

# Northgate plc

## Preliminary results

30 April 2005

## Acquisition – Record Rent

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Good morning everyone. Welcome to the presentation of our results for the year to 30 April 2005 – and this morning a little extra, being the announcement of our conditional purchase of the whole of the equity of Record Rent, a major player in the Spanish commercial vehicle rental market.



For those of you who have not met us before, my name is Steve Smith and I am CEO of Northgate. With me today are Phil Moorhouse – MD of the UK Rental business – and Ged Murray, Group Finance Director.

After a brief introduction Phil and Ged will review our results in the UK and Spain for the financial year ended 30 April 2005 – and I will then outline the key details of the proposed acquisition of Record Rent.

The results being reported represent the second year of our Strategy for Growth for the three years to April 2006. The period under review has continued the excellent start we reported in July 2004, when eps rose 23%, with a further increase of just under 18% to 59.7p. This increase has been driven by a number of factors, but of particular significance are the following:

1. The increase in the contribution from Fualsa, our Spanish operation, as a result of the Group acquiring the remaining 60% of the equity on 3 May 2004. This is therefore the first year for which Fualsa is being accounted for as a subsidiary, as opposed to a joint venture in the prior year.
2. The strong fleet growth we have achieved in both the UK and Spain, as a result of which we have further consolidated our position as market leader in the UK and made progress towards our target of achieving the same status in Spain.

# Agenda

- Group Results – 30 April 2005
- Acquisition of Record Rent
- The Future

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The agenda of today's presentation is as follows:

1. I will remind you briefly of the objectives and key targets of our 3-year Plan.
2. Phil will review how the UK Rental business has performed in the last financial year.
3. Ged will then go through the numbers and, in particular, will explain the impact of Fualsa becoming a subsidiary, the refinancing of our borrowings and our ongoing management of the key financial risks.
4. I will then take you through the reasons for the acquisition of Record Rent, the structure of the deal and the associated timetable – and then conclude with some brief thoughts on future developments.

## 3-year plan

- UK Rental
  - 60,000 vehicles
  - 100 locations
- Spain
  - 18,000 vehicles
  - 20 locations
  - 100% ownership
- Fleet products
  - Establish a portfolio of products

Double  
Digit  
Earnings  
Growth

As you are aware, in March 2003 the Northgate Board approved a new 3-year Strategy for Growth for the Company based on three key areas of the business – UK Rental, Spain and non-rental products. The period was chosen primarily to coincide with the point at which we had the option to acquire the final 20% of Fualsa.

Our UK Rental operation was to remain the backbone of the business and continue to grow since we held the view that the UK market was far from mature and that there remained significant potential for us to expand our business here.

The UK plan, to some extent, could have been considered as more of the same, with the key areas being to:

- mature the existing network;
- extend the network to approximately 100 locations, mainly through the addition of smaller branches;
- acquire small/medium size rental companies when the opportunity arose.

Growth in Fualsa was to be generated by:

- an extension of the network to 20 locations from the 8 depots open at 30 April 2003, with a resultant increase in market share;
- the development of a rental product similar to Norflex;
- the broadening of the customer base away from its construction bias through a marketing campaign to non-renters.

The third leg of our plan involved the development of non-rental products, the provision of which would allow us to cross sell to Northgate's existing customer base, thereby differentiating us from our competitors whilst, at the same time, producing a contribution to our bottom line.

So, in summary, the plan saw us aiming to achieve:

- 1) a vehicle fleet of 60,000 in the UK and 18,000 in Spain;
- 2) a network of 100 locations in the UK and 20 in Spain;
- 3) 100% ownership of Fualsa; and
- 4) an established portfolio of non-rental products.

Our objective in achieving these targets was, other things being equal, to translate those achievements into double-digit annual earnings per share growth over the three financial years to April 2006.

To see how we are doing in the UK two years in, I would now like to pass you over to Phil Moorhouse who will review our performance here for the year to 30 April 2005.

# Phil Moorhouse

*Managing Director  
UK Rental*



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# UK key points

## *Year to 30 April 2005*

- Hire operating profit +13.1%
- Hire operating margin 20.8% (2004 - 20.8%)
- Fleet growth year to 30 April 2005
  - 2005 - 11%
  - 2004 - 5%
- Network of locations 76
- Closing fleet: 52,600

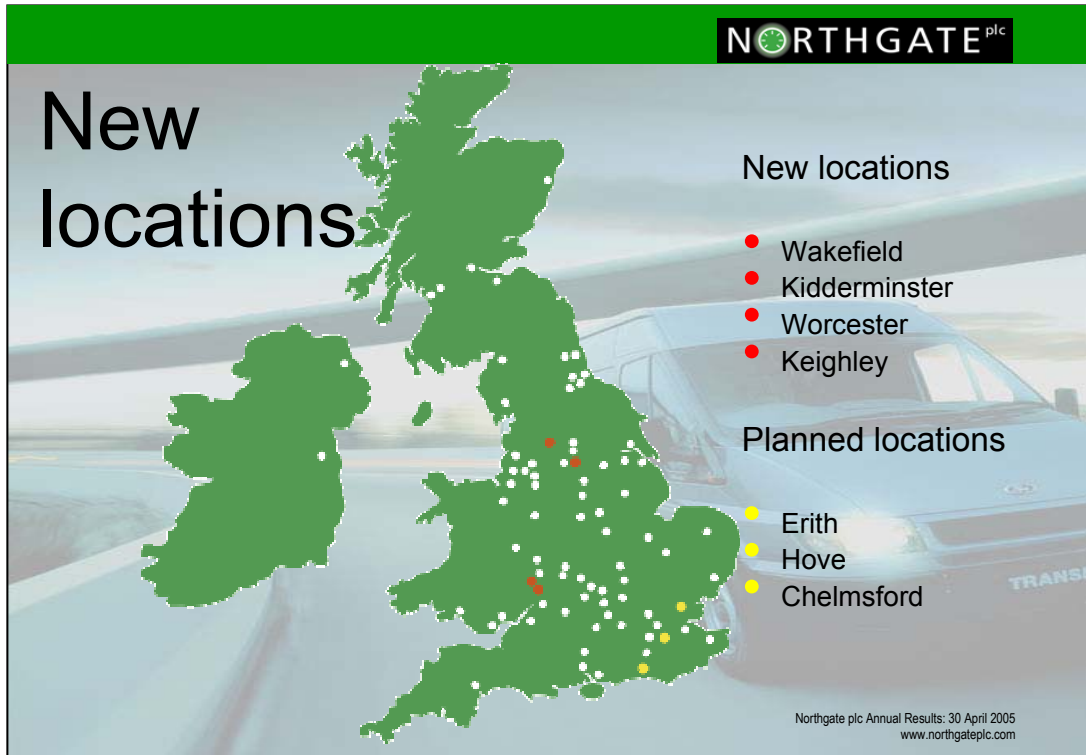
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Thank you Steve. Ged will be talking through the figures later in the presentation - what I would like to do is consider the operational issues behind the numbers.

The background to the period under review has been one of very strong demand for our product Norflex. This results from a combination of internal measures and sales focus such as the increased marketing we undertook last year, a slightly more uncertain economic environment and the opportunity to win business from contract hire companies we predicted would arise as interest rates increased.

We have highlighted in the past the seasonal pattern of demand for the product whereby the first half of the year tends to be stronger than the second. This is because in the second half customers in the construction and distribution sectors adjust their fleet requirements immediately after Christmas. This year has been no different with 9.7% of the total fleet growth coming in the first half and the remaining 1.3% in the second six months of the financial year.

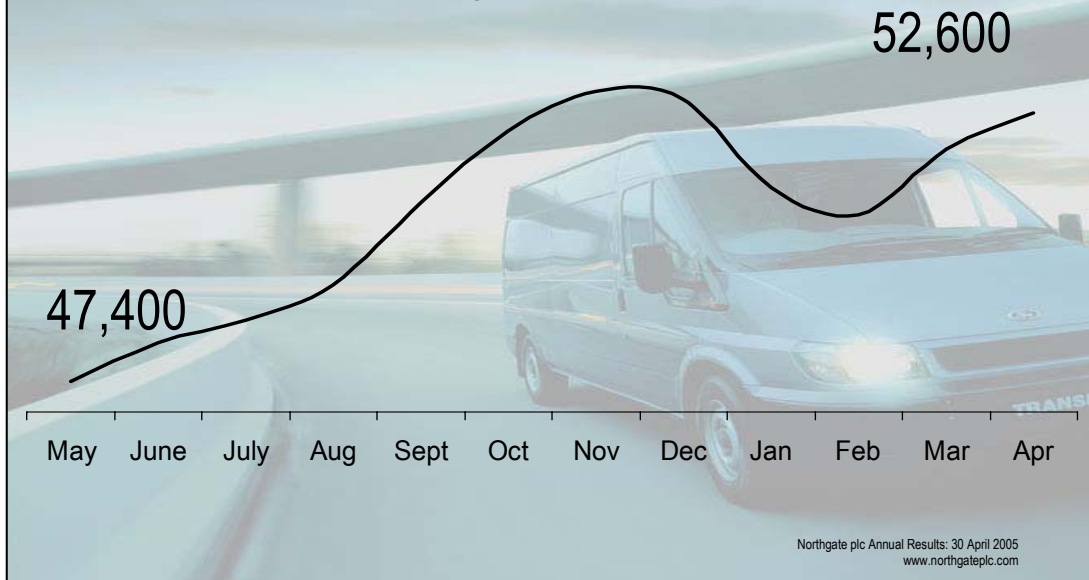
This fleet growth and hence hire revenue increase, coupled with maintaining the operating margin in the hire business at 20.8% has generated an increase in hire operating profit of 13%.



Currently we operate from 36 primary and 40 branch locations, having added 3 during this year. Since the year end a new branch has opened in Keighley and we have advanced plans for further branch openings at Erith (Kent), Hove and Chelmsford which will bring the total network to 80 – 36 primary and 44 branches. Our hire locations continue to expand to fleet sizes in excess of those anticipated in the strategic plan. As a consequence, we will be operating from fewer locations than the 100 we had planned for April 2006, leaving the balance to be opened in future periods. A number of relocations are also planned for businesses which have reached the capacity of their existing facilities and these will also add capacity to the network. We are confident that the opportunity to increase these greenfield sites, primarily the smaller branch locations, remains significant.

As well as looking for new greenfield sites, there will continue to be selected opportunities to acquire other businesses where price expectations are at realistic levels. Foley is the most recent example of a business which offered a strong brand, good premises in a location where we were not well represented and an experienced rental team.

# UK fleet by month

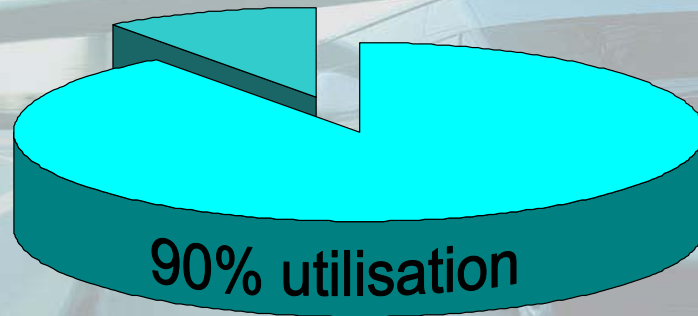


The strong demand for our product that I referred to earlier has resulted in our fleet increasing by 11% - from 47,400 at the end of April 2004 to 52,600 at 30 April 2005. The acquisition of Foley Self Drive Limited on 1 August 2004 accounted for 850 vehicles of this increase and the balance of the increase represents organic growth - over 9% in the financial year.

We are planning to achieve similar fleet growth both organic and by acquisition in the new financial year as we did in the year ended 30 April 2005 but are unlikely to regain the shortfall in growth experienced in the Summer of 2003. Consequently we remain of the opinion, as expressed in the Operations Review of the 2004 Report and Accounts, that our UK fleet at April 2006 will be short of our original target of 60,000 vehicles.



# Utilisation



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By a combination of managing vehicle flows and increased sales activity, we maintained a 90% utilisation average across the Group during the year. There remains a range of utilisation (albeit a small one) across the business, generally following the maturity of the locations. Some of the more mature sites can operate at 91-92%, which gives an indication of the opportunity to improve utilisations a little further when the network matures.

# Hire rates & VSL

- Hire rates
  - Competition
  - Interest rates
  - Fleet growth
- Vehicle Solutions (VSL)
  - 'One Call Rental'
  - Vehicle Monitoring

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Hire rates softened slightly in the first half of the year as a result of continued competitor activity in the rental sector and our focus on fleet growth. As we indicated in the Operational Review of our 2004 Report and Accounts, rising interest rates should give us the opportunity to increase our hire rates or alternatively win business from contract hire competitors. Our decision was to focus on the latter as evidenced by fleet growth of 9%, excluding the acquisition of Foley, in the financial year that we are reporting on. However, as contract hire companies tend to operate at rates at the lower end of our range, the impact of this new business has been to slightly reduce our average hire rate. Rates have been more stable in the second half but we continue to focus on fleet growth. We remain of the view that there is very limited opportunity for improvement in hire rates during the remaining period of the three-year Strategic Plan.

Looking at our Vehicle Solutions (VSL) operation in Darlington – it seeks to augment hire revenues through the provision of a 'one-stop shop' for customers and is also developing our non-rental product offerings. The 'One Call' solution is attracting a growing number of customers requiring the benefit of one call, one bill and multi locational delivery. Royal Mail is an excellent example of a customer who benefits from this solution. On the non-rental side we continue to develop products that will differentiate us from the competition. We do not present this as the main thrust of our business but it is important in attracting and retaining some customers to vehicle rental. The best example of this is probably Vehicle Insight, our tracking product, which has contracts for over 1,900 units compared to 1,400 at the end of April 2004. We have introduced new units with improved technology which is making it a more attractive proposition for customers.

# Margins

- Operational gearing
- Costs
- Efficiency
- IT project

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As we said in previous reviews, we have made a significant investment in our network in recent years. The ability to put additional volume through that network will help us to move margins forward in the coming years.

We have focused on minimising costs, particularly during the course of the last year. We will continue to review those vigorously whilst at the same time concentrating on improving efficiencies. We have previously communicated the fact that we have introduced a project specifically aimed at ensuring we adopt those processes most appropriate to our business and customer needs to enable us to continue our growth in the UK in the most efficient manner. This is now being augmented with a proposal to upgrade our UK IT systems. This investment may well put pressure on operating margins in the short term but should produce further efficiency gains in the future.

# Residuals

## Profit per unit

	April 2005	Oct 2004	April 2004
Operating profits (£m)	3.6	2.2	3.5
Units	17,700	7,800	18,700
<b>Profit/unit (£)</b>	<b>205</b>	<b>276</b>	<b>189</b>

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We have achieved a significantly improved contribution per vehicle sold when compared to the prior period - £205 v £189 – on sales very slightly down from 18,700 vehicles to 17,700 vehicles. As you will, recall the number of vehicles sold in each period is primarily driven by our planned disposals based on a life cycle of approximately 30 months for vans and around 20 months for cars. Consequently the number of disposals does vary from period to period dependent on buying patterns some two years earlier.

# Residuals

- Market remained steady to 30 April 2005
- Proportion of sales through the retail and semi retail channel
  - 2005 - 10%
  - 2004 - 6%
- Since May residual values have declined
- LWB product showing biggest fall

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Since the market for used vehicles remained relatively stable during the financial year, the improvement in contribution per vehicle has been largely generated by an increase in the number of vehicles sold into the semi retail and retail markets which has risen to 10% of the total (2004 – 6%). This has been coupled with a small improvement in trade sales from certain product entering the used marketplace for the first time.

The policy to increase our disposal channels has been put in place over the last few years through the development of our Norcom and, more recently, Van Monster brands.

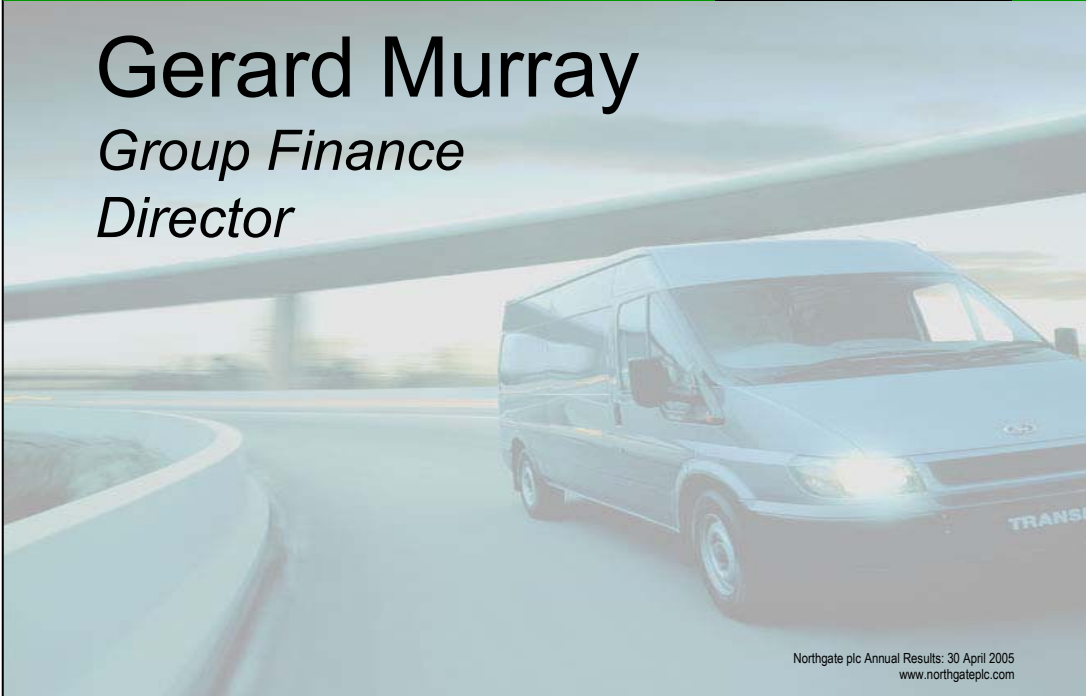
We currently operate from 5 disposal sites in the UK with Darlington, Kent and Banbury focusing on trade buyers and Carnaby and Walsall concentrating on remarketed and retail product. We anticipate increasing our vehicle disposals by over 25% in the current financial year and this represents one of the key business challenges that we face this year.

As referred to in the Operations Review of the Preliminary Announcement, the vehicle residual market has changed since the year end. There has been a softening of the used vehicle prices generally and particularly in large vans, which as you are aware represent a significant part of our fleet. As a result whilst we continue to break even, within our definition of  $\pm$ £100 profit per unit, without an improvement in the market we are unlikely to achieve the profit per unit of £205 we are reporting for the year to April 2005.

At this point I would like to hand you over to Ged...

# Gerard Murray

*Group Finance  
Director*



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# Financial highlights

- Profit before tax and goodwill amortisation +23.8%
- Earnings per share
  - +17.8%
  - 3.04m new shares – 5% Placing Jan 2004
- Gearing of 203% (2004 – 137%)
- Interest cover of 3.6 times (2004 - 3.9)
- Final dividend 12p (2004 – 10.6p)
- Total dividend 20p (2004 – 17.6p)
  - +13.6%
  - 3.0 times cover (2004 - 2.8)
- UITF 38 & 17

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Thank you Phil – good morning everybody. As Phil has already illustrated in his presentation, the year has been characterised by strong fleet growth, continued focus on cost control and successful fleet management in the UK, coupled with ongoing fleet growth in Spain of over 25% per annum. These factors have generated growth in profit before tax and goodwill of just under 24%; and in EPS of just under 18%.

The EPS has been impacted by the full year effect of the 3.04m new shares which resulted from the 5% Cash Placing on 14 January 2004.

Following the acquisition of the remaining 60% of Fualsa on 3 May 2004, the Group's borrowings now reflect the consideration for this acquisition (paid and deferred) and the underlying debt of both Fualsa and the UK. As a consequence of the acquisition, and the strong fleet growth in the UK and Spain, the Group's gearing has increased to 203% (2004 – 137%). As explained at the interim announcement in January this year, we have decided that the gearing ratio going forward will be calculated as net debt (including cash balances) as a percentage of shareholders' funds less goodwill. We are now deducting goodwill from shareholders' funds which, following the acquisition of Fualsa, has become significant enough to materially change the gearing calculation. Consequently the prior year gearing figure has been amended from 132% to 137%. Whilst gearing has increased, the Group's interest cover has remained stable at 3.6 times (2004 – 3.9 times). We have experienced rate increases in the UK LIBOR which have served to slightly dilute this cover – but I will cover interest rate management later in this presentation.

A final dividend of 12p (2004 – 10.6p) per share has been proposed. Combined with the interim dividend of 8p that has already been paid this gives rise to a total dividend of 20p – an increase of 13.6% on last year's 17.6p total dividend. The dividend is covered 3 times (2004 – 2.8 times).

Finally I should mention the impact of applying UITF 38 and UITF 17 (revised).

UITF 38 relates to purchases of own shares via trusts to satisfy obligations under share option schemes. Previously these were classified as fixed asset investments –UITF 38 reclassifies them within shareholders' equity categorised as an 'Own share reserve'. There is no profit or loss impact in either year as a consequence of this reclassification.

UITF 17 (revised) deals with the cost applied to the profit and loss account relating to certain share options. In previous years the historic cost of open market purchased shares used to meet obligations under our share option schemes has been charged to the profit and loss account. UITF 17 (revised) requires the market value on the day of the grant to be used. This has resulted in an additional charge of £141,000 to prior year profits and £191,000 to current year profits. Hence, where impacted, prior years profits and margins have been restated to reflect this treatment.

# Financial summary

30 April

	2005	2004	
PBT	54.5	44.6	+22%
- Investment income	-	(0.2)	
- Goodwill	1.1	0.3	
<b>Underlying PBT</b>	<b>55.6</b>	<b>44.7</b>	<b>+24%</b>

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You may recall that at previous presentations we have sought to strip out exceptional or non-recurring elements to determine the underlying profitability of the business.

For this analysis I include goodwill amortisation as a variable that should be added back to profit before tax to determine underlying profitability.

In the prior year we received £0.2m of investment income - which was the final stage in the realisation of historic overseas investments held by one of our subsidiaries. In this year due to the new acquisitions (mainly Fualsa) goodwill amortisation has risen to £1.1m. Thus the underlying profit before tax is £1m higher than the declared figure. This underlying profit before tax of £55.6m for the year ended April 2005 compares to £44.7m in 2004 - a 24% increase.



# Operating Profit - 2005

	UK	Spain	Total
	£m	£m	£m
Hire	59.0	13.2	72.2
Used vehicle sales	3.6	1.0	4.6
<b>Operating profit</b>	<b>62.6</b>	<b>14.2</b>	<b>76.8</b>
<b>Interest</b>	<b>(17.6)</b>	<b>(3.6)</b>	<b>(21.2)</b>
<b>Profit before tax and goodwill</b>	<b>45.0</b>	<b>10.6</b>	<b>55.6</b>

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To give an understanding of the contribution of Fualsa in its first full year as a wholly owned subsidiary, the underlying profit before tax of the Group has been split by operating profit and interest charge. The UK contributes 82% of operating profit and 81% of profit before tax and Fualsa contributes 18% and 19% respectively.

The operating margins of both the UK and Spain continue to be an area of focus and are dealt with in the following slides.

# UK turnover

	2005	2004	%
	£m	£m	Inc
Hire revenues	283	251	13
Used vehicle sales	102	105	(3)
<b>Total</b>	<b>385</b>	<b>356</b>	<b>8</b>

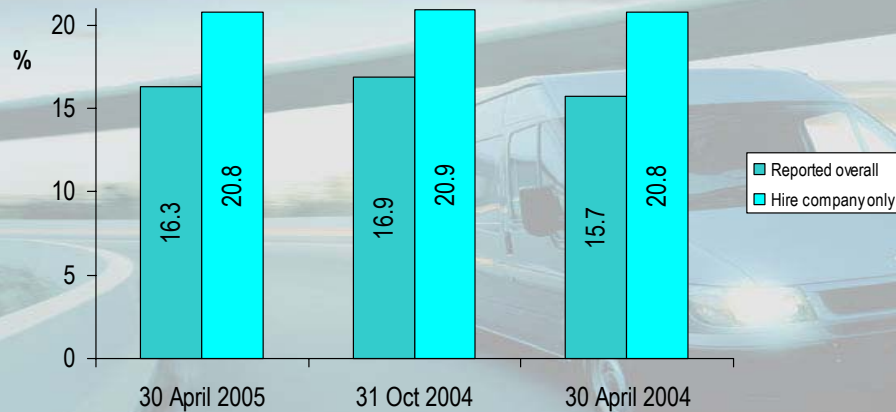
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The table shows the UK turnover split by our two main income streams, that of hire revenues and used vehicles sales. UK turnover has increased by 8% in total however hire revenues have increased by 13%.

As mentioned by Phil earlier we have had strong demand for our hire product, Norflex, such that hire revenues have increased in line with UK fleet growth. As you are aware hire income generates a significantly higher operating margin than vehicle sales so this shift in split improves the overall margin for the UK.

Used vehicle sales turnover has fallen by 3% as a result of a reduction of 1,000 units sold during the year – the total being 17,700 (2004 – 18,700 vehicles). The revenue per vehicle however has increased, partly due to mix and partly due to the increase in sales into the retail and semi-retail channels – and this has partly offset the volume reduction.

# UK operating margins \*



Margins are shown pre goodwill charges \*

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You will recall that we have moved the focus on reporting operating margins to the constituent elements being hire and vehicle sales rather than the overall margin which can be impacted by mix.

Looking at the operating margin (excluding goodwill amortisation) for the UK hire business in isolation, this has remained level with the prior year (which has been restated for UITF 17 (revised)). The prior year did have a lower incidence of bad debts at 0.4% of total UK turnover compared to this year's 0.6%. We will review the level of bad debt charges in a few moments.

# Fualsa key points

## *Year to 30 April 2005*

- Profit before tax and goodwill £10.6m (2004\* - £3.3m)
- Operating margin 19.4% (2004 - 19.5%)
- Exceptional disposal profit of £0.7m in prior period.
- Fleet growth 27% (2004 - 25%)
- Utilisation 89% (2004 - 88%)

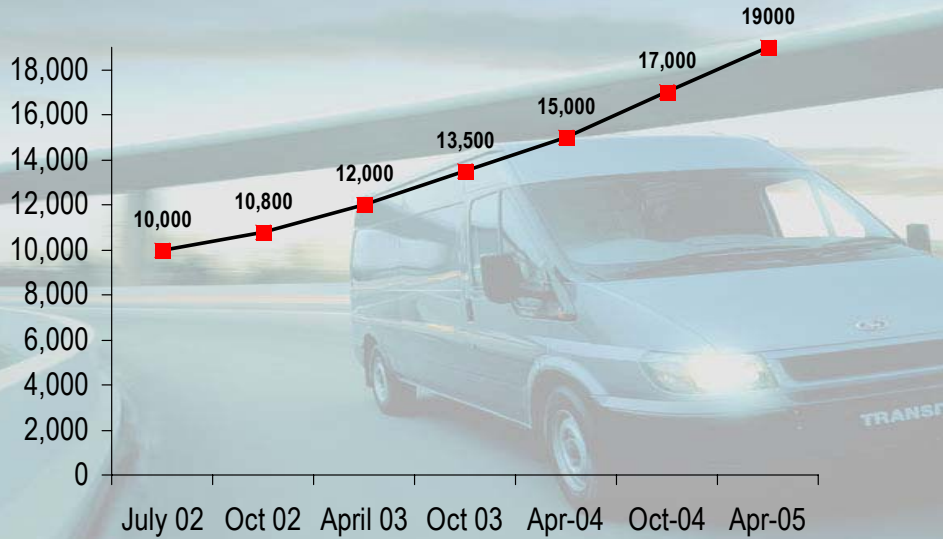
\* Joint venture share at 40%

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Moving on to review Fualsa's performance as a wholly owned subsidiary. We are delighted to report £10.6m profit before tax and goodwill, up from £3.3m in the prior year. The prior year, of course, represented only 40% of the total result of Fualsa as at this point it was still accounted for as a joint venture. It is also important to remember that the prior year included an element of non-recurring profits on the disposal of vehicles acquired before January 2001 estimated to be £1.75m in the year to 30 April 2004. The Group's share of this non-recurring profit in the prior period was £0.7m.

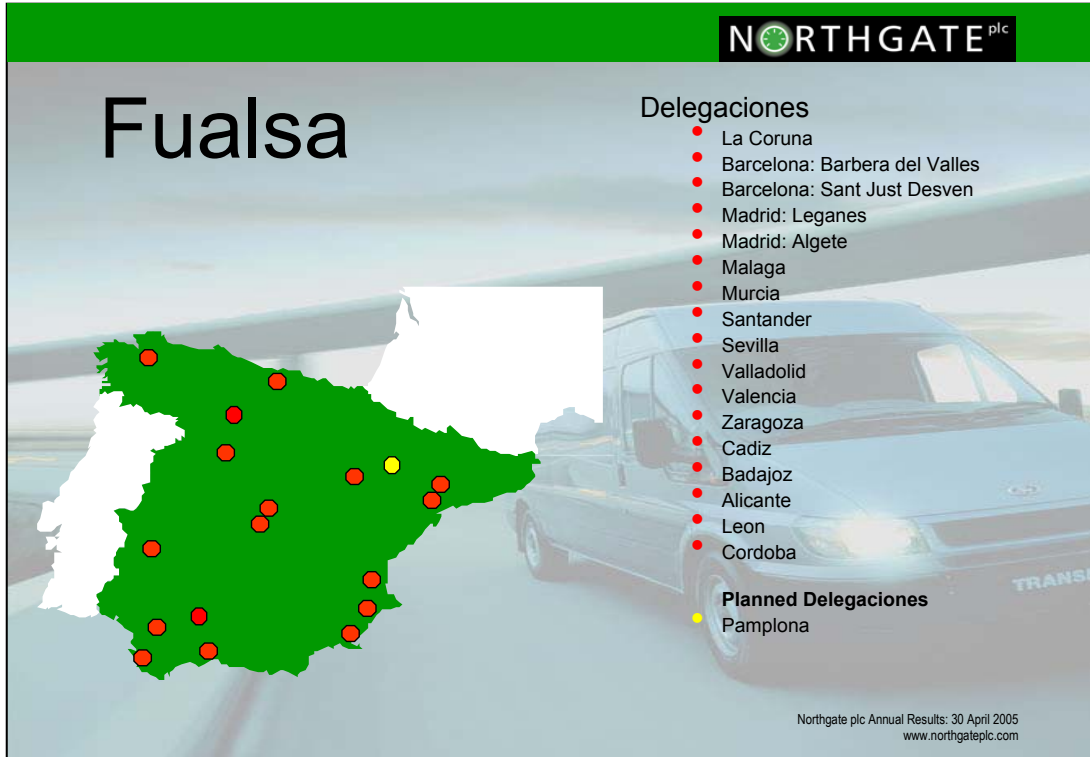
Utilisation has continued to increase from, on average just over 88% to just over 89%. There remains a challenge to improve and maintain these utilisations at 90% when considering how immature the current network is - some 9 locations having been open for less than 2 years.

# Fualsa fleet



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We have mentioned that Fualsa has experienced fleet growth of 27% in the last financial year. It is worth taking a moment to review Fualsa's fleet growth since the Group's initial investment in July 2002. This graph shows the fleet increasing from 10,000 vehicles in July 2002 to 19,000 vehicles in April 2005 – a 90% increase in a little under 3 years. This growth demonstrates the opportunity that we believe exists in Spain.



As part of our three year Strategy for Growth we plan to have 20 locations in Spain by April 2006. At the financial year-end we had 15 locations following the opening of Alicante in April 2005. Since the year-end Leon and Cordoba have opened bringing the total to 17 locations. Pamplona is due to open shortly – so we are well on track to achieving our target of 20 locations by April 2006.

# Fualsa turnover

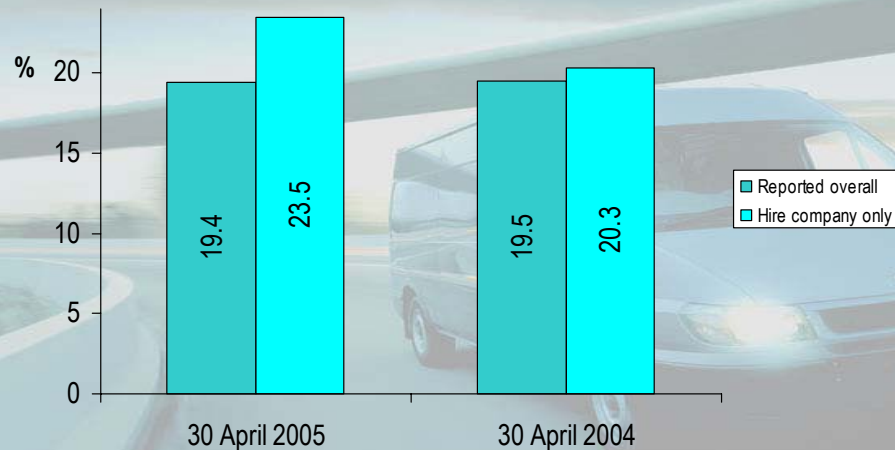
	2005	2004*	%
	£m	£m	Inc
Hire revenues	56	44	28
Used vehicle sales	17	15	13
<b>Total</b>	<b>73</b>	<b>59</b>	<b>24</b>

\* Amounts shown for Fualsa as a whole. The Group's interest in these amounted to 40%.

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As with the UK we have analysed Fualsa's turnover between hire and used vehicle sales. The prior year comparators are for Fualsa as a whole and not just the 40% interest that the Group had in the joint venture. Hire turnover has increased by over 28% - in line with fleet growth. Used vehicle sales turnover is up by 12% reflecting the increase in volumes sold to 3,700 units for the year.

# Fualsa operating margins\*



Margins are shown pre goodwill charges \*

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The overall operating margin of Fualsa is similar at 19.4% (2004 – 19.5%) but we need to bear in mind that the prior year included the non-recurring vehicle sales profit referred to above. If we isolate the hire margin only we can see that this has increased from 20.3% to 23.5%. The current year has benefited from a lower depreciation charge compared to 2004 since those vehicles that have replaced the vehicles acquired pre January 2001 have a lower depreciation rate. The results also reflect some operational gearing benefits. As the business continues to expand we will continue to make significant investments in management, personnel, systems and the network which may slightly reduce the operating margin in the short term.



# Group financial issues

- Residuals
- Interest costs
- Bad debts
- Cash flow
- International Financial Reporting

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We continue to focus on the key drivers at the back end of our business model – being residuals, interest costs and bad debt. We will now review each area of them in turn looking at both the UK and Fualsa. I will also give you some additional information on key cash flow elements and finally comment on the status of our IFRS project.

# Financial issues

## *Residuals*

Profit per unit (£)

UK

Spain

**2005 2004**

205 189

278 726

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Phil has already mentioned the factors that influenced the improvement in disposal profit per unit for the UK operations but has also highlighted the issues that we are managing in the current year of increased volumes in a weaker market. This will inevitably lead to a lower operating profit per unit on vehicle disposals in the current financial year compared to the last one. Fualsa has been affected by the non-recurring profits in 2004 as noted above and the profit per unit of £278 is closer to that achieved in the UK. It should be remembered that our business model is far more flexible than contract hire. If residuals are weak we have the option to age the fleet by deferring the disposal date whilst maintaining a revenue against the vehicle.

# Financial issues

## *Interest costs*

- 80% of net debt hedged at various levels
- LIBOR / EURIBOR rate increases on £410m net debt (Sterling £235m, Euros £175m)

Increase in interest rate	Additional interest costs		
	Sterling debt	Euro Debt	Total
1%	£1.2m	£0.9m	£2.1m
2%	£2.1m	£1.6m	£3.7m
3%	£2.5m	£2.3m	£4.8m

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We have seen the interest curve turn upwards during the first half of the financial year just ended. We have already reported to you the action that we took in May/June of 2003 to cover £100m of our debt with £45m of 5 year swaps and £55m of 5 year zero premium collars.

The consolidation of Fualsa has increased the Group's net debt (particularly its Euro debt) and therefore the proportion of this net debt covered by existing derivatives has reduced. Since the year-end the Group has entered into a series of Euro denominated swaps with a minimum term of 3 years, totalling €150m at an average rate of 2.27%. The benefits of all of the Group's derivatives applied to interest rate rises of between 1% to 3% (based on the Group's closing net debt of £410m) is illustrated in this table. In an unmanaged environment a 1% rate increase should increase interest rate costs in total by £4.1m. The benefit of the instruments means that a 1% rate increase in both LIBOR and EURIBOR would only impact interest costs by £2.1m. The split between Euro and Sterling denominated debt is shown separately.

Increase in Interest rate	Additional interest costs		
	Sterling Debt	Euro Debt	Total
1%	£1.2m	£0.9m	£2.1m
2%	£2.1m	£1.6m	£3.7m
3%	£2.5m	£2.3m	£4.8m

# Financial issues

## *Bad debt*

- Historically
  - 0.3% - 0.7% of group turnover
- Current year

% of Turnover	2005	2004
UK	0.6	0.4
Spain	0.3	0.6

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Our bad debt experience in the UK has historically been between 0.3% and 0.7% of turnover. I am pleased to say that we continue to be within this range at 0.6%. Again we have nothing to comment on that is material by sector, region or company. You will see that at April 2004 bad debt represented 0.4% of total turnover and this is at the better end of the scale. The return of this ratio to 0.6% of total turnover partly explains why the hire operating margin has not advanced from 20.8% in the year just ended.

Applying the same ratio to Fualsa, results in a lower bad debt percentage of total turnover percentage of than compared to the UK. We are pleased with this performance but we are continuing to assimilate results in order to determine whether the bad debt expense for Spain will be at this low level or will be similar to that of the UK.

# Financial issues

## Cash Flow

<i>Cashflow items</i>	UK		Fualsa		Total	
	No.	£'000	No.	£'000	No.	£'000
Vehicle purchases	22,600	228,350	7,700	46,167	30,300	274,517
Vehicles sales	17,700	98,690	3,700	14,443	21,400	113,133
Fleet depreciation		105,954		19,005		124,959
Other depreciation		3,039		255		3,294
<i>Fixed asset movements</i>						
Fixed asset additions		234,603		61,248		295,851

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I know that some of you are keen to understand the dynamics of the Group's cash flows. This has become a little more difficult since Fualsa has been consolidated into the Group. Consequently I hope that the attached table assists whereby the number and value of vehicle purchases and disposals are disclosed, as is the depreciation charge in the UK and Spain.

The only issue that I would mention is with regards to the cash outflow associated with Fualsa vehicle purchases. In the year to 30 April 2005 certain funding processes adopted by Fualsa were deemed not to give rise to a cash outflow because the finance company purchased the vehicle on behalf of Fualsa. As a consequence of the Group refinancing carried out in January 2005 this will no longer be the case. The cash outflow for Fualsa's vehicle purchases will in future be closer to the value of its fixed asset additions.

# Financial issues

## *Accounting Standards (IFRS)*

- Segmental analysis and reporting (IAS 14)
- Share based payments (IFRS 2)
- Accounting for vehicles (IAS 16)
- Hedging (IAS 39)
- Business combinations (IFRS 3)

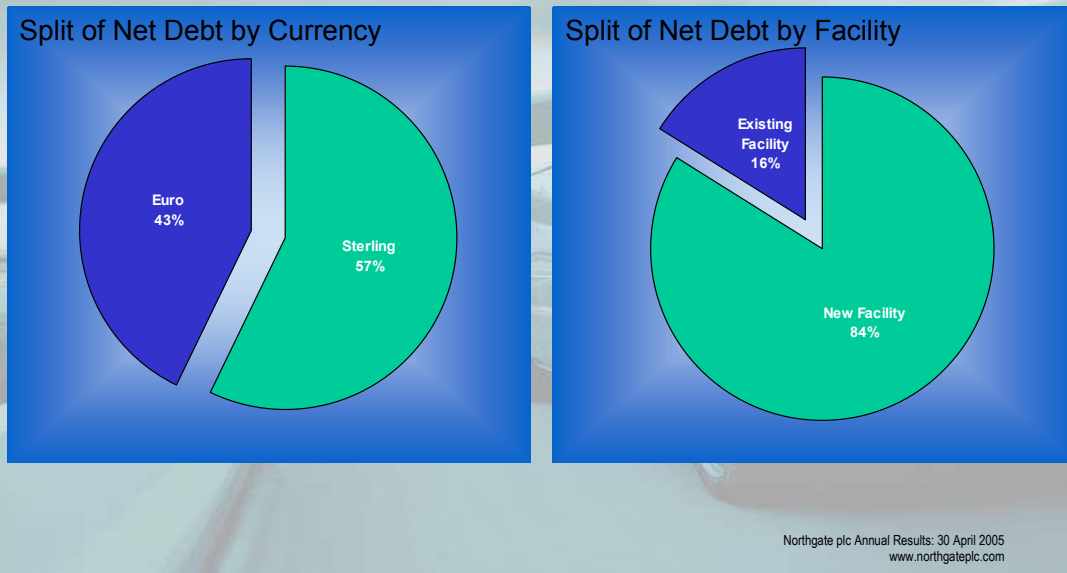
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IFRS will affect Northgate with an opening balance sheet being required from 1 May 2005. With this in mind we have been working in determining the impact of the new standards on the Group's primary statements.

The main areas that we have identified that are likely to have an impact on the Group are as follows:

- Turnover – it is probable that used vehicle sales will be excluded from revenue.
- Share based payments (IFRS 2) – recognising costs of fair value of options.
- Accounting for vehicles (IAS 16) – further assessment of certain aspects of the standard being reviewed.
- Hedging (IAS 39) – the Group's current interest and foreign exchange policies are expected to be acceptable hedging mechanisms although any ineffective hedge will cause volatility in earnings.
- Business combinations (IFRS 3) – treatment of goodwill (no amortisation but impairment testing)

## Analysis of Net Debt



The net debt of the Group as at 30 April 2005 totalled £410m (April 2004 – £250m) with the majority of the increase compared to April 2004 arising from the consolidation of Fualsa's debt which was £114m at 30 April 2005. The Group has additional debt denominated in Euro to that in the Fualsa balance sheet. This extra Euro debt is used to hedge the Company's investment in Fualsa such that 43% of its net debt is denominated in Euros and the balance in sterling.

On 10 January 2005 the Company entered into a series of unsecured, revolving, bilateral facilities with major UK and European banks to provide an aggregate facility to the Group of £565m over one, three and five year terms. These new facilities will replace all those facilities that existed at that date. Some of the Fualsa debt will however take a further year to swap to these new facilities due to penalty clauses within the existing agreements.

# Summary

	2005	2004	
Profit before tax and goodwill	<b>£55.6m</b>	£44.9m*	<b>+23.8%</b>
EPS	<b>59.7p</b>	50.7p*	<b>+17.8%</b>
Dividend	<b>20p</b>	17.6p	<b>+13.6%</b>

\* Restated for UITF 17 (revised)

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So that concludes the finance issues. I will put this slide up to remind you of the headlines and hand you back to Steve .....

Thank you Ged

As you can see from the summary slide that Ged closed with, we have achieved another strong set of results and continue to make excellent progress against the objectives of our 3-year plan. In particular EPS growth of almost 18% when combined with just under 23% for the first year of the plan is very pleasing.



# Acquisition of Record Rent

- Background to Record Rent
- Reasons for acquisition
- Structure of the deal
- Funding

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You have now had your sandwiches and waited patiently so it is time for the jelly and ice cream. In the next few slides I am going to set out the background to Record Rent – a commercial vehicle rental company in Spain, the reasons why we would like to acquire it, the structure of the proposed acquisition and the associated funding.

## Background – Record Rent

- Established 1966 – Castellon, Spain
- Managing Director & Founder – Jorge Martinez
- Shareholders
  - Jorge Martinez
  - Mercapital (1999)
  - GBS

	%
Jorge Martinez	43
Mercapital (1999)	55
GBS	2
	100

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Firstly, Record Rent's background goes as far back as 1966 when the company was established in Castellon. It was not until the 1990's however when under the leadership of the current Chairman, Jorge Martinez, the business established itself in the commercial vehicle rental market.

The expansion of the business was assisted when Mercapital, a venture capital company, acquired 55% of the share capital in Record Rent in 1999.

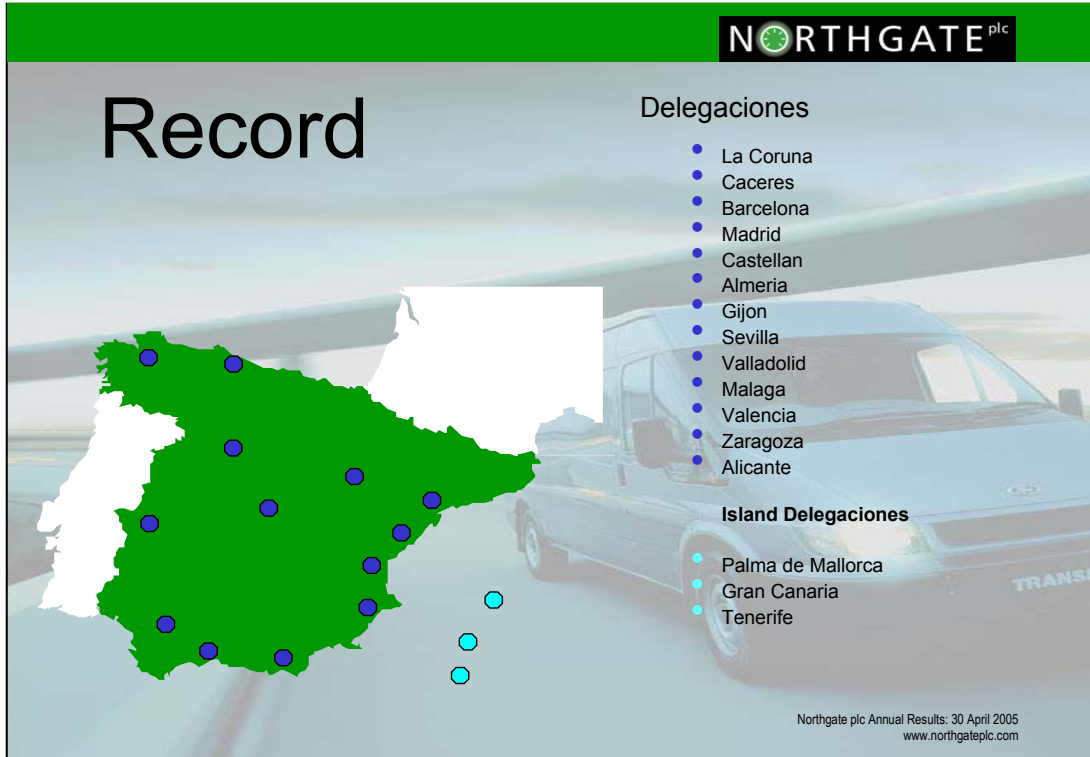
It was shortly after that we first became aware of the business when we investigated the Spanish market in 2001. Indeed we actually had some very preliminary discussions with them prior to our acquisition of Fualsa.

## Record Rent - Market

- A leading player – medium term industrial vehicle rental
- Temporary but recurrent needs, 1- 24 months
- Similar market to Fualsa
- Fleet size – >18,000 vehicles
- Geographic representation

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Record Rent's market is similar to that of Fualsa as it is one of the leading players in the medium and long-term industrial vehicle rental market. Its current fleet size is just over 18,000 vehicles with a widespread geographic representation.



This map shows the extent of the Record Rent operation.

Record Rent operates a similar business model to Fualsa in that it has a centralised administration and accounting function in Castellon (near Valencia) and a network of delegations and vehicle sales locations throughout mainland Spain but in addition Record Rent has some delegations in the Canary Islands and Majorca.

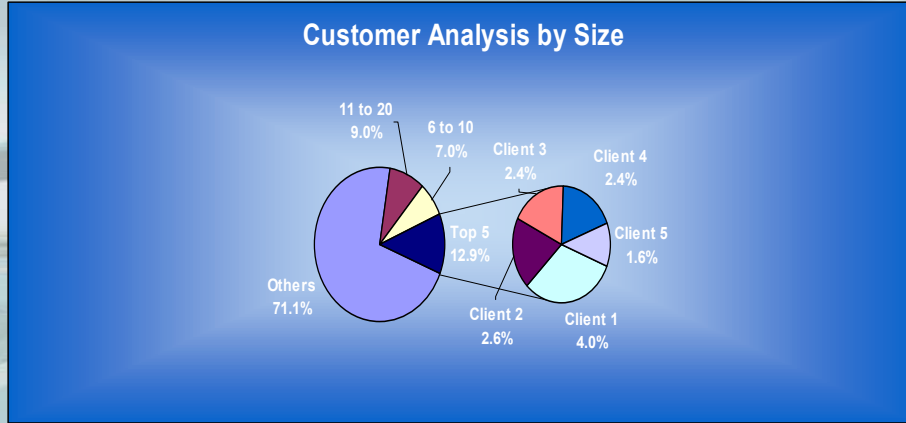
## Record Rent – Excluded Assets

- Record GO – established 2002
- GO activity
  - Short term car hire
  - Mainly vocational
  - Located principally at airports
- GO business has been demerged from its parent Record Rent
- Impact is to reduce net assets at 31 December 2004 by €4m

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In 2002 the management of Record Rent formed another business operation - Record Go - to rent passenger cars to the tourist market using airports as the prime distribution point. This business has been excluded from this acquisition at our request and is in the process of being demerged from Record Rent. The financial impact of this demerger is to cause a reduction in Record Rent's net assets at 31 December 2004 of €4m leaving net assets at this date of just over €70m.

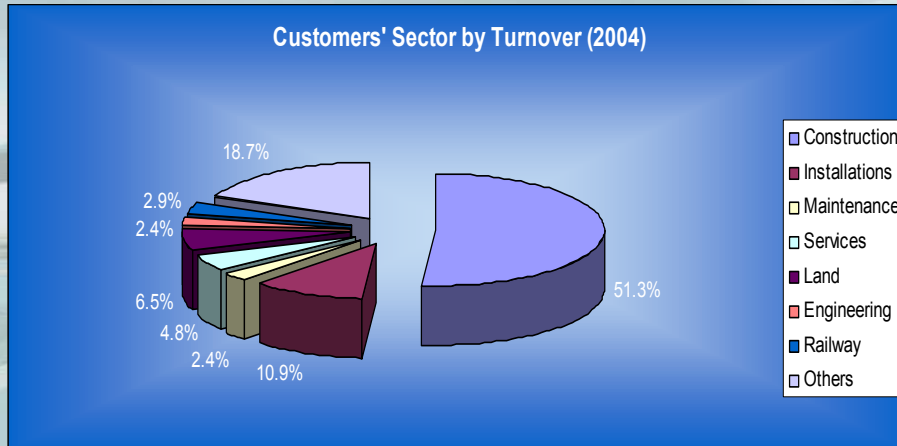
# Record Rent – Client Profile



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Record Rent has some 2,300 corporate customers. In terms of key customers the largest customer represents 4% of turnover, with the top 10 customers accounting for just under 20%. The latter percentage has been static for the last 3 years and is almost identical to the percentage of turnover the top 10 customers in Fualsa account for.

# Record Rent – Client Portfolio



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As regards industry sectors, Record Rent’s client portfolio is not surprisingly similar to that of Fualsa with 60% of the customer base being involved in construction and installations. Other significant sectors are maintenance, engineering and land services.

## Record Rent – Reasons for Acquisition

- Economies of scale
  - c40,000 fleet
  - Purchasing
  - Network
  - Finance
  - Administration



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We have experienced substantial growth in our Fualsa business since our original investment in July 2002. This reflects the opportunity that we believe exists in Spain as the medium and long term commercial vehicle rental market is nowhere near as mature as it is in the UK.

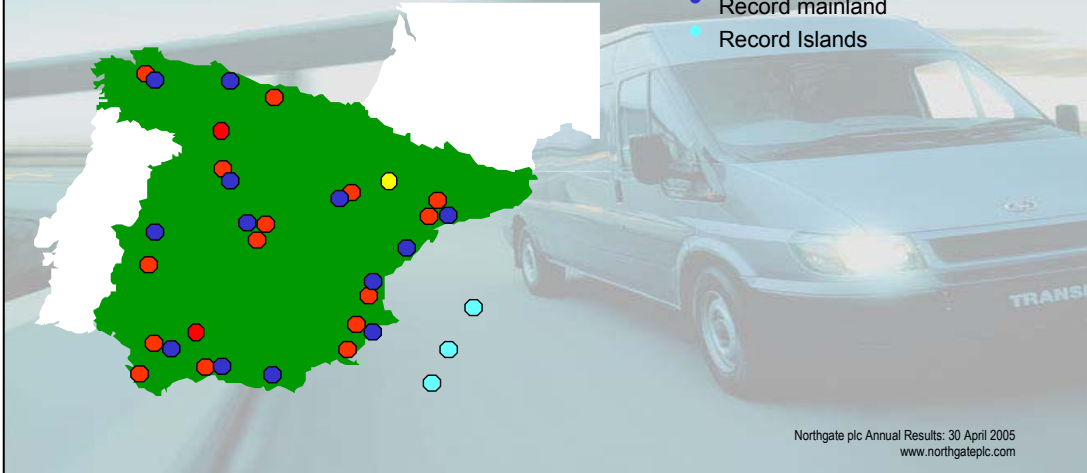
The acquisition of Record Rent will provide us with economies of scale in vehicle purchasing and disposals; enhance the network of delegations into areas as yet unrepresented by Fualsa and provide opportunities to obtain efficiencies from finance and administration functions.



# Combined Delegaciones

## Delegaciones

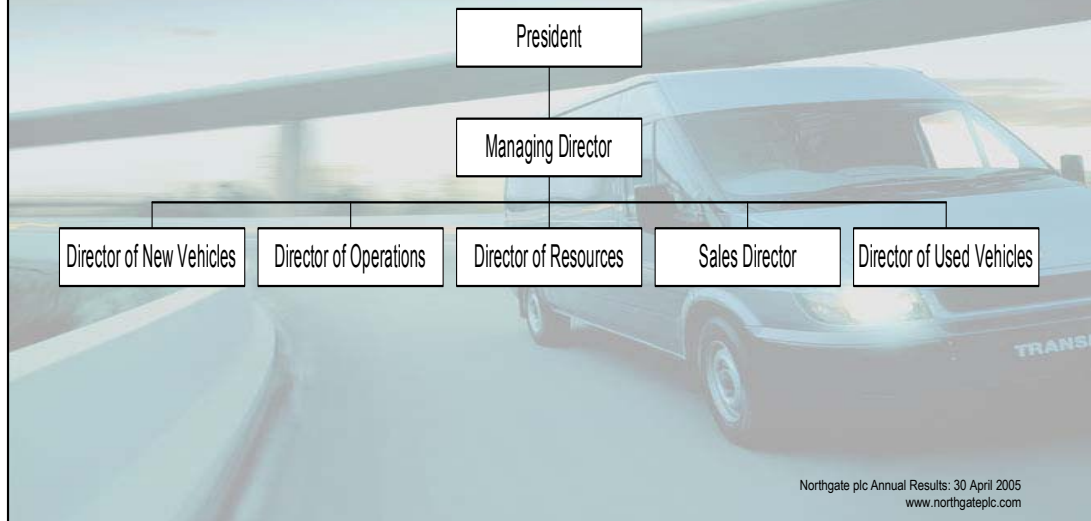
- Current Fualsa
- Planned Fualsa
- Record mainland
- Record Islands



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As there is also some overlap of locations there are some opportunities, probably in smaller cities, to merge locations, however overall it is our current intention to operate Record Rent and Fualsa as separate brands.

## Record Rent – Management



This slide illustrates the management structure of Record Rent. The management structure is relatively mature and as such the majority of functions have devolved from the Chairman to professional managers. We are very encouraged by the experience of the executive team and we look forward to gaining their experience and contribution to our enlarged Spanish operation.

## Record Rent – Financial Information

### Profit & Loss

	2004	2003
	€'000	€'000
Turnover	81,648	75,756
EBITDA	*52,408	47,894
EBIT	*18,914	16,031
PBT	*15,265	11,827

\* Includes profit of €2.3m (at PBT level) on property disposal

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We have provided some brief financials on Record Rent.

Audited financial information relating to Record Rent for the year ended 31 December 2003 and 2004 is summarised on the following two slides. Firstly the profit and loss account shows the latest accounts for 2004 with turnover of €81.6m. This turnover relates to hire revenues only and does not include any revenues generated from the disposal of vehicles.

The operating margin represented by Earnings Before Interest and Tax (EBIT) of €18.9m includes one significant exceptional item being the profit on the disposal of a property of €2.3m before tax.

## Record Rent – Financial Information

### Balance Sheet

31 December	2004	2003
	€'000	€'000
Fleet	159,037	127,778
Other fixed assets*	22,287	11,455
	<u>181,324</u>	<u>139,233</u>
Cash at bank	8,010	4,099
Borrowings	(124,817)	(95,458)
Net debt	<u>(116,807)</u>	<u>(91,359)</u>
Debtors and prepayments	39,160	40,170
Creditors	(29,064)	(24,429)
<b>Net Assets</b>	<u>74,613</u>	<u>63,615</u>
<b>Gearing</b>	157%	144%

\*2004 includes €4m relating to an investment in Record Go

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As at the 31 December 2004 Record Rent's net assets were €74.6m. As highlighted above the demerger of the Record Go business is taking place. This will result in a reduction of net assets of c€4m. The closing gross debt at 31 December 2004 was €124.8m – financed through a series of loan and lease arrangements with various banks. The net debt at 31 December 2004 was just under €117m.

## Structure of Deal

- Subject to competition clearance
- 49% acquired in August 2005
  - €54.8m consideration
  - Funded from existing facilities
- 51% acquired in 2006
  - €61.2m fixed consideration
  - Variable element is 2005 PAT
  - 2004 PAT was €11m – including property profit

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Turning now to the structure of the proposed acquisition.

Firstly it is subject to competition clearance by the Spanish Competition authorities. The maximum period that this should take is one month, although this can be extended if we encounter queries with our application. We have submitted the paperwork today.

Once the clearance has been obtained we will acquire 49% of Record Rent's equity for a consideration of €54.8m. This will be funded from existing facilities. A Shareholders' Agreement will be put in place that will govern the running of the Company and we will have three Board representatives on the Record Rent Board out of a total of seven directors.

Following signing of the 2005 audited accounts and the relevant completion process, we will acquire the remaining 51% of the equity for a fixed consideration of €61.2m plus a variable element that equates to the agreed 2005 profit after tax. For information purposes the 2004 profit after tax (including the exceptional property profit mentioned above) was €11m. It is expected that the completion of this process will take place around May 2006.

## Acquisition Funding – Initial Consideration

- Initial consideration - €54.8m (c£37m)
- Funded from existing facilities of £232m
- Using market projections to 30 April 2006 adjusting for increased debt implies
  - Gearing increases to c220%
  - Interest cover at a comfortable level

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The initial consideration of €54.8m which is broadly equivalent to £37m will be funded from our existing facilities of which we have c£230m capacity at 30 April 2005.

We anticipate completing the second stage of the transaction in May 2006 and until that date we will account for Record Rent as an associate. On that basis if we use market expectations to April 2006 and incorporate the debt resulting from the initial consideration, it would suggest that gearing at April 2006 would be c220%. Interest cover would remain comfortable at similar levels to this year.

## Acquisition Funding – Final Consideration

- New Strategic Plan to communicate Jan 2006
- Funding strategy will be based around
  - Interest cover
  - Net debt : EBITDA ratio
  - Increasing percentage of net debt hedged
- Gearing covenant is 400%

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If we then look beyond April 2006 to the second element of the consideration. Prior to that time we will have communicated our new Strategic Plan to shareholders. This Plan will incorporate a funding strategy that will focus on the following key sensitive areas - interest cover, net debt to EBITDA ratios and increased hedging for interest rate exposure. Whilst the gearing level is governed by the existing covenant to our banks of 400% it is not necessarily the case that we will apply an internal restriction of 250% in the new plan as we did in the past. More on this in January.

Finally, based on the information we currently have available we would expect the acquisition to be earnings enhancing with immediate effect.

# The future

- Current trading
- Outlook for the year
- 3 year plan

As Phil mentioned earlier, we have experienced a weaker residual market in the first two months of the year but remain confident we can continue to achieve our long term objective of "break even" or better in this area. Despite the reduced profitability likely to be produced by vehicle disposals for the year ahead we are of the opinion that overall we will continue to make progress against the targets set out in our 3 year Strategy.

As we have previously indicated we intend to give details of our next Strategic Plan at the time we announce our interims in January 2006. Clearly the acquisition of Record Rent will play a significant part in our future and as a result will need incorporating carefully into the development of our thoughts between now and then.

Thank you for your patience as I appreciate this has been a longer presentation than normal. We do however still have plenty of time for questions, so who would like to lead off.....