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Avis Europe plc
Annual Report 2008

Avis at a glance

Our vision

Loyal customers choosing Avis everywhere.

Who we are

Avis Europe plc is a leading car rental company in Europe, Africa, the Middle East and Asia operating the globally recognised Avis and Budget brands.

The Avis brand operates across four continents via a network of over 2,800 locations in 110 countries, through wholly-owned subsidiaries in 13 countries complemented by franchisees in a further 97 countries.

The Budget brand, acquired by Avis Europe in March 2003, serves customers across three continents (Europe, Asia and the Middle East) through over 1,100 locations in 66 countries. These are predominantly franchise businesses with corporate operations in Austria and Switzerland, together with a small number of locations in France and the UK.

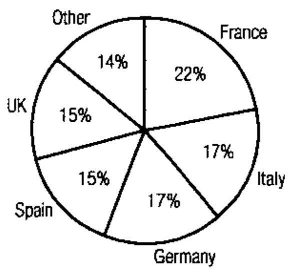
Our market presence

We are a market leader in Europe with an aggregate 17.7% market share in our 10 largest corporately-owned countries
(Source: Euromonitor IMIS travel database 2007)

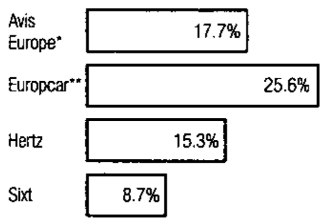
▶ see Overview page 6

Europe **Africa** **Middle East and Asia**

Avis corporate revenue by country



European car rental market by brand



* Includes Budget 2.7%
**Includes Vanguard 5.0%
Source: Euromonitor IMIS Travel Database 2007

Strategic focus

We remain focused on our key strategic priorities, whilst continuing to adapt our business model to the difficult trading environment.

Brand leadership, service differentiation and geographic diversification
These priorities supported volumes in a weakening demand background, with Group revenues ahead by 1.3% on a constant currency basis.

Capital allocation
Capital management and cash generation are key priorities and we anticipate a positive free cash flow in 2009.

Cost efficiency
We took substantial and early actions to reduce costs to protect our operating margin which increased by 0.6% points to 8.6%.

Business model flexibility
We optimised our fleet levels and reduced capacity to match weakening demand, delivering a 0.2% improvement in utilisation.

2008 Results Overview

Strongly resilient 2008 performance, despite deteriorating trading environment.

Pascal Bazin

▶ see page 2

Our strategy in action

Avis is succeeding to differentiate itself in a commoditisied market place.

▶ see page 5

Our impacts and actions

We measure ourselves not just on our financial performance, but also how we perform as a good corporate citizen.

▶ see page 22

A well run business

We regularly review our corporate governance to maintain compliance with best practice.

▶ see page 28

Financial statements

▶ see page 45

Chairman's statement

We made continued trading progress, despite the deteriorating economic environment and weak used car markets. Brand leadership, service differentiation and geographic diversification supported volumes. Strong revenue management and pricing actions helped us to deliver a further improvement in rental revenue per day, on a constant currency basis. We also achieved a significant reduction in the fixed cost base to protect and indeed to deliver an increase in our underlying operating margin.

Results overview

Revenues from continuing operations were ahead by 1.3% on a constant currency basis and just 1.0% lower at €1,313.8 million on a reported basis, with good growth from licensees and in the Budget branded business offset by the impact of currency translation in the Avis corporate business. We achieved a 0.7% increase in rental revenue per day on a constant currency basis. This improvement was mainly due to the benefits of previous investment in revenue management initiatives and pricing actions. Rental revenue per day on a reported basis was 1.2% lower due to translation impacts from sterling and Swiss franc revenue.

We increased underlying operating profit on continuing operations to €112.7 million (2007: €106.5 million), reflecting the improvement in rental revenue per day on a constant currency basis, together with significant cost reductions as a result of strong actions taken by management and from translational foreign exchange benefits on the sterling element of the Group's cost base.

These cost reductions offset the negative impact of weaker used car markets on residual values.

Net finance costs on continuing operations increased to €75.1 million (2007: €69.7 million) reflecting an increase in average net debt, offset by a reduction in the underlying effective finance rate from 6.7% to 6.2% per annum.

Underlying profit before tax on continuing operations increased to €38.0 million (2007: €37.6 million). Earnings per share on the same basis were 2.4 euro cents (2007: 2.9 euro cents).

Total operating profit was €97.1 million (2007: €101.3 million), total net finance costs were €94.5 million (2007: €68.9 million) and total profit before tax on continuing operations was €3.0 million (2007: €33.2 million). This is stated after a net exceptional charge before tax of €28.8 million (2007: €6.9 million) and certain re-measurement items and economic hedging losses of €6.2 million (2007: gains of €2.5 million). Exceptional items primarily relate to restructuring costs. Loss per share on the same basis was 1.2 euro cents (2007: earnings per share 1.6 euro cents). Overall profit before tax (including the discontinued operation) was €4.3 million (2007: €19.7 million). Loss per share on the same basis was 1.1 euro cents (2007: earnings per share 0.3 euro cents).

Currency effects

The 2008 results were affected by exchange rate movements, in particular the euro/sterling exchange rate, when compared with the prior year. The average sterling/euro rate for 2008 was 1.28 compared to 1.47 in the prior year. From a trading perspective the strength of the euro had an adverse effect on inbound business from the US into Europe and UK outbound business into Europe, but a positive effect on the translation of the net cost of the Group's UK activities.

Dividends

In line with recent previous statements, and in view of the current difficult trading environment, the Board has not recommended payment of a dividend for the year ended 31 December 2008. The Board's intention is to recommence the payment of dividends when the financial and trading position of the Group allows.

Strategic development

We will remain focussed on our key strategic priorities; brand leadership, service differentiation and geographic diversification; optimising the allocation of capital; and improving relentlessly our cost position and business model flexibility. At the same time we will place additional emphasis on certain elements of our strategy to adapt the business to the present particularly tough economic outlook. In particular we will focus on opportunities in the current industry environment to protect our revenue, reduce capacity and raise prices. We are also developing further significant cost actions to defend the business from inflationary pressures, whilst continuing to adapt our business model.

Outlook

Whilst we are anticipating lower volumes, we are tightening fleet capacity and planning a further improvement in pricing and a step-change improvement in utilisation. In addition, the benefit of last year's restructuring together with the impact of further cost actions are now being realised. We have ensured that we have sufficient committed liquidity for the next 12 months and, from the actions outlined above, anticipate a positive free cash flow to face successfully the challenges of 2009.

Employees and Directors

In my last statement, I welcomed Pascal Bazin, who was appointed Group Chief Executive on 1 January 2008. Additionally, we have strengthened the senior management teams with the appointment of both new Group Commercial and HR Directors and a new Managing Director in Spain. At the same time we have ensured that our management structure reflects the international nature of our business, an aim which we have now achieved with the Avis Executive Board. These new appointments, together with the experienced Avis management on the team, are providing the balance and capability necessary to manage the business through a very difficult trading environment.

I would like to thank Gilbert van Marcke de Lummen and Malcolm Miller for their many contributions to the Company, following their retirement from the Board in May. In addition, Lesley Colyer retired as Group HR and Corporate Affairs Director and stood down from the Board in July after 19 years with the Group. I would like to thank Lesley for her substantial contributions to the development of Avis throughout her career with us.

Finally, I would like to thank all our employees around the world for their continued hard work, enthusiasm, loyalty and professionalism. As always, it is their efforts on behalf of our customers that really make the difference and we have continued to achieve solid customer satisfaction scores this year, despite reducing staff numbers, again winning many industry awards in 2008.

Alun Cathcart
Chairman

Chief executive's review

I am very pleased to report a strongly resilient underlying trading performance, despite the deteriorating economic environment and weak used car markets we faced in 2008. Underlying operating profit increased by 5.8% to €112.7 million and profit before tax on the same basis was ahead by 1.0% to €38.0 million. Total operating profit was €97.1 million and total profit before tax was €3.0 million, being after restructuring charges to reduce the Group's fixed cost base.

Following my appointment as Group Chief Executive on 1 January 2008, we undertook an initial review of our strategy and decided to place more emphasis on brand leadership and service differentiation, geographic and customer diversification, cost reduction and improving the flexibility of our business model.

We also adopted a stronger operational approach with more emphasis on delivery and accountability, which are fundamental in a service, customer-facing and extensively networked business, as well as on accelerating benefits from recent investment in initiatives such as revenue management.

During the year we made very good progress in implementing this strategy, but also in reacting very quickly, particularly in the second half, as the trading environment weakened.

Brand leadership and service differentiation, as well as our geographic and customer diversification, supported volumes in a weakening demand background. Group revenues were ahead by 1.3% in constant currency and just 1.0% lower at €1,313.8 million on a reported basis. Our excellent and well balanced customer portfolio enabled us to compensate lower revenues in the less resilient Leisure segment with continued growth in the Corporate and Insurance/Replacement segments. The strength of our brand also supported our leading position with industry partners; we recently agreed a five-year global and exclusive partnership with British Airways, in addition to strengthening our partnerships with Iberia, KLM and Lufthansa. The renewal of our five-year exclusive partnership with SNCF and our preferred partner status with Eurostar also put us in an excellent position to share in the growth of the rapidly expanding high-speed rail networks.

We reinforced the differentiation of our brand by implementing further customer-oriented initiatives across the network, all designed to improve speed and quality of service. Our absolutely unique "3-minute promise", for Avis Preferred members, is now rolled out across 600 stations in Europe and is serving customers with an exceptional 99% success rate. As a consequence we generated a very strong 18% increase in sign-ups to our loyalty programme, Avis Preferred, and achieved solid customer satisfaction scores.

We placed a daily operational focus on achieving gains in constant currency rental revenue per day, our measure of pricing, to offset the pressures on costs. In particular we maximised the benefits from our recent three-year investment in revenue management, a series of tools and processes which help us maximise pricing, yields and utilisation. As a consequence, for the year as a whole, we achieved a 0.7% improvement in rental revenue per day at constant currency.

We took substantial and early actions to reduce costs to protect and indeed deliver an improvement in our operating margin. These included the enforcement of a rigorous recruitment freeze, faster release of seasonal staff and redundancies, which together saw a 9% reduction in full time employees in the second half. We also focussed on the rationalisation of property with the transfer of the staff of the UK business head-office into the Group headquarters building and the closing of low margin stations, as well as significant cuts in discretionary expenditure. Overall these actions delivered some cost benefits in 2008 and are expected to deliver savings of approximately €16 million annually thereafter. Since the year end we have implemented a salary freeze across the Group.

In terms of improving the flexibility of our business model we have ensured proactive management of our fleet. We constantly optimised our fleet levels and reduced capacity to match demand, as soon as the trading environment began to weaken in the second half. As an example, in the fourth quarter of the year, we demonstrated this flexibility by reducing capacity by just under 5% and exiting December with utilisation ahead by 3.1%.

Regarding funding, the credit markets are generally difficult at present, therefore we have ensured that we will have sufficient liquidity for the next 12 months, with good headroom for our anticipated requirements. We continue to benefit from the flexibility of our business model, have strong capital and cash flow controls in place, and are focussed on improving asset returns. It is our intention to put further financing in place in good time for maturities that fall due from mid-2010.

In summary, these actions and results mean that we are well positioned to face the challenges and opportunities of 2009, as recessionary pressures intensify and the trading environment is expected to remain very difficult.

Our key strategic priorities outlined above will remain unchanged, with a particular focus and emphasis on:

- Protecting profitable revenue and leading the industry opportunity to change;
- Developing further radical cost actions to defend the business from economic pressures;
- Continuing to adapt our business model and its flexibility; and
- Focussing on capital management and cash generation as key priorities.

We are developing further significant cost actions, whilst continuing to adapt our business model. We expect cost savings of around €22 million in 2009, including the run-rate savings from 2008, and anticipate a further reduction in fleet capacity of around 5% to 10% as we target a step-change improvement in utilisation. These actions will help to maintain our flexibility in this difficult environment and ensure further progress in 2009.

Pascal Bazin
Chief Executive

Performance in brief

Operational highlights

Strongly resilient performance in 2008, despite deteriorating trading environment.

Brand leadership, service differentiation and geographic diversification supported volumes.

Further improvement in rental revenue per day[a] resulting from rigorous revenue management and pricing actions.

Continuing positive performance by Licensees.

Increased fleet costs mainly due to weak used car markets, particularly in Spain and the UK.

Significant reduction in fixed cost base and maximised business flexibility to protect operating margin.

Financial highlights

Revenue on continuing operations ahead by 1.3% at constant currency and 1.0% lower at €1,313.8 million on a reported basis.

Underlying operating profit[b] up 5.8% at €112.7 million and underlying operating margin ahead by 0.6% points to 8.6%.

Underlying profit before tax[b] on continuing operations[c] of €38.0 million (2007: €37.6 million).

Currency translation gains offset by trading exchange rate impacts.

Net exceptional pre-tax charge of €27.5 million (2007: €22.8 million).

Total operating profit on continuing operations[c] 4.1% lower at €97.1 million.

Profit before tax on continuing operations of €3.0 million (2007: €33.2 million).

Loss per share on continuing operations of 1.2 euro cents (2007: earnings per share of 1.6 euro cents).

Underlying earnings per share[b] on continuing operations of 2.4 euro cents (2007: earnings per share of 2.9 euro cents).

Loss after taxation of €9.9 million (2007: profit of €2.9 million).

Key Performance Indicators

	2008	2007
Avis Corporate – Continuing:		
Rental revenue per day – constant currency[1] (% change)	**0.7**	0.8
Rental revenue per day – reported currency[2] (% change)	**(1.2)**	0.7
Billed days[3] (% change)	**0.1**	4.7
Utilisation – average[5] (% pts change)	**0.2**	0.4
Total Group:		
Underlying operating margin – continuing operations (%)	**8.6**	8.0
Underlying return on capital employed – continuing operations[6] (%)	**8.5**	9.0

a Calculated on a constant currency basis whereby both current and prior period non-euro rental revenue is translated into euro at the exchange rate prevailing in the equivalent month in the prior period.
b Underlying excludes net exceptional charges, certain net re-measurement gains and economic hedges (see Basis of Preparation). Underlying is not a defined term under IFRS, and is not intended to be a substitute for, or superior to, IFRS measures of profit.
c Underlying profit before taxation from continuing operations in the comparative period excludes the underlying profit before taxation on the discontinued operation of €2.4 million. Underlying profit before taxation including the discontinued operation in the comparative period is therefore €40.0 million. These profit measures exclude exceptional charges of €27.5 million (2007: €22.8 million) and certain net re-measurement losses and economic hedging adjustments totalling a loss of €6.2 million (2007: gain of €2.5 million).

Other footnotes and detailed definitions are described on page 19.

Business review Business description

The Group is an international vehicle rental services company and a market leader in many of its markets. Under the Avis and Budget brands, we operate more than 3,900 corporate and licensee locations throughout Europe, Africa, the Middle East and Asia, which completed over eight million rental transactions in 2008 across the network. During the year, our corporately-owned locations employed some 5,960 staff (based on average full-time equivalent headcount) and had an average fleet of 117,000 vehicles.

We enjoy close commercial ties with Avis Budget Group, Inc., which owns the global rights to the two brands, as well as the Wizard rental and reservation system. Long-term agreements with Avis Budget Group, Inc. give the Group the rights to use the Avis and Budget names, brands and operating systems through master licensing agreements until 2036, whilst cross-marketing and joint promotional agreements are in place to provide customers with access to a global network.

	Avis Europe plc		Avis Budget Group, Inc.	
Territories:	Avis Europe Africa Middle East Asia	Budget Europe Africa Middle East	Avis Americas Australasia	Budget Americas Australasia Asia
Corporate Countries	13	4	8	5
Corporate Locations	1,646	151	1,268	893
Licensee Countries	97	62	49	55
Licensee Locations	1,200	994	867	994

Our network comprises countries in Western Europe (the corporate countries), which operate their own directly-owned locations and also appoint local agencies and licensees plus a wider network of national licensee operations across the rest of Europe, Africa, the Middle East and Asia. We also have joint ventures in China and France, and minority interests in operations in India and Malaysia.

Corporate locations are directly owned by the Group and employ Avis Europe's staff, premises and fleet. Agency operations are owned and operated by third parties who rent the Group's vehicles, but employ their own staff and use their own premises. Agency revenue is accounted for as Group revenue, with the agent receiving a percentage of revenue as commission. Licensed locations are owned and operated by licensees who pay fees in return for the use of the brand and operating system. In the latter case, we only include the licensee fee receivable in revenue.

In 2008, revenues from the Avis branded business represented 96% of overall revenue, and the Avis corporate countries accounted for approximately 93% of overall revenue.

The Budget branded business in Europe, Asia and the Middle East serves customers through over 1,100 rental locations in 66 countries. Corporate countries comprise France, United Kingdom, Austria and Switzerland. In 2008, the Budget branded business represented 4% of our overall revenue.

A description of the performance of the Group for the year ended 31 December 2008, and significant developments which occurred during the year, is set out in the Chairman's statement on page 2, the Chief Executive's review on page 3, and on pages 10 to 19 of this Business Review.

Brand leadership and service differentiation

We continued to differentiate the Avis brand by reducing waiting times with our "3-minute promise" and speeding up the return process with our Rapid Return Service. These efforts were recognised with many industry awards in 2008.

Geographic diversification

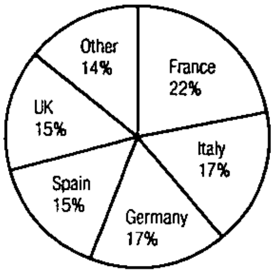
We benefited from our good geographic balance with trading in Italy and Germany mitigating the tough economic environment in Spain and the UK. We have strengthened our leading position in Eastern Europe and the Asian countries.

Strong customer satisfaction scores

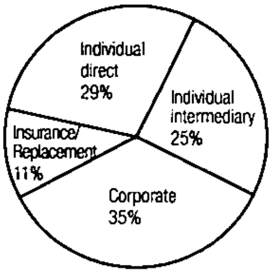
Our award winning "We Try Harder." blog in the UK, enables customers to have an online dialogue with the marketing and customer service departments to continually review and improve the service provided. We achieved solid customer satisfaction scores in 2008.

Business review Market analysis

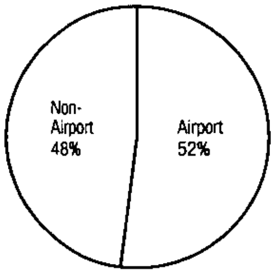
Avis corporate revenue by country



Avis corporate revenue by customer



Avis corporate revenue by location



Operating environment

Market size and growth

There is little external data available regarding the car rental market on a European-wide basis, the latest being the Euromonitor IMIS Travel Database 2007. Euromonitor estimated the car rental revenue generated in the 10 main countries where we operate on a corporate basis (see below) was €8.81 billion during 2007. The largest countries by revenue were Germany (22%), the United Kingdom (18%), France (17%), Spain (16%) and Italy (12%). During this period, Euromonitor estimated that 44 million rentals were made and that a combined fleet of approximately 1.2 million vehicles was employed by the car rental industry.

Whilst there is no market data currently available for the car rental industry in 2008, growth has historically been closely tied to general economic activity levels and, in the case of rentals from airports, to airline passenger volume growth. The global economic environment deteriorated during 2008, particularly in the second half of the year, with The Economist Intelligence Unit reporting growth of 1.1 % in Euro-area GDP for 2008, compared with growth of 2.6% in 2007. The International Air Transport Association (IATA) reported full year growth of 1.8% in Intra-European passenger numbers, although there was significant variation between the first and second halves of the year. The growth rates in the car rental market in 2008 are likely to have been similar.

In 2009, the overall demand outlook in the Group's main markets is expected to be challenging and uncertain. As at January 2009, The Economist Intelligence Unit was forecasting a 1.2% decline in Euro-area GDP in 2009 with growth of 0.5% in 2010, with UK GDP forecast to decline by 2.5% in 2009 and by 0.9% in 2010.

Growth expectations for the airline sector tend to be higher than GDP growth, driven in part by structural trends, in particular by the continued growth of low cost airlines. IATA forecasts growth in passenger arrivals for flights within Europe of 4.4% per annum for 2008 to 2011, marginally down from their previous forecast of 4.8%.

Air passenger growth estimates 2008-2012 (average annual rate)

Intra-European	4.4%
Europe-Asia Pacific	6.5%
Europe – North America	3.5%

Source: IATA

Market composition

The car rental market is generally categorised either by the type of customer, (Leisure, Corporate, Insurance/Replacement) or by the location of rental (airport, non-airport). In 2007, Euromonitor estimated just under 54% of the market to be leisure, with approximately 40% being corporate and 6% being replacement business. During 2007, 42% of the industry's revenue came from airport rentals, with 58% attributable to non-airport locations.

Customer groups

Reflecting the above, we recognise three key customer types, each with differing needs and expectations: Individuals, Corporate and Insurance/Replacement.

Individual:

These customers are individual travellers booking directly or indirectly through travel companies, tour operators, partnership arrangements and brokers.

The individual customer category is more seasonal than the corporate customer category, with demand peaking over the key holiday periods. Individual customers are principally attracted to Avis by its widespread network, quality of service, reliability, car choice, brand, website and competitive prices.

Corporate:

Corporate customers book via negotiated arrangements with their employers and through vehicle replacement companies.

The total European car rental market in which we operate is worth around €8.8 billion

The corporate customer category displays a relatively even pattern of demand throughout the year. The key requirements of corporate customers are competitive prices, speed and quality of service, reliability, car choice, availability of management information and geographical coverage.

Insurance/Replacement:
These customers come through insurance and leasing companies, vehicle dealerships and repair shops with which Avis has a direct contractual relationship.

This category also displays a relatively even pattern of demand throughout the year and customers' requirements are similar to those in the corporate segment.

Partnerships
To support business from both individual and corporate customers we have an extensive portfolio of over 70 international partnerships with the world's airlines, railway networks and other leading travel companies.

Stations/locations
Rental locations throughout the network are selected for their convenience to customers, with particular importance attached to representation at airports, rail locations and other major travel points. Whilst Euromonitor estimates that across the market as a whole, 42% of revenue comes from airport rentals, Avis benefits from a broadly even distribution of revenue from airport and non-airport locations due to its significant international network.

Competition
The European car rental market is dominated by three large multinational companies that comprise around 60% of the overall market. The Euromonitor research referred to earlier shows that the Avis and Budget brands had the second highest aggregate market revenue share in our 10 largest corporate countries in 2007 at 17.7%.

The merger between Europcar and Vanguard (primarily National and Alamo brands) in November 2007 gave Europcar a leading position in the European market place with a reported share of 25.6%. Hertz is the third largest with a reported market share of 15.3% in 2007.

In specific markets we face competition from other car rental operators. For example, Sixt are a major competitor in Germany and Enterprise in the United Kingdom. There are a large number of smaller-scale operators with strength in particular markets (frequently the Mediterranean), examples being Maggiore in Italy and ADA in France.

It is noteworthy that the Group operates two of the four established global brands, Avis, Budget, Hertz and Europcar (Vanguard).

We are a leading player in high-speed European rail networks – exclusive partner to SNCF and preferred Eurostar partner

Customer focus

Delivering customers a better rental experience

Avis has taken Avis Preferred to a new level and is committed to serving customers in 3 minutes

Business review Financial review

Key performance indicators

The Board monitors a range of financial and non-financial performance indicators, reported on a periodic basis, to measure the Group's performance. Of these, the key measures are set out in the table below:

Performance indicators	2008	2007
Avis Corporate – Continuing:		
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Underlying operating margin – continuing operations (%)	**8.6**	8.0
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Results overview

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We increased underlying operating profit on continuing operations to €112.7 million (2007: €106.5 million), despite the very tough economic environment. This reflected the improvement in rental revenue per day on a constant currency basis, together with significant cost reductions as a result of strong actions taken by management on the Group's ongoing restructuring programme and from translational foreign exchange benefits on the sterling element of the Group's cost base. These cost reductions offset the negative impact of weaker used car markets on residual values.

Net underlying finance costs increased to €75.1 million (2007: €69.7 million) reflecting an increase in average net debt, offset by a reduction in the underlying effective finance rate from 6.7% to 6.2% per annum.

Underlying profit before tax on continuing operations increased to €38.0 million (2007: €37.6 million). Earnings per share on the same basis were 2.4 euro cents (2007: 2.9 euro cents).

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Overall profit before tax (including the discontinued operation) was €4.3 million (2007: €19.7 million). Loss per share on the same basis was 1.1 euro cents (2007: earnings per share 0.3 euro cents).

Turnaround of the Budget brand continues

Internet drives volume growth

During 2008 the new Budget brand website was rolled out to 10 additional countries and is now live in 30 countries in 22 languages. It is helping to drive a significant increase in internet reservations (+29% on 2007), improving conversion rates and enabling Budget to strengthen its direct relationship with customers.

New partnerships

2008 showed strong growth in contracted leisure volumes and in the acquisition of key airline partnerships including Etihad, Kuwait, Gulf Air, Jazeera, Pegasus and Turkish Airlines.

Overall Budget achieved double-digit growth in network revenues and market share gains across EMEA.

Strengthening network locations

In 2008 Budget continued to strengthen its network in key European airport locations, including the addition of London Gatwick and Rome Fiumicino. A further 95 locations and two new countries were added to the licensee network to take advantage of higher growth rates in these markets.

Currency effects
The 2008 results were affected by exchange rate movements, in particular the euro/sterling exchange rate, when compared with the prior year. The average euro/sterling rate for 2008 was 1.28 compared to 1.47 in the prior year. From a trading perspective the strength of the euro had an adverse effect on inbound business from the US into Europe and UK outbound business into Europe, but a positive effect on the translation of the net cost of the Group's UK activities.

Revenue overview

€ million	2008	2007	% change
Rental revenue	**1,101.6**	1,114.2	(1.1)
Other non-rental revenue	**119.4**	125.8	(5.1)
Corporate – continuing operations*	**1,221.0**	1,240.0	(1.5)
Licensees	**36.6**	34.1	7.3
Avis – continuing operations	**1,257.6**	1,274.1	(1.3)
Corporate	**43.2**	42.6	1.4
Licensees	**13.0**	10.1	28.7
Budget	**56.2**	52.7	6.6
Revenue – continuing operations	**1,313.8**	1,326.8	(1.0)
Revenue – discontinued operation	**–**	48.7	n/a
Revenue including discontinued operation	**1,313.8**	1,375.5	n/a

*Excluding inter-segment sales
n/a means not applicable

Avis Corporate revenue
Revenue from continuing operations in the Avis corporately-owned business segment was broadly flat, being ahead 0.4% on a constant currency and 1.5% lower than the prior year at €1,221.0 million on a reported basis.

For the full year we increased billed days[3] volume by 0.1%, driven by an improvement in rental length. First half volume growth of 2.2% was offset by more difficult demand conditions in the second half when volumes were 1.7% lower, with later months being weaker.

We achieved a 0.7% gain in rental revenue per day on a constant currency basis, despite the mix effect of continued strong volume growth in the Insurance/Replacement customer segment and overall longer rental length. Rental revenue per day was ahead by 2.0% in the first half, but began to reflect the weakening demand conditions referred to above in the third quarter. As a consequence, in October, we implemented a significant price increase in non-contracted business, thereby holding revenue per day flat year-on-year in the fourth quarter and 0.5% lower in the second half overall. The market remained competitive in the first half, with some noticeable easing of competitive pressures on pricing towards the end of the year. Rental revenue per day on a reported basis was 1.2% lower following the translation of sterling revenue into euro at a weaker sterling exchange rate than in the prior year.

Our excellent customer portfolio balance supported our performance with continued growth in the Corporate and Insurance/Replacement segments, balancing lower revenues in the less resilient Leisure segment.

The analysis of rental revenue by customer type follows:

Individual
Billed days through individual direct customers were ahead in the first half, reflecting the strength of the brand, but were lower in the second half as economic conditions worsened. This led to overall revenue from this customer group being below prior year.

During the year we reduced the volume of business through the broker intermediary channel in order to both improve yields and hold the customer relationship directly.

We achieved rental revenue per day gains in this segment, albeit weakening in the second half.

From a geographic perspective the market in Spain has been particularly difficult throughout 2008 reflecting its early economic slowdown, with other main markets being relatively more resilient for most of the year.

Corporate
Overall rental revenue from this customer group was ahead of the prior year.

Billed days were up, largely driven by an increase in both rentals and average rental length, with flat rental revenue per day. Lower revenues in Spain and the UK, reflecting economic conditions in those markets, were offset by good growth in both Germany and Italy.

Insurance/Replacement
Overall rental revenue from this customer group was ahead strongly again, reflecting good performances in Italy, Germany and the UK. Rental revenue per day was below the prior year, partly driven by an increase in rental length.

Avis Licensee revenue
Overall revenue from licensee countries grew by 14.7% on a constant currency basis and by 7.3% on a reported basis. Excluding the impact of the licensing of the Group's operations in Greece, licensee revenues were 12.4% ahead on a constant currency basis and 4.9% ahead on a reported basis.

Budget Corporate revenue
Budget Corporate revenue of €43.2 million was 1.4% ahead of prior year with volume growth in all corporate countries.

Budget Licensee revenue
Budget Licensee revenue of €13.0 million was €2.9 million ahead of prior year, with continued growth in network revenues across the EMEA region.

Discontinued operation
Revenue from the discontinued operation in Greece for the seven months of ownership in 2007, before being franchised, was €48.7 million.

Operating Profit Overview

€ million	2008	2007	% change
Underlying operating profit – continuing operations	**112.7**	106.5	5.8
Underlying operating profit – discontinued operation	**–**	7.9	n/a
Amounts excluded from underlying	**(14.3)**	(21.1)	n/a
Operating profit including discontinued operation and amounts excluded from underlying	**98.4**	93.3	5.5

The analysis of underlying operating profit – continuing operations follows:

Avis Corporate - continuing

€ million	2008	2007
Revenue	**1,221.0**	1,240.0
Cost of sales	**(726.5)**	(719.7)
Administrative expenses (including headquarter costs)	**(413.5)**	(442.8)
Underlying operating profit – continuing	**81.0**	77.5

Underlying Avis operating profit[4] for continuing operations, including headquarter costs, was €81.0 million compared to €77.5 million in the prior year. The improvement resulted from substantial savings in headquarters costs, which more than offset higher fleet costs.

Business review Financial review continued

We took substantial actions to reduce costs to protect and indeed deliver an increase in our operating margin.

Underlying operating costs of continuing operations at €1,140.0 million were 2.0% lower than the prior year.

Cost of sales of €726.5 million was just €6.8 million or 0.9% higher than the prior year, despite fleet costs increasing by €16.4 million or 3.8%. These higher fleet costs were largely due to the weaker used car markets impacting residual values on non-repurchase cars, particularly in Spain and the UK, as well as purchase price inflation from the car manufacturers. Increased fleet costs were partly offset by savings in damage and insurance costs, foreign exchange translation benefits of fleet costs in the UK and a 0.2% improvement in utilisation[5]. Whilst utilisation was 0.4% lower than the prior year in the first half, it was 0.8% higher in the second half despite the more difficult resale market conditions.

Selling costs were 7.4% lower, mainly benefiting from actions taken in the second half to minimise discretionary marketing expenditure. Rental related costs and revenue related costs were controlled tightly, being 3.1% lower and flat respectively.

Administrative expenses (which comprise staff costs and overheads) of €413.5 million, were €29.3 million lower than the comparative period. Staff costs were reduced by €7.5 million, reflecting both headcount reductions and exchange translation benefits. Overhead costs were €21.8 million lower, despite property disposal gains in the prior period, largely reflecting lower depreciation, benefits from the translation of sterling based overheads into euro, lower bad debt charges, and a reduction in operating taxation charges.

Avis Licensees

€ million	2008	2007
Revenue	**36.6**	34.1
Cost of sales and administrative expenses	**(1.9)**	(2.2)
Underlying operating profit	**34.7**	31.9

Avis Licensees underlying operating profit (after the allocation of direct marginal costs) of €34.7 million improved by €2.8 million, primarily as a result of good revenue growth and excellent cost management.

Budget

€ million	2008	2007
Revenue	**56.2**	52.7
Cost of sales and administrative expenses	**(59.2)**	(55.6)
Underlying operating profit	**(3.0)**	(2.9)

Revenue of €56.2 million was up €3.5 million. Cost of sales was €1.8 million higher than the comparative period, primarily driven by volume growth, whilst administrative expenses were €1.8 million higher, reflecting inflationary increases and non-exceptional reorganisation costs. Consequently, the underlying operating loss increased marginally to €3.0 million.

Underlying operating margin - continuing

Underlying operating margin on continuing operations was 8.6%, being 0.6% points higher than the prior year, primarily reflecting the improvements in constant currency rental revenue per day and reductions in the cost base referred to earlier.

The operating margin on continuing operations after exceptional items, certain re-measurement items and economic hedges reduced marginally from 7.6% to 7.4%.

Discontinued operation

On 25 July 2007 the Group disposed of and re-licensed its operation in Greece. Underlying operating profit for the seven months of ownership in 2007 was €7.9 million.

Net finance costs

€ million	2008	2007
Finance costs		
Continuing operations (excluding deferred consideration)	**72.9**	67.1
Deferred consideration	**2.2**	2.6
Continuing operations	**75.1**	69.7
Discontinued operation	**–**	5.5
Underlying net finance costs* including discontinued operation	**75.1**	75.2
Average net debt		
Continuing operations	**1,183**	1,004
Discontinued operation	**–**	95
Average net debt including discontinued operation	**1,183**	1,099

* Excludes certain re-measurement items and economic hedges, totalling a loss of €19.4 million (2007: gain of €0.8 million).

The increase in average net debt of continuing operations from €1,004 million to €1,183 million primarily resulted from a reduction in net fleet creditors, offsetting the benefit from disposing of the operation in Greece. The underlying effective finance rate on continuing operations was 6.2% in 2008 (2007: 6.7%), reflecting lower market rates, lower interest receivable, and lower interest on tax charges. Underlying net finance costs on the discontinued operation were nil in the current year (2007: €5.5 million).

Net exceptional charges

Net exceptional charges before taxation of €27.5 million were incurred in the year, summarised as follows:

€ million	2008	2007
Restructuring costs	27.6	7.1
Goodwill impairment	1.5	4.0
Centrus receivables	(0.3)	(0.7)
Independent investigation and associated costs	–	4.8
Project termination credit	–	(2.6)
Net insurance provision release	–	(5.7)
Net exceptional items before tax – continuing operations	**28.8**	6.9
Discontinued operation	(1.3)	15.9
Net exceptional items after tax including discontinued operation	27.5	22.8

The cash cost in 2008 of exceptional items (pre taxation) was €21.1 million (2007: €11.7 million).

Restructuring costs of €27.6 million included €1.9 million of costs incurred in the first half in respect of a redundancy programme that commenced in December 2007. Restructuring costs of €25.7 million were then recognised in the second half reflecting a further rationalisation of operations in response to the deterioration in the trading environment, including redundancies, the closure of certain low margin rental locations, and the rationalisation of property with the transfer of the staff of the UK business head-office into the Group headquarters building. These restructuring costs include redundancy costs, onerous lease provisions, fixed asset impairments, and exceptional pension curtailments.

In the prior year, restructuring costs of €7.1 million were incurred with respect to the redundancy programme commenced in December 2007, and the final elements of a restructuring project commenced in 2005.

During 2008, the Group recognised an exceptional impairment provision against the goodwill arising on the acquisition of certain licensees in Holland. This followed a reappraisal of the business in conjunction with the restructuring referred to above. In the comparative year, the Group acquired the assets of a licensee in Germany and an impairment provision was made in respect of the goodwill arising.

During the current and prior years, the activities associated with the closure of the Centrus credit hire business were more successful than previously anticipated. The Group therefore partially reversed provisions recognised in prior years, resulting in a further exceptional credit of €0.3 million (2007: €0.7 million).

In the prior year, the Group disposed of its subsidiary in Greece. The Group has recognised an exceptional credit of €1.3 million in the current year to reflect the final settlement of a warranty provision.

Certain re-measurement items and economic hedges

The following items have been recognised in the year and are excluded from underlying profit before tax:

€ million	Operating profit	Finance items	Profit before tax
Re-measurement gains/ (losses) on derivative financial instruments	8.0	(18.4)	(10.4)
Economic hedge adjustments	5.2	(0.5)	4.7
Foreign exchange loss on borrowings	–	(0.5)	(0.5)
	13.2	(19.4)	(6.2)

Re-measurement gains and losses on derivative financial instruments arise from the recognition in the Income Statement of movements in the fair value of certain derivatives under IAS 39, Financial Instruments: Recognition and Measurement. The Group uses such derivatives to hedge its underlying economic positions, but only applies hedge accounting to those relationships where it is both permissible and practical to do so.

Re-measurement gains and losses on derivative financial instruments are excluded from underlying profit. However, an economic hedge adjustment is then made to underlying profit to the extent that the re-measurement gain or loss economically hedges the movement in a related position that itself has been recognised in underlying profit.

During the year the Group experienced net gains on foreign exchange contracts, but experienced losses on interest rate swaps, caps and collars given falls in base interest rates.

Accounting standards as applied also restrict the recognition of borrowings as part of a net investment in foreign operations. Foreign exchange movements on certain short-term borrowings are therefore recognised in the Income Statement, but are excluded from underlying profit.

We are developing further significant cost actions and expect cost savings of around €22 million in 2009, including the run-rate savings from 2008.

Business review Financial review continued

Joint ventures and associates

€ million	2008	2007
Share of profit of joint ventures and associates	**0.4**	0.8

The Group's joint venture in China continued to demonstrate strong revenue and profit growth, benefiting in part from the Beijing Olympics. The Group's share of profit of joint ventures and associates is lower than prior year due to start-up costs of the Group's OKIGO car club initiative in France which is being undertaken in partnership with Vinci Park.

Taxation

€ million	2008	2007
Underlying taxation:		
Continuing operations	**16.2**	11.4
Discontinued operation credit	**–**	(1.1)
Underlying taxation – total	**16.2**	10.3
Charge on exceptional items	**–**	6.4
(Credit)/charge on certain re-measurement items and economic hedges	**(2.0)**	0.1
Taxation charge including exceptional items, certain re-measurement items and economic hedges and discontinued operation	**14.2**	16.8

The underlying effective rate of taxation on continuing operations rose to 43% (2007: 30%) as a consequence of results arising in different jurisdictions impacting both current and deferred taxation together with a reassessment of deferred taxation in the light of the current economic environment.

The underlying tax charge in respect of discontinued operations was €nil in 2008 compared to a tax credit of €1.1 million in 2007. The 2007 credit arose from a reduction of deferred tax liabilities following the lowering of the corporate tax rate in Greece in 2007.

The tax credit on exceptional, certain re-measurement items and economic hedges in 2008 was €2.0 million compared to a €6.5 million charge in 2007, reflecting the change in mix of exceptional items and the conservative approach adopted with respect to the deductibility of certain expenses.

Fleet

The majority of vehicles continue to be subject to manufacturer repurchase arrangements, which guarantee a disposal value at the end of the holding period, thereby reducing the Group's exposure to residual value risk. The analysis of closing non-repurchase and repurchase vehicles on the Balance Sheet is set out below:

€ million (net book amount)	2008	2007
Non-repurchase vehicles on fleet	**441.0**	448.7
Non-repurchase vehicles held for resale	**10.3**	7.1
Manufacturer repurchase vehicles	**841.2**	878.9
Total fleet	**1,292.5**	1,334.7

The average number of fleet units operated in continuing operations during the year was around 1% lower at 117,000 (2007: 118,000) vehicles, reflecting a 2.6% reduction in fleet levels in the second half in response to the weakening demand background. Within this total, vehicles under non-repurchase (off-balance sheet) operating leases reduced by 3.0% to 9.5%.

Return on capital employed

ROCE[6] for underlying continuing operations was slightly lower at 8.5% (2007: 9.0%). The higher underlying return achieved by the Group was offset by a higher average capital employed, particularly in the first half of the year.

Shareholders' funds and returns

At the end of the year, shareholders' equity in the Consolidated Balance Sheet was €69.3 million (2007: €96.2 million). Movements in shareholders' funds comprised the loss attributable to equity holders as recognised in the Income Statement, cash flow hedge losses of €9.6 million, actuarial gains in respect of the Group's pension scheme of €11.2 million, and translation reserve adjustments of €19.3 million which arose from the translation of the UK asset base at the weaker closing sterling/euro exchange rate.

The direct impact of foreign exchange (pre taxation) on shareholders' equity was €9.4 million as the translation reserve adjustment of €23.1 million together with the loss arising from foreign exchange on net debt of €0.5 million, were offset by the net gain on foreign exchange derivatives of €13.2 million.

Shareholders' equity in the unconsolidated Parent Company Balance Sheet at 31 December 2008 was £314.6 million (2007: £421.5 million). The principal movement in the year was following a review of the Company's investment in its subsidiaries. This review indicated that this investment carrying value should be reduced and, as a result, an impairment charge of £113.2 million has been recognised in the unconsolidated Parent Company Financial Statements. This impairment is a non-cash charge and has no impact on the Consolidated Financial Statements or on banking facilities or financial covenants.

Cash flow/net debt movement

€ million	2008	2007
Net cash generated from operating activities	**132.0**	43.6
Net cash used in investing activities	**(157.8)**	(70.6)
Net cash used in financing activities	**(0.8)**	(33.8)
Net change in cash and cash equivalents before foreign exchange	**(26.6)**	(60.8)
Other movements in net debt resulting from cash flows	**(81.2)**	(65.9)
New finance leases	**(23.2)**	(48.3)
Other non-cash movements, including the effects of foreign exchange	**(21.3)**	5.3
Movement in net debt (excluding Greece disposal)	**(152.3)**	(169.7)
Debt disposed with the operation in Greece	**–**	196.7
Movement in net debt	**(152.3)**	27.0

Overall when aggregating repurchase and risk vehicles, fleet cash outflows were broadly in line with prior year, with the benefit from lower fleet levels offset by reduced credit terms on certain finance lease vehicles following taxation rule changes.

The improvement in cash generated from operating activities is mainly attributable to the disposal of vehicles under repurchase agreements and a reduction in trade receivables. This is partially offset by the increase in cash used in investing activities, which includes the effect of the change in purchase structures on finance lease vehicles and a switch from operating lease vehicle financing to owned fleet in certain countries.

Net cash used in financing activities reduced due to the realisation of certain debt derivatives in the prior year in line with loan note maturities. Other movements in net debt resulting from cash flows primarily comprise additional tax settlements and interest payments. Other non-cash movements, including the effect of foreign exchange in the current year are primarily due to reductions in the fair values of debt related derivatives.

Net debt

	31 December 2008 %	31 December 2008 € million	1 January 2008 %	1 January 2008 € million
Interest bearing assets	**(5)**	**52.1**	(6)	66.3
Debt due within one year	**4**	**(45.1)**	3	(31.0)
Debt due after one year	**74**	**(841.3)**	71	(699.2)
Finance leases	**21**	**(232.7)**	28	(273.7)
Derivative debt instruments	**6**	**(66.2)**	4	(43.3)
Net debt	**100**	**(1,133.2)**	100	(980.9)

There have been no significant changes in the composition of net debt during the year. Whilst there has been a reduction in the level of finance leases reflecting lower fleet at 31 December 2008, there has been a reduction in the value of fixed interest rate derivative debt instruments given the general reduction in market interest rates.

Pensions

We operate both funded and unfunded defined benefit pension and statutory termination schemes, as well as defined contribution schemes.

Funded defined benefit schemes

The principal funded scheme is that operated in the United Kingdom. The difference between the market value of all funded scheme assets and the actuarial value of the funded scheme liabilities at 31 December 2008 was a deficit of €36.7 million (2007: €62.5 million).

The fair value of the scheme assets has decreased by €49.5 million (2007: €6.3 million increase) in the year. This reflects the exchange translation loss as a result of the weakened sterling currency and an experience loss on plan assets, offset by funding contributions from the Group. The present value of the scheme obligations has reduced by €75.3 million (2007: €11.3 million reduction), due to the effect of the weakened sterling currency noted above and a gain on the change of assumptions, being mainly an increased discount rate. Interest on scheme liabilities was €11.1 million (2007: €11.2 million) and the net actuarial gain was €9.8 million (2007: €8.9 million). The non-contributory final salary section of the UK Plan was closed to future service accruals from 1 April 2007 and future service benefits now accrue under the contributory Retirement Capital (cash balance) section of the Plan.

Unfunded defined benefit schemes

The principal unfunded scheme is held in Germany and is closed to new entrants. The actuarial value of all unfunded scheme liabilities was €34.2 million (2007: €35.0 million). The reduction in the deficit is primarily due to actuarial gains related to the increase in the discount rate applied to liabilities.

The underlying charge in the income statement for defined benefit schemes was €9.6 million (2007: €10.2 million), the reduction being due to the closure of the United Kingdom final salary scheme part way through the prior year and changes in the entitlement rules related to the German pension scheme.

Treasury

Financial risk management objectives and policies

We have a centralised treasury function that is responsible for the management of the Group's financial risks together with its liquidity and financing requirements. The treasury function is not a profit centre and its objective is to manage risk at optimum cost. Treasury operations are conducted within a regularly reviewed framework of policies and guidelines approved and monitored by a sub-committee of the Board. This framework facilitates the execution of Board-approved strategies. A discussion of the Group's financial risk management objectives and policies, and exposure to various financial risks, is included in Note 27 of the Consolidated Financial Statements.

Brand leadership and service differentiation – Avis Preferred "3-minute promise"

Our "3-minute promise" has been such a success in France, where it was initially trialled, that we have now rolled it out to 600 locations across France, Germany, Spain, UK, Portugal and Switzerland. More countries will follow soon, including licensees.

Approximately 75% of all Avis Preferred rentals within Europe now take place at a 3-minute location, enhancing customers' rental experience and improving customer acquisition and loyalty.

Business review Financial review continued

Supported by our strong capital and cash flow controls we have ensured that we have sufficient liquidity for the next 12 months.

Current liquidity
We fund the Group's operations through a combination of retained earnings, working capital and borrowing facilities. The majority of borrowings are raised through Avis Finance Company plc, an indirect wholly-owned subsidiary of the Company, and proceeds are used to finance the Group's subsidiaries on an arm's length basis. In order to ensure maximum flexibility to changing requirements, we seek to maintain access to a wide range of funding sources. Financing facilities therefore include bank borrowings, loan notes, finance leases and a commercial paper programme in Belgium.

As at 31 December 2008 the Group had undrawn committed borrowing facilities of €608.0 million (2007: €712.4 million) and additional uncommitted borrowing facilities available of €383.7 million (2007: €583.0 million). Of the undrawn committed facilities €300.3 million expire within one year (2007: €228.7 million), €nil between one and two years (2007: €54.6 million) and €307.7 million between two and five years (2007: €429.1 million).

In addition, as at 31 December 2008, the Group had outstanding loan notes and associated derivative financial instruments of €597.8 million (2007: €596.5 million). Of these, €51.6 million matures between one and two years, €460.6 million matures within two and five years, and €85.6 million after more than five years (2007: €264.0 million between two and five years and €332.5 million after more than five years). The Group also held cash and cash equivalents of €24.7 million (2007: €52.1 million).

The Group's committed bank facilities and loan notes are unsecured and contain a number of financial covenants including: a minimum EBIT level; a maximum limit to the ratio of total net financial debt to underlying EBITDA; and a minimum limit to the ratio of underlying EBITDA to net interest expense. Each of these covenants is measured at 30 June and 31 December each year and on a rolling 12-month basis on either an underlying IFRS or underlying UK GAAP basis. On an IFRS basis for the year ended 31 December 2008, the ratio of total net financial debt to underlying EBITDA was 2.5:1 (2007: 2.2:1) and the ratio of underlying EBITDA to net interest expense was 6.2:1 (2007: 6.1:1). We monitor compliance against all the Group's financial obligations and manage the consolidated balance sheet and debt requirements so as to operate within the financial covenants. The first repayment on the Group's committed borrowings is due in August 2010. This is a relatively small (€51.6 million) repayment of US private placement notes. Beyond this, the next borrowing repayment is not due until February 2011, the maturity date of the Group's €580 million revolving credit facility. The Group therefore has no committed bank facilities or loan notes due for repayment within 19 months of the year-end.

Other funding arrangements
Where commercially beneficial, we seek to optimise financing costs by entering into operating lease transactions where substantially all of the risks and rewards of ownership remain with the lessor. At 31 December 2008, the total commitment to pay operating lease rentals in future periods for land, buildings and vehicles was €250.0 million (2007: €190.4 million). At the end of the year, the Group has certain insurance, operating lease and station rental commitments which are backed by guarantees and letters of credit that have been issued by banks to third parties amounting to €80.0 million (2007: €86.5 million).

Insurance
We are legally obliged to provide all vehicle rental customers with insurance against accidents caused to third parties, and cover is also offered against theft and personal accident. In addition, we cover various risks arising from the normal course of business, including damage to property and general liability. Cover is arranged with a number of major insurance companies to cost-effectively spread the risk. We also reinsure a limited amount of the risks through the Group's captive insurance company, which in turn buys reinsurance to limit its own exposure.

Principal risks and uncertainties

Risk mitigation is a key part of the management of the Group and we have a well developed process to identify, manage and limit exposure to areas which may have a negative impact on the business. The process we have in place for managing risk is described in the Corporate Governance report on page 32. As would be expected the relative importance of certain risks has changed since the prior year end, particularly the effect of economic uncertainty on demand and residual values in used car markets. As a result we have taken actions to respond to these changes and will continue to monitor and respond to the changing climate.

Summarised below are some of the risk factors that may affect the Group's business.

- International operations
- Demand

- Pricing and competitive pressures
- Fleet
- Relationship with Avis Budget Group, Inc.
- Insurance
- Funding
- Interest and foreign currency
- Pensions

International operations
Given its extensive geographic coverage, the Group's business is subject to various risks inherent in international operations. These risks include, amongst other things: regulatory requirements, differing legal and tax practice and interpretation, potential difficulties in managing foreign operations, different local accounting practices and potential political instability.

Demand
The Group faces various risks associated with the demand for its services, which in itself is highly seasonal. Disruption could occur during the peak summer season at the time when we increase staff levels and purchase more vehicles to accommodate the anticipated usual increase in demand. There may be disruptions in air travel patterns or a general decrease in air travel as a result of a significant event such as a terrorist incident or as a consequence of increased security measures being taken by the authorities in anticipation of such a threat. An economic downturn poses challenges for the Group given its capital intensity and short forward reservations, requiring careful management of the business to manage capacity, costs and profitability.

Pricing and competitive pressures
The Group and its licensees are subject to competition from a wide range of other operators both directly and via intermediaries and brokers. Large European competitors compete with the Group in most customer categories, and mergers and acquisitions involving those competitors may result in increased competitive pressure. Local operators may have lower operating costs, enabling them to charge relatively low prices. In addition, the car rental industry faces pressure from increased pricing transparency as a result of the growth of internet travel portals, other forms of e-commerce and the rental brokers. This transparency has increased the prevalence and intensity of price competition.

Fleet
Loss or material change in the terms on which we obtain fleet vehicles from major vehicle suppliers could harm the performance of the business. In the event that we could not procure all the required vehicles from current sources, vehicles could be obtained from other sources such as dealers. However, there could be risks to business volumes and to financial and operating results as we sought alternative supplier arrangements.

The effective cost of vehicles is dependent on the new purchase price, the level of discount, the amount of any marketing contributions and the residual value of the vehicles, either on the pre-agreed price for repurchase vehicles or the open market for non-repurchase vehicles. There is a risk that the effective cost of vehicles increases and because of competitive pressures, we will be unable to pass on such an increased cost of vehicles to rental customers.

Historically sales incentive and discount programmes offered by manufacturers to car rental companies have tended to keep the average cost of cars low for the car rental industry. In periods when the environment for new car sales improves or when manufacturers are trying to rebalance capacity for a downward shift in demand, they could decide to reduce their allocation of sales to fleet purchasers such as the Group, or to remove the incentives and discounts thereby increasing the average cost of vehicles.

Vehicles not covered by repurchase programmes are sold on the open market. Residual values of these vehicles are exposed to an adverse movement in second-hand vehicle prices, which can be a result of a number of factors, including general economic conditions, tightening of availability of credit to potential buyers, model changes and changes in environmental legislative policy which cause short term uncertainty and prompt change in customer preference. Equally, a severe or persistent decline in the results of operations or financial condition of one of the major manufacturers supplying vehicles for the Group's fleet could impact residual values. Any such movement in used vehicle prices or poor demand in the used vehicle market may hinder our ability to sell these vehicles and could adversely affect the Group's results.

Where difficulties are experienced in sourcing vehicles, or where prevailing economic conditions result in depressed used vehicle prices and reduced demand, these risks may be mitigated by extending the holding period of vehicles. However, extended holding periods may introduce new risks including increased maintenance costs, manufacturer warranty expiry, more uncertainty over residual values, higher CO_2 emissions, and the potential impact of older vehicles on customer loyalty and safety considerations.

If a decline in the results of operations or financial condition of a vehicle manufacturer (or other repurchase programme counterparty, such as a dealer) were so severe as to cause it to default on an obligation to repurchase vehicles covered by repurchase guarantees, we would have to find an alternative method for disposal of those vehicles, which could increase the Group's expenses and decrease the proceeds from such disposals. Any such default might also leave the Group with an unpaid claim against the manufacturer or dealer with respect to repurchase vehicles that have been sold and returned but not yet paid for.

If governments across Europe introduce rapid changes to taxation or environmental regulations designed to encourage the use of vehicles with lower CO_2 emissions this may result in lower current vehicle residual values and, at least in the short term, have an adverse impact on the Group's performance until existing fleet is replaced. In addition, further legislative changes encouraging the use of vehicles with lower vehicle emissions could result in additional costs in the medium term if the fleet cannot be adapted to wholly mitigate these changes and any resultant higher costs recovered.

Relationship with Avis Budget Group
Avis Budget Group, Inc. (ABG) licenses the Avis and Budget brands to the Group for operation in specified territories through master licensing agreements which expire in 2036.

The Group does not have any cross-shareholdings with ABG, yet through the close contractual and business relationship the two companies work together to provide a seamless service to customers of both the Avis and the Budget networks. We rely on ABG to operate its own business in a manner that both upholds the value of the global brands and allows the Group to provide a similar service in the locations in which it operates. We have joint marketing initiatives with ABG and share market and customer information where appropriate. It also provides joint services and cross-refers customers through a formalised agreement. The maintenance of a good management relationship with ABG is therefore important to the Group.

We use the Wizard rental and reservation system under license from ABG, pursuant to a long-term computer services agreement, which is subject to a five-year notice period. Wizard has been operational since 1972, and has been continuously enhanced and expanded since that time. It is a fully integrated reservation, rental and management information system that is

Business review Financial review continued

used by Avis Europe and ABG worldwide. We are obliged to contribute to the cost of upgrading and enhancing Wizard, therefore unanticipated costs could adversely affect the Group's results. Should Wizard need to be replaced, process and execution issues could present a substantial risk to the Group's operations.

Any adverse changes to the terms of the agreements or any deterioration in ABG or its business or in the relationship with ABG is likely to have an adverse effect on the Group's financial condition and results of its operations.

Insurance

We are legally obliged to provide statutory third party motor liability insurance to all customers. This insurance provides financial protection against claims from third parties where the Group's customers are at fault in a road accident. In addition, sales of damage waivers and personal accident insurance are important sources of revenue. We also cover various risks arising in the normal course of business, including damage to property and general liability. Insurance policies are arranged with a variety of insurance companies and we are reliant on their continued credit standing. Certain of these insurance policies are supported by letters of credit provided by the Group the extent of which is partly dependent upon the insurer's perceived credit standing of the Group.

We also reinsure a limited amount of the risks through the Group's own captive insurance companies, which in turn buy reinsurance to limit their own exposure to acceptable levels. Significant risks would exist to the stability of the Group's business if access to primary insurance and/or reinsurance was constrained, denied or available only at increased costs that could not be passed on in increased prices.

Funding

The Group's operations are by their very nature capital intensive and are dependent on its various sources of funding.

Terms of credit between the Group and its principal suppliers of fleet vary widely, depending both on the market in which the vehicles are to be used and on the supplier. Certain suppliers also provide vehicles on off balance sheet operating lease terms. Any material worsening of credit terms would result in a corresponding increase in debt funding requirements.

We fund a substantial proportion of the Group's vehicles with borrowings, including both on and off balance sheet leasing arrangements, and, as such, depend on access to the debt markets and other forms of financing to fund the Group's fleet. If we are unable to access such debt facilities on commercially acceptable terms, or have difficulty meeting the terms of any financial covenants, the current business, results of operations, financial condition and future prospects may be adversely affected.

In order to mitigate against these risks and to guarantee access to liquidity, we seek to ensure that the Group has a core level of long-term committed funding in place with maturities spread over a number of years. This core funding is supplemented with shorter-term committed and uncommitted facilities particularly to cover seasonal debt requirements. It is noteworthy that lease finance tends to be only available on shorter maturities than other forms of debt. All funding is arranged with a wide range of providers, on both a public and private basis. We maintain a regular dialogue with debt providers to keep them updated on the trading performance and prospects of the business.

Interest and foreign currency

Interest rate risk arises from the Group's borrowings which, after foreign currency risk hedging, principally arise in euro and sterling. Borrowings issued at variable rates expose the Group to cash flow interest rate risk whereas borrowings issued at fixed rates expose the Group to fair value interest rate risk. To manage these risks, the Group is both financed through a combination of fixed and floating rate facilities and enters into various derivatives. As present debt facilities mature the Group is exposed to higher credit spreads on its borrowings.

The majority of the Group's business is transacted in euros, sterling, US dollars and Swiss francs. In each country where the Group has a corporate operation, revenue generated and costs incurred are primarily denominated in the relevant local currency, so providing a natural currency hedge. In addition, intra-group trading transactions are netted and settled centrally. Any remaining material foreign currency transaction exposures are hedged as appropriate into either euro or sterling. Revenue recognised from licensees is primarily received in sterling.

With regard to translation exposures the policy is to match where possible the average assets of the Group to the equivalent average liabilities in each major currency and thus minimise any impact to the Group. To the extent that this does not occur, both foreign currency borrowings and forward exchange contracts are used.

Pensions

The Group has two principal defined benefit pension schemes, a UK scheme which is in deficit, and an unfunded scheme in Germany. The Group's balance sheet liability against these schemes is subject to uncertainty concerning the risks and returns around the respective assets and liabilities of the UK scheme and the interest rate applied to the book reserve for the German scheme. In particular, volatility in interest rates has an impact on the amount by which future pension liabilities are discounted and affect the returns forecast to be earned. An actuarial valuation of the Avis UK Pension Plan was prepared as at 31 March 2008. This was the first valuation of the Plan carried out subject to the requirements of the Pensions Act 2004 and, as anticipated, the funding level has deteriorated since the previous valuation as at 30 June 2005. This is mainly due to the reduction in the expected real rate of return and to an increase in the post-retirement longevity assumption. As a result, the Group's future cash contributions to fund the deficit will increase substantially as from July 2009.

Going Concern

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in this Business Review. In addition, the financial position of the Group, including its cash flows, liquidity position and borrowing facilities are described above. In addition notes 27 and 28 to the Financial Statements explains the Group's objectives, policies and processes with respect to financial risk management; details the Group's exposures to credit risk and liquidity risk; and describes the Group's financial instruments and hedging activities.

The Group is subject to a number of key business risks as described on pages 16 to 18. The nature of the car rental business model should mean that the Group has an ability to readily flex business size and hence funding requirements if required. As an example, due to the relatively short holding period (typically circa seven months) the Group is able to flex its vehicle fleet level relatively quickly to meet both fluctuations in demand or funding constraints. Also a relatively large number of temporary staff are employed for the seasonal peak; again this helps provide flexibility in managing costs. Furthermore, the Group can choose whether to franchise or corporately own its operations. The Group also benefits from significant diversification, in terms of its customers and suppliers, its geographic spread and its sources of funding. As a consequence, the Directors believe that the Group is well placed to manage its business risks successfully despite the present highly uncertain economic outlook.

As part of its normal business practice the Group regularly prepares both annual and longer-term plans. These plans include an estimate of the financing required over the respective period. Current forecasts indicate that the Group expects to operate within its committed facilities over the next 12 months together with sufficient operating lease lines. Furthermore, these forecasts also indicate that the Group is expected to be able to operate within its lenders' financial covenants (described in this Business Review on page 16) over the same period.

Specifically regarding sources of liquidity, and as detailed in note 26 to the financial statements, the Group has €45.1 million of borrowings due within one year which primarily consist of uncommitted overdraft facilities and commercial paper. Whilst the Group will seek the ongoing renewal of these facilities, the Group currently maintains sufficient headroom within its committed facilities should any of the uncommitted facilities not be renewed.

The Group uses finance leases as part of its funding, having €232.7 million of such leases due within one year at 31 December 2008, as detailed in note 25 to the financial statements. These are short-term committed facilities, provided by local financial institutions, secured on the applicable fleet, and are generally renewed on an annual basis. As at the date of these Financial Statements, sufficient committed finance lease facilities are in place to finance the current year peak requirement for vehicle fleet that is usually funded using these facilities.

Regarding term-debt, the first repayment (€51.6 million of US$ private placement notes) in respect of committed borrowing facilities is due in August 2010. The next borrowing repayment is not due until February 2011, being the maturity date of the Group's €580 million revolving credit facility. The Group therefore has no committed borrowings due for repayment within 19 months of the year-end.

With respect to the longer term, the Group has commenced discussions with various financial institutions with respect to a variety of potential forms of future medium-term funding. In particular, the Group is investigating the possibility of further directly utilising the security and relatively liquid nature of its fleet in common with industry practice.

Therefore, whilst any consideration of future matters involves making a judgement at a particular point in time about future events which are inherently uncertain, the Directors, after making appropriate enquiries, as indicated above, have reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. For this reason, the Directors continue to adopt the going concern basis in preparing the Financial Statements.

Accounting standards and policies
There were no significant changes in either accounting standards or policies which impacted the Group in the year.

Forward looking statements
Certain statements in this Annual Report are forward-looking. Although we believe that the expectations reflected in these forward-looking statements are reasonable, there can be no assurance that these expectations will prove to have been correct. Because these forward-looking statements involve risks and uncertainties, actual results may differ materially from those expressed or implied by those forward-looking statements.

Martyn Smith
Group Finance Director

Footnotes and detailed definitions
1 Constant currency revenue data is calculated whereby both current and prior period non-euro denominated revenue is translated into euro at the exchange rate prevailing in the equivalent month in the prior period.
2 Rental revenue per day is calculated as rental revenues divided by billed days. Rental revenue per day is defined as revenue excluding sale of fuel, sub-licensee income and the provision of foreign exchange services to rental customers as well as other incidental operating income divided by billed days.
3 Billed days include any day or period less than a day for which a vehicle rental is invoiced to a customer.
4 Underlying excludes net exceptional charges and certain net re-measurement gains and economic hedging gains.
5 Utilisation is calculated as the average period of time during which vehicles are on rent as a percentage of their holding period.
6 Return on capital employed is the ratio of underlying operating profit for the past 12 months, including the operating profit of the joint venture and associate, to capital employed. Capital employed is an average of current and previous two period end closing balances, comprising shareholders' funds plus net debt and other liabilities. The indicator as at 31 December 2007 was weighted towards year end capital employed and has been restated accordingly.

Highly trained and motivated

'We try harder.' is our heritage. It embodies the Spirit of Avis and truly differentiates us.

Corporate social responsibility

Board level responsibility for CSR rests with the Chief Executive. In our corporately-owned operations, CSR management and monitoring is assigned to local management. For licensee countries, Regional Licensee Directors are responsible for promoting alignment with Group CSR principles and policies.

Our impacts and actions

We are committed to measuring the impact that our business has on the environment and taking steps to improve the situation.

Our Corporate Social Responsibility (CSR) strategy is an integral part of our 'We try harder.' philosophy.

With regard to the environment our strategy is to ensure we progressively reduce our CO_2 emissions in our premises, offset non-reducible emissions and continue to introduce less polluting vehicles onto our fleet where possible. Our European corporately-owned operations and some of our licensees are carbon neutral. We have guidelines in place for reducing energy use in our operations and in 2008 we completed environmental audits of a number of headquarters buildings and major rental locations in the Group's main corporately-owned markets. The results will be used to create a blueprint for further reductions in CO_2 emissions across the business.

We face challenges in setting formal overall targets for energy consumption because in many of our rental stations, particularly at airports, we have limited or almost no ability to directly affect our energy use in that we are often sharing a building with other users. However, where possible, we have sought closer links with airport operators to maximise opportunities for joint environmental initiatives, particularly in relation to recycling.

On community matters, corporately-owned operations focus their efforts on the provision of vehicles for community purposes and local environmental improvements, whilst local management have discretion to support local staff volunteering and fundraising for causes of their choice.

In our marketplace, we continue to be leaders in the adoption and development of best practice in many aspects of our customer service. In the workplace we focus on continual improvement in employee satisfaction, which together with customer satisfaction, is essential for the longer-term success of the Company, particularly in the current challenging market conditions.

Company values are set out in our statement of business principles (see www.avis-europe.com).

We are a member of the FTSE4Good Index and the Kempen/SNS Smallcap SRI Europe Index.

Environmental impacts

We remain committed to reducing, where possible, our negative impacts on the environment, of which by far the greatest are greenhouse gas emissions. Our European corporate operations and some of our licensees are CarbonNeutral® and we continue to introduce less polluting vehicles onto our fleet.

We measure our environmental impacts internally and our data is reviewed and analysed by the Edinburgh Centre for Carbon Management working with The CarbonNeutral Company.

In 2008 emissions from our corporately-owned operations amounted to 14,648 tCO_2e.

Corporate operations

In 2008, our corporate operations focussed on developing and completing a series of initiatives to improve environmental performance, including:

- completing the integration of environmental reporting into financial reporting using a new finance system, which tracks utility use and business travel;
- undertaking a number of environmental audits of headquarters buildings and major rental locations in the Group's main corporately-owned markets;
- beginning the implementation of the resulting recommendations to achieve emissions reductions;
- making better use of resources and making all staff aware of what they can do to reduce energy use, including the use of e-learning to reduce travel;
- further increasing the use of videoconferencing between our Group headquarters in Bracknell and our other country corporate head offices with seven countries now participating, with a resulting reduction of over 25% in European travel; and
- developing closer links with customer groups to help reduce their environmental impact, including the launch of a bookable "green fleet" and a carbon offset tool for corporate customers.

We offset our emissions in 2008 in conjunction with The CarbonNeutral Company. Around 90% of total emissions were offset through renewable energy, independently credited to the Voluntary Carbon Standard: the remaining offset was via tree planting; since 2000, we have offset over 118,896 tonnes of CO_2.

Fleet operations
We seek to minimise emissions from our fleet by introducing more environmentally friendly vehicles in more locations. In 2008 they have included:

- Ford flexi-fuel cars in France
- LPG fuelled Volkswagens in Italy
- BMW 1 series with stop-start technology in Spain, Germany, the UK and Belgium
- Honda Civic hybrids in Germany, Portugal and Holland
- Toyota Prius in the UK

As a result of these and other changes, a significant proportion of 2008 fleet purchases emitted below the European norm for CO_2.

In Paris the OKIGO initiative, undertaken jointly with Vinci Park, allows customers who pay a subscription to have an Avis car available 24/7 in one of the many Vinci car parks. During 2008 OKIGO was expanded to 100 cars in 25 stations, mainly based in Paris, with a three-fold increase in the number of members to 1,500. Studies show that sharing a car in this way effectively replaces up to eight individual cars. We have also signed a partnership with Vinci Park, the Paris Metro and SNCF (leading French railway company) to facilitate the operation of a public car sharing scheme with 4,000 vehicles in Paris in 2010.

Avis Norway, Sweden and Spain maintained their eco ISO 14001 standards.

Offsetting our emissions

We offset our emissions in 2008 in conjunction with The CarbonNeutral Company. Around 90% of total emissions was offset through renewable energy, independently credited to the Voluntary Carbon Standard, remaining offset was via tree planting. Since 2000, we have offset over 118,896 tonnes of CO_2.

Corporate social responsibility continued

Community

We aim to make a positive contribution to the quality of life in the communities where we operate.

Our community investment guidelines provide that we focus on local environmental improvement and provision of free transport for community activities. In addition to this activity across our corporate and licensee network, we support UNICEF on a variety of projects. We also support initiatives which are particularly important to local staff.

Some of our 2008 projects have included:

- supporting a road safety project for school children in Germany;
- collecting food for Christmas on behalf of the NGO Caritas;
- fundraising for a cancer care charity in the UK;
- the renovation of a forest path in Hungary;
- the establishment of a partnership with Action Aid in Italy; and
- fundraising for the Portuguese Community against Aids (Portugal).

In addition, we support employee volunteering and fundraising:

- where staff commit to voluntary work for a charitable organisation in Barcelona, the Avis contact centre makes a quarterly contribution; and
- in our headquarters we match sponsorship funding for individual and team efforts.

Workplace

As challenging market conditions prevailed during 2008, we focussed on increasing the flexibility and effectiveness of our organisation and maintaining and managing employee motivation and engagement.

Having achieved much improved results in our employee satisfaction survey in 2007, we needed to ensure we built on these improvements even through the difficult economic conditions. Therefore, despite making management and structural changes in many areas of our business, we have focussed efforts on celebrating our successes, keeping our culture alive, increasing communication with employees, continued employee development and an established programme of community involvement.

The 'We try harder.' promise

We rely on our people to deliver the 'We try harder.' promise and appreciate that it is essential that we make Avis an enjoyable place to work where people can develop and grow.

We operate in many different countries and therefore have employees with very different cultural backgrounds. Accordingly we ensure that every employee understands what 'We try harder.' means and takes pride in working for Avis, regardless of their role.

We keep the spirit of 'We try harder.' alive through Company induction programmes and through our communications and training programmes. We have a number of employee recognition programmes that are widely used, encouraging employees to celebrate teamwork and enjoy time away from the workplace with their colleagues. For example, every country recognises its 'Station of the year' and individual employees recognise colleagues who have demonstrated great commitment or service through a scheme known as 'Making a Difference'. Every year Germany hosts an extremely popular weekend football competition known as 'We kick harder' which is attended by people from other countries and centres.

Recognising and celebrating success is a key feature of our culture. We positively encourage our people to raise their ideas for improvements and innovations by participating in our new ideas scheme, called 'Winning Ideas'. We also continue to recognise and value long service within the organisation and have a tradition of public celebration of major service milestones in all countries and centres. In Budapest we celebrated the 5th anniversary of the Business Support Centre, with special recognition for those employees who have been there since the centre's opening.

Communicating with our people

In 2008 we have focussed on ensuring that all employees understand how the Group is performing, the impact of the external environment, and the role they play in delivering our success.

All countries and centres have delivered comprehensive communication strategies, including face-to-face time for all levels of employees with senior leaders and regular briefings on progress from their own managers.

At our 2008 Licensee conference we focussed strongly on the theme of communicating with employees and keeping people motivated during difficult times.

Developing our people

Our Human Resources vision is to enable people to grow within our company – developing both themselves and our organisation.

Each country and centre carries out comprehensive training programmes for both front-line and head-office based employees. Much operational training takes place within stations using real-life situations. To support this, some countries, including France and the UK, have developed a programme where certain station employees undertake special training to enable them to act as coaches to other employees.

During 2008 we developed a comprehensive European-wide training programme, utilising e-learning and classroom training for Rental Sales Agents, which ensures that every country can train people to the same high standards. Comprehensive training and development programmes are in place in both support centres for all levels of employee and these are regularly reviewed and refreshed.

Diversity

During 2008 we have continued to focus on developing a workforce which reflects the communities that we serve. In particular, we need to ensure our management structure reflects the international nature of our business, an aim which we have now achieved with the Avis Executive Board, which comprises five different nationalities. In our contact centre in Barcelona we employ some 30 nationalities. In our Group headquarters, we now have some 21 different nationalities working side by side.

Equal opportunities
We operate in many countries with diverse employment practices. Whilst respecting local circumstances, wherever we operate we follow the principles of equal opportunity in recruitment, development, remuneration and advancement.

Health and safety
We continued to focus on creating a robust health and safety culture across the Group, with each country and centre required to report quarterly on key statistics.

The majority of countries have increased training in this area and many countries have taken actions locally to further improve performance.

Marketplace
We aim to make Avis first choice for our customers by continually improving our service and so ensuring customer satisfaction and loyalty. This is especially important in an increasingly price competitive market environment. We have made further good progress this year, in particular ensuring that our customer service levels have not been impacted by the staff and cost reductions made in response to the weaker economic background.

We monitor customer satisfaction principally through customer surveys and the level of complaints and each country Managing Director takes personal responsibility for monitoring and improving customer satisfaction scores. Each month we distribute over 35,000 surveys and we receive over 6,000 replies. Of those returned, some 80% are received back in less than three days, enabling us to pass comments on to the relevant business area for appropriate action with minimal delay. In addition, Avis UK operates a 'We try harder.' blog, enabling customers to have an on-line dialogue with our marketing and customer service departments in the UK to continually review and improve the services we provide.

Our four key measures of customer satisfaction remain:

- overall satisfaction;
- willingness of customers to recommend Avis (Net Promoter Score™);
- customer complaints; and
- perception of station performance.

In 2008 we held "overall satisfaction levels" stable. This measure reflects customer satisfaction "overall with the rental experience". The net promoter score, which measures the willingness to recommend Avis to a friend, improved again, by 1%. The percentage of customer invoices which were adjusted in 2008 continued to reduce. The station performance score, which records the overall efficiency of the running of a station, improved by a further 1% against last year, primarily driven by greater satisfaction with the car pick-up service, following the introduction of the "3-minute promise".

We also focussed our efforts on building on the progress made in differentiating the brand and making the rental process faster, simpler and clearer for customers. During the year we increased further the number of people signing up to the Avis Preferred service, underlining the improving trend in customer satisfaction and loyalty. Avis Preferred sign-ups increased by 18%, while the number of active Avis Preferred customers increased by 15%.

For Avis Preferred customers we continued the roll-out of our "3-minute promise" programme. Under this programme we guarantee customers their keys and rental agreement within three minutes of entering the service station. If we fail, the customer receives a retail voucher for €30. The "3-minute promise" is now available in France, Germany, Spain, UK, Portugal, Switzerland, Belgium, Netherlands and Poland, and is providing real differentiation in the market place. Approximately 75% of all Avis Preferred rentals within Europe now take place at a 3-minute location.

We achieved the ISO 10002 – CMSAS 86:2000 standard for Quality Management Customer Satisfaction – Complaint Handling and were re-accredited at the beginning of 2008. The standard covers all our European offices and demonstrates that we follow best practice in all aspects of complaint management and continual improvement of performance. During 2008 Avis Germany was awarded the "Best Car Rental Company 2008" by the German Institute for Service Quality (DISQ GmbH & Co. KG).

Awards remain a strong indication of how we are seen by our customers. Our achievements in 2008 included the following: British Travel Awards, Car hire company of the year 2008; British Travel Awards, Best leisure car hire company 2008; British Travel Awards, Best business car hire company 2008; World Travel Awards, Asia's leading car hire company 2008; Leading car rental provider in Middle East 2008, Business Traveller Magazine; and Britain's most trusted brand 2008, car hire sector – UK Readers Digest.

We achieved solid customer satisfaction scores, despite reducing staff numbers.

Our four key measures of customer satisfaction

- **Overall satisfaction**
- **Willingness of customers to recommend Avis (Net Promoter Score™)**
- **Customer complaints**
- **Perception of station performance**

Working hard to offset our impacts

Board of Directors

Executive Directors

Pascal Bazin (52)
Appointed to the Board 1 January 2008
Chief Executive (since January 2008)
He joined Avis France as President in 2005 from Redcats, the third largest home shopping Group worldwide, where he was CEO of the Redcats specialised brands division and Senior Vice President of Group Strategy/ Development. His previous appointments include Chief Executive Officer of a number of international divisions of the cosmetic group, Yves Rocher. He began his career in 1980 with management consulting firm Peat Marwick Mitchell, after graduating from Polytechnique school in Paris.

Jean-Pierre Bizet (60)
Appointed to the Board 29 October 2002
Executive Deputy Chairman (since May 2004)
He was appointed a non-executive Director of the Board in October 2002, and became Executive Deputy Chairman in May 2004. In May 2005 he was appointed Chief Executive Officer of s.a. D'Ieteren n.v., and he is also a Director of Belron s.a.

Martyn Smith (53)
Appointed to the Board 11 September 2002
Group Finance Director (since September 2002)
He joined Avis Europe from John Menzies plc where he held the position of Group Finance Director from 1999. Prior to joining Menzies, he was Group Financial Controller for Inchcape plc, and previously held a number of financial roles with Inchcape plc and Rothmans International.

Non-executive Directors

Alun Cathcart (65) #†
Appointed to the Board 3 February 1997
Chairman (since May 2004)
Chairman of the Nominations Committee
Until 1 January 1999 he was Chairman and Chief Executive of Avis Europe plc and served as Interim Chief Executive from November 2003 until March 2004. He spent 14 years in executive positions in the transportation industry before joining Avis Europe in 1980, and became Chief Executive in 1983. He is Chairman of Palletways Group Limited.

Les Cullen (57) *#†
Appointed to the Board 25 May 2004
Chairman of the Audit Committee
He has held successive appointments as Group Finance Director of STC plc, De La Rue plc, Goodman Fielder Ltd, Inchcape plc and Prudential plc, having previously held senior financial roles with Black & Decker and GrandMet. During the last few years, he has also been Chairman of a number of private equity-backed companies. He is a non-executive Director and Chairman of the Audit Committees of Interserve plc, F&C Global Smaller Companies plc and BT Pension Scheme Trustees Ltd. He is also a trustee of the charity Sustrans Ltd.

Roland D'Ieteren (67) #†
Appointed to the Board 3 February 1997
Since May 2005 he has been Chairman of s.a. D'Ieteren n.v., having previously been President and Chief Executive Officer since 1975. He joined s.a. D'Ieteren n.v. in 1971. He is a non-executive Director of Belron s.a.

Benoit Ghiot (39)
Appointed to the Board 15 December 2004
He is Chief Financial Officer of s.a. D'Ieteren n.v., having joined the Company in 2002, and is also a member of the Board of Directors of Belron s.a. Prior to joining the D'Ieteren group, he was Group Controller and Strategic Planning Director with the Belgian retail group GIB.

Axel von Ruedorffer (67) *#†
Appointed to the Board 27 June 2001
From 1984 to 2002 he was a member of the Board of Managing Directors of Commerzbank AG, having joined the bank in 1967 and was responsible for Accounting and Taxes, Compliance, Financial Control and Internal Auditing. He is a non-executive Director of a number of companies, including Stiebel Eltron Group and some financial institutions.

Pierre Alain De Smedt (64) *#†
Appointed to the Board 1 February 2007
Chairman of the Remuneration Committee (since May 2008)
He is Chairman of Febiac npa (Belgian Automobile Association). He was with Volkswagen for 25 years, managing operations in Belgium and South America and was appointed Chairman of Volkswagen's Spanish SEAT business in 1997. He moved to Renault for five years, becoming Deputy Director General for Renault Groupe SA. He currently holds a number of directorships with Belgacom, CNP, Deceuninck, Valeo and Alcopa.

* Member of the Audit Committee
\# Member of the Nominations Committee
† Member of the Remuneration Committee

Corporate governance

Code principles

Introduction

This report describes how the corporate governance principles set out in the Combined Code are applied by the Company. The role of the Board is collectively to provide clear and effective leadership of the Company by setting strategic objectives and providing the highest values and standards for the conduct of the Company's business. The Board is also responsible for ensuring that sufficient resources are available to achieve the Company's objectives, for ongoing review of management performance and for ensuring that a framework of prudent and effective controls is in place to enable risks to be properly assessed and managed.

Board of Directors

The Directors of the Company during the period 1 January 2008 to 3 March 2009 are listed below:

Pascal Bazin (appointed 1 January 2008)
Jean-Pierre Bizet
Alun Cathcart (Chairman)
Lesley Colyer (retired 4 July 2008)
Les Cullen
Roland D'Ieteren
Benoit Ghiot
Gilbert van Marcke de Lummen (retired 28 May 2008)
Malcolm Miller (resigned 28 May 2008)
Simon Palethorpe (resigned 21 November 2008)
Dr Axel von Ruedorffer
Pierre Alain De Smedt
Martyn Smith

On 1 January 2008, Pascal Bazin was appointed Chief Executive. On 28 May 2008 Gilbert van Marcke de Lummen retired from the Board and Malcolm Miller resigned as a non-executive Director of the Company. On 4 July 2008, Lesley Colyer retired as Group HR and Corporate Affairs Director and stood down from the Board. On 21 November 2008 Simon Palethorpe resigned as Group Commercial Director and stood down from the Board.

Beniot Ghiot, Axel von Ruedorffer and Martyn Smith will retire by rotation at the forthcoming Annual General Meeting and, being eligible, will stand for re-election.

As at 3 March 2009, the Board of Directors comprises the Chairman, three executive Directors and a further five non-executive Directors. The non-executive Directors include three Directors who have no other association with Avis Europe plc and are therefore regarded as independent, being Les Cullen, Axel von Ruedorffer and Pierre Alain De Smedt. A further two of the non-executive Directors, Roland D'Ieteren and Benoit Ghiot, in addition to one executive Director, Jean-Pierre Bizet, are appointed by s.a. D'Ieteren n.v. which has a shareholding of 59.6% in the Company. The obligations of the Directors appointed by s.a. D'Ieteren n.v., and of s.a. D'Ieteren n.v. as a shareholder, are set out in a Relationship Agreement entered into at flotation in 1997. These include an obligation for the D'Ieteren-appointed Directors to exercise their voting rights so as to maintain the independence of the Board as required by the Listing Rules, thus ensuring that all Directors take decisions objectively in the interests of the Company. Since 1998 the Board has adopted a policy that, notwithstanding the provisions of the Articles of Association, all Directors should stand for election at the first Annual General Meeting following their appointment and re-election at least every three years thereafter.

The Company considers that the non-executive component of the Board helps to provide an effective Board with a strong mix of industry-specific knowledge and general commercial experience. This balance enables the Board to bring informed and independent judgment to all aspects of the Company's strategic development and performance. The role of the non-executive Directors is viewed as especially important in reviewing business strategy and assisting the Board in the development of strategy. The non-executive Directors also review and monitor the Company's financial controls and risk management systems. The non-executive Directors have a key role in scrutinising management performance and the Company's system for monitoring and reporting performance. They also have responsibility for determining appropriate remuneration levels and succession planning for the executive Directors. The Chairman meets with the non-executive Directors at least annually in order to facilitate the non-executive Directors' contribution to the Board. The Company did not have a nominated Senior Independent Director during the period to 3 March 2009 but continues to keep this requirement under review.

The Board meets a minimum of six times each year and more frequently when business needs require. There was one additional Board meeting in 2008, as well as six scheduled meetings and two scheduled conference calls. All Directors attended all Board meetings, except that Lesley Colyer and Jean-Pierre Bizet each missed one meeting. The Chairman of each of the Nominations Committee, Remuneration Committee and Audit Committee attended the 2008 Annual General Meeting and were available to answer shareholders' questions during and after the meeting.

The roles of Chairman and Chief Executive are separate and their respective responsibilities are defined in writing and approved by the Board. The Chairman's key areas of activity are the leadership of the Board, including setting its agenda, ensuring that it receives clear, accurate and timely information and facilitating the contribution of the non-executive Directors. The Chairman is responsible for strategy, in particular for ensuring that effective plans are developed for the short-term and long-term development of the Group. In co-ordination with the Chief Executive, the Chairman is responsible for encouraging close and effective working relationships between all levels of operating country, licensee and Group level management. The Chairman is also responsible for corporate governance and for ensuring that the Company maintains effective communication with its shareholders and other stakeholders. The Chairman also chairs the Nominations Committee and has responsibility for ensuring that the Board evaluation processes are carried out and their results acted upon.

To enable the Board to function effectively, full and timely access is given to all relevant information. The Board retains powers of decision on all matters of strategy, together with all significant commercial issues, including acquisitions and investments and capital expenditure in excess of a specified level. The Company Secretary is responsible for ensuring that Board procedures are followed and for advising the Board, through the Chairman, on all matters of governance. All Directors have access to the Company Secretary whenever they require. In the event that any Director wishes to take independent professional advice on any point arising in connection with the exercise of their duties, in accordance with written procedure the Company Secretary will arrange this at the Company's expense. The Company Secretary may only be removed by a resolution of the Board of Directors.

Details of all Directors' remuneration and service contracts are set out in the Remuneration Report on pages 34 to 42.

Corporate governance continued

Board Committees
The Board Committees in place during 2008 were the Nominations Committee, the Remuneration Committee and the Audit Committee. Each Committee reviews its terms of reference and its effectiveness annually and recommends to the Board any changes required as a result of such review. The terms of reference of each Committee are available on the Company's website at www.avis-europe.com.

The Nominations Committee ensures that the Company has a formal, rigorous and transparent procedure for the appointment of new Directors. The Committee periodically reviews the structure and composition of the Board to ensure the required blend of skills and experience appropriate to the Company's needs. It sets objective criteria in recommending appointees to the Board, including being satisfied that appointees have sufficient time available to devote to the role, especially for chairmanships. The Committee is also responsible for ensuring that induction and training requirements are met both for new Directors and for the Board as a whole to ensure that Directors regularly update their skills and knowledge, including their knowledge of developments in the Company's business. The Committee carries out reviews of the succession plans for the Board and for senior executives across the Group to ensure that continuing management capability is available to match the development needs of the business.

During 2008, the Nominations Committee approved a number of changes to the structure and composition of the senior management team at the centre and in various business units in order to support the business needs of the Group going forward.

The members of the Nominations Committee as at 1 January 2008 were Alun Cathcart (Chairman), Les Cullen, Roland D'Ieteren, Malcolm Miller, Axel von Ruedorffer and Pierre Alain De Smedt. Malcolm Miller resigned from the Committee on 28 May 2008. There were no other changes to the composition of the Nominations Committee between 1 January 2008 and 3 March 2009. As recommended by the Combined Code, the membership of the Committee comprises a majority of independent non-executive Directors.

The Nominations Committee met five times during 2008 and all members attended all meetings.

The Remuneration Committee determines broad policy on senior executive remuneration and terms of service and approves specific terms of appointment for the Chairman, executive Directors and senior management. The Committee is also responsible for the structuring and allocation of the Group's share incentive schemes, including the setting of appropriate performance targets. Details of the advisers used by the Committee during 2008 are set out in the Remuneration Report on page 35.

In setting policy, the Committee ensures that appropriate incentives are provided to attract, retain and motivate executives of the appropriate calibre, to encourage performance and, in a fair and responsible manner, to reward individual contributions to the Group. The Committee takes account of market practice, the Group's position relative to other companies and the pay and employment conditions of other Group employees. The Committee consults with the Chairman and/or Chief Executive, as appropriate, when determining the individual remuneration package of each executive Director. However, no Director is involved in deciding his/her own remuneration. The Committee reviews the terms of the executive Directors' service contracts, particularly with regard to notice periods, termination payments and compensation commitments in the event of early termination. The activities of the Committee during the year are described in the Remuneration Report on pages 34 and 35.

The members of the Remuneration Committee as at 1 January 2008 were Malcolm Miller (Chairman 1 January 2008 – 28 May 2008), Alun Cathcart, Les Cullen, Roland D'Ieteren and Axel von Ruedorffer. Pierre Alain De Smedt became a member of the Remuneration Committee with effect from 27 February 2008. Malcolm Miller resigned from chairmanship and membership of the Committee on 28 May 2008, and was replaced as Chairman by Pierre Alain De Smedt with effect from 29 May 2008. There were no other changes to the composition of the Remuneration Committee between 1 January 2008 and 3 March 2009. The Company recognises that Roland D'Ieteren is not regarded as an independent non-executive Director but considers it essential that s.a. D'Ieteren n.v., as the majority shareholder of the Company, is represented on the Committee. As Chairman of s.a. D'Ieteren n.v., Roland D'Ieteren abstains from discussion and voting on the remuneration of any Directors appointed by s.a. D'Ieteren n.v. pursuant to the Relationship Agreement referred to above.

The Remuneration Committee held four scheduled meetings and two additional meetings during 2008. All Directors attended all meetings, except that Les Cullen missed one additional meeting due to a prior commitment.

The Remuneration Report to shareholders appears on pages 34 to 42.

The Audit Committee assists the Board by ensuring that the Company presents a balanced and understandable assessment of its position with regard to financial reporting, including interim, preliminary and other formal announcements relating to the Group's financial performance.

Under its terms of reference, the Audit Committee monitors the integrity of the Group's financial statements and the effectiveness and independence of the external audit process. It is responsible for ensuring that an appropriate relationship between the Group and the external auditors is maintained, including reviewing non-audit services and fees. It reviews the effectiveness of the system of internal control through a number of processes, as set out under the Internal control and risk management section below. This includes an annual review of the Group's system of internal control and the processes for monitoring and evaluating risks facing the Group. The Committee reviews the effectiveness of the internal audit and risk management function and is responsible for approving, upon the recommendation of the Group Finance Director, the appointment and termination of the Director of that function.

The Chairman of the Audit Committee provides a report to the Board after every Audit Committee meeting. In satisfying itself that sufficient and appropriate work has been performed, the Board as a whole considers the adequacy and scope of the reports it has received from the Audit Committee along with corroborative evidence where necessary.

In 2008 the Audit Committee discharged its responsibilities by:

- reviewing prior to Board approval, the Group's draft annual financial statements, interim results statement, interim management statements, internal control report and the external auditor's report;

- considering, prior to release, any trading updates;

- reviewing regularly the appropriateness of the Group's accounting policies and their compliance with appropriate International Financial Reporting Standards;

- receiving and considering a report on the Group's systems of internal control and their effectiveness, reporting to the Board on the results of the review and receiving regular updates on key risk areas of financial control;
- examining reports on Group-wide risk matters and assessing the effectiveness of the Group's risk management system;
- reviewing the internal audit and risk management function's terms of reference and its proposed annual audit programme, and receiving regular progress reports on its work;
- assessing the effectiveness of the internal audit and risk management function together with their resources and standing in the Group;
- reviewing the effectiveness of whistleblowing arrangements;
- considering and approving the audit fee and reviewing non-audit fees payable to the Group's external auditors during the year;
- appraising the external auditor's plan for the audit of the Group's Financial Statements, including key areas of scope and key areas of risk;
- assessing external auditors' effectiveness and independence, and making recommendations to the Board regarding their reappointment; and
- conducting the annual review of the Audit Committee's terms of reference and effectiveness.

The members of the Audit Committee as at 1 January 2008 were Les Cullen (Chairman), Malcolm Miller, Axel von Ruedorffer and Pierre Alain De Smedt. Malcolm Miller resigned from the Committee on 28 May 2008. There were no other changes to the composition of the Committee between 1 January 2008 and 3 March 2009. As recommended by the Combined Code, all the members of the Committee are independent non-executive Directors.

The Audit Committee met four times in 2008 and all members attended all meetings except that Pierre Alain De Smedt was unable to attend one meeting. The Committee meets with executive Directors and senior management, as well as privately with both the external and internal auditors.

Board evaluation

During 2008 the Board carried out a formal evaluation process which is designed to provide a rigorous annual evaluation of the Board's own performance and that of its Committees. The evaluation process assesses the effectiveness of Board and Committee processes to provide a basis for feedback and development where required. As noted above, the Chairman has responsibility for the evaluation process and for taking any appropriate action based on the results of the evaluation.

The evaluation processes for Board performance are conducted via a set of structured questionnaires which ask each Board/Committee member to comment on a range of factors which contribute to the effectiveness of the Board or the relevant Committee. The results are reviewed by the Chairman and relevant feedback is provided to the Board and each Committee.

Directors' interests

Details of Directors' interests in the share capital of the Company are set out below and in the Remuneration Report.

Jean-Pierre Bizet and Benoit Ghiot are Directors of D'Ieteren Car Rental s.a., an indirectly wholly-owned subsidiary of s.a. D'Ieteren n.v., which held 548,586,255 ordinary shares of 1p each in the capital of the Company as at 31 December 2008. Details of significant contracts entered into with s.a. D'Ieteren n.v. are disclosed below. There have been no changes in the above Directors' interests between 31 December 2008 and 3 March 2009.

Except as noted above, none of the Directors had any interests in the shares of the Company or in any material contract or arrangement with the Company or any of its subsidiary undertakings.

Conflicts of interest

At the Company's Annual General Meeting in 2008, the Company's Articles of Association were amended following implementation of the relevant provisions of the Companies Act 2006 to permit the Board of Directors to authorise a conflict of interest or potential conflict of interest notified by a Director provided that the Board considers this to be in the best interests of the Company.

Each of the Directors reviewed their individual positions prior to the implementation date for the new legislation of 1 October 2008 and the Board authorised a number of pre-existing potential conflicts of interest notified to it as a result. The company has put procedures in place via the Company Secretary whereby the Directors can notify any future conflicts or potential conflicts of interest that may arise so that the Board can consider whether authorisation is appropriate.

Share capital

The last Annual General Meeting authorised the Company to purchase up to 92,052,404 of its own ordinary shares. This authority will expire, and is due to be renewed, at the next Annual General Meeting. The Company made no purchases of its own shares during 2008 pursuant to this authority. Details of the share capital of the Company are set out in Note 30 to the Consolidated Financial Statements.

Substantial shareholdings

At 3 March 2009, the Company had been advised of the following notifiable interests in its issued ordinary share capital:

	% of issued share capital
D'Ieteren Car Rental s.a.	59.59
Franklin Templeton Investments Corp	5.20
Odey Asset Management LLP	3.32

As noted above, an agreement governing the relationship between s.a. D'Ieteren n.v. and the Company was entered into in connection with the Company's flotation 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 D'Ieteren Group on an arm's length basis with respect to the purchase and sale of vehicles and the provision of finance. Further details of these transactions are set out in Note 43 to the Consolidated Financial Statements.

Corporate governance continued

As recommended by the Combined Code the Company carries directors' and officers' liability insurance which is arranged under an umbrella policy effected by s.a. D'Ieteren n.v. The Company has entered into indemnities to the extent permitted by English law, indemnifying the Directors against claims brought against them.

Shareholder relations
The Board as a whole is responsible for maintaining regular dialogue with shareholders. The Chief Executive and Group Finance Director make presentations to institutional shareholders following the announcement of the interim and preliminary results each year, and are actively involved in an investor relations programme during the rest of the year. The Chairman is also responsible for maintaining a channel through which shareholders can express their views, and for communicating any shareholder issues or concerns to the Board as a whole.

The Chief Executive makes a presentation at the Annual General Meeting highlighting key business developments during the year. All shareholders have the opportunity to put questions at the meeting or leave written questions, which will be answered in writing as soon as possible afterwards. A copy of the Chief Executive's presentation may be requested at the Annual General Meeting or from the Investor Relations Department. The Company's website at www.avis-europe.com provides current and historical information about the Group.

Health and safety at work
The Group has a health and safety policy approved by the Board. The Chief Executive is responsible for oversight of Group policy and each operating unit has a nominated member of senior management who has overall responsibility for setting goals and performance targets. Consistent measures of performance are reported on a quarterly basis, and include work-related accidents and ill health, health and safety training and risk assessment activities.

Charitable and political donations
During the year, the Group made charitable donations totalling €29,000; £23,000 (2007: €52,000; £35,000). The Group made no political donations during the year (2007: nil).

Payments to creditors
Given the number of countries in which the Group operates it is practice to agree the terms of payment at the start of business with each supplier and to pay in accordance with contractual and other legal obligations. The Company had no trade creditors at 31 December 2008 (2007: nil). At 31 December 2008 the number of creditor days outstanding for the Company was nil (2007: nil).

Auditors
The Audit Committee regularly monitors the non-audit services being provided to the Group by its external auditors, and has developed a formal independence policy to help ensure that there is no impairment to their independence or objectivity. The principles that underpin the provision of non-audit services by the external auditors are that the auditor should not: enter into arrangements with the Group which could compromise their independence as auditors; audit its own firm's work; make management decisions for the Group; have a mutuality of financial interest with the Group (e.g. success fees) or provide legal and expert services to the Group in judicial or regulatory proceedings. Some types of service are proscribed while others that might be perceived to be in conflict with the role of the external auditor must be submitted to the Audit Committee for approval prior to engagement, regardless of the fees involved.

The Audit Committee reviews all services being provided by the external auditors quarterly in order to consider the independence and objectivity of the external auditors, taking into account relevant professional and regulatory requirements, so that these are not impaired by the provision of permissible non-audit services.

PricewaterhouseCoopers LLP were engaged by the Group for certain non-audit activities, the fees for which are set out in Note 4 to the Consolidated Financial Statements. The nature and materiality of this work has been reviewed by the Audit Committee which is satisfied that there has been no conflict with the need for audit independence and objectivity.

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

Internal control and risk management
The Directors have continued to review the effectiveness of the Group's system of controls, including operational and compliance controls, risk management and the Group's internal control arrangements. Such a system is designed to manage, rather than eliminate, the risk of failure to achieve business objectives, and can only provide reasonable, and not absolute, assurance against material misstatement or loss. These reviews have included an assessment of both financial and operational internal controls by the Group's internal audit and risk management function, management assurance of the maintenance of control, and reports from the external auditor on matters identified in the course of its statutory audit work. A key part of the Group's own internal control review is a declaration and annual certification process at the half year and year end by which the managers responsible confirm the adequacy of their systems of internal financial control, their compliance with Group policies, local laws and regulations and are also required to report any breakdown in control or occurrence of fraud that has come to light. The Group has procedures in place which incorporate the recommendations on internal control: guidance for directors on the Combined Code (Turnbull).

Internal control environment
The Directors are responsible for the system of internal control and for regularly reviewing its effectiveness.

The system of internal control includes but is not limited to:

- clear definition of the organisation structure and the appropriate delegation of authorities to management;
- maintenance of appropriate segregation of duties together with other procedural controls;
- strategic planning and the related annual budgeting and regular review process;
- monthly reporting and review of financial results and key performance statistics;
- adoption of accounting policies to help ensure the consistency, integrity and accuracy of the Group's financial records;
- specific treasury policies and the regular reporting and review of all significant treasury transactions and financing activities;
- procedures for the authorisation of capital expenditure;

- internal audit reviews and a schedule of annual finance reviews for all corporate businesses covering material local assets and liabilities; and
- clearly defined Group policies and business standards, including the code of conduct, competition policy and covering key business areas.

The Audit Committee has reviewed the effectiveness of the system of internal control through the following processes:

- review of internal and external audit plans;
- review of any significant reported unsatisfactory control matters;
- consideration of individual internal audit reports by the Chairman of the Committee;
- collective review of any control issues that arise from internal and external audits together with any additional matters brought to its attention;
- review of any significant risks identified by the Group's risk management process; and
- discussions with management on any significant new risk areas identified by management and the internal and external audit processes.

The Audit Committee has conducted a formal assessment of the effectiveness of the system of internal control through the review of an updated Internal Control Systems document prepared by the Group's internal audit function. The document includes comprehensive descriptions of the risk management processes and controls environment, which together enable the Audit Committee to apply a structured approach to their review.

The Board, with advice from the Audit Committee, has completed its annual review of the effectiveness of the embedded system of internal control in accordance with the guidance of the Turnbull Report for the period since 1 January 2008 and is satisfied that this review is in accordance with that guidance.

Assessment of business risk

The Group views the active management of risk as a key management process and recognises that managing business risk to deliver opportunities is critical to the strategic development of the business. It is ensured that such business risks, covering strategic, operational, reputational, financial and environmental risks, are both understood and visible as far as practicable. The Group's policy is to ensure that risk is taken on an informed rather than unintentional basis.

The Group's work in the area of risk management in 2008 was overseen by the Avis Executive Board, membership of which comprises heads of key business functions and of main corporate country operations and is chaired by the Chief Executive.

The Group has a risk management framework which aims to ensure that the business understands the key risks it faces and has an embedded risk management approach to its activities; links risk management to business performance reporting and seeks improvement in the management of risk by sharing best practice throughout the organisation. The Group conducts an annual risk review across all operating units and updates its centrally held risk register with each risk's impact, probability and mitigation actions. This approach forms the cornerstone of the risk management activities of the Group, the aim of which is to provide the Board with the assurance that the major risks facing the Group have been identified and assessed, and that there are controls either in place or planned to manage these risks.

A summary of the principal risks facing the Group has been reviewed and approved by the Audit Committee and is provided in the Principal risks and uncertainties section of the Business Review on pages 16 to 18.

Internal audit

Avis Europe has an internal audit and risk management function, which is independent of the Group's external auditors and which works in partnership with an outsourced provider, where specialist skills are required. The Audit Committee ensures that this function is appropriately staffed and that its scope of work is adequate in the light of the key identified risks facing the Group and the other monitoring functions in place. It also reviews and approves an annual internal audit plan and considers responses to an effectiveness questionnaire.

The role of internal audit is to:

- assess the design and operating effectiveness of controls governing key operational processes and business risks;
- provide the Board with an assessment, independent of management, as to the adequacy of the Group's internal operating and financial controls, systems and practices;
- assist the Board in meeting its corporate governance and regulatory responsibilities; and
- provide advisory services to management in order to enhance the control environment and improve business performance.

Whistleblowing arrangements

During the year, a Group-wide framework was in place enabling employees to raise any concerns. The arrangements are regularly reviewed by the Audit Committee and re-communicated periodically by management to ensure their continuing effectiveness. The process has been communicated to all employees across the Group and policy and procedures have been issued to management of all operating units providing guidance on how they are expected to respond. Matters can be raised anonymously, and employees are assured that they will have protection under the policy.

Corporate governance statement

The Board of Directors confirm that the Company has complied throughout the financial year with the majority of the provisions set out in Section 1 of the Combined Code, except that the Company did not comply throughout the financial year with the following provisions: (1) the requirement that independent non-executive Directors (excluding the Chairman) should comprise not less than 50% of the Board; (2) the requirement that the Remuneration Committee should comprise the Chairman together with independent non-executive Directors; and (3) the requirement that a Senior Independent Director be nominated. The reasons for non-compliance in each of the relevant areas are explained within the review of the Company's application of the principles of the Combined Code set out above. In the areas of non-compliance the Directors believe that current policy is in the best interests of the Company.

Statement of Directors' responsibilities

The Directors are responsible for preparing the Annual Report, the Remuneration Report and the Parent Company Financial Statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare Financial Statements for each financial year. Under that law the Directors have prepared the Consolidated Financial Statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union, and the Parent Company Financial Statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice). The Consolidated and Parent Company Financial Statements are required by law to give a true and fair view of the state of affairs of the Company and the Group and of the profit or loss of the Group for that year.

In preparing those Financial Statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently; new accounting standards adopted in the year are set out in the Significant Accounting policies section of the Consolidated Financial Statements on pages 49 to 55;
- make judgments and estimates that are reasonable and prudent;
- state that the Consolidated Financial Statements comply with IFRSs as adopted by the European Union, and with regard to the Parent Company Financial Statements that applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the Financial Statements; and
- prepare the Consolidated and Parent Company Financial Statements on the going concern basis unless it is inappropriate to presume that the Group will continue in business, in which case there should be supporting assumptions or qualifications as necessary.

The Directors confirm that they have complied with the above requirements in preparing the Financial Statements.

The Directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Company and the Group and to enable them to ensure that the Consolidated Financial Statements and Remuneration Report comply with the Companies Act 1985 and Article 4 of the IAS Regulation and the Parent Company Financial Statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of 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.

Remuneration report

This report has been prepared in accordance with the Directors' Remuneration Report Regulations 2002 and the relevant requirements of the Listing Rules of the UK Listing Authority. The Board has given full consideration to the best practice provisions on Directors' remuneration as set out in the Combined Code. As required by the Directors' Remuneration Report Regulations, a resolution to approve the Remuneration Report will be proposed at the forthcoming Annual General Meeting of the Company at which the Financial Statements will be approved.

Part 1 of this report sets out the Group's policy on executive remuneration and explains the various elements of the Directors' remuneration packages. Part 2 of this report, which contains the information on which auditors are required to report to the Company's shareholders, sets out details of Directors' earnings and pension entitlements and fees paid to non-executive Directors in 2008. Directors' interests in shares, share incentive awards and share options, all of which are beneficial except as noted, are set out on pages 40 to 42.

Changes to the Board of Avis Europe plc

Details of changes to the Board in the period under review are set out on page 29 of the Corporate Governance report.

On 1 January 2008, Pascal Bazin was appointed Chief Executive. On 4 July 2008, Lesley Colyer retired as Group HR and Corporate Affairs Director and stood down from the Board. On 21 November 2008 Simon Palethorpe resigned as Group Commercial Director and stood down from the Board.

Part 1 (Unaudited)

Remuneration Committee

Scope

The Remuneration Committee is responsible for developing policy on remuneration for executive Directors and senior management and for determining specific remuneration packages for executive Directors and members of the Avis Executive Board (AEB). The Committee is constituted under terms of reference laid down by the Board. These terms are designed to enable the Company to comply with the requirements relating to remuneration policy contained in the Combined Code.

The full terms of reference are set out on the Company's website: www.avis-europe.com and are available upon request.

During 2008, the Remuneration Committee's activities included:

- setting remuneration for new appointments to the AEB;
- a further grant of awards under the Long Term Incentive Plan; and
- approval of departure terms for Lesley Colyer, Simon Palethorpe and former members of the AEB.

Membership
The Remuneration Committee is comprised of non-executive Directors. Members during the period 1 January 2008 to 3 March 2009 are listed below:

- Pierre Alain De Smedt (Chairman from 29 May 2008; appointed to the Committee 27 February 2008)
- Alun Cathcart
- Les Cullen
- Roland D'Ieteren
- Malcolm Miller (Chairman 1 January 2008 – 28 May 2008; resigned from the Committee 28 May 2008)
- Dr Axel von Ruedorffer

The Remuneration Committee is comprised of the Chairman of the Board and four non-executive Directors. All the non-executive Directors on the Committee are regarded as independent, with the exception of Roland D'Ieteren, as explained on page 30 of the Corporate Governance report. The Committee met six times during the year and each member's attendance at these meetings is shown in the Corporate Governance report on page 30.

Advisers
During the period under review the Chief Executive, the Group HR and Corporate Affairs Director (until her retirement on 4 July 2008) and thereafter the Group HR Director attended meetings by invitation and provided advice to the Committee to help it make informed decisions on matters relating to Directors' performance and remuneration. No Director was present when his or her own remuneration was being discussed. External advice was received from Freshfields Bruckhaus Deringer (share scheme rules) and Kepler Associates (executive remuneration). All advisers were appointed by the Company. Other than described above, no additional services were provided by the external advisers during the year.

Remuneration policy
Introduction
The Group's policy relating to the remuneration and benefits of executive and non-executive Directors is reviewed periodically. The executive remuneration policy for 2009 is designed to attract, retain and motivate to ensure that the Company secures the appropriate competencies and experience the Group needs to meet its objectives and satisfy shareholder expectations. In general, in determining its policy, the Remuneration Committee takes account of market practice, the Group's position relative to other companies and the pay and employment conditions of other Group employees.

In 2008 executive salaries were frozen as part of a three-year programme implemented for 2006 – 2008 inclusive. Directors and members of the AEB received an annual incentive opportunity of up to 100% of salary and received a further grant under the Long Term Incentive Plan introduced in 2007 and described below.

For 2009 executive salaries were again frozen and the AEB was given an annual incentive opportunity of up to 100% of salary linked to targets which will reflect the key challenges of the business.

Summary of executive Directors' potential direct remuneration
The Remuneration Committee believes that shareholder interests are best served by remuneration packages that have a large component of performance related pay. For 2009 the relationship between fixed and variable remuneration for achievement of maximum performance for the Chief Executive is 35% fixed, 65% variable, and for the Group Finance Director is 40% fixed and 60% variable. The variable element comprises the annual incentive scheme and an award under the Long Term Incentive Plan. The Deputy Chairman, who is also an executive Director, has a service contract with an annual fee only.

Salary
The general policy on base salary is to benchmark using general market external surveys against the median of similar sized companies relevant to the appropriate marketplace. In considering whether to make any increase to base salaries, the Remuneration Committee takes into account the performance of individual executives and the general increases for employees across the Group. The next benchmarking exercise will be undertaken in 2009.

Annual incentive bonus
Annual incentive bonus plans for executive Directors and key senior management are based on achievement of targets approved by the Remuneration Committee and related directly to the annual profit plan approved by the Board. Targets and performance measures are quantitative and there is a financial threshold below which no bonus payment is made.

In 2009, 90% of the bonus is based on stretching financial targets and 10% on achievement of quantitative individual objectives.

The base salary, bonus payments and value of benefits in kind for each Director are set out in the Directors' emoluments table on page 39. Bonus payments, benefits in kind and cash allowances do not form part of pensionable earnings for Directors.

Share incentive policy
The Remuneration Committee sets policy with regard to share incentives with the objective of aligning incentive plans with the Group's medium-term plan and shareholders' interests.

Shareholding guidelines implemented in 2005 require executive Directors to build up their personal holdings of shares in the Company. The guidelines are 150% of salary for the Chief Executive and 100% of salary for other executive Directors. The Remuneration Committee requires executives to retain 50% of any vested shares (net of tax and exercise costs) arising from any share or option plan until the shareholding requirement is achieved.

Outstanding share plans
Outstanding share plans are as follows: Long Term Incentive Plan (last award 2008); Performance Share Plan (last award April 2004) and Share Option Schemes (last award April 2004). A description of each of these plans is set out below. The assessment of whether performance conditions have been met is verified by the Remuneration Committee at the time of vesting.

Individual Directors' share incentive awards are set out on pages 41 and 42.

Long Term Incentive Plan
The Long Term Incentive Plan comprises conditional awards which take the form of nil cost options to acquire ordinary shares in the Company, and was

Remuneration report continued

introduced by the Remuneration Committee in 2007. Awards vest three years after grant, providing certain performance conditions are met. It is intended that there will be annual grants of awards under this Plan.

The performance conditions required for vesting purposes are based 50% on the Group's three-year growth in earnings per share (EPS) and 50% on return on capital employed (ROCE). If one or both of the performance targets are not met at the end of the performance period, 50% or 100% (as appropriate) of the award will lapse immediately.

The performance targets for awards granted under the Plan in 2007 are set out below:

EPS tranche of Award

Percentage growth in EPS	Percentage of award that vests
Less than RPI + 20% per annum	None
RPI + 20% per annum	20%
RPI + 40% per annum	100%
Between 20% and 40% per annum above RPI	Straight-line basis between 20% and 100%

ROCE tranche of Award

Percentage ROCE achieved	Percentage of award that vests
Less than 10%	None
10%	20%
12.5%	100%
Between 10% and 12.5%	Straight-line basis between 20% and 100%

The performance targets for awards granted under the Plan in 2008 are set out below:

EPS tranche of Award

Percentage growth in EPS	Percentage of award that vests
Less than 14.9% per annum	None
14.9% per annum	20%
23.0% per annum	100%
Between 14.9% and 23.0% per annum	Straight-line basis between 20% and 100%

ROCE tranche of Award

Percentage ROCE achieved	Percentage of award that vests
Less than 9.2%	None
9.2%	20%
9.6%	100%
Between 9.2% and 9.6%	Straight-line basis between 20% and 100%

EPS is calculated on an underlying basis i.e. excluding exceptional items, certain re-measurement items and economic hedge items. However, the Remuneration Committee has discretion to adjust for exceptional items it deems to be within management control, if appropriate, to ensure the outcome is fair to both shareholders and executives. The basis of the ROCE calculation is included in Note 27 to the Consolidated Financial Statements.

The two measures of EPS and ROCE are considered by the Remuneration Committee to be the most relevant all-encompassing long-term performance measures for Avis Europe in that the ultimate aim of the business of the Group is to achieve a good economic return on renting its fleet of vehicles. The fleet represents the substantial majority of capital employed, and the Remuneration Committee wishes management to be focussed on improving the return the Company achieves on this capital. Management will focus on the key drivers of ROCE - asset turn and operating margin. EPS in turn represents a complete measure of bottom-line performance, capturing both interest and tax, and is closely tracked by many of the Company's investors.

Participation is at the Remuneration Committee's discretion. In 2008 awards were made to all members of the AEB, which included three of the executive Directors, and to 20 senior managers. Maximum awards are capped at 100% of salary (150% for the Chief Executive) (see page 41). In 2008 awards at this maximum level were granted to new members of the AEB; the executive Directors and other AEB members received awards over one half the maximum level, and the senior managers received awards over one quarter of the maximum level. Dividends, as and when reinstated, will not accrue on the awards made to date, but it is anticipated that for awards granted in future, dividends would accrue and be paid only on shares that vest. Outstanding awards will vest and become exercisable on a change of control subject to the satisfaction of any performance conditions at that time.

Performance Share Plan

No awards under this Plan have been made since April 2004 and it is not anticipated that awards will be made in the future. The Performance Share Plan is a seven-year plan, and was designed to encourage executives to focus on longer-term performance and growth in shareholder value. A combination of performance targets was chosen for the measurement of the Company's performance, being total shareholder return (TSR) and EPS in order to align the interests of executives with those of shareholders. EPS performance is calculated from the audited accounts and TSR is calculated by external remuneration consultants.

Awards were determined by the Remuneration Committee and could not be greater than 100% of the qualifying participant's total annual remuneration measured at the date of the award. No award granted to date has exceeded one times annual salary. Awards vest over a period of seven years from the date of the award. If the performance conditions are met at the third and fifth anniversary of the date of award, vesting accelerates to the extent of 25% of the award on each of these occasions. The extent to which an award vests is determined by the Group's medium and long-term performance measured in terms of TSR. TSR was measured against a broad comparator group from the Transport and Support Services sectors.

On a change of control the Remuneration Committee would take into account the performance conditions when determining the vesting of awards.

Share option schemes

No options have been granted under these schemes since April 2004, and it is not anticipated that awards will be made in the future. Further details of share options are set out in Note 32 to the Consolidated Financial Statements.

The Group operates Inland Revenue approved and unapproved share option schemes which have an EPS based performance condition. An EPS condition is considered appropriate, as it requires improvement in the underlying financial performance before options can be exercised. Employees may not normally exercise options earlier than three years, nor more than 10 years after the grant (seven years for grants made before April 2000 for the unapproved scheme). Options lapse upon cessation of employment. However, special conditions apply if employment ceases because of death, injury, disability, redundancy, retirement or because the employing business or company is transferred outside the Group, or for any other reason at the discretion of the Board. Outstanding options will vest and become exercisable on a change of control and with the exception of the UK Approved Share Option Scheme, any options vesting will, at the discretion of the Remuneration Committee, be subject to the satisfaction of any performance conditions at that time.

Options (all of which were granted prior to 2004) become exercisable when real growth in EPS exceeds 3% per annum during any period of three consecutive years following the date of grant. The rules of the share option schemes limit the number of options that can be granted over new issue shares in a rolling 10-year period to 5% of issued share capital under discretionary share schemes, and 10% of issued share capital under all share schemes. The total number of share options outstanding at 31 December 2008 is well within these dilution limits (see page 42).

During 2008 all outstanding awards under the Deferred Bonus Share Plan and the Share Retention Plan were released. No awards remain outstanding under these schemes as at 31 December 2008.

2006 Deferred Bonus Share Plan
During 2006, the Avis Europe plc Deferred Bonus Share Plan was established as part of the Remuneration Committee's decision to enhance bonus opportunities for 2006. There are no outstanding awards under this plan.

Share Retention Plan
This Plan was established as a one-off discretionary benefit to retain the services of Murray Hennessy (former Chief Executive) to January 2008 and there were no performance conditions other than continued service to 1 January 2008. The award vested in three equal tranches on 1 January 2006, 1 January 2007 and 1 January 2008. In respect of the third tranche, the Remuneration Committee exercised its discretion under the rules of the Plan to permit this award to vest on the date of Murray Hennessy's termination of employment on 31 December 2007, and was exercised in March 2008.

Avis Europe Employee Share Trust
The Avis Europe Employee Share Trust was established in March 2000 to facilitate provision of shares for the Company's share incentive schemes. The Trust may hold up to 5% of the issued share capital of the Company at any one time.

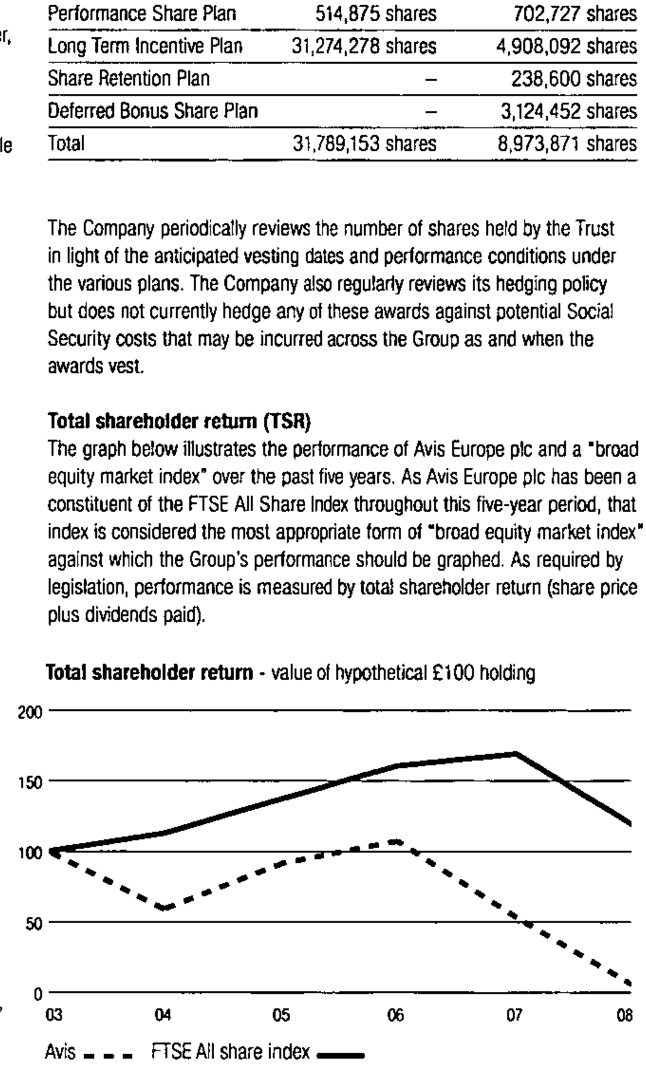
At 31 December 2008, the Trust held 637,735 shares. It is intended that the shares in the Trust will be used to satisfy conditional share awards made under the Company's various share incentive schemes as and when these awards vest. The awards outstanding under each of the relevant Plans at 31 December 2007 and 31 December 2008 are set out below:

Share Incentive Scheme	Conditional share awards outstanding at 31 December 2008	Conditional share awards outstanding at 31 December 2007
Performance Share Plan	514,875 shares	702,727 shares
Long Term Incentive Plan	31,274,278 shares	4,908,092 shares
Share Retention Plan	–	238,600 shares
Deferred Bonus Share Plan	–	3,124,452 shares
Total	31,789,153 shares	8,973,871 shares

The Company periodically reviews the number of shares held by the Trust in light of the anticipated vesting dates and performance conditions under the various plans. The Company also regularly reviews its hedging policy but does not currently hedge any of these awards against potential Social Security costs that may be incurred across the Group as and when the awards vest.

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

Total shareholder return - value of hypothetical £100 holding



All dates at 31 December.

This graph shows the value, by the end of 2008, of £100 invested in Avis Europe plc on 31 December 2003 compared with the value of £100 invested in the FTSE All Share Index. The other points plotted are the values at intervening financial year ends.

Non-executive Directors
Non-executive Directors' fees are positioned to attract non-executives with broad business and commercial experience and to be competitive in the marketplace. The Chairman's fee is determined by the Remuneration Committee. The Chairman and the Chief Executive set the remuneration of non-executive Directors based on periodic review of current survey data. Policy is to pay an annual fee of £32,500 with an additional fee for chairmanship of a committee. Non-executive Directors do not receive awards under the Company's share incentive schemes.

Remuneration report continued

Service contracts

Executive Directors

The Company's policy is to employ each executive Director under a service contract which is subject to 12 months' notice on either side and runs until terminated. The contract provides for salary to be paid for any unexpired period of notice in the event of termination by the Company. Compensation for contractual benefits and bonus for the unexpired period of notice is at the discretion of the Remuneration Committee. There is no compensation for loss of rights under the share and pension schemes. All contracts contain mitigation provisions. There are no special contractual payments associated with change of control.

All executive Directors have service contracts in line with policy as shown.

	Date of service contract	Notice period
Pascal Bazin	1 January 2008	12 months
Jean-Pierre Bizet[1]	25 May 2004	12 months
Lesley Colyer[2]	18 April 2002	12 months
Simon Palethorpe[3]	5 October 2004	12 months
Martyn Smith	11 September 2002	12 months

1 The Deputy Chairman, who is also an executive Director, has a service contract with an annual fee only and his appointment is subject to the terms of the Relationship Agreement (see page 29).
2 Lesley Colyer retired as a Director on 4 July 2008.
3 Simon Palethorpe resigned as a Director on 21 November 2008.

The Board believes that it can be of benefit to Avis Europe plc if its executive Directors serve as non-executive Directors of other companies, and, subject to individual review, the general policy is that an executive Director may hold one non-executive directorship with another company and may retain the fees. During the year ended 31 December 2008, no executive Director held any external directorships.

Non-executive Directors

The Company's policy is to engage non-executive Directors on renewable three-year terms, which can be terminated by either party at any time without penalty (subject to the terms of the Relationship Agreement in respect of Directors appointed by s.a. D'Ieteren n.v.). Non-executive Directors are required to offer themselves for election at the next Annual General Meeting following their appointment and thereafter for re-election every three years.

	Date of appointment as a non-executive Director
Alun Cathcart[1]	25 May 2004
Les Cullen	25 May 2004
Roland D'Ieteren	3 February 1997
Benoit Ghiot	15 December 2004
Gilbert van Marcke de Lummen[1,2]	1 May 2002
Malcolm Miller[3]	21 February 2001
Dr Axel von Ruedorffer	27 June 2001
Pierre Alain De Smedt	1 February 2007

1 Both Alun Cathcart and Gilbert van Marcke de Lummen have previously served as executive Directors. Alun Cathcart served as an executive Director for the periods 3 February 1997 to 31 March 1999 and 1 May 2002 to 24 May 2004, having served as a non-executive Director for the period 1 April 1999 to 30 April 2002. Gilbert van Marcke de Lummen served as an executive Director from 3 February 1997 to 30 April 2002.
2 Gilbert van Marcke de Lummen retired from the Board on 28 May 2008.
3 Malcolm Miller resigned as a Director on 28 May 2008.

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

Retirement benefits

Executive Directors based in the UK can participate in the Avis UK Pension Plan. The Plan comprises two sections: the Final Salary section (defined benefit) and the Retirement Capital Plan section (cash balance). The non-contributory Final Salary section was closed to new entrants from 1 July 2003, and closed to future service accruals for active members from 1 April 2007. New members to the Plan since 1 July 2003 have joined the contributory Retirement Capital Plan section and, from 1 April 2007, active members of the Final Salary section accrue their future service benefits under the Retirement Capital Plan section.

Under the Retirement Capital Plan section, for those executive Directors who are members of the Plan, an allocation of 25% of their pensionable salary is made to a notional account. Each year the account balance is revalued by inflation up to 10%, although the Company may at its absolute discretion and subject to actuarial advice apply a greater rate of revaluation. At retirement the balance in the account will be used to purchase an annuity. Pensionable salary for executive Directors excludes bonus payments, taxable benefits and cash allowances.

From 6 April 2006, the HM Revenue & Customs legislation relating to tax-favoured retirement provisions took effect. From that date Avis introduced a scheme specific earnings cap for all members who joined the Plan on or after 1 June 1989. For the 2008-09 tax year, the cap is £117,600. Those executive Directors whose pensionable salary is subject to the cap receive a taxable cash allowance of 20% of base salary above the cap.

During 2008 three executive Directors accrued benefits under the Avis UK Pension Plan and as at 31 December 2008, the retirement benefits are as follows.

Lesley Colyer accrued benefits under the Final Salary section for pensionable service until 1 April 2007, and her pensionable service to that date continued to be linked to her pensionable salary until she withdrew from pensionable service effective 4 July 2008. From 1 April 2007 she accrued benefits in the Retirement Capital section until she withdrew from pensionable service effective 4 July 2008. Her pensionable salary was not subject to the scheme specific earnings cap.

Simon Palethorpe was a member of the Retirement Capital section in respect of all his pensionable service until he withdrew from the Plan effective 21 November 2008. His pensionable salary was subject to the scheme specific earnings cap and he received a taxable cash allowance as described above.

Martyn Smith withdrew from the Plan effective 5 April 2006 and has a preserved pension entitlement under the Final Salary section. From that date he receives a taxable cash allowance of 20% of base salary in lieu of Pension Plan membership.

Pascal Bazin does not participate in any Avis occupational pension plan.

Part 2 (Audited)

Directors' remuneration

Directors' emoluments

The remuneration of Directors, comprising salary or fees, taxable benefits and bonus payments for the year ended 31 December 2008 are set out in the table below:

	Salary/ fees £	Bonus £	Taxable Benefits[6] £	Salary supplement Pension £	Salary supplement Car/fuel £	Compensation for loss of office £	Total year to 31 December 2008 £	Total year to 31 December 2007 £
Executive								
P Bazin	512,821	61,069	7,748	–	–	–	581,638	–
J-P Bizet	80,000	–	–	–	–	–	80,000	80,000
L Colyer[1]	135,781	–	11,808	–	–	175,178	322,767	287,182
M Hennessy[2]	–	–	–	–	–	–	–	1,063,051
S Palethorpe[3]	276,156	–	3,341	32,744	12,474	161,425	486,138	398,776
M Smith	330,000	33,000	13,574	66,000	–	–	442,574	458,669
Total	1,334,756	94,069	36,471	98,744	12,474	336,603	1,913,117	2,287,678
Non-executive								
W A Cathcart	190,000	–	6,282	–	20,000	–	216,282	216,141
L Cullen	40,000	–	–	–	–	–	40,000	40,000
R D'Ieteren	32,500	–	–	–	–	–	32,500	32,500
B Ghiot	32,500	–	–	–	–	–	32,500	32,500
G van Marcke de Lummen[4]	8,125	–	–	–	–	–	8,125	32,500
M Miller[5]	15,625	–	–	–	–	–	15,625	37,500
Dr A von Ruedorffer	32,500	–	–	–	–	–	32,500	32,500
P A De Smedt	35,475	–	–	–	–	–	35,475	29,792
Total	386,725	–	6,282	–	20,000	–	413,007	453,433
Total	1,721,481	94,069	42,753	98,744	32,474	336,603	2,326,124	2,741,111
Avis Executive Board (excluding executive Directors): Aggregate	1,997,155	336,779	111,651	147,997	3,334	1,653,671	4,250,587	2,535,864

1 Lesley Colyer retired from the Board on 4 July 2008.
2 Murray Hennessy resigned on 31 December 2007.
3 Simon Palethorpe resigned as a Director on 21 November 2008.
4 Gilbert van Marcke de Lummen retired from the Board on 28 May 2008.
5 Malcolm Miller resigned as a Director on 28 May 2008.
6 Taxable benefits include principally car, fuel and medical insurance.

Base salaries for the executive Directors at 1 January 2009 are: Pascal Bazin €640,000 and Martyn Smith £330,000.

Remuneration report continued

Pensions

Details of Directors' pension entitlements under the Avis UK Pension Plan (a defined benefit scheme) at 31 December 2008:

Director	Amount of change in accrued benefit due to inflation £ pa	Amount of remaining change in accrued benefit during year £ pa	Accrued pension to 31 December 2008 £ pa	Transfer value of increase in accrued pension excluding inflation £ pa	Transfer value of accrued pension at 31 December 2007 £ pa	Transfer value of accrued pension at 31 December 2008 £ pa	Increase in value less Director's own contributions £ pa
W A Cathcart[1]	–	–	–	–	4,144,670	4,478,087	333,417
L Colyer[2]	3,099	(36,768)	91,822	434,446	1,272,209	1,741,771	468,969
G van Marcke de Lummen[3]	–	–	–	–	1,693,782	1,751,926	58,144
S Palethorpe[4]	–	–	–	–	33,403	37,718	51
M Smith[5]	–	–	–	–	63,583	86,104	22,521

1 Alun Cathcart is no longer accruing a benefit in the Avis UK Pension Plan and has been in receipt of a pension from 12 September 2005. In the year to 31 December 2008 he received a pension of £310,016 (2007: £301,811).
2 Lesley Colyer was a former member of the Final Salary section of the Avis UK Pension Plan and elected to join the Retirement Capital Plan section following the Plan changes on 1 April 2007. The Retirement Capital Plan section is a cash balance arrangement to which the Director and the Company contribute. Each year, an amount equal to 25% of basic salary is credited to a notional account. At 1 April each year after the first year, the account balance is revalued by the rate of inflation over the preceding calendar year, subject to a maximum of 10%. The Company may at its absolute discretion and subject to actuarial advice apply a greater rate of revaluation. At retirement the account will have been built up from each year's annual credit plus the annual revaluation amount, and the balance in the account will be used to purchase an annuity on behalf of the Director. In the year to 31 December 2008 the value of the Company's contribution to the Retirement Capital Plan section in respect of Lesley Colyer was £107,759 (2007: £37,488). Lesley Colyer retired on 4 July 2008 and received a lump sum of £149,198 and pension after reduction for early retirement of £91,822 per annum.
3 Gilbert van Marcke de Lummen retired from the Board on 28 May 2008. He has not been accruing benefit in the Avis UK Pension Plan since 1 May 2002 from which date he has been in receipt of a pension. In the year to 31 December 2008 he received a pension of £145,481 (2007: £141,611).
4 Simon Palethorpe was a member of the Retirement Capital Plan section of the Avis UK Pension Plan until his resignation on 21 November 2008. In the year to 31 December 2008 the value of the Company's contribution was £4,545 (2007: £6,519).
5 Martyn Smith left the Avis UK Pension Plan on 5 April 2006 and received a deferred pension of £6,160 per annum payable from age 62.

Directors' interests in the Company's shares

The beneficial and non beneficial interests of the Directors as at 31 December 2008 are shown below. There have been no changes between 31 December 2008 and 3 March 2009:

Executive	31 December 2008	1 January 2008
P Bazin	284,336	–
J-P Bizet	–	–
L Colyer[1]	–	164,506
S Palethorpe[2]	232,164	15,000
M Smith	269,342	30,462

1 Lesley Colyer retired from the Board on 4 July 2008.
2 Simon Palethorpe resigned as a Director on 21 November 2008.

Non-executive	31 December 2008	1 January 2008
W A Cathcart[1]	443,373	443,373
L Cullen	20,000	20,000
R D'Ieteren	–	–
B Ghiot	–	–
G van Marcke de Lummen[2]	–	47,634
M Miller[3]	–	7,857
Dr A von Ruedorffer	20,000	20,000
P A De Smedt	879,270	449,270

1 Included within Alun Cathcart's holding of 443,373 shares are 12,673 shares in which he has a non-beneficial interest as trustee for the beneficial owners.
2 Gilbert van Marcke de Lummen retired from the Board on 28 May 2008.
3 Malcolm Miller resigned as a Director on 28 May 2008.

Directors' interests in the Company's share plans

Details of awards outstanding at 31 December 2008 under the Group's share schemes are shown below.

Long Term Incentive Plan

The following awards were made under this Plan on 7 October 2008. The market price of the Company's shares at that date was 8.49 pence. As at 31 December 2008, no awards under this Plan had vested.

	As at 31 December 2007	Award in year to 31 December 2008	Date of 2008 award	Lapsed during 2008	At 31 December 2008	Vesting date of outstanding awards
P Bazin	389,260	–	–	–	389,260	4 June 2010
	–	4,349,234	7 October 2008	–	4,349,234	7 October 2011
L Colyer[1]	388,524	–	–	248,224	140,300	4 June 2010
S Palethorpe[1]	491,803	–	–	259,563	232,240	4 June 2010
	–	1,766,784	7 October 2008	1,717,707	49,077	7 October 2011
M Smith	540,983	–	–	–	540,983	4 June 2010
	–	1,943,462	7 October 2008	–	1,943,462	7 October 2011

1 In respect of L Colyer and S Palethorpe, who left the Company on 4 July 2008 and 21 November 2008 respectively, the Remuneration Committee exercised its discretion under the Plan rules to allow a proportion of their awards under the Plan to vest on the Vesting Date, subject to the performance conditions attached to the awards being satisfied.

Performance conditions

The performance conditions required for vesting purposes are based 50% on the Company's three-year growth in EPS and 50% on ROCE, based on the Group's results under the International Financial Reporting Standards. These targets are set such that shares will vest only if performance is between a minimum threshold level, where 20% of an award will vest, and the maximum level, where 100% of an award will vest.

At 31 December 2008, 35 qualifying employees and qualifying former employees, including Executive Directors, held options over 31,274,278 shares in total under this Plan. The market price of the Company's shares at 31 December 2008 was 3.93 pence. During the year, the market price ranged between 3.01 pence and 40.5 pence.

2006 Deferred Bonus Share Plan

The following awards were made under this Plan on 5 June 2007. The market price of the Company's shares at that date was 60.25 pence. All awards vested on 19 March 2008 and were exercised within three months from that date as provided for under the Plan rules. There are no awards outstanding under this Plan.

	At 31 December 2007	Award in year to 31 December 2008	Outstanding at 31 December 2008
P Bazin	284,336	–	–
L Colyer[1]	291,393	–	–
S Palethorpe[2]	368,852	–	–
M Smith	405,737	–	–

1 Lesley Colyer retired from the Board on 4 July 2008.
2 Simon Palethorpe resigned as a Director on 21 November 2008.

Performance conditions

There were no performance conditions relating to awards under the 2006 Deferred Bonus Share Plan and all awards made to Executive Directors were released.

Performance Share Plan

No awards have been made under this Plan since 2004. As at 31 December 2008, no awards under this Plan had vested.

	At 31 December 2007	Award in year to 31 December 2008	Lapsed during 2008	At 31 December 2008	Vesting date of outstanding awards
W A Cathcart	244,409	–	–	244,409	17 March 2010
L Colyer[1]	187,852	–	187,852	–	–
M Smith	270,466	–	–	270,466	17 March 2010

1 Lesley Colyer retired from the Board on 4 July 2008.

Performance conditions

The performance conditions applying to the Performance Share Plan have been based on the performance of the Company in relation to the TSR of a peer group, together with an EPS underpin.

For the awards to vest, TSR at the end of each performance period must be at least at the median in relation to the comparator group and there has to be a minimum real increase in EPS of 3% per annum over the relevant period.

Remuneration report continued

If both these conditions are met, 50% of the award may vest. For full vesting, the EPS target must be met and the Group's TSR must be in the top quartile of the comparator group over the seven-year period. TSR achievement between the median and 75th percentile results in vesting between 50% and 100% of the award on a pro rata basis.

The comparator group for TSR for awards made in 2003 comprises the companies listed below:

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

Share Option Schemes
Directors' interests in share options granted under the Avis Europe plc share option schemes, all of which are beneficial except as noted, are shown below. No options were granted and no options were exercised during the period under review or the previous year. All options were granted for nil consideration. There have been no grants or exercises between 31 December 2008 and 3 March 2009.

	31 December 2008	Lapsed during period	Granted during period	1 January 2008	Exercise price (pence)	Exercisable date	Expiry date
Executive							
P Bazin	–						
J-P Bizet	–						
L Colyer[1]	–	22,667	–	22,667	136.4	–	–
	–	159,862	–	159,862	83.6	–	–
	–	182,529	–	182,529	–	–	–
S Palethorpe[2]	–						
M Smith	238,599	–	–	238,599	83.6	September 2005	September 2012
Non-executive							
W A Cathcart[3]	357,899	–	–	357,899	174.2	March 2005	March 2012
	71,580	–	–	71,580	83.6	September 2005	September 2012
	429,479	–	–	429,479			
L Cullen	–						
R D'Ieteren	–						
B Ghiot	–						
G van Marcke de Lummen[3,4]	–						
M Miller[5]	–						
Dr A von Ruedorffer	–						
P A De Smedt	–						

1 Lesley Colyer retired from the Board on 4 July 2008.
2 Simon Palethorpe resigned as a Director on 21 November 2008.
3 The share options held by Alun Cathcart and Gilbert van Marcke de Lummen were granted when they were executive Directors of the Company.
4 Gilbert van Marcke de Lummen retired from the Board on 28 May 2008.
5 Malcolm Miller resigned as a Director on 28 May 2008.

Performance conditions
The performance conditions applying to the share option schemes have been based on real growth in EPS.

Options granted before 2004 become exercisable when real growth in EPS exceeds 3% per annum during any period of three consecutive years following the date of grant. Only options shown as having an exercisable date of March 2000 have satisfied this performance condition.

Options granted in 2004 become exercisable when real growth in EPS during the three-year period 2004 to 2006 exceeds 10% per annum compound. For 30% of the options to be exercisable there must be real minimum growth of 5% per annum compound. Vesting is on a straight-line basis for EPS growth between these targets. There is no re-testing and as the performance conditions relating to options granted in 2004 have not been met, these options have lapsed.

At 31 December 2008, 201 qualifying employees held options over 2,899,221 shares. No options were granted in 2008. The market price of the Company's shares at 31 December 2008 was 3.93 pence. During the year, the market price ranged between 3.01 pence and 40.5 pence.

Signed on behalf of the Board

Judith Nicholson
Company Secretary
3 March 2009

Directors' report
for the year ended 31 December 2008

The Directors present their report and the audited financial statements for the year ended 31 December 2008.

Principal activities and business review
The principal activity of the Group is the supply of rental vehicle services. A full review of the Group's activities and a report on its business, strategy and likely future developments are included in the Chairman's Statement, the Chief Executive's Statement and the Business Review on pages 2 to 21, incorporated in this report by reference.

Share capital
Details of the share capital of the Company and changes during the year covered by this Report are set out in Note 30 to the Consolidated Financial Statements. The rights and obligations attaching to the Company's ordinary shares are set out in the Company's Articles of Association. There are no restrictions on the voting rights attaching to the Company's ordinary shares or on the transfer of securities in the Company.

Results and dividends
The results for the year are set out in the Consolidated Financial Statements on pages 45 to 76. The Directors do not recommend the payment of an interim or final dividend for the year (2007: nil).

Directors and their interests
The names of the Directors of the Company as at 31 December 2008 and those subsequently appointed appear in the Corporate Governance report on page 29. The Directors' interests in shares and options to purchase shares are detailed in the Remuneration Report on pages 40 to 42 .

Employee involvement and share schemes
Details of employee involvement are included in the Corporate Social Responsibility Report on pages 22 to 27. Details of the Company's employee share schemes, including any provisions relating to a change of control, are set out in the Remuneration Report on pages 35 to 42.

Donations
Charitable donations are detailed in the Corporate Governance report on page 32 and in the Corporate Social Responsibility Report on pages 22 to 27.

Post balance sheet events
There are no significant events affecting the Group since year end.

Payments to creditors
The Group's policy with regard to payment of suppliers is set out in the Corporate Governance report on page 32.

Financial instruments
The Group's financial risk management objective is set out in Note 27 to the Consolidated Financial Statements.

Purchase of own shares
The details of own shares held are included in Note 31 to the Consolidated Financial Statements and details of the authority given to the Company for the purchase of its shares are set out on page 31 of the Corporate Governance report.

Substantial shareholdings
The details of substantial shareholdings are included in the Corporate Governance report on page 31. As noted in the Corporate Governance report, the Company has entered into a Relationship Agreement with s.a. D'Ieteren n.v. which holds 59.6% of the Company's share capital, details of which are summarised on page 31 of the Corporate Governance report.

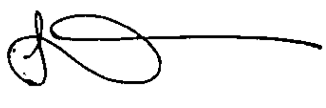
Appointment of Directors and Articles of Association
The Company's Articles of Association provide that the Company may appoint directors by ordinary resolution. The Company's Articles of Association themselves may be amended by special resolution of the shareholders. As explained in the Corporate Governance report one-third of the directors resign by rotation at least every three years. Details of the Relationship Agreement with s.a. D'Ieteren n.v., which includes rights for s.a. D'Ieteren n.v. to appoint and remove up to three Directors, are set out on page 31 of the Corporate Governance report.

Significant agreements
The Group has entered into the following significant agreements which are subject to change of control provisions: (1) Trademark and System Licences dated 4 April 1997 for use of the Avis trademarks and operating system in Europe, Africa, the Middle East and Asia which can be terminated in the event that a major competitor obtains control of 35% or more of voting capital, whereupon associated agreements, including the Computer Services Agreement dated 1 January 1991 for use of the Wizard system, would also terminate. (2) Trademark Licence dated 11 March 2003 for use of the Budget trademarks in Europe, Africa and the Middle East which can be terminated in the event that a major competitor obtains control of 35% or more of voting capital. (3) A €580,000,000 Facilities Agreement dated 20 February 2006 which can be terminated in the event of a change of control. (4) €250,000,000 Senior Floating Rate Notes due 2013 dated 21 July 2006 which can be accelerated in the event of a change of control.

Disclosure of information to auditors
So far as each Director is aware, there is no relevant audit information of which the Group's auditors, PricewaterhouseCoopers LLP, are unaware and each Director has taken all the steps that he ought to have taken as a Director in order to make himself aware of any relevant audit information and to establish that the Group's auditors are aware of this information.

Auditors
PricewaterhouseCoopers LLP have expressed their willingness to continue in office and a resolution to reappoint them as the Group's auditors will be proposed at the Annual General Meeting.

By order of the Board



Judith Nicholson
Company Secretary
3 March 2009

Independent Auditors' Report to the Members of Avis Europe plc

Introduction

We have audited the Group Financial Statements of Avis Europe plc for the year ended 31 December 2008 which comprise the Consolidated Income Statement, the Consolidated Statement of Recognised Income and Expense, the Consolidated Balance Sheet, the Consolidated Cash Flow Statement, the Significant Accounting Policies and the related notes. These Group Financial Statements have been prepared under the accounting policies set out therein.

We have reported separately on the Parent Company Financial Statements of Avis Europe plc for the year ended 31 December 2008 and on the information in the Directors' Remuneration Report that is described as having been audited.

Respective responsibilities of Directors and auditors

The Directors' responsibilities for preparing the Annual Report and the Group Financial Statements in accordance wit applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the Group Financial Statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland). This report, including the opinion, has been prepared for and only for the Company's Members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpos or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the Group Financial Statements give a true and fair view and whether the Group Financial Statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the Group Financial Statements. The information given in the Directors' Report includes that specific information presented in the Business Review, the Corporate Governance Statement and the sections of the Remuneration Report that are referred to as audited that are cross referred from the Business Review section of the Directors' Report.

In addition we report to you if, in our opinion, we have not received all the information and explanations we require fo our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We review whether the Corporate Governance Statement reflects the Company's compliance with the nine provisions of the Combined Code (2006) specified for our review by the Listing Rules of the Financial Services Authority, and w 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 form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and control procedures.

We read other information contained in the Annual Report and consider whether it is consistent with the audited Grou Financial Statements. The other information comprises only the Chairman's Statement, the Chief Executive's Review, the Business Review, the Corporate and Social Responsibility Report, the Directors Listing, the Corporate Governance Statement, the Statement of Directors' Responsibilities, the unaudited part of the Remuneration Report and the Five Year Summary. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the Group Financial Statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the Group Financial Statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the Group Financial Statements, and of whether the accounting policies are appropriate to the Group'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 Group 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 Group Financial Statements.

Opinion

In our opinion:

• the Group Financial Statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the Group's affairs as at 31 December 2008 and of its loss and cash flows for the year then ended;

• the Group Financial Statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation; and

• the information given in the Directors' Report is consistent with the Group Financial Statement

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
Reading
3 March 2009

Notes:

a) The maintenance and integrity of the Avis Europe plc website is the responsibility of the Directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the Financial Statements since they were initially presented on the website.

b) Legislation in the United Kingdom governing the preparation and dissemination of Financial Statements may differ from legislation in other jurisdictions.

Consolidated Income Statement
for the year ended 31 December

	Notes	2008 Underlying[1] €m	2008 Amounts excluded from underlying €m	2008 Total €m	2007 Underlying[1] €m	2007 Amounts excluded from underlying €m	2007 Total €m
Continuing operations							
Revenue	2,3	**1,313.8**	–	**1,313.8**	1,326.8	–	1,326.8
Cost of sales		**(758.7)**	–	**(758.7)**	(750.1)	–	(750.1)
Gross profit		**555.1**	–	**555.1**	576.7	–	576.7
Administrative expenses		**(442.4)**	**(15.6)**	**(458.0)**	(470.2)	(5.2)	(475.4)
Operating profit/(loss)	3,4	**112.7**	**(15.6)**	**97.1**	106.5	(5.2)	101.3
Finance income	7	**2.0**	–	**2.0**	5.4	0.8	6.2
Finance costs	7	**(77.1)**	**(19.4)**	**(96.5)**	(75.1)	–	(75.1)
Share of profit of joint ventures and associate	15	**0.4**	–	**0.4**	0.8	–	0.8
Profit/(loss) before taxation		**38.0**	**(35.0)**	**3.0**	37.6	(4.4)	33.2
Taxation	8	**(16.2)**	**2.0**	**(14.2)**	(11.4)	(6.5)	(17.9)
Profit/(loss) after taxation		**21.8**	**(33.0)**	**(11.2)**	26.2	(10.9)	15.3
Discontinued operation – Greece							
Profit/(loss) after taxation	39	–	**1.3**	**1.3**	3.5	(15.9)	(12.4)
Profit/(loss) for the year		**21.8**	**(31.7)**	**(9.9)**	29.7	(26.8)	2.9
Attributable to:							
– equity holders of the Company	33	**21.8**	**(31.7)**	**(9.9)**	29.8	(26.8)	3.0
– minority interest	36	–	–	–	(0.1)	–	(0.1)
Profit/(loss) for the year		**21.8**	**(31.7)**	**(9.9)**	29.7	(26.8)	2.9
(Loss)/earnings per share (euro cents)							
Basic and diluted	10			**(1.1)**			0.3
Basic and diluted – continuing	10			**(1.2)**			1.6

1 Underlying excludes net exceptional items, certain re-measurement items and economic hedges – see Basis of Preparation.

The accompanying Notes form an integral part of these Consolidated Financial Statements.

Consolidated Statement of Recognised Income and Expense

for the year ended 31 December

		2008			2007		
	Notes	Underlying[1] €m	Amounts excluded from underlying €m	Total €m	Underlying[1] €m	Amounts excluded from underlying €m	Total €m
Actuarial gains on retirement benefit obligations	24,33	–	11.2	11.2	–	14.9	14.9
Cash flow hedges:							
– net fair value losses	34	–	(11.8)	(11.8)	–	(5.8)	(5.8)
– transferred to Income Statement	34	–	2.2	2.2	–	7.9	7.9
Exchange differences on translation of foreign operations	34	–	(23.1)	(23.1)	–	(2.8)	(2.8)
Tax on net items taken to equity	8	–	3.8	3.8	–	(3.1)	(3.1)
Net (expense)/income recognised directly in equity	35	–	(17.7)	(17.7)	–	11.1	11.1
Profit/(loss) for the year		21.8	(31.7)	(9.9)	29.7	(26.8)	2.9
Total recognised income and expense for the year attributable to equity holders of the Company		21.8	(49.4)	(27.6)	29.7	(15.7)	14.0
Total recognised income and expense for the year is attributable to:							
– equity holders of the Company		21.8	(49.4)	(27.6)	29.8	(15.7)	14.1
– minority interest		–	–	–	(0.1)	–	(0.1)
Total recognised income and expense for the year		21.8	(49.4)	(27.6)	29.7	(15.7)	14.0

1 Underlying excludes net exceptional items, certain re-measurement items and economic hedges – see Basis of Preparation.

The accompanying Notes form an integral part of these Consolidated Financial Statements.

Consolidated Balance Sheet

as at 31 December

	Notes	2008 €m	2007 €m
Goodwill	11	**0.2**	0.3
Other intangible assets	12	**14.7**	11.9
Property, plant and equipment:			
-vehicles	13	**441.0**	448.7
-other property, plant and equipment	14	**71.7**	78.0
Investments accounted for using the equity method	15	**12.2**	10.8
Other financial assets:			
-investments held for sale	16	**0.4**	0.6
-derivative financial instruments	27	**0.7**	10.2
Deferred tax assets	17	**31.7**	49.5
Non-current assets		**572.6**	610.0
Non-current assets held for sale	18	**10.3**	7.1
Inventories	19	**6.9**	7.7
Trade and other receivables	20	**1,351.7**	1,391.8
Current tax assets		**2.0**	3.0
Other financial assets:			
-held for trading	16	**-**	5.4
-derivative financial instruments	27	**9.2**	3.8
Cash and short-term deposits	21	**52.1**	60.9
Current assets		**1,421.9**	1,472.6
Total assets		**2,004.8**	2,089.7
Trade and other payables	22	**539.2**	670.3
Current tax liabilities		**24.4**	33.3
Obligations under finance leases	25	**232.7**	273.0
Other financial liabilities:			
-borrowings	26a)	**45.1**	31.0
-deferred consideration	26c)	**0.2**	0.3
-derivative financial instruments	27	**21.4**	1.9
Provisions	23	**33.8**	45.1
Current liabilities		**896.8**	1,054.9
Deferred tax liabilities	17	**26.1**	34.9
Provisions	23	**25.6**	22.3
Retirement benefit obligations	24	**70.9**	97.5
Obligations under finance leases	25	**-**	0.7
Other financial liabilities:			
-borrowings	26a)	**841.3**	699.2
-deferred consideration	26c)	**22.5**	30.3
-derivative financial instruments	27	**51.5**	52.9
Non-current liabilities		**1,037.9**	937.8
Total liabilities		**1,934.7**	1,992.7
Net assets		**70.1**	97.0
Equity			
Called-up share capital	30	**13.1**	13.1
Share premium	31	**381.5**	381.5
Own shares held	31	**(0.4)**	(3.3)
Retained deficit	33	**(283.9)**	(280.2)
Other deficit	34	**(41.0)**	(14.9)
Shareholders' equity	35	**69.3**	96.2
Minority interest	36	**0.8**	0.8
Total equity		**70.1**	97.0

The accompanying Notes form an integral part of these Consolidated Financial Statements.

The Consolidated Financial Statements, including accompanying Notes, were approved by the Board on 3 March 2009 and were signed on its behalf by:

Pascal Bazin
Chief Executive

Martyn Smith
Finance Director

Consolidated Cash Flow Statement

for the year ended 31 December

	Notes	2008 €m	2007 €m
Operating profit – continuing operations		**97.1**	101.3
Discontinued operation – Greece	39	**1.3**	(8.0)
Operating profit – all operations		**98.4**	93.3
Reverse amortisation of other intangible assets	4	**3.4**	4.9
Reverse depreciation on property, plant and equipment	4	**132.2**	152.8
Reverse adjustments arising on differences between sales proceeds and depreciated amounts	4	**10.4**	(18.7)
Reverse non-cash operating lease charge on manufacturer repurchase contracts	4	**192.3**	185.8
Payments in respect of manufacturer repurchase contracts		**(1,525.0)**	(1,428.1)
Receipts in respect of manufacturer repurchase contracts		**1,235.6**	1,092.2
Reverse share-based payment charges	5	**0.2**	0.4
Decrease/(increase) in inventories		**0.5**	(0.7)
Decrease/(increase) in receivables		**12.2**	(52.3)
(Decrease)/increase in payables		**(8.2)**	8.0
(Decrease)/increase in provisions		**(4.7)**	12.0
Decrease in retirement benefit obligations		**(2.2)**	(3.9)
Reverse exceptional impairment	6	**3.1**	11.1
Reversal of re-measurement items and economic hedging adjustments		**(13.2)**	(1.7)
Cash inflow/(outflow) on derivative financial instruments – non-debt		**7.6**	(1.6)
Net cash generated from operating activities before taxation		**142.6**	53.5
Tax paid		**(10.6)**	(9.9)
Net cash generated from operating activities		**132.0**	43.6
Investing activities			
Purchase of other intangible assets	12	**(9.9)**	(9.6)
Purchase of vehicles		**(491.5)**	(492.5)
Proceeds on disposal of vehicles		**301.8**	346.0
Purchase of other property, plant and equipment	14	**(16.4)**	(19.0)
Proceeds on disposal of other property, plant and equipment		**0.6**	7.7
Proceeds on disposal of non-current assets held for sale		**53.9**	64.8
Disposal of financial assets – investments held for sale		**0.2**	–
Disposal of financial assets held for trading	37a)	**5.4**	17.2
Investment in joint venture	38	**(0.1)**	–
Acquisition of licensee businesses	38	**(1.9)**	(5.0)
Cash balances acquired with licensee businesses	38	**0.1**	–
		(157.8)	(90.4)
Proceeds on disposal of business	39	**–**	22.2
Cash balances disposed with business		**–**	(2.4)
Net cash used in investing activities		**(157.8)**	(70.6)
Financing activities			
Finance revenue received		**2.0**	5.5
Finance costs paid		**(59.4)**	(67.8)
Finance cost element of finance lease payments		**(19.2)**	(17.5)
Net capital element of finance lease payments	37a)	**(53.5)**	(57.6)
Purchase of own shares		**–**	(2.7)
Cash flow on derivative financial instruments – debt	37a)	**0.2**	(35.3)
Proceeds from bank and other loans	37a)	**129.1**	141.6
Net cash used in financing activities		**(0.8)**	(33.8)
Decrease in cash and cash equivalents (excluding exchange rate changes)		**(26.6)**	(60.8)
Effects of exchange rate changes	37a)	**(0.8)**	(0.4)
Net decrease in cash and cash equivalents		**(27.4)**	(61.2)
Cash and cash equivalents at 1 January	37a)	**52.1**	113.3
Cash and cash equivalents at 31 December		**24.7**	52.1

The accompanying Notes form an integral part of these Consolidated Financial Statements.

Significant Accounting Policies

Applicable to the Consolidated Financial Statements for the year ended 31 December 2008

Basis of preparation

The Consolidated Financial Statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union, International Financial Reporting Interpretations Committee (IFRIC) interpretations and the Companies Act 1985 applicable to companies reporting under IFRS. Avis Europe plc is a public limited company incorporated, listed and domiciled in the UK. The Consolidated Financial Statements have been prepared under the historical cost convention and are prepared in accordance with the accounting policies set out below, which are consistent with those followed in the preparation of the Consolidated Financial Statements for the year ended 31 December 2007, except for the adoption of the following:

New standards, interpretations and amendments to published standards that are effective

IFRIC 11, IFRS 2, Group and treasury share transactions (effective from 1 January 2008) provides guidance on applying IFRS 2. Where share-based payments involve an entity's own equity instruments and the entity chooses or is required to buy its own equity instruments (treasury shares) to settle the share-based payment obligation, these should be accounted for as an equity-settled share-based transaction under IFRS 2. This amendment has not had a significant impact on the treatment of the Group's share-based payments.

IFRIC 12, Service concession arrangements (effective from 1 January 2008) provides guidance on the treatment of government service concession arrangements and is deemed not relevant to the Group's operations.

IFRIC 14, The limit on a defined benefit asset, minimum funding requirements and their interaction (effective from 1 January 2008) provides guidance on the recognition of defined benefit assets in conjunction with minimum funding requirements (MFRs). The extent to which an asset may be recognised is dependent upon the entity's entitlement to a future refund or reduction in contributions, and the existence of an MFR may give rise to an additional liability if contributions are not available to the entity once they have been paid. This amendment has not impacted on the amounts recognised under defined benefit schemes.

IAS 39 and IFRS 7 reclassification of financial instruments (applicable immediately and retrospectively) permit the reclassification of some financial assets. The amendments address the differences between the reclassification requirements of IAS 39 and US GAAP and are effective immediately. The amendments do not affect the classification of any of the Group's financial assets.

Standards, interpretations and amendments to published standards that are not yet effective

Certain new standards, amendments and interpretations to existing standards have been published that are mandatory for the Group's accounting periods beginning on or after 1 January 2009 or later periods, but which the Group has not adopted early, as follows:

IFRIC 13, Customer loyalty programmes (effective from 1 July 2008) provides guidance on the treatment of customer loyalty programmes. An entity shall account for award credits which are granted as part of customer loyalty programmes as separately identifiable components of a sales transaction. The fair value of the consideration received or receivable in respect of the initial sale shall be allocated between the award credits and the other components of the sale. The Group believes that this amendment will not have a significant impact on the treatment of the Group's customer loyalty programmes.

IFRIC 15, Agreements for the construction of real estate (effective from 1 January 2009) addresses the accounting for revenue and associated expenses by entities that undertake the construction of real estate and is deemed not relevant to the Group's operations.

IFRIC 16, Hedges of a net investment in a foreign operation (effective from 1 October 2008) provides guidance on net investment hedging, including:

- which foreign currency risks qualify for hedge accounting and the amount that may be designated;
- where within the Group the hedging instrument may be held; and
- the amount which is reclassified to the Income Statement upon disposal of the hedged foreign operation.

The Group anticipates that this amendment will have no impact upon its Consolidated Financial Statements.

IFRS 8, Operating segments (effective from 1 January 2009) requires an entity to adopt a "management approach" to segment reporting such that segmental information is the information which management uses internally for calculating segment performance and deciding how to allocate resources to operating segments. This information may be different from that used to prepare the Income Statement and Balance Sheet. Management does not anticipate that the introduction of IFRS 8 will have a significant impact on the Group's segmental disclosures. The Group will apply IFRS 8 from annual periods beginning 1 January 2009.

IAS 1 revised 2007 (effective from 1 January 2009) is mandatory for accounting periods commencing on or after 1 January 2009. Upon adoption, the Income Statement and Statement of Changes in Equity will be replaced by a Statement of Comprehensive Income. Other principal statements will also be renamed.

IAS 19 (Amendment), Employee benefits (effective from 1 January 2009), is part of the IASB's annual improvements project published in May 2008. The amendment clarifies that a plan amendment that results in a change in the extent to which benefit promises are affected by future salary increases is a curtailment, while an amendment that changes benefits attributable to past service gives rise to a negative past service cost if it results in a reduction in the present value of the defined benefit obligation. The definition of return on plan assets has been amended to state that plan administration costs are deducted in the calculation of return on plan assets only to the extent that such costs have been excluded from measurement of the defined benefit obligation. The distinction between short-term and long-term employee benefits will be based on whether benefits are due to be settled within or after 12 months of employee service being rendered.

IAS 37, Provisions, contingent liabilities and contingent assets, requires contingent liabilities to be disclosed, not recognised. IAS 19 has been amended to be consistent. The Group will apply the IAS 19 (Amendment) from 1 January 2009.

IAS 23 (Revised), Borrowing costs (effective from 1 January 2009) removes the option of immediately recognising borrowing costs as an expense which relates to assets that take a substantial period of time to prepare for their intended use. This is not expected to have any material impact on the Group's Consolidated Financial Statements.

Significant Accounting Policies continued

Applicable to the Consolidated Financial Statements for the year ended 31 December 2008

IAS 32 (Amendment), Financial instruments: Presentation, and IAS 1 (Amendment), Presentation of financial statements – Puttable financial instruments and obligations arising on liquidation (effective from 1 January 2009) require certain instruments to be classified as equity puttable financial instruments. Such instruments include those that impose on the entity an obligation to deliver to another party a pro rata share of the net assets of the entity upon liquidation. The Group will apply the IAS 32 and IAS 1 (Amendment) from 1 January 2009. This amendment is not expected to have any impact on the Group's Consolidated Financial Statements.

IAS 38 (Amendment), Intangible assets (effective from 1 January 2009) is part of the IASB's annual improvements project published in May 2008. A prepayment may only be recognised in the event that payment has been made in advance of obtaining right of access to goods or receipt of services. The Group will apply the IAS 38 (Amendment) from 1 January 2009. The amendment is not expected to have any impact upon the Group's Consolidated Financial Statements.

IAS 39 (Amendment), Eligible hedged items (effective from 1 January 2009): the current guidance on designating and documenting hedges states that a hedging instrument needs to involve a party external to the reporting entity and cites a segment as an example of a reporting entity. This means that in order for hedge accounting to be applied at segment level, the requirements for hedge accounting are currently required to be met by the applicable segment. The amendment removes the example of a segment so that the guidance is consistent with IFRS 8, Operating segments, which requires disclosure for segments to be based on information reported to the chief operating decision-maker. This amendment is expected to have no impact upon the Group's hedging activities.

IFRS 1 (Amendment) (effective 1 January 2009) and IAS 27 (Revised) (part of annual improvements – deletion of cost method) (effective from 1 July 2009) allows first-time adopters to use a deemed cost of either fair value or the carrying amount under previous accounting practice to measure the initial cost of investments in subsidiaries, jointly controlled entities and associates in the separate financial statements. The amendment also removes the definition of the cost method from IAS 27 and replaces it with a requirement to present dividends as income in the separate financial statements of the investor. The Group will apply IFRS 1 (Amendment) from 1 January 2009. The amendment will not have any impact on the Group's Consolidated Financial Statements.

The revised standard also requires the effects of all transactions with non-controlling interests to be recorded in equity if there is no change in control and these transactions will no longer result in goodwill or gains and losses and specifies the accounting when control is lost. Any remaining interest in the entity is re-measured to fair value, and a gain or loss is recognised in profit or loss. The Group will apply IAS 27 (Revised) prospectively to transactions with non-controlling interests from 1 January 2010.

IFRS 2 vesting conditions and cancellations (effective from 1 January 2009) deals with vesting conditions and cancellations. It clarifies that vesting conditions are service conditions and performance conditions only. Other features of a share-based payment are not vesting conditions. These features would need to be included in the grant date fair value calculation for transactions with employees and others providing similar services; they would not impact the number of awards expected to vest or valuation thereof subsequent to grant date. All cancellations, whether by the entity or by other parties, should receive the same accounting treatment. The Group will apply IFRS 2 (Amendment) from 1 January 2009, but it is not expected to have any impact on the Group's Consolidated Financial Statements.

IFRS 3 revised 2008 (effective from 1 July 2009) continues to apply the acquisition method to business combinations, with some significant changes. For example, all payments to purchase a business are to be recorded at fair value at the acquisition date, with contingent payments classified as debt subsequently re-measured through the Income Statement. There is a choice on an acquisition-by-acquisition basis to measure the non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets. All acquisition-related costs should be expensed. The Group will apply IFRS 3 (Revised) prospectively to all business combinations from 1 January 2010.

IFRS 5 (Amendment), Non-current assets held-for-sale and discontinued operations (and consequential amendment to IFRS 1, First-time adoption) (effective from 1 July 2009) clarifies that all of a subsidiary's assets and liabilities are classified as held for sale if a partial disposal sale plan results in loss of control. Relevant disclosure should be made for this subsidiary if the definition of a discontinued operation is met. A consequential amendment to IFRS 1 states that these amendments are applied prospectively from the date of transition to IFRSs. The Group will apply the IFRS 5 (Amendment) prospectively to all partial disposals of subsidiaries from 1 January 2010.

Underlying measures
In addition to total performance measures, the Group discloses additional underlying performance measures, including underlying profit and underlying earnings per share. The Group believes that these underlying performance measures provide additional useful information on underlying trends. The term "underlying" is not defined under IFRS, and may therefore not be comparable with similarly titled profit measurements reported by other companies. It is not intended to be a substitute for, or superior to, IFRS measures of profit.

Underlying measures are calculated based on reported profit before exceptional items, certain re-measurement items and adjustments to reflect the realised gains and losses on foreign exchange forward contracts and accrued interest cash flows on certain derivative financial instruments (economic hedge adjustments). These are detailed below.

Exceptional items
Exceptional items are material non-recurring items that derive from events or transactions that fall within the ordinary activities of the Group, and which individually or, if of a similar type, in aggregate, are separately disclosed by virtue of their size or incidence.

Certain re-measurement items
Items that represent re-measurement of underlying assets or liabilities (for example due to interest rate or exchange rate changes) are presented as certain re-measurement items. Events which may give rise to the classification of gains and losses as certain re-measurement items include the following:

a) recognised fair value gains and losses on derivatives in accordance with the financial instruments and hedge accounting policy below;
b) exchange gains and losses arising upon the translation of foreign currency borrowings at the closing rate; and
c) actuarial gains and losses arising on defined benefit retirement benefit schemes.

Economic hedge adjustments
Under IAS 39, the Group applies hedge accounting to hedge relationships (primarily forward exchange contracts, cross currency interest rate swaps and interest rate swaps) where it is both permissible and practicable to do so. Due to the nature of its economic hedging relationships, in a number of

circumstances the Group is unable to apply hedge accounting to these derivatives. The Group continues, however, to enter into these arrangements as they provide certainty of the exchange rates applying to the foreign currency transactions entered into by the Group and the interest rate on the Group's debt. These arrangements result in fixed and determined cash flows. The Group believes that these arrangements remain effective as economic hedges, and therefore adjustment is made to reported profit measures such that the underlying profit reflects full application of hedge accounting.

Functional currency
The functional currency of the Company is sterling. However, as a significant proportion of the Group's revenues, costs, assets and funding arise in euro, the Consolidated Financial Statements of the Group are presented in euro.

Basis of consolidation
The Consolidated Financial Statements comprise a consolidation of the accounts of the Company and its subsidiary undertakings.

The accounting reference dates of certain of the Group's subsidiary undertakings and its associated undertaking 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 subsidiary undertaking with such a non-coterminous year end is Avis Autonoleggio SpA (30 June). In the opinion of the Directors, the expense of providing additional coterminous statutory accounts, together with potential consequential delay in producing the Group's Consolidated Financial Statements, would outweigh any benefit to the shareholders.

Subsidiary undertakings
Subsidiary undertakings are those entities in which the Group has, directly or indirectly, an interest of more than half of the voting rights or otherwise has the power to exercise control over the operations. Subsidiaries are consolidated from the date that control is transferred to the Group and are no longer consolidated from the date that control ceases. Subsidiaries are accounted for using the acquisition method of accounting. All inter-company transactions, balances and unrealised gains on transactions between Group companies are eliminated upon consolidation.

Minority interests
The amount of profits or losses for a reporting period allocated to minority interests is adjusted (and separately disclosed in the Income Statement) against income of the Group for the year.

Joint ventures
A joint venture is a contractual arrangement whereby the Group and one or more parties undertake an economic activity that is subject to joint control. Joint control is when the strategic, financial and operating policy decisions relating to the activity require the unanimous consent of the parties sharing control.

Interests in joint ventures are recognised using the equity method. Unrealised gains and losses on transactions between the Group and its joint ventures are eliminated to the extent of the Group's interest in the joint ventures. The Group's investment in joint ventures includes goodwill on acquisition. The Group's share of profit from joint ventures represents the Group's share of the joint venture's profit after tax. If the Group's share of losses in a joint venture equals or exceeds its investment in the joint venture, the Group does not recognise further losses unless it has incurred obligations or made payments on behalf of the joint venture.

Associate undertakings
Investments in the associate undertaking are accounted for using the equity method and are initially recognised at cost. This is an undertaking over which the Group has significant influence but not control, generally accompanied by a share of between 20% and 50% of the voting rights. The Group's share of profit from the associate represents the Group's share of the associate's profit after tax.

Segment reporting
The Group's primary reporting format is business segments and its secondary format is geographical segments. A business segment is a component of the Group that is engaged in providing a group of related products and services, and is subject to risks and returns that are different from those other business segments. A geographical segment is a component of the Group that operates within a particular economic environment and this is subject to risks and returns that are different from those of components operating in other economic environments.

Revenue
Revenue includes vehicle rental income, fees from the provision of services incidental to vehicle rental (such as the sale of fuel, sub-licensee income and the provision of foreign exchange services to rental customers), fees receivable from licensees net of discounts and excludes inter-company sales, value added and sales taxes.

When the outcome of a transaction involving the rendering of services (including the provision of licence rights) can be estimated reliably, revenue associated with the transaction is recognised by reference to the stage of completion of the transaction at the balance sheet date. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:

a) the amount of revenue can be measured reliably;
b) it is probable that the economic benefits associated with the transaction will flow to the Group;
c) the stage of completion of the transaction at the balance sheet date can be measured reliably; and
d) the cost incurred for the transaction and the costs to complete the transaction can be measured reliably.

Cost of sales
Cost of sales includes selling, revenue and rental related costs (e.g. commissions and credit card fees) and vehicle costs. Contributions to vehicle costs from suppliers are credited over the holding period of the related vehicles. Any such contributions dependent on performance criteria are recognised in the Income Statement only to the extent that it is considered probable that the criteria will be met.

Administrative expenses
Administrative expenses are recognised as an expense in the period in which they are incurred and include staff costs, non-vehicle related rental charges and other overheads.

Finance costs
Finance costs are recognised as an expense in the period in which they are incurred.

Share-based payments
Share-based payments are exclusively made in connection with employee share option plans (ESOPs).

Significant Accounting Policies continued

Applicable to the Consolidated Financial Statements for the year ended 31 December 2008

IFRS 2, Share-Based Payment, is not applied to shares, share options or other equity instruments that were granted before or on 7 November 2002 nor for options issued after that date which had vested at or before 1 January 2005. Equity-settled ESOPs granted after that date are accounted for in accordance with IFRS 2, such that the fair value of the employee service received in exchange for the grant of the option is recognised in the Income Statement over the related performance period. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted, excluding the impact of any non-market vesting conditions (for example profitability growth targets). Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. At each balance sheet date, the Group revises its estimates of the number of options that are expected to become exercisable. It recognises the impact of the revision of original estimates in the Income Statement, with a corresponding adjustment to equity.

The proceeds received net of any directly attributable transaction costs are credited to share capital and the share premium account when the options are exercised.

Goodwill

Business combinations are accounted for by applying the purchase method. The excess of the cost of the business combination over the acquirer's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities, recognised in accordance with IFRS 3, Business combinations, constitutes goodwill and is recognised as an asset. Where the interest in the net fair value of the identifiable assets, liabilities and contingent liabilities is greater than the cost of the business combination, it is recognised immediately in the Income Statement. Goodwill on acquisition of subsidiaries is included in "Goodwill". Goodwill on acquisition of associates and joint ventures is included in "Investments accounted for using equity method".

After initial recognition, goodwill is measured at cost less any accumulated impairment losses, until disposal or termination of the previously acquired business. The profit or loss on disposal or termination will be calculated after charging the book amount, at current exchange rates, of any such goodwill through the Income Statement. Goodwill is tested for impairment at least annually and whenever there are indications that goodwill may have become impaired (including planned disposal or termination where there are indications that the value of the goodwill has been permanently impaired). Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or group of cash-generating units that are expected to benefit from the business combination in which the goodwill arose.

Goodwill arising on acquisitions before 1 January 2004, the date of transition to International Financial Reporting Standards, has been retained at the previous UK GAAP amounts, subject to being tested for impairment at that date. The Group's policy up to and including 28 February 1998 was to eliminate goodwill arising upon acquisitions to reserves. Under IFRS 1 and IFRS 3, such goodwill will remain eliminated against reserves and is not included in determining any subsequent profit or loss on disposal.

Other intangible assets

Other intangible assets are valued at cost less any accumulated amortisation and any accumulated impairment losses. Costs that are directly associated with identifiable and unique software products which are controlled by the Group, and which have probable economic benefits exceeding the cost beyond one year, are recognised as intangible assets. Costs associated with maintaining computer software, or that are not directly associated with identifiable and unique software products, are expensed as incurred. Computer software programmes are amortised on a straight-line basis over periods varying between two and ten years.

Vehicles not subject to manufacturer repurchase agreements

Vehicles are initially measured at cost. This cost comprises the purchase price (including any import duties and non-refundable purchase taxes, after deducting trade discounts and rebates), plus any costs directly attributable to bringing the vehicle to the location and condition necessary for it to be capable of operating. After initial recognition, the vehicle is carried at its cost less any accumulated depreciation and any accumulated impairment losses. Straight-line depreciation is based on initial cost, after consideration of expected holding periods and estimates of residual values. Where the carrying amount of a vehicle is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount. Recoverable amount is the higher of fair value less costs to sell and value in use.

Other property, plant and equipment

Other property, plant and equipment is initially measured at cost. This cost comprises the purchase price (including any import duties and non-refundable purchase taxes, after deducting trade discounts and rebates), plus any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating. If applicable, initial estimates of the cost of dismantling and removing the item and restoring the site are also included in the cost of the item.

After initial recognition, the assets are carried at cost less any accumulated depreciation and any accumulated impairment losses. The depreciable amount of the item is allocated according to the straight-line method over its useful economic life. The main useful lives are as follows:

a) Buildings:	40 to 50 years;
b) Plant and equipment:	3 to 15 years;
c) Leased assets:	depending on the length of the lease.

Where the carrying amount of a fixed asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount. Recoverable amount is the higher of fair value less costs to sell and value in use and is determined for an individual asset.

Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases.

Operating leases for which the Group is the lessor

Rental income is recognised on a straight-line basis over the lease term. Unless the vehicles themselves are held under operating leases for which the Group is the lessee, vehicles leased out under operating leases are included in vehicles in the balance sheet. They are depreciated over their expected useful lives.

Operating leases for which the Group is the lessee

Lease payments under operating leases (net of any incentive received from the lessor) are recognised as expenses in the income statement on a straight-line basis over the lease term.

Vehicles subject to manufacturer repurchase agreements

Vehicles subject to manufacturer repurchase agreements are not recognised as non-current assets since these arrangements are accounted for as operating leases (lessee accounting). The difference between the initial payment and the final repurchase price (the obligation of the manufacturer) is considered as a deferred charge and is classified as prepaid vehicle operating lease charges within trade and other receivables. At inception of the arrangement, a separate repurchase agreement receivable is also recognised within trade and other receivables for the final repurchase price.

Finance leases for which the Group is the lessee

Leases of vehicles (including vehicles subject to manufacturer repurchase arrangements) and other property, plant and equipment, where the Group has substantially all the risks and rewards of ownership, are classified as finance leases. Finance leases are capitalised at the inception of the lease at the lower of the fair value of the leased asset or the present value of the minimum lease payments. Each lease payment is allocated between the liability and the finance charge so as to achieve a constant rate of return on the finance balance outstanding. The corresponding rental obligations, net of finance charges, are included in interest-bearing liabilities. The interest element of the finance cost is charged to the Income Statement over the lease period. The leased assets are depreciated over their expected useful lives on a basis consistent with similar owned vehicles or other property, plant and equipment. If there is no reasonable certainty that ownership will be acquired by the end of the lease term, the asset is depreciated over the shorter of the lease term and its useful life.

Non-current assets held for sale

Non-current assets are classified as held for sale if their carrying amount will be recovered through a sale transaction rather than through continuing use. This condition is met when the sale is highly probable, the asset is available for immediate sale in its present condition, management are committed to the asset disposal, and disposal is expected to be completed within 12 months. Non-current assets classified as held for sale cease to be depreciated and are measured at the lower of carrying amount and fair value less selling costs.

Inventories

Inventories are measured at the lower of cost and net realisable value. The cost of inventories comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their location and condition at the balance sheet date. Items are valued using the first in, first out method. When inventories are used, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. Provision for write-downs to net realisable value and losses of inventories are recognised as an expense in the period in which the write-down or loss occurs. Reversals are recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

Trade and other receivables

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows. The carrying amount is reduced through the use of an allowance account, and the amount is recognised in the Income Statement within administrative expenses. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited in the Income Statement within administrative expenses.

Cash and cash equivalents

Cash comprises cash in hand, demand deposits and bank overdrafts.
Cash equivalents include short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Bank overdrafts are shown within "borrowings" in "current liabilities" in the Balance Sheet.

Impairment of financial assets

At each balance sheet date the Group assesses whether there is objective evidence that a financial asset or a group of financial assets is impaired. If any such evidence exists for available for sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in the Income Statement.

Trade and other payables

Trade and other payables are initially measured at fair value and subsequently measured at amortised cost using the effective interest method.

Provisions

A provision is recognised when there is a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. If these conditions are not met, no provision is recognised. Provisions are measured at the value of the expenditures expected to be required to settle the obligation. Where the time value of money is material, provisions are discounted using an appropriate rate that takes into account the risks specific to the liability.

Uninsured losses are recognised when the underlying event occurs at the value of the expenditures expected to be required to settle the obligation. Accruals are made for uninsured losses notified and provisions are made for claims incurred but not reported at each year end. Recoveries of amounts claimed from insurers to settle expenses incurred are recognised when it is virtually certain that reimbursement will be received. Provisions are measured at the value of the expenditure expected to be required to settle the obligation.

Retirement benefit obligations

The Group operates various defined benefit and defined contribution retirement benefit plans. Most of these plans are funded schemes, that is they are financed through a pension fund or an external insurance policy. The minimum funding level of these schemes is defined by national rules.

Payments to defined contribution retirement benefit plans are charged as an expense as they fall due.

The Group's commitments under defined benefit retirement benefit plans, and the related costs are valued using the "projected unit credit method" with actuarial valuations being carried out at each balance sheet date. Actuarial gains and losses are recognised in full in the period in which they occur. They are recognised in the Statement of Recognised Income and Expense. Past service cost is recognised immediately to the extent that the benefits have already vested, and otherwise is amortised on a straight-line basis over the average period until the benefits become vested.

The retirement benefit obligation recognised in the Balance Sheet represents the present value of the defined benefit obligation as reduced by the fair value of scheme assets. Any asset resulting from this calculation is limited to past

Significant Accounting Policies continued

Applicable to the Consolidated Financial Statements for the year ended 31 December 2008

service cost, plus the present value of any refunds and reductions in future contributions to the plan. The current service costs and gains and losses on settlements and curtailments are included in operating expenses in the Income Statement.

Taxation

The current tax payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the Income Statement because it excludes items of income or expense that are taxable or deductible in other years. It further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted at the balance sheet date.

Current tax for current and prior periods, to the extent unpaid, is recognised as a liability. If the amount already paid in respect of current and prior periods exceeds the amount due for those periods, the excess is recognised as a current asset. The benefit relating to a tax loss that can be carried back to recover current tax of a previous period is recognised as an asset.

Deferred tax is provided in full using the balance sheet liability method, on temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and the corresponding tax bases for taxation purposes. Deferred taxes are not calculated on the following temporary differences: (i) the initial recognition of goodwill and (ii) the initial recognition of assets and liabilities that affect neither accounting nor taxable profit. The amount of deferred tax provided is based on the expected basis of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date. A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the unused tax losses and credits can be utilised. Deferred tax assets previously recognised are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Deferred tax is not recognised in relation to temporary differences associated with unremitted earnings of the Group's overseas subsidiaries where the Group is in a position to control the timing of the reversal of the temporary differences and it is probable that such differences will not reverse in the foreseeable future.

Current and deferred tax are charged or credited to the Income Statement except when they relate to items charged or credited directly to equity, in which case the tax is also dealt with in equity.

Foreign currency translation

The Group consolidation is prepared in sterling. Income statements of foreign operations are translated into sterling at the weighted average exchange rates for the period and balance sheets are translated into sterling at the exchange rate ruling on the balance sheet date. Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as local currency assets and liabilities of the foreign entity and are translated at the closing rate.

Foreign currency transactions are accounted for at the exchange rate prevailing at the date of the transactions. Gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies are recognised in the Income Statement. Exchange movements arising from the retranslation at closing rates of the Group's net investment in subsidiaries, joint ventures and associates are taken to the translation reserve. The Group's net investment includes the Group's share of net assets of subsidiaries, joint ventures and associates, and certain inter-company loans. The net investment definition includes loans between "sister" companies and certain inter-company items denominated in any currency. Other exchange movements are taken to the Income Statement.

Where the Group hedges net investments in foreign operations, the gains and losses relating to the effective portion of the hedging instrument is recognised in the translation reserve in equity. The gain or loss relating to any ineffective portion is recognised in the Income Statement. Gains and losses accumulated in equity are included in the Income Statement when the foreign operation is disposed of.

The Consolidated Financial Statements are presented in euro. The consolidated sterling assets and liabilities at each balance sheet date are recalculated into euro at the closing rate at that balance sheet date. The consolidated sterling income and expenses are recalculated into euro at the average monthly exchange rates. All resulting exchange differences arising after 1 January 2004 are taken to the translation reserve.

Equity

Where the Company (or its subsidiaries) re-acquires its own equity instruments, those instruments are deducted from equity as own shares held. Where such equity instruments are subsequently sold, any consideration received is recognised in equity.

Dividend distribution

Final dividends to the Company's shareholders are recognised as a liability in the Consolidated Financial Statements in the period in which the dividends are approved by the Company's shareholders. Interim dividends are recognised when paid.

Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost using the effective interest rate method.

Financial instruments and hedge accounting

In accordance with IAS 39, financial instruments are recorded initially at fair value. Subsequent measurement depends upon the designation of the instrument, as follows:

a) non-current investments (other than interests in joint ventures, associates and fixed deposits) and short-term investments (other than fixed deposits) are normally designated as available for sale and are held at fair value;
b) fixed deposits, comprising principally funds held with banks and other financial institutions, and short-term borrowings and overdrafts are classified as loans and receivables and are held at amortised cost;
c) derivatives, including interest rate swaps, foreign exchange contracts, cross currency interest rate swaps, callable interest rate swaps, forward rate agreements, options and embedded derivatives, are classified as derivative financial instruments and are held at fair value; and
d) long-term loans are generally held at amortised cost.

The fair values of derivative financial instruments are determined using a number of methods and assumptions based on prevailing conditions at the balance sheet date including market forward interest rates and exchange rates at the balance sheet date. Changes in fair value of derivative financial instruments that do not qualify for hedge accounting are recognised in the Income Statement as they arise.

The Group documents at the inception of the transaction the relationship between the hedging instruments and hedged item, as well as its risk management objectives and strategy for undertaking various hedging transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

The full fair value of a hedging derivative is classified as a non-current asset or liability if the remaining maturity of the hedged item is more than 12 months, and as a current asset or liability if the remaining maturity of the hedged item is less than 12 months. Trading derivatives are classified as a current asset or liability.

Cash flow hedges
Changes in the fair value of derivative financial instruments that are designated and effective as hedges of future cash flows are recognised directly in equity and any ineffective portion is recognised immediately in the Income Statement. If the cash flow hedge is a firm commitment or the forecast transaction results in the recognition of an asset or a liability, then, at the time the asset or liability is recognised, the associated gains or losses on the derivative that had previously been recognised in equity are included in the initial measurement of the asset or liability. For hedges that do not result in the recognition of an asset or a liability, amounts deferred in equity are recognised in the Income Statement in the same period in which the hedged item affects net profit or loss.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the Income Statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the Income Statement.

Fair value hedges
For an effective hedge of an exposure to changes in the fair value of a hedged item, the hedged item is adjusted for changes in fair value attributable to the risk being hedged with a corresponding entry in the Income Statement. Gains or losses from re-measuring the derivative, or for non-derivatives, the foreign currency component of its carrying amount, are also recognised in the Income Statement.

If the hedge no longer meets the criteria for hedge accounting, the adjustment to the carrying amount of a hedged item for which the effective interest method is used is amortised to the Income Statement over the period to maturity.

Embedded derivatives
Derivatives embedded in other financial instruments or other host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contracts and the host contracts are not carried at fair value. Embedded derivatives are held at fair value, with unrealised gains and losses recognised in the Income Statement as they arise.

Critical accounting policies and judgements
The preparation of the Consolidated Financial Statements requires management to make estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and disclosure of contingencies at the date of the Consolidated Financial Statements. If in the future such estimates and assumptions, which are based on management's best judgement at the date of the Consolidated Financial Statements, deviate from the actual circumstances, the original estimates and assumptions will be modified as appropriate in the period in which the circumstances change. The following policies are considered to be of greater complexity and/or particularly subject to the exercise of judgement.

Goodwill
As required by IAS 36, Impairment of Assets, the Group regularly monitors the carrying value of its assets, including goodwill. Impairment reviews compare the carrying values to the higher of fair value less costs to sell or the present value of future cash flows that are derived from the relevant asset or cash-generating unit. These reviews therefore depend on management estimates and judgements, in particular in relation to the forecasting of future cash flows and the discount rate applied to the cash flows.

Exceptional items
Exceptional items are those that, by virtue of their size or incidence, should be separately disclosed in the Income Statement. The determination of which items should be separately disclosed as exceptional items requires judgement.

Fleet
Given the nature of the Group's business, the main asset in the balance sheet is the vehicle fleet. The majority of fleet is held under manufacturer repurchase arrangements, which guarantee a disposal value at the end of the holding period. However, a proportion of fleet has no such contractual protection and therefore the value at the end of the rental life will depend on the market for those vehicles at the time of disposal. Judgement is therefore required in the estimation of disposal value.

Trade and other receivables
The Group regularly assesses the recoverability of its trade and other receivable balances. Where there is definitive evidence that the Group will not be able to collect all amounts outstanding, a provision for impairment is recognised. The Group utilises previous customer history, debtor ageing profiles and other relevant information in assessing the level of provision required.

Post-employment benefits
Application of IAS 19, *Employee Benefits*, requires the exercise of judgement in relation to setting the assumptions used by the actuaries in assessing the financial position of each scheme. The Group determines the assumptions to be adopted in discussion with its actuaries, and believes these assumptions to be in line with UK generally accepted practice, but the application of different assumptions could have a significant effect on the amounts reflected in the Income Statement and Balance Sheet in respect of post-employment benefits. The sensitivity of principal scheme liabilities to changes in the assumptions used by actuaries is set out in Note 24.

Provisions
The Group continues to carry balance sheet provisions in a number of areas against exposures that arise in the normal course of trading. These provisions cover areas such as uninsured losses, termination and reorganisation activities and property dilapidation reserves. Judgement is involved in assessing the exposures in these areas and hence in setting the level of the required provision.

Taxation
The Group is subject to taxation in a number of jurisdictions. Significant judgement is required in determining the Group's provision for tax. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. As a result, the exercising of judgement is required in order to assess the exposures in these areas and set the appropriate level of provision.

Notes to the Consolidated Financial Statements

for the year ended 31 December

1 General information

The Company is a public limited company and has a primary listing on the London Stock Exchange. The address of its registered office is Avis House, Park Road, Bracknell, Berkshire, RG12 2EW. The Company's ultimate majority shareholder 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.

This set of Consolidated Financial Statements was approved for issue on 3 March 2009.

2 Revenue

The Group is an international vehicle rental services company and a market leader in many of its markets. Revenue, as disclosed on the face of the Consolidated Income Statement, is derived entirely from continuing activities. Revenue from Avis Greece, the discontinued operation in the prior year, is disclosed separately in Note 39. The Group experiences a natural increase in demand from leisure customers over the European summer holiday months. This seasonality generally results in lower revenue generated in the first half of the year as compared to the second half, together with an increase in the number of vehicles acquired in the period leading up to the summer months.

3 Business and geographical segments

The dominant source and nature of the Group's risks and returns govern whether its primary segment reporting is by business segment or geographical segment. The Group is subject to significant variations in risks and rewards between undertaking its operations through corporately-owned businesses, compared to the licensing of such operations to third parties. Given the nature of the separate brands, the Group is also subject to significant variations in risks and rewards between the Avis branded businesses and the Budget branded businesses. These variations contrast with more limited differentials between the risk and reward profile of operations in different geographical locations. The Group's primary reporting format is therefore by business segment, and the secondary reporting format is geographical. Discontinued relates entirely to Avis corporately-owned activities in Greece in the prior year.

a) Business segments

	2008			2007		
Revenue	External €m	Inter-segment[1] €m	Total €m	External €m	Inter-segment[1] €m	Total €m
Rental revenue	**1,101.6**	**4.1**	**1,105.7**	1,114.2	5.0	1,119.2
Other non-rental revenue[2]	**119.4**	**–**	**119.4**	125.8	–	125.8
Avis Corporate	**1,221.0**	**4.1**	**1,225.1**	1,240.0	5.0	1,245.0
Avis Licensees	**36.6**	**–**	**36.6**	34.1	–	34.1
Avis	**1,257.6**	**4.1**	**1,261.7**	1,274.1	5.0	1,279.1
Rental revenue	**37.8**	**–**	**37.8**	35.7	–	35.7
Other non-rental revenue[2]	**5.4**	**–**	**5.4**	6.9	–	6.9
Budget Corporate	**43.2**	**–**	**43.2**	42.6	–	42.6
Budget Licensees	**13.0**	**–**	**13.0**	10.1	–	10.1
Budget	**56.2**	**–**	**56.2**	52.7	–	52.7
Elimination of inter-segment	**–**	**(4.1)**	**(4.1)**	–	(5.0)	(5.0)
Revenue – continuing	**1,313.8**	**–**	**1,313.8**	1,326.8	–	1,326.8
Discontinued operation (see Note 39)	**–**	**–**	**–**	48.7	–	48.7
Revenue including discontinued operation	**1,313.8**	**–**	**1,313.8**	1,375.5	–	1,375.5

1 Inter-segment revenues are charged at prevailing market prices. There was no inter-segment revenue in the discontinued operation.

2 Other non-rental revenue includes income from the sale of fuel, sub-licensee income, the provision of foreign exchange services to rental customers and other incidental operating income.

	2008			2007		
Operating profit/(loss)	Underlying[1] €m	Amounts excluded from underlying €m	Total €m	Underlying[1] €m	Amounts excluded from underlying €m	Total €m
Avis Corporate	**110.5**	**(26.1)**	**84.4**	124.7	(4.4)	120.3
Avis Licensees	**34.7**	**–**	**34.7**	31.9	–	31.9
Avis	**145.2**	**(26.1)**	**119.1**	156.6	(4.4)	152.2
Budget Corporate	**(5.8)**	**(0.4)**	**(6.2)**	(4.1)	–	(4.1)
Budget Licensees	**2.8**	**–**	**2.8**	1.2	–	1.2
Budget	**(3.0)**	**(0.4)**	**(3.4)**	(2.9)	–	(2.9)
Headquarters	**(29.5)**	**10.9**	**(18.6)**	(47.2)	(0.8)	(48.0)
Operating profit/(loss) – continuing	**112.7**	**(15.6)**	**97.1**	106.5	(5.2)	101.3
Discontinued operation (see Note 39)	**–**	**1.3**	**1.3**	7.9	(15.9)	(8.0)
Operating profit/(loss) including discontinued operation	**112.7**	**(14.3)**	**98.4**	114.4	(21.1)	93.3

1 See Basis of Preparation.

There has been no change in the basis of segmentation or the basis of measurement of segment operating profit since the last Annual Report. No adjustment is made between segments to recharge the value of Avis/Budget goodwill, brand, licence rights, or to allocate the value of goodwill written off to reserves in previous periods. Avis goodwill of €1,080.4 million arising before 1 March 1998 was fully written off to reserves, and Budget goodwill of €33.9 million arising on 12 March 2003 has been fully impaired and charged to the Income Statement in previous periods. Had the value of goodwill, brand or licence rights been charged to the segments, the individual segment results would be materially affected.

	Assets		Liabilities		Net assets	
Balance sheet	2008 €m	2007 €m	2008 €m	2007 €m	2008 €m	2007 €m
Avis Corporate	**1,859.0**	1,923.1	**(1,637.1)**	(1,591.7)	**221.9**	331.4
Avis Licensees	**6.4**	8.5	**–**	–	**6.4**	8.5
Avis	**1,865.4**	1,931.6	**(1,637.1)**	(1,591.7)	**228.3**	339.9
Budget Corporate	**55.8**	53.2	**(58.7)**	(53.0)	**(2.9)**	0.2
Budget Licensees	**2.2**	2.8	**(1.4)**	(1.2)	**0.8**	1.6
Budget	**58.0**	56.0	**(60.1)**	(54.2)	**(2.1)**	1.8
Segment total	**1,923.4**	1,987.6	**(1,697.2)**	(1,645.9)	**226.2**	341.7
Share of joint ventures and associate (see Note 15)	**12.2**	10.8	**–**	–	**12.2**	10.8
Headquarters	**69.2**	91.3	**(237.5)**	(346.8)	**(168.3)**	(255.5)
Total Group	**2,004.8**	2,089.7	**(1,934.7)**	(1,992.7)	**70.1**	97.0

Headquarters primarily represent head office assets and liabilities. Segment assets include software, vehicles, other property, plant and equipment, inventories, receivables (including vehicles under manufacturer repurchase agreements) and operating cash, goodwill and investments. Segment liabilities include operating liabilities and certain corporate borrowings.

3 Business and geographical segments continued

Other information	Capital expenditure 2008 €m	Capital expenditure 2007 €m	Depreciation and amortisation 2008 €m	Depreciation and amortisation 2007 €m	Impairment losses 2008 €m	Impairment losses 2007 €m
Avis Corporate	**528.9**	637.3	**128.8**	136.3	**3.1**	4.0
Avis Licensees	**–**	–	**–**	–	**–**	–
Avis	**528.9**	637.3	**128.8**	136.3	**3.1**	4.0
Budget Corporate	**3.6**	3.1	**1.4**	1.4	**–**	–
Budget Licensees	**–**	–	**–**	–	**–**	–
Budget	**3.6**	3.1	**1.4**	1.4	**–**	–
Segment total	**532.5**	640.4	**130.2**	137.7	**3.1**	4.0
Headquarters	**9.7**	11.5	**5.4**	10.3	**–**	–
Continuing operations	**542.2**	651.9	**135.6**	148.0	**3.1**	4.0
Discontinued operation (see Note 39)	**–**	26.8	**–**	9.7	**–**	7.1
Group including discontinued operation	**542.2**	678.7	**135.6**	157.7	**3.1**	11.1

Capital expenditure comprises additions to software, vehicles (excluding vehicles under manufacturer repurchase arrangements), other property, plant and equipment, including additions arising from business combinations, excluding goodwill arising on these acquisitions.

Headquarters primarily represent capital expenditure and depreciation/amortisation of head office software projects and property, plant and equipment. Impairment losses comprise exceptional goodwill (see Note 11) and exceptional other property, plant and equipment impairments (see Note 14).

b) Geographical segments

	Revenue 2008 €m	Revenue 2007 €m	Assets 2008 €m	Assets 2007 €m	Capital expenditure 2008 €m	Capital expenditure 2007 €m
France	**292.3**	295.5	**389.1**	437.9	**89.8**	160.3
Germany	**214.2**	196.7	**459.5**	420.7	**96.3**	59.1
Italy	**209.7**	201.9	**309.7**	246.6	**180.3**	156.6
Spain	**184.1**	208.1	**241.0**	327.4	**85.0**	179.2
United Kingdom	**222.8**	243.7	**262.5**	321.5	**46.4**	48.7
Other Europe	**186.4**	177.7	**250.6**	226.2	**29.8**	33.4
Rest of the world	**4.3**	3.2	**11.0**	7.3	**4.9**	3.1
	1,313.8	1,326.8	**1,923.4**	1,987.6	**532.5**	640.4
Share of joint ventures and associate (see Note 15)	**–**	–	**12.2**	10.8	**–**	–
Headquarters	**–**	–	**9.2**	91.3	**9.7**	11.5
Continuing operations	**1,313.8**	1,326.8	**2,004.8**	2,089.7	**542.2**	651.9
Discontinued operation (see Note 39)	**–**	48.7	**n/a**	n/a	**–**	26.8
Group including discontinued operation	**1,313.8**	1,375.5	**2,004.8**	2,089.7	**542.2**	678.7

4 Operating profit

	2008 €m	2007 €m
Operating profit is stated after charging/(crediting):		
Underlying profit[1]:		
Hire of vehicles under repurchase contracts	**235.6**	222.8
Unwinding of discount on vehicle repurchase contracts	**(43.3)**	(37.0)
Net operating lease charge on manufacturer repurchase contracts	**192.3**	185.8
Hire of plant and equipment	**1.4**	1.3
Hire of motor vehicles	**61.9**	79.0
Net charge on hire of plant, equipment and motor vehicles	**255.6**	266.1
Depreciation on vehicles – owned (see Note 13)	**99.1**	111.4
Depreciation on vehicles – under finance lease (see Note 13)	**16.0**	20.9
Depreciation on other property, plant and equipment (see Note 14)	**17.1**	20.5
Depreciation on property, plant and equipment	**132.2**	152.8
Adjustments arising on differences between sales proceeds and depreciated amounts – fleet	**10.3**	(14.1)
Adjustments arising on differences between sales proceeds and depreciated amounts – non fleet	**0.1**	(4.6)
Adjustments arising on differences between sales proceeds and depreciated amounts	**10.4**	(18.7)
Amortisation of other intangible assets (see Note 12)	**3.4**	4.9
Exchange movements	**(0.1)**	(0.9)
Contingent operating lease rentals[2]	**55.2**	53.9
Other operating lease rentals	**56.4**	52.8
Net amounts excluded from underlying[1]:		
Total net exceptional items – continuing (see Note 6)	**28.8**	6.9
Re-measurement gains on non-debt related derivative financial instruments[3]	**(11.2)**	(3.5)
Re-measurement losses on non-debt related derivative financial instruments[3]	**3.2**	2.8
	(8.0)	(0.7)
Economic hedging adjustment on foreign exchange	**(5.2)**	(1.0)
Total net exceptional items – continuing, certain re-measurement items and economic hedge adjustments	**15.6**	5.2

1 See Basis of Preparation.
2 Contingent operating lease rentals primarily arise with respect to airport rental desk concessions, and are ordinarily based on the level of revenue generated by the individual concession.
3 Net re-measurement gains on non-debt related derivative financial instruments of €8.0 million (2007: gains of €0.7 million), comprises realised gains of €5.1 million (2007: losses of €1.8 million) and unrealised gains of €2.9 million (2007: gains of €2.5 million).

Auditors' remuneration is analysed as follows:	2008 €m	2007 €m
Fees payable to the Company's auditor for the audit of the Company's:		
– annual accounts	**0.5**	0.7
– subsidiaries pursuant to legislation	**0.9**	0.9
	1.4	1.6
Fees payable to the Company's auditor and its associates for other services:		
– other services pursuant to legislation	**0.1**	0.1
– taxation services	**0.4**	0.8
– litigation	**0.1**	0.1
– corporate finance transactions	**–**	0.1
– other	**0.1**	0.4
	0.7	1.5
Auditors' remuneration – continuing	**2.1**	3.1
Auditors' remuneration – discontinued operation	**–**	0.1
Auditors' remuneration including discontinued operation	**2.1**	3.2

Notes to the Consolidated Financial Statements continued

for the year ended 31 December

5 Directors and employees

	2008 €m	2007 €m
Staff costs – continuing		
Retirement benefit charges under defined contribution schemes	**6.9**	5.7
Retirement benefit charges under defined benefit schemes (see Note 24)	**9.6**	10.2
Retirement benefit charges	**16.5**	15.9
Wages and salaries	**222.0**	232.8
Social security costs	**44.3**	42.6
Share-based payments	**0.2**	0.4
Underlying Directors and employee costs	**283.0**	291.7
Exceptional staff costs – continuing (see Note 6)		
Retirement benefit charges – exceptional curtailments (see Note 6a)	**0.5**	–
Severance and other	**20.2**	7.0
	20.7	7.0
Directors and employee costs – continuing	**303.7**	298.7
Staff costs – discontinued operation	**–**	5.0
Directors and employee costs including discontinued operation	**303.7**	303.7

Further details of Directors' remuneration for the year are provided in Note 43 and the audited part of the Remuneration Report on pages 39 to 42. There were no Directors and employee costs in respect of the Company (2007: nil).

	2008 Number	2007 Number
Staff numbers – continuing (average full time equivalent)		
France	**1,511**	1,512
Germany	**735**	698
Italy	**564**	535
Spain	**1,059**	1,156
United Kingdom	**1,013**	1,055
Others	**1,085**	1,014
Staff numbers – continuing	**5,967**	5,970
Staff numbers – discontinued operation	**–**	152
Staff numbers including discontinued operation	**5,967**	6,122

There were no staff employed by the Company (2007: nil).

6 Net exceptional items

	2008 €m	2007 €m
Exceptional administrative expenses:		
a) Restructuring costs	**27.6**	7.1
b) Goodwill impairment	**1.5**	4.0
c) Centrus receivables	**(0.3)**	(0.7)
d) Independent investigation and associated costs	**–**	4.8
e) Net project termination credit	**–**	(2.6)
f) Insurance provision release	**–**	(5.7)
Net exceptional items before tax – continuing operations	**28.8**	6.9
g) Discontinued operation	**(1.3)**	15.9
Net exceptional items before tax including discontinued operation	**27.5**	22.8
Tax on exceptional items (see Note 8)	**–**	6.4
Net exceptional items after tax including discontinued operation	**27.5**	29.2

a) Restructuring costs of €27.6 million included €1.9 million of costs incurred in the first half in respect of a redundancy programme that commenced in December 2007. Restructuring costs of €25.7 million were then recognised in the second half reflecting a further rationalisation of operations in response to the deterioration in the trading environment, including redundancies, the closure of certain low margin rental locations, and the rationalisation of property with the transfer of the staff of the UK business head-office into the Group headquarters building. These restructuring costs include redundancy costs, onerous lease provisions, fixed asset impairments (see Note 14) and exceptional pension curtailments (see Note 24). In the prior year, restructuring costs of €7.1 million were incurred with respect to the redundancy programme commenced in December 2007, and the final elements of a restructuring project commenced in 2005.

b) During 2008, the Group recognised an exceptional impairment provision against the goodwill arising on the acquisition of certain licensees in Holland (see Note 38). This followed a reappraisal of the business in conjunction with the restructuring referred to above. In the comparative year, the Group acquired the assets of a licensee in Germany and an impairment provision was made in respect of the goodwill arising.

c) During the current and prior years, the activities associated with the closure of the Centrus credit hire business were more successful than previously anticipated. The Group therefore partially reversed provisions recognised in prior years, resulting in a further exceptional credit of €0.3 million (2007: €0.7 million).

d) In the prior year, the Group investigated potential malpractice in Portugal. Associated independent investigation costs and certain directly related employee termination amounts were recognised.

e) Following the Group's decision in 2004 to terminate an agreement with an IT contractor upon the conclusion of a legal case, a net exceptional credit was recognised in the prior year.

f) During the second half of 2007 the Group reviewed its methodology for calculating the level of provision required in respect of third party motor liability losses, including those not yet reported. The provision re-assessment resulted in an exceptional credit to the Income Statement of €5.7 million.

g) In the prior year, the Group disposed of its subsidiary in Greece. The Group has recognised an exceptional credit of €1.3 million in the current year to reflect the final settlement of a warranty provision (see Note 39).

7 Finance income, finance costs and foreign exchange on net debt

	2008 Underlying[1] €m	2008 Amounts excluded from underlying €m	2008 Total €m	2007 Underlying[1] €m	2007 Amounts excluded from underlying €m	2007 Total €m
Finance income – continuing						
Interest receivable	**2.0**	**–**	**2.0**	5.4	–	5.4
Re-measurement gains on debt-related derivative financial instruments[2]	**–**	**–**	**–**	–	0.8	0.8
	2.0	**–**	**2.0**	5.4	0.8	6.2
Finance costs – continuing						
Interest payable under finance lease obligations	**(19.2)**	**–**	**(19.2)**	(17.5)	–	(17.5)
Interest payable on bank loans, overdrafts and loan notes[3]	**(56.2)**	**–**	**(56.2)**	(55.6)	–	(55.6)
Interest payable on deferred consideration	**(2.2)**	**–**	**(2.2)**	(2.6)	–	(2.6)
Re-measurement losses on debt-related derivative financial instruments[2]	**–**	**(18.4)**	**(18.4)**	–	(3.2)	(3.2)
Economic hedge adjustment on interest payable[3]	**0.5**	**(0.5)**	**–**	0.6	(0.6)	–
Foreign exchange (loss)/gain on net debt	**–**	**(0.5)**	**(0.5)**	–	3.8	3.8
	(77.1)	**(19.4)**	**(96.5)**	(75.1)	–	(75.1)
Net finance costs – continuing	**(75.1)**	**(19.4)**	**(94.5)**	(69.7)	0.8	(68.9)
Discontinued operation (see Note 39)	**–**	**–**	**–**	(5.5)	–	(5.5)
Net finance costs including discontinued operation	**(75.1)**	**(19.4)**	**(94.5)**	(75.2)	0.8	(74.4)

1 See Basis of Preparation.
2 Net re-measurement losses on debt-related derivative financial instruments of €18.4 million (2007: losses of €2.4 million) comprise realised gains of €1.5 million (2007: losses of €0.5 million) and unrealised losses of €19.9 million (2007: losses of €1.9 million).
3 Economic hedging arrangements have been entered into for which the Group is unable to apply hedge accounting under IAS 39. Interest payable on bank loans and overdrafts, to the extent that IAS 39 does not permit hedge accounting, therefore reflects actual interest rates applicable to debt, regardless of any accrued cash flow paid at contracted rates within hedging derivatives.

8 Taxation

a) Analysis of tax charge/(credit)

	2008 Underlying[1] €m	2008 Amounts excluded from underlying €m	2008 Total €m	2007 Underlying[1] €m	2007 Amounts excluded from underlying €m	2007 Total €m
Continuing operations						
Current UK tax						
UK corporation tax on profits for the year before exceptional items	**9.0**	**(1.9)**	**7.1**	(0.3)	(0.4)	(0.7)
Tax on exceptional items	**–**	**1.2**	**1.2**	–	3.1	3.1
Adjustments in respect of prior years	**(4.7)**	**(4.1)**	**(8.8)**	1.9	–	1.9
Current UK tax	**4.3**	**(4.8)**	**(0.5)**	1.6	2.7	4.3
Current foreign tax						
Foreign corporation tax on profits for the year before exceptional items	**(2.1)**	**–**	**(2.1)**	8.2	–	8.2
Current tax on exceptional items	**–**	**–**	**–**	–	(0.1)	(0.1)
Adjustments in respect of prior years	**(1.6)**	**–**	**(1.6)**	3.4	–	3.4
Current foreign tax	**(3.7)**	**–**	**(3.7)**	11.6	(0.1)	11.5
Current tax – continuing	**0.6**	**(4.8)**	**(4.2)**	13.2	2.6	15.8
Analysed as:						
Corporation tax on profits for the year before exceptional items	**6.9**	**(1.9)**	**5.0**	7.9	(0.4)	7.5
Tax on exceptional items	**–**	**1.2**	**1.2**	–	3.0	3.0
Adjustments in respect of prior years	**(6.3)**	**(4.1)**	**(10.4)**	5.3	–	5.3
Current tax – continuing	**0.6**	**(4.8)**	**(4.2)**	13.2	2.6	15.8
Deferred tax						
Origination and reversal of temporary differences	**12.7**	**–**	**12.7**	5.6	0.5	6.1
Deferred tax on exceptional items	**–**	**(1.2)**	**(1.2)**	–	3.4	3.4
Adjustments in respect of prior years	**2.9**	**4.0**	**6.9**	(7.4)	–	(7.4)
Deferred tax – continuing	**15.6**	**2.8**	**18.4**	(1.8)	3.9	2.1
Taxation – continuing	**16.2**	**(2.0)**	**14.2**	11.4	6.5	17.9
Discontinued operation – Greece						
Deferred tax	**–**	**–**	**–**	(1.1)	–	(1.1)
Taxation including discontinued operation	**16.2**	**(2.0)**	**14.2**	10.3	6.5	16.8

1 See Basis of Preparation.

Notes to the Consolidated Financial Statements continued

for the year ended 31 December

8 Taxation continued

b) Tax (credit)/charge taken directly to the Statement of Recognised Income and Expense

	2008			2007		
	Underlying[1] €m	Amounts excluded from underlying €m	Total €m	Underlying[1] €m	Amounts excluded from underlying €m	Total €m
Deferred tax (credit)/charge on cash flow hedges	–	(2.8)	(2.8)	–	0.6	0.6
Current tax credit on exchange movements offset in reserves	–	(3.8)	(3.8)	–	(0.9)	(0.9)
Deferred tax charge on actuarial gains	–	2.8	2.8	–	3.4	3.4
	–	(3.8)	(3.8)	–	3.1	3.1

1 See Basis of Preparation.

c) Reconciliation of tax charge/(credit)

	2008			2007		
	Underlying[1] €m	Amounts excluded from underlying €m	Total €m	Underlying[1] €m	Amounts excluded from underlying €m	Total €m
Profit/(loss) before taxation (excluding discontinued operation)	38.0	(35.0)	3.0	37.6	(4.4)	33.2
Tax at the UK corporation tax rate of 28.5% (2007: 30.0%)	10.8	(10.0)	0.8	11.3	(1.3)	10.0
Differing rates applied to overseas profits	(5.2)	(0.2)	(5.4)	(5.9)	(0.4)	(6.3)
Expenses not deductible for tax purposes	2.7	(0.1)	2.6	3.0	2.6	5.6
Utilisation of tax losses	–	–	–	(0.6)	–	(0.6)
Adjustments in respect of prior years	(3.4)	(0.1)	(3.5)	(2.1)	–	(2.1)
Deferred assets not recognised	11.1	7.7	18.8	8.0	1.4	9.4
Other	0.2	0.7	0.9	(2.3)	4.2	1.9
Taxation – continuing	**16.2**	**(2.0)**	**14.2**	11.4	6.5	17.9
Discontinued operation (see Note 39)	–	–	–	(1.1)	–	(1.1)
Taxation including discontinued operation	16.2	(2.0)	14.2	10.3	6.5	16.8

The UK corporation tax rate decreased to 28% with effect from 1 April 2008 (2007: 30.0%) as a consequence of the announcement in the 2007 Budget.

1 See Basis of Preparation.

9 Dividends

The Directors do not propose the payment of an interim or final dividend for the year ended 31 December 2008 (2007: nil).

10 Earnings per share

a) Basic and diluted

Basic and diluted earnings per share are based on the earnings for the year attributable to equity holders of the Company, and the weighted average number of shares in issue for the year attributable to equity holders of the Company.

Basic and diluted earnings per share from continuing operations is as follows:

Continuing operations **(Loss)/earnings from continuing operations**	2008 €m	2007 €m	2008 £m	2007 £m
(Loss)/earnings for the year from continuing operations attributable to equity holders of the Company	**(11.2)**	15.4	**(8.8)**	10.4

(Loss)/earnings per share from continuing operations	2008 Euro cents	2007 Euro cents	2008 Sterling pence	2007 Sterling pence
Basic and diluted (loss)/earnings per share from continuing operations	**(1.2)**	1.6	**(1.0)**	1.1

Discontinued operation – Greece

The results of the discontinued operation are provided for the period up to the date of disposal, being 25 July 2007 (see Note 39).

Earnings/(loss) from discontinued operation	2008 €m	2007 €m	2008 £m	2007 £m
Earnings/(loss) for the year from discontinued operation attributable to equity holders of the Company	**1.3**	(12.4)	**1.0**	(8.4)

Earnings/(loss) per share from discontinued operation	2008 Euro cents	2007 Euro cents	2008 Sterling pence	2007 Sterling pence
Basic and diluted earnings/(loss) per share from the discontinued operation	**0.1**	(1.3)	**0.1**	(0.9)

Basic and diluted including discontinued operation **(Loss)/earnings**	2008 €m	2007 €m	2008 £m	2007 £m
(Loss)/earnings for the year attributable to equity holders of the Company	**(9.9)**	3.0	**(7.8)**	2.0

(Loss)/earnings per share	2008 Euro cents	2007 Euro cents	2008 Sterling pence	2007 Sterling pence
Basic and diluted (loss)/earnings per share	**(1.1)**	0.3	**(0.9)**	0.2

After adjusting for own shares held, the weighted average number of shares in issue for the year was 918,921,314 (2007: 918,499,740).

Options have been granted to certain Directors and employees over ordinary shares of the Company. These options constitute the only category of potentially dilutive ordinary shares but these did not increase the weighted average number of shares in either 2007 or 2008. These options were not dilutive as either the option exercise prices were in excess of the prevailing market share price, or exercise of the options is subject to performance conditions which had not been fully satisfied by the year end.

b) Underlying

Underlying earnings per share is based on the underlying earnings for the year and the weighted average number of shares in issue for the year attributable to equity holders of the Company.

Underlying earnings per share from continuing operations is as follows:

Earnings from continuing operations	2008 €m	2007 €m	2008 £m	2007 £m
Underlying earnings for the year from continuing operations attributable to equity holders of the Company	**21.8**	26.3	**17.0**	17.9

Earnings per share from continuing operations	2008 Euro cents	2007 Euro cents	2008 Sterling pence	2007 Sterling pence
Basic and diluted underlying earnings per share from continuing operations	**2.4**	2.9	**1.8**	1.9

11 Goodwill

	2008 €m	2007 €m
Cost		
At 1 January	**43.4**	47.9
Additions (see Note 38)	**1.4**	4.3
Disposal of business (see Note 39)	**–**	(7.6)
Exchange movements	**(7.6)**	(1.2)
At 31 December	**37.2**	43.4
Accumulated impairment provisions		
At 1 January	**43.1**	40.0
Exceptional impairment losses for the year	**1.5**	11.1
Disposal of business (see Note 39)	**–**	(7.1)
Exchange movements	**(7.6)**	(0.9)
At 31 December	**37.0**	43.1
Net book amount		
At 31 December	**0.2**	0.3

Goodwill of €1,080.4 million arising before 1 March 1998 is fully written off to reserves (see Note 33).

In accordance with the requirements of IAS 36, Impairment of Assets, the Group ordinarily completes a review of the carrying value of goodwill at each year end. Goodwill is allocated to cash-generating units for the purpose of impairment testing, each of these representing the Group's investment where the goodwill originally arose. The impairment review is conducted to ensure that the carrying values of the assets within cash-generating units for which goodwill has been allocated are stated at no more than their recoverable amount, being the higher of fair value less costs to sell and value in use.

After a reassessment of the long-term business plan for Avis Holland, the Directors concluded at 31 December 2008 that the recoverable amount (determined by reference to their value in use) of the goodwill attaching to the licencee businesses was less than its carrying amount. As a consequence, an impairment provision of €1.5 million was recognised to write down the goodwill to nil. There was no cash flow impact arising from this impairment provision.

Accumulated impairment provisions represent amounts provided in respect of acquired former Budget licensee operations in France, and certain former Avis licensee operations in France, Germany and Holland.

The Directors also review at each year end the carrying values of the remaining capitalised goodwill relating to the new licensee acquisition in France (see Note 38) and the joint venture in China (see Note 15). This review (undertaken by calculating value in use) did not result in the need for any impairment provision to be recognised as at 31 December 2007 or 31 December 2008.

In determining the value in use, the Directors calculated the present value of the estimated future cash flows expected to arise from the continuing use of the assets using post-tax discount rates based upon the Group's weighted average cost of capital with appropriate adjustment for the relevant risks associated with the businesses. Estimated future cash flows are based on management's three-year plans for each cash-generating unit, with extrapolation thereafter based on long-term average nominal growth rate of 4.0%.

12 Other intangible assets

Other intangible assets comprise internally generated software development costs and externally acquired software. Amortisation charged in the year is reported in the Income Statement within "administrative expenses".

	Software			Software		
	Internally generated 2008 €m	Externally acquired 2008 €m	Total 2008 €m	Internally generated 2007 €m	Externally acquired 2007 €m	Total 2007 €m
Cost						
At 1 January	**12.5**	**12.2**	**24.7**	6.3	10.2	16.5
Additions	**8.7**	**1.2**	**9.9**	6.9	2.7	9.6
Disposals	**(0.1)**	**–**	**(0.1)**	–	–	–
Disposal of business (see Note 39)	**–**	**–**	**–**	–	(0.3)	(0.3)
Exchange movements	**(4.1)**	**(2.3)**	**(6.4)**	(0.7)	(0.4)	(1.1)
At 31 December	**17.0**	**11.1**	**28.1**	12.5	12.2	24.7
Amortisation						
At 1 January	**3.1**	**9.7**	**12.8**	2.2	6.4	8.6
Charges for the year (see Note 4)	**1.9**	**1.5**	**3.4**	1.2	3.7	4.9
Disposals	**(0.1)**	**–**	**(0.1)**	–	–	–
Disposal of business (see Note 39)	**–**	**–**	**–**	–	(0.1)	(0.1)
Exchange movements	**(1.0)**	**(1.7)**	**(2.7)**	(0.3)	(0.3)	(0.6)
At 31 December	**3.9**	**9.5**	**13.4**	3.1	9.7	12.8
Net book amount						
At 31 December	**13.1**	**1.6**	**14.7**	9.4	2.5	11.9

13 Vehicles

	2008 €m	2007 €m
Cost		
At 1 January	**525.8**	626.3
Additions	**515.9**	650.1
Disposals	**(490.8)**	(588.4)
Transfers to non-current assets held for resale (see Note 18)	**(70.4)**	(76.1)
Transfers from current assets	**57.5**	65.1
Acquisitions	**0.2**	–
Disposal of business (see Note 39)	**–**	(146.5)
Exchange movements	**(11.7)**	(4.7)
At 31 December	**526.5**	525.8
Depreciation and impairment		
At 1 January	**77.1**	116.9
Charges for the year	**115.1**	132.3
Disposals	**(87.3)**	(134.4)
Transfers to non-current assets held for resale (see Note 18)	**(14.0)**	(13.9)
Transfers from current assets	**(1.0)**	–
Disposal of business (see Note 39)	**–**	(21.6)
Exchange movements	**(4.4)**	(2.2)
At 31 December	**85.5**	77.1
Net book amount		
At 31 December	**441.0**	448.7

Vehicles held under finance leases are included in the above at 31 December at the following amounts:

	2008 €m	2007 €m
Cost	**106.7**	134.9
Depreciation and impairment	**(20.1)**	(19.2)
Net book amount	**86.6**	115.7

At 31 December 2008, the Group had capital commitments for vehicles contracted, but not provided for, amounting to €18.5 million (2007: €36.9 million).

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14 Other property, plant and equipment

	Freehold land and buildings €m	Short leasehold property €m	Plant and equipment €m	Assets in the course of construction €m	Total €m
Cost					
At 1 January 2007	38.9	47.0	59.5	0.5	145.9
Additions	2.7	3.3	9.8	3.2	19.0
Disposals	(3.4)	(4.9)	(5.5)	–	(13.8)
Transfers	0.7	2.3	–	(3.0)	–
Acquisitions	–	0.1	0.6	–	0.7
Disposal of business (see Note 39)	(1.4)	(2.0)	(3.4)	–	(6.8)
Exchange movements	0.3	(0.7)	(1.0)	–	(1.4)
At 31 December 2007	37.8	45.1	60.0	0.7	143.6
At 1 January 2008	**37.8**	**45.1**	**60.0**	**0.7**	**143.6**
Additions	**1.1**	**3.1**	**7.8**	**4.4**	**16.4**
Disposals	**(0.5)**	**(0.2)**	**(0.6)**	**–**	**(1.3)**
Transfers	**0.8**	**1.4**	**0.3**	**(2.5)**	**–**
Acquisitions	**–**	**–**	**0.1**	**–**	**0.1**
Exchange movements	**(0.4)**	**(6.0)**	**(7.1)**	**(0.4)**	**(13.9)**
At 31 December 2008	**38.8**	**43.4**	**60.5**	**2.2**	**144.9**
Depreciation and impairment					
At 1 January 2007	5.0	20.7	34.9	–	60.6
Charges for the year	1.9	4.3	14.3	–	20.5
Disposals	(1.5)	(4.1)	(5.1)	–	(10.7)
Disposal of business (see Note 39)	(0.9)	(0.7)	(2.8)	–	(4.4)
Exchange movements	0.3	–	(0.7)	–	(0.4)
At 31 December 2007	4.8	20.2	40.6	–	65.6
At 1 January 2008	**4.8**	**20.2**	**40.6**	**–**	**65.6**
Charges for the year	**2.1**	**4.2**	**10.8**	**–**	**17.1**
Exceptional impairment loss	**–**	**1.4**	**0.2**	**–**	**1.6**
Disposals	**(0.2)**	**(0.1)**	**(0.3)**	**–**	**(0.6)**
Exchange movements	**(0.5)**	**(3.7)**	**(6.3)**	**–**	**(10.5)**
At 31 December 2008	**6.2**	**22.0**	**45.0**	**–**	**73.2**
Net book amount					
At 31 December 2008	**32.6**	**21.4**	**15.5**	**2.2**	**71.7**
At 31 December 2007	33.0	24.9	19.4	0.7	78.0

The exceptional impairment losses of €1.6 million in 2008 have been classified within "exceptional restructuring costs" in the Income Statement (see Note 6).

Other property, plant and equipment held under finance leases are included in the above at 31 December at the following amounts:

	2008 €m	2007 €m
Cost	**4.1**	4.3
Depreciation and impairment	**(1.3)**	(1.3)
Net book amount	**2.8**	3.0

At 31 December 2008, the Group had capital commitments for other property, plant and equipment contracted, but not provided for, amounting to €1.6 million (2007: €3.2 million).

15 Investments accounted for using the equity method

	Joint ventures €m	Associate €m	Total €m
At 1 January 2007	9.9	0.3	10.2
Share of profit	0.6	0.2	0.8
Exchange movements	(0.2)	–	(0.2)
At 31 December 2007	10.3	0.5	10.8
At 1 January 2008	**10.3**	**0.5**	**10.8**
Acquisitions (see Note 38)	**0.1**	**–**	**0.1**
Share of profit	**0.3**	**0.1**	**0.4**
Exchange movements	**1.0**	**(0.1)**	**0.9**
At 31 December 2008	**11.7**	**0.5**	**12.2**

The Group has a 50% share in both of its joint ventures, Anji Car Rental and Leasing Company and OKIGO, companies which are incorporated in China and France respectively. The Group also has a 33% share in its associate, Mercury Car Rentals Limited, a company which is incorporated in India. The Group's share of results for the year were as follows:

	Joint ventures		Associate		Total	
Share of:	**2008 €m**	2007 €m	**2008 €m**	2007 €m	**2008 €m**	2007 €m
Revenue	**13.5**	14.5	**3.8**	3.9	**17.3**	18.4
Expenses	**(12.1)**	(13.2)	**(3.4)**	(3.5)	**(15.5)**	(16.7)
Operating profit	**1.4**	1.3	**0.4**	0.4	**1.8**	1.7
Net finance costs	**(0.8)**	(0.4)	**(0.2)**	(0.1)	**(1.0)**	(0.5)
Profit before tax	**0.6**	0.9	**0.2**	0.3	**0.8**	1.2
Taxation	**(0.3)**	(0.3)	**(0.1)**	(0.1)	**(0.4)**	(0.4)
Net profit for the year	**0.3**	0.6	**0.1**	0.2	**0.4**	0.8

At the year end, the Group's interest in Anji Car Rental and Leasing Company Limited, OKIGO and Mercury Car Rentals Limited, comprised:

	Joint ventures		Associate		Total	
Share of:	**2008 €m**	2007 €m	**2008 €m**	2007 €m	**2008 €m**	2007 €m
Non-current assets	**24.1**	17.6	**2.0**	1.9	**26.1**	19.5
Current assets	**5.8**	2.7	**1.1**	1.0	**6.9**	3.7
Current liabilities	**(18.4)**	(10.9)	**(0.6)**	(0.4)	**(19.0)**	(11.3)
Non-current liabilities	**(0.7)**	–	**(2.0)**	(2.0)	**(2.7)**	(2.0)
	10.8	9.4	**0.5**	0.5	**11.3**	9.9
Net book amount of goodwill arising upon acquisition (see Note 11)	**0.9**	0.9	**–**	–	**0.9**	0.9
	11.7	10.3	**0.5**	0.5	**12.2**	10.8

At the year end the joint venture in China had capital commitments of €0.3 million (2007: €1.5 million). There were no capital commitments relating to the joint venture in France and the associate in India (2007: €nil).

At each year end, the joint ventures and associate had no contingent liabilities and no operating lease commitments of greater than €0.1 million per annum.

16 Other financial assets

	2008 €m	2007 €m
Non-current assets – available for sale investments	**0.4**	0.6
Current assets – held for trading	**–**	5.4

Non-current financial assets of €0.4 million (2007: €0.6 million) primarily comprises an equity minority interest in an overseas company. In the prior year, the current financial assets comprised finance lease collateral of €0.3 million which attracted interest at 4.1%, and liquidity funds of €5.1 million which attracted a variable return dependent upon fund performance.

17 Deferred tax

Deferred tax provided	Temporary differences: Accelerated tax depreciation €m	Fair value €m	Employee benefits €m	Other €m	Losses available for offset €m	Total €m
At 1 January 2007	(17.5)	3.7	22.8	(9.2)	11.2	11.0
Recognised in Income Statement (see Note 8)	3.6	–	1.0	(2.6)	(3.0)	(1.0)
Transfer to current tax	–	–	–	2.3	–	2.3
Recognised in Statement of Recognised Income and Expense (see Note 8)	–	(0.6)	(3.4)	–	–	(4.0)
Disposal of business (see Note 39)	9.0	–	(0.3)	(0.2)	–	8.5
Exchange movements	(0.4)	(1.3)	(0.3)	(0.2)	–	(2.2)
At 31 December 2007	(5.3)	1.8	19.8	(9.9)	8.2	14.6
At 1 January 2008	**(5.3)**	**1.8**	**19.8**	**(9.9)**	**8.2**	**14.6**
Recognised in Income Statement (see Note 8)	**(3.1)**	**0.1**	**(4.7)**	**(16.5)**	**5.8**	**(18.4)**
Transfer to current tax	**7.1**	**–**	**–**	**9.4**	**–**	**16.5**
Recognised in Statement of Recognised Income and Expense (see Note 8)	**–**	**2.8**	**(2.8)**	**–**	**–**	**–**
Disposal of business (see Note 39)	**–**	**–**	**–**	**–**	**–**	**–**
Exchange movements	**(5.2)**	**(0.1)**	**(3.5)**	**3.2**	**(1.5)**	**(7.1)**
At 31 December 2008	**(6.5)**	**4.6**	**8.8**	**(13.8)**	**12.5**	**5.6**
Analysed as:						
At 31 December 2008						
Deferred tax assets	**14.4**	**4.3**	**9.2**	**(0.3)**	**4.1**	**31.7**
Deferred tax liabilities	**(20.9)**	**0.3**	**(0.4)**	**(13.5)**	**8.4**	**(26.1)**
Net	**(6.5)**	**4.6**	**8.8**	**(13.8)**	**12.5**	**5.6**
At 31 December 2007						
Deferred tax assets	24.2	1.8	16.5	5.1	1.9	49.5
Deferred tax liabilities	(29.5)	–	3.3	(15.0)	6.3	(34.9)
Net	(5.3)	1.8	19.8	(9.9)	8.2	14.6

Deferred tax assets have been recognised in respect of tax losses and other temporary differences where it is probable that these assets will be recovered. Deferred tax assets and liabilities are only offset where there is a legally enforceable right of offset and there is an intention to settle the balances net.

At the year end, the Group had unused tax losses of €204.8 million (2007: €93.6 million) available for offset against future profits. A deferred tax asset has been recognised in respect of €44.1 million (2007: €29.1 million) of such losses. No deferred tax asset has been recognised in respect of the remaining unused tax losses of €160.7 million (2007: €64.5 million) due to the unpredictability of future profit streams.

Deferred tax has not been recognised in respect of other temporary differences which would give rise to deferred tax assets of €11.6 million (2007: €8.8 million) due to the unpredictability of future profit streams.

At the year end, the aggregate amount of other temporary differences associated with unremitted earnings of the Group's overseas subsidiaries for which deferred tax liabilities have not been recognised was €252.8 million (2007: €264.4 million). No liability has been recognised in respect of these differences because the Group is in a position to control the timing of the reversal of the temporary differences and it is probable that such differences will not reverse in the foreseeable future. Temporary differences arising in connection with interests in the joint ventures and associate are insignificant.

18 Non-current assets held for sale

	2008 €m	2007 €m
Cost		
At 1 January	**8.3**	9.7
Transfers from vehicles (see Note 13)	**70.4**	76.1
Disposals	**(66.8)**	(77.4)
Exchange movements	**(0.4)**	(0.1)
At 31 December	**11.5**	8.3
Depreciation and impairment		
At 1 January	**1.2**	1.3
Transfers from vehicles (see Note 13)	**14.0**	13.9
Disposals	**(13.6)**	(13.9)
Exchange movements	**(0.4)**	(0.1)
At 31 December	**1.2**	1.2
Net book amount		
At 31 December	**10.3**	7.1

Non-current assets held for sale comprise ex-rental vehicles formerly used in the Avis Corporate segment, where the Group is committed to the disposal of the vehicle. Disposals are ordinarily completed within two months of transfer of the vehicle from the rental fleet. Losses recognised on the disposal of non-current assets held for resale in the year totalled €0.7 million (2007: gains of €1.3 million).

19 Inventories

	2008 €m	2007 €m
Fuel	**5.7**	6.6
Vehicle parts	**1.2**	1.1
	6.9	7.7

The cost of inventories recognised as an expense in the Income Statement in the period totalled €62.0 million (2007: €61.9 million).

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20 Trade and other receivables

	2008 €m	2007 €m
Repurchase agreement receivables	**777.9**	825.4
Prepaid vehicle operating lease charges	**63.3**	53.5
Repurchase vehicles (during vehicle holding period)	**841.2**	878.9
Other vehicle receivables (after the end of vehicle holding period)	**203.7**	175.6
Amounts due from leasing companies	**61.6**	57.6
Vehicle related receivables	**1,106.5**	1,112.1
Other trade debtors	**162.3**	173.0
Finance revenue debtors	**0.1**	0.1
Other debtors	**52.9**	58.5
Other prepayments	**29.9**	48.1
	1,351.7	1,391.8

Other vehicle receivables include amounts due after exercising of manufacturer repurchase agreements. The carrying amounts of trade and other receivables are denominated primarily in euros.

Vehicle related receivables include €154.0 million (2007: €162.4 million) held under finance lease arrangements in respect of repurchase agreements.

Credit risk with regard to vehicle related receivables is concentrated with the main European vehicle manufacturers, whilst concentrations of credit risk with respect to non-vehicle related receivables are limited through to the diversity of the Group's customers. The maximum exposure to credit risk at the reporting date is the fair value of each class of receivable mentioned above. Balance sheet amounts are stated net of any provisions made for bad and doubtful debts, and accordingly, the Directors believe that the maximum credit risk exposure is the carrying amount of the receivables in the balance sheet, as shown below.

The main categories of trade and other receivables that are subject to credit risk are: other vehicle receivables (after the end of vehicle holding period), amounts due from leasing companies, other trade debtors and other debtors. These categories are analysed on an aged basis as follows:

	2008 €m	2007 €m
Trade and other receivables subject to credit risk	**500.3**	488.8
Neither past due nor impaired	**(390.8)**	(384.6)
Past due	**109.5**	104.2
Provision for bad and doubtful debts	**(19.7)**	(24.0)
Past due but not impaired	**89.8**	80.2

As at 31 December 2008, €89.8 million (2007: €80.2 million) were past due but not impaired as there had been an improvement in ageing of post three months overdue and no previous history of default. The ageing analysis of past due but not impaired is as follows:

	2008 €m	2007 €m
Up to three months past due	**84.9**	73.6
Three to six months past due	**4.8**	6.4
Over six months past due	**0.1**	0.2
	89.8	80.2

The other classes within trade and other receivables do not contain impaired assets.

The provision for bad and doubtful debts has been determined by reference to past experience. Irrecoverable trade and other receivable expense of €2.4 million (2007: €6.1 million) has been recognised in the Income Statement in the year.

21 Cash and short-term deposits

	2008 €m	2007 €m
Cash at bank and in hand	**23.0**	35.0
Short-term deposits	**29.1**	25.9
	52.1	60.9

Cash and short-term deposit balances are floating rate assets which earn interest at various rates set with reference to the prevailing EURIBID and LIBID or equivalent.

Short-term deposits mature within three months (2007: three months) and include €2.7 million (2007: €3.7 million) of deposits required by insurers to be held by Aegis Motor Insurance Limited (a subsidiary of the Group) to settle claims.

22 Trade and other payables

	2008 €m	2007 €m
Vehicle payables	**184.9**	280.7
Amounts due to leasing companies	**43.4**	49.5
Vehicle related payables	**228.3**	330.2
Other trade payables	**54.1**	54.6
Finance cost creditors	**9.0**	11.7
Other creditors	**26.5**	31.2
Accruals and deferred income	**201.4**	223.2
Other taxes and social security	**19.9**	19.4
	539.2	670.3

23 Provisions

	Uninsured losses €m	Dilapidation and environmental €m	Warranty €m	Other trading €m	Total €m
At 1 January 2008	**40.5**	**8.8**	**7.8**	**10.3**	**67.4**
Charged/(credited) in the year	**22.8**	**(1.4)**	**–**	**5.2**	**26.6**
Transfer from trade and other payables	**1.3**	**–**	**–**	**–**	**1.3**
Exceptional release in the year (see Note 6g)	**–**	**–**	**(1.3)**	**–**	**(1.3)**
Utilised in the year	**(19.8)**	**–**	**(6.5)**	**(5.7)**	**(32.0)**
Exchange movements	**(1.8)**	**(0.8)**	**–**	**–**	**(2.6)**
At 31 December 2008	**43.0**	**6.6**	**–**	**9.8**	**59.4**
Non-current					**25.6**
Current					**33.8**
At 31 December 2008					**59.4**

	Uninsured losses €m	Dilapidation and environmental €m	Warranty €m	Other trading €m	Total €m
At 1 January 2007	45.2	8.9	–	10.5	64.6
Charged in the year	18.7	1.1	–	5.6	25.4
Exceptional charge in the year	–	–	7.8	–	7.8
Exceptional release in the year (see Note 6f)	(5.7)	–	–	–	(5.7)
Utilised in the year	(17.1)	(1.0)	–	(5.1)	(23.2)
Disposal of business (see Note 39)	–	–	–	(0.6)	(0.6)
Exchange movements	(0.6)	(0.2)	–	(0.1)	(0.9)
At 31 December 2007	40.5	8.8	7.8	10.3	67.4
Non-current					22.3
Current					45.1
At 31 December 2007					67.4

23 Provisions continued

Uninsured losses represent provisions for losses under third party liabilities or claims primarily in respect of third party motor liability and insurance programmes. Due to the timescales and uncertainties involved in such claims, provision is made based upon the profile of claims experience, allowing for potential claims for a number of years after policy inception.

Dilapidation and environmental represents provisions to cover the costs of the remediation of certain properties held under operating leases. These provisions are primarily euro denominated and non-interest bearing, and the ultimate expenditure is expected to be coterminous with the underlying remaining lease periods (see Note 41). For further information on the warranty provision see Note 39.

Other trading provisions have been discounted where applicable at the rate commensurate with the underlying risk, and comprise:

a) Reorganisation and employee termination provisions of €2.1 million (2007: €3.6 million) that are expected to crystallise within the next five years.
b) Other provisions of €7.7 million (2007: €6.7 million), which primarily comprise provision against the future redemption of benefits under customer loyalty programmes and provision against legal claims that arise in the normal course of business. These provisions are expected to crystallise within the next five years. In the Directors' opinion, after taking appropriate legal advice, the outcomes of these legal claims are not expected to give rise to any significant loss beyond amounts provided at 31 December 2008.

24 Retirement benefit obligations

a) Retirement benefit schemes operated
Where applicable, subsidiaries contribute to the relevant state pension scheme. Certain subsidiaries operate schemes which provide retirement benefits, including those of the defined benefit type, which are in most cases funded by investments held outside the Group.

b) Defined benefit schemes
The Group operates funded defined benefit pension schemes for qualifying employees in the United Kingdom, France, Spain and Austria. In addition, the Group operates unfunded defined benefit pension schemes for employees in Germany, an unfunded defined benefit statutorily determined termination scheme for employees in Italy and also previously in Greece. The principal schemes are in the United Kingdom and Germany.

The valuations used have been based on the most recent actuarial valuations available, updated by the scheme actuaries to assess the liabilities of the scheme and the market value of the scheme assets at each of the balance sheet dates.

	Funded schemes		Unfunded schemes	
Main assumptions (weighted average)	**2008**	2007	**2008**	2007
Discount rate	**6.5%**	5.9%	**6.0%**	5.5%
Inflation rate	**3.2%**	3.4%	**2.0%**	1.8%
Expected rate of salary increases	**4.7%**	4.8%	**2.0%**	2.9%
Rate of pension increases in payment	**2.4%**	2.5%	**1.6%**	1.4%
Rate of pension increases in deferment	**3.0%**	3.2%	**0.0%**	0.0%
Expected return on plan assets:				
– equities	**7.7%**	7.7%	**n/a**	n/a
– bonds	**5.7%**	5.7%	**n/a**	n/a
– other	**5.7%**	4.4%	**n/a**	n/a
– weighted average	**6.6%**	6.5%	**n/a**	n/a

The expected rates of return on plan assets are based on market expectations at the beginning of each year for returns over the entire life of the related obligation.
The expected return on bonds is based on long-term bond yields. The expected return on equities is based on a wide range of qualitative and quantitative market analysis including consideration of market equity risk premiums.

The key demographic assumption is mortality. By its very nature, mortality can be difficult to predict. Assumptions regarding future mortality experience are set based on advice from actuaries, published statistics and experience in each territory. In 2006, the mortality assumption for the principal funded scheme was updated to reflect the "2000" series tables along with certain improvements (known as "medium cohort") which makes allowances for increases in longevity projections. Within the context of increasing life expectancy, the Group further strengthened the mortality improvement assumption in the principal funded scheme in 2007 by introducing a 1% per annum minimum level of improvement within the medium cohort allowance. The longevity assumption in the principal funded scheme applied a post retirement life expectancy for a member aged 65 in 2008 of 21 years (2007: 21 years) for males, and 24 years (2007: 24 years) for females. The post-retirement longevity assumption in the principal unfunded scheme applied a life expectancy for a member aged 65 in 2008 of 18 years (2007: 18 years) for males, and 22 years (2007: 22 years) for females.

The amounts recognised in the balance sheet are summarised as follows:

	2008			2007		
	Funded schemes €m	**Unfunded schemes €m**	**Total €m**	Funded schemes €m	Unfunded schemes €m	Total €m
Fair value of scheme assets	**97.2**	**–**	**97.2**	146.7	–	146.7
Present value of defined benefit obligations	**(133.9)**	**(34.2)**	**(168.1)**	(209.2)	(35.0)	(244.2)
Retirement benefit obligation	**(36.7)**	**(34.2)**	**(70.9)**	(62.5)	(35.0)	(97.5)

	2008			2007		
Analysis of movements in the scheme assets	**Funded schemes €m**	**Unfunded schemes €m**	**Total €m**	Funded schemes €m	Unfunded schemes €m	Total €m
At 1 January	**146.7**	**–**	**146.7**	140.4	–	140.4
Expected return on plan assets	**9.1**	**–**	**9.1**	9.0	–	9.0
Actuarial loss:						
– experience loss on assets	**(27.0)**	**–**	**(27.0)**	(2.5)	–	(2.5)
Contributions by the Group	**9.8**	**1.6**	**11.4**	12.3	1.5	13.8
Contributions by employees	**0.8**	**–**	**0.8**	0.7	–	0.7
Benefits paid from the fund	**(5.1)**	**(1.6)**	**(6.7)**	(3.4)	(1.5)	(4.9)
Settlements paid	**(5.8)**	**–**	**(5.8)**	(1.0)	–	(1.0)
Exchange loss	**(31.3)**	**–**	**(31.3)**	(8.8)	–	(8.8)
At 31 December	**97.2**	**–**	**97.2**	146.7	–	146.7

	2008			2007		
Analysis of movements in the present value of defined benefit scheme obligations	**Funded schemes €m**	**Unfunded schemes €m**	**Total €m**	Funded schemes €m	Unfunded schemes €m	Total €m
At 1 January	**(209.2)**	**(35.0)**	**(244.2)**	(220.5)	(41.9)	(262.4)
Current service costs	**(5.0)**	**(0.6)**	**(5.6)**	(6.1)	(1.2)	(7.3)
Past service costs	**(0.1)**	**–**	**(0.1)**	(0.1)	0.8	0.7
Exceptional curtailments (see Note 6)	**(0.5)**	**–**	**(0.5)**	–	–	–
Curtailments	**–**	**–**	**–**	–	0.4	0.4
Interest on scheme liabilities	**(11.1)**	**(1.9)**	**(13.0)**	(11.2)	(1.8)	(13.0)
Actuarial gain/(loss):						
– experience gain/(loss) on liabilities	**1.5**	**(0.5)**	**1.0**	(0.5)	0.1	(0.4)
– gain on change of assumptions	**35.3**	**1.9**	**37.2**	11.9	5.9	17.8
Contributions by employees	**(0.8)**	**–**	**(0.8)**	(0.7)	–	(0.7)
Benefits paid from the fund	**5.1**	**1.6**	**6.7**	3.4	1.5	4.9
Other benefits paid	**0.4**	**–**	**0.4**	–	–	–
Settlements paid	**5.8**	**–**	**5.8**	1.0	–	1.0
Disposal of business (see Note 39)	**–**	**–**	**–**	–	1.2	1.2
Exchange gain	**44.7**	**0.3**	**45.0**	13.6	–	13.6
At 31 December	**(133.9)**	**(34.2)**	**(168.1)**	(209.2)	(35.0)	(244.2)

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24 Retirement benefit obligations continued

	Funded schemes 2008		2007	
Defined benefit scheme assets	€m	%	€m	%
Equities	45.8	47%	77.8	53%
Corporate bonds and index linked gilts	44.2	46%	55.4	38%
Other	7.2	7%	13.5	9%
Fair value of scheme assets	**97.2**	**100%**	146.7	100%

The fair value of scheme assets did not include any property or other assets used by the Group, nor any financial instruments of the Group.

Analysis of return on scheme assets	2008 €m	2007 €m
Expected return on scheme assets	9.1	9.0
Actual return less expected return on assets	(27.0)	(2.5)
Actual return on scheme assets	**(17.9)**	6.5

The amounts recognised in the Income Statement are as follows:

	2008 Funded schemes €m	Unfunded schemes €m	Total €m	2007 Funded schemes €m	Unfunded schemes €m	Total €m
Current service costs	5.0	0.6	5.6	6.1	1.2	7.3
Past service costs/(credit)	0.1	–	0.1	0.1	(0.8)	(0.7)
Interest on scheme liabilities	11.1	1.9	13.0	11.2	1.8	13.0
Expected return on scheme assets	(9.1)	–	(9.1)	(9.0)	–	(9.0)
Curtailments	–	–	–	–	(0.4)	(0.4)
Underlying charge before tax to Income Statement (see Note 5)	7.1	2.5	9.6	8.4	1.8	10.2
Exceptional curtailments (see Note 6)	0.5	–	0.5	–	–	–
Exceptional charge before tax to Income Statement	0.5	–	0.5	–	–	–
Net charge before tax to Income Statement	**7.6**	**2.5**	**10.1**	8.4	1.8	10.2

The scheme settlements in the year had no impact on the amounts recognised in the Income Statement. The charge before tax is reported in "administrative expenses" in the Income Statement.

Amounts recognised through the Statement of Recognised Income and Expense are as follows:

	2008 Funded schemes €m	Unfunded schemes €m	Total €m	2007 Funded schemes €m	Unfunded schemes €m	Total €m
Actual return less expected return on assets	(27.0)	–	(27.0)	(2.5)	–	(2.5)
Experience gain/(loss) on liabilities	1.5	(0.5)	1.0	(0.5)	0.1	(0.4)
Gain on change of assumptions (financial and demographic)	35.3	1.9	37.2	11.9	5.9	17.8
	9.8	1.4	11.2	8.9	6.0	14.9

Cumulative actuarial losses recognised in the Statement of Recognised Income and Expense since 1 January 2004 (the date of adoption of IAS 19) are €15.9 million (at 31 December 2007: €27.1 million).

The contributions paid by the Group into funded schemes during 2008 were €11.4 million (2007: €12.3 million), which includes payments to fund the net actuarial obligations over time. The best estimate of the cash contributions expected to be made by the Group into funded schemes during the 2009 annual period is €7.5 million, which includes payments to fund the net actuarial obligations over time.

The indicative sensitivity of principal scheme liabilities as at 31 December 2008 to changes in the above assumptions is as follows:

Assumption	Change in assumption	Indicative increase in scheme liabilities (€m) UK	Germany
Discount rate	-0.1%	2.4	0.5
Inflation rate	+0.1%	2.4	0.3
Real rate of salary increases	+0.5%	1.4	0.2
Longevity	+1 year	2.8	0.7

The sensitivity of non-principal scheme liabilities to the changes in the assumptions shown above is not material to the Group.

Retirement benefit obligation history	Funded schemes 2008 €m	2007 €m	2006 €m	2005 €m
Fair value of scheme assets	97.2	146.7	140.4	124.1
Present value of defined benefit obligation	(133.9)	(209.2)	(220.5)	(206.2)
Retirement benefit obligation	**(36.7)**	(62.5)	(80.1)	(82.1)
Actual return less expected return on assets	27.0	2.5	0.6	(13.4)
Percentage of scheme assets carried forward	27.8%	1.7%	0.4%	(10.8)%
Experience gain/(loss) on liabilities	1.5	(0.5)	(2.0)	(5.6)
Percentage of scheme liabilities carried forward	(1.1)%	0.2%	0.9%	2.7%

Retirement benefit obligation history	Unfunded schemes 2008 €m	2007 €m	2006 €m	2005 €m
Retirement benefit obligation	(34.2)	(35.0)	(41.9)	(47.2)
Experience (loss)/gain on liabilities	(0.5)	0.1	1.5	0.2
Percentage of scheme liabilities carried forward	1.5%	(0.3)%	(3.6)%	(0.4)%

25 Obligations under finance leases

	Minimum lease payments 2008 €m	2007 €m	Present value of minimum lease payments 2008 €m	2007 €m
Amounts payable under finance leases				
Within one year	239.9	280.3	232.7	273.0
Between two and five years	–	0.7	–	0.7
	239.9	281.0		
Less: future finance charges	(7.2)	(7.3)		
Present value of finance lease obligations	232.7	273.7	232.7	273.7
Analysed as:				
Current liabilities (due for settlement within one year)			232.7	273.0
Non-current liabilities (due for settlement after more than one year)			–	0.7
			232.7	273.7

It is the Group's policy to fund certain of its vehicles (including some vehicles held under repurchase arrangements) and some plant and equipment under finance leases. The average lease term is less than one year. For the year ended 31 December 2008 the average effective interest rate was 5.0% (2007: 4.5%). All finance leases are on a fixed repayment basis and interest rates are fixed at the contract date. No arrangements have been entered into for contingent rental payments.

The fair value of the Group's obligations under finance leases approximates to their carrying amount, and is secured by the lessors either having legal title or charges over the leased assets. In the prior year, collateral was held against certain of the leases (see Note 16).

26 Other financial liabilities

a) Borrowings

	2008 €m	2007 €m
Bank overdrafts	**27.4**	8.8
Bank loans and other loans	**290.4**	150.0
Commercial paper	**13.3**	22.2
Loan notes	**555.3**	549.2
	886.4	730.2

Analysed as:		
Current liabilities (due for settlement within one year)	**45.1**	31.0
Non-current liabilities (due for settlement after more than one year)	**841.3**	699.2
	886.4	730.2

All borrowings were unsecured as at both 31 December 2008 and 31 December 2007. There are covenants attached to certain of the borrowings.

Bank overdrafts

Bank overdrafts are primarily denominated in euros and sterling and attract floating rate interest by reference to EURIBOR and LIBOR plus margins ranging from 3.5% to 6.5%.

Bank loans and other loans

Bank loans and other loans are primarily floating rate, with a weighted average cost at 31 December 2008 of 4.7% (2007: 5.8%).

Commercial paper

Avis Finance Company plc, an indirect wholly owned subsidiary of the Company, has a commercial paper facility in Belgium, guaranteed by the Company, which can provide borrowings of up to €200.0 million (2007: €200.0 million). Amounts drawn under the facility attract interest at floating rates by reference to EURIBOR plus a margin which varies depending upon market conditions at the time of issue.

Loan notes

At 31 December, Avis Finance Company plc has outstanding the following loan notes:

	2008		2007	
Issued	**Principal m**	**Maturing**	Principal m	Maturing
August 2000	**$48.0**	**2010**	$48.0	2010
June 2002	**€26.8**	**2012**	€26.8	2012
June 2004	**$240.0**	**2011, 2012 and 2014**	$240.0	2011, 2012 and 2014
June 2004	**€65.0**	**2012**	€65.0	2012
July 2006	**€250.0**	**2013**	€250.0	2013

The US$ loan notes bear interest at an average fixed rate of 6.3% (2007: 6.3%). The euro denominated loan notes issued prior to July 2006 bear interest at an average fixed rate of 5.8% (2007: 5.8%). These loan notes are at fixed rates such that their contractual repricing profile is coterminous with their maturity profile.

The €250.0 million Senior Floating Rate Notes bear interest at EURIBOR plus 2.625%. These notes reprice EURIBOR quarterly and include a call option, permitting the Group to repay the notes with effect from 31 July 2008. This option is separately recognised as an embedded derivative at fair value (see Note 27).

Proceeds from the loan notes issued in August 2000 totalling US$48.0 million (2007: US$48.0 million) are swapped to a fixed rate euro liability. Proceeds from the loan notes issued in June 2004 totalling US$240.0 million (2007: US$240.0 million) are swapped to a euro liability at a floating rate of interest until June 2005 and a fixed rate thereafter. Proceeds of the Senior Floating Rate Notes issued in July 2006 totalling €200.0 million (2007: €200.0 million) are swapped into a fixed rate euro liability.

Further details are provided in Note 27.

b) Undrawn borrowings

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

	2008			2007		
	Drawn €m	Undrawn €m	Total €m	Drawn €m	Undrawn €m	Total €m
Revolving syndicated credit facility	**320.3**	**259.7**	**580.0**	188.9	391.1	580.0
Bilateral facilities and finance leases	**245.7**	**348.3**	**594.0**	272.5	321.3	593.8
	566.0	**608.0**	**1,174.0**	461.4	712.4	1,173.8

The drawn amount of the revolving syndicated credit facility includes €34.3 million in respect of letters of credit (2007: €38.9 million).

The maturity profile of the Group's undrawn committed borrowing facilities at 31 December is as follows:

	2008 €m	2007 €m
Expiring within one year	**300.3**	228.7
Expiring within one and two years	**–**	54.6
Expiring within two and five years	**307.7**	429.1
	608.0	712.4

At 31 December 2008 there were additional uncommitted facilities available to the Group of €383.7 million (2007: €583.0 million).

c) Deferred consideration

	2008 €m	2007 €m
Current liabilities (due for settlement within one year)	**0.2**	0.3
Non-current liabilities (due for settlement after more than one year)	**22.5**	30.3
	22.7	30.6

Deferred consideration comprises €22.7 million (2007: €30.6 million) arising on the acquisition of shares in Avis Europe Investment Holdings Limited from Avis Inc in 1997. The liability is denominated in sterling, attracts an interest rate of 8.0% (2007: 8.0%) fixed for 29 years (2007: 30 years) and is repayable in annual instalments (including interest) of £1.9 million.

27 Financial risk management

a) Financial risk management objectives and policies

The Group's financial risk management objective is to reduce the financial risks and exposures facing the business with respect to changes in interest and foreign exchange rates, and to ensure constant access to sufficient liquidity. To achieve this the Group undertakes an active hedging policy, including the use of derivatives (interest rate and foreign exchange swaps, options, forward rate agreements and caps and collars), which are entered into under policies approved and monitored by a sub-committee of the Board, chaired by the Group Finance Director. These transactions are only undertaken to reduce exposures arising from underlying commercial transactions and at no time are transactions undertaken for speculative reasons.

Foreign currency risk

The majority of the Group's business is transacted in euros, sterling, US dollars and Swiss francs. The principal commercial currency of the Group is the euro. The Group seeks to manage currency exposure wherever possible.

In each country where the Group has a corporate operation, revenue generated and costs incurred are primarily denominated in the relevant local currency, so providing a natural currency hedge. In addition, intra-group trading transactions are netted and settled centrally. Any remaining material foreign currency transaction exposures are hedged as appropriate into either euro or sterling.

With regard to translation exposures the policy is to match where possible the average assets of the Group to the equivalent average liabilities in each major currency and thus minimise any impact to the Group. To the extent that this does not occur, both foreign currency borrowings and forward exchange contracts are used. Long-term borrowings undertaken to benefit from the liquidity of the US dollar denominated capital markets are swapped into euros.

Notes to the Consolidated Financial Statements continued

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27 Financial risk management continued

Interest rate risk

The Group's interest rate risk arises from the Group's borrowing which, after foreign currency risk hedging, principally arises in euro and sterling. Borrowings issued at variable rates expose the Group to cash flow interest rate risk whereas borrowings issued at fixed rates expose the Group to fair value interest rate risk.

To manage these risks, the Group is financed through a combination of fixed and floating rate facilities and enters into various derivatives. The Group's policy is to ensure that the proportion of fixed rate debt to the annual average net debt (defined for this purpose to include the net book value of fleet under operating leases) for the next three years will be maintained in the range of 65% to 85%, 55% to 80%, and 45% to 75% respectively.

Liquidity risk

The seasonal nature of the business necessitates higher fleet levels in the summer months and hence proportionately higher debt requirements. Consequently, the Group ensures that it has a core level of long-term funding in place, with maturities spread over a wide range of dates, supplemented by shorter term and committed revolving facilities to cover requirements through the year.

Capital risk management

The Group's objectives when managing capital are to safeguard the ability to continue as a going concern, ensure shareholder returns and appropriate benefits for stakeholders. The Group seeks to maintain an optimal debt and equity structure to minimise the overall cost of capital. To maintain or adjust the capital structure, the Group may issue new shares or acquire/sell assets to adjust debt levels where appropriate.

The Group monitors the use of capital on the basis of return on capital employed ("ROCE") and average fleet utilisation. The Group's ROCE is based on the underlying operating profit of the business plus the operating result of joint ventures and associates. Underlying operating profit is adjusted to reverse: any non-exceptional goodwill impairments; the interest cost of pension liabilities; and the expected return on pension assets. Capital employed is based on net assets with adjustment for: all debt and related interest balances; all derivative financial instruments; tax balances; pension deficits; and capitalised goodwill, and is an average of the current and previous two period end closing balances. This definition of ROCE may not be comparable to other similarly titled measures used by other companies. Average fleet utilisation is calculated as the average period of time during which vehicles are on rent as a percentage of their holding period.

Other price risks

As part of the presentation of market risks, IFRS 7 requires disclosures on how hypothetical changes in risk variables affect the price of financial instruments. Important risk variables include stock exchange prices or indices. As at 31 December 2007 and 31 December 2008 the Group did not hold any material investments to be classified as available for sale.

Credit risk

The Group's principal financial assets comprise: non-current assets held for sale; other financial assets held for trading; derivative financial instrument assets; trade and other receivables; and cash and short-term deposits which in aggregate represent the Group's maximum exposure to credit risk at each year end.

The Group is exposed to credit risk from its operating activities and certain financing activities. This risk is controlled from a treasury perspective by only entering into transactions involving financial instruments with authorised counterparties of strong credit quality, and monitoring such positions regularly. With regard to trade and other receivables, outstanding debts are regularly monitored at an operational level. Bad debt provisions are made against known credit risks.

The credit rating of vehicle manufacturers, the key suppliers, is monitored separately. With respect to certain vehicle manufacturers, the Group has a natural hedge to its exposure to credit risk as vehicle receivables (see Note 20) are ordinarily less than vehicle payables (see Note 22) for the majority of the year.

The maximum exposure to credit risk is represented by the balance sheet values of the original loans and receivables that are carried in the balance sheet, including derivatives with positive market values. Where derivatives are settled gross, International Swaps and Derivatives Association (ISDA) based agreements are applied which include close-out netting provisions which are effective if the counterparty defaults. At the reporting date there were no other significant global offsetting agreements that reduce credit risk, nor were there any significant financial guarantees for third-party obligations that increase this risk.

b) Fair value of derivative financial instruments

Recognised fair values of derivative financial instruments	2008 Assets €m	2008 Liabilities €m	2008 Net €m	2007 Assets €m	2007 Liabilities €m	2007 Net €m
Hedging instruments:						
– forward foreign exchange contracts	**0.7**	**(1.7)**	**(1.0)**	–	(0.6)	(0.6)
Non-hedging instruments:						
– forward foreign exchange contracts	**8.2**	**(4.2)**	**4.0**	2.2	(0.3)	1.9
– forward foreign exchange options	**0.2**	**–**	**0.2**	1.2	–	1.2
Non-debt derivatives	**9.1**	**(5.9)**	**3.2**	3.4	(0.9)	2.5
Hedging instruments:						
– interest rate swaps	**–**	**(8.3)**	**(8.3)**	4.6	–	4.6
– cross currency interest rate swaps	**–**	**(43.2)**	**(43.2)**	–	(52.9)	(52.9)
Non-hedging instruments:						
– interest rate swaps	**0.1**	**(6.2)**	**(6.1)**	0.1	(0.1)	–
– callable interest rate swaps	**–**	**(5.7)**	**(5.7)**	–	–	–
– forward rate agreements	**–**	**(3.1)**	**(3.1)**	–	(0.9)	(0.9)
– interest rate caps and collars	**–**	**(0.5)**	**(0.5)**	0.3	–	0.3
– embedded derivatives	**0.7**	**–**	**0.7**	5.6	–	5.6
Debt derivatives	**0.8**	**(67.0)**	**(66.2)**	10.6	(53.9)	(43.3)
	9.9	**(72.9)**	**(63.0)**	14.0	(54.8)	(40.8)
Non-current portion:						
Hedging instruments:						
– interest rate swaps	**–**	**(8.3)**	**(8.3)**	4.6	–	4.6
– cross currency interest rate swaps	**–**	**(43.2)**	**(43.2)**	–	(52.9)	(52.9)
Non-hedging instruments:						
– embedded derivatives	**0.7**	**–**	**0.7**	5.6	–	5.6
Debt derivatives	**0.7**	**(51.5)**	**(50.8)**	10.2	(52.9)	(42.7)
Analysed as:						
Current assets/(liabilities) (due for settlement within one year)	**9.2**	**(21.4)**	**(12.2)**	3.8	(1.9)	1.9
Non-current assets/(liabilities) (due for settlement after more than one year)	**0.7**	**(51.5)**	**(50.8)**	10.2	(52.9)	(42.7)
	9.9	**(72.9)**	**(63.0)**	14.0	(54.8)	(40.8)

Non-hedging derivatives (excluding the embedded derivative) are classified as a current asset or liability. The full fair value of hedging derivatives is classified as a non-current asset or liability if the remaining maturity of the hedged item is more than 12 months, and as a current asset or liability if the remaining maturity of the hedged item is less than 12 months. Trading derivatives are classified as a current asset or liability. The embedded derivative is classified as a non-current asset consistent with the maturity of the borrowing in which it is embedded.

27 Financial risk management continued

Fair values of the derivative financial instruments are determined using a number of methods and assumptions based on conditions at the balance sheet date as none are traded in an active market. The fair values of interest rate swaps, forward rate agreements and cross currency interest rate swaps are calculated as the present value of future estimated cash flows. The fair value of the embedded derivative, callable interest rate swaps and interest rate caps and collars are valued using option valuation techniques. The fair value of forward exchange contracts is determined using forward exchange market rates at the balance sheet date.

Hedging instruments

The effectiveness of hedging relationships is tested by means of statistical methods using either regression analysis (for forward foreign exchange contracts and cross currency interest rate swaps), or the closest offset method (for interest rate swaps). This involves defining the performance of the hedged item as the independent variable and the performance of the hedging item as the dependent variable. A hedging relationship is classified as effective when the value of the hedging item moves between 0.8% and 1.25% for each 1.0% movement in the hedged item. All hedging relationships, having been tested using statistical methods, were effective at the reporting date.

Forward foreign exchange contracts

Forward foreign exchange contracts as at 31 December 2008 with aggregate values of US$7.8 million (2007: US$4.1 million), South African rand 79.6 million (2007: South African rand 58.0 million), Israeli shekel 9.6 million (2007: Israeli shekel nil), Norwegian krone 10.5 million (2007: Norwegian krone nil), and Swedish krona 10.1 million (2007: Swedish krona nil) were used to hedge expected foreign currency income of US$7.8 million (2007: US$4.1 million), South African rand 79.6 million (2007: South African rand 58.0 million), Israeli shekel 9.6 million (2007: Israeli shekel nil), Norwegian krone 10.5 million (2007: Norwegian krone nil), and Swedish krona 10.1 million (2007: Swedish krona nil) into sterling of £13.4 million (2007: £6.0 million).

Forward foreign exchange contracts as at 31 December 2008 with aggregate values of US$20.8 million (2007: US$ nil), Hungarian forint 2,038.0 million (2007: Hungarian forint 1,160.0 million), and sterling £3.0 million (2007: sterling £2.9 million) were used to hedge expected foreign currency income of US$20.8 million (2007: US$ nil), and expected foreign currency payments of Hungarian forint 2,038.0 million (2007: Hungarian forint 1,160.0 million), and sterling £3.0 million (2007: sterling £2.9 million) into euro of €15.4 million (2007: € nil), €7.7 million (2007: €4.6 million), and €3.8 million (2007: €4.1 million) respectively.

These forward exchange contracts and corresponding foreign currency receipts will mature within 12 months of each year end. Movements in the fair value of these forward foreign exchange contracts are recognised as cash flow hedges in the hedging reserve within equity. These amounts are then transferred to the Income Statement when the amounts are received at various dates between one and 12 months after the year end. There was no material ineffectiveness of these hedges recorded as at the balance sheet date.

Interest rate swaps

Interest rate swaps of aggregate notional principal amounts of €200.0 million (2007: €200.0 million) with average fixed interest payable of 4.03% (2007:4.03%) were used to hedge variable quarterly interest payments arising under the Senior Floating Rate Notes due 2013. The aim of the hedge relationship is to transform the variable interest borrowing into a fixed interest borrowing, and result in cash flow hedges of €8.5 million (2007: €(4.5) million). Credit risks do not form part of the hedge. There was no material ineffectiveness of these hedges recorded as at the balance sheet date.

Cross currency interest rate swaps

Cross currency interest rate swaps of aggregate notional principal amounts of US$288.0 million (2007: US$288.0 million) were used to hedge the Group's US$ denominated loan notes (see Note 26).

Fair value hedge adjustments of €(9.6) million (2007: €(8.0) million) arise from the hedging of the principal value of the exposures to euro denominated liabilities. Equivalent (but opposite) fair value differences have been recognised on the hedging cross currency interest rate swaps for the same underlying risk. The whole of this adjustment in both the current and prior years relate to hedged items due for settlement after one year. Cash flow hedges of €5.4 million (2007: €9.0 million) arise from the conversion of the semi-annual US$ denominated interest payments to euro denominated interest payments. Amounts recognised within equity are released to the Income Statement when the underlying fixed interest payments occur at various dates between the year end and 2014. There was no ineffectiveness of these hedges recorded at the balance sheet date.

Non-hedging instruments

In certain circumstances, transactions to reduce economic exposure do not qualify for hedge accounting.

Forward foreign exchange contracts

Forward foreign exchange contracts as at 31 December 2008 were in place to convert the following foreign currency notional amounts into sterling balances totalling £178.7 million (2007: £140.3 million); Swiss francs 54.3 million (2007: Swiss francs 50.7 million); Singapore dollar 13.0 million (2007: Singapore dollar 5.4 million); Hungarian forint 400.1 million (2007: Hungarian forint 229.8 million); US$2.5 million (2007: US$1.5 million); and €241.3 million (2007: €228.6 million).

Forward foreign exchange options

Forward foreign exchange option contracts as at 31 December 2008 were in place to convert expected foreign currency income of: US$19.3 million (2007: US$35.3 million) into €12.4 million (2007: €24.9 million). These option contracts will mature within 12 months of each year end.

Interest rate swaps

The notional principal amount of outstanding interest rate swap contracts not qualifying for hedge accounting as at the year end was €50.0 million (2007: €50.0 million) and £nil (2007: £30.0 million) with fixed interest rates payable at 4.4%. The notional principal amounts of outstanding interest rate caps and collars as at the year end was €100.0 million (2007: €100.0 million).

In 2008 the Group had in place forward start variable principal interest rate swaps with aggregate average notional principals of €102.2 million which commence in 2009, will run for three years and convert the prevailing floating interest rate to an average fixed rate of 5.6%.

In addition, in 2007 the Group had in place forward start interest rate swaps with aggregate notional principals of €100.0 million which commenced in 2008 and ran for one year. These swaps converted the prevailing floating interest rate to an average fixed rate of 6.0%.

Callable interest rate swaps

In 2008 the Group had in place forward start variable principal callable interest rate swaps with aggregate average notional principals of €76.7 million which commence in 2009 and may run for up to six years. In each case the swap has an initial term of three years at the end of which the counterparty has the option to extend the swap at no additional cost for another three years. The swaps convert the prevailing floating interest rate to an average fixed rate of 5.2% if the swaps are not extended and 5.4% if the extension option is exercised.

Forward rate agreements

In 2008 the Group had outstanding forward rate agreements with aggregate notional principals of €450.0 million (2007: €1,250.0 million) covering various three month periods during 2009 (2007: 2008 and 2009). These convert the prevailing floating interest rate to an average fixed rate of 6.1% (2007: 6.1%).

Embedded derivative

The €250.0 million Senior Floating Rate Notes due 2013 include a call option permitting the Group to repay the notes with effect from 31 July 2008. Under the option, the notes may be redeemed at the following redemption prices (expressed as a percentage of principal amounts) if repaid during the 12 month period beginning on 31 July 2008: 102%; 31 July 2009: 101%; 31 July 2010 and thereafter: 100%. In accordance with IAS 39, this option is separately recognised from underlying Senior Floating Rate Notes as an embedded derivative.

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27 Financial risk management continued

c) Risk and sensitivity analysis

Foreign currency risk

In accordance with IFRS 7, foreign currency risk sensitivities are calculated by reference to the currency profile of the Group's balance sheet as at each year end, with all other variables kept constant. These sensitivities do not therefore reflect any trading impacts arising from changes in exchange rates during the year, or any impacts arising from the translation of monthly non-euro Income Statement results.

The table below details the sensitivity of the Group's total profit after tax from continuing operations, translation reserve, and cash flow hedge reserve to a hypothetical 10% strengthening of the euro against sterling, US$ and Swiss francs from a translation perspective. Sensitivities to a 10% strengthening of the euro has been selected given the current level of exchange rates, exchange rate volatility observed on a historic basis and market expectations for future movements. Similar but opposite sensitivities would arise upon a 10% weakening of the euro against sterling, US$ and Swiss francs:

	Profit after tax		Translation reserve		Hedging reserve	
(Profit)/loss	**2008 €m**	2007 €m	**2008 €m**	2007 €m	**2008 €m**	2007 €m
Euro/sterling	(4.8)	2.9	9.4	6.8	(0.3)	0.2
Euro/US$	1.3	0.9	–	–	(1.3)	(0.5)
Euro/Swiss francs	(4.0)	(1.8)	2.2	2.0	–	–

Profit after tax sensitivities primarily arise from the revaluation of non-hedging derivatives comprising forward foreign contracts where the Group has not applied hedge accounting. The sensitivities thereby primarily impact amounts excluded from underlying, rather than the Group's underlying profit after tax. Translation reserve sensitivities effectively arise from the retranslation of the net assets of head office and trading operations in the UK, and trading operations in Switzerland, from sterling and Swiss francs respectively, into euro. Hedging reserve sensitivities to sterling balances arise from the hedging of forward foreign exchange contracts, whilst the US$ sensitivities arise from both forward foreign exchange contracts and cross currency interest rate swaps.

Interest rate risk

To manage interest rate risk the Group is financed through a combination of fixed and floating rate facilities and enters into various interest rate derivatives. In accordance with IFRS 7, interest rate sensitivities are calculated by reference to the interest rate profile of the Group's balance sheet as at each year end, with all other variables kept constant. Sensitivities to a 1% increase in interest rates have been selected given the current level of market interest rates, interest rate volatility observed on a historic basis and market expectations for future movements. Similar but opposite sensitivities would arise upon a 1% reduction in interest rates. The interest rate sensitivities are calculated based on the following:

(a) Changes in the market interest rates of non-derivative financial instruments with fixed interest rates only affect income if these are recognised at their fair value. As such, all financial instruments with fixed interest rates that are carried at amortised cost are not subject to interest rate risk as defined in IFRS 7.

(b) Changes in the market interest rate of financial instruments that were designated as hedging instruments in a cash flow hedge, to hedge payment fluctuations resulting from interest rate movements, affect the cash flow hedge reserve in shareholder's equity and are therefore taken into consideration in the equity related sensitivity calculations.

(c) Changes in market interest rates affect the interest income or expense of non-derivative variable interest financial instruments. As a consequence, they are included in the calculation of income related sensitivities, other than where the interest payments are designated as part of a cash flow hedge against interest rate risk.

(d) Changes in the market interest rate of interest rate derivatives (interest rate swaps, callable interest rate swaps, forward rate agreements, caps and collars) that are not part of a hedging relationship as set out in IAS 39, affect other financial income or expense (net gain/loss from remeasurement of the financial fair value) and are therefore taken into consideration in the income related sensitivity calculations.

(e) Currency derivatives are not directly exposed to interest rate risks and therefore do not affect the interest rate sensitivities.

The sensitivity of profit after tax, translation reserve and cash flow hedge reserve to a 1% change in the interest rate are detailed in the table below:

	Profit after tax		Translation reserve		Hedging reserve	
	2008 €m	2007 €m	**2008 €m**	2007 €m	**2008 €m**	2007 €m
Loss arising from 1% increase in interest rates (post tax)	1.9	3.1	–	–	6.8	7.3

The decrease in total profit after tax partly arises due to the revaluation of non-hedging derivatives. The decrease in underlying profit after tax to a 1% increase in market interest rates is €2.0 million (2007: €1.7 million). Given the seasonality of the Group's debt, the Group's average net debt is ordinarily higher than the Group's year end net debt. If the market interest rates applied to the Group's average net debt in the year had been 1% higher, underlying profit after tax would have been lower by €1.9 million (2007: €2.2 million).

Liquidity risk

The following is an analysis of the contractual undiscounted cash flows payable under financial liabilities together with derivative financial instrument assets and liabilities at the balance sheet date:

At 31 December 2008	Due within one year €m	Due between one and two years €m	Due between two and five years €m	Due after five years €m	Total €m
Non-derivative financial liabilities					
Borrowings	(45.1)	(34.0)	(727.0)	(70.9)	(877.0)
Interest payments on borrowings	(47.7)	(44.8)	(64.7)	(2.2)	(159.4)
Trade and other payables (including Finance cost creditors) (see Note 22)	(539.2)	–	–	–	(539.2)
Obligations under finance leases	(232.7)	–	–	–	(232.7)
Interest payments on finance leases	(7.2)	–	–	–	(7.2)
Deferred consideration	(0.2)	(0.2)	(0.8)	(21.5)	(22.7)
Derivative financial instrument assets and liabilities – gross settled					
Derivative contracts – receipts	178.3	46.8	115.9	73.1	414.1
Derivative contracts – payments	(176.9)	(65.2)	(136.1)	(86.1)	(464.3)
Derivative financial instrument assets and liabilities – net settled					
Derivative contracts – payments	(18.1)	(2.6)	(7.2)	–	(27.9)
	(888.8)	(100.0)	(819.9)	(107.6)	(1,916.3)

At 31 December 2007	Due within one year €m	Due between one and two years €m	Due between two and five years €m	Due after five years €m	Total €m
Non-derivative financial liabilities					
Borrowings	(31.0)	–	(372.2)	(319.4)	(722.6)
Interest payments on borrowings	(52.3)	(47.1)	(105.9)	(19.9)	(225.2)
Trade and other payables (including Finance cost creditors) (see Note 22)	(670.3)	–	–	–	(670.3)
Obligations under finance leases	(273.7)	(0.7)	–	–	(274.4)
Interest payments on finance leases	(7.3)	–	–	–	(7.3)
Deferred consideration	(0.3)	(0.3)	(1.0)	(29.0)	(30.6)
Derivative financial instrument assets and liabilities – gross settled					
Derivative contracts – receipts	204.6	12.4	154.9	75.7	447.6
Derivative contracts – payments	(212.3)	(14.9)	(196.4)	(91.1)	(514.7)
Derivative financial instrument assets and liabilities – net settled					
Derivative contracts – receipts	1.1	1.1	3.3	0.8	6.3
Derivative contracts – payments	(1.2)	–	–	–	(1.2)
	(1,042.7)	(49.5)	(517.3)	(382.9)	(1,992.4)

28 Net debt

The maturity profile of the Group's net debt balances (excluding deferred consideration) is as follows:

At 31 December 2008	Less than one year €m	One to two years €m	Two to five years €m	More than five years €m	Total €m
Derivative financial instrument assets (see Note 27)	**0.1**	**–**	**0.7**	**–**	**0.8**
Derivative financial instrument liabilities (see Note 27)	**(15.5)**	**(16.7)**	**(25.0)**	**(9.8)**	**(67.0)**
Derivative financial instruments (see Note 27)	**(15.4)**	**(16.7)**	**(24.3)**	**(9.8)**	**(66.2)**
Bank overdrafts (see Note 26)	**(27.4)**	**–**	**–**	**–**	**(27.4)**
Bank loans and other loans (see Note 26)	**(4.4)**	**–**	**(286.0)**	**–**	**(290.4)**
Commercial paper (see Note 26)	**(13.3)**	**–**	**–**	**–**	**(13.3)**
Loan notes (see Note 26)	**–**	**(34.9)**	**(444.5)**	**(75.9)**	**(555.3)**
Obligations under finance leases (see Note 25)	**(232.7)**	**–**	**–**	**–**	**(232.7)**
Gross debt (including net derivatives)	**(293.2)**	**(51.6)**	**(754.8)**	**(85.7)**	**(1,185.3)**
Cash and short-term deposits (see Note 21)	**52.1**	**–**	**–**	**–**	**52.1**
Interest bearing assets	**52.1**	**–**	**–**	**–**	**52.1**
Net debt – continuing operations	**(241.1)**	**(51.6)**	**(754.8)**	**(85.7)**	**(1,133.2)**

At 31 December 2007	Less than one year €m	One to two years €m	Two to five years €m	More than five years €m	Total €m
Derivative financial instrument assets (see Note 27)	0.4	–	–	10.2	10.6
Derivative financial instrument liabilities (see Note 27)	(1.0)	–	(37.6)	(15.3)	(53.9)
Derivative financial instruments (see Note 27)	(0.6)	–	(37.6)	(5.1)	(43.3)
Bank overdrafts (see Note 26)	(8.8)	–	–	–	(8.8)
Bank loans and other loans (see Note 26)	–	–	(150.0)	–	(150.0)
Commercial paper (see Note 26)	(22.2)	–	–	–	(22.2)
Loan notes (see Note 26)	–	–	(226.4)	(322.8)	(549.2)
Obligations under finance leases (see Note 25)	(273.0)	(0.7)	–	–	(273.7)
Gross debt (including net derivatives)	(304.6)	(0.7)	(414.0)	(327.9)	(1,047.2)
Current assets – held for trading (see Note 16)	5.4	–	–	–	5.4
Cash and short-term deposits (see Note 21)	60.9	–	–	–	60.9
Interest bearing assets	66.3	–	–	–	66.3
Net debt	(238.3)	(0.7)	(414.0)	(327.9)	(980.9)

Interest rate and currency profile

The interest rate and currency profile of the Group's net debt balances is as follows:

	2008			2007		
	Fixed rate €m	Floating rate €m	Total €m	Fixed rate €m	Floating rate €m	Total €m
Gross debt (excluding impact of derivatives)						
Euro	**(91.8)**	**(813.8)**	**(905.6)**	(91.8)	(697.0)	(788.8)
Sterling	**–**	**(0.6)**	**(0.6)**	–	(8.2)	(8.2)
US$	**(203.3)**	**–**	**(203.3)**	(198.7)	–	(198.7)
Other	**–**	**–**	**–**	–	(0.2)	(0.2)
	(295.1)	**(814.4)**	**(1,109.5)**	(290.5)	(705.4)	(995.9)
Net impact of derivatives						
Euro	**(621.2)**	**453.0**	**(168.2)**	(505.9)	421.5	(84.4)
Sterling	**–**	**(72.2)**	**(72.2)**	(41.9)	(100.5)	(142.4)
US$	**204.1**	**1.8**	**205.9**	199.8	1.0	200.8
Other	**–**	**(41.3)**	**(41.3)**	–	(25.3)	(25.3)
	(417.1)	**341.3**	**(75.8)**	(348.0)	296.7	(51.3)
Gross debt (net of derivatives)						
Euro	**(713.0)**	**(360.8)**	**(1,073.8)**	(597.7)	(275.5)	(873.2)
Sterling	**–**	**(72.8)**	**(72.8)**	(41.9)	(108.7)	(150.6)
US$	**0.8**	**1.8**	**2.6**	1.1	1.0	2.1
Other	**–**	**(41.3)**	**(41.3)**	–	(25.5)	(25.5)
	(712.2)	**(473.1)**	**(1,185.3)**	(638.5)	(408.7)	(1,047.2)
Interest bearing assets						
Euro	**–**	**45.6**	**45.6**	–	49.3	49.3
Sterling	**–**	**5.3**	**5.3**	–	14.5	14.5
Other	**–**	**1.2**	**1.2**	–	2.5	2.5
	–	**52.1**	**52.1**	–	66.3	66.3
Net debt						
Euro	**(713.0)**	**(315.2)**	**(1,028.2)**	(597.7)	(226.2)	(823.9)
Sterling	**–**	**(67.5)**	**(67.5)**	(41.9)	(94.2)	(136.1)
US$	**0.8**	**1.8**	**2.6**	1.1	1.0	2.1
Other	**–**	**(40.1)**	**(40.1)**	–	(23.0)	(23.0)
	(712.2)	**(421.0)**	**(1,133.2)**	(638.5)	(342.4)	(980.9)

The net impact of derivatives in 2008 of €(75.8) million (2007: €(51.3) million), comprises the recognition of the fair value of the debt-related derivative financial instruments of €(66.2) million (2007: €(43.3) million), adjusted for the fair value hedge adjustment of €9.6 million (2007: €(8.0) million) (see Note 27).

The above fixed/floating rate analysis excludes the impact of interest rate caps and collars. Including the impact of such caps and collars, €100.0 million (2007: €100.0 million) of net debt would be classified as fixed rate.

The range of interest rates applicable to gross debt (net of derivatives) by principal currency is as follows:

	2008		2007	
	Euro %	Sterling %	Euro %	Sterling %
Fixed interest rate charge	**5.9-6.8**	**n/a**	4.7-6.8	5.9
Floating rate interest charge margin above:				
– EURIBOR	**0.3-2.6**	**n/a**	0.3-2.6	n/a
– LIBOR	**n/a**	**n/a**	n/a	(0.1)

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29 Additional disclosures on financial instruments

Measurement of financial instruments by category

At 31 December 2008	Book amount €m	Amortised cost €m	Fair value recognised in equity €m	Fair value recognised in Income Statement €m
Assets:				
Other financial assets:				
Derivative hedging instruments (held for trading)	**0.7**	**–**	**–**	**0.7**
Derivative non-hedging instruments (held for trading)	**9.2**	**–**	**–**	**9.2**
Cash and short-term deposits	**52.1**	**52.1**	**–**	**–**
Trade and other receivables	**1,351.7**	**1,351.7**	**–**	**–**
	1,413.7	**1,403.8**	**–**	**9.9**
Liabilities and shareholders' equity:				
Other financial liabilities:				
Derivative hedging instruments (held for trading)	**(53.2)**	**–**	**(14.9)**	**(38.3)**
Derivative non-hedging instruments (held for trading)	**(19.7)**	**–**	**–**	**(19.7)**
Bank overdrafts	**(27.4)**	**(27.4)**	**–**	**–**
Bank loans and other loans	**(290.4)**	**(290.4)**	**–**	**–**
Commercial paper	**(13.3)**	**(13.3)**	**–**	**–**
Loan notes	**(555.3)**	**(555.3)**	**–**	**–**
Obligations under finance leases	**(232.7)**	**(232.7)**	**–**	**–**
Deferred consideration	**(22.7)**	**(22.7)**	**–**	**–**
Trade and other payables	**(539.2)**	**(539.2)**	**–**	**–**
	(1,753.9)	**(1,681.0)**	**(14.9)**	**(58.0)**

At 31 December 2007	Book amount €m	Amortised cost €m	Fair value recognised in equity €m	Fair value recognised in Income Statement €m
Assets:				
Other financial assets:				
Derivative hedging instruments (held for trading)	4.6	–	4.6	–
Derivative non-hedging instruments (held for trading)	9.4	–	–	9.4
Cash and short-term deposits	60.9	60.9	–	–
Trade and other receivables	1,391.8	1,391.8	–	–
	1,466.7	1,452.7	4.6	9.4
Liabilities and shareholders' equity:				
Other financial liabilities:				
Derivative hedging instruments (held for trading)	(53.5)	–	(9.4)	(44.1)
Derivative non-hedging instruments (held for trading)	(1.3)	–	–	(1.3)
Bank overdrafts	(8.8)	(8.8)	–	–
Bank loans and other loans	(150.0)	(150.0)	–	–
Commercial paper	(22.2)	(22.2)	–	–
Loan notes	(549.2)	(549.2)	–	–
Obligations under finance leases	(273.7)	(273.7)	–	–
Deferred consideration	(30.6)	(30.6)	–	–
Trade and other payables	(670.3)	(670.3)	–	–
	(1,759.6)	(1,704.8)	(9.4)	(45.4)

The fair value of the above items recognised at amortised cost is as below:

	2008 Book amount €m	2008 Fair value €m	2007 Book amount €m	2007 Fair value €m
Fair value of financial assets and financial liabilities:				
Non-current assets – available for sale investments (see Note 16)	**0.4**	**0.4**	0.6	0.6
Trade and other receivables (see Note 20)	**1,351.7**	**1,351.7**	1,391.8	1,391.8
Current assets – held for trading (see Note 16)	**–**	**–**	5.4	5.4
Cash and cash equivalents (see Note 21)	**52.1**	**52.1**	60.9	60.9
Trade and other payables (see Note 22)	**(539.2)**	**(539.2)**	(670.3)	(670.3)
Obligations under finance leases (see Note 25)	**(232.7)**	**(232.7)**	(273.7)	(273.7)
Financial liabilities – borrowings:				
– Current (see Note 26)	**(45.1)**	**(45.1)**	(31.0)	(31.0)
– Non-current (see Note 26)	**(841.3)**	**(504.9)**	(699.2)	(657.1)
Financial liabilities – deferred consideration:				
– Current (see Note 26)	**(0.2)**	**(0.2)**	(0.3)	(0.3)
– Non-current (see Note 26)	**(22.5)**	**(22.1)**	(30.3)	(28.8)

The Directors consider that the book value of non-current assets – available for sale investments; trade and other receivables; current assets – held for trading; cash and cash equivalents; and trade and other payables, approximate to their fair value.

The fair value of obligations under finance leases approximates to their book value as the majority of these obligations are due within one year (see Note 25).

The fair value of borrowings and deferred consideration for disclosures are based either on tradable market values, or where such market values are not readily available are estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

30 Called-up share capital

	2008 Number	2008 €m	2007 Number	2007 €m
Authorised				
Ordinary shares of 1p each	**940,000,000**		940,000,000	
Issued and fully paid share capital				
At 1 January and 31 December	**920,524,047**	**13.1**	920,524,047	13.1

31 Share premium and own shares held

	Share premium €m	Own shares held €m
At 1 January 2007	381.5	(0.7)
Purchase of own shares	–	(3.0)
Own shares released on vesting of share awards	–	0.2
Exchange movements (net of taxation)	–	0.2
At 31 December 2007	381.5	(3.3)
At 1 January 2008	**381.5**	**(3.3)**
Own shares released on vesting of share awards	**–**	**2.6**
Exchange movements	**–**	**0.3**
At 31 December 2008	**381.5**	**(0.4)**

Own shares are held by the Avis Europe Employee Share Trust, a discretionary trust, to partially satisfy options and awards granted under a number of the Group's share schemes. The Company's own shares have a nominal value of 1 pence per share.

At 31 December 2008, the Trust held 637,735 shares (2007: 3,811,301 shares), which have been recognised as a reduction in shareholders' funds. The reduction in own shares held during the year relates to the exercise of awards for the 2006 Deferred Bonus Share Plan. The market value of the remaining shares as at 31 December 2008 was 3.9 pence per share (2007: 40.5 pence per share). 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 any dividends on these shares.

32 Share and share option schemes

Details of the nature of all share and share option schemes can be found on pages 40 to 42 of the Remuneration Report.

At the year end, options outstanding under all schemes were as follows:

At 31 December 2008

Date of grant	No of options ('000)	Exercise price range From	Exercise price range To	Exercise period From	Exercise period To
Approved and Unapproved Share Option Schemes					
2003	**364.5**	**75.7p**	**86.8p**	**2006**	**2013**
2002	**1,302.7**	**83.6p**	**174.2p**	**2005**	**2012**
2001	**790.4**	**121.8p**	**136.4p**	**2004**	**2011**
2000	**381.7**	**166.6p**	**166.8p**	**2003**	**2010**
1999	**59.9**	**197.3p**	**234.6p**	**2002**	**2009**
	2,899.2				
Performance Share Plan					
2003	**514.9**	**–**	**–**	**2006**	**2013**
Long-Term Incentive Plan					
2007	**3,698.7**	**–**	**–**	**2010**	**2011**
2008	**27,575.6**	**–**	**–**	**2011**	**2012**
Total	**34,688.4**				

At 31 December 2007

Date of grant	No of options ('000)	Exercise price range From	Exercise price range To	Exercise period From	Exercise period To
Approved and Unapproved Share Option Schemes					
2003	418.7	75.7p	86.8p	2006	2013
2002	1,605.8	83.6p	174.2p	2005	2012
2001	943.7	121.8p	136.4p	2004	2011
2000	423.6	166.6p	166.8p	2003	2010
1999	59.9	197.3p	234.6p	2002	2009
1998	79.0	208.1p	224.7p	2001	2008
	3,530.7				
Performance Share Plan					
2003	702.7	–	–	2006	2013
Share Retention Plan					
2004	238.6	–	–	2006	2008
Deferred Bonus Share Plan					
2007	3,124.4	–	–	2008	2008
Long-Term Incentive Plan					
2007	4,908.1	–	–	2010	2011
Total	12,504.5				

Number ('000)	Approved and Unapproved Share Schemes	Performance Share Plan	Share Retention Plan	Deferred Bonus Share Plan	Long-Term Incentive Plans	Total
Outstanding options as at 1 January 2007	5,249.7	1,366.1	477.2	–	–	7,093.0
Granted in the year	–	–	–	3,124.4	5,990.1	9,114.5
Forfeited in the year	(1,719.0)	(663.4)	–	–	(1,082.0)	(3,464.4)
Exercised in the year	–	–	(238.6)	–	–	(238.6)
Outstanding options as at 31 December 2007	3,530.7	702.7	238.6	3,124.4	4,908.1	12,504.5
Exercisable options as at 31 December 2007	3,530.7	–	–	–	–	3,530.7
Outstanding options as at 1 January 2008	**3,530.7**	**702.7**	**238.6**	**3,124.4**	**4,908.1**	**12,504.5**
Granted in the year	**–**	**–**	**–**	**–**	**29,293.3**	**29,293.3**
Forfeited in the year	**(631.5)**	**(187.8)**	**–**	**(188.4)**	**(2,927.1)**	**(3,934.8)**
Exercised in the year	**–**	**–**	**(238.6)**	**(2,936.0)**	**–**	**(3,174.6)**
Outstanding options as at 31 December 2008	**2,899.2**	**514.9**	**–**	**–**	**31,274.3**	**34,688.4**
Exercisable options as at 31 December 2008	**2,899.2**	**–**	**–**	**–**	**–**	**2,899.2**

All movements in the number of outstanding options under the Performance Share Plan, Share Retention Plan, Deferred Bonus Share Plan and the Long-Term Incentive Plans during both the current and prior year had zero weighted average exercise prices. The weighted average share price at the date of exercise of share options exercised during the period was 24p (2007: 59p). Exercisable options comprise outstanding options where the vesting period has completed, irrespective as to whether the option exercise price is above or below the current share price.

Movements in the weighted average exercise prices of the Approved and Unapproved Share Schemes during the year are as follows:

Weighted average exercise price (pence)	Approved and Unapproved Share Schemes
Outstanding options as at 1 January 2007	120.0
Forfeited in the year	110.1
Outstanding options as at 31 December 2007	126.3
Exercisable options as at 31 December 2007	126.3
Outstanding options as at 1 January 2008	**126.3**
Forfeited in the year	**120.1**
Outstanding options as at 31 December 2008	**127.6**
Exercisable options as at 31 December 2008	**127.6**

Weighted average remaining contract lives (years):	Approved and Unapproved Share Schemes	Performance Share Plan	Share Retention Plan	Deferred Bonus Share Plan	Long-Term Incentive Plan 2007	Long-Term Incentive Plan 2008
At 31 December 2008	**2.4**	**1.3**	**–**	**–**	**2.0**	**3.3**
At 31 December 2007	3.2	2.3	0.3	0.3	3.0	–

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32 Share and share option schemes continued

IFRS 2, Share-Based Payment, requires that the fair value of all share options issued after 7 November 2002 is charged to the Income Statement. Certain options from the approved and unapproved schemes were issued before 7 November 2002 and therefore the fair values of these granted options are not recognised. For options issued after 7 November 2002, the fair value of the option must be assessed on the date of each issue. The Group uses a stochastic valuation model at each issue date re-assessing the input assumptions on each occasion. The weighted average of the assumptions used in each valuation and the resulting weighted average fair value per option, for options issued in the year, were as follows:

	Long-Term Incentive Plan 2008		Long-Term Incentive Plan 2007	
Weighted average	2008	2007	2008	2007
Share price (pence)	**8.5**	n/a	**58.4**	58.4
Option exercise price (pence)	**–**	n/a	**–**	–
Vesting period (years)	**3.0**	n/a	**2.0**	3.0
Option life (years)	**3.5**	n/a	**2.5**	3.5
Expected volatility (%)	**51.0%**	n/a	**34.0%**	34.0%
Risk free rate of return (%)	**3.7%**	n/a	**5.6%**	5.6%
Probability of ceasing employment before vesting (%)	**5.0%**	n/a	**5.0%**	5.0%
Expectations of meeting performance criteria (%)	**40.0%**	n/a	**20.0%**	40.0%
Fair value per option (pence)	**8.5**	n/a	**58.4**	58.4

Expected volatility was determined by reference to the volatility in the share price using rolling one year periods for the five years immediately preceding the grant date. The risk free rate of return is based upon UK gilt rates with an equivalent term to the options granted.

For options issued prior to July 2003, an expected dividend yield of 6.4% was applied, based on historic dividend yield performance. For options issued after July 2003, future dividend assumptions were aligned to the dividend expectations publicly announced by the Group.

33 Retained deficit

	2008 €m	2007 €m
At 1 January	**(280.2)**	(295.1)
(Loss)/profit for the year attributable to equity holders of the Company	**(9.9)**	3.0
Increase in equity reserve arising from charge to income for share options in the year	**0.2**	0.4
Decrease in equity reserve arising from exercise of share options	**(2.4)**	–
Net actuarial gains on retirement benefit obligations	**11.2**	14.9
Taxation on actuarial gains (see Note 8)	**(2.8)**	(3.4)
At 31 December	**(283.9)**	(280.2)

Goodwill of €1,080.4 million arising before 1 March 1998 is fully written off to reserves.

34 Other deficit

	Translation Reserve €m	Hedging Reserve €m	Total €m
At 1 January 2007	(9.6)	(4.9)	(14.5)
Cash flow hedges:			
– net fair value losses	–	(5.8)	(5.8)
– transfers to Income Statement	–	7.9	7.9
Exchange differences on translation of foreign operations	(2.8)	–	(2.8)
Taxation (see Note 8)	0.9	(0.6)	0.3
At 31 December 2007	(11.5)	(3.4)	(14.9)
At 1 January 2008	**(11.5)**	**(3.4)**	**(14.9)**
Cash flow hedges:			
– net fair value losses	**–**	**(11.8)**	**(11.8)**
– transfers to Income Statement	**–**	**2.2**	**2.2**
Exchange differences on translation of foreign operations	**(23.1)**	**–**	**(23.1)**
Taxation (see Note 8)	**3.8**	**2.8**	**6.6**
At 31 December 2008	**(30.8)**	**(10.2)**	**(41.0)**

The hedging reserve reflects changes in the fair value of derivative financial instruments that are designated and effective as hedges of future cash flows.

35 Reconciliation of movements in shareholders' equity

	2008 €m	2007 €m
(Loss)/profit after taxation attributable to the equity holders of the Company	**(9.9)**	3.0
Net (expense)/income recognised directly in equity (see Statement of Recognised Income and Expense)	**(17.7)**	11.1
Total recognised (expense)/income attributable to equity holders of the Company	**(27.6)**	14.1
Increase in equity reserve arising from charge to income for share options in the year	**0.2**	0.4
Decrease in equity reserve arising from exercise of share options	**(2.4)**	–
Purchase of own shares	**–**	(3.0)
Own shares released on vesting of share awards	**2.6**	0.2
Exchange movements on own shares	**0.3**	0.2
Net (decrease)/increase in shareholders' equity	**(26.9)**	11.9
At 1 January	**96.2**	84.3
At 31 December	**69.3**	96.2

36 Reconciliation of movements in minority interest

	2008 €m	2007 €m
Loss for the year	**–**	(0.1)
Net decrease in minority interest	**–**	(0.1)
At 1 January	**0.8**	0.9
At 31 December	**0.8**	0.8

37 Notes to the consolidated cash flow statement

a) Analysis of changes in net debt

	At 1 January 2008 €m	Cash flow €m	Non-cash movements €m	Exchange movements €m	At 31 December 2008 €m
Cash and short-term deposits	**60.9**	**(8.0)**	**–**	**(0.8)**	**52.1**
Bank overdrafts	**(8.8)**	**(18.6)**	**–**	**–**	**(27.4)**
Cash and cash equivalents	**52.1**	**(26.6)**	**–**	**(0.8)**	**24.7**
Current assets – held for trading	**5.4**	**(5.4)**	**–**	**–**	**–**
Obligations under finance leases	**(273.7)**	**53.5**	**(23.2)**	**10.7**	**(232.7)**
Borrowings (excluding overdrafts) (see Note 26)	**(721.4)**	**(129.1)**	**(6.3)**	**(2.2)**	**(859.0)**
Derivative debt instruments (see Note 27)	**(43.3)**	**(0.2)**	**(22.5)**	**(0.2)**	**(66.2)**
Net debt	**(980.9)**	**(107.8)**	**(52.0)**	**7.5**	**(1,133.2)**

Non-cash movements represent the effect of the inception and cessation of certain finance leases during the year, and recognition of changes in the fair value of derivatives and hedged items.

b) Reconciliation of net decrease in cash and cash equivalents to movement in net debt

	2008 €m	2007 €m
Movement in net debt resulting from cash flows	**(107.8)**	(126.7)
New finance leases	**(23.2)**	(48.3)
Re-measurement adjustments on borrowings and derivative debt instruments	**(28.8)**	(1.0)
Exchange movements	**7.5**	6.3
Total movement in net debt (excluding Greece disposal)	**(152.3)**	(169.7)
Disposal of business (see Note 39)	**–**	196.7
Total movement in net debt	**(152.3)**	27.0
Net debt at 1 January	**(980.9)**	(1,007.9)
Net debt at 31 December	**(1,133.2)**	(980.9)

38 Acquisitions

During the year, the Group acquired the assets and activities of certain rental locations in both Holland and France which were formerly Avis licensees. The results and cash flows arising subsequent to the acquisitions are not considered material and accordingly are not disclosed separately. The details of the net assets acquired, goodwill and consideration are set out below:

	Book value – Holland licensees €m	Book value – France licensees €m	Total book value €m	Fair value and accounting policy adjustments €m	Provisional fair value €m
Vehicles	–	0.2	0.2	–	0.2
Other property, plant and equipment	0.1	–	0.1	–	0.1
Trade and other receivables	–	0.3	0.3	–	0.3
Cash and short-term deposits	–	0.1	0.1	–	0.1
Trade and other payables	–	(0.1)	(0.1)	–	(0.1)
Other taxes and social security	–	(0.1)	(0.1)	–	(0.1)
Net assets acquired	0.1	0.4	0.5	–	0.5
Goodwill arising on acquisition	1.2	0.2	1.4	–	1.4
Consideration	1.3	0.6	1.9	–	1.9
Consideration satisfied by:					
Cash for acquisition of businesses	1.3	0.6	1.9		1.9

During the year, the Group also invested in a French joint venture, OKIGO, for cash consideration of €0.1 million. No goodwill arose upon this acquisition. The Group's 50% share of net liabilities acquired was €0.6 million.

39 Disposal

Disposal of subsidiary

In the prior year, the Group disposed of its subsidiary in Greece, Olympic Commercial and Tourist Enterprises SA, which was classified as a discontinued operation. The net consideration was €14.4 million after deducting a warranty provision of €7.8 million and the net assets at disposal were €23.2 million. Accordingly, the total loss on disposal was €8.8 million. A goodwill impairment charge of €7.1 million was recorded prior to the disposal. The loss on disposal and the goodwill impairment charge are excluded from the underlying result.

The Group has recognised an exceptional credit of €1.3 million in the current year to reflect the final settlement of a warranty provision (see Note 6).

In the prior year, the financial results and cash flows of the discontinued operation were considered to be a separate major line of business and were therefore separately disclosed as follows:

2007 Income Statement:	Underlying[1] €m	Amounts excluded from underlying[2] €m	Total €m
Revenue	48.7	–	48.7
Operating profit/(loss)	7.9	(15.9)	(8.0)
Profit/(loss) before taxation	2.4	(15.9)	(13.5)
Taxation	1.1	–	1.1
Profit/(loss) after taxation	3.5	(15.9)	(12.4)

1 See Basis of Preparation.

2 The amount excluded from underlying represents the loss on disposal of the subsidiary in Greece and the goodwill impairment recorded prior to the disposal of the operation.

2007 Cash Flow:	€m
Operating profit	7.9
Reverse depreciation on property, plant and equipment	9.7
Reverse non-cash operating lease charge on manufacturer repurchase contracts	8.8
Payments with respect to manufacturer repurchase contracts	(35.8)
Receipts with respect to manufacturer repurchase contracts	12.5
Increase in receivables	(2.3)
Decrease in payables	(0.7)
Increase in retirement benefit obligations	0.1
Net cash generated from operating activities	0.2
Net cash used in investing activities	(17.2)
Net cash generated from financing activities	13.0
Decrease in cash and cash equivalents	(4.0)
Cash and cash equivalents at 1 January	6.4
Cash and cash equivalents at 31 December	2.4

The Balance Sheet at the date of the prior year disposal was as follows:

	€m
Non-current assets	
Goodwill (see Note 11)	0.5
Other intangible assets (see Note 12)	0.2
Vehicles (see Note 13)	124.9
Property, plant and equipment (see Note 14)	2.4
	128.0
Current assets	
Trade and other receivables:	
– Repurchase vehicles	102.0
– Other	25.9
Inventories	0.2
Net current tax assets	0.1
Cash and cash equivalents	2.4
	130.6
Assets of discontinued operation held for sale	258.6
Current liabilities	
Trade and other payables	(28.4)
Borrowings	(196.7)
Provisions	(0.6)
	(225.7)
Non-current liabilities	
Deferred tax (see Note 17)	(8.5)
Retirement benefit obligations (see Note 24)	(1.2)
	(9.7)
Liabilities of discontinued operation held for sale	(235.4)
Net assets	23.2

Notes to the Consolidated Financial Statements continued

for the year ended 31 December

40 Contingent liabilities

The Company and certain subsidiaries have provided unsecured guarantees to certain third parties within the normal course of business, the majority of which were in favour of certain lenders in respect of some of the Group's loan notes and borrowing facilities, together with guarantees provided to vehicle suppliers and property lessors. As at 31 December 2008, these guarantees totalled €1,045.9 million (2007: €953.7 million).

Certain Group companies are defendants in a number of claims and legal proceedings incidental to their operations. The Directors do not expect that any of these contingencies will have a material negative impact on the results or financial position of the Group.

Save as disclosed herein and excluding intra-group indebtedness and guarantees, no member of the Group had at the close of business on 31 December 2008 any outstanding loan capital (including loan capital created but unissued), term loans or any other borrowings or indebtedness in the nature of borrowings, including bank overdrafts, liabilities under acceptances (other than normal trade bills) or acceptance credits, hire purchase commitments, obligations under finance leases, guarantees or other contingent liabilities.

41 Financial commitments

At 31 December, the Group had the following minimum lease payment commitments under non-cancellable operating leases:

	2008			2007		
	Land and Buildings €m	Vehicles €m	Other €m	Land and Buildings €m	Vehicles €m	Other €m
Expiring:						
Within one year	**55.7**	**11.3**	**0.1**	44.7	32.9	0.2
Later than one year and less than five years	**128.4**	**0.8**	**0.1**	83.2	1.3	0.3
After five years	**52.0**	**–**	**–**	27.8	–	–
Total	**236.1**	**12.1**	**0.2**	155.7	34.2	0.5

At each year end the Group also had prepaid various other operating lease commitments in relation to manufacturer repurchase agreements, as detailed in Note 20.

42 Majority shareholder

The Company's ultimate majority shareholder 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. Avis Europe plc is the smallest company that consolidates the results of the Company and its subsidiaries.

s.a. D'Ieteren n.v. is the largest company that consolidates the results of the Company and its subsidiaries. Copies of s.a. D'Ieteren n.v.'s financial statements are available from: The Investor Relations Department, Avis Europe plc, Avis House, Park Road, Bracknell, Berkshire, RG12 2EW.

43 Related party transactions

	2008 €m	2007 €m
Sales to joint ventures	**0.6**	0.5
Net current amounts owing from joint ventures	**0.1**	0.1
Purchases from majority shareholder	**51.6**	54.3
Sales to majority shareholder	**56.4**	51.5
Purchases from a subsidiary of majority shareholder	**1.7**	1.8
Interest payable to a subsidiary of majority shareholder	**0.5**	0.1
Current amounts owing to majority shareholder	**16.5**	8.0
Current amounts owing from majority shareholder	**17.7**	13.4
Current amounts owing to a subsidiary of majority shareholder	**0.1**	0.1

The remuneration of the Directors, and other key management personnel of the Group, is set out below in aggregate for each of the categories specified in IAS 24, Related Party Disclosures. Salaries and short-term employee benefits include wages, salaries and social security costs.

Further information about the remuneration of individual Directors is provided in the audited part of the Remuneration Report on pages 39 to 42.

	2008			2007		
Key management compensation	Directors €m	Key management €m	Total €m	Directors €m	Key management €m	Total €m
Salaries and short-term employee benefits	**2.5**	**3.2**	**5.7**	3.3	3.8	7.1
Post-employment benefits	**0.1**	**0.4**	**0.5**	0.3	0.8	1.1
Termination amounts	**0.4**	**2.1**	**2.5**	0.7	–	0.7
Share-based payments	**(0.2)**	**0.4**	**0.2**	0.1	0.3	0.4
	2.8	**6.1**	**8.9**	4.4	4.9	9.3

44 Exchange rates

Monthly Income Statements and other period statements of overseas operations are translated at the relevant rate of exchange for that month. Except for the Balance Sheet which is translated at the closing rate, each line item in these Consolidated Financial Statements represents a weighted average rate.

	Euro to Sterling Year ended 31 December		Sterling to Euro Year ended 31 December	
	2008	2007	2008	2007
Weighted average reported rate for revenue	**1.274**	1.469	**0.785**	0.681
Weighted average reported rate for operating profit	**1.248**	1.479	**0.801**	0.676
Year end rate	**1.048**	1.397	**0.954**	0.716

45 Principal subsidiaries

A list of the principal subsidiaries including the name, country of incorporation, and proportion of ownership is detailed below:

Name of company	Country of incorporation	2008 % of indirect ownership interest	2007 % of indirect ownership interest
Avis Location de Voitures SAS	France	**100**	100
Avis Autovermietung GmbH & Co KG	Germany	**100**	100
Avis Autonoleggio SpA	Italy	**100**	100
Avis Alquile un Coche SA	Spain	**100**	100
Avis Rent A Car Limited	UK	**100**	100
Avis Europe International Reinsurance Limited	Isle of Man	**100**	100
Avis Europe Holdings Limited	UK	**100**	100
Avis Finance Company plc	UK	**100**	100
Avis Management Services Limited	UK	**100**	100

In addition, the assets and liabilities of Europe Leisure Holdings NV and its subsidiary are consolidated in these Consolidated Financial Statements in accordance with SIC 12, Consolidation – Special Purpose Entities.

A complete list of all Group subsidiaries is available from: The Investor Relations Department, Avis Europe plc, Avis House, Park Road, Bracknell, Berkshire, RG12 2EW.

Independent Auditors' Report to the Members of Avis Europe plc

We have audited the Parent Company Financial Statements of Avis Europe plc for the year ended 31 December 2008 which comprise the Parent Company Balance Sheet, the Parent Company Cash Flow Statement, the Significant Accounting Policies and the related notes. These Parent Company Financial Statements have been prepared under the accounting policies set out therein. We have also audited the information in the Directors' Remuneration Report that is described as having been audited.

We have reported separately on the Consolidated Financial Statements of Avis Europe plc for the year ended 31 December 2008.

Respective responsibilities of Directors and auditors

The Directors' responsibilities for preparing the Annual Report, the Directors' Remuneration Report and the Parent Company Financial Statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the Parent Company Financial Statements and the part of the Directors' Remuneration Report to be audited in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland). This report, including the opinion, has been prepared for and only for the Company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the Parent Company Financial Statements give a true and fair view and whether the Parent Company Financial Statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the Parent Company Financial Statements. The information given in the Directors' Report includes that specific information presented in the Business Review, the Corporate Governance Statement and the sections of the Remuneration Report that are referred to as audited that are cross referred from the Business Review section of the Directors' Report.

In addition we report to you if, in our opinion, 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 regarding Directors' remuneration and other transactions is not disclosed.

We read other information contained in the Annual Report and consider whether it is consistent with the audited Parent Company Financial Statements. The other information comprises only the Chairman's Statement, the Chief Executive's Review, the Business Review, the Corporate and Social Responsibility Report, the Directors Listing, the Corporate Governance Statement, the Statement of Directors' Responsibilities, the unaudited part of the Remuneration Report and the Five Year Summary. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the Parent Company Financial Statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the Parent Company Financial Statements and the part of the Directors' Remuneration Report to be audited. It also includes an assessment of the significant estimates and judgments made by the Directors in the preparation of the Parent Company 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 Parent Company Financial Statements and the part of the Directors' Remuneration Report to be audited 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 Parent Company Financial Statements and the part of the Directors' Remuneration Report to be audited.

Opinion

In our opinion:

- the Parent Company Financial Statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the Company's affairs as at 31 December 2008;
- the Parent Company Financial Statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' Report is consistent with the Parent Company Financial Statements.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
Reading
3 March 2009

Notes:

a) The maintenance and integrity of the Avis Europe plc website is the responsibility of the Directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the Financial Statements since they were initially presented on the website.

b) Legislation in the United Kingdom governing the preparation and dissemination of Financial Statements may differ from legislation in other jurisdictions.

Parent Company Balance Sheet

as at 31 December

	Notes	2008 £m	2007 £m
Fixed assets			
Investments	1	**202.0**	315.0
Current assets			
Debtors	2	**117.5**	111.0
Creditors amounts falling due within one year			
Creditors	3	**(4.7)**	(4.3)
Other financial liabilities - financial guarantees	4	**(0.2)**	(0.2)
Current liabilities		**(4.9)**	(4.5)
Net current assets		**112.6**	106.5
Total assets less current liabilities		**314.6**	421.5
Capital and reserves			
Called-up share capital	5	**9.2**	9.2
Share premium	6	**294.8**	294.8
Reserves	7	**10.6**	117.5
Total shareholders' funds - equity	8	**314.6**	421.5

The accompanying Notes form an integral part of these Parent Company Financial Statements.

The Parent Company Financial Statements, including the accompanying Notes, were approved by the Board on 3 March 2009 and were signed on its behalf by:

Pascal Bazin
Chief Executive

Martyn Smith
Finance Director

Parent Company Cash Flow Statement

for the year ended 31 December

	2008 £m	2007 £m
Operating loss	**(114.8)**	(5.7)
Reverse current year impairment provision	**113.2**	0.2
(Increase)/decrease in debtors	**(2.5)**	1.9
Increase/(decrease) in creditors	**0.1**	(0.7)
Net cash used in operating activities	**(4.0)**	(4.3)
Finance revenue received	**6.3**	7.4
Increase in loans receivable from Group subsidiaries	**(2.3)**	(1.2)
Purchase of own shares	–	(1.9)
Net cash generated from financing activities	**4.0**	4.3
Movement in cash and cash equivalents	**–**	–
Cash and cash equivalents at 1 January and 31 December	**–**	–

The accompanying Notes form an integral part of these Parent Company Financial Statements.

Significant Accounting Policies

Applicable to the Parent Company Financial Statements for the year ended 31 December 2008

Basis of preparation
The Company's functional currency is sterling, and the Balance Sheet, Cash Flow Statement and related notes are presented in sterling.

The Parent Company Financial Statements set out on pages 78 to 82 have been prepared under the historical cost convention and in accordance with applicable UK accounting standards and the Companies Act 1985. A summary of the principal accounting policies is set out below, which are consistent with those followed in the preparation of the Company's Financial Statements for the year ended 31 December 2008.

Fixed asset investments
Fixed asset investments are shown at cost less provision for any impairment where the recoverable amount is less than cost. Fixed asset investments are initially stated at cost, being their purchase cost together with any incidental expenses of acquisitions. The carrying values of fixed asset investments are reviewed at each year end and if events or changes in circumstances indicate the carrying value may not be recoverable. Any impairment of fixed asset investments is charged to the Profit and Loss Account in the year in which it arises.

Debtors
Debtors are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade debtors is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of the debt. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows. The carrying amount is reduced through the use of an allowance account, and the amount is recognised in the Profit and Loss Account. When a trade debt is uncollectible, it is written off against the allowance account for trade debtors. Subsequent recoveries of amounts previously written off are credited in the Profit and Loss Account.

Creditors
Creditors are initially measured at fair value and subsequently measured at amortised cost using the effective interest method.

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.

Dividend distribution
Final dividends to the Company's shareholders are recognised as a liability in the Financial Statements in the period in which the dividends are approved by the Company's shareholders. Interim dividends are recognised when paid.

Share-based payments
Share-based payments are exclusively made in connection with employee share option plans (ESOPs).

FRS 20, Share-Based Payments, is not applied to shares, share options or other equity instruments that were granted before or on 7 November 2002 and which had not vested at 1 January 2005. Equity-settled ESOPs granted after that date are accounted for in accordance with FRS 20, such that the fair value of the employee service received in exchange for the grant of the option is recognised in the Profit and Loss Account over the related performance period. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted, excluding the impact of any non-market vesting conditions (for example profitability growth targets). Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. At each balance sheet date, the Group revises its estimates of the number of options that are expected to become exercisable. It recognises the impact of the revision of original estimates in the Profit and Loss Account, with a corresponding adjustment to equity.

The proceeds received net of any directly attributable transaction costs are credited to share capital and share premium when the options are exercised.

Financial guarantees
Financial guarantees, other than those previously asserted by the entity to be insurance contracts, are initially recognised at their fair value and subsequently measured at the higher of: (a) the unamortised balance of the related fees received and deferred; and (b) the expenditure required to settle the commitment at the balance sheet date.

Notes to the Parent Company Financial Statements

for the year ended 31 December

1 Fixed asset investments

Investment in subsidiaries	2008 £m	2007 £m
Cost		
At 1 January	**711.4**	711.2
Additions	**0.2**	0.2
At 31 December	**711.6**	711.4
Provision for impairment		
At 1 January	**396.4**	396.2
Charged in the year	**113.2**	0.2
At 31 December	**509.6**	396.4
Net book amount		
At 1 January and 31 December	**202.0**	315.0

Details of the Company's principal subsidiaries are provided in Note 45 of the Consolidated Financial Statements.

The Directors review at each year end the carrying value of the fixed asset investments in the principal subsidiaries by undertaking a value in use calculation. In determining the value in use, the Directors calculated the present value of the estimated future cash flows expected to arise based on management's latest three-year plans, with extrapolation thereafter. The calculated value in use is sensitive to a number of assumptions which are discussed in turn below. These potential changes in key assumptions fall well within historic variations experienced by the business and are therefore considered reasonably possible:

EBIT margin – The long-term EBIT margin is fixed by reference to management's estimated EBIT margin as at 2011. An increase/(decrease) in the EBIT margin by 50 basis points in 2010 only would result in a (decrease)/increase in the impairment provision of £(4) million/£4 million. An increase/(decrease) in the long-term EBIT margin by 50 basis points in 2011 and beyond would result in a (decrease)/increase in the impairment of £(76) million/£76 million.

Discount rate – Future cash flows are discounted using a pre-tax discount rate of 10.2%. An increase/(decrease) in the discount rate of 50 basis points would result in an increase/(decrease) in the impairment provision of £109 million/£(113) million.

Long-term growth rate – Cash flows beyond an initial three-year period are extrapolated using a long-term average nominal growth rate of 4.0% (2007: 4.0%) comprising a real growth rate of 2.0% and inflationary rate of 2.0%. A (decrease)/increase in the nominal growth rate of 1.0% to 3.0%/5.0% would result in an increase/(decrease) in the impairment provision of £29 million/£(33) million.

Exchange rate – The value in use calculation is performed in euros in line with the majority of the cash flows of the Company's subsidiaries. The resultant euro valuation is translated into sterling at the closing exchange rate. The main forecasted non-euro cash flows are denominated in sterling and are converted to euro based on a long-term euro/sterling exchange rate expected to be in place at the time of the forecast transaction. Most sterling cash flows are forecast to be converted into euro at a forecast exchange rate of 1.27. An increase/(decrease) in the euro/sterling exchange rate by one euro cent would result in an increase/(decrease) in the impairment provision of £5 million/£(5) million arising upon the translation of sterling cash flows. This analysis excludes any trading impacts which may arise from changes in exchange rates.

2 Debtors

	2008 £m	2007 £m
Amounts owed by Group subsidiaries	**114.8**	110.8
Other prepayments	**2.3**	–
Deferred tax	**0.4**	0.2
	117.5	111.0

Included within "Amounts owed by Group subsidiaries" are both current account and intercompany loan balances. The latter are repayable on demand, have no security and carry an interest rate of 6.7% (2007: 6.8%).

3 Creditors

	2008 £m	2007 £m
Amounts falling due within one year		
Amounts due to Group subsidiaries	**2.9**	2.9
Amount due in respect of own shares purchased	**–**	0.2
Other creditors	**1.8**	1.2
	4.7	4.3

Included within "Amounts due to Group subsidiaries" are both current account and intercompany loan balances. The latter are repayable on demand, have no security and carry an interest rate of 6.7% (2007: 6.8%).

4 Other financial liabilities

	2008 £m	2007 £m
Financial guarantee contracts	**0.2**	0.2

The fair values of financial guarantee contracts are calculated by discounted cash flow analysis based upon the probability of default of the underlying subsidiary undertaking and the expected loss to the Company arising upon default.

5 Called-up share capital

	2008 Number	2008 £m	2007 Number	2007 £m
Authorised				
Ordinary shares of 1p each	**940,000,000**	**9.4**	940,000,000	9.4
Issued and fully paid share capital				
At 1 January and 31 December	**920,524,047**	**9.2**	920,524,047	9.2

Details of the Company's share option schemes are provided in Note 32 of the Consolidated Financial Statements.

6 Share premium

	2008 £m	2007 £m
At 1 January and 31 December	**294.8**	294.8

Notes to the Parent Company Financial Statements continued

for the year ended 31 December

7 Reserves

	Own shares held £m	Retained earnings £m	Total £m
At 1 January 2007	(0.5)	116.2	115.7
Retained profit for the year	–	1.6	1.6
Increase in equity reserve arising from charge to income for share options in the year	–	2.1	2.1
Purchase of own shares	(2.1)	–	(2.1)
Own shares released on vesting of share awards	0.2	–	0.2
At 31 December 2007	(2.4)	119.9	117.5
At 1 January 2008	**(2.4)**	**119.9**	**117.5**
Retained loss for the year	**–**	**(107.1)**	**(107.1)**
Increase in equity reserve arising from charge to income for share options in the year	**–**	**0.1**	**0.1**
Decrease in equity reserve arising from exercise of share options in the year	**–**	**(1.9)**	**(1.9)**
Own shares released on vesting of share awards	**2.0**	**–**	**2.0**
At 31 December 2008	**(0.4)**	**11.0**	**10.6**

As allowed under section 230 of the Companies Act 1985, no Profit and Loss Account is presented in respect of the Company. The loss of the Company for the year was £107.1 million (2007: profit of £1.6 million).

In accordance with FRS 20, for share options that were issued after 7 November 2002, and which had not vested at 1 January 2005, the fair value of the employee service received in exchange for the grant of the option is recognised in the Profit and Loss Account over the related performance period. The Company recharges these expenses to the relevant Group company in which the individual is employed.

8 Reconciliation of movements in shareholders' equity

	2008 £m	2007 £m
Retained (loss)/profit for the year	**(107.1)**	1.6
Increase in equity reserve arising from charge to income for share options in the year	**0.1**	–
Decrease in equity reserve arising from exercise of share options in the year	**(1.9)**	–
Own shares released on vesting of share awards	**2.0**	0.2
Net (decrease)/increase in shareholders' equity	**(106.9)**	1.8
At 1 January	**421.5**	419.7
At 31 December	**314.6**	421.5

9 Auditor's remuneration

Auditor's remuneration is borne by Avis Management Services Limited, an indirect subsidiary undertaking.

10 Directors' remuneration

Details of Directors' remuneration for the year are provided in Note 43 of the Consolidated Financial Statements and the audited part of the Remuneration Report on pages 39 to 42.

11 Majority shareholder

Details of the majority shareholder are provided in Note 42 of the Consolidated Financial Statements.

12 Related party transactions

The Company has taken advantage of the exemption within FRS 8, Related Party Disclosures, not to disclose transactions with other entities within the same group. Details of related party transactions involving Group undertakings are provided in Note 43 of the Consolidated Financial Statements.

13 Contingent liabilities

The Company and certain subsidiaries have provided unsecured guarantees to certain third parties within the normal course of business, the majority of which were in favour of certain lenders in respect of some of the Group's loan notes and borrowing facilities, together with guarantees provided to vehicle suppliers and property lessors. As at 31 December 2008, these guarantees in relation to drawn balances totalled £998.0 million (2007: £682.6 million).

Certain Group companies are defendants in a number of claims and legal proceedings incidental to their operations. The Directors do not expect that any of these contingencies will have a material impact on the results or financial position of the Company.

Five Year Summary

Basis of preparation – continuing operations		2004	2005	2006	2007	2008
Revenue	€m	1,180	1,202	1,256	1,327	**1,314**
Underlying profit before taxation	€m	46	32	30	38	**38**
Net exceptional costs before taxation	€m	74	13	29	7	**29**
Basic earnings per share:						
– as reported and adjusted for 2005 rights issue	€ cents	(3.3)	1.5	(0.2)	1.6	**(1.2)**
Adjusted/underlying earnings per share:						
– as reported and adjusted for 2005 rights issue	€ cents	4.7	2.6	2.3	2.9	**2.4**
Net debt	€m	966	946	1,008	981	**1,133**
Shareholders' funds	€m	(57)	87	85	97	**70**

Shareholder information

Registered office and head office
Avis House, Park Road, Bracknell, Berkshire, RG12 2EW
Tel: +44 (0) 1344 426644
Fax: +44 (0) 1344 485616
Registered number: 3311438

Registrar
Shareholders with any queries relating to shareholdings, change of address, lost share certificates or dividend payments should contact the Company's registrar on 0871 384 2278 or write to Equiniti, Aspect House, Spencer Road, Lancing, West Sussex, BN99 6DA. The registrar provides a wide range of shareholder information on-line. Shareholders can check their holding and find practical help on transferring shares or updating their details at: www.shareview.co.uk

Website
The Avis Europe website, www.avis-europe.com, includes an Investor Centre and is continuously updated with announcements and Avis news.

ShareGift
Shareholders with a small number of shares, the value of which makes it uneconomic to sell them, may wish to consider donating them to charity through ShareGift, a registered charity administered by The Orr Mackintosh Foundation. The share transfer form needed to make a donation may be obtained from the Avis Europe registrar, Equiniti. Further information about ShareGift is available at www.sharegift.org or by telephone: 020 7930 3737.

Founders Club
Founders Club members and holders of other shareholder privileges should use the following dedicated phone line for all reservations and enquiries including queries about discounts – 0870 333 7000.

Avis Europe plc no longer offers discounts for new shareholders with effect from 1 January 2005.

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