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 2005 to 2 March 2006 are listed below:

Jean-Pierre Bizet
Alun Cathcart (Chairman)
Lesley Colyer
Les Cullen
Roland D'Ieteren
Benoit Ghiot
Murray Hennessy
Gilbert van Marcke de Lummen
Malcolm Miller
Simon Palethorpe
Dr Axel von Ruedorffer
Kevin M Sheehan (resigned 11 April 2005)
Martyn Smith

In accordance with the Articles of Association, Roland D'Ieteren, Malcolm Miller and Martyn Smith retire by rotation at the forthcoming Annual General Meeting and, being eligible, will stand for re-election.

As at 2 March 2006, the Board of Directors comprises the Chairman, five executive Directors and a further six 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 Director, Gilbert van Marcke de Lummen, is a former executive Director of the Company. 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 first Annual General Meeting following their appointment and at least every three years thereafter.

The Company considers that the non-executive component of the Board helps to provide 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 2 March 2006 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 2005, there were three ad hoc Board meetings. All Directors attended all Board meetings, except that Murray Hennessy missed one scheduled Board meeting and Gilbert van Marcke de Lummen and Axel von Ruedorffer each had to miss one ad hoc Board meeting. The Chairman of each of the Nominations Committee, Remuneration Committee and Audit Committee attended the 2005 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 and all capital expenditure in excess of a specified level. The Company Secretary is responsible for ensuring that Board procedures are

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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 25 to 32.

Board Committees

The Board Committees in place during 2005 were the Nominations Committee, the Remuneration Committee and the Audit Committee. Each 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 terms of reference of each Committee are available on the Company's website at www.avis-europe.com.

The Nominations Committee ensures that the Company has a formal, rigorous and transparent procedure for the appointment of new Directors. 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.

During 2005, the Nominations Committee reviewed key succession priorities and approved a number of leadership changes in different business units. The Committee also reviewed the Human Resources Plan process that is applied across the Group.

The members of the Nominations Committee as at 1 January 2005 were Alun Cathcart (Chairman), Les Cullen, Roland D'Ieteren, Malcolm Miller and Axel von Ruedorffer. As recommended by the Combined Code, the membership of the Committee comprised a majority of independent non-executive Directors. There were no changes to the composition of the Nominations Committee between 1 January 2005 and 2 March 2006.

The Nominations Committee met once during 2005 and all members attended the 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 2005 are set out on page 25 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 activities of the Committee during the year are described in the Remuneration Report on page 25.

The members of the Remuneration Committee as at 1 January 2005 were Malcolm Miller (Chairman), Les Cullen, Roland D'Ieteren and Axel von Ruedorffer. The Committee comprises three independent non-executive Directors together with Roland D'Ieteren. The Company recognises that Roland D'Ieteren is not regarded as an independent non-executive Director but considers it essential that s.a. D'Ieteren n.v., as the majority shareholder of the Company, is represented on the Committee. As Chairman of s.a. D'Ieteren n.v., Roland D'Ieteren abstains from discussion and voting on the remuneration of any Directors appointed by s.a. D'Ieteren n.v. pursuant to the Relationship Agreement referred to above. There were no changes to the composition of the Remuneration Committee between 1 January 2005 and 2 March 2006.

The Remuneration Committee met four times during 2005 and all members attended all meetings except that Roland D'Ieteren was unable to attend one meeting.

The Remuneration Report to shareholders appears on pages 25 to 32.

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 formal announcements relating to the Group's financial performance, 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.

In 2005 the Audit Committee discharged its responsibilities by:

- reviewing and approving, prior to Board approval, the Group's draft Financial Statements, 2005 interim results statement, the internal control report and external auditor's report;
- considering, prior to release, all trading updates;

- reviewing regularly the appropriateness of the Group's accounting policies and their compliance with appropriate International Financial Reporting Standards;
- receiving and considering a 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 their resources and standing in the Group;
- conducting the annual review of the Audit Committee's terms of reference and effectiveness;
- reviewing the effectiveness of whistleblowing arrangements;
- 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 2005 Financial Statements, 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 re-appointment.

The members of the Audit Committee as at 1 January 2005 were Les Cullen (Chairman), Malcolm Miller and Axel von Ruedorffer. As recommended by the Combined Code, all the members of the Committee are independent non-executive Directors. There were no changes to the composition of the Committee between 1 January 2005 and 2 March 2006.

The Audit Committee met four times in 2005 and all members attended all meetings. The Committee meets with executive Directors and senior management, as well as privately with both the external and internal auditors.

Board evaluation

During 2005 the Board carried out 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. The Chairman of the Remuneration Committee also conducted an evaluation of the performance of the Chairman.

The evaluation processes for Board 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.

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.

Jean-Pierre Bizet is Chief Executive of s.a. D'Ieteren n.v., Roland D'Ieteren is Chairman 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 Benoit Ghiot 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 484,976,895 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 2005 pursuant to this authority. Details of the share capital of the Company are set out in Note 29 to the Consolidated Financial Statements.

Substantial shareholdings

At 2 March 2006, 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.	52.68
s.a. D'Ieteren n.v.	6.91
Fidelity International Limited	12.39
Franklin Resources, Inc	4.986

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.

Corporate Governance *continued*

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 41 to the Consolidated 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. With effect from 1 January 2006, the Company has entered into indemnities pursuant to the authority granted at the Extraordinary General Meeting on 25 May 2005, indemnifying the Directors against claims brought against them to the extent permitted by English law.

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 is also responsible for maintaining a channel through which shareholders can express their views, and for communicating any shareholder 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. The Company's website at www.avis-europe.com provides current and historical information for the Group.

Health and safety at work
During the year, the Board approved a new Group-wide policy on health and safety at work pursuant to which goals and performance targets are set, which will be reviewed annually by the Board.

Charitable and political donations
During the year, the Group made charitable donations totalling €54,000; £37,000 (2004: €103,000; £71,000 including donations in respect of the Tsunami disaster appeal). The Group made no political donations during the year (2004: 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 2005 (2004: 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 (eg success fees) or provide legal and expert services to the Group in judicial or regulatory proceedings. 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 fees 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.

In accordance with UK regulations, the Group audit engagement partner has been rotated this year and will continue to be rotated every five years.

PricewaterhouseCoopers LLP were engaged by the Group for certain non-audit activities, the fees for which are set out in Note 3 to the Consolidated 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 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 the managers responsible confirm the adequacy of their systems of internal financial control, their compliance with Group policies, local laws and regulations and are also required to report any breakdown in control or occurrence of fraud that has come to light. In addition, the internal audit and risk management function co-ordinates a control self-assessment programme through which compliance with best practice for both financial and non-financial controls is assessed by local management and is then selectively validated.

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

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

- clear definition of the organisation structure and the appropriate delegation of authorities to management;
- 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;
- the use of external advisors when required for specialist areas like pensions; 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;
- 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 the 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 2005 and is satisfied that it is in accordance with that guidance.

Assessment of business risk

The Group views the active management of risk as a key management process and recognises that managing business risk to deliver opportunities is critical to the strategic development of the business. It is ensured that such business risks, which are classified as strategic, operational, reputational, financial and environmental, are both understood and visible as far as practicable. The Group's policy is to ensure that risk is taken on an informed basis rather than unintentional basis.

The Group's work in the area of risk management in 2005 was overseen by a Group Risk Management Committee, which comprised representatives from key business functions and main country operations and was chaired by the Chief Executive, who reported its activities to the Board. In early 2006 the responsibility for the review of risk has been transferred to a new operational board, the Avis Executive Board, membership of which comprises heads of key business functions and of main country corporate operations. In addition, the Group has encouraged the formation of individual risk management committees in a number of its operating companies, the activities of which are co-ordinated by the internal audit and risk management function.

In 2005 the Group implemented an integrated risk management framework with the aim of continuing to ensure that the business understands the key risks it faces and has an embedded risk management approach to all its activities, links risk management to business performance reporting and seeks regular improvement in the management of risk by sharing best practice throughout the organisation. The Group conducts an annual risk review across all operating units and updates its centrally held risk register with each risk's impact, probability and mitigation actions. As part of the annual risk review individual business units are required to submit their major risks together with their associated mitigation actions. 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.

Internal audit

Avis Europe has an internal audit and risk management function, which is independent of the Group's external auditors and which works in partnership with an outsourced provider, KPMG. The Audit Committee ensures that this function is appropriately staffed and that its scope of work is adequate in the light of the key identified 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 internal 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.

Corporate Governance *continued*

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 the year, a Group-wide framework was in place enabling employees to raise any concerns. The arrangements are regularly reviewed 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, and 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; and (3) the requirement that a Senior Independent Director be nominated.

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
2 March 2006

Statement of Directors' Responsibilities

UK company law requires the Directors to prepare Consolidated and Parent Company Financial Statements for each financial year. Under that law the Directors are required to prepare the Consolidated Financial Statements in accordance with IFRS as adopted by the EU and have elected to prepare the Parent Company Financial Statements in accordance with UK Accounting Standards.

The Consolidated Financial Statements are required by law and IFRS as adopted by the EU to present fairly the financial position and performance of the Group: the Companies Act 1985 provides in relation to such financial statements that references in the relevant part of that Act to financial statements giving a true and fair view are references to their achieving a fair presentation.

The Parent Company Financial Statements are required by law to give a true and fair view of the state of affairs of the Company.

The Directors consider that in preparing the Financial Statements on pages 34 to 86 and pages 88 to 92 the Company has used appropriate accounting policies, consistently applied, 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 Act 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.