

## Corporate Governance

### Code principles

#### Introduction

This report describes how the corporate governance principles set out in the Combined Code are applied by the Company. The role of the Board is collectively to provide clear and effective leadership of the Company by setting strategic objectives and providing the highest values and standards for the conduct of the Company's business. The Board is also responsible for ensuring that sufficient resources are available to achieve the Company's objectives, for ongoing review of management performance and for ensuring that a framework of prudent and effective controls is in place to enable risks to be properly assessed and managed.

#### Board of Directors

The Directors of the Company during the period 1 January 2004 to 21 March 2005 are listed below:

Jean-Pierre Bizet  
Alun Cathcart (Chairman)  
Lesley Colyer  
Les Cullen (appointed 25 May 2004)  
Roland D'Ieteren  
Benoit Ghiot (appointed 15 December 2004)  
Murray Hennessy (appointed 15 March 2004)  
Stephen P Holmes (resigned 26 February 2004)  
Gilbert van Marcke de Lummen  
Malcolm Miller  
Simon Palethorpe (appointed 6 December 2004)  
Sir Bob Reid (retired 25 May 2004)  
Dr Axel von Ruedorffer  
Kevin M Sheehan (appointed 26 February 2004)  
Martyn Smith  
Dieter Woitscheck (resigned 4 August 2004)

Murray Hennessy was appointed as Chief Executive on 15 March 2004. Les Cullen and Benoit Ghiot were appointed as non-executive Directors on 25 May 2004 and 15 December 2004 respectively. Simon Palethorpe was appointed as Group Commercial Director on 6 December 2004.

In accordance with the Articles of Association, Les Cullen, Simon Palethorpe and Benoit Ghiot will retire at the forthcoming Annual General Meeting and, being eligible, will stand for election. Jean-Pierre Bizet, Lesley Colyer and Axel von Ruedorffer retire by rotation at the forthcoming Annual General Meeting and, being eligible, will stand for re-election.

As at 21 March 2005 the Board of Directors comprises the Chairman, five executive Directors and a further seven non-executive Directors. The non-executive Directors include three Directors who have no other association with Avis Europe plc and are therefore regarded as independent, being Les Cullen, Malcolm Miller and Axel von Ruedorffer. A further two of the non-executive Directors, Roland D'Ieteren and Benoit Ghiot, in addition to one executive Director, Jean-Pierre Bizet, are appointed by s.a. D'Ieteren n.v. which has a shareholding of 59.6% in the Company. The obligations of the Directors appointed by s.a. D'Ieteren n.v., and of s.a. D'Ieteren n.v. as a shareholder, are set out in a Relationship Agreement entered

into at flotation in 1997. These include an obligation for the D'Ieteren appointed Directors to exercise their voting rights so as to maintain the independence of the Board as required by the Listing Rules, thus ensuring that all Directors take decisions objectively in the interests of the Company. The other non-executive Directors comprise Kevin M Sheehan, a senior executive of Cendant Corporation, which licences the Avis and Budget trademarks and operating systems to the Avis Group, and a former executive Director of the Company, Gilbert van Marcke de Lummen. Since 1998 the Board has adopted a policy that, notwithstanding the provisions of the Articles of Association, all Directors should stand for re-election at the Annual General Meeting at least every three years.

The Company considers that the non-executive component of the Board, which includes Directors from organisations with which Avis Europe has clear commonality, provides an effective Board with a strong mix of industry-specific knowledge and general commercial experience. This balance enables the Board to bring informed and independent judgement to all aspects of the Company's strategic development and performance. The role of the non-executive Directors is viewed as especially important in developing strategic proposals and in ensuring that the Company's financial controls and risk management systems are robust and that the Group's financial information is sound. The non-executive Directors also have a key role in scrutinising management performance and monitoring the Company's system for monitoring and reporting performance. They also have responsibility for determining appropriate remuneration levels and succession planning for the executive Directors. The Chairman meets with the non-executive Directors at least once annually in order to facilitate the non-executive Directors' contribution to the Board. The Company did not have a nominated Senior Independent Director during the period to 21 March 2005 but continues to keep this requirement under review.

The Board meets a minimum of six times each year and more frequently when business needs require. In addition to the six scheduled Board meetings in 2004, there were four ad hoc Board meetings. All Directors attended all Board meetings, except that due to ill health Dieter Woitscheck was unable to attend five Board meetings and Alun Cathcart had to miss one meeting due to a prior commitment. The Chairman of each of the Nominations Committee, Remuneration Committee and Audit Committee attended the 2004 Annual General Meeting and were available to answer shareholders' questions during and after the meeting.

The roles of Chairman and Chief Executive are separate and their respective responsibilities are defined in writing and approved by the Board. The Chairman's key areas of activity are the leadership of the Board, including setting its agenda, ensuring that it receives clear, accurate and timely information and facilitating the contribution of the non-executive Directors. The Chairman also chairs the Nominations Committee and has responsibility for ensuring that Board evaluation processes are carried out and their results acted upon. The Chairman is responsible for strategy, in particular for ensuring that effective plans are developed for the short-term and long-term development

of the Group. In co-ordination with the Chief Executive, the Chairman is responsible for encouraging close and effective working relationships between all levels of country, licensee and Group management. The Chairman is also responsible for corporate governance and for ensuring that the Company maintains effective communication with its shareholders and other stakeholders.

To enable the Board to function effectively, full and timely access is given to all relevant information. The Board retains powers of decision on all matters of strategy, together with all significant commercial issues, including acquisitions and investments (subject to limited delegation of authority within specified criteria) and all expenditure in excess of a specified level. All delegated authorities are clearly documented and widely communicated via senior management. The Company Secretary is responsible for ensuring that Board procedures are followed and for advising the Board, through the Chairman, on all matters of governance. All Directors have access to the Company Secretary whenever they require. In the event that any Director wishes to take independent professional advice on any point arising in connection with the exercise of their duties, in accordance with written procedure the Company Secretary will arrange this at the Company's expense. The Company Secretary may only be removed by a resolution of the Board of Directors.

Details of all Directors' remuneration and service contracts are set out in the Remuneration Report on pages 26 to 33.

### Board Committees

The Board Committees in place during 2004 were the Nominations Committee, the Remuneration Committee and the Audit Committee.

*The Nominations Committee* was formed on 26 February 2004 to ensure that the Company has a formal, rigorous and transparent procedure for the appointment of new Directors. The terms of reference of the Committee were approved by the Board on that date and are available on the Company's website at [www.avis-europe.com](http://www.avis-europe.com). The Committee regularly reviews the structure and composition of the Board to ensure the required blend of skills and experience appropriate to the Company's needs. It sets objective criteria in recommending appointees to the Board, including being satisfied that appointees have sufficient time available to devote to the role, especially for chairmanships. The Committee is also responsible for ensuring that induction and training requirements are met both for new Directors and for the Board as a whole to ensure that Directors regularly update their skills and knowledge, including their knowledge of developments in the Company's business. The Committee carries out an annual review of the succession plans for the Board and for senior executives across the Group to ensure that continuing management capability is available to match the development needs of the business. The Committee reviews its terms of reference and its effectiveness annually and recommends to the Board any changes required as a result of such review.

During 2004, the Nominations Committee appointed Les Cullen as a non-executive Director and Chairman of the Audit Committee. In seeking a non-executive Director to chair the Audit Committee, the Nominations Committee required candidates to have recent and relevant financial experience in accordance with the recommendations of the Code. In the event, a suitable appointment was made via recommendation without the need to advertise the position or utilise the services of a search consultancy although the Committee employs these methods from time to time where necessary. The Committee also considered and supported the Chief Executive's recommendation that Simon Palethorpe be appointed as an executive Director. It also managed the Chairmanship succession process with Alun Cathcart assuming the Chairmanship from 25 May 2004.

The appointment of Benoit Ghiot as a non-executive Director on 15 December 2004 was made by s.a. D'leteren n.v. pursuant to the Relationship Agreement referred to above. Appointments made under the Relationship Agreement are not subject to the review of the Nominations Committee.

The members of the Nominations Committee at its inception on 26 February 2004 were Alun Cathcart (Chairman), Roland D'leteren, Malcolm Miller and Axel von Ruedorffer. Les Cullen joined the Committee upon his appointment to the Board on 25 May 2004 and therefore from that date the membership of the Committee comprised a majority of independent non-executive Directors.

The Nominations Committee met five times during 2004 and all members attended all meetings except that due to a prior commitment Roland D'leteren was unable to attend one meeting.

*The Remuneration Committee* determines broad policy on senior executive remuneration and terms of service and approves specific terms of appointment for the Chairman, executive Directors and senior management. The Committee is also responsible for the structuring and allocation of the Group's share incentive schemes, including the setting of appropriate performance targets. Details of the advisers used by the Committee during 2004 are set out on page 26 of the Remuneration Report.

In setting policy, the Committee ensures that appropriate incentives are provided to attract, retain and motivate executives of the appropriate calibre, to encourage performance and, in a fair and responsible manner, to reward individual contributions to the Group. The Committee takes account of market practice, the Group's position relative to other companies and the pay and employment conditions of other Group employees. The Committee consults with the Chairman and/or Chief Executive as appropriate when determining the individual remuneration package of each executive Director. However, no Director is involved in deciding his/her own remuneration. The Committee reviews the terms of the executive Directors' service contracts, particularly with regard to notice periods, termination payments and compensation commitments in the event of early termination. The Committee reviews its terms of reference and its effectiveness annually and recommends to the Board any changes required as a result of such review. The activities of the Committee during the year are covered in the Remuneration Report on page 26.

The separate Nominations Committee (see above) and Remuneration Committee were formed on 26 February 2004 to replace the Remuneration and Appointments Committee which exercised all the relevant functions up to that date. The terms of reference of the Remuneration Committee were approved by the Board on that date and are available on the Company's website at [www.avis-europe.com](http://www.avis-europe.com). The members of the Remuneration and Appointments Committee as at 1 January 2004 were Sir Bob Reid (Chairman), Roland D'leteren, Malcolm Miller and Axel von Ruedorffer. Initially the membership of the new Remuneration Committee was the same as its predecessor committee, but as noted in the last Annual Report, the Company reviewed the composition of the Committee during the year as various Board changes took place. Alun Cathcart was appointed interim Chairman of the Committee on 25 May 2004 following the retirement of Sir Bob Reid, and Les Cullen joined the Committee on the same date. Malcolm Miller was appointed as Chairman of the Committee on 1 June 2004 to replace Alun Cathcart, and accordingly since that date the Committee has comprised three independent non-executive Directors (including the Chairman of the Committee) together with Roland D'leteren. The Company recognises that Roland D'leteren is not regarded as an independent non-executive Director but considers it essential that s.a. D'leteren n.v., as the majority shareholder of the Company, is represented on the Committee. As President of s.a. D'leteren n.v., Roland D'leteren abstains from discussion and voting on the remuneration of any Directors appointed by s.a. D'leteren n.v. pursuant to the Relationship Agreement referred to above.

The Remuneration Committee met five times during 2004 and all members attended all meetings except that due to a prior commitment Roland D'leteren was unable to attend one meeting.

The Remuneration Report to shareholders appears on pages 26 to 33.

*The Audit Committee* assists the Board by ensuring that the Company presents a balanced and understandable assessment of its position with regard to financial reporting, including interim, preliminary and other price sensitive statements, where not submitted directly to the Board.

Under its terms of reference, the Audit Committee monitors the integrity of the Group's financial statements and the effectiveness of the external audit process. It is responsible for ensuring that an appropriate relationship between the Group and the external auditors is maintained, including reviewing non-audit services and fees. It also reviews annually the Group's system of internal control and the processes for monitoring and evaluating risks facing the Group. The Committee reviews the effectiveness of the internal audit and risk management function and is responsible for approving, upon the recommendation of the Group Finance Director, the appointment and termination of the Director of that function. The Committee's terms of reference are available on the Company's website at [www.avis-europe.com](http://www.avis-europe.com). The Committee reviews its terms of reference and its effectiveness annually and recommends to the Board any changes required as a result of such review.

In 2004 the Audit Committee discharged its responsibilities by:

- reviewing and approving, prior to Board approval, the Group's draft Financial Statements, 2004 interim results statement, the internal control report, and external auditor's report;
- considering, prior to release, all special announcements and Group trading updates;
- reviewing regularly the appropriateness of the Group's accounting policies and especially the potential impact of proposed International Financial Reporting Standards on the Financial Statements;
- receiving and considering an annual report on the Group's systems of internal control and their effectiveness, reporting to the Board on the results of the review and receiving regular updates on key risk areas of financial control;
- examining reports on Group-wide risk matters and the risks associated with major business programmes, and assessing the effectiveness of the Group's risk management system;
- reviewing the internal audit and risk management function's terms of reference and its proposed annual audit programme, and receiving regular progress reports on its work;
- assessing the effectiveness of the internal audit and risk management function together with its resources and standing in the Group;
- conducting the annual review of the Audit Committee's terms of reference and effectiveness;
- monitoring and reviewing any related party transactions;
- considering and approving the audit fee and reviewing non-audit fees payable to the Group's external auditors during the year;
- appraising the external auditor's plan for the audit of the Group's 2004 accounts, including key areas of scope and key areas of risk; and
- assessing external auditors' effectiveness and independence, and making recommendations to the Board regarding their reappointment.

The members of the Audit Committee as at 1 January 2004 were Sir Bob Reid (Chairman), Malcolm Miller, Axel von Ruedorffer and Jean-Pierre Bizet. Les Cullen joined the Committee as Chairman on his appointment on 25 May 2004, the date of Sir Bob Reid's retirement. Jean-Pierre Bizet stepped down from membership of the Committee on that date, having remained in the interim for the purposes of continuity. Therefore with effect from 25 May 2004 the Committee is comprised entirely of independent non-executive Directors.

The Audit Committee met four times in 2004 and all members attended all meetings except that Malcolm Miller was unable to attend one meeting due to a prior commitment. The Committee meets with executive Directors and senior management, as well as privately with both the external and internal auditors.

### Board evaluation

During 2004 the Board implemented a formal evaluation process which is designed to provide a rigorous annual evaluation of the Board's own performance and that of its Committees and individual Directors. The evaluation process assesses the effectiveness of Board and Committee processes to provide a basis for feedback and development where required, and also the contribution and commitment of each individual Director. As noted above, the Chairman has responsibility for the evaluation process and for taking any appropriate action based on the results of the evaluation. Commencing in 2005, the non-executive Directors, led by the Chairman of the Remuneration Committee, will be responsible for evaluating the performance of the Chairman, taking into account the views of the executive Directors.

The evaluation processes for Board and Committee performance are conducted via a set of structured questionnaires prepared by Towers Perrin, an external consultancy. The questionnaires ask each Board/Committee member to comment on a range of factors which contribute to the effectiveness of the Board or the relevant Committee. The results are reviewed by the Chairman and relevant feedback is provided to the Board and each Committee. Following the initial evaluation exercise in 2004, the Board agreed a number of changes to Board procedures to reflect the feedback received.

The evaluation process for each individual Director is conducted by the Chairman (or in the case of the Chairman's own evaluation as described above) by way of interview and the results reviewed with each Director on a one-to-one basis.

### Directors' interests

Details of Directors' interests in the share capital of the Company are set out below and in the Remuneration Report.

Roland D'Ieteren is President and Chief Executive Officer of s.a. D'Ieteren n.v. and Gilbert van Marcke de Lummen is a non-executive Director of s.a. D'Ieteren n.v., which holds 63,609,360 ordinary shares of 1p each in the capital of the Company. Jean-Pierre Bizet, Roland D'Ieteren and Gilbert van Marcke de Lummen are Directors of D'Ieteren Invest s.a., a wholly owned subsidiary of s.a. D'Ieteren n.v., which is the beneficial owner of 285,490,985 ordinary shares of 1p each in the capital of the Company. Details of significant contracts entered into with s.a. D'Ieteren n.v. are disclosed below.

Except as noted above, none of the Directors had any interests in the shares of the Company or in any material contract or arrangement with the Company or any of its subsidiary undertakings.

### Share capital

The last Annual General Meeting authorised the Company to purchase up to 58,578,803 of its own ordinary shares. This authority will expire, and is due to be renewed, at the next Annual General Meeting. The Company has made no purchase of its own shares during 2004 pursuant to this authority. Details of the share capital of the Company are set out in Note 17 to the Financial Statements.

### Substantial shareholdings

At 21 March 2005 the Company had been advised of the following notifiable interests in its issued ordinary share capital:

	% of issued share capital
D'Ieteren Invest s.a.	48.74
s.a. D'Ieteren n.v.	10.85
Fidelity International Limited	7.11
Franklin Resources, Inc	5.2722

As noted above, an agreement governing the relationship between s.a. D'Ieteren n.v. and the Company was entered into in connection with the Company's flotation in 1997. It includes restrictions on s.a. D'Ieteren n.v.'s power to appoint Directors and obligations on those Directors to ensure that the majority of the Board is independent of s.a. D'Ieteren n.v. It also provides that all transactions between the Company and s.a. D'Ieteren n.v. will be on an arm's length basis. The agreement also contains certain anti-dilution rights for s.a. D'Ieteren n.v. provided that the D'Ieteren Group owns more than 30% of the issued ordinary share capital of the Company.

During the year, the Group has entered into transactions with the D'Ieteren Group on an arm's length basis with respect to the purchase and sale of vehicles and the provision of finance. Further details of these transactions are set out in Note 26 to the Financial Statements.

As recommended by the Combined Code the Company carries directors' and officers' liability insurance which is arranged under an umbrella policy effected by s.a. D'Ieteren n.v.

### Shareholder relations

The Board as a whole is responsible for maintaining regular dialogue with shareholders. The Chief Executive and Group Finance Director make presentations to institutional shareholders following the announcement of the interim and preliminary results each year, and are actively involved in an investor relations programme during the rest of the year. The Chairman attends these whenever possible, and is also responsible for maintaining a channel through which shareholders can express their views, and for communicating any issues or concerns to the Board as a whole.

The Chief Executive makes a presentation at the Annual General Meeting highlighting key business developments during the year. All shareholders have the opportunity to put questions at the meeting or leave written questions, which will be answered in writing as soon as possible afterwards. A copy of the Chief Executive's presentation may be requested at the Annual General Meeting or from the Investor Relations Department of Avis Europe plc. The Company's website at [www.avis-europe.com](http://www.avis-europe.com) gives access to current and historical information for the Group.

### Charitable and Political Donations

During the year the Group made charitable donations totalling €103,000; £71,000 (2003: €30,000; £21,000). The 2004 charitable donations included €36,600; £25,000 in respect of the Tsunami disaster in South East Asia. The Group made no political donations during the year (2003: nil).

### Payments to creditors

Given the number of countries in which the Group operates it is practice to agree the terms of payment at the start of business with each supplier and to pay in accordance with contractual and other legal obligations. The Company had no trade creditors at 31 December 2004 (2003: nil).

### Auditors

The Audit Committee monitors regularly the non-audit services being provided to the Group by its external auditors, and has developed a formal independence policy to help ensure that there is no impairment to their independence or objectivity. The principles that underpin the provision of non-audit services by the external auditors are that: the auditor should not audit its own firm's work, make management decisions for the Group, have a mutuality of financial interest with the Group (e.g. success fees) or be put in the role of advocate to the Group. Some types of service are proscribed while others that might be perceived to be in conflict with the role of the external auditor must be submitted to the Audit Committee for approval prior to engagement, regardless of the amounts involved.

The Audit Committee reviews all services being provided by the external auditors quarterly in order to consider the independence and objectivity of the external auditors, taking into account relevant professional and regulatory requirements, so that these are not impaired by the provision of permissible non-audit services.

The Group audit engagement partner will rotate every five years, subject to the transitional provisions provided in the UK regulations in this area.

PricewaterhouseCoopers LLP were engaged by the Group for certain non-audit activities, the fees for which are set out in Note 2 to the Financial Statements. The nature and materiality of this work has been reviewed by the Audit Committee which is satisfied that there has been no conflict with the need for audit independence and objectivity.

A resolution to reappoint PricewaterhouseCoopers LLP as auditors to the Company will be proposed at the Annual General Meeting.

### Internal control and risk management

The Directors have continued to review the effectiveness of the Group's system of non-financial controls, including operational and compliance controls, risk management and the Group's high level internal control arrangements. These reviews have included an assessment of internal controls, and in particular internal financial controls, by the Group's internal audit and risk management function, management assurance of the maintenance of control, and reports from the external auditor on matters identified in the course of its statutory audit work. A key part of the Group's own internal control review is a quarterly declaration and annual certification process by which responsible managers confirm the adequacy of their systems of internal financial controls, their compliance with Group policies, local laws and regulations and report any control weaknesses identified. In addition the Group's internal audit and risk management function conducts an annual control self-assessment programme through which compliance with best practice for both financial and non-financial controls is assessed by local management and is later selectively validated.

### Internal control environment

The Directors are responsible for the system of internal control and for regularly reviewing its effectiveness.

In addition to the annual control self-assessment programme, the Group requires every operating unit, on a quarterly basis, to respond to a checklist of key financial controls, confirming that they are in place and fully functioning, and reporting any breakdown in control or occurrence of fraud that has come to light during the previous quarter.

The principal aim of the system of internal control is the management of business risks, with a view to enhancing the value of shareholders' investments and safeguarding assets. Although no system of internal control can provide absolute assurance that the business risks will be fully mitigated, the internal control systems have been designed to meet the Group's specific needs and the risks to which it is exposed.

The system of internal controls includes but is not limited to:

- the clear definition of the organisation structure and the appropriate delegation of authorities to management;
- the maintenance of appropriate segregation of duties together with other procedural controls;
- strategic planning and the related annual budgeting and quarterly review process;
- monthly reporting and review of financial results and key performance statistics;
- adoption of accounting policies to help ensure the consistency, integrity and accuracy of the Group's financial records;
- specific treasury policies and the regular reporting and review of all significant treasury transactions and financing activities; and
- procedures for the authorisation of capital expenditure.

The Audit Committee has reviewed the effectiveness of the system of internal control through the following processes:

- review of internal and external audit plans;
- review of the results of the control self-assessment programme;
- review of any significant unsatisfactory control matters reported in the quarterly returns to the head office;
- consideration of individual internal audit reports by the Chairman of the Committee;
- collective review of any control issues that arise from internal and external audits together with any additional matters brought to its attention;
- review of any significant risks identified by the Group's risk management process; and
- discussions with management on any significant new risk areas identified by management and the internal and external audit processes.

The Chairman of the Audit Committee reports to the Board after every Audit Committee meeting. In satisfying itself that sufficient and appropriate work has been performed, the Board as a whole considers the adequacy and scope of the reports it has received from the Audit Committee along with corroborative evidence where necessary.

The Board, with advice from its Audit Committee, has completed its annual review of the effectiveness of the embedded system of internal control in accordance with the guidance of the Turnbull Report for the period since 1 January 2004 and is satisfied that it is in accordance with that guidance.

### Assessment of business risk

The Group views the careful management of risk as a key management activity and recognises that managing business risk to deliver opportunities is one of the most important Group activities. These business risks, which may be strategic, operational, reputational, financial or environmental, need to be both understood and visible. It is the business context in each situation that determines what is an acceptable level of risk.

Much of the Group's work in the area of risk management is facilitated by the Group's Risk Management Committee comprising representatives from the key business functions. In addition individual risk management committees have been established in a number of Group operating companies, the activities of which are co-ordinated by the Group's internal audit and risk management function.

Under the auspices of the Risk Management Committee, the Group has developed and continues to enhance an enterprise-wide integrated risk management framework with the aim of continuing to ensure that the business understands the key risks it faces, has an embedded risk management approach to all its activities, links risk management to business performance reporting and seeks continuous improvement in the management of risk by sharing best practice throughout the organisation. Through a web-enabled application individual business units are able to actively maintain a register for all their event-driven business risks and associated mitigation actions and plans. This system forms the cornerstone of the risk management activities of the Group, the aim of which is to provide the Board with the assurance that the major risks facing the Group have been identified and assessed, and that there are controls either in place or planned to manage these risks.

The responsibilities of the Group's Risk Management Committee include:

- advising and assisting senior management to identify and document the Group's risk profile and to ensure that the business focuses on critical business issues;
- co-ordinating and facilitating regular risk assessments at a country, functional and Group level;
- assessing the risks identified and actions taken to manage and mitigate those risks to a desired level;

- reviewing the ethical policies and procedures of the Group;
- preparing reports for the Audit Committee and Board on any identified key risks; and
- reviewing the minutes of meetings prior to submission to the Audit Committee.

During 2004 the Committee was chaired by the Group Finance Director but from January 2005 a new Group Risk Management Committee with increased powers and responsibilities will be chaired by the Chief Executive who will report on its activities to the Board.

The Group is keen to emphasise that it does not seek to make management risk averse but rather to ensure that risk is taken on an informed basis rather than an unintentional basis.

Strategic risks and opportunities arising from changes in the Group's business environment, as distinct from event-driven risks, are regularly reviewed by the Chief Executive together with senior executive management and discussed by the Board.

### Internal audit

Avis Europe has an internal audit and risk management function, which is independent of the Group's external auditors. The Audit Committee ensures that this function is appropriately staffed and that its scope of work is adequate in the light of the key risks facing the Group and the other monitoring functions in place. It also reviews and approves an annual internal audit plan and considers responses to an effectiveness questionnaire distributed after each audit has been completed.

The Audit Committee also approves the appointment and dismissal of the Director of Risk Management and Internal Audit and assesses his independence and objectivity. The Director of Risk Management and Internal Audit has unfettered access to management and the Audit Committee.

The Group internal audit and risk management function works in partnership with an outsourced provider, KPMG, to further develop and improve the internal control processes throughout the Group. It provides assurance to the Board that the key control risks faced by the Group are identified and are being managed. Its work includes an assessment of the controls in operation throughout the Group. Its findings are reported to functional senior management and to the Audit Committee.

The role of internal audit is to:

- assess the design and operating effectiveness of controls governing key operational processes and business risks;
- provide the Board with an assessment, independent of management, as to the adequacy of the Group's internal operating and financial controls, systems and practices;
- assist the Board in meeting its corporate governance and regulatory responsibilities; and
- provide advisory services to management in order to enhance the control environment and improve business performance.

### Whistleblowing arrangements

During 2004 the Company has put in place a revised Group-wide framework enabling employees to raise any concerns, the arrangements for which are reviewed annually by the Audit Committee to ensure their effectiveness. The process has been communicated to all employees across the Group and policy and procedures issued to management of all operating units providing guidance on how they are expected to respond. Matters can be raised anonymously but employees are assured that they will have protection under the policy.

### Corporate governance statement

The Board of Directors confirm that the Company has complied throughout the financial year with the majority of the provisions set out in Section 1 of the Combined Code. The exceptions are: (1) the requirement that independent non-executive Directors (excluding the Chairman) should comprise not less than 50% of the Board; (2) the requirement that all members of the Remuneration Committee are independent non-executive Directors; (3) the requirement that the Nominations Committee should comprise a majority of independent non-executive Directors; (4) the requirement that all members of the Audit Committee should be independent non-executive Directors; (5) the requirement that a Senior Independent Director be nominated; and (6) the requirement that the non-executive Directors meet without the Chairman to appraise the Chairman's performance.

However, during the year the composition of the Nominations Committee and the Audit Committee has been changed to comply with the new requirements of the Combined Code, in that as from 25 May 2004 the Nominations Committee comprises a majority of independent non-executive Directors and the Audit Committee comprises only independent non-executive Directors.

The reasons for non-compliance in each of the relevant areas are explained within the review of the Company's application of the principles of the Combined Code set out above. In the areas of non-compliance the Directors believe that current policy is in the best interests of the Company.

### Going concern

Under company law the Company's Directors are required to consider whether it is appropriate to prepare Financial Statements on the basis that the Company and the Group are going concerns. As part of its normal business practice the Group prepares annual and longer-term plans and in reviewing this information the Company's Directors see no reason why the Company and the Group should not remain going concerns for the foreseeable future. Therefore the Company and the Group continue to adopt the going concern basis in preparing the Financial Statements.

Signed on behalf of the Board

**Judith Nicholson**  
Company Secretary  
21 March 2005

## Statement of Directors' Responsibilities

The Directors are required by the Companies Act 1985 to prepare Financial Statements for each financial period which give a true and fair view of the state of affairs of the Company and the Group as at the end of the financial period and of the profit or loss for the financial period.

The Directors consider that in preparing the Financial Statements on pages 35 to 65 the Company has used appropriate accounting policies, consistently applied, with the exception of the application of UITF 38 as described on page 39, and supported by reasonable and prudent judgements and estimates, and that all accounting standards which they consider to be applicable have been followed.

The Directors have responsibility for ensuring that the Company keeps accounting records which disclose with reasonable

accuracy the financial position of the Company and which enable them to ensure that the Financial Statements comply with the Companies Acts 1985.

The Directors have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the website. Legislation in the United Kingdom governing the preparation and dissemination of Financial Statements may differ from legislation in other jurisdictions.

The Directors are required to prepare Financial Statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.