

CORPORATE GOVERNANCE

Principles

The Board is accountable to the 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.

Board of Directors

The Directors of the Company who served during the period 1 January 2002 to 26 February 2003 are listed below:

Jean-Pierre Bizet (appointed 29 October 2002)

Alun Cathcart

John Chidsey

Lesley Colyer (appointed 18 April 2002)

Christopher I Cowan (resigned 11 April 2002)

Roland D'Ieteren

Stephen P Holmes

Gilbert van Marcke de Lummen

Mark McCafferty

Malcolm Miller

Sir Bob Reid

Dr Axel von Ruedorffer

Jacques de Smet (resigned 29 October 2002)

Martyn Smith (appointed 11 September 2002)

Wally Taylor (retired 18 April 2002)

Dieter Woitscheck

Sir Bob Reid was appointed non-executive Chairman with effect from 1 May 2002, having been a non-executive Director since 1997. Lesley Colyer was appointed as Group Personnel & Corporate Affairs Director on 18 April 2002, Martyn Smith was appointed as Group Finance Director on 11 September 2002 and Jean-Pierre Bizet was appointed as a non-executive Director on 29 October 2002.

In accordance with the Articles of Association, Lesley Colyer, Martyn Smith and Jean-Pierre Bizet will retire at the forthcoming Annual General Meeting and, being eligible, will stand for election. Roland D'Ieteren, Mark McCafferty and Malcolm Miller retire by rotation at the forthcoming Annual General Meeting and, being eligible, offer themselves for re-election.

The Chairman is responsible for the effective running of the Board of Directors. As at 26

February 2003, the Board of Directors comprises five executive Directors and seven non-executive Directors in addition to the Chairman. Biographies of the Board members appear in Directors.

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 26 February 2003, 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 are Sir Bob Reid (Chairman), Malcolm Miller and Axel von Ruedorffer. Two of the non-executive Directors, in addition to one executive Director, are appointed by s.a. D'Ieteren n.v. as the majority shareholder in the Company. The D'Ieteren appointed Directors are Alun Cathcart (executive Deputy Chairman), Roland D'Ieteren and Jean-Pierre Bizet. 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 below. The other non-executive Directors comprise two senior executives of Cendant Corporation, which owns and licences the Avis name, operating system and certain computer systems, and a former executive Director of the Company. Following the appointment of Sir Bob Reid as Chairman on 1 May 2002, the Group is now chaired by an independent non-executive Director and no steps have therefore been taken to appoint a senior non-executive Director. The possibility of making such an appointment in the future will be kept under review.

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 within specified financial criteria) and all capital expenditure over a specified level. All delegated authorities are clearly documented and widely communicated via senior management. 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, and may only be removed by resolution of the Board of Directors. All Directors have access to the Company Secretary whenever they require. In the event that any Director wishes to take independent professional advice on any point arising in connection with the exercise of their duties, the Company Secretary will arrange this at the Company's expense in accordance with the Group's written procedure.

Details of Directors' remuneration and service contracts are set out in the Remuneration Report.

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 interim 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 risk management as described in more detail later in this report. The ultimate responsibility for reviewing and approving the annual report and accounts and interim report, however, remains with the Board of Directors. The members of the Audit Committee as at 1 January 2002 were Sir Bob Reid (Chairman), Alun Cathcart, Malcolm Miller, Axel von Ruedorffer and Jacques de Smet. Jacques de Smet resigned from the Committee on 29 October 2002. 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 bonus and share incentive schemes. The members of the Remuneration and Appointments Committee as at 1 January 2002 were Alun Cathcart (Chairman), Roland D'Ieteren, Malcolm Miller, Sir Bob Reid, Axel von Ruedorffer and Wally Taylor. Wally Taylor retired on 18 April 2002. Alun Cathcart resigned from the Committee on 1 May 2002 and Sir Bob Reid was appointed Chairman of the Committee on that date. There were no other changes in the composition of the Committee during the year. As President of s.a. D'Ieteren n.v., Roland D'Ieteren abstains from discussion and voting on the remuneration of Alun Cathcart.

The Strategic Committee is responsible for developing and reviewing the Company's strategy and for identifying and monitoring major trends affecting the Company's business and relationships with key industry groups. The members of the Strategic Committee are Alun Cathcart (Chairman), Jean-Pierre Bizet, Mark McCafferty and Martyn Smith.

Directors' interests

Details of Directors' interests in the share capital of the Company are set out below and in the Remuneration Report.

Roland D'Ieteren is President and Chief Executive Officer of s.a. D'Ieteren n.v. which holds 63,609,360 ordinary shares of 1p each in the capital of the Company. Roland D'Ieteren and Gilbert van Marcke de Lummen are Directors of D'Ieteren Invest s.a., a wholly owned subsidiary of s.a. D'Ieteren n.v. which is the beneficial owner of 282,046,385 ordinary shares of 1p each in the capital of the Company. Details of significant contracts entered into with s.a. D'Ieteren n.v. are disclosed below.

Except as stated above, none of the Directors had any interests in the shares of the Company or in any material contract or arrangement with the Company or any of its subsidiary undertakings.

Share capital

The last Annual General Meeting authorised the Company to purchase up to 58,502,476 of its own ordinary shares. This authority will expire, and is due to be renewed, at the next Annual General Meeting. The Company has made no purchase of its own shares during 2002 pursuant to this authority. Details of the share capital of the Company are set out in Note 17 to the Financial Statements.

Substantial shareholdings

At 26 February 2003 the Company had been advised of the following notifiable interests in its issued ordinary share capital:

	% of issued share capital
D'Ieteren Invest s.a.	48.14
s.a. D'Ieteren n.v.	10.85

An Agreement governing the relationship between s.a. D'Ieteren n.v. and the Company was entered into in connection with the Company's listing in 1997. It includes restrictions on s.a. D'Ieteren n.v.'s power to appoint Directors and obligations on those Directors to ensure that the majority of the Board is independent of s.a. D'Ieteren n.v. It also provides that all transactions between the Company and s.a. D'Ieteren n.v. will be on an arm's length basis.

The Agreement also contains certain anti-dilution rights for s.a. D'Ieteren n.v. provided that the D'Ieteren Group owns more than 30% of the issued ordinary share capital of the Company.

During the year, the Group has entered into transactions with the D'Ieteren Group on an arm's length basis with respect to the purchase and sale of vehicles, and the provision of finance. Further details of these transactions are set out in Note 26 to the Financial Statements.

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 information for the Group.

Charitable and political donations

During the year ended 31 December 2002 the Group made charitable donations totalling €258,000; £162,000 (31 December 2001: €41,700 (£26,000)). The Group made no political donations during the year (31 December 2001: nil).

Payments to creditors

Given the number of countries in which the Group operates there is no standard creditor payment policy within the Group. It is the Group's practice to agree the terms of payment at the start of business with each supplier, ensure that suppliers are aware of the terms of payment, and to pay in accordance with contractual and other legal obligations. The Company had no trade creditors at 31 December 2002.

Auditors

Following the conversion of the Group's auditors PricewaterhouseCoopers to a Limited Liability Partnership (LLP) from 1 January 2003, PricewaterhouseCoopers resigned on 26 February 2003 and the Directors appointed its successor, PricewaterhouseCoopers LLP, as auditors. A resolution to reappoint PricewaterhouseCoopers LLP as auditors to the company will be proposed at the Annual General Meeting and to authorise the Directors to fix their remuneration.

INTERNAL CONTROL AND RISK MANAGEMENT

The Directors have overall responsibility for the Group's system of internal control and risk management and for reviewing its effectiveness. However, such a system is designed to manage and mitigate, 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 effective control for all significant strategic, financial, organisational and compliance issues. The Directors have delegated to management the responsibility for the establishment and implementation of a system of internal control. This has been developed and refined over time to meet current and anticipated needs and the risks to which the Group is exposed.

Internal control environment

The system of internal controls includes but is not limited to:

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

The Group internal audit function works in partnership with an outsourced provider, KPMG, to further develop and improve the internal control processes throughout the Group. It provides assurance to the Board that the key control risks faced by the Group are identified and are being managed. Its work includes an assessment of the controls in operation

throughout the Group. Its findings are reported to functional senior management and to the Audit Committee.

By delegation to the Audit Committee, the Board has reviewed the effectiveness of the system of internal control through the following processes:

- review of internal and external audit plans
- review of any issues that may arise from internal and external audits
- review of any significant Group risks reported by the Risk Management Committee; and
- discussions with management on risk areas identified by management and the internal and external audit processes.

The Chairman of the Audit Committee reports the outcome of the 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 control.

In satisfying itself that sufficient and appropriate work has been performed, 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 Risk Management Committee comprises senior members of management from all key functions and is chaired by the Group Finance Director. The responsibilities of the Risk Management Committee include:

- co-ordinating and facilitating regular risk assessments at a country, functional and Group level
- assessing the risks identified and actions taken to manage and mitigate those risks to a desired level
- reviewing the ethical policies and procedures of the Group; and
- preparing reports for the Audit Committee and Board on any identified key risks.

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, the requirement that a senior non-executive Director be nominated 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.

By Order of the Board
Judith Nicholson Company Secretary
26 February 2003

Statement of Directors' responsibilities

The Directors are required by the Companies Act 1985 to prepare Financial Statements for each financial period which give a true and fair view of the state of affairs of the Company and the Group as at the end of the financial period and of the profit or loss for the financial period.

The Directors consider that in preparing the Financial Statements, the Company has used appropriate accounting policies, consistently applied (with the exceptions explained in the Statement of Accounting Policies for the adoption of FRS 19 Deferred tax, and change in classification of unregistered cars from prepayments to fixed assets) and supported by reasonable and prudent judgements and estimates, and that all accounting standards which they consider to be applicable have been followed.

The Directors have responsibility for ensuring that the Company keeps accounting records which disclose with reasonable accuracy the financial position of the Company and which enable them to ensure that the Financial Statements comply with the Companies Act 1985.

The Directors have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the website. Legislation in the United Kingdom governing the preparation and dissemination of Financial Statements may differ from legislation in other jurisdictions.

The Directors are required to prepare Financial Statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.