

Remuneration Report

The Group's policy relating to the remuneration and benefits of executive and non-executive Directors is reviewed periodically and the Remuneration and Appointments Committee will be reviewing share incentive policy during 2004.

Salary and annual incentive bonus

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

Annual incentive bonus plans for executive Directors and key senior management are based on achievement of pre-set targets approved by the Committee and relate directly to the annual profit plan approved by the Board. Targets and performance measures are quantitative. Achievement of on-target performance will result in payments of approximately 50% of annual salary for the Chief Executive and 40% of annual salary for executive Directors with a maximum award for exceptional performance of 87.5% and 70% respectively. The Remuneration and Appointments Committee has absolute discretion to determine and vary targets to reflect material changes. Bonus payments do not form part of pensionable earnings for Directors.

The base salary, bonus payments and value of benefits in kind for each Director are set out in table (a) on page 23.

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 Group operates a number of schemes: a performance share plan, an equity partnership plan, and approved and unapproved share option schemes, and has shareholder approval for an all employee share incentive plan.

Taking into account investor views, the Remuneration and Appointments Committee concluded that the share option schemes should be amended to bring them in line with best practice, as set out below.

Performance Share Plan

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 qualifying participant's total annual remuneration measured at the date of the award. All awards under this Plan to date have been based on 50% of total annual remuneration. No participant has received an award under the Company's share option schemes in the same year as an award under the Performance Share Plan.

These 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 total shareholder return (TSR). TSR is measured against a broad comparator group

from the Transport and Support Services sectors as Avis is a service company classified in the Transport sector. For the awards to vest, TSR at the end of each performance period must be at least at the median in relation to the comparator group and there has to be a minimum real increase in EPS of 3% per annum over the seven-year period.

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.

The comparator group for TSR currently comprises the companies listed below:

Arena Leisure plc
Arriva plc
Associated British Ports Holdings plc
Christian Salvesen plc
Eurotunnel plc/Eurotunnel SA
First Choice Holidays plc
First Group plc
Go Ahead Group plc
Minorplanet Systems plc
Mitie Group plc
MyTravel Group plc
National Express Group plc
RAC plc
Stagecoach Holdings plc
TBI plc
Tibbitt & Britten Group plc

A combination of performance targets was chosen for the measurement of the Company's performance since TSR aligns the interests of executives with shareholders by requiring superior total shareholder return performance and EPS requires real improvement in financial performance of the Company. The assessment of whether performance conditions have been met will be independently reviewed by the external auditors and verified by the Remuneration and Appointments Committee at the time of vesting.

Share option schemes

Over 435 employees throughout the Group, including the executive Directors, have been granted options under the Company's Inland Revenue approved and unapproved share option schemes. 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). At the 2000 Annual General Meeting, shareholder approval was sought to operate the schemes on an annual grant basis with the facility to make grants to individuals up to a maximum of 200% of annual remuneration per annum.

Options may only be exercised upon the satisfaction of objective performance requirements established at the date of grant which are EPS based. For options granted to date real growth in EPS must exceed 3% per annum over any three-year period for any of the options to become exercisable. The Remuneration and Appointments Committee, having regard to the views and best interests of the Company's shareholders has decided that for future option grants there will be no opportunity to retest the performance condition if it is not met over the initial three-year performance period, and that challenging EPS targets which take into account the Company's circumstances will be set for future grants.

An EPS condition was considered appropriate as it requires improvement in the underlying financial performance before options can be exercised.

The Rules of the share option schemes limit the number of options that can be granted over new issue shares in a rolling ten-year period to 5% of issued share capital under discretionary share schemes, and 10% of issued share capital under all share schemes. The total number of share options granted at 31 December 2003 is well within these dilution limits.

Equity Partnership Plan

The Equity Partnership Plan, approved at the Annual General Meeting in 2000, was designed to encourage senior management throughout the Group to retain a shareholding in the Company over a period of time. Participants may invest part of their annual bonus to acquire shares in the Company and in return an award will be granted by the Company over additional shares calculated as a proportion of the amount invested. The conditions are that participants remain employed by the Group for a specified period, retain the shares they have acquired throughout the period and that the Group achieves EPS increase in real terms of 3% per annum over the three-year period commencing with the year in which the award is granted.

A one-off Loyalty share award was made in 2000 to over 80 of the senior management group including the executive Directors, to encourage share retention. The number of shares awarded was 25% of the shares held 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 qualifying 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.

If these conditions are met the Loyalty share award will only vest if the performance condition attached to the qualifying option has been achieved, which is a minimum real increase in EPS of 3% per annum over any three-year period. During 2003 the first instalment of Loyalty share awards relating to options granted in 1997 vested.

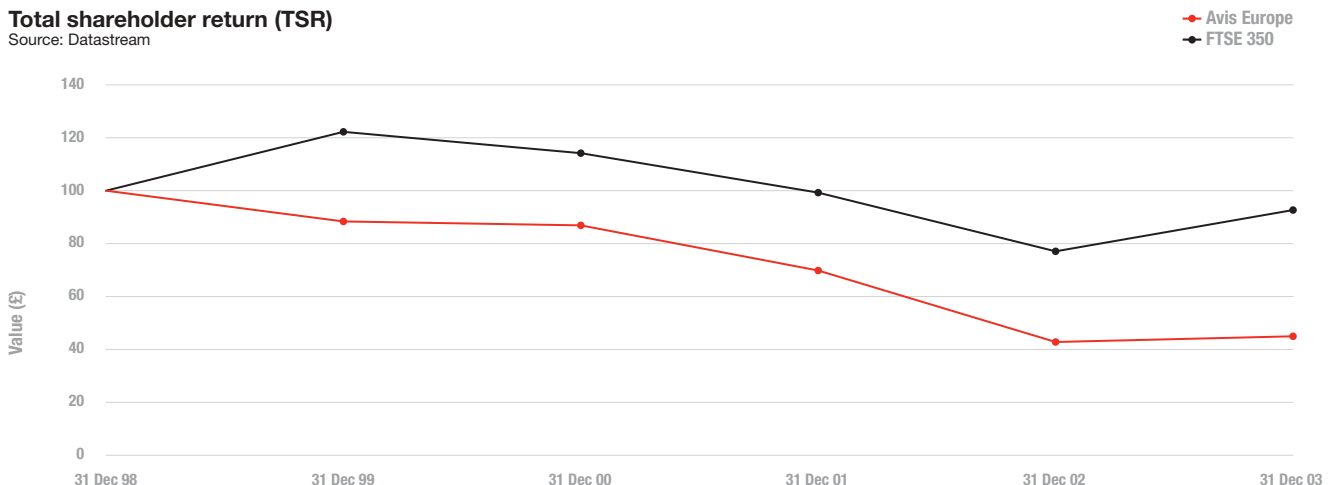
Avis Europe Employee Share Trust

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 2003, no additional shares were acquired by the Trust and the number of shares drawn down during the period was 225,857, of which 208,807 related to the first release of Loyalty Share awards. At 31 December 2003, the Trust held 749,017 shares, excluding shares which were purchased from bonuses by participants in the Partnership share award.

The graph below illustrates the performance of Avis Europe plc and a "broad equity market index" over the past five years. As Avis Europe plc has been a constituent of the FTSE 350 index throughout this five-year period, that index is considered the most appropriate form of "broad equity market index" against which the Group's performance should be graphed. Performance, as required by legislation, is measured by total shareholder return (share price plus dividends paid).

Total shareholder return (TSR)

Source: Datastream



This graph shows the value, by the end of 2003, of £100 invested in Avis Europe on 31 December 1998 compared with the value of £100 invested in the FTSE 350 Index. The other points plotted are the values at intervening financial year-ends.

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Directors' engagement policy

Executive Directors

The Company's policy is to issue each executive Director with a service contract which is subject to 12 months' notice on either side and runs until terminated. The contract provides for salary to be paid for any unexpired period of notice in the event of termination by the Company. Any such payment would be discounted in line with the mitigation obligations of the departing Director. There are no special contractual payments associated with change of control.

All current Directors have service contracts in line with policy and dated as shown:

Alun Cathcart	1 May 2002
Lesley Colyer	18 April 2002
Martyn Smith	11 September 2002
Dieter Woitscheck	8 January 2001

The Board believes that it can be of benefit to Avis if its executive Directors serve as non-executive Directors of other companies, and, subject to individual review, the general policy is that an executive Director may hold one non-executive directorship with another company and may retain the fees therefrom.

Non-executive Directors

The Company's policy is to engage non-executive Directors on renewable three-year terms but which can be terminated by either party at any time without penalty. Non-executive Directors normally retire at the Annual General Meeting following their 70th birthday.

All non-executive Directors, including the Chairman, have letters of appointment in accordance with policy. The Board sets the remuneration of non-executive Directors.

Retirement benefits

Alun Cathcart, Lesley Colyer and Martyn Smith are members of the Avis UK Pension Plan. In addition, Martyn Smith receives a taxable supplement of cash remuneration towards pension provision. Dieter Woitscheck remains a member of the Avis Germany pension plan.

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

Directors' remuneration

(a) The remuneration of Directors, comprising salary or fees, taxable benefits and bonus payments for the year ended 31 December 2003 are set out in the table below.

	Salary/fees £	Bonus ¹ £	Taxable benefits £	Other payments ² £	Total year to 31 December 2003 £	Total year to 31 December 2002 £
Executive						
W A Cathcart	262,000	116,084	5,848	–	383,932	234,595
L Colyer	186,000	98,697	20,004	–	304,701	131,556
M McCafferty ²	318,725	319,762	18,920	195,507	852,914	386,282
M R Smith	317,119	138,360	10,816	–	466,295	265,070
D Woitscheck	231,800	105,384	51,909	–	389,093	467,735
Total	1,315,644	778,287	107,497	195,507	2,396,935	1,465,238
Non-executive						
J-P Bizet	32,500	–	–	–	32,500	5,679
J W Chidsey ³	–	–	–	–	–	–
R D'Ieteren	32,500	–	–	–	32,500	32,500
S P Holmes ³	–	–	–	–	–	–
G van Marcke de Lummen	32,500	–	–	–	32,500	280,202
M Miller	32,500	–	–	–	32,500	32,500
Sir Bob Reid	160,000	–	–	–	160,000	118,833
Dr A von Ruedorffer	32,500	–	–	–	32,500	32,500
Total	322,500	–	–	–	322,500	502,214

¹ No annual incentive bonus was paid for financial year 2002 to Directors. In December 2002, the Remuneration and Appointments Committee approved an incentive plan and targets for 2003 based on normal business circumstances. The Committee also approved at that time a review of targets for all incentive schemes across the Group in the event of conflict in Iraq. Accordingly, targets were reset in June 2003 based on revised market forecasts. M McCafferty's bonus payment includes a special award in recognition of his leadership of the Budget integration process.

² M McCafferty resigned from the Board on 1 November 2003. The £195,507 is the remuneration due to M McCafferty following his resignation as a Director in respect of his employment by the Company up to April 2004, including amounts to be paid in 2004 which have been accrued.

³ J W Chidsey and S P Holmes waived their right to a fee.

(b) Details of Directors' pension entitlements at 31 December 2003:

	Accrued benefit				Transfer value		
	Amount of change in accrued benefit during the year due to inflation £	Amount of remaining change in accrued benefit during year £	Accrued pension at 31 December 2003 £	Transfer value of increase in accrued pension excluding inflation £	Transfer value of accrued pension at 31 December 2002 £	Transfer value of accrued pension at 31 December 2003 £	Increase in transfer value less Directors' own contributions £
W A Cathcart	10,027	(3,616)	364,528	(53,257)	3,897,885	4,335,472	437,587
L Colyer	1,921	6,610	77,129	46,502	432,226	542,645	110,419
M McCafferty ¹	368	2,745	16,261	16,876	73,188	99,917	26,729
M R Smith	30	3,026	4,125	22,247	7,117	30,327	23,210
G van Marcke de Lummen ²	–	–	–	–	1,677,944	1,624,573	(53,371)
D Woitscheck ³	1,083	(8,410)	92,794	(51,359)	550,674	623,660	72,986

¹ M McCafferty remained in pensionable service following his resignation from the Board in November 2003. The figures above relate to his benefits calculated at 31 December 2003.

² G van Marcke de Lummen is no longer accruing benefit in the pension plan and has been in receipt of a pension from 1 May 2002.

³ Exchange rate of €1.423 to £1 for D Woitscheck.

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(c) 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 exercised or lapsed during the period under review. All options stated below were granted for nil consideration. There have been no changes between 31 December 2003 and 26 February 2004.

	Shares		Options ¹					
	31 December 2003	1 January 2003	31 December 2003	Granted during period	1 January 2003	Exercise price (pence)	Exercisable date	Expiry date
W A Cathcart ²	282,147	282,147	300,000	–	300,000	207.8	Mar 2005	Mar 2012
			60,000	–	60,000	99.7	Sept 2005	Sept 2012
			360,000	–	360,000			
L Colyer ³	95,345	89,956	24,190	–	24,190	124.0	Mar 2000	Mar 2007
			70,810	–	70,810	124.0	Mar 2000	Mar 2004
			22,000	–	22,000	248.2	Oct 2001	Oct 2005
			19,000	–	19,000	162.7	May 2004	May 2011
			134,000	–	134,000	99.7	Sept 2005	Sept 2012
			270,000	–	270,000			
M McCafferty ⁴	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 2011
			68,400	–	68,400	99.7	Sept 2005	Sept 2012
			410,400	–	410,400			
M R Smith	19,385	19,385	200,000	–	200,000	99.7	Sept 2005	Sept 2012
D Woitscheck	113,552	110,719	110,000	–	110,000	124.0	Mar 2000	Mar 2004
			25,500	–	25,500	248.2	Oct 2001	Oct 2005
			89,500	–	89,500	207.8	Mar 2005	Mar 2012
			45,000	–	45,000	99.7	Sept 2005	Sept 2012
			270,000	–	270,000			
J P Bizet	–	–	–	–	–			
J W Chidsey	–	–	–	–	–			
R D'leteren	–	–	–	–	–			
S P Holmes	–	–	–	–	–			
G van Marcke de Lummen ⁵	12,381	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 Miller	5,000	5,000	–	–	–			
Sir Bob Reid	8,064	8,064	–	–	–			
Dr A von Ruedorffer	–	–	–	–	–			

¹ Only options shown as having an exercisable date of March 2000 have satisfied the relevant performance condition; the remaining options are subject to the performance condition set out in the policy section.

² 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.

³ Included within L Colyer's holding of 95,345 shares are 1,032 shares in which she has a non-beneficial interest as trustee for the beneficial owners.

⁴ M McCafferty's share options will lapse when he ceases employment with the Company.

⁵ G van Marcke de Lummen's share options were granted when he was an executive Director of the Company.

(d) Details of awards made during the year under any of the Group's share schemes:

Share option schemes

At 31 December 2003, 440 qualifying employees held options over 11,434,137 shares. No options were granted to the executive Directors in 2003. Grants were made on 17 March 2003 and on 6 October 2003, at an exercise price of 90.3 pence and 103.5 pence respectively, in each case being the average market value of the Company's shares on the three dealing days prior to the date of grant. The market price of the Company's shares at 31 December 2003 was 95.0 pence. During the year, the market price ranged between 75.5 pence and 117 pence.

Performance Share Plan

On 17 March 2003 Alun Cathcart, Lesley Colyer and Martyn Smith received conditional awards set out in the table below. The price of an ordinary share on that date was 94.25 pence. The award is subject to the performance conditions as outlined in the policy section and took the form of options with a nil exercise price. The Directors have agreed to bear the employers' National Insurance liability on exercise. As at 31 December 2003, no awards under this Plan had vested. The award to Mark McCafferty will lapse when he ceases employment.

	At 31 December 2002	Award in year to 31 December 2003	Date of 2003 award	At 31 December 2003	Vesting date of outstanding awards*
W A Cathcart	–	204,870	17 Mar 2003	204,870	17 Mar 2010
L Colyer	–	157,462	17 Mar 2003	157,462	17 Mar 2010
G van Marcke de Lummen	65,793	–	–	65,793	9 Jun 2007
M McCafferty	258,551	–	–	258,551	9 Jun 2007
M R Smith	–	226,711	17 Mar 2003	226,711	17 Mar 2010
D Woitscheck	93,766	–	–	93,766	3 May 2008

*Accelerated vesting conditions are disclosed in the policy section

Equity Partnership Plan – Partnership

Awards were made to Directors who invested part of their 1999 and/or 2001 bonus in the purchase of shares in the Company. During the year awards granted in 2000 over 21,453 shares (including awards to three Directors) lapsed as the vesting conditions had not been met. The award made to Dieter Woitscheck dated 16 May 2002 will fully vest in March 2005 provided the vesting conditions as disclosed in the policy section are met. This award takes the form of options with a nil exercise price and he has agreed to bear the employers' National Insurance liability on exercise. At 31 December 2003, a further 10 senior managers have conditional awards over a total of 5,981 shares which will vest in 2005 providing the vesting conditions are met. These awards are subject to the same vesting and performance conditions as the Directors' awards.

	At 31 December 2002	Lapsed during the year to 31 December 2003	At 31 December 2003
L Colyer	1,425	1,425	–
G van Marcke de Lummen	2,778	2,778	–
D Woitscheck	3,691	1,126	2,565

Equity Partnership Plan – Loyalty

During the year, one-third of the Loyalty awards made to Lesley Colyer, Gilbert van Marcke de Lummen and Dieter Woitscheck in 2000 vested. The price of an ordinary share on 27 March 2000 when the award was granted was 190 pence and on the vesting date of 27 March 2003 was 102 pence. As at 31 December 2003, four Directors have an outstanding one-off conditional award of shares as set out in the table below. The award to Mark McCafferty will lapse when he ceases employment. A further 62 senior managers received 191,725 shares when one-third of their Loyalty awards vested. At 31 December 2003, 46 senior managers have outstanding conditional awards over a total of 483,532 shares awarded in 2000, none of which has vested. These awards are subject to the same vesting and performance conditions as to the Directors' awards as disclosed in the policy section. Four senior managers received a total of 16,668 shares which vested early when they left Group employment.

	At 31 December 2002	Vested during year to 31 December 2003	Date of award	At 31 December 2003
L Colyer	23,750	7,916	27 Mar 2000	15,834
G van Marcke de Lummen	52,771	17,590	27 Mar 2000	35,181
M McCafferty	52,500	–	9 Jun 2000	52,500
D Woitscheck	27,500	9,166	27 Mar 2000	18,334