

Message from the Chairman

The strategy to return the Group to profitable growth is on track



Alun Cathcart

Results overview

The strategy to return the Group to profitable growth is on track. We delivered results ahead of expectations in a difficult trading environment, benefiting from a good summer performance, stronger trading in December, improved utilisation and early progress with our margin improvement initiatives.

The ongoing restructuring of our operations will make the Group more efficient and effective. This work, together with targeted growth in specific customer groups and our strengthened capital base, will help ensure our planned recovery and offset the challenges facing the Group.

Total revenue was up 1.9% at €1,276 million. Underlying profit before tax was €37.8 million (2004: €52.1 million), with the impact of the weaker pricing environment and investment in recovery strategy initiatives partially mitigated by volume growth and a good utilisation performance. Underlying earnings per share were 3.4 euro cents (2004: 5.6 euro cents).

The net exceptional charge before tax of €13.2 million was primarily due to restructuring costs and rights issue expenses. Certain re-measurement items and economic hedges generated a net valuation gain of €5.2 million. Total profit before tax was therefore €29.8 million (2004: loss before tax €20.0 million) and total earnings per share were 2.3 euro cents (2004: loss per share 2.4 euro cents).

Capital structure and dividend

The deficit on the distributable reserves of the Company, announced at the end of 2004 and preventing the payment of a dividend, was addressed by way of a reduction in the share premium account. This was approved by shareholders at an Extraordinary General Meeting on 25 May 2005, by the Court and became effective on 23 June 2005.

2005 results ahead of expectations in a difficult trading environment



In order to strengthen the balance sheet and provide capital for the Group's recovery strategy, a 4 for 7 rights issue at 35 pence per share was announced on 16 June 2005. The issue of new shares was successfully completed with 97.2% being taken up by the closing date of 26 July 2005 and the balance being placed in the market the following day. Net proceeds from the rights issue were €166 million, after expenses.

The Board confirms its intention, announced at the time of the rights issue, not to recommend payment of a final dividend for the year ended 31 December 2005 in view of the continued difficult market conditions. The Board's current expectation is to recommence the payment of dividends when the financial and trading position of the Group allows.

Outlook

Overall expectations for 2006 remain broadly unchanged. The Group continues to face a number of challenges: a negative pricing environment reinforced by experience in the first couple of months; inflationary cost pressures and specific cost increases, reflecting tougher fleet market conditions; and a higher finance cost. These factors are expected to be materially offset by: improving volume trends from the latter part of last year, which are expected to continue; the anticipated initial savings from the restructuring programme; and lower spend on initiatives.

Strategic development

The Group has made significant progress with the implementation of our recovery strategy, to address the structural change taking place within the car rental industry and enable margins to recover and profitable growth to be restored. The first phase, comprising a series of initiatives

to improve the basics of the business is well underway and we have seen the first encouraging signs of initial benefits, which are set out on pages 4 to 6 of this report. Alongside Phase I, we are now beginning to implement the second phase of the recovery strategy, which aims 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.

Employees and Directors

I would like to take this opportunity to thank Murray Hennessy, who has done an outstanding job in leading the development and initial implementation of a robust recovery strategy in a highly competitive market, supported by the strengthened Board and senior management team.

The commitment and dedication of employees throughout our network has remained high during a further challenging year, for both the Avis and Budget businesses. We recognise that the recently announced restructuring process has been a difficult time for our employees and would like to thank them for their understanding while we implement the necessary changes.

Once again our employees' commitment to our customers has been reflected in the number of industry awards the Group continues to win for outstanding service.

On behalf of the Board I would like to express our gratitude for the efforts of such loyal and talented people for the work they are doing to ensure the success of our recovery strategy.

Alun Cathcart
Chairman