

News Release

MARKET SENSITIVE INFORMATION
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Euler Hermes Cash Flow & Profit Survey of UK Companies Q3 2009

Cash flow increased for second consecutive quarter as companies reduced investments

Key points:

- Cash flow rose at fastest pace since Q1 2008.
- Profitability continued to fall, albeit at a slower rate.
- Payment delays increased further.

Summary:

The latest Euler Hermes survey of UK companies' financial health indicated that free cash flow increased for the second consecutive quarter in Q3. The latest rise was stronger than seen in the previous three-month period but was still weak overall. Profits continued to fall, albeit at a slower pace, with price discounting the principal factor driving profitability lower.

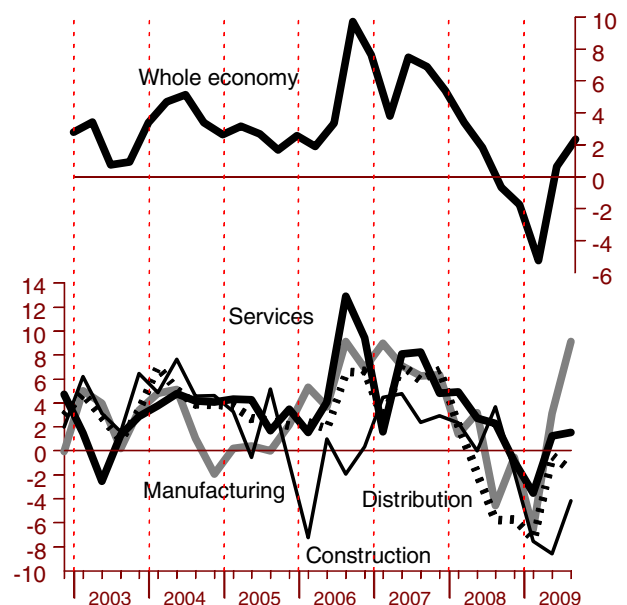
Cash flow rose again in Q3

Q3 data signalled that free cash flow was 2.4% higher than twelve months earlier. Although the overall increase remained only slight, it was still the fastest since Q1 2008. Anecdotal evidence suggested that reduced capital expenditure was the main reason for the rise as companies remained reluctant to invest given the fragile economic climate.

Rising cash flow was driven by the manufacturing sector, where it was 9.2% higher than twelve months before. On the other hand, construction continued to record falling cash flow during Q3, although the latest drop was the weakest in three quarters. By company size, large companies posted the strongest increase in free cash flow, followed by medium-sized firms. However, small companies recorded a drop in cash flow for the seventh successive quarter.

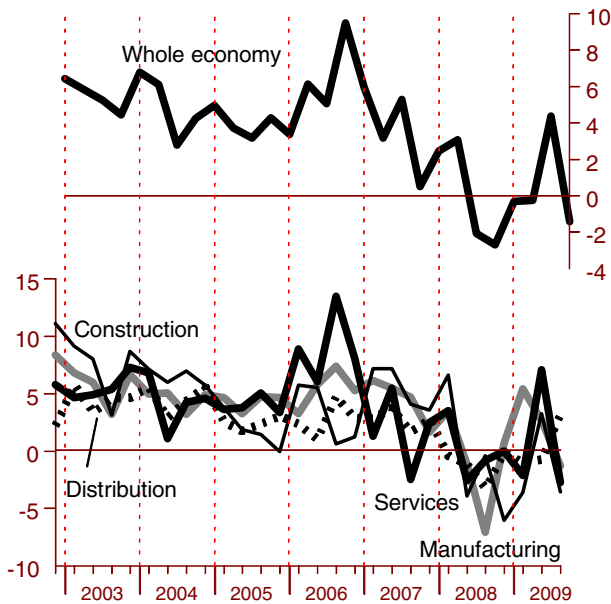
Cash Flow Index - Actual

% change over past twelve months



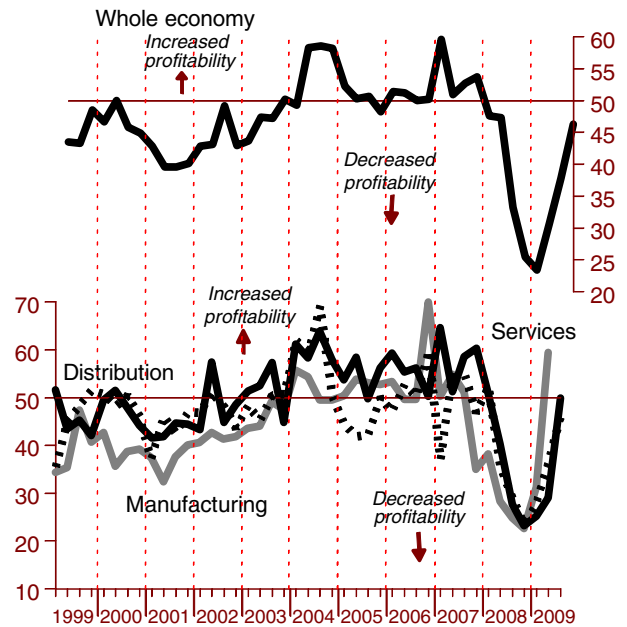
In contrast to the preceding survey, companies predict cash flow to decrease over the coming year as capital investments grow (although weak economic conditions are also expected to negatively hit cash flow). Forecasts regarding future cash flow have been negative in five of the past six quarters. Large firms were the most downbeat in Q3, while companies with between 101 and 500 employees predicted slight growth. Three of the four monitored sectors expect cash flow to drop over the next twelve months, led by construction. Only the distribution category forecasts higher cash flow.

Cash Flow Index - Forecast
% change over next twelve months



The Euler Hermes Profits Index

Indices, 50=no change on previous quarter



Profitability decreased further, although the pace of reduction eased

Profits at UK companies fell at a solid pace in Q3, extending the current sequence of reduction to two years. However, the rate of decline eased to its weakest in six quarters. Services was the strongest performing sector in the third quarter, recording no change in profitability. This ended a run of falling profits stretching back to Q2 2008 and was a marked improvement on the sharp reduction seen in the previous survey period. The other three sectors posted lower profitability, led by a substantial decline at construction companies.

Price discounting was again the principal factor driving profits lower as companies attempted to boost demand. Unfavourable exchange rates and increased competition also exerted sharply negative influences on profitability.

Low interest rates were again the only positive influence on profits at UK companies. Overseas and domestic demand recorded the weakest negative influences. Labour costs and raw material prices continued to impact negatively on profits and to greater degrees than the previous quarter.

Payment delays lengthened, albeit at weaker rate

Q3 data indicated that payment delays from both UK and overseas clients increased, largely reflecting cash flow problems at customers. The average delay from UK clients was longer than from overseas customers. Delays from UK customers were most prevalent in the construction sector, where they rose at a series-record pace.

Some pressure on cash flow at UK firms led them to delay payments to suppliers in Q3, although the latest rise in delays was the smallest since Q2 2008. As with delays from clients, reduced payments to suppliers increased most quickly at construction companies.

Comment:

Commenting, Fabrice Desnos, Chief Executive Officer, at Euler Hermes UK said:

“Companies seeing an increase in cash flow may initially be seen as a positive development, the fact that it has risen on the back of falling capital investment signals that economic conditions remained difficult in Q3. This was supported by another drop in profits. However, companies forecast rising investment during the coming year, enforcing the view that the business climate is improving.”

The Euler Hermes UK Profits Index

Index 50 = no change on previous quarter / year

	2007	2008	Q1 2009	Q2 2009	Q3 2009
All companies	51.4	32.2	30.7	37.8	46.4
Services	58.9	35.5	25.2	29.2	50.0
Manufacturing	47.9	28.5	31.3	59.4	47.8
Distribution	49.1	34.8	28.1	36.7	46.3
Construction	52.8	26.1	44.3	24.2	18.9

Cash Flow at Q3 2009

Average % change in cash flow over:

	past 12 months	next 12 months
All companies	2.4%	-1.4%
Services	1.6%	-2.7%
Manufacturing	9.2%	-1.3%
Distribution	-1.6%	3.3%
Construction	-4.2%	-3.5%

Payments: average number days late:

	2007	2008	Q1 2009	Q2 2009	Q3 2009
from UK customers	22	25	28	26	26
from overseas	24	22	30	23	20

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Notes to Editors:

The Euler Hermes Cash Flow & Profit Survey of UK Companies is a survey of financial trends based on questionnaire responses from financial directors or persons in similar roles in around 300 UK based companies. The panel of companies is carefully monitored to accurately reflect the true structure of the UK private sector economy, covering manufacturing, services, construction and distribution (retail and wholesale).

The survey is designed to provide a unique insight into cash flow and profitability trends and thereby fills a gap in the existing financial and economic data available to business decision makers and economic policy makers.

About Euler Hermes

Euler Hermes is the worldwide leader in credit insurance and one of the leaders in the areas of bonding, guarantees and collections. With 6,200 employees in over 50 countries, Euler Hermes offers a complete range of services for the management of B-to-B trade receivables and **posted a consolidated turnover of €2.2 billion in 2008.**

Euler Hermes has developed a credit intelligence network that enables it to analyse the financial stability of 40 million businesses across the globe. The group protects worldwide business transactions totalling €800 billion.

Euler Hermes, subsidiary of AGF and a member of the Allianz group, is listed on Euronext Paris. The group and its principal credit insurance subsidiaries are rated AA- by Standard & Poor's.

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Markit is a leading global financial information services company with over 1,300 employees. The company provides independent data, valuations and trade processing across all asset classes in order to enhance transparency, reduce risk and improve operational efficiency. Its client base includes the most significant institutional participants in the financial market place.

About Markit Economics

Markit Economics is a specialist compiler of business surveys and economic indices, including the Purchasing Managers' Index (PMI) series, which is now available for 26 countries and key regions including the Eurozone and BRIC. The PMIs have become the most closely watched business surveys in the world, favoured by central banks, financial markets and business decision makers for their ability to provide up-to-date, accurate and often unique monthly indicators of economic trends.

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