

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 2006 to 26 February 2007 are listed below:

Jean-Pierre Bizet
Alun Cathcart (Chairman)
Lesley Colyer
Les Cullen
Roland D'leteren
Benoit Ghot
Murray Hennessy
Gilbert van Marcke de Lummen
Malcolm Miller
Simon Palethorpe
Dr Axel von Ruedorffer
Pierre Alain De Smedt (appointed 1 February 2007)
Martyn Smith

Pierre Alain De Smedt was appointed as a non-executive Director with effect from 1 February 2007. In accordance with the Articles of Association he will retire at the forthcoming Annual General Meeting and being eligible will stand for election. Alun Cathcart, Murray Hennessy and Gilbert van Marcke de Lummen retire by rotation at the forthcoming Annual General Meeting and, being eligible, will stand for re-election.

As at 26 February 2007, the Board of Directors comprises the Chairman, five executive Directors and a further seven non-executive Directors. The non-executive Directors include four Directors who have no other association with Avis Europe plc and are therefore regarded as independent, being Les Cullen, Malcolm Miller, Axel von Ruedorffer and Pierre Alain De Smedt. Malcolm Miller was reappointed for a third successive term of three years with effect from 21 February 2007, the Board having given due consideration to this reappointment in light of the current circumstances of the Company in accordance with the provisions of the Combined Code. A further two of the non-executive Directors, Roland D'leteren and Benoit Ghot, in addition to one executive Director, Jean-Pierre Bizet, are appointed by s.a. D'leteren n.v. which has a shareholding of 59.6% in the Company. The obligations of the Directors appointed by s.a. D'leteren n.v., and of s.a. D'leteren 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'leteren-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 election at the first Annual General Meeting following their appointment and re-election 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 reviewing business strategy and assisting the Board in the development of strategy. The non-executive Directors also review and monitor the Company's financial controls and risk management systems. The non-executive Directors have a key role in scrutinising management performance and 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 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 26 February 2007 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. All Directors attended all Board meetings, except that Lesley Colyer and Axel von Ruedorffer each missed one meeting. The Chairman of each of the Nominations Committee, Remuneration Committee and Audit Committee attended the 2006 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 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 operating country, licensee and Group level management. The Chairman is also responsible for corporate governance and for ensuring that the Company maintains effective communication with its shareholders and other stakeholders. The Chairman also chairs the Nominations Committee and has responsibility for ensuring that the Board evaluation processes are carried out and their results acted upon.

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 capital expenditure in excess of a specified level. 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 32 to 39.

Board Committees

The Board Committees in place during 2006 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 2006, the Nominations Committee reviewed key succession priorities and approved a number of appointments and changes to the central team and in different business units. The review also looked at the overall structure and development needs of the Board and identified the skills, knowledge and experience required from an additional independent non-executive Director to complement and enhance those already existing on the Board. The non-executive Directors were able to recommend a suitable candidate without the Nominations Committee appointing external recruitment consultants. The candidate then met with the Chairman of the Nominations Committee, two non-executive Directors and the Chief Executive. A formal recommendation was then made to the Board, which culminated in the appointment of Pierre Alain De Smedt. The members of the Nominations Committee as at 1 January 2006 were Alun Cathcart (Chairman), Les Cullen, Roland D'leteren, 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. Pierre Alain De Smedt became a member of the Nominations Committee with effect from 1 February 2007. There were no other changes to the composition of the Nominations Committee between 1 January 2006 and 26 February 2007.

The Nominations Committee met four times during 2006 and all members attended the meetings except that Axel von Ruedorffer 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 2006 are set out on page 32 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 32.

The members of the Remuneration Committee as at 1 January 2006 were Malcolm Miller (Chairman), Les Cullen, Roland D'leteren and Axel von Ruedorffer. The Committee comprises three independent non-executive Directors 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 Chairman 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. There were no changes to the composition of the Remuneration Committee between 1 January 2006 and 26 February 2007.

The Remuneration Committee met seven times during 2006 and all members attended all meetings except that Axel von Ruedorffer was unable to attend one meeting.

The Remuneration Report to shareholders appears on pages 32 to 39.

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.

Under its terms of reference, the Audit Committee monitors the integrity of the Group's financial statements and the effectiveness and independence 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 2006 the Audit Committee discharged its responsibilities by:

- reviewing and approving, prior to Board approval, the interim results statement, the Group's draft annual Financial Statements, the internal control report and the 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 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 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 reappointment.

The members of the Audit Committee as at 1 January 2006 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. Pierre Alain De Smedt became a member of the Audit Committee with effect from 1 February 2007. There were no other changes to the composition of the Committee between 1 January 2006 and 26 February 2007.

The Audit Committee met five times in 2006 and all members attended all meetings except that Malcolm Miller was unable to attend one meeting. The Committee meets with executive Directors and senior management, as well as privately with both the external and internal auditors.

Board evaluation

During 2006 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. The evaluation process assesses the effectiveness of Board and Committee processes to provide a basis for feedback and development where required. 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 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 Chairman has benchmarked individual Directors' performance against the results of the individual evaluations conducted in 2005 and carried out follow-up where appropriate with individual Directors. The Chairman of the Remuneration Committee also conducted an evaluation of the performance of the Chairman.

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'leteren n.v., Roland D'leteren is Chairman of s.a. D'leteren n.v. and Gilbert van Marcke de Lummen is a non-executive Director of s.a. D'leteren n.v., which held 63,609,360 ordinary shares of 1p each in the capital of the Company as at 31 December 2006. Jean-Pierre Bizet, Roland D'leteren and Benoit Ghot are Directors of D'leteren Invest s.a., a wholly-owned subsidiary of s.a. D'leteren n.v., which was the beneficial owner of 484,976,895 ordinary shares of 1p each in the capital of the Company as at 31 December 2006. Details of significant contracts entered into with s.a. D'leteren n.v. are disclosed below. There have been no changes in the above Directors' interests between 31 December 2006 and 26 February 2007.

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 92,052,404 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 2006 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 26 February 2007, the Company had been advised of the following notifiable interests in its issued ordinary share capital:

	% of issued share capital
D'leteren Invest s.a.	52.68
s.a. D'leteren n.v.	6.91
Fidelity International Limited	9.20
Prudential plc	7.33
Franklin Resources, Inc	3.37

As noted above, an agreement governing the relationship between s.a. D'leteren n.v. and the Company was entered into in connection with the Company's flotation in 1997. It includes restrictions on s.a. D'leteren 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'leteren n.v. It also provides that all transactions between the Company and s.a. D'leteren n.v. will be on an arm's length basis. The agreement also contains certain anti-dilution rights for s.a. D'leteren n.v. provided that the D'leteren 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'leteren 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'leteren n.v. The Company has entered into indemnities to the extent permitted by English law, indemnifying the Directors against claims brought against them.

Shareholder relations

The Board as a whole is responsible for maintaining regular dialogue with shareholders. The Chief Executive and 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 about the Group.

Health and safety at work

In 2005 the Board approved a new Group-wide policy on health and safety at work. Each operating country has a nominated Director on the local Board who has overall responsibility for setting goals and performance targets. Consistent measures of performance have been agreed and will be reported on a quarterly basis.

Charitable and political donations

During the year, the Group made charitable donations totalling €54,000; £37,000 (2005: €54,000; £37,000). The Group made no political donations during the year (2005: 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 2006 (2005: nil). At 31 December 2006 the number of creditor days outstanding for the Company was nil (2005: nil).

Auditors

The Audit Committee regularly monitors 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: enter into arrangements with the Group which could compromise their independence as auditors; 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.

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 internal control arrangements. These reviews have included an assessment of both financial and operational internal 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, in 2006 the internal audit and risk management function co-ordinated a control self-assessment programme through which compliance with best practice for both financial and non-financial controls was assessed by local management and was 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 regular 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 reported unsatisfactory control matters;
- 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.

During 2006 the Audit Committee completed a more formal assessment of the effectiveness of the system of internal control assisted through the introduction of an Internal Controls Systems document. The document includes comprehensive descriptions of the risk management processes and controls environment, and enabled the Audit Committee to apply a more structured approach to their review. Going forward this document will be updated regularly.

The Chairman of the Audit Committee provides a report 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 2006 and is satisfied that this review 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 rather than unintentional basis.

The Group's work in the area of risk management in 2006 was overseen by the Avis Executive Board, membership of which comprises heads of key business functions and of main corporate country operations and is chaired by the Chief Executive. In addition, the Group has instructed the formation of individual country 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.

The Group's integrated risk management framework aims to ensure that the business understands the key risks it faces and has an embedded risk management approach to 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.

A summary of the principal risks facing the Group has been reviewed and approved by the Audit Committee and is provided in the Risk Factors section of the Business Review on pages 13 to 14.

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, where specialist skills are required. 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 ratifies 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 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 and recommunicated annually by management to ensure their continuing 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, except that the Company did not comply throughout the financial year with the following provisions: (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.