

Chief Executive's Review

First phase of recovery strategy on track



Murray Hennessy

Recovery strategy progress

A series of strategic and tactical steps are being implemented to enable margins to recover and profitable growth to be pursued. The strategy is focussed on both the migration of the business mix towards more profitable customer groups and ensuring that the Group is the most efficient provider in that regard.

The strategy is divided into two phases, each of which encompasses a series of initiatives designed to drive targeted profitable growth or to reduce costs. The strategy builds on the Group's core strengths, is balanced between implementation at the European headquarters, country operations and shared service centres, is characterised by low technological complexity and is comprised of multiple, smaller projects reducing execution risk.

Phase I – Fix the basics

This element of the strategy is well underway and comprises a series of initiatives to improve the basics of the business and begin to address structural change in the industry.

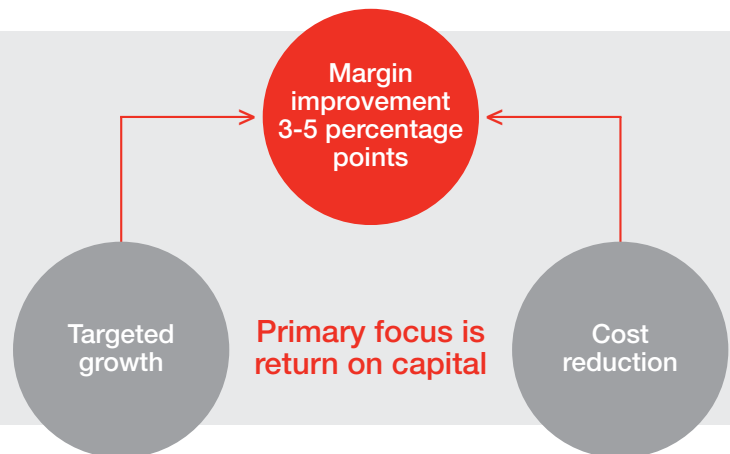
Revenue development

To drive profitable growth, the Group has invested in strengthening its sales and marketing capability to develop channels to market, stimulate Avis network reservations, enhance customer service and focus on improving yield and utilisation. Progress is set out below.

Channel development:

On-line marketing activities and continued investment in enhancing website functionality have increased internet bookings in the year from 18% to 24% of reservations.

Implementation of second phase progressing with initial focus on cost reduction



Network reservation traffic:

Arrangements have been put in place with Scandinavia to improve international outbound business.

Enhance customer service:

Operational investments to improve customer satisfaction with the car rental collection and return processes are progressing well. A new car-side check-in service, at the point of car return, using hand-held technology is now operating at all key locations across the network. An increasing number of customers are benefiting from this service, thereby increasing satisfaction levels and reducing the number of post-rental adjustments. The new simplified rental agreement is fully operational at many rental locations, with the roll-out continuing in 2006.



Avis has been a strong brand for decades, often cited as one of the world's top 10 brands. Our new rental station branding is currently being rolled-out across key locations to ensure that our global brand is recognised by the customer in the same way throughout the world.



In 2005, Avis completed one of the most extensive customer research initiatives in the European car rental industry. The findings are being used to improve further the customer offer and the way Avis operates across all of its major locations. Continuing to find ways to differentiate the customer experience, while being competitive, will be key to maintaining our position as the leading car rental company in Europe.



Avis' car-side check-in service "rapid return" is the industry's most sophisticated "Meet and Greet" service. It has now been rolled-out in 125 rental stations. The hand-held device gives the customer the ability to return their rental car in less than 60 seconds, while receiving their final bill in the language of their choice.

Chief Executive's Review continued

Driving targeted profitable growth



In 2005 in our corporate markets we successfully appointed Budget sub-licensees to key downtown locations and opened new corporate locations at Heathrow and in the Cote d'Azur.

Yield and utilisation focus:

Following several pilot initiatives in a number of markets, the Group is substantially enhancing its revenue management capability. These initiatives, together with operational process improvements, have helped further increase utilisation during the year from 69.5% to 70.5% and links to some improvements to yields in the second half.

Cost reduction

Cost initiatives have been undertaken to increase efficiency across the cost base, including successfully reducing commissions on directly contracted business and the reduction in post-rental adjustments. Additionally, the Group has invested in staff to help optimise the value on vehicle re-marketing for the fleet that is not subject to re-purchase contracts. The transfer of back-office activities to the Group's shared service centre in Budapest continued, with a total of 80 positions having been transferred in the year.

Budget

The Budget business has continued to make losses but remains on track to return to profitability on a run rate basis by the end of 2007. The turnaround strategy comprises actions to improve performance within the corporate operations in the UK and France and the development of overall network revenue. The strengthening and expansion of the international licensee network continues with the opening of Sweden and the recently announced entry into Italy.

Phase II – Optimise the business

The objectives of the second phase are to both grow revenues in chosen customer groups and to substantially restructure the cost base. Both elements are built upon fundamental analysis of the business.

New Budget licensees in:

- > **Italy**
- > **Sweden**
- > **Yemen**
- > **Slovakia**
- > **Bulgaria**

New licensees were appointed, giving Budget a greater presence in Europe and the Middle East.



Focusing on the customer

Avis has launched a new easy-to-understand rental agreement available in the customer's own choice of language. It makes the rental process simple, fast and transparent.

Targeted growth

The Group has developed a comprehensive fact base on the profitability and return on capital characteristics of different customer groups and channels. Actions are underway to migrate business towards more profitable customer groups so that capital is progressively deployed to generate a higher return. This shift will be achieved by increasing marketing spend and sales focus on these more profitable segments and by upgrading the Group's service to its chosen customer groups.

Cost reduction

As previously announced, the Group has now commenced a restructuring of the roles of its European headquarters, corporate operations and shared service centres to create an organisation that is both more effective and more efficient. The project comprises the following main elements:

- a substantial reduction in staff and running costs at the European headquarters;
- acceleration of the transfer of back-office activities into the shared service centre in Budapest;
- consolidation of all call centre activities into the existing Barcelona facility and closure of the Manchester call centre; and
- a number of personnel and overhead cost initiatives within corporate operations.

Subject to the employee consultation process which is underway, the net headcount reduction is expected to be approximately 200, primarily in the European headquarters and the UK and German corporate operations. It is expected that some 180 positions will be created in the Barcelona

call centre as we close our Manchester operation and there will be further transfers of roles to the Budapest shared service centre. Redundancies will be phased over the next 18 months.

Non-staff related overhead costs will be reduced through a number of initiatives, including the re-negotiation and exit of certain non-fleet supplier contracts in the areas of telecoms, systems, transportation and professional services.

In addition to €6 million of exceptional costs taken in 2005 in respect of this restructuring, the exceptional costs of the project are expected to amount to some €40 million in 2006 and €7 million in 2007. The project will generate anticipated savings of around €7 million in 2006, €25 million in 2007 and €30 million per annum thereafter.

Murray Hennessy
Chief Executive



Budget's award winning internet booking platform has now been rolled-out to 19 country websites, whilst customer functionality has been enhanced to drive incremental revenue. Rental transactions through this channel grew by over 200% during 2005.