers	63%	75%	45%	17%
Future significance of risk/receivables management	increasing or same	same or increasing	increasing or same	same or increasing

Source: EOS four-nation 'Payment practices in Europe' survey 2007

Greece

The Greek economy is facing new challenges: the budget deficit and rising inflation are slowing down the economy and there is an urgent need for further investment.

Relaxed payment terms

On average, Greek companies' outstanding receivables represent a very high proportion of total sales: around 25% of all receivables are outstanding. This is much higher than the figures for Romania (15%), Russia (12%) and Poland (10%). In addition, more than a quarter of the Greek companies surveyed stated that the receivables value per debtor was over EUR 10,000 – cash flow that is not available for investments, for instance.

Greek companies are comparatively generous when it comes to payment deadlines: whereas in Poland, Romania and Russia the majority of companies set payment deadlines of up to 30 days, Greece is an exception, with 35% of companies granting payment deadlines of 91 days or more. Nevertheless, the proportion of payments made on time (68% in Greece) is similar or higher in countries like Romania (67%) and Russia (84%), despite these countries having shorter payment deadlines.

Cash flow that is lacking
High level of outstanding receivables among Greek companies

Charts show: *Greek companies where outstanding receivables represent more than 25% of total sales in a financial year (in %) and Greek companies where outstanding receivables amount to more than EUR 10,000 per debtor (in %).* *Source: EOS four-nation 'Payment practices in Europe' survey 2007*

INTERESTING FACT

SMEs rarely use state funding

Greek SMEs very rarely take advantage of state funding programmes, according to a study conducted by the Hellenic Organization of Small and Medium-Sized Enterprises & Handicraft S.A. (EOMMEX) from March 2008. Only 2% of a company's capital comes from public coffers, compared with around 95% from banks or equity capital. Alternative means of financing, such as leasing, are rarely used.

Greeks expect situation to worsen

A fifth of the Greek companies surveyed have experienced cash flow problems in the past because of bad debts – considerably more than in Poland (13%), Russia (9%) and Romania (16%). 43 % of Greek companies also said that payment practices had worsened over the past two years. 35% expect payment practices to worsen further in future. In Poland, Russia and Romania, this figure is between 3 and 6%. The reasons given for the poor payment practices are cash flow shortages and over-indebtedness in the case of private debtors, and cash flow shortages and the general economic situation in the case of commercial debtors.

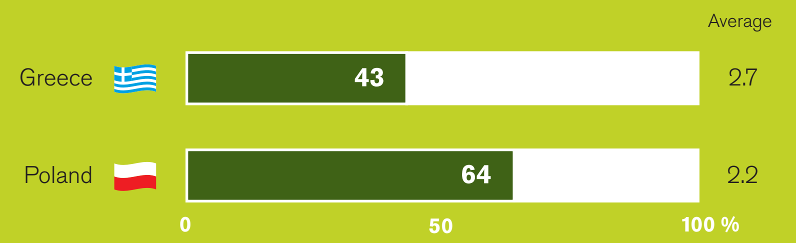
The overall pessimism is continued into the area of expectations concerning future trends in personal bankruptcies and company insolvencies: unlike companies in Poland, Russia and Romania, a majority of Greeks expect both kinds of insolvency to increase in future.

Greater reliance on debt-collection firms

In the area of credit and receivables management, 63% of Greek companies use the services of external providers such as law firms and debt-collection firms. More than one in five companies finds fault with law firms. Companies have greater confidence in professional debt-collection firms: in a direct comparison, around 36% of customers of debt-collection firms on average regard them as effective. This is the case for only 26% of law firm customers.

The majority of respondents (51%) believe risk and receivables management will become more important in their company over the next two years. Today, 39% of the Greek companies on average employ in-house experts for credit management.

Law firms perform badly
Greeks less happy with law firms



Question: *How satisfied are you with the processing of tasks in the field of credit/receivables management (arrears billing, arrears management, debt collection)?* ***Answer:*** *Extremely satisfied and very satisfied on a scale of 1 (extremely satisfied) to 5 (dissatisfied).* ***Basis:*** *Companies that use law firms.*
Source: EOS four-nation 'Payment practices in Europe' survey 2007

QUOTATION
'Last-Minute payments'

'In order to lead a comfortable life many Greeks are prepared to take out loans. Yet, they are not overly quick in re-paying them. The Greeks leave everything to the last minute. Apart from that, the unemployment rate in Greece is high with more than 8%. Many Greeks simply can't pay back their debts.'

Lysandros Tsakiridis, CEO at EOS Matrix S.A. Greece

Poland

Poland's economy remains on track for growth in 2008, although at a slightly slower rate than in 2007. The main driving forces are still investments and private consumption. In addition, according to international financial experts, reducing bureaucracy and lowering corporate taxes are key challenges.

Sticking to payment deadlines pays off

The average payment deadline for Polish companies (32 days) is short by comparison with the other three countries. However, only 9% of companies pay their invoices by the stated deadline. In the service sector, this figure is only 5%, compared with 10% in the retail sector and 8% in manufacturing. By way of comparison, in Romania the payment period is just four days longer, at 36 days, but 67% of companies there pay on time.

Outstanding receivables account for 10% of Polish companies' total annual sales, which is low compared with Greek (25%), Russian (12%) and Romanian companies (15%). The average proportion of bad debts (2.6% of total receivables) is, however, higher than in the other countries.

On average, late payments are received within just 37 days of the payment deadline. This short time-span could be due to the high proportion of Polish companies with in-house receivables management departments (67%) and the frequency with which they collaborate with external service providers: only 23% of the companies surveyed process their receivables exclusively in-house.

Poles miss payment deadlines
Payment not linked to payment deadline

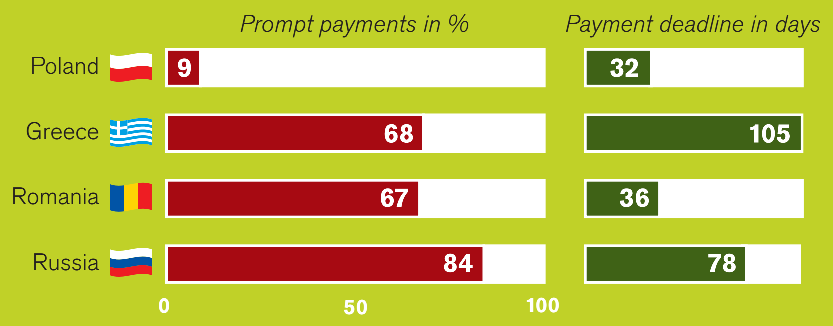


Chart shows: *Four-nation comparison of payments made on time, as a proportion of total receivables, and average payment deadlines.* *Source: EOS four-nation 'Payment practices in Europe' survey 2007*

QUOTATION

'Boom in Poland continues'

'The economic boom in Poland continues. One of the major causes: private consumption. Like in Russia the number of private loans increases. Average indebtedness per capita is approx. at 14,000 Złoty*. Many Poles are not just having one loan to pay back but several. This is one of the reasons why many companies see an increasing importance of professional debt management.'

Bogusław Lewantowicz, Managing Director at EOS KSI Poland

* Around EUR 3,956. This is about 5.6 times the average monthly income in Poland.

Poles are optimistic

Just under two-thirds (64%) of the companies surveyed in Poland say that payment practices have improved or remained unchanged over the past two years – despite the fact that only 9% of all invoices are paid on time and the bad debt level is 2.6%.

Polish companies are also optimistic regarding the future. 48% of them expect payment practices to improve over the next two years, while 39% expect the situation to remain the same. The majority of Polish companies also expect the number of company insolvencies to remain stable or decrease: only 17% of those surveyed believe that insolvencies will increase over the next two years.

Trend towards outsourcing

Although more than two-thirds (67%) of the Polish companies employ in-house specialists for receivables management, three-quarters of them also work with external service providers such as debt-collection firms or law firms. Only 23% process their receivables exclusively in-house – the lowest percentage when compared with what happens in Russia (80%), Romania (44%) and Greece (35%).

Polish companies are also more satisfied with law firms than those surveyed in the other three countries. Only 2% of companies are dissatisfied. The services that Polish companies are most likely to outsource to professional providers are litigation and pre-litigation debt collection, arrears management, and arrears billing. The Polish services sector in particular expects receivables/risk management to become more important over the next two years. This is the sector that currently has the lowest level of outstanding receivables and the shortest payment deadlines, when compared with the Polish retail and manufacturing sectors.

Responsible with money
Poles set great store by receivables management

Chart shows: *Percentage of companies in four-nation comparison that employ in-house credit managers and/or use external service providers.*
Source: EOS four-nation 'Payment practices in Europe' survey 2007

INTERESTING FACT

Optimism justified

According to a study by Landesbank Baden-Württemberg in Germany, the favourable economic situation in Poland will change very little in 2008. Continuing pay increases and an improved situation on the labour market will continue to boost private consumption in 2008. Investment levels are not likely to be quite as high as they have been in previous years. This will probably lead to economic growth stabilizing at a high level – current estimates are around 5%.

Romania

Romania is regarded as one of the most deregulated and privatized economies in the world. Annual gross-domestic-product (GDP) growth in this high-growth nation has been 5% on average since 2001. In 2007, it was even 6%.

Checks on existing clients

What do Romanian companies do to avoid bad debts? 40% of the survey participants request advance payments before supplying goods. Cash on delivery is used by 33%, and 29% request customer guarantees. Beforehand, 89% of Romanian companies also check the credit standing of their business partners before transacting business with them. Compared with the other survey countries, only the Greeks make more checks (92% of companies).

One possible reason for the high checking rate could be the fact that in Romania only 20% of companies employ their own experts for receivables management, and 45% do not use external service providers either.

To find out about their customers' ability to pay, most Romanian companies (50%) use bank information, followed by data pools (43%) and information from chambers of industry and commerce (43%). Romanian companies check nearly two-thirds (64%) of their existing clients. This is the highest percentage in the survey.

Preventing bad debts
Romanians prefer advance payments and cash on delivery

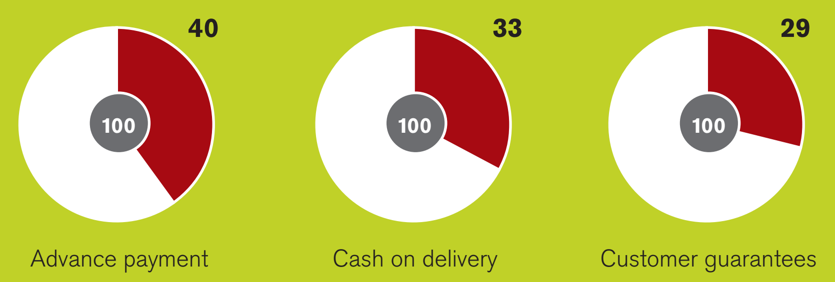


Chart shows: *Top-three instruments used by Romanian companies to prevent bad debts.*
Source: EOS four-nation 'Payment practices in Europe' survey 2007

QUOTATION
'Rising debt collection market'

'Romania's debt collection market has been booming since 2003 when there was a huge increase in consumer loans. Payment practices are improving because average salaries have risen to refelct the increasing shortage of qualified staff. On the other hand the annual insolvency rate of companies is at approx. 50 to 60%. Half of them are caused by a business associate's insolvency.'
Georg Kovacs, Managing Director at EOS KSI Romania

Positive assessment

40% of the Romanian survey participants on average say that payment practices have improved over the past two years. Looking at the proportion of payments made on time (67%) and the average payment deadline of 36 days, it can be seen that Romanian companies get paid faster than their colleagues in Russia, Poland and Greece. This could be one of the reasons why over half (51%) are optimistic about the future and expect payment practices to improve further.

The majority have also never faced cash flow shortages because of late payments.

The majority of survey participants in Romania believe that personal bankruptcies will increase faster than company insolvencies in future.

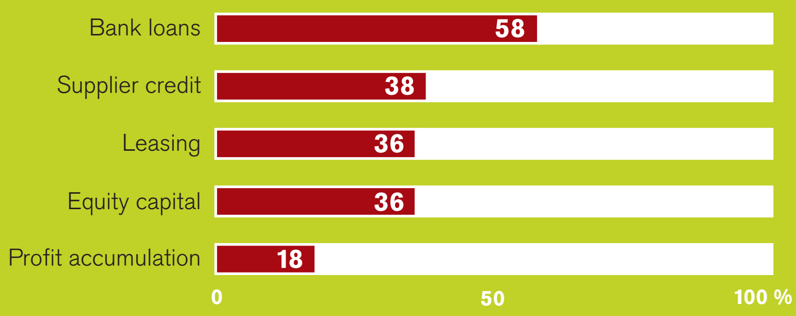
Romanians sometimes take different approaches

At 30% the average loan capital ratio is rather high among Romanian companies compared with the other countries in the survey. Only Greek companies have a higher level of loan capital (33%). The top financing instrument for the Romanian survey participants is the classic bank loan, which is used by the majority (58%) of them. Other popular forms of financing are supplier credit (38%), equity capital (36%) and leasing (36%).

Unlike in Poland and Russia, profit accumulation plays only a small part as a financing instrument in Romanian companies. Only 18% of them plough back profits.

The picture is similar for public funds and asset-backed securities, which are hardly used at all in Romanian firms. Equity capital, a financing instrument that is very popular in Romania, is largely unused in other survey countries.

What forms of financing do you use?
Romanians finance their businesses with bank loans



Question: *Which of the following financing possibilities has your company used in the last two years?*
Source: EOS four-nation 'Payment practices in Europe' survey 2007

INTERESTING FACT

Forms of financing used by German companies

According to the 02/07 EOS Finance-Panel survey, German small and medium-sized companies mainly finance their investments with retained earnings. The second and third most popular forms of financing are short-term and long-term bank loans.

Russia

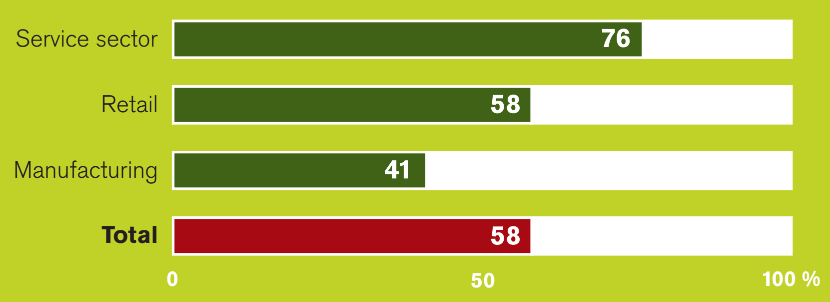
Russia's economic powerhouse is still on full throttle. In 2007, GDP will have increased by around 7% to approximately EUR 1.3 trillion, according to a forecast by the International Monetary Fund (IMF).

Willing to take risks

The Russian economy is booming. Russian companies report an average new customer share of 20% – a remarkable figure compared with other growth markets like Poland (12%) and Romania (14%). Despite their high level of new clients, just under half of all Russian companies on average do not check the credit standing of customers before transacting business with them. This means that they are risking bad debts. By way of comparison, in countries like Poland, Greece and Romania approximately 9 in 10 companies check customers' credit standing.

The proportion of existing customers checked in Russia is high at 60%, compared with Poland (48%) and Greece (37%). The methods used for credit checks are also different: whereas Greek and Romanian firms mainly use bank information, Russian companies rely on Internet research, information sharing within their own company, and media reports.

Russian manufacturing sector rarely hedges its bets
Credit checks before business transaction



Question: *Is a customer's credit standing checked before a business transaction – even if only occasionally?* ***Answer:*** *Yes.* *Source: EOS four-nation 'Payment practices in Europe' survey 2007*

INTERESTING FACT

Russia investing in Central Europe

Russian companies will be investing primarily in oil and gas firms in Central Europe over the next ten years. In the course of this, Russian funds will primarily flow into the former Eastern Bloc states. This is the finding of the Mitteleuropa 2016 – Szenarien, Trends und Perspektiven (Central Europe 2016 – scenarios, trends and perspectives) survey produced by Roland Berger Strategy Consultants. 140 directors of manufacturing companies in Croatia, the Czech Republic, Hungary, Poland, Romania and Slovakia, and took part in the survey.

Time is money

Russian companies are the most likely to pay on time, compared with Polish, Romanian and Greek companies. With an average of 84% of receivables paid on time in the financial year, Russian companies report much better values than their European neighbours in Poland (9%), Greece (68%) and Romania (67%). One in two Russian companies also says that it has no bad debts at all.

This positive picture is put into perspective somewhat when one considers that the average payment deadline is 78 days. This average time-span – which compares with 36 days in Romania, 32 days in Poland and 105 days in Greece – is largely determined by the service sector, in which customers are given 161 days to settle their bills. In the manufacturing and retail sectors, the average payment deadline is 36 days.

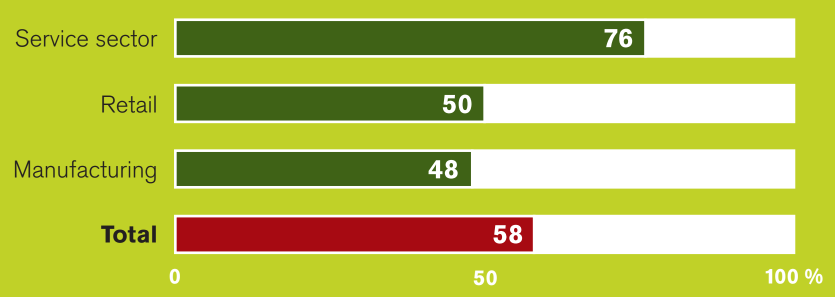
If the amount is not received by the agreed deadline, Russian companies have to wait 86 days on average for late payments to arrive.

Hardly any external service providers

More than half of all Russian companies (58%) employ in-house credit managers. The service sector stands out from the other sectors: the average proportion of companies with their own credit management department is 76% for service providers, 48% for manufacturing companies and 50% for retail companies. In addition, Russian companies employ the greatest number of people in credit management, with an average of 6.2 employees, compared with Polish and Romanian companies (both 3.6) and Greek companies (3.8). The size of the departments differs widely between the sectors studied. The service sector has the highest number, with 9.5 employees on average. The high staff numbers may explain why a significant majority (80%) of Russian companies do not work with external service providers. Only 17% of companies currently use outsourcing.

Autonomous credit management

Russian companies employ in-house credit managers



Question: *Does your company have a separate department for credit management (receivables/risk management), or staff who deal exclusively with receivables and credit management?* ***Answer:*** *Yes.*
Source: EOS four-nation 'Payment practices in Europe' survey 2007

QUOTATION

'Outsourcing might be a way'

'After the financial crisis in 1998 many banks built up internal debt collection departments. Today the banking sector suffers from cost pressure – not least from the increased costs for qualified staff. Outsourcing their outstanding debts to a debt collection agency might be one way for banks to save costs and use their resources in personnel more efficiently.'

Mariusz Kloska, Managing Director at LLC EOS Russia.

Country facts

Greece

Greece's GDP will continue to grow at a moderate rate in 2008: experts are forecasting growth of between 3.7% (OECD) and 3.6% (IMF). However, the constantly high budget deficit and rising inflation are exerting downwards pressure on the competitiveness of the Greek economy. Experts at both the German Office for Foreign Trade (bfai) and IMF are expecting Greece to exceed the critical 3% inflation mark in 2008. The IMF list of economies with the highest GDPs ranks Greece (population 11.1 million) 30th in terms of GDP for 2007.

Poland

According to data collected by the CIA World Factbook, Poland produced a GDP of around EUR 425 billion in 2007. According to the CIA world list from 2007, this placed Poland 21st overall and 7th in Europe. The construction sector of this nation with a population of 38 million is growing particularly fast. According to a bfai study, it had the highest growth rate at 14.6%. The manufacturing sector grew by 7.7%, and the services sector by 5.5%. Unemployment was around 11% in 2007, which represented a considerable improvement over the previous year (14.6%). The rate of inflation in 2007 was between 2.1 and 2.6%, according to a bfai forecast.

Romania

According to a CIA World Factbook estimate, Romania's GDP will have increased by 5.9% to around EUR 170 billion in 2007. The service sector and the construction industry are driving the expansion forwards. In manufacturing, gross value added is weakening slightly, levelling out at around 5.4%. Although investment and consumption levels in Romania remain stable, international analysts like Standard & Poor's are regarding this country (population 21.6 million) much more sceptically than they were a year ago. The IMF list of the world's largest economies – measured by GDP for 2007 – ranks Romania in 42nd place.

Russia

The Russian economy performed better than expected in 2007. According to IMF estimates, GDP will have risen by 7% to around EUR 1.3 trillion in 2007. IMF experts are also forecasting annual growth of 6.5% for 2008. Unemployment fell to 6.5% in 2007. Inflation, at 8.1%, will be lower in 2007 than in 2006 (9.7%). The economy of this country with a population of 142 million is no longer determined solely by the extraction of raw materials, but is now driven to a significant extent by domestic demand. The IMF list for 2007 ranks Russia in 9th place in terms of GDP.

Structural data

On behalf of EOS, the independent market research institute Ipsos carried out a survey of managers in finance departments on payment practices in Greece, Poland, Romania and Russia. A total of 645 managers took part in the telephone survey. The data were collected in October 2007.

Location:
The companies were recruited freely from the four countries using external address databases. In Poland, Russia and Greece, 200 companies took part. In Romania, it was 45 companies.

Target group:
The companies taking part in the survey employed at least 20 people and had annual sales of at least EUR 5 million. All contact persons were responsible for receivables/risk management within their company.

Client structure:
In every country the majority of the companies' clients are domestic clients. Overall, new clients account for between 12% and 20% of the customer base.

Size:
With the exception of Greece (45%), the majority of companies surveyed in each country report annual sales of between EUR 5 million and EUR 25 million. Those with sales of EUR 51 million or over account for less than a quarter in each country. At least 75% of the companies employ between 20 and 499 people.

Capital structure:
Greek and Romanian companies have a comparatively high loan capital ratio (33% and 30% respectively). 32% of companies in Russia and 20% of companies in Poland are not reliant on loan capital.

Sectors:
In Greece and Romania, 51% of the companies surveyed are in the retail sector. By contrast, the companies surveyed in Poland and Russia were more likely to be in the manufacturing sector (48% and 40% respectively). Companies in the areas of telecoms/IT, banking/credit cards/insurance, publishing houses and hospitals – grouped together as service companies in the survey – are less well represented (<13%), with the exception of Russia (36%).

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