

Corporate Governance

Corporate governance principles

The Board is accountable to the Company's shareholders for good corporate governance and this statement describes how the principles identified in the Combined Code issued by the Hampel Committee on Corporate Governance are applied by the Company.

Since 1998, the Company has taken the following steps to comply with the provisions of the Combined Code:

- roles of Chairman and Chief Executive separated 1 April 1999
- notice period in service contracts reduced to 12 months for Directors appointed after 1 January 2001
- bonus payments not pensionable for Directors appointed after 1 January 2001
- new long-term incentive plan approved at 2000 Annual General Meeting
- D'Ieteren appointed Directors retire by rotation from 1998
- number of independent non-executive Directors increasing

Board of Directors

Alun Cathcart has been non-executive Chairman since 1 April 1999, having been Chairman and Chief Executive of the Group since 1988.

The Chairman is responsible for the effective running of the Board of Directors. As at 21 February 2001 the Board of Directors comprises four executive Directors and eight non-executive Directors in addition to the Chairman. Biographies of the Board members appear on page 14 of the Annual Report.

The Company considers that its large complement of non-executive Directors, which includes non-executives from organisations with which Avis Europe plc has clear commonality, provides an effective Board with a mix of industry-specific knowledge and broad business and commercial experience. This balance enables the Board to provide clear and effective leadership of the Company and to bring informed and independent judgement to all aspects of the Company's strategic development and performance and to ensure that the highest standards of conduct are maintained throughout the Company.

The Company is currently restructuring the non-executive component of the Board which will increase compliance with the recommendations of the Combined Code. As at 21 February 2001, four of the non-executive Directors come from organisations which have no direct association with Avis Europe plc. Of these, three are regarded as independent and one, who is the senior non-executive Director, is regarded as not independent by virtue of his length of service on

the Board. The senior non-executive Director, Sir Peter Reynolds, and one of the independent non-executive Directors, Daniel Cardon de Lichtbuer, both of whom have attained the age of 70, are due to retire immediately following the Annual General Meeting. Sir Bob Reid is appointed as the senior non-executive Director from that date. Two of the non-executive Directors (in addition to one of the executive Directors) are appointed by s.a. D'Ieteren n.v. as the majority shareholder in the Company. The role of the Directors appointed by s.a. D'Ieteren n.v. is clarified in the Relationship Agreement entered into at flotation in 1997, details of which are set out in the Directors' Report. The other non-executive Directors comprise a senior executive of Cendant Corporation, which owns and licenses the Avis name, operating system and computer systems, and a former executive Director of the Company.

The Board meets at least five times each year and more frequently where business needs require. 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 in respect of acquisitions or investments in businesses which fall within the Group's core competence and are within specified financial criteria) and all capital expenditure over a specified level. All delegated authorities are clearly documented and widely communicated via senior management. A senior non-executive Director is appointed. The Company has procedures in place to ensure that all newly appointed Directors receive appropriate induction and that ongoing updates and training are available to all members of the Board as required. In order to comply with the recommendations of the Combined Code, the Board has adopted a policy that, notwithstanding the provisions of the Articles of Association, all Directors will stand for re-election at the Annual General Meeting at least every three years.

The Company Secretary is responsible for ensuring that Board procedures are followed. All Directors have access to the Company Secretary. In the event that any Director wishes to take independent professional advice on any point arising in connection with the exercise of his duties, the Company Secretary will arrange this at the Company's expense in accordance with the Group's written procedure. The Company Secretary may only be removed by resolution of the Board of Directors.

Details of Directors' remuneration and service contracts are set out in the Remuneration Report on pages 18 to 23.

Board committees

The Board has established an Audit Committee, a Remuneration and Appointments Committee and a Strategic Committee.

The Audit Committee is responsible for overseeing the involvement of the Group's auditors in the planning and review of the Group's annual report and accounts and half year report, for the appointment of the auditors, and for discussing with the auditors the findings of the audit. The independence and objectivity of the external auditors is also considered. The Committee also sets guidelines designed to ensure compliance with accounting and legal requirements, and the Rules of the Financial Services Authority, to ensure that the Group maintains an effective system of internal financial control and internal audit. The ultimate responsibility for reviewing and approving the annual report and accounts and the half-year report, however, remains with the Board of Directors. The members of the Audit Committee during 2000 were Sir Peter Reynolds (Chairman), Daniel Cardon de Lichtbuer, Alun Cathcart, Sir Bob Reid and Jacques de Smet. Malcolm Miller joins the Committee on his appointment as a Director. On Sir Peter Reynolds' retirement following the Annual General Meeting, Sir Bob Reid is appointed as Chairman of the Committee.

The Remuneration and Appointments Committee determines the Group's policy on remuneration of senior executives, appointment of Directors and key executives and major organisational changes, and is responsible for the structure and monitoring of the Group's share incentive schemes. The members of the Remuneration and Appointments Committee during 2000 were Sir Peter Reynolds (Chairman), Daniel Cardon de Lichtbuer, Alun Cathcart, Roland D'Ieteren, Sir Bob Reid and Wally Taylor. Malcolm Miller joins the Committee on his appointment as a Director. On Sir Peter Reynolds' retirement following the Annual General Meeting, Alun Cathcart will assume temporary chairmanship of the Committee until the restructuring of the non-executive component of the Board is completed. As President of s.a. D'Ieteren n.v., Roland D'Ieteren abstains from discussion and voting on remuneration of Gilbert van Marcke de Lummen. Alun Cathcart and Wally Taylor stepped down as executive Directors of Avis Europe plc in April 1999 and June 1998 respectively. Both have extensive experience across a range of industries. Alun Cathcart holds a broad range of non-executive directorships in travel-related and other industries and Wally Taylor has significant experience in organisational development and executive remuneration in a number of international companies, thus contributing valuable advice and continuity to the Committee. The Remuneration Report to shareholders appears on pages 18 to 23.

The Strategic Committee meets three times a year and is responsible for developing and reviewing the Company's strategy and for identifying and monitoring key trends affecting the Company's business and relationships with key industry groups. The members of the Strategic Committee are Alun Cathcart (Chairman), Christopher I Cowan, Mark McCafferty and Gilbert van Marcke de Lummen.

Shareholder relations

There is regular dialogue with individual institutional shareholders throughout the year and especially after the interim and preliminary results. The Chief Executive makes a presentation at the Annual General Meeting highlighting key business developments during the financial 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 Corporate Affairs Department of Avis Europe plc. The Company's website at www.avis-europe.com gives access to current and historical financial information for the Group.

Accountability and audit

As required by the Financial Services Authority, the Company has complied with the Combined Code provisions on internal control having established the procedures necessary to implement the guidance issued in September 1999 (the Turnbull Committee report) and by reporting in accordance with that guidance.

The Board of Directors has overall responsibility for the Group's systems of internal control and for monitoring their effectiveness whilst the role of management is to implement Board policies on risk and control. The system of internal control is designed to manage rather than eliminate the risk of failure to the achievement of the business objectives. In pursuing these objectives, internal controls can only provide reasonable and not absolute assurance against material misstatement or loss.

There is an ongoing process for identifying, evaluating and managing the significant risks faced by the Avis Europe Group, as part of the Group's regular strategic planning, budgeting and forecasting procedures. This process is regularly reviewed by the Board.

The Audit Committee reviews internal audit work plans, ensuring that they cover key business processes and controls, considers reports from management and internal and external auditors on the systems of internal control and any significant control issues and

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discusses actions taken on problem areas identified by Board members or those raised in the internal/external audit reports. In addition the Audit Committee is responsible for reviewing the effectiveness of internal controls, including operational and financial controls, risk management and compliance and confirms that it has done so for the year under review.

The Chairman of the Audit Committee reports the outcome of Audit Committee meetings to the Board at least twice a year.

A Risk Management Committee was established at the end of 1999 comprising a number of senior members of management from the various functions. The responsibilities of the Risk Management Committee include:

- co-ordinating and facilitating regular risk assessments at country, functional and Group level
- assessing the risks identified and actions taken to manage those risks to a desired level
- preparing reports for the Audit Committee and Board on key risks

The creation of the Risk Management Committee has extended the Company's system of internal control and risk management and enhanced the Board's ability to perform its responsibilities with respect to internal control.

Corporate governance provisions

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 the recommendation that the majority of non-executive Directors are independent within the terms of the Combined Code, the recommendation that all members of the Remuneration and Appointments Committee are independent non-executive Directors and two further areas noted in the Remuneration Report, namely that Directors' service contracts should be for a period of one year or less and that bonus payments should not be pensionable.

All new appointments from 1 January 2001, including Dieter Woitscheck, will comply with the recommendations of the Combined Code in these two areas. The reasons for non-compliance in each of these areas are explained within the discussion of the principles of the Combined Code set out above and in the Remuneration Report.

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.