Avis Europe plc

ANNUAL REPORT 2007

AVIS

We try harder.

INTERNATIONAL NETWORK

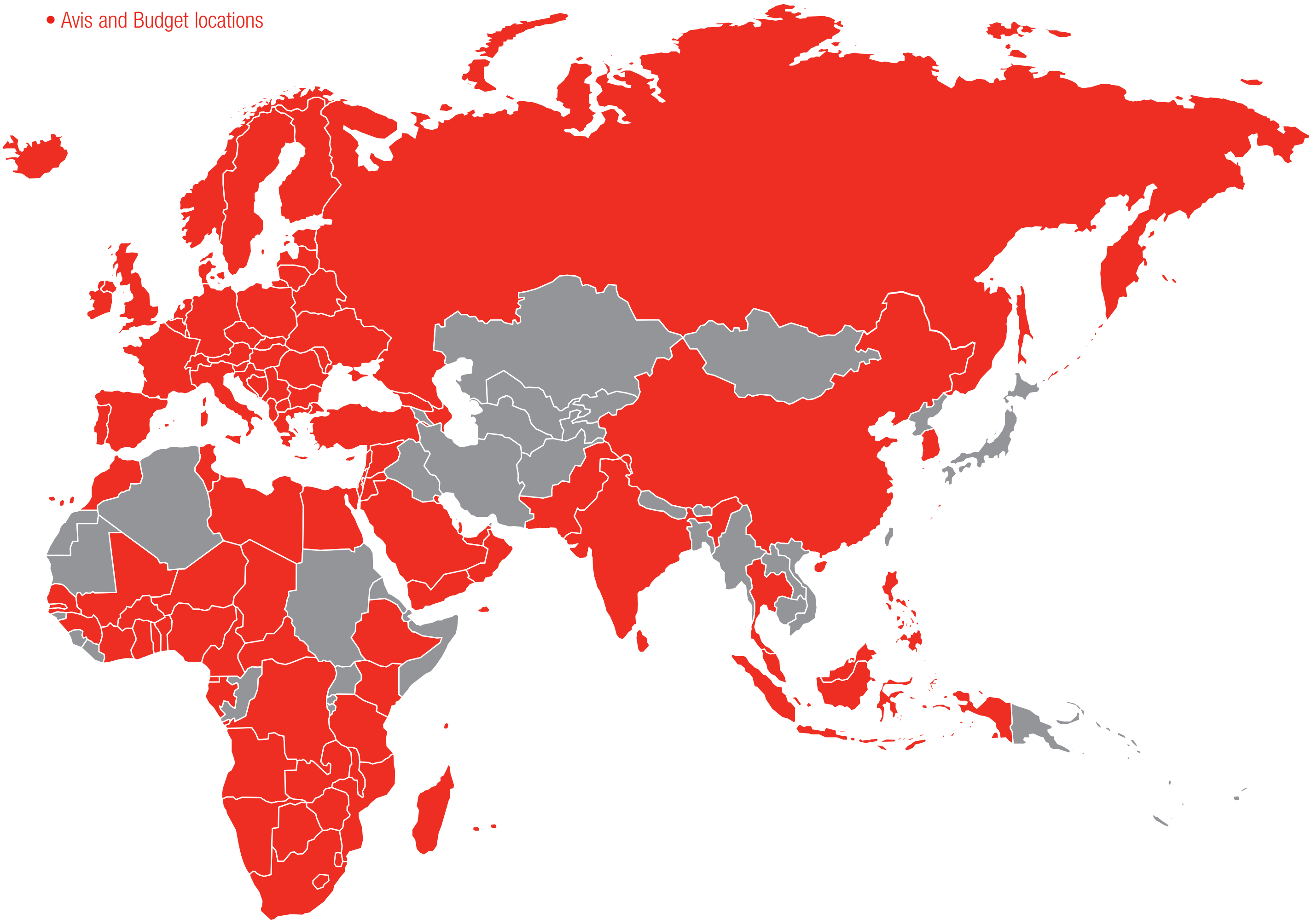
Avis Europe plc is a leading car rental company in Europe, Africa, the Middle East and Asia, operating the globally recognised Avis and Budget brands

Contents

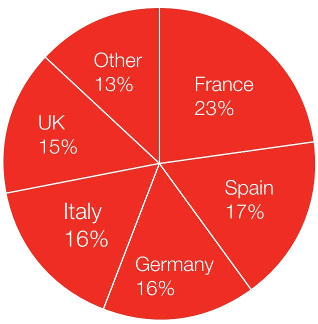
GROWTH MARKETS

The Group operates the Avis and Budget brands in more than **3,800 international locations**

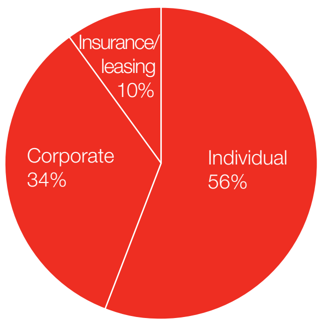
• Avis and Budget locations



Avis revenue by geographic market



Avis revenue by business



TRACKING PERFORMANCE

Operating Highlights

- Good volume growth and rental revenue per day ahead of prior year
- Higher fleet costs partially mitigated by lower insurance costs and improved utilisation
- Investment in revenue management and websites delivering benefits
- Substantial network changes – net capital release circa €200 million
- Turnaround of Budget continues
- Both underlying[1] operating margin and ROCE ahead of prior year

Key Performance Indicators

	2007	2006
Billed days (% change)[2]	**4.7**	6.1
Rental revenue per day (% change)[2]	**0.7**	(1.8)
Fleet utilisation – average (%pts. change)[2]	**0.4**	0.9
Underlying[1] operating margin – continuing operations (%)	**8.0**	7.1[3]
Underlying[1] return on capital employed – continuing operations (%)	**9.1**	8.5[3]

Financial Highlights[4]

	2007	2006
Revenue €m	**1,327**	1,256
Profit before tax €m	**33.2**	1.8
Underlying[1] profit before tax €m	**37.6**	30.0
Earnings per share € cents	**1.6**	(0.2)[3]
Underlying[1] earnings per share € cents	**2.9**	2.3[3]

1 Underlying excludes exceptional charges, certain net re-measurement gains and economic hedging gains (see Basis of Preparation on page 45).
2 Data is based on the continuing operations of the Avis Corporate segment of the Group. Full definitions of the indicators stated above are included in the Business Review on page 12.
3 2006 restated following the prior year adjustment regarding Avis Portugal.
4 Data is based on the continuing operations of the Group.

Chairman's Statement

I am pleased to report that the Group made good progress in 2007, achieving both volume and rental revenue per day growth, benefiting from recent investments in both revenue management and web development. The full year effect of the recent restructuring programme and the continuing turnaround in Budget also helped to deliver improved results.

I am pleased to report that the Group made good progress in 2007, achieving both volume and rental revenue per day growth, benefiting from recent investments in both revenue management and web development. The full year effect of the recent restructuring programme and the continuing turnaround in Budget also helped to deliver improved results. Substantial actions were taken to optimise the structure of the Group's network including the disposal and licensing of Greece, the licensing of the Canaries and the acquisition of a licensee in Germany. The net capital released from these transactions was approximately €200 million.

Results overview

Revenues from continuing operations grew 5.7% to €1,327 million, reflecting both volume growth and improved rental revenue per day.

Underlying profit before tax on continuing operations was €37.6 million (2006 – restated: €30.0 million). This increase reflects both the volume growth and improved rental revenue per day, the full year benefit of the restructuring programme and gains on disposal of properties, together with the continuing turnaround of Budget. However, these were partly offset by inflationary cost increases, the higher investment in revenue management and web development capabilities and higher interest charges. Earnings per share on the same basis were 2.9 euro cents (2006 – restated: 2.3 euro cents).

Profit before tax on continuing operations was €33.2 million (2006 – restated: €1.8 million). Earnings per share on the same basis were 1.6 euro cents (2006 – restated: loss per share 0.2 euro cents).

Profit before tax including the discontinued operation was €19.7 million (2006 – restated: €7.2 million). This is stated after a net exceptional charge before tax of €22.8 million and certain re-measurement items and economic hedging gains of €2.5 million. Exceptional items represent primarily the goodwill impairment and subsequent loss on the disposal of the operation in Greece and restructuring costs. Earnings per share on the same basis were 0.3 euro cents (2006 – restated: 0.2 euro cents).

As announced earlier in the year, the Group identified a malpractice in Portugal that resulted in a restatement of the prior year comparative results. As previously reported, the adjustment resulted in a reduction to the comparative underlying profit before tax of €3.5 million.

FURTHER PROGRESS

Dividends
In line with recent previous statements, and in view of the continued difficult trading environment, the Board has not recommended payment of a dividend for the year ended 31 December 2007. The Board's intention is to recommence the payment of dividends when the financial and trading position of the Group allows.

Outlook
Looking ahead to 2008, we are now more cautious in view of the weakening economic environment. We expect to make continued progress with the turnaround of the Group. However, our planning assumptions, reflecting recent trading conditions, are for continued volume growth, but with rental rate per day now improving less than previously expected. We continue to maintain tight control of cost and plan to make continued improvements in key efficiency measures, particularly vehicle utilisation.

Strategic development
We continue to make good progress in improving the results of the business. An initial review of the strategy has been undertaken by Pascal Bazin, following his appointment as the new Group Chief Executive on 1 January 2008. Whilst the main elements of the strategy will remain unchanged, we will continue to evolve the strategy to deliver the turnaround in the Group's results and will now be placing more emphasis on the areas outlined on pages 6 and 7 of the Business Review. In addition, we will be adopting a stronger operational approach, with more emphasis on delivery, accountability and implementation, as well as on accelerating benefits from recent investment in initiatives.

Employees and Directors
I would like to welcome Pascal Bazin, who was appointed as Group Chief Executive from 1 January 2008, replacing Murray Hennessy. After three and a half years Murray and the Board agreed that it was the right time to pass the leadership of the Group to someone who would take the business to the next stage of its development. On behalf of the Board, I would like to thank Murray for his significant contribution. He developed the Group's recovery strategy and positioned the Group for a return to profitable growth despite a backdrop of difficult markets.

Pascal was previously President and Managing Director of Avis France and a member of the Group's Executive Board, positions he held since 20 May 2005. He is a proven truly international operator, who has successfully led a number of consumer-facing businesses both through turnaround and development situations. He delivered a significant recovery at Avis France during his two and a half years with the company.

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 demonstrated further good progress in all our key customer satisfaction scores this year. We have continued to win a large number of industry awards including the SOCAP Award for Innovation at the National Customer Service Awards in London and four prestigious British Travel Awards 2007: Best Business Car Hire Company, Consumers Favourite Business Car Hire Company, Best Leisure Car Hire Company and Consumers Favourite Leisure Car Hire Company.

Alun Cathcart
Chairman

A LEADING PLAYER

Business description

The Group is an international vehicle rental services company and a market leader in Europe. Under the Avis and Budget brands, the Group operates more than 3,800 corporate and licensee locations throughout Europe, Africa, the Middle East and Asia, which completed over eight million rental transactions in 2007 across the network. During the year, the Group's corporately-owned locations employed some 6,100 staff (based on average full-time equivalent headcount) and had an average fleet of 118,000 vehicles.

The Group enjoys 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 Avis Europe 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		Avis Budget Group, Inc.	
	Avis	Budget	Avis	Budget
Territories:	Europe, Africa, Middle East and Asia	Europe, Africa and Middle East	Americas and Australasia	Americas, Australasia and Asia
Corporate Countries	13	4	8	5
Corporate Locations	1,664	150	1,335	817
Licensee Countries	96	64	53	54
Licensee Locations	1,262	751	849	1,099

The Avis Europe network comprises a combination of 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. The Group also has a joint venture in China 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 Avis Europe's vehicles, but employ their own staff and 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 royalties in return for the use of the brand and operating system. In the latter case, the Group only includes the licensee fee receivable in its revenue.

In 2007, revenues from the Avis brand represented 96% of the Group's overall revenue, and the Avis corporate countries accounted for approximately 93% of the Group's overall revenue.

The Budget business in Europe, Asia and the Middle East serves customers through over 900 rental locations in 68 countries. Corporate countries comprise Austria, France, Switzerland and the United Kingdom. In 2007, the Budget business represented 4% of the Group's overall revenue.

A description of the performance of the Group for the year ended 31 December 2007, and significant developments which occurred during the year, is set out in the Chairman's Statement on pages 4 and 5 and on pages 12 to 19 of this Business Review.

Strategy

An initial review of the business strategy has been undertaken following the appointment of Pascal Bazin as the new Group Chief Executive on 1 January 2008. The Group will continue to evolve the strategy to deliver a turnaround in results and will now be placing more emphasis on the areas outlined below, which are intended to build on the strategic progress made in recent years. In addition, a stronger operational approach will be adopted, with more emphasis on delivery, accountability and implementation, as well as on accelerating benefits from recent investment in initiatives.

The areas of strategic focus are as follows:

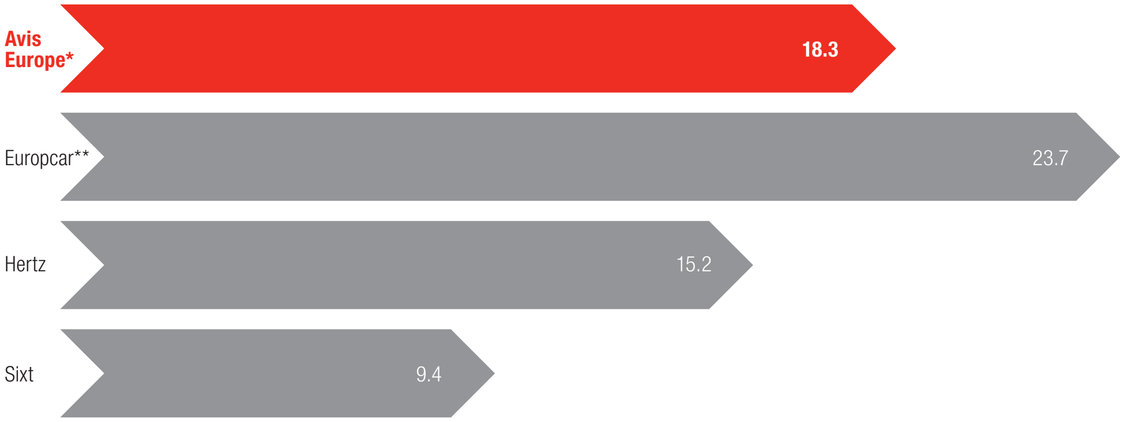
Brand differentiation

The Group continues to implement customer service initiatives to improve speed, transparency and choice in order to differentiate the brands in what is an increasingly commoditising market. Building on the launch of the new rental agreement and "meet and greet" vehicle return service over the last two years, the loyalty programme, Avis Preferred was re-launched in 2007, substantially increasing the number of active Avis Preferred members.
In addition, a new speed of service initiative, the "3-minute promise" for Avis Preferred customers, is now successfully operating across six countries in over 390 locations and contributing to improved customer satisfaction ratings.

Strong focus on sales

The Group's significantly enhanced new websites are easy to use, provide customers with clearer information in selecting the rental car of their choice and are designed to work more effectively with internet search engines.

European car rental market share (%)



Source Euromonitor IMIS Travel Database, 2006

* includes Budget 2.7%
** includes Vanguard 5.0%

This development should, over time, lead to an increase in the number of customers that book directly through the on-line channel. The new website also allows customers to amend their personal details on-line and to sign up for the Avis Preferred loyalty programme. Internet reservations for continuing operations again increased, ending the year at 32.5% (2006: 30.8%).

We are seeking to maximise the benefits arising from these enhanced websites and have been successful in targeting an increase in direct business during the year.

Furthermore, we are increasing our sales of ancillary products, such as GPS and DVD's, thereby improving customer product choice and overall revenues.

Cost efficiency

Significant cost pressures continue to face the industry, specifically from fleet suppliers, but also more generally from inflationary increases in areas such as staff costs. Therefore cost reduction remains a focus of management. Areas currently being progressed include: insurance costs; damage costs; fleet costs – in particular through improved utilisation driven by the revenue management investment; and limiting new operational (non-fleet) capital expenditure.

Business flexibility

The Group continues to seek opportunities to improve business flexibility. In 2007 a number of network actions were completed to improve overall returns and leverage costs. These included the disposal and licensing of the Group's business in Greece (primarily a long-term rental business) and the operations in the Canary Islands (seasonal and operationally complex). The Group also acquired its largest licensee in Germany, along with a number of licensees in Holland, thereby strengthening the Group's position in these markets.

Operating environment

Market size and growth

The latest European independent market data (Euromonitor IMIS Travel Database 2006) estimated the car rental revenue generated in the 10 main countries that the Group operated in on a corporate basis to be €8.51 billion during 2006. The largest countries by revenue were Germany (24%), the United Kingdom (18%), France (17%), Spain (16%) and Italy (11%). During this period, Euromonitor estimated that 41 million rentals were made and that a combined fleet of approximately 1.2 million vehicles was employed by the car rental industry.

Historically, the growth of the car rental market has been closely tied to general economic activity levels and, in the case of rentals from airports, to airline passenger volume growth. Economic growth prospects for the Group's key markets presently appear to a degree less positive than they were last year. As at January 2008, the Economist Intelligence Unit was forecasting Euro-area GDP growth at an annual rate of between 1.9% and 2.1% from 2008 to 2011 (previous forecasts of between 2.1% and 2.2% from 2007 to 2010), and between 1.7% and 2.5% in the United Kingdom from 2008 to 2011 (previous forecasts of between 2.0% and 2.5% from 2007 to 2010). Euromonitor estimated that the total industry revenue in the 10 main corporate countries grew at a compound rate of 1.2% per annum from 2002 to 2006 and forecasted growth of 5.2% per annum from 2007 to 2011.

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.

The International Air Transport Association forecasts growth in passenger arrivals for flights within Europe of 4.8% per annum for 2007 to 2011.

Air passenger growth estimates 2007-2011 (average annual rate)	
Intra-European	4.8%
Europe-Asia	6.6%
Europe-North America	4.3%

Source: IATA, as at October 2007

Market composition
Euromonitor generally categorises the car rental market either by the type of customer (corporate, leisure, insurance/replacement) or by the location of rental (airport, non-airport). In 2006, Euromonitor estimated just under 52% of the market to be leisure, with approximately 42% being corporate and 6% being replacement business. During 2006, 38% of the industry's revenue came from airport rentals, with 62% attributable to non-airport locations.

Customer groups
Broadly reflecting the above, customers are classified by the Group as: corporate, individual and insurance/leasing.

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

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

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, brand, website and competitive prices.

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

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, availability of management information and geographical coverage.

Insurance/Leasing:
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.

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, 38% 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
Euromonitor research shows that the Group had the second highest aggregate market revenue share in its 10 largest corporate countries in 2006 at 18.3%.

The merger between Europcar and Vanguard (primarily National and Alamo brands) in November 2006 has given Europcar a leading position in this European market place with a reported share of 23.7%. Hertz is the third largest with a reported market share of 15.2% in 2006.

In specific markets the Group faces competition from other car rental operators. For example, Sixt is a major competitor in Germany and Enterprise in the United Kingdom. There are a large number of smaller-scale operators

BRAND DIFFERENTIATION

To differentiate our brands in the highly competitive market, we are implementing customer service initiatives to improve speed of car rental pick-up and drop-off, transparency of charges and choice of car.

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 three established global brands, Avis, Budget and Hertz. The merger between Europcar and Vanguard referred to above creates a fourth global operator.

Risk factors

The Group may be affected by a number of risks, not all of which are within its control. Outlined below are some of the risk factors that may affect the Group's business. Other factors besides those listed below may also adversely affect the Group. The process the Group has in place for managing these risks is described in the Corporate Governance report on pages 28 and 29.

There are inherent risks and uncertainties behind the forward-looking statements contained in this section which could have a material impact on the future results.

International

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

The concentration of accounting and administrative activities in a shared service centre in Budapest and, in respect of reservations, in a shared service centre in Barcelona exposes the Group in the event that these centres suffered serious disruption. Recognising this, the Group has made appropriate plans to facilitate the continuation of business, as best practicable, at alternative locations.

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 the Group increases staff levels and purchases 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 would also pose challenges for the Group that would require careful management of the business to manage capacity and costs and to maintain 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 rental brokers. This transparency has increased the prevalence and intensity of price competition.

Fleet

Loss or material change in the terms on which the Group obtains its fleet vehicles from major vehicle suppliers could harm the performance of the business. In the event that the Group could not procure all its 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 the Group 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 that because of competitive pressures, the Group will be unable to pass on such an increased cost of vehicles to its rental customers.

Focus on the customer

Our "3-minute promise" was introduced in France in 2007 and is now in over 390 stations across six countries in Europe. It promises to deliver members of our free Avis Preferred programme their rental car keys in less than three minutes from the time they enter the rental station and is providing real differentiation in the market.

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, manufacturers 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 the Group's ability to sell these vehicles and could adversely affect the Group's results.

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, the Group 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.

A severe or protracted disruption of fuel supplies or significant increases in fuel prices could have an adverse effect on results, either by directly interfering with operating activities or by disrupting air travel on which a significant portion of the Group's business relies.

If governments generally across Europe introduce too rapidly 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 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 Avis fleet cannot be adapted to wholly mitigate these changes.

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. The Group relies 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. The Group has joint marketing initiatives with ABG and shares market and customer information where appropriate. It also provides joint services and cross-refers customers through a formalised agreement. Although management believes that the relationship with ABG is good, there can be no assurance that it will remain so. 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.

The Group uses the Wizard rental and reservation system under licence 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 used by Avis Europe and ABG worldwide. The Group is 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.

STRONG FOCUS ON SALES

New websites are now operational in the UK, France, Germany, Italy and Spain, with the UK site achieving "first choice for car rental" status within a year of being launched.

Insurance
The Group is 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. The Group also covers various risks arising in the normal course of its business, including damage to its property and general liability. All insurance policies are arranged with insurance companies of strong credit quality. The Group also reinsures a limited amount of the risks through its 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
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. Any material worsening of credit terms would result in an increased debt funding requirement.

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

To mitigate against these risks and to guarantee access to liquidity, the Group ensures that it 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. All funding is arranged with a wide range of providers, on both a public and private basis. The Group maintains a regular dialogue with all providers to keep them updated on the trading performance and prospects of the business.

Interest and foreign currency
The Group's 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. A discussion of how the Group manages its interest rate risk is set out in Note 26 to the Consolidated Financial Statements.

The Group's results are exposed to fluctuations in exchange rates where revenues and expenses are denominated in currencies other than euros. In particular, there are net exposures to sterling, Swiss francs and US dollars. The US dollar exposure is largely due to certain guaranteed rate products sold to US customers renting in the Group's corporately owned operations, partly offset by fees paid to Avis Budget Group, Inc. in respect of systems-related services provided. Revenue from licensees is largely received in sterling, US dollars and other non-euro currencies. A discussion of how the Group manages its foreign currency risk is set out in Note 26 to the Consolidated Financial Statements.

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. While the funding level of the UK Plan has improved, largely due to the contributions paid by the Group to reduce the deficit, it is likely that, at the next actuarial valuation as at 31 March 2008, the ongoing funding will need to increase to meet the increased deficit as a consequence of further improvements in longevity and an impact of the new regulated funding environment.

On track to drive more of our business via the internet

Our significantly enhanced new websites are quick and easy to use and are designed to work more effectively with internet search engines. We are seeking to maximise the benefits arising from the investment in the websites achieving a further increase in the proportion of internet sales during the year overall. Internet penetration is now at 32.5% (2006: 30.8%).

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	**2007**	2006
Billed days[1] (% change)*	**4.7**	6.1
Rental revenue per day[2] (% change)*	**0.7**	(1.8)
Fleet utilisation – average[3] (%pts. change)*	**0.4**	0.9
Underlying[4] operating margin – continuing operations (%)	**8.0**	7.1[5]
Underlying[4] return on capital employed – continuing operations (%)	**9.1**	8.5[5]

* Data is based on the continuing operations of the Avis Corporate segment of the Group, which excludes Avis licensees, Budget and the discontinued operation in Greece. Excluding Greece had no material effect on the change in the indicators presented above.

1 Includes any day or period less than a day for which a vehicle rental is invoiced to a customer.

2 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. In previous periods revenue per day was defined as revenue divided by billed days.)

3 The average period of time during which vehicles are on rent as a percentage of their holding period.

4 Underlying excludes exceptional charges and certain net re-measurement gains and economic hedging gains (see Basis of Preparation on page 45).

5 2006 restated following the prior year adjustment regarding Avis Portugal.

Financial review

Results overview

Revenues from continuing operations grew 5.7% to €1,327 million, reflecting both volume growth and improved rental revenue per day.

Underlying profit before tax on continuing operations was €37.6 million (2006 – restated: €30.0 million). This increase reflects both volume growth and improved rental revenue per day, the full year benefit of the restructuring programme and gains on disposal of properties, together with the continuing turnaround of Budget. However, these were partly offset by inflationary cost increases, the higher investment in revenue management and web development capabilities and higher interest charges.

Earnings per share on the same basis were 2.9 euro cents (2006 – restated: 2.3 euro cents).

Profit before tax on continuing operations was €33.2 million (2006 – restated: €1.8 million). Earnings per share on the same basis were 1.6 euro cents (2006 – restated: loss per share 0.2 euro cents).

Profit before tax including the discontinued operation was €19.7 million (2006 – restated: €7.2 million). This is stated after a net exceptional charge before tax of €22.8 million and certain re-measurement items and economic hedging gains of €2.5 million. Exceptional items represent primarily the goodwill impairment and subsequent loss on the disposal of the operation in Greece and restructuring costs. Earnings per share on the same basis were 0.3 euro cents (2006 – restated: 0.2 euro cents).

As announced earlier in the year, the Group identified a malpractice in Portugal that resulted in a restatement of the prior year comparative results. As previously reported, the adjustment resulted in a reduction to the comparative underlying profit before tax of €3.5 million.

Revenue overview

€ million	**2007**	2006	% change
Rental revenue	**1,114**	1,057	5.4
Other non-rental revenue	**126**	125	0.8
Corporate – continuing operations	**1,240**	1,182	4.9
Licensees	**34**	29	17.2
Avis – continuing operations	**1,274**	1,211	5.2
Corporate	**43**	36	19.4
Licensees	**10**	9	11.1
Budget	**53**	45	17.8
Revenue – continuing operations	**1,327**	1,256	5.7
Revenue – discontinued operation	**49**	81	n/a
Revenue including discontinued operation	**1,376**	1,337	n/a

n/a means not applicable

COST EFFICIENCY

We remain focussed on cost reduction and will be seeking to mitigate fleet cost increases through further improvements in utilisation. We are also targeting variable costs, such as damage, and concentrating brand investments on sales generation.

Avis Corporate revenue

Revenue from the continuing operations in the Avis corporately-owned business segment was 4.9% ahead of prior year at €1,240 million. Rental revenue of €1,114 million was 5.4% ahead, with other non-rental revenue (sale of fuel and other incidental operating income) broadly flat.

Billed days increased by 4.7% driven by an increase in the number of rentals in all customer groups, together with an increase in rental length in the corporate and insurance/leasing customer groups.

Rental revenue per day was ahead by 0.7%, with a good performance since Easter driven by a particularly strong result in the individual customer group across a number of markets as the benefits of previous investment in revenue management initiatives began to take hold. This improvement in rental revenue per day, which was helped by better ancillary sales, was achieved despite the negative mix effect of strong volume growth in insurance/leasing and overall longer rental length.

The analysis of rental revenue by customer type follows:

Individual

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

Billed days were flat, although this was in part due to the licensing of the operation in the Canaries in May. There was an increase in the number of rentals, with particularly good growth in Italy, offset by a decrease in overall rental length.

Rental revenue per day increased, benefiting from revenue management actions, with an especially strong performance in France. The Group has been successful in targeting an increase in direct business, principally through the continued development of the internet distribution channel and e-marketing initiatives.

Corporate

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

Billed days were up, largely driven by an increase in average rental length. The number of rentals was also higher, partly due to the acquisition of a licensee in Germany in May.

Rental revenue per day was marginally ahead for the full year, with a mixed performance by country but with some improvement in certain markets in the second half of the year.

Insurance/Leasing

Overall rental revenue from this customer group was strongly ahead against prior year, largely benefiting from certain new contracts in the UK which were won on better terms than the contracts relinquished in the previous year. There was also good growth in most other markets, including Germany which benefited from the licensee acquisition referred to above. Whilst volume was significantly ahead, rental revenue per day was below the prior year in most markets, largely driven by an increase in rental length.

Avis Licensee revenue

Overall revenue from licensee countries grew by 17.2% with good growth from all regions and a benefit from the licensing of the Group's operation in Greece from July. Excluding this, growth in licensee revenues was 13.8%.

Budget Corporate revenue

Budget Corporate revenue of €43 million was 19.4% ahead of prior year, driven by continued strong performance in France and the UK.

Budget Licensee revenue

Budget Licensee revenue of €10 million was 11.1% ahead of prior year. There was continued growth in network revenues across the EMEA region, especially in Western Europe.

Discontinued operation

Revenue from the discontinued operation in Greece for the seven months of ownership in 2007 was €49 million, compared to the full year revenue in 2006 of €81 million.

BUSINESS FLEXIBILITY

We continue to seek opportunities to improve the flexibility of our business, both at Group and local level. The disposal and licensing of Avis Greece and operations in the Canary Islands, together with the acquisition of Avis' largest licensee in Germany will improve overall returns.

Profit overview

€ million	2007	2006[1]	% change
Corporate – continuing operations	**124.7**	115.8	7.7
Licensee	**31.9**	26.3	21.3
Avis – continuing operations	**156.6**	142.1	10.2
Corporate	**(4.1)**	(4.6)	(10.9)
Licensee	**1.2**	(0.2)	n/a
Budget[2]	**(2.9)**	(4.8)	(39.6)
Headquarter costs	**(47.2)**	(47.8)	(1.2)
Underlying operating profit – continuing operations	**106.5**	89.5	19.0
Underlying operating profit – discontinued operation	**7.9**	12.6	n/a
Amounts excluded from underlying	**(21.1)**	(27.7)	n/a
Operating profit including discontinued operation and amounts excluded from underlying	**93.3**	74.4	n/a

1 2006 Avis Corporate restated for the €(3.5) million prior year adjustment regarding Portugal.
2 The 2006 allocation of operating profit between the Budget Corporate and Licensee segments has been restated by €2.3m (decrease in Licensee with a corresponding increase in Corporate) to ensure that the operating profit is presented on a consistent basis with the Avis segments.

Underlying operating profit from continuing operations was €106.5 million (2006 – restated: €89.5 million), including a reduced €2.9 million loss from Budget (2006: loss €4.8 million). After including €7.9 million for the discontinued operation and adjusting for €21.1 million of net exceptional charges and gains on foreign exchange derivatives, operating profit was €93.3 million (2006 – restated: €74.4 million).

Avis operating result

Underlying Avis operating profit on continuing operations of €156.6 million compared to €142.1 million in the prior year (restated). This, when combined with slightly reduced headquarter costs of €47.2 million, resulted in an underlying operating profit of €109.4 million, compared to €94.3 million (restated) in the prior year.

Underlying operating costs of continuing operations increased by €48.6 million or 4.4% over the prior year (restated) to €1,164.7 million with the impact of the licensing of the Group's operation in the Canaries broadly offsetting the acquisition of a licensee in Germany.

Cost of sales of €721.7 million was €45.9 million or 6.8% higher than the prior year (restated). Fleet costs were up €33.8 million (or 8.5%), around half of which was attributable to higher rental volumes. Fleet cost inflation, together with additional costs resulting from environmental tax changes in certain countries, were partially mitigated by improved vehicle utilisation and lower insurance expenses. Selling costs were 8.4% higher due to increased advertising and commission costs, whilst both revenue and rental related costs increased in line with volume.

Administrative expenses of €443 million were €2.7 million or 0.6% higher than the prior year (restated). Staff costs increased by 1.4%, due to salary inflation, an increase to a full complement in the revenue management team and the in-sourcing of web-development capabilities, partially offset by the full year effect of the restructuring programme implemented in the prior year. Overheads decreased by 0.8%, with a gain of €4.6 million on the disposal of certain properties and the full year effect of the restructuring being largely offset by inflationary increases and higher investment in systems.

The Avis Corporate underlying operating profit of €77.5 million was therefore up €9.5 million on the prior year (restated), whilst Avis Licensees at €31.9 million were up €5.6 million on the prior year.

All of the exceptional items reported within continuing operations relate to this business segment and the re-measurement and economic hedge items excluded from the underlying results relate to headquarter costs.

Budget operating result

Revenue of €53 million was up €8 million on the prior year. Cost of sales of €28.4 million was €5.3 million higher than the prior year, primarily driven by volume growth, whilst administrative expenses at €27.2 million were just €0.1 million higher. Consequently, the underlying operating loss of €2.9 million was €1.9 million lower than the prior year.

TURNAROUND OF THE BUDGET BUSINESS

Budget continued the implementation of its turnaround strategy, improving results through further growth in licensee revenues; good sales performance in the two key corporately-owned markets, UK and France; and tight control of costs.

Corporate profitability improved as a result of the continued focus on yielding and utilisation, combined with strong cost controls. Licensee operating profit improved given the increase in revenues and tight overhead cost control.

Underlying operating margin

Underlying operating margin on continuing operations, after deducting headquarters costs, was 8.0%, being 0.9% higher than the prior year (restated). This increase reflects both volume growth and improved rental revenue per day, the full year benefit of the restructuring programme and gains on disposal of properties, together with the continuing turnaround in Budget. These benefits were partly offset by inflationary cost increases and the higher investment in revenue management and web development capabilities. Operating margin on continuing operations after exceptional items, certain re-measurement items and economic hedges was up 2.7% to 7.6%.

Discontinued operation

On 25 July 2007 the Group disposed and re-licensed its operation in Greece. Operating profit for the seven months of ownership in 2007 was €7.9 million, compared to the full year operating profit in 2006 of €12.6 million.

Net finance costs

€ million	**2007**	2006 restated
Continuing operations	**1,004**	889
Discontinued operation	**95**	168
Average net debt including discontinued operation	**1,099**	1,057
Continuing operations	**69.7**	60.0
Discontinued operation	**5.5**	7.2
Underlying net finance costs[1] including discontinued operation	**75.2**	67.2

1 Excludes certain re-measurement items and economic hedges, total gain of €0.8 million (2006: loss of €0.5 million).

The increase in average net debt of continuing operations from €889 million to €1,004 million was broadly in line with the average value of the fleet on the same basis. The rise in market interest rates during the year, in part mitigated by hedging actions, increased the underlying effective finance rate on continuing operations to 6.9% in 2007 (2006: 6.7%). This increase, together with the higher average net debt, resulted in underlying net finance costs on continuing operations of €69.7 million (2006: €60.0 million). Underlying net finance costs on the discontinued operation reduced to €5.5 million, the increase in market rates being more than offset by the part year of ownership.

Net exceptional charges

Net exceptional charges before taxation of €22.8 million were incurred in the year, summarised as follows:

€ million	**2007**	2006
Restructuring costs	**7.1**	25.3
Goodwill impairment – continuing operations	**4.0**	–
Independent investigation and associated costs	**4.8**	–
Project termination (credit)/costs	**(2.6)**	7.4
Pension scheme amendment	**–**	(3.2)
Centrus receivables	**(0.7)**	(0.6)
Insurance provision release	**(5.7)**	–
Net exceptional charges – continuing operations	**6.9**	28.9
Goodwill impairment and loss on disposal of discontinued operation	**15.9**	–
Net exceptional charges including discontinued operation	**22.8**	28.9

The net cash cost in 2007 of exceptional items was €11.7 million. (2006: €28.9 million).

Restructuring costs of €7.1 million (2006: €25.3 million) were incurred in the year. This was partly in connection with the final elements of the restructuring project the Group commenced in late 2005 covering the roles of its European headquarters, corporate operations, shared service centre and call centres and also certain restructuring activities which commenced in December 2007. Restructuring costs include redundancy costs and onerous lease provisions and in the prior year were net of exceptional pension curtailments of €1.2 million.

Budget's German franchisee merged with another key car rental operator in 2007, more than doubling the number of Budget locations in this key market.

In June 2007, the Group acquired the assets of a licensee in Germany. The acquired assets and locations have been integrated into an existing cash-generating unit. The goodwill previously arising in this unit had been fully provided for in the past and following a re-evaluation of the impairment calculations following the latest acquisition, a provision of €4.0 million has been recognised in respect of the goodwill arising.

Following the identification of potential malpractice in Portugal in the year, €4.8 million of costs have been recognised in respect of an independent investigation, both in Portugal and of a review throughout the Group's corporately-owned operations in Europe, together with certain directly related employee termination costs. The independent investigation confirmed that there was no evidence of malpractice elsewhere in the Group.

Following the Group's decision in 2004 to terminate an agreement with an IT contractor, a net exceptional credit of €2.6 million (2006: charge €7.4 million) has been recognised, after certain additional termination costs, following the conclusion of a legal case.

During the year the collection of credit hire receivables in respect of the closed Centrus business was again more successful than anticipated, resulting in an exceptional credit of €0.7 million (2006: €0.6 million).

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 level is inevitably subject to a degree of uncertainty as a result of the significant timescales for claims being made. However, as a result of more accurate industry data being made available, the Group has updated the method of calculating the provision based upon the historic claims profile and the application of insurance industry rental loss development factors. This should ensure a more consistent and robust assessment of the provision requirement. The provision re-assessment resulted in an exceptional credit to the Income Statement of €5.7 million. A periodic re-assessment of the provision requirement will be carried out, based upon the latest claims profile and loss development factors, with a subsequent adjustment made to the provision annually in December if required.

On 25 July 2007, the Group disposed and re-licensed its operation in Greece, Olympic Commercial and Tourist Enterprises SA. In the interim accounts the Group recorded a goodwill impairment charge of €7.1 million to write down the associated goodwill to its estimated fair value. In the second half, a loss on disposal of €8.8 million was recognised, giving a total exceptional charge in the year of €15.9 million.

Certain re-measurement items and economic hedges

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

	Operating profit € million	Finance items € million	Profit before tax € million
Re-measurement gains/(losses) on derivative financial instruments	0.7	(2.4)	(1.7)
Economic hedge adjustments	1.0	(0.6)	0.4
Foreign exchange gain on borrowings	–	3.8	3.8
	1.7	0.8	2.5

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 practicable 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 the re-measurement gain or loss economically hedges the movement in a related position that itself has been recognised in underlying profit.

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.

Taxation

€ million	**2007**	2006
Underlying taxation:		
Continuing operations	**11.4**	8.8
Discontinued operation (credit)/charge	**(1.1)**	2.4
	10.3	11.2
Charge/(credit) on exceptional items	**6.4**	(5.7)
Charge on certain re-measurement items and economic hedges	**0.1**	0.2
Taxation charge including exceptional items, certain re-measurement items and economic hedges and discontinued operation	**16.8**	5.7

The underlying effective rate of taxation on continuing operations was 30% (2006 – restated: 30%). The 2007 effective rate was impacted by a reduction of deferred tax assets following the lowering of the UK corporation tax rate. This increase was largely offset by a reduction of deferred tax liabilities following the lowering of the Italian corporation tax rate. The remaining change in the rate is a consequence of results arising in different jurisdictions.

The underlying tax credit in respect of discontinued operations was €1.1 million in 2007 compared to a charge of €2.4 million in 2006. The change primarily arises from a reduction of deferred tax liabilities following the lowering of the corporate tax rate in Greece in 2007.

The tax charge on exceptional, certain re-measurement items and economic hedges in 2007 was €6.5 million compared to a €5.5 million credit in 2006, the charge in the year reflecting a more conservative approach being adopted to the deductibility of certain expenses recorded in the current and prior year.

Fleet

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

€ million (net book amount)	**2007**	2006 restated[1]
Non-repurchase vehicles on fleet	**448.7**	509.4
Non-repurchase vehicles held for resale	**7.1**	8.4
Manufacturer repurchase vehicles	**878.9**	907.3
Total fleet	**1,334.7**	1,425.1

1 Restated following the prior year adjustment regarding Avis Portugal.

The average number of fleet units operated in continuing operations during the year increased by 4.3% to 118,000 vehicles. This increase is largely a consequence of the increase in rental volumes partially offset by the improvement in utilisation. Within this total, vehicles under non-repurchase operating leases represented 15.2% (2006: 15.9%). The Income Statement charge for these vehicles, and those vehicles used under short-term hire arrangements, was €79.0 million (2006: €67.3 million), an increase due to the value of this type of vehicle, mainly from the effect of the acquisition of the licensee in Germany in the period, and more cars used on short-term hire arrangements.

Return on capital employed

Return on capital employed (ROCE) for underlying continuing operations improved from 8.5% for 2006 to 9.1% for 2007 primarily as a result of the higher underlying operating profit.

The calculation methodology for the Group's ROCE is described in detail in Note 26 to the Consolidated Financial Statements.

Shareholders' funds and returns

At the end of the year, shareholders' equity was €96.2 million (2006 – restated: €84.3 million). The principal movement in the year was the recognised profit of €14.1 million. This comprised the profit attributable to equity holders recognised in the Income Statement of €3.0 million and net income of €11.1 million recognised directly in reserves. The principal components of the latter are an actuarial gain in respect of the Group's pension scheme recognised in the year, partially offset by an adverse movement in the cash flow hedge reserve.

Cash flow/net debt movement

€ million	**2007**	2006 restated[1]
Net cash generated from operating activities	**43.6**	262.1
Net cash used in investing activities	**(70.6)**	(149.4)
Net cash used in financing activities	**(33.8)**	(86.4)
Net change in cash and cash equivalents before exchange	**(60.8)**	26.3
Other movements in net debt resulting from cash flows	**(65.9)**	29.6
Debt disposed with the operation in Greece	**196.7**	–
New finance leases	**(48.3)**	(110.1)
Other non-cash movements, including the effects of exchange	**5.3**	(8.1)
Movement in net debt	**27.0**	(62.3)

1 Restated following the prior year adjustment regarding Avis Portugal.

The decrease in cash generated on operating activities is mainly attributable to increased cash outflows relating to vehicles subject to repurchase agreements. This is partially offset by the reduction in cash used in investing activities, which includes lower cash outflows relating to non-repurchase vehicles. The other main variances in cash used in investing activities are a reduction in financial assets held for trading (this variance being offset in other movements in net debt) and the proceeds arising on the sale of the business in Greece.

The overall higher vehicle cash outflows were mainly due to a planned increase in the value of the closing fleet, after adjusting for the effect of the disposal of Greece.

Net cash outflows on financing activities decreased due to the net new borrowing in the period, this variance being offset in the other movements in net debt.

After allowing for the debt disposed with the operation in Greece, net debt decreased at the year end by €27.0 million.

Net debt

	31 December 2007		1 January 2007 restated[1]	
	%	€ million	%	€ million
Interest bearing assets	**(6)**	**66.3**	(13)	139.2
Debt due within one year	**3**	**(31.0)**	23	(231.7)
Debt due after one year	**71**	**(699.2)**	55	(559.2)
Finance leases	**28**	**(273.7)**	29	(292.1)
Derivative debt instruments	**4**	**(43.3)**	6	(64.1)
Net debt	**100**	**(980.9)**	100	(1,007.9)

1 Restated following the prior year adjustment regarding Avis Portugal.

During the year, the proceeds from the disposal of the operation in Greece, together with a reduction in interest bearing assets, were used to repay a number of loan notes at maturity. As a consequence of that repayment, the percentage of net debt included within the "Debt due within one year" category has fallen from 23% at 1 January 2007 to 3% at 31 December 2007. In addition, there has been an increase in drawings under the Group's syndicated bank facility with a consequent increase in debt due after one year. The percentage of total net debt drawn under finance leases and derivative debt instruments has remained broadly unchanged.

Pensions

The Group operates 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 2007 was a deficit of €62.5 million (2006: €80.1 million).

The fair value of the scheme assets has increased €6.3 million (2006: €16.3 million increase) in the year. This reflects the increased funding contributions from the Group, offset by an exchange translation loss as a result of the depreciation of sterling. The present value of the scheme obligations has reduced by €11.3 million (2006: €14.3 million increase) largely in line with expectations, with an actuarial gain of €8.9 million (2006: loss €2.1 million) related primarily to the increased discount rate. The Group has strengthened mortality assumptions by introducing a 1% per annum minimum level of improvement within the medium cohort allowance. 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 €35.0 million (2006: €41.9 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 €10.2 million (2006: €13.8 million), the reduction being due to the closure of the UK final salary scheme and changes in the entitlement rules related to the German pension scheme.

Treasury

Financial risk management objectives and policies

The Group has 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 framework of policies and guidelines approved and monitored by a sub-committee of the Board. This framework provides flexibility for the execution of Board-approved strategies. A discussion of the Group's financial risk management objectives and policies, and exposure of the Group to various financial risks, is included in Note 26 of the Consolidated Financial Statements.

Current liquidity

The Group funds its operations through a combination of retained earnings, working capital and borrowing facilities. In order to ensure maximum flexibility to changing requirements, the Group seeks 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 2007 the Group had undrawn committed borrowing facilities of €712.4 million (2006: €808.7 million) and additional uncommitted borrowing facilities available of €583.0 million (2006: €496.9 million). The Group also held cash and cash equivalents of €52.1 million (2006: €113.3 million). Of the undrawn committed facilities €228.7 million expire within one year (2006: €226.4 million), €54.6 million between one and two years (2006: €39.4 million) and €429.1 million between two and five years (2006: €542.9 million).

In addition, as at 31 December 2007, the Group had outstanding loan notes and associated derivative financial instruments of €592.5 million (2006: €844.6 million). Of these, €264.0 million matures between two and five years and €327.9 million after more than five years (2006: €249.9 million within one year, €153.4 million between two and five years and €441.3 million after more than five years).

The Group's committed bank facilities and loan notes are unsecured and certain of these facilities contain a number of normal financial covenants including a maximum limit to the ratio of total net financial debt to underlying EBITDA and the ratio of underlying EBITDA to net interest expense, both measured at 30 June and 31 December each year and on a rolling 12-month basis. For the year ended 31 December 2007 the ratio of total net financial debt to adjusted EBITDA was 2.2:1 (2006: 2.3:1) and the ratio of adjusted EBITDA to net interest expense was 6.1:1 (2006: 6.8:1).

The Group monitors compliance against all its financial obligations and manages its consolidated balance sheet and debt requirements so as to operate within covenanted restrictions through the year. The majority of the Group's borrowings are raised through Avis Finance Company plc, an indirectly wholly-owned subsidiary of the Company, and proceeds are used to finance the Group's subsidiaries on an arm's length basis.

Other funding arrangements

Where commercially beneficial, the Group seeks 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 2007, the total commitment to pay operating lease rentals in future periods for land, buildings and vehicles was €190.4 million (2006: €182.9 million). Also at that date, banks have issued on behalf of the Group guarantees and letters of credit to third parties of €86.5 million (2006: €88.6 million). The majority of these relate to insurance, operating leases and station rental commitments.

Insurance

The Group is 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, the Group covers 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 of strong credit quality to help spread the risk cost effectively. The Group also reinsures a limited amount of the risks through its own captive insurance company, which in turn also buys reinsurance to limit its own exposure.

Accounting standards and policies

The only change in accounting policies impacting the Group in the current year is the additional disclosure requirements required as a result of the implementation of IFRS 7 Financial Instruments: Disclosures.

Martyn Smith
Group Finance Director

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

2007 saw further good progress in our efforts to reduce our impact on the environment. This resulted from a greater awareness amongst management and staff of our responsibility for the environment and of the business benefits of reducing and mitigating our environmental impacts. It also reflected a growing demand from customers, from individuals to corporate clients, to do so.

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 already carbon neutral. We have guidelines in place for reducing energy use in our operations and in 2008 we will begin a rolling programme of targeted environmental audits, starting with our Group and operational headquarters in the UK.

During 2007 the centralised data collection process, under which the Group's utility bills are submitted to our Budapest shared service centre, began to bear fruit. We are now better able to analyse performance and identify where there is most scope for action to reduce energy use and also to reduce costs. We continue to face challenges in setting overall targets for energy consumption because in many of our rental stations, particularly at airports, we have limited or almost no ability directly to affect our energy use in that we are often sharing a building with other users. As we improve further our data collection and begin to see the results of the energy audits, we will continue to review options for target-setting moving forwards.

On community matters, corporately-owned operations continue to 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.

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.

Managing CSR

Board level responsibility for CSR rests with the Group HR and Corporate Affairs Director. In our corporately-owned operations, CSR management and monitoring is assigned to local management. Environmental champions were recently appointed in these countries to drive forward our activity in these areas. For licensee countries, Regional Licensee Directors are responsible for promoting alignment with Group CSR principles and policies.

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 these impacts internally and our data is reviewed and analysed by the independent Edinburgh Centre for Carbon Management working with The Carbon Neutral Company.

In 2007 emissions from our corporately-owned operations amounted to 13,285 tCO_2e, a reduction of 4.5%.

Year of assessment	Total (tCO_2e)*
2003	14,552
2004	15,711
2005	12,814
2006**	13,913
2007	13,285

* Data for prior years is restated as a result of the increased accuracy in the data collection process. Restatements primarily relate to data submitted by Germany.

** From 2006 onwards, the data includes emissions from our call centre in Barcelona and our shared service centre in Budapest.

CORPORATE RESPONSIBILITY

Our aim is to ensure we progressively reduce CO_2 emissions in our premises, offset non-reducible emissions and continue to introduce lower emission vehicles onto our fleet where possible. Our European corporately-owned operations are already carbon neutral.

Corporate operations

In 2007, our corporate operations took a series of steps to improve environmental performance, including:

- beginning the integration of environmental reporting into financial reporting using a new finance system, which will track utility use and business travel;
- successfully implementing both environmental and quality management systems in Spain, which have been successfully audited to ISO 14001 and ISO 9001 respectively;
- increasing the use of videoconferencing between our Group headquarters in Bracknell and our other country corporate head offices; and
- making better use of resources and making all staff aware of what they can do to reduce energy use.

We offset our emissions in 2007 in conjunction with The Carbon Neutral Company. An increased proportion, some 90% of the total, was through renewable energy and technology projects (see below). Of these, 10% qualified as Kyoto Protocol compliant credits. The remaining offset was via tree planting. Since 2000, we have offset over 108,000 tonnes of CO_2.

Case study: Rhine-Ruhr Waste Gas Power Project, Germany

During 2007 Avis helped fund a project to capture methane from three abandoned coal mines in the Rhine and Ruhr. The methane, which is 21 times more potent than CO_2 as a greenhouse gas, is used to generate electricity and heat. The electricity is sold to the grid and the heat used in a local district heating scheme. However, income from the sale of the electricity and heat does not provide an economic return. The Avis assisted funding helps make the project become financially viable. In 2006 and 2007 the project reduced emissions by 385,500 (tCO_2e).

Fleet operations

We seek to minimise emissions from our fleet by introducing more environmentally friendly vehicles in more locations. In 2007 they have included:

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

In addition, our vehicles are changed very regularly, over 90% every six months, which ensures that the latest low emission vehicles are included on the fleet. As a result of these and other changes, a significant proportion of 2007 fleet purchases already emit below 140g CO_2 per km (the European norm for 2008/9).

In 2007, we have begun to provide several major clients with data, which allows them to quantify easily their carbon emissions from Avis rentals. We will work with such clients to reduce their carbon footprint in future years.

We are also helping individual customers to reduce their environmental impact. Our redesigned website makes it easier for them to make their journey carbon neutral when they book online. For the second year running, the number of customers using this service has risen by over 20% and continues to increase.

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. Since the launch of OKIGO in July 2007, with 20 cars in four car parks in Paris, it has already recruited over 500 members and expanded outside of Paris. Studies show that sharing a car in this way effectively replaces up to eight individual cars.

Avis Norway and Sweden maintain their eco ISO 14001 standard and Spain implemented management systems in accordance with ISO 9001 and 14001 in 2007.

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.

In 2007 we achieved a 4.5% reduction in CO_2 emissions from our corporately-owned operations. We continued to offset our emissions in 2007, in conjunction with The Carbon Neutral Company. Since 2000, we have offset over 108,000 tonnes of CO_2.

Some of our 2007 activities have included:

Providing free transport – amongst others – to the following:
- "Les Restaurants du Coeur", France. We continue to provide vans to distribute food and hot meals to the needy;
- Banco Alimentar Contra a Fome, Portugal. We provide vans to distribute food from supermarkets to charities working with children and other people in need;
- Stichting de NEES, Holland. We provide cars to transport disabled or chronically ill children;
- Latvia. For the third year running, we have provided a minibus and driver for orphaned children to attend recreational events; and
- Turkey. For International Women's Day, we offered free rental days to women and made a donation to a foundation promoting women's development.

Supporting staff volunteering and fundraising has continued in many countries including:
- UK. We took a staff team to the Ravenswood Village, a centre for people with learning difficulties, to renovate a garden and build a recording studio;
- charity budgets, UK. At the local level, each rental station or head office department is given a charity budget or five free "three day" car rentals to give to local charities. Nationally, Avis UK supported Macmillian Cancer Support;
- community volunteering, Spain. Any member of staff who invests at least 12 hours of their own time on community volunteering receives a contribution for their charity;
- incentivising improved performance, Italy. We make donations to "Medecins Sans Frontieres" based on improved quality performance by staff at each of the rental stations; and
- Israel. We have begun a programme to employ disadvantaged teenagers once they have returned to school to complete their education. There are currently five participants on the scheme at our headquarters and in 2008 we plan to roll the programme out across our rental stations.

Workplace

We rely on our staff to deliver the 'We try harder.' promise. We can only achieve this if they are highly motivated and enjoy working for Avis.

We operate in many countries with diverse employment practices. Whilst respecting local circumstances, wherever we operate we follow the principles of non-discrimination in recruitment, development, remuneration and advancement. All our employees must follow the highest standards of honesty, integrity and fairness, wherever they work. The Company gives proper consideration to applications for employment when these are received from disabled people and employs disabled people whenever suitable vacancies arise. Should an employee become disabled when working for the Company, efforts are made to continue their employment and retraining is provided if necessary.

In 2007 we have focussed on raising awareness of governance issues such as health and safety, competition compliance and acceptable codes of conduct.

Employees are kept well informed of the performance and objectives of the Group through personal briefings and email and the Company's open management style encourages employees to contribute to the development of the business.

Each year we survey our staff and in 2007 the survey covered our five major corporate countries, as well as our international headquarters and support centres in Barcelona and Budapest. Following the impact of the previous year's significant structural and management changes, reflecting some slightly lower satisfaction results, we are pleased to report a significant improvement in overall employee satisfaction for 2007. Overall employee satisfaction, which asks employees for "their overall satisfaction rating when taking everything into account" increased by 3.3% to 68.1%. The average rating for the whole survey, based on a total of 23 core questions, increased from 62.1% to 65.3%. Job satisfaction of our employees was over 70%, with these employees reporting that they enjoy their work and that this was the most important factor to them.

Marketplace

We aim to make Avis first choice of our customers by continually improving our service and so ensuring customer satisfaction and loyalty. This is especially important in ensuring brand differentiation and improving customer loyalty, in an increasingly price competitive market environment. We have made further good progress this year.

CORPORATE RESPONSIBILITY

We rely on our staff to deliver the 'We try harder.' promise. We can only achieve this if they are highly motivated and enjoy working for Avis. We saw a significant improvement in our employee satisfaction scores in 2007, with the overall rating ahead by 3.3% to 68.1%.

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 30,000 surveys and we receive over 5,000 replies. In line with our environmental objectives we have continued to increase the number of surveys sent out electronically wherever possible and this doubled in the year to reach 80%. 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.

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 2007, overall satisfaction levels, which reflect customer satisfaction "overall with the rental experience" rose by a further 2%, continuing the steady improvement we have seen over the past seven years. The net promoter score, which measures the willingness to recommend Avis to a friend, improved again, by 4%. The number of adjustments made to customer invoices reduced by 2% in 2007. The station performance score, which records the overall efficiency of the running of a station, improved by over 1% against last year.

During 2007 we continued to focus strongly on introducing further customer service initiatives, to differentiate the brand and continue to make the rental process faster, simpler and clearer for customers.

2007 saw further increases in 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 69%, while the number of active Avis Preferred customers increased by 17%.

For Avis Preferred customers we began our "Three 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. We piloted the programme in France in 2007. The service is now available in 390 stations across six countries. This has provided real differentiation in the market place. In addition, our new significantly enhanced website, which improves ease of use and is designed to increase the number of customers booking directly, was rolled out across the Group in 2007.

We remain the only car rental company to have achieved the ISO 10002 – CMSAS 86:2000 standard for Quality Management Customer Satisfaction – Complaint Handling and were re-accredited in January 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.

Awards remain a strong indication of how we are seen by our customers. In September 2007, we won the SOCAP in Europe Award for Innovation at the National Customer Service Awards in London. The award was for the development and launch of the 'We try harder.' blog in Avis UK. The blog enables our customers to have an on-line dialogue with our marketing and customer service departments in the UK with the aim of continually reviewing and improving the services we provide.

Overall, we won a significant number of further awards internationally during 2007, including four prestigious British Travel Awards 2007: Best Business Car Hire Company, Consumers Favourite Business Car Hire Company, Best Leisure Car Hire Company and Consumers Favourite Leisure Car Hire Company.

We aim to make Avis first choice for our customers by continually improving customer loyalty in an increasingly price competitive market environment. We have made further good progress – customer satisfaction with "the overall rental experience" rose by a further 2% in 2007.

Board of Directors

Executive Directors

Pascal Bazin (Age 51)
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 (Age 59)
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. 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.

Lesley Colyer (Age 55)
Appointed to the Board 18 April 2002
Group HR and Corporate Affairs Director (since April 2002).
She joined Avis Europe in April 1977 and held a variety of positions before being appointed Director of Personnel in 1990. She assumed her current responsibilities at flotation in 1997. Prior to joining Avis, she worked for the Jaeger Group and Harrods.

Simon Palethorpe (Age 39)
Appointed to the Board 6 December 2004
Group Commercial Director (since December 2004)
He joined Avis Europe from the John Lewis Partnership where he was Finance Director for John Lewis Department Stores. He was previously Managing Director of John Lewis Direct. His earlier career includes appointments with Levi Strauss Europe and PepsiCo (latterly called Tricon Global Restaurants).

Martyn Smith (Age 52)
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 (Age 63) † #
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 executive Chairman of EMAP plc and Chairman of Palletways Group Limited.

Les Cullen (Age 56) † # *
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 DTZ Holdings plc, 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 (Age 66) † #
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 (Age 38)
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.

Gilbert van Marcke de Lummen (Age 70)
Appointed to the Board 3 February 1997
From November 1987 until the sale of the Group's leasing business he was Group Leasing Director. He has been employed by s.a. D'Ieteren n.v. since 1962, retired in 2002 and is a member of the Board of s.a. D'Ieteren n.v.. He is a non-executive Director of Belron s.a. and of s.a. Cofinimmo n.v.

Malcolm Miller (Age 52) † # *
Appointed to the Board 21 February 2001
Chairman of the Remuneration Committee
He is Chief Executive of Raymarine plc. He was Chief Executive of Pace Micro Technology plc from 1997 to 2002, and was formerly Chief Executive, Europe for Sega. His earlier career was with Amstrad PLC, culminating in appointment as Managing Director.

Axel von Ruedorffer (Age 65) † # *
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 Audi AG, Stiebel Eltron Group and a number of financial institutions.

Pierre Alain De Smedt (Age 63) † # *
Appointed to the Board 1 February 2007
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 Remuneration Committee
# Member of the Nominations Committee
* Member of the Audit Committee

Code principles

Introduction

This report describes how the corporate governance principles set out in the Combined Code 2006 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 2007 to 27 February 2008 are listed below:

Pascal Bazin (appointed 1 January 2008)
Jean-Pierre Bizet
Alun Cathcart (Chairman)
Lesley Colyer
Les Cullen
Roland D'Ieteren
Benoit Ghiot
Murray Hennessy (resigned 31 December 2007)
Gilbert van Marcke de Lummen
Malcolm Miller
Simon Palethorpe
Dr Axel von Ruedorffer
Pierre Alain De Smedt (appointed 1 February 2007)
Martyn Smith

Pascal Bazin was appointed as Chief Executive with effect from 1 January 2008. In accordance with the Articles of Association he will retire at the forthcoming Annual General Meeting and, being eligible, will stand for election. Jean-Pierre Bizet, Les Cullen and Simon Palethorpe retire by rotation at the forthcoming Annual General Meeting and, being eligible, will stand for re-election.

As at 27 February 2008, the Board of Directors comprises the Chairman, five executive Directors and a further seven non-executive Directors. The non-executive Directors include four Directors who have no other association with Avis Europe plc and are therefore regarded as independent, being Les Cullen, Malcolm Miller, 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. The other non-executive Director, Gilbert van Marcke de Lummen, is a former executive Director 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 judgement 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 27 February 2008 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 2007 as well as the six scheduled meetings. All Directors attended all Board meetings, except that Lesley Colyer, Murray Hennessy, Malcolm Miller and Pierre Alain De Smedt each missed one scheduled meeting and Les Cullen missed the additional meeting due to a prior commitment. The Chairman of each of the Nominations Committee, Remuneration Committee and Audit Committee attended the 2007 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 31 to 38.

Board Committees

The Board Committees in place during 2007 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 2007, the Nominations Committee reviewed potential candidates for the new Chief Executive following Murray Hennessy's departure. After three and a half years, Murray Hennessy and the Board agreed that it was an appropriate time to pass the leadership of the Group to someone who would take the business to the next stage of its development and a more operational focus. The Nominations Committee was consulted by the Chairman and agreed that the most qualified candidate for the role was Pascal Bazin, Managing Director and President of Avis France and a member of the Avis Europe Executive Board since 20 May 2005. Pascal Bazin has successfully led a number of consumer-facing businesses through turnaround and development situations and has delivered a significant turnaround at Avis France. He has been deeply involved in the development and implementation of the Group's strategy and was hired into the Group as a potential successor to the Chief Executive role. The Committee concluded he was the candidate best suited to the needs of the Group going forward. For these reasons no external search was initiated. In addition the Committee approved a number of appointments and changes to the central team and in different business units.

The members of the Nominations Committee as at 1 January 2007 were Alun Cathcart (Chairman), Les Cullen, Roland D'Ieteren, Malcolm Miller and Axel von Ruedorffer. Pierre Alain De Smedt became a member of the Nominations Committee with effect from 1 February 2007. There were no other changes to the composition of the Nominations Committee between 1 January 2007 and 27 February 2008. 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 2007 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 2007 are set out in the Remuneration Report on page 31.

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 page 31.

The members of the Remuneration Committee as at 1 January 2007 were Malcolm Miller (Chairman), Les Cullen, Roland D'Ieteren and Axel von Ruedorffer. Alun Cathcart and Pierre Alain De Smedt became members of the Remuneration Committee with effect from 24 August 2007 and 27 February 2008 respectively. There were no other changes to the composition of the Remuneration Committee between 1 January 2007 and 27 February 2008. 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 five scheduled meetings and five additional meetings during 2007. 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 31 to 38.

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 also reviews annually 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.

In 2007 the Audit Committee discharged its responsibilities by:

- reviewing and approving, prior to Board approval, the interim results statement, the Group's draft annual Financial Statements, the internal control report and the external auditor's report;
- considering, prior to release, all 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;
- conducting the annual review of the Audit Committee's terms of reference and effectiveness;
- 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; and
- assessing external auditors' effectiveness and independence, and making recommendations to the Board regarding their reappointment.

The members of the Audit Committee as at 1 January 2007 were Les Cullen (Chairman), Malcolm Miller and Axel von Ruedorffer. Pierre Alain De Smedt became a member of the Audit Committee with effect from 1 February 2007. There were no other changes to the composition of the Committee between 1 January 2007 and 27 February 2008. As recommended by the Combined Code, all the members of the Committee are independent non-executive Directors.

The Audit Committee met four times in 2007 and all members attended all meetings except that Malcolm Miller 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 2007 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 Chairman of the Remuneration Committee also conducted an evaluation of the performance of the Chairman.

The evaluation processes for Board performance are conducted via a set of structured questionnaires prepared by Towers Perrin, an external consultancy. The questionnaires 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 520,324,741 ordinary shares of 1p each in the capital of the Company as at 31 December 2007. Jean-Pierre Bizet, Roland D'Ieteren and Benoit Ghiot are Directors of D'Ieteren Invest s.a., a wholly-owned subsidiary of s.a. D'Ieteren n.v., which was the beneficial owner of 28,261,514 ordinary shares of 1p each in the capital of the Company as at 31 December 2007. 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 2007 and 27 February 2008.

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.

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 has made no purchase of its own shares during 2007 pursuant to this authority. Details of the share capital of the Company are set out in Note 29 to the Consolidated Financial Statements.

Substantial shareholdings

At 27 February 2008, 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.	56.52
D'Ieteren Invest s.a.	3.07
Fidelity International Limited	9.20
Prudential plc	5.25
Franklin Resources, Inc	4.35

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.

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 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, with each operating country having 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 €52,000; £35,000 (2006: €54,000; £37,000). The Group made no political donations during the year (2006: 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 2007 (2006: nil). At 31 December 2007 the number of creditor days outstanding for the Company was nil (2006: 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 (eg 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 3 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 controls 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; and

- procedures for the authorisation of capital expenditure.

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.

Following the announcement on 11 June 2007 that a potential malpractice had been identified in the Company's subsidiary in Portugal, an independent forensic investigation was conducted by KPMG LLP (KPMG) which confirmed that a number of local actions had been taken which were not compliant with Group policy. KPMG also carried out a review of various operational processes throughout the Group's other operations in Europe which confirmed they were compliant with Group policy.

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, and was updated following identification of the issues that arose in Portugal.

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.

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 2007 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, which are classified as strategic, operational, reputational, financial and environmental, 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 2007 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 Risk Factors section of the Business Review on pages 9 to 11.

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, KPMG, 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 Audit Committee also ratifies the appointment and dismissal of the Director of Risk Management and Internal Audit and assesses his independence and objectivity and helps ensure that he has unfettered access to management and the Audit Committee.

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 recommunicated annually 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.

Going concern

Under company law the Company's Directors are required to consider whether it is appropriate to prepare Financial Statements on the basis that the Company and the Group are going concerns. As part of its normal business practice the Group prepares annual and longer-term plans and in reviewing this information the Company's Directors see no reason why the Company and the Group should not remain going concerns for the foreseeable future. Therefore the Company and the Group continue to adopt the going concern basis in preparing the Financial Statements.

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 45 to 50;
- make judgements 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.

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 2007. Directors' interests in shares, share incentive awards and share options, all of which are beneficial except as noted, are set out on pages 36 to 38.

Changes to the Board of Avis Europe plc

Details of changes to the Board in the period under review are set out on page 25 of the Corporate Governance report.

On 31 December 2007, by mutual agreement, Murray Hennessy resigned as Chief Executive, and stood down from the Board. On 1 January 2008, Pascal Bazin was appointed Chief Executive.

He was appointed on a base salary of €640,000 (equivalent to £440,000 at the date of appointment). He will participate in the executive Directors' annual incentive scheme which provides a bonus opportunity of up to 100% of salary with 50% payable for on target performance. He is eligible for annual awards under the Long Term Incentive Plan introduced in 2007, to a maximum of 150% of salary. He will remain in the local benefit programmes in France.

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. 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 2007, the Remuneration Committee's activities included:

- setting remuneration for new appointments to the Avis Executive Board (AEB);
- adoption of a new LTIP and initial grant of awards under the plan;
- review of Remuneration Committee effectiveness; and
- approval of terms of appointment for the new Chief Executive and departure terms for Murray Hennessy.

Membership

The Remuneration Committee is comprised of non-executive Directors. Members during the period 1 January 2007 to 27 February 2008 are listed below:

- Malcolm Miller (Chairman);
- Alun Cathcart (appointed 24 August 2007);
- Les Cullen;
- Roland D'Ieteren;
- Dr Axel von Ruedorffer; and
- Pierre Alain De Smedt (appointed 27 February 2008)

The Remuneration Committee is comprised of the Chairman of the Board and five 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 26 of the Corporate Governance report. The Committee met 10 times during the year and each member's attendance at these meetings is shown in the Corporate Governance report on page 26.

Advisers

During the period under review the Chief Executive and the Group HR and Corporate Affairs 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 Kepler Associates (executive remuneration) and Freshfields Bruckhaus Deringer (share scheme rules). 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 2008 is designed to secure the skills 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 late 2005 the Remuneration Committee carried out a full review of executive remuneration designed to align rewards with delivery of the Group's recovery plan. As a result of this review, salaries were frozen for three years while incentive opportunities were increased. In line with the commitment made to shareholders, there will be no increases to executive Director salaries during 2008 for the final year of this three-year period.

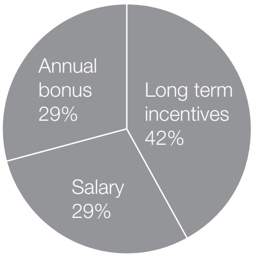
Directors and members of the AEB have an annual incentive opportunity of up to 100% of salary and will receive a further grant under the Long Term Incentive Plan introduced in 2007 and described below.

Summary of executive Directors' potential direct remuneration

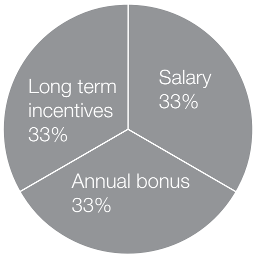
The Remuneration Committee believes that shareholder interests are best served by remuneration packages that have a large component of performance related pay. For 2008 the relationship between fixed and variable remuneration for achievement of maximum performance is: Chief Executive 29% fixed, 71% variable; other executive Directors 33% fixed, 67% variable.

The potential direct remuneration of executive Directors is illustrated below. The annual bonus is valued on a full payout basis and the benefit of the long-term incentives are calculated using the face value of the shares at the date of grant.

Chief Executive



Other Executive Directors



Salary

The policy on base salary up to and including 2005 was 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.

From 2006 to 2009 executive and senior management salaries are frozen. It is anticipated that from 2009 onwards base salaries will then be below the market median, with short and long-term incentives providing competitive total remuneration aligned to delivery of results.

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 2007 and 2008 the annual bonus opportunity is up to 100% of salary, with 50% of salary payable for on-target performance. In 2008, 80% of the bonus is based on stretching financial targets and 20% on achievement of quantitative functional 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 35. Bonus payments, benefits in kind and cash allowances do not form part of pensionable earnings for Directors.

Share incentive policy

The Remuneration Committee introduced a new long-term incentive plan during 2007 that is aligned with the Group's medium term plan and shareholders' interests.

Shareholding guidelines were implemented in 2005 that require the 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 2007); 2006 Deferred Bonus Share Plan (last award 2007); 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 36 to 38.

Long Term Incentive Plan

In 2007 the Remuneration Committee introduced a long-term incentive plan. It is intended that there will be annual grants of awards under this Plan which will vest three years after grant, providing certain performance conditions are met. These conditional awards take the form of nil cost options to acquire ordinary shares in the Company.

The performance conditions required for vesting purposes are based 50% on the Company's three-year growth in earnings per share (EPS) and 50% on return on capital employed (ROCE), based on the Group's results under the International Financial Reporting Standards.

The initial performance targets for awards granted under the Plan 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%

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.

EPS will be calculated on an underlying basis ie 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. ROCE will be calculated on a three-point annual average, to reflect the seasonality of the business, based upon the return for the particular year divided by the average capital employed of the previous closing, interim and prevailing closing positions. The return (operating profit) will be adjusted on the same underlying basis as EPS. ROCE and EPS are considered by the Remuneration Committee to be the most relevant all-encompassing long-term performance measures for Avis Europe. The business of the Group is fundamentally about achieving 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. The calculation of EPS and

ROCE performance is taken from the Consolidated Financial Statements.

Participation is at the Remuneration Committee's discretion. In 2007 awards were made to all members of the AEB, which included four of the executive Directors. Maximum awards are capped at 100% of salary (150% for the Chief Executive) (see page 36). Dividends, as and when reinstated, will not accrue on these awards, 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 exerciseable on a change of control subject to the satisfaction of any performance conditions at that time.

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 in order to maintain momentum on delivering short-term targets and make no long-term awards during that year. 50% of the bonus earned in respect of the year to 31 December 2006 was paid in cash after publication of the 2006 results and 50% was deferred into an award over Avis Europe shares to be released, subject to continued employment, in March 2008. The share award is in the form of a nil cost option to acquire ordinary shares in the Company, which were purchased on the market and are held in the Avis Europe Employee Share Trust. The participants are key senior managers, including four of the executive Directors. Outstanding share awards will vest and become exerciseable in full on a change of control.

Share Retention Plan

No awards under this Plan have been made since December 2004. The Share Retention Plan was established as a one off discretionary benefit to retain the services of Murray Hennessy (former Chief Executive) to January 2008. Therefore there were no performance conditions other than continued service to 1 January 2008. The award was in the form of a nil cost option to acquire ordinary shares in the Company that vested in three equal tranches on 1 January 2006, 1 January 2007 and 1 January 2008. In respect of the third tranche that would have vested on 1 January 2008, 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.

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 earnings per share (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 31 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 exerciseable 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 exerciseable 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 2007 is well within these dilution limits (see page 38).

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 2007, the Trust held 3,811,301 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 2006 and 31 December 2007 are set out below.

Share Incentive Scheme	Conditional share awards outstanding at 31 December 2007	Conditional share awards outstanding at 31 December 2006
Performance Share Plan	702,727 shares	1,366,105 shares
Long Term Incentive Plan	4,908,092 shares	–
Share Retention Plan	238,600 shares	477,200 shares
Deferred Bonus Share Plan	3,124,452 shares	–
Total	8,973,871 shares	1,843,305 shares

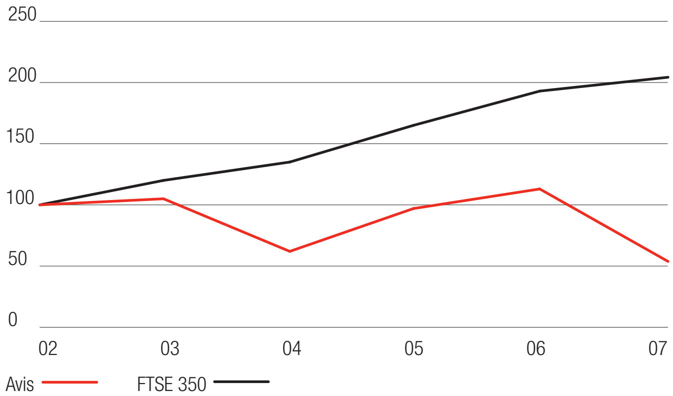
The Company periodically reviews the number of shares held by the Trust in light of the anticipated vesting dates and performance conditions under the various plans. The Company also regularly reviews its hedging policy but does not currently hedge any of these awards against potential Social

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 350 Index throughout this five-year period, that index is considered the most appropriate form of "broad equity market index" against which the Group's performance should be graphed. 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 2007, of £100 invested in Avis Europe on 31 December 2002 compared with the value of £100 invested in the FTSE 350 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.

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*	25 May 2004	12 months
Lesley Colyer	18 April 2002	12 months
Simon Palethorpe	5 October 2004	12 months
Martyn Smith	11 September 2002	12 months

* 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 25).

The Board believes that it can be of benefit to Avis Europe 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. Martyn Smith was a non-executive Director of SMG plc until 28 February 2007. For the period 1 January 2007 to 28 February 2007 he received a fee of £7,550 plus a share purchase of £2,042.

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*	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 May 2002
Malcolm Miller	21 February 2001
Dr Axel von Ruedorffer	27 June 2001
Pierre Alain De Smedt	1 February 2007

* 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.

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 2007-08 tax year, the cap is £112,800. Those executive Directors whose pensionable salary is subject to the cap receive a taxable cash allowance of 20% of base salary above the cap.

Four executive Directors accrue benefits under the Avis UK Pension Plan and as at 31 December 2007, 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 will continue to be linked to her pensionable salary in the future in accordance with the rules of the Plan. From 1 April 2007 she accrues future service benefits in the Retirement Capital section. Her pensionable salary is not subject to the scheme specific earnings cap.

Simon Palethorpe is a member of the Retirement Capital section in respect of all his pensionable service. His pensionable salary is subject to the scheme specific earnings cap and he receives 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.

Murray Hennessy left the Plan effective 31 December 2007 and has a preserved benefit entitlement under the Retirement Capital section.

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 2007 are set out in the table below.

	Salary/fees £	Bonus £	Taxable Benefits[2] £	Salary supplement Pension £	Salary supplement Car/fuel £	Compensation for loss of office £	Total year to 31 December 2007 £	Total year to 31 December 2006 £
Executive								
J-P Bizet	80,000	–	–	–	–	–	80,000	80,000
L Colyer	237,000	35,550	14,632	–	–	–	287,182	429,808
M Hennessy[1]	440,000	66,000	1,551	65,500	20,000	470,000	1,063,051	682,780
S Palethorpe	300,000	45,000	2,204	37,572	14,000	–	398,776	580,594
M Smith	330,000	49,500	13,169	66,000	–	–	458,669	651,468
Total	1,387,000	196,050	31,556	169,072	34,000	470,000	2,287,678	2,424,650
Non-executive								
W A Cathcart	190,000	–	6,141	–	20,000	–	216,141	215,832
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	32,500	–	–	–	–	–	32,500	32,500
M Miller	37,500	–	–	–	–	–	37,500	37,500
Dr A von Ruedorffer	32,500	–	–	–	–	–	32,500	32,500
P A De Smedt	29,792	–	–	–	–	–	29,792	–
Total	427,292	–	6,141	–	20,000	–	453,433	423,332
Total	1,814,292	196,050	37,697	169,072	54,000	470,000	2,741,111	2,847,982
Avis Executive Board (excluding executive Directors): Aggregate	1,594,386	723,793	64,027	130,711	22,947	–	2,535,864	2,729,397

1 Murray Hennessy left the Company on 31 December 2007. The compensation for loss of office comprises 12 months base salary only in line with contractual provisions of his service agreement plus £30,000 in consideration of waiving all statutory and further legal rights.

2 Taxable benefits include principally car, fuel and medical insurance.

Base salaries for the executive Directors at 1 January 2008 are: Pascal Bazin €640,000, Martyn Smith £330,000, Simon Palethorpe £300,000 and Lesley Colyer £237,000.

Pensions

Details of Directors' pension entitlements under the Avis UK Pension Plan (a defined benefit scheme) at 31 December 2007:

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 2007 £ pa	Transfer value of increase/(decrease) in accrued pension excluding inflation £	Transfer value of accrued pension at 31 December 2006 £	Transfer value of accrued pension at 31 December 2007 £	Increase/(decrease) in value less Director's own contributions £
W A Cathcart[1]	–	–	–	–	4,237,750	4,144,670	(93,080)
L Colyer[2]	4,683	729	125,491	7,980	1,125,792	1,272,209	146,417
M Hennessy[3]	–	–	–	–	43,149	61,634	14,016
G van Marcke de Lummen[4]	–	–	–	–	1,743,572	1,693,782	(49,790)
S Palethorpe[5]	–	–	–	–	21,241	33,403	7,692
M Smith[6]	–	–	–	–	56,226	63,583	7,357

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 2007 he received a pension of £301,811 (2006: £295,643).

2 Lesley Colyer is 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. In the year to 31 December 2007 the value of the Company's contribution to the Retirement Capital Plan section in respect of Lesley Colyer was £37,488.

3 Murray Hennessy left the Avis UK Pension Plan effective 31 December 2007. In the year to 31 December 2007 the value of the Company's contribution in respect of him was £11,388 (2006: £10,576).

4 Gilbert van Marcke de Lummen is no longer accruing benefit in the Avis UK Pension Plan and has been in receipt of a pension from 1 May 2002. In the year to 31 December 2007 he received a pension of £141,611 (2006: £138,343).

5 Simon Palethorpe is a member of the Retirement Capital section of the Avis UK Pension Plan. In the year to 31 December 2007 the value of the Company's contribution in respect of him was £6,519 (2006: £6,014).

6 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 2007 are shown below. There have been no changes between 31 December 2007 and 27 February 2008:

	31 December 2007	1 January 2007
Executive		
J-P Bizet	–	–
L Colyer[1]	164,506	164,506
M Hennessy[2]	520,266	317,171
S Palethorpe	15,000	15,000
M Smith	30,462	30,462

1 Included within Lesley Colyer's holding of 164,506 shares are 1,620 shares in which she has a non-beneficial interest as trustee for the beneficial owners.

2 Murray Hennessy left the Company on 31 December 2007.

	31 December 2007	1 January 2007
Non-executive		
W A Cathcart[1]	443,373	443,373
L Cullen	20,000	7,857
R D'Ieteren	–	–
B Ghiot	–	–
G van Marcke de Lummen	47,634	47,634
M Miller	7,857	7,857
Dr A von Ruedorffer	20,000	20,000
P A De Smedt	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 owner.

Directors' interests in the Company's share plans

Details of awards outstanding at 31 December 2007 under the Group's share schemes are shown below.

In respect of Murray Hennessy leaving the Company on 31 December 2007, the Remuneration Committee exercised its discretion under the Share Retention Plan and Deferred Share Bonus Plan rules to allow full vesting of the options under both plans at 31 December 2007. All his other outstanding awards and/or options under the Avis Europe share option schemes, the Long Term Incentive Plan and the Performance Share Plan lapsed at 31 December 2007.

Long Term Incentive Plan

The following awards were made under this Plan on 4 June 2007. The market price of the Company's shares at that date was 61 pence. As at 31 December 2007, no awards under this Plan had vested.

	At 31 December 2006	Award in year to 31 December 2007	Date of 2007 award	Lapsed during 2007	At 31 December 2007	Vesting date of outstanding awards
L Colyer	–	388,524	4 June 2007	–	388,524	4 June 2010
M Hennessy	–	1,081,967	4 June 2007	1,081,967	–	–
S Palethorpe	–	491,803	4 June 2007	–	491,803	4 June 2010
M Smith	–	540,983	4 June 2007	–	540,983	4 June 2010

Performance conditions

The performance conditions required for vesting purposes are based 50% on the Company's three-year growth in earnings per share (EPS) and 50% on return on capital employed (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.

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. As at 31 December 2007, Murray Hennessy's award had vested. The Remuneration Committee exercised its discretion to allow his award to vest at that date in recognition of the fact that he had remained in service throughout the financial year to which the award related.

	At 31 December 2006	Award in year to 31 December 2007	Date of 2007 award	At 31 December 2007	Vesting date of outstanding awards
L Colyer	–	291,393	5 June 2007	291,393	19 March 2008
M Hennessy	–	540,983	5 June 2007	540,983	31 December 2007
S Palethorpe	–	368,852	5 June 2007	368,852	19 March 2008
M Smith	–	405,737	5 June 2007	405,737	19 March 2008

Performance conditions

There are no performance conditions relating to awards under the 2006 Deferred Bonus Share Plan and, subject to continued employment, all awards will be released.

Share Retention Plan

Murray Hennessy was the only executive Director to be granted an award under this Plan. The award was in the form of a nil cost option to acquire ordinary shares in the Company. The second tranche of his award (238,600 shares) under this Plan vested on 1 January 2007 and was released on 4 June 2007. The market price of each of the shares on the date the award was made was 51 pence and the market price of each of the shares when the award was released was 61 pence. The Remuneration Committee exercised its discretion to allow the final tranche of the award (238,600 shares) that would have vested on 1 January 2008 to vest in full on the date of Murray Hennessy's termination of employment on 31 December 2007.

	At 31 December 2006	Award in year to 31 December 2007	Released in year to 31 December 2007	Vested at 31 December 2007	At 31 December 2007
M Hennessy	477,200	–	238,600	238,600	–

Performance conditions

There are no performance conditions relating to the award under the Share Retention Plan and, subject to continued employment, the award is released.

Performance Share Plan

No awards have been made under this Plan since 2004. As at 31 December 2007, no awards under this Plan had vested.

	At 31 December 2006	Award in year to 31 December 2007	Lapsed during 2007	At 31 December 2007	Vesting date of outstanding awards
W A Cathcart	244,409	–	–	244,409	17 March 2010
L Colyer	187,852	–	–	187,852	17 March 2010
M Hennessy	584,887	–	584,887	–	–
G van Marcke de Lummen	78,491	–	78,491	–	–
M Smith	270,466	–	–	270,466	17 March 2010

Performance conditions

The performance conditions applying to the Performance Share Plan have been based on the performance of the Company in relation to the total shareholder return (TSR) of a peer group, together with an earnings per share (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.

For awards made prior to 2004, 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 prior to 2003 comprises the companies listed below:
Airtours plc, 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, Lex Service plc, Minorplanet Systems plc, Mitie Group plc, National Express Group plc, NFC plc, Ocean Group plc, Powell Duffryn plc, Christian Salvesen plc, Stagecoach Holdings plc, TBI plc, Thomson Travel Group plc, Tibbett & Britten Group plc.

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 2007 and 27 February 2008.

	31 December 2007	Lapsed during period	Granted during period	1 January 2007	Exercise price (pence)	Exerciseable date	Expiry date
Executive							
J-P Bizet	–						
L Colyer	–	28,858	–	28,858	103.9	March 2000	March 2007
	22,667	–	–	22,667	136.4	May 2004	May 2011
	159,862	–	–	159,862	83.6	September 2005	September 2012
	182,529	–	–	211,387			
M Hennessy	–	511,742	–	511,742	78.2	April 2007	April 2007
S Palethorpe	–						
M Smith	238,599	–	–	238,599	83.6	September 2005	September 2012
Non-executive							
W A Cathcart[1]	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'leteren	–						
B Ghiot	–						
G van Marcke de Lummen[1]	–	28,858	–	28,858	103.9	March 2000	March 2007
M Miller	–						
Dr A von Ruedorffer	–						
P A De Smedt	–						

1 Alun Cathcart's and Gilbert van Marcke de Lummen's share options were granted when they were executive Directors of the Company.

Performance conditions

The performance conditions applying to the share option schemes have been based on real growth in earnings per share (EPS).

Options granted before 2004 become exerciseable 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 exerciseable date of March 2000 have satisfied this performance condition.

Options granted in 2004 become exerciseable 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 exerciseable 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 2007, 211 qualifying employees held options over 3,530,733 shares. No options were granted in 2007. The market price of the Company's shares at 31 December 2007 was 40.5 pence. During the year, the market price ranged between 27.25 pence and 90.25 pence.

Signed on behalf of the Board

Judith Nicholson
Company Secretary
27 February 2008

The Directors present their report and the audited financial statements for the year ended 31 December 2007.

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 and the Business Review on pages 4 to 19, 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 29 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 41 to 91. The Directors do not recommend the payment of an interim or final dividend for the year (2006: nil).

Directors and their interests

The names of the Directors of the Company as at 31 December 2007 and those subsequently appointed appear in the Corporate Governance report on page 25. The Directors' interests in shares and options to purchase shares are detailed in the Remuneration Report on pages 36 to 38.

Employee involvement and share schemes

Details of employee involvement are included in the Corporate Social Responsibility Report on pages 20 to 23. 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 31 to 38.

Donations

Charitable donations are detailed in the Corporate Governance report on page 28 and in the Corporate Social Responsibility Report on pages 20 to 23.

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 28.

Financial instruments

The Group's financial risk management objective is set out in Note 26 to the Consolidated Financial Statements.

Purchase of own shares

The details of own shares held are included in Note 30 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 27 of the Corporate Governance report.

Substantial shareholdings

The details of substantial shareholdings are included in the Corporate Governance report on page 27. 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 25 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 25 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
27 February 2008

Independent Auditors' Report to the Shareholders of Avis Europe plc on the Consolidated Financial Statements

We have audited the Consolidated Financial Statements of Avis Europe plc for the year ended 31 December 2007 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 Consolidated 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 2007 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 Consolidated Financial Statements in accordance with 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 Consolidated 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 shareholders 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 Consolidated Financial Statements give a true and fair view and whether the Consolidated 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 if, in our opinion, the Directors' Report is consistent with the Consolidated 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 and 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 for 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 we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or 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 Consolidated Financial Statements. The other information comprises only the Chairman's Statement, the Chief Executive's Review, the Financial 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 Consolidated 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 Consolidated Financial Statements. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the Consolidated 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 Consolidated 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 Consolidated Financial Statements.

Opinion

In our opinion:

- the Consolidated 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 2007 and of its profit and cash flows for the year then ended;
- the Consolidated 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 Consolidated Financial Statements.

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
London
27 February 2008

Consolidated Income Statement

for the year ended 31 December

	Notes	2007 Underlying[1] €m	2007 Amounts excluded from underlying €m	2007 Total €m	2006 Underlying[1] as restated[2] €m	2006 Amounts excluded from underlying €m	2006 Total as restated[2] €m
Continuing operations							
Revenue	1,2	**1,326.8**	**–**	**1,326.8**	1,255.8	–	1,255.8
Cost of sales		**(750.1)**	**–**	**(750.1)**	(698.8)	–	(698.8)
Gross profit		**576.7**	**–**	**576.7**	557.0	–	557.0
Administrative expenses		**(470.2)**	**(5.2)**	**(475.4)**	(467.5)	(27.7)	(495.2)
Operating profit/(loss)	2,3	**106.5**	**(5.2)**	**101.3**	89.5	(27.7)	61.8
Finance income	6	**5.4**	**0.8**	**6.2**	4.3	1.8	6.1
Finance costs	6	**(75.1)**	**–**	**(75.1)**	(64.3)	(2.3)	(66.6)
Share of profit of joint venture and associate	14	**0.8**	**–**	**0.8**	0.5	–	0.5
Profit/(loss) before taxation		**37.6**	**(4.4)**	**33.2**	30.0	(28.2)	1.8
Taxation	7	**(11.4)**	**(6.5)**	**(17.9)**	(8.8)	5.5	(3.3)
Profit/(loss) after taxation		**26.2**	**(10.9)**	**15.3**	21.2	(22.7)	(1.5)
Discontinued operation – Greece							
Profit/(loss) after taxation	39	**3.5**	**(15.9)**	**(12.4)**	3.0	–	3.0
Profit/(loss) for the year		**29.7**	**(26.8)**	**2.9**	24.2	(22.7)	1.5
Attributable to:							
– equity holders of the Company	32	**29.8**	**(26.8)**	**3.0**	24.2	(22.7)	1.5
– minority interest	36	**(0.1)**	**–**	**(0.1)**	–	–	–
Profit/(loss) for the year		**29.7**	**(26.8)**	**2.9**	24.2	(22.7)	1.5
Earnings per share (euro cents)							
Basic and diluted	9			**0.3**			0.2
Basic and diluted – continuing	9			**1.6**			(0.2)

1 Underlying excludes exceptional items, certain re-measurement items and economic hedges – see Basis of Preparation.
2 Restated following the prior year adjustment regarding Avis Portugal (see Note 33) and the reclassification of the discontinued operation – Greece (see Note 39).

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

		2007			2006		
	Notes	**Underlying[1] €m**	**Amounts excluded from underlying €m**	**Total €m**	Underlying[1] as restated[2] €m	Amounts excluded from underlying €m	Total as restated[2] €m
Actuarial gains on retirement benefit obligations	23,32	**–**	**14.9**	**14.9**	–	2.9	2.9
Cash flow hedges:							
– net fair value losses	34	**–**	**(5.8)**	**(5.8)**	–	(11.1)	(11.1)
– transferred to Income Statement	34	**–**	**7.9**	**7.9**	–	5.4	5.4
Exchange differences on translation of foreign operations	34	**–**	**(2.8)**	**(2.8)**	–	(1.2)	(1.2)
Tax on net items taken to equity	7	**–**	**(3.1)**	**(3.1)**	–	1.5	1.5
Net income/(expense) recognised directly in equity	35	**–**	**11.1**	**11.1**	–	(2.5)	(2.5)
Profit/(loss) for the year		**29.7**	**(26.8)**	**2.9**	24.2	(22.7)	1.5
Total recognised income and expense for the year		**29.7**	**(15.7)**	**14.0**	24.2	(25.2)	(1.0)
Prior year adjustment[2]		**(4.6)**	**–**	**(4.6)**			
Total recognised income and expense since previous Annual Report		**25.1**	**(15.7)**	**9.4**			
Total recognised income and expense for the year is attributable to:							
– equity holders of the Company		**29.8**	**(15.7)**	**14.1**	24.2	(25.2)	(1.0)
– minority interest		**(0.1)**	**–**	**(0.1)**	–	–	–
Total recognised income and expense for the year		**29.7**	**(15.7)**	**14.0**	24.2	(25.2)	(1.0)

1 Underlying excludes exceptional items, certain re-measurement items and economic hedges – see Basis of Preparation.
2 Restated following the prior year adjustment regarding Avis Portugal (see Note 33).

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

Consolidated Balance Sheet
at 31 December

	Notes	2007 €m	2006 as restated[1] €m
Goodwill	10	**0.3**	7.9
Other intangible assets	11	**11.9**	7.9
Property, plant and equipment:			
– vehicles	12	**448.7**	509.4
– other property, plant and equipment	13	**78.0**	85.3
Investments accounted for using the equity method	14	**10.8**	10.2
Other financial assets:			
– available for sale investments	15	**0.6**	0.7
– derivative financial instruments	26	**10.2**	6.8
Deferred tax assets	16	**49.5**	70.5
Non-current assets		**610.0**	698.7
Non-current assets held for sale	17	**7.1**	8.4
Inventories	18	**7.7**	7.4
Trade and other receivables	19	**1,391.8**	1,358.6
Current tax assets		**3.0**	6.0
Other financial assets:			
– held for trading	15	**5.4**	22.6
– derivative financial instruments	26	**3.8**	4.5
Cash and short-term deposits	20	**60.9**	116.6
Current assets		**1,472.6**	1,515.7
Total assets		**2,089.7**	2,222.8
Trade and other payables	21	**670.3**	672.6
Current tax liabilities		**33.3**	29.3
Obligations under finance leases	24	**273.0**	290.1
Other financial liabilities:			
– borrowings	25a)	**31.0**	231.7
– deferred consideration	25c)	**0.3**	0.3
– derivative financial instruments	26	**1.9**	31.3
Provisions	22	**45.1**	43.1
Current liabilities		**1,054.9**	1,298.4
Deferred tax liabilities	16	**34.9**	59.5
Provisions	22	**22.3**	21.5
Retirement benefit obligations	23	**97.5**	122.0
Obligations under finance leases	24	**0.7**	2.0
Other financial liabilities:			
– borrowings	25a)	**699.2**	559.2
– deferred consideration	25c)	**30.3**	32.7
– derivative financial instruments	26	**52.9**	42.3
Non-current liabilities		**937.8**	839.2
Total liabilities		**1,992.7**	2,137.6
Net assets		**97.0**	85.2
Equity			
Called-up share capital	29	**13.1**	13.1
Share premium	30	**381.5**	381.5
Own shares held	30	**(3.3)**	(0.7)
Retained deficit	32	**(280.2)**	(295.1)
Other reserves	34	**(14.9)**	(14.5)
Shareholders' equity	35	**96.2**	84.3
Minority interest	36	**0.8**	0.9
Total equity		**97.0**	85.2

1 Restated following the prior year adjustment regarding Avis Portugal (see Note 33).

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 27 February 2008 and were signed on its behalf by:

W A Cathcart
Chairman

M R Smith
Finance Director

Consolidated Cash Flow Statement

for the year ended 31 December

	Notes	2007 €m	2006 as restated[1] €m
Operating profit – continuing operations		**101.3**	61.8
Discontinued operation – Greece	39	**(8.0)**	12.6
Operating profit – all operations		**93.3**	74.4
Reverse depreciation on property, plant and equipment	3	**152.8**	183.4
Reverse amortisation of other intangible assets	3	**4.9**	5.2
Reverse adjustments arising on differences between sales proceeds and depreciated amounts	3	**(18.7)**	(23.8)
Reverse operating goodwill impairment	3	**–**	0.3
Reverse exceptional goodwill impairment	5	**11.1**	–
Reverse non-cash operating lease charge on manufacturer repurchase contracts	3	**185.8**	171.4
Payments in respect of manufacturer repurchase contracts		**(1,428.1)**	(1,252.4)
Receipts in respect of manufacturer repurchase contracts		**1,092.2**	1,130.6
Reverse share-based payment charges	4	**0.4**	0.2
Increase in inventories		**(0.7)**	(0.4)
Increase in receivables		**(52.3)**	(20.3)
Increase/(decrease) in payables		**8.0**	(2.7)
Increase in provisions		**12.0**	12.0
Decrease in retirement benefit obligations		**(3.9)**	(4.8)
Reverse certain re-measurement items and economic hedging adjustments		**(1.7)**	(1.6)
Cash flow on derivative financial instruments – non-debt		**(1.6)**	0.4
Net cash generated from operating activities before taxation		**53.5**	271.9
Tax paid		**(9.9)**	(9.8)
Net cash generated from operating activities		**43.6**	262.1
Investing activities			
Purchase of other intangible assets	11	**(9.6)**	(8.1)
Purchase of vehicles		**(492.5)**	(493.0)
Proceeds on disposal of vehicles		**346.0**	294.4
Purchase of other property, plant and equipment	13	**(19.0)**	(21.7)
Proceeds on disposal of other property, plant and equipment		**7.7**	2.1
Proceeds on disposal of non-current assets held for sale		**64.8**	85.4
Disposal/(purchase) of financial assets held for trading	37a)	**17.2**	(8.2)
Acquisition of licensee businesses	38	**(5.0)**	(0.3)
		(90.4)	(149.4)
Proceeds on disposal of business	39	**22.2**	–
Cash balances disposed with business	39	**(2.4)**	–
Net cash used in investing activities		**(70.6)**	(149.4)
Financing activities			
Finance revenue received		**5.5**	4.3
Finance costs paid		**(67.8)**	(57.6)
Finance cost element of finance lease payments		**(17.5)**	(11.7)
Net capital element of finance lease payments	37a)	**(57.6)**	(97.3)
Purchase of own shares		**(2.7)**	–
Cash flow on derivative financial instruments – debt	37a)	**(35.3)**	(4.8)
Proceeds from bank and other loans	37a)	**141.6**	80.7
Net cash used in financing activities		**(33.8)**	(86.4)
(Decrease)/increase in cash and cash equivalents (excluding exchange rate changes)		**(60.8)**	26.3
Effects of exchange rate changes	37a)	**(0.4)**	0.6
Net (decrease)/increase in cash and cash equivalents		**(61.2)**	26.9
Cash and cash equivalents at 1 January	37a)	**113.3**	86.4
Cash and cash equivalents at 31 December		**52.1**	113.3

1 Restated following the prior year adjustment regarding Avis Portugal (see Note 33).

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 2007

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 2006 except for the adoption of the following:

IFRS 7, Financial Instruments: Disclosures, and a complementary amendment to IAS 1, Presentation of Financial Statements – Capital Disclosures (effective from 1 January 2007)

IFRS 7 introduces new disclosures to improve the information about financial instruments. It requires the disclosure of qualitative and quantitative information about exposure to risks arising from financial instruments, including specified minimum disclosures about credit risk, liquidity risk and market risk. It replaces IAS 30, Disclosures in the Financial Statements of Banks and Similar Financial Institutions, and disclosure requirements in IAS 32, Financial Instruments: Disclosure and Presentation. The amendment to IAS 1 introduces complementary disclosures about the level of an entity's capital and how it manages capital. The main additional disclosures relate to the sensitivity analysis for market risk and the additional disclosures relating to credit and liquidity risk.

IFRIC 9, Reassessment of embedded derivatives (effective from 1 January 2007)

IFRIC 9 states that an entity must assess whether an embedded derivative is required to be separated from a host contract and accounted for as a derivative when the entity first becomes party to the contract. Subsequent reassessment is prohibited unless there is a change in the terms of the contract that significantly modifies the cash flows which would be required under the contract, in which case reassessment is required. Management has concluded that this interpretation has no impact on how embedded derivatives have been identified and recognised to date.

IFRIC 10, Interim financial reporting and impairment (effective from 1 January 2007)

IFRIC 10 states that an entity shall not reverse an impairment loss recognised in a previous interim period in respect of goodwill or an investment in either an equity instrument or a financial asset carried at cost. As the Group has not to date reversed any such impairments recognised in previous periods, this amendment has no immediate impact on the Consolidated Financial Statements.

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 2008 or later periods but which the Group has not early adopted, as follows:

IFRIC 11, IFRS 2, Group and Treasury share transactions (effective from 1 January 2008)

IFRIC 11 provides guidance on applying IFRS 2. Where share-based payments involving an entity's own equity instruments in which 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. The Group believes that this amendment will not have a significant impact on the treatment of the Group's share-based payments.

IFRIC 12, Service concession arrangements (effective from 1 January 2008)

IFRIC 12 provides guidance on the treatment of government service concession arrangements and is deemed not relevant to the Group's operations.

IFRIC 13, Customer loyalty programmes (effective from 1 July 2008)

IFRIC 13 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 14, The limit on a defined benefit asset, minimum funding requirements and their interaction (effective from 1 January 2008)

IFRIC 14 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. The Group believes that this amendment will have no impact on the amounts recognised under defined benefit schemes.

IFRS 8, Operating segments (effective from 1 January 2009)

IFRS 8 requires an entity to adopt a "management approach" to segment reporting such that segment 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 23 (Revised), Borrowing Costs (effective from 1 January 2009)

The revision to IAS 23, Borrowing Costs, removes the option of immediately recognising as an expense borrowing costs which relate to assets that take a substantial period of time to prepare for their intended use. The Group are reviewing the impact of this amendment upon the Consolidated Financial Statements.

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 (eg 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).

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 exerciseable. At each balance sheet date, the Group revises its estimates of the number of options that are expected to become exerciseable. 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 share premium 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 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 programs are amortised on a straight-line basis over periods varying between two and five 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 on the balance sheet.

Impairment of financial assets
The Group assesses at each balance sheet date 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. As a result of more accurate industry data being made available during the year, the Group reviewed the application of the policy and this resulted in an exceptional credit to the Income Statement of €5.7 million (see Note 5g)). Provisions are measured at the value of the expenditures 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 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, and 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, comprising interest rate swaps, foreign exchange contracts, cross currency 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 remeasuring 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 23.

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 setting the appropriate level of provision.

1 Revenue

The activity of the Group is the supply of vehicle rental services. Revenue, as disclosed on the face of the Consolidated Income Statement, is derived entirely from continuing activities. Revenue from Avis Greece, the discontinued operation, is separately disclosed 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 earned in the first half as compared to the second half of each year, together with an increase in the number of vehicles acquired in the period leading up to the summer months.

2 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, as compared with 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 its Avis branded businesses and its 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 Corporate activities.

a) Business segments

Revenue	2007 €m	2006 as restated[1] €m
Rental revenue	**1,114.2**	1,056.9
Other non-rental revenue[2]	**125.8**	124.5
Avis Corporate	**1,240.0**	1,181.4
Avis Licensees	**34.1**	29.0
Avis	**1,274.1**	1,210.4
Budget Corporate	**42.6**	36.6
Budget Licensees	**10.1**	8.8
Budget	**52.7**	45.4
Revenue – continuing	**1,326.8**	1,255.8
Discontinued operation – see Note 39	**48.7**	81.3
Revenue including discontinued operation	**1,375.5**	1,337.1

1 Restated following the reclassification of the discontinued operation – Greece (see Note 39).
2 Other non-rental revenue includes income from the sale of fuel, sub-licensee income, the provision of foreign exchange services to rental customers, in addition to other incidental operating income.

Sales between the business segments are immaterial.

2 Business and geographical segments continued

Operating profit/(loss)	2007 Underlying[1] €m	2007 Amounts excluded from underlying €m	2007 Total €m	2006 Underlying[1] as restated[2] €m	2006 Amounts excluded from underlying €m	2006 Total as restated[2] €m
Avis Corporate	**124.7**	**(4.4)**	**120.3**	115.8	(8.4)	107.4
Avis Licensees	**31.9**	**–**	**31.9**	26.3	–	26.3
Avis	**156.6**	**(4.4)**	**152.2**	142.1	(8.4)	133.7
Budget Corporate[3]	**(4.1)**	**–**	**(4.1)**	(4.6)	(1.6)	(6.2)
Budget Licensees[3]	**1.2**	**–**	**1.2**	(0.2)	–	(0.2)
Budget	**(2.9)**	**–**	**(2.9)**	(4.8)	(1.6)	(6.4)
Headquarters	**(47.2)**	**(0.8)**	**(48.0)**	(47.8)	(17.7)	(65.5)
Operating profit/(loss) – continuing	**106.5**	**(5.2)**	**101.3**	89.5	(27.7)	61.8
Discontinued operation (see Note 39)	**7.9**	**(15.9)**	**(8.0)**	12.6	–	12.6
Operating profit/(loss) including discontinued operation	**114.4**	**(21.1)**	**93.3**	102.1	(27.7)	74.4

1 See Basis of Preparation.
2 Restated following the prior year adjustment regarding Avis Portugal (see Note 33) and the reclassification of the discontinued operation – Greece (see Note 39).
3 The 2006 allocation of operating profit between the Budget Corporate and Licensee segments has been restated by €2.3 million (decrease in Licensee with a corresponding increase in Corporate) to ensure that the operating profit is presented on a consistent basis with the Avis segments.

No adjustment is made between segments to recharge the value of the overall 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.

Balance sheet	Assets 2007 €m	Assets 2006 as restated[1] €m	Liabilities 2007 €m	Liabilities 2006 as restated[1] €m	Net assets 2007 €m	Net assets 2006 as restated[1] €m
Avis Corporate	**1,923.1**	1,780.5	**(1,591.7)**	(1,493.8)	**331.4**	286.7
Avis Licensees	**8.5**	5.2	**–**	–	**8.5**	5.2
Avis	**1,931.6**	1,785.7	**(1,591.7)**	(1,493.8)	**339.9**	291.9
Budget Corporate	**53.2**	44.8	**(53.0)**	(78.3)	**0.2**	(33.5)
Budget Licensees	**2.8**	2.5	**(1.2)**	(0.7)	**1.6**	1.8
Budget	**56.0**	47.3	**(54.2)**	(79.0)	**1.8**	(31.7)
Segment total	**1,987.6**	1,833.0	**(1,645.9)**	(1,572.8)	**341.7**	260.2
Share of joint venture and associate (see Note 14)	**10.8**	10.2	**–**	–	**10.8**	10.2
Headquarters	**91.3**	144.2	**(346.8)**	(349.1)	**(255.5)**	(204.9)
Continuing operations	**2,089.7**	1,987.4	**(1,992.7)**	(1,921.9)	**97.0**	65.5
Discontinued operation (see Note 39)	**n/a**	235.4	**n/a**	(215.7)	**n/a**	19.7
Group including discontinued operation	**2,089.7**	2,222.8	**(1,992.7)**	(2,137.6)	**97.0**	85.2

1 Restated following the prior year adjustment regarding Avis Portugal (see Note 33) and the reclassification of the discontinued operation – Greece (see Note 39).

Headquarters primarily represents 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. 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.

2 Business and geographical segments continued

Other information	Capital expenditure 2007 €m	Capital expenditure 2006 as restated[1] €m	Depreciation and amortisation 2007 €m	Depreciation and amortisation 2006 as restated[1] €m	Impairment losses 2007 €m	Impairment losses 2006 €m
Avis Corporate	**637.3**	742.3	**136.3**	161.6	**4.0**	0.3
Avis Licensees	**–**	–	**–**	–	**–**	–
Avis	**637.3**	742.3	**136.3**	161.6	**4.0**	0.3
Budget Corporate	**3.1**	1.5	**1.4**	1.0	**–**	–
Budget Licensees	**–**	–	**–**	–	**–**	–
Budget	**3.1**	1.5	**1.4**	1.0	**–**	–
Segment total	**640.4**	743.8	**137.7**	162.6	**4.0**	0.3
Headquarters	**11.5**	10.8	**10.3**	9.6	**–**	–
Continuing operations	**651.9**	754.6	**148.0**	172.2	**4.0**	0.3
Discontinued operation (see Note 39)	**26.8**	47.0	**9.7**	16.4	**7.1**	–
Group including discontinued operation	**678.7**	801.6	**157.7**	188.6	**11.1**	0.3

1 Restated following the prior year adjustment regarding Avis Portugal (see Note 33).

Headquarters primarily represents capital expenditure and depreciation/amortisation of head office software projects and property, plant and equipment. Impairment losses comprise goodwill impairments (see Note 10).

b) Geographical segments

	Revenue 2007 €m	Revenue 2006 as restated[1] €m	Assets 2007 €m	Assets 2006 as restated[2] €m	Capital expenditure 2007 €m	Capital expenditure 2006 as restated[2] €m
France	**295.5**	275.1	**437.9**	430.9	**160.3**	282.5
Germany	**196.7**	181.6	**420.7**	295.6	**59.1**	53.2
Italy	**201.9**	190.1	**246.6**	225.8	**156.6**	154.7
Spain	**208.1**	210.5	**327.4**	322.9	**179.2**	175.8
United Kingdom	**243.7**	226.0	**321.5**	285.8	**48.7**	27.9
Other Europe	**177.7**	169.5	**226.2**	265.2	**33.4**	47.0
Rest of the world	**3.2**	3.0	**7.3**	6.8	**3.1**	2.7
	1,326.8	1,255.8	**1,987.6**	1,833.0	**640.4**	743.8
Share of joint venture and associate – Rest of the world (see Note 14)	**–**	–	**10.8**	10.2	**–**	–
Headquarters	**–**	–	**91.3**	144.2	**11.5**	10.8
Continuing operations	**1,326.8**	1,255.8	**2,089.7**	1,987.4	**651.9**	754.6
Discontinued operation (see Note 39)	**48.7**	81.3	**n/a**	235.4	**26.8**	47.0
Group including discontinued operation	**1,375.5**	1,337.1	**2,089.7**	2,222.8	**678.7**	801.6

1 Restated following the reclassification of the discontinued operation – Greece (see Note 39).
2 Restated following the prior year adjustment regarding Avis Portugal (see Note 33) and the reclassification of the discontinued operation – Greece (see Note 39).

3 Operating profit

	2007 €m	2006 as restated[1] €m
Operating profit is stated after charging/(crediting):		
Underlying profit[2]:		
Hire of vehicles under repurchase contracts	**222.8**	199.1
Unwinding of discount on vehicle repurchase contracts	**(37.0)**	(27.7)
Net operating lease charge on manufacturer repurchase contracts	**185.8**	171.4
Hire of plant and equipment	**1.3**	1.1
Hire of motor vehicles	**79.0**	67.3
Net charge on hire of plant, equipment and motor vehicles	**266.1**	239.8
Depreciation on vehicles – owned (see Note 12)	**111.4**	118.5
Depreciation on vehicles – under finance lease (see Note 12)	**20.9**	45.1
Depreciation on other property, plant and equipment (see Note 13)	**20.5**	19.8
Depreciation on property, plant and equipment	**152.8**	183.4
Adjustments arising on differences between sales proceeds and depreciated amounts – fleet	**(14.1)**	(23.1)
Adjustments arising on differences between sales proceeds and depreciated amounts – non-fleet	**(4.6)**	(0.7)
Adjustments arising on differences between sales proceeds and depreciated amounts	**(18.7)**	(23.8)
Amortisation of other intangible assets	**4.9**	5.2
Non-exceptional goodwill impairment charge (see Note 10)	**–**	0.3
Contingent operating lease rentals[3]	**53.9**	51.8
Other operating lease rentals	**52.8**	51.5
Net amounts excluded from underlying[2]:		
Re-measurement gains on non-debt related derivative financial instruments[4]	**(3.5)**	(2.2)
Re-measurement losses on non-debt related derivative financial instruments[4]	**2.8**	0.6
	(0.7)	(1.6)
Economic hedging adjustment on foreign exchange	**(1.0)**	0.4
Total net exceptional items (see Note 5)	**6.9**	28.9
Total net exceptional items, certain re-measurement items and economic hedge adjustments	**5.2**	27.7

Included within the analysis above are amounts in respect of the discontinued operation: Net operating lease charge on manufacturer repurchase contracts €9.0 million (2006: €15.2 million), depreciation on property, plant and equipment €9.7 million (2006: €16.3 million), adjustments arising on differences between sales proceeds and depreciated amounts €nil (2006: €1.1 million), amortisation of other intangible assets €nil (2006: €0.1 million), non-exceptional goodwill impairment charge €nil (2006: €nil), contingent operating lease rentals €0.2 million (2006: €0.4 million) and other operating lease rentals €0.9 million (2006: €1.5 million). There are no amounts excluded from underlying in 2006 and 2007.

1 Restated following the prior year adjustment regarding Avis Portugal (see Note 33).
2 See Basis of Preparation.
3 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.
4 Net re-measurement gains on non-debt related derivative financial instruments of €0.7 million (2006: gains of €1.6 million), comprises realised losses of €1.8 million (2006: gains of €1.0 million) and unrealised gains of €2.5 million (2006: gains of €0.6 million).

Auditors' remuneration is analysed as follows:	2007 €m	2006 as restated[1] €m
Fees payable to the Company's auditor for the audit of the Company's annual accounts	**0.7**	0.6
Fees payable to the Company's auditor and its associates for other services:		
– the audit of the Company's subsidiaries pursuant to legislation	**0.9**	0.9
– other services pursuant to legislation	**0.1**	0.1
– taxation services	**0.8**	0.5
– litigation	**0.1**	0.1
– corporate finance transactions	**0.1**	0.5
– other	**0.4**	0.1
	2.4	2.2
Auditors' remuneration – continuing	**3.1**	2.8
Auditors' remuneration – discontinued operation	**0.1**	0.1
Auditors' remuneration including discontinued operation	**3.2**	2.9

1 Restated following the reclassification of the discontinued operation – Greece (see Note 39).

4 Directors and employees

	2007 €m	2006 as restated[1] €m
Staff costs – continuing		
Retirement benefit charges under defined contribution schemes	**5.7**	4.3
Retirement benefit charges under defined benefit schemes (see Note 23)	**10.2**	13.8
Retirement benefit charges	**15.9**	18.1
Wages and salaries	**232.8**	229.9
Social security costs	**42.6**	40.4
Share-based payments	**0.4**	0.2
Underlying Directors and employee costs	**291.7**	288.6
Exceptional staff costs – continuing (see Note 5)		
Retirement benefit charges		
– exceptional past service costs (see Note 5e)	**–**	(3.2)
– exceptional curtailments (see Note 5a)	**–**	(1.2)
Severance and other	**7.0**	16.5
	7.0	12.1
Directors and employee costs – continuing	**298.7**	300.7
Staff costs – discontinued operation	**5.0**	8.2
Directors and employee costs including discontinued operation	**303.7**	308.9

1 Restated following the reclassification of the discontinued operation – Greece (see Note 39).

Further details of Directors' remuneration for the year are provided in Note 43 and the audited part of the Remuneration Report on pages 35 to 38. There were no Directors and employee costs in respect of the Company (2006: nil).

	2007 Number	2006 as restated[1] Number
Staff numbers – continuing (average full time equivalent)		
France	**1,512**	1,477
Germany	**698**	669
Italy	**535**	520
Spain	**1,156**	1,200
United Kingdom	**1,055**	1,139
Others	**1,014**	963
Staff numbers – continuing	**5,970**	5,968
Staff numbers – discontinued operation	**152**	308
Staff numbers including discontinued operation	**6,122**	6,276

1 Restated following the reclassification of the discontinued operation – Greece (see Note 39).

There were no staff employed by the Company (2006: nil)

5 Net exceptional items

	2007 €m	2006 €m
Exceptional administrative expenses:		
a) Restructuring costs	**7.1**	25.3
b) Goodwill impairment	**4.0**	–
c) Independent investigation and associated costs	**4.8**	–
d) Net project termination (credit)/costs	**(2.6)**	7.4
e) Pension scheme amendment	**–**	(3.2)
f) Centrus receivables	**(0.7)**	(0.6)
g) Insurance provision release	**(5.7)**	–
Net exceptional items before tax – continuing operations	**6.9**	28.9
h) Goodwill impairment and loss on disposal of discontinued operation (see Note 39)	**15.9**	–
Net exceptional items before tax including discontinued operation	**22.8**	28.9
Tax on exceptional items (see Note 7)	**6.4**	(5.7)
Net exceptional items after tax including discontinued operation	**29.2**	23.2

a) Restructuring costs of €7.1 million (2006: €25.3 million) were incurred in the year. This was partly in connection with the final elements of the restructuring project the Group commenced in late 2005 covering the roles of its European headquarters, corporate operations, shared service centre and call centres and also certain restructuring activities which commenced in December 2007. Restructuring costs include redundancy costs and onerous lease provisions and in the prior year were net of exceptional pension curtailments of €1.2 million.

b) In June 2007 the Group acquired the assets of a licensee in Germany. The acquired assets and locations have been integrated into an existing cash-generating unit. The goodwill previously arising in this unit had been fully provided for in the past and following a re-evaluation of the impairment calculations following the latest acquisition, an impairment provision of €4.0 million has been recognised in respect of the goodwill arising on the acquisition (see Note 38).

c) Following the identification of potential malpractice in Portugal, the Group has recognised €4.8 million of costs in the year (2006: nil) in respect of an independent investigation, both in Portugal and a review then throughout the Group's corporately owned operations in Europe, together with certain directly related employee termination costs.

d) Following the Group's decision in 2004 to terminate an agreement with an IT contractor, a net exceptional credit of €2.6 million has been recognised, after certain additional termination costs, following the conclusion of a legal case.

e) In June 2006, significant changes were made to the unfunded pension scheme in Germany resulting in an exceptional credit to past service costs of €3.2 million.

f) During the current and prior year, the collection of credit hire receivable balances in respect of the closed Centrus business was more successful than previously anticipated and resulted in an exceptional credit of €0.7 million (2006: €0.6 million), reflecting a partial reversal of the receivable write-offs and adjustment of reorganisation provisions made in previous years.

g) 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 level is inevitably subject to a degree of uncertainty as a result of the significant timescales for claims being made. However, as a result of more accurate industry data being made available, the Group has updated the method of calculating the provision, based upon the historic claims profile and the application of insurance industry rental loss development factors. This should ensure a more consistent and robust assessment of the provision requirement. The provision re-assessment resulted in an exceptional credit to the Income Statement of €5.7 million. A periodic re-assessment of the provision requirement will be carried out, based upon the latest claims profile and loss development factors, with a subsequent adjustment made annually in December if required.

h) On 25 July 2007, the Group disposed of its subsidiary in Greece, Olympic Commercial and Tourist Enterprises SA. In the Interim accounts, the Group recorded a goodwill impairment charge of €7.1 million to write down the associated goodwill to its estimated fair value. In the second half a loss on disposal of €8.8 million was recognised, giving a total exceptional charge in the year of €15.9 million. Details of the loss on disposal are provided in Note 39.

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

	2007			2006		
	Underlying[1] €m	Amounts excluded from underlying €m	Total €m	Underlying[1] as restated[2] €m	Amounts excluded from underlying €m	Total as restated[2] €m
Finance income – continuing						
Interest receivable	**5.4**	**–**	**5.4**	4.3	–	4.3
Re-measurement gains on debt-related derivative financial instruments[3]	**–**	**0.8**	**0.8**	–	1.8	1.8
	5.4	**0.8**	**6.2**	4.3	1.8	6.1
Finance costs – continuing						
Interest payable under finance lease obligations	**(17.5)**	**–**	**(17.5)**	(11.7)	–	(11.7)
Interest payable on bank loans and overdrafts[4]	**(55.6)**	**–**	**(55.6)**	(49.0)	–	(49.0)
Interest payable on deferred consideration	**(2.6)**	**–**	**(2.6)**	(2.6)	–	(2.6)
Re-measurement losses on debt-related derivative financial instruments[3]	**–**	**(3.2)**	**(3.2)**	–	(4.2)	(4.2)
Economic hedge adjustment on interest payable[4]	**0.6**	**(0.6)**	**–**	(1.0)	1.0	–
Foreign exchange gain on net debt	**–**	**3.8**	**3.8**	–	0.9	0.9
	(75.1)	**–**	**(75.1)**	(64.3)	(2.3)	(66.6)
Net finance costs – continuing	**(69.7)**	**0.8**	**(68.9)**	(60.0)	(0.5)	(60.5)
Discontinued operation (see Note 39)	**(5.5)**	**–**	**(5.5)**	(7.2)	–	(7.2)
Net finance costs including discontinued operation	**(75.2)**	**0.8**	**(74.4)**	(67.2)	(0.5)	(67.7)

1 See Basis of Preparation.
2 Restated following the reclassification of the discontinued operation – Greece (see Note 39).
3 Net re-measurement losses on debt-related derivative financial instruments of €2.4 million (2006: losses of €2.4 million) comprise realised losses of €0.5 million (2006: gains of €1.5 million) and unrealised losses of €1.9 million (2006: losses of €3.9 million).
4 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, reflects actual interest rates applicable to debt, regardless of any accrued cash flow paid at contracted rates within hedging derivatives.

7 Taxation

a) Analysis of tax charge/(credit)

	2007			2006		
	Underlying[1] €m	Amounts excluded from underlying €m	Total €m	Underlying[1] as restated[2] €m	Amounts excluded from underlying €m	Total as restated[2] €m
Continuing operations						
Current UK tax						
UK corporation tax on profits for the year before exceptional items	**(0.3)**	**(0.4)**	**(0.7)**	4.4	0.1	4.5
Tax on exceptional items	**–**	**3.1**	**3.1**	–	(3.9)	(3.9)
Adjustments in respect of prior years	**1.9**	**–**	**1.9**	0.3	–	0.3
Current UK tax	**1.6**	**2.7**	**4.3**	4.7	(3.8)	0.9
Current foreign tax						
Foreign corporation tax on profits for the year before exceptional items	**8.2**	**–**	**8.2**	8.1	–	8.1
Current tax on exceptional items	**–**	**(0.1)**	**(0.1)**	–	(2.1)	(2.1)
Adjustments in respect of prior years	**3.4**	**–**	**3.4**	(1.9)	–	(1.9)
Current foreign tax	**11.6**	**(0.1)**	**11.5**	6.2	(2.1)	4.1
Current tax – continuing	**13.2**	**2.6**	**15.8**	10.9	(5.9)	5.0
Analysed as:						
Corporation tax on profits for the year before exceptional items	**7.9**	**(0.4)**	**7.5**	12.5	0.1	12.6
Tax on exceptional items	**–**	**3.0**	**3.0**	–	(6.0)	(6.0)
Adjustments in respect of prior years	**5.3**	**–**	**5.3**	(1.6)	–	(1.6)
Current tax – continuing	**13.2**	**2.6**	**15.8**	10.9	(5.9)	5.0

7 Taxation continued

a) Analysis of tax charge/(credit) continued

	2007 Underlying[1] €m	2007 Amounts excluded from underlying €m	2007 Total €m	2006 Underlying[1] as restated[2] €m	2006 Amounts excluded from underlying €m	2006 Total as restated[2] €m
Deferred tax						
Origination and reversal of temporary differences	**5.6**	**0.5**	**6.1**	5.2	0.1	5.3
Deferred tax on exceptional items	**–**	**3.4**	**3.4**	–	0.3	0.3
Adjustments in respect of prior years	**(7.4)**	**–**	**(7.4)**	(7.3)	–	(7.3)
Deferred tax – continuing	**(1.8)**	**3.9**	**2.1**	(2.1)	0.4	(1.7)
Taxation – continuing	**11.4**	**6.5**	**17.9**	8.8	(5.5)	3.3
Discontinued operation – Greece						
Current tax	**–**	**–**	**–**	0.8	–	0.8
Deferred tax	**(1.1)**	**–**	**(1.1)**	1.6	–	1.6
Taxation including discontinued operation	**10.3**	**6.5**	**16.8**	11.2	(5.5)	5.7

1 See Basis of Preparation.
2 Restated following the reclassification of the discontinued operation – Greece (see Note 39).

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

	2007 Underlying[1] €m	2007 Amounts excluded from underlying €m	2007 Total €m	2006 Underlying[1] €m	2006 Amounts excluded from underlying €m	2006 Total €m
Deferred tax charge/(credit) on cash flow hedges	**–**	**0.6**	**0.6**	–	(1.7)	(1.7)
Current tax charge on exchange movements offset in reserves	**–**	**(0.9)**	**(0.9)**	–	0.6	0.6
Deferred tax charge/(credit) on actuarial gains	**–**	**3.4**	**3.4**	–	(0.4)	(0.4)
	–	**3.1**	**3.1**	–	(1.5)	(1.5)

1 See Basis of Preparation.

c) Reconciliation of tax charge/(credit)

	2007 Underlying[1] €m	2007 Amounts excluded from underlying €m	2007 Total €m	2006 Underlying[1] as restated[2] €m	2006 Amounts excluded from underlying €m	2006 Total as restated[2] €m
Profit/(loss) before taxation (excluding discontinued operation)	**37.6**	**(4.4)**	**33.2**	30.0	(28.2)	1.8
Tax at the UK corporation tax rate of 30%	**11.3**	**(1.3)**	**10.0**	9.0	(8.5)	0.5
Differing rates applied to overseas profits	**(5.9)**	**(0.4)**	**(6.3)**	(3.9)	–	(3.9)
Expenses not deductible for tax purposes	**3.0**	**2.6**	**5.6**	2.9	3.3	6.2
Utilisation of tax losses	**(0.6)**	**–**	**(0.6)**	–	–	–
Adjustments in respect of prior years	**(4.4)**	**4.2**	**(0.2)**	(7.8)	–	(7.8)
Deferred assets not recognised	**8.0**	**1.4**	**9.4**	8.6	(0.3)	8.3
Taxation – continuing	**11.4**	**6.5**	**17.9**	8.8	(5.5)	3.3
Discontinued operation (see Note 39)	**(1.1)**	**–**	**(1.1)**	2.4	–	2.4
Taxation including discontinued operation	**10.3**	**6.5**	**16.8**	11.2	(5.5)	5.7

1 See Basis of Preparation.
2 Restated following the prior year adjustment regarding Avis Portugal (see Note 33).

8 Dividends

The Directors do not propose the payment of an interim or final dividend for the year ended 31 December 2007 (2006: nil).

9 Earnings per share

a) Basic and diluted

Basic and diluted earnings per share are based on the profit 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

Earnings/(loss) from continuing operations	**2007 €m**	2006 €m	**2007 £m**	2006 £m
Earnings/(loss) for the year attributable to equity holders of the Company	**15.4**	(1.5)	**10.4**	(1.0)

Earnings/(loss) per share from continuing operations	**2007 Euro cents**	2006 Euro cents	**2007 Sterling pence**	2006 Sterling pence
Basic and diluted earnings/(loss) per share from continuing operations	**1.6**	(0.2)	**1.1**	(0.1)

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).

(Loss)/earnings from discontinued operation	**2007 €m**	2006 €m	**2007 £m**	2006 £m
(Loss)/earnings for the year from discontinued operation attributable to equity holders of the Company	**(12.4)**	3.0	**(8.4)**	2.0

(Loss)/earnings per share from discontinued operation	**2007 Euro cents**	2006 Euro cents	**2007 Sterling pence**	2006 Sterling pence
Basic and diluted (loss)/earnings per share from the discontinued operation	**(1.3)**	0.4	**(0.9)**	0.2

Basic and diluted including discontinued operation

Earnings	**2007 €m**	2006 as restated[1] €m	**2007 £m**	2006 as restated[1] £m
Earnings for the year attributable to equity holders of the Company	**3.0**	1.5	**2.0**	1.0

Earnings per share	**2007 Euro cents**	2006 as restated[1] Euro cents	**2007 Sterling pence**	2006 as restated[1] Sterling pence
Basic and diluted earnings per share	**0.3**	0.2	**0.2**	0.1

1 Restated following the prior year adjustment regarding Avis Portugal (see Note 33).

The weighted average number of shares in issue for the year was 918,499,740 (2006: 920,041,073).

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 2006 or 2007. 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 profit 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.

9 Earnings per share continued

Underlying earnings per share from continuing operations is as follows:

Earnings from continuing operations	2007 €m	2006 €m	2007 £m	2006 £m
Underlying earnings for the year from continuing operations attributable to equity holders of the Company	**26.3**	21.2	**17.9**	14.6

Earnings per share from continuing operations	2007 Euro cents	2006 Euro cents	2007 Sterling pence	2006 Sterling pence
Basic and diluted underlying earnings per share from continuing operations	**2.9**	2.3	**1.9**	1.6

10 Goodwill

	2007 €m	2006 €m
Cost		
At 1 January	**47.9**	47.6
Additions (see Note 38)	**4.3**	0.3
Disposal of business (see Note 39)	**(7.6)**	–
Exchange movements	**(1.2)**	–
At 31 December	**43.4**	47.9
Accumulated impairment provisions		
At 1 January	**40.0**	39.8
Exceptional/operating impairment losses for the year	**11.1**	0.3
Disposal of business (see Note 39)	**(7.1)**	–
Exchange movements	**(0.9)**	(0.1)
At 31 December	**43.1**	40.0
Net book amount		
At 31 December	**0.3**	7.9

Goodwill of €1,080.4 million arising before 1 March 1998 is fully written off to reserves (see Note 32).

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.

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 joint venture in China (see Note 14). 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 2006 or 31 December 2007.

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 five-year plans for each cash-generating unit, with extrapolation thereafter based on long-term average nominal growth rates of 4.0%.

11 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 2007 €m	**Externally acquired 2007 €m**	**Total 2007 €m**	Internally generated 2006 €m	Externally acquired 2006 €m	Total 2006 €m
Cost						
At 1 January	**6.3**	**10.2**	**16.5**	4.4	7.9	12.3
Additions	**6.9**	**2.7**	**9.6**	5.9	2.2	8.1
Disposals	**–**	**–**	**–**	(4.0)	–	(4.0)
Disposal of business (see Note 39)	**–**	**(0.3)**	**(0.3)**	–	–	–
Exchange movements	**(0.7)**	**(0.4)**	**(1.1)**	–	0.1	0.1
At 31 December	**12.5**	**12.2**	**24.7**	6.3	10.2	16.5
Amortisation						
At 1 January	**2.2**	**6.4**	**8.6**	2.8	4.5	7.3
Charges for the year (see Note 3)	**1.2**	**3.7**	**4.9**	3.4	1.8	5.2
Disposals	**–**	**–**	**–**	(4.0)	–	(4.0)
Disposal of business (see Note 39)	**–**	**(0.1)**	**(0.1)**	–	–	–
Exchange movements	**(0.3)**	**(0.3)**	**(0.6)**	–	0.1	0.1
At 31 December	**3.1**	**9.7**	**12.8**	2.2	6.4	8.6
Net book amount						
At 31 December	**9.4**	**2.5**	**11.9**	4.1	3.8	7.9

12 Vehicles

	2007 €m	2006 as restated[1] €m
Cost		
At 1 January	**626.3**	567.6
Additions	**650.1**	771.8
Disposals	**(588.4)**	(632.9)
Transfers to non-current assets held for resale (see Note 17)	**(76.1)**	(98.0)
Transfers from current assets	**65.1**	18.2
Disposal of business (see Note 39)	**(146.5)**	–
Exchange movements	**(4.7)**	(0.4)
At 31 December	**525.8**	626.3
Depreciation and impairment		
At 1 January – 2006 as previously reported	**116.9**	103.6
Prior year adjustment[1]	**–**	0.8
At 1 January – 2006 as restated	**116.9**	104.4
Charges for the year	**132.3**	163.6
Disposals	**(134.4)**	(134.7)
Transfers to non-current assets held for resale (see Note 17)	**(13.9)**	(16.4)
Disposal of business (see Note 39)	**(21.6)**	–
Exchange movements	**(2.2)**	–
At 31 December	**77.1**	116.9
Net book amount		
At 31 December	**448.7**	509.4

1 Restated following the prior year adjustment regarding Avis Portugal (see Note 33).

12 Vehicles continued

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

	2007 €m	2006 as restated[1] €m
Cost	**134.9**	157.0
Depreciation and impairment	**(19.2)**	(31.6)
Net book amount	**115.7**	125.4

1 Restated following the prior year adjustment regarding Avis Portugal (see Note 33).

At 31 December 2007, the Group had capital commitments for vehicles contracted, but not provided for, amounting to €36.9 million (2006: €45.3 million).

13 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 2006	38.6	39.9	71.3	2.5	152.3
Additions	1.1	4.6	13.8	2.2	21.7
Disposals	(1.2)	(1.0)	(25.9)	–	(28.1)
Transfers	0.4	3.5	0.3	(4.2)	–
At 31 December 2006	38.9	47.0	59.5	0.5	145.9
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**
Depreciation and impairment					
At 1 January 2006	5.0	15.3	46.6	–	66.9
Charges for the year	1.1	6.0	12.7	–	19.8
Disposals	(1.1)	(0.5)	(24.3)	–	(25.9)
Exchange movements	–	(0.1)	(0.1)	–	(0.2)
At 31 December 2006	5.0	20.7	34.9	–	60.6
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**
Net book amount					
At 31 December 2007	**33.0**	**24.9**	**19.4**	**0.7**	**78.0**
At 31 December 2006	33.9	26.3	24.6	0.5	85.3

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

	2007 €m	2006 €m
Cost	**4.3**	4.4
Depreciation and impairment	**(1.3)**	(1.0)
Net book amount	**3.0**	3.4

At 31 December 2007, the Group had capital commitments for other property, plant and equipment contracted, but not provided for, amounting to €3.2 million (2006: €3.1 million).

14 Investments accounted for using the equity method

	Joint venture €m	Associate €m	Total €m
At 1 January 2006	10.4	0.2	10.6
Share of profit	0.4	0.1	0.5
Exchange movements	(0.9)	–	(0.9)
At 31 December 2006	9.9	0.3	10.2
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**

The Group has a 50% share in its sole joint venture, Anji Car Rental and Leasing Company, a company which is incorporated in China. 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 venture		Associate		Total	
Share of:	**2007 €m**	2006 €m	**2007 €m**	2006 €m	**2007 €m**	2006 €m
Revenue	**14.5**	12.0	**3.9**	3.1	**18.4**	15.1
Expenses	**(13.2)**	(11.2)	**(3.5)**	(3.0)	**(16.7)**	(14.2)
Operating profit	**1.3**	0.8	**0.4**	0.1	**1.7**	0.9
Net finance costs	**(0.4)**	(0.4)	**(0.1)**	–	**(0.5)**	(0.4)
Profit before tax	**0.9**	0.4	**0.3**	0.1	**1.2**	0.5
Taxation	**(0.3)**	–	**(0.1)**	–	**(0.4)**	–
Net profit for the year	**0.6**	0.4	**0.2**	0.1	**0.8**	0.5

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

	Joint venture		Associate		Total	
Share of:	**2007 €m**	2006 €m	**2007 €m**	2006 €m	**2007 €m**	2006 €m
Non-current assets	**17.6**	16.3	**1.9**	1.6	**19.5**	17.9
Current assets	**2.7**	2.4	**1.0**	0.9	**3.7**	3.3
Current liabilities	**(10.9)**	(9.7)	**(0.4)**	(0.4)	**(11.3)**	(10.1)
Non-current liabilities	**–**	–	**(2.0)**	(1.8)	**(2.0)**	(1.8)
	9.4	9.0	**0.5**	0.3	**9.9**	9.3
Net book amount of goodwill arising upon acquisition (see Note 10)	**0.9**	0.9	**–**	–	**0.9**	0.9
	10.3	9.9	**0.5**	0.3	**10.8**	10.2

At the year end the joint venture had capital commitments of €1.5 million (2006: €nil). The associate had no capital commitments (2006: €nil).

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

As both the joint venture and associate have accumulated losses, transfer of funds from both the joint venture and associate is restricted.

15 Other financial assets

	2007 €m	2006 €m
Non-current assets – available for sale investments	**0.6**	0.7
Current assets – held for trading	**5.4**	22.6

Non-current financial assets of €0.6 million (2006: €0.7 million) primarily comprises an equity minority interest in an overseas company. The current financial assets comprise finance lease collateral of €0.3 million (2006: €13.8 million) which attracted interest at 4.1%, and liquidity funds of €5.1 million (2006: €8.8 million) which attract a variable return dependent upon fund performance.

16 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 2006	(22.4)	1.9	24.1	(8.1)	12.8	8.3
Recognised in Income Statement (see Note 7)	4.8	–	(2.0)	(1.1)	(1.6)	0.1
Recognised in Statement of Recognised Income and Expense (see Note 7)	–	1.7	0.4	–	–	2.1
Exchange movements	0.1	0.1	0.3	–	–	0.5
At 31 December 2006	(17.5)	3.7	22.8	(9.2)	11.2	11.0
At 1 January 2007	**(17.5)**	**3.7**	**22.8**	**(9.2)**	**11.2**	**11.0**
Recognised in Income Statement (see Note 7)	**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 7)	**–**	**(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**
Analysed as:						
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**
At 31 December 2006						
Deferred tax assets	25.4	3.7	22.8	9.2	9.4	70.5
Deferred tax liabilities	(42.9)	–	–	(18.4)	1.8	(59.5)
Net	(17.5)	3.7	22.8	(9.2)	11.2	11.0

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 €93.6 million (2006: €144.7 million) available for offset against future profits. A deferred tax asset has been recognised in respect of €29.1 million (2006: €36.9 million) of such losses. No deferred tax asset has been recognised in respect of the remaining unused tax losses of €64.5 million (2006: €107.8 million) due to the unpredictability of future profit streams, but these losses may be carried forward indefinitely.

Deferred tax has not been recognised in respect of other temporary differences which would give rise to deferred tax assets of €8.8 million (2006: €8.2 million) due to the unpredictability of future profit streams. Deferred tax liabilities of €nil (2006: €0.3 million) have similarly not been recognised.

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 €264.4 million (2006: €264.9 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 venture and associate are insignificant.

17 Non-current assets held for sale

	2007 €m	2006 €m
Cost		
At 1 January	**9.7**	12.4
Transfers from vehicles (see Note 12)	**76.1**	98.0
Disposals	**(77.4)**	(100.6)
Exchange movements	**(0.1)**	(0.1)
At 31 December	**8.3**	9.7
Depreciation and impairment		
At 1 January	**1.3**	1.3
Transfers from vehicles (see Note 12)	**13.9**	16.4
Disposals	**(13.9)**	(16.4)
Exchange movements	**(0.1)**	–
At 31 December	**1.2**	1.3
Net book amount		
At 31 December	**7.1**	8.4

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 one month of transfer of the vehicle from the rental fleet. Gains recognised on the disposal of non-current assets held for resale in the year totalled €1.3 million (2006: €1.2 million).

18 Inventories

	2007 €m	2006 €m
Fuel	**6.6**	6.0
Vehicle parts	**1.1**	1.4
	7.7	7.4

The cost of inventories recognised as an expense in the Income Statement in the period totalled €61.9 million (2006: €66.9 million).

19 Trade and other receivables

	2007 €m	2006 €m
Repurchase agreement receivables (during vehicle holding period)	**825.4**	836.1
Prepaid vehicle operating lease charges (during vehicle holding period)	**53.5**	71.2
Repurchase vehicles	**878.9**	907.3
Other vehicle receivables (after the end of vehicle holding period)	**175.6**	134.9
Amounts due from leasing companies	**57.6**	40.2
Vehicle related receivables	**1,112.1**	1,082.4
Other trade debtors	**173.0**	154.0
Finance revenue debtors	**0.1**	0.1
Other debtors	**58.5**	70.5
Other prepayments	**48.1**	51.6
	1,391.8	1,358.6

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

Vehicle related receivables include €162.4 million (2006: €167.9 million) held under finance lease arrangements in respect of repurchase agreements.

With respect to vehicle related receivables, credit risk is concentrated with the main European vehicle manufacturers, whilst concentrations of credit risk with respect to non-vehicle related receivables are limited due 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 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.

19 Trade and other receivables continued

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, finance revenue debtors and other debtors. These categories are analysed as follows:

	2007 €m	2006 €m
Trade and other receivables subject to credit risk	**488.8**	425.6
Neither past due nor impaired	**(384.6)**	(341.4)
Past due	**104.2**	84.2
Provision for bad and doubtful debts	**(24.0)**	(25.9)
Past due but not impaired	**80.2**	58.3

As at 31 December 2007, €80.2 million (2006: €59.8 million) were past due but not impaired. These were not considered as impaired as there had been no previous history of default. The ageing analysis of past due but not impaired is as follows:

	2007 €m	2006 €m
Up to three months past due	**73.6**	55.1
Three to six months past due	**6.4**	2.0
Over six months past due	**0.2**	1.2
	80.2	58.3

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 €6.1 million (2006: €5.4 million) has been recognised in the Income Statement in the year.

20 Cash and short-term deposits

	2007 €m	2006 €m
Cash at bank and in hand	**35.0**	52.0
Short-term deposits	**25.9**	64.6
	60.9	116.6

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 (2006: three months) and include €3.7 million (2006: €3.7 million) of deposits required by insurers to be held by Aegis Motor Insurance Limited (a subsidiary of the Group) to settle claims.

21 Trade and other payables

	2007 €m	2006 as restated[1] €m
Vehicle payables	**280.7**	251.9
Amounts due to leasing companies	**49.5**	36.3
Vehicle related payables	**330.2**	288.2
Other trade payables	**54.6**	74.5
Finance cost creditors	**11.7**	16.8
Other creditors	**31.2**	27.8
Accruals and deferred income	**223.2**	234.7
Other taxes and social security	**19.4**	30.6
	670.3	672.6

1 Restated following the prior year adjustment regarding Avis Portugal (see Note 33).

22 Provisions

	2007				
	Uninsured losses €m	**Dilapidation and environmental €m**	**Warranty €m**	**Other trading €m**	**Total €m**
At 1 January	**45.2**	**8.9**	**–**	**10.5**	**64.6**
Charged in the year	**18.7**	**1.1**	**7.8**	**5.6**	**33.2**
Exceptional release in the year (see Note 5g)	**(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	**40.5**	**8.8**	**7.8**	**10.3**	**67.4**
Non-current					**22.3**
Current					**45.1**
At 31 December					**67.4**

	2006				
	Uninsured losses €m	Dilapidation and environmental €m	Warranty €m	Other trading €m	Total €m
At 1 January	37.1	6.6	–	8.6	52.3
Charged in the year	19.5	2.5	–	7.6	29.6
Transfer to trade and other payables	–	–	–	0.1	0.1
Utilised in the year	(11.5)	(0.2)	–	(5.8)	(17.5)
Exchange movements	0.1	–	–	–	0.1
At 31 December	45.2	8.9	–	10.5	64.6
Non-current					21.5
Current					43.1
At 31 December					64.6

Uninsured losses represent provisions for losses under third party liabilities or claims. 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 €3.6 million (2006: €2.8 million) that are expected to crystallise within the next five years.
b) Other provisions of €6.7 million (2006: €7.7 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 outcome of these legal claims will not give rise to any significant loss beyond amounts provided at 31 December 2007.

23 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)	**2007**	2006	**2007**	2006
Discount rate	**5.9%**	5.2%	**5.5%**	4.4%
Inflation rate	**3.4%**	3.0%	**1.8%**	1.6%
Expected rate of salary increases	**4.8%**	4.5%	**2.9%**	3.0%
Rate of pension increases in payment	**2.5%**	2.5%	**1.4%**	1.7%
Rate of pension increases in deferment	**3.2%**	3.1%	**0.0%**	1.6%
Expected return on plan assets:				
– equities	**7.7%**	7.4%	**n/a**	n/a
– bonds	**5.7%**	4.5%	**n/a**	n/a
– other	**4.4%**	6.1%	**n/a**	n/a
– weighted average	**6.5%**	6.3%	**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 2007 of 21.2 years (2006: 20.8 years) for males, and 23.6 years (2006: 23.1 years) for females. The post-retirement longevity assumption in the principal unfunded scheme applied a life expectancy for a member aged 65 in 2007 of 17.9 years (2006: 17.7 years) for males, and 22.0 years (2006: 21.9 years) for females.

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

	2007			2006		
	Funded schemes €m	**Unfunded schemes €m**	**Total €m**	Funded schemes €m	Unfunded schemes €m	Total €m
Fair value of scheme assets	**146.7**	**–**	**146.7**	140.4	–	140.4
Present value of defined benefit obligations	**(209.2)**	**(35.0)**	**(244.2)**	(220.5)	(41.9)	(262.4)
Retirement benefit obligation	**(62.5)**	**(35.0)**	**(97.5)**	(80.1)	(41.9)	(122.0)

Analysis of movements in the scheme assets	2007 Funded schemes €m	2007 Unfunded schemes €m	2007 Total €m	2006 Funded schemes €m	2006 Unfunded schemes €m	2006 Total €m
At 1 January	**140.4**	**–**	**140.4**	124.1	–	124.1
Expected return on plan assets	**9.0**	**–**	**9.0**	8.0	–	8.0
Actuarial loss:						
– experience loss on assets	**(2.5)**	**–**	**(2.5)**	(0.6)	–	(0.6)
Contributions by the Group	**12.3**	**1.5**	**13.8**	13.5	1.0	14.5
Contributions by employees	**0.7**	**–**	**0.7**	0.6	–	0.6
Benefits paid	**(3.4)**	**(1.5)**	**(4.9)**	(6.0)	(1.0)	(7.0)
Settlements paid	**(1.0)**	**–**	**(1.0)**	(0.3)	–	(0.3)
Exchange (loss)/gain	**(8.8)**	**–**	**(8.8)**	1.1	–	1.1
At 31 December	**146.7**	**–**	**146.7**	140.4	–	140.4

Analysis of movements in the present value of defined benefit scheme obligations	2007 Funded schemes €m	2007 Unfunded schemes €m	2007 Total €m	2006 Funded schemes €m	2006 Unfunded schemes €m	2006 Total €m
At 1 January	**(220.5)**	**(41.9)**	**(262.4)**	(206.2)	(47.2)	(253.4)
Current service costs	**(6.1)**	**(1.2)**	**(7.3)**	(8.4)	(2.2)	(10.6)
Past service costs	**(0.1)**	**0.8**	**0.7**	–	–	–
Exceptional past service costs (see Note 5e)	**–**	**–**	**–**	–	3.2	3.2
Exceptional curtailments (see Note 5a)	**–**	**–**	**–**	1.2	–	1.2
Curtailments	**–**	**0.4**	**0.4**	–	–	–
Interest on scheme liabilities	**(11.2)**	**(1.8)**	**(13.0)**	(9.4)	(1.8)	(11.2)
Actuarial (loss)/gain:						
– experience (loss)/gain on liabilities	**(0.5)**	**0.1**	**(0.4)**	(2.0)	1.5	(0.5)
– gain on change of assumptions	**11.9**	**5.9**	**17.8**	0.5	3.5	4.0
Contributions by employees	**(0.7)**	**–**	**(0.7)**	(0.6)	–	(0.6)
Benefits paid	**3.4**	**1.5**	**4.9**	6.0	1.0	7.0
Settlements paid	**1.0**	**–**	**1.0**	0.3	–	0.3
Disposal of business (see Note 39)	**–**	**1.2**	**1.2**	–	–	–
Exchange gain/(loss)	**13.6**	**–**	**13.6**	(1.9)	0.1	(1.8)
At 31 December	**(209.2)**	**(35.0)**	**(244.2)**	(220.5)	(41.9)	(262.4)

Defined benefit scheme assets	Funded Schemes 2007 €m	Funded Schemes 2007 %	Funded Schemes 2006 €m	Funded Schemes 2006 %
Equities	**77.8**	**53%**	80.9	58%
Corporate bonds and index linked gilts	**55.4**	**38%**	46.3	33%
Other	**13.5**	**9%**	13.2	9%
Fair value of scheme assets	**146.7**	**100%**	140.4	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.

23 Retirement benefit obligations continued

Analysis of return on scheme assets	2007 €m	2006 €m
Expected return on scheme assets	**9.0**	8.0
Actual return less expected return on assets	**(2.5)**	(0.6)
Actual return on scheme assets	**6.5**	7.4

The amounts recognised in the Income Statement are as follows:

	2007			2006		
	Funded schemes €m	Unfunded schemes €m	Total €m	Funded schemes €m	Unfunded schemes €m	Total €m
Current service costs	**6.1**	**1.2**	**7.3**	8.4	2.2	10.6
Past service costs/(credit)	**0.1**	**(0.8)**	**(0.7)**	–	–	–
Interest on scheme liabilities	**11.2**	**1.8**	**13.0**	9.4	1.8	11.2
Expected return on scheme assets	**(9.0)**	**–**	**(9.0)**	(8.0)	–	(8.0)
Curtailments	**–**	**(0.4)**	**(0.4)**	–	–	–
Underlying charge before tax to Income Statement (see Note 4)	**8.4**	**1.8**	**10.2**	9.8	4.0	13.8
Exceptional past service costs	**–**	**–**	**–**	–	(3.2)	(3.2)
Exceptional curtailments	**–**	**–**	**–**	(1.2)	–	(1.2)
Exceptional credit before tax to Income Statement	**–**	**–**	**–**	(1.2)	(3.2)	(4.4)
Net charge before tax to Income Statement	**8.4**	**1.8**	**10.2**	8.6	0.8	9.4

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:

	2007			2006		
	Funded schemes €m	Unfunded schemes €m	Total €m	Funded schemes €m	Unfunded schemes €m	Total €m
Actual return less expected return on assets	**(2.5)**	**–**	**(2.5)**	(0.6)	–	(0.6)
Experience (loss)/gain on liabilities	**(0.5)**	**0.1**	**(0.4)**	(2.0)	1.5	(0.5)
Gain on change of assumptions (financial and demographic)	**11.9**	**5.9**	**17.8**	0.5	3.5	4.0
	8.9	**6.0**	**14.9**	(2.1)	5.0	2.9

Cumulative actuarial losses recognised in the Statement of Recognised Income and Expense since 1 January 2004 (the date of adoption of IAS 19) are €27.1 million (at 31 December 2006: €42.0 million).

The contributions paid by the Group into funded schemes during 2007 were €12.3 million (2006: €13.5 million), which includes payments to fund the net actuarial obligations over time. The best estimate of the contributions expected to be made by the Group into funded schemes during the 2008 annual period is €10.9 million, which includes payments to fund the net actuarial obligations over time.

The indicative sensitivity of principal scheme liabilities as at 31 December 2007 to changes in the above assumptions is as follows:

	Change in assumption	Indicative increase in scheme liabilities €m	
Assumption		**UK**	**Germany**
Discount rate	**–0.1%**	**4.1**	**0.5**
Inflation rate	**+0.1%**	**4.2**	**0.3**
Real rate of salary increases	**+0.5%**	**3.1**	**0.2**
Longevity	**+1 year**	**4.5**	**0.7**

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

23 Retirement benefit obligations continued

Retirement benefit obligation history	Funded Schemes 2007 €m	2006 €m	2005 €m	2004 €m
Fair value of scheme assets	**146.7**	140.4	124.1	102.4
Present value of defined benefit obligation	**(209.2)**	(220.5)	(206.2)	(153.0)
Retirement benefit obligation	**(62.5)**	(80.1)	(82.1)	(50.6)

	2007	2006	2005	2004
Actual return less expected return on assets	**2.5**	0.6	(13.4)	(2.6)
Percentage of scheme assets carried forward	**1.7%**	0.4%	(10.8)%	(2.5)%
Experience (loss)/gain on liabilities	**(0.5)**	(2.0)	(5.6)	3.3
Percentage of scheme liabilities carried forward	**0.2%**	0.9%	2.7%	(2.2)%

Retirement benefit obligation history	Unfunded Schemes 2007 €m	2006 €m	2005 €m	2004 €m
Retirement benefit obligation	**(35.0)**	(41.9)	(47.2)	(36.0)
Experience gain/(loss) on liabilities	**0.1**	1.5	0.2	(0.4)
Percentage of scheme liabilities carried forward	**(0.3)%**	(3.6)%	(0.4)%	1.1%

24 Obligations under finance leases

	Minimum lease payments 2007 €m	Minimum lease payments 2006 as restated[1] €m	Present value of minimum lease payments 2007 €m	Present value of minimum lease payments 2006 as restated[1] €m
Amounts payable under finance leases				
Within one year – 2006 as previously reported	**280.3**	288.9	**273.0**	283.2
Prior year adjustment[1]	**–**	6.9	**–**	6.9
Within one year – 2006 as restated	**280.3**	295.8	**273.0**	290.1
Between two and five years	**0.7**	2.1	**0.7**	2.0
	281.0	297.9		
Less: future finance charges	**(7.3)**	(5.8)		
Present value of finance lease obligations	**273.7**	292.1	**273.7**	292.1
Analysed as:				
Current liabilities (due for settlement within one year) – 2006 as previously reported			**273.0**	283.2
Prior year adjustment[1]			**–**	6.9
Current liabilities (due for settlement within one year) – 2006 as restated			**273.0**	290.1
Non-current liabilities (due for settlement after more than one year)			**0.7**	2.0
			273.7	292.1

1 Restated following the prior year adjustment regarding Avis Portugal (see Note 33).

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 2007, the average effective interest rate was 4.5% (2006: 3.2%). 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 addition, collateral is held against certain of the leases (see Note 15).

25 Other financial liabilities

a) Borrowings

	2007 €m	2006 €m
Bank overdrafts	**8.8**	3.3
Bank loans and other loans	**150.0**	7.1
Commercial paper	**22.2**	–
Loan notes	**549.2**	780.5
	730.2	790.9
Analysed as:		
Current liabilities (due for settlement within one year)	**31.0**	231.7
Non-current liabilities (due for settlement after more than one year)	**699.2**	559.2
	730.2	790.9

All borrowings were unsecured as at both 31 December 2007 and 31 December 2006. There are covenants attached to certain of the borrowings.

Bank overdrafts

Bank overdrafts are primarily denominated in euro 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 2007 of 5.8% (2006: 4.4%).

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 (2006: €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:

	2007		2006	
Issued	**Principal m**	**Maturing**	Principal m	Maturing
August 2000	**$48.0**	**2010**	$150.0	2007 and 2010
March 2002	**–**	**–**	€25.0	2007
June 2002	**€26.8**	**2012**	€26.8	2012
July 2002	**–**	**–**	€120.0	2007
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% (2006: 6.8%). The euro denominated loan notes issued prior to July 2006 bear interest at an average fixed rate of 5.8% (2006: 6.0%). 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 26).

Proceeds from the loan notes issued in August 2000 totalling US$48.0 million (2006: US$150.0 million) are swapped to a fixed rate euro liability. Proceeds from the loan notes issued in June 2004 totalling US$240.0 million (2006: 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 from the loan notes issued in July 2002 totalling €nil (2006: €60.0 million) are swapped to a floating rate euro liability. Proceeds of the Senior Floating Rate Notes issued in July 2006 totalling €200.0 million (2006: €200.0 million) are swapped into a fixed rate euro liability.

Further details are provided in Note 26.

25 Other financial liabilities continued

b) Undrawn borrowings

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

	2007			2006		
	Drawn €m	**Undrawn €m**	**Total €m**	Drawn €m	Undrawn €m	Total €m
Revolving syndicated credit facility	**188.9**	**391.1**	**580.0**	37.1	542.9	580.0
Bilateral facilities and finance leases	**272.5**	**321.3**	**593.8**	281.9	265.8	547.7
	461.4	**712.4**	**1,173.8**	319.0	808.7	1,127.7

The drawn amount of the revolving syndicated credit facility includes €38.9 million in respect of letters of credit (2006: €37.1 million).

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

	2007 €m	2006 €m
Expiring within one year	**228.7**	226.4
Expiring within one and two years	**54.6**	39.4
Expiring within two and five years	**429.1**	542.9
	712.4	808.7

At 31 December 2007, there were additional uncommitted facilities available to the Group of €583.0 million (2006: €496.9 million).

c) Deferred consideration

	2007 €m	2006 €m
Current liabilities (due for settlement within one year)	**0.3**	0.3
Non-current liabilities (due for settlement after more than one year)	**30.3**	32.7
	30.6	33.0

Deferred consideration comprises €30.6 million (2006: €33.0 million) arising on the acquisition of shares in Avis Europe Investment Holdings Limited from Avis Inc in 1997. The liability is denominated in sterling, and attracts an interest rate of 8.0% (2006: 8.0%) fixed for 30 years (2006: 31 years) and is repayable in annual instalments (including interest) of £1.9 million.

26 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. 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. Long-term US dollar borrowings undertaken to benefit from the liquidity of the US dollar denominated capital markets are swapped into euros.

26 Financial risk management continued

Interest rate risk
The Group's interest rate risk arises from the Group's borrowings 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 both 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, provide 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. An average capital employed figure is used in the ROCE calculation based on the reported balance sheet positions as at previous 31 December and 31 December in the current period. 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 indexes. As at 31 December 2007, 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 counter-parties of strong credit quality, and monitoring such positions regularly. Outstanding debts are continuously 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 19) are ordinarily less than vehicle payables (see Note 21).

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 counter-party 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.

26 Financial risk management continued

b) Fair value of derivative financial instruments

Recognised fair values of derivative financial instruments	2007 Assets €m	2007 Liabilities €m	2007 Net €m	2006 Assets €m	2006 Liabilities €m	2006 Net €m
Hedging instruments:						
– forward foreign exchange contracts	**–**	**(0.6)**	**(0.6)**	1.0	(0.1)	0.9
Non-hedging instruments:						
– forward foreign exchange contracts	**2.2**	**(0.3)**	**1.9**	0.5	–	0.5
– forward foreign exchange options	**1.2**	**–**	**1.2**	0.4	–	0.4
Non-debt derivatives	**3.4**	**(0.9)**	**2.5**	1.9	(0.1)	1.8
Hedging instruments:						
– interest rate swaps	**4.6**	**–**	**4.6**	–	(0.6)	(0.6)
– cross currency interest rate swaps	**–**	**(52.9)**	**(52.9)**	–	(71.8)	(71.8)
Non-hedging instruments:						
– interest rate swaps	**0.1**	**(0.1)**	**–**	1.4	(1.1)	0.3
– forward rate agreements	**–**	**(0.9)**	**(0.9)**	–	–	–
– interest rate caps and collars	**0.3**	**–**	**0.3**	1.2	–	1.2
– embedded derivatives	**5.6**	**–**	**5.6**	6.8	–	6.8
Debt derivatives	**10.6**	**(53.9)**	**(43.3)**	9.4	(73.5)	(64.1)
	14.0	**(54.8)**	**(40.8)**	11.3	(73.6)	(62.3)
Non-current portion:						
Hedging instruments:						
– interest rate swaps	**4.6**	**–**	**4.6**	–	(0.6)	(0.6)
– cross currency interest rate swaps	**–**	**(52.9)**	**(52.9)**	–	(41.7)	(41.7)
Non-hedging instruments:						
– embedded derivatives	**5.6**	**–**	**5.6**	6.8	–	6.8
Debt derivatives	**10.2**	**(52.9)**	**(42.7)**	6.8	(42.3)	(35.5)
Analysed as:						
Current assets/(liabilities) (due for settlement within one year)	**3.8**	**(1.9)**	**1.9**	4.5	(31.3)	(26.8)
Non-current assets/(liabilities) (due for settlement after more than one year)	**10.2**	**(52.9)**	**(42.7)**	6.8	(42.3)	(35.5)
	14.0	**(54.8)**	**(40.8)**	11.3	(73.6)	(62.3)

Non-hedging derivatives (excluding the embedded derivative) are classified as a current asset or liability. 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. The embedded derivative is classified as a non-current asset consistent with the maturity of the borrowing in which it is embedded.

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 is calculated as the present value of future estimated cash flows. The fair value of 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.

The fair value of the embedded derivative is calculated based on the difference in fair value of the underlying loan notes to the fair value of equivalent loan notes without a call option.

26 Financial risk management continued

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 2007 with notional values of US$4.1 million (2006: US$3.5 million) and South African Rand 58.0 million (2006: South African Rand 23.6 million) were used to hedge expected foreign currency income of US$4.1 million (2006: US$3.5 million) and South African Rand 58.0 million (2006: South African Rand 23.6 million) into sterling of £6.0 million (2006: £3.6 million). Forward foreign exchange contracts as at 31 December 2007 with notional values of US$nil (2006: US$16.1 million), Hungarian Forint 1,160.0 million (2006: Hungarian Forint 1,042.0 million) and Sterling £2.9 million (2006: £nil) were used to hedge expected foreign currency income of US$nil (2006: US$16.1 million) and expected foreign currency payments of Hungarian Forint 1,160.0 million (2006: Hungarian Forint 1,042.0 million) and Sterling £2.9 million (2006: £nil) into euro of €nil (2006: €12.7 million), €4.6 million (2006: €3.8 million) and €4.1 million (2006: €nil) 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 (2006: €200.0 million) with average fixed interest payable of 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 €(4.5) million (2006: €0.4 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 (2006: US$390.0 million) were used to hedge the Group's US$ denominated loan notes (see Note 25).

Fair value hedge adjustments of €(8.0) million (2006: €0.7 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. Of this adjustment, €nil (2006: €0.7 million) relates to hedged items due for settlement within one year and €(8.0) million (2006: €nil) relates to hedged items due for settlement after one year. Cash flow hedges of €9.0 million (2006: €7.5 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 2007 were in place to convert the following foreign currency notional amounts into Sterling balances totalling £140.3 million (2006: £28.0 million); Swiss Francs 50.7 million (2006: Swiss Francs 51.1 million); Singapore Dollar 5.4 million (2006: Singapore Dollar 1.6 million); Hungarian Forint 229.8 million (2006: Hungarian Forint nil); US$1.5million (2006: US$5.0 million); and €228.6 million (2006: €71.1 million).

Forward foreign exchange options

Forward foreign exchange option contracts as at 31 December 2007 were in place to convert expected foreign currency income of: US$nil (2006: US$0.2 million) into sterling of £nil (2006: £0.1 million); and US$35.3 million (2006: US$9.4 million) into €24.9 million (2006: €7.4 million). These option contracts will mature within 12 months of each year end.

26 Financial risk management continued

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 (2006: €50.0 million) and £30.0 million (2006: £40.0 million) with fixed interest rates payable between 4.4% and 5.9%, and €nil (2006: €60.0 million) with interest payable at EURIBOR + 1.7%. The notional principal amounts of outstanding interest rate caps and collars as at the year end was €100.0 million (2006: €100.0 million).

In addition, in 2007 the Group had in place forward start interest rate swaps with aggregate notional principals of €100.0 million which commence in 2008 and will run for one year and convert the prevailing floating interest rate to an average fixed rate of 6.0%.

Forward rate agreements

In 2007 the Group had outstanding forward rate agreements with aggregate notional principals of €1,250.0 million (2006: €nil) covering various three month periods during 2008 and 2009. These convert the prevailing floating interest rate to an average fixed rate of 6.1%.

Embedded derivatives

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%; beginning on 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.

c) Risk and sensitivity analysis

Foreign currency risk

The following table details the sensitivities 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. These 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. 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	**2007 €m**	2006 €m	**2007 €m**	2006 €m	**2007 €m**	2006 €m
Euro/sterling	**2.9**	2.1	**6.8**	3.9	**0.2**	–
Euro/US$	**0.9**	1.4	**–**	–	**(0.5)**	(1.2)
Euro/Swiss francs	**(1.8)**	(1.8)	**2.0**	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. The following table details the sensitivities of the Group's profit after tax from continuing operations, translation reserve, and cash flow hedge reserve, to a hypothetical 1% increase in interest rates. These 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, 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 exposed to interest rate risks and therefore do not affect the interest rate sensitivities.

26 Financial risk management continued

	Profit after tax		Translation reserve		Hedging reserve	
	2007 €m	2006 €m	**2007 €m**	2006 €m	**2007 €m**	2006 €m
Loss arising from 1% increase in interest rates (post tax)	**3.1**	1.9	**–**	–	**7.3**	7.9

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 €1.7 million (2006: €1.1 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 €2.2 million (2006: €1.7 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 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 21)	**(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)**

At 31 December 2006	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	(231.7)	–	(127.0)	(432.5)	(791.2)
Interest payments on borrowings	(54.7)	(39.2)	(109.5)	(44.3)	(247.7)
Trade and other payables (including Finance cost creditors) (See Note 21)	(672.6)	–	–	–	(672.6)
Obligations under finance leases	(292.1)	(2.1)	–	–	(294.2)
Interest payments on finance leases	(5.8)	–	–	–	(5.8)
Deferred consideration	(0.3)	(0.3)	(1.0)	(31.4)	(33.0)
Derivative financial instrument assets and liabilities – gross settled					
Derivative contracts – receipts	194.4	13.8	162.9	103.0	474.1
Derivative contracts – payments	(225.3)	(14.9)	(189.1)	(113.2)	(542.5)
Derivative financial instrument assets and liabilities – net settled					
Derivative contracts – receipts	0.1	0.1	0.4	0.2	0.8
Derivative contracts – payments	(1.1)	–	–	–	(1.1)
	(1,289.1)	(42.6)	(263.3)	(518.2)	(2,113.2)

27 Net debt

The maturity profile of the Group's net debt balances (excluding deferred consideration) is as follows:

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 26)	**0.4**	**–**	**–**	**10.2**	**10.6**
Derivative financial instrument liabilities (see Note 26)	**(1.0)**	**–**	**(37.6)**	**(15.3)**	**(53.9)**
Derivative financial instruments (see Note 26)	**(0.6)**	**–**	**(37.6)**	**(5.1)**	**(43.3)**
Bank overdrafts (see Note 25)	**(8.8)**	**–**	**–**	**–**	**(8.8)**
Bank loans and other loans (see Note 25)	**–**	**–**	**(150.0)**	**–**	**(150.0)**
Commercial paper (see Note 25)	**(22.2)**	**–**	**–**	**–**	**(22.2)**
Loan notes (see Note 25)	**–**	**–**	**(226.4)**	**(322.8)**	**(549.2)**
Obligations under finance leases (see Note 24)	**(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 15)	**5.4**	**–**	**–**	**–**	**5.4**
Cash and short-term deposits (see Note 20)	**60.9**	**–**	**–**	**–**	**60.9**
Interest bearing assets	**66.3**	**–**	**–**	**–**	**66.3**
Net debt	**(238.3)**	**(0.7)**	**(414.0)**	**(327.9)**	**(980.9)**

At 31 December 2006	Less than one year as restated[1] €m	One to two years €m	Two to five years €m	More than five years €m	Total as restated[1] €m
Derivative financial instrument assets (see Note 26)	2.6	–	–	6.8	9.4
Derivative financial instrument liabilities (see Note 26)	(31.2)	–	(27.5)	(14.8)	(73.5)
Derivative financial instruments (see Note 26)	(28.6)	–	(27.5)	(8.0)	(64.1)
Bank overdrafts (see Note 25)	(3.3)	–	–	–	(3.3)
Bank loans and other loans (see Note 25)	(7.1)	–	–	–	(7.1)
Loan notes (see Note 25)	(221.3)	–	(125.9)	(433.3)	(780.5)
Obligations under finance leases (see Note 24)	(290.1)	(2.0)	–	–	(292.1)
Gross debt (including net derivatives)	(550.4)	(2.0)	(153.4)	(441.3)	(1,147.1)
Current assets – held for trading (see Note 15)	22.6	–	–	–	22.6
Cash and short-term deposits (see Note 20)	116.6	–	–	–	116.6
Interest bearing assets	139.2	–	–	–	139.2
Net debt	(411.2)	(2.0)	(153.4)	(441.3)	(1,007.9)

1 Restated following the prior year adjustment regarding Avis Portugal (see Note 33).

27 Net debt continued

Interest rate and currency profile

The interest rate and currency profile of the Group's net debt balances is as follows:

	2007			2006		
	Fixed rate €m	**Floating rate €m**	**Total €m**	Fixed rate €m	Floating rate as restated[1] €m	Total as restated[1] €m
Gross debt (excluding impact of derivatives)						
Euro	**(91.8)**	**(697.0)**	**(788.8)**	(236.7)	(543.3)	(780.0)
Sterling	**–**	**(8.2)**	**(8.2)**	–	(11.8)	(11.8)
US$	**(198.7)**	**–**	**(198.7)**	(293.5)	–	(293.5)
Other	**–**	**(0.2)**	**(0.2)**	–	1.5	1.5
	(290.5)	**(705.4)**	**(995.9)**	(530.2)	(553.6)	(1,083.8)
Net impact of derivatives						
Euro	**(505.9)**	**421.5**	**(84.4)**	(550.9)	265.1	(285.8)
Sterling	**(41.9)**	**(100.5)**	**(142.4)**	(54.1)	11.8	(42.3)
US$	**199.8**	**1.0**	**200.8**	293.5	3.8	297.3
Other	**–**	**(25.3)**	**(25.3)**	–	(32.5)	(32.5)
	(348.0)	**296.7**	**(51.3)**	(311.5)	248.2	(63.3)
Gross debt (net of derivatives)						
Euro	**(597.7)**	**(275.5)**	**(873.2)**	(787.6)	(278.2)	(1,065.8)
Sterling	**(41.9)**	**(108.7)**	**(150.6)**	(54.1)	–	(54.1)
US$	**1.1**	**1.0**	**2.1**	–	3.8	3.8
Other	**–**	**(25.5)**	**(25.5)**	–	(31.0)	(31.0)
	(638.5)	**(408.7)**	**(1,047.2)**	(841.7)	(305.4)	(1,147.1)
Interest bearing assets						
Euro	**–**	**49.3**	**49.3**	–	119.1	119.1
Sterling	**–**	**14.5**	**14.5**	–	17.9	17.9
Other	**–**	**2.5**	**2.5**	–	2.2	2.2
	–	**66.3**	**66.3**	–	139.2	139.2
Net debt						
Euro	**(597.7)**	**(226.2)**	**(823.9)**	(787.6)	(159.1)	(946.7)
Sterling	**(41.9)**	**(94.2)**	**(136.1)**	(54.1)	17.9	(36.2)
US$	**1.1**	**1.0**	**2.1**	–	3.8	3.8
Other	**–**	**(23.0)**	**(23.0)**	–	(28.8)	(28.8)
	(638.5)	**(342.4)**	**(980.9)**	(841.7)	(166.2)	(1,007.9)

1 Restated following the prior year adjustment regarding Avis Portugal (see Note 33).

The net impact of derivatives in 2007 of €(51.3) million (2006: €(63.3) million), comprises the recognition of the fair value of the debt-related derivative financial instruments of €(43.3) million (2006: €(64.1) million), adjusted for the fair value hedge adjustment of €(8.0) million (2006: €0.7 million) (see Note 26).

The range of interest rates applicable to gross debt (net of derivatives) by principal currency is as follows:

	2007		2006	
	Euro %	**Sterling %**	Euro %	Sterling %
Fixed interest rate charge	**4.7-6.8**	**5.9**	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**	**(0.1)**	n/a	(0.1)

28 Additional disclosures on financial instruments

Measurement of financial instruments by category

At 31 December 2007	**Book amount €m**	**Amortised cost €m**	**Fair value recognised in equity €m**	**Fair value recognised in P&L account €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)**

At 31 December 2006	Book amount €m	Amortised cost €m	Fair value recognised in equity €m	Fair value recognised in P&L account €m
Assets:				
Other financial assets:				
Derivative hedging instruments (held for trading)	1.0	–	1.0	–
Derivative non-hedging instruments (held for trading)	10.3	–	–	10.3
Cash and short-term deposits	116.6	116.6	–	–
Trade and other receivables	1,358.6	1,358.6	–	–
	1,486.5	1,475.2	1.0	10.3
Liabilities and shareholders' equity:				
Other financial liabilities:				
Derivative hedging instruments (held for trading)	(72.5)	–	(7.9)	(64.6)
Derivative non-hedging instruments (held for trading)	(1.1)	–	–	(1.1)
Bank overdrafts	(3.3)	(3.3)	–	–
Bank loans and other loans	(7.1)	(7.1)	–	–
Commercial paper	–	–	–	–
Loan notes	(780.5)	(780.5)	–	–
Obligations under finance leases	(292.1)	(292.1)	–	–
Deferred consideration	(33.0)	(33.0)	–	–
Trade and other payables	(672.6)	(672.6)	–	–
	(1,862.2)	(1,788.6)	(7.9)	(65.7)

28 Additional disclosures on financial instruments continued

The fair value of the above items recognised at amortised cost is as below:

Summary of fair values of non-derivative financial assets and liabilities

	2007		2006	
	Book amount €m	Fair value €m	Book amount as restated[1] €m	Fair value as restated[1] €m
Fair value of financial assets and financial liabilities:				
Non-current assets – available for sale investments (see Note 15)	**0.6**	**0.6**	0.7	0.7
Trade and other receivables (see Note 19)	**1,391.8**	**1,391.8**	1,358.6	1,358.6
Current assets – held for trading (see Note 15)	**5.4**	**5.4**	22.6	22.6
Cash and cash equivalents (see Note 20)	**60.9**	**60.9**	116.6	116.6
Trade and other payables (see Note 21)	**(670.3)**	**(670.3)**	(672.6)	(672.6)
Obligations under finance leases (see Note 24)	**(273.7)**	**(273.7)**	(292.1)	(292.1)
Financial liabilities – borrowings:				
– Current (see Note 25)	**(31.0)**	**(31.0)**	(231.7)	(226.1)
– Non-current (see Note 25)	**(699.2)**	**(657.1)**	(559.2)	(512.3)
Financial liabilities – deferred consideration:				
– Current (see Note 25)	**(0.3)**	**(0.3)**	(0.3)	(0.3)
– Non-current (see Note 25)	**(30.3)**	**(28.8)**	(32.7)	(35.5)

1 Restated following the prior year adjustment regarding Avis Portugal (see Note 33).

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 24).

The fair value of borrowings and deferred consideration for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

29 Called-up share capital

	2007		2006	
	Number	€m	Number	€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

30 Share premium and own shares held

	Share premium €m	Own shares held €m
At 1 January 2006	381.5	(1.1)
Own shares released on vesting of share awards	–	0.4
At 31 December 2006	381.5	(0.7)
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)**

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.

30 Share premium and own shares held continued

During the year, the Company increased its investment in its own shares. In the first half of the year, the Company purchased 3,124,452 shares at a cost of 59 pence per share and a further 500,000 shares at a cost of 41 pence per share during the second half of the year. The total consideration paid was £2.1 million (€3.0 million). The Company's own shares have a nominal value of 1 pence per share. At the date of these purchases, the Company held a special resolution to purchase its own shares up to a maximum of 92,052,404 shares (representing 10% of the issued ordinary share capital at 26 February 2007).

At 31 December 2007, the Trust held 3,811,301 shares (2006: 425,449 shares), with a market value of 40.50 pence per share (2006: 81.75 pence per share), which have been recognised as a reduction in shareholders' funds. 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.

31 Share and share option schemes

Details of the nature of all share and share option schemes can be found on pages 36 to 38 of the Remuneration Report.

At the year end, options outstanding under all schemes were as follows:

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**				

At 31 December 2006

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					
2004	628.7	78.2p	78.2p	2007	2014
2003	540.4	75.7p	86.8p	2006	2013
2002	1,765.0	83.6p	174.2p	2005	2012
2001	1,120.2	121.8p	136.4p	2004	2011
2000	729.5	166.6p	166.8p	2003	2010
1999	65.9	197.3p	234.6p	2002	2009
1998	96.5	208.1p	224.7p	2001	2008
1997	303.5	103.9p	107.1p	2000	2007
	5,249.7				
Performance Share Plan					
2004	584.9	–	–	2007	2014
2003	702.7	–	–	2006	2013
2000	78.5	–	–	2004	2011
	1,366.1				
Share Retention Plan					
2004	477.2	–	–	2006	2008
Total	7,093.0				

31 Share and share option schemes continued

Number ('000)	Approved and Unapproved Share Schemes	Equity Partnership Plan	Performance Share Plan	Share Retention Plan	Deferred Bonus Share Plan	Long Term Incentive Plan	Total
Outstanding options as at 1 January 2006	7,075.7	47.7	1,366.1	715.8	–	–	9,205.3
Forfeited in the year	(1,826.0)	(47.7)	–	–	–	–	(1,873.7)
Exercised in the year	–	–	–	(238.6)	–	–	(238.6)
Outstanding options as at 31 December 2006	5,249.7	–	1,366.1	477.2	–	–	7,093.0
Exerciseable options as at 31 December 2006	4,621.0	–	–	–	–	–	4,621.0
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
Exerciseable options as at 31 December 2007	3,530.7	–	–	–	–	–	3,530.7

All movements in the number of outstanding options under the Equity Partnership Plan, Performance Share Plan, Share Retention Plan, Long Term Incentive Plan and the Deferred Bonus Share Plan during both the current and prior year had zero weighted average exercise prices. Exerciseable 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 2006	168.0
Forfeited in the year	153.7
Outstanding options as at 31 December 2006	120.0
Exerciseable options as at 31 December 2006	126.8
Outstanding options as at 1 January 2007	**120.0**
Forfeited in the year	**110.1**
Outstanding options as at 31 December 2007	**126.3**
Exerciseable options as at 31 December 2007	**126.3**

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
At 31 December 2007	**3.2**	**2.3**	**0.3**	**0.3**	**3.0**
At 31 December 2006	4.1	3.5	0.3	n/a	n/a

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. All of the Equity Partnership Plan options and some of the options from the other 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:

31 Share and share option schemes continued

Weighted average	Deferred Bonus Share Plan 2007	Deferred Bonus Share Plan 2006	Long Term Incentive Plan 2007	Long Term Incentive Plan 2006
Share price (pence)	**60.3**	n/a	**58.4**	n/a
Option exercise price (pence)	**–**	n/a	**–**	n/a
Vesting period (years)	**1.0**	n/a	**3.0**	n/a
Option life (years)	**1.3**	n/a	**3.5**	n/a
Expected volatility (%)	**36%**	n/a	**34%**	n/a
Risk-free rate of return (%)	**5.8%**	n/a	**5.6%**	n/a
Probability of ceasing employment before vesting (%)	**–**	n/a	**5%**	n/a
Expectations of meeting performance criteria (%)	**100%**	n/a	**40%**	n/a
Fair value per option (pence)	**60.3**	n/a	**58.4**	n/a

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.

32 Retained deficit

	2007 €m	2006 as restated[1] €m
At 1 January – as previously reported	**(290.5)**	(299.0)
Impact of restatement in Avis Portugal (see Note 33)	**(4.6)**	(1.1)
At 1 January – as restated	**(295.1)**	(300.1)
Profit for the year attributable to equity holders of the Company[1]	**3.0**	1.5
Increase in equity reserve arising from charge to income for share options in the year	**0.4**	0.2
Net actuarial gains on retirement benefit obligations	**14.9**	2.9
Taxation on actuarial gains (see Note 7)	**(3.4)**	0.4
At 31 December	**(280.2)**	(295.1)

1 Restated following the prior year adjustment regarding Avis Portugal (see Note 33).

Goodwill of €1,080.4 million arising before 1 March 1998 is fully written off to reserves.

33 Prior year adjustment

As a consequence of the review announced on 11 June 2007 regarding the carrying value of the Group's net assets in Avis Portugal, a prior year adjustment has been recorded in order to restate their carrying amounts to their recoverable amount.

The impact of the restatement on the comparative amounts within the Balance Sheet as at 31 December 2006 is an increase in vehicle fleet fixed assets of €3.7 million, an increase in short-term obligations under finance leases of €6.9 million, and an increase in accrued liabilities of €1.4 million. These adjustments reduce net assets and closing retained earnings by €4.6 million.

The impact of this restatement on the comparative amounts within the Income Statement for the year ended 31 December 2006 is an increase in vehicle fleet depreciation charges of €2.9 million, an increase in adjustments arising on differences between sales proceeds and depreciated amounts of €0.2 million, and an increase in other cost of sales of €0.8 million. Accordingly, total cost of sales increased by €3.5 million.

As a result of the restatement, a reclassification between operating and investing cash flows of €0.3 million has been reflected in the Cash Flow Statement.

The impact of this restatement on the basic and diluted total earnings per share is a decrease of Euro cents 3.0 to Euro cents 2.0.

No tax credit has been recognised on the above, given that it is uncertain when any deferred tax asset would be realised.

34 Other reserves

	Translation Reserve €m	Hedging Reserve €m	Total €m
At 1 January 2006	(7.8)	(0.9)	(8.7)
Cash flow hedges:			
– net fair value losses	–	(11.1)	(11.1)
– transfers to Income Statement	–	5.4	5.4
Exchange differences on translation of foreign operations	(1.2)	–	(1.2)
Taxation (see Note 7)	(0.6)	1.7	1.1
At 31 December 2006	(9.6)	(4.9)	(14.5)
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 7)	**0.9**	**(0.6)**	**0.3**
At 31 December 2007	**(11.5)**	**(3.4)**	**(14.9)**

The translation reserve reflects exchange movements arising from the retranslation at closing rates of the Group's net investment in subsidiaries, joint ventures and associates. Cumulative translation differences recycled into the Income Statement upon disposal of the Greece business were immaterial.

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

	2007 €m	2006 as restated[1] €m
Profit for the year attributable to the equity holders of the Company	**3.0**	1.5
Net income/(expense) recognised directly in equity (see Statement of Recognised Income and Expense)	**11.1**	(2.5)
Total recognised income and expense attributable to equity holders of the Company	**14.1**	(1.0)
Increase in equity reserve arising from charge to income for share options in the period	**0.4**	0.2
Purchase of own shares (see Note 30)	**(3.0)**	–
Own shares released on vesting of share awards (see Note 30)	**0.2**	0.4
Exchange movements on own shares	**0.2**	–
Net increase/(decrease) in shareholders' equity	**11.9**	(0.4)
At 1 January – as previously reported	**88.9**	85.8
Impact of restatement in Avis Portugal (see Note 33)	**(4.6)**	(1.1)
At 1 January – as restated	**84.3**	84.7
At 31 December	**96.2**	84.3

1 Restated following the prior year adjustment regarding Avis Portugal (see Note 33).

36 Reconciliation of movements in minority interest

	2007 €m	2006 €m
Loss for the year	**(0.1)**	–
Exchange movements (net of taxation)	**–**	0.1
Net (decrease)/increase in minority interest	**(0.1)**	0.1
At 1 January	**0.9**	0.8
At 31 December	**0.8**	0.9

37 Notes to the consolidated cash flow statement

a) Analysis of changes in net debt

	At 1 January 2007 as restated[1] €m	Cash flow €m	Disposal of business (see Note 39) €m	Non-cash movements €m	Exchange movements €m	At 31 December 2007 €m
Cash and short-term deposits	**116.6**	**(55.3)**	**–**	**–**	**(0.4)**	**60.9**
Bank overdrafts	**(3.3)**	**(5.5)**	**–**	**–**	**–**	**(8.8)**
Cash and cash equivalents	**113.3**	**(60.8)**	**–**	**–**	**(0.4)**	**52.1**
Current assets – held for trading	**22.6**	**(17.2)**	**–**	**–**	**–**	**5.4**
Obligations under finance leases	**(292.1)**	**57.6**	**–**	**(48.3)**	**9.1**	**(273.7)**
Borrowings (excluding overdrafts) (see Note 25)	**(787.6)**	**(141.6)**	**196.7**	**13.6**	**(2.5)**	**(721.4)**
Derivative debt instruments (see Note 26)	**(64.1)**	**35.3**	**–**	**(14.6)**	**0.1**	**(43.3)**
Net debt	**(1,007.9)**	**(126.7)**	**196.7**	**(49.3)**	**6.3**	**(980.9)**

1 Restated following the prior year adjustment regarding Avis Portugal (see Note 33).

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)/increase in cash and cash equivalents to movement in net debt

	2007 €m	2006 as restated[1] €m
Movement in net debt resulting from cash flows	**(126.7)**	55.9
Disposal of business (see Note 39)	**196.7**	–
New finance leases	**(48.3)**	(110.1)
Re-measurement adjustments on borrowings (see Note 25) and derivative debt instruments (see Note 26)	**(1.0)**	(6.9)
Exchange movements	**6.3**	(1.2)
Total movement in net debt	**27.0**	(62.3)
Net debt at 1 January[1]	**(1,007.9)**	(945.6)
Net debt at 31 December	**(980.9)**	(1,007.9)

1 Restated following the prior year adjustment regarding Avis Portugal (see Note 33).

38 Acquisition of licensees

On 1 June 2007, the Group acquired a 100% interest in a number of the rental locations of an Avis licensee in Germany, Otto Kazenmaier GmbH & Co. KG. On 1 November 2007 and 1 December 2007, the Group acquired a 100% interest in a number of rental locations of two Avis licensees in Holland, Duinkerken Beheer BV and VOFL Hessing BV. The businesses acquired provide vehicle rental services and the cash consideration for the acquisitions was paid during the year. The results and cash flows arising subsequent to the acquisitions (even if they had occurred on the first day of 2007) 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 – German licensee €m	Book value – other €m	Total book value €m	Fair value and accounting policy adjustments €m	Provisional fair value €m
Other property, plant and equipment	**0.6**	**0.1**	**0.7**	**–**	**0.7**
Net assets acquired	**0.6**	**0.1**	**0.7**	**–**	**0.7**
Goodwill arising on acquisition	**4.0**	**0.3**	**4.3**	**–**	**4.3**
Consideration	**4.6**	**0.4**	**5.0**	**–**	**5.0**
Consideration satisfied by:					
Cash for acquisition of businesses	**4.4**	**0.4**	**4.8**		**4.8**
Associated costs of acquisition	**0.2**	**–**	**0.2**		**0.2**
	4.6	**0.4**	**5.0**		**5.0**

The goodwill arising upon acquisition of the German licensee was subsequently fully impaired (see Note 5).

39 Disposal

Disposal of subsidiary

On 25 July 2007, the Group disposed of its subsidiary in Greece, Olympic Commercial and Tourist Enterprises SA. The net consideration of €14.4 million is after deducting a warranty provision not settled at the balance sheet date. The net assets at disposal were €23.2 million and accordingly the total loss on disposal is €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 are excluded from the underlying result.

The financial results and cash flows of the discontinued operation in the current year (up to the date of disposal) and the prior year are as detailed below:

	2007			2006		
Income Statement	**Underlying[1] €m**	**Amounts excluded from underlying[2] €m**	**Total €m**	Underlying[1] €m	Amounts excluded from underlying[2] €m	Total €m
Revenue	**48.7**	**–**	**48.7**	81.3	–	81.3
Operating profit/(loss)	**7.9**	**(15.9)**	**(8.0)**	12.6	–	12.6
Profit/(loss) before taxation	**2.4**	**(15.9)**	**(13.5)**	5.4	–	5.4
Taxation	**1.1**	**–**	**1.1**	(2.4)	–	(2.4)
Profit/(loss) after taxation	**3.5**	**(15.9)**	**(12.4)**	3.0	–	3.0

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.

Balance Sheet at date of disposal	**€m**
Non-current assets	
Goodwill (see Note 10)	**0.5**
Other intangible assets	**0.2**
Vehicles (see Note 12)	**124.9**
Property, plant and equipment (see Note 13)	**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
Current liabilities	
Trade and other payables	**(28.4)**
Borrowings	**(196.7)**
	(225.1)
Non-current liabilities	
Deferred tax (see Note 16)	**(8.5)**
Provisions (see Note 22)	**(0.6)**
Retirement benefit obligations (see Note 23)	**(1.2)**
	(10.3)
Net assets	**23.2**

Net disposal proceeds at date of disposal	**22.2**
Warranty provision	**(7.8)**
Net consideration	**14.4**
Net assets disposed	**(23.2)**
Loss on disposal	**(8.8)**

39 Disposal continued

Cash flow:	2007 €m	2006 €m
Operating profit	**7.9**	12.6
Reverse depreciation on property, plant and equipment	**9.7**	16.3
Reverse amortisation of other intangible assets	**–**	0.1
Reverse adjustments arising on differences between sales proceeds and depreciated amounts	**–**	(1.1)
Reverse non-cash operating lease charge on manufacturer repurchase contracts	**8.8**	14.6
Payments with respect to manufacturer repurchase contracts	**(35.8)**	(34.4)
Receipts with respect to manufacturer repurchase contracts	**12.5**	13.9
Increase in receivables	**(2.3)**	(5.2)
(Decrease)/increase in payables	**(0.7)**	0.8
Increase in provisions	**–**	0.2
Increase in retirement benefit obligations	**0.1**	0.5
Net cash generated from operating activities before taxation	**0.2**	18.3
Taxation	**–**	(1.0)
Net cash generated from operating activities	**0.2**	17.3
Net cash used in investing activities	**(17.2)**	(24.3)
Net cash generated from financing activities	**13.0**	8.2
(Decrease)/increase in cash and cash equivalents	**(4.0)**	1.2
Cash and cash equivalents at 1 January	**6.4**	5.2
Cash and cash equivalents at date of disposal/31 December	**2.4**	6.4

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 2007, these guarantees totalled €953.7 million (2006: €1,056.8 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 2007 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:

	2007			2006		
	Land and Buildings €m	**Vehicles €m**	**Other €m**	Land and Buildings as restated[1] €m	Vehicles €m	Other €m
Expiring:						
Within one year	**44.7**	**32.9**	**0.2**	45.9	22.4	0.2
Later than one year and less than five years	**83.2**	**1.3**	**0.3**	81.7	0.7	0.3
After five years	**27.8**	**–**	**–**	31.7	–	–
Total	**155.7**	**34.2**	**0.5**	159.3	23.1	0.5

1 Restated to include certain properties previously excluded from the analysis.

At each year end the Group also had prepaid various other operating lease commitments in relation to manufacturer repurchase agreements, as detailed in Note 19.

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

	2007 €m	2006 €m
Sales to joint venture	**0.5**	0.5
Net current amounts owing from joint venture	**0.1**	0.1
Purchases from majority shareholder	**54.3**	41.9
Sales to majority shareholder	**51.5**	41.2
Purchases from a subsidiary of majority shareholder	**1.8**	2.2
Interest payable to a subsidiary of majority shareholder	**0.1**	–
Current amounts owing to majority shareholder	**8.0**	11.8
Current amounts owing from majority shareholder	**13.4**	15.4
Current amounts owing to a subsidiary of majority shareholder	**0.1**	0.2

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 31 to 38.

	2007			2006		
Key management compensation	**Directors €m**	**Key management €m**	**Total €m**	Directors €m	Key management €m	Total €m
Salaries and short-term employee benefits	**3.3**	**3.8**	**7.1**	4.2	3.9	8.1
Post-employment benefits	**0.3**	**0.8**	**1.1**	0.3	1.1	1.4
Termination benefits	**0.7**	**–**	**0.7**	–	–	–
Share-based payments	**0.1**	**0.3**	**0.4**	0.1	0.1	0.2
	4.4	**4.9**	**9.3**	4.6	5.1	9.7

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.

	Sterling to Euro Year ended 31 December		**Euro to Sterling Year ended 31 December**	
	2007	2006	**2007**	2006
Weighted average reported rate for revenue	**1.469**	1.467	**0.681**	0.682
Weighted average reported rate for operating profit	**1.479**	1.463	**0.676**	0.684
Year end rate	**1.397**	1.492	**0.716**	0.670

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	**2007 % of indirect ownership interest**	2006 % 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 Shareholders of Avis Europe plc on the Parent Company Financial Statements

We have audited the Parent Company Financial Statements of Avis Europe plc for the year ended 31 December 2007 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 2007.

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 shareholders 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 Financial Review, the Corporate and Social Responsibility Statement, 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 judgements 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 2007;
- 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
Chartered Accountants and Registered Auditors
London
27 February 2008

Parent Company Balance Sheet

at 31 December

	Notes	2007 £m	2006 £m
Fixed assets			
Investments	1	**315.0**	315.0
Current assets			
Debtors	2	**111.0**	109.9
Creditors amounts falling due within one year			
Creditors	3	**(4.3)**	(5.1)
Other financial liabilities – financial guarantees	4	**(0.2)**	(0.1)
Current liabilities		**(4.5)**	(5.2)
Net current assets		**106.5**	104.7
Total assets less current liabilities		**421.5**	419.7
Capital and reserves			
Called-up share capital	5	**9.2**	9.2
Share premium	6	**294.8**	294.8
Reserves	7	**117.5**	115.7
Total shareholders' funds – equity	8	**421.5**	419.7

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 27 February 2008 and were signed on its behalf by:

W A Cathcart
Chairman

M R Smith
Finance Director

Parent Company Cash Flow Statement

for the year ended 31 December

	2007 £m	2006 £m
Operating loss	**(5.7)**	(2.3)
Decrease in debtors	**1.9**	2.4
Decrease in creditors	**(0.6)**	–
Reverse non-cash movement in financial guarantee contracts	**0.1**	–
Net cash (used in)/generated from operating activities	**(4.3)**	0.1
Finance revenue received	**7.4**	8.1
Increase in loans receivable from Group subsidiaries	**(1.2)**	(8.2)
Purchase of own shares	**(1.9)**	–
Net cash generated from/(used in) financing activities	**4.3**	(0.1)
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 2007

Basis of preparation

The Company's functional currency is Sterling, and the Balance Sheet and related notes are presented in Sterling.

The Parent Company Financial Statements set out on pages 93 to 98 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 2007.

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 for impairment in periods 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 exerciseable. At each balance sheet date, the Group revises its estimates of the number of options that are expected to become exerciseable. 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	2007 £m	2006 £m
Cost		
At 1 January	**711.2**	711.1
Additions	**0.2**	0.1
At 31 December	**711.4**	711.2
Provision for impairment		
At 1 January	**396.2**	396.1
Current year provision	**0.2**	0.1
At 31 December	**396.4**	396.2
Net book amount		
At 1 January and 31 December	**315.0**	315.0

Details of the Company's principal subsidiaries are provided in Note 45 of the Consolidated Financial Statements.

The Directors also review at each year end the carrying value of the fixed asset investments. 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 2006 or 31 December 2007.

In determining the value in use, the Directors calculated the present value of the estimated future cash flows expected to arise using post-tax discount rates based upon the Group's weighted average cost of capital. Estimated future cash flows are based on management's five-year plans for each investment, with extrapolation thereafter based on long-term average nominal growth rates of 4.0%.

2 Debtors

	2007 £m	2006 £m
Amounts owed by Group subsidiaries	**110.8**	109.6
Deferred tax	**0.2**	0.3
	111.0	109.9

3 Creditors

	2007 £m	2006 £m
Amounts falling due within one year		
Amounts due to Group subsidiaries	**2.9**	4.2
Amount due in respect of own shares purchased	**0.2**	–
Other creditors	**1.2**	0.9
	4.3	5.1

4 Other financial liabilities

	2007 £m	2006 £m
Financial guarantee contracts	**0.2**	0.1

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

	2007		2006	
	Number	£m	Number	£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**	**9.2**	920,524,047	9.2

Details of the Company's share option schemes are provided in Note 31 of the Consolidated Financial Statements.

6 Share premium

	2007 £m	2006 £m
At 1 January and 31 December	**294.8**	294.8

7 Reserves

	Own shares held £m	Retained earnings £m	Total £m
At 1 January 2006	(0.7)	113.0	112.3
Retained profit for the year	–	3.2	3.2
Own shares released on vesting of share awards	0.2	–	0.2
At 31 December 2006	(0.5)	116.2	115.7
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**

As allowed under section 230 of the Companies Act 1985, no profit and loss account is presented in respect of the Company. The profit of the Company for the year was £1.6 million (2006: £3.2 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

	2007 £m	2006 £m
Retained profit for the year	**1.6**	3.2
Increase in equity reserve arising from charge to income for share options in the year	**2.1**	–
Purchase of own shares	**(2.1)**	–
Own shares released on vesting of share awards	**0.2**	0.2
Net increase in shareholders' equity	**1.8**	3.4
At 1 January	**419.7**	416.3
At 31 December	**421.5**	419.7

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 35 to 38.

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 2007, these guarantees in relation to drawn balances totalled £682.6 million (2006: £708.2 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		UK GAAP 2003	IFRS 2004	2005	2006	**2007**
Revenue	**€m**	1,096	1,180	1,202	1,256	**1,327**
Profit before taxation, goodwill amortisation and exceptional items	**€m**	52	n/a	n/a	n/a	**n/a**
Underlying profit before taxation	**€m**	n/a	46	32	30	**38**
Net exceptional costs before taxation	**€m**	102	74	13	29	**7**
Basic earnings per share:						
– as reported	**€ cents**	(10.0)	(3.3)	1.5	(0.2)	**1.6**
– adjusted for 2005 rights issue	**€ cents**	(8.6)	(3.3)	1.5	(0.2)	**1.6**
Adjusted/underlying earnings per share:						
– as reported	**€ cents**	7.8	4.7	2.6	2.3	**2.9**
– adjusted for 2005 rights issue	**€ cents**	6.5	4.7	2.6	2.3	**2.9**
Net debt	**€m**	1,046	966	946	1,008	**981**
Shareholders' funds	**€m**	16	(57)	87	85	**97**

The amounts disclosed for 2003 are stated on the basis of UK GAAP as it is not practicable to restate amounts for periods prior to the date of transition to IFRS. The principal differences between UK GAAP and IFRS are explained in Notes 45 and 46 to the 2005 Consolidated Financial Statements.

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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