

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'leteren appointed Directors retire by rotation from 1998.

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 25 February 2002, 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.

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.

As at 25 February 2002, three of the non-executive Directors come from organisations which have no direct association with Avis Europe plc and are therefore regarded as independent. The independent non-executive Directors include Sir Bob Reid who was appointed as the senior non-executive Director following the retirement of Sir Peter Reynolds on 18 April 2001. Two of the non-executive Directors (in addition to one of the executive Directors) are appointed by s.a. D'leteren n.v. as the majority shareholder in the Company. The role of the Directors appointed by s.a. D'leteren 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 two senior executives of Cendant Corporation, which owns and licences 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 22.

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

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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 half-year report, however, remains with the Board of Directors. The members of the Audit Committee as at 1 January 2001 were Sir Peter Reynolds (Chairman), Daniel Cardon de Lichtbuer, Alun Cathcart, Sir Bob Reid and Jacques de Smet. Sir Peter Reynolds and Daniel Cardon de Lichtbuer retired on 18 April 2001. Sir Bob Reid was appointed Chairman of the Committee on the same date. Malcolm Miller and Dr Axel von Ruedorffer joined the Committee on their appointment as Directors on 21 February 2001 and 27 June 2001 respectively. There were no other changes in the composition of the Committee during the year.

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 as at 1 January 2001 were Sir Peter Reynolds (Chairman), Daniel Cardon de Lichtbuer, Alun Cathcart, Roland D'leteren, Sir Bob Reid and Wally Taylor. Sir Peter Reynolds and Daniel Cardon de Lichtbuer retired on 18 April 2001. Alun Cathcart assumed temporary chairmanship of the Committee following Sir Peter Reynold's retirement. Malcolm Miller and Dr Axel von Ruedorffer joined the Committee on their appointment as Directors on 21 February 2001 and 27 June 2001 respectively. There were no other changes in the composition of the Committee during the year. As President of s.a. D'leteren n.v., Roland D'leteren abstains from discussion and voting on the 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. Alun Cathcart will step down from the Committee on 1 May 2002 and Sir Bob Reid will assume chairmanship. The Remuneration Report to shareholders appears on pages 18 to 22.

The Strategic Committee 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 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

A statement of the responsibility of the Directors for these accounts is set out on page 17. The independent auditors' report is set out on page 26.

Risk management and internal control

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 system of internal control and risk management. However, such a system is designed to manage rather than eliminate the risk of failure to achieve business objectives, and can provide only reasonable and not absolute assurance against material misstatement or loss. The schedule of matters reserved to the Board ensures that the Directors maintain full and effective control over all significant strategic, financial, organisational and compliance issues. The Directors have delegated to management the establishment and implementation of a system of internal controls that has been developed and refined over time to meet current and expected future needs and the risks and opportunities to which it is exposed.

In addition a Risk Management Committee was established at the end of 1999 comprising senior members of management from all key 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
- reviewing the social, environmental and ethical policies and procedures of the Group
- preparing reports for the Audit Committee and Board on key risks.

The reports from the Risk Management Committee are submitted to the Audit Committee. The Chairman of the Audit Committee reports the outcome of Audit Committee meetings to the Board at least twice a year. This extends the Company's system of internal control and risk management and enhances the Board's ability to perform its responsibilities with respect to internal controls.

The internal control system is monitored and supported by an internal audit function that operates on a Group basis and reports to management and the Audit Committee on the Group's operations. The work of internal audit is focused on the areas of greatest risk to the Group determined on the basis of a process of risk assessments conducted throughout the Group.

As stated on page 24, the Board has overall responsibility for the Group's system of internal control and for reviewing its effectiveness. Through delegation to the Risk Management Committee and the Audit Committee, the Board has reviewed the effectiveness of the system of internal controls. In satisfying itself that sufficient and appropriate work has been performed by the committees, the Board as a whole considered the adequacy and scope of the reports it has received from the Audit Committee along with corroborative evidence where necessary. The terms of reference of the committees was also considered to ensure that they remain appropriate to Group developments.

Also, through the processes identified in this report, the Board can confirm that it has complied with the requirement to establish an ongoing process for identifying, evaluating and managing the significant risks faced by the Group. This was in place throughout the year under review and up to the date of approval of this annual report and accounts.

The system of internal controls, which is communicated through various operating and procedural processes, includes but is not limited to:

- the definition of the organisation structure and the appropriate delegation of authorities to operational management
- strategic planning and the related annual planning and a quarterly review process including regular review by the Board of performance and Group strategies
- monthly financial reporting and review of financial results and statistics, based on a standardised reporting process
- accounting and financial reporting policies to ensure the consistency, integrity and accuracy of the Group's accounting records
- specific treasury policies and objectives and the regular reporting and review of all significant transactions and financing activities
- procedures for the authorisation of capital investments through a specific committee
- the establishment of individual business unit annual performance targets and regular reviews of operational performance.

Corporate governance statement

The Board of Directors confirm that the Company has complied throughout the accounting period 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 requirement that all members of the Remuneration and Appointments Committee are independent non-executive Directors and the recommendation that all Directors' service contracts should be for a period of one year or less. All new appointments, with effect from 1 January 2001, are on service contracts of one year. The reasons for non-compliance in each area are explained within the discussion of the principles of the Combined Code set out above and in the Remuneration Report. 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.