

## Remuneration Report

This report sets out the Group's policy on executive remuneration with details of Directors' earnings for 2000, the interests of Directors in Company shares, pension entitlements and fees paid to non-executive Directors.

The Board has given full consideration to the best practice provisions on Directors' remuneration appended to the Financial Services Authority Listing Rules.

### Remuneration and Appointments Committee

The Remuneration and Appointments Committee is comprised of non-executive Directors. During 2000, the members were:

- Sir Peter Reynolds (Chairman)
- Alun Cathcart
- Daniel Cardon de Lichtbuer
- Roland D'Ieteren
- Sir Bob Reid
- Wally Taylor
- Malcolm Miller (appointed 21 February 2001)

Alun Cathcart will assume temporary chairmanship of the Committee following Sir Peter Reynold's retirement at the Annual General Meeting, until the restructuring of the non-executive component of the Board is completed (explained in Corporate Governance on page 24).

### Scope of Remuneration and Appointments Committee

The Remuneration and Appointments Committee sets the policy on senior executive remuneration and reviews remuneration packages for Directors and senior key executives. The Committee is also responsible for the structuring and allocation of the Group's share incentive schemes. In addition to remuneration matters, the Committee appoints Directors and key executives, approves major organisational changes and monitors senior management succession capabilities.

### Appointments

Dieter Woitscheck joined the Board as Chief Operating Director on 8 January 2001. He was formerly Managing Director of Avis Germany. Malcolm Miller joined the Board on 21 February 2001 as a non-executive Director. He is currently Chief Executive of Pace Micro Technology plc.

As part of the Group's succession planning, the Committee approved a number of internal senior appointments during the year to secure management talent and continuity in various of the Group's subsidiaries and the central management team.

### Remuneration policy

The Company's executive pay policy is designed to secure the skills and experience the Group needs to meet its objectives and satisfy shareholder expectations. In determining its policy, 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 has access to professional advice within the Company and externally.

Executive Directors' remuneration is designed to be competitive in the market place and have a significant performance-related element. Remuneration comprises salary, taxable benefits, bonus payments, participation in the Company's share incentive schemes and pension entitlements.

### Salary and incentive

Remuneration levels of salary and bonus are established by reference to comprehensive market survey information, performance and direct linkage of reward to Company performance. Incentive bonuses have for many years been an important part of Avis Europe's culture and are widely applied throughout the Group.

Annual bonuses are regarded as an integral part of remuneration. The element of remuneration relating to bonus is retained until pre-set financial incentive targets are achieved. This percentage of earnings is therefore "at risk" for all participants. Assumption of standard performance achievement is built into the Group's annual budget.

Annual incentive plans for executive Directors and key senior management are based on achievement of pre-set targets approved by the Committee and related directly to the annual profit plan approved by the

Board. Targets and performance measures are quantitative and not discretionary. There were no bonus awards for 2000 as EPS growth was below the minimum required to trigger entry into the incentive plan.

The base salary and value of benefits in kind for each Director is set out in table (a) on page 22.

#### Share incentive schemes

Share schemes are regarded as integral to the incentivisation and reward of management and employees and are widely applied across the Group. The share incentive schemes operated by the Company are as follows: a performance share plan, an equity partnership plan, approved and unapproved share option schemes and profit sharing schemes. In 2000 the Company established an employee benefit trust.

A sharesave scheme and an all employee share scheme have been approved for possible establishment in the future.

Non-executive Directors are not eligible to participate in the Company's share incentive schemes.

During 2000, two long-term incentive plans were introduced for the executive and senior management group. The objective of these plans is to:

- Further reinforce a performance-based culture by focussing the management team towards achieving local and Group targets over the medium and longer term.
- Provide an incentive which aligns the efforts and rewards of senior management with shareholders' interests through additional equity ownership opportunities.
- Maintain a competitive remuneration package to attract and retain senior management throughout the Group.

#### Performance Share Plan (LTIP)

The Performance Share Plan, approved at the Annual General Meeting in 2000, is a seven-year plan, designed to encourage executive focus on longer-term performance and growth in shareholder value.

Under this plan, participants receive a conditional award of shares that will vest over a period of seven years from the date of the award. Awards are determined by the Remuneration and Appointment Committee and will not normally be greater than 100% of the participant's total annual remuneration measured at the date of the award.

No participant will receive an award under the Company's share option schemes in the same year as an award under the Performance Share Plan.

The extent to which an award vests is determined by the Company's medium and long-term performance measured in terms of both earnings per share ("EPS") and total shareholder return ("TSR"). TSR is measured against a comparator group from the Transport and Support Services sectors.

On 9 June 2000 awards over 399,572 shares were granted to Directors as follows:

Christopher I Cowan	75,228 shares
Gilbert van Marcke de Lummen	65,793 shares
Mark McCafferty	258,551 shares

For these awards to vest, there has to be a minimum real increase in EPS of 3% per annum to 9 June 2007 and TSR at the end of each performance period must be at least at the median in relation to the comparator group. If both these performance conditions are met, 50% of the award may vest. If the EPS target is met and the Company's TSR is in the top quartile of the comparator group over the seven-year period, the award will be capable of fully vesting. TSR achievement between the median and 75th percentile will result in a vesting between 50% and 100% of the award on a pro rata basis.

If the performance conditions are met at 9 June 2003 and 9 June 2005, vesting will accelerate to the extent of 25% of the award on each of these occasions. These conditional awards take the form of options with a nil exercise price. The Directors have agreed to bear the employer's National Insurance liability on exercise.

## Remuneration Report

### Equity Partnership Plan

This plan comprises two types of conditional award:

- **Partnership Share Award:** an annual opportunity for participants to invest part of their annual bonus to acquire shares in the Company. If they do so, an award will be granted over additional shares calculated as a proportion of the amount invested, provided they remain employed by the Group for a specified period, retain the shares they have acquired throughout that period and fulfil certain performance conditions.
- Over 40 members of the senior management group, including two executive Directors, chose to participate in this programme in its first year. Awards were granted over a total of 30,213 shares which included the following awards to Directors. Christopher I Cowan purchased 3,045 shares and was granted an award over 3,177 shares on 27 June 2000. Gilbert van Marcke de Lummen purchased 2,662 shares and was granted an award over 2,778 shares on 27 June 2000. These awards will fully vest at 31 December 2002 provided that the holder is in employment with the Group, has not sold any invested shares during the period and EPS has increased by 3% per annum in real terms over the period ending 31 December 2002. The Directors' conditional awards take the form of options granted with a nil exercise price and they have agreed to bear the employer's National Insurance liability on exercise.
- **Loyalty Share Award:** a one-off award of 976,337 shares in total made to over 80 of the senior management group, including the executive Directors. The number of shares awarded is 25% of the shares held under options granted at the flotation of the Company or commencement of employment, if later.

On 9 June 2000 the following awards were granted to executive Directors:

Christopher I Cowan	47,312 shares
Gilbert van Marcke de Lummen	52,771 shares
Mark McCafferty	52,500 shares

These awards will vest in three equal instalments on the sixth, seventh and eighth anniversary of the date of grant of the relevant option, provided that the participant has not disposed of more than one-third of the shares under that option in respect of each of the three years following the third anniversary of grant of the option. For a participant to be able to exercise the options, performance conditions imposed at the time of the option grant must have been met.

The Directors' conditional awards take the form of options granted over shares with a nil exercise price and they have agreed to bear the employer's National Insurance liability on exercise.

### Share option schemes

Over 400 employees across the Group, including the executive Directors, have been granted options under the Company's Inland Revenue approved and unapproved share option schemes. At 31 December 2000, qualifying employees held options over 9,280,103 shares. During 2000, options were granted to 123 employees. Grants were made on 31 March 2000 at an exercise price of 197.8p and on 16 October 2000 at an exercise price of 199p, in each case being the market value of the Company's shares at the date of grant. The market price of the Company's shares at 31 December 2000 was 210p. During the year, the market price ranged between 133p and 250p. No grants were made to the executive Directors during 2000.

Employees may not normally exercise options earlier than three years nor more than ten years after the grant (seven years for grants made before April 2000 for the unapproved scheme). Options may only be exercised if the Company achieves a minimum real increase in EPS of 3% per annum over a period of three consecutive years commencing with the year in which the options were granted.

A number of amendments to the Company's share option schemes were approved at the last Annual General Meeting to more closely align with current market practice and facilitate annual grants of options. During 2001 the Committee will review the allocation policy and in the event that annual grants are implemented, will remove the re-testing period.

Directors' interests in shares and share options, all of which are beneficial except as noted, are set out on page 23.

#### **Avis Europe Employee Share Trust**

The Avis Europe Employee Share Trust was established in March 2000 to facilitate provision of shares for the Company's share incentive schemes.

The Trust may hold up to 5% of the issued share capital of the Company at any one time. Details of the shares held by the Trust are set out in note 12 to the financial statements.

#### **Profit share schemes**

The Company operates two profit sharing schemes, the Avis Europe plc Approved Profit Sharing Scheme for UK employees and the Avis Europe plc International Profit Sharing Scheme for other employees. During the year ended 31 December 2000, funds of £696,795 in total were paid to the trustees of the two schemes for the purchase of shares in Avis Europe plc. Allocations were made to all employees with five or more years' service in respect of the Company's financial performance in 1999.

#### **Retirement benefits**

In line with the recommendations of the Combined Code, the Committee has changed its policy on the automatic inclusion of bonus payments for pension provision for executive Directors with effect from 1 January 2001.

Alun Cathcart, Gilbert van Marcke de Lummen and Mark McCafferty are members of the Avis UK Pension Plan.

Dieter Woitscheck remains a member of the Avis Germany pension plan. On joining the Board he waived his right to pension on bonus payments under the rules of that plan.

Christopher I Cowan is not a member of a Company pension plan. He receives a taxable supplement of cash remuneration towards pension provision.

#### **Directors' service contracts**

Each executive Director has a service agreement which runs until terminated by notice. The notice period from the Company to executive Directors appointed before

the end of 2000 is 18 months, and 12 months to Directors appointed subsequent to 1 January 2001. The contracts provide for remuneration to be paid for any unexpired notice period in the event of termination by the Company. Any such payments would be discounted in line with the mitigation obligations of the departing Director.

Company policy at the time of appointment of the Chief Executive and Group Finance Director was to provide contracts with 18 months' notice (reduced from 36 months in 1997). This was regarded as the minimum necessary to recruit and retain directors of appropriate calibre in a highly competitive environment. Given the level of industry experience and expertise acquired by the Directors and the ongoing competitive environment, the Committee believes that continuation of the 18 months' notice period provides for continuity and is therefore in the best interests of the Company and shareholders.

However, the Committee recognises that this does not follow the recommendations of the Combined Code and will continue to review its position on this issue.

#### **External appointments**

Subject to Committee approval executive Directors may accept non-executive directorships. The Company believes such appointments provide valuable broadening experience.

#### **Non-executive Directors**

With the exception of the Chairman, whose details are given on page 22, non-executive Directors receive fees of £30,000 per annum.

Wally Taylor received an additional fee of £21,525 under a consultancy arrangement and Jacques de Smet received an annual fee of £10,000 for additional Committee responsibilities.

All non-executive Directors have letters of appointment for a three-year period. One non-executive Director waived his rights to a fee for the year under review.

## Remuneration Report

### Directors' remuneration

(a) The remuneration of the Directors, comprising salary or fees, taxable benefits and bonus payments for the year ended 31 December 2000 are set out in the table below.

	Salary/Fees £	Bonus £	Taxable benefits £	Total year to 31 December 2000 £	Total year to 31 December 1999 £
<b>Executive</b>					
C I Cowan	279,450	—	14,981	294,431	392,371
G van Marcke de Lummen	247,500	—	—	247,500	311,305
M McCafferty	332,000	—	17,734	349,734	486,552
<b>Non-executive</b>					
D Cardon de Lichtbuer	30,000	—	—	30,000	30,000
W A Cathcart	160,000	—	5,425	165,425	388,507
R D'leteren	30,000	—	—	30,000	30,000
S P Holmes	—	—	—	—	—
Sir Bob Reid	30,000	—	—	30,000	30,000
Sir Peter Reynolds	30,000	—	—	30,000	30,000
J de Smet	40,000	—	—	40,000	40,000
W E C Taylor	51,525	—	18,234	69,759	85,013

(b) Details of Directors' pension entitlements at 31 December 2000 are shown below. Non-executive Directors, other than the Chairman, do not participate in the Company's pension scheme.

	Accrued entitlement at 1 January 2000 £	Accrued entitlement at 31 December 2000 £	Additional pension earned during the year £	Pension entitlement transfer value for the year £
W A Cathcart	343,608	351,591	4,204	59,171
C I Cowan	—	—	—	—
G van Marcke de Lummen	110,245	110,245	—	—
M McCafferty	5,034	8,161	3,072	23,394

(c) The Directors' interests in shares and share options granted under the Avis Europe plc share option schemes, all of which are beneficial except as noted, are shown below. No options were granted to Directors under the Company's share option schemes during the period. Details of awards made during the year under the Performance Share Plan and the Equity Partnership Plan appear on pages 19 and 20. There have been no changes between 31 December 2000 and 21 February 2001.

	Shares		Options			Exercise price (pence)	Exercisable date	Expiry date
	31 December 2000	1 January 2000	31 December 2000	Granted during year	1 January 2000			
W A Cathcart <sup>1 2</sup>	282,147	217,265	–	–	24,190	124.0		
			–	–	259,684	124.0		
			–		283,874			
C I Cowan	16,070	1,025	12,087	–	12,087	248.2	Oct 2001	Oct 2008
			177,163	–	177,163	248.2	Oct 2001	Oct 2005
			189,250		189,250			
G van Marcke de Lummen	2,662	–	24,190	–	24,190	124.0	Mar 2000	Mar 2007
			186,895	–	186,895	124.0	Mar 2000	Mar 2004
			48,500	–	48,500	248.2	Oct 2001	Oct 2005
			259,585		259,585			
M McCafferty	40,000	20,000	11,194	–	11,194	268.0	May 2001	May 2008
			198,806	–	198,806	268.0	May 2001	May 2005
			90,000	–	90,000	248.2	Oct 2001	Oct 2005
			300,000		300,000			
D Cardon de Lichtbuer	–	–	–					
R D'leteren	–	–	–					
S P Holmes	–	–	–					
Sir Bob Reid	8,064	8,064	–					
Sir Peter Reynolds	24,193	24,193	–					
J de Smet	16,129	16,129	–					
W E C Taylor	16,129	16,129	–					

<sup>1</sup> Included within W A Cathcart's holding of 282,147 shares are 8,065 shares in which he has a non-beneficial interest as trustee for the beneficial owner.

<sup>2</sup> W A Cathcart exercised options over 283,874 shares on 31 May 2000. The market price at that date was 195 pence. The total gain on exercise was £201,550. Of the 283,874 shares acquired, 218,992 shares were sold on the date of exercise to meet the exercise price and associated tax and costs.