

Corporate Governance

Code principles

Introduction

This report describes how the corporate governance principles set out in the Combined Code issued by the Hampel Committee on Corporate Governance are applied by the Company to provide leadership and set the strategic aims of the Company, and to ensure a framework of prudent and effective controls enabling the assessment and management of risk.

The Board has carried out an initial review of the new Combined Code which will apply from the next financial year, and has taken a number of immediate steps to comply with new Code requirements. The Company plans to carry out a detailed review of its Board and management committee structure and other governance mechanisms during 2004 following the recently announced appointment of the new Chief Executive, who will join the Company in March 2004.

Board of Directors

The Directors of the Company during the period 1 January 2003 to 26 February 2004 are listed below:

Jean-Pierre Bizet
 Alun Cathcart (Interim Chief Executive and Deputy Chairman)
 John Chidsey (resigned 20 February 2003)
 Lesley Colyer
 Roland D'leteren
 Stephen P Holmes (resigned 26 February 2004)
 Gilbert van Marcke de Lummen
 Mark McCafferty (resigned 1 November 2003)
 Malcolm Miller
 Sir Bob Reid (Chairman)
 Dr Axel von Ruedorffer
 Kevin M Sheehan (appointed 26 February 2004)
 Martyn Smith
 Dieter Woitscheck

Kevin M Sheehan was appointed as a non-executive Director on 26 February 2004.

In accordance with the Articles of Association, Kevin M Sheehan will retire at the forthcoming Annual General Meeting and, being eligible, will stand for re-election. Alun Cathcart, Gilbert van Marcke de Lummen and Dieter Woitscheck retire by rotation at the forthcoming Annual General Meeting and, being eligible, will stand for re-election.

As at 26 February 2004 the Board of Directors comprises four executive Directors, the Chairman and a further six non-executive Directors. The Company has regarded the Chairman as independent although it is recognised that this will no longer be the case in any circumstances under the new Combined Code. The non-executive Directors include two Directors who have no other association with Avis Europe plc and are therefore regarded as independent, being Malcolm Miller and Dr Axel von Ruedorffer. A further two of the non-executive Directors, Roland D'leteren and Jean-Pierre Bizet in addition to one executive Director, currently Alun Cathcart, are appointed by s.a. D'leteren n.v. which has a shareholding of 59.6% in the Company. The obligations of the Directors appointed by s.a. D'leteren n.v., and of s.a. D'leteren n.v. as a shareholder, are set out in a Relationship Agreement entered into at flotation in 1997. These include an obligation for the D'leteren appointed Directors to exercise their voting rights so as to maintain the independence of the Board as required by the Listing Rules, thus ensuring that all Directors take decisions objectively in the interests of the Company.

The other non-executive Directors comprise Kevin M Sheehan, a senior executive of Cendant Corporation, which licences the Avis and Budget trademarks and operating systems to the Avis Group, and a former executive Director of the Company, Gilbert van Marcke de Lummen. Since 1998 the Board has adopted a policy that, notwithstanding the provisions of the Articles of Association, all Directors should stand for re-election at the Annual General Meeting at least every three years.

The Company considers that the non-executive component of the Board, which includes Directors from organisations with which Avis Europe has clear commonality, provides an effective Board with a strong mix of industry-specific knowledge and general commercial experience. This balance enables the Board collectively to provide clear and effective leadership of the Company, to bring informed and independent judgement to all aspects of the Company's strategic development and performance and to set the highest values and standards within the Company. Commencing in 2004, the Chairman and the non-executive Directors meet alone at least once annually in order to facilitate the non-executive Directors' contribution to the development of strategy and effective scrutiny of management performance. The Company did not have a nominated Senior Independent Director during the period to 26 February 2004 as it has regarded the Chairman as an independent non-executive Director. This will be reviewed as part of the detailed review of governance to be carried out during 2004 referred to above.

The Board meets a minimum of five times each year and more frequently when business needs require. In addition to the five scheduled Board meetings in 2003, there were four ad hoc Board meetings. All Directors attended all scheduled Board meetings, except that Jean-Pierre Bizet and Stephen Holmes each missed one meeting. The ad hoc meetings were all attended by all Directors, except that due to other commitments Alun Cathcart, John Chidsey, Dr Axel von Ruedorffer and Martyn Smith each had to miss one meeting and Stephen Holmes had to miss two meetings.

The roles of Chairman and Chief Executive are separate and their respective roles are defined in writing and approved by the Board. The Chairman's responsibilities include the effective leadership and running of the Board, facilitating the contribution of the non-executive Directors and ensuring effective communication with shareholders.

The Company is also announcing a number of changes to the Board which will take effect later this year. Sir Bob Reid will retire as Chairman at the conclusion of the forthcoming Annual General Meeting when he will have attained the age of 70. The Board proposes the appointment of Alun Cathcart as non-executive Chairman following Sir Bob Reid's retirement. While it is recognised that this appointment is not in line with the recommendation of the new Combined Code that the Chairman should be independent upon appointment, the Board considers that Alun Cathcart is particularly well equipped for this role and that the appointment complements the skills of the Board as a whole. He has significant industry experience together with successful chairmanship of two major companies, Selfridges plc and The Rank Group. He stepped down from his appointment with Selfridges plc at the end of November 2003. He has relinquished his executive role with s.a. D'leteren n.v. and upon taking up the role of Chairman will no longer be a D'leteren appointee under the Relationship Agreement. Jean-Pierre Bizet,

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currently a non-executive Director of the Company, will be appointed executive Deputy Chairman in succession to Alun Cathcart, and in line with the Relationship Agreement with s.a. D'Ieteren n.v. referred to above. The Board will appoint an additional non-executive Director to enhance the balance of non-executive representation on the Board.

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 criteria) and all capital expenditure in excess of a specified level. All delegated authorities are clearly documented and widely communicated via senior management. The Company Secretary is responsible for ensuring that Board procedures are followed, and 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, in accordance with written procedure the Company Secretary will arrange this at the Company's expense. The Company Secretary may only be removed by a resolution of the Board of Directors.

The Company is planning to review and enhance its existing procedures regarding the induction programme for newly appointed Directors and ongoing update and training for all members of the Board during 2004 in the light of the new Combined Code.

The Chairman has agreed with the Board an annual process to review the effectiveness of the Board, its constituent members and its Committees. This process is based on all Directors completing a structured questionnaire provided by Towers Perrin. Analysis of the responses will be used to develop process changes as appropriate and will be reported on in the next Annual Report.

Details of all Directors' remuneration and service contracts are set out in the [Remuneration Report](#) on pages 19 to 25.

Board Committees

The Board Committees in place during 2003 were the Audit Committee and the Remuneration and Appointments Committee.

The Audit Committee's primary tasks are to receive reports from and review the scope of external and internal audit. The Committee reviews the preliminary results, interim information and annual financial statements before they are presented to the Board, focusing in particular on accounting policies and compliance, and areas of judgement and the use of estimates. The Audit Committee contributes to the Board's review of the effectiveness of the Group's internal control and risk management systems and processes. The Committee also conducts a review of the remit of the internal audit function, its authority and resources. The Group's relationship with the external auditors is monitored by the Committee and a policy to help ensure audit independence has been adopted.

The members of the Audit Committee as at 1 January 2003 were Sir Bob Reid (Chairman), Alun Cathcart, Malcolm Miller and Dr Axel von Ruedorffer. Alun Cathcart remained on the Committee for the purposes of providing continuity following his change of role to executive Deputy Chairman in May 2002 and resigned from the Committee on 28 February

2003, whereupon Jean-Pierre Bizet was appointed to the Committee. There were no other changes in the composition of the Committee during the year. The Audit Committee met three times during 2003 and all members attended all meetings.

In accordance with the new Combined Code, the Audit Committee plans to introduce new processes in 2004 for assessing the effectiveness of the internal audit function and the external auditors. Similarly, the Board plans to implement a new process for assessing the effectiveness of the Audit Committee itself.

The Company has issued a code of conduct for UK employees to ensure compliance with the Public Interest Disclosure Act 1998 and will roll this out across the Group during 2004. The code of conduct provides a secure framework in which employees can raise concerns about possible issues in financial reporting and other areas. Arrangements are in place for appropriate investigation and follow-up action.

Updated terms of reference for the Audit Committee have recently been approved by the Board to align the duties of the Committee with the requirements of the new Combined Code. The revised terms of reference are available on www.avis-europe.com. The structure of the Committee will be considered as part of the overall review of the Company's governance arrangements during 2004 referred to above.

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 2003 were Sir Bob Reid (Chairman), Roland D'Ieteren, Malcolm Miller and Dr Axel von Ruedorffer. There were no changes in the composition of the Committee during the year. The Company recognises that Roland D'Ieteren is not regarded as an independent non-executive Director but considers it essential that s.a. D'Ieteren n.v., as the majority shareholder of the Company, is represented on the Committee. As President of s.a. D'Ieteren n.v., Roland D'Ieteren abstains from discussion and voting on the remuneration of any Directors appointed by s.a. D'Ieteren n.v. pursuant to the Relationship Agreement. The Remuneration and Appointments Committee met four times during 2003 and all Committee members attended all meetings.

The [Remuneration Report](#) to shareholders appears on pages 19 to 25.

Following the introduction of the new Combined Code two separate committees, the Remuneration Committee and the Nominations Committee, have been established to replace the Remuneration and Appointments Committee. The terms of reference for each of the new Committees have been approved by the Board and are available on www.avis-europe.com. At the date of this report, the membership of the two new Committees is the same as that of the Remuneration and Appointments Committee. The membership of both of the new Committees will be considered as part of the planned review of the Company's governance arrangements during 2004 referred to above.

Directors' interests

Details of Directors' interests in the share capital of the Company are set out below and in the [Remuneration Report](#).

Roland D'leteren is President and Chief Executive Officer of s.a. D'leteren n.v. and Gilbert van Marcke de Lummen is a non-executive Director of s.a. D'leteren n.v., which holds 63,609,360 Ordinary shares of 1 pence each in the capital of the Company. Roland D'leteren and Gilbert van Marcke de Lummen are Directors of D'leteren Invest s.a., a wholly owned subsidiary of s.a. D'leteren n.v. which is the beneficial owner of 285,490,985 Ordinary shares of 1 pence each in the capital of the Company. Details of significant contracts entered into with s.a. D'leteren n.v. are disclosed below.

Except as noted 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 58,578,003 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 2003 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 2004 the Company had been advised of the following notifiable interests in its issued ordinary share capital:

| | % of issued share capital |
|-------------------------|---------------------------|
| D'leteren Invest s.a. | 48.74 |
| s.a. D'leteren n.v. | 10.85 |
| Franklin Resources, Inc | 3.1379 |

As noted above, an agreement governing the relationship between s.a. D'leteren n.v. and the Company was entered into in connection with the Company's flotation in 1997. It includes restrictions on s.a. D'leteren 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'leteren n.v. It also provides that all transactions between the Company and s.a. D'leteren n.v. will be on an arm's-length basis. The Agreement also contains certain anti-dilution rights for s.a. D'leteren n.v. provided that the D'leteren 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'leteren 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 27 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. Following the recommendations of the new Combined Code, and commencing in 2004, the Chairman will attend the Company's regular results presentations in order to ensure that a balanced understanding of shareholders' views is developed and communicated to the Board as a whole.

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 2003 the Group made charitable donations totalling €30,000; £21,000 (2002: €258,000; £162,000). The Group made no political donations during the year (2002: nil).

Payments to creditors

Given the number of countries in which the Group operates it is the Group's practice to agree the terms of payment at the start of business with each supplier, and to pay in accordance with contractual and other legal obligations. The Company had no trade creditors at 31 December 2003 (2002: nil).

Auditors

A resolution to reappoint PricewaterhouseCoopers LLP as auditors to the Company will be proposed at the Annual General Meeting.

During 2003 PricewaterhouseCoopers LLP were engaged by the Group for certain non-audit activities, the fees for which are set out in [Note 2 to the Financial Statements](#). The nature and scale of this work has been reviewed by the Audit Committee which is satisfied that there has been no conflict with the need for audit independence and objectivity.

Internal control and risk management

There is an ongoing process in place for identifying, evaluating and managing significant risks faced by the Group and this has been in place throughout 2003 and up to the date of approval of the Annual Report and Accounts.

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.

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 management;
- strategic planning and the related annual budgeting and quarterly review process;
- monthly reporting and review of financial results and key performance statistics;
- adoption of financial policies to help ensure the consistency, integrity and accuracy of the Group's accounting records;
- specific treasury policies and the regular reporting and review of all significant treasury transactions and financing activities; and
- procedures for the authorisation of capital expenditure.

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The Group internal audit function works in partnership with an outsourced provider, KPMG, to provide assurance to the Board that key control risks faced by the Group are identified and managed. Its findings are reported to 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 arise from internal and external audits together with any additional matters reported by an internal audit review committee;
- review of any significant Group risks reported by an internal risk management committee; and
- discussions with management on any 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. In satisfying itself that sufficient and appropriate work has been performed, the Board as a whole considers the adequacy and scope of the reports it has received from the Audit Committee along with corroborative evidence where necessary.

Corporate governance statement

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 issued by the Hampel Committee on Corporate Governance. The exceptions are: the requirement 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 the Audit Committee comprises

only non-executive Directors, the requirement that a Senior Independent Director be nominated and the recommendation that all Directors' service contracts be for a period of one year or less.

However, the Audit Committee comprised only non-executive Directors from 28 February 2003 onwards. Following the resignation of Mark McCafferty on 1 November 2003, no Director has a service contract for a period in excess of one year and it is the Company's policy that all new Directors' appointments are on service contracts of one year.

The reasons for non-compliance in each of the relevant areas are explained within the review of the Company's application of the principles of the Combined Code set out above. 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.

Signed on behalf of the Board
Judith Nicholson
Company Secretary
26 February 2004

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 on pages 27 to 55 the Company has used appropriate accounting policies, consistently applied 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 Acts 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.