

Message from the Chairman



Results overview

Despite limited overall revenue growth, the Group met profit expectations for 2004 through good fleet cost performance and tight capital management. A number of decisions were taken for the long-term benefit of the Group, including the decision to stop elements of the back-office and IT restructuring project, which were no longer expected to deliver a satisfactory return on investment and the Board's decision not to recommend payment of a final dividend in the current trading environment. We have significantly strengthened the management team and the initial phase of the recovery strategy outlined at the Interim Results presentation is progressing.

Full year revenue was up 0.6% at €1,177 million. Profit before tax, goodwill amortisation and net exceptional charges was €54.2 million (2003: €59.4 million) largely due to flat pricing. Earnings per share before goodwill amortisation and net exceptional charges were 6.9 euro cents (2003: 7.8 euro cents). Net exceptional charges of €73.4 million pre-taxation comprised back-office IT project restructuring costs of €9.6 million together with termination costs of €44.4 million, impairment provisions against the goodwill arising on the acquisition of the Budget business and certain French licensee companies of €36.1 million, net of exceptional income of €16.7 million from the better than expected collection of previously written-down Centrus

receivables. The unadjusted loss before tax (after goodwill amortisation and net exceptional charges) was €21.8 million (2003: loss of €47.4 million) and the loss per share before goodwill amortisation and net exceptional charges was 3.2 euro cents (2003: loss of 8.8 euro cents).

Dividend and impairment

As the Group announced in December 2004, the Board has concluded that in light of the current trading environment it would not recommend payment of a final dividend for the year ended 31 December 2004. Furthermore, a significant impairment has been made to the carrying value in the unconsolidated Company balance sheet of its investment in its subsidiaries. After recognition of this impairment

provision, the Company had a deficit on its distributable reserves at 31 December 2004, thereby preventing the payment of a dividend in any event. The Board is evaluating options to address this distributable reserve position and intends to resolve the situation in due course. The write-down has no effect on the Group's consolidated earnings, nor on its consolidated net assets and does not affect the Group's cash position.

Outlook

We expect the current difficult trading conditions to continue throughout 2005 with little upward movement in price and continued pressure on margins. We have decided to further increase investment on the first phase of our revenue growth initiatives and our expectation is that volumes will improve in the second half as a result of these investments. Significant work is currently being undertaken to develop the second phase of strategic actions to improve profitability and we are confident that this will underpin the recovery of the Group over the medium term.

Strategic development

We recognise the structural change that is taking place within the car rental industry. There are changes in customer behaviour in a number of the segments we serve due to factors such as the increased use of the internet and the

growing number of brokers and other intermediaries. In September we announced a multi-phased recovery strategy in response to these changes. We have made significant progress with phase I, the results of which are set out on pages 5 to 8 of this report. Detailed work on phase II, which involves analysing revenue and profitability by customer group, is well under way and we expect to update shareholders on progress around the time of our Annual General Meeting in May. Phase III, which is in very preliminary stages, is looking at specific medium-term growth opportunities such as the further development of our joint venture in China.

Employees and Directors

To support and drive our recovery strategy we have strengthened the Board with the appointment of Murray Hennessy as Chief Executive and Simon Palethorpe as Commercial Director. Additionally, we have strengthened the senior management team with a new head of IT and new managing directors in two of our major markets. These new appointments, together with the experienced Avis management on the team, are providing the balance and capability necessary to lead us forward. We have implemented more rigorous milestones and tracking to support progress with our recovery strategy and we are implementing new

incentive programmes targeted very specifically at delivery of initiatives to drive the Group forward. Murray Hennessy is proving to be a first class CEO who is getting real pace and focus behind what needs to be delivered and we are indeed fortunate to have him on the Avis team.

Despite the difficult and challenging marketplace our employees have continued to set us apart from the rest of the industry. Their dedication, talent and enthusiasm for our customers is reflected in the number of prestigious industry awards the Group has won in 2004 for outstanding customer service. We are particularly delighted this year to be recognised by our employees whose response to external surveys in the UK awarded our Manchester call centre "Overall Best Call Centre Workplace" (Mital International) and our car rental operation one of the "Best 100 Companies to Work For" (Sunday Times). On behalf of the Board I would like to thank all our employees for the work they are doing to ensure our future success.

Alun Cathcart
Chairman