



Avis Europe plc
Press Release

Avis House, Park Road
Bracknell, Berkshire
England
RG12 2EW

Telephone: +44 (0) 1344 426644
Faxsimile: +44 (0) 1344 485616
Internet: www.avis-europe.com

3rd March 2006

AVIS GROUP

PRELIMINARY RESULTS FOR YEAR ENDED 31 DECEMBER 2005

Avis Europe plc, the leading car rental company in Europe, Africa, the Middle East and Asia, announces preliminary results for the year ended 31 December 2005 and provides an update on the progress of its recovery strategy.

Operating Highlights

- Results ahead of expectations - difficult pricing environment offset by improved volume and good utilisation, with utilisation now over 70%
- Good summer performance, particularly in Leisure
- 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 €166 million rights issue

Financial Highlights

- Revenue up 1.9% to €1,276 million
- Avis billed days up 2.8%, revenue per day 1.5% lower
- Underlying* profit before tax €37.8 million (2004: €52.1 million)
- Net exceptional charge of €13.2 million – primarily re-structuring costs and rights issue expenses. Certain re-measurement items and economic hedges net gain of €5.2 million
- Total profit before tax €29.8 million (2004: loss before tax €20.0 million)
- Underlying* earnings per share 3.4 euro cents (2004: 5.6 euro cents)
- Total earnings per share 2.3 euro cents (2004: loss per share 2.4 euro cents)
- Overall expectations for 2006 remain broadly unchanged

** Underlying excludes exceptional items, certain re-measurement items and economic hedges – see basis of preparation*

Commenting on the results, Murray Hennessy, Group Chief Executive, said:

“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 re-structuring 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.”

Enquiries: -

Murray Hennessy, Chief Executive 01344 426644
 Martyn Smith, Group Finance Director 01344 426644
 Susan Gilchrist/Chris Blundell, Brunswick 020 7404 5959

RESULTS OVERVIEW

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).

REVENUE OVERVIEW

€ million	2005	2004	% change
Corporate	1,209	1,196	1
Licensees	25	22	14
Avis	1,234	1,218	1
Corporate	34	27	26
Licensees	8	7	14
Budget	42	34	24
Centrus	-	1	-
Revenue	1,276	1,253	2

Avis corporate revenue

Avis corporate revenue was 1% ahead of prior year at €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.

As a proportion of revenues, the leisure customer group represented 37%, corporate 22%, replacement 22% and premium 19%, largely unchanged on the prior year.

Leisure

Overall leisure revenues were 5% ahead of prior year, with a particularly good second half performance, especially in domestic and intra-Europe. Domestic leisure (30% of the customer group) was up 6% with good volume growth in France and the UK and virtually flat pricing. Intra-European leisure revenue (45% of the customer group) grew by 7%, with double-digit revenue growth in Italy, Germany and the UK. Although pricing was 1% lower, this performance was assisted by tactical yielding initiatives. Overall growth in long-haul leisure (25% of the customer group) was 1% up on the prior year, with weakness in US inbound offset by continued growth in the rest of the world. Long-haul price overall was 1% lower, with some recovery in yields achieved in the second half.

Corporate

Corporate revenue was flat year-on-year. Growth in the number of rentals was offset by weaker price, partly on increased rental length. A particularly strong revenue performance was achieved in Spain, but limited growth was seen in France. However, revenue in the other main markets was lower than prior year.

Replacement

Replacement revenues were 4% lower than prior year. Total volume was slightly down, with a significant increase in rental length offsetting a reduced number of rentals. Pricing was correspondingly lower. Replacement revenues in all main markets, except Germany, were down.

Premium

Overall revenue in premium was flat year-on-year. Volume growth of 4%, partly on higher rental length, was offset by lower rate. The pricing environment remains tough and yielding in the segment was further impacted in Italy by a transport strike early in the year.

Avis Licensee revenue

Overall revenue from licensee countries grew by 14%, with above average growth trends across the Middle East and the emerging markets in Asia.

Budget Corporate revenue

Budget Corporate revenues of €34 million were up 26%, mainly as a result of the opening of a station at Heathrow Airport, an improved performance in France and increased walk-up business in Switzerland.

Budget Licensee revenue

Budget Licensee revenues of €8 million were up 14%, on new licensee openings and improved network revenue.

OPERATING PROFIT OVERVIEW

€ million	2005	2004	% change
Corporate	130.8	154.6	(15)
Licensee	23.1	20.2	14
Avis	153.9	174.8	(12)
Corporate	(8.4)	(9.0)	7
Licensee	1.5	0.9	67
Budget	(6.9)	(8.1)	15
Unallocated	(47.1)	(52.5)	10
Group underlying operating profit	99.9	114.2	(13)
Underlying adjustments	(18.5)	(74.4)	75
Total Group operating profit	81.4	39.8	105

Underlying operating profit was €99.9 million (2004: €114.2 million), including a €6.9 million loss from Budget (2004: loss €8.1 million). Currency translation effects were immaterial. After adjusting for €13.2 million of net exceptional charges and €5.3 million of losses on foreign exchange derivatives, total operating profit was €81.4 million (2004: €39.8 million).

Avis operating result

Underlying Avis operating profit of €153.9 million compared to €174.8 million in the prior year. This when combined with a reduction in unallocated costs of €5.4 million, to €47.1 million, resulted in an underlying operating profit of €106.8 million, compared to €122.3 million in the prior year.

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. Operating costs increased by €32 million or 2.9% to €1,128 million.

A €5 million increase in selling costs was due to recovery strategy initiative expenditure, offset by lower travel agency fees following the successful change of terms on pre-contracted corporate rentals.

Rental related costs increased by €7 million. This was due to increased road taxes in Germany and higher fuel costs, which impacted both transportation costs and the cost of providing fuel to customers, although the latter was largely offset by increased fuel revenues.

Fleet costs were €18 million higher, an increase of 4.6%, of which some 1.6% was a consequence of higher volumes. Fleet cost per car month was 2.8% higher due to a tightening of terms and richer fleet mix, partly offset by the good utilisation performance. Fleet running costs increased as a result of higher insurance premia and costs associated with a general transportation strike in Italy in the early part of the year.

Staff costs were €11 million higher including a €1 million increase in pension expenses. Staff costs per rental were up 2.4% due to: inflationary increases; investment in additional staff to implement yield management and fleet remarketing initiatives; and the continued

parallel running on the transfer of back-office activities to the shared service centre in Budapest.

Overheads were €10 million lower, benefiting from profits arising on the disposal of certain properties in Belgium and Spain in the first half and cost reductions in Germany, Italy, France and the UK. Recovery strategy initiative expenditure during the year was higher than prior year project spend, which included certain costs associated with cancelled IT projects.

Avis Licensee operating profit of €23.1 million was 14% ahead of the prior year, with drivers of the performance being in line with revenue.

Budget operating result

The underlying operating loss of €6.9 million was as anticipated, being €1.2 million lower than the prior year. Licensee underlying operating profits of €1.5 million contrasted favourably to €0.9 million in the comparative period, in line with the improvement in revenue trends. The Corporate underlying operating loss of €8.4 million was only marginally improved, reflecting planned investment in additional sales and marketing activities and after a goodwill impairment charge of €0.4 million.

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.

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.

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 re-structure the cost base. Both elements are built upon fundamental analysis of the business.

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.

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.

FINANCIAL REVIEW

Net finance costs

€ million	2005	2004
Underlying net finance costs*	62.1	62.0
Average net debt	1,096	1,117
Average finance rate	5.5%	5.3%

* Excludes certain re-measurement items and economic hedges

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. The annualised effect of the interest cost of the loan notes was mitigated by maturing interest rate swaps and lower cash deposits held as collateral against finance leases in France during the year.

Net exceptional charges

Net exceptional charges before taxation of €13.2 million have been incurred in the year, summarised as follows:

	€ million
Restructuring	(8.4)
Project termination costs	(3.6)
Centrus receivables provision	3.2
Capital restructuring and rights issue	(4.4)
Total	(13.2)

Restructuring costs of €2.0 million were incurred in the year in connection with the transfer of back-office functions to the shared service centre in Budapest. A further €6.4 million was 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 €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 €3.2 million has been recognised reflecting a partial reversal of the receivable write-off and reorganisation provisions made in previous years.

Additionally, various professional, legal and consultancy costs have been incurred in the year 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.

Certain re-measurement items and economic hedges

The following items have been incurred in the year and are excluded from underlying profit before tax:

	Operating profit € million	Finance items € million	Profit before tax € million
Re-measurement losses on financial instruments	(4.1)	(1.2)	(5.3)
Economic hedge adjustments	(1.2)	2.1	0.9
Foreign exchange gain on borrowings	-	9.6	9.6
Total	(5.3)	10.5	5.2

Net re-measurement losses on financial instruments arise from the recognition in the income statement of movements in the fair value of certain derivatives following the implementation of IAS 39, Financial Instruments: Recognition and Measurement. The Group uses these derivatives to hedge its underlying economic positions, but only applies hedge accounting to those relationships where it is permissible and practical to do so. Where re-measurement gains and losses on financial instruments are excluded from underlying profit, movements in any economically hedged underlying items are also excluded.

Accounting standards as applied also restrict the recognition of intra-group borrowings as part of a net investment in foreign operations. Foreign exchange on certain intra-group borrowings is therefore recognised in the income statement even though the Group is economically hedged. Changes to these standards that remove these restrictions have been made, but have yet to be adopted by the European Commission. Had these changes been applied, the foreign exchange gain on borrowings could then have been recognised in the statement of recognised income and expense to offset exchange losses of €9.3m arising on translation of foreign operations.

Taxation

€ million	2005	2004
Underlying taxation	10.2	13.0
Taxation charge /(credit) on exceptional items	(1.3)	(16.0)
Taxation credit on re-measurement items and economic hedges	2.0	-
Total taxation charge / (credit)	10.9	(3.0)

The effective rate of taxation on underlying profit was 27% compared to 25% in 2004. The increase in the effective rate was primarily a consequence of the mix of profits and losses in different jurisdictions, and restrictions on the ability to recognise deferred tax assets in loss making subsidiaries.

Shareholders' funds

At the end of the year, shareholders' equity was €85.8 million compared with a deficit at the start of the year of €(58.0) million. The principal movement in the year was the €166.2 million net proceeds from the rights issue. This was partially offset by the total recognised loss of €(12.0) million (being the net of a profit attributable to equity holders and the loss recognised in the statement of recognised income and expense). The latter was mainly a consequence of the increased pension fund deficit arising on the change in actuarial assumptions.

Cash flow/net debt movement

€ million	2005	2004
Net cash generated from operating activities before taxation	177.8	390.1
Manufacturer re-purchase contracts:		
Payments	1,469.5	1,308.7
Receipts	(1,190.6)	(1,244.5)
Other working capital movements	4.0	-
Adjusted cash flow from operating activities before taxation	460.7	454.3
Net fleet expenditure*	(504.0)	(197.2)
Net non-fleet capital expenditure	(17.6)	(46.9)
Interest and dividends	(60.0)	(94.2)
Taxation	(3.1)	(30.2)
Acquisitions and other	159.0	(5.9)
Reduction in net debt	35.0	79.9
Net fleet expenditure is analysed as follows:		
Net charge to the income statement	(319.4)	(308.1)
Change in closing fleet	(55.0)	10.3
Movement in fleet working capital	(132.3)	98.2
Exchange and other acquisitions	2.7	2.4
	(504.0)	(197.2)

* Net fleet expenditure includes cash flows relating to both vehicles subject to re-purchase agreements and risk vehicles and includes new finance leases of €95.4 million (2004: €69.7 million)

Net debt has reduced at the year-end by €35.0 million. Adjusted cash flow from operating activities has marginally increased to €460.7 million, despite cash out flows in the year of €40.0 million relating to exceptional items. A further exceptional item, cash outflow of circa €10 million in respect of current year charges, is anticipated in future periods, primarily in 2006, which will be in addition to cash flows arising from the restructuring programme announced on 15 February 2006.

Total net fleet cash expenditure in 2005 is €504.0 million, €306.8 million above prior year. This is largely a consequence of the reversal of the fleet working capital from 2004, arising from both vehicle manufacturer terms and timing of purchases and sales at the year end, mitigated in part by lower year-on-year average owned fleet levels.

Lower non-fleet capital expenditure was mainly a consequence of significant expenditure in the prior year on the re-engineering back-office activity and hand-held check-in projects.

Interest and dividend payments have reduced on the previous period as a consequence of the prior year including the final dividend of 2003. Taxation cash outflows are reduced as a consequence of the offset or recovery during the year of overpayments made in previous years.

Net debt

€ million	31 December 2005	1 January 2005
Interest bearing assets	113.8	114.3
Debt due within one year	(114.1)	(143.9)
Debt due after one year	(611.6)	(579.2)
Finance leases	(278.1)	(270.6)
Derivative debt instruments	(55.6)	(101.2)
Total net debt	(945.6)	(980.6)

Interest bearing assets were reduced during the year as lower levels of collateral were required in respect of finance lease obligations in France. However, at 31 December a material cash balance was held in anticipation of settling a fleet creditor balance on the first working day of 2006. Debt and finance lease outstandings were broadly unchanged on the prior year, reflecting the benefit from the proceeds of the rights issue during the year offset by the reversal of working capital benefits as described above.

During late 2005, the Group began discussions with its senior banks to examine the opportunities to extend the maturity of its current syndicated revolving credit facility. On 20 February 2006 the Group signed a new 5-year facility of €580 million.

Fleet

The majority of vehicles continue to be subject to manufacturer re-purchase arrangements, which guarantee a disposal value at the end of the holding period, thereby reducing the Group's residual value risk exposure. The split between risk and re-purchase vehicles is set out below:

€ million (net book amount)	2005	2004
Risk vehicles on fleet	464.0	423.6
Risk vehicles held for resale	11.1	5.0
Total risk vehicles	475.1	428.6
Manufacturer re-purchase vehicles	882.8	874.3
Total fleet	1,357.9	1,302.9

In addition to the above, there were a further 9,832 vehicles held at the year end under non re-purchase operating leases (2004: 9,227). These leased-in vehicles represent 8.9% of the total fleet (2004: 8.6%).

Pensions

The Group operates both funded and unfunded defined benefit pension and statutory termination schemes, as well as defined contribution schemes.

Funded defined benefit schemes

The principal funded scheme is that in the United Kingdom. The deficit between the market value of all funded scheme assets and the actuarial value of the funded scheme liabilities was €82.1 million (2004: €50.6 million).

The fair value of funded scheme assets has increased €21.7 million (2004: €16.5 million) in the year, primarily as a result of an experience gain on scheme assets of €13.4 million (2004: €2.6 million). The present value of funded scheme obligations has increased €53.2 million (2004: €20.5 million) primarily as a result of actuarial losses of €37.5 million (2004: €3.1 million) arising on changes of actuarial assumptions in the year. The most significant change in assumption is the reduction in the average discount rate to 4.7% (2004: 5.2%) largely reflecting movements in long term corporate bond yields. Given the increased deficit, the level of the Group's contributions to be paid into the funded schemes in 2006 is expected to increase to €12.9 million (2005: €7.9 million).

Unfunded defined benefit schemes

The principal unfunded scheme is held in Germany. The actuarial value of all unfunded scheme liabilities was €47.2 million (2004: €36.0 million). The increase in deficit is primarily due to an actuarial loss of €8.6 million (2004: €3.4 million), reflecting a reduction in the average discount rate to 4.0% (2004: 4.8%).

The charge in the income statement for defined benefit schemes is €13.2 million (2004: €12.8 million).