

Statement of Accounting Policies

Basis of preparation

As a significant proportion of the Group's revenues, costs, assets and funding arise in euros, the Directors consider that the Group's functional currency is the euro and accordingly, the Financial Statements present the results in both euro and sterling. The Company's statutory accounts continue to be reported in sterling.

Basis of consolidation

The Group's Financial Statements comprise a consolidation of the accounts of the Company and its subsidiary undertakings ("subsidiaries"). The results of subsidiaries acquired or sold in the year are consolidated for the periods from or to the date on which control passes.

The accounting reference dates of certain of the Group's subsidiaries and its associate undertaking ("associate") are governed by local requirements and are not coterminous with the Group's 31 December year end. For those companies with non-coterminous year ends, management accounts for the relevant period to 31 December have been consolidated. The main subsidiaries with such non-coterminous year ends are Avis Location de Voitures sas and Avis Autonoleggio SpA. In the opinion of the Directors, the expense of providing additional coterminous statutory accounts, together with consequential delay in producing the Group's Financial Statements, would outweigh any benefit to shareholders.

Basis of accounting and principal accounting policies

The Financial Statements have been prepared under the historical cost convention and in accordance with applicable UK accounting standards. A summary of the principal accounting policies, all of which have been applied consistently throughout the year and preceding year, is set out below.

Revenue

Revenue includes vehicle rental income, fees receivable from licensees and credit repair income (representing amounts owing from repairers), net of discounts and excluding inter-company sales, value added and sales taxes. Revenue is recognised over the period for which the vehicle is available to the customer.

Cost of sales

Cost of sales includes selling, revenue related and fleet costs. Contributions to fleet costs from suppliers are credited over the depreciable lives of the vehicles. Any such contributions dependent on performance criteria are recognised as income only to the extent that it is considered probable that the criteria will be met.

Associates and joint ventures

Undertakings in which the Group has a participating interest and is in a position to exercise significant influence over commercial and operating policy decisions are treated as associates and are accounted for using the equity method. Undertakings in which the Group has joint control are treated as joint ventures and are accounted for using the gross equity method.

Fixed asset investments

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

Employee share plans

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

Goodwill

Goodwill arising prior to 1 March 1998 was written off to reserves as permitted by FRS 10, Goodwill and Intangible assets. Goodwill arising on acquisitions after 28 February 1998 is capitalised and represents the excess of consideration paid over the fair values attributed to the net assets acquired. Whilst useful economic lives are determined for each individual acquisition based on the particular circumstances, the Group currently amortises such goodwill on a straight line basis over estimated useful economic lives of 20 years. If required, the carrying value of goodwill is reviewed for impairment and is adjusted to the recoverable amount. On disposal of a business, any attributable goodwill is reinstated to the profit and loss account in arriving at the profit or loss on disposal.

Tangible fixed assets

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

Vehicle depreciation is based on estimates of future residual values or on guaranteed residual values. Depreciation rates vary between 12% and 40% per annum, depending on the type of vehicle.

Depreciation on other assets is calculated so as to write down cost to estimated residual value in equal instalments over estimated useful lives, being:

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

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Leases

Vehicles and any other assets held 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 of the finance obligation. Payments for assets held under operating leases are charged to the profit and loss account on a straight line basis. Vehicles provided to customers under operating leases are capitalised as fixed assets and consequent rental costs and income are recognised in the profit and loss account in the period to which they relate.

Current asset investments

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

Pension arrangements

Defined benefit schemes are valued by independent qualified actuaries on a regular basis, generally every three years, using the projected unit cost method. Contributions are paid to the schemes in accordance with the recommendations of the actuaries and are charged to the profit and loss account over the period benefiting from the employees' services. Surpluses and deficits arising from valuations are spread over the average remaining service lives of employees. Any difference between the profit and loss account charge and the contributions paid is included as an asset or liability in the balance sheet where applicable.

The amounts payable in the year under defined contribution schemes are charged immediately to the profit and loss account.

Following the publication of an amendment to FRS 17, Retirement Benefits, in November 2002, full implementation of the standard has been deferred. In the meantime, the required transitional disclosures are shown in Note 23ii.

Deferred taxation

Deferred tax is provided using the incremental liability approach and is measured on a non-discounted basis at the average tax rates that are expected to apply in the periods in which the timing differences are expected to reverse, based on tax rates and laws substantively enacted at the balance sheet date. Deferred tax is recognised in respect of timing differences that have originated but not reversed by the balance sheet date except that:

- (a) Deferred tax is not recognised on the revaluation of non-monetary assets such as property unless a binding sale agreement exists at the balance sheet date. Where rollover relief is available on an asset then deferred tax is in any case not recognised.
- (b) Deferred tax is not recognised on unremitted earnings of overseas subsidiaries, associates or joint ventures unless dividends have been accrued as receivable or there is a binding agreement to distribute past earnings at the balance sheet date.
- (c) Deferred tax assets are recognised to the extent that they are regarded as recoverable. Assets are regarded as recoverable when it is regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.
- (d) Deferred tax is not recognised on permanent differences.

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. The results of overseas operations are translated at average rates of exchange. Exchange movements arising from the re-translation at closing rates of the opening balance sheets and results of subsidiaries and associates are taken directly to reserves. Where foreign currency borrowings are used to finance foreign subsidiaries, including associated goodwill, the resulting exchange movements are taken to reserves. Other exchange movements are dealt with in the profit and loss account.

Financial instruments

To the extent that financial instruments are matched against an underlying asset or liability, hedge accounting is adopted. Gains or losses on interest rate instruments are matched against the corresponding interest charge or interest income 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.