

AVIS MANAGEMENT SERVICES LIMITED

**DIRECTORS' REPORT AND
FINANCIAL STATEMENTS
FOR THE YEAR ENDED 28 FEBRUARY 1997**

REGISTERED NUMBER: 1972749



AVIS MANAGEMENT SERVICES LIMITED

DIRECTORS' REPORT

The Directors present their report and the audited Financial Statements of the Company for the year ended 28 February 1997.

PRINCIPAL ACTIVITIES

Avis Management Services Limited is primarily engaged in the provision of management services to the subsidiary undertakings and licensees of the Avis Europe plc Group throughout Europe, Africa and the Middle East.

REVIEW OF THE BUSINESS

The Company has traded successfully during the year. The Directors expect that the Company will continue to develop its activities during the year ending 28 February 1998.

RESULTS AND DIVIDENDS

The profit after taxation for the year ended 28 February 1997 was £30,626,000 (1996: £29,085,000). Dividend payments totalling £92,000,000 were made during the year (1996: Nil). The retained loss transferred to reserves is £61,374,000 (1996: Profit of £29,085,000 transferred to reserves).

DIRECTORS AND THEIR INTERESTS

The Directors of the Company during the year are set out below:-

W A Cathcart (Chairman)
D O Maloney

Neither of the Directors had any beneficial interests in the shares of the Company or in any material contracts with the Company.

Both Directors are also Directors of Avis Europe Investment Holdings Limited (formerly Avis Europe Limited) which was the ultimate holding company of the Group until 3 February 1997 and of D.I.T. Investments Limited which became the ultimate holding company of the Group on that date. D.I.T. Investments Limited changed its name on 7 February 1997 to Avis Europe Limited and on 26 February 1997 the company was reregistered as a public limited company and adopted the name Avis Europe plc.

The interests of the Directors in the share capital of Avis Europe Investment Holdings Limited are disclosed in the statutory accounts of that company. Neither of the Directors have any beneficial interests in the share capital of Avis Europe plc.

DIRECTORS' AND OFFICERS INSURANCE

Directors' and Officers' insurance cover is maintained for the benefit of the Group, the Directors and Officers of the Company in the United Kingdom.

AVIS MANAGEMENT SERVICES LIMITED

DIRECTORS' REPORT (Continued)

CHARITABLE DONATIONS

The Company made charitable donations of £3,174 during the year (1996: £2,353).

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Directors are required by the Companies Act 1985 to prepare financial statements for each financial year 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 year and of the profit or loss for the financial year.

The Directors consider that in preparing the Financial Statements on pages 4 to 14 the Company has used appropriate accounting policies, consistently applied and supported by reasonable and prudent judgements and estimates, and that all accounting standards which they consider to be applicable have been followed.

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

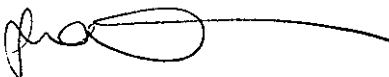
The Directors have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

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

AUDITORS

Price Waterhouse will continue in office as Auditors since the Company has elected to dispense with the annual re-appointment of Auditors as permitted by Section 386 of the Companies Act 1985.

By Order of the Board



J A Nicholson
Secretary

AVIS MANAGEMENT SERVICES LIMITED

AUDITORS' REPORT TO THE SHAREHOLDERS OF AVIS MANAGEMENT SERVICES LIMITED

We have audited the Financial Statements on pages 4 to 14 which have been prepared under the historical cost convention and the accounting policies set out on pages 6 and 7.

Respective responsibilities of Directors and Auditors

As described on page 2 the Company's Directors are responsible for the preparation of the Financial Statements. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

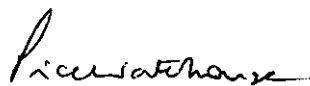
Basis of Opinion

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 the Company's affairs at 28 February 1997 and of its loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



PRICE WATERHOUSE
Chartered Accountants
and Registered Auditors.
LONDON

17 March 1997

AVIS MANAGEMENT SERVICES LIMITED

**PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 28 FEBRUARY 1997**

	<u>Notes</u>	<u>1997</u> <u>£000</u>	<u>1996</u> <u>£000</u>
Turnover	2	55,191	47,092
Administrative expenses		(26,146)	(19,807)
Operating Profit	3	<u>29,045</u>	<u>27,285</u>
Interest receivable	4	2,481	3,056
Profit on ordinary activities before taxation		<u>31,526</u>	<u>30,341</u>
Taxation	5	(900)	(1,256)
Profit on ordinary activities after taxation		<u>30,626</u>	<u>29,085</u>
Dividends		(92,000)	-
Retained (loss)/profit for the year		<u>(61,374)</u>	<u>29,085</u>
Retained profit brought forward		63,456	34,371
Retained profit carried forward		<u>2,082</u>	<u>63,456</u>

The Profit and Loss Account for the Company is entirely in respect of continuing operations.

All recognised gains and losses are included in the Profit and Loss Account.

AVIS MANAGEMENT SERVICES LIMITED

BALANCE SHEET AS AT 28 FEBRUARY 1997

	<u>Notes</u>	<u>1997</u> <u>£000</u>	<u>1996</u> <u>£000</u>
Fixed Assets			
Tangible assets	9	343	311
Current Assets			
Debtors	10	62,008	109,857
Cash at bank		716	550
		<u>62,724</u>	<u>110,407</u>
Creditors:			
Amounts falling due within one year	11	(60,319)	(46,626)
Net Current Assets		<u>2,405</u>	<u>63,781</u>
Total Assets Less Current Liabilities		<u>2,748</u>	<u>64,092</u>
Creditors:			
Amounts falling due after more than one year			
Accruals and deferred income		(656)	(626)
		<u>2,092</u>	<u>63,466</u>
Capital and Reserves			
Called up share capital	14	10	10
Profit and Loss Account		2,082	63,456
Shareholders' Funds (Equity)	13	<u>2,092</u>	<u>63,466</u>

Approved by the Board on 17 March 1997

Signed on behalf of the Board



D O Maloney

AVIS MANAGEMENT SERVICES LIMITED

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1 STATEMENT OF ACCOUNTING POLICIES

(a) Basis of Accounting

The Financial Statements have been prepared under the historical cost convention and in accordance with applicable Accounting Standards

(b) Cash Flow Statement

The Company, which is a wholly owned subsidiary, has elected to utilise the exemption provided in Financial Reporting Standard 1 and not produce a cash flow statement.

(c) Tangible Fixed Assets

Depreciation is calculated so as to write down the cost of tangible fixed assets to their residual value in equal instalments over their estimated useful lives, which are as follows:

Leasehold improvements - the period of the lease or such shorter period as may be appropriate having due regard to the age of each individual asset.

Plant and equipment - three to five years.

(d) Deferred Taxation

Deferred taxation in respect of timing differences between profits as computed for tax purposes and profits as stated in the Financial Statements, is provided using the liability method. Provision is made only to the extent that there is a reasonable probability that such deferred tax will be payable or receivable in the foreseeable future.

(e) Turnover

Turnover includes license fees from Avis Europe plc Group companies, joint ventures and licensees, together with advertising and other income. Turnover is stated net of value added tax.

(f) 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.

AVIS MANAGEMENT SERVICES LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

NOTE 1 STATEMENT OF ACCOUNTING POLICIES (continued)

(g) Pension Costs

The cost of providing retirement pensions and related benefits is charged to the Profit and Loss Account over the periods benefiting from the employee's service.

NOTE 2 TURNOVER

	1997	1996
	<u>£000</u>	<u>£000</u>
Turnover can be analysed as follows:		
License fee income	9,172	8,151
Management fee and advertising income	24,007	20,320
Other income	22,012	18,621
	<u>55,191</u>	<u>47,092</u>

Geographical market:

UK	9,170	7,277
Continental Europe	44,123	37,127
Other	1,898	2,688
	<u>55,191</u>	<u>47,092</u>

AVIS MANAGEMENT SERVICES LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

NOTE 3 OPERATING PROFIT

	1997 <u>£000</u>	1996 <u>£000</u>
The operating profit is stated after charging/(crediting):		
Depreciation on tangible assets	224	212
Operating lease charges:		
Plant and machinery	115	161
Land and buildings	1,338	1,389
Auditors' remuneration (for audit services)	242	240
Foreign exchange (gains)	(170)	(271)

During the year the Company incurred £411,000 for non audit services payable to its Auditors (1996: £834,000) in respect of services rendered to Avis Management Services Limited.

Avis Management Services Limited bears the audit fee for certain companies within the Avis Europe plc Group.

NOTE 4 INTEREST RECEIVABLE

	1997 <u>£000</u>	1996 <u>£000</u>
Bank interest	89	264
From fellow subsidiary undertakings	2,392	2,792
	<u>2,481</u>	<u>3,056</u>

NOTE 5 TAXATION

	1997 <u>£000</u>	1996 <u>£000</u>
UK corporation tax at 33% (1995: 33%)		
- adjustment in respect of previous years	-	49
- irrecoverable withholding tax	900	1,207
	<u>900</u>	<u>1,256</u>

AVIS MANAGEMENT SERVICES LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

NOTE 6 DIRECTORS

	<u>1997</u> <u>£000</u>	<u>1996</u> <u>£000</u>
Aggregate emoluments:		
Remuneration for management services:		
Salaries (including pensions)	518	475
Bonuses	470	767
	<u>988</u>	<u>1,242</u>
Compensation for reduction in contract notice periods	311	-
	<u>1,299</u>	<u>1,242</u>
Chairman's and highest paid Director's emoluments (excluding pensions)	<u>860</u>	<u>808</u>

The emoluments (excluding pensions) of the other Director fell into the following ranges:

£	<u>1997</u> <u>Number</u>	<u>1996</u> <u>Number</u>
375,001 - 380,000	1	-
385,001 - 390,000	-	1

NOTE 7 EMPLOYEES

	<u>1997</u> <u>Number</u>	<u>1996</u> <u>Number</u>
Average number employed (including Directors)	<u>175</u>	<u>152</u>

All of the Company's employees are based in the UK.

	<u>1997</u> <u>£000</u>	<u>1996</u> <u>£000</u>
Staff costs:		
Wages and salaries	6,577	6,776
Social security costs	665	658
Other pension costs	457	445
	<u>7,699</u>	<u>7,879</u>

AVIS MANAGEMENT SERVICES LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

NOTE 8 PENSION COSTS

The Company operates a pension scheme providing benefits based on final pensionable pay. The assets of the scheme are held separately from that of the Company, and are invested by independent fund managers. The expected cost of pensions in respect of the Company's defined benefit scheme is charged to the Profit and Loss Account so as to spread the cost of pensions over the service lives of employees in the scheme. Variations from the regular cost are spread over the remaining service lives of current employees in the scheme. The pension cost is assessed in accordance with the advice of a qualified independent actuary.

Where British employees of the Group work abroad, a special provision is made to their pension which would normally have accumulated within the defined benefit pension scheme. This element is unfunded and the provision as at 28 February 1997 is £656,392 (1996: £620,392) and is included in creditors.

The defined benefit scheme was last valued on 1 August 1996 using the projected unit method. The principal actuarial assumptions adopted were that the annual rate of return on investments would be 9%, pensionable salary would increase at a rate of 6.5% and the pensions in payment would increase at a rate of 3%. The market value of the Plan's assets at 1 August 1996 was £23.56 million.

The results of the 1 August 1996 actuarial valuation show that the actuarial value of the assets represent 93.4% of the past service liability. This deficit is being amortised over the average remaining service life of the employees and has been taken into account when establishing the contribution rate to be made from 1 March 1997.

The prior actuarial valuation as at 1 August 1993 showed that there was an experience surplus. This surplus continues to be amortised.

The pension charge for the period was £456,795 (1996: £445,095), being the net cost after taking into account the amortisation of the experience surplus that is being recognised over the average remaining service life of the employees in the Plan.

AVIS MANAGEMENT SERVICES LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

NOTE 9 TANGIBLE ASSETS

	Leasehold Improvements £000	Plant and Equipment £000	Total £000
Cost:			
At 1 March 1996	70	1,898	1,968
Additions	4	252	256
At 28 February 1997	<u>74</u>	<u>2,150</u>	<u>2,224</u>
Accumulated depreciation:			
At 1 March 1996	46	1,611	1,657
Charge for the year	14	210	224
At 28 February 1997	<u>60</u>	<u>1,821</u>	<u>1,881</u>
Net book value:			
At 28 February 1997	<u>14</u>	<u>329</u>	<u>343</u>
At 29 February 1996	<u>24</u>	<u>287</u>	<u>311</u>

NOTE 10 DEBTORS

	1997 £000	1996 £000
Trade debtors	932	761
Amounts owed by fellow subsidiary undertakings	54,319	102,998
Amounts owed by undertakings in which the Group has a participating interest	1,053	858
Other debtors	3,969	3,156
Prepayments and accrued income	1,722	2,071
Corporation tax recoverable	13	13
	<u>62,008</u>	<u>109,857</u>

AVIS MANAGEMENT SERVICES LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

NOTE 11 CREDITORS

	1997 <u>£000</u>	1996 <u>£000</u>
Amounts falling due within one year:		
Bank overdrafts	154	649
Trade creditors	760	1,145
Amounts owed to Group undertakings	30,994	21,450
Amounts owed to undertakings in which the Group has a participating interest	2,842	457
Other creditors	3,735	5,749
Taxation and social security	78	255
Accruals and deferred income	21,756	16,921
	<u>60,319</u>	<u>46,626</u>

NOTE 12 DEFERRED TAXATION

	1997 <u>£000</u>	1996 <u>£000</u>
Accelerated capital allowances	168	(24)
Other timing differences	5,261	9,666
Deferred tax asset	<u>5,429</u>	<u>9,642</u>

The above potential deferred taxation asset has not been recognised in the Financial Statements as in the Directors' opinion the timing differences giving rise to this asset are unlikely to reverse in the foreseeable future.

NOTE 13 RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	1997 <u>£000</u>	1996 <u>£000</u>
Profit for the financial year	30,626	29,085
Dividends paid	(92,000)	-
Net (decrease)/increase in shareholders' funds	<u>(61,374)</u>	<u>29,085</u>
Opening shareholders' funds	63,466	34,381
Closing shareholders' funds	<u>2,092</u>	<u>63,466</u>

AVIS MANAGEMENT SERVICES LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

NOTE 14 CALLED UP SHARE CAPITAL

	1997 and 1996	
	Number	£000
Ordinary shares of £1 each:		
Authorised	1,000,000	1,000
Allotted and fully paid	10,000	10

The capital of the Company comprises only ordinary share capital participating equally as to dividends, voting rights and return of capital upon winding up.

NOTE 15 FINANCIAL COMMITMENTS

Annual commitments under operating leases in the year ending 28 February 1998 may be analysed as follows:

	Land and Buildings £000	Plant and Machinery £000	Total £000
Expiring:			
Within one year	12	72	84
Between one and five years	-	-	-
After more than five years	1,459	-	1,459
	1,471	72	1,543

NOTE 16 CONTINGENT LIABILITIES

The Company has created a guarantee in favour of several banks, in respect of the due payment and performance of the liabilities and obligations of Avis Europe plc, the UK parent undertaking, and all of its subsidiary undertakings. The Company has created a charge over all of its assets and property in favour of several banks in respect of its borrowing and those of the Group.

The Company has also entered into a netting arrangement with its bankers, under which the Company's funds may be used to offset the liabilities of the other Group undertakings.

The Directors are of the opinion that these arrangements will not have a material impact on the results and financial position of the Company.

AVIS MANAGEMENT SERVICES LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

NOTE 17 ULTIMATE PARENT UNDERTAKING

The Company is a subsidiary undertaking of Avis Europe Holdings Limited which is part of the Group owned by Avis Europe Limited. Both these parent undertakings are registered in England and Wales. Avis Europe plc is the largest parent undertaking to consolidate the Financial Statements of the Company. The smallest parent undertaking to consolidate the Financial Statements of the Company is Avis Europe Investments Holdings Limited. The financial statements of both companies can be obtained from Avis House, Park Road, Bracknell, Berkshire.

The Company's ultimate parent undertaking is s.a. D'Ieteren n.v. which is incorporated in Belgium. The ultimate controlling party of s.a. D'Ieteren n.v. is the D'Ieteren family.