

Short-Term Car Rental

Avis Europe plc



Who we are

Avis Europe is the leading car rental company in Europe, Africa, the Middle East and Asia, serving customers via the Avis and Budget brands in over 3,750 locations. Avis Europe works in partnership with Avis Inc., subsidiary of the Cendant group, which operates these two brands in the rest of the world.

What we do

Avis and Budget provide short-term car rental services to a broad range of customers, including business and leisure travellers. Budget, acquired by the group in March 2003, is primarily focused on efficiently serving value-conscious customers.

Around 80% of Avis Europe's sales in 2005 was generated in five major markets, France, Spain, Germany, Italy and the UK and around 50% in airport locations.



105 countries, over 3,750 locations
Around 8 million customers a year
Over 70 international partnerships

Partnerships support Internet growth and enhance brand awareness

Avis has over 70 international partnerships – more than any of its competitors. Partnerships are one reason why on-line sales, Avis Europe's most efficient channel, are increasing. New tailored on-line booking tools can automatically generate car rental quotes following flight or rail reservations.



"We try harder"

More than forty years ago, Avis launched an advertising campaign, "We are only n°2. We try harder," which has become one of the ten most famous advertising campaigns of all times. Today "We try harder" continues to embody Avis' commitment to customer satisfaction and also ensures continuous improvement in everything they do. In 2005 Avis won a further 15 awards for service excellence and innovation.



Leadership in IT systems

Technology enables Avis Europe to achieve leadership in customer service. One example is the kerb-side car return service that reduces return times to just 60 seconds. The device is now operational in the 125 major locations and is delivering significant customer satisfaction improvements as well as operational efficiencies.



How we do it

Avis Europe's development is supported by:

- a **global recognition** of the Avis and Budget brands;
- an **extensive network footprint** with representation at key airport and train station locations;
- **strong travel-related partnerships** with airlines, rail, credit card and hotel companies;
- **leadership in IT systems** including the global Wizard computer system providing integrated reservation, rental and management information and the group's Internet platform.

Avis Europe operates a **balance of directly owned corporate operations and licensees**. These two operating structures give the group a flexible approach to meet the diverse demands of a worldwide market.

The group's management philosophy is one of **decentralisation** and **local autonomy**, underpinned by strong central support services, an approach which stimulates entrepreneurialism whilst promoting consistency of image, service levels and operational efficiency.

A flexible business model to ensure customer satisfaction and operational efficiency

Fleet management is a key competence required in order to maximise asset turnover while guaranteeing customer demand satisfaction even in peak periods. Every year, more than 180,000 cars are purchased from more than 30 manufacturers and kept 7 months on average. More than 65% of this fleet benefits from buy-back contracts with the car manufacturers allowing Avis Europe to return the cars without residual value risks and to quickly adapt the fleet size to changing demand.

The leading car rental company in Europe



Going East

Asia, where Avis Europe operates under the Avis brand only, is one of the long-term growth areas for the group. Avis is present in 18 countries, including India and China opened in 2003. Avis Europe's plans for China are ambitious with expansion into the key cities in time to welcome visitors to the 2008 Olympics and the Universal Exhibition of 2010.

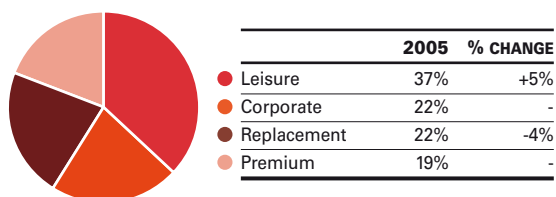
KEY FACTS

- > Results ahead of expectations - difficult pricing environment offset by improved volume and good utilisation.
- > Sales revenue up 1.9% to EUR 1,276.4 million - good summer performance, particularly in leisure.
- > Current operating result 12.1% lower at EUR 100.4 million.
- > Current result before tax, group's share, 27.0% lower at EUR 22.7 million.
- > Restructuring costs and rights issue expenses impacted result for the period.
- > Recovery strategy on track;
 - Phase I benefits beginning to flow through;
 - Phase II implementation progressing with initial focus on overhead reduction.
- > Strengthened capital base with successful completion of the rights issue.

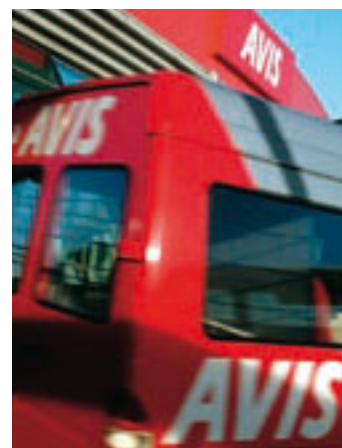
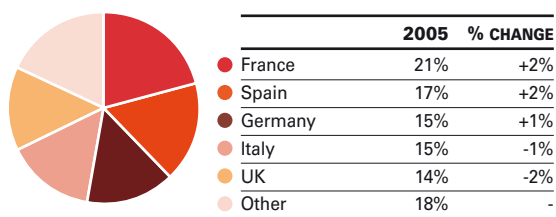
FINANCIAL HIGHLIGHTS (in EUR million)

	2005	2004	% CHANGE
External sales	1,276.4	1,252.8	+1.9%
Current operating result	100.4	114.2	-12.1%
Current operating margin	7.9%	9.1%	-
Current net finance costs	-62.1	-62.0	+0.2%
Current result before tax	38.3	52.2	-26.6%
Unusual items & re-measurements, before tax	-35.5	-98.2	-
Current result before tax, group's share	22.7	31.1	-27.0%

AVIS SALES BY CUSTOMER SEGMENT



AVIS SALES BY GEOGRAPHIC MARKET



D'LETEREN TOOK UP ITS FULL RIGHTS IN AVIS EUROPE EQUITY INCREASE

In July 2005, Avis Europe plc raised approximately £ 110.5 million, net of expenses, through the issue of 334.7 million new shares at a price of 35 pence per new share by way of a rights issue to qualifying shareholders providing Avis Europe with a strengthened capital base and funds for its recovery strategy. D'leteren subscribed its share of the equity increase, i.e. EUR 105 million. Subsequently, D'leteren's shareholding in Avis Europe remains unchanged at 59.6%.

ACTIVITIES AND RESULTS

Extracts from the annual report 2005 of Avis Europe plc

"Total sales revenue was up 1.9% at EUR 1,276 million. Avis corporate revenue was 1% ahead of prior year at EUR 1,209 million. Volume, in terms of billed days, was up 2.8%, with all customer groups other than replacement ahead of prior year and a particularly strong performance in leisure. Although the pricing environment remained difficult with revenue per day 1.5% lower, there was some easing in the second half, largely resulting from a reduction in longer rental length replacement business. Budget corporate revenue of EUR 34 million was up 26%.

Underlying operating profit was EUR 99.9 million (2004: EUR 114.2 million), including a EUR 6.9 million loss from Budget (2004: loss EUR 8.1 million). Underlying Avis operating profit amounted to EUR 153.9 million compared to EUR 174.8 million in the prior year. This when combined with a reduction in unallocated costs of EUR 5.4 million, to EUR 47.1 million, resulted in an underlying operating profit of EUR 106.8 million, compared to EUR 122.3 million in the prior year. Avis underlying operating margin after deducting unallocated costs at 8.7% was

1.3% lower as anticipated. The weaker pricing environment, together with the investment in recovery strategy initiatives was partially mitigated by volume growth and a good utilisation performance.

Net exceptional charges before taxation of EUR 13.2 million have been incurred in the year, of which restructuring costs of EUR 2.0 million in connection with the transfer of back-office functions to the shared service centre in Budapest, a further EUR 6.4 million incurred in relation to a re-structuring project commenced in late 2005 covering the roles of the group's European headquarters, corporate operations, shared service centre and call centres. Following the group's decision in 2004 to terminate the agreement with the principal contractor on the IT back-office project, additional termination costs of EUR 3.6 million have been recognised in 2005, primarily arising from the mitigating action being taken against the termination costs, which may lead to a net credit in future accounting periods. During the year, the collection of credit hire receivable balances in the Centrus business was more successful than previously anticipated. Exceptional income of EUR 3.2 million has been recognised reflecting a partial reversal of the receivable write-off and reorganisation provisions made in previous periods. Additionally, various professional, legal and consultancy costs have been incurred in the period in conjunction with the company's capital restructuring and the rights issue. Where such costs are not directly attributable to the issue of new shares, or the drawing down of new debt facilities, they have been recognised as exceptional items.

Underlying net finance costs increased marginally year-on-year due to the full year impact from the higher cost of the loan notes



issued in the summer of 2004 offset by slightly lower average debt, benefiting from the receipt of the rights issue proceeds.”

Note: D'leteren reports a current operating result of EUR 100.4 million for the car rental segment. In addition to the unusual items and re-measurements recognised by Avis Europe, D'leteren includes the amortisation of the Avis licence rights for EUR 21.7 million (already fully amortised in the accounts of Avis Europe) as well as EUR 5.3 million representing its share of the rights issue costs (recognised in equity in Avis Europe's accounts).

RECOVERY STRATEGY PROGRESS

“The group is implementing its margin recovery strategy. The strategy has two phases, each of which encompasses a series of initiatives designed to drive targeted profitable growth or to reduce costs.

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.

Sales 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.

On-line marketing activities and continued investment in enhancing website functionality have increased internet bookings in the year from 18% to 24% of reservations. Arrangements have been put in place with Scandinavia to improve international out-

bound business. Operational investments to improve customer satisfaction with the car rental collection and return processes are progressing well.

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.

Phase II – Optimise the business

The objectives of the second phase are to both grow revenues in chosen customer groups and to substantially re-structure the cost base.

Targeted growth

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, corpo-

rate 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 Avis Europe closes its 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 EUR 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 EUR 40 million in 2006 and EUR 7 million in 2007. The project will generate anticipated savings of around EUR 7 million in 2006, EUR 25 million in 2007 and EUR 30 million per annum thereafter.”

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 re-structuring programme; and lower spend on initiatives.