

Remuneration report

This report sets out the Group's policy on executive remuneration with details of Directors' earnings for 2001, 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 2001 the members were:

- Alun Cathcart (Chairman from 18 April 2001)
- Sir Peter Reynolds (Chairman) (retired 18 April 2001)
- Daniel Cardon de Lichtbuer (retired 18 April 2001)
- Roland D'leteren
- Malcolm Miller (appointed 21 February 2001)
- Sir Bob Reid
- Dr Axel von Ruedorffer (appointed 27 June 2001)
- Wally Taylor

Alun Cathcart will step down from the Committee on 1 May 2002 and Sir Bob Reid will assume chairmanship.

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. Three non-executive Directors joined the Board during the year. Malcolm Miller joined the Board on 21 February 2001, Dr Axel von Ruedorffer on 27 June 2001 and John Chidsey on 5 September 2001. Directors' biographies appear on page 14.

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 Group 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. A level of bonus award was made for 2001 against achievement of pre-set profit objectives established by the Remuneration and Appointments Committee following the events of 11 September 2001. No incentive awards were made in 2000.

The base salary, incentive payment and value of benefits in kind for each Director is set out in table (a) on page 21.

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 Company operates the following: a performance share plan, an equity partnership plan, approved and unapproved share option schemes and profit sharing schemes. An employee benefit trust was established by the Group in 2000. A sharesave

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

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

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. Awards are determined by the Remuneration and Appointments 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 four executive Directors participate in the Plan and in May 2001 an award over 93,766 shares was granted to Dieter Woitscheck.

The dates of award and maximum number of shares receivable by the Directors are as follows:

	Date of Award	Outstanding At 31 December 2000	Outstanding At 31 December 2001
M McCafferty	9 June 2000	258,551	258,551
C I Cowan	9 June 2000	75,228	75,228
G van Marcke de Lummen	9 June 2000	65,793	65,793
D Woitscheck	3 May 2001	–	93,766

These conditional share awards will vest over a period of seven years from the date of the award. The extent to which an award vests is determined by the Group'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. For the awards to vest there has to be a minimum real increase in EPS of 3% per annum over the seven-year period 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 conditions are met, 50% of the award may vest. For full vesting the EPS target must be met and the Group's TSR must be in the top quartile of the comparator group over the seven-year period. TSR achievement between the median and 75th percentile will result in vesting between 50% and 100% of the award on a pro rata basis.

If the performance conditions are met at the third and fifth anniversary of the date of award, 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. At 31 December 2001, none of these awards had vested.

Equity Partnership Plan

The Equity Partnership Plan for executives and senior management throughout the Group was approved at the Annual General Meeting in 2000. The plan comprises two types of conditional award:

Partnership share award

This is an 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 the period and the Group fulfils certain performance conditions.

Three Directors have a conditional award of shares. The date of award and the number of shares receivable by the Directors are as follows:

	Date of Award	At 31 December 2001
C I Cowan	27 June 2000	3,177
G van Marcke de Lummen	27 June 2000	2,778
D Woitscheck	26 April 2000	1,126

Awards were made to Directors who invested part of their financial year 1999 bonus in the purchase of shares in the Company. The share awards will fully vest in March 2003 provided the specified vesting conditions are met through the period to that date. The performance target is that the EPS of the Group must have 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. At 31 December 2001, none of the above awards had vested.

At 31 December 2001, a further 31 senior managers have conditional awards over a total of 18,870 shares, none of which have vested. These awards are subject to the same vesting and performance conditions as those relating to the Directors' awards. During 2001, three managers received 1,238 shares which vested early when they left the Group's employment.

Loyalty share award

This was a one-off award made in 2000 to over 80 of the senior management group including the executive Directors. The number of shares awarded was 25% of the shares held

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under options granted at the flotation of the Company or commencement of employment, if later. These awards vest in three equal instalments on the sixth, seventh and eighth anniversary of the date of the 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 option.

The four executive Directors have a one-off conditional award of shares. The date of award and the number of shares receivable by the Directors are as follows:

	Date of Award	Outstanding at 31 December 2000 and 31 December 2001
M McCafferty	9 June 2000	52,500
C I Cowan	9 June 2000	47,312
G van Marcke de Lummen	9 June 2000	52,771
D Woitscheck	17 March 2000	27,500

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. At 31 December 2001, none of the Directors had exercised their relevant options and none of the awards had vested.

At 31 December 2001, a further 78 senior managers have conditional awards over a total of 691,250 shares awarded in 2000, none of which have vested. These awards are subject to the same vesting and performance conditions as those relating to the Directors' awards. During 2001, two senior managers received 20,000 shares which vested early when they left the Group's employment.

Share option schemes

A total of 425 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 2001, qualifying employees held options over 10,127,953 shares. During 2001, options were granted to 179 employees. Grants were made on 3 May 2001 at an exercise price of 162.7p and on 14 September 2001 at an exercise price of 145.3p, 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 2001 was 163p. During the year, the market price ranged between 103p and 225p. Grants were made to M McCafferty and C I Cowan in May 2001 over 42,000 and 37,850 shares respectively.

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 Annual General Meeting in 2000 to more closely align with current market practice and facilitate the annual grant of options. During 2002 the Remuneration and Appointments 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 22.

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. During 2001, no additional shares were acquired by the Trust and the number of shares drawn down during the period was 20,320. At 31 December 2001, the Trust held 979,198 shares, excluding those shares which were purchased from bonuses by participants in the Partnership share award.

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 2001, no funds were paid to the trustees of the two schemes for the purchase of shares in Avis Europe plc.

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 the 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 below, non-executive Directors receive fees of £32,500 per annum. An additional annual fee is paid to certain non-executive Directors who have additional Committee responsibilities. Under this arrangement, Jacques de Smet received an annual fee of £10,000 and Sir Bob Reid received £4,000. Wally Taylor received an additional fee of £10,032 under a consultancy agreement.

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

Directors' remuneration

(a) The remuneration of the Directors, comprising salary or fees, taxable benefits and bonus payments for the year ended 31 December 2001 are set out in the table below.

	Salary/Fees £	Bonus £	Taxable benefits £	Total year to 31 December 2001 £	Total year to 31 December 2000 ² £
Executive					
C I Cowan	315,274	67,640	16,063	398,977	294,431
G van Marcke de Lummen	256,000	59,341	–	315,341	247,500
M McCafferty	349,000	137,940	15,712	502,652	349,734
D Woitscheck ¹	203,736	64,205	160,251	428,192	–
Non-executive					
D Cardon de Lichtbuer	9,802	–	–	9,802	30,000
W A Cathcart	173,000	–	4,347	177,347	165,425
J W Chidsey	–	–	–	–	–
R D'leteren	32,500	–	–	32,500	30,000
S P Holmes	–	–	–	–	–
M Miller	27,857	–	–	27,857	–
Sir Bob Reid	36,500	–	–	36,500	30,000
Sir Peter Reynolds	12,150	–	–	12,150	30,000
Dr A von Ruedorffer	8,125	–	–	8,125	–
J de Smet	42,500	–	–	42,500	40,000
W E C Taylor	42,532	–	24,023	66,555	69,759

¹D Woitscheck received certain allowances in respect of his transfer to the UK.

²No bonus awards were made for the year to 31 December 2000.

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(b) Details of Directors' pension entitlements at 31 December 2001 are shown below. Non-executive Directors, other than the Chairman, do not participate in the Company's pension scheme.

	Accrued entitlement at 1 January 2001 £	Accrued entitlement at 31 December 2001 £	Additional pension earned during the year £	Pension entitlement transfer value for the year £
W A Cathcart	351,591	362,025	4,457	59,916
C I Cowan	–	–	–	–
G van Marcke de Lummen	110,245	110,245	–	–
M McCafferty	8,161	10,139	1,840	11,878
D Woitscheck	84,103	87,054	1,185	6,554

(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. Details of awards made during the year under the Performance Share Plan appears on pages 19 and 20. There have been no changes between 31 December 2001 and 25 February 2002.

	Shares		Options					
	31 December 2001	1 January 2001 ²	31 December 2001	Granted during period	1 January 2001 ²	Exercise price (pence)	Exercisable date	Expiry date
W A Cathcart ¹	282,147	282,147	–	–	–			
			–	–	–			
C I Cowan	31,070	16,070	12,087	–	12,087	248.2	Oct 2001	Oct 2008
			177,163	–	177,163	248.2	Oct 2001	Oct 2005
			37,850	37,850	–	162.7	May 2004	May 2011
			227,100	37,850	189,250			
G van Marcke de Lummen	2,662	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	40,000	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
			42,000	42,000	–	162.7	May 2004	May 2004
			342,000	42,000	300,000			
D Woitscheck ²	107,572	106,200	110,000	–	110,000	124.0	Mar 2000	Mar 2004
			25,500	–	25,500	248.2	Oct 2001	Oct 2005
			135,500		135,500			
J W Chidsey	–	–	–					
R D'leteren	–	–	–					
S P Holmes	–	–	–					
M Miller	5,000	–	–					
Sir Bob Reid	8,064	8,064	–					
Dr A von Ruedorffer	–	–	–					
J de Smet	16,129	16,129	–					
W E C Taylor	16,129	16,129	–					

¹Included 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.

²Or date of appointment for D Woitscheck.