

avis budget group

Driving Growth
2006 ANNUAL REVIEW



Two outstanding brands. Thousands of committed employees. Performance that's second to none.

Avis Budget Group operates two of the most recognized brands in the global vehicle rental industry through Avis Rent A Car System, LLC (Avis), Budget Rent A Car System, Inc. (Budget) and Budget Truck Rental, LLC (Budget Truck). Avis is a leading supplier to the premium commercial and leisure segments of the travel industry, and Budget is a leading supplier to price-conscious car rental segments.

We believe we are the largest general-use vehicle rental operator in each of North America, Australia, New Zealand and certain other regions we serve, based on total revenue. Avis Budget Group maintains the leading share of airport car rental revenue, and we operate what we believe to be the second largest consumer truck rental business in the United States.

We generate significant benefits from operating two distinctive car rental brands targeting different market segments but sharing the same fleet, maintenance facilities, technology and administrative infrastructure.

Our operations have an extended global reach that includes approximately 6,700 car and truck rental locations in North America, Australia, New Zealand, Latin America and the Caribbean. Our car rental fleet averages more than 375,000

vehicles. Domestically, we derived approximately 80 percent of our more than \$5 billion in car rental revenue from airport locations in 2006. We derived approximately 20 percent of our 2006 car rental revenue from off-airport locations, a segment in which we have been significantly expanding our presence.

We rent our fleet of approximately 30,000 Budget trucks through over 2,400 dealer-operated, 40 Company-operated and 100 franchisee-operated locations throughout the continental United States.

Avis Budget Group licenses the use of the Avis and Budget trademarks in areas where we do not operate. The Avis and Budget vehicle rental systems in Europe, Africa, the Middle East and parts of Asia are operated at approximately 3,700 locations by subsidiaries of an independent third party primarily under royalty-free trademark license agreements.

Headquartered in Parsippany, New Jersey, Avis Budget Group has approximately 30,000 employees dedicated to operational excellence and outstanding customer service. Our industry leadership and proud heritage have as a foundation our Core Values: Commitment, Integrity and Responsibility.

2006 financial results

Year Ended December 31 (in millions, except where noted)	2006	2005	% Change
Avis Budget Car Rental:¹			
Net revenues	\$5,628	\$5,316	6%
Operating costs	2,888	2,735	6%
Fleet costs	1,416	1,238	14%
Separation and restructuring costs	33	–	*
Pretax income	190	353	(46%)
EBITDA ²	370	439	(16%)
Avis Budget Group:			
Net revenues	\$5,689	\$5,400	5%
Operating and fleet costs	4,303	3,967	8%
Separation and restructuring costs ³	584	41	*
Pretax loss	(677)	(62)	*
Loss from continuing operations	(451)	(11)	*
Diluted earnings per share from continuing operations (\$)	(4.48)	(0.10)	*
Diluted weighted average shares outstanding	100.6	104.0	(3%)
Key Operating Statistics:			
Car rental days	103.2	101.0	2%
Car rental time & mileage revenue per day (\$)	\$39.96	\$37.96	5%
Truck rental days	4.6	5.3	(14%)
Average car rental fleet (#)	382,658	371,864	3%

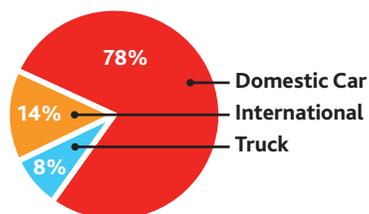
* Not meaningful.

¹ Avis Budget Car Rental is the parent company of the companies that comprise our vehicle rental operations.

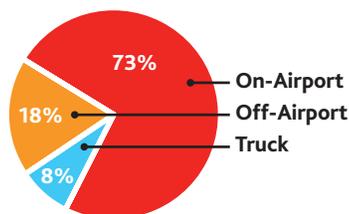
² Avis Budget Car Rental income before income taxes equals EBITDA less (i) non-vehicle related depreciation and amortization of \$86 million and \$80 million for 2006 and 2005, respectively, and (ii) interest expense related to corporate debt of \$94 million and \$6 million for 2006 and 2005, respectively.

³ Includes \$313 million related to the early extinguishment of debt.

Revenue by Segment



Revenue by Source



**Tops with travelers—
Avis Budget Group is #1 in
US airport rental car revenue**



A letter to our shareholders

2006 was an historic year for Avis Budget Group. We remember it with pride for our ability to maintain our focus on driving growth in the face of challenges that included significant fleet cost increases, weak domestic enplanements, the evolution of our corporate structure, and changes to the ownership profiles of the vehicle rental industry as a whole.

Despite these obstacles, we delivered record annual revenues of more than \$5.6 billion. We maintained our #1 position in



Ronald L. Nelson

F. Robert Salerno

the U.S. airport segment and continue to be the largest general-use vehicle rental company in North America. At the same time,

we significantly expanded our network of off-airport locations, adding nearly 200 new locations and increasing revenue by 18 percent.

We added major new commercial accounts while retaining 98 percent of existing corporate customers, continued our strong growth in serving small businesses, and rapidly expanded our insurance replacement rentals. We won awards for brand loyalty, for providing outstanding value to small businesses and for our efforts on behalf of employee and supplier diversity.¹

We strategically realigned our fleet by increasing the diversity of suppliers and models, and decreasing the percentage of so-called “program” cars that are subject to manufacturer repurchase agreements. As a result, we were able to mitigate the significant year-over-year increase in costs charged by manufacturers for rental cars.

We initiated a restructuring of our truck rental business to drive greater performance while reducing our cost base in a seamless transition that allowed for uninterrupted service to our dealers, licensees and customers.

And we accomplished these goals while we became an independent, dual-branded vehicle rental company for the first time—separating from three other large businesses all previously under the same corporate umbrella.

All in all, it truly was an historic year.

Looking ahead, we plan to drive further growth and create sustainable improvements in margins and earnings. This long-term strategy has three basic tenets:

- Optimizing our two strong brands
- Expanding our revenue sources
- Capturing incremental profit opportunities

Two Unique Brands

Our dual-brand strategy differentiates Avis Budget Group from both of our largest competitors and positions us to capture the two deepest pools of rental car demand. Avis is a premium brand for the corporate and leisure traveler who wants the finest service and amenities, while Budget is a value brand that appeals to cost-conscious travelers. These household names enable us to market efficiently to targeted customer segments and earn their loyalty.

Avis' premium positioning is built upon the Company's long-standing commitment to excellence in customer service, as embodied by its famous slogan “We Try Harder,” which continues to be the brand's rallying cry both internally and externally. As a result, Avis has been the leader in customer loyalty among rental car companies for eight consecutive years.¹ Avis has also continued its long heritage as an industry leader in technology and customer service innovation. From our groundbreaking introduction of car-side rental return technology in 1987 to our market-leading rollout of electronic toll collection solutions in 2006, Avis regularly finds ways to enhance the productivity of business travel and make leisure travel more convenient.

Budget's positioning as a provider of clean, reliable late-model cars at great prices to savvy customers who demand great value has been enhanced through stronger emphasis on small businesses and marketing partnerships. In 2006, we signed major new agreements with leading travel companies such as Delta Air Lines and membership organizations such as AARP, which provide new channels for targeted marketing and incremental bookings.

Expanding Revenue Sources

Our second strategic thrust focuses on attracting new customers to our business and generating incremental revenues from our existing customer base by offering ancillary products and services to meet their needs.

In 2006, we launched a new GPS navigation unit called *Where2*, which we believe is the most advanced GPS navigation device available today and a significant advancement over competitive offerings. We ended 2006 with about 8,000 units in the field, a number which we expect to more than triple in 2007.

We introduced electronic toll collection services in several regions, and early in 2007, we announced our plans to launch a portable Wi-Fi Internet access service which we believe will become another new profitable revenue stream. *Where2*, electronic toll collection and portable Wi-Fi products all offer opportunities for us to generate additional revenues, profits and customer loyalty from our nearly 30 million annual rental transactions.

2006 also marked our aggressive entry into the insurance replacement segment. We drove growth both in our client roster and in revenues through the implementation of new proprietary technology, developed specifically for auto insurance companies based on their input, and backed by the power and customer loyalty of our strong brands. We invested in expanding the sales force that serves our insurance replacement clients, small businesses and corporate truck rental customers. We are confident that these segments will continue to be areas in which we can find new opportunities to drive growth.

Capturing Incremental Profit

We are firmly committed to increasing our profits and our margins, and we believe there are numerous avenues through which to drive that growth.

Our ongoing cost containment efforts have focused on realignment of our fleet to mitigate manufacturer cost increases, reducing expenses incurred from vehicle damage and maintenance, and increasing the productivity of our workforce. We have realized significant cost savings by outsourcing non-core functions, by improving our claims processing and self-insurance procedures, through a renewed emphasis on improved workplace safety, and through greater operational efficiency.

The turnaround of our truck rental business is another factor we believe will enhance our margins in the coming years. We will benefit from the consolidation of back-office functions into our car rental operations, increased vehicle utilization, strengthening our dealer network, and increasing sales of packing and moving supplies and other high-margin ancillary products.

Our strategic approach—optimizing our brands, expanding our revenue sources and capturing incremental profit opportunities—represents the evolution of our ongoing strategies for growth that have proven successful over the past several years. Our organization is led by a dedicated leadership team, many of whom have spent decades in the vehicle rental industry, and we believe we have the right people executing the right strategies at the right time to enable our long-term success.

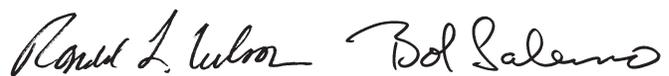


A proven track record of success—

In 2006, Avis Budget Group posted record revenues of more than \$5.6 billion

Working together, our committed and very capable workforce of 30,000 employees will strive to continue to drive growth throughout our Company, in revenues and earnings, total brand value and shareholder wealth. We look forward to making 2007 yet another historic year.

Sincerely,



Ronald L. Nelson
Chairman and CEO

F. Robert Salerno
President and COO

April 2007

¹ Reflects, among other things, our rankings in Brand Keys' 1999-2006 Customer Loyalty Index; the selection of Budget as "Best Rental Car Value" by *Entrepreneur* magazine in April 2006; Avis Budget Group being named as "featured employer" by AARP in 2006 in recognition of the Company's efforts to maximize the potential contributions of workers age 50+; and Avis Budget Group being honored for its "world class supplier diversity program" by the Women's Business Enterprise Council for the seventh time.



Driving growth by listening to our customers

Listening to our customers—whether it’s a Fortune 500 corporate account or a leisure traveler who rents a car once each year—is the common thread that runs through the way we operate our brands.

Our **regular business travelers** told us that they hate losing valuable time getting stuck in traffic while on business trips... we responded with the launch of *Where2*, the only GPS navigation device that provides real-time traffic reports, and provided electronic toll collection services in major urban destinations.

Our **large corporate accounts** told us they required a greater ability to monitor their rental car programs and report on their own key metrics... we developed a new, highly advanced proprietary technology called *Avis Interactive* that enables corporate travel managers to obtain fully detailed reports in the format of their choice according to their specific requirements.

Our **leisure travel customers** expressed a desire for a greater selection of vehicles, including more fuel-efficient options... so we’ve added new makes and models from different manufacturers, including a significant increase in four-cylinder models. As a result, about half of the Avis Budget Group fleet—approximately 180,000 vehicles—is now composed of vehicles that are rated 28 miles per gallon (highway) or better... and in 2007, we’ll add hybrid vehicles to our fleet roster to further respond to our customers’ feedback.

Small business owners said they wanted greater value... so we launched a new small business program from Budget that rewards small business customers with a simple cash rebate, a program that led to Budget being named “Best Rental Car Value” by *Entrepreneur* magazine in 2006.

Our **most frequent renters** told us they wanted better rewards for their loyalty... so we launched our new *Avis First* program, which provides value-added services and amenities for frequent renters such as free upgrades, free weekends and a special website for members to manage their rewards.

Our **truck rental customers** said they wanted more trucks with lift-gates... so we are adding a significant quantity of new trucks in varying sizes equipped with hydraulic lifts, to make both household moving and commercial deliveries more convenient.

Our **insurance replacement clients** told us they required technology unique to their industry’s needs... so we developed a new system based on the input of our customers which helps us provide faster, better service which, in turn, is allowing us to grow our client portfolio and expand our insurance replacement business.

We also listen to our **internal customers—our employees**... their representatives meet every month to brainstorm and share ideas for improving the quality of their local operations as well as ways the Company can save money and improve customer service.

Board of directors and executive officers

Board of Directors

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Emerging Markets Investors Corporation
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Avis Budget Group, Inc.
Director

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Financial Advisor
Director^{1,2}

¹ Member, Audit Committee

² Member, Corporate Governance Committee

³ Member, Compensation Committee

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F. ROBERT SALERNO

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Chief Financial Officer and Treasurer

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International Operations

JOHN T. McCLAIN

Senior Vice President
and Chief Accounting Officer

Investor Relations

An online version of this document, major corporate announcements, quarterly earnings releases and Securities and Exchange Commission filings, including the Company's Annual Report on Form 10-K for the year ended December 31, 2006, are available at www.avisbudgetgroup.com. For investor relations inquiries, please call (973) 496-7277 or e-mail investorrelations@avisbudget.com.

avis budget group

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Our Core Values:

Commitment: We are committed to providing value to our corporate clients and individual customers and to those colleagues who rely on us for leadership or support.

Integrity: We display integrity at all times in the business decisions we make and the manner in which we conduct our professional relationships.

Responsibility: We take seriously our responsibilities as a corporate citizen, always aware of how our actions can benefit the community and sensitive to the needs of the environment.