



**AVIS EUROPE plc**

**DIRECTORS' REPORT AND  
FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2001**

**REGISTERED NUMBER: 3311438**

## Directors' report

The Directors present their report and the audited financial statements of the Company and the Group for the year ended 31 December 2001.

### Principal activities

The Avis Europe plc Group ("the Group") is principally engaged in the supply of vehicle rental services throughout Europe, Africa, the Middle East and Asia. Details of the Group's activities and performance are set out in the Chairman's Statement on page 1 together with the Operating and Financial Review on pages 8 to 12.

The principal subsidiary undertakings are listed on page 55.

### Results and dividends

The audited accounts for the year ended 31 December 2001 are set out on pages 27 to 54. The Group's profit for the year and amounts transferred to reserves are set out in the Profit and Loss Account on page 27.

The Directors are proposing a final dividend of 3.8p per ordinary share which, together with the interim dividend of 2.0p per ordinary share paid on 4 October 2001, makes a total of 5.8p per share for the year. Subject to shareholders' approval, the final dividend will be paid on 14 May 2002 to shareholders appearing on the share register at close of business on 8 March 2002.

### Directors

The Directors of the Company who served during the period are listed below:

Alun Cathcart  
Daniel Cardon de Lichtbuer (retired 18 April 2001)  
John Chidsey (appointed 5 September 2001)  
Christopher I Cowan  
Roland D'leteren  
Stephen P Holmes  
Gilbert van Marcke de Lummen  
Mark McCafferty  
Malcolm Miller (appointed 21 February 2001)  
Sir Bob Reid  
Sir Peter Reynolds (retired 18 April 2001)  
Dr Axel von Ruedorffer (appointed 27 June 2001)  
Jacques de Smet  
Wally Taylor  
Dieter Woitscheck (appointed 8 January 2001)

On 8 January 2001 Dieter Woitscheck was appointed as an executive Director. Malcolm Miller, Dr Axel von Ruedorffer and John Chidsey were appointed as non-executive Directors on 21 February 2001, 27 June 2001 and 5 September 2001 respectively. In accordance with the

Articles of Association, John Chidsey and Axel von Ruedorffer will retire at the forthcoming Annual General Meeting and, being eligible, offer themselves for election.

Stephen Holmes, Gilbert van Marcke de Lummen and Sir Bob Reid retire by rotation at the forthcoming Annual General Meeting and, being eligible, offer themselves for re-election.

### Directors' interests

Details of Directors' interests in the share capital of the Company are set out in the Remuneration Report on pages 18 to 22.

Roland D'leteren is a Director and shareholder of s.a. D'leteren n.v. which holds 63,609,360 ordinary shares of 1p each in the capital of the Company. Roland D'leteren, Gilbert van Marcke de Lummen and Jacques de Smet are Directors of D'leteren Invest s.a., a wholly owned subsidiary of s.a. D'leteren n.v. which holds 267,506,385 ordinary shares of 1p 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 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.

### Charitable and political donations

During the year ended 31 December 2001 the Group made charitable donations totalling €41,700 (£26,000) (31 December 2000: €50,313 (£30,804)). The Group made no political donations during the year (31 December 2000: €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 2001.

### Share capital

The last Annual General Meeting authorised the Company to purchase up to 58,478,276 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 pursuant to this authority. Details of the share capital of the Company are set out in note 18 to the financial statements.

## Directors' report

### Substantial shareholdings

At 25 February 2002 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.	45.73
s.a. D'Ieteren n.v.	10.87
Fidelity International Limited	4.90

D'Ieteren Invest s.a. is a wholly owned subsidiary of s.a. D'Ieteren n.v.

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 s.a. D'Ieteren n.v. Group on an arm's-length basis with respect to the acquisition of vehicles, the provision of finance and the acquisition of financial derivatives. Further details of these transactions are set out in note 25 to the financial statements.

### Employment policies and practices

The Group aims to ensure an organisation structure and working climate in which both the business and employees grow and develop. Employee satisfaction and people development are two of the six areas of strategic focus for the Group.

The employment policies of the Group embody the principles of diversity and are tailored to meet the local needs of individual countries.

The Group operates non-discriminatory policies and practices in relation to recruitment, development, compensation and advancement opportunities with regard to gender, religion, race, marital status, age, sexual orientation and non-job related disabilities. Avis requires the highest standards of honesty, integrity and fairness in dealings from all employees.

The Group's approach to employee involvement and development is an integral part of Avis Europe's published beliefs and values statements which state:

"We aim to stimulate duty, mutual loyalty and a sense of pride in working for Avis through employee involvement at all levels, continuous updating of knowledge and skills and attractive and competitive recognition and reward systems. We believe that employees should be actively encouraged to grow and develop their careers with Avis and we always seek first to appoint candidates from within the Group to fill positions at every level – both nationally and internationally. To this end, we will provide the environment to help employees improve and develop themselves."

Evidence of implementation of these philosophies during the year ended 31 December 2001 include:

- Establishment of a cross-functional employee satisfaction group chaired by the Chief Executive and including Managing Directors from a number of countries, the Group Finance Director and Chief Operating Director. The remit is to identify between two and three areas of employee focus annually and monitor performance improvement through the Group's new employee satisfaction survey. Similar multi-functional employee satisfaction groups have been established in each country to ensure equal focus on local employee issues.
- Continued development of corporate intranet capabilities which, together with electronic mail, in-house publications, newsletters and visible management programmes, ensure employees are kept abreast of current activities and progress. Details of the Company's financial performance and strategic development are communicated biannually by the Chief Executive. Employees from all countries are invited to submit questions that are answered during these presentations and made available to all employees by videotape and through an internal news release. Annual country roadshows ensure employees are involved with country plans and fully informed about local financial performance and operational progress.
- Biannual meetings of the Avis European Employee Council. Representatives of employees and management meet twice a year for an exchange of views and dialogue on subjects of transnational interest. A joint communiqué of each meeting's discussions is distributed to all employees.
- Further awards made under the Group's Spirit of Avis recognition and reward programme, in which employees have equal opportunity to participate.

The Group believes its employment practices encourage employee involvement, continuity and business

performance. Approximately 50% of the Group's employees have more than five years' service with Avis Europe and 78% of the 50 most senior executives throughout Europe have been promoted from within the Group. An employee retention and internal succession index were established during 2001 to measure performance on an ongoing basis.

#### **Share schemes**

The Group operates a number of share incentive schemes, details of which are set out in the Remuneration Report.

#### **Corporate governance**

Details of the Company's arrangements relating to corporate governance are set out on pages 18 to 22 and 23 to 25.

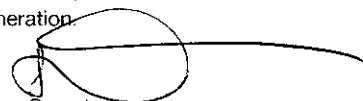
#### **Auditors**

A resolution will be proposed at the Annual General Meeting to reappoint PricewaterhouseCoopers and to authorise the Directors to fix their remuneration.

By Order of the Board

**Judith Nicholson** Company Secretary

25 February 2002



### ***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 54 the Company has used appropriate accounting policies, consistently applied (with the exception explained on page 31 for the recognition of credit repair revenues) 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.

## ***Independent auditors' report to the members of Avis Europe plc for the year ended 31 December 2001***

We have audited the financial statements which comprise the Profit and Loss Account, the Balance Sheets, the Cash Flow Statement, the Statement of Total Recognised Gains and Losses and the related notes, including the additional disclosures in the Remuneration Report specified for our review by the Financial Services Authority, which have been prepared under the accounting policies set out in the Statement of Accounting Policies.

### **Respective Responsibilities of Directors and Auditors**

The Directors' responsibilities for preparing the Annual Report and the financial statements in accordance with applicable United Kingdom law and accounting standards are set out in the Statement of Directors' Responsibility.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements, United Kingdom Auditing Standards issued by the Auditing Practices Board and the Listing Rules of the Financial Services Authority.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Directors' Report is inconsistent with the financial statements, if the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law or the Listing Rules regarding Directors' remuneration and transactions is not disclosed.

We read the other information contained in the Annual Report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. The other information comprises only: the Directors' Report, the Chairman's Statement, the Operating and Financial Review and the Corporate Governance Statement.

We review whether the Corporate Governance Statement reflects the Company's compliance with the seven provisions of the Combined Code specified for our

review by the Financial Services Authority, and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or to form an opinion on the effectiveness of the Company's or Group's corporate governance procedures or its risk and control procedures.

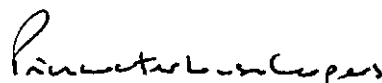
### **Basis of audit opinion**

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity, or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

### **Opinion**

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and the Group at 31 December 2001 and of the profit and cash flows of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



**PricewaterhouseCoopers**

Chartered Accountants and Registered Auditors

London

25 February 2002

## Consolidated Profit and Loss Account *for the year ended 31 December 2001*

	Notes	2001 €'000	2000 €'000	2001 £'000	2000 £'000
Revenue	1	1,255,392	1,204,878 <sup>1</sup>	782,513	736,992 <sup>1</sup>
Cost of sales		(628,252)	(585,203) <sup>1</sup>	(391,710)	(357,802) <sup>1</sup>
<b>Gross profit</b>		<b>627,140</b>	<b>619,675</b>	<b>390,803</b>	<b>379,190</b>
Administrative expenses (including exceptional item)		(415,543)	(410,392)	(259,276)	(251,056)
<b>Operating profit before goodwill amortisation and exceptional item</b>	2	<b>215,594</b>	<b>246,391</b>	<b>134,018</b>	<b>150,645</b>
Amortisation of goodwill		(3,997)	(4,108)	(2,491)	(2,511)
Exceptional item	3	-	(33,000)	-	(20,000)
<b>Operating profit</b>		<b>211,597</b>	<b>209,283</b>	<b>131,527</b>	<b>128,134</b>
Share of operating loss from joint ventures		(4,268)	(3,330)	(2,644)	(2,016)
Share of operating loss from associated undertaking		(48)	-	(30)	-
Interest payable and similar charges (net)	6	(70,962)	(67,274)	(44,271)	(41,098)
<b>Profit on ordinary activities before taxation, goodwill amortisation and exceptional items</b>		<b>144,243</b>	<b>179,117</b>	<b>89,504</b>	<b>109,547</b>
Amortisation of goodwill		(3,997)	(4,108)	(2,491)	(2,511)
Exceptional items	3	(3,927)	(36,330)	(2,431)	(22,016)
<b>Profit on ordinary activities before taxation</b>		<b>136,319</b>	<b>138,679</b>	<b>84,582</b>	<b>85,020</b>
Taxation	7	(29,990)	(34,681)	(18,608)	(21,255)
<b>Profit on ordinary activities after taxation</b>		<b>106,329</b>	<b>103,998</b>	<b>65,974</b>	<b>63,765</b>
Minority interest - equity		(233)	(195)	(144)	(120)
<b>Profit for the year before goodwill amortisation and exceptional items</b>		<b>113,156</b>	<b>135,159</b>	<b>70,217</b>	<b>82,668</b>
Amortisation of goodwill		(3,997)	(4,108)	(2,491)	(2,511)
Exceptional items		(3,063)	(27,248)	(1,896)	(16,512)
<b>Profit for the year</b>		<b>106,096</b>	<b>103,803</b>	<b>65,830</b>	<b>63,645</b>
Dividends	8	(54,736)	(55,648)	(33,928)	(33,910)
<b>Retained profit for the year</b>	19	<b>51,360</b>	<b>48,155</b>	<b>31,902</b>	<b>29,735</b>
<b>Earnings per share</b>					
Basic	9	€0.182	€0.178	11.27p	10.91p
Diluted	9	€0.181	€0.177	11.26p	10.85p
Adjusted	9	€0.194	€0.232	12.03p	14.17p

<sup>1</sup>Restated as described on page 31.


## Consolidated Statement of Total Recognised Gains and Losses *for the year ended 31 December 2001*

	2001 €'000	2000 €'000	2001 £'000	2000 £'000
Profit for the year	106,096	103,803	65,830	63,645
Exchange adjustments	(2,779)	(3,240)	(1,444)	(2,172)
Taxation on exchange adjustments	423	-	174	-
<b>Total recognised gains and losses</b>	<b>103,740</b>	<b>100,563</b>	<b>64,560</b>	<b>61,473</b>

# Consolidated Balance Sheet at 31 December 2001

	Notes	2001 €'000	2000 €'000	2001 £'000	2000 £'000
<b>Intangible fixed assets</b>					
Goodwill	10	70,646	73,798	43,753	45,109
<b>Tangible fixed assets</b>					
- vehicles		1,264,556	1,264,189	783,171	772,728
- other		71,280	61,462	44,146	37,567
	11	1,335,836	1,325,651	827,317	810,295
Investments	12	5,629	3,281	3,486	2,004
		1,341,465	1,328,932	830,803	812,299
<b>Total fixed assets</b>		1,412,111	1,402,730	874,556	857,408
<b>Current assets</b>					
Debtors	13	631,507	585,024	391,108	357,592
Investments	24iii	488	3,828	302	2,340
Cash at bank	24iii	21,528	34,355	13,333	20,999
		653,523	623,207	404,743	380,931
<b>Creditors amounts falling due within one year</b>					
Bank and other loans	14	(264,092)	(457,473)	(163,559)	(279,627)
Other creditors	15	(1,026,987)	(943,055)	(636,038)	(576,435)
		(1,291,079)	(1,400,528)	(799,597)	(856,062)
<b>Net current liabilities</b>		(637,556)	(777,321)	(394,854)	(475,131)
<b>Total assets less current liabilities</b>		774,555	625,409	479,702	382,277
<b>Creditors amounts falling due after more than one year</b>					
Bank and other loans	14	(572,637)	(456,646)	(354,649)	(279,122)
Other creditors	15	(36,608)	(53,121)	(22,672)	(32,469)
		(609,245)	(509,767)	(377,321)	(311,591)
<b>Provisions for liabilities and charges</b>	17	(80,118)	(80,064)	(49,619)	(48,939)
		85,192	35,578	52,762	21,747
<b>Capital and reserves</b>					
Called-up share capital	18	8,071	8,067	5,850	5,848
Share premium	19	874,018	873,382	633,541	633,145
Profit and loss account	19	(797,554)	(846,445)	(587,036)	(617,597)
<b>Total shareholders' funds - equity</b>	20	84,535	35,004	52,355	21,396
<b>Minority interests - equity</b>		657	574	407	351
		85,192	35,578	52,762	21,747

Approved by the Board on 25 February 2002

  
C I Cowan Group Finance Director

  
M McCafferty Chief Executive

**Consolidated Cash Flow Statement** for the year ended 31 December 2001

	Notes	2001 €'000	2000 €'000	2001 £'000	2000 £'000
<b>Net cash inflow from operating activities</b>	<b>24i</b>	<b>562,516</b>	<b>371,391</b>	<b>351,245</b>	<b>236,090</b>
<b>Returns on investments and servicing of finance</b>					
Interest received		2,915	5,484	1,817	3,345
Interest paid		(60,976)	(56,218)	(37,933)	(34,120)
Interest element of finance lease rental payments		(14,134)	(17,991)	(8,825)	(10,996)
Dividend paid to minority interests		(141)	-	(88)	-
		(72,336)	(68,725)	(45,029)	(41,771)
<b>Taxation</b>		<b>(25,035)</b>	<b>(35,224)</b>	<b>(15,344)</b>	<b>(21,530)</b>
<b>Capital expenditure and financial investment</b>					
Purchase of tangible fixed assets		(2,014,007)	(1,806,111)	(1,257,148)	(1,105,724)
Sale of tangible fixed assets		2,419,033	2,232,948	1,511,022	1,357,755
Sale of fixed asset investments		51	-	31	-
Acquisition of own shares		-	(2,491)	-	(1,566)
		405,077	424,346	253,905	250,465
<b>Acquisitions and disposals</b>					
Purchase of subsidiary undertakings	24iv	(2,253)	(49,032)	(1,421)	(30,582)
Cash balances acquired with subsidiary undertakings	3	3	3,594	2	2,243
		(2,250)	(45,438)	(1,419)	(28,339)
<b>Equity dividends paid</b>		<b>(54,341)</b>	<b>(54,379)</b>	<b>(33,917)</b>	<b>(32,683)</b>
<b>Management of liquid resources</b>					
Sale of current asset investments	24iii	3,334	1,788	2,038	1,089
Cash withdrawn from/(transferred to) short term deposit	24iii	6,245	(5,858)	3,896	(3,574)
		9,579	(4,070)	5,934	(2,485)
<b>Financing</b>					
Issue of ordinary share capital		527	3,159	327	1,990
Repayment of capital element of finance leases	24iii	(764,947)	(842,453)	(476,954)	(515,065)
Increase in short term loans	24iii	36,044	116,764	21,943	72,437
(Decrease)/increase in long term loans	24iii	(102,041)	119,386	(64,569)	71,630
		(830,417)	(603,144)	(519,253)	(369,008)
<b>Decrease in cash</b>	<b>24ii, 24iii</b>	<b>(7,207)</b>	<b>(15,243)</b>	<b>(3,878)</b>	<b>(9,261)</b>




**Company Balance Sheet** at 31 December 2001

	Notes	2001 £'000	2000 £'000
<b>Fixed assets</b>			
Investments	12	752,412	752,344
<b>Current assets</b>			
Debtors	13	61,184	88,138
<b>Creditors amounts falling due within one year</b>			
Bank and other loans	14	-	(31,829)
Other creditors	15	(133,172)	(124,382)
		(133,172)	(156,211)
<b>Net current liabilities</b>		(71,988)	(68,073)
<b>Total assets less current liabilities</b>		680,424	684,271
<b>Creditors amounts falling due after more than one year</b>			
Other creditors	15	-	(5,120)
		680,424	679,151
<b>Capital and reserves</b>			
Called-up share capital	18	5,850	5,848
Share premium	19	633,541	633,145
Profit and loss account	19	41,033	40,158
<b>Total shareholders' funds - equity</b>		680,424	679,151

Approved by the Board on 25 February 2002

  
C I Cowan Group Finance Director

  
M McCafferty Chief Executive

## Statement of Accounting Policies

### Basis of preparation

The financial statements present the consolidated results for the year ended 31 December 2001 in both euro and sterling. As a significant proportion of the Group's revenues, costs and funding arise in the euro zone, the Directors consider that the Group's functional currency is the euro. Accordingly, the Group's statutory accounts are prepared in euro. The Company's statutory accounts continue to be reported in sterling.

### Basis of accounting and principal accounting policies

The financial statements have been prepared under the historical cost convention, and in accordance with applicable accounting standards. A summary of the principal accounting policies, all of which have been applied consistently throughout the year and preceding year, except for the amendment to the revenue recognition policy, as set out below. During the year, the Company adopted FRS 18, Accounting Policies, and other than for *the amendment to the revenue recognition policy, which is described below*, there was no material impact on the financial statements.

### Basis of consolidation

The Group's financial statements consolidate the results of the Company and its subsidiary undertakings. The results of businesses acquired are included from the effective date of acquisition and businesses sold are included up to the date of disposal.

The accounting dates of the Group's subsidiary undertakings and associated undertakings are governed by local legal requirements and some are not coterminous with the Group's 31 December year end. For those companies with non-coterminous year ends, management accounts for the period ended 31 December 2001 have been consolidated. The accounting dates of the Group's principal subsidiary undertakings and associated undertakings are shown on page 55.

In the opinion of the Directors, the expense of providing additional statutory accounts for periods coterminous with the Group's year end, together with the consequential delay in producing the Group's financial statements, would outweigh any benefit to shareholders.

### Associate and joint venture undertakings

Undertakings in which the Group has an interest comprising not less than 20% and not more than 50% of the equity capital, and in respect of which it is in a position to exercise significant influence over commercial

and operating policy decisions, are treated as associated undertakings and are accounted for using the equity method. Undertakings in which the Group has a joint control along with other parties are treated as joint ventures and are accounted for using the gross equity method.

### Goodwill

Goodwill arising on acquisition represents the excess of consideration paid over the fair values attributed to the net assets acquired. Useful economic lives are determined for each individual acquisition and are based on the particular circumstances. Goodwill on subsidiaries acquired after 28 February 1998 is capitalised and amortised, on a straight line basis, over useful economic lives of 20 years.

Goodwill of €1,080,421,000 (£783,462,000), arising prior to 28 February 1998, was written off immediately against reserves as a matter of accounting policy and, as permitted by FRS 10, has not been reinstated in the balance sheet. On disposal of a business, the attributable goodwill is *transferred from reserves to the profit and loss account* in arriving at the profit or loss on disposal.

### Revenue

Revenue includes vehicle rental income and fees receivable from licensees (net of value added taxes and discounts). As a consequence of the introduction of FRS 18, Accounting Policies, the Group has revised the policy for the recognition of credit repair revenue, on the basis that the Directors consider the revised treatment to be more appropriate since it better reflects the commercial nature of the transactions. Turnover now represents the amounts owing from the repairer, as opposed to the amounts charged onto the insurance companies. As a consequence of the change, revenue has been reduced, as set out in note 1 to the accounts, with a compensating reduction in cost of sales, such that there is no impact upon gross profit.

### Cost of sales

Cost of sales includes contributions to operating costs from vehicle manufacturers which are credited over the average depreciable lives of the vehicles. Where contributions depend on the volume of vehicle purchases, they are taken to income only to the extent that it is considered that the volume levels will be met.

### Fixed asset investments

Fixed asset investments are shown at cost less provision for permanent diminution in value.

## Statement of Accounting Policies

### Employee share plans

Investments in own shares are held by the employee share ownership trust for awards and grants under share option and share award schemes. The difference between the purchase price of the shares and the exercise price of the awards and options, net of any hedges, is charged to the profit and loss account over the period to which the options and awards are granted.

### Tangible fixed assets

#### Vehicles

Vehicles are stated at cost after deducting discounts received, less depreciation. Depreciation is based on estimates of future residual values or on guaranteed residual values, when they are agreed at the time of purchase. Depreciation rates vary between 12% and 40% per annum, depending on the type of vehicle.

#### Other assets

Other assets are stated at cost less depreciation. Depreciation is calculated so as to write down the cost of tangible assets to their residual values in equal instalments over their estimated useful lives, which are as follows:

Leasehold property	the period of the lease
Leasehold improvements	the shorter of the period of the lease or the life of the asset
Plant and equipment	2 to 10 years
Freehold buildings	50 years
Freehold land	not depreciated

### Major projects

All directly attributable costs on major capital projects are capitalised and depreciated from the date on which the project becomes fully operational over the expected useful lives of the project components.

### Leases

Vehicles and other assets leased under finance leases are capitalised at fair value and depreciated as described above. Interest on leases is charged to the profit and loss account so as to produce a constant periodic rate of charge on the remaining balance on finance of the

obligation for each accounting period. Vehicles and other assets held under operating leases are not capitalised. Lease payments are charged against the profit and loss account in the period to which they relate.

### Current asset investments

Marketable securities held as current assets are stated at cost adjusted for any amortised premium or discount.

### Pension arrangements

The cost of providing retirement pensions and related benefits is charged to the profit and loss account over the periods benefiting from the employees' service. The difference between this charge and the contributions paid is included as an asset or liability in the balance sheet.

All schemes are funded in accordance with generally accepted local actuarial practice and principles (the scheme in Germany is an unfunded scheme in line with local practice). In schemes where funding is non-insured, independent valuations are performed by independent qualified actuaries on a regular basis, generally every three years. The defined benefit schemes are valued using the projected unit cost method. In accordance with the recommendations of the actuaries, contributions are paid to the schemes so as to provide the required benefits. The Group charges these contributions to the profit and loss account over the period benefiting from the employees' services. The surpluses and deficits arising from the valuations are being spread over the average remaining service lives of the employees.

In November 2000, the Accounting Standards Board issued FRS 17, Retirement Benefits. FRS 17 will be fully implemented in the year ended 31 December 2003. In the meantime, transitional disclosures for the year ended 31 December 2001 are shown in note 23ii.

### Deferred taxation

Deferred taxation in respect of timing differences between profits as computed for taxation purposes and profits as stated in the financial statements is provided, on the liability method, only to the extent that there is a reasonable probability that such deferred taxation will be payable in the foreseeable future.

**Foreign currency**

Foreign currency assets and liabilities are translated at the rates of exchange ruling at the year end. Transactions during the year are recorded at rates of exchange in effect when the transaction occurs. Profits and losses on exchange are dealt with in the profit and loss account.

The results of overseas subsidiary undertakings and associated undertakings are translated at average rates.

Exchange differences arising from the retranslation at closing rates of the opening balance sheets and results of subsidiary undertakings and associated undertakings are taken directly to reserves. Where foreign currency borrowings are used to finance foreign subsidiary undertakings, including goodwill, the resulting foreign exchange differences are taken to reserves.

The average euro/sterling exchange rate used for the year was 1.612 (2000: 1.645) and the rate as at the year end was 1.615 (2000: 1.636).

**Financial instruments**

Transactions in derivative financial instruments are for risk management purposes only.

The Group uses derivative financial instruments to hedge its exposure to interest rate and foreign currency risk. To the extent that such instruments are matched against an underlying asset or liability, they are accounted for using hedge accounting.

Gains or losses on interest rate instruments are matched against the corresponding interest charge or interest receivable in the profit and loss account over the life of the instrument. For foreign exchange instruments, gains or losses and premiums or discounts are matched to the underlying transactions being hedged.

## Notes to the Financial Statements *for the year ended 31 December 2001*

### 1 Segmental and geographic information

#### Revenue, operating profit and net operating assets

The principal activity of the Group is the supply of vehicle rental services. The Group is managed throughout Europe as a single business. Operating profits and net operating assets relate to vehicle rental activities. Revenue and operating profits are derived entirely from continuing activities.

Revenue by geographic market	2001 €'000	2000 €'000	2001 £'000	2000 £'000
United Kingdom (2000 as restated)	304,178	287,603	189,601	175,919
France	224,412	207,423	139,881	126,875
Germany	202,926	219,411	126,488	134,208
Italy	172,781	163,210	107,698	99,831
Spain	151,857	140,099	94,656	85,695
Others	199,238	187,132	124,189	114,464
	<b>1,255,392</b>	<b>1,204,878</b>	<b>782,513</b>	<b>736,992</b>

As a consequence of the change in accounting policy described on page 31, United Kingdom revenue and cost of sales for the year ended 31 December 2000 have been restated by €17,521,000 (£10,717,000). The restatement has had no impact upon gross profit. Application of the previous policy in the current year would have increased revenue and cost of sales by €24,451,000 (£15,207,000).

During the year, yourautochoice.com Limited had a turnover of €2,625,000 (£1,636,000) (year ended 31 December 2000: nil) and AutoCascade Limited had no turnover (year ended 31 December 2000: nil).

2 Operating profit	2001 €'000	2000 €'000	2001 £'000	2000 £'000
<b>Operating profit is stated after charging</b>				
Depreciation on vehicles – owned	237,920	230,500	149,252	141,584
Depreciation on vehicles – under finance leases	76,980	94,414	47,049	57,418
Depreciation on other tangible fixed assets	17,432	12,030	10,875	7,393
Amortisation of goodwill	3,997	4,108	2,491	2,511
Hire of plant and machinery	11,951	11,085	7,457	6,741
Other operating lease rentals	39,864	36,157	24,873	21,989
Auditors' remuneration (for audit services)	1,072	1,015	669	621
Introduction of the euro	4,621	804	2,883	489

During the year the Group incurred €864,000 (£539,000) (2000: €1,542,000 (£944,000)) for non-audit services payable to its auditors in the United Kingdom. The audit fee in respect of the Company was €223,000 (£139,000) (2000: €197,000 (£121,000)).

3 Exceptional items	2001 €'000	2000 €'000	2001 £'000	2000 £'000
Share of joint venture losses	3,927	3,330	2,431	2,016
Administrative expenses	–	33,000	–	20,000
	<b>3,927</b>	<b>36,330</b>	<b>2,431</b>	<b>22,016</b>

The share of joint venture losses relates to the Group's investment in yourautochoice.com Limited. During the year, the Group restructured its interest in this joint venture, as explained in note 12 to the accounts. As a consequence, the Group has recorded a loss, in these financial statements, of €3,927,000 (£2,431,000), to reflect the write-down of the investment. This loss, along with the result for the period, has been treated as an exceptional item.

Exceptional administrative expenses incurred in the prior year related primarily to provisions for potentially irrecoverable debts held by Centrus Limited (formerly 3 Arrows Limited), a UK subsidiary of the Company, together with related costs.

<b>4 Directors and employees</b>	2001 €'000	2000 €'000	2001 £'000	2000 £'000
<b>Staff costs</b>				
Wages and salaries	209,776	188,697	130,889	116,092
Social security costs	35,758	35,728	22,311	21,956
Other pension costs	12,077	10,872	7,535	6,678
	<b>257,611</b>	<b>235,297</b>	<b>160,735</b>	<b>144,726</b>

	Year ended 31 December 2001 Number	Year ended 31 December 2000 Number
<b>Staff numbers</b>		
United Kingdom	1,484	1,466
France	1,234	1,258
Germany	766	836
Italy	522	499
Spain	825	818
Others	1,164	953
Total vehicle rental	5,995	5,830

<b>5 Directors' remuneration, interests and transactions</b>	2001 €'000	2000 €'000	2001 £'000	2000 £'000
<b>Aggregate emoluments</b>				
Remuneration for management services				
Salaries	2,109	1,450	1,316	892
Incentive bonuses	527	-	329	-
Directors' fees	662	642	413	395
	<b>3,298</b>	<b>2,092</b>	<b>2,058</b>	<b>1,287</b>

<b>Highest paid Director's emoluments</b>				
Remuneration for management services				
Salary	585	569	365	350
Incentive bonus	221	-	138	-
	<b>806</b>	<b>569</b>	<b>503</b>	<b>350</b>

Further details of Directors' remuneration, interests and transactions are set out in the Remuneration Report on pages 18 to 22

<b>6 Interest payable and similar charges (net)</b>	2001 €'000	2000 €'000	2001 £'000	2000 £'000
<b>Interest payable</b>				
On finance charges payable under finance leases and hire purchase contracts	14,316	17,709	8,931	10,752
On bank loans and overdrafts	55,354	50,053	34,534	30,640
On deferred consideration	4,188	5,034	2,613	3,075
By joint ventures	16	10	10	6
	<b>73,874</b>	<b>72,806</b>	<b>46,088</b>	<b>44,473</b>
<b>Interest receivable</b>				
By consolidated companies	(2,912)	(5,532)	(1,817)	(3,375)
	<b>70,962</b>	<b>67,274</b>	<b>44,271</b>	<b>41,098</b>
<b>Analysis of net interest payable</b>				
Ordinary net interest payable	70,946	67,264	44,261	41,092
Exceptional net interest payable	16	10	10	6
	<b>70,962</b>	<b>67,274</b>	<b>44,271</b>	<b>41,098</b>

**Notes to the Financial Statements** for the year ended 31 December 2001

<b>7 Taxation</b>	<b>2001 €'000</b>	<b>2000 €'000</b>	<b>2001 £'000</b>	<b>2000 £'000</b>
The taxation charge comprises:				
<b>United Kingdom</b>				
Corporation tax at 30% (2000: 30%)	13,018	19,383	8,078	11,817
Tax on exceptional administrative expenses	–	(8,260)	–	(5,000)
Share of joint venture's tax – ordinary	(79)	–	(49)	–
Share of joint venture's tax – exceptional	(862)	(822)	(535)	(504)
<b>Overseas</b>				
Corporation taxes	21,263	24,149	13,193	14,800
Share of associated undertaking's tax	–	3	–	2
<b>Adjustment in respect of prior years</b>				
Current tax	(1,476)	(10)	(916)	(6)
Deferred tax	(1,874)	238	(1,163)	146
	<b>29,990</b>	<b>34,681</b>	<b>18,608</b>	<b>21,255</b>
<b>Comprising:</b>				
Current	30,818	23,073	19,122	14,141
Deferred	(828)	11,608	(514)	7,114
	<b>29,990</b>	<b>34,681</b>	<b>18,608</b>	<b>21,255</b>

The United Kingdom taxation charge has benefited from tax losses carried forward from earlier years.

<b>8 Dividends</b>	<b>2001 €'000</b>	<b>2000 €'000</b>	<b>2001 £'000</b>	<b>2000 £'000</b>
<b>Dividend per ordinary share</b>				
Interim dividend of €0.032 (2.0p) (2000: €0.032 (2.0p))	18,890	18,586	11,697	11,689
Proposed final dividend of €0.061 (3.8p) (2000: €0.063 (3.8p))	35,846	37,062	22,231	22,221
	<b>54,736</b>	<b>55,648</b>	<b>33,928</b>	<b>33,910</b>

## 9 Earnings per share

The calculation of basic earnings per share is based on the profit for the year and on the weighted average number of shares in issue during the year. An adjusted calculation has been prepared, adding back the impact of both exceptional items and goodwill amortisation, since, in the opinion of the Directors, this gives a more consistent measure of performance.

	2001			2000		
	Profit €'000	Weighted average number	Earnings per share	Profit €'000	Weighted average number	Earnings per share
<b>Profit, number of shares and basic earnings per share</b>	<b>106,096</b>	<b>583,876,743</b>	<b>0.182</b>	<b>103,803</b>	<b>583,418,950</b>	<b>0.178</b>
Adjustment re possible issue of shares under option	–	769,728	(0.001)	–	3,298,984	(0.001)
<b>Adjusted profit, number of shares and diluted earnings per share</b>	<b>106,096</b>	<b>584,646,471</b>	<b>0.181</b>	<b>103,803</b>	<b>586,717,934</b>	<b>0.177</b>
<b>Profit, number of shares and basic earnings per share</b>	<b>106,096</b>	<b>583,876,743</b>	<b>0.182</b>	<b>103,803</b>	<b>583,418,950</b>	<b>0.178</b>
Amortisation of goodwill	3,997	–	0.007	4,108	–	0.007
Centrus Limited provisions for irrecoverable debts and related costs	–	–	–	33,000	–	0.057
Exceptional items (see note 3)	3,927	–	0.007	3,330	–	0.006
Taxation on adjusting items	(862)	–	(0.002)	(9,082)	–	(0.016)
<b>Adjusted profit pre goodwill and exceptional items, number of shares and adjusted earnings per share</b>	<b>113,158</b>	<b>583,876,743</b>	<b>0.194</b>	<b>135,159</b>	<b>583,418,950</b>	<b>0.232</b>

	2001			2000		
	Profit £'000	Weighted average number	Earnings per share	Profit £'000	Weighted average number	Earnings per share
<b>Profit, number of shares and basic earnings per share</b>	<b>65,830</b>	<b>583,876,743</b>	<b>11.27</b>	<b>63,645</b>	<b>583,418,950</b>	<b>10.91</b>
Adjustment re possible issue of shares under option	–	769,728	(0.01)	–	3,298,984	(0.06)
<b>Adjusted profit, number of shares and diluted earnings per share</b>	<b>65,830</b>	<b>584,646,471</b>	<b>11.26</b>	<b>63,645</b>	<b>586,717,934</b>	<b>10.85</b>
<b>Profit, number of shares and basic earnings per share</b>	<b>65,830</b>	<b>583,876,743</b>	<b>11.27</b>	<b>63,645</b>	<b>583,418,950</b>	<b>10.91</b>
Amortisation of goodwill	2,491	–	0.43	2,511	–	0.43
Centrus Limited provisions for irrecoverable debts and related costs	–	–	–	20,000	–	3.43
Exceptional items (see note 3)	2,431	–	0.42	2,016	–	0.35
Taxation on adjusting items	(535)	–	(0.09)	(5,504)	–	(0.95)
<b>Adjusted profit pre goodwill and exceptional items, number of shares and adjusted earnings per share</b>	<b>70,217</b>	<b>583,876,743</b>	<b>12.03</b>	<b>82,668</b>	<b>583,418,950</b>	<b>14.17</b>

The Group has granted options to Directors and employees over ordinary shares of Avis Europe plc and such shares constitute the only category of dilutive potential ordinary shares of Avis Europe plc.



**Notes to the Financial Statements** for the year ended 31 December 2001

<b>10 Goodwill</b>	<b>€'000</b>	<b>£'000</b>
<b>Cost</b>		
At 1 January 2001	81,607	49,882
Additions (see note 12)	1,985	1,240
Other	(270)	(166)
Exchange adjustments	(954)	67
<b>At 31 December 2001</b>	<b>82,368</b>	<b>51,023</b>
<b>Accumulated amortisation</b>		
At 1 January 2001	7,809	4,773
Charge for the year	3,997	2,491
Exchange adjustments	(84)	6
<b>At 31 December 2001</b>	<b>11,722</b>	<b>7,270</b>
<b>Net book amount</b>		
<b>At 31 December 2001</b>	<b>70,646</b>	<b>43,753</b>
<b>At 31 December 2000</b>	<b>73,798</b>	<b>45,109</b>

"Other" relates to an adjustment to the value of the goodwill in Avifon SA, a subsidiary acquired in 1998.

<b>11 Tangible fixed assets</b>	<b>Freehold land &amp; buildings €'000</b>	<b>Short leasehold property €'000</b>	<b>Plant &amp; equipment €'000</b>	<b>Vehicles €'000</b>	<b>Total €'000</b>
<b>Cost</b>					
At 1 January 2001	15,786	32,652	48,230	1,400,544	1,497,212
Additions	2,261	4,763	22,055	2,713,154	2,742,233
Disposals	(2,543)	(99)	(3,880)	(2,710,431)	(2,716,953)
Acquisition of subsidiary undertakings	-	282	83	1,622	1,987
Exchange adjustments	3	(80)	3	203	129
<b>At 31 December 2001</b>	<b>15,507</b>	<b>37,518</b>	<b>66,491</b>	<b>1,405,092</b>	<b>1,524,608</b>
<b>Accumulated depreciation</b>					
At 1 January 2001	2,326	8,529	24,351	136,355	171,561
Charge for the year	907	3,070	13,455	314,900	332,332
Disposals	(1,300)	(99)	(3,338)	(310,332)	(315,069)
Exchange adjustments	21	73	241	(387)	(52)
<b>At 31 December 2001</b>	<b>1,954</b>	<b>11,573</b>	<b>34,709</b>	<b>140,536</b>	<b>188,772</b>
<b>Net book amount</b>					
<b>At 31 December 2001</b>	<b>13,553</b>	<b>25,945</b>	<b>31,782</b>	<b>1,264,556</b>	<b>1,335,836</b>
<b>At 31 December 2000</b>	<b>13,460</b>	<b>24,123</b>	<b>23,879</b>	<b>1,264,189</b>	<b>1,325,651</b>

# 11 Tangible fixed assets continued

	Freehold land & buildings £'000	Short leasehold property £'000	Plant & equipment £'000	Vehicles £'000	Total £'000
<b>Cost</b>					
<b>At 1 January 2001</b>	9,649	19,958	29,480	856,073	915,160
Additions	1,421	2,973	13,708	1,693,798	1,711,900
Disposals	(1,574)	(62)	(2,425)	(1,693,125)	(1,697,186)
Acquisition of subsidiary undertakings	-	172	58	1,023	1,253
Exchange adjustments	108	193	359	12,435	13,095
<b>At 31 December 2001</b>	9,604	23,234	41,180	870,204	944,222
<b>Accumulated depreciation</b>					
<b>At 1 January 2001</b>	1,422	5,213	14,885	83,345	104,865
Charge for the year	565	1,915	8,395	196,301	207,176
Disposals	(805)	(62)	(2,075)	(193,898)	(196,840)
Exchange adjustments	28	101	290	1,285	1,704
<b>At 31 December 2001</b>	1,210	7,167	21,495	87,033	116,905
<b>Net book amount</b>					
<b>At 31 December 2001</b>	8,394	16,067	19,685	783,171	827,317
<b>At 31 December 2000</b>	8,227	14,745	14,595	772,728	810,295

Vehicles held under finance leases are included in tangible fixed assets at the following amounts:

	2001 €'000	2000 €'000	2001 £'000	2000 £'000
<b>Cost</b>	415,415	415,023	257,277	253,680
<b>Accumulated depreciation</b>	(23,503)	(25,696)	(15,067)	(15,706)
<b>Net book amount</b>	391,912	389,327	242,210	237,974

# 12 Fixed asset investments

Group:	Shares in joint ventures €'000	Shares in associated undertakings €'000	Other investments €'000	Own shares €'000	Total €'000
<b>Cost</b>					
<b>At 1 January 2001</b>	-	510	206	2,565	3,281
Additions	2,419	-	484	-	2,903
Share of losses	(357)	(48)	-	-	(405)
Disposals	-	-	(51)	(52)	(103)
Exchange adjustments	-	(28)	17	(36)	(47)
<b>At 31 December 2001</b>	2,062	434	656	2,477	5,629

Group:	Shares in joint ventures £'000	Shares in associated undertakings £'000	Other investments £'000	Own shares £'000	Total £'000
<b>Cost</b>					
<b>At 1 January 2001</b>	-	312	126	1,566	2,004
Additions	1,500	-	300	-	1,800
Share of losses	(223)	(30)	-	-	(253)
Disposals	-	-	(31)	(32)	(63)
Exchange adjustments	-	(13)	11	-	(2)
<b>At 31 December 2001</b>	1,277	269	406	1,534	3,486

**Notes to the Financial Statements** for the year ended 31 December 2001

**12 Fixed asset investments continued**

Company: Cost	Shares in subsidiary undertakings £'000	Own shares £'000	Total £'000
<b>At 1 January 2001</b>	750,778	1,566	752,344
Additions	100	(32)	68
<b>At 31 December 2001</b>	750,878	1,534	752,412

A statement of the investments held by the parent company and the Group in subsidiary undertakings which principally affected profits or the net assets of the Group is set out on page 55.

**Group acquisitions and investments**

**Acquisition of subsidiary undertakings**

During 2001, the Group acquired 100% of the issued share capital of Socalvi SA and the company became a wholly owned subsidiary undertaking of the Group. The principal activity of Socalvi SA is the provision of vehicle rental services and its place of business is France. Cash consideration was €1,734,000 (£1,094,000). The amount of goodwill arising as a result of the acquisition is €1,253,000 (£783,000). The goodwill is being amortised over 20 years on a straight line basis, in line with the Directors' estimate of its useful life.

In July 2001, the Group also acquired Akis Motors S.A., an acquisition that was not material to the Group.

The results and cash flows arising subsequent to the acquisitions are not considered material to the Group and accordingly are not disclosed separately. The acquisitions have been accounted for by using the acquisition method of accounting. The details of the net assets acquired, goodwill and consideration of the Group's acquisitions in subsidiary undertakings are set out below:

	Book value €'000	Fair value adjustments €'000	Fair value to the Group €'000
<b>Tangible fixed assets</b>			
Motor vehicles	1,622	–	1,622
Other	365	–	365
Debtors	1,051	–	1,051
Cash	3	–	3
Bank loans	(428)	–	(428)
Other creditors	(749)	–	(749)
Accruals and deferred income	(881)	(445)	(1,326)
<b>Net assets</b>	983	(445)	538
Goodwill	1,540	445	1,985
	2,523	–	2,523
<b>Consideration</b>			
Cash for acquisition of shares	2,523	–	2,523

## 12 Fixed asset investments continued

	Book value £'000	Fair value adjustments £'000	Fair value to the Group £'000
Tangible fixed assets			
Motor vehicles	1,023	–	1,023
Other	230	–	230
Debtors	663	–	663
Cash	2	–	2
Bank loans	(270)	–	(270)
Other creditors	(472)	–	(472)
Accruals and deferred income	(556)	(273)	(829)
<b>Net assets</b>	<b>620</b>	<b>(273)</b>	<b>347</b>
Goodwill	967	273	1,240
	<b>1,587</b>	<b>–</b>	<b>1,587</b>
<b>Consideration</b>			
<b>Cash for acquisition of shares</b>	<b>1,587</b>	<b>–</b>	<b>1,587</b>

The only fair value adjustment made, in connection with the acquisition of Socalvi SA, relates to the need to recognise unrecorded liabilities for revenue adjustments that were not previously reflected in the accounts of the company. There were no adjustment required to the accounting policies of the company in order to bring them into line with the rest of the Group.

### Investment in joint venture undertaking

During the year, the Group restructured its interests so that yourautochoice.com Limited transferred its trade and assets to Autobyte UK Limited in exchange for a 10% interest in that company and a 50% joint venture interest in a new company, AutoCascade Limited, set up to exploit the opportunities in business to business car sales. No goodwill arose on the acquisition of AutoCascade Limited.

During the year, all of the options granted under the yourautochoice.com Limited share option scheme lapsed. As at 31 December 2000, options over 67,915 ordinary shares in the company were outstanding. If these had been exercised, this would have diluted the Group's holding in yourautochoice.com Limited by 1.7%.

As at 31 December 2000, the Group's interest in yourautochoice.com Limited was disclosed as a long term liability (see note 15)

At the year end, the Group's interest in its joint venture (AutoCascade Limited) is analysed as follows:

Group:	2001 €'000	2000 €'000	2001 £'000	2000 £'000
Share of gross assets	2,355	–	1,459	–
Share of gross liabilities	(293)	–	(182)	–
	<b>2,062</b>	<b>–</b>	<b>1,277</b>	<b>–</b>

### Acquisition of own shares

During the prior year, the Company made an interest free loan to the trustees of the Avis Europe Employee Share Trust, a discretionary trust established in Jersey, to facilitate the acquisition by it of ordinary shares of the Company. The shares are held to partially satisfy options and awards granted under a number of the Company's share schemes. Further details in relation to these share schemes are provided in the Remuneration Report set out on pages 18 to 20. As at 31 December 2001, the Trust held 979,198 shares (2000: 999,518 shares), with a market value of 163.0 pence per share (2000: 210.0 pence per share), which have been recognised as an investment in own shares. None of the shares held at the year end are under option to employees, nor have they been conditionally gifted to them. The Avis Europe Employee Share Trust has not waived its right to dividends on these shares.

## Notes to the Financial Statements for the year ended 31 December 2001

### 12 Fixed asset investments continued

#### Europe Leisure Holdings NV

During the year, the Avis Europe Group transferred its 100% interest in Avis Leisure Services Limited to Europe Leisure Holdings NV in exchange for a 29% voting interest and a 99.5% economic interest in Europe Leisure Holdings NV. The remaining voting and economic rights in Europe Leisure Holdings NV are owned by the Avis Europe Employee Share Trust.

Europe Leisure Holdings NV is considered to be a quasi-subsidiary under the terms of FRS 5 and consequently the assets and liabilities of the company and its subsidiary are consolidated in the Avis Europe plc financial statements. The summarised consolidated results of Europe Leisure Holdings NV are as follows: Turnover, €28,781,000 (£17,940,000); Profit before tax, €9,219,000 (£5,720,000); Fixed assets, €5,921,000 (£3,667,000); Net current assets, €13,206,000 (£8,179,000) and Operating cash flows, €11,308,000 (£7,061,000).

### 13 Debtors

Group:	2001 €'000	2000 €'000	2001 £'000	2000 £'000
Trade debtors	401,539	409,483	248,683	250,294
Other debtors	121,718	122,620	75,383	74,951
Prepayments	108,250	52,921	67,042	32,347
	631,507	585,024	391,108	357,592

Company:	2001 £'000	2000 £'000
Amounts owed by Group undertakings	61,154	80,123
Other debtors	-	8,000
Prepayments	30	15
	61,184	88,138

Included within "Trade debtors" is an amount of €68,300,000 (£42,300,000) (2000: €44,200,000 (£26,900,000)), which represents amounts recoverable, net of bad debt provisions, arising from the Centrus (formerly 3 Arrows) credit hire business.

Included within "Prepayments" is an amount of €2,011,000 (£1,245,000) (2000: €2,550,000 (£1,558,000)), which represents a pension prepayment. This is being amortised over the average remaining service life of the employees.

Included within "Amounts owed by Group undertakings" is €2,477,000 (£1,534,000) (2000: €2,568,000 (£1,566,000)), which represents an amount receivable from the Avis Europe Employee Share Trust.

### 14 Bank and other loans

Group:	2001 €'000	2000 €'000	2001 £'000	2000 £'000
<b>Creditors amounts falling due within one year</b>				
Bank loans, overdrafts and other loans	264,092	405,422	163,559	247,811
Loan notes	-	52,051	-	31,816
	264,092	457,473	163,559	279,627
<b>Creditors amounts falling due after more than one year</b>				
Bank loans and overdrafts	251,887	160,900	156,000	98,349
Senior unsecured loan notes	320,750	295,746	198,649	180,773
	572,637	456,646	354,649	279,122

Company:	2001 £'000	2000 £'000
<b>Creditors amounts falling due within one year</b>		
Loan notes	-	31,816
Bank loans and overdrafts	-	13
	-	31,829

# 15 Other creditors

Group:	2001 €'000	2000 €'000	2001 £'000	2000 £'000
<b>Amounts falling due within one year</b>				
Trade creditors	349,137	272,377	216,229	166,489
Corporation taxes	24,905	19,047	15,424	11,642
Other taxes and social security	18,816	7,655	11,653	4,679
Other creditors	73,535	75,802	45,542	46,333
Obligations under finance leases and hire purchase contracts	315,566	354,607	195,438	216,751
Accruals and deferred income	209,131	177,232	129,521	108,320
Proposed dividend	35,897	36,335	22,231	22,221
	<b>1,026,987</b>	<b>943,055</b>	<b>636,038</b>	<b>576,435</b>

## Amounts falling due after more than one year

Interest in net liabilities of joint venture (see note 12)

Share of gross assets	-	(5,414)	-	(3,309)
Share of gross liabilities	-	7,689	-	4,699

	-	2,275	-	1,390
Other creditors falling due between one and two years	213	13,754	132	8,407
Other creditors falling due between two and five years	749	975	464	596
Other creditors falling due after more than five years	35,646	36,117	22,076	22,076
	<b>36,608</b>	<b>53,121</b>	<b>22,672</b>	<b>32,469</b>

## Company:

### Amounts falling due within one year

Amounts due to Group undertakings			108,555	96,957
Other creditors			2,386	5,204
Proposed dividend			22,231	22,221
			<b>133,172</b>	<b>124,382</b>

### Amounts falling due after more than one year

Other creditors falling due between one and two years			-	5,120
			-	5,120

Other creditors falling due after more than one year represent deferred consideration arising on the acquisition of shares held by Avis Inc. in Avis Europe Investment Holdings Limited.

Amounts falling due after more than five years are payable in annual instalments of £1,940,000 at an interest rate of 8%.

**Notes to the Financial Statements** for the year ended 31 December 2001

**16 Financial instruments**

The Group's objectives and policies on the use of financial instruments, including derivatives, can be found in the Operating and Financial Review on pages 11 and 12. Amounts dealt with in this note exclude short term assets and liabilities except for cash, overdrafts, loan notes, commercial paper, deferred consideration and finance leases.

The tables within this note take account of interest rate swaps and currency swaps used to manage the interest rate and currency profile of the financial liabilities of the Group.

**(i) Maturity of financial liabilities**

Borrowings may be analysed by repayment dates as follows:

	2001 €'000	2000 €'000	2001 £'000	2000 £'000
<b>Amounts falling due within one year</b>				
Obligations under finance leases and hire purchase contracts	315,566	354,607	195,438	216,751
Commercial paper	46,554	87,143	28,832	53,265
Bank loans and overdrafts	217,538	318,279	134,727	194,546
Loan notes	-	52,051	-	31,816
Deferred consideration	13,574	11,073	8,407	6,768
	593,232	823,153	367,404	503,146
<b>Amounts falling due within one to two years</b>				
Bank loans	251,887	160,900	156,000	98,349
Senior unsecured loan notes	49,774	-	30,826	-
Deferred consideration	213	13,754	132	8,407
	301,874	174,654	186,958	106,756
<b>Amounts falling due within two to five years</b>				
Senior unsecured loan notes	110,976	135,746	68,731	82,974
Deferred consideration	749	975	464	596
	111,725	136,721	69,195	83,570
<b>Amounts falling due after five years</b>				
Senior unsecured loan notes	160,000	160,000	99,092	97,799
Deferred consideration	35,646	36,117	22,076	22,076
	195,646	196,117	121,168	119,875
<b>Total</b>				
Commercial paper	46,554	87,143	28,832	53,265
Bank loans and overdrafts	469,425	479,179	290,727	292,895
Loan notes	-	52,051	-	31,816
Senior unsecured loan notes	320,750	295,746	198,649	180,773
Sub total - bank and other loans	836,729	914,119	518,208	558,749
Obligations under finance leases and hire purchase contracts	315,566	354,607	195,438	216,751
Deferred consideration	50,182	61,919	31,079	37,847
	1,202,477	1,330,645	744,725	813,347

The commercial paper, issued by Avis Finance Company Limited, is guaranteed by the Company.

The senior unsecured loan notes represent US\$300,000,000 (2000: US\$300,000,000) of loan notes outstanding maturing between 2003 and 2010 and €24,627,250 (2000: €nil) of loan notes outstanding maturing in 2006. The senior unsecured loan notes, issued by Avis Finance Company Limited, are guaranteed by the Company and Avis Europe Holdings Limited.

Deferred consideration is included within other creditors (see note 15).

## 16 Financial instruments continued

### (ii) Analysis of interest rate exposure and currency of financial liabilities

The interest rate and currency profile of the financial liabilities of the Group are as follows:

	2001			2000		
	Fixed rate €'000	Floating rate €'000	Total €'000	Fixed rate €'000	Floating rate €'000	Total €'000
<b>Currency</b>						
Euro	597,823	451,457	1,049,280	558,241	503,256	1,061,497
Sterling	32,293	77,368	109,661	40,900	154,498	195,398
Other	–	(6,646)	(6,646)	–	11,831	11,831
	<b>630,116</b>	<b>522,179</b>	<b>1,152,295</b>	<b>599,141</b>	<b>669,585</b>	<b>1,268,726</b>

	2001			2000		
	Fixed rate £'000	Floating rate £'000	Total £'000	Fixed rate £'000	Floating rate £'000	Total £'000
<b>Currency</b>						
Euro	370,247	279,599	649,846	341,221	307,612	648,833
Sterling	20,000	47,916	67,916	25,000	94,436	119,436
Other	–	(4,116)	(4,116)	–	7,231	7,231
	<b>390,247</b>	<b>323,399</b>	<b>713,646</b>	<b>366,221</b>	<b>409,279</b>	<b>775,500</b>

US\$150,000,000 of the proceeds from the issues of senior unsecured loan notes were swapped so as to generate a fixed rate deutschmark liability and US\$150,000,000 were swapped so as to generate a fixed rate euro liability.

Included in the floating rate column of the above analyses are borrowings subject to interest rate caps with an aggregate notional principal of €60,000,000 (£37,160,000) (2000: nil).

Excluded from the above table are forward start interest rate swaps with aggregate notional principals of £40,000,000 and €80,000,000 (£49,546,000) respectively, which commence in 2002 and 2003 and will run for three, four or five years. These swaps will convert the prevailing floating interest rate to an aggregate fixed rate of 5.8%.

The floating exchange rate financial liabilities principally comprise bank loans bearing interest at various rates set with reference to the prevailing EURIBOR or equivalent.

The weighted average interest rate of the fixed rate liabilities and the weighted average maturity period of the fixed rate liabilities are as follows:

	2001		2000	
	Weighted average fixed interest rate %	Weighted average period for which rate is fixed Years	Weighted average fixed interest rate %	Weighted average period for which rate is fixed Years
<b>Currency</b>				
Euro	5.8	3.4	5.0	2.2
Sterling	7.0	1.6	6.6	2.2
	<b>5.9</b>	<b>3.3</b>	<b>5.1</b>	<b>2.2</b>

The above analysis excludes the deferred consideration of €50,183,000 (£31,079,000) (2000: €61,919,000 (£37,847,000)). This bears an interest rate of 8.0% (2000: 8.0%) and the weighted average period for which the rate is fixed is 36 years (2000: 37 years).



## Notes to the Financial Statements for the year ended 31 December 2001

### 16 Financial instruments continued

#### (iii) Investment in financial assets

The Group's financial assets are fixed asset investments, cash and current asset investments. Fixed asset investments include equity minority interests in French companies of €150,000 (£93,000) (2000: €159,000 (£97,000)), equity minority interest in a UK company of €485,000 (£300,000) (2000: nil) and UK fixed rate gilts of €21,000 (£13,000) (2000: €47,000 (£29,000)). Cash balances are floating rate assets which earn interest at various rates set with reference to the prevailing EURIBOR or equivalent. The current asset investments are amounts held, in an independently managed fund, by Aegis Motor Insurance Limited (see note 24iii). The investments in 2000 consisted of Eurobonds €3,331,000 (£2,036,000) which earned fixed rates between 6.25% and 6.5%. In 2001, the investments consist of €488,000 (£302,000) (2000: €497,000 (£304,000)) of floating rate notes which attract interest with reference to LIBOR.

The currency profile of the financial assets of the Group are as follows:

	2001 €'000	2000 €'000	2001 £'000	2000 £'000
<b>Currency</b>				
Euro	4,589	8,542	2,842	5,221
Sterling	17,746	29,078	10,990	17,774
Other	337	769	209	470
	<b>22,672</b>	<b>38,389</b>	<b>14,041</b>	<b>23,465</b>

#### (iv) Currency exposures

Monetary assets and liabilities, including short term financial assets and liabilities, denominated in currencies other than the functional currency of the entity owning them, excluding currency funding for overseas net investment (which is dealt with in the statement of total recognised gains and losses), are not material to the Group.

#### (v) Committed borrowing facilities

The committed borrowing facilities of the Group, drawn and undrawn, are as follows:

	2001			2000		
	Drawn €'000	Undrawn €'000	Total €'000	Drawn €'000	Undrawn €'000	Total €'000
Revolving credit facility	251,887	280,951	532,838	214,242	325,641	539,883
Bilateral facilities and finance leases	356,551	490,140	846,691	401,564	366,572	768,136
	<b>608,438</b>	<b>771,091</b>	<b>1,379,528</b>	<b>615,806</b>	<b>692,213</b>	<b>1,308,019</b>

	2001			2000		
	Drawn £'000	Undrawn £'000	Total £'000	Drawn £'000	Undrawn £'000	Total £'000
Revolving credit facility	156,000	174,000	330,000	130,954	199,046	330,000
Bilateral facilities and finance leases	220,821	303,556	524,377	245,453	224,064	469,517
	<b>376,821</b>	<b>477,556</b>	<b>854,377</b>	<b>376,407</b>	<b>423,110</b>	<b>799,517</b>

The amount of the revolving credit facility in 2000 included a €53,340,000 (£32,604,000) guarantee in support of the loan notes issued in respect of the acquisition of Centrus (formerly 3 Arrows). This guarantee no longer exists at the end of 2001.

The maturity profile of the Group's undrawn committed facilities is as follows:

	2001 €'000	2000 €'000	2001 £'000	2000 £'000
Expiring within one year	700,046	579,253	433,556	354,064
Expiring within one and two years	71,045	112,960	44,000	69,046
	<b>771,091</b>	<b>692,213</b>	<b>477,556</b>	<b>423,110</b>

The facilities expire at various intervals in 2002 and 2003.

There are, in addition, uncommitted facilities available to the Group of €776,100,000 (£480,658,000) (2000: €900,358,000 (£550,338,000)).

## 16 Financial instruments continued

### (vi) Fair value of financial assets and liabilities

The fair value of the financial assets are not considered to be materially different from their book amounts. Accordingly, no further analysis is given with regard to financial assets.

	2001		2000	
	Book amount €'000	Fair value €'000	Book amount €'000	Fair value €'000
<b>Financial liabilities</b>				
<b>Primary financial instruments held or issued to finance the Group's operations:</b>				
Short term borrowings and current portion of long term debt	592,390	592,390	822,106	822,106
Long term borrowings	650,425	666,682	535,545	546,072
<b>Derivative financial instruments held to manage the interest rate and currency profile:</b>				
Interest rate swaps	631	7,271	251	3,410
Currency swaps	(41,245)	(56,366)	(28,850)	(32,008)
Forward foreign currency contracts	276	(3,891)	1,593	5,847
	<b>1,202,477</b>	<b>1,206,086</b>	<b>1,330,645</b>	<b>1,345,427</b>

	2001		2000	
	Book amount £'000	Fair value £'000	Book amount £'000	Fair value £'000
<b>Financial liabilities</b>				
<b>Primary financial instruments held or issued to finance the Group's operations:</b>				
Short term borrowings and current portion of long term debt	366,882	366,882	502,506	502,506
Long term borrowings	402,825	412,893	327,348	333,783
<b>Derivative financial instruments held to manage the interest rate and currency profile:</b>				
Interest rate swaps	391	4,503	153	2,144
Currency swaps	(25,544)	(34,909)	(17,634)	(20,117)
Forward foreign currency contracts	171	(2,410)	974	3,678
	<b>744,725</b>	<b>746,959</b>	<b>813,347</b>	<b>821,994</b>

For the purposes of the above table, the book value of the relevant asset or liability is shown gross of the effect of the hedging instrument.

The fair value of borrowings and derivative instruments is calculated by discounting all future cash flows by the market yield curve at the balance sheet date. Currency derivatives are translated at the rates of exchange quoted at the balance sheet date.

**Notes to the Financial Statements** for the year ended 31 December 2001

**16 Financial instruments continued**

**(vi) Fair value of financial assets and liabilities continued**

**Gains and losses on hedges**

Gains and losses on financial instruments used for hedging are not recognised until the exposure that is being hedged is itself recognised. Unrecognised gains and losses on financial instruments used for hedging, and the movements therein, are as follows:

	2001 Net gains/(losses) €'000	2000 Net gains/(losses) €'000	2001 Net gains/(losses) €'000	2000 Net gains/(losses) €'000
<b>Gains and losses on hedges at 1 January</b>	<b>(4,255)</b>	<b>8,999</b>	<b>(2,212)</b>	<b>5,616</b>
Arising in previous years included in current year income	2,473	2,318	1,092	1,447
<b>Gains and losses not included in income</b>				
Arising in previous year	(1,782)	11,317	(1,120)	7,063
Arising in current year	15,084	(15,572)	8,954	(9,275)
<b>Gains and losses on hedges at 31 December</b>	<b>13,302</b>	<b>(4,255)</b>	<b>7,834</b>	<b>(2,212)</b>
Of which:				
Gains and losses expected to be included within one year	16,380	(2,473)	9,717	(1,092)
Gains and losses expected to be included after more than one year	(3,078)	(1,782)	(1,883)	(1,120)

**17 Provisions for liabilities and charges**

Group:	Pensions €'000	Deferred taxation €'000	Total €'000	Pensions €'000	Deferred taxation €'000	Total €'000
<b>At 1 January 2001</b>	<b>19,808</b>	<b>60,256</b>	<b>80,064</b>	<b>12,107</b>	<b>36,832</b>	<b>48,939</b>
Profit and loss charge	2,237	(828)	1,409	1,396	(514)	882
Utilisation	(1,179)	—	(1,179)	(736)	—	(736)
Exchange adjustment	(1)	(175)	(176)	155	379	534
<b>At 31 December 2001</b>	<b>20,865</b>	<b>59,253</b>	<b>80,118</b>	<b>12,922</b>	<b>36,697</b>	<b>49,619</b>

The pension provision arises from the difference between contributions paid to pension and other post retirement benefit scheme and the amount charged to the profit and loss account. Further details of pensions are set out in note 23.

Deferred taxation provided and deferred taxation not recognised are as follows:

	Provided		Not recognised	
	2001 €'000	2000 €'000	2001 €'000	2000 €'000
Accelerated capital allowances	24,013	20,991	(1,414)	(9,435)
Other timing differences	41,699	39,265	(2,745)	(2,642)
Losses available for offset	(6,459)	—	(33,884)	(38,172)
	<b>59,253</b>	<b>60,256</b>	<b>(38,043)</b>	<b>(50,249)</b>
	Provided		Not recognised	
	2001 €'000	2000 €'000	2001 €'000	2000 €'000
Accelerated capital allowances	14,872	12,831	(876)	(5,767)
Other timing differences	25,825	24,001	(1,700)	(1,615)
Losses available for offset	(4,000)	—	(20,985)	(23,333)
	<b>36,697</b>	<b>36,832</b>	<b>(23,561)</b>	<b>(30,715)</b>

18 Share capital	2001			2000		
	Number	€'000	£'000	Number	€'000	£'000
<b>Authorised share capital</b>						
Ordinary shares of 1p each	800,000,000		8,000	800,000,000		8,000
<b>Issued and fully paid share capital</b>						
Ordinary shares of 1p each	585,011,264	8,071	5,850	584,752,764	8,067	5,848

At 31 December 2001, options granted under the Company's share option schemes were outstanding as follows:

Date of grant	Number of ordinary shares 2001	Number of ordinary shares 2000	Exercise price range	Exercisable years
2001	2,044,350	–	145.3p–162.7p	2004–2011
2000	1,301,000	1,404,000	198.7p–199.0p	2003–2010
1999	1,028,595	1,449,500	253.3p–279.8p	2002–2009
1998	2,510,155	2,890,750	248.2p–268.0p	2001–2008
1997	3,243,853	3,535,853	124.0p–127.8p	2000–2007

19 Reserves	Share premium €'000	Profit and loss €'000	Total €'000	Share premium £'000	Profit and loss £'000	Total £'000
<b>Group:</b>						
<b>At 1 January 2001</b>	873,382	(846,445)	26,937	633,145	(617,597)	15,548
Premium arising on issue of ordinary shares	636	(113)	523	396	(71)	325
Retained profit for the year	–	51,360	51,360	–	31,902	31,902
Exchange adjustments (net of taxation)	–	(2,356)	(2,356)	–	(1,270)	(1,270)
<b>At 31 December 2001</b>	874,018	(797,554)	76,464	633,541	(587,036)	46,505

Goodwill, of €1,080,421,000 (£783,462,000), arising before 28 February 1998 has been written off against the profit and loss account. For further information see the Statement of Accounting Policies on page 31.

The loss in the profit and loss reserve arising on the issue of ordinary shares relates to the Group's share symmetry scheme.

Company:	Share premium £'000	Profit and loss £'000	Total £'000
<b>At 1 January 2001</b>	633,145	40,158	673,303
Premium arising on issue of ordinary shares	396	–	396
Retained profit for the year	–	875	875
<b>At 31 December 2001</b>	633,541	41,033	674,574

No profit and loss account is presented for the Company, as permitted by Section 230 of the Companies Act 1985. The amount of profit dealt with in the accounts of the Company for the year to 31 December 2001, before dividends paid and payable, is £34,803,000 (2000: £69,052,000).

**Notes to the Financial Statements** for the year ended 31 December 2001

**20 Reconciliation of movements in shareholders' funds**

Group:	2001 €'000	2000 €'000	2001 £'000	2000 £'000
Profit for the year	106,096	103,803	65,830	63,645
Dividends	(54,736)	(55,648)	(33,928)	(33,910)
Exchange adjustments	(2,356)	(3,240)	(1,270)	(2,172)
Nominal value and share premium on issue of shares (see notes 18 and 19)	527	3,159	327	1,990
Net addition to shareholders' funds	49,531	48,074	30,959	29,553
Opening shareholders' funds	35,004	(13,070)	21,396	(8,157)
<b>Closing shareholders' funds</b>	<b>84,535</b>	<b>35,004</b>	<b>52,355</b>	<b>21,396</b>

**21 Capital commitments**

At 31 December 2001 the Group had capital commitments contracted for, but not provided for, amounting to €201,651,000 (£124,888,000) (2000: €304,787,000 (£186,299,000)).

**22 Financial commitments**

At 31 December 2001 the Group had the following annual commitments under operating leases in the year ending 31 December 2002, analysed by the date of termination of the leases:

	Land and buildings €'000	Motor vehicles €'000	Others €'000	Total €'000
Expiring:				
Within one year	5,213	751	213	6,177
Between one and two years	754	5,042	185	5,981
Between two and five years	4,902	–	39	4,941
After more than five years	5,522	–	–	5,522
	<b>16,391</b>	<b>5,793</b>	<b>437</b>	<b>22,621</b>
	Land and buildings £'000	Motor vehicles £'000	Others £'000	Total £'000
Expiring:				
Within one year	3,229	465	132	3,826
Between one and two years	467	3,123	115	3,705
Between two and five years	3,036	–	24	3,060
After more than five years	3,420	–	–	3,420
	<b>10,152</b>	<b>3,588</b>	<b>271</b>	<b>14,011</b>

## 22 Financial commitments continued

At 31 December 2000, the Group had the following annual commitments under operating leases in the year ending 31 December 2001, analysed by the date of termination of the leases:

	Land and buildings €'000	Motor vehicles €'000	Others €'000	Total €'000
Expiring:				
Within one year	10,077	6,426	126	16,629
Between one and two years	3,588	–	180	3,768
Between two and five years	3,627	–	187	3,814
After more than five years	6,731	–	–	6,731
	<b>24,023</b>	<b>6,426</b>	<b>493</b>	<b>30,942</b>
	Land and buildings £'000	Motor vehicles £'000	Others £'000	Total £'000
Expiring:				
Within one year	6,160	3,928	77	10,165
Between one and two years	2,193	–	110	2,303
Between two and five years	2,217	–	114	2,331
After more than five years	4,114	–	–	4,114
	<b>14,684</b>	<b>3,928</b>	<b>301</b>	<b>18,913</b>

## 23 Pensions

### (i) Pension schemes

All operating subsidiary undertakings within the Group contribute to their local state pension scheme. Certain countries also have a company scheme which provides additional retirement benefits. The majority of these schemes are of the "defined benefit" type based on employees' salaries and length of service and are funded by investments held outside the Group.

In the year ended 31 December 2001 the Group's profit and loss account charge was €12,077,000 (£7,535,000) (2000: €10,872,000 (£6,678,000)) of which €8,323,000 (£5,193,000) (2000: €7,985,000 (£4,885,000)) related to the United Kingdom and Germany combined.

The schemes in the United Kingdom and Germany are defined benefit schemes and the main actuarial assumptions and results of the valuations of these principal schemes are as follows:

	UK	Germany
Main assumptions:		
Rate of return on investments	7.00%	6.50%
Rate of salary increase	4.50%	3.50%
Rate of state pension increase	3.00%	3.50%
Value of schemes' assets ('000)	£35,394	
Value of balance sheet provision ('000)		DM 33,622
Value of past service liabilities ('000)	£41,109	DM 33,026
Past service (deficit)/surplus ('000)	£(5,715)	DM 596
Actuarial value of assets as a percentage of past service liabilities	86.1%	101.8%
Date of last valuation	30 June 1999	31 December 2000

The market value of the United Kingdom scheme as at the date of the last valuation of the scheme on 30 June 1999 was £43,942,000.

**Notes to the Financial Statements** for the year ended 31 December 2001

**23 Pensions continued**

**(ii) FRS 17 Retirement benefits**

The valuation used for FRS 17 disclosures has been based on the most recent actuarial valuations, as set out above, updated by the scheme actuaries to take account of the requirements of FRS 17 in order to assess the liabilities of the scheme at 31 December 2001. Scheme assets are stated at their market value at 31 December 2001.

The financial assumptions used to calculate scheme liabilities under FRS 17 are:

	Funded schemes	Unfunded schemes
Valuation method	Projected unit	Projected unit
Discount rate	5.49%	6.50%
Inflation rate	2.45%	3.50%
Increase to deferred benefits during deferment	2.73%	3.50%
Increases to pensions in payment	2.74%	1.50%
Salary increases	3.80%	3.50%

The assets in the scheme and the expected rate of return were:

	Funded schemes Long term rate of return expected at 31 December 2001 %	Funded schemes Value at 31 December 2001 €'000	Unfunded schemes Value at 31 December 2001 €'000
Equities	7.60	57,411	-
Bonds	5.40	12,565	-
Other	4.83	13,775	17,191
Total market value of assets		83,751	17,191
Present value of scheme liabilities		(109,560)	(16,886)
(Deficit)/surplus in the scheme		(25,809)	305
Related deferred tax asset/(liability)		7,875	(119)
Net pension (deficit)/asset		(17,934)	186

	Funded schemes Long term rate of return expected at 31 December 2001 %	Funded schemes Value at 31 December 2001 £'000	Unfunded schemes Value at 31 December 2001 £'000
Equities	7.60	35,556	-
Bonds	5.40	7,782	-
Other	4.83	8,531	10,647
Total market value of assets		51,869	10,647
Present value of scheme liabilities		(67,853)	(10,458)
(Deficit)/surplus in the scheme		(15,984)	189
Related deferred tax asset/(liability)		4,877	(74)
Net pension (deficit)/asset		(11,107)	115

If the FRS 17 pension deficit was included in the Group's financial statements at 31 December 2001, the net assets and profit/loss account reserve would be as follows:

	Net assets 2001 €'000	Profit and loss reserve 2001 €'000	Net assets 2001 £'000	Profit and loss reserve 2001 £'000
Excluding pension asset	85,192	(797,554)	52,762	(587,036)
Pension deficit	(17,748)	(17,748)	(10,992)	(10,992)
Including pension deficit	67,444	(815,302)	41,770	(598,028)

**24 Notes to the consolidated cash flow statement**
**(i) Reconciliation of operating profit to operating cash flow**

	2001 €'000	2000 €'000	2001 £'000	2000 £'000
<b>Operating profit</b>	<b>211,597</b>	<b>209,283</b>	<b>131,527</b>	<b>128,134</b>
Depreciation on tangible fixed assets	332,332	336,944	207,176	206,395
Amortisation of goodwill	3,997	4,108	2,491	2,511
Adjustments arising on differences between sales proceeds and depreciated amounts	(17,149)	(15,330)	(10,676)	(9,251)
	<b>319,180</b>	<b>325,722</b>	<b>198,991</b>	<b>199,655</b>
Increase in debtors	(59,423)	(110,766)	(36,945)	(69,104)
Increase/(decrease) in creditors	91,162	(52,848)	57,672	(22,595)
<b>Net cash inflow from operating activities</b>	<b>562,516</b>	<b>371,391</b>	<b>351,245</b>	<b>236,090</b>

**(ii) Reconciliation of net cash inflow to movement in net debt**

Decrease in cash in the year	(7,207)	(15,243)	(3,878)	(9,261)
Cash flow from decrease in debt and leasing finance	830,944	606,303	519,580	370,998
Cash flow from (decrease)/increase in liquid resources	(9,579)	4,070	(5,934)	2,485
<b>Movement in net debt resulting from cash flows</b>	<b>814,158</b>	<b>595,130</b>	<b>509,768</b>	<b>364,222</b>
Loans and finance leases acquired with subsidiary undertakings	(428)	(1,708)	(270)	(1,066)
Loan notes cancelled	12,863	-	8,000	-
New finance leases	(728,226)	(874,545)	(454,752)	(534,673)
Exchange adjustments	1,897	(3,141)	(10,596)	9,876
<b>Movement in net debt</b>	<b>100,264</b>	<b>(284,264)</b>	<b>52,150</b>	<b>(161,641)</b>
Net debt at beginning of the year	(1,230,543)	(946,279)	(752,161)	(590,520)
<b>Net debt at end of the year</b>	<b>(1,130,279)</b>	<b>(1,230,543)</b>	<b>(700,011)</b>	<b>(752,161)</b>

	At 1 January 2001 €'000	Cash flow €'000	Movement in cash on short term deposit €'000	Other non-cash €'000	Exchange adjustments €'000	At 31 December 2001 €'000
<b>(iii) Analysis of changes in net debt</b>						
Cash	34,355	(7,207)	(6,245)	-	625	21,528
Debt due within one year	(457,473)	(36,044)	-	230,467	(1,042)	(264,092)
Debt due after one year	(456,646)	102,041	-	(218,032)	-	(572,637)
Finance leases	(354,607)	764,947	-	(728,226)	2,320	(315,566)
	(1,268,726)	830,944	-	(715,791)	1,278	(1,152,295)
Current asset investments	3,828	(3,334)	-	-	(6)	488
	(1,230,543)	820,403	(6,245)	(715,791)	1,897	(1,130,279)

	At 1 January 2001 £'000	Cash flow £'000	Movement in cash on short term deposit £'000	Other non-cash £'000	Exchange adjustments £'000	At 31 December 2001 £'000
Cash	20,999	(3,878)	(3,896)	-	108	13,333
Debt due within one year	(279,627)	(21,943)	-	142,730	(4,719)	(163,559)
Debt due after one year	(279,122)	64,569	-	(135,000)	(5,096)	(354,649)
Finance leases	(216,751)	476,954	-	(454,752)	(889)	(195,438)
	(775,500)	519,580	-	(447,022)	(10,704)	(713,646)
Current asset investments	2,340	(2,038)	-	-	-	302
	(752,161)	513,664	(3,896)	(447,022)	(10,596)	(700,011)



## Notes to the Financial Statements for the year ended 31 December 2001

### 24 Notes to the consolidated cash flow statement continued

#### (iii) Analysis of changes in net debt continued

Other non-cash movements represent the effect of the acquisitions made, the inception of new finance leases during the year and an adjustment for a loan note cancellation. All long term loans have been revalued as at the year end.

Aegis Motor Insurance Limited, a subsidiary undertaking of the Group, is required by trust deed to maintain reserve cash deposit balances. Such reserve balances amount to cash deposits of €4,666,000 (£2,890,000) (2000: €5,649,000 (£3,453,000)) and current asset investments of €488,000 (£302,000) (2000: €3,828,000 (£2,340,000)).

#### (iv) Purchase of subsidiary, joint venture and associate undertakings

The total cash consideration in respect of the acquisition of subsidiary, joint venture and associate undertakings was £2,253,000 (£1,421,000). Further details of total consideration are given in notes 10 and 12.

### 25 Related party transactions

The transactions and balances which are required to be disclosed in accordance with the requirements of FRS 8, Related party disclosures, are as follows:

	2001 €'000	2000 €'000	2001 £'000	2000 £'000
Purchases from joint ventures	–	98	–	60
Sales to joint ventures	833	7,441	518	4,556
Net amounts owing from joint ventures	–	4,746	–	2,901
Net loans owing from joint ventures	–	2,182	–	1,334
Purchases from majority shareholder	36,333	42,720	22,670	26,134
Sales to majority shareholder	38,665	38,746	24,125	23,703
Interest payable to majority shareholder	5,908	2,472	3,686	1,510
Dividends paid and proposed to the majority shareholder	30,981	31,511	19,203	19,202
Dividends paid and proposed to the majority shareholder remaining outstanding at the year end	20,318	20,575	12,583	12,576
Net current amounts owing to majority shareholder	6,447	10,870	3,993	6,644
Loans owing to majority shareholder	33,490	100,865	20,741	61,653

### 26 Majority shareholder

The Company's ultimate majority shareholder is s.a. D'leteren n.v. which is incorporated in Belgium. The ultimate controlling party of s.a. D'leteren n.v. is the D'leteren family. Avis Europe plc is the smallest company that consolidates the results of the Company and its subsidiary undertakings. s.a. D'leteren n.v. is the largest company that consolidates the results of the Company and its subsidiary undertakings. Copies of s.a. D'leteren n.v.'s financial statements are available from Avis House, Park Road, Brackley Berkshire RG12 2EW.